

MANAGING FOR RESULTS AND PERFORMANCE IN ASIA: ASSESSING REFORM INITIATIVES IN THE PUBLIC SECTOR

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ABSTRACT

In recent years governments in many developing countries have followed developed nations in establishing results and performance monitoring frameworks that measure and report on progress against strategic plans, budgets and sector strategies. In addition, some Asian nations have experimented with increased devolution of fiscal authority to empower regional and local governments, in part to stimulate performance-oriented reform. Increased information technology support is another of the many changes in progress to improve performance and employee productivity and to create knowledge cultures in Asia. This paper reports on these and related management reform initiatives and offers analysis of their progress to date. The first section of the paper addresses five key elements of the new results and performance orientation: (i) clarifying the language of performance, (ii) defining indicative performance indicators, (iii) exploring tools for performance measurement, (iv) making changes to improve performance, and (v) creating the performance and knowledge culture in organizations. The paper then explores fiscal devolution in Asia, illustrating reform through five nation case studies. The paper ends with conclusions on the progress of fiscal devolution and results and performance-oriented reforms in the public sector in Asia.

INTRODUCTION

The international development community is increasingly focused on ensuring that financial and human resources are used to achieve intended results. Development practitioners have long strived to improve performance in developing nations, e.g., in GDP per capita, literacy rates, nutrition levels, and many other aspects of country performance. However, in recent years many developing countries have chosen to follow patterns that have emerged in developed countries over the last several decades in establishing results and performance-oriented monitoring frameworks that measure and report on progress against strategic plans, budgets and sector strategies (Schiavo-Campo and Tommasi, 1999; Bhata, 2006). This results orientation builds on participatory approaches to strengthen and take advantage of citizen and other stakeholder perspectives on how to improve public services. Under a results-oriented approach initiatives are taken to track a manageable set of indicators, and to provide accurate, timely and transparent information on which to base comprehensive reports to all stakeholders. Development partners are reinforcing these trends in various ways, including a global effort to achieve "Millennium Development Goals" by 2015, and efforts to harmonize the work of aid agencies to reduce the burden of aid administration on developing country governments (OECD, 2005). The first section of this paper addresses five key elements of this new results and performance orientation, as follows:

(i) clarifying the language of performance, (ii) defining indicative performance indicators, (iii) exploring tools for performance measurement, (iv) making changes to improve performance, and (v) creating the performance and knowledge culture in organizations. Increased information technology support is another of the many changes in progress to improve performance and employee productivity and to create knowledge cultures in Asia. In addition, because some nations have experimented with increased devolution of fiscal authority to empower regional and local governments, in part to stimulate performance-oriented reform, the paper then investigates fiscal devolution in five Asian nations. Examples from a variety of Asian nations illustrate reform applications including five country case studies of fiscal devolution. The paper ends with conclusions on the progress of fiscal devolution and results and performance-oriented reforms in the public sector in Asia.

Performance in public agencies is the consequence of response to public actions that express demand for goods and services, and may be defined in terms of both results and effort. Most recent attention has been on the former, and the sequence of events leading to results. This process may be viewed in the form of a production function model: inputs, work planning and activity leads to outputs and ultimately outcomes or $I+WPA \rightarrow OP \rightarrow OC$. This sequence starts with expression of stakeholder demands for a service or a set of results. Governments respond by allocating resource inputs to meet demands, and these resources are then used so as to contribute to production of results that may be measured as outputs and outcomes. A set of processes or activities are employed to acquire and transform inputs into results including, *inter alia*, strategic planning, policy and program decision making and implementation through workload definition, budget formulation and execution, procurement, performance monitoring and, finally, accounting, auditing, and policy and program evaluation (Moynihan and Ingraham, 2003). The production function model implies some degree of efficiency in transforming inputs to results. However, in practice, various public sector rules, regulations and processes instituted for diverse reasons including control, accountability, transparency, affirmative action, regional balance and, not the least, the politics of compromise among elected leaders, often work against achievement of efficiency and effectiveness in transforming inputs into results (Jones and Thompson, 1999).

After inputs and workload, outputs are the most identifiable link in the results production chain: the physical goods, services, institutional and/or behavioral changes that are created by work using various inputs. Outcomes follow from production of outputs. Outcomes are, ideally, the correct responses to public service demands, i.e., purposes achieved. Outcomes typically are achieved over a longer period of time than outputs and are thus more difficult to measure with any degree of confidence in the short term. Outcomes may be positive, neutral or negative (benefits - costs = net benefits or outcomes). Further, the impact of multiple outcomes goes beyond that of any single outcome, i.e., higher-level results to which multiple outcomes contribute. Outcomes may be quite different from what was intended. And even if the intended outcome is achieved, there may be unanticipated factors that affect eventual results. For example, in the United States, the federal government response to Hurricane Katrina and the resultant disaster for the city of New Orleans succeeded in achieving its intended output of assistance to residents of the city and region. However, the length of time that it took for the government to respond created all kinds of negative and

unanticipated consequences. The eventual results of federal government assistance to New Orleans and the area affected by the hurricane remain uncertain in terms of net benefit. If the intended initial result was lives saved through rapid evacuation, provision of immediate medical aid and maintenance of social stability in the crisis aftermath, then the actual result was not what was expected by residents of the area and the American public.

An alternative and more traditional way to assess performance is based on level of effort (workload). Measuring effort often is much easier than measuring outputs and outcomes. Measuring and recognizing effort often is important for morale. Still, there are many reasons why hard work, even if it can be measured accurately, may not translate into expected results, including the difficulty of tasks and multiple agent coordination, and the influence of unexpected and uncontrollable external events. In addition, hard-working individuals and teams may find that even though they followed rules, regulations and procedures in using inputs and delivering outputs in the proper manner, the resulting outputs and outcomes are less than desired. To address such problems, many public managers in recent years have found innovative ways to deliver expected outputs, in hope that desired outcomes will be achieved. Such public managers view their agencies as adaptive systems that respond to demands of citizens and other stakeholders and to contingency in the environment. And increasingly, under new institutional governance arrangements including outsourcing and privatization, managers may tend to view their agencies as involved in competition with other service providers to deliver the best value for money to their citizen/customers. Under such circumstances, they tend to think like businessmen about strategic positioning of their product and service lines in conformance with consumer preferences and market demand (Jones, 2005).

PERFORMANCE INDICATORS

Since it is often the case in public organizations that "What gets measured, gets done," (Peters, 1986; see also 1987) it is important to selectively measure events in the results chain. Input/workload/output indicators include measurement of work performed and productivity ratios, time targets, utilization rates and unit-cost indicators. Workload and productivity ratios measure the quantity of work performed, such as number of cases handled, number of patients treated, number of students taught, number of new recruits signed up per week, or number of driving licenses processed per day. Time targets measure the time expended for completion of a given task such as processing an income tax return, or uploading completed census questionnaires into a computer, i.e., cycle time. Utilization rates measure the extent to which a service is used, such as number of visitors at a national park, or number of officials completing a training course. Unit-cost measurement ties performance measures to resources consumed in production, i.e., the average or marginal cost of delivering a defined unit of service, such as the cost of providing schooling for a 3rd grader for one day or one school year or the cost of performing a specific type of medical procedure. Unit cost measurement requires both careful specification of units of service and direct and indirect costs of service production.

Performance indicators should meet the following five criteria. They should be:

- "Clear: Precise and unambiguous (not necessarily quantitative);
- Relevant: Appropriate to the objective at hand (and not used simply because they are readily available);
- Economic: The data required should be available at reasonable cost;
- Adequate: By themselves or in combination with others, the measures must provide a sufficient basis for the assessment of performance;
- Monitorable: In addition to clarity and availability of information, the indicators must be amenable to independent scrutiny" (Schiavo-Campo and Tommasi, 1999, 334).

If an indicator does not meet all five criteria, it should not be used. For example, the input/output indicators noted above are best for measuring standard services such as clerical tasks, and routine teaching and health care. They may not be adequate for measuring complex education and health services, econometric, political or legal work. As one moves up the results chain from inputs through to outcome and impact, it becomes even more difficult to find indicators that meet all the criteria. For example, public perception surveys are often used to measure process, outcome and impact of public services. Such surveys, although useful for anecdotal evidence, are fraught with methodological problems. Corruption perception surveys, for example, may reveal an *increase* in perceived corruption when anti-corruption agencies become more active and their work is reported in the media, even though the more effective policing may actually be reducing corruption.

PERFORMANCE MEASUREMENT

Once appropriate indicators are selected, performance measures may be determined based on suitable criteria. Targets may be set based on applicable standards or benchmarks. Thus, a health care agency may benchmark itself against counterparts in other parts of the country, or in other countries. Agencies responsible for road maintenance may use a standardized tool for budget and work planning to ensure that timely maintenance is carried out. Although public agencies often find they lack data to enable accurate measurement of performance, realizing this contributes to the drive to improve data element definition and collection so as to enable eventual measurement.

For aid dependent countries, standards or benchmarks may be suggested by donor agencies. For example, the World Bank and ADB use a common set of 16 economic and governance indicators and a much larger number of sub-indicators for monitoring annual performance to determine eligibility for concessional financing. Each sub-indicator is graded on a scale of 1 to 6 by donor agency staff, in consultation with partner governments. Scores are made public each year to encourage transparency, and

civic pressure on governments to improve their ratings. Such standards also may be set by intergovernmental bodies such as the Financial Action Task Force (FATF), which combats money laundering and terrorist financing. The FATF monitors country implementation of necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. Countries judged not to measure up to basic standards can be severely sanctioned (FAFT, no date).

CHANGES TO IMPROVE PERFORMANCE

Once performance can be measured and performance shortfalls are identified, many actions may be taken to address shortfalls. Two broad types of actions are suggested here: strengthening individual performance appraisal and incentives, and adopting one or more organizational changes.

To determine the proper mix of each type of action, capacity assessments are often required (Wescott, 2004b). Competitive pay and incentives are necessary, but not sufficient, conditions for building capacity to effectively perform critical tasks. Improving the performance of a task needs to begin with mapping the organizations involved in performing it (Hilderbrand and Grindle, 1995). The organizational map is the picture of the task network: the organizations with primary responsibility for carrying out the task, those that are less central but still play a role, and those that provide various kinds of support to the performance of the task. The description of interactions between these organizations is important, as is analysis of whether the interactions among the institutions are effective or are an area of capacity weakness. Questions of relationships and coordination among organizations are important here. All the dimensions of capacity need to be viewed from the perspective of the performance of the task.

The second step involves looking outward from the task network. What contextual factors play a significant role regarding the capacity to perform these tasks, and how do they affect how--and how well--the tasks are performed? At the level just above the task network, the impact of the institutions of the public sector needs to be considered, along with variables in the broader economic, political and social environment.

The third step focuses on each organization and its human resources. These are closely interwoven, with the human resources a principal component of organizational capacity, but only as brought together, structured, and utilized by the organization. A profile of the human resource dimension should focus on the recruitment, training, education and retention of skilled managerial, professionals and technical personnel. Questions to be addressed about performance include: what impact does the organization's human resource profile have on its ability to perform its assigned tasks and reach its goals? What are the organization's human resource strengths and weaknesses? Whereas the human resource profile of an organization is very important, whether those skilled personnel are effectively utilized is frequently the key to an organization's level of capacity to perform its assigned tasks and reach its goals. This focuses analysis on the organizational level, where such factors as the structure of work and authority relations, appraisal and incentive systems, formal and informal behavioral norms, management

practices, and leadership influence whether skilled personnel are able and willing to contribute fully to performing tasks.

In addition, there are a number of other human resource related capacity issues. Does the organization possess and allocate adequate financial and physical resources to function effectively? Is it organized to use resources effectively and efficiently to reach its goals? Is it able to interact with other organizations, clients, and other stakeholders in networking and problem solving? Capacity strengthening is most effective when it is designed based on a thorough assessment relative to the issues noted above.

Evaluations of ADB and other donor agency support to capacity strengthening show that such assessments are often not carried out, and thus the assistance is less effective than desired (ADB, 1997). To address these concerns, ADB contributed to an extensive capacity assessment in 2003 of elected commune councils in Cambodia, and key organizations they work with at national, provincial and commune levels prior to making investments in capacity building. Elected commune councils have relatively little decision making power, and are subject to bureaucratic control from their governor, and from central ministries. Although citizen participation is minimal in commune affairs, survey results suggest that citizens have a favorable impression of their performance. Since commune council members are mainly elderly, conservative men with relatively low levels of education, most have limited capacity for absorbing training. However, commune clerks need enhanced skills to deal with complex programming requirements. Training also is needed to support civil registration of 95% of Cambodia's citizens not presently registered. This exercise requires close coordination with commune council chiefs, provincial and district staff, and the Office of Civil Registration and Department of Local Administration (DOLA) of the Ministry of Interior. A separate assessment for DOLA outlined the following priority steps for building capacity: competitive staff incentives, clear strategic direction, new organizational structure aligned with this, and a professional human resource function. Without these initiatives, any training provided will mainly contribute to the personal development of staff, not to the achievement of organizational goals (Wescott, 2004b).

