

Caught between imperial Manila and the provincial dynasties:

Can federalism bring more fiscal independence to LGUs?

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Rationale for Decentralization

- Governance closer to the people to increase efficiency and welfare gains.
- 1991 Local Government Code devolved substantial spending, taxing, and borrowing powers to local government units.
- Challenge to match resources (i.e. own source revenues and transfers) with expenditures at the LGU level.



ASPIRATION: “In fact, **real autonomy (in the sense of subnational governments being able to link their spending decisions with their revenue/tax decisions) promotes fiscal responsibility.**

REALITY: “...local autonomy has been equated (by LGUs officials) with the **independence of LGUs from central government interference.** As such, LGU officials have **focused on securing even higher levels of block grants** in order to address the widely perceived vertical fiscal imbalance.

Related Literature

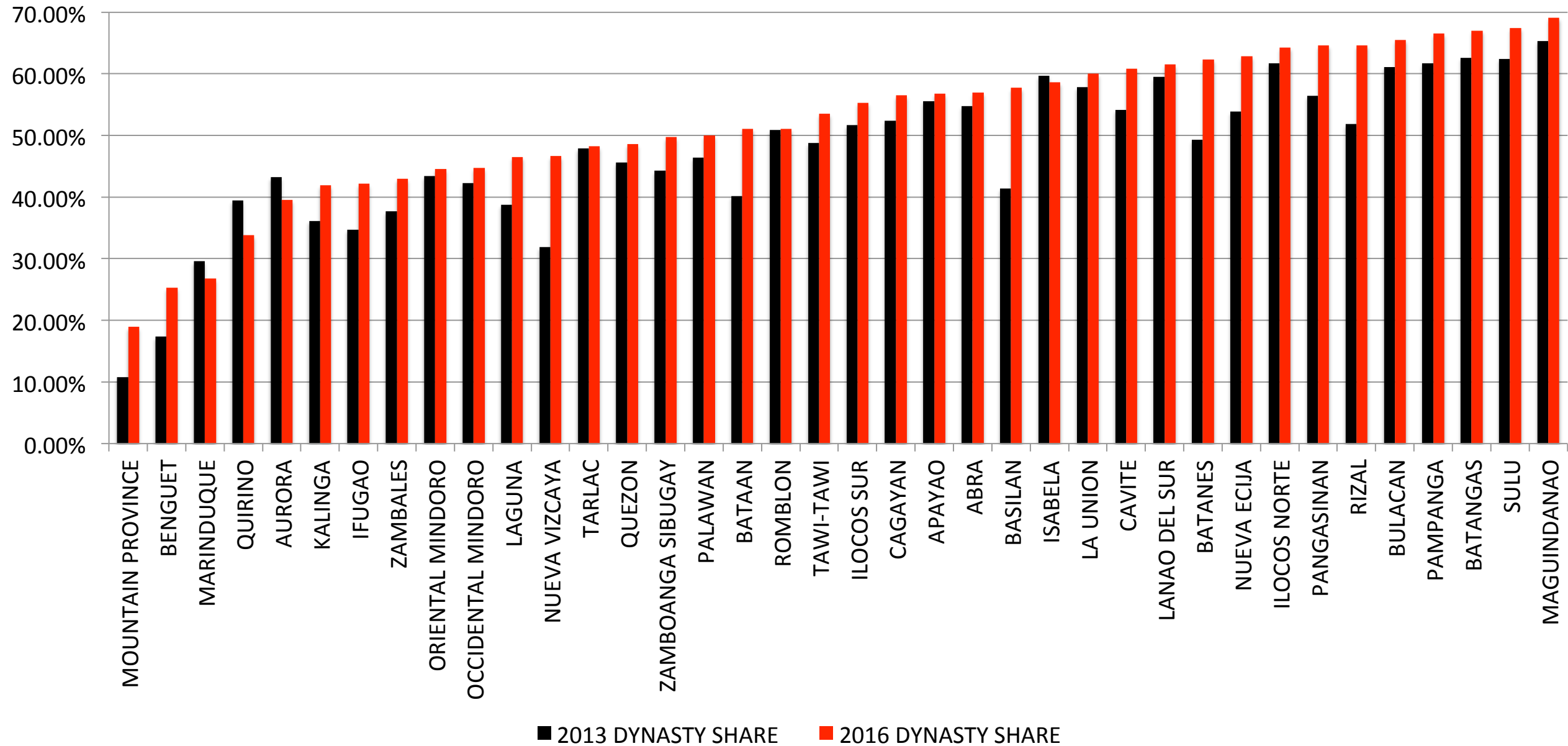
- Mixed results from decentralization.
- Rise of political dynasties with strong links to poverty.
- Perverse center-periphery political/fiscal relationship.



