Unregulated Central-Local Structures of Power:  
The Politics of Fiscal Decentralization  
in the Philippines

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Abstract:

Across the broad issues of decentralized governance in the Philippines, the process of fiscal decentralization continues to require thoroughgoing analysis vis-à-vis the incessant protests against purportedly unfair distribution and use of the country’s fiscal resources. This paper analyzes the institutional framework defining the country’s intergovernmental fiscal relations that would highlight the critical role of central-local political structures in shaping fiscal decentralization. It examines how the policy standardization, resource coordination and allocation, and monitoring and evaluation in the country’s intergovernmental finance affect the distribution, generation and use of fiscal resources. Key issues noted include: 1) limited devolution of budget; 2) constrained intergovernmental fiscal transfer system (insufficient and unlawful allocation of funds; lack of transparency and exercise of discretionary powers in the use of fiscal resources); and 3) low levels of local revenue generation. These issues intersect along a contradiction of powers between the local and central government politicians which predominates in an intergovernmental fiscal structure evaluated in this study as lacking in meaningful institutionalization. The basic paradigm of this paper is based on the assumption that decentralization as a political process can best be operated within the framework of centrally-led institutionalization.

1. Introduction

The imperative for good government has come to the fore of international development agenda amid a growing recognition of the enduring relevance of capable states in the context of on-going global structural rearrangements. Political and economic reformers are taking renewed interest on the varying strategies toward public sector capacity-building to increase efficiency, effectiveness and responsiveness of government performance. A predominant initiative for bureaucratic resilience adhered to by many countries, including the Philippines, is decentralization. The continuing persistence of decentralization in the Philippines is defined by two major forces: 1) internal demands for re-democratization along the principle of subsidiarity and participatory development; and 2) global institutional pressures (Tillah, 2005). Through such forces, the decentralization process has been intrinsically built in the democratic governance agenda of the country defining its bureaucratic

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* My sincere gratitude to my Adviser Dr. Hirotsune Kimura for his guidance and to my referees for sharing their expertise to improve my draft. This paper is dedicated to my sister Nice who had bravely embraced life.
architecture. Thus, policy makers and political scientists are continually faced with the challenge of redesigning frameworks and strategies to make the decentralized system effective.

One of the many lessons learned from the vast experiences and experimentations with decentralization across country contexts, is that the central government plays a critical role in the implementation of decentralized governance. Turner and Hulme have argued that “the central government must retain a core of functions over essential national matters and ultimately has the authority to redesign the system of government and to discipline or suspend decentralized units that are not performing effectively” (Turner and Hulme 1997: 154). Critical responsibilities such as establishing procedures and standards, coordinating responsibilities and funds, monitoring performance and efficiencies, and ensuring accountabilities essentially continue to require central leadership and direction. The Philippine decentralization, where a contradiction of powers between the local and the central government politicians is predominant, makes a critical case for analysis.

Various accounts would argue that the central government continues to hold the reigns of power over the bureaucracy. Kimura noted that in many countries including the Philippines, “decentralization has been implemented within the framework of centralization” (Kimura 1999: 3). Other studies would argue that Philippine central politicians across regimes have well imposed structural manipulations and administrative constraints to weaken local power and accumulate and control broader shares of national resources (Agra 2000; Gatmaytan 2001; Brillantes 2003; GTZ 2005). Yet, the endurance of traditions of local bossism and local political dynasties that exert influence on central structures continues to prevail. This contradiction of power is most stark in the process of fiscal decentralization. From across the broad issues of decentralized governance, the intergovern-mental fiscal relations have been wrought with the most intense battles among politicians. Despite volumes of accumulated studies on Philippine fiscal decentralization, the debates and protests against unfair and unlawful allocations remain unabated. Taking off from these contentions, this paper puts into perspective the power struggle between the local and central government politicians and analyzes such political dynamics in the context of the prevailing institutional structures enforced by the central bureaucracy. The units of analysis used in this paper in evaluating the extent of central institutionalization focus on policy standardization, resource coordination and allocation, and monitoring and evaluation in the country’s intergovernmental finance.

In principle, the central government carries the burden to institutionalize policy systems and standardization that hold all stakeholders accountable to the rule of law. This study evaluates that while the Philippine central government continues to assert substantial control over authority and resources, there has been no parallel strength in the policy enforcement, coordination and standards
monitoring expected of higher agencies to facilitate accountabilities and efficiencies. It argues that while the Local Government Units (LGUs) have their share of liability in their own fiscal incapacity, the Philippine central government also takes critical responsibility in impeding the fiscal decentralization process in the country. Critical issues pointing to the lack of central institutionalization in intergovernmental finance include limited and unclear framework of devolution, irregular allocations, continued impositions of arbitrary budgetary cuts and constraints, prevailing control of discretionary funds by Congressmen and other central politicians, and lack of standardized monitoring and evaluation of LGU fiscal performance.

2. Framework

This paper is guided by the framework of centrally-led institutionalization in decentralization. It is a system wherein central authorities effectively enforce legal procedures and standards towards an integrated and comprehensive synchronization, broad inclusion and holistic coordination and monitoring in decentralized governance. Various accounts underscored that decentralization is a crucial task and challenge not only for local governments and civil society but also for the central government and its agencies (Mullins 2004; Brilliantes Jr. 2003 and 1999; Hutchcroft 2001; Bird 2000 and 1998; Smoke 2000; Bird and Rodriguez 1999; Kimura 1999; Turner and Hulme 1997; Rocamora 1995). Bird argued in one of his papers that “decentralization of a function does not mean that the central government no longer has responsibility over the area. What it means is rather that the nature of central responsibility has changed from direct service delivery to regulating and monitoring the efficiency and equity of the services delivered by local governments” (Bird 1998: 41). Essentially, the central government is a major force to reckon with if we are to promote decentralization and plays a major responsibility to institutionalize policy structures.

