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# Fiscal Design and Subnational Governance: Autonomy and Equity Considerations

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11 September 2017*



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# Overview of presentation

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- Context
- Why reform the fiscal decentralization framework
- Direction of reform
- Cost and risks in shifting to federal form of government
- Conclusion

# Federalism is a hot topic ...

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- Adoption of federal form of government – one of President Duterte’s campaign promises and he reiterated this thrust in his 1st SONA in 2016
- Strong support for federalism among members of super majority at the House
  - Shift to federal form of government – part and parcel of proposed constitutional amendment/ revision
- PDP-Laban
  - actively involved in advocacy and design of “federalism model” for the Philippines

# Federalism discourse in the public arena

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- Federalism oftentimes framed as representing the “countryside’s revolt against imperial Manila”
  - Short way of saying, government is too centralized despite decentralization under Local Government Code
  - another aspect of this narrative relates to the persistence of wide regional disparities in per capita household income, regional shares in GDP, and poverty incidence

Regions	DA		BFAR		DENR		DPWH <sup>a/</sup>		DTI		DSWD		DILG		PNP		DOH		DepEd	
	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn	PhPM	% dīstn
CO++	4,528	16.4	2964.4	53.9	2,379	19.9	15,911	18.9	261	13.9	5,843	47.7	969	9.0	70,948	94.8	17,176	17.0	20,483	5.5
NCR				0.0	54	0.5	18,105	21.5	6	0.3	748	6.1	156	1.4	779	1.0	3,169	3.1	30,835	8.3
CAR	1,114	4.0	34.8	0.6	546	4.6	746	0.9	81	4.3	197	1.6	640	5.9	141	0.2	2,609	2.6	7,787	2.1
RI	2,023	7.3	152.3	2.8	302	2.5	2,205	2.6	90	4.8	355	2.9	444	4.1	179	0.2	5,576	5.5	20,893	5.6
II	2,195	8.0	148.3	2.7	501	4.2	1,762	2.1	106	5.7	274	2.2	317	2.9	152	0.2	3,745	3.7	13,207	3.5
III	2,243	8.1	174.3	3.2	550	4.6	4,610	5.5	140	7.5	514	4.2	383	3.5	291	0.4	7,463	7.4	31,326	8.4
IVA	1,754	6.4	170.9	3.1	864	7.2	5,752	6.8	160	8.6	560	4.6	469	4.3	283	0.4	7,441	7.4	39,600	10.6
IVB	1,311	4.8	189.4	3.4	731	6.1	1,469	1.7	86	4.6	294	2.4	557	5.2	121	0.2	4,062	4.0	20,040	5.4
V	1,440	5.2	218.9	4.0	521	4.4	2,711	3.2	135	7.2	417	3.4	1,142	10.6	216	0.3	6,717	6.6	24,425	6.5
VI	1,543	5.6	191.4	3.5	521	4.4	2,359	2.8	92	4.9	523	4.3	829	7.7	287	0.4	7,623	7.5	30,375	8.1
VII	1,164	4.2	294.5	5.4	586	4.9	3,817	4.5	90	4.8	451	3.7	706	6.5	245	0.3	7,440	7.4	28,525	7.6
VIII	1,337	4.8	250.8	4.6	631	5.3	3,886	4.6	101	5.4	366	3.0	1,159	10.7	185	0.2	5,121	5.1	23,808	6.4
IX	1,230	4.5	160.0	2.9	895	7.5	7,300	8.7	71	3.8	428	3.5	539	5.0	181	0.2	5,291	5.2	17,839	4.8
X	1,441	5.2	127.1	2.3	694	5.8	4,032	4.8	93	4.9	423	3.4	662	6.1	178	0.2	5,405	5.3	16,942	4.5
XI	1,426	5.2	130.3	2.4	484	4.1	4,029	4.8	99	5.3	347	2.8	680	6.3	176	0.2	5,011	5.0	16,471	4.4
XII	1,773	6.4	122.8	2.2	949	7.9	3,485	4.1	123	6.6	284	2.3	364	3.4	163	0.2	4,140	4.1	17,122	4.6
XIII	1,064	3.9	166.8	3.0	728	6.1	2,003	2.4	141	7.5	235	1.9	794	7.3	134	0.2	3,121	3.1	13,521	3.6
Phil	27,588	100.0	5,497	100.0	11,934	100.0	84,183	100.0	1,876	100.0	12,259	100.0	10,811	100.0	74,841	100.0	101,109	100.0	373,200	100.0

