

A Survey of Literature on Philippine Decentralization

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May 23, 2019



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Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Some Important Questions

- After more than 25 years of decentralization, how does the literature explain varied levels of development of Philippine local governments?
- How does the evidence explain this?
- With proposed reforms and changes in local governance, it is important to understand how existing literature and evidence explains the current state of Philippine local government units (LGUs).

More than 25 years of Philippine Decentralization

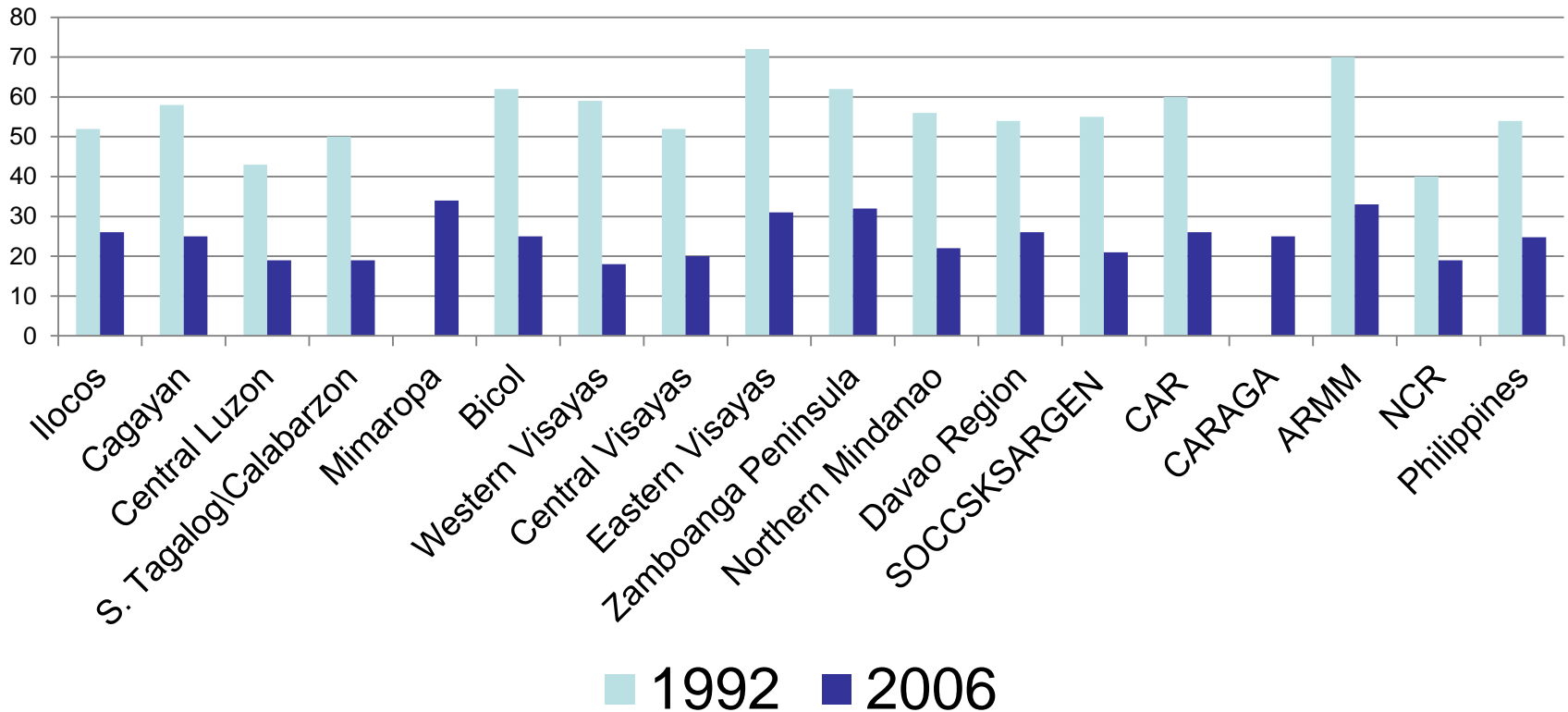
- Local governments units (LGUs) were given increased spending and revenue raising powers;
- Local government officials are assumed to be better attuned to the needs of their constituents;
- To help LGUs deliver devolved basic services, the national government gives 40% of its internal revenues annually as IRA

