

# Relevance of Fiscal Federalism to Philippine Development Issues and Challenges

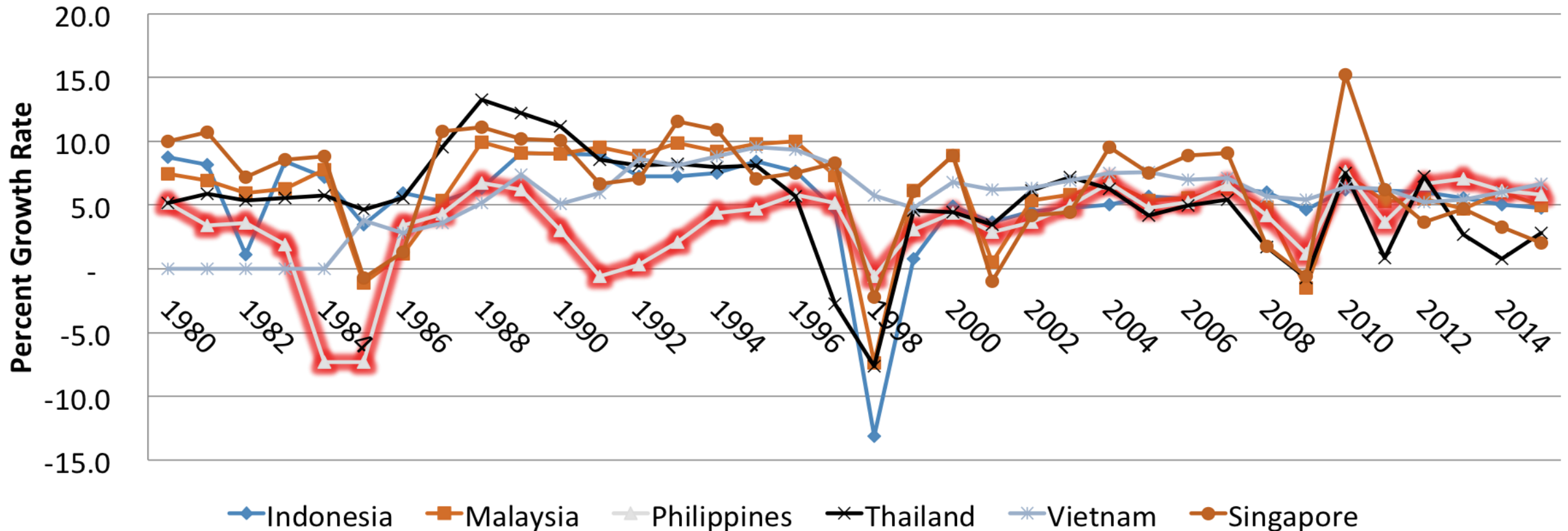
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The Philippines' *economic growth performance* has paled in comparison with its peers in the region, but it has fared well in the recent years.

**GDP Growth Rate of Selected ASEAN Countries  
1980-2015**



# Poverty has remained a formidable development challenge for the Philippines.

	1981-1990	1991-2000	2001-2010	2012
<b>Proportion of population living on less than \$1.9 a day</b>				
<b>Indonesia</b>				
Rural	49.6	57.9	30.0	13.9
Urban	47.5	36.1	15.6	9.7
<b>Malaysia</b>	2.2	1.1	1.5	
<b>Philippines</b>	29.9	22.1	15.1	13.1
<b>Thailand</b>	14.4	3.1	0.5	0.1
<b>Vietnam</b>		42.0	21.8	3.2

