รายงานวิจัยฉบับสมบูรณ์

การกระจายอำนาจทางการคลังและอำนาจการบริหารจัดการบริการสาธารณะ: กรณีศึกษาประเทศไทยและเวียดนาม

Fiscal and Administrative Decentralization on Public Services Delivery: A Case of Thailand and Vietnam

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โครงการการกระจายอำนาจทางการคลังและอำนาจการบริหารจัดการบริการสาธารณะ: กรณีศึกษาประเทศไทยและเวียดนาม

Fiscal and Administrative Decentralization on Public Services Delivery: A Case of Thailand and Vietnam

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EXCECUTIVE SUMMARY

"Fiscal and Administrative Decentralization on Public Services Delivery: A Case of Thailand and Vietnam" is a research granted by Thailand Research Fund (TRF) under the contract of RDG5310022. The research composes of four chapters. The first chapter discusses about decentralization concept and related theory. The second chapter reflects Thailand decentralization using public choice perspectives and stylized facts. The third chapter considers impacts of fiscal and administrative decentralization on governance and public service delivery in Vietnam written by Nguyen Quoc Viet from Vietnam National University in Hanoi. The fourth chapter compares fiscal and administrative decentralization in Thailand and Vietnam relating to progress and possible outcomes, and also concludes the research project.

The major finding is that Thailand and Vietnam is still in process of decentralization, not the success. They have fiscal imbalance like developing countries, especially for revenue assignment problems and fiscal disparities in intergovernmental transfers. Local borrowings do not the solution due to central government restrictions despite legislation allows to do so.

Thailand and Vietnam need to clarify expenditure responsibilities and assignments in legislation. Strengthening of institutions for intergovernmental fiscal relations helps both countries local governments in productive own source revenues. In addition, revision of fiscal equalization such as transfers' formula is required in order to reduce fiscal imbalance. Finally, allocating the role of governments in private sector activities improves public service delivery.

ABSTRACT

Thailand and Vietnam is in the process of Decentralization. They have expected positive impacts from fiscal and administrative decentralization. These study objectives are to review decentralization concepts and to discuss progress of fiscal and administrative decentralization on public services delivery in both countries. We found that there are fiscal imbalance and fiscal disparities in both vertical and horizontal dimensions. Therefore, Thailand and Vietnam need to clarify expenditure responsibilities and assignments in legislation. Both countries need to strengthen local governments using intergovernmental fiscal relations and promote more productive own source revenues. In addition, revision of fiscal equalization such as transfers' formula is required in order to reduce fiscal imbalance. Finally, allocating the role of governments in private sector activities improves public service delivery.

บทคัดย่อ

ประเทศไทยและเวียดนามอยู่ในกระบวนการการกระจายอำนาจทางการคลังและอำนาจทางการบริหารโดยมุ่งหวังประสิทธิภาพและผลลัพธ์จากการกระจายอำนาจ งานศึกษานี้มีจุดมุ่งหมายเพื่อทบทวนวรรณกรรมที่เกี่ยวข้องกับการกระจายอำนาจดังกล่าว และวิพากษ์กระบวนการการกระจายอำนาจทั้งสองโดยเฉพาะการผลิตบริการภาครัฐ ผลการศึกษาพบว่า ไทยและเวียดนามประสบปัญหาความไม่สมดุลทางการคลังทั้งในมิติตามแนวดิ่งและแนวนอน กล่าวคือ รัฐบาลท้องถิ่นพึ่งพางบประมาณจากเงินโอนมากกว่าการพึ่งพาจากภาษีที่จัดเก็บได้ นอกจากนั้น ความแตกต่างระหว่างรัฐบาลท้องถิ่นในด้านงบประมาณพบว่างบประมาณมีแนวโน้มจะถูกจัดสรรให้ท้องถิ่นขนาดใหญ่มากกว่า การแก้ปัญหาความไม่สมดุลทางการคลังนั้นจำเป็นต้องทำให้เกิดความชัดเจนในด้านภารกิจความรับผิดชอบในการผลิตบริการสาธารณะ การปรับระบบงบประมาณและอำนาจในการจัดเก็บ รวมถึงการปรับสูตรเงินอุดหนุน นอกจากนั้น รัฐบาลในแต่ละระดับอาจสนับสนุนให้ภาคเอกชนมาช่วยในการจัดการบริการภาครัฐอีกทางหนึ่ง

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

CHAPTER 1

INTRODUCTION

Pracha Koonnathamdee

Decentralization is an opportunity and a challenge for a country if proper processes and design are present. Yet, from time to time, almost all literature discusses definition of decentralization prior to examine its impacts. Brosio (2014) reflects decentralization "as the transfer of decision-making authority to governments situated below the national government". While Bahl and Linn (1994) describe "decentralization takes different forms in different countries, depending on the objectives driving the change in government". In general, decentralization means the transfer of authority and responsibility of government function from central to local governments, together with civil society or the private sector. UNDP (1999) prefers the use of the term "decentralized governance" rather than the term decentralization. In that working paper, selected meanings of decentralization includes, for instance:

"Decentralization could also be expected to contribute to key elements of good governance, such as increasing people's opportunities for participation in economic, social and political decisions; assisting in developing people's capacities; and enhancing government responsiveness, transparency and accountability."

". . . Decentralization is a complex phenomenon involving many geographic entities, societal actors and social sectors. The geographic entities include the international, national, subnational, and local. The societal actors include government, the private sector and civil society. … Decentralization is a mixture of administrative, fiscal and political functions and relationships. In the design of decentralization systems all three must be included. ”

The main things of decentralization concept are “what decentralization is not”. The study explains decentralization is not (1) an alternative to centralization and (2) exclusively public sector reform (UNDP, 1999). It implies that both central and local governments are needed and they are compliments not substitutes. Since decentralization relates to every societal actor, it involves the roles and relationships of all governmental, private sector, or civil society. Therefore, the design of decentralization must take into account of all stakeholders and require their participation toward community level decision making with responsiveness, transparency, and accountability.

From UNDP experience, the forms of decentralization are shown in Table 1.

Table 1 Forms of Decentralization

Type of Unit to which Authority is transferred	**Aspect of Governance transferred or shared**			**Generic name**
	Political (policy or decision making)	Economic or financial resource management	Administration and service delivery	
Autonomous lower-level units	Devolution	Devolution	Devolution	Devolution
Semi-autonomous lower-level units	Delegation	Delegation	Delegation	Delegation
Sub-ordinate lower-level units or sub-units	Directing	Allocating	Tasking	Deconcentration
External (nongovernmental) units at any level	Deregulation	Privatization	Contracting	Divestment

Source: UNDP, 1999

As shown in Table 1, decentralization comprises of three main forms, political, administrative, and fiscal decentralization. Political decentralization accords policy and legislative powers from central to local bodies. This requires appropriate design, for example, clearly defined in powers and jurisdictions of the bodies, people participation in elections, and well design in legal, political, and functional space. For administrative decentralization, it means planning and implementation responsibilities to elected local governments. The local governments must have ability to make independent decisions and/or to negotiate conditions for responsible services. While fiscal decentralization relates to revenue and expenditure assignment to the local governments, including power to levy taxes and user charges. It means that a locale who services its community with pleasure, the community must pay for the cost of the service through revenue of the locale. All three forms have different types of their decentralizations. Dragusha and Osmani (2012) explain in the same way that political decentralization involves the transfer of political authority from central to local governments. Administrative decentralization has three elements: Deconcentration means the distribution of responsibilities between central and local governments. Deconcentration means the horizontal transfer of power. Delegation means a situation where local units operate as agents of central government to implement its functions. Devolution or transfer of power: means the power of local governments in decision-making, not only implementation but also the power to decide. For fiscal decentralization, the study mentions that guides fiscal decentralization is "the creation of an adequate and logical sustainable system of domestic revenue, but without creating additional costs for the national finances and that is consistent with fiscal and macroeconomic policies." In conclusion, almost literature discusses types of decentralization in generic name; devolution, delegation, and deconcentration. Fiscal decentralization can be seen as financial measures for the public sector management. Feruglio (2007) explains fiscal decentralization in form of an equation as the following;

FISCAL DECENTRALIZATION = ASSIGNMENT OF EXPENDITURE RESPONSIBILITIES + ALLOCATING REVENUE SOURCES + DESIGNING INTERGOVERNMENTAL TRANSFERS + STRUCTURING SUB NATIONAL BORROWING/DEBT

For more information of each variable definition, it is exhibited in Fergulio (2007). In short, fiscal decentralization relates to expenditure assignments, revenue assignments, intergovernmental transfers, and borrowing or debt of local governments.

Among the three forms of decentralization, fiscal decentralization appears to have concentrated the most interest in the literature (Goel and Saunoris, 2016). Other forms of decentralization may be difficult and need more time to develop toward decentralization goals, but fiscal aspect, relatively, is easier.

All in all these may be called the classical theory especially for fiscal decentralization based on the work of Tiebout (1956), Oates (1972) and Brennan and Buchanan (1980). By assuming a benevolent government, the first two studies offer a theoretical framework in which fiscal decentralization can guarantee an efficient provision of public goods simply because local preferences are better satisfied than in the case of centralization. But the latter assumes the Leviathan hypothesis or the opposite assumption whereby decentralization is a means to reduce government size in order to lessen its inefficient behavior of such government. However, the work of Porcelli (2009) concludes that, with the classical theory, fiscal decentralization impacts may end up with problems. In theory, if we assume that smaller is better according to the Leviathan hypothesis, it would be very difficult to assess the effect of the decentralization on the efficiency of the government, because expenditure is an input of public activity and allocative or technical efficiency is not always achievable by a more cost-conscious government. In contrast, even the best government, size of expenditure is matter for public provision of public goods. Therefore, it is difficult for small governments to provide public services in efficient level due to economy of scale concept.

Based on the second generation theory of fiscal federalism (Oates, 2005), fiscal decentralization is emphasized with the "political process and the possibility asymmetric information across political agents". Porcelli (2009) mentions that there are two stream for decentralization with political economy. For the first stream, the major argument is that a benevolent government assumption will be replaced with a political economy model. The result for the case is mentioned in Lockwood (2007);

> *In this case it has been shown that decentralization theorem continues to hold if preferences of the median voter are equal to the average preferences, otherwise there could be cases where, in spite of spill-over effects and uniform preferences, decentralization welfare-dominates centralization; or there could be cases where centralization welfare-dominates decentralization even if there are no externalities and preferences differ across regions.*

The second stream relates to decentralization in principal agent model of electoral accountability. This perspective comes from assuming asymmetric information between voters and elected officials. Using a principal-agent model where the people is taken to be the principal(s) that cannot observe directly the effort of the government, and the elected administrators to be the agents who maximize their own utility that does not coincide completely with the utility of the voters. Porcelli (2009) cites that

> *In Oates [2005] words, "a centralized system takes the form of a single agent (elected public official) who serves the whole population, while decentralization consists of one agent in each jurisdiction". As a result, the choice between centralized or decentralized provision of public goods collapses in the design of the optimal contract involving a reward scheme for the agent in order to persuade him to exert high effort, i.e. high efficiency in the provision of public good. In this framework, when fiscal decentralization stimulates political accountability a positive effect on government efficiency can be observed also in the case of perfect homogeneity of preferences across local jurisdictions.*

For international experiences, more than hundred countries have witnessed in decentralization particular in fiscal decentralization and administrative decentralization. They have expected for effective public sector reform management. However, empirical studies such as Martinez-Vazquez (2011), Brosio (2014), Goel and Saunoris (2016), and Martinez-Vazquez and Vulovic (2016) find a variety of models and does not guarantee that fiscal decentralization yields the best service delivery due to limitation of accountability and transparency. Brosio (2014) expresses that when accountability is missing, decentralization is partial and may end up with higher costs, budget imbalances, and decreasing levels of service delivery. The paper conveys an interesting quote; “Outcomes of decentralization, also in terms of service delivery, do not depend only, or exclusively, on the intensity of decentralization, but rather on how it is done." This is consistent to the conclusion from the work of Martinez-Vazquez (2011). Given positive and optimistic about the overall impact of decentralized systems especially when they are well designed and implemented, much work still needs to evaluate fiscal decentralization systems and to suggest how to improve the design and implementation.

This study researches on "Fiscal and Administrative Decentralization on Public Services Delivery: A Case of Thailand and Vietnam". This research receives funding from Thailand Research Fund (TRF) under the contract of RDG5310022. The research composes of four chapters. The first chapter discusses mainly in decentralization concept and related theory. The next chapter reflects Thailand decentralization using public choice perspectives and stylized facts. The third chapter considers impacts of fiscal and administrative decentralization on governance and public service delivery in Vietnam written by Nguyen Quoc Viet from Vietnam National University in Hanoi. Following by comparing fiscal and administrative decentralization in Thailand and Vietnam relating to progress and possible outcomes, the fourth chapter also conclude the research project.