Beginning with Nelson Polsby, institutionalization began to be used to analyze policy structures and implementation systems within modern governments. Institutionalization would require that the processes are stable, non-arbitrary and generally understood (conforming to consistent rules, regular and predictable, not covert). Favoritism and nepotism are replaced by a merit system, and impersonal codes supplant personal preferences. Essentially, to operationalize the notion of an institutionalized polity, the main attribute that is easily measured across polities is stability (constancy, endurance, regularity, non-variance, etc.). Institutionalization minimizes uncertainty and enhances the credibility of the government’s policy commitments. It promotes transparency and accountability that discourages arbitrary, irregular and politically-motivated decisions and power play. Stakeholders can have confidence that laws enacted are effectively implemented and pursued over the long haul (in Gerring and Thacker 2005).
Douglass North defines **institutions** as “rules of the game in a society; ... the humanly devised constraints that shape human interaction...” (North 1999). In the public sphere, institutions create checks and balances, facilitate political cooperation, and reduce political uncertainties. An institutionalized polity is more or less equivalent to a polity with strong institutions. Huntington writes: “A society with weak political institutions lacks the ability to curb the excesses of personal and parochial desires...” (*Huntington 1965 in Gerring and Thacker 2005*). A later work by Jackson and Rosberg explains, with reference to African polities in the 1980s that:

“The opposite of institutional rule... is non-institutionalized government, where persons take precedence over rules, where the office holder is not effectively bound by his office and is able to change its authority and powers to suit his own personal or political needs. In such a system of personal rule, the rulers and other leaders take precedence over the formal rules of the political game: the rules do not effectively regulate political behavior...” (*Jackson and Rosberg 1982 in Gerring and Thacker 2005*)

On the specific issue of intergovernmental finance, certain authors argue that institutionalization led by the central government proves to be critical. Bird stressed that “…a key question is the ability of central governments to conduct sound macroeconomic policies and the incentives for local governments to behave in a fiscally responsible way” (*Bird 2000: 1; 1998: 1*). Bird explains that the critical responsibility of maintaining macroeconomic stability lies in the hands of the central government. “…since local governments do not control monetary policy, even the most irresponsible local politicians can cause macroeconomic problems only when their actions are in some way validated by central authorities...While decentralization may complicate macroeconomic management, it does not and cannot shift the final responsibility from the central government” (*Bird 2000: 18; 1998: 35*).

Due to a wide range of actors and institutions involved in decentralization, harmonization of policies becomes crucial. Smoke argued that “effective decentralization... requires more elaborate means of coordination... by a neutral agency... or higher level entity... to take charge... and formalize... and monitor... responsibilities” (*Smoke 2000: 21*). The need for clarity of roles between levels of government is also identified to be critical in efficient coordination. “Roles should be stable and transparent. Overlapping responsibilities often lead to expenditure dumping or unfunded mandates. Clarity is defined via legal and institutional structures” (*Mullins 2004: 14*).

Moreover, the revenue generation behavior of local governments would depend highly on the regulation policies of the central government. Bird argued that “decentralization has its risks, especially when revenues are decentralized without adequate steps being taken to ensure that local revenue mobilization is maintained and that local authorities are capable of carrying out the
corresponding expenditure responsibilities.... decentralization should be coupled with hard budget constraints, combined with incentive-compatible rules. The ‘carrot’ of central financial support of local efforts must be accompanied by the ‘stick’ of withdrawn support if performance is inadequate... unless central agencies monitor and evaluate local performance there can be no assurance that functions of national importance will be adequately performed once decentralized. An important counterpart to any top-down decentralization program is the improvement in national evaluation capacity.” (Bird 2000: 26; 1998: 40).

Hutchcroft validated Bird’s arguments by stressing that local governments that are not subjected to detailed guidance and regulation may not have the capacity to handle critical responsibilities “particularly where powerful local bosses effectively challenge the authority of the central government...(and) where local bosses wield substantial coercive power, devolution may end up promoting forces hostile to democracy... developmental objectives can be hindered by systems that merely end up strengthening those who already monopolize local resources - (in such case) the central government may be the only institution in the entire country able to democratize access to resources at the local level” (Hutchcroft 2001: 42).

3. The Premise: Patrimonial Political Ties

Decentralization has been upheld in the Philippines to promote democratization and broaden participation of various stakeholders in governance. Based upon an assumption that bringing authority and responsibility closer to the constituents is inherently more democratic, the Philippines redefined its bureaucratic structure to accommodate effective participation of lower levels of government in public service delivery. Such administrative reform, however, has been wrought with serious limitations in terms of the quality of implementation of the policy shift and the level and framework of devolution of authorities, particularly over fiscal resources. It is, thus, important to consider the country’s political context upon which the decentralized system is being operated.

The Philippine decentralization has been marred with limitations from both the sides of the central and local governments. Local politics and governments are predominated by traditions of local bossism, nepotism and powerful local dynasties. And the country’s decentralization has been seen to have allowed opportunities for local elite capture and monopoly that have seriously compromised democratization. This is arguably due to a weak central government that is susceptible and dependent upon local influence.

Certain political scientists would depict the Philippines as a weak state with highly patrimonial
central-local political ties. Sidel pursued the assertion that the Philippine state is “relatively weak in its failings as a ‘developmental state’ and stronger in its capacity as a ‘predatory state’ … (with) local bosses relying on intergovernmental alliances with patrons at county, state and national levels to monopolize all public sector resources in the metropolis to strengthen their organizations…” (Sidel 1999: 146&4). Hutchcroft reinforced Sidel’s thesis by characterizing the political ties binding the central and local governments in the country as “… patrimonial where powerful local bosses effectively challenge the authority of the central state” (Hutchcroft 2001: 29). In defining patrimonial political ties, he cited Weber’s proposition that “fear of resistance and lack of an alternative apparatus led central rulers to compromise with these local lords” (Weber in Hutchcroft 2001: 29). Rocamora has also earlier argued that the “central government’s dependence on local elites for its authority has made it difficult to capture larger portions of the economic surplus through taxation and other means…” (Rocamora 1995: xiii). The three authors highlighted that without institutionalized political parties, central politicians are dependent on local elites for electoral mobilization. As a result, local elites can negotiate effectively during and between elections, through Congress, the stronghold of local power in the central government. The central structures required local institutional forces capable of mobilizing voters, and generating financial resources and thus make the central government vulnerable to local influence (Hutchcroft 2001; Sidel 1999; Rocamora 1995). This backdrop of a predominant contradiction of power between the central and local government highlights the importance of closely examining the institutional framework governing the fiscal decentralization process in the country.

4. Overview on Philippine Fiscal Decentralization

The country’s fiscal decentralization program mandated by the Local Government Code (LGC) in 1991 (Republic Act 7160), aims to enhance greater local fiscal autonomy for local governments. It covers three major components: 1) Devolution of Budget; 2) Expanding Intergovernmental Fiscal Transfer; and 3) Broadening of Revenue Generating Powers of LGUs. In the goal to increase the fiscal capacities of local governments, apart from the devolution of financial resources of devolved national agencies, LGUs are also provided with higher shares of national government revenues such as expansion and automatic appropriation of the Internal Revenue Allotment (IRA), share in the national wealth collected from various Government Owned and Controlled Corporations (GOCCs), share from value added taxes and tobacco excise taxes and other categorical grants (e.g. Municipal Fund, Calamity Fund, Local Government Empowerment Fund and Countrywide Development Fund). Moreover, local governments are bestowed broader revenue-generating powers through local taxation and permission to enter into cooperative undertakings with the private sector and other LGUs. The LGC provides the foundation for LGUs to set local tax rates, collect fees and charges and enter into Build-Operate-
Transfer (BOT) arrangements with the private sector, float bonds, obtain loans from local private institutions, etc. all within the context of encouraging them to be more businesslike and competitive in their operations. Local fiscal policies are contained in Book II of the LGC.