Source of data: Povcalnet, Worldbank.org

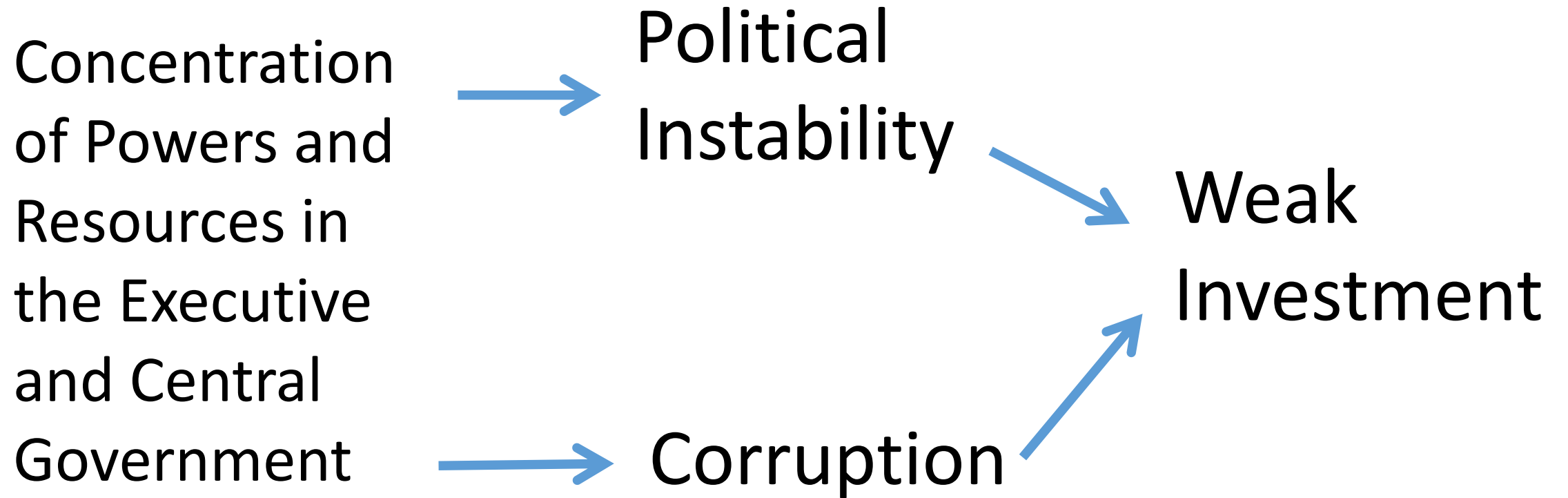
Note: \$1.9 a day (PPP) is about P40 a day per person; the PSA national poverty line is about P60 a day per person.

Economic growth and poverty in the Philippines are *highly uneven across regions*.

<b>Population, Gross Regional Domestic Product, Poverty, by Region, Philippines, 2003, 2009, 2012, 2015</b>									
Region	Population	Gross Regional Domestic Product				Poverty Incidence			
	Percent Share (%)	Percent Share (%)				Percent			
	2015	2003	2009	2012	2015	2003	2009	2012	2015
<b>PHILIPPINES</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>30.0</b>	<b>26.3</b>	<b>25.2</b>	<b>21.6</b>
NCR	12.8	36.1	35.8	36.2	37.9	6.9	3.6	3.9	3.9
CAR	1.7	2.3	2.2	1.9	1.8	32.2	25.1	22.8	19.7
ILOCOS	5.0	2.9	3.1	3.1	3.1	30.2	22.0	18.5	13.1
CAGAYAN	3.4	1.9	1.8	1.7	1.8	24.5	25.5	22.1	15.8
CENTRAL LUZON	11.1	8.0	8.7	9.1	8.9	17.5	13.7	12.9	11.2
CALABARZON	14.3	12.0	16.8	16.8	15.5	18.4	11.9	10.9	9.1
MIMAROPA	2.9	2.1	1.9	1.8	1.5	48.1	34.5	31.0	24.4
BICOL	5.7	2.5	2.1	2.1	2.1	48.5	44.2	41.1	36.0
WESTERN VISAYAS	7.5	6.5	4.1	4.1	4.1	39.2	30.8	29.1	22.4
CENTRAL VISAYAS	7.3	6.9	5.8	6.4	6.5	28.3	31.0	30.2	27.6
EASTERN VISAYAS	4.4	2.3	2.7	2.2	2.0	43.0	42.6	45.2	38.7
ZAMBOANGA PENINSULA	3.6	2.2	2.1	2.1	2.1	49.2	45.8	40.1	33.9
NORTHERN MINDANAO	4.6	4.6	3.8	3.9	3.9	44.0	40.1	39.5	36.6
DAVAO	4.8	4.3	4.2	4.0	4.2	34.7	31.4	30.7	22.0
SOCCKSARGEN	4.5	3.2	2.7	2.7	2.7	38.4	38.3	44.7	37.3
CARAGA	2.6	1.3	1.1	1.2	1.2	54.0	54.4	40.3	39.1
ARMM	3.7	0.9	0.9	0.9	0.7	52.8	47.4	55.8	53.7

Source: NSCB & Philippine Statistics Authority

The Philippines' anemic progress in eradicating poverty characterized by weak economic growth and highly unequal economic opportunities can be traced to the highly centralized political and economic governance of the country.