CHAPTER 2

TOWARD A NEXT DECADE OF THAILAND DECENTRALIZATION: LEARNING FROM THE PAST

Pracha Koonnathamdee[1]

ABSTRACT

Since the decade of 2000s, we have witnessed in the mixed results of Thailand decentralization. Reviewing the major changes and impacts are important to planners and policy makers in order to implement the "better" and "sustainable" decentralization policy and proper measures. This paper discusses a conceptual framework of Thailand decentralization based on public choices and principal-agent problem. Subsequently, this research brings in empirical analysis using stylized facts and policy gaps of current decentralization, and recommends a framework for next steps. Results in the last decade illustrated that Thailand decentralization process was not well completed, and intended functions to be transferred appear ongoing with difficulties. Recommendations for a next decade combine the recommendations for filling policy gaps in administrative and fiscal decentralization particular in the need for database and researches. Encouraging potential local governments in local government borrowing is required in order to increase local public good investment, reduce pressure in

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[1] Faculty of Economics, Thammasat University. This paper is written for the 1st International Conference on International Relations and Development (2001 ICIRD), presented at Thammasat University, Bangkok, Thailand during May 19-20, 2011. This research paper is drawn and summarized from parts of my research project supported by the Thailand Research Fund (TRF). Views expressed in this article do not necessarily represent the views held by the institution where the author is affiliated and the TRF.

central government budgeting, and support local government responsibility and governance. Two issues needed more attention from relating governments are the Asian Economic Community (AEC) and the climate change problem. Finally, extending people understanding in the "real" decentralization still requires major drive from the central government and academics.

2.1 INTRODUCTION

Decentralization, in principle, suggests improvement of community development programs in local areas to better serve the needs and concerns of the local people as well as allocative efficiency in terms of improving welfare (Oates, 1972). Theoretically, the decentralization approach from the “bottom-up” affects public sector reform and political values. It also helps improve governance in the sense of local responsiveness and political participation (Bird and Vaillancourt, 1998). However, mixed directions of restructuring public sectors have happened throughout the world since the decade of 1980s. Many countries have continued to transfer decision-making from center to subnational governments. Because those countries have referred to government failures in public service delivery, they have promoted decentralization as a tool in order to reach the sustained growth and better services to local. Decentralization process publicizes a current international political and fiscal trend, including developing countries. For example, before 1990s, most Asian countries were highly centralized, however it has become a remarkable issue in this region.

At the same time, many countries have attempted to support international integration such as the European Union (EU) and Asian Economic Community (AEC). For the EU, a hybrid system of supranational independent institutions is a result of such integration. Identically, the AEC could end up with the new top level of government. These processes of centralization diverge from the concepts of government failures and local public goods which are the root of decentralization. These contrasting forces, as stated in Oates (2005) and Inman and Rubinfeld (1992), "raise the intriguing question of the future of the national governments".

Without exemption, Thailand is a country that adopts these two contrasting forces, being a part of AEC integration and decentralizing in the country government structure and budget. In the context of Thailand practices, it is an important role for scholars to understand a conceptual framework of the multi-level government. Learning from the past by reviewing the major changes and impacts could assist planners and policy makers better understanding the decentralization forest, not the tree. In addition, proper policies and measures could be implemented after taking into the account of the two contrasting forces.

My purposes in this paper are to discuss a conceptual framework of Thailand decentralization based on public choices and principal-agent problem. Stylized facts and policy gaps in the Thailand decentralization process are developed with the intention of increase understanding at a conceptual level of Thailand decentralization. The next section of this paper presents background of decentralization process in Thailand inclusive of administrative and fiscal decentralization and current structure of multi-level government. Section three demonstrates theoretical and conceptual framework in the context of Thailand decentralization and ends up with the stylized facts in decentralization process of subnational governments. The last section concludes the paper and recommends a framework for a next decade of the ongoing decentralization. The framework incorporates the discussion of the other force of international integration, as a factor, whether it encourages or discourages Thailand decentralizing trend.

2.2 BRIEF BACKGROUND OF THAILAND DECENTRALIZATION

In Thailand, decentralization has been an active policy issue since 1992. Although the process of Thailand decentralization recorded its origin about the decade of 1890s (Charoenmuang, 1999 and McCleary et al, 2000), the major affected changes of Thailand public sector reforms launched as the result of the Constitution of the Kingdom of Thailand 1997[2]. The highest legislation had authorized particular public sector reforms by decentralizing and transferring particular responsibilities from central government to local government units[3]. In addition, the most important legislation was the Decentralization Act of 1999[4] (DA1999) and its Decentralization Plan which was legally effective in 2001. With the authority of the DA1999, the National Decentralization Committee (NDC) was established for not only directing specified functions to be transferred, but also governing process and its time frame. In addition, the

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[2] Up to this line, people might ask; why did this process of decentralization happen? Mektrairat (2003) already explained that the Thailand decentralization is a vital process arising with political reform after the 1992 coup d'état. The directions of the reform were (1) local government election, (2) democratic decentralization, and (3) independent of local authorities.

[3] There were 10 sections in the Constitution of the Kingdom of Thailand 1997 supporting local government and decentralization.

[4] The Act serves as the backbone of Thailand decentralization. There are 5 sections including, (1) the National Decentralization Committee (NDC), (2) local services responsibilities, (3) the allocation of taxes and duties, (4) the decentralization plan, and (5) measures for the transitional period.

NDC has served as a policy maker and a central government adviser for decentralization. For local government tasks, the NDC targeted those 6 major programs covering 245 functions shall be devolved to locale within 10 years. This process means the "Thailand administrative decentralization" and its details are presented in Table 2. After the DA1999, the Action Plan of 2001 denoted not only the assigning tasks, but also budget and other resources from the central to local governments. To be specific in monetary resources, the Plan of 2001 affirmed that the local governments should direct the share of net central government revenues not less than 35 percent within 5 years[5]. This process is the first framework of "Thailand fiscal decentralization". In summary, the DA1999 directs Thailand decentralization through the NDC by devolving functions, decentralizing budget, and monitoring processes.

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[5] In the Decentralization Act of 1999, Section 30 (4) states that

> *Determine the allocation of taxes and duties, subsidized fund and other income to local government organization in harmony with the proceeding according to the powers and duties of each type of local government organization as appropriate. Within the period of not exceeding the year 2001, local government organization shall receive the increased revenue in the ratio of government revenue of not less than 20%, and within the period of not exceeding the year 2006, local government organization shall receive the increased revenue in the ratio of Government revenue of not less than 35%. Thus, by increased ratio according to the period to the period of time appropriate for the development, Local government organization shall be able to proceed the public services by itself and by the fair allocation to local government organization in consideration with the income of that local government organization too.*

2.2.1 Administrative Decentralization

The major devolution programs covering 245 functions are summarized as the following: (1) Public Infrastructure; (2) Local Services Related to Quality of Living; (3) Civil and Community Ordering, and Peace Maintenance; (4) Planning, Investment Promotion, Business, and Tourism; (5) Natural Resources and Environmental Management and Conservation; and (6) Art, Culture, Tradition, and Local Wisdom. Some of the functions, however, are not local compulsory, but local discretionary, e.g. primary and secondary education. Besides, many functions such as natural resource and environmental management, education, health care, and commerce have some difficulties in devolution, mainly in conflicts of incumbent institutions, legislations, and politics. Therefore, it does not overstate that Thailand administrative decentralization intimately requires devolution process.

It is useful to consider structure of Thailand administration for better understanding in administrative decentralization. Figure 1 presents the structure of organization both central administration and local administration. For the latter, as stated in the DA1999, the major institution for decentralization is the NDC as national agency under the prime minister's office. The NDC mainly provides rules and regulations for devolution of administrative functions and transfer formula, and monitoring and evaluating decentralization process. There are four types of Local Government Units (LGUs); Tambon (sub-district) Administration Organizations (TAO), Municipalities, Provincial Administrative Organizations (PAO), and Special Local Government Units (SGU). The Department of Local Administration (DLA) has straight supervised LGUs with the guideline of the NDC.

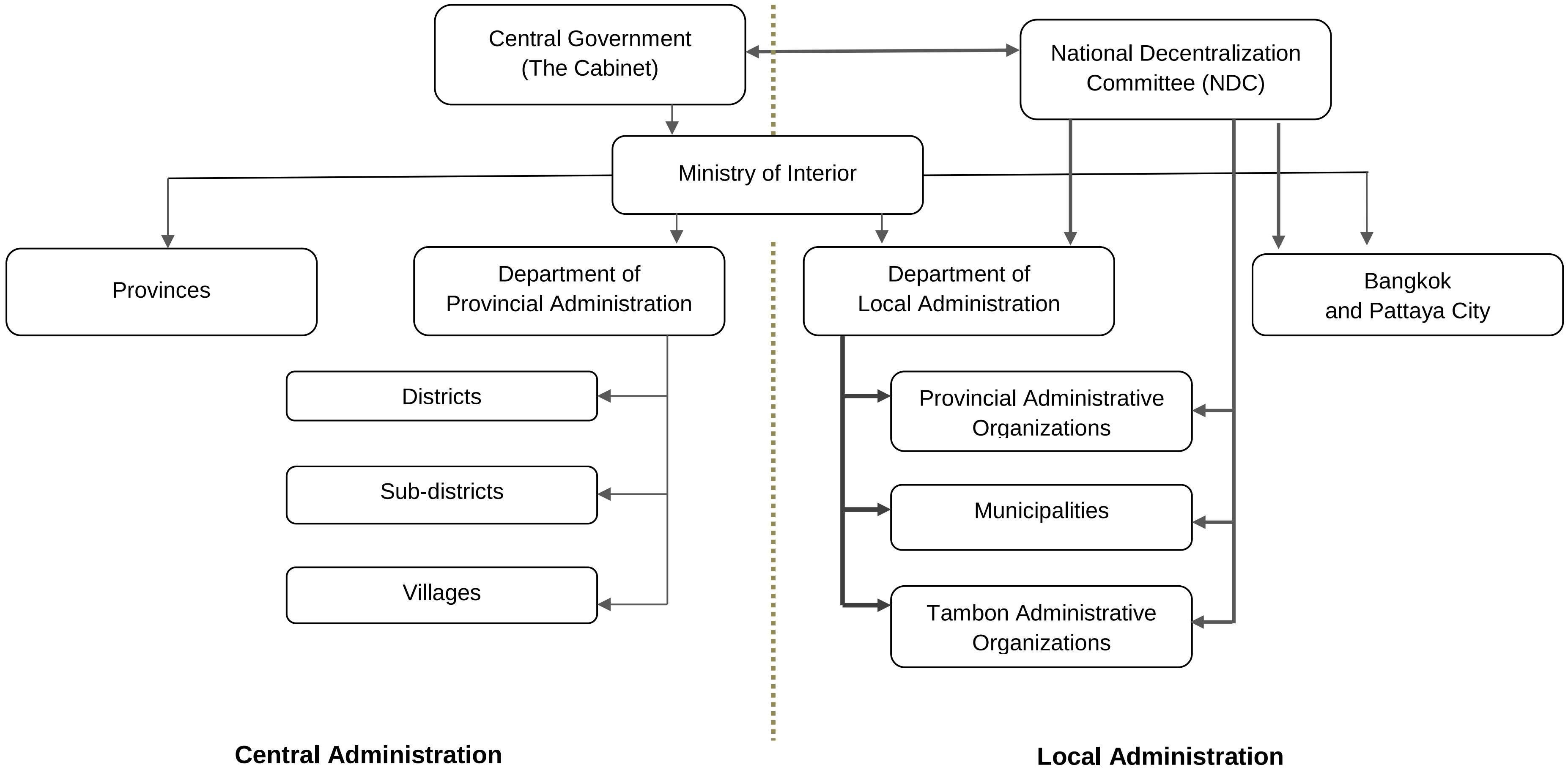
Table 2 Functions to be transferred to local administration, classified into 6 broad categories and by types of work

Broad Category of Functions	Related Central Agencies	Work/Activities	Example of Activities
Public Infrastructure	87 topics; 7 ministries and 17 departments	Transport and Communication	Road construction, road maintenance, bridge, canal, bus station
		Public works	Irrigation, pipe water
		Public Facilities	Market place, city planning
Quality of Life		Occupational training	Program for occupational training
		Social welfare	Care for children, elderly, disabled, and HIV-infected
		Sport and exercise promotion	Public park, recreational sites, sport facilities, field and stadium
		Educational services	LGUs can provide school education-provided they pass certain guidelines
		Public health	Primary health care, disease prevention, and health promotion
Social order and community safety	17 topics; 6 ministries and 9 departments	Disaster prevention and relief	
		Public Safety	Registration of animals, motor vehicles, and business enterprises -- Given power to set fine

			for violators
Commerce planning, investment and tourism promotion	19 topics; 5 ministries and 6 departments	Local planning, investment plan, tourism promotion	Long-term plan, annual operational plan with local participation
		Integrated development planning	Joint projects/programs between LGUs and provincial administration, provincial clusters
		Data collection and information dissemination	Local tourism information
Natural resources and environment	17 topics; 4 ministries and 9 departments	Forest protection, environmental protection and pollution prevention	Monitoring the forest, waste collection, waste water treatment
		Monitoring public land	Prevention of encroachment on public land
Arts, culture, local wisdom and custom	2 topics; 1 departments	Historical heritage, folk museum	

Source: Varanyuwatana et al (2007)

Figure 1 Administrative structure of the Royal Thai Government



The links between the central and local administration associate to the NDC and the government agencies under the ministry of interior. Currently, LGUs interconnect to not only governments at the same level through its association, but also governments across levels and administration types through line central government agencies and the NDC.