4.1 Revenue Profile of LGUs

There are two major categories of local government revenue sources: 1) internal sources comprising own-source local revenues; and 2) external sources comprising intergovernmental fiscal transfers, subsidies, and other grants and donations. The following table shows the expanding revenues of LGUs as attributed to the fiscal decentralization program.

It can be gleaned from the data that there is a steady increment in the LGU revenues across the

<table>
<thead>
<tr>
<th>Local Government Comparative Revenue Sources Profile</th>
<th>1992</th>
<th>To Total Income</th>
<th>1995</th>
<th>To Total Income</th>
<th>2002</th>
<th>To Total Income</th>
<th>2005</th>
<th>To Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Sources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Revenues</td>
<td>11.43</td>
<td>41.31%</td>
<td>21.56</td>
<td>28.10%</td>
<td>51.41</td>
<td>32.34%</td>
<td>68.68</td>
<td>35.11%</td>
</tr>
<tr>
<td>Real Property Tax</td>
<td>7.41</td>
<td>26.78%</td>
<td>14.91</td>
<td>19.43%</td>
<td>37.91</td>
<td>23.85%</td>
<td>49.73</td>
<td>25.42%</td>
</tr>
<tr>
<td>Taxes on Goods and Services</td>
<td>3.49</td>
<td>6.97%</td>
<td>7.93</td>
<td>7.93%</td>
<td>19.74</td>
<td>19.74%</td>
<td>25.95</td>
<td>25.95%</td>
</tr>
<tr>
<td>Other Local Taxes</td>
<td>0.00</td>
<td>0.00%</td>
<td>1.14</td>
<td>1.14%</td>
<td>22.03</td>
<td>22.03%</td>
<td>1.75</td>
<td>1.75%</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
<td>4.02</td>
<td>14.53%</td>
<td>6.65</td>
<td>8.67%</td>
<td>13.50</td>
<td>8.50%</td>
<td>18.95</td>
<td>9.68%</td>
</tr>
<tr>
<td>Regulatory Fees/User Charges; Permits/Licenses</td>
<td>0.85</td>
<td>1.88%</td>
<td></td>
<td></td>
<td>5.50</td>
<td>2.88%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from Economic Enterprise/Business Income</td>
<td>1.48</td>
<td>2.28%</td>
<td>4.30</td>
<td>4.30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Income</td>
<td>ns</td>
<td>ns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.13</td>
<td></td>
</tr>
<tr>
<td>Other Receipts</td>
<td>1.69</td>
<td>2.49%</td>
<td>3.70</td>
<td>3.70%</td>
<td></td>
<td></td>
<td>6.64</td>
<td></td>
</tr>
<tr>
<td><strong>External Sources</strong></td>
<td>16.24</td>
<td>58.69%</td>
<td>55.16</td>
<td>71.90%</td>
<td>107.55</td>
<td>67.66%</td>
<td>126.94</td>
<td>64.89%</td>
</tr>
<tr>
<td>Internal Revenue Allotment (IRA)</td>
<td>15.47</td>
<td>55.91%</td>
<td>51.92</td>
<td>67.67%</td>
<td>106.24</td>
<td>66.83%</td>
<td>121.39</td>
<td>62.05%</td>
</tr>
<tr>
<td>Share in National Wealth</td>
<td>0.00</td>
<td>0.84%</td>
<td>0.23</td>
<td>0.23%</td>
<td></td>
<td></td>
<td>0.48</td>
<td></td>
</tr>
<tr>
<td>Share in Tobacco Excise Tax</td>
<td>0.00</td>
<td>1.26%</td>
<td>0.22</td>
<td>0.22%</td>
<td></td>
<td></td>
<td>1.63</td>
<td></td>
</tr>
<tr>
<td>Share in Economic Zones</td>
<td>0.00</td>
<td>0.00%</td>
<td>0.18</td>
<td>0.18%</td>
<td></td>
<td></td>
<td>0.99</td>
<td></td>
</tr>
<tr>
<td>Share in EVAT**</td>
<td>ns</td>
<td>ns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>Share from PAGCOR/PCSOP**</td>
<td>ns</td>
<td>ns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>Subsidy from other NGA and LGUs</td>
<td>ns</td>
<td>ns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.50</td>
<td></td>
</tr>
<tr>
<td>Grants and Donations</td>
<td>0.77</td>
<td>1.14%</td>
<td>0.68</td>
<td>0.68%</td>
<td></td>
<td></td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL GROSS REVENUES</strong></td>
<td>27.67</td>
<td>76.72%</td>
<td>158.96</td>
<td>195.62%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: *ns: means not specified; **Expanded Value Added Tax; ***Philippine Charity Sweepstakes Office
years since the implementation of the Code from P27.7 billion in 1992 to over P195.6 billion in 2005. Even taking into account the 120% rise in consumer prices over this period, this represents more than a threefold increase of LGU revenues in real terms. This is apparently attributed to the expanding shares from central transfers, particularly the significant increases in the IRA which multiplied almost four times even after diluted by inflation within this period. As a regular central allotment, the IRA provided a reliable cash inflow to the local coffers and thus is accounted as an operating income of LGUs. From this, we can say that local governments benefited from fiscal decentralization in terms of expanding their revenues across the years.

5. Enduring Issues

Despite the apparent increases in revenues, however, LGUs continue to protest that the transfers are generally insufficient to support local development. Many LGUs complain that the revenue assignments are inadequate as opposed to the devolved expenditure responsibilities assigned to them. Others complain that despite the increases of their IRA, the funds are not enough to subsidize the local deficiencies to finance local service needs. Still many others, particularly the more urbanized LGUs, complain that the returns they receive from their IRA shares are minimal as opposed to the tax revenues collected by the central government from their localities.

In all of these claims, the study has noted three key factors behind the general insufficiency of local funds: 1) limited devolution of budget; 2) constrained intergovernmental fiscal transfer system; and 3) generally low levels of local (own-source) revenue generation. Such factors persist due to the lack of systematic institutionalization in intergovernmental fiscal processes, particularly by the central bureaucratic agencies which apparently failed to effectively enforce national policies and standards to regulate the political structures compromising the overall process of fiscal decentralization in the country.