## National government and local government shares in total government expenditures, Philippines, 2009, 2011, 2013, and 2015

	Billion Pesos				Percent Share (percent)			
	2009	2011	2013	2015	2009	2011	2013	2015
<b>National Government</b>	<b>841.3</b>	<b>987.9</b>	<b>1,352.3</b>	<b>1,810.1</b>	<b>75.7</b>	<b>76.3</b>	<b>80.0</b>	<b>82.7</b>
Department	624.4	806.7	1,025.3	1,411.4	56.1	62.3	60.6	64.5
Central Office & NCR	330.2	494.4	383.3	496.0	29.7	38.2	22.7	22.7
Regional	294.1	312.3	642.0	915.4	26.4	24.1	38.0	41.8
Special Purpose Funds Net of Transfers to LGUs & Debt Service	216.9	181.2	327.0	398.8	19.5	14.0	19.3	18.2
<b>Local Government</b>	<b>270.8</b>	<b>306.5</b>	<b>338.8</b>	<b>378.1</b>	<b>24.3</b>	<b>23.7</b>	<b>20.0</b>	<b>17.3</b>
Provinces	63.7	73.1	76.0	89.7	5.7	5.6	4.5	4.1
Cities	111.4	120.3	144.9	150.7	10.0	9.3	8.6	6.9
Municipalities	95.7	113.1	117.9	137.7	8.6	8.7	7.0	6.3
<b>TOTAL</b>	<b>1,112.0</b>	<b>1,294.5</b>	<b>1,691.0</b>	<b>2,188.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source of basic data: Department of Budget and Management, Budget of Expenditures and Sources of Financing (various issues). Bureau of Local Government Finance, Statement of Receipts and Expenditures (various issues).

National government and local government shares in total government revenues, Philippines, 1990, 2000, 2010, and 2015

Particulars	Percent Share							
	1990		2000		2010		2015	
	NG	LGUs	NG	LGUs	NG	LGUs	NG	LGUs
Tax Revenues	96.2	3.8	93.5	6.5	93.9	6.1	93.7	6.3
Non-Tax	89.2	10.8	83.6	16.4	76.3	23.7	85.4	14.6
<b>Total Revenues</b>	<b>95.1</b>	<b>4.9</b>	<b>92.4</b>	<b>7.6</b>	<b>91.9</b>	<b>8.1</b>	<b>92.4</b>	<b>7.6</b>
	As Percentage of GDP							
	1990		2000		2010		2015	
	NG	LGUs	NG	LGUs	NG	LGUs	NG	LGUs
Tax Revenues	14.1	0.6	14.6	1.0	12.1	0.8	13.6	0.9
Non-Tax	2.5	0.3	2.8	0.3	1.3	0.4	2.2	0.4
<b>Total Revenues</b>	<b>16.8</b>	<b>0.9</b>	<b>17.7</b>	<b>1.3</b>	<b>13.4</b>	<b>1.2</b>	<b>15.8</b>	<b>1.3</b>