Policy Issue: Varied LGU Development Outcomes

- A Philippine public expenditure review by the World Bank (2011) showed
 - Slow regional income convergence;
 - Infant mortality rates and local road density are varied across regions;
- Sluggish progress in human development across provinces (Capuno 2007);

Varied Development Outcomes across Regions

Regional Infant Mortality Rates, 1992 and 2006
(per 1,000 live births)

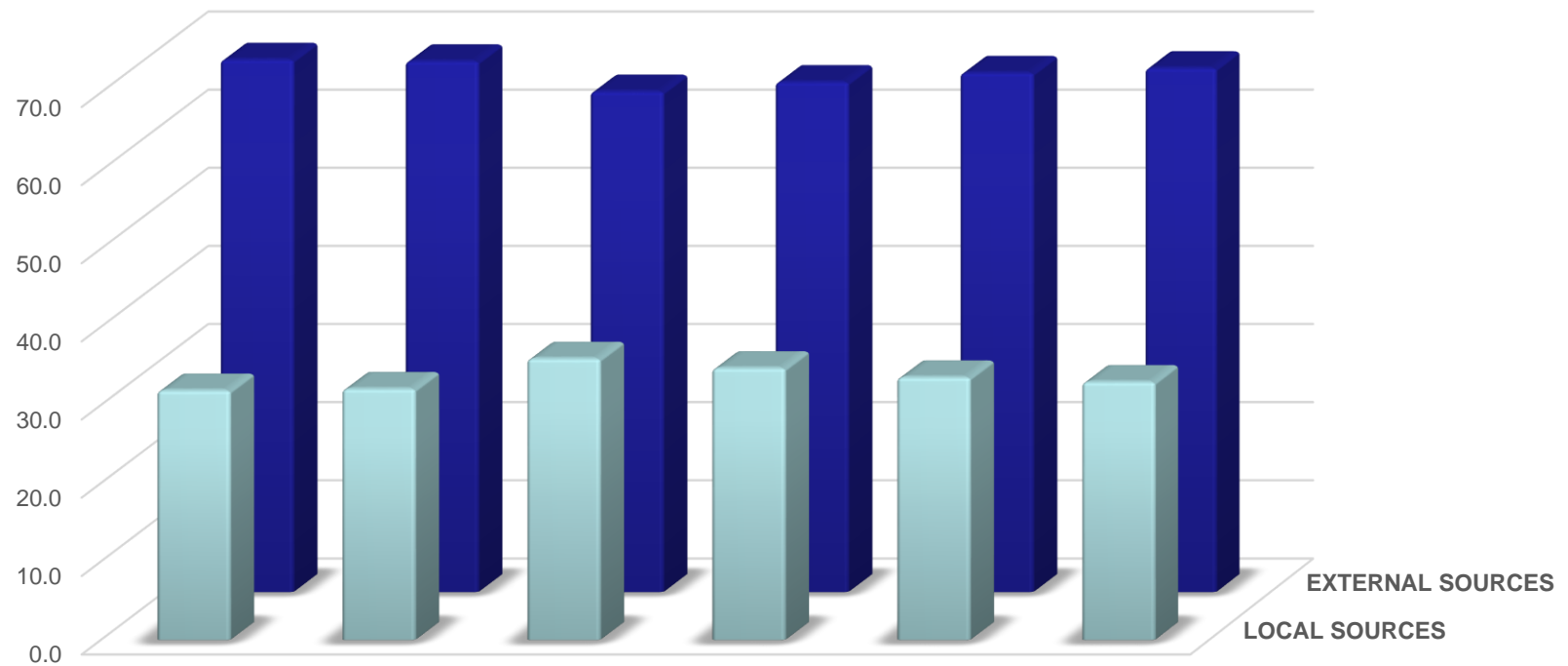


Policy Issue:

Varied Fiscal Performance

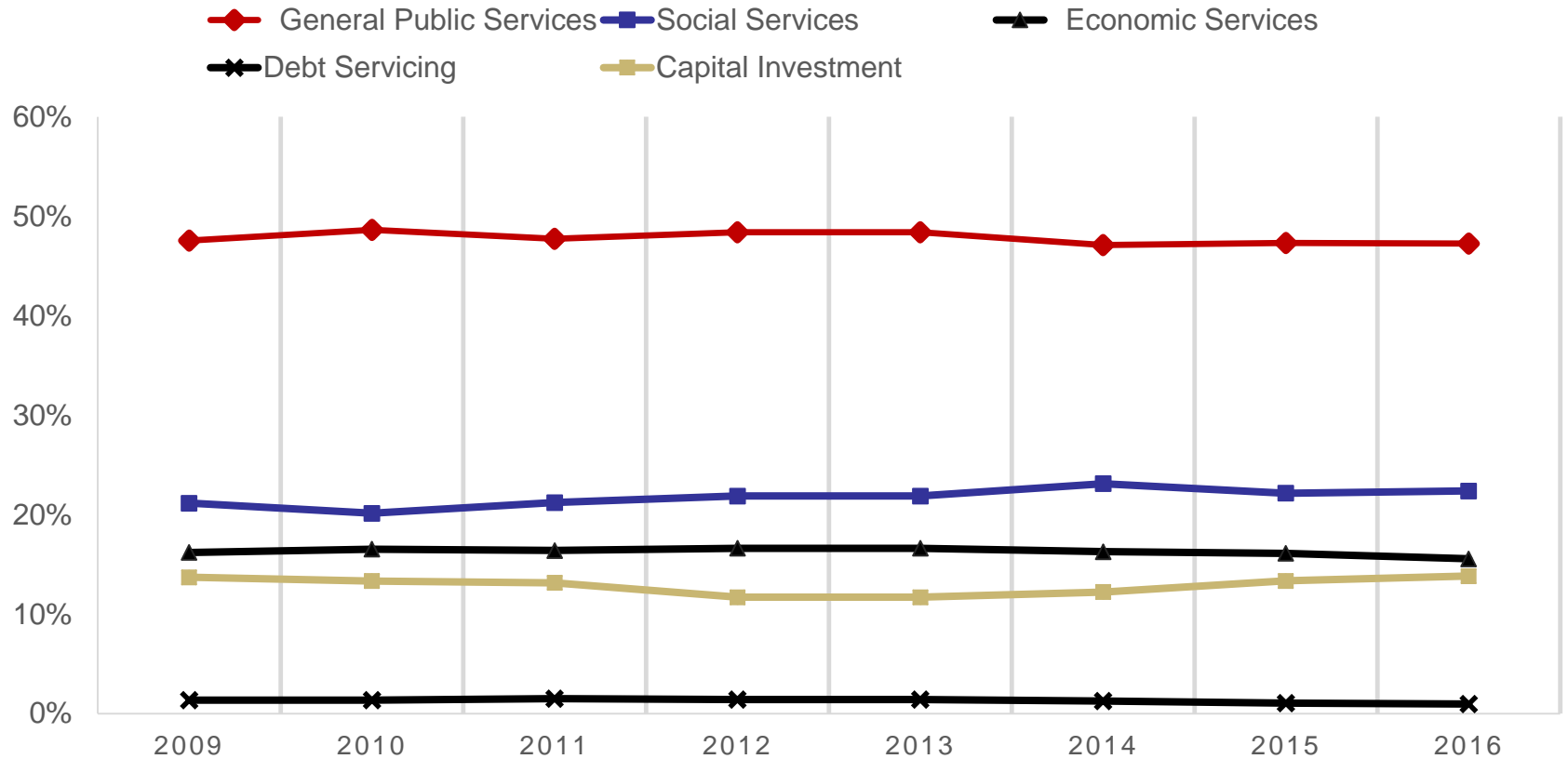
- Varied fiscal performance and service delivery across LGUs
 - Overall, locally-raised revenues as a proportion of LGU income remains low;
 - LGUs allocate the largest budget share to general public services with the shares of social and economic services leveling out over the past decade.