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- Beneficiary of a disproportionately larger share of public spending;
 - Controls public spending allocations to the LGUs;
 - Passes on unfunded mandates to the LGUs.

What is “imperial” about Manila?

PHILIPPINES BECOMING MORE DYNASTIC OVER TIME?



POLITICAL DYNASTIES LEAD TO DEEPER POVERTY

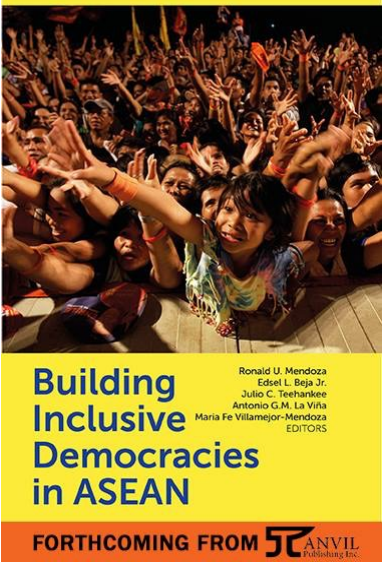
Mendoza, Beja, Venida and Yap (2016) examine the link between poverty and dynasties, using a comprehensive database of political dynasties in Philippine local government covering 2000-2013;

Finds empirical evidence that **more dynasties cause greater poverty, notably outside of Metro Manila.**



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CLAN TIES INFLUENCE DISASTER RECONSTRUCTION SPENDING

Aktinson, Hicken and Ravanilla (2015) study legislators' allocations of reconstruction funds to municipal mayors using data from 2001-2010;

Political connections, **especially clan ties**, increase reconstruction funds allocated to a given municipality;

Results suggest that a more needs-based disaster response may require **placing a limit on political discretion** in the disbursement of post-disaster funds.



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**Fiscal Transfers and Gerrymandering Under
Decentralization in the Philippines**

JOSEPH J. CAPUNO

ABSTRACT While gerrymandering in developing countries is often pushed by local authorities to secure political advantages, fiscal grants systems under decentralization may also result in the same. We investigate this issue to identify the correlates of the growth in the number of cities in the Philippines in 2001-2010. Using a panel of municipal-level data, population pressure is found to be the main factor that drives cityhood. Also, the likelihood of the same ruling political family to remain in office in 2010 is found to be higher in new cities. Reforms in the country's fiscal transfer program are suggested.

KEYWORDS: • fiscal transfers • gerrymandering • decentralization • Philippines

GERRYMANDERING FAVORS POLITICAL CLANS

- Capuno (2013) examined the correlates of the growth in the number of cities in the Philippines in 2001-2010.

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- Using a panel of municipal-level data, population pressure is found to be the main factor that drives cityhood.
- Also, the likelihood of **the same ruling political family to remain in office** in 2010 is found to be higher in new cities.



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CHASING AFTER PORK

- Pork barrel is not a mere fund in the Budget but **“a series of dynamic processes” of political interaction between the President and local politicians** (Noda 2011).
- Equally distributed resources for the pet projects of legislators, both district representatives and nationally elected solons (i.e., senators and party-list representatives). Noda observed that while the PDAF and its earlier forms “had an ample policy rationale, the **fund turned into a mere cash dispenser for the legislators**”.
- Rested on the power and practice of the President to **release—or withhold the release—of such allocations as a way of securing greater political influence**.

Analysis of Local Government Finance

- Lack of development towards fiscal autonomy – instead strong evidence of fiscal dependence;
- Even new proposed states will face severe challenges.



