

# SC IRA Ruling of April 2019, Fiscal Sustainability and Equity

PIDS Research Seminar

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# Overview of presentation

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- Background
- Objective of study
- Fiscal sustainability
- Jurisdictional equity
- Summary & recommendations

# Background

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- ❑ In Jan 2012, former Gov H. Mandanas filed a petition at the Supreme Court (SC)
  - Seeking to compel the national government (NG) to include the internal revenue taxes collected by the Bureau of Customs (e.g., VAT, excise taxes, documentary taxes) in computing the aggregate share of LGUs in national internal revenue taxes as provided under Section 284 of the 1991 LGC
  - Questioning the deduction of tax revenues earmarked for LGUs (or some subsets of LGUs) from the base used to compute the IRA (e.g., share of tobacco producing LGUs in excise tax on cigarettes), and other deductions( like the ½ of 1% of national taxes as auditing fee of the COA)

# Background

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- ❑ In Aug 2013, the late Rep E. Garcia Jr. file a petition at the SC
  - Seeking to compel the NG to compute the IRA on basis of all taxes, not only internal revenue taxes, as provided under Article X, Section 6 of the 1987 Constitution
  
- ❑ Both petitioners plead for the prospective application of the SC ruling should the latter agree with them that the present manner of computing the IRA does not give LGUs' a just share in national taxes
  - This would have meant that the NG will have to pay LGUs the difference between the IRA LGUs actually received and the higher IRA LGUs “deserve” from 1992 to the present

# Background

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- In July 2018 and which it re-affirmed in April 2019, the SC ruled that:
  - Aggregate IRA should be computed as 40% of all taxes
  - That the deductions from the IRA being questioned by Mandanas are valid
  - Application is prospective on the basis of the post-operative doctrine
  - That the increase in the IRA arising from this ruling will start in 2022

# Background

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- ❑ In Dec 2019, the Development Budget Coordinating Committee (DBCC) estimates the April 2019 SC ruling on the Mandanas-Garcia IRA petitions will cause:
  - Aggregate IRA in 2022 to increase from PhP 847.4 billion (if the old way of computing the IRA were followed) to PhP 1,102.7 billion or an increment of PhP 225.3 billion (or 0.9% of GDP)
  - More recent DBM estimates of increase in aggregate IRA in 2022: PhP 234.4 billion = 1,083 billion – 848.4 billion

# Objectives of the study

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Study aims to answer the following questions:

1. What are the options available to government that will allow it to allocate PhP 1,102.7 billion for the IRA in FY 2022 while keeping within the bounds of its medium-term fiscal program, i.e., while ensuring fiscal sustainability?
2. What is the impact, if any, of the manner by which the increase in the IRA resulting from the SC ruling on the Mandanas-Garcia IRA petitions on vertical and horizontal fiscal balance across the different levels of LGUs and within each level?

# Objectives of the study

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Study aims to answer the following questions:

3. How does one minimize the fiscal disparities across LGUs so as provide all LGUs the ability to “provide comparable levels of public services at comparable rates of taxation” (Boadway 2007)?
4. What policy instruments are available to government to ensure that national objectives are met given that an increasing proportion of total general government spending will be made by LGUs with significant funding coming from their IRA, a block grant?



# Fiscal sustainability - options

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1. Increase tax rate/s or impose new tax/es to generate additional government revenue equal to 0.9% of GDP in 2022 (plus an additional 0.35% of GDP in 2025, an additional 0.14% of GDP in 2028, an additional 0.05% of GDP in 2031, etc.) over and above incremental revenues from tax reform which were intended to fund “build, build, build”
  - Will not be easy; may not even be feasible
  - increase in tax effort equal to 0.5% of GDP yearly in 2018 and 2019, the passage of TRAIN notwithstanding