<sup>a/</sup> refers only to "various local infrastructure" and "local infrastructure"

Big portion of the GAA budget is allocated to the Central Offices (COs) of various departments → COs exercise wide degree of discretion in allocating these amounts to the different regions during budget execution

**Per Capita HH income, in current prices (in pesos)**

Region	1985	1994	1997	2003	2006	2009	2012	2015
NCR	11,575	37,070	61,211	65,625	81,336	91,792	96,891	110,792
CAR	6,880	15,457	25,544	36,240	46,788	55,167	66,453	69,814
RI	6,005	14,233	23,019	29,925	34,658	46,530	53,736	59,704
II	5,582	15,296	19,846	31,008	35,414	47,123	49,953	61,731
III	7,642	18,481	28,119	37,590	46,296	53,227	62,348	73,230
IVA	6,900	21,875	32,651	44,876	50,393	61,555	71,952	81,075
IVB	5,059	13,076	19,216	26,625	27,421	35,452	46,583	60,857
V	4,210	11,227	16,591	26,071	30,450	35,763	39,536	45,877
VI	5,132	13,418	19,411	27,273	31,815	40,450	52,811	55,881
VII	4,332	12,254	19,549	28,341	33,601	43,902	49,061	58,621
VIII	3,719	10,740	15,650	24,220	30,108	38,765	40,713	49,682
IX	4,653	10,401	18,623	20,792	27,687	34,947	39,390	47,344
X	5,266	12,254	20,030	26,173	32,905	39,405	45,757	54,468
XI	5,700	14,713	20,239	27,492	32,676	41,188	48,840	64,072
XII	4,966	12,802	18,072	26,612	27,239	37,454	40,154	48,001
XIII	4,518	11,122	15,880	20,672	27,088	34,383	43,513	50,654
ARMM		9,661	14,611	17,722	18,106	23,996	25,244	26,437
Phil	6,294	17,564	27,303	35,597	42,372	51,489	58,583	67,622
Coefficient of variation	0.327	0.433	0.478	0.368	0.393	0.337	0.315	0.301

- Per capita household income in NCR continues to be the highest in 1985-2015 but disparity between other regions' income relative to NCR's has narrowed

# Federalism discourse in the public arena

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- More critical perspectives have started to emerge
  - If federalism is the answer, what is the question? – UPSE
  - “Autonomy is of primary importance, federalism is just secondary” – Governor X
  - Imperial Manila vs dynastic countryside – ADMU-SoG
  - Is federalism poverty-reducing or poverty-inducing?
  - What is budgetary cost of shift to federal form of government?

# If federalism is the answer, what is the question?

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- Proponents (e.g., PDP Laban) say:
  - “Federalism is the practical solution to age-old problems of poverty, inequality and instability
  - ... it provides a system where national unity is maintained while protecting the diversity of our society”
  
- Economic literature suggests that potential benefits can be secured by adopting a federal form of government



# Potential benefits of shift to federal form of government

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1. Increased efficiency → increased societal welfare to the extent that ...
  - Federal system brings government closer to the people, thereby allowing lower level governments to respond to local needs and preferences of their constituents
  - The jurisdiction of the level of government paying for the delivery of a given public service coincides with the geographic area where benefits of said public service are confined
    - Otherwise, government will tend to under-provide services which have positive benefit spillovers to other jurisdictions

# Potential benefits of shift to federal form of government

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2. Increased efficiency and welfare also results to the extent that ...
  - Federal system promotes interjurisdictional competition assuming that the population have the ability to “vote with their feet” to get the “public services-tax package” they prefer
    - Thus, dampening rent-seeking tendency of local politicians

# Potential benefits of shift to federal form of government

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3. Federal system enhances local accountability to the extent that ...
  - Lower level governments have some degree of revenue autonomy (i.e., if they raise a significant amount of revenues from local taxes and user charges)
  - Also, results from enhanced citizen participation in local governance
4. Federal system key to addressing ethnocultural conflict as it accommodates regional diversity – religious, linguistic, ethnic, or cultural

# Potential benefits of shift to federal form of government

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- The first 3 of these potential gains - largely a function of the extent of decentralization
  - Said gains may be secured with greater fiscal decentralization with or without shift to the federal form of government
  