Inter-Governmental Transfers

Internal Revenue Allotment

- Formula-based block grant from National Government
- 40% share in the national internal revenue taxes based on the National Government's collection of the third fiscal year preceding the current fiscal year

Allocated according to type of local government:

- Provinces - 23%;
- Cities - 23%;
- Municipalities - 34%; and
- Barangays - 20%

Share of Provinces, Cities and Municipalities based on:

- Population - 50%;
- Land Area - 25%; and
- Equal sharing - 25%

Barangays: 60% Population + 40% Equal Sharing



IRA Dependence, Provinces

IRA Dependency Rates of Provinces

	1992 (of 73)	1995 (of 77)	2000 (of 77)	2005 (of 80)	2010 (of 81)	2015 (of 81)
< 50%	5	2	1	2	2	1
> 50 %	68	75	76	78	79	80
> 90%	21	22	27	30	20	20



IRA Dependence, Cities

IRA Dependency Rates of Cities

	1992 (of 60)	1995 (of 65)	2000 (of 81)	2005 (of 117)	2010 (of 121)	2015 (of 144)
< 50%	12	16	21	33	32	41
> 50 %	48	49	60	84	89	103
> 90%	2	5 of 65	3	11	11	14

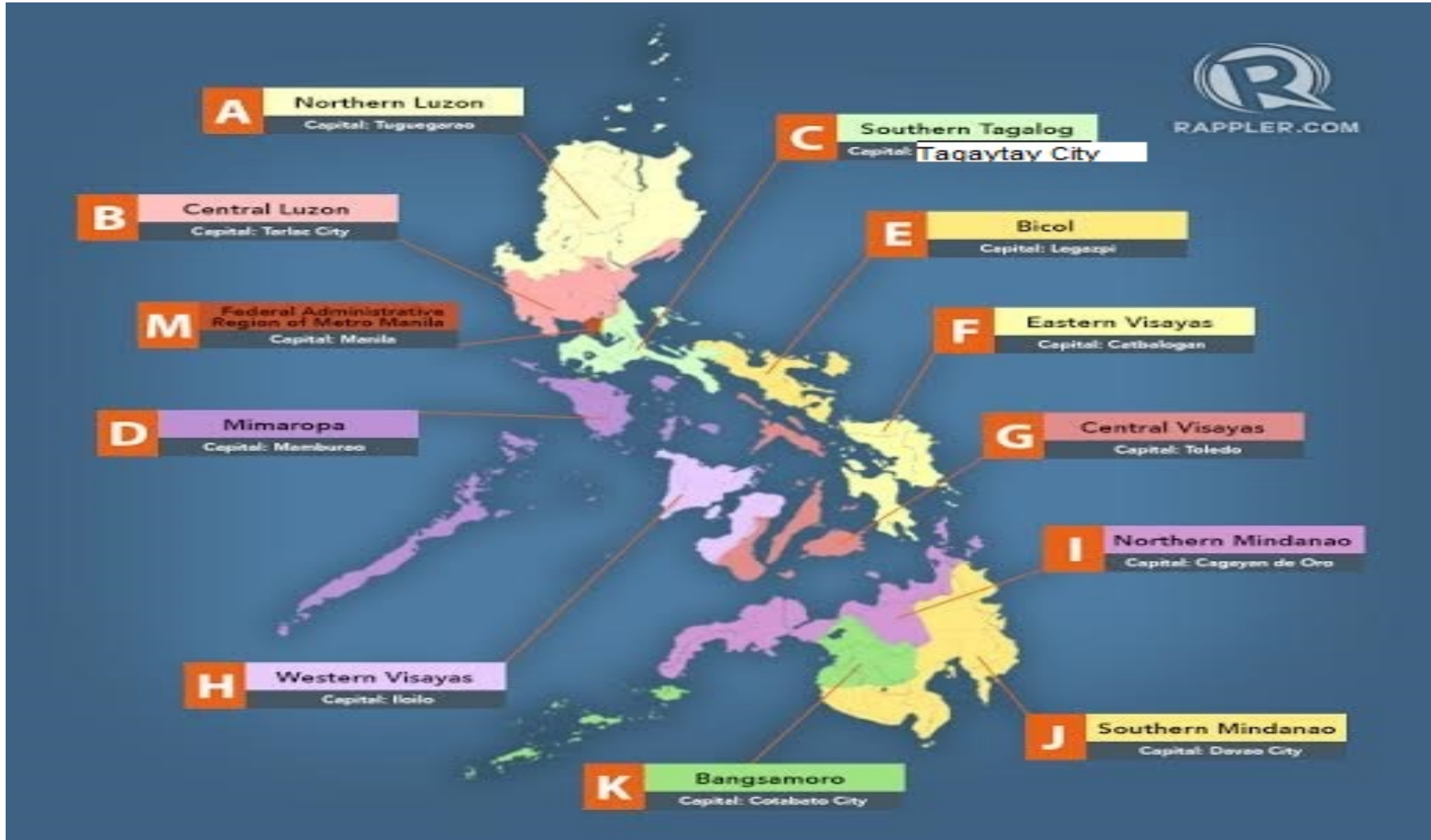


IRA Dependence, Municipalities

IRA Dependency Rates of Municipalities						
	1992 (of 1465)	1995 (of 1546)	2000 (of 1441)	2005 (of 1500)	2010 (of 1491)	2015 (of 1485)
< 50%	147	100	60	80	109	65
> 50 %	1318	1446	1381	1420	1382	1420
> 90%	281	547	615	640	650	620



The Proposed Federal States





Bangsamoro Cities Performance

Class	Province	IRA Dependency	Local/Total	IFR	Performance
3rd Class	COTABATO CITY	81.88%	18.12%	22.96%	Below National Average
4th Class	ISABELA CITY	94.38%	5.58%	7.04%	Below National Average