# Fiscal sustainability

Table 1. National Government Revenue, 2000-2019

Particulars	2000	2002	2004	2005	2006	2008	2009	2010	2011	2013	2015	2016	2017	2018	2019
Revenues	<u>514,762</u>	<u>578,406</u>	<u>706,718</u>	<u>816,159</u>	<u>979,638</u>	<u>1,202,905</u>	<u>1,123,211</u>	<u>1,207,926</u>	<u>1,359,942</u>	<u>1,716,093</u>	<u>2,108,956</u>	<u>2,195,914</u>	<u>2,473,132</u>	<u>2,850,184</u>	<u>3,137,498</u>
Revenue Effort	14.4%	13.8%	13.8%	14.4%	15.6%	15.6%	14.0%	13.4%	14.0%	14.9%	15.8%	15.2%	15.6%	16.4%	16.9%
Tax Revenues	<u>460,034</u>	<u>507,637</u>	<u>604,964</u>	<u>705,615</u>	<u>859,857</u>	<u>1,049,189</u>	<u>981,631</u>	<u>1,093,643</u>	<u>1,202,066</u>	<u>1,535,698</u>	<u>1,815,475</u>	<u>1,980,390</u>	<u>2,250,678</u>	<u>2,565,812</u>	<u>2,827,841</u>
Tax Effort	12.8%	12.1%	11.8%	12.4%	13.7%	13.6%	12.2%	12.1%	12.4%	13.3%	13.6%	13.7%	14.2%	14.7%	15.2%
BIR	360,802	402,742	470,329	542,697	652,734	778,581	750,287	822,623	924,146	1,216,661	1,433,302	1,567,214	1,772,321	1,951,850	2,175,506
BIR Tax Effort	10.1%	9.6%	9.2%	9.6%	10.4%	10.1%	9.3%	9.1%	9.5%	10.5%	10.8%	10.8%	11.2%	11.2%	11.7%
BOC	95,006	99,322	127,269	154,566	198,161	260,248	220,307	259,241	265,108	304,925	367,534	396,365	458,184	593,111	630,310
BOC Tax Effort	2.7%	2.4%	2.5%	2.7%	3.2%	3.4%	2.7%	2.9%	2.7%	2.6%	2.8%	2.7%	2.9%	3.4%	3.4%

# Fiscal sustainability - options

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2. Increase fiscal deficit by 0.9% of GDP yearly
  - Increasing fiscal deficit - likely to be fiscally sustainable in the short-term given that the country's NG debt-to-GDP ratio is lower than international benchmark,
  - But, implementing a more expansionary fiscal stance long term may be risky from a fiscal sustainability perspective