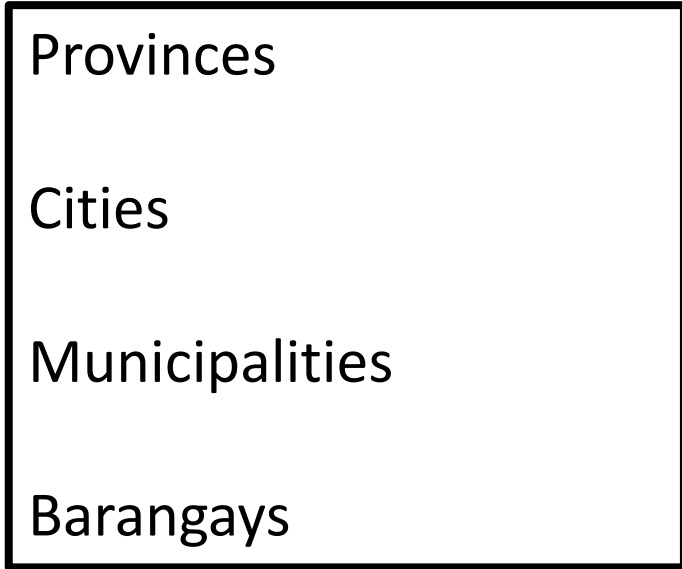
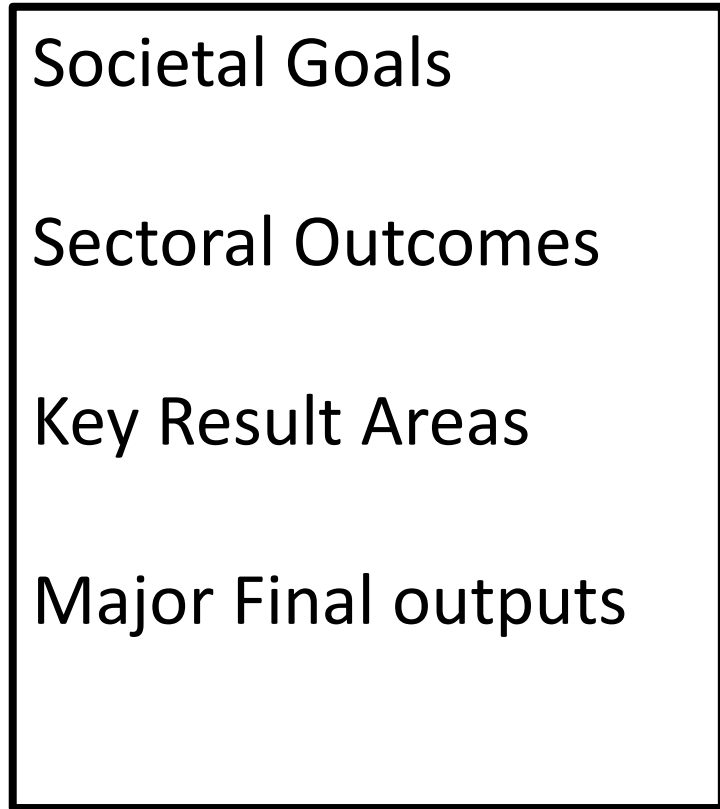
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# Common Pool Resource Problem

The *centralization of revenues* created a *common pool resource* with its *attendant problems*:

- Weakening of *fiscal discipline*
- Weakening of allocative and *operational efficiency* (*“Divide by N”*)
- Increasing tolerance of *corruption*
- *Patronage politics* and *political dynasties*



**Problem: Fragmented government services**

## Weak government coordination

- *Coordination* between and among different levels of government *is weak*.
- The requirements for strong coordination are *lacking*: clear *division of responsibilities*, adequate *funding*, and *bureaucratic capacity* (Balisacan, Hill and Piza, 2006).
- Moreover, the Philippines *local government system is highly fragmented* with no strong middle level government.