- Countries with federal form of government are not necessarily decentralized to the same degree and some of them may be less than decentralized than those with unitary form of government
  - Germany (federal) more centralized than Canada (federal)
  - Malaysia (federal) more centralized than Philippines (unitary)

# Potential benefits of shift to federal form of government

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- With regards to the 4th potential benefit, adoption of federal form of government does not necessarily prevent break-up of conflict-ridden states (e.g., pre-1971 Pakistan → present Pakistan and Bangladesh)

# Distinction between multi-tiered unitary & federal form of government

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- Multi-tiered unitary form of government – local government units exercise only the powers that the central govt (CG) chooses to delegate to them
  - CG can unilaterally withdraw powers delegated to subnational units
- Federal form of government – powers are shared by at least two levels of government (i.e., federal government and constituent units), each having some degree of autonomy in the exercise of certain powers, and each of which “deal directly with the citizenry in the exercise of their powers” [self-rule]
  - Division of powers and allocation of resources between federal government (FG) and constituent units (state/ regional/ provincial govts) are written/ guaranteed in constitution
  - Neither level of government can unilaterally alter the powers of the other

# Distinction between unitary & federal form of government

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- Precisely because division of powers and resources between FG and state governments (SGs) are written in constitution, design of federal form of government should be subject of careful study
  - Otherwise, bad design gets enshrined in the constitution, making it more difficult to correct mistakes

# Distinction between unitary & federal form of government

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- If the objective is to secure the potential benefits from more decentralized governance, the principles that guide design of fiscal aspects of federal form of government are just as relevant for reforming decentralized governance in a unitary form of government
- These principles are aimed at ensuring that the FG and SGs face the right incentives for an efficient and equitable delivery of public services and, thereby, maximize social development outcomes.



# Overview of presentation

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- Context
- Why reform the fiscal decentralization framework – what are the potential gains?
- ✓ Direction of reform
- Costs and risks in shifting to federal form of government
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# Design should be informed by lessons learned from Philippine decentralization experience

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- Deficiencies in the design of intergovernmental relations under the LGC – fiscal aspects
  - Expenditure assignment – lack of clarity
    - Overlapping and, at times, unclear assignment of functions across various levels of government
      - ✓ introducing concept of shared powers might address issue
    - Unfunded mandates → Relevant services either not delivered at all or not delivered in sufficient quantities

a/ intergovernmental relations = national-subnational relations

# Design should be informed by lessons learned from ~~Philippine decentralization experience~~

- ❑ Deficiencies in the design of intergovernmental relations under the LGC – fiscal aspects
  - Tax assignment – low level of revenue autonomy, particularly for provinces

Local Government revenue performance, 2015 (in million pesos)

Region	RPT	LBT	Own-source revenue (OSR)	OSR % distn	IRA	Total LGU income	IRA dependency
NCR	21,204.95	37,340.80	72,215	41.9	17,404	92,839	18.7
CAR	410.88	572.59	2,292	1.3	10,355	13,741	75.4
I	1,502.30	1,327.95	6,904	4.0	16,753	26,080	64.2
II	539.28	713.43	2,950	1.7	16,723	20,106	83.2
III	4,881.39	4,360.20	14,999	8.7	29,890	46,031	64.9
IV-A	9,740.93	8,744.52	25,086	14.6	33,881	60,917	55.6
IV-B	529.96	554.92	2,096	1.2	14,572	16,986	85.8
V	814.22	899.12	3,675	2.1	18,966	22,949	82.6
VI	2,350.16	1,718.65	8,509	4.9	25,222	35,073	71.9
VII	2,225.51	3,552.99	10,284	6.0	22,095	41,498	53.2
VIII	444.15	512.73	3,293	1.9	18,741	22,669	82.7
IX	450.55	551.99	2,533	1.5	13,036	15,692	83.1
X	1,248.31	1,547.51	5,598	3.2	17,419	23,474	74.2
XI	1,420.06	2,083.71	6,118	3.5	15,686	21,897	71.6
XII	725.80	765.62	3,035	1.8	16,946	20,276	83.6
CARAGA	461.88	665.88	2,523	1.5	13,188	16,267	81.1
ARMM	30.19	115.61	232	0.1	12,231	12,761	95.8
<b>ALL</b>	<b>48,980.5</b>	<b>66,028.2</b>	<b>172,341</b>	<b>100.0</b>	<b>313,107</b>	<b>509,257</b>	<b>61.5</b>
<b>NCR/ III/ IVA</b>			<b>112,300</b>	<b>65.2</b>			<b>40.6</b>