# Fiscal sustainability

Table 1. National Government Cash Operations, 2000-2019

Particulars	2000	2002	2004	2005	2006	2008	2009	2010	2011	2013	2015	2016	2017	2018	2019
<b>Revenues</b>	<b>514,762</b>	<b>578,406</b>	<b>706,718</b>	<b>816,159</b>	<b>979,638</b>	<b>1,202,905</b>	<b>1,123,211</b>	<b>1,207,926</b>	<b>1,359,942</b>	<b>1,716,093</b>	<b>2,108,956</b>	<b>2,195,914</b>	<b>2,473,132</b>	<b>2,850,184</b>	<b>3,137,498</b>
<i>Revenue Effort</i>	14.4%	13.8%	13.8%	14.4%	15.6%	15.6%	14.0%	13.4%	14.0%	14.9%	15.8%	15.2%	15.6%	16.4%	16.9%
Tax Revenues	460,034	507,637	604,964	705,615	859,857	1,049,189	981,631	1,093,643	1,202,066	1,535,698	1,815,475	1,980,390	2,250,678	2,565,812	2,827,841
<i>Tax Effort</i>	12.8%	12.1%	11.8%	12.4%	13.7%	13.6%	12.2%	12.1%	12.4%	13.3%	13.6%	13.7%	14.2%	14.7%	15.2%
<b>Expenditures, of which:</b>	<b>648,974</b>	<b>789,147</b>	<b>893,775</b>	<b>962,937</b>	<b>1,044,429</b>	<b>1,271,022</b>	<b>1,421,743</b>	<b>1,522,384</b>	<b>1,557,696</b>	<b>1,880,155</b>	<b>2,230,645</b>	<b>2,549,336</b>	<b>2,823,769</b>	<b>3,408,443</b>	<b>3,797,734</b>
<i>Expenditure Effort</i>	18.1%	18.8%	17.5%	17.0%	16.7%	16.5%	17.7%	16.9%	16.0%	16.3%	16.7%	17.6%	17.9%	19.6%	20.4%
Interest Payments	140,894	185,861	260,901	299,807	310,108	272,218	278,866	294,244	278,996	323,434	309,364	304,454	310,541	349,215	360,874
<i>IP to GDP ratio</i>	3.9%	4.4%	5.1%	5.3%	4.9%	3.5%	3.5%	3.3%	2.9%	2.8%	2.3%	2.1%	2.0%	2.0%	1.9%
<b>Surplus/(-)Deficit</b>	<b>-134,212</b>	<b>-210,741</b>	<b>-187,057</b>	<b>-146,778</b>	<b>-64,791</b>	<b>-68,117</b>	<b>-298,532</b>	<b>-314,458</b>	<b>-197,754</b>	<b>-164,062</b>	<b>-121,689</b>	<b>-353,422</b>	<b>-350,637</b>	<b>-558,259</b>	<b>-660,236</b>
<i>Surplus/(-)Deficit to GDP ratio</i>	-3.7%	-5.0%	-3.7%	-2.6%	-1.0%	-0.9%	-3.7%	-3.5%	-2.0%	-1.4%	-0.9%	-2.4%	-2.2%	-3.2%	-3.5%
<b>NG outstanding debt</b>	<b>2,166,710</b>	<b>2,815,468</b>	<b>3,811,954</b>	<b>3,888,231</b>	<b>3,851,506</b>	<b>4,220,903</b>	<b>4,396,640</b>	<b>4,718,171</b>	<b>4,951,188</b>	<b>5,681,153</b>	<b>5,954,537</b>	<b>6,090,262</b>	<b>6,652,430</b>	<b>7,292,500</b>	<b>7,731,290</b>
<i>NG debt as % of GDP</i>	60.5%	67.1%	74.4%	68.5%	61.4%	54.7%	54.8%	52.4%	51.0%	49.2%	44.7%	42.1%	42.1%	41.8%	41.5%
<b>External</b>	<b>1,098,510</b>	<b>1,344,266</b>	<b>1,810,734</b>	<b>1,723,938</b>	<b>1,697,428</b>	<b>1,806,475</b>	<b>1,926,599</b>	<b>1,999,969</b>	<b>2,077,831</b>	<b>1,947,731</b>	<b>2,070,157</b>	<b>2,156,165</b>	<b>2,211,170</b>	<b>2,515,641</b>	<b>2,603,390</b>
<i>% share to total NG debt</i>	50.7%	47.7%	47.5%	44.3%	44.1%	42.8%	43.8%	42.4%	42.0%	34.3%	34.8%	35.4%	33.2%	34.5%	33.7%
<b>Domestic</b>	<b>1,068,200</b>	<b>1,471,202</b>	<b>2,001,220</b>	<b>2,164,293</b>	<b>2,154,078</b>	<b>2,414,428</b>	<b>2,470,040</b>	<b>2,718,202</b>	<b>2,873,357</b>	<b>3,733,422</b>	<b>3,884,380</b>	<b>3,934,097</b>	<b>4,441,260</b>	<b>4,776,859</b>	<b>5,127,600</b>
<i>% share to total NG debt</i>	49.3%	52.3%	52.5%	55.7%	55.9%	57.2%	56.2%	57.6%	58.0%	65.7%	65.2%	64.6%	66.8%	65.5%	66.3%

# Fiscal sustainability - options

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3. Unfund some programs, activities and projects (PAPs) that are now funded under the General Appropriations Act (GAA) to create fiscal space for increase in IRA
  - → NG will have PhP 225.3 billion less budgetary resources with which to fund public services that it has been providing the public prior to the said SC decision
  - How can NG ensure no corresponding diminution in the delivery of public services even as its spending on its own account is reduced?
    - in selecting programs that will unfunded, choose programs/ services that are currently being funded under the budgets of some national government agencies from the GAA but which represent functions that are assigned to LGUs under the 1991 LGC → “redevolution”

# Fiscal sustainability – option 3

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How to choose programs, activities and projects (PAPs) that are now funded under the budgets of some NGAs in the (GAA) that may be “unfunded”

1. Identify PAPs in NGA budgets that may be found in the list of functions that are assigned to LGUs under Section 17 of the LGC