One element of capacity strengthening deserves special mention. For reforms to take hold there need to be change agents strategically located in key functional areas to spread new ways of working throughout the public administration system. These agents need to be carefully selected, positioned at an appropriate level, and provided with good working facilities, flexible procedures and other incentives. They need to be good at teaching others on-the-job, about how to network across organizations. Such agents of change and their organizational units are different from the project implementation offices typically set up by donor agencies. The latter are intended to be insulated from mainstream administrative systems on the assumption that this is the best way to prevent corruption and ensure effective delivery of donor support. In contrast, agents of change emerge within existing structures and work to change them from within, then spreading innovations across government.

For example, the Hyderabad (India) Metropolitan Water Supply and Sewerage Board uses its Single Window Cell (SWC) to reduce corruption for new connections. Previously, applications were made to one of 120 section offices, and then forwarded to 14 other staff before approval, each requiring "speed payments". Under the SWC, the application process is centralized in one, public place, with applications recorded on

computers that are difficult for corrupt officials to alter. Staff become motivated to provide good service with distinctive uniforms, modern offices and individual computer terminals. Their service improvement has been praised extensively in the media, which further improves staff motivation (Davis, 2004, 63).

Another element of strengthen performance has to do with appropriate monitoring and control system design and use of controls that are compatible with performance management goals. The dilemma in the use of management control in public organizations boils down to a matter of emphasis. The emphasis of control systems can be on management *control* or on *management* control, the former used to enforce rules while the primary use of the latter approach is to motivate employees to work productively.

Due to this distinction, the design and operation of control systems can profoundly influence governmental performance (Harr and Godfrey, 1991). Legal strictures and sanctions exist to prevent fraud, waste and misuse of funds, but they are not enough. By their very nature, they emphasize what not to do, not what to do. Without appropriate performance standards, managers cannot be held accountable for performance. Consequently, central agency control systems are not designed to optimize the quality, quantity, and price of goods and services purchased with public money, but to enforce accountability oriented rules (Anthony and Young, 1988).

The choice of whom to subject to controls and when to execute controls is not as easy. The control system designer has a number of options given the possibilities for combining the following variables. First, the subject may be either an organization or an individual. Second, controls may be executed before or after the subject acts. The former may be identified as *ex ante* and the latter as *ex post* controls (Demski and Feltham, 1976). *Ex ante* controls are intended to prevent subjects from doing wrong things or to compel them to behave legally. Necessarily, they take the form of authoritative commands or rules that specify what the subject must do, may do, and must not do. Subjects are held responsible for complying with these commands, and the controller attempts to monitor and enforce compliance. In contrast, *ex post* controls are executed after the subject decides on and carries out a course of action and after some of the consequences of the subject's decisions are known. Since bad decisions cannot be undone after they are carried out, *ex post* controls are intended to motivate subjects to make good decisions. Subjects are held responsible for the consequences of decisions, and the controller attempts to monitor consequences and rewards or sanctions accordingly.

This synopsis of control system design and use is intended to indicate that *ex post* controls designed to motivate good performance are superior instruments in terms of compatibility with performance management. This is not intended to imply that *ex ante* controls will cease to be employed. To the contrary, rules to prevent illegal behavior are absolutely necessary and must be sustained and used diligently. However, when it comes to the selection of control methodology as part of a performance management system, much greater emphasis is needed in progressive public organizations on *ex post* controls accompanied by economic and other types of evaluation after the fact to define how management performance can best be improved. The emphasis of use of the *ex post* approach is to guide, coach and steer rather than to exercise direct control, *per se*. To reiterate, the purpose of management control systems should be to motivate good

performance through the use of incentives rather than punitive sanctions (Thompson and Jones, 1986).

Ingraham, Selden and Moynihan (2000) provide additional perspective on individual and organizational performance incentives. They explain that building human capital should be regarded as an investment and not simply as a cost to the organization to sustain productivity. "Members of the public service are...government's most important resource. Failure to understand and value that resource will inevitably be linked to lack of capacity and performance." (Ingraham, Selden, and Moynihan, 2000, 56) They also point out the difference between providing rule-based versus goal or performance based managerial flexibility. As Kettl et. al. (1996, 25) discovered, the former does not contribute to increased value creation while the later is more likely to produce the alleged benefits of "letting managers manage." Ingraham et. al. (2000, 58) also cite the importance of leadership commitment, "Leaders are part of the organization's culture, its reward structure, and as such define the clarity of goals and objectives. If leaders abdicate this responsibility, the performance effort is moot." They emphasize that leaders and managers, "...should be rewarded for high employee and organizational performance...". They also point out the importance of organizational partnering and networking out of recognition that few, if any, complex socio-economic problems can be solved unilaterally by government agencies, NGOs or other entities. Finally, they note that, "Performance is the driver...Performance rewards and incentives must actually contribute to performance." (Ingraham, Selden, and Moynihan, 2000, 58)

Some public sector organizations have tried to boost performance by allocating financial bonuses to their best performing staff, as is the case in many private businesses. However, there is little evidence that such bonuses in the public sector help to improve performance for many reasons. First, because public sector jobs are diverse and multidimensional, it is almost impossible to compare the accomplishments of staff to one another by a common metric. Second, in the public sector tasks tend to be performed by teams and not by an individual. The award of bonus to one individual within a team is likely to occasion considerable resentment amongst other team members. Third, public sector employees are importantly motivated by the values of their organization as well as by their financial compensation. For public officials focused on financial gain, a significant portion may come after they leave public sector employment, and parlay their expertise and contacts for the benefit of the private sector. Bonuses received during public sector employment are typically too small to motivate performance, and risk causing damage to teamwork and the feeling of making a valuable public service contribution (Klitgaard and Light, 2005, 23, 39, 309; Behn, 2004; O'Donnell, 2000). The financial incentives that tend to work best during public sector employment are associated with merit-based promotions. Performance bonuses may be effective when they are offered to staff doing a similar, easily measurable job, such as Navy recruiters (Asch, 1990).

Increased information technology support is another of the many changes needed to improve performance and employee productivity. Other elements of change to enhance productivity may include altering the nature of markets within which organizations operate. Alternative institutional arrangements for the provision of services may lead to productivity enhancement -- including devolution of authority and responsibility to sub-national jurisdictions, outsourcing to the private and not-for-profit sectors, and privatization of service delivery. Cohen and Peterson (1999, 61) point out the need for a

broadening of institutions producing and providing needed goods and services to the public at more efficient costs, wherever they are located and whether they are public, quasi-public or private. The use of differential pricing systems under such arrangements may increase productivity by rationing services more equitably. Enhancing market competition in provision of services to the public may result in a plurality of agencies, public and private, operating at different scales of jurisdiction, providing potentially duplicative services. This circumstance gives rise to debate about the consequences of such overlap in terms of economic efficiency, the longer term consequences of increased public agency and market competition, problems of clarity of accountability where mandates are devolved to create overlap of roles and responsibilities, and the fiscal effects on subordinate governments of multiple source service provision.

Key to longer term improvement of performance in public organizations is creation of a knowledge culture that encourages self-assessment and learning, quick analysis and innovation, and knowledge creation investment in human resources and technology (Nonaka and Takeuchi, 1995; Jones and Thompson, 1999; Jones and Thompson, 2006; Nissen, 2006; Senge, 1990; Belden, Hyatt and Ackley, 1993). In countries that were developing in the 19th and first half of the 20th centuries, progressive leadership backed by a populist following created a professional bureaucracy to manage the public functions of the early 20th century city. Streets had to be paved, harbors deepened, electric lighting systems, street railways, sewage disposal plants, water supplies, and fire departments had to be installed or drastically improved. And, in fact, developing nations face similar challenges presently. As Rauch has pointed out, establishing a professional bureaucracy at the municipal level in what are now developed nations led directly to higher levels of investment in infrastructure and significant increases in economic growth (Rauch, 1995). Clearly, in the first half of the 20th century in what are now developed nations, direct government provision and regulation worked fairly well when compared to the alternatives -- private monopoly, contracting out, etc. Indeed, in this era 'postalization' (e.g., state provision of communications, transportation, and power infrastructure) played about the same role as 'privatization' does today -- and for much the same reasons. In 21st century, it is evident that developing nations face the need to establish and promote effective civil service systems. However, the corollary question that arises is whether this movement should be accompanied by creation of large, centralized bureaucratic organizations as a means of guiding development, or whether the better path lies with devolution of authority and responsibility to local jurisdictions similar to initiatives that have been successful in building infrastructure in nations in the past? We think the latter should be given careful consideration.

The lessons for developing nations would seem to be that they do not need to repeat the experience of developed nations to benefit from better approaches to knowledge creation, human resource motivation, productive use of new information technologies, devising organizational designs to best advantage, and testing of new types of institutional arrangements for production and delivery of services to the public. The lessons from both government and the private sector in developed nations indicate that new institutional forms and a greater market orientation, along with enhanced devolution of fiscal rights and responsibilities to local governments, plus experimentation with competition in service delivery can be combined with traditional measures such as developing a highly competent civil service system operated according to the rule of law and merit principles as the way of the future. According to

the arguments advanced here, creating the knowledge culture requires a combination of practices, old and new, some associated with the design of better governance systems, others taking advantage of competitive market dynamics, and increasing the trend towards fiscal and policy devolution where human resource capacity has been created in developing nations so as to permit them to manage effectively and less centrally.

PERFORMANCE MANAGEMENT AND KNOWLEDGE CREATION IN ASIA

While more examples of performance management and knowledge creation in the public sector may be found in the developed world, it is clear that advances in these areas also are underway in Asia. As explained in this paper, there are a number of ways to approach strengthening performance management in public sector. China is a prime example of a developing nation that is experimenting with market solutions to public service supply within a system that evidences a high degree of fiscal and policy devolution. This pathway is pursued under the authority of a highly centralized national political and governance framework, but one that permits a high degree of provincial and local economic experimentation and innovation. Performance is enhanced through a combination of hierarchy, given the nation's well-developed civil service system, and performance rewards associated with non-bureaucratic approaches, e.g., individual leadership and managerial rewards in terms of career enhancement opportunity for successful teamwork and organizational goal achievement.

The Chinese experience with reform of various types has been difficult to assess until recently due to the absence of information, and especially that published in English or other Western languages. However, more recently some research has begun to emerge to shed more light on the Chinese experience, particularly in the areas of fiscal policy and performance management (see, for example, Junsheng, 2006; Wong, 2005; Xiang and Lou, 2004). A summary review of this work reveals that over the past fifteen years the government has experimented with a variety of budgetary reforms including implementation of Program Based Budgeting (PBB) by the Ministry of Finance, and that the latest reform is departmental/ministerial budgeting (D/MB). By and large the changes made in the fiscal policy system have led to increased devolution of budgetary management horizontally across the national government and vertically to provincial and other subnational governments. Further, the government and some academic observers are presently engaged in a dialogue on establishment of a performance management system (PMS) at the national level of government that would, in theory, support experimentation with performance assessment and integration of performance measures into budgeting (Junsheng, 2006). However, this is an ambitious step in a system that currently has many flaws. As Junsheng observes:

Since 1978, China took a series of transformation reforms with the fiscal system and the former highly centralized fiscal system was gradually broken. In 1994 China launched a large-scale campaign to further the reform whereby a big leap forward of fiscal system was made. But generally speaking, the reform of the fiscal system in China in the past years has made achievements mainly in the area of government revenue. In expenditure,

especially in expenditure budgetary drafting and managing system, however, the reform has remained weak. The budgetary system still adopts the traditional input-oriented method. The input-oriented budgetary system has many problems, the budget drafting method is unscientific and there are not enough details available, the distribution and application of the budgetary fund is not transparent enough and the legal restricting force on the budget is lowered. Such a budget is not only difficult for the legislative institutions to carry out any budget examination, but it is also harmful to the standardized implementation and legal supervision of the budget. As a result, the present governmental expenditure efficiency is in any case not satisfying. Shortcomings of the current budgetary system include: a cost-benefit estimate system [that] is almost blank; overstaffed offices, financial profusion, even corruption exist more or less; [it] cannot allocate resources according to priorities and objectives; [it] cannot identify results from expenditure. (Junsheng, 2006, 2)

It is further noteworthy that the Asian Development Bank continues to provide assistance and encouragement to China to support reform that would lead to adoption of results based management in the form of management for development results (MfDR) (ADB, 2005b; 2005c; 2005d).

