

Inadequate Oversight of Local Fiscal Conditions in Taiwan

On December 20, 2024, Taiwan's Legislative Yuan passed an amendment to the *Act Governing the Allocation of Government Revenues and Expenditures* (hereinafter referred to as the "Revenue Allocation Act"), marking the first substantial revision since 1999 when the Act was amended in response to the downsizing of the provincial government. The primary aim of the latest amendment is to restructure the revenue-sharing mechanisms between the central and local governments by reallocating a portion of tax revenues—originally collected by the central government—to local governments through revisions to the *General Grant Tax Sharing* scheme.

Proponents view this reform as a step toward greater fiscal decentralization and the enhancement of local autonomy. On the other hand, critics argue that an increase in intergovernmental transfers (IGTs) alone does not fully embody the principles of fiscal decentralization, particularly if it is not accompanied by a corresponding expansion of expenditure responsibilities at the local level. Such a “mismatch” may result in fiscal mismanagement and resource inefficiency at the local level. Regardless of these differing views, what is urgently needed at present is a robust and immediate system for monitoring the fiscal health of local governments.

Fiscal health is frequently used in this context. At its core, it refers to the extent to which a local government possesses sufficient, stable, and sustainable revenues to support its spending obligations over time. Effective monitoring of local fiscal health not only enhances fiscal discipline and strengthens local financial management, but also ensures the implementation of fiscal decentralization.

According to our investigation, the current mechanisms for monitoring local fiscal conditions consist primarily of fiscal transparency measures and central government evaluations of local finances. Since transparency alone does not guarantee oversight, it is not the focus of this article. Instead, four main assessment mechanisms currently form the backbone of fiscal oversight in Taiwan:

1. The Performance Evaluation of Local Revenue Enhancement Initiatives,
2. The Evaluation of County-Level General Grant Allocation Operations,
3. The Central Government's Assessment of Local Debt Management Performance, and

4. The Fiscal Guidance Program for Local Governments.

All four mechanisms represent top-down evaluations initiated by the central government and are closely associated with the allocation and utilization of IGTs. Their primary function is to determine whether local governments are in need of financial transfers and whether previously allocated transfers have been effectively utilized. However, as revealed in our study, local governments argue that the indicators and evaluation methods used in these assessments fail to reflect their actual fiscal health.

When asked whether they regularly assess their own fiscal conditions, most local governments responded negatively or indicated that they rely on single indicators such as debt levels or budget deficits for financial planning. However, it is crucial to stress the need for a more comprehensive approach, such as conducting a holistic analysis of their overall fiscal sustainability, to ensure the long-term success of fiscal decentralization.

Following this major amendment to the Revenue Allocation Act, local governments have gained greater access to autonomous fiscal resources. However, their expenditure responsibilities have not increased proportionally. While this adjustment may temporarily ease fiscal pressure, the lack of regular and effective fiscal health assessments could, in the long term, lead to poor financial planning and inefficient resource allocation. Such outcomes would not only undermine the principles of fiscal decentralization, erode fiscal discipline, and weaken public trust in local governments, but also hinder the overall progress of the reform.

Author:

Nai-Ling Kuo, Associated Professor, Graduate Institute of Public Affairs, National Taiwan University