**Table 2. Functions assigned to different levels of LGUs under Section 17 of 1991 LGC and other special laws**

	<b>PROVINCES</b>	<b>MUNICIPALITIES</b>	<b>CITIES a/</b>	<b>BARANGAYS</b>
<b>AGRICULTURE EXTENSION AND ON-SITE RESEARCH SERVICES</b>	Agricultural extension and on-site research services and facilities which include the prevention and control of plant and animal pests and diseases; dairy farms, livestock markets, animal breeding stations, and artificial insemination centers; and assistance in the organization of farmers and fishermen's cooperatives, and other collective organizations, as well as the transfer of appropriate technology	Agriculture extension related to dispersal of livestock, poultry, fingerlings and seedlings; operation of demonstration farms, improvement of local distribution channels, interbarangay irrigation systems, enforcement of fishery laws	A L L  S E R V I C E S  P R O V I D E D  B Y  P R O V I N C E S  &  M U N I S	Agricultural support services which include planting materials distribution system and operation of farm produce collection and buying stations
<b>NATURAL RESOURCE MANAGEMENT SERVICES</b>	Enforcement of forestry laws limited to community-based forestry projects, small scale mining law and mini hydroelectric projects	Implementation of community-based forestry projects which include integrated social forestry programs and similar projects; management and control of communal forests with an area not exceeding fifty (50) square kilometers; establishment of tree parks, greenbelts, and similar forest development projects		
<b>ENVIRONMENTAL SERVICES</b>	Enforcement of pollution control law	Solid waste disposal system or environmental management system and services or facilities related to general hygiene and sanitation		
<b>HEALTH SERVICES</b>	Health services which include hospitals and other tertiary health services	Health services which include the implementation of programs and projects on primary health care, maternal and child care, and communicable and non-communicable disease control services, access to secondary and tertiary health services; purchase of medicines, medical supplies, and equipment needed to carry out the services herein enumerated		
<b>LOCAL INFRASTRUCTURE SERVICES</b>	Infrastructure facilities intended to service the needs of the residence of the province and which are funded out of provincial funds including, but not limited to, provincial roads and bridges; inter-municipal waterworks, drainage and sewerage, flood control, and irrigation systems; reclamation projects; Provincial buildings, provincial jails, freedom parks and other public assembly areas and similar facilities	Infrastructure facilities intended primarily to service the needs of the residents of the municipality and which are funded out of municipal funds including but not limited to, municipal roads and bridges; school buildings and other facilities for public elementary and secondary schools; clinics, health centers and other health facilities necessary to carry out health services; communal irrigation, small water impounding projects and other similar projects; fish ports; artesian wells, spring development, rainwater collectors and water supply systems; seawalls, dikes, drainage and sewerage, and flood control; traffic signals and road signs; Municipal buildings, cultural centers, public parks including freedom parks, playgrounds, and other sports facilities and equipment, and other similar facilities		

**Table 2. Functions assigned to different levels of LGUs under Section 17 of 1991 LGC and other special laws (continuation)**

	<b>PROVINCES</b>	<b>MUNICIPALITIES</b>	<b>CITIES a/</b>	<b>BARANGAYS</b>
<b>SOCIAL WELFARE SERVICES</b>	Social welfare services including programs for rebel returnees, relief operations and population development services	Social welfare services including child and youth welfare programs, family and community welfare programs, welfare programs for women, elderly and PWDs, community-based rehabilitation programs for vagrants, beggars, street children, juvenile delinquents, victims of drug abuse; nutrition services and family planning services	A L L	Social welfare services which include maintenance of day-care center
<b>HOUSING SERVICES</b>	Programs and projects for low-cost housing and other mass dwelling		S E R V I C E S	
<b>DRRM</b>	Disaster risk reduction and management programs	Disaster risk reduction and management programs	P R O V I D E D	
<b>SOLID WASTE MANAGEMENT</b>	Provide the necessary logistical and operational support to its component cities and municipalities; Coordinate the efforts of the component cities and municipalities in the implementation of the Provincial Solid Waste Management Plan;	Adopt specific revenue-generating measures to promote the viability of its Solid Waste Management Plan; Adopt arrangements for the the collection, transfer, storage, processing, recycling or disposal of municipal solid waste.	B Y	Collection and segregation of solid waste
<b>OTHERS SERVICES</b>	Tourism development and promotion programs	Tourism facilities and other tourist attractions, including the acquisition of equipment, regulation and supervision of business concessions, and security services for such facilities	P R O V I D E D	
	Intermunicipal telecommunication services			
		Information services which include investments and job placement information systems, tax and marketing information systems, and maintenance of a public library		Information and reading center
		Public markets, slaughterhouses, and other economic enterprise		Satellite or public market, where viable
		Public cemetery		
				M U N I C I P A L I T Y S
<b>PLANNING</b>	Adoption of comprehensive land use plan	Adoption of comprehensive land use plan		
<b>REGULATORY FUNCTIONS</b>		Regulation of any business, occupation or practice of profession within its jurisdiction		
		Enactment of integrated zoning ordinances and approve subdivision plans		



# Fiscal sustainability – option 3

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How to choose programs, activities and projects (PAPs) that are now funded under the budgets of some NGAs in the (GAA) that may be “unfunded”

1. Identify PAPs in NGA budgets that may be found in the list of functions that are assigned to LGUs under Section 17 of the LGC
  - Some of functions in Section 17 are stated in broad sectoral terms so that said functions may not appropriately be assigned to LGUs when considered in their entirety based on principles of expenditure assignment in the fiscal decentralization literature → need to unbundle/ deconstruct these broadly defined functions