In the Philippines; a major initiative has been undertaken to develop results-based budgets. A proposal to adopt this approach is underway and is to be submitted to Congress in 2005. In addition, ADB and the World Bank recently issued a report on decentralization in the Philippines that states, "Measuring and managing LGU [local government unit] performance assume special importance in the context of the issues examined in this report." (ADB and World Bank, 2005, 43). The report notes that performance management has advanced at two levels in the Philippines, national government and partner organizations have shown, "...interest in nationally standardized tools that could be used to assess LGU performance and provide incentives to high performing units and capacity building to others. The result is that a wide array of such tools is in use..." Some measures apply to measurement of cash management of revenues and expenditures while others are applied to evaluate LGU performance on specific normative criteria and also permit comparison between local governments. Some of the measures are directed at rule compliance while others measure "development outcomes." The report also notes that some of the performance tools are used by the LGUs themselves "to measure costs and ongoing performance." (ADB and World Bank, 2005, 43). At the same time, a highly visible initiative has continued to be used by the Department of the Interior and Local Government (DILG) in the form of a Local Productivity and Performance Measurement System (LPPMS). LPPMS was initiated in the 1980s for monitoring of LGU service delivery and with the legal enactment of LGUs in 1991 it has proven useful to monitor the substantial devolution of powers and functions authorized in law. More recently, the LPPMS has been employed as more than a central agency monitoring instrument; it is now used as a management mechanism by some LGUs to measure and assess their own performance, e.g., in planning and budgeting. Other national government departments have developed LGU performance monitoring systems. For example, the Bureau of Local Government Finance, with assistance from the U.S. Agency for International Development, has created and maintains an online database of 126 distinct features of LGU finance and

the idea of linking this data into the LPPMS is under consideration. Other government national agencies have databases that might be similarly linked, e.g., the Department of Budget and Management, the Commission on Audit, and the Civil Service Commission.

In addition, a Citizen Satisfaction Index System (CSIS) is in place in the Philippines to score and evaluate a variety of areas of devolved service delivery responsibility and to increase citizen participation and influence in local governance, e.g., agriculture, health, social services, the environment and natural resources. In augmentation of these efforts an internet based Local Development Watch (DevWatch) system also has been deployed to evaluate the level of development in LGUs and to focus on and make more visible highest priority needs in underserved local governments.

One evident question about the orientation of these monitoring systems is: for what purposes are they used? Monitoring often leads to control, which in the case of the Philippines, given the degree of devolution established in the law in 1991, could result in excessive influence of central agencies over LGUs. On the other hand, good monitoring systems can be used to steer resources to highest areas of need both in terms of location and sector.

In selected other nations, as reported by ADB in 2004, different elements of results-based management (RBM) have been put into practice to enhance performance. The ADB report states, "RBM involves ensuring the desired outputs and outcomes are defined as results, that resources are adequate and timely to deliver these results, that the organization has clear accountability and authority for performance and that processes in place support the conversion of resources into results." (ADB, 2004b)

As part of its Reform Agenda in mid-2003 ADB adopted management for development results (MfDR) as a management approach to focus on outcomes that matter to developing member nations (DMCs). MfDR is intended to increase "...attention to the value generated from resources invested and to incorporate lessons from ongoing operations to improve the design and implementation of development interventions." (ADB, 2005b) ADB is attempting to mainstream MfDR in support of poverty reduction in Asia. The long term goal is to strengthen DMC capacity to implement results-oriented poverty reduction initiatives on a sustainable basis. Examples of recent adoption of the approach in South Asia are found in introduction of results based (RB) Country Strategy and Programs (CSPs) in Nepal, Bhutan and Bangladesh. In addition, there are two ADB sponsored technical assistance projects under development with the National Planning Commission in Nepal, one assistance program in Maldives to assist with the development of a results oriented 7th National Development Plan, and in the Pakistan ADB resident mission is working closely with the government to develop an IT based project performance monitoring system now under pilot testing. The South-Asia Regional Department (SARD) has been instrumental in support of these initiatives in the region. SARD development management nations include Afghanistan, Pakistan, India, Nepal, Bhutan, Bangladesh, Sri Lanka, and Maldives (ADB, 2005b). About the MfDR initiative an ADB official observed:

The development results are on the ground in the developing countries. Therefore, the developing countries' ownership, leadership, incentives and capacity in MfDR are of key importance. The establishment of MfDR country systems such as results-based M&E system at the national level (in Vietnam, Tajikistan, Nepal, Bangladesh

and China), and the project level (in China) is the basic MfDR infrastructure on the ground. This is a time consuming and political sensitive process...but doable... The MfDR incentive may be more important and relevant than the MfDR capacity in developing countries. MfDR incentives can come from parliament, civil societies and development partners [or] from the government itself; this is especially true in the decentralization process in many developing countries. (ADB, 2006b)

A number of other initiatives are in progress in South Asia to strengthen public sector performance including development of national poverty reduction strategies, adoption of medium term expenditure frameworks, improving intergovernmental fiscal relations including fiscal decentralization and devolution (Wescott, 2005), poverty monitoring, civil service reforms, anticorruption initiatives, use of improved information technology in financial management, accounting and other areas, and use of public scorecards on performance.

MONGOLIAN AND CAMBODIAN FINANCE AND EDUCATION INITIATIVES

Additional examples of adoption of performance and results-oriented management in Asia are initiatives in progress, in Mongolia and Cambodia. The following initiatives are reported in the education sector in these nations (ADB, 2004b).

Mongolia uses performance agreements to set out what education results are to be achieved by political and administrative units at central, provincial and local government level. Mongolia has proposed a set of new measures for measuring performance and results in education. Cambodia has set national targets for school performance and teacher assessment and Mongolia provides for individual school target setting. Gender target setting and planning to achieve a more equitable gender balance is a targeted result in both Cambodia and Mongolia. In Cambodia, girls are underrepresented and in Mongolia boys are under represented. Cambodia has instituted a program to raise gender performance targets. Raising student enrollment rates is targeted in Cambodia but barriers include discretionary fees by schools that poor families cannot afford. Cambodia has tackled this problem with an innovative program. To avoid the delays and barriers of the usual budget funding practices, they came up with a series of program budgets that moved funds directly to schools and made schools accountable for this funding.

Mongolia is concerned about monitoring quality of education outputs and outcomes and seeks solutions to enable such initiatives. In Mongolia there also is concern over getting greater results from kindergartens – especially achieving greater coverage achieving greater coverage and more equitable access. Some performance measures and possible solutions have been suggested.

Provincial demand forecasting is used in Cambodia by provincial education leaders to sustain adequate service supply over the medium term. Forecasting demand and supply is used to gain sufficient time to initiate remedial action in building or acquiring facilities and training and redeploying teachers. The Cambodian case study

demonstrates how forecasting reveals trends that promote timely decisions to avoid future crisis.

In many countries efforts to improve education take place with little coordination between donors and the government under pressure to implement initiatives advocated by each donor. Case studies of Cambodia and Mongolia show that these problems can be avoided to ensure that results and resources are aligned.

Achieving results is the job of the education ministry but control over resources rests with ministries of finance. Often there is a lack of cooperation and understanding between these two ministries with the result that education initiatives are frustrated. Cambodia has recognized that getting the full benefits of results-based management requires close cooperation between Finance and Education Ministries. Cambodia has improved communication by establishing a joint committee to promote understanding and cooperation.

RBM relies upon clear statements and chains of accountability. Job holders must know what is to be achieved, how they will be measured and to whom they are accountable. In Mongolia, performance agreements have been developed between political appointees, Minister to Governors, and also between the Minister and the department and provincial and district units. Education involves many people at all levels from schools to central ministry. With so many involved, it is important that there are effective means of building an RBM culture that includes developing and communicating plans and targets and reviewing past results. Cambodia does this through convening an annual education congress.

A major challenge for education officials is how to measure education quality and ensure that provincial educational units have the capacity to advise upon and assess quality performance. Mongolia is developing its capacity to evaluate education delivery quality. Mongolia is attempting to improve effective communications using IT networking. With education delivered through many schools, districts and provinces, good communication systems are vital. IT systems allow information, plans, performance and knowledge to be shared. Barriers to good communications include lack of electricity, few computers, and absence of computer communication skills. Education in Cambodia has adopted internal auditing to build confidence in the Government and among donors in educational governance, to demonstrate the appropriateness in use of funds and the reliability of its reported performance data. Cambodia provides means for resolving disputes in the complex task of delivering education. Key issues pursued include how communities can make their grievances on education results, resources and processes known so as to have them resolved. In Mongolia, a “good practice” school performance agreement sets out expected results to indicate how school performance should be judged and who can be held accountable for what.

ADB also provides all its member nations with process and procedural guidelines and a framework for developing results based country strategies and programs that indicate how to achieve alignment of country and development goals, how to approach specification of how to define outcomes and outcome indicators, how to effectively mobilize country teams, the method for conducting performance of country assessment program evaluations, implementation and results monitoring instructions and sector roadmaps for use of RBM (ADB, 2005d; ADB, 2005b). It should be noted that the

Organisation for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP), the Inter-American Development Bank (IADB), the United States Agency for International Development (USAID), and the World Bank also provide documents to assist nations in adopting results-based management approaches.

More broadly it may be observed that many Asian nations have worked energetically to reform their governments and public management systems, but understanding and comparing results by external observers has been handicapped by a number of factors including the relatively small collection of studies of reform undertaken and the paucity of evaluative work published in English. Even the banks that lend money to nations in the region find it difficult to evaluate the results of management reform initiatives, particularly in the short-term, e.g., the Asian Development Bank and the World Bank. Moreover, since many of these reforms have occurred in developing nations, they present very different issues and require a different kind of analysis. Wescott (2001; 2004b; see also Wescott and Jones, 2006) has posed a number of important questions concerning the conditions necessary to promote Asian management reforms. Is it possible, he asks, to measure the quality of overall governance in developing Asian countries? Are present measures robust enough to allow the ranking of countries along a continuum from well-governed to poorly-governed? Should these rankings be used by donor agencies and private investors in making investment decisions? Wescott reflects on these questions and concludes that, despite the complexity and diversity of approaches of governance systems, qualitative and quantitative tools are being used reasonably well in reform in many nations in the region and that real progress is taking place to improve government accountability, transparency and poverty reduction initiatives. However, he also warns that wide-spread corruption threatens such progress in the region.

In Hong Kong, for example, Kevin Yuk-fai Au, Ilan Vertinsky and Denis Yu-long Wang (2001) observe that by 2000 a paradigm shift had taken place through implementation of new public management. They argued that reform had its roots in the late 1960s and early 1970s, with periods of lull and renewal characterized by shifting powers and expectations among stakeholders. Early reforms, especially in the colonial period, sought social legitimacy. The transfer to sovereignty, adjustment of both the economy and society, and diffusion of new ideas into public management all shaped Hong Kong's reform. The authors investigated the conditions that shaped the reform process in each of Hong Kong's key episodes, the triggers that accelerated it, and the forces that emerged to dampen it. They conclude that, as with many nations, it is simply too early to determine whether reforms now under implementation will be successful. This is particularly the case by the mid-2000s given that the central Chinese government has taken control of management in Hong Kong through the Communist Party and that the government of Hong Kong is caught in a political battle with Beijing over political control and authority. Thus, the fate of reform in Hong Kong remains in doubt at least until the degree of political freedom to be afforded this special part of China is resolved and the next phase of development is fully accepted as legitimate and in their interest by the people of Hong Kong.

Yu-Ying Kuo explored public management reform in Taiwan in the 1990s. The apex of the movement was government reinvention. In 1998, then Premier Vincent C. Siew announced, "...the Executive Yuan is energetically planning for and promoting the

national development plan for entering the next century, of which the Asia-Pacific Regional Operations Center (APROC) plan and the Taiwan Technology Island Initiative comprise the core.” Yu-Ying Kuo (2001) argued that NPM developments were likely to determine the direction of Taiwan’s government modernization over the next several decades. The government launched an across-the-board reinvention to create a new, flexible and adaptable government and to raise national competitiveness. However, similar to Hong Kong, politics has overtaken management reform. The government of President Chen Shui-bian has pushed independence of Taiwan from China since 2002 as a means of attracting and sustaining political support. By the mid-2000s this government was caught up in a scandal related to allegations of fraud in gaining re-election and there was significant public debate and unrest about whether the future of Taiwan would be best served by moving closer to China as opposed to pushing for independence. At this point there is no way to tell what the Taiwanese government in power presently or an opposition government more inclined to seek closer ties with China will do in terms of management reform or where political developments may lead. Both the Taiwan and Hong Kong cases demonstrate again the critical importance of politics with respect to management reform. Without stable political support, no real reform is likely to occur.