Comparing the numbers of each LGUs also represents the facts of local administration. The majority of the LGUs is the TAO which was 6,618 units in 2006 declining to 5,767 units in 2010. The trend of TAO number is decreasing by criteria of legislation. In contrast, the trend of municipality numbers is expanding as its increase from 1,160 units in 2006 to 2,008 units in 2010. The details of types and numbers of LGUs are presented in Table 3.

Table 3 Types and Numbers of Local Government Units

Types of Local Government	Number in 2006	Number in 2010
1. Tambon Administrative Organizations	6,618	5,767
2. Municipalities	1,160	2,008
2.1 City	22	25
2.2 Town	118	142
2.3 Tambon	1,020	1,841
3. Provincial Administrative Organizations	75	75
4. Special Local Government Units (Bangkok and Pattaya)	2	2
Total	**7,855**	**7,852**

Source: Department of Local Administration

2.2.2 Fiscal Decentralization

The fiscal decentralization relates to the link between local government budget and central government budget. By the DA1999, local governments should have their budget as the share of net central government revenues not less than 35 percent within 2006. The NDC and the Budget Bureau were two institutions incorporating in transferring budget from central to local under the specified functions and personnel. In addition, the NDC approved of several grant policies and shared tax policies in order to keep pace of the target of local government revenues. However, the fiscal decentralization target and the fiscal decentralization performance were mismatch as stated in Varanyuwatana et al (2007). In the middle of 2006, about 74 percent of assigning tasks was devolved and the rest was still in charge of the central government particular in education and health care functions. Furthermore, the revenue assignment from the central to local was reported only about 25 percent of the central government net revenues which was far away from the target of 35 percent. Therefore, these were facts that the first framework of Thailand fiscal decentralization could not be completed.

After the coup in September 19, 2006, the 1997 Constitution was terminated, but the Constitution of the Kingdom of Thailand 2007 still gives attention to the decentralization process. However, there was a minor revision of the DA1999, but huge impacts for decentralization process. The Decentralization Act of 2006 (DA2006), as the revised version of the DA1999, mainly replaces Section 30 (4) with a new framework of fiscal decentralization. Beginning in fiscal year of 2007, the subnational government shall have its revenues not less than 25% of central government revenues and the ultimate goal for local budget is still not less than 35% of central government revenues. However, there is no time frame and proper measures for operating such the ultimate goal, which cause a possibility to delay the ultimate goal forever. For the grant policy, the DA2006 states that each local government shall have intergovernmental grants from the central government not less than the received amount in the fiscal year of 2006. Nevertheless, the intergovernmental transfer policies, issued by the NDC, have not been steady since the NDC establishment. The policies have perpetually changed by several reasons, including business cycles, natural distresses, and politics.

Considering the structure of local government revenues in Table 3 extends our understanding in fiscal decentralization. Table 4 indicates that the LGUs' command for revenues sharply increased after the fiscal year of 2001. This was largely achieved by a huge increase in intergovernmental transfers, not the productive own-sources of local revenues. The fiscal statistics demonstrate the following: (1) the local government budget is increasing from 99.8 billion in 2000 to 241.9 billion in 2004, and to 376.7 billion in 2008, but the budget is increasing at the decreasing rate. (2) From the fiscal year of 2006, the ratio of local revenues to central revenues is more likely to be around 25%. (3) Locally-collected taxes and the non-tax revenue had increased slowly over time. This could be because neither broadening local tax base nor increasing tax rate has taken place. (4) The amount of tax-transferred revenues increases over time, along with economic growth, but not drastically as there is virtually neither changing in the tax rates nor tax base.

Table 4 Local Government Revenues by Sources, Fiscal Years 2000-2008

Type of Revenue (millions of baht)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Locally-collected revenues	19,475 (19.5%)	17,701 (11.1%)	21,084 (12.0%)	22,258 (12.1%)	24,786 (10.2%)	27,018 (9.2%)	29,110 (8.9%)	32,021 (9.0%)	35,223 (9.3%)
Taxes collected by central agencies and transferred to LGUs	45,528 (45.6%)	55,652 (34.8%)	58,144 (33.1%)	60,218 (32.7%)	82,623 (34.1%)	102,520 (34.9%)	110,189 (33.7%)	120,729 (33.8%)	128,676 (34.2%)
Shared taxes (VAT)	n.a.	12,669 (7.9%)	19,349 (11.0%)	35,504 (19.3%)	43,100 (17.8%)	49,000 (16.7%)	61,800 (18.9%)	65,300 (18.3%)	65,000 (17.3%)
Intergovernmental grants	34,400 (34.5%)	73,730 (46.2%)	77,273 (43.9%)	66,086 (35.9%)	91,438 (37.8%)	115,210 (39.2%)	126,013 (38.5%)	139,374 (39.0%)	147,840 (39.2%)
Total intergovernmental transfers (combining grants and shared taxes)	***34,400 (34.5%)***	***86,399 (54.1%)***	***96,662 (55.0%)***	***101,590 (55.2%)***	***134,538 (55.6%)***	***164,211 (55.9%)***	***187,813 (57.4%)***	***204,674 (57.3%)***	***212,840 (56.5%)***
Total revenue of local governments	99,802	159,753	175,850	184,066	241,948	293,749	327,113	357,424	376,740
Total revenue of central government	749,945	772,574	803,651	829,496	1,063,600	1,250,000	1,360,000	1,420,000	1,495,000
The ratio of local revenues to central revenues	13.31%	20.68%	21.88%	22.19%	22.7%	23.5%	24.1%	25.2%	25.2%

Note: Numbers of the share to total local revenues are shown in parenthesis.
Source: Compiled by the author from the Fiscal Policy Office and the Comptroller General's Department, Ministry of Finance and the Department of Local Administration, Ministry of Interior.

Additional information relating to grant policy arrives in the study of Patamasiriwat (2010). The author employed municipality and TAO data to calculate tax and grant revenue per capita classified by total revenue per capita presented in Table 5. Tax revenue per capita varied from less than 500 bath to more than 20,000 bath with the average of about 2,000 bath. The grant revenue per capita varied from about 300 bath to about 6,000 bath with the average of about 1,000 bath. Patamasiriwat's major finding is that tax and grant revenue experience in positive relation, meaning fiscal disparities, and the author requested for grant policy revision.

Table 5 Fiscal disparities, fiscal year 2009

Classification by total revenues	Frequency	Tax revenues	Grant revenues
<= 500	2	478.73	277.54
501-1000	77	910.75	493.57
1001-1250	980	1159.30	648.64
1251-1500	1864	1374.39	720.50
1501-1750	1382	1614.84	810.23
1751-2000	842	1865.36	899.10
2001-2250	535	2119.87	1038.46
2251-2500	465	2367.09	1200.00
2501-2750	355	2615.70	1379.78
2751-3000	277	2868.31	1509.23
3001-5000	780	3688.67	2068.33
5001-10000	188	6439.20	3001.14
10001-20000	27	13081.59	3754.97
20001=>	2	23829.81	6038.83
Total/average	7776	2059.92	1055.36

Note: All revenues are per capita.

Source: Patamasiriwat (2010)

2.3 CONCEPTUAL FRAMEWORK AND STYLIZED FACTS IN THAILAND DECENTRALIZATION

Previous section gives us brief background of Thailand decentralization. That information comes across fields in economics and perhaps across disciplines such as political science. It is difficult to characterize in a simple and systematic way. This section, however, is an attempt to present theoretical background of Thailand decentralization. Employing public choices and political economy, and principal-agent problem diverge from the Oates' decentralization theorem. Oates (1972) acknowledges that each level of government would attempt to maximize the social welfare of its respective community. Consequentially, local governments shall provide levels of public outputs that meet the demand of the residents of their respective jurisdictions. Given internalize interjurisdictional externalities, each jurisdiction will attain a higher level of social welfare than one in which a central government provides the same level of public goods in all jurisdictions. In the contrary, public choice approach mentions that each government maximizes its own objectives. Furthermore, this research paper extends discussion of Thailand decentralization with principal-agent problem because the process contains imperfect information. With one or all of problems, it does not guarantee that each jurisdiction will reach the better level of social welfare. This section also offers stylized facts and policy gaps in Thailand decentralization. These substantiate good sources for policy recommendation for a better process of Thailand decentralization.

2.3.1 Public Choice Perspectives and Principal Agent Problem

With public choice approach, it is totally different from the Oates' decentralization theorem. Subnational governments as public decision-makers could maximize their utilities with their own objective functions. One type of this view is Niskanen approach; LGUs are maximizing the size of their budgets. This practice could be seen as mixed objectives of local governments i.e. power and influence development, large staffs, and higher salaries. However, from Niskanen's assumptions, a central government tries to rein them in. Brennan and Buchanun (1980), on the other hand, see these two levels of governments as one monopolist or "Leviathan". The leviathan simply tries to maximize the size of public sector by taking advantage of voters' unawareness. Under public choice approach, voters cannot trust the government to spend their tax money efficiently and must design methods to counter government demand.

Beyond the public choice theory, this research applies principal-agent problem to decentralization process. Theoretically, the problem relates with asymmetric information which is a type of market failures. General concept of the problem states "when you contract with people whose actions you cannot observe or evaluate, they may take advantage of you" (Perloff, 2004). In the context of decentralization, the principal-agent problem is not quite clear because of assignments to the principal whether it is a central government or voters in the jurisdiction (Wildasin, 2004).

It is useful stating a simplified principal-agent model in order to write a suitable contract for decentralization. Although it is unclear for assigning the principal and the agent in general (Wildasin, 2004), the study of Patamasiriwat (2010), with the Thailand case, assigned the NDC and the Office of Auditor General (OAG) as the principal and the LGUs as the agents. However, in this article, we come across two possible cases in Thailand decentralization context where LGUs are designated as the agents in both cases. The central government is the principal because of its authority to direct the LGUs, by legislation, through the

NDC and the OAG. Practically, the NDC direct LGUs by intergovernmental transfers as we found that the transfer policies had been changed annually. Electorates as the common principal, on the other hand, have authority to "recall it quit", as stated by laws.

<u>CASE 1</u> A Central Government and a Local Government

Suppose a central government is the principal who has authority to hire or contract with a local government, to take some action, α, that increase the social welfare or social profit, π, from using his authority. In this model, the principal and the agent need each other. The social profit from local governance, π, depends on the governance effort, α, that local government performs. The social benefit may also depend on the outcome of a random variable, θ, that represents the state of nature:

$$\pi = \pi(\alpha, \theta).$$

There are two extreme cases; either some action is concerned or random variable is concerned. In the former, social benefit depends only on the agent's action, $\pi = \pi(\alpha)$ given on no uncertainty of random events or $\theta = 0$. The other case is social benefit depends only on the state of nature $\pi = \pi(\theta)$, such as in a good governance jurisdiction in which social benefit depends only on the state of nature likes natural disaster (flooding, landslides, or drought).

Theoretically, there are three types of contracts, fixed-fee social benefit, hire, and contingent contract that the principal utilizes one of those for monitoring the agent. Each type of contracts provides differently in production efficiency and moral hazard problem. However, as mention in Perloff (2004), the preferred contract is the principal fixed fee social benefit contract because it results in production efficiency and no moral hazard problem.

<u>CASE 2</u> Voters and a Local Government

In this case, voters or median voters are the "common" principal while a local government is still an agent. For simplicity, this paper assumes the same model;

$$\pi = \pi(\alpha, \theta).$$

However, the monitoring process in this case may possibly absent because of the nature of the “common” adapted by the tragedy of the commons (Hardin, 1968).

Each model deals with mutual asymmetric information, but in different degrees. For the CASE 1, a central government or its agencies should have numbers of contracts at least equal to numbers of LGUs. These contracts are not free, but administrative costs. In addition, a good contract should have a set of key performance indicators, requiring a check and balance system and a huge annual budget. For the CASE 2, voters as the "common" principal are challenged by its nature. To be specific, it is costly for a person or a group to run the recall process while the agent has very much power particularly when the benevolent government assumption is rejected.

2.3.3 Stylized Facts and Policy Gaps in Thailand Decentralization

This research paper then utilizes stylized facts (SF) in order to discuss the previous and current results of Thailand decentralization with theoretical background. Taking into account of empirical findings, stylized facts will be mentioned following by supporting reasons and policy gaps. Because the three stylized facts proposed in this paper may differ from the intended objectives of decentralization, revisions of legislations and the roles of the line central agencies are needed. Three stylized facts are the following:

<u>SF 1:</u> An objective of Thailand decentralization is to deliver better public services, however, LGUs proceed a tendency minimum requirement level of the services, not the optimum level.