Distribution of Local and External Sources of Income of LGUs, 2009-2016



Source of basic data: Bureau of Local Government Finance

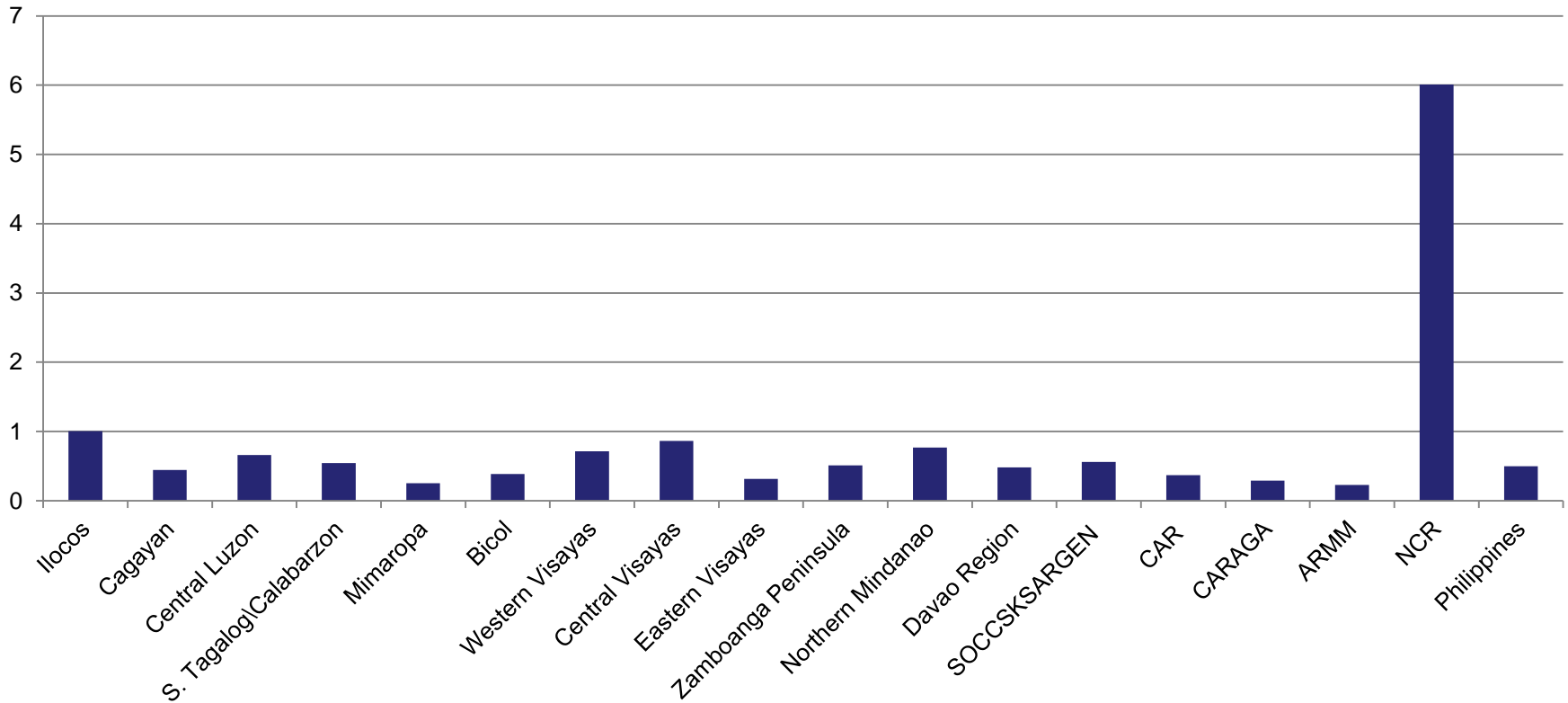
DISTRIBUTION OF LGU EXPENDITURES, BY SECTOR 2009 TO 2016



Source of basic data: Bureau of Local Government Finance

Varied Service Delivery across Regions

Density of Local Roads per Region, 2011
(km of local roads/square km of land)



SOURCE: WB2011

Possible Explanations

- Varied development might suggest
 - an inability of some LGUs to deliver basic services whether for fiscal or political reasons
 - differences in local preferences as expected with decentralization
- How does the literature explain uneven LGU development?
- Is there empirical evidence on this?