# Fiscal sustainability – option 3

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How to choose programs, activities and projects (PAPs) for “unfunding”

2. Further narrow initial list of PAPs identified in #1 on the basis of the following principles of expenditure assignment in the fiscal decentralization literature
  - a. Functions and competencies whose benefits are local in scope should be assigned to local governments
  - b. Provision of public goods/ services that involve economies of scale are best assigned to higher level governments.
  - c. Functions that involve significant externalities (i.e., spillover of benefits outside of local jurisdictions) should be assigned to higher level of governments
  - d. Functions related to redistributive role of government are best assigned to the central government

**Table 3. List of devolved PAPs in budgets of National Government Agencies (NGAs) NGAs that may be unfunded and re-devolved to LGUs in 2022**

Agency	PAP	TOTAL APPROPRIATIONS - 2020 GAA LEVEL (in million pesos)	RELEVANT 1991 LOCAL GOVERNMENT CODE PROVISION	RESPONSIBLE LEVEL OF LGU
DA-OSEC	Agricultural machinery, equipment, facilities and infrastructures program - provision of agricultural equipment and facilities	2,039	Book I, Title I, Chapter II, Section 17 (b) (3) (i) Agricultural extension and on-site research services and facilities which include .... assistance in the organization of farmers and fishermen's cooperatives, and other collective organizations, as well as the transfer of appropriate technology;	Provinces
DA-OSEC	Irrigation network services (CO)	1,186	Book I, Title I, Chapter II, Section 17 (b) (3) (viii) Infrastructure facilities intended to service the needs of the residence of the province and which are funded out of provincial funds including, but not limited to, .... irrigation systems; ....	Provinces
DA-OSEC	Farm to market roads (FMR)	9,959	Book I, Title I, Chapter II, Section 17 (b) (1) (v) Maintenance of barangay roads and bridges and water supply systems; .... (vi) Infrastructure facilities such as multi-purpose hall, multipurpose pavement, plaza, sports center, and other similar facilities;	Barangays
DOH-OSEC	Human resources for health deployment	9,954	Book I, Title I, Chapter II, Section 17 (b) (2) (iii) Subject to the provisions of Title Five, Book I of this Code, health services which include the implementation of programs and projects on primary health care, maternal and child care, and communicable and non-communicable disease control services, ....;	Provinces/ Cities/ Municipalities
DOH-OSEC	Health Facilities Enhancement Program	8,484	Book I, Title I, Chapter II, Section 17 (b) (3) (iii) Subject to the provisions of Title Five, Book I of this Code, health services which include hospitals and other tertiary health services;	Provinces/ Cities/ Municipalities
DOH-OSEC	Social health protection program - assistance to indigent patients	10,483	Book I, Title I, Chapter II, Section 17 (b) (2) (iv) Social welfare services which include programs and projects on child and youth welfare, ... nutrition services, ...	Cities/ Municipalities
DSWD-OSEC	Supplementary feeding program	3,700	Book I, Title I, Chapter II, Section 17 (b) (2) (iv) Social welfare services which include programs and projects on child and youth welfare, family and community welfare, women's welfare, welfare of the elderly and disabled persons; community-based rehabilitation programs for vagrants, beggars, street children, scavengers, juvenile delinquents, and victims of drug abuse; livelihood and other pro-poor projects; ...	Cities/ Municipalities
DSWD-OSEC	Services for residential and center-based clients	1,869	Book I, Title I, Chapter II, Section 17 (b) (2) (iv) Social welfare services which include programs and projects on child and youth welfare, family and community welfare, women's welfare, welfare of the elderly and disabled persons; community-based rehabilitation programs for vagrants, beggars, street children, scavengers, juvenile delinquents, and victims of drug abuse; livelihood and other pro-poor projects; ...	Provinces

**Table 3. List of devolved PAPs in budgets of National Government Agencies (NGAs) NGAs that may be unfunded and re-devolved to LGUs in 2022 (continuation)**