Source: BLGF

# **Design should be informed by lessons learned from Philippine decentralization experience**

- Deficiencies in the design of intergovernmental relations under the LGC – fiscal aspects
  - Intergovernmental transfers
    - Vertical fiscal imbalance
    - Inadequate equalization
    - Too much reliance on block grants to achieve different grant objectives
      - ✓ differentiated use of alternative types of transfers likely to improve LGU incentives

# **Design should be informed by lessons learned from Philippine decentralization experience**

- Deficiencies in the design of intergovernmental relations under the LGC – fiscal aspects
  - Subnational credit finance
    - Too much reliance on procedural rules deter optimum LGU credit financing of local infrastructure
    - But, more autonomous SGs under federal form likely to increase fiscal risks unless adequate fiscal rules are put in place

# Design should be informed by lessons learned from Philippine decentralization experience

- Deficiencies in the design of intergovernmental relations under the LGC – political economy
  - legislative overhaul of the LGC – difficult (Matsuda 2011)
    - Congress as an institution not likely to be inclined to expand resource base of LGUs
      - ✓ “Fiscally stronger LGUs depend less on individual national legislators for financial assistance and hence would result in loss of political leverage for members of the Congress [over the LGUs within their districts]. . . . . if more resources were made available to provinces, governors could emerge as strong political rivals, more so than they are already . . . .”

# Reforming the fiscal decentralization framework – four pillars

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## Design involves four pillars of intergovernmental fiscal relations

1. Expenditure assignment – which level of government does what
2. Tax assignment – which level of government taxes what
3. Intergovernmental transfers
4. Subnational credit finance

# Reforming the fiscal decentralization framework – Overarching principles

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- Even more important than assignment of specific expenditure functions and taxing powers to FG and SGs is the internal consistency of pillars 1-3 in terms of ensuring that the FG and SGs face the right incentives for an efficient and equitable delivery of public services and for promoting social development outcomes.
- Importance of providing SGs a significant degree of revenue autonomy
- Importance of ensuring that SGs face hard budget constraints for fiscal/ macro stability (pillar 4)



# Expenditure assignment – guiding principles

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- ❑ Assigns functions whose benefits and costs are national in scope to FG and those whose benefits and costs are subnational in scope to SGs
- ❑ Assign functions related to economic stabilization, preservation of internal common market and redistribution to the FG
- ❑ Clarity in the assignment of functions to different levels of government – very important so as to avoid duplication and strengthen accountability

# Expenditure assignment – possible design option that shifts balance of power in favor of SGs

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## 1. Expenditure assignment

- Monetary policy, currency and banking - Independent central bank
  
- Exclusive powers of FG
  - National defense
  - Foreign affairs
  - Immigration
  - International trade
  - Interstate commerce
  - Agrarian reform

# Expenditure assignment – possible design option

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## 1. Expenditure assignment

- Exclusive powers of state governments (SGs)
  - Supervision of LGUs
  - Police (exclusively assigned to FG as per PDP Laban)
  - Fire protection
  - Early childhood education
  - Water supply, sanitation and sewerage
  - Waste management
  - Road traffic management
  - Parks

# Expenditure assignment – possible design option

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## 1. Expenditure assignment

- Shared powers of FG and SGs (involves 25 of the existing departments/ agencies)
  - Regional planning, land use mgt
  - Law & order (prosecution services)
  - Basic and higher education & TVET
  - Health
  - Labor and employment
  - Social welfare/ assistance
  - Housing
  - Agriculture, fisheries & aquatic resources
  - Industry
  - Tourism
  - Road infrastructure a/
  - Flood control infrastructure a/
  - Science and technology

a/ national primary roads and flood infrastructure whose benefits are not confined to state boundaries – exclusively assigned to FG

# Expenditure assignment – possible design option

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1. Expenditure assignment
  - Residual powers – FG

Note: With respect to shared powers, it is important to articulate in constitution/ legislation, principles that guide sharing of power FG and SGs (e.g., FG – policy, standard setting, and financing, if applicable to some of the specific competencies; SG – provision or production/ service delivery)

# Expenditure assignment – possible design option

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## 1. Expenditure assignment