5.1 Limited Devolution of Budget

The Code mandated for the devolution of five basic frontline services - health, social welfare, environment, agricultural extension and public works - among others. The devolution of authority and personnel to LGUs had been accompanied by the devolution of fiscal resources. At the initial stage of the implementation of the Code, specific budgets of devolved national government agencies were transferred to cover the extra expenditure burden of the LGUs on devolved services and personnel from the National Government Agencies (NGAs). Capuno and the World Bank have pointed out that the total devolved budget constitutes 13.25% of the total budget of national agencies that have devolved their financial resources. However, when compared to the total national budget of
P284.04 Billion in 1992 for all national agencies and bureaus, the devolved budget of P7.37 Billion would only constitute a minimal 2.6% of the total. The rest remain under the control of the central government.

Table 2. Devolution of Fiscal Resources

<table>
<thead>
<tr>
<th>National Government Agencies</th>
<th>1992 Agency Budget (in million Pesos)</th>
<th>Devolved Budget (in million Pesos)</th>
<th>%age of Budget Devolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>5,210.0</td>
<td>1,160.7</td>
<td>22.28%</td>
</tr>
<tr>
<td>Budget and Management</td>
<td>465.4</td>
<td>193.2</td>
<td>41.52%</td>
</tr>
<tr>
<td>Environment and Natural Resource</td>
<td>1,941.8</td>
<td>87.6</td>
<td>4.51%</td>
</tr>
<tr>
<td>Health</td>
<td>9,991.4</td>
<td>4,079.6</td>
<td>40.83%</td>
</tr>
<tr>
<td>Social Welfare and Development</td>
<td>1,320.7</td>
<td>742.7</td>
<td>56.23%</td>
</tr>
<tr>
<td>Philippine Gamefowl Commission</td>
<td>15.3</td>
<td>0.62</td>
<td>4.05%</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>18,944.5</strong></td>
<td><strong>6,264.4</strong></td>
<td><strong>33.07%</strong></td>
</tr>
</tbody>
</table>

**NGAs Without Devolved Personnel**

<table>
<thead>
<tr>
<th></th>
<th>1992 Agency Budget (in million Pesos)</th>
<th>Devolved Budget (in million Pesos)</th>
<th>%age of Budget Devolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrarian Reform</td>
<td>1,842.4</td>
<td>9.4</td>
<td>0.51%</td>
</tr>
<tr>
<td>Public Works &amp; Highways</td>
<td>27,109.3</td>
<td>1,096.3</td>
<td>4.04%</td>
</tr>
<tr>
<td>Tourism</td>
<td>207.7</td>
<td>2.8</td>
<td>1.35%</td>
</tr>
<tr>
<td>Transportation &amp; Communication</td>
<td>7,563.9</td>
<td>0.1</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55,667.8</strong></td>
<td><strong>7,373</strong></td>
<td><strong>13.25%</strong></td>
</tr>
</tbody>
</table>

| Total National Budget/Devolved in 1992 | P 284.04 billion | P 7.37 billion | 2.6% |

Source: Capuno (2001: 232); World Bank (2002: 10); author (2006) integrated

Only sixteen NGAs (from among the 19 executive departments and 44 bureaus) have devolved functions and responsibilities. From these, only ten have devolved budgets and only six have devolved personnel. Moreover, the central government continues to hold on to productive taxes with huge tax bases (such as income tax and tax on motor vehicles) and also retains control over spending and allocation of LGU finances. LGUs are also directed to implement national programs without corresponding additional funds. Furthermore, the discretion to plan, determine, and manage the state of affairs of the LGUs are still within the parameters of the central government itself. With the limited devolution of relevant fiscal authorities, many LGUs still find themselves constrained in setting development priorities crucial for a strategic and integrated local development planning which is contingent upon the availability of funds.

A major controversy lies in the decisions over the determination of the level of devolution for each central agency. Apparently lacking in the country’s decentralization policy is a standardized
framework that concretely lays out the specific mechanisms to operationalize the devolution agenda, particularly the concept of power and fiscal sharing. It is not clear what criteria are used by each devolved agency in determining the ratios of devolved personnel, office and budget to local governments. Due to ambiguities in the Code, more venues are opened for political struggle over control of fiscal resources disallowing a calibrated strategy against both misuse and abuse of expanded authorities. The debate over the limited devolution of the Department of Public Works and Highways (DPWH) for control over public infrastructure would demonstrate the central-local battles for fiscal authority. Clearly, with the absence of an institutionalized framework of devolution, decisions remain susceptible to power dynamics that saw many LGUs dependent upon patrimonial alliances with central politicians for fund disbursements.

5.2 Constrained Intergovernmental Fiscal Transfer System

5.2.1 Vertical Imbalance: Unlawful Allocations

The IRA’s contribution to the local budget accounts to as much as 62% of the total LGU revenues in 2005. Its substantial contribution is the reason why it is regarded by LGUs as the most important central fiscal transfer. However, while the IRA constitutes the major source of local financing and the only institutionalized central transfer, the IRA appropriations continue to be minimal relative to the total national budget. This can be gleaned from Table 3 showing that the IRA appropriations account to only 14% in average against the total national budget across the years, peaking at 18.18% in 2001.

Table 3. IRA as Percentage of Total National Budget

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Allotment*(Pbillion)</th>
<th>Increase(%)</th>
<th>Total Budget</th>
<th>%age Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>9.841</td>
<td></td>
<td>259.5</td>
<td>3.79</td>
</tr>
<tr>
<td>1992</td>
<td>20.305</td>
<td>106</td>
<td>295.2</td>
<td>6.08</td>
</tr>
<tr>
<td>1993</td>
<td>36.724</td>
<td>81</td>
<td>331.7</td>
<td>11.07</td>
</tr>
<tr>
<td>1994</td>
<td>46.815</td>
<td>27</td>
<td>369</td>
<td>12.69</td>
</tr>
<tr>
<td>1995</td>
<td>52.042</td>
<td>11</td>
<td>372.1</td>
<td>13.99</td>
</tr>
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<td>56.594</td>
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<td>2005</td>
<td>151</td>
<td>5.3</td>
<td>918</td>
<td>16.45</td>
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Average/Year 14%

*Note: Data on allotments are based on General Appropriations Acts, various years
Furthermore, such appropriations continue to be below the legally mandated 40% shares from the total internal revenue collections of the Bureau of Internal Revenue (BIR). This can be seen from the figure below.