To support this point even more dramatically we may refer to Roberts’s work (2001) on the strategies that public officials used to cope with “wicked problems” in Afghanistan in the 1990s -- notably previous to the attack on the U. S. of 9/11/02 and the subsequent war against the Taliban government and then al Qaeda led terrorists that followed this attack. Three coping strategies -- authoritative, competitive, and collaborative -- were found to be important by Roberts. These strategies were derived from a model based on the level of conflict present in the problem solving process, the distribution of power among the stakeholders, and the degree to which power is contested. Collaborative strategies, she believed, offered the most promise, as illustrated in her case study of the relief and recovery efforts in Afghanistan in the late 1990s. From this case Roberts foresaw implications for using collaborative strategies to deal with wicked problems around the world. Whether such an approach proves to be successful, for example, in Western efforts to negotiate with Iran over its nuclear ambitions or with North Korea by a five nation coalition including South Korea, the U. S., China, Russia and Japan (or bilateral efforts by South Korea and the U.S.) , remain to be seen.

David Shand, a senior official at the World Bank who has worked extensively in the East Asian region, examined World Bank experience in public sector management reform in Asia. He found that the imperatives of management reform have deeply affected the institutions working with Asian nations as well as the nations themselves. He argued (2001) that public sector management reform had stimulated a “new wave” of activity in the World Bank since the 1970s. Many of the World Bank’s strategies to reinvigorate state institutions began in the 1990s to reflect more directly the thinking of the new institutional economics -- the importance of structures, incentives, rules and restraints, norms, and best practices. Public sector reform of this type has been encouraged by the World Bank in the “East Asia five” -- Thailand, Indonesia, the Philippines, South Korea and Malaysia -- and in smaller Asian countries including Cambodia and Laos. The World Bank also has made preliminary efforts to influence management reform in the transition economies of China, Mongolia and Vietnam with varying success. Shand concluded that fiscal crises and economic competition in Asia

have created pressures for public sector management reform, particularly where such change can be argued to contribute to greater competitiveness. Less clear, however, is how the broader lessons of the Asian experience add up. Research has been scanty and far less systematic than the work on the New Zealand and Australian reforms, and reform elsewhere in the world. Moreover, the experiences of developing Asian nations are bound to be different from highly developed governments with different administrative norms and traditions. As we have noted, unless managerial and administrative capacity is strong in developing nations it is unlikely that any post-modern reform will take hold successfully.

FISCAL DEVOLUTION IN ASIA

Another area of reform in Asia is devolution of fiscal authority within nations, under the principle that increased devolution can move decision making and financing capacity to lower levels of government closer to the public service demands and preferences of ordinary citizens. Improving performance may be one of the intended outcomes of such reforms. In this section we examine fiscal devolution in East Asia, providing examples from five nations (Wescott and Jones, 2005). First we address the Asian context for fiscal and managerial devolution of authority and responsibility.

In almost all countries of the Asia Pacific region, devolution has appeared an attractive policy option for national governments at one point or another in recent history. In mildest form, devolution policies are advocated on the grounds that increased public participation in planning and implementing nationally sanctioned development policies and priorities will be further facilitated. By moving decisions to the subordinate levels, policy deliberation and decisions may better address local needs and result in greater efficiency and effectiveness. On the other hand, devolution also may increase the risk of moral hazard that could eliminate efficiency gains and, in extreme cases, undermine macroeconomic stability (Rodden et. al., 2003).

The country case studies examine to varying degrees the relationships between fiscal devolution and trends as influenced by (i) historical experience and country governance evolution and context, (ii) modification over time in national constitutions, laws, and rules, (iii) actual fiscal policy change versus what is merely authorized in constitutions and law, (iv) subnational government capacity, (v) efficiency and effectiveness measures, and (vi) citizen participation in local fiscal policy deliberations and decision making.

At the outset it may be observed that all hypothetical (and especially positive) associations between fiscal devolution and positive socio-economic and other outcomes are somewhat speculative because effects are so difficult to measure (Goupta, 2005, 54). With respect to East Asia, in official government and policy pronouncements, devolution often is tied to the twin imperatives of reducing poverty and stimulating economic growth.

The Asia-Pacific region's comparative success over the last several decades in promoting economic growth and poverty reduction is noteworthy. While this success has varied between and within individual countries, the region overall has dramatically

changed. As Quibria (2002, 1) notes, "...the dramatic improvement in the quality of life that accompanied this miraculous economic transformation has virtually abolished extreme poverty in these societies." In the early 1970s, more than half the population of the Asia Pacific region was poor, average life expectancy was 48 years, and only 40 percent of the adult population was literate. Over time the percentage of poor people has decreased and life expectancy has increased significantly, and more of the population is literate. Devolution may have contributed to this overall record of success in some East Asian countries, and might further contribute in the future.

CASE STUDIES OF FISCAL DEVOLUTION IN FIVE ASIAN NATIONS

This section describes and analyzes the experience of five East Asian nations in which experiments with fiscal devolution are significant: Cambodia, Indonesia, China, the Philippines, and Thailand (Wescott and Porter, 2005). At the end of the country case studies some observations are offered about progress in these nations, which types of initiatives have been successful and what remains to be accomplished.

Cambodia

Cambodia's government signalled its commitment to a mild form of fiscal devolution with the passage of key legislation in 2001 and the election of commune councils in February 2002. However, until systems and procedures for decentralized planning, financing and service delivery are promulgated in full, and extended across the more than 1600 communes in the country, it is fair to characterize Cambodian practice as a limited form of fiscal deconcentration. The term deconcentration is used here as defined and applied by Charles Perrow in his various works (see, for example, Perrow, 1986a; 1986b). Certain expenditures made by provincial and district branches of central ministries are paid through provincial treasuries, subject to tight, pre-audit controls from the Ministry of Finance. This said, there has been some success on a pilot basis with greater degrees of fiscal deconcentration at province level, and the delegation of powers, functions and resources to commune authorities emulating various kinds of devolution.

Any analysis of Cambodia needs to be viewed in the light of its tragic recent history, including the deaths of more than 1 million people either killed or starved to death during the period 1975-79 (Chandler, 1993). Although the Khmer Rouge was formally removed from power in 1979, factional fighting continued sporadically until 23 October 1991 when the four main political factions signed the Peace Accords in Paris. This laid the groundwork for general elections in 1993 and the development of a liberal, multiparty system and a market economy. One of the provisions of the accords was a commitment to democratically elected local government, a pledge that was fulfilled on 3 February 2002.

Because of the tragic events in Cambodia, statistics on economic growth and poverty reduction in the period 1980-1992 are not available. Based on the available data, it can be determined that Cambodia achieved an average per capita growth in real GDP from 1992-1996 of nearly 7 percent, and 8 percent from 1997-2006. There has been modest success in addressing poverty during this period, with a reduction of poor households as

measured by a headcount index from 47% in 1996 to 35% in 2005. Analysts attribute this success to improvements in security, improved macro-fiscal management, large aid flows, and growth in new businesses, especially in the garment industry for export and in tourism, which has increased markedly in the period 2002-2007. Government poverty reduction policy priorities are to some extent linked into the national budget, although there is need for better alignment to direct additional resources to the agricultural sector and to rural development to reduce poverty, increase service delivery and promote local economic development.

The situation and challenges for fiscal devolution should be understood in the wider context of ongoing, improvements in fiscal management. As a result of implementing the Public Financial Management (PFM) reform program, supported by ADB and other partners, the government has strengthened revenue administration, with overall revenue collection meeting its target during 2004, and for the first six months of 2005 reached 60% of its annual target. A pilot, merit-based pay initiative in the Ministry of Economy and Finance is being introduced, drawing from an initial design prepared by ADB. The initiative is giving higher wages and clear responsibilities for selected officials to spearhead the reform process. Other tangible outcomes of the PFM reform program include smooth budget implementation in 2005, substantial reduction in outstanding debts by National Treasury to a record low, and the release of more funds for spending in priority sectors. Following the adoption of the audit law (which was supported by ADB) and subsequent establishment of the National Audit Authority (NAA) in 2002, ADB provided institutional support including training for the NAA's staff until September 2004. Also, ADB has supported the preparation of the internal audit sub-decree (approved by the Council of Ministers in April 2005), the creation of internal audit department in the Ministry of Economy and Finance, and training for internal audit and inspection staff.

However, the remaining challenges are sizable. In Cambodia there is an extreme shortage of qualified and competent public finance specialists and line managers. While a small but dedicated group of specialists has been able to bring down the fiscal deficit, they have yet to achieve transparent and accountable fiscal operations to ensure budget execution is in accordance with budget allocation. Programs to raise social welfare through improved health, education and welfare services are among the least effective as a result of major institutional problems in program design, resourcing, delivery and evaluation. Although a reasonable legal framework is in place for budget management, governance structures at the provincial and local levels tend to exacerbate the misallocation of resources, and waste and abuse of public monies.

Despite these reform challenges and limited capacity, the government has been able to make some progress on fiscal deconcentration and some degree of devolution on a pilot basis. Most government expenditures at any level are subject to pre-audit control of spending. Ministries must seek Ministry of Economy and Finance (MEF) approval for spending requests including a commitment visa from MEF, (up to 10 signatures are needed and this can take months), and a payment order from MEF, leading to payment by national treasury (or donor funded account of the National Bank of Cambodia (NBC)), via provincial treasury, in cash. The advantage of the present system is that it maintains tight control of spending, clearly defines roles, ensures that basic financial reporting is carried out, and provides severe sanctions for incorrect behavior. The disadvantages of the present system include slow budget execution and absence of

public administration capacity to administer and monitor budget execution and results. Recent moves to multiple steps may have strengthened control, but also may have diminished accountability; many pre-audit signatures are perfunctory and add no value to final decisions. Budget expenditures are uneven and tend to surge in November and December. Finally, there is absence of formal mechanisms for citizen participation in planning or monitoring from villages/communes/districts.

To address these problems, three alternative systems have been tried on a pilot basis. The Accelerated District Development system, introduced in 1996, was tested in 27 districts, consisting of 5 percent of health expenditures. Funds were allocated on a post-audit basis direct to the district level. There continues more to be more flexible reallocation of funds between categories in pilot implementation. A problem with this approach is the need to collect cash in Phnom Penh (since checks cannot be cashed outside of major centers), and a limit of 500,000 Riels (about US\$125) per spending request

Priority Action Programs (PAP) were introduced in 2000 in Education and Health, and there are plans for introducing them in Agriculture and Rural Development in the future. Under PAP, funds are made available at the provincial level on a post-audit basis, budgeted funds are protected. Provincial Departments of Health and Education spend and account for funds through Budget Management Committees, and payments are made by the national treasury (or donor funded account of National Bank of Cambodia), via provincial treasuries. In 2001, 25 billion Riels of the education budget (14 percent) and around 40 billion Riels of the health budget were disbursed through this system.

A third system is the Government's Seila Program to promote rural development through decentralized planning, financing and management of investments in basic services and infrastructures. Seila, introduced in 1996, is the most ambitious devolution initiative implemented to date, resulting in the creation of commune development committees in over 1,000 villages and 100 communes. Key features of devolution policy and laws, as noted below, reflect the Seila experience. Over five years, the government committed to expanding the Seila Program to all provinces and communes. Under the Seila program funds were made available at the provincial level on a post-audit basis. Provincial Rural Development Committees (PRDC) set priorities based on consultations at provincial and local level. An Executive Committee of the PRDC spends and accounts for funds. Withdrawals from the Treasury account require the Governor's signature; from donor accounts, one or two signatories depending on account, and payment is by national treasury (or donor funded account of NBC), via provincial treasury. In 2000, 2.1 billion Riels of Government funds were disbursed through this system, plus donor funds of about \$8.5 million US, rising to 5 billion Riels of Government funds in 2001.