<u>SF 2:</u> An implicit objective of Thailand decentralization is to reduce inequalities, however, the negative is true particular in LGUs' receipts and performance.

<u>SF 3:</u> Conflicts of legislation, politics, and central administration not only delay the process of Thailand decentralization, but also reduce the level of success and perhaps decrease in social welfare.

We found that these stylized facts associate to "by design" not by default. The Thailand decentralization process has started from the concept of devolution in functions, budget, and personnel with the control of the central government using intergovernmental transfers. In theory, the central government might provide intergovernmental transfers to cover the difference between some minimum acceptable levels of local services and a normatively defined level of revenue raised from own sources (Bahl, Smoke, and Solomon, 2003). Although most of the Thailand intergovernmental transfers have been not tied to specific functions or programs allowing flexibility of LGUs for public service delivery, local government budgeting is the problem. It is the fact that LGUs difficultly predict their amount of grants and shared taxes because of several reasons e.g. political matters, annual transfer policy changes, and the treasury financial situations. Also the timing of intergovernmental transfers cannot be controlled by LGUs, but depending on the central government agencies. Additionally, LGUs practically run a budget surplus or at least a balanced budget. With the flexibility of LGUs for providing local public goods, budgeting process and practices, while central government could not provide a complete contract or an influencing incentives, LGUs proceed a tendency minimum requirement level of the services, not the optimum level (SF 1).

Generally, the central government has a major role in redistributing of income. In the decentralization context, the central government still cannot neglect this role. Theoretically, a more efficient structure of local government will be reached if the central government grants to high tax or low service localities in order to prevent mobility of tax bases. Therefore, the lower total local government revenues are, the higher intergovernmental grants obtain. Although the Thai central government allows general block grants supporting redistribution purpose, the amount of intergovernmental grants to LGUs does not support the redistribution role. Patamasiriwat's finding and grant and shared taxes policies from the NDC presented the evidences. Therefore, it is fair conclude that Thailand decentralization does not reduce inequalities (SF 2).

Conflicts of legislation appear to be one of the most difficulties in Thailand decentralization. Although the 2007 Constitutions have granted 10 Articles to support local government and its process, the Constitution have been suppressed by the present Acts or law. For example, the Article 286 of the 2007 Constitution[6] allows people to request for "the issuance of local ordinances by local assembly", but the limitation of the procedure "shall be as provided by law". The latter quotation has caused the conflicts of existing legislation and the initiative or new law supported by the residents. Therefore,

[6] Article 286 of the 2007 Constitution states the following; the people, having the right to vote in any local government organization shall have the right to enlist the President of the local assembly a request for the issuance of local ordinances by the local assembly. The number of eligible persons, the rules and procedure for the enlisting and the examination thereof shall be as provided by law.

the intended objectives for decentralization could be deviated or changed by the existing law. For the politics, the incumbents of old fashion of administration and the national and local politics have caused a delay of decentralization process in the country. Not only in administrative administration as the delay of transferred functions, but also the annual changed intergovernmental transferred formula and regulations slow down the process as a result in politics. In addition, the current structure of administration instigates of unclear in some functions. Keeping both tracks of central and local administration costs "too much" for the country. It again reflects to the unclear of decentralization process with a chance of reducing social welfare. Because money is fungible, the central government could allocate budget from two tracks administration to only local government with the better system such as a check and balance based on KPIs and for provision of high quality of the national public goods. With all reasons, they cause the delay and reduction in the level of success, and the most concern is a possibility of decreasing in social welfare (SF 3).

2.4 LEARNING FROM THE PAST AND POLICY GAPS, AND RECOMMENDATIONS FOR AN ONGOING PROCESS

This paper has no conclusion but a guideline and a reflection assisting the Thailand decentralization in a next decade. Therefore, this section is divided into two parts, learning from the past and policy gaps, and recommendations for ongoing process.

2.4.1 Learning from the Past and Policy Gaps

Our discussion from the previous sections states that Thailand decentralization is not a well completed process. It requires intention for good governance in administrative decentralization and fiscal decentralization with the theoretical background of institutions and related asymmetric information theory. For administrative decentralization, each LGU must inform relating central government agencies in order to rank the priority of transferred functions categorized by broad categories with the current status and learning process of the difficulties or success for each functions. This practice needs database and information technology systems for monitoring and supporting local government. At present, each agencies has the system but not enough useful data. Therefore, this should be a concern issue of the NDC in order to receive the "real" information from the localities. Because each LGU is not the same, "adaptive governance" is required for better results. The policy gap in the administrative decentralization is the old fashion concept of "one size fits all". This should be concerned by the central government and its agencies, for example, a compulsory task for establishing of child-care center in each LGU. Practically, each LGU had spent its budget for structure and personnel for child care center. The central government has assumed that there are enough demand or it is a requirement, but this assumption may not be true for all location. Some localities may end up with a structure and high management budget but there is no guarantee for its quality or performance which is more important in managing a project. In addition, the central government should weigh the cost and benefit for keeping both tracks of administration.

For fiscal decentralization, the structure of local government receipts with high intergovernmental transfers is debatable, but broadening local tax base and increasing corrective taxes should be major concerns. In addition, the fiscal imbalance should be corrected using intergovernmental transfers, but the central government did in the negative way. The policy gap for fiscal decentralization is that the central government recognizes fiscal problems of LGUs by annual report from the NDC about perpetually changing intergovernmental transfers rules and criteria including monitoring results, but the central government had not intended to correct fiscal disparities. It is the fact that the decentralization process has been delayed as a result of political relationship. Therefore, it is a ripe time to reconsider revenue assignment to match local expenditure assignment in order to fill the fiscal gap and to strengthen the good governance for localities. Local governments should balance between budgetary needs based on expenditure assignment and the combined amount of local taxes, charges, and certain intergovernmental transfers from formula-based equalization. Exploring new environmental taxes and redesigning land and building taxes are requests for the better local government receipts and reduction in inequalities.

2.4.2 Recommendations for an Ongoing Process

Recommendations for a next decade combine the recommendations for filling policy gaps in administrative and fiscal decentralization and also to change the stylized facts in a next decade. In addition, strengthening the LGUs is a requirement. To support further decentralization and capacity building in local administration, there should be a program to improve local databases and to promote basic and applied research. For administrative decentralization, some practices of the "one size fits all" or "father knows best" should be reconsidered as stated the earlier. In addition, the central and local relationships should be reconsidered in order to reallocate budget for better results or at least the central government should have a research relating to keep both tracks as a current system or keep only local administration. People need more information and explanation of these policy gaps from the central government.

For fiscal decentralization, the formula-based equalization grant, the initiative to broaden local tax bases and exploring the corrective taxes, and the initiative to enhance local capability in financial management and long term investment projects are this research recommendation. For the intergovernmental transfers, this is an immediate issue as there are wide disparities among thousands of LGUs and there is a sentiment that the grant allocation is biased in favor of big and economically prosperous LGUs. Because one of the objectives of intergovernmental transfer is to ensure minimum services provided by all local government units, regardless of their economic base, disparities should be reduced. For broaden local tax bases and exploring the corrective taxes, by information about local government receipts, broaden local tax bases and exploring the corrective taxes will generate more own-source revenues. An interesting surcharge or fee is the environmental charges attached to the containers. This tax is not only increase local revenues, but also decrease in expenditure for trash management.

Based on theoretical background and stylized facts, the central government and its agencies should support in strengthening local governments. This paper recommends for local government borrowing based on LGUs' demand. Allowing local governments direct access to capital markets is an important complement to the devolution of fiscal powers to local authorities. If properly designed, decentralization of borrowing powers can add to the gains in efficiency and governance expected from fiscal decentralization. Alm and Indrawati (2003) observe that if local governments are given more independence in their tax and expenditure decisions, such independence may well extend to their use of borrowing. Local governments can use borrowing to better match current expenditures with current tax revenues, allowing temporary and unexpected swings in revenues to be smoothed without undue disruption in service provision. The role of local government in borrowing is expected to increase and gain in importance, accompanied by an improvement in the capacity of local governments to plan and manage their investment projects and to mobilize their own revenue sources to repay their borrowing. There is no law that prohibits Thai local governments from borrowing. Only the rules and regulations[7] in practice made it very difficult for Thai local authority to borrow money and to incur debt. The case of lower-borrowing government to finance investment projects has led to an excessive demand for specific grant, which may be undesirable. Firstly, through political lobbying, the local administrative unit shall pay little effort to raise local revenue, from charges or taxes. In addition, the tax burden could be pushed outside the jurisdiction, tax exporting. There is a tendency that the proposed investment projects are oversized and the bad use of resources is evidenced in the many projects in which actual utilization is far below the full capacity. Secondly, the grant allocation project is not based on a just and efficient basis. In addition, the project based and specific grant as practice now is counterproductive to local institutional development, unfair and inefficient.

In the long run, local borrowing will strengthen local governance. It will induce institutional development and capability building on the part of local officials. In addition, there should be a consciously planned program to limit and to phase out the project-based and specific grant. At the same time, the plan should promote local understanding about the concept of fiscal discipline, the financial management skill to handle the investment project, to plan for cost-recovery, to set charges, and to pay for debt services, etc. Phasing out the specific grant should be taken in particular in the big and advanced LGUs (e.g.,

[7] In the Municipality Act, the municipality that wants to borrow must seek an approval from the Minister of Interior. Nowadays, the power has been delegated to the provincial governor on behalf of the Minister.

metro- and city- municipalities) so there will be more room for financing the "cooperative" investment projects by the small and least advanced TAOs. The metro-and city- municipalities and some leading TAOs should set a master project for other LGUs to follow.

Two issues needed more attention from relating governments are the Asian Economic Community (AEC) and the climate change problem. For the AEC, the labor mobility will increase demand for social service such as education, health care, and public safety and corrections, this issue requires some impact research and critical thinking not only the national impacts, but also local impacts. For the climate change and greenhouse gas reduction, it relates to the authority of the locale but the conflicts of legislation, politics, and administrations make the problem more difficult. There are signals that in a coming decade, LGUs could not be free from a part of the solution. Therefore, it is good idea for LGUs and the central government incorporating these two issues as the national topics and solving the problems together.

Last issue is a question about understanding in decentralization. From interviews with local authorities and empirical results, we found that the directions and attitudes toward the "real" decentralization of each LGU are not the same. In addition, the central government directions toward decentralization are changed periodically. This issue needs to be clarified by an active unit, for example, decentralization extension unit. With the good governances and attitudes, next steps of Thailand decentralization may yield the better results.

CHAPTER 3

MEASURING IMPACT OF FISCAL AND ADMINISTRATIVE DECENTRALIZATION ON GOVERNANCE AND PUBLIC SERVICES DELIVERY: A CASE OF VIETNAM[8]

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3.1 THEORETICAL FRAMEWORK

It is believed that in a decentralized environment, people have a greater participation in decisions affecting their lives, thus rendering local social - economic development and poverty alleviation more probable and effective. Thus, according to Wescott and Porter (2002, p. 3), decentralized governance assumes devolution of authority and decision-making with commensurate policies, legal/regulatory frameworks; resources; strengthening local authorities, institutions and capacities, and cuts across thematic areas (gender, environment and natural resources, poverty reduction and equality…).

Following an influential early typology developed by Rondinneli and Nellis (1986) as well as Manor (1999), decentralization means transferring fiscal, political and administrative functions from higher to lower levels of government. This process can take on different forms depending on the degree to which independence tasks or actives are assigned to lower levels of authority (Wescott and Porter, 2002). The definition of decentralization thus can be various due to the form of decentralized governance in the field of political consideration, market consideration, and administrative consideration or even by public – private consideration. Clarify issues such as

[8] This chapter is a draft working paper. Please do not quote.

decentralization, devolution, decentralization in the organization and implementation of state power in the locality is a very meaningful job. The decentralization of "political" typically determines the transfer of decision-making for the citizens or by their elected representatives, Decentralized "market" with emphasis on creating conditions for goods and services produced and provided by the market mechanism sensitive to the preferences of individuals. Decentralized "administrative" is focused on the distribution of hierarchical order and function, the power and functions between central government units and local.

Decentralization makes the enforcement of state power effective, efficient and no loopholes. However, at present, even in many the document in Vietnam (law, political speeches, journals and books etc), it is not exactly distinguishing of decentralization content. Then it still causes confusion for fully understanding the meaning of decentralization.

According to Word Bank (2008): “Decentralization shifts responsibility and accountability for the delivery of public services to sub national (state, provincial, district, or local) levels of government, aiming to help improve service delivery and local governance”. In my paper I focus my discussion on the administration decentralization which focuses on giving the decision making powers from one administrative level to another tiers and Fiscal decentralization is concerned with the proportion of revenues and expenditures received and spent by central as well as sub national government tiers.

