

Comments/Reactions

on the preliminary draft of Tugs of War: Local Governments, National Governments

I. Introduction

Good afternoon, thank you for the opportunity to share my two cents worth of wisdom on the paper written by Prof. Capuno. I would not pretend to know more than what Prof. Capuno knows. Rather, I will try to share what I know given my work in the League of Cities of the Philippines.

I am thankful to Prof. Capuno for writing a paper that is easy to understand. Often, with academics, they have a tendency to speak only to themselves. Thus, failing to send the message to their target audience. The reason why I am talking a lot this afternoon is because I understand his paper. So, thank you.

In our work at LCP we always simplify things for our Bosses. For two reasons, it is easy to get decisions if we explain in simplest terms and it is a good measure if we understand the concepts ourselves. For this afternoon, I want to add another reason i.e. to show Prof. Capuno that I read his paper.

This is how I understand his paper: the tugs of war exist between local governments and national governments because (1) finance did not follow function (in fact, it was the other way around), (2) functional conflicts are inherent in a multi-tier government structure and this is visible in health service delivery, (3) LG and NG have different perspective on the amount of resources necessary to carry out a service. For NGs, LGs have more than enough resources to perform its tasks while LGs believe that NGs are not giving enough.

Prof. Capuno shared three possible solutions to these problems such as special or technical grants which he ruled out as unsustainable because it might lead to moral hazard or as disincentive for LGUs to perform. Another possible solution is encouraging the establishment of inter-LGU alliances which he believe still presents challenges such as the difficulty to enforce fund commitments. Also, some alliances tend to disappear once the main source of funding leaves. Third and I think the most promising option that he shared is to amend the Local Government Code of 1991, specifically, his proposal to promote a better local government structure either through amalgamation or metropolitanization. I agree to this proposal because there is really so much local government units in the country. For not so big of a country (in terms of size), 43, 000 local governments is a lot.

I could not agree more with Prof. Capuno's findings. But, amendment to the Code is easier said than done. In fact, there have been several attempts that did not materialize and most of us the local government sector is experiencing "legislation/amendment to the Code fatigue." But, if you are looking for good international practices on amalgamation, the Japanese experience has a lot to offer.

Having said that, I am still expected to share my reaction to the paper. Here is what I think.

II. Comments and Reactions

I find it interesting that Prof. Capuno captured the stories behind which function to decentralize, education or health. I agree that the root of all evils (if I may be allowed to use that term) is failure (of our framers) to follow the principle; finance follows function. Later, in the talk I will share what are the current efforts of the national government to address this problem. Still, what a huge mess it created. According to Albert Einstein, you cannot solve the problem at the same level of thinking that created it. In our case, that means that the problems created by the passage of the Local Government Code cannot be solved by amendment alone. It requires more. How much more? Let's ask Prof. Capuno.

Also, I want to know whether it is mere coincidence that in his paper, he presented three explanations for the existence of tugs of war, three solutions to address it, and three developments that would necessitate Code amendment i.e. urbanization, ICT, and climate change. So for my reactions, I follow his lead.

I think the paper can be improved in three aspects: (1) by providing additional information on issues; (2) by looking at more fragmented services such as housing or business registration, where tugs of war is more evident (or frustrating), and; (3) by incorporating current trends on addressing fiscal issues.

On additional information, I think the issues on national wealth can be expanded by explaining why remittance is a contentious issue. Remittance of national wealth is contentious because it lacks predictability. Local governments cannot use this income source because they do not know when it will be credited in their accounts. When we study it, we found that for mining taxes, the bottleneck is with Mines and Geosciences Bureau. MGB cannot certify that value of the precious stones/minerals fast enough thus, the BIR cannot compute LGUs share, which makes it hard for DBM to include it in their computation of LGU shares. Since, it is not a stable/predictable source, LGUs do not count it as such which makes mining unpopular for LGUs. Apart from the explanations provided by Prof. Capuno in his paper i.e. it affects more LGUs, the benefit is hard to establish.

On the difficulty to enforce fund commitment for LGU alliances, one of the problems there is relying solely on LGU contribution. Successful ILCs have a more diverse source of income such as the Metro Naga Development Council, Metro Iloilo and Guimaras Development Corporation. One possible source of funding is to levy fees or borrow. But, the challenge here is, ILCs are not juridical entities, thus it cannot levy fees or borrow. This contribute to ILCs early demise.

It's interesting that Prof. Capuno chose health to show the tugs of war between national and local governments. I think the tugs of war is more evident in other services such as

housing or business registration. Also, I believe that there will only be few local governments that can excel in health service-delivery. It requires high technical skills. At the end of the day, I agree with him that any functions that will be centralized has to be carefully studied before the resources (finance) is given. I think this is what current national government initiatives are trying to achieve with their current programs.

To address the unclear revenue and expenditure assignment, block grants such as the BuB and KALSADA for provinces are tied to performance. DBM, DILG, and other national government agencies identify the menu or the list of possible projects that LGUs can propose for funding. It is the NG government that identifies what will be included in the list of projects or BuB menu and they require several performance standards for local government beneficiaries. In LCP, we proposed additional projects on education eligible for BuB funding.

The BuB results are quite promising and from what I know, it will be rolled out to barangays, too.

III. Closing

In closing and just to get back to Prof. Capuno for making me think, I think it would strengthen the paper if it will identify what issues the Code amendment can answer. For instance to address the issue on weak funding for inter-LGU alliances, according to Dr. Llera, ADB's consultant, this can be cured by establishing a registry for ILCs in DILG with certain formal requirements for the creation of alliance. This is an operative act granting juridical personality to a proposed undertaking and is evidenced by an official certificate. This proposal gains my support because it does not require legislation and it can provide additional sources of income for ILCs.

Also, since the paper is funded by a private corporation, it has to help explain reality to them. The tugs of war may be evident, but it is not all that problematic. For us, in LCP, it dictates a new approach to engagement. From outsiders, all they need is new information and new engagement protocol to understand local government realities. Tugs of war is not necessarily bad, if we, local governments are also given a chance to win.

LCP is here to help explain local realities given our limited lenses. Our question now is, how can we help?

Thank you and good afternoon.

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