# Government Decentralization:

1. Administrative decentralization or Deconcentration

2. Political decentralization or Devolution

- Local Government Code of 1991
- Organic Act Establishing the ARMM

# Highly fragmented local government system

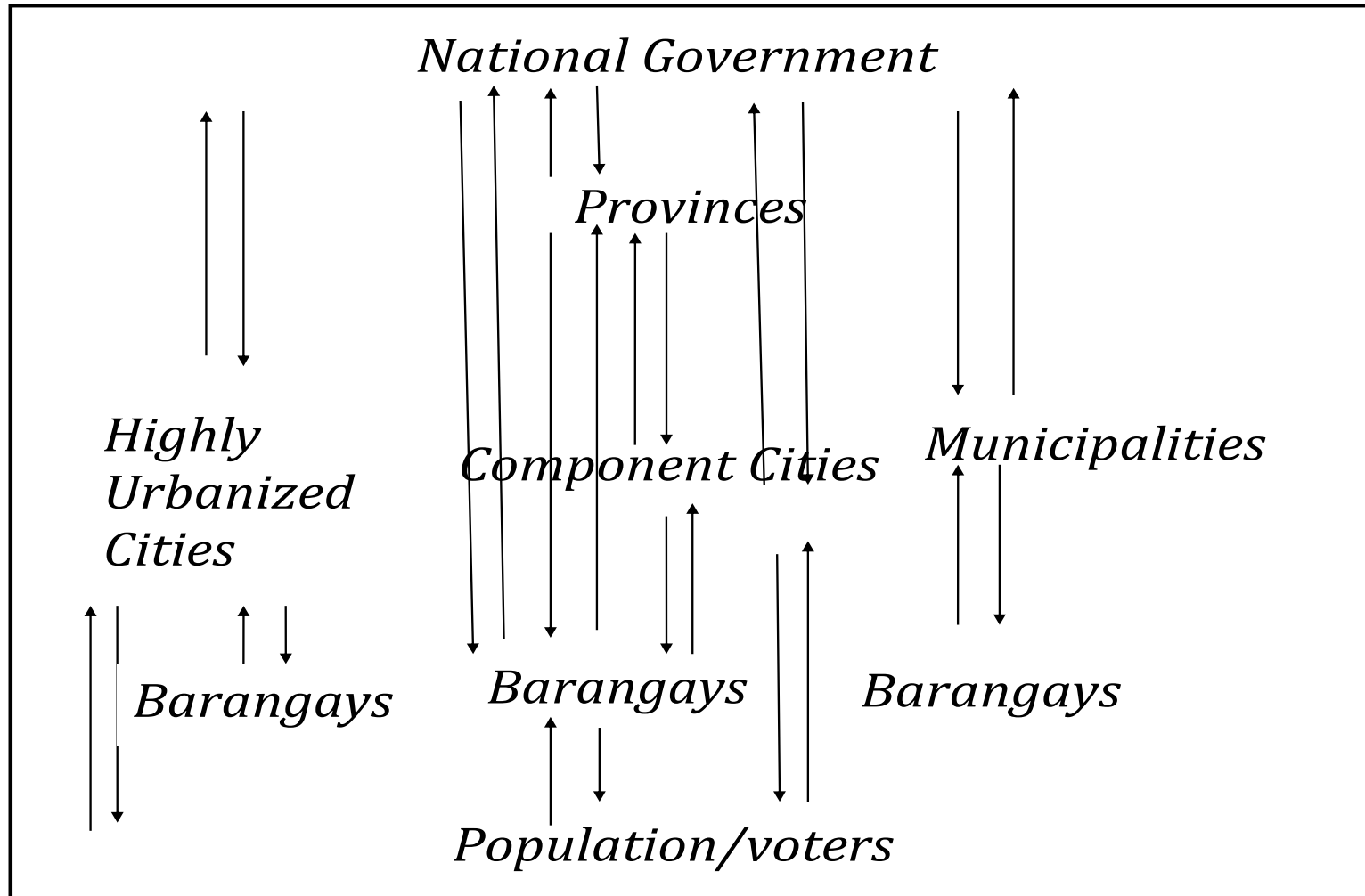
**TABLE 1.3 Vertical Organization of Intergovernmental Systems in East Asia**

Country	Levels of subnational government <sup>a</sup>	Number of first-tier subnational governments	Average population of first-tier subnational governments (millions, 2002)
Cambodia	2	24	0.5
China	4	32	40.0
Indonesia	3	32	7.0
Philippines	4	149	0.5
Thailand	3	76	0.8
Vietnam	3	61	1.3

*Sources:* Various country case studies prepared for this report and World Bank statistics.

a. "Level" refers to an organ of government with some degree of formal budget (expenditure) authority. In some cases (such as Indonesia), this can be highly circumscribed, particularly at the lowest levels.

# Fragmented local government units + patronage politics = Fragmented government services



## Number of LGUs

Provinces:	81
Cities:	145
Municipalities:	1,489
Barangays:	42,036

## Notes:

- Provinces are fiscally, the weakest.
- Cities are fiscally, the strongest.
- Cities have the combined powers of provinces and municipalities.