It is argued by the World Bank experts, Anwar Shah and Theresa Thompson (2004) that, in everywhere nowadays a silent revolution in public sector governance has swept across the globe aiming to move decision making for local public services closer to their people. For a corporate United Nation Development Program (UNDP) perspective in Vietnam (UNDP project on Public administration reform program – VIE 90002), decentralized governance is also one of the focal points in public services/administration reform in Vietnam currently which consists of many different facets and components. In short, these packet of reform may be summarized as decentralization (devolution of decision-making from central to local authorities and fiscal decentralization, in the framework of civil service reform); democratization (of the ability to influence central and local decisions through representation); and participation (involvement of community-based organizations and citizens for checks and balances to keep local governments accountable).

Many other study, especially from law and economics perspective, also demonstrate that, decentralization is not necessarily a spatial concept requiring reassignment of public service delivery responsibilities from higher to lower levels of administration, though this often is the case. Therefore, decentralized governance may take place in a number of ways (devolution, delegation, de-concentration, and divestment). Cohen and Peterson (1999, p. 61) for example, emphasize that it is rather the broadening of institutions producing and providing needed goods and services at efficient cost, where ever they are located and whether they are public, quasi-public or private.

Mark Turner (1999, cf. Fritzen, 2002), in analysing the decentralization process in Asia Pacific, provides a useful framework to understand both the territorial and functional dimensions of decentralization, as well as its common public and private sector manifestations, which serves to an on-going restructuring of nation state – market relations in the Asia Pacific region as well as all over the world in the past thirty years. The following table provides the inside of delegation definition by Mark Turner (1999):

Table 6 Various Forms of Decentralization

Nature of Delegation	Basis for Delegation	
	Territorial	*Functional*
Within formal political structures	Devolution -political decentralization, local government, democratic decentralization	Interest group representation
Within public administrative or parastatal structures	De-concentration (or delegation) – administrative decentralization, field administration, indirect rule	Establishment of parastatals or quangos
From state sector to private sector	Privatisation of devolved functions (deregulation, contracting out, voucher schemes, etc)	Privatisation of national functions (deverstuture, deregulation, economics liberalization)

Source: *Turner (1999, 5).*

To summary, decentralization consists of a broad category encompassing several strands that may, or may not; go together in a joint economic and politic reform program in developing countries currently (Fritzen, 2002).

The above analysis on the form of decentralization have different advantages, the impact each other, pose difficulties for the selection process, even for the choice in each stage of development in a specific country. When public information is not well development, spatial issues are particularly important in the hierarchy, but the important issue today is how the administrative level that is equivalent to the national territory may develop their internal resources of local authorities for the sustainable development of its social-economic situation. Such local functions including many aspects and factors including economic development, social progress, health care, environmental issues, education and cultural and event international affair.

Decentralization, decentralized governance or not the final result which is a guide how to open, adapt, and affect local governance, expand the participation of community representatives in construction decisions in their work. Decentralization is a new approach to policy implementation; local authorities are required wide and new responsibilities to provide services to society. Decentralization, in this meaning, requires improving planning, budgeting, and practical techniques, new tools and new human resource development to manage and implement the decentralization program. Despite the fact that various 'decentralizations' are underway, by conventional measures, in its early stages of adoption in East Asia, most countries in the region still intensify decentralization as delegation of public services from the central to the local level. Public services are activities serving the essential needs of population. These are dis-interested and non-profit activities and are operated under government's criteria and regulations.

The major characters of public service can be defined as follows:

(i) Public services are non-profit and disinterested activities which serving general essential needs and benefits of citizens and society as a whole so as to ensure social equality and stability.

(ii) These services are provided directly by government or by social or private organizations under government's delegation and responsibility.

(iii) As beneficiaries, citizens have equal rights to use public services provided by the government.

(iv) Unlike regular services, public services are activities serving essential needs of society, regardless of the form of products.

It is common to every country in the world that, the government is heightening efforts to monitor their authorities in the public services, especially in some priority areas of economic promotion, health, education, environment and agriculture development, administrative and judiciary support for their citizens. Thus, decentralized object here is limited to responsibility for planning, managing, and improving the allocation of resources from the government and the subject receives the assignment is also very diverse, including: the agency's regional government, subordinate units, local authorities, economic organizations and so on.

Depending on development level, development period, characteristics and government viewpoints of countries, scale and level of public service delivery in various countries would be different. Thus, the public services can be various according to the policies and regulation of each countries. For the scope of work in this study, I chose 12 general pilot fields of public services that can be classified into 4 groups as presented in the Table 7 bellows:

Table 7 Classification of public services

Economic group	Social group	Environment group	Administrative group
Infrastructure, roads, canals	Education	Environment/ sewage, solid waste	General public supportive services
Services in business and production process	Health, including preventive medical services	Water supply/fresh air etc.	Judiciary services Crime prevention
Employment and careers	Social safety net		
Economics Information and broadcasts	Social problem prevention		

Source: *Nguyen, Q.V, 2008b.*

In all state models, citizens and businesses are responsible for paying taxes to government; on the contrary, one of the government's responsibilities is to provide necessary public services to promote the country's socio-economic development process. Many studies on the impact of decentralization (Ehdaie (1994), Anwar (1998), Bednar (2000), Shah, Thompson, and Zou (2004), although explicitly stated or not, always agreed that, the various forms of decentralization adopted in current political practice of developing countries tend at the highest level to be supportive to reduce poverty and maintain sustaining rates of economic growth. The lesson from those studies is that, the failure of the public services delivery in developing countries is due to the low level of decentralization where central and local governments have overlapping their functions and responsibilities, which usually result in central government dominated administration in those countries. Such public services failure in its terms induces to social and economic stagnation in developing countries.

However, decentralized public services that implied in above chosen fields and scale of public service delivery depend on local resources, especially human and financial resource. According to, Shah and Thompson (2004), most of the decentralization literature are too optimistic as it mainly deals with normative issues regarding the assignment of responsibilities among different levels of government and the design of fiscal transfers. They pointed out that the process of decentralization has not received the attention it deserves as the best laid plans can fail due to implementation difficulties. But what make the implementation process of decentralization became difficulties? The institutional quality on the one hand is the pre-condition for the success of decentralization. On the other hand, the political behaviour of the local authorities in implementing decentralization polices also plays important roles.

Institutional economics also analyse the incentives of decentralization by using principal-agents approach. One argument based on that approach is the argument on the dilemma of the strong state (Weigast 1993): He argued that state can be too strong to expropriate private wealth thus, decentralization can reduce the concentration of power and make the government more accountable. Following Weigast, many recent papers on decentralization focus on government credibility as essential for politics to transfer power to lower level (Landes and Posner 1975, Barzel 1997, Majone 1997, Voigt&Dreher 2008). It is argued that, credibility of government can make everybody better off in market economy. When political and state leaders implement decentralization policy they will gain the credibility. Naturally, the decision to decentralize in the area (space) will affect efforts to implement administrative decentralization or performing administrative decentralization will affect the political hierarchy, etc. Delegation of power thus as a tool to increase government credibility.

However, acknowledging a diversity of opinion regarding economic reform at the central level, many studies using this approach treat all provinces as one bloc of votes; they do not consider the variety of provincial opinions or the importance of their dominant revenue earner (Malesky 2006; Nguyen, Q.V 2006). But just like central leaders, provinces varied in their interest in economic reform and their dependence on economic gains. This is also argued by Bednard (2000) that: "What is efficient—or even optimal—from an economic viewpoint might not always be sustainable politically. I believe one of the greatest challenges ahead of us as formal scholars of federalism is to synthesize the two branches of the literature, to consider how policy efficiency and political feasibility are related…Questions of when to decentralize, how, and to whom—questions regularly raised by the policy literature—might not be best answered by examining policy efficiency, but instead ought to be informed by work on political feasibility" [9].

The next sections will analyses controversies regarding preferred approaches to obtaining a successful outcome of decentralization process in Vietnam.

3.2 ADMINISTRATIVE AND FISCAL DECENTRALIZATION ON PUBLIC SERVICES DELIVERY

Base on theoretical approach, in principle, decentralization creates advanced sustainability and efficiency as well as equity economic resource management in local societies. In Vietnam, there are many ways to understand and reach a different concept of decentralization management. Decentralizing management is acknowledged as the assignment of duties, authority and

[9] Jenna Bednar, APSA-CP Newsletter, Winter, (2000: 1).

responsibility among all levels of government in accordance with the actual capacity of each level of government to enhance effectiveness and efficiency of state management.

In this section, first I will present the current polices and regulatory framework of Vietnam relating to the decentralization process and how public services are assigned to the lower level of local governance in Vietnam. Then, based on an analysis of the national situation for local governance, I will briefly identify the key achieves, challenges and obstacle within local governance in term of implementing decentralized public services over the last 20 years of administrative reform.

In the past, the development of the government of Vietnam also indicated the struggle between the two fundamental trends, either concentrating authority on the central or dividing this authority to local governments. It is also argued that for the government work correctly and effectively, the principle guideline should be that the central government must assign works and authorities among Department of State and local government bodies which called the principle of decentralizing management. Yet Ho Chi Minh once wrote that: "the commune level, being closest to the people, is the foundation of our public administration. If the commune level works, then all our work will proceed smoothly" [10]

However, in the political practices in reality of Vietnam, the system of governance that evolved both during and after Ho Chi Minh's presidency was characterized by neo-Stalinist forms of organization that was often highly centralizing in their effect (Fritzen 2000). After more than ten years of

[10] Ho Chi Minh , Volume 5,. Chinh tri Quoc Gia Publisher, (1995:371)

renovation both in economic and political fields, The Economist Intelligence Unit (EIU 2000) still noted that: "not only is bureaucracy pervasive, but little authority is delegated. In 1999 the prime minister's office received 120,000 documents from ministries and local government agencies that required approval. Many of these documents were about minor items. For example, the prime minister had to give approval to allow a donation of clothes, worth US$400, to enter the country to help victims of floods in central Vietnam. Despite efforts to cut down on obsolete rules, new ones are introduced just as quickly, particularly by ministries where the mindset is one of control"[11]. Due to the lack of decentralization, obstacles on other critical economic reform policies such as restructuring state own enterprise also loomed large. Mr. Ngo Dinh Loan, a National Assembly delegate from Bac Ninh province, a recently separated northern province, strongly condemned that, on the one hand, the government ministries and equivalent bodies keeps saying they wants to promote non-state economic players, but on the other hand they continues to provide credit assistance and administrative and tax favours to large and loss-making state companies under the control of those ministries and agencies." [12]

To address the above problem, since 2000, the Vietnamese government has been implementing an Administration Reform Program, with assistance from many international donors and organization such as the UNDP, the World Bank, and the European Commission. Based on this background, in June 2004 the Vietnamese government has approved the Resolution 08/2004/NQ-CP on enhancing the decentralisation in state management for the central level and the provincial and city-under-State-Management level. The platform for

[11] Economist Intelligence Unit (April 2000) Country Report: Vietnam. The EIU, London

[12] Vietnam Economic Review, "Assembly debates multi-sector move." November 29, 1999.

country development in the transition period guaranties the socialism oriented, principle of democracy and unity of power. Promoting decentralization became a leading principle for the revolution of legal system, the renovation of state organization in Vietnam. The renovation of institution and legal system creating decentralized governance reach significant results in a number of areas. As a result of scientific research, surveys and reference to experience in many countries, a series of law and under law regulation were made, modified or enacted to delicate authorities between the central and local government, especially in the field of transfer powers and duties for local authorities.

The government also approved the overall program of State administration reform (decision No. 136/2001/QD). The specific objectives and major trends of the administrative reform of state for the period 2001 – 2010, relating to the management decentralization including:

(i) Improving administrative institutions in accordance with the period of industrialization and modernization of the country, the first system of policies and legislation on economic and on the organization and operation of the state.

(ii) Removing redundant bureaucratic processes that frustrate citizens and businesses, improve administrative procedures to provide transparent, simple and convenient services for the people.

(iii) Management agencies in the administrative system must clearly define their functions, duties, authorities and accountability clearly, jobs and services are not necessary to be taken by state agencies

(iv) By the year 2010, identifying and implementing the new regulations on the management of state between central and local governments, at all levels between local authorities; specified functions, duties, jurisdiction and organizational structure of government in urban and rural areas, should be completed.

The constitution 1992 (with some amendments in 2001) of Vietnam also embraces more decentralization while being vague about specifics, which are to be addressed through separate legislation and administrative actions and delegate more power to local level. In 2001, several unique features of the new constitution terms set it apart from its predecessors, including strengthening the rule of law and human rights; enhancing accountability mechanisms and improving transparency, participation as well as decentralization. Decentralization is done in all areas like economic development, education, science, health, land, and environment. Especially, the constitution defines more clearly the public services assignments of government authorities at different levels, for example Chapter II on economic management, article 35, 36, and 37 on culture, education, and science and technology. The implementation of this policy was maintained in a system and development in the next event of the party, with reviews, links and directions how to proceed. Promoting decentralization of the central-local became focusing points, building the legal system of Viet Nam, perfecting the Organization structure and improving activities of the Agency in the State.