While there is evidence that these pilot exercises improved disbursement and effective targeting of public expenditures in rural areas, and that they made positive contributions to citizen participation in governance, devolution in Cambodia is in its infancy. Beginning on 3 February 2002, for the first time in its history, Cambodia elected local government corporate entities. With over 1,600 newly created rural and urban commune councils, with over 12,000 local councilors, the task of establishing and internalizing appropriate legal, administrative, fiscal and supervision mechanisms has been immense, particularly in view of the known weaknesses in skills and institutional capacity

throughout the public sector. There also is a need to house and equip the councils, build communication networks, and review commune boundaries. Government officials responsible for the devolution process have been hopeful of creating a substantial program of medium-term support to complement the mainly short-term aid inputs provided earlier.

The Government decision to hold local council elections in 2002 was an authentically national initiative. Although the Government received much less external support for the commune elections than it received for the national elections in 1998 (and vastly less than for the process organized by the United Nation Transitional Authority for Cambodia in 1993), it financed the voter-registration process and preparatory work from its own resources. However, limited powers and capacities for commune councils were provided in the early years. Still, the decision to elect local councils was an important step toward deepening the concept of democracy and popular understanding of democratic rights and freedoms in a country that - until the last decades - had known only autocratic rule. Although the direct service role of elected local councils has been modest to date, they offer great opportunity for increasing local voice and representation in issues such as land-use rights, common property and natural resource use, and the efficiency of government service delivery. Increased transparency and accountability over resource use will help to promote investment and reduce vulnerabilities in addition to the intrinsic value of democratic systems in promoting participation and social inclusion.

To underwrite devolution, the National Assembly and Senate passed two major pieces of legislation. The Law of Commune Administrative Management broadly defines the nature, functions, and powers of the commune councils and defines a modest form of devolution of responsibilities and resources to elected commune councils. The Commune Election Law regulates commune elections. A policy of deconcentration of powers and functions to the provincial and district levels remains under consideration within the framework of the National Program for Administration Reforms, presented to the aid community at the consultative group meeting of February 1999 in Tokyo. Government policy recognizes the essential complementarity and the need for a parallel implementation of devolution reforms.

Devolution of government to the communes will only work if supporting functions also are deconcentrated to the provinces and districts. The Seila Program, mentioned above, was planned to cover all rural provinces by 2005. Under the Seila Program, commune development committees (CDCs), chaired by a commune chief and including representatives from all villages, are responsible for the development of the commune. After the elections, commune councils are to progressively replace the CDCs. The commune councils have 4-8 elected representatives with a five-year mandate. For at least the first year, planning and priority setting mechanisms in place for the CDCs is to be carried forward by the commune councils including the Local Planning Process, Commune Development Plans, and Commune Investment Plans and Budgets.

Yet outside of Seila communes, fiscal devolution to commune councils is limited. For many, the only revenue sources they control are one time civil registration fees, at US \$0.10 per registration. These and the small funds received from the national budget are managed by provincial or municipal treasuries, deconcentrated arms of the MEF, with

the help of Commune Clerks, employed by MOI. Thus, most Commune Councils have little involvement in financial decision making (Blunt and Turner, 2005).

The Cambodian government has, as of 2005, a policy objective to improve community involvement in rural development initiatives. Devolution practices have evolved to enhance opportunities for communities to participate in the planning, budgeting and monitoring processes of local governments. The Council of Ministers recently approved a Strategic Framework for Decentralization and Deconcentration Reforms. However, despite the fact that this framework has been approved, funding for the initiative is limited. Community participation in local government policy and planning dialogue and action, and at all levels of government, remains far lower than desired. This demonstrates that although government policy encourages increased participation to accompany fiscal devolution, community capacity to meet expectations must match opportunity. In turn, this reveals deeper problems in the social infrastructure that relate to capability to participate, e.g., access to and availability of education services of reasonable quality.

Indonesia

Indonesia is an interesting case because its government has continued to advocate reform, most recently in late 2006. Given its large and diverse population and geographical spread, international experience would suggest that Indonesia's governance structure would be decentralized and involve considerable fiscal devolution (Buentjen, 2000). However, to understand progress to date we need to review some of the history of reform in Indonesia. When Soeharto stepped down as President, Indonesia was highly centralized, with subnational expenditures only 10% of national expenditures. The Soeharto government regularly postponed any major reforms in fiscal devolution. Although Law No. 5/74 on regional government was drafted in the late 1980s, adoption required the revision of Law No. 32/1956 on fiscal balance, and a political deadlock prevented this from happening. Yet in the late 1990s, pressures were mounting for action, not least motivated by claims for secession by West Papua, Aceh, Riau, East Kalimantan, and certain districts in Maluku. Given the lack of legitimate institutions, the manner in which concerns were raised was frequently not very orderly. Although there were frequent demonstrations, sometimes violent, against the existing political system down to the village level, precise concepts of an alternative system were largely missing. Devolution thinking did not play a major role until the more recent unitarism/federalism debate. This makes it more difficult to identify the major proponents of Indonesian devolution reform.

What seems clear from this period is that provincial interest groups used the atmosphere of reform following the downfall of Soeharto to raise their demands for improved human rights and sharing of national wealth. Discussions took place behind the scenes and were not transparent to the general public. In November, 1998 a MPR decision was delivered which provided the political mandate for the then new administration to reform the devolution framework -- and it seemed to have been influenced by the provinces. The MPR is the highest state institution. It usually meets once every five years. It consists of approximately 1000 representatives, including the 500 representatives from the Parliament, and 500 others nominated by the provinces or appointed by the President as representative of various groups in the society.

Since 1998, three important new laws have been enacted:

- Law No. 22/1999 on Regional Government (UU Pemda/Undang-undang Nomor 22 tentang Pemerintahan Daerah) replaces Law No. 5/74 on Regional Government and Law No. 5/1979 on Village Administration. The law revised the assignment of functions and redefined the roles of institutions at all levels of government including the villages;
- Law No. 25 on Fiscal Balance (UU PKPD/Undang-undang Nomor 25 Tahun 1999 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah) replaced Law No. 32/1956 on the Fiscal Balance between the central level and the regions. The essence of this law was definition of sources of finance for devolved, deconcentrated and co-administered functions;
- Law No. 34/2000 on Regional Taxes and Regional Levies, amending Law No. 18/1997.

Exhibit 1 summarizes the major changes in administrative and political devolution stipulated in Law No. 22/1999 on Regional Government.

Exhibit 1: Major changes from Law 22/1999

- The principle that all functions that are not specifically assigned to central and provincial level automatically belong to the districts was introduced. However, the functional assignment to the central level and the provinces was vague and open to interpretation, thus depending on implementing regulations.
- Regions were given more control over their finances, planning process, civil service organizations and cooperative bodies.
- Central ministries in general were no longer to be allowed to maintain independent deconcentrated offices in the Provinces or in the rural and urban districts for purposes of executing central level projects/programs. The deconcentrated offices were to be absorbed into regional organizations.
- Rural and urban district heads are fully autonomous and no longer report hierarchically to provinces. They function solely as the head of the autonomous local government and are directly and solely responsible to the local parliament.
- The regional executive arm is to be more accountable to the regional legislature, particularly at the district/city level where the regional parliament elects the head of the district/city and their deputies with no interference from the center.
- A two-year implementation time frame was foreseen in the laws; subsidiary legal instruments were to be ready by May 2000 and field implementation

realized by May 2001.

Source: Wescott and Porter, 2005.

Law No. 34/2000 introduced new regional taxes and regional levies, and specified allocation amounts for each jurisdiction. Previously, Law No. 18/1997 on regional taxes and levies had limited the number of provincial taxes to three, and the number of district taxes to six. In addition, the number of provincial and districts levies was limited to thirty. Earlier studies showed that the revenues of the more than 200 regional taxes and charges that were abolished by Law No. 18/1997 did not contribute meaningfully to regional revenues. Yet, the large number of taxes and levies contributed to a lack of transparency and thus greatly facilitated corruption at regional level by violating a basic rule of tax administration (Bird, 2004) to "keep it simple".

Although Law No. 34/2000 potentially allows for new taxes and levies, the results are not yet clear. Competition among the regions for limited investment resources, and a working political process is likely to moderate the eagerness to tax over time, but in the short run, excesses may occur. Beyond taxes, charges and user fees can become a fertile ground for raising more revenues. While increasing fees and levies may be good policy to reduce (implicit) subsidies that burden the budget, they could also deprive the poor of the services they need to help themselves. Therefore, any revenue mobilization strategy that relies heavily on user charges must be accompanied by measures that protect the poor.

The regulatory framework for revenue sharing (natural resource revenues and land and building taxes, general-purpose grants (dana alokasi umum/DAU) and specific-purpose grants (dana alokasi khusus, or DAK) were provided by Law No. 25 of 1999 and Government Regulation 104 passed into law on 10 November 2000. The precise provincial and Kabupaten allocations of the DAU for 2001 were authorized by presidential decree (KEPPRES 181) on 23 December 2000 (Lewis and Umum, 2001). The first allocations of the general-purpose transfers were made in 2001. Although the amounts actually required by regional governments to finance the delivery of decentralized services are not known with any degree of certainty, according to first studies (Lewis and Umum, 2001) these amounts appeared at that time to be sufficient to fund both provincial and kabupaten requirements in the aggregate.

This observation is made with somewhat less confidence regarding the provinces than the kabupaten. In fact, it appears that only part of the DAU were allocated based on the formula which was designed with an equalization effect in mind. Since the devolution program was launched on January 1, 2001, achievements have included (i) regulations drafted by majority of regions concerning authority, organization and personnel; (ii) regulatory frameworks finalized by most departments and other units in accordance with law 22 (e.g., forestry, mining); (iii) eleven departments and agencies completed initial development of minimum service standard guidelines; (iv) fiscal allocation criteria were changed to address fairness and sufficiency concerns, based on recommendations from an independent, academic evaluation; (iv) ongoing work to revise and update Law 2 (Ministry of Home Affairs, 2001). The 2002 budget for subnational expenditure as a percentage of total public expenditure was 32 percent, up from 17 percent in 2000 (World Bank 2002b; 2003a, 2; 2005, Table 5.1, 86). Two surveys were undertaken focusing implementation of the new laws at the

district/municipalities level. The first phase of the Indonesia Rapid Decentralization Appraisal (IRDA), a project supported by the Asia Foundation and funded by USAID, was conducted in 13 districts and municipalities between December, 2001 and January, 2002. The latest (fifth) phase added 39 districts/municipalities. The Governance and Decentralization Survey (World Bank, 2003a), administered in the period, then supplemented by the Public Expenditure Review (World Bank, 2003b), provides extensive additional data and analysis of the success of these initiatives.

In the period 2002-2006, two key challenges have emerged: (i) the legal framework still needs more clarity and a more coordinated approach; and (ii) there is a need for greater balance between the standards that are set for public services and the resources that are allocated. To address these challenges, important revisions have been prepared the Law on Regional Governance (Law 32/2004, previously Law 22/1999) and the Law on Regional Autonomy (Law 33/2004, previously Law 25/1999). Under the latter, there is greater clarity in revenue assignment. The government is also amending the Law on Local Taxes and Levies to address multiple taxes and levies (ADB, 2005e).

Two additional findings on fiscal devolution are notable. First, the transfer of large numbers of civil servants to the regions resulted in high portions of the budget spent on salaries, squeezing the available funds for service delivery and capacity building. Second, although largely dependent on central government transfers, local governments have sought ways to increase their own sources of income in the form of taxes and levies. In some instances local governments have imposed local taxes and levies that have become a burden to citizens and business. However, much work remains to be done since subnational revenue is only 3 percent of total national revenue. Citizens are demanding more open dialogue and consultations about changes in revenue generation methods (and rates) and budget allocations.

People's Republic of China

China has achieved one of the fastest growth rates of any country, with an average per capita growth of real GDP of 7.5 percent from 1981-90, 9.2 percent from 1991-1999 (World Bank, 2001; 2002a), and approximately 9 percent on average from 1999 to 2007 (but cf. Rawski, 2001). However, in 2006 growth exceeded this figure by more than 1.5% in several quarters, leading the China's central bank to ratchet up interest rates to slow down growth under evidence of real inflation and in anticipation of further increases in prices. In September, 2006 the IMF projected growth for China in 2007 at approximately 10% (IMF, 2006). There was corresponding success in addressing poverty during this period, with a reduction of poor households to an estimated 18.5 percent of the population (or about 250 million people) surviving on US\$1 per day or less (UNDP, 2001, 149). The official poverty line in at this time China placed about 4.6 percent of the population (or about 60 million people) in poverty. In 2006 the official number was reported to have dropped to 30 million. PRC achieved its rapid growth and poverty reduction from the 1980s to the 2000s for many of the same reasons as other countries in the region, including sharp increases in labor intensive exports, market-friendly policies, large inflows of foreign capital, rapid development of physical and social infrastructure, and improvements in service delivery.

