

**COMMENTS ON SENATE BILL NO. 40 (SEN. LACSON) AND SENATE BILL NO. 1065  
(SEN. VILLANUEVA)**

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1. The explanatory note to Senate Bill (SB) 40 states that its intent is “to institutionalize rational and equitable budget distribution for LGU development for them to be active participants in nation building.” The explanatory note to SB 40 also notes that total allocation to LGUs (including IRA plus all other transfers) represents a mere 16.8% of the total NG budget in 2014. It further points that the unused appropriations of NG departments and agencies have been significant at 26.2% of their total regular budget.
  2. On the other hand, explanatory note to SB 1065 states that “to address the scarce resources faced by many LGUs, the bill seeks to provide additional funding for local governments....” and that the additional “allotment seeks to supplement the resources currently available to local governments.”
  3. SB 40 proposes to provide provinces, cities, municipalities and barangays additional allocation equal to:
    - Provinces – PhP 500 million to PhP 1 billion per province per year;
    - Cities – PhP 100 million to PhP 200 million per cities per year;
    - Municipalities – PhP 50 million to PhP 100 million per municipality per year; and
    - Barangays – PhP 3 million to PhP 5 million per barangay per year.
  4. On the other hand, SB 1065 proposes to provide LGUs additional transfers as follows:
    - Provinces – PhP 50 million to PhP 100 million per province per year;
    - Cities – PhP 10 million to PhP 20 million per city per year;
    - Municipalities – PhP 5 million to PhP 10 million per municipality per year; and
    - Barangays – PhP 1 million to PhP 3 million per barangay per year.
- In addition, SB 1065 proposes to calibrate the additional yearly allocation to LGUs on the basis of the LGU income class:
- i. 50% of prescribed amount for each LGU belonging to 1<sup>st</sup> income class;
  - ii. 60% of prescribed amount for each LGU belonging to 2<sup>nd</sup> income class;
  - iii. 70% of prescribed amount for each LGU belonging to 3<sup>rd</sup> income class;
  - iv. 80% of prescribed amount for each LGU belonging to 4<sup>th</sup> income class;
  - v. 90% of prescribed amount for each LGU belonging to 5<sup>th</sup> income class; and
  - vi. 100% of prescribed amount for each LGU belonging to 6<sup>th</sup> income class;

5. In line with their stated objectives, SB 40 and SB 1065 will both increase national government (NG) transfers to LGUs. The additional NG transfers to LGUs will range from a low of PhP 255.5 billion (or 52.4% of the 2017 IRA of PhP 486.9 billion) to a high of PhP 469.0 billion (or 96.3% of the 2017 IRA) under SB 40. On the other hand, the additional NG transfers to LGUs under SB 1065 will range from a low of PhP 71.9 billion (or 14.8% of the 2017 IRA) to a high of PhP 134.3 billion (or 25.6% of the 2017 IRA).
6. Given the size of the incremental NG spending if SB 40 or SB 1065 were to be implemented, fiscal prudence dictates that the funding source for these proposals be identified upfront (either from increase in tax revenues or a reduction in NG spending, say reduction in NG spending on devolved functions like DPWH spending on various local infrastructure).
7. Both SB 40 and SB 1065 uses the term “Local Development Fund” to refer to the yearly allocation for the increased NG transfers to LGUs that will be provided under these proposals. There might be a need to use another term to avoid confusion. Note that it is common usage among LGUs to use the term “Local Development Fund” to refer to the so-called 20% Development Fund, i.e., the amount that LGUs are mandated to set aside from their total IRA allocation for development projects listed in their Local Development Plan.
8. Earlier studies that while some LGUs have access to too little revenues (in terms of both IRA share and potential own-source revenues) relative to their expenditure requirements given the functions that are devolved to LGUs under the 1991 Local Government Code, the opposite is true in the case of other LGUs. These studies suggest that additional NG transfers have a disincentive effect on generation of own-source revenues in the case of LGUs whose “fiscal capacity” (measured in terms of their IRA share and potential own-source revenues) exceeds their expenditure needs. On the other hand, the delivery of devolved basic services tends to suffer in LGUs whose “fiscal capacity” is not sufficient to cover the requirements of their expenditure needs. These studies indicate that if additional NG transfers were to be provided to LGUs, the allocation of these additional NG transfers should be such that LGUs which have higher “net” fiscal capacity than others should receive less funding from the pool of additional NG transfers so as to improve the “equalization” character of NG transfers to LGUs.



9. Relative to point # 8 above, SB 1065 scores better than SB 40 in terms of having considered the need for “equalization” in the allocation of additional NG transfer (refer to the provision of SB 1065 mandating higher additional NG transfers to LGUs belonging to poorer LGU income classes). However, it should be noted that LGU income classification has not been updated since 2008. Moreover, LGU income class may not be a good indicator of fiscal need given that the LGU income classification is based on total LGU income. Thus, big LGUs (i.e., big in terms of land area or big in terms of population) tend to belong to the 1<sup>st</sup>/ 2<sup>nd</sup>/ 3<sup>rd</sup> LGU income class.
10. A number of additional issues should perhaps be considered to strengthen performance orientation of the additional transfers:
  - Seal of Good Financial Housekeeping
  - Absorptive capacity of LGUs
  - Revenue generating capacity (specifically, collection efficiency of own-source revenue) – importance of LGUs being able to raise significant amount of own-source revenue if LGUs are to be accountable to their local constituents [Related to this, there is a need to give LGUs broader taxing powers, particularly provinces and municipalities.]
  - Greater participation of CSOs/ POs in LGU planning and monitoring of local development projects