# Importance of Middle-level Governments

- It is important to recognize the *critical role of middle-level governments*. In countries with unitary government like the Philippines, there are usually no strong middle-level governments.
- However, the federal form that serves as model for government decentralization reforms is *built on the presence of strong fiscally autonomous middle-level governments* (e.g. states) *that deal with the central government on even ground*.
- Ultimately, *the issue is not decentralization versus centralization, but of achieving the right balance and better coordination among different levels and units of government*.

# Common Structural Characteristics of Federations

- two levels of government, i.e., national and subnational that directly govern their constituents,
- executive and legislative authorities formally defined in the country's Constitution,
- provision of autonomy for the levels of government through proper assignment of revenue resources,
- representation of subnational governments in federal policy making institutions,
- mandated bodies (courts) or mechanisms (referendums), to settle disputes among governments,
- institutions tasked to facilitate intergovernmental collaboration for services with shared responsibilities.



# Fiscal Equivalence: Vertical Fiscal Balance

- *Correspondence between those who receive the benefits of a public good and those who pay for it*
- *Links cost to benefit*
- Leads to *congruence* between deciding on *expenditure and financing*
- *Prevents free riding*

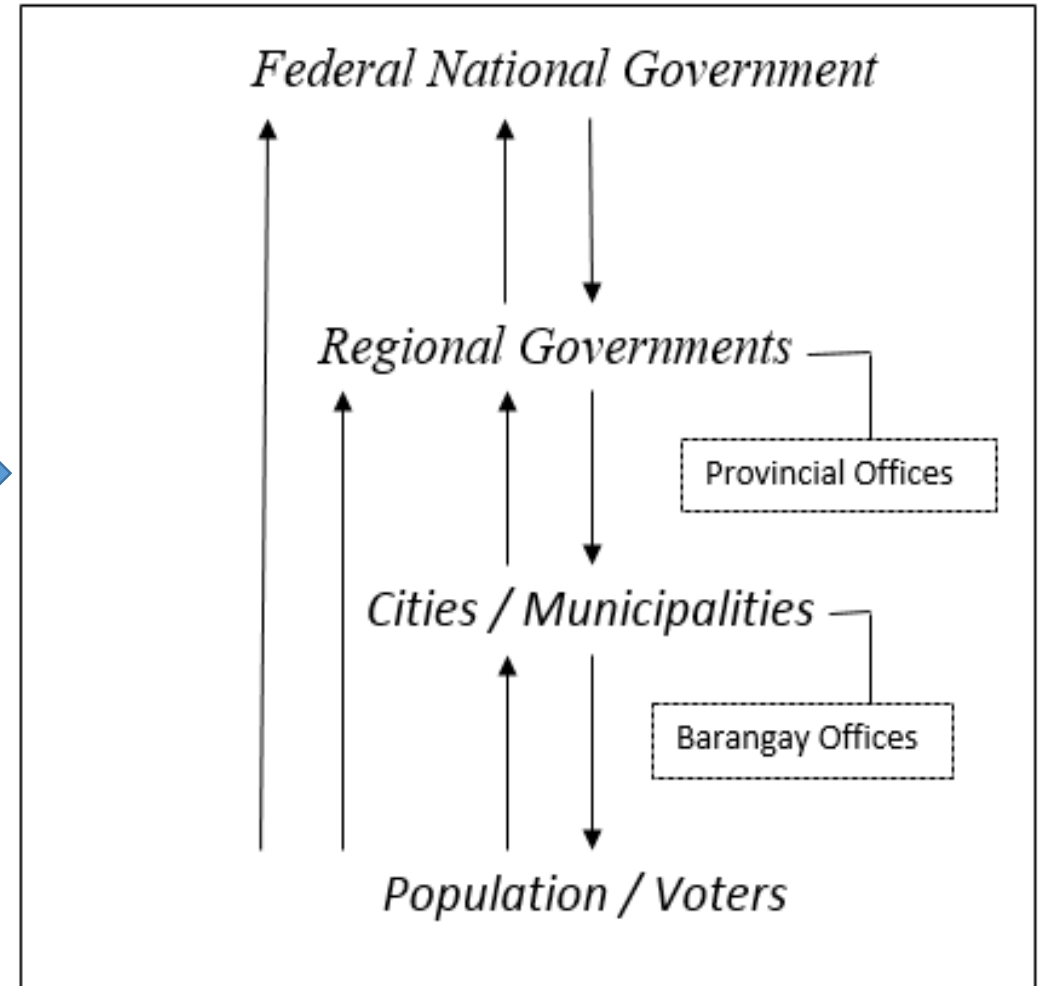
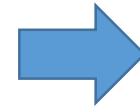
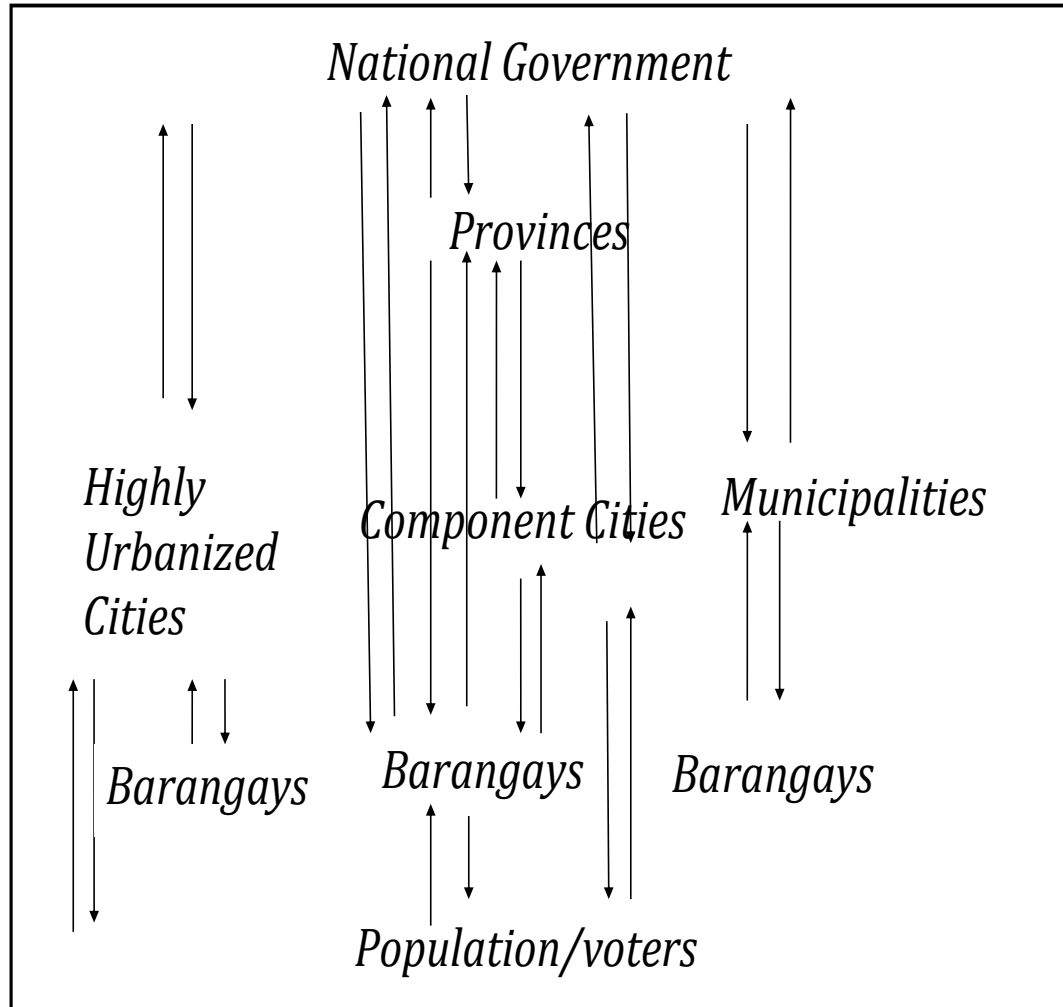
# Subsidiarity

- “nothing should be done by a larger and more complex organization which can be done as well by a smaller and simpler organization”  
*(Mele, 2004)*
- *Higher level governments should not exercise functions which can be carried out efficiently by lower level governments, but rather the former should support and help coordinate the activities of the latter.*

# Fiscal Equalization: Horizontal Fiscal Balance

- Each unit within a particular level of government (or *each state in a federal system*) has the capacity to *provide services at a comparable standard.*

# Shift to Federal Government?



Thank you and good day.