Fiscal Explanations

- Divergent fiscal capacities across LGUs;
- The IRA formula does not consider disparities in revenue raising capacity of LGUs (Manasan 2004; Llanto 2009);
- There is a mismatch in the expenditure responsibilities devolved to the different levels of LGUs (Manasan and Chaterjee 2003)

Political Explanations

- Political science literature suggests the presence of
 - Clientelism (Marshall 1998; Sidel 1999);
 - weak state (Crouch 1995; Coronel 2004; Hutchcroft 1991) and oligarchies (Rocamora 1995; Hutchcroft 1999);
 - coercion such as bossism and vote-buying (Sidel 1999; Rocamora 1995)
- Political economy offers that entrenched politicians and political dynasties (de Dios 2007)

Impact the design of public policy and LGU development.

Sparse Empirical Evidence: Local Development Outcomes

- Inconclusive evidence on the effect of political dynasties on provincial income growth (Balisacan and Fuwa, 2004; Balisacan, 2007);
- Mendoza et.al. (2016) found that political dynasties
 - In Luzon neither exacerbate nor reduce poverty but,
 - Do exert a significant and positive influence on poverty in the Visayas and Mindanao regions.

Sparse Empirical Evidence: Political Economy

- **Vote buying:** Khemani (2011) found that vote-buying was significantly, systematically and robustly related to both lower quality and availability of public health services.
- **Voter turnout:** Cruz, Labonne and Querubin (2017) found that candidates for public office are disproportionately drawn from more central families (in terms of accessibility of voters to the political dynasty candidate member) and family network centrality contributes to higher vote shares during the elections.
- **Dynastic Women:** Labonne, Parsa and Querubin (2017) show that in the Philippines, binding term limits constitute critical junctures in which dynastic women are 240% more likely to access political office.

Sparse Empirical Evidence: Political Economy

- There is higher economic service spending by incumbent governors who are members of political clans especially when faced with rival clans (Capuno, Fabella and Solon, 2009)
- Median income voters robustly prefer social welfare spending which are for redistributive rather than development purposes (Diokno-Sicat, 2017)
- Political terms have an effect on spending priorities of incumbent political dynasty members (Diokno-Sicat 2017).

Philippine Decentralization Index

- The decentralization index (Bahl and Bird 2018) measures the empowerment of local populations through the empowerment of their elected officials.
- It is computed based on the proportion of local government spending that the local chief executive has discretion over.
- Decentralization index (DE_j)

$$DE_j = \alpha LE_j / (LE_j + CE_j)$$

where, α is the percentage share of subnational government expenditures over which subnational governments have discretion.

Philippine Decentralization Index

- The estimated decentralization index is not significantly different than more traditional measures that show the contribution of local governments to national government expenditures.
- An important contribution is that the estimation showed that LGUs have an average of 72% discretion over LGU expenditures.
- This suggests though Philippine LGUs are mandated to allocate funds for certain purposes and operate within similar institutions, local policymakers have discretion to impact local development through fiscal policy.