Although the PRC is a unitary state, there are four sub-national levels of government, 31 provinces (excluding Hong Kong), 333 prefectures, 2148 counties, and 48,697 townships, towns and city districts (Lin and Zhiqiang; 2000; Rao, 2001). Each level devolves functions to the next most subordinate level. Prior to the 1980s, no sub-national jurisdiction had a separate budget: the central government collected all revenues, and prepared a consolidated budget for all sub-national tiers. State owned enterprises (SOEs) remitted all surpluses to the central government, which in turn covered all their expenditures by fiscal appropriation.

At the national level China's Ministry of Finance has traditionally exercised strong central fiscal power and control but lower governments have ways to get around such control. As Wanna explains:

In the People's Republic of China, under the Central Committee of the Communist Party, the Ministry of Finance is regarded as exercising an almost dictatorial authority over the annual budget round. Few other agencies are involved in the process and very few of the people's representatives ever have the chance to see the brief summary of budget proposals, often as little as eight pages of tables. Secrecy and exclusivity are imposed as political techniques. But the regions of China notoriously play games and attempt to disguise incomes, while maximising their claims on the central budget. The Finance ministry does not necessarily have its way, and regions can achieve 'wins' despite the centralised rules and procedures (Wanna, 2004, 3).

Despite this degree of central government fiscal policy control, beginning with the market-oriented reforms in 1979 the fiscal system became increasingly decentralized, where revenues were increasingly shared by the central and provincial governments, and by successive tiers. There were three main reasons for the changes. First, the growth of township and village enterprises, joint ventures and private firms had lessened the importance of SOEs. As SOE losses mounted, the government was forced to look for alternative revenue sources. Second, the economic reforms shifted the balance of political power towards local autonomy. Third, the new awareness of the importance of markets and incentives was an impetus to provide local governments with incentives to step up revenue collections.

As with other reforms, fiscal reform started as an experiment. As early as 1977, Jiangsu province was chosen to try out an alternative fiscal arrangement with the central government. The province was contracted to remit a share of its total revenues each year to the central government. In 1980, broader revenue sharing arrangements were adopted. Revenues were classified by source and divided into central fixed revenues (e.g., customs duties and revenues remitted by centrally-owned SOEs), local fixed revenues (e.g., salt taxes, agricultural taxes, industrial and commercial income taxes, and revenues remitted by locally-owned SOEs), and central-local shared revenues (e.g., profits of large-scale enterprises under dual ownership, industrial and commercial taxes or turnover taxes).

In 1985, the tax system was again reformed, including a change calling for income taxes from SOEs rather than profit remittances. Although revenues were still divided into the same three categories, the new categories were related to type of tax collected rather than on ownership (e.g., of SOEs). Fourteen provinces, including three municipalities, were contracted to remit a specific share of their local fixed and shared revenues. Five provinces received lump sum transfers from the central government, while the remaining ones received central subsidies. Under this new system, shared revenues were by far the largest of the three categories. Thus, central government relied on local governments to increase total revenues, and local governments had an incentive to boost their revenue collection (since they could retain some of the shared revenues).

The tax system changed again in 1994 due to a sharp fall in the ratio of revenues to GNP (35 percent in 1978 to 12 percent in 1996), caused by the falling profitability of SOEs and the inability of the tax system to capture the expanding tax base arising from economic prosperity. There were also disincentives to sub-national authorities to generate revenues and transfer them to the center. The differential sharing mechanism introduced in the 1980s served to enhance the powers of more affluent provinces, and reduced the central share in revenues. This reduced the ability of the center to undertake redistribution and stabilization functions effectively. It encouraged the center to push expenditure responsibilities down to adjust to lower revenues, and encouraged the use of extra-budgetary financing, with correspondingly diminished transparency and accountability. Another consequence was tax competition among jurisdictions, both through tax incentives, and varying levels of public services (Bao, 2003).

The 1994 reforms included introduction of the value added tax, changes in the distribution of shared revenues, establishment of separate tax administrations for national and sub-national governments, and earmarked transfer schemes. Yet despite these reforms, the budget still is not comprehensive, with large extra-budgetary financing and spending. This problem is greatest for sub-national levels where revenues were recentralized, but expenditure functions have continued. The result has been both under provision of services and extra budgetary financing, both of which having adverse consequences on accountability, efficiency, and equity in spending. Tax sharing also does not address the problem that more affluent provinces get to keep more revenue than the poorer provinces. The central government has provided hundreds of types of earmarked grants as offsets, but they are allocated in an arbitrary and opaque manner, and thus do not adequately address the problem. Local governments have addressed budgetary shortfalls through a combination of extra-budgetary financing, internal and external borrowings, tax preferences, and other measures risking fiscal discipline (Jin and Zou, 2003; Zhang and Zou, 1998).

An estimated 69% of public expenditure takes place, and over 64% of revenue is raised at the sub-national level in PRC (Wong and Mountfield, 2005, 86; IMF, 2005), the highest proportion of any country covered in Wong and Mountfield's study of five nations. Analysts have tried to estimate the consequences of this series of devolution initiatives on economic growth, with mixed results. Zhang and Zou (1996) estimated that fiscal devolution has lowered economic growth in provinces with the greatest degree of delegated spending. Lin and Liu (2000), using a different measure of fiscal devolution, find that it has promoted economic growth at the county level, but has had

an insignificant effect at the province level. Clearly, more analysis of the effects of fiscal devolution in the PRC is necessary to determine net effects with any level of confidence.

The Philippines

The Local Government Code (LGC) of 1991 affected 77 provinces, 72 cities, 1,548 municipalities, and more than 42,000 villages (barangays). Between 1991 and 1994, 61 percent of the field personnel of concerned agencies were devolved to local government units (LGUs). Regular elections were required for local officials and legislatures. Although devolution has affected particularly the health, agriculture, social welfare and natural resources sectors, all aspects of public service delivery were affected in some way (Bauer, 1998).

The Autonomous Region in Muslim Mindanao (ARMM) has a separate Local Government Code of Muslim Mindanao, enacted in 1993. The ARMM code, while similar to the national LGC, includes guidelines relating to Muslim institutions and organizational structures in ARMM. In practice, the regional ARMM government and its agencies maintain direct control and supervision of all devolved functions.

A Devolution Master Plan (1993-98) was formulated to further implement the devolution process. The LGC was amended to abolish unfunded sectoral mandates, improve LGU financial resources, and rationalize LGU and national government agency (NGA) functions based on the principle of subsidiarity, with the extension to LGUs of responsibilities for national roads and power generation and transmission, administrative reorganization, reform of personnel functions, bottom-up planning, and electoral reforms. Implementation of the LGC led to more integrated services delivery, more focused on local priorities, and more cost effectiveness. LGUs are interested in providing more investment and maintenance support for projects they themselves have formulated and implemented. They are also more actively looking for cost-sharing arrangements with the private sector and NGOs, as well as fees or user charges for services provided.

In agriculture, pre-LGC delivery of extension services was viewed as non-standardized, poorly managed, and often not adapted to local realities. Staffs were unfamiliar with local conditions. With devolution, a rationalization of personnel took place, resulting in more area-specific programs and more productive fieldwork. However, there are serious concerns from LGUs that the Department of Agriculture (DA) is continuing to execute national projects, and is reluctant to provide LGUs access to technical assistance. LGUs have limited control over planning, implementation, monitoring and evaluation of projects funded from the national budget and from official development assistance. As a result, LGUs typically source their own technical assistance outside the DA structure. Unlike the DA, the Department of Agrarian Reform, whose functions are less devolved, cooperates closely with LGUs to implement their projects and helps build governance capacity at the local level.

In the health sector, LGUs have assumed more than 60 percent of the Department of Health staff and approximately 40 percent of its budget, including 12,560 rural health units, municipal health centers and barangay health stations, and 595 hospitals.

Devolution in the health sector has resulted in (i) significant improvement in the timely procurement of medicines and supplies, (ii) a reorientation towards more flexible basic health programs, (iii) more innovative mechanisms for revenue generation, and (iv) more integrated and client relevant area-focused planning and services delivery. On the negative side, funding shortfalls and increasing inequity between richer and poorer jurisdictions endure as major concerns. Less developed LGUs often find it difficult to maintain quality of health standards due to lack of funds.

Distinct from agriculture and health, the devolution of social welfare functions is perceived in most respects as successful. The four reasons for smooth devolution are (i) the Department of Social Welfare Development (DSWD) carefully managed the devolution of its personnel into local organizational structures, (ii) along with the devolution of responsibilities, the DSWD devolved substantial funding to LGUs, and provided further opportunities to access external funds, (iii) DSWD personnel were equipped to immediately work at the local and field level, and (iv) LGUs (often together with NGOs) expanded the demand for social services. The implementation of the Minimum Basic Needs data system and the thrust given to poverty reduction under the localized Social Reform Agenda further accelerated the process of sound devolution.

Environmental and natural resources management offers the greatest continuing challenge for LGUs. There is (i) a growing concern over the effectiveness of the Department of Environment and Natural Resources to carry out its functions, and over the lack of LGU involvement in planning and management of national programs, (ii) increased interest of LGUs in exercising greater authority over solving environmental programs, (iii) a growing awareness at the LGU level that environmental management skills are lacking, and (iv) a rapid rise in *ad hoc* efforts addressing multi-sectoral environmental issues at the local levels.

Another aspect to devolution in the Philippines, as in other countries, has been its catalytic effect on innovations in administration and governance. For example, Naga City is internationally recognized for a range of governance innovations. An extensive e-government system, for example, goes beyond that in many other jurisdictions to inform citizens on budgets, bidding documents, legislation, and procedures. Since many citizens do not have access to the Internet, the city also provides a hard copy of the Naga City Citizen Charter that contains essential information that is also on the website on how to access city services (Wescott, 2004a).

Sources of LGU financing are the internal revenue allotments (IRA), local taxes and revenues, loans and grants from donors, and borrowing. The LGUs are classified according to their income levels. Although the LGC provides for the allocation of significant national revenues to LGUs, a large unfinished agenda remains to insure the real autonomy of LGUs. For example, officials most involved in LGU financial management remain appointed by national agencies. While the LGC limits the control of central agencies over the local planning process and tax policy, it does not eliminate it.

The major source of LGU finance has been the IRA. LGUs have received 40 percent or a slightly greater amount more recently (up from 11 percent in 1991) of the IRA based

on total collections of the third fiscal year preceding the current fiscal year. However, an approximate 40 percent share still is less than 15 percent of total public expenditures. There have been moves to increase the IRA to 60 percent, and to change the calculation procedures to be based on the current year collections. The IRA is allocated among different levels of LGUs, giving 23 percent each to provinces and cities, 34 percent to municipalities, and 20 percent to barangays. Each LGU level gets its share based on population (50 percent), area (25 percent), and equal sharing (25 percent). The criteria favor cities, as well as municipalities with small populations and large land areas. In addition to the IRA, LGUs receive a 40 percent share of the cross collection derived from mining taxes, forestry charges, and others.

While the IRA remains the main source of LGU revenue, selected LGUs have been increasingly tapping their own sources, including the issuing of municipal bonds. However, the IRA has become a more important share of LGU income under devolution. Whereas the share of locally generated resources declined from 49 percent of total LGU income to 37 percent in 1994, the IRA share increased in the same years from 37 to 61 percent. In less developed LGUs, the IRA share reached 95 percent of the total. More recent data suggests that roughly the same pattern persists to 2005. In addition, some cities have taken loans from Government finance institutions. However, LGUs receive less than one fourth of their estimated capital requirements from this source, with poorer LGUs getting much less.

The LGC provided LGUs with the authority to access private capital markets. Build-Operate-Transfer (BOT) and Build-Operate-Own arrangements have been used. In 1997, the BOT center in the Department of Finance had identified 79 potential local BOT projects. More recent data was not obtained by the time this study was written. Although LGUs can legally borrow from donors such as the ADB, they cannot access these funds directly unless the national government gives its sovereign guarantee. Whereas a number of functions have been devolved to LGUs, the funds often remain at the national level. Particularly in health and agriculture, LGUs have the devolved staff, but central agencies still control the funds.

To summarize, devolution appears to have improved the capacities of LGUs to carry out new functions, including inter-governmental cooperation. However, there are still major concerns regarding LGU capacity to (i) prepare comprehensive urban development plans, (ii) effectively link the local planning exercise with public investment plans and expenditure surveys, (iii) join into more efficient economic planning units, (iv) organize effective participatory consultation and (v) re-engineer local bureaucracies and develop quantitative indicators to measure the efficiency and effectiveness of local institutions.