To underwrite decentralization, the National Assembly has passed two major pieces of legislation. The correct implementation of the function of state mandates and by the authorities was determined in relation to the new Law on Government Organization, Law on Organization of People's Councils and

People's Committees. Defining the nature, organizational structure and mode of communal authorities must be completed. The assignments on public services of the central governments are also provided in articles 14-19 of the Law on Organization of the Government (2002), while those of local governments (province, district, and commune) are identified in the Law on People' Council and the Law on People Committee (2003). The division of competence between the central state agencies - local and between local authorities in different areas identified in the Law on Organization of People's Councils and People's Committee in 2003, specializing in the law sector (budget, land, education).

Resolution No. 08/2004/NQ-CP on 30/6/2004 by the Government on continuing to promote the decentralization of state management between the government and the provincial government, central cities have the priorities assigned levels in the fields of management planning, investment planning and development, managing the state budget, land management, resources and state assets, management of state enterprises, management of business activities, public services, management of organizational structure and personnel and public servants. Implementation of this resolution, 22 ministries and ministerial-level agencies have set up a project on decentralization of state management of sectors, including the proposed revision of laws, ordinances and decrees of the Government to overcome overlapping of duties, powers and delegation of about 300 types of jobs. A series of decrees issued by the Government in the spirit of fair allocation of competence between the Government and the provincial people's committee of management planning, planning, investment management and construction management of ODA ; land management, mineral resources, payroll management, business, management of the Management Board of industrial parks, export processing zones, economic zones, high technology, education, training, science and technology, transportation, environment, culture - information. Recently, enacted laws also present the spirit of promoting decentralization

In order to undertake theses assignments at all levels, the government agencies should be guaranteed by financial resource. This is stipulated at articles 30-36 (the Law on State Budget 2004) on assignments of financial revenue and expenditure for central and local governments. Some issues relevant to monitoring are mentioned in the Law on Statistics (2004). The following detail regulations on decentralization especially on clarifying the functions and tasks of the local government are also stipulated in the many other new specific laws (for example, the Law on Education (2005), the Law on Children Attendance (2004), and decrees and governmental regulations over the last ten years .

Matter content regardless of state management in urban and rural areas, specific regulations for some special urban was institutionalized in a certain extent during the revision of the Law on Organization of People's Councils and People's Committee, the Capital Ordinance 2001 and Decree No. 93/2001/ND-CP dated 12/12/2001 on decentralization for some areas in Ho Chi Minh City. For urban areas, especially Ho Chi Minh City, based on the ability to undertake these tasks, the Government has boldly create autonomy for the city people's committee of management planning, planning, investment economic development - social, housing management and urban infrastructure, budget, organizational structure and personnel and public servants

Despite massive, comprehensive reform challenges and limited capacity, the Vietnam government has been able to make some progress on de-concentration of public services delivery and some degrees of devolution on a pilot basis. Based on the Resolution 08/2004/NQ-CP, 22 ministries and equivalent agencies have designed the decentralisation projects regarding their own management. Currently, these 22 decentralisation projects are being reviewed by the Ministry of Home Affairs to draft a Decree on decentralisation for approval by the government. In order to apply these 22 decentralisation projects, the amendments and revisions in many related laws, ordinances, and decrees are needed. Therefore, it is possible to take many years to apply these decentralisation projects.

Although the content is one of the priorities, but so far decentralization has not yet been fully institutionalized, and not promptly comply with the requirements and objectives set forth. After several years of implementation of the Platform, the 9th Conference of Central Committee (2004) asserts: still slow to implement comprehensive policy of administrative decentralization between central and local levels in each branch , renewing the field on the management of public finances has not kept pace with institutional reform and organizational structure. So far, unfinished goals of the overall program of state administrative reform are "By 2005, the basic issue is completed and the application of new regulations on decentralization of central - local, distributed level between local authorities. Specify the type of local discretion, local things, before decisions must be approved by the Central Government and the work to be done by decision of the Central Government." Law on Organization of People's Councils and People's Committees has been modified but not yet made clear the difference in competence between the local government level, between the People's Councils and People's Committees at the same level and contents of State management on their territories (rural, urban, island, mountain). The legal documents may be specialized to solve the hierarchy and lack of stability.

Towards strengthening local government and this is clearly not enough to affect trends as well as measures of decentralization. Congress VIII (1996) identified: strengthening the district government apparatus and facilities capable of managing and settling in time and proper jurisdiction to matters of life and people set out requirements. Third Conference of the Party Central Committee VIII (1997) strongly advocates press "to focus on strengthening local administrations, " to promote the role and strengthening the People's Councils of communes, wards and town, the group discussed the responsibilities of the People's Councils of communes in each village or hamlet, and the election of village chiefs. IX General Assembly stated: rational organization of the People's Council; strengthen her government, communes, wards and townships. The rational organization of local government in the form of unitary state, state power unity was installed but there is no overall organizational model of local agencies.

It is also important to note that, currently, an official and comprehensive policy on decentralization at lowest level of local governance (villages) has not been developed. Decentralization still bears the stamp of thought "scraping by", not to ensure proportionality between the volume and nature of duties and powers are transferred to the actual capabilities of finance, local officials. Some areas to promote decentralization in terms of institutions, but implementation are not effective. The review and evaluation implementation of laws on decentralization have not been focused and therefore, may not have the numbers, the overall data. Central Resolution X of communist party in August 2007 identified the limitations of the state administration and continues to set requirements: define the functions, tasks, clearly define responsibilities between the agencies, between government levels, between urban authorities and rural authorities, between the collective and the heads of administrative agencies.

However, it is also worthy to note that various elements of policy on local governance are present in selected policy frameworks of strengthening grassroots democracy. The concept centres around the promotion of grassroots democracy, as stated by conservative General Secretary of the Communist party of Vietnam, Le Kha Phieu, who emphasized the danger of corrupt local officials causing the people to “lose confidence” in the Party. His promotion expressed in several directives issued from 1997 and 1998, for example, the directive number 30 CT/TW of the Standing Committee of the Politburo on social mobilization (Cong tac dan van) that introduced the major slogan “The people know, the people discuss, the people implement, the people monitor”, and the ‘grassroots democracy’ Decree issued by the standing committee of the 10th National Assembly on 26/2/1998; was the ultimate legal expression of his campaign.

The new points in the majority of these decentralisation projects, especially in the decentralisation project by Ministry of Planning and Investment are as following:

(i) Which current functions and tasks of the State that are not necessarily implemented by the State are reviewed and removed.

(ii) Which issues are most related to any given planning level should be decentralised just to that planning level (decentralisation is made accordingly to the nature of activities, but not to the size of activities). Thus, if the economic issues would be decentralised so that the State can focus considerably on the social issues in the coming years, many functions and tasks should be burdened to the governments at district and commune levels.

(iii) In the current conditions, while the capacities of the personnel staff in the local governments (especially at the district and commune levels) are still not high enough to meet the new requirements, it is possible to apply the delegation approach, rather than the devolution approach.

Under the new drastic policies, regulations and implementation projects, the decentralization process bring public services such as health, education and police gradually placed under local government control. Now, the main concern is how the local government implements such decentralized public services assignment on the right manner in which should lead to the social-economic development. In Vietnam, the major contents in socio-economic functions and tasks of governments at all levels are set forth in the social economic development planning (Nguyen Q.V 2008b). At all levels, the responsibility in how to provide public services for all people, how to solve the social issues (such as health, education culture, and so on), how to promote the business development (such as, agricultural expansion encouragement, industrial promotion) how to prevent the bad impact of economic development such as the issue of environment can be regarded as an important role of the country and all localities in the socio-economic development process.

Socio-economic development plan is a document systematically identifying socio-economic development activities in accordance with objectives and indicators in certain time. Plan includes indicators, methods and policies to implement the objectives set up for a certain period. The definition of socio-economic development plans (SEDPs) in this paper is understood as “any direct or indirect intervention by governments at all levels in the socio-economic development process as it is targeted and approved by authorized agencies”.

In fact, many foreign researchers still understood definition of social – economic plans as it was formerly in the centrally planned economies. However, the innovation in idea about the socio-economic plans as it should be appropriately in the market economy can play an important and decisive role in the decentralization process and assigning public services at all local levels. Particularly, the X Congress of the Vietnamese Communist Party has confirmed that the development process of Vietnam must rely on such three major pillars as economic, social and environmental development plans which ensure the unified direction of the central government.

The contents of the policy "to ensure the unified direction of the central" may be clarified in both theories as well as on institutional aspects, leading to subjective arguments about the need for unified management of the central level for a number of areas. Empowerment criteria (or vice versa) for a local inconsistency. As pointed out by Fritzen (2000, 2006), previously Vietnam national program planning was heavily dominated by line ministries, while provincial responsibility is limited to “organizing and implementing the programs in their respective localities” – well-known administrative short-hand for ‘provinces do what we tell them to with the money we allocate to them’. Fritzen continue his argument by assuming that, in the current multicultural economy, the State is not able to order the non-state sector “how to invest” and, thus, the policies that aim to encourage the participation of citizens and social societies can be considered as the most important responsibility of governments at all planning levels. To be successfully, the participatory approach can play a very necessary and essential role, because it allows the people and social societies to participate actively in the process of delivering public services. In the process of creating and implanting social-economic plans in Vietnam, I also recommended that it is also necessary to encourage the involvement of people at all level (Nguyen Q.V. 2008b).

In the line with administrative decentralization, with the goal of "unified management of the national finance, build the state budget (budget) healthy, strengthen financial discipline, using savings and efficiency of state money; accumulating to implement the industrialization - modernization of socialist-oriented country, meeting the requirements of economic development, social, improving people's lives, ensuring national security and defence" the fiscal decentralization policies also implemented although always go behind administrative decentralization.

The state budget has been issued the IX National Assembly session IX on 20-3-1996; then be modified and supplemented by Act No. 06/1998/QH day 20-5-1998, marking an important milestone in the management and administration budget in our country, creating the highest legal basis for the operation of the state budget. Budget levels are formed on the basis of state authorities, consistent with the organizational model system of the State government at present, the state budget system, including the central budget and budget locally (local budgets). Central budget reflects the revenues and expenditures by sector and plays a key role in the budget system. It derives from the position and role of central government are constitutional provisions for the implementation of the tasks of economic, political and social conditions of the country. It is also central to regulate activities of the local budget. In fact, central budget is the biggest country's budget, focusing on the majority of national financial resources and ensuring the tasks are spending nature of the country's life.

The local budget is the common name refers to the budget levels of government below the level consistent with the administrative boundary levels. Apart from the communal budget without accounting unit, the other funding will be included in a number of grants accounting unit that was incorporated. Provincial budget reflects the revenues and expenditures in the territory, ensuring the implementation of the task of organizing with comprehensive management of economic, social and Regional Authorities of the cities under central authority. Provincial government should take initiative, to encourage creativity in exploiting the strengths of the province to increase revenues, reduce expenditures and to make its budget balanced. Budget communes, wards and townships are administrative divisions, the basis of special importance and also have its own characteristics: income directly exploited in the area and more tasks are allocated to serve for the direct purpose of the community in a cooperative but not through any intermediaries. Commune budget is funded facilities in the state budget system, ensuring financial conditions for government social initiative to exploit the advantages of land, economic development, social new rural construction, real social policies, maintaining security and order in the province.

Central budget and budgets of local authorities assigned revenues and expenditures specific tasks. Perform additional budget for the budget-level subordinates to ensure fair, balanced development between regions and localities. This is the number of additional budget revenues of the management body and superior state agency authorized to manage state in carrying out the cost of their functions, they must transfer funds budget level for the budget to implement such a task. Apart from additional sources of revenue and authorized to perform tasks, the local authorities cannot use this budget to spend on other task which is out of their authorized management unless it is specifically prescribed by the government.

Decentralized budget management between government and local authorities is the main objective to organize a system of multi-level budget. It is not only rooted in the economic mechanism, but also from the mechanism of decentralization of administrative management. Each level of government is tasked with the need to ensure using effectively financial resources given for that task. On the other hand, in terms of historical factors and current reality, while the Party and State are anti-ideological local, local government still need to adopt policies and measures to encourage local authorities promote independence, autonomy, initiative and creativity of their locality in the process of economic development, social areas. There are some charges such as ground rent, water for business, rental and sale of state-owned housing, registration fees, license tax, ... allocated to local management will be more effective.

Decentralization of budget management is the best way to mount the operation of the state budget to economic activity, specifically social and really to focus fully and timely policies and regimes resources The main countries distributes resources to be used fair, reasonable, economical and highly efficient, serving the goals and tasks of economic development, the country's society.

Decentralization of budget management and the right not only to ensure appropriate financial means for the maintenance and development activities of the authorities from the central budget to local but also create conditions promoting the interests. It allows management and budget planning better, adjusting the relationship between levels of government as well as better funding for developing its role as a tool of macroeconomic adjustment budget. In addition, decentralization also impacts the state budget to promote decentralized management of economy, society increasingly better.

As same as administrative decentralization process, fiscal decentralization process also bases on the nature of public services at all level. In Vietnam, based on maintaining the current level of government (four levels), the state budget system should also maintain the current four budget levels. The only thing is to clearly define the functions, duties and powers of each level of government to be consistent with the actual management of the public services. Specific tasks of the authorities should be divided into three types:

(i) The required tasks associated with public financing.