![Figure 1. Internal Revenue Appropriations for LGUs vs. Revenue Collections of BIR (in Billion Pesos)](image)

Source of Raw Data: Bureau of Internal Revenue (BIR) and Union of Local Authorities in the Philippines, various years

While it is true that the IRA appropriations increased significantly through the years parallel to the increase in national internal revenue collections of BIR (from 1991 to 2003, the IRA appropriations have multiplied more than fourteen times while the national collections multiplied only a little less than four times), the average appropriation of 25% (peaking at 34% in 2002) stays below the 40% share mandated by the Code. Moreover, it can be observed that, while such appropriations stay at low levels, actual allocations/transfers made are even lower. Comparing the actual IRA shares in Table 1 with the IRA appropriations in Table 3, it can be noted that the actual receipts of LGUs are far lower than the appropriated shares.

a. Unconstitutional Cuts

The insufficient allocations can be explained from the various deductions and cuts made before the IRA is actually distributed among LGUs. Various Congressional General Appropriations Acts (GAAs) and Executive Directives have introduced constraints on the IRA purportedly to earmark development funds for priority projects and activities, and to ease the country’s budget deficits. Certain amounts were withheld prior to settlement of the obligations of LGUs. The Union of Local Authorities in the Philippines (ULAP) reported that from 1998-2001 Congress had made cuts amounting to a total of P62.09 billion of IRA impositions. The amounts withheld by Congress are moved to ‘Un-programmed Funds’ of the national budget, and are being held by the Department of Budget and Management (DBM), under the Executive. The DBM is also authorized by the central government to deduct 10% from the IRA of LGUs with unsettled obligations with national
government agencies and GOCCs. The IRA is also used to pay the debts of LGUs to their respective leagues and to finance new programs imposed by the national government.

All these constraints explain why local governments have been receiving less than the mandated 40% under the Code. Moreover, the 40% mandate is computed based on the revenue collections from three years prior which could be diluted by inflation and other rising costs. The cuts being made on the IRA of LGUs, which run counter to the provision on ‘automatic appropriations’ by the Code have reached to Supreme Court (SC) battles between the LGUs and the central government, specifically Congress, disputing the constitutionality and legality of such cuts. A recent (2005) SC decision declared such cuts unconstitutional.

b. Legislative Gridlocks and Intrusions
ULAP would argue that the perennial gridlock in legislative battles has continually hampered the automatic release of the IRA shares of LGUs annually. In a press release made by the League of Municipalities of the Philippines (LMP), they argued that the “recurring budget standoffs between the Executive and the House of Representatives, on one hand, and the Senate on the other, has severely dented local governance” since the effect of a deadlock meant reenactments of previous year’s budget which affects LGUs’ IRA allocation. A most recent case is the 2006 budget deadlock which resulted to a loss of P15 billion for LGUs. The deadlock forced the Executive to release the same IRA amount of P151 billion based on a reenacted 2005 budget instead of the P166 billion IRA outlay proposed in 2006 GAA. The national budget was also reenacted in 2001 and 2004 resulting in some P12.4 billion losses for LGUs representing the difference in their IRA shares. This non-institutionalization of fiscal appropriations has made the local budget vulnerable to the delayed decisions of Congress who would then have to debate on the approval of supplemental budgets, including the outlay for LGUs to cover the IRA gap.

Various General Appropriations by Congress also provide that the appropriate national government agency shall implement local government projects, “with the concurrence of the concerned members of Congress”. This has been criticized by the LGUs noting that the clause ‘prior concurrence with Congress’ in the various special provisions demonstrates an “illegal intrusion of Congress” (Lina in ULAP 2000) into the legal authorities and functions of the LGUs. Because of these, the LGUs continue to lobby for expanded shares in all revenues of the national government, demanding for a share not only in the internal revenues of the BIR but from all national tax collections of the central government, and increasing their shares from such national taxes from their current 40% allotment to 50–60%. They have also demanded for the end in violations against the automatic appropriation in the release of funds often caused by political standoffs.
5.2.2 Lack of Transparency and Coordination in the Flow of Central Funds

Other than the IRA, LGUs also receive non-IRA financial resources. According to Soriano, non-IRA grants reached P25billion in 2003 compared with P140billion from IRA and P63billion from own sources (Soriano 2006). These other central allotments and transfers noted as categorical grants, however, are not transparent in the audit reports of LGU revenues. The reason for this is that the various categorical grants are not integrated in the standardized format of the accounting process because these are not considered regular revenues of LGUs. A study by Capuno noted that “the allocation of these (categorical) grants is not as transparent as the IRA distribution, largely because they are administered by different national government agencies using various processes and criteria (Capuno 2001: 245). The impermanent nature of such transfers often makes it unspecified in the general accounting of LGU revenues and thus become obscured in the LGU reports. A recent study would account that about 6% of the non-IRA funds were unallocated (Soriano 2006).

Specifically, the Countrywide Development Fund (CDF) better known as pork barrel funds and later renamed as Priority Development Assistance Fund (PDAF) used to support the pet projects of central government politicians in various localities are recorded as “extraordinary items” in the accounting process of LGUs. Congressional allocations account for over 60% of non-IRA grants (Soriano 2006). These funds are allocated, however, according to the priority projects of the central officials like Congressmen, Senators and the President and are not within the control of LGUs, thus are classified as occasional grants rather than regular revenues. Moreover, the 2005 Philippines Development Forum reported that PDAF along with capital grants are used to fund devolved activities contrary to established policy (PDF 2005: 5). This is a clear case of disparity in the budget coordination and accounting that undermines the transparency of actual central fiscal flows.

a. Discretionary Control of Congressional Development Funds

The substantial discretionary funds controlled by central government politicians in the form of categorical pork barrel have been noted to be highly problematic. The CDF/PDAF may only be used for projects endorsed by members of Congress, each of whom receives an annual allotment (P200million for each Senator and P70million for each Congressman).13 The President also receives P1billion of PDAF annually (also known as Confidential and Intelligence Fund) and P30million for the Vice-President. For the 24 Senators and 235 Congressman plus the pork of the President and the Vice-President, pork barrel funds has been restored to P21.3billion to constitute approximately 2% in the proposed P1.126trillion ($US22.5billion) national budget for 200714 and more than a tenth of the appropriated P184million of combined IRA for all 41,980 LGUs across levels.

Discretionary in nature, the lack of accountability in the pork barrel system has made such
central grants prone to corruption and consequent losses of government funds. PDAF is justified by congressmen as useful in supporting local leaders as emergency funds for infrastructure needs such as maintenance and repairs during natural calamities, or as contingency funds for various projects of local governments who have limited shares of IRA. These funds are however often muddled with “issues of irregularity, excessive prices and illegal disbursements which is a source of enrichment for unscrupulous legislators who receive kickbacks from contractors handling their pet projects.”

Because of their discretionary nature, pork barrel funds have often been speculated and reported to be either pocketed/ transferred to private accounts, or used as kickbacks for Congressmen, local leaders and contractors in rigged deals and overpriced infrastructure projects, or as electoral machinery useful in building campaign infrastructures.