	MARAWI CITY	86.05%	0.48%	0.68%	Below National Average
6th Class	LAMITAN CITY	95.01%	4.76%	6.33%	Below National Average



State of Northern Luzon Cities Performance

Income Class	City	Average of IRA Dependency	Average of IFR	Average of Local/Total	Performance
Unclassified	ILAGAN CITY	84.62%	16.16%	12.09%	Below National Average
1st	BAGUIO CITY	37.92%	83.63%	48.67%	Below for IFR and Local/Total; Above for IRA Dependency
	SANTIAGO CITY	83.74%	29.90%	16.26%	Below National Average
2nd	DAGUPAN CITY	51.19%	73.53%	48.65%	Above National Average
	URDANETA CITY	46.90%	86.37%	53.10%	Above National Average
3rd	CAUAYAN CITY	69.69%	40.11%	30.31%	Below for IRA Dependency and IFR; Above for Local/Total
	LAOAG CITY	49.16%	55.50%	38.94%	Above National Average
	SAN CARLOS CITY (PANGASINAN)	81.73%	27.64%	17.53%	Below National Average
	SAN FERNANDO CITY (LA UNION)	60.42%	46.56%	37.28%	Above for IRA Dependency and Local/Total; Below for IFR
	TUGUEGARAO CITY	57.20%	79.02%	42.56%	Above National Average
4th	ALAMINOS CITY	77.75%	32.50%	22.20%	Above National Average
	CANDON CITY	59.54%	29.41%	17.88%	Below for IFR and Local/Total; Above for IRA Dependency
	VIGAN CITY	60.66%	54.42%	34.98%	Above National Average
5th	BATAC CITY	77.52%	65.53%	22.22%	Above National Average
	TABUK CITY	93.46%	11.22%	6.44%	Below National Average

Reform Challenges

- How to align autonomy with accountability?
- How to boost transfers while also strengthening incentives to pursue fiscal autonomy?



Most Provinces have outdated property values (and became more IRA dependent over time)