Agency	PAP	TOTAL APPROPRIATIONS - 2020 GAA LEVEL (in million pesos)	RELEVANT 1991 LOCAL GOVERNMENT CODE PROVISION	RESPONSIBLE LEVEL OF LGU
DPWH	Construction/ repair/ rehabilitaition of various infrastructure including local infrastructure projects (VIILP)	164,784	Book I, Title I, Chapter II, Section 17 (b) (2) (viii) Infrastructure facilities intended primarily to service the needs of the residents of the municipality and	Provinces
			Book I, Title I, Chapter II, Section 17 (b) (2) (vii) Infrastructure facilities intended to service the needs of the residence of the province and which are funded	Cities/ Municipalities
LGSF	Provision for Potable Water Supply (SALINTUBIG)	1,550	Book I, Title I, Chapter II, Section 17 (b) (2) (viii) Infrastructure facilities intended primarily to service the needs of the residents of the municipality and which are funded out of municipal funds including but not limited to, municipal roads and bridges; ... artesian wells, spring development, rainwater collectors and water supply systems; ....	Municipalities
MMDA	Solid Waste Management Program	2,345	RA 9003 (Solid Waste Management Act) Section 10. Role of LGUs in Solid Waste Management. -- Pursuant to ther elevant provisions of R.A. No. 7160, otherwise known as the Local Government Code, the LGUs shall be primarily responsible for the implementation and enforcement of this Act in their respective jurisdictions. .... Section 44. Establishment of Common Waste Treatment and Disposal Facilities. – Pursuant to Sec. 33 of R.A. 7160, otherwise known as the Local Government Code, all provinces cities, municipalities and barangays, through appropriate ordinances, are	
ALGU	Barangay officials death benefits	50		Barangay
LGSF	Assistance to Municipalities	11,714		Municipalities
LGSF	Assistance to Cities	2,490		Cities
LGSF	Conditional Matching Grant to Provinces (CMGP) for Road Repair, Rehabilitation and Improvement	8,224		Provinces
LGSF	Other Financial Assistance to LGUs	8,753		Provinces/ Cities/ Municipalities
<b>TOTAL</b>		<b>247,583</b>		

# Fiscal sustainability – option 3

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- Total combined appropriation for all the PAPs included in **Table 3** in the 2020 GAA is equal to PhP 247.6 billion, higher than the projected increase in the IRA as a result of the SC IRA ruling by PhP 22.3 billion <sup>a/</sup>
  - Question that begs to be asked: Should the national government reallocate to other national government functions (e.g., build, build, build program) the PhP 22.3 billion that is in excess of the amount required to fund the increase in the IRA?
  - Short answer: No! Because additional financing is needed to address vertical and horizontal fiscal imbalance issues

a/ PhP 247.6 billion is higher than more recent estimate of increase in IRA due to SC IRA ruling by PhP 13.2 billion

# Vertical fiscal balance across different levels of LGUs

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- If one assumes that the national government is not only omniscient but also benevolent in the sense that its budget allocation decisions are aimed at maximizing the welfare of its citizenry (at least in the aggregate)
  - → it is important to ensure that LGUs continue to provide the services associated with the identified PAPs in **Table 3** when the funding for said PAPs is transferred to LGUs in the form of an increase in their IRA share;
  - for this to happen, the following conditions will have to be satisfied:
    1. the increase in IRA of all LGUs in the aggregate should be enough for them to deliver the same level of services that were made available to their constituents prior to the effectivity of the SC IRA ruling
    2. LGUs should prioritize the services associated with the unfunded PAPs when they allocate their budget

# Vertical fiscal balance across different levels of LGUs

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Given this background:

1. To verify if the first condition outlined above is met, we assigned the 2020 GAA appropriations for the PAPs that are proposed to be re-devolved to LGUs notionally to provinces, cities and municipalities in a manner that is consistent with Section 17 of the LGC → Table 4
2. A comparison of the aggregate amount assigned to each level of LGU with the increase in the IRA share of each level of LGU in 2022 provides evidence of vertical fiscal imbalance across different levels of LGUs

**Table 4. Allocation to different level of LGUs of the amount of appropriations for PAPs that will be re-devolved**

	All LGUs	Provinces	Cities	Munis	Barangays
Agri machinery, equipmet, facilities	2,038.9	2,038.9			
Irrigation network services	1,185.8	1,185.8			
Farm-to-market roads	9,958.5				9,958.5
Health HR deployment <sup>a/</sup>	4,880.8	2,048.3	811.1	2,021.4	
HFEP <sup>a/</sup>	13,557.1	3,327.5	1,786.0	8,443.5	
Soc health assistance	10,483.5		8,209.1	2,274.4	
Feeding program	3,700.4		2,897.6	802.8	
SW residential care	1,869.2	1,869.2			
DPWH VIILP	138,629.3	74,979.6	27,783.0	35,866.8	
Salintubig	1,549.6			1,549.6	
MMDA-SWMP	2,345.3		2,345.3		
Death benefits of barangay officials	50.0				50.0
<b>Total</b>	<b>190,248.5</b>	<b>85,449.3</b>	<b>43,832.1</b>	<b>50,958.6</b>	<b>10,008.5</b>
<b>Notional share of PCMB in re-devolved spending of NGs (PhP 225.3 billion)</b>		37.9	19.5	22.6	4.4
<b>LGU share in increas in IRA as provided in Section 285 of the 1991 LGC</b>		23.0	23.0	34.0	20.0

a/ The combined total amount for health HR deployment and HFEP that is shown in this table is equal to the combined appropriations for these PAPs in Table 3