A study by Chua and Cruz (2004) of the Philippine Center for Investigative Journalism (PCIJ) noted that “pork is primarily a vote-getting vehicle and a source of political patronage… provid(ing) an opportunity for lawmakers to rack in bribes and commissions from contractors of pork-funded projects.” In 2002 Senator Lacson would claim that only less than half of the taxpayers’ money actually goes to projects. He provided a breakdown of the kickbacks as something like: 20%, or the lion’s share, to the legislator who identified the project; 14% to the contractor; 10% to the district engineer and other DPWH officials; five to 10% to the governor or mayor; two percent to the barangay captain; and two percent goes to the Commission on Audit (COA) official (in Chua and Cruz, 2004). It has also been argued that the pork has served as a means where Executive and Legislative can cooperate, with the Executive using the pork as a tool to buy the support of Congress for bills the former wants passed.

These are clear political interests that are compelling incentives for central government officials to withhold and take control of substantial funds outside a more transparent institutional framework. With COA, which is supposed to be the watchdog of the people’s money, partaking in the payoffs is a serious assault to the accountability principle upon which the office is so designed. A report from the World Bank and Asian Development Bank (2005) stated that “such a large amount of discretionary funds that do not pass through the normal budget process diminishes the credibility of government’s strategic allocation procedures and efforts to instill fiscal discipline.” Essentially, the call is to create a more transparent and institutionalized fund allocation system that would restructure the distribution of CDF/PDAF and other categorical funds to become fully aligned to local development priorities.

b. Limiting the LGU Share of National Budget

Moreover, the total expenditure allocations categorically classified as LGU subsidy constitutes a minimal share of the national budget. Taken from the National Expenditure Program of the
government for Fiscal Year 2006\textsuperscript{3}, out of the \textdollar{}1.05 trillion proposed national budget, approximately \textdollar{}174 billion (17\%) is allocated for LGUs (including \textdollar{}166.5 billion appropriated for IRA and other LGU shares). Appropriations for central government agencies and offices on the other hand total to \textdollar{}375.7 billion (34\%). A huge chunk of the national budget is used for debt servicing (31\%), while the rest of the budget (18\%) is allocated for other special programs and categorical funds including Calamity Fund, Un-programmed Funds, and CDF among other funds used for special programs and contingency purposes controlled by the central government. While other national government programs may have actually benefited local development, since these are not provided as lump-sum subsidies that can be categorically classified as LGU incomes, these have often become intangible in the accounting of actual central fiscal flows. These funds could have been effectively programmed through institutional allocations yet left subjected to arbitrary control. And thus, the incapacity of local governments to fully determine their actual share on a regular basis, and their lack of full access to manage these funds provided a legitimate justification for their claims of insufficiency.

5.2.3 Horizontal Imbalances

Another issue of consideration is the distribution of funds and central transfers to the various levels of LGUs in the country. While LGUs have a collective issue against the continuing controls imposed by the central government, each level/tier and each individual unit struggles for its stake in the sharing of funds. Differences in local revenues and incomes among LGUs can be expected given the variability in economic development and in the local tax base and collection efficiency among local governments. The higher revenue generation of cities can be explained from their clear advantage in local taxation and broader investment base. In many cases, taxable economic activities are concentrated in urban areas, and cities have broader tax authorities than provinces and municipalities. Yet, various studies (JPD 2004; World Bank 2002; Gatmaytan 2001; Capuno 2001; Loehr and Manasan 1999; UN ESCAP 1999) have raised many times over the disadvantage of the provinces and municipalities against the apparent bias of the IRA formula\textsuperscript{22} for the cities. A recent study by Manasan continued to note that net resource transfer to cities has been consistently larger than those of provinces and municipalities, the latter two experiencing negative transfers in many years (Manasan 2006).

a. Disparities within Levels

Beyond disparities across levels noted by previous studies, this study shows further that the imbalances in allocations also exist even within the same levels of LGUs. Data would show the disparity in revenue allocation with that of poverty incidence across the regions and their respective provinces. As of 2003, the substantial chunk of the IRA (18.5\%) went to the National Capital Region (NCR)\textsuperscript{3} which had the lowest poverty incidence among all regions. The rest of the provinces in other
regions are left with the 81.5% of IRA shares to divide among them. The high allocations to the wealthier LGUs as noted are due mainly to the IRA formula determined for the major part by population and land area, along with equal sharing allotment. The unintended results of the allocation catered well with the fiscal interests of the better-off and more urbanized local governments. The construction below shows the poverty incidence and IRA allotments disaggregated at the provincial level plus the NCR.

![Figure 2. Poverty Incidence and IRA Shares of Provinces across Regions, 2003](image)

*Source of Raw Data: National Statistical Coordination Board (NSCB) and National Economic Development Authority (NEDA) 2003*

There is a discrepancy in the distribution - an apparent disparity ‘within’ the level of provinces. An especially glaring comparison is between Region IV-A (Calabarzon) and B (Mimaropa) in Luzon. While RIV-A had a relatively lower poverty incidence of 18.8, it received an 8.45% share of the IRA for provinces while RIV-B having a far higher 47.9 poverty incidence received a much lesser IRA share of 4.68%. Region IX (Zamboanga), XII (Caraga) and the Autonomous Region of Muslim Mindanao (ARMM) had the highest rates of poverty incidence yet receiving the lowest shares of IRA for their provinces. Inasmuch as the central government should support economic and infrastructure development needed in urban centers, it cannot negate the socio-economic development of resource-deprived areas of the nation by mainly relying on a blanket formula without targeted funds to support their local development. While an equalizing grant such as the IRA can enhance local incomes, specific lump sum grants to finance minimum levels of services in priority areas, should be predetermined by the central government. This is however apparently not mandated in the country’s intergovernmental fiscal relations.

5.3 Low Levels of Own-Source Revenue Generation and Issues on Taxing Powers

While the various central government administrative and political constraints have limited the
fiscal resources of LGUs, local governments themselves share this responsibility. Certain arguments have previously been raised that the central transfers have created a “substitutive effect” and dependence wherein local governments became complacent in collecting taxes after receiving substantial IRA shares. The next figure would give evidence that the own-source revenue generation continues to be minimal as opposed to the IRA shares to LGU funds. The aggregate of both local taxes and non-tax revenues (own-source) of all LGUs is not even half of the IRA shares which constitute an average of 67% of total local revenues across the years since the implementation of the Code. Broadly, it appears that LGUs in general continue to be dependent on the IRA shares.