- Preliminary estimate of costs of FG/ SG responsibilities assignment described above is followed
  - FG - 54% of total NG budget net of debt service or 8.5% of GDP (estimated based on 2016 GAA)
  - SGs (inclusive of what is now distributed to LGUs in the form of the IRA) - 45% of total NG budget net of debt service or 7.2% of GDP (estimated based on 2016 GAA)





# Tax assignment – guiding principles

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- ❑ Revenue autonomy to promote local accountability - each level of government must have enough "own" revenues (whose level they control by setting tax rates, by defining tax base and/ or by collecting/ enforcing) to finance the services they provide
- ❑ Taxes that interfere with interjurisdictional trade and those on mobile factors of production are ideally assigned to the FG
- ❑ Taxes on immobile factors and user charges are ideally assigned to SGs
- ❑ Assignment of taxing powers should take administrative feasibility into account

# Tax assignment - possible design option

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2. Tax assignment – in addition to taxes currently assigned to LGUs right now, SGs shall have power to impose
  -  Residence-based surtax on personal income tax – say, 1% of taxable personal income of residents; – PhP 19 billion
  -  Motor vehicle user charge or motor vehicle registration fees and driver's license fees – PhP 13 billion
  -  Distribution across regions is shown in next table
  -  Ideally, this table should reflect fiscal capacity which may be measured in terms of potential revenue not actual collections



Projected SG revenues aggregated at SG level (in million pesos)

Region	Proposed new taxes			Existing taxes under LGC, 2015				Projected revenues from old revenue sources + new taxes	% distn
	PIT surtax	Motor vehicle registration	% distn of new taxes combined	Real property tax	Local business tax	Total OSR	OSR % distn		
NCR	5,641	5,075	33.5	21,205	37,341	72,215	41.9	82,931	40.6
CAR	345	240	1.8	411	573	2,292	1.3	2,877	1.4
R I	609	511	3.5	1,502	1,328	6,904	4.0	8,025	3.9
II	637	320	3.0	539	713	2,950	1.7	3,907	1.9
III	2,348	1,634	12.4	4,881	4,360	14,999	8.7	18,982	9.3
IVA	2,283	1,591	12.1	9,741	8,745	25,086	14.6	28,959	14.2
IVB	631	103	2.3	530	555	2,096	1.2	2,830	1.4
V	358	261	1.9	814	899	3,675	2.1	4,294	2.1
VI	985	651	5.1	2,350	1,719	8,509	4.9	10,145	5.0
VII	1,110	952	6.4	2,226	3,553	10,284	6.0	12,346	6.0
VIII	571	199	2.4	444	513	3,293	1.9	4,063	2.0
IX	494	341	2.6	451	552	2,533	1.5	3,369	1.6
X	690	396	3.4	1,248	1,548	5,598	3.2	6,684	3.3
XI	900	454	4.2	1,420	2,084	6,118	3.5	7,472	3.7
XII	553	477	3.2	726	766	3,035	1.8	4,065	2.0
XIII	351	162	1.6	462	666	2,523	1.5	3,036	1.5
ARMM	116		0.4	30	116	232	0.1	348	0.2
Phil	18,624	13,367	100.0	48,981	66,028	172,341	100.0	204,332	100.0

LGU revenues concentrated in NCR, Regions III and IVA  
 → underscore need for equalization transfers

# Tax assignment – possible design option

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## 2. Tax assignment

- Need to identify more SG taxing powers to ensure some degree of revenue autonomy for SGs; implied dependency on transfers based on the above assignment of taxing powers and expenditure responsibilities is greater than 80%, even lower than under the LGC
- . Otherwise, need to rethink preliminary expenditure assignment to ensure some degree of revenue autonomy

# Intergovernmental transfers – guiding principles

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- Need to address vertical fiscal gap – finance should follow function
- Critical that disparities in fiscal capacity be addressed through equalization grants
- Important to use the type of intergovernmental transfer most suitable for specific policy objective that has to be addressed (Shah –xxxx)
  - Conditional, non-matching output-based grants for merit goods
  - Conditional matching grants for benefit spill-overs
  - Block grants for vertical fiscal gap and equalization

SG expenditure needs vis-à-vis SG revenue capacity (in million pesos)