(ii) The mission autonomy has been granted by the government to create and self-determination in accordance with local characteristics and it’s not contrary to law.

Thus, local governments are indispensable parts in the structure of the state apparatus, ensuring the following principles:

(a) Unified central leadership and constitutional law.

(b) Local autonomy within the framework of law.

(c) Localities under the control and supervision of central government.

Thus, it’s necessary to change radically the profound organizational structure, and the new administrative system will contribute to overcome the integration of higher-level and intervention on lower level, actually facilitate the budget under initiative, exploitation, and management, enrich revenues and reallocate tasks more rationally. It must be institutionalized by the decentralized policies and provisions.

3.3 MEASURING DECENTRALIZATION

As mentioned in above section, the effectiveness of decentralization is related to quality of organization and operation of local government in public services delivery and therefore, need to be measured holistically. Decentralization has become a requirement in the implementation of state power in many countries in the past decade, especially developing countries have the right to collective structure as Vietnam. Division and local authorities is a tool, measure to promote and ensure the efficient operation of state management in the transition period. This measurement tools could be placed on a great deal of significant benefits to the enforcement state powers and implementation of its function as following:

(i) Basically, decentralization, decentralization is a process of structural transformation of political power from the "rigid" to a flexible, state power from centralized to decentralized, limit the right part power of central government and increase power for local authorities, bring power closer to people and therefore, the political decision is flexible and feasible.

(ii) Create conditions for people to comment on public policy cycle, so the decision to democratic policies, consistent with the practice and meet the needs of local development through the right to participate in decision-making process (or at least closer to decision makers), people can easily "recognize" of state policies "of the people, by the people and for the people "more. This factor will actively encourage people to contribute to local development and society.

(iii) While policies decisions are always at the highest level, it will easily appear at risk the rights of minority groups are not noted. When the decision was the right move to lower levels, the percentage of "minorities" will be raised, therefore, the decisions at lower levels (especially level) will reflect more fully the interests of the group minority of individual citizens.

(iv) Decentralization has taken the decision to close for more practical, easily meets the practical needs .On the basis of facilitating decision making in line with reality and prioritize local needs, decentralization process, decentralization has significantly contributed in improving the efficiency use of economic resources - the local society.

(v) Facing important to determine more accurately the needs and weaknesses of social practices which are set out in the locality, from which the organization and provision of better public services; planning and implementing social policies in order to be consistent with the requirements of local development, etc..

However, those measures are criticised that is too common and could not quantitative analyzed. We need to modify such benefits of decentralization to the jure and de facto indicators which could be measurable. First, the need of implementing the policy is streamlined with the local government. With this objective, it should have a solid theoretical basis for the formation of the point, thoroughly solve the problem. To perfect the legal basis for restructuring local government. The proposal is to build a number of important measures to reform the organization and operation of local government. In Vietnam currently, there have been comments about the need to uniformly manage a number of vertical domains such as security, defence, and justice or to ensure highly concentrated in the state management on urban areas. This situation thus leads to the problem that there are no concrete plans to establish institutions and create a basis legal for continued decentralization. The intermediate outcomes of decentralization such as the perfection of legal framework and policy could be a measurable indicator for the level of decentralization.

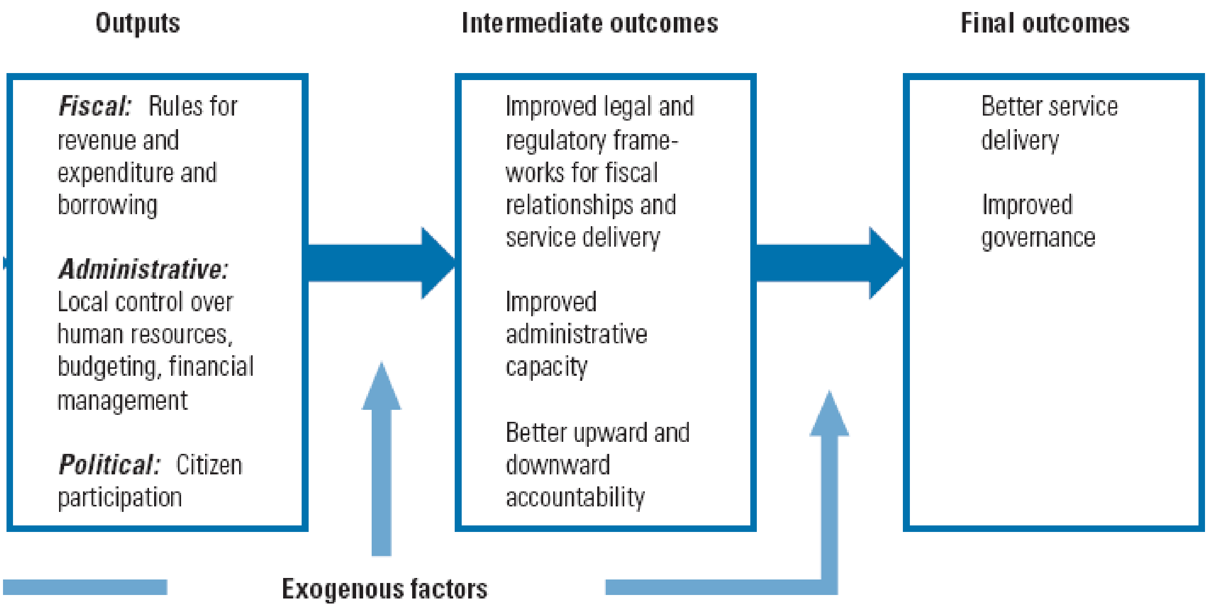
Second, the constitutional amendment will facilitate the complete legal basis for determining the location of local government in the state's power structure. Along with the claim construction of State-oriented socialist rule of law, the Constitution has added the principles of public relations distribution, coordination between the legislative, executive and judicial. We thus need to asset the governance indicators at both central and local level on the government orientation and government quality.

Third, functions and tasks of the Government have not been revised in line with requirements of state management in the new basis for the delimitation of competence between the central government and local. The decentralization was facilitated when the authority of the owner could be transferred and the transfer of duties and powers were clearly defined. Meanwhile, the Government Organization Act may be amended; management function and the areas of management focus, unity, vertical as well as the capacity of government both at the central and local not been adequate studies and scrutinized. The improvement of administrative capacity thus is one of indicators for assessment of decentralization.

Institutional decentralization may be accomplished by ensuring a mechanism for synchronous measures. Party's policies as well as the general opinion states that the thorough decentralization is the transfer of tasks to parallel powers given to ensure adequate implementation capabilities, including organizational, financial, personnel and level of preparedness of the decentralized entities. However, due to the lack of overall consistency and the field should be decentralized but lack of effective implementation in practice. Quality and capacity of officials and public employees in general and local, in particular is a significant hindrance to the goals and ambitious reforms in many areas of services delivery as well as the improvement of governance at general. The examination of some de factor indicator on the implementation of public services delivery such as the legal order, economic and business environment improvement, social and human development, and environmental protection is very essential for understanding the real impact of decentralization.

The above measures of decentralization could be map as a Figure 2 bellows of IEG.

Figure 2 Outputs and Outcomes of Decentralization



Source: IEG cited after World Bank 2008.

It is also worthy to quote the paper by Jeff Huther and Anwar Shah (2002) to measure the impact of fiscal decentralization by using governance indicators included four composite indices which were selected to provide an indication of the government's ability to: 1) ensure political transparency and voice for all citizens, 2) provide effective and efficient public services, 3) promote healthcare system and welfare for citizens, and 4) create favourable conditions for economic stability quoted in the World Bank, the Governance and Development. They found that both sub-indices are positively correlated with fiscal decentralization. The correlation coefficients in Table 8 below shows statistically significant in this relationship.

Table 8 Correlation of the sub-national sub-index of quality management by Jeff Huther and Anwar Shah (2002)

Citizen participation	Political freedom Political stability	0.599 ** 0.604 **
Orientation of Government	Judicial efficiency Efficient bureaucracy	0.544 ** 0.540 **
Social Development	Human development index Income distribution (inverse of gini coefficient)	0.369 * 0.373 *
Economic Management	Central Bank independence Orientation abroad	0.327 * 0.523 **
Governance quality index		0.617 **

CHAPTER 4

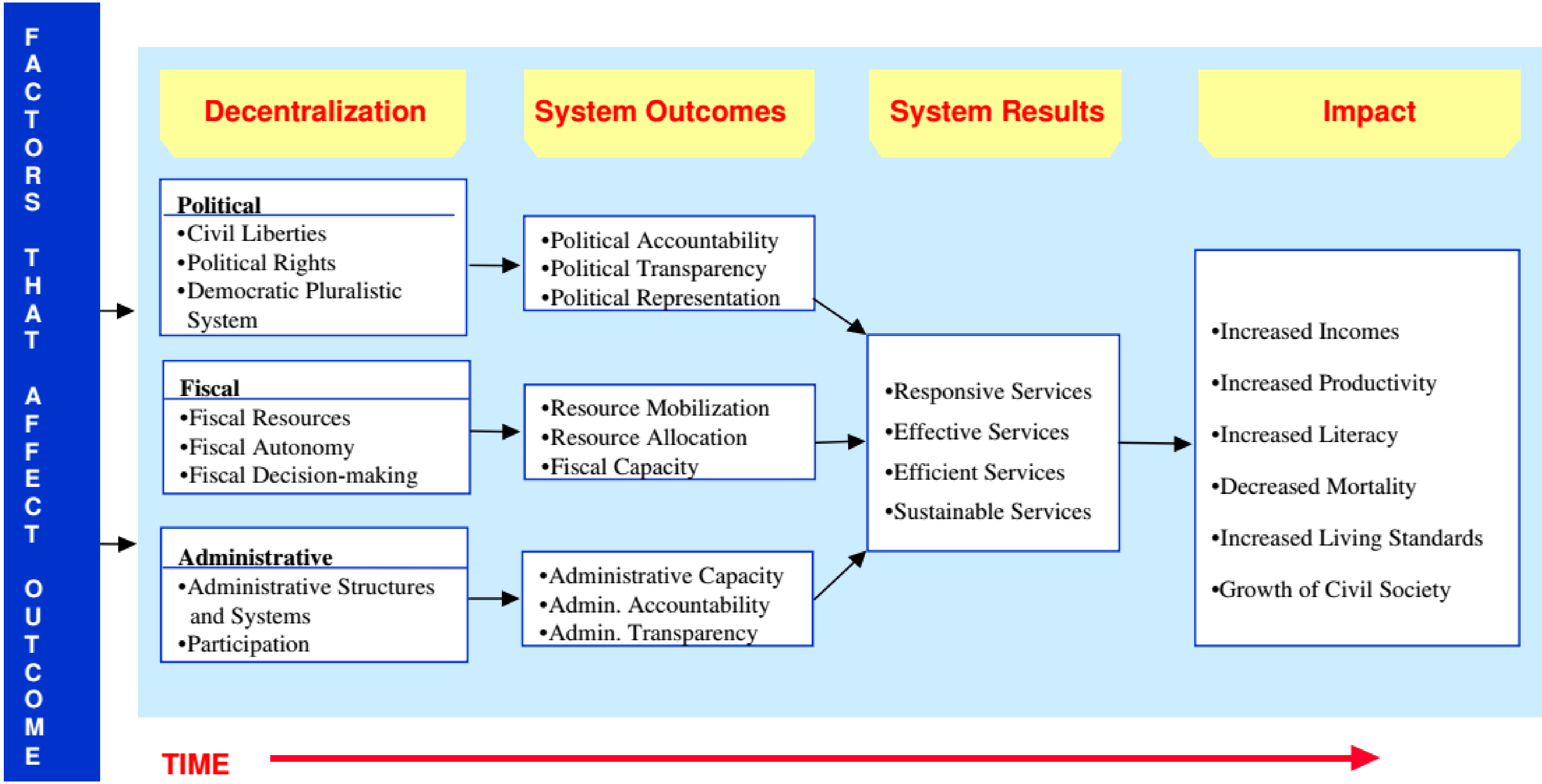
FISCAL DECENTRALIZATION AND ADMINISTRATIVE DECENTRALIZATION: A DISCUSSION OF THAILAND AND VIETNAM

Pracha Koonnathamdee

This chapter discusses progress of fiscal decentralization and administrative decentralization between Thailand and Vietnam. From the two country experiences, it cannot be denied that the countries expect the decentralization would help (1) to promote democracy in the country, (2) to support public sector reform program to enhance balancing of regional development (3) to increase efficiency in public service delivery, and (4) to create people participation in decision making in the allocation of public resources. Therefore, both Thailand and Vietnam have been in the process of decentralization. Ebel and Yilmaz (2002) found that correlation coefficients between GDP per capita and local government spending are positive in developed countries. They explained that people are more educated and institutions of a civil society have been better developed. In contrast, in developing countries, where the institutions of political control and accountability needed to be supported, the correlation coefficients are low, even negative. In this paper, the correlation coefficient between GDP per capita and local government spending in Thailand is 0.818 which is high.