![Figure 3. IRA Shares vs. LGU Own-Source Revenues](image)

*Source of Raw Data: National Statistical Coordination Board and Commission on Audit, various years*

There are counterarguments that this narrowing share of own-source revenues is merely a relative consequence of the widening ratio of central allotments. Yet, more recent studies would validate low levels of LGU fiscal performance after fifteen years of LGC implementation. A report made in 2005 Philippines Development Forum noted that “many LGUs are not fully utilizing available local revenue opportunities with real property tax collection efficiency averaging only 60%” (PDF 2005: 5). Javier (2006: 4) has noted that “LGUs have not fully exercised their inherent fiscal powers...” He draws this conclusion after compiling relevant data from various studies: less than 10% of all LGUs exercise their new financing mandate (Amatong 2005); only 21 or 1.24% of all LGUs have issued bonds (BLGF 2005); only 15 or 0.88% have BOT projects; and the Galing Pook Foundation documenting only 8 out 71 awardees as finance-related (Mendoza and Javier 2006) (in Javier 2006: 5). Another recent study (2006) by LOGODEV and Bureau of Local Government Finance (BLGF) evaluated the extent of IRA dependency of LGUs concluding that provinces remain to be the most dependent on the IRA relative to other LGU tiers, with a dependency ratio of 85% in 2005 (in Panadero 2006: 25).
a. Disintegration of LGUs

A phenomenon that lends evidence regarding the heavy reliance on the IRA can be gleaned from the struggles of various municipalities to be converted into cities to avail of higher allocations. As a result of the apparent bias of the formula to cities in the allocation of the IRA, municipalities all over the country struggle to be upgraded into cities to get a larger central share. Between 1991 and 2001, there has been a sharp increase in the number of cities from 60 to 113 in respective years. These conversions become highly politicized activities wherein local elites exert influence upon members of Congress who have the power to convert municipalities to become cities. Republic Act 9009 was enacted by Congress in 2001 to restrict the conversion of municipalities by increasing the required income from P20million to P100million. While this appears to have contained the growth of cities since 2001, another trend emerged as attempts to disintegrate the provinces mainly by Congress Representatives are coming to the fore. Various provinces are aimed to be divided⁴, arguably to feed the same financial and political reasons.

Mercado provided insights in an article stating that “in Congress, when the end of their term approaches, some legislators skid towards the ‘chop-chop’ of political units to avail themselves of governorships.”⁵ This political strategy to disintegrate LGUs is frowned upon by many political observers as a considerable strain to the budget of LGUs. They cited that the additional central transfers will only proceed to additional overhead expenses such as Personal Services (PS) and Maintenance and Other Operating Expenses (MOOEs) for the operation of newly created LGUs and in turn reduces the budget for investments or for basic social services. A government brought closer to the people under the banner of fiscal decentralization often becomes a theoretical justification to pursue local political motives. Amalgamation which is practiced in more developed systems like Japan, while being proposed by many international consultants, has never been an option locally. This is due to the general unwillingness of local politicians to give up their political turfs.

b. Political Rationales affecting Low Revenue Generation

With the various vertical and horizontal imbalances that actually exist in the allocation schemes, it can be argued that LGUs’ clamor for bigger funds is legitimate. A recent report by GTZ on Decentralized Planning Structures Project (DPSP) would evaluate that LGUs are “…controlled in many ways by the national government on which many of them have become habitually dependent for guidance and resources. This inhibits local initiatives and resourcefulness to effect progress and development within their territories and communities” (GTZ 2005: 47). ULAP has warned that the various cuts by the central government would lead to disruption in the delivery of basic services and programs.
Yet, it can be noted that the LGU spending on actual socio-development programs remains minimal. In 2005, 40% (P77.25 billion) of the total LGU incomes were spent for Personal Services and 33% (P65.26 billion) for MOOE. The actual expenditure on PS might be more than the reported amounts because wages of contractual employees hired under “job orders” or “service contracts” are charged against MOOE or Capital Outlays (CO) for development projects (to maneuver the LGC restrictions on PS spending). This meant that the 27% left for actual programs and services is further reduced. This would lead to suspicions over the rationale behind the demands for increased funds among various local government officials often justified along improvement of public service delivery.

One explanation is that enforcement of taxation is generally regarded by local officials as politically unpopular so politicians would rather have the convenience of depending on the IRA. This assertion supports an early argument by Azfar et al (2000: 52) who stressed that raising local taxes is “a politically painful step” that local politicians generally avoid. Strictly enforcing taxation is also often equated with losing potential investors and private/business sector support. Apparently, the absence of taxes and other sources of local revenues for lack of local authorities to enforce their authorities for fear of losing a wider political support base from various sectors in their areas. The system of taxation has been more discretionary rather than institutionalized to protect loyalties and buy out political support that has kept revenue performance at low levels.

Furthermore, the pattern of misallocations and general misuse of funds that are engaged by certain members of Congress are practices shared by LGU officials themselves. COA continues to allege that many local governments use their earmarked development funds to finance unauthorized expenses. Other expenses were charged against the local officials’ MOOE and other funds intended for specific purposes were used to cover non-related expenditures including hiring of contractual workers in exchange for political support. There are allegations that such irregularities in the disbursement or realignment of funds for specific projects are aimed to accommodate interests or to gain wide supporters, going against the processes provided for in the Code. The protest of LGUs against the constraints and central government cuts in the use of funds, calls for more flexibility ostensibly to adjust to the priority needs and preferences of their local areas. In this scenario, however, flexibility appears to be of necessity for local officials not so much as to respond to the needs and preferences of their local constituency than as to cater their own. ULAP, however, has opted to concentrate its proposals on how to expand central transfers which has sidetracked the critical importance of how to enhance their counterpart fiscal effort for local revenue generation. If anything, these claims for more funds only highlight their dependence on such transfers and their vulnerability when faced with IRA cuts.
Essentially, it can be noted that the continuing dependence on the IRA and the low levels of local revenue generation among LGUs has been rooted from various motives often to fortify political survival. Performance in local revenue generation constitutes a crucial indicator of fiscal effort and fiscal capacity. An important consideration for effective evaluation is the extent of the revenue base of each LGU. The country however lacks the mechanisms to measure performance without standardized assessments/estimates on the resource base/potential of individual local units. Clearly, there are also no incentives, nor disciplinary mechanisms that are concretely outlined, much less institutionalized, to either motivate or compel local officials to generate revenues within their capacity. A report made in 2005 Philippines Development Forum stated that there is “absence of an institutionalized performance management system and weak capacity to generate appropriate data needed for performance benchmarking” (PDF 2005: 5). Central bureaucrats from the Department of Interior and Local Government (DILG) would admit that the Local Government Performance Measurement System (LGPMS) - the current monitoring mechanism to determine LGU service delivery, is designed more as an information system and service mapping than as a mechanism to enforce performance according to national standards.28