# Vertical fiscal balance across different levels of LGUs

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- ❑ Vertical fiscal imbalance across different levels of LGUs indicated by:
  - Net incremental IRA transfer is negative for provinces and cities (more severe for the former compared to latter)
  - Net incremental IRA transfer is positive for municipalities and barangays (larger for the latter compared to the former)
- ❑ Net resource transfer (for the entire IRA) found to be negative for provinces and municipalities and positive for cities in 1995-1999 (Manasan 2005)
- ❑ Prospectively, there is a need for a more comprehensive evaluation of vertical fiscal balance issue

## **Horizontal balance across individual LGUs within each level of local government also evident**

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- ❑ Next, study evaluates whether individual LGUs( at the provincial, city and municipal level) will have the fiscal capacity (as measured by the incremental IRA they will receive as a result of the SC IRA ruling) that will allow each one of them to provide comparable level of services related to the PAPs that are proposed to be re-devolved to them

# Horizontal balance across individual LGUs within each level of local government

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- ❑ To verify existence of horizontal fiscal imbalance ...
  - Step 1: amounts assigned to the different levels of LGUs in **Table 4** are allocated notionally to individual LGUs within each level on the basis of some objective measure of need at the subnational level that are relevant to these PAPs (**Table 5**)
    - There is no attempt here to replicate how NGAs allocate their spending on the PAPs to regional/ sub-regional level
    - approach here is to initially estimate how much is needed to fund specified needs if funding is unlimited, then to calibrate amount of funding “assigned” to individual LGUs on the basis of how much funding is actually available
  - Step 2: compute net incremental resource transfer per LGU = increase in its IRA less total amount LGU needs if it were to have the fiscal capacity to provide comparable level of re-devolved services

**Table 5. Basis for the allocation to individual LGUs of the amounts appropriated in the 2020 GAA for the PAPs that are proposed to be re-devolved to fund the increase in the IRA**

	Provinces	Cities	Munis	Barangays	Basis for distn across individual LGUs within each level
Agri machinery, equipmet, facilities	x				number of farmers in region + number of poor popn within each region
Irrigation network services	x				number of farmers in region + number of poor popn within each region
Farm-to-market roads				x	length of barangay road in province + number of poor popn within each
Health HR deployment <sup>a/</sup>	x	x	x		number of health facilities (hospital beds/ RHU/ BHS) needed to reach specified targets + associated staffing required + unit cost of the same
HFEP <sup>a/</sup>	x	x	x		number of health facilities (hospital beds/ RHU/ BHS) needed to reach specified targets + associated staffing required + unit cost of the same
Soc health assistance		x	x		number of poor popn
Feeding program		x	x		number of poor popn
SW residential care	x				number of poor popn
DPWH VIILP	x	x	x		length of local roads + cost of preventive maintenance
Salintubig			x		number of poor popn
MMDA-SWMP		x			number of LGU population
Death benefits of barangay officials				x	

# Horizontal balance across individual LGUs within each level of local government is evident

**Table 6. Number of LGUs whose IRA increase is less than what they would need if they were to provide comparable level of re-devolved PAPs services**

	<b>Number</b>	<b>% of total no. of LGUs</b>
<b>Provinces</b>	66 out of 81	81.5
<b>Cities</b>	43 out of 145	29.7
<b>Municipalities</b>	161 out of 1,489	10.8

- In comparison, net resource transfer (for entirety of IRA) in 1999 was found to be negative in 50 out of 79 provinces (or 63.1%), 28 out of 83 of cities (or 33.7%), and 893 out of 1,525 municipalities (or 58.6%) – Manasan (2005)
- Prospectively, there is a need to more comprehensive evaluation of horizontal fiscal balance issue to address jurisdictional equity concerns