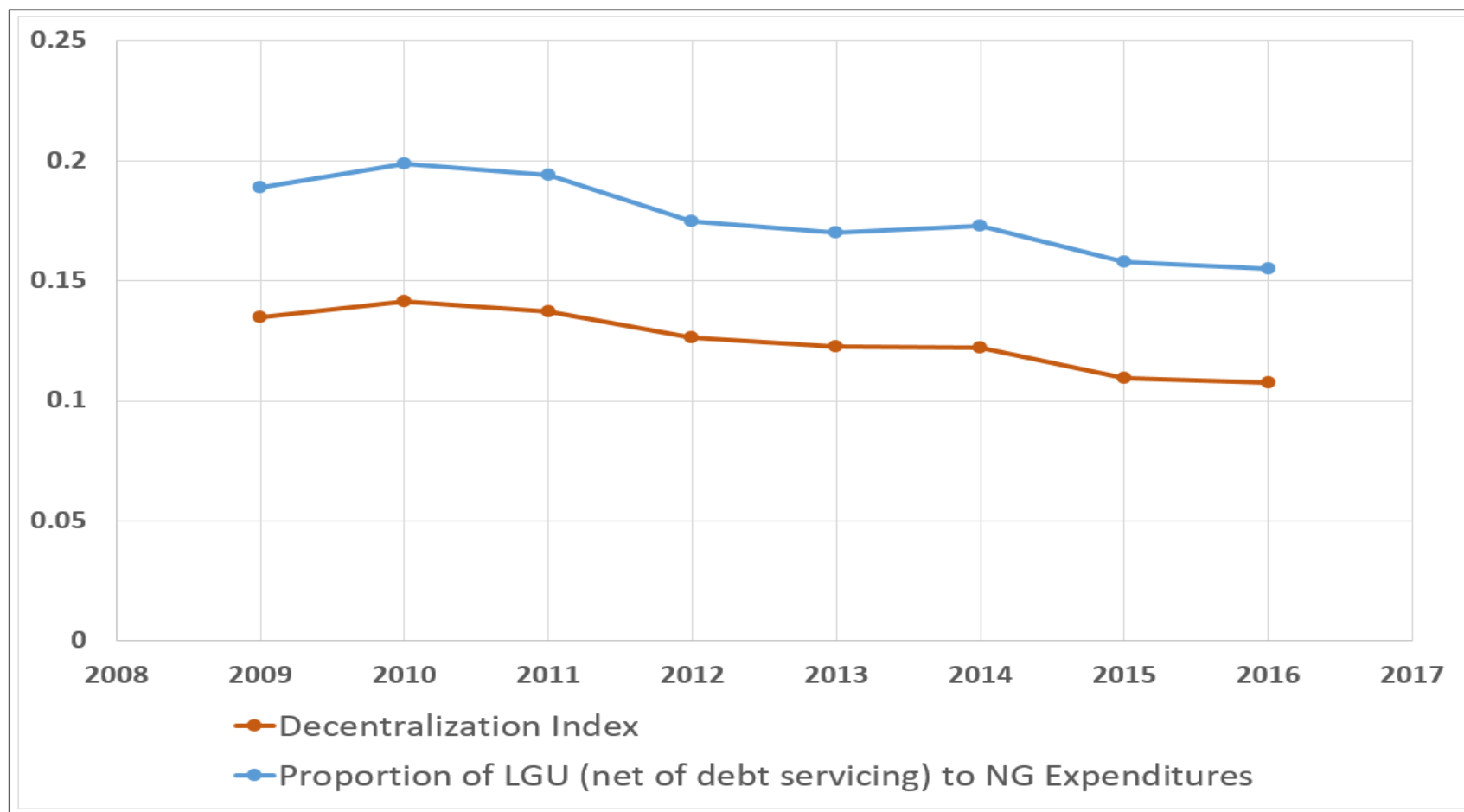
Philippine Decentralization Index

Year	α	Decentralization Index	Share of LGU Expenditures to Total National Government Expenditures
2009	0.73	0.13	18.88
2010	0.73	0.14	19.89
2011	0.72	0.14	19.40
2012	0.74	0.13	17.49
2013	0.74	0.12	16.01
2014	0.71	0.12	17.30
2015	0.70	0.11	15.77
2016	0.69	0.11	15.48

Source of basic data: Bureau of Local Government Finance; Department of Budget and Management

- Compared to the share of LGU to national government expenditures (averages 18.2%), the decentralization index is smaller, but they follow similar trend.
- The discretionary power of local policymakers, as presented by α , averages about 72% (Table 1).

Figure 5. Indicators of Philippine decentralization, 2009 to 2016



Source of basic data: Bureau of Local Government Finance; Department of Budget and Management

General Observations

- More research needs to be done to understand varied LGU performance in the Philippines.
- Despite the sparse empirical evidence, policymakers play a crucial role in local government performance and development. The estimated decentralization index highlighted an approximation of the proportion of discretionary local government expenditures that local policymakers are accountable.
- Explanations of varied fiscal capacity and evidence that some voters prefer goods/services that they receive directly such as transfers, appears to suggest the role of poverty and income inequality in shaping development outcomes across LGUs. This aspect is critical in determining ways to move forward in both research and policy.



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