YEARS OVERDUE FOR GENERAL REVISION ¹	PROVINCE ²
20	Marinduque
16	Camarines Sur
15	Tarlac
14	Albay, Aurora, Bukidnon, Guimaras, Iloilo, Lanao Del Sur, Quezon
11	Aklan, Western Samar (Samar)
8	Surigao Del Sur
7	Agusan Del Norte, Leyte, Misamis Oriental, Sarangani
6	La Union, Misamis Occidental, Sultan Kudarat
5	Antique, Apayao, Batangas, Biliran, Davao Oriental, Eastern Samar, Zamboanga Sibugay
4	Abra, Batanes, Cavite, Nueva Ecija, Nueva Vizcaya, Pangasinan
3	Benguet, Bulacan, Cagayan, Capiz, Laguna, Siquijor, Sorsogon, South Cotabato, Romblon
2	Surigao Del Norte, Zamboanga Del Sur
1	Camiguin, Catanduanes, Cebu, Davao Del Sur, Isabela, Northern Samar, Southern Leyte, Zambales
Updated	Agusan Del Sur, Basilan, Bataan, Bohol, Camarines Norte, Compostela Valley, Davao Del Norte, Dinagat Islands, Ifugao, Ilocos Norte, Ilocos Sur, Kalinga, Lanao Del Norte, Maguindanao, Masbate, Mountain Province, Negros Occidental, Negros Oriental, North Cotabato, Occidental Mindoro, Oriental Mindoro, Palawan, Pampanga, Quirino, Rizal, Sulu, Tawi-Tawi, Zamboanga Del Norte

ALIGNING AUTONOMY WITH ACCOUNTABILITY

- Allocation of intergovernmental fiscal transfers may be improved by introducing **matching grants to improve equalization** transfers to local governments;
- **Performance-based grants** to motivate greater local revenue mobilization;
- Consolidation, better coordination of local government activities, and **resource pooling** for better local service delivery and production of regional public goods.
- Greater **tax decentralization** coupled with a well designed **fiscal equalization program**;
- **Clear, predictable and graduated financing mechanisms** to be used across different LGU conditions.

Source: Llanto (2012), Manasan (2004) and author's views.

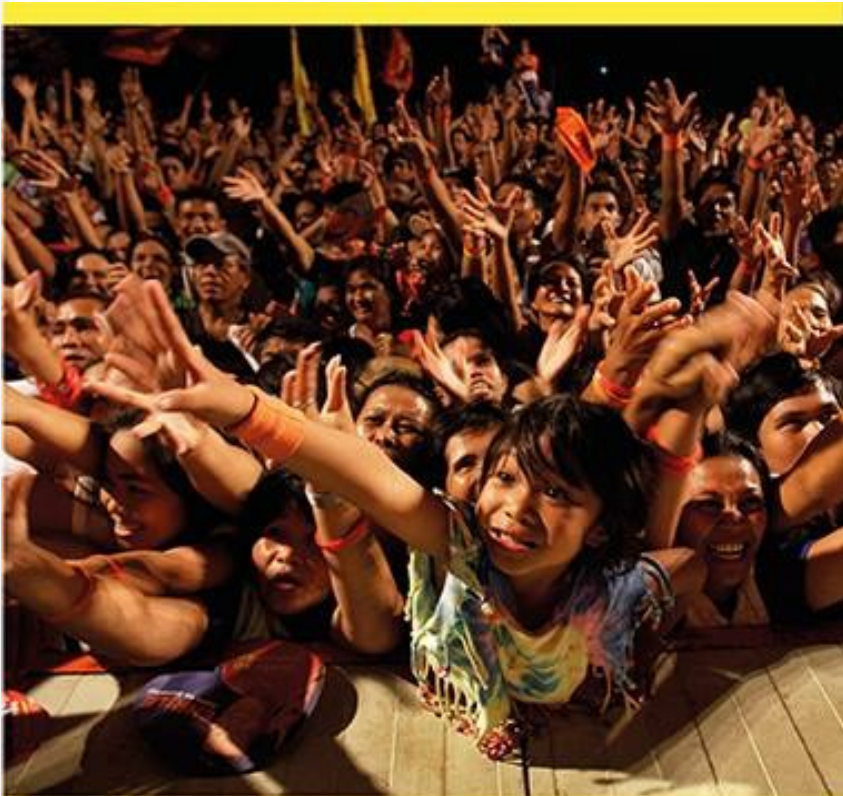
Graduation from Transfers to Own-Source Financing

	Poor Governance	Better Governance	Best Governance
Lower Income	Conditional Transfers/Grants		
Middle Income		Unconditional/ Matching Grants	
Higher Income			Debt instruments for LGUs; Municipal Bond Markets

Source: Author's elaboration drawing on Llanto (2012) and Manasan (2004).

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Building Inclusive Democracies in ASEAN

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