A proposal that may be viewed as one type or stage of devolution has gained increasing attention recently. Establishment of the Philippines as a federalist state has been promoted by various entities including the Citizen's Movement for a Federal Philippines (CMFP) and the Coalition for Charter Change Now (CCCN) (Go, 2005; Brillantes, Montes and Sonco, 2005). Under federalism proposals the President of the nation would have reduced powers with the election of a Prime Minister by the Parliament. The PM would have responsibility for establishing government policy and the management roles and responsibilities of national ministries, assisted by a cabinet selected from Members of Parliament. Congressional district seats in Parliament would

be increased from the present number of 220 to approximately 300 with members elected under proportional representation (moving away from the existing system of “reserved” seats) as envisioned by the 1987 Constitution. The 79 existing provinces would be merged into ten or eleven states (regions also merged), thus creating new legal governance entities positioned between local and national governments. As noted, the existing Philippine political system provides little real power to LGUs and preserves the dominance of the President and national government.

The proposed state government political structure would feature elected assemblies, each of which would draft its own 1997 constitution, consistent with the federal constitution, as in other federalist systems. Members of state assemblies would be elected by provinces under the state’s jurisdiction, with members elected as representatives of political parties as under the current system. The position and authority of provincial governors under the current system would be abolished. States would administer their elections in replacement of the existing election system now operated centrally by an often criticized Commission on Elections. State assemblies would elect state governors to serve as the executive of state government.

Advocates argue that the new governance arrangement would encourage healthy competition for political and socio-economic representation within and among states, especially if revenue and expenditure rights were passed to states from the national government as intended under federalism proposals. Devolution of taxing powers and development of effective administrative, tax and budgetary systems in states and, through further devolution, in LGUs would be critical to the effectiveness and capacity of both levels of government to respond appropriately to citizen and interest group demands for improved services. In theory, enhanced power under federalism would better enable local economic development and productivity because, unlike the present system, revenues generated in states would be available for allocation to highest state and local government policy and program priorities, e.g., health, education, infrastructure investment. Further, it is argued that federalism would create incentives to stimulate more ethical, responsible and transparent behavior of elected and appointed officials and government managers, and would lead to increased managerial capacity and accountability in both state and local governments. These changes could, under optimistic assumptions, reestablish and reinforce similar norms and behavior at the federal government level in Parliament, the Office of the Prime Minister and in government ministries.

Additionally, economic development successes at the local and state levels would contribute to national goals of poverty reduction, improved social service system design and delivery, increased competitiveness in world markets and socio-economic and political stability. It is advanced that under federalism state governments would become positioned to work more effectively than the national government does presently with LGUs, the private and non-government sectors to create competitive economic incentives that would, over time, stimulate overall Philippine economic growth, resulting in a higher per capita GDP and more equitable distribution of employment opportunity, income and wealth. Advocates point to success under federalism in nations including Australia, Switzerland, Germany, Austria, the USA and Canada as examples of what could be achieved under this system for the Philippines.

Advocates of federalism concede that recreation of the Philippine political system cannot and should be attempted rapidly. Rather, federalism proposals should be widely vetted to stimulate dialogue about the relative merits of the new system compared to the existing system of national governance. Advocates point out that a variety of local entities and interests successfully adapted to changes brought by the 1991 Local Government Code as evidence that adjustment to a federal system could be accommodated within the Philippine political culture. Still, they caution that any attempt to impose federalism increases the risk of anarchical responses that would imperil Philippine political and socio-economic progress (Brillantes, Montes and Sonco, 2005). However, it may be observed that as was the case in New Zealand, Australia and other nations in the 1980s and 1990s, absence of market competitiveness and slow economic growth (resulting in national fiscal stress) may, eventually, increase the attention of Philippine citizens, and leaders in business and government sectors to consider federalism along with other less ambitious devolution alternatives. The experience of these two nations provides contrasting examples for the Philippines as Australia governs under a federal system while New Zealand has remained a national state.

Thailand

Thailand is divided into 76 provinces (*changwat*). Bangkok has an elected governor, while the Ministry of Interior appoints governors for the other provinces. Provinces are subdivided into 811 districts (*amphoe*), each administered by a chief district officer appointed by the Ministry of Interior. The districts are further divided into 7,409 subdistricts (*tambon*), which are broken down into approximately 67,581 villages (*muban*), both traditionally headed by local chiefs and village headmen. In addition, a number of special municipal or local authorities operate semi-autonomously. Policy making and major policy implementation functions are centralized in Bangkok, but some responsibilities are decentralized to local governments. Some functions are the joint responsibility of the central government and local governments, while others are either provided by the central government or are monitored and controlled by the central government (Nelson, 2000). Local governments are allowed to obtain revenues from a limited number of sources, primarily property taxes.

Provincial governors, their deputies and assistants are appointed from the staff of the Department of Local Administration of the Ministry of Interior. Tambon councils are made up of village headmen, departmental officials, and local notables. Scott (1996) points out that the councils have the symbolic power of bringing together key figures in a forum that appears to have authoritative status; but they generally have little income or real power. Since the councils are dominated by centrally appointed officials, they help to strengthen central control, and maintain national unity.

Thailand achieved its rapid growth and poverty reduction in the 1980s and 1990s for many of the same reasons as other countries in the region including sharp increases in labor-intensive exports, market-friendly policies, large inflows of foreign capital, rapid development of physical and social infrastructure, and improvements in service delivery. These improvements were achieved in a highly centralized administrative and fiscal structure. Yet despite the gains, there has been a growing public desire for political change and democratic government, widely characterized as "turning

government by the politicians to government by the people” (Bowornsak and Burns, 1998, 241; Klein, 1998). Following the military takeover and violence of 1992, consensus crystallized in support of fundamental reforms of the political system to halt the 60-year cycle of military coups overthrowing elected governments. In 1993 the House of Representatives set up the Constitutional Reform Committee which in 1995 presented a reform constitution, eventually approved by parliament in 1997.

Several unique features of the 1997 constitution set it apart from its predecessors, including strengthening the rule of law and human rights; enhancing accountability mechanisms and enforcing much stronger conflict of interest standards; and improving transparency, participation, and devolution. The constitution also provides one of Asia's most liberal codes of individual freedom, including both political rights (freedom of speech, religion, association, and assembly) and social rights (the right to receive health care and 12 years of education at the state's expense). The 1997 constitution was abrogated, and replaced by an interim constitution in 2006. Military coup leaders have promised a new constitution by mid-2007.

The 1997 constitution embraced devolution while leaving vague many specifics that were to be addressed through separate legislation and administrative actions. It sought to end the practice of guided democracy at the local level by specifying that most local government bodies would be elected. This contrasted with previous practice, whereby many local employees were appointed from Bangkok and owed their allegiance to individual ministries. In the past, the only elected officials were councillors in the municipalities of Bangkok and Pattaya. Under the revised arrangements, each of Thailand's 7,951 appointed local councils were replaced by elected ones when their terms expired. The power to transfer, promote, increase salaries, and punish local officials was vested with local governments, although the approval of a local officials committee was required. This committee consisted of an equal number of representatives of relevant government agencies and local government units (LGOs). Public services such as health, education and police were placed under local control. Local governments were also made responsible for conserving local arts, customs, knowledge, and culture, and for managing and preserving natural resources and the environment.

The National Decentralization Act came into effect on 18 November 1999. This Act defined the role of the NDC as responsible for preparing the devolution framework. NDC has 36 members and is chaired by the prime minister and deputy prime minister. The NDC recommended procedures for decentralizing administrative power to local administrations in an action plan. Once the cabinet approved the plan it was submitted to Parliament for consideration and was announced in the *Government Gazette*. Once it was signed into law, it became legally binding in terms of agency operations. To comply with the Decentralization Act, the government proposed gradually increasing the budgetary allocations to and the responsibilities of LGOs in three phases as follows:

Phase 1, FY 2001. During this period the Bureau of Budget ensured that LGOs had the equivalent of 20 percent of national revenues (approximately B160 billion, or US\$5 billion) to finance local activities. National revenues exclude revenues raised by LGOs, administrative fees charged by the Revenue Department to collect taxes, and government borrowing.

- Of this amount, LGOs managed B40 billion, or US\$1.2 billion under the Procurement Management Regulation, whereby the central government provides local governments with training in estimating future budgets. This phase was completed. Although the targets were largely met in terms of spending at the local level most budget implementation was fully controlled by central ministries, as had been the case in the past.
- *Phase 2, FY 2002–FY 2004.* During this period local governments were required to respond to the increased budgetary allocations by providing strategic plans and the manpower to manage them. During this period the Bureau of Budget ensured that LGOs had the equivalent of 25 percent of national revenues.
- *Phase 3, FY 2005–FY 2009.* During this period all activities are to be decentralized and transferred to local governments. The Bureau of Budget is to ensure that LGOs have the equivalent of 35 percent of national revenues by the end of the 9th Plan period in 2006. If these budgetary allocations are met, Lao-Araya (2001) points out potential risks to macroeconomic stability, and the need for increased revenues. Yet, as indicated above, these risks could also be addressed by having central ministries continue to retain control over budget implementation at the local level.

Overall, the Department of Local Administration estimated that as of early 2000, less than 10 percent of total governmental spending in Thailand was executed at the municipal level compared to 14 percent for all local governments. If Bangkok is excluded from the calculation, municipalities are responsible for only about 2 percent of total government spending. Approximately 60 percent of municipal spending is dedicated to recurrent purposes, with salaries and supplies accounting for almost two-thirds of this amount, or approximately 40 percent of the municipal budget. The remaining 40 percent of municipal budgets are used for public works spending. However, since most local expenditures are not linked with a specific revenue source, municipalities tend to finance a large portion of their capital projects from recurrent revenues in a “pay-as-you-go” fashion. While municipal expenditures as a percentage of total government spending has increased since 2000, it remains low and its distribution is roughly the same, and long-standing inequities remain.

In general, central and local governments have overlapping expenditure functions and responsibilities, which usually result in central government dominated administration. Due to these overlapping functions and responsibilities of central government ministries and local governments, the central government usually assumes responsibility for most large expenditures. The NDC supports mandates for assigning more direct responsibility to local governments for specific, well-defined expenditures. These expenditure assignments should result in minimal administrative overlap of responsibility among central and local governments.

Fiscal devolution in Thailand remains in an early phase -- but this phase seems to have lasted too long relative to the progress of other nations in the region. Whether the measures that have been proposed are implemented effectively is critical to local government ability to contribute to economic growth and poverty reduction. Results depend, in part, on how implementation proceeds with respect to six issues: local revenue authority, central government transfers, local expenditure, citizen participation,

civil service and personnel system reforms and public auditing of local accounts, and borrowing.

The larger issue with respect to increased fiscal devolution in Thailand appears not to be the absence of a constitutional and legal framework to enable it. Rather, the essential problem seems to be failure to implement fiscal devolution governance arrangements for local governments consistent with the intent of constitutional law and other decisions already made by the national government, as explained above in this case study. As Smoke notes, "...the country needs further legal and regulatory instruments to define the subnational system more fully." (2005, 29) Local government capacity weaknesses may explain to some extent the lack of confidence in the national government that full implementation of governance arrangements is desirable at this point. However, the absence of national level political will to further enable local governance appears to be an important factor in explaining the lack of progress in Thailand. Whether any of this will change as a result of the military coup that replaced the government of former Prime Minister Thaksin Shinawatra with military rule which then moved through the transition to a new government in late 2006 and 2007 is impossible to forecast. It seems that only modest progress on devolution was made under Thaksin despite the fact that his primary populist appeal and support was from rural constituents.

The problems noted above are not unique to Thailand in the Asia region. While the World Bank study (Smoke, 2005) cites the Philippines as having achieved more effective fiscal decentralization than other nations, Thailand in particular, the case study research findings in this paper on the Philippines suggests that further progress in the Philippines is still called for. While the constitutional, legal and regulatory frameworks are in place in the Philippines, the policy and fiscal dominance of the national government over sub-national governments has a direct consequence in limiting the distribution of real power and authority to provide these governments both revenue and expenditure rights consistent with a fully implemented system of fiscal devolution as defined in this paper. This broader conclusion leads to the assessment of the overall East Asian experience with fiscal devolution provided in the next section.