	SG expenditure need			SG revenue capacity	Fiscal gap	
	New SG expd functions	Old SG expd functions <sup>a/</sup>	Total SG expd need		level (in million pesos)	% distn
NCR	66,319	26,965	93,284	82,931	(10,354)	1.1
CAR	17,406	10,851	28,257	2,877	(25,380)	2.7
I	37,850	20,241	58,090	8,025	(50,066)	5.3
II	31,189	18,836	50,026	3,907	(46,119)	4.9
III	73,366	34,633	108,000	18,982	(89,018)	9.4
IVA	87,345	37,230	124,575	28,959	(95,616)	10.1
IVB	28,550	15,499	44,049	2,830	(41,219)	4.4
V	45,742	20,726	66,467	4,294	(62,173)	6.6
VI	56,135	28,629	84,764	10,145	(74,619)	7.9
VII	53,646	27,209	80,855	12,346	(68,509)	7.3
VIII	38,830	21,586	60,416	4,063	(56,353)	6.0
IX	30,624	16,714	47,338	3,369	(43,969)	4.7
X	39,256	22,864	62,121	6,684	(55,437)	5.9
XI	39,475	23,501	62,976	7,472	(55,505)	5.9
XII	37,014	20,046	57,060	4,065	(52,995)	5.6
CARAGA	23,594	13,437	37,031	3,036	(33,995)	3.6
ARMM	31,810	50,853	82,663	348	(82,315)	8.7
Phil	738,151	409,821	1,147,972	204,332	(943,640)	100.0

a/ refers to LGU expd responsibilities under the LGC

Based on illustrative design option:

- Fiscal gap – PhP 944 billion
- Smallest in NCR
- Largest in Region IVA and Region III
- ❖ New SG expenditure need estimated by allocating total NG spend at present in accordance with objective indicator of need

# SG credit – guiding principles

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- Golden rule – limit use of SG borrowing to the finance of capital investments only
- Firm commitment on the part of FG to “no bail-out” of SG loans
- Need for bankruptcy policy and mechanisms for SGs

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# Shift to federal form of government comes at a cost

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- Elements of this cost
  - Salaries of governors and vice governors of SGs and their staff as well as operating expense of their offices
  - Salaries of Senators (second chamber) and their staff as well as operating expense of their offices – 3 to 7 senators per SG as per PDP
  - Salaries of members of judiciary at the state government level, their staff as well as operating expense of their offices a/

a/ not included in estimates

# Shift to federal form of government comes at a cost

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- Elements of this cost
  - Salaries of state legislators and their staff as well as operating expense of their offices – 3 alternative models
    - RA 9054 - 3 legislators elected by popular vote in each legislative district plus sector representatives whose number should not exceed 15% of total number of legislators elected by popular vote → total number of state legislators = 812
    - Proposal of Sen Nene Pimentel – 3 legislators elected by popular vote in each province/ city plus 3 sectoral representatives in each province/ city = 1,356
    - BBL model – at least 10 legislators per legislative district (40% of whom are elected by popular vote, 50% are party representatives, and 10% are sectoral representatives) = 2,380



# Shift to federal form of government comes at a cost

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- Estimate of additional fiscal burden - ranges from PhP 30 billion to PhP 59 billion depending on number of states, size of legislative body at SG level and size of second chamber

# Pre-conditions for success in adopting federal form of government

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- Reform of party system so as to institutionalized strong political parties with “coherent ideological programs and policy platforms and internal organizational discipline” (Matsuda 2014)
  - Government budget support to political parties
  
- Eliminate high barrier to entry in political arena, including presence of political dynasty (Pilapil 2016)

# Risks in adopting federal form of government

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- ❑ Regional disparities may widen if fiscal equalization is weak – risk is high given initial condition is bad to start with
- ❑ Accountability may weaken if there is low revenue autonomy

# Risks in adopting federal form of government

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- ❑ Without pre-conditions, likelihood of elite capture large
  
- ❑ Even if initial design of federal model is coherent at the start, likelihood is high that initial model will be changed to reflect the particular interests of the framers of new constitution
  - Recall concerns raised earlier regarding political economy of fiscal decentralization reform

# Conclusion

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- ❑ Two options to choose from
  - Shift to federal form of government or
  - Reform fiscal aspects of LGC
  
- ❑ Who are the decision makers?
  - Political leaders
  - You and I
  - All of us

# Conclusion

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## □ How to choose?

- Decision making under uncertainty
  - In choosing between these two policy options, one needs to:
    - a. weigh relative net benefit (i.e., benefits less costs) of the two policy options and
      - ✓ Benefits depends on fiscal design
    - b. assess the probability that reform actually results in the desired outcomes
      - ✓ Presence of pre-conditions

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# Thank you

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***Thank You!***

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