Although decentralization takes different forms in different countries, depending on the objectives driving the change in structure of government, Ebel and Yilmaz (2002) lay out the three forms of decentralization as shown in Figure 3. The picture presents system outcomes, system results, and impacts as the fruits of decentralization from increased income to growth of civil society.

Figure 3 Decentralization and its impacts



Source: Ebel and Yilmaz (2002)

However, system outcomes, system results, and impacts depend on the components of a system of fiscal decentralization which stated in Table 9. In Bahl (2008), he indicates that level of fiscal decentralization varies from desirable feature to least desirable. Therefore, the success of decentralization relates to factors and components affecting outcomes which differ among countries and there is no single solution or practice for decentralization.

Table 9 The Components of a System of Fiscal Decentralization

Component	Desirable Feature	Second Best	Least Desirable
Representation	Popular election	Indirect election	Appointment by higher level government
Chief Officers	Locally appointed	Central secondment	
Budget	Local approval; hard constraint	Local approval; soft constraint	Central approval; soft constraint
Expenditure Discretion	Significant control over how money is spent	Autonomy with significant limits	Effectively a spending agent of the higher level government
Own Revenue	Significant local power	Some local power	No revenue raising power
Intergovernmental Transfers	Mostly general purpose		Mostly conditional
Borrowing Powers	Broad and hard budget constraint	Restricted borrowing powers	No borrowing powers
Civil Service	Locals hire, fire, and compensate		No power to hire, fire, and compensate

Source: Bahl, 2008

The major change toward decentralization for Thailand and Vietnam is legislation. For Thailand, the Decentralization Act of 1999 (DA1999) and its Decentralization Plan play an important role. After national reunification in 1976 and *Doi Moi* (economic innovation) in 1986, fiscal situation in Vietnam has changed significantly, especially for the State Budget Law governing fiscal arrangement issued from 1997. Vietnam is pursuing a process of fiscal decentralization in terms of increasing the fiscal importance of local governments. In addition, the 2002 State Budget Law provided the system of intergovernmental fiscal relations with strong federalist features (Martinez-Vazquez, 2005).

4.1 EXPENDITURE ASSIGNMENT

Expenditure assignments in Thailand and Vietnam are shown in Table 10 and Table 11. Many functions in expenditure assignment does not deconcentrate from provincial level to local governments in Thailand. Consistently, the 2002 State Budget Law in Vietnam leaves it to the provinces to organize expenditure assignments for the districts and communes inside the provinces. It means that these countries follow the principle of granting a great arrangement of flexibility to provincial governments to adapt to their diverse specific conditions. In detail, Martinez-Vazquez (2005) appreciates a significant positive development in the 2002 State Budget Law especially for "the prohibition of unfunded expenditure mandates from higher to lower levels of government". It helps improve fiscal management and intergovernmental fiscal relations. In Thailand, the concept of national and local public goods has been used for expenditure assignment however; power and responsibilities for policy and standard of some of devolved public services are still with the central government. It cannot be denied that Thai and Vietnamese people concern for the standard of public services if local governments are allowed full responsibility in their delivery, for example education, water supply and sewerage, urban traffic, and other public infrastructure.

Table 10 Expenditure Assignment in Thailand

	Central	PAOs*	LGs**
Defense	↗		
Foreign Affairs	↗		
Justice	↗		
Police	↗		
Fire fighting	↗	↗	
Education			
University	↗		
High Education	↗	↗	
Elementary and Secondary	↗	↗	↗
Kindergarten	↗		
Public Health	↗	↗	
Public Health Curative Services	↗	↗	
Public Health Promotion	↗	↗	↗
Social Security Welfare			
Social Welfare Administration	↗	↗	↗
Pension Payment	↗		
Elderly and Child Care Center	↗	↗	
Infrastructure Investment	↗	↗	↗
Urban Planning	↗	↗	
Waterways and Harbor Maintenance	↗	↗	
Water Sewage Maintenance	↗	↗	
Maintain of Local Order, Stability of Communities and Society	↗	↗	
Planning and Promoting of Local Commerce and Tourism	↗	↗	
Natural Resources and Environment Management and protection	↗	↗	↗
Art, Culture , and Local Wisdom	↗	↗	↗

Source: Varanyuwatana, Sakon and Duangmanee Laovakul. (2010)

Table 11 Expenditure Assignment in Vietnam

	Central Government	Provinces	Districts and Cities	Communes (and Precincts)
Health	-Central Facilities -Research -National Health Programs	-Provincial Services	-District Services as assigned by the provincial government	-Commune health activities as assigned by the provincial government
Education	-Post-secondary -National Programs	-Provincial Services	-District Services as assigned by the provincial government	Commune Services as assigned by the provincial government
Economic Activities	-Economic services, managed centrally	-Provincial Services	-District Activities Services as assigned by the provincial government	Commune Activities Services as assigned by the provincial government
Culture and Sports	-National Programs	-Provincial activities, supporting individuals	-District Activities as assigned by the provincial government	-Commune Activities as assigned by the provincial government
Social	-National Programs -Social Security	-Provincial Activities	-District Activities as assigned by the provincial government	-Commune Activities as assigned by the provincial government
Defense	-National Defense	-Military Conscription -Other Defense Activities	-District Activities as assigned by the provincial government	-Commune Activities as assigned by the provincial government
Police and Security	-National Police	-Local security and social order	as assigned by the provincial government	as assigned by the provincial government
Political Organs	-Central organs of CP and other central organizations	-Provincial organs of CP and other organizations	-District organs of FP and other organizations	-Support for political and social organizations
Price Subsidies	-Central Programs	-Subsides conforming to national policies	- as assigned by the provincial government	---
Interest	-National Debt Service	-Service of provincial debt	---	---
Other Expenditures	-As stipulated by law	-As stipulated by provincial budgets	-As stipulated in district budget by the provincial government	---
Capital Investments	-Programs in infrastructure -Support of state enterprises and joint companies -National investment and development programs	-Construction of basic economic infrastructure -Support of state enterprises according to the law	-Public Schools Power -Water supply -Sanitation -Transport (Art.34)	-health enters, schools, local roads, water supply systems (Art.34)
Transfers	-Transfers to subnational governments	-Transfers to lower budget	Transfers to lower budget as stipulated by the provincial government	---

Source: Martinez-Vazquez (2005)

Based on above expenditure assignment, policies for better fiscal and administrative decentralization are the following; (1) Make clear of expenditure responsibilities in legislation, (2) Consider expenditure assignment relating to expenditure responsibilities for local governments in the law, (3) Strengthening of institutions for intergovernmental fiscal relations, and (4) Allow the role of governments in private sector activities.

4.2 REVENUE ASSIGNMENT

By law, as stated in Chapter 2, the Decentralization Act of 2006 (DA2006), as the revised version of the DA1999, mainly replaces Section 30 (4) with a new framework of fiscal decentralization. Beginning in fiscal year of 2007, the subnational government shall have its revenues not less than 25% of central government revenues and the ultimate goal for local budget is still not less than 35% of central government revenues. As mentioned before, there is no time frame and proper measures for operating such the ultimate goal, which cause a possibility to delay the ultimate goal forever. Types of revenue assignment in Thailand are shown in Table 12. Thailand local revenues by source are shown in Table 13. From revenue assignment perspective, Thailand permit taxing power to local governments, but the majority of local revenue is still from intergovernmental transfers not the productive own-sources of local revenues.

In Vietnam, local revenues share of total government revenue is around 30%. But Vo (2005) observed that the taxing power assignment in Vietnam may mislead without information of the following; (1) the national government sets all tax bases and rates; (2) local governments are allowed to autonomously set fees and charges for only revenues that comprise an insignificant share of their budget; and (3) tax collections are centralized with local tax authorities only collecting revenues arising within their administrative regions on the national government's behalf. As the results, taxing power for local governments may not yield the productive as expected.

Table 12 Revenue Assignment in Thailand

	Municipalities	TAO	BMA	Pattaya City	PAOs
Locally collected taxes					
Property tax	✓	✓	✓	✓	
Signboard tax	✓	✓	✓	✓	
Animal slaughter tax	✓	✓	✓	✓	
Bird nest collection tax	✓	✓	✓	✓	
Retail sale of cigarettes, tobacco, gasoline					✓
Hotel rental tax					✓
Shared taxes					
Value added tax	✓	✓	✓	✓	✓
Specific business tax	✓	✓	✓	✓	
Excise tax	✓	✓	✓	✓	
Liquor tax	✓	✓	✓	✓	
Motor vehicles tax					✓
Mineral and petroleum tax	✓	✓	✓	✓	✓
Gamble tax	✓	✓	✓	✓	
Fee, Fines, and Charges					
Underground water fee		✓			
Royalty fee for forestry		✓			
Royalty fee for fishery		✓			
Airport fee	✓	✓	✓		

Source: Varanyuwatana, Sakon and Duangmanee Laovakul. (2010)

Table 13 Local Government Revenues by Sources, Fiscal Years 2009-2016

Type of Revenue (millions of baht)	2009	2010	2011	2012	2013	2014	2015	2016
Locally-collected revenues	35,882 (10.62%)	38,162 (10.87%)	40,605 (9.87%)	43,745 (9.09%)	48,327 (9.03%)	52,490 (9.80%)	56,701 (9.59%)	58,116 (9.95%)
Taxes collected by central agencies and transferred to LGUs	170,618 (50.48%)	141,410 (40.27%)	140,966 (34.28%)	73,927 (15.36%)	82,572 (15.42%)	77,492 (14.46%)	87,527 (14.80%)	94,551 (16.19%)
Shared taxes (VAT)	63015.383 (18.64%)	77,125 (38.77%)	87,575 (34.57%)	91,468 (29.83%)	109,445 (33.11%)	112,180 (33.35%)	111,020 (29.94%)	117,355 (32.23%)
Intergovernmental grants	150,420 (44.50%)	121,818 (34.69%)	165,735 (40.30%)	215,148 (44.70%)	221,133 (41.30%)	224,238 (41.86%)	259,788 (43.93%)	246,746 (42.26%)
Total intergovernmental transfers (combining grants and shared taxes)	***213,435 (63.15%)***	***198,944 (56.65%)***	***253,310 (61.59%)***	***306,616 (63.71%)***	***330,578 (61.75%)***	***336,418 (62.79%)***	***370,808 (62.71%)***	***364,101 (62.36%)***
Total revenue of local governments	337,989	351,180	411,260	481,304	535,369	535,746	591,309	583,866
Total revenue of central government	1,740,828	2,053,379	2,224,687	2,485,557	2,563,753	2,504,028	2,688,464	2,714,228
The ratio of local revenues to central revenues	19.42%	17.10%	18.49%	19.36%	20.88%	21.40%	21.99%	21.51%

Note: Numbers of the share to total local revenues are shown in parenthesis.

Source: Compiled by the author from the Fiscal Policy Office and the Comptroller General's Department, Ministry of Finance and the Department of Local Administration, Ministry of Interior.

4.3 INTERGOVERNMENTAL TRANSFERS

Intergovernmental transfers are another important source of local revenues in Thailand and Vietnam. However, transfers also are the main cause of fiscal imbalance for both vertical and horizontal dimensions. In Thailand, transfers has been fluctuating from 2001-2016 around 54%-64%. It means that vertically own source revenue has been limited. In addition, from Chapter 2 based on Pattamasiriwat (2010), tax and grant revenues experience in positive relation. It confirms fiscal disparities.

Like Thailand, Vietnam suffers from the fiscal imbalance in both dimensions (Vo, 2005). In addition, transfers are a measure for fiscal equalization however; the gap is widened after equalization meaning fiscal disparities.

4.4 SUBNATIONAL BORROWINGS

In the case of Thailand and Vietnam, mismatch in fiscal assignment is significant in spite of fiscal equalization from the national government. Consequently, subnational borrowings are, in some cases, important. Based on legislation, local governments in Thailand and Vietnam are allowed to borrow from domestic sources by issuing bonds especially for provincial level. However, these borrowings are closely supervised by the central government. In Vietnam, Ho Chi Minh City, Hanoi and Haiphong – the three largest cities in Vietnam are allowed to borrow from abroad. However, even in these cases, direct overseas borrowing is not permitted. In Thailand, only Bangkok Metropolitan Authority had a plan to borrow for Bangkok railways, but there was not implemented.

4.5 CONCLUDING REMARKS

Thailand and Vietnam have expected the success of decentralization like developed countries, but they are still in process of decentralization. There is no winner formula except for evaluation and improvement overtime. Both countries still have fiscal assignments to provide local public goods for their communities, but fiscal imbalances may impede the quality of such public goods. In order to improve fiscal management, Thailand and Vietnam need more time to adjust fiscal disparities toward better service delivery.

Thailand and Vietnam need to clarify expenditure responsibilities and assignments in legislation. Strengthening of institutions for intergovernmental fiscal relations helps both countries local governments in productive own source revenues. In addition, revision of fiscal equalization such as transfers' formula is required in order to reduce fiscal imbalance. Finally, allocating the role of governments in private sector activities improves public service delivery.

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