# Horizontal balance across individual LGUs within each level of local government

Table 7a. Provinces ranked in terms of the per capita net resource transfer (relative to increase in IRA)

	in pesos		in pesos
<b>Top 10 among provinces</b>		<b>Bottom 10 among provinces</b>	
Batanes	4,577	Mountain Province	-3,229
Dinagat Islands	1,135	Abra	-2,752
Biliran	697	Palawan	-2,346
Northern Samar	306	Misamis Oriental	-1,993
Aurora	278	Siquijor	-1,950
Rizal	234	Quirino	-1,905
Laguna	143	Compostela Valley	-1,890
Bulacan	107	Apayao	-1,854
Quezon	70	Ilocos Norte	-1,490
Pampanga	61	Oriental Mindoro	-1,444

- Horizontal imbalance indicates need for equalization grants

# Horizontal balance across individual LGUs within each level of local government

**Table 7c. Municipalities ranked in terms of the per capita net resource transfer (relative to increase in IRA)**

	in pesos		in pesos
<b>Top 10 among municipalities</b>		<b>Bottom 10 among municipalities</b>	
Kalayaan, Palawan	125,150	Botolan, Zambales	-2942
Uyugan, Batanes	5,673	Candelaria, Zambales	-2626
Daguioman, Abra	5,596	Palauig, Zambales	-2137
Ivana, Batanes	5,501	San Marcelino, Zambales	-2117
Barlig, Mt. Province	4,927	Nueva Era, Ilocos Norte	-2113
Mahatao, Batanes	4,705	Santa Cruz, Zambales	-2042
Bucloc, Abra	4,362	Masinloc, Zambales	-1897
Calanasan (Bayag), Apayao	4,082	Cabangan, Zambales	-1721
Dinapigue, Isabela	4,058	Mabini, Pangasinan	-1539
Lacub, Abra	3,898	San Antonio, Zambales	-1509

- Horizontal imbalance indicates need for equalization grants

# Horizontal balance across individual LGUs within each level of local government

**Table 7b. Cities and municipalities ranked in terms of the per capita net resource transfer (relative to increase in**

	in pesos		in pesos
<b>Top 10 among cities</b>		<b>Bottom 10 among cities</b>	
Santiago	3,274	Kabankalan	-2,523
Ilagan	3,129	Sipalay	-2,488
Tabuk	2,820	Bislig	-2,251
Bayugan	2,230	Pagadian	-1,749
Palayan	2,207	San Carlos, Negros Occ	-1,475
Puerto Princesa	1,955	Island Garden City of Samal	-1,416
Candon	1,869	Gen. Santos	-1,190
Dapitan	1,793	Ligao	-1,167
Mati	1,708	Tandag	-1,088
Bais	1,683	Baybay	-1,086

- Horizontal imbalance indicates need for equalization grants



## To conclude:

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- ❑ **Question:** Should the national government reallocate to other national government functions (e.g., build, build, build program) the PhP 22.3 billion that is in excess of the amount required to fund the increase in the IRA?
- ❑ **Answer:** Use this amount to implement
  1. equalization grant to address horizontal fiscal imbalance
  2. NG counterpart in conditional matching grant or cost-sharing arrangement that will incentivize LGUs to spend in a manner that is consistent with national priorities/objectives

## To conclude:

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- ❑ In addition to NG cost-sharing mechanism, other mechanisms that will encourage LGUs to prioritize spending on national objectives/ merit goods include:
  - **Creating local demand for devolved services –**
    - Raising public awareness on functional assignment of NG vs LGUs
    - citizen/ CSO participation in local planning & budgeting



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*Surian sa mga Pag-aaral Pangkaunlaran  
ng Pilipinas*

Service  
through  
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# Thank you

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Thank You!

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# Fiscal sustainability – option 3

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How to choose programs, activities and projects (PAPs) for “unfunding”

2. Unbundle some of the functions in Section 17 of LGC into their components for the purpose of assigning the components of broad functions across different levels of government
  - a. By distinguishing whether sub-function refer to provision of services whose benefits are national or local in scope
  - b. By distinguishing into sub-competencies, e.g. basic education, post-secondary education, tertiary education
  - c. By distinguishing along management functions – policy setting, standard setting, implementation

# Epilogue:

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- Review of more updated data suggests that increase in IRA arising from SC ruling is larger than initially estimated – PhP 260.1 billion vs earlier estimate of PhP 225.3 billion
  - → need to identify additional PAPs for unfunding and redevolution to LGUs worth PhP 12.5 billion = PhP 260.1 billion less PhP 247.6
  - Also need additional funding for equalization grants and conditional matching grants to address jurisdictional equity issue and to incentivize LGUs to spend on “right”/ “needed” programs