ANALYSIS OF THE ASIAN EXPERIENCE WITH FISCAL DEVOLUTION

In terms of revenue raising and expenditure powers, governments of developing countries are generally less decentralized than countries of the OECD group for example, but the gap has closed in the past decade. East Asian nations, in particular, have a history of strong central rule although it is also true that the roots of local government and decentralized arrangements in some cases reach back to the early periods of state formation. It is certainly the case that some nations, such as Vietnam, have maintained long-standing arrangements for fiscal equalization across a highly diverse national terrain and in some of the most difficult political and economic environments imaginable (Porter, 1995 and Wescott, 2003). Whether the devolutions applied in East Asia have positive or negative results for citizen participation, let alone at the ambitious reach of 'economic growth' and 'poverty reduction' is uncertain. Devolution policies, and the variety of forms policy they assume in practice, are adopted for range of (at times incompatible) reasons. Some underpinnings to policy

echo past experiments (e.g., Cheema and Rondinelli, 1983). Others clearly reflect recent global pressures on the nation state that are played out in changing state-society relations in East Asia in particular, and in country specific ways (Kerkvliet and Porter, 1995). The recent upsurge in interest in intensifying these arrangements seems to have occurred in the case study countries for a combination of four main reasons.

First is the particular experience of East Asian nations undergoing the expansion of democratic models of governance, an emerging middle class and the consensus that decision making should be located closer to the people. The increasing prominence of democratic movements, for example, in Indonesia, Philippines, Taipei (China), Thailand, South Korea and elsewhere, has affected the progress of devolution in the region. Initially in most countries, central governments attempted to cope with these pressures through consultative forums rather than elected or empowered local governments. Where there were elected local officials, they were usually supporters of the central regime. In recent years, this pattern has started to change in some countries. In Taipei (China), for example, an opposition party received 41 per cent of the vote in mayoral and country magistrate elections of 1993; six years before, the country had been under martial law and ruled by a single party. The 1991 Local Government Code in the Philippines promised to increase democratization, and would probably not have been passed under the Marcos regime. In the Cambodia case, the 1991 UN peace accords included a provision for elected local government (first realized in 2002), as a step in Cambodia's transition to become a liberal market oriented democratic country. And the PRC and Thailand, while almost polar opposites in terms of extent of fiscal devolution, have made constitutional changes, passed laws and issued regulations intended to foster increased fiscal devolution.

A second trigger for devolution has been a belief that assignment of functions to subordinate levels -- smaller administrative units (e.g., provinces, districts, and municipalities) -- will bring efficiency gains, thus benefiting both service delivery and cash strapped central government budgets. There are typically two aspects to this assumption. The first is the economic efficiency argument, where it is claimed that shifting to local government decisions on the level and mix of taxes and expenditures will ensure that people get more of what they want, that they will pay taxes against value received, and services will be provided more efficiently. Second and closely connected to the first assumption, the revenue mobilization argument is that a decentralized tax structure will lead to an increase in the overall rate of revenue mobilization. In the PRC for example, fiscal devolution was prompted starting in the 1980s by market reforms, and the growth of township and village enterprises as sources of revenue. This development was so "successful" for some prosperous provinces that the share of revenue passed on to the central government needed to be renegotiated upward in the 1990s.

Devolution, for other states, was prompted by changing international economic conditions, including structural adjustment programs that lead to serious fiscal difficulties for central governments and the often rather desperate need to pass on service obligations to local governments. The disappointing performance of some centralized systems has directed attention to both the untapped fiscal and other local resources that allegedly can be exploited through greater disbursement of state power. More positively, it is believed that devolution will foster greater responsiveness to local needs in ways superior to what may be expected from decision makers in a distant capital.

Related technical arguments also extend to the devolution of authority, which is presumed to increase accountability, participation, and to result in improved performance, including allocative and financial efficiency. Allowing local governments to raise funds through taxation or borrowing makes them more accountable for the fiscal and financial consequences of their policies. And when obliged to compete among themselves for access to financial resources, it is presumed they experience fully the costs of any unsound economic policies or decisions in ways that affect future decisions.

Thirdly, there are many examples in the region where government agencies at all levels have delegated authority to private firms, NGOs, and development agency funded implementation units. This includes a variety of public-private partnership arrangements to provide water, electricity, communications, refuse collection, municipal markets, toll roads, urban transport, airports, and shipping ports among many others. There are also many partnership arrangements in rural areas, and in many countries NGOs manage and directly finance a large share of public services, including health and education, farmer extension, environmental protection and natural resource management initiatives. Some countries have delegated to professional associations responsibility to license, regulate and supervise their members. Urban resident groups are delegated tasks of implementing sites-and-service housing schemes. These contractual arrangements are made based on the belief that government units lack sufficient managerial and technical capacity or equipment to effectively provide such services, are overly hampered by bureaucratic politics and practices, and that non-government agencies have access to sources of funds, and legitimacy not available to government. Private businesses and NGOs are thought often to be able to provide services more effectively and efficiently than government, since they are not as hampered by these and other constraints. Such contractual arrangements usually include user charges, although governments must often provide hefty subsidies to ensure quality and sufficiency of services. It is presumed that service provision to the public under some forms of competition among public, private, national, regional and local providers provides incentives for good performance (Jones and Thompson, 1999).

Fourthly, aside from electoral pressures and arguments on technical grounds, there has been an increased articulation of demands from sub-national groups for autonomy, and here we see devolution promoted for reasons related to central regime stability. There are cases where certain geographical areas of countries have become more closely linked economically to the markets of other countries than to the national market, thus leading to calls for greater devolution of authority. Contrarily, it is a fact of contemporary geopolitics that not all areas are equally well connected and favored by regional economic growth or endowed with public services available elsewhere in the country. The demands of certain regions for greater autonomy, backed by ongoing civil conflict (e.g., Mindanao Philippines, Aceh Indonesia, Bougainville, Solomon Islands) have pressured central regimes to adopt or think more seriously about developing various types of devolution policies and instruments to maintain wider socio-political and economic stability. Yet in this area there is always the risk that transferring significant decision making power and resources to fractious localities may destabilize the regions, and possibly fuel demands for full independence. There is also evidence in, for example, the PRC, that fiscal devolution has served to enhance the powers of more

affluent provinces, and thus may be exacerbating tensions in poor provinces with large minority populations.

With respect to overall trends in devolution in Asia, the case studies presented here show that fiscal devolution varies greatly depending on circumstances and institutions. Typically, several different forms of devolution co-exist within a country. No form is inherently better or worse than another; what matters is that the form selected is appropriate to the cultural and administrative context where it is applied, and that responsibilities are balanced by accountability, resources, and institutional capacity.

Has economic growth and poverty reduction in the region been affected by devolution? Over the last 20 years, the East Asia and Pacific region recorded the highest growth rate and best performance on poverty reduction of any region in the world. Numerous studies have shown that this strong growth and poverty reduction performance in Asia-Pacific has resulted from many factors, including market-friendly policies, fiscal balance, macroeconomic stability, sharp increases in labor intensive exports, and large inflows of foreign capital. In no case examined in this study has economic growth been attributed or mainly to devolution.

Rapid development of physical, social, economic, political and fiscal infrastructure, and improvements in service delivery are highly evident as is the devolution trend -- but even in the recent past many goods and services delivered to the public were provided exclusively or largely through central institutions. The PRC may be advanced as a primary example here, but this experience appears to be idiosyncratic to that country and not easily transferred. Still, it may be argued that a low level of past devolution in most countries helped to promote fiscal balance and macroeconomic stability by avoiding the soft budget constraint and moral hazard evident in some countries more advanced in their devolution. This has, in turn, may be viewed to have contributed to the market-friendly environment in Asia-Pacific countries, and in turn, to high rates of growth and poverty reduction.

The preliminary findings from the case studies in this paper underscore how simple definitions of 'devolution' cover an extraordinary range of relationships, different meanings and forms, often overlaid and occurring simultaneously. Devolution has become the acceptable face of governments of all political persuasions -- consider the range from Thailand, to China to the Philippines -- such that leaders advocating devolution may not quite know what devolution is, even less how it might work, but they do know that devolution is regarded worldwide as a progressive trend.

It is hoped that case study research such as that presented here (if performed properly -- see Barzelay and Thompson, 2005), accompanied by a burgeoning comparative literature on devolution, will encourage an appreciation of the slippery and polysemous nature of a highly differentiated set of institutional arrangements and instrumentation. In turn, it is desired that the emergent body of evidence and thought in this area may be used by policy makers in the region and elsewhere to advantage, i.e., to encourage continual experimentation rather than doctrinaire application of only uniform approaches adopted on the basis of OECD or even single country experience. There is in the Asia Pacific region no convergence towards one type of center-local, state-society relationship, although there is certainly universal interest in these matters as they are

typically framed in the discourse on devolution and decentralization. Consequently, it is important to recognize that the level of generalization about net benefits (positive and negative) and risks often articulated in rhetoric at the theoretical level and in many political venues is replicated at the level of practical application. The intention is to raise and sustain critical attention to issues addressed in this paper and to stimulate close scrutiny of hypotheses taken for granted in policy discourse on the virtues and dangers of fiscal and governance devolution across the region and around the globe.

CONCLUSIONS ON PUBLIC SECTOR MANAGEMENT REFORM INITIATIVES IN ASIA

To conclude with respect to public sector management reforms in Asia, a number of methods have been launched in a variety of nations in the region by a variety of agents to strengthen performance in the public sector. Definition and measurement of resource inputs, workload, outputs and outcomes within a results based framework is widely advocated by a number of sources including some of the best known scholars and most prestigious organizations in the world. Managing for results in various forms continues to be applied in a number of developed nations including the United Kingdom, the USA, Canada, Australia, New Zealand, Switzerland and in other western European nations. The keys to this approach from our perspective are development of accurate databases and measurement methodologies, and application of performance measurement in decision making, e.g., for strategic planning, budgeting, human resource management and investment, infrastructure development, acquisition and procurement, and in sectoral planning and resourcing, e.g., health, education, social services, environmental protection and others.

Critical to the success of these initiatives in our view is creation of knowledge cultures in public sector and non-governmental organizations. Because improvement in performance is always linked to learning and human capacity development, the knowledge culture is an essential ingredient for success in strengthening performance in both developed and developing nations. A purely methodological approach of defining and measuring outputs and outcomes and relating results to costs is not sufficient in itself to forge lasting progress in enhancing public sector performance. In fact, where a purely methodological approach is taken, very quickly many, if not most, participants in the effort will become consumed by the details of measurement and verification to the detriment of actual improvement of management results and socio-economic outcomes. Critical to the implementation of results and performance measurement methods is that measures must be useful for deciding about future courses of action when alternatives are present to policy and resource decision makers in the particular nation settings where decisions are relevant (Schick, 1998). In other words, to succeed performance measurement and results based analysis must be translated effectively into performance management (Argyris, 1993; Behn, 2004). All performance measurement approaches should be continually assessed against the criterion of cost versus value of information for decision. And, Ingraham et. al. (2000) have pointed out, as noted earlier in this paper, that performance management must include investment in human capital building at all levels of organizations, i.e., leadership, staff and line managers into the field. This is particularly the case for developing nations where capacity deficits present

real barriers to implementation of performance and results based management initiatives. For this reason the value of working to create a knowledge culture that encourages self-assessment and learning, management innovation, and increased investment in human resources and information technology is probably higher in developing countries than in developed nations.

Finally, the relationships between strengthening performance in the public sector and ability and willingness of leaders, managers and organizations to adapt to new economic circumstance with alternative organizational and governance arrangements must be stressed. The international economic order is undergoing a massive transformation. Its technology, its problems, and -- to a considerable extent -- its economics are radically different from those that traditional, highly-structured and rule-bound Weberian type bureaucratic organizations were created to cope with in seeking to advance production and problem solving. In today's world, many old problems bureaucracies were designed to deal with well have been wiped away. However, new problems are awaiting new technologies and the formulation of new governing instruments that are more adaptable and better able to network to solve the problems they confront, e.g., poverty reduction, prevention of wars, economic planning and development, environmental protection and species preservation, response to natural disasters and threats from the spread of new, highly virulent diseases. The painful lessons of failure of contemporary unilateral action by bureaucratic organizations to crises of all sorts are plentiful in today's world.

We are by no means the first to recognize the changes that are taking place in the world economy, markets and threat environment and the potential lessons from experience about how to improve performance responsiveness in conduct of the public's business. Nor are we the first to suggest that performance management represents a wholesale change in the tactics and responsibilities of government. Schwartz, for example, observed, "...a profound shift toward a new kind of regime not simply a shift towards less state, but also a shift to a different kind of state." (Schwartz, 1994, 527-555) He attributes the shift to results and performance-oriented management not to conservative politics but to international market pressures. We would emphasize that increased market pressure is largely a consequence of reduced transaction and transportation costs, both manifestations of the computer and the information technology revolution -- the same forces that have driven change in the private sector since the 1970s.

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