6. Conclusion

Behind the administrative constraints, the political issue is clear: unregulated structures of power. Both the central and local structures of government want direct access and control of the funds which define the contradictions in their patrimonial relations. The tug-of-war between these dichotomized sections of power has undermined their responsibility to institutionalize structures of discipline and accountability which are imperative to intergovernmental fiscal systems. Vice versa, the lack of institutionalization in the current central-local fiscal processes of policy standardization, resource coordination and allocation, and monitoring and evaluation makes it highly difficult to regulate such central-local power play that either leaves substantial fiscal resources under arbitrary and discretionary control or allows leniency in local fiscal performance. This allows for the endurance of political maneuvers, including violations of legal stipulations, in both the central and local realms of governance affecting the distribution, generation and use of fiscal resources. This research argues that:

1) The current intergovernmental fiscal relations remain vulnerable to the predominant contradictions of power between the central and local governments over the control of public funds;

2) This vulnerability of the system to central and local political maneuvers is rooted from the lack of comprehensive institutionalization of standardized regulatory mechanisms in the flow and use
of funds and in the performance of local revenue generation;

3) Comprehensive institutionalization requires regular and non-arbitrary implementation of legal provisions, transparent and accountable central transfer system that systematically integrates, coordinates and monitors funds flowing from central to the local governments and facilitate effective standardization of local fiscal performance;

4) The lack of these necessary institutional preconditions in the country’s intergovernmental fiscal system has failed to regulate the preexisting central-local political/power structures;

5) Serious consequences include limited devolution of budget; constrained intergovernmental fiscal transfer system; and low levels of local revenue generation directly contributing to the insufficiency of local fiscal resources.

Essentially, both the central and local governments have their share of responsibility in the serious limitations of the fiscal decentralization in the Philippines. The combination of political manipulations and patrimonial influence of many local and central politicians considerably undermines an intergovernmental fiscal transfer system which generally lacks institutional coordination, accountability, incentive structures, and disciplinary mechanisms. Instead of these two levels of government checking on the accountabilities of each other, the interest-based motives and political goals have engendered tolerance on both sides’ fiscal non-performance and political malpractice. Such scenario points to a weak and a politically susceptible national level bureaucracy which could otherwise minimize such central-local contradictions of power via an institutionalized independent central coordination. The study concludes that the unregulated contradiction of powers between the local and the central government politicians - rooted from the lack of institutionalization of intergovernmental fiscal structures - makes a critical case for the failure of fiscal decentralization in the Philippines.

**Recommendations**

The institutionalization of the Philippine intergovernmental fiscal process— to enforce systems of regulation that coordinate, distribute and monitor adequate funds on a regular, non-arbitrary, transparent, accountable and systematic fashion, accompanied by disciplinary and incentive structures in performance evaluation — is a decisive agenda if the country is to make the current intergovernmental fiscal relations work. The task to institutionalization is where the central bureaucracy’s role in fiscal decentralization should take foundations. This entails broader institutional rearrangements toward a comprehensive redesign of the intergovernmental fiscal system beyond the flaws of the IRA formula. This means facilitating a more targeted programming of funds, such as specific lump sum allocation for priority sectors, and designing a comprehensive evaluation framework along with incentive grants to promote efficient performance. Ad hoc allocations should be minimized for
contingency purposes along clearly defined parameters and mechanisms of monitoring and standardization. As for the rest of the legally established allocations, rules and procedures must be stable and non-negotiated if appropriate fiscal sharing is to be achieved. Noting that the control of funds bear political interests more than efficiency issues, institutional realignments of budgets for basic service delivery that is directly managed by bureaucrats become a more imperative agenda in intergovernmental fiscal relations.

This task is highly dependent upon a committed and directed leadership, specifically of the central government bureaucratic agents in concurrence and collaboration with the local governments, along with civil society organizations and the private sector. It is the task of the central government to draft a comprehensive framework of strategic institutionalization that strengthens and insulates the bureaucracy from political manipulations. Strategies would have to include an overhaul of the civil service system that would minimize political appointments, specifically of top department heads, toward rational and merit-based promotion of qualified bureaucrats. It may be crucial to institutionalize a National Coordinating Council for Decentralization as an independent central commission that can supervise and regulate a two-way accountability of both central and local offices in the implementation of decentralization. As a special central agency composed of independent government bureaucrats, it is its task to ensure that the processes of fiscal decentralization do not facilitate power grabs both in the central and local arenas of governance. Leaving monitoring and evaluation functions with the Congressional Oversight Committee and the Office of the President via the DILG may compromise the independence required in the policy enforcement in intergovernmental finance.

All these highlight the importance of closely examining Philippine central bureaucratic structures in institutionalizing the fiscal decentralization process in the country. Higher agencies in the central bureaucracy, if properly insulated from political power play, have the means to enforce nationally standardized regulatory frameworks and accountability structures that can hold politicians from all levels answerable to the rule of law. The extent to which the central bureaucracy allows its subservience to central-local political influence can decisively define the intergovernmental fiscal structure and ultimately the macroeconomic stability of the country.

Notes

1 Subsidiarity is “a social order, oriented against the totalitarian and centralist state, in which the larger community acknowledges the potentials of the subordinate ones and exercises only those tasks which the latter cannot fulfill” (in Stohr 2001: 39).
2 Local bossism refers to “the interlocking, multi-tiered directorate of bosses who use their control over the state apparatus to exploit the archipelago’s human and natural resources” (Sidel 1999: 19).
3 Intergovernmental fiscal relations “covers all aspects of expenditure, revenue and service delivery arrangements between the central, intermediate and local levels of government, including the assignment of expenditure, taxing and regulatory responsibilities and frameworks for the delivery of public services” (sitesources.worldbank.org)
4 Share of LGUs (40%) of the total revenue collections of BIR three years preceding the fiscal year of allotment.
6 DBM, General Appropriations, 1992
7 Other agencies with devolved functions include Department of Education, Science and Technology, Trade and Industry, Cooperative Development Authority, Housing and Land Use Regulatory Board, and National Housing Authority.
9 A recent legal victory was won by non-government organizations and LGU officials petitioning against the Legislative withholding of the release of P10B IRA via RA 8760 June 2000 declared as unconstitutional (G. R. No. 144256. June 8, 2005 ACORDvs. Zamora)
11 ibid
12 The central government has three major agencies that generate income: 1) Bureau of Internal Revenue; 2) Bureau of Customs; and 3) Other Collection Agencies. The BIR is the biggest contributor with 65% of the total government incomes as of 2003.
13 Since 1990, Congress members received P12.5M each of pork which increased to current levels. In 2004, these have been reduced to P40M per Congressman and P120M per Senator.
21 DBM National Expenditure Program 2006, at: www.dbm.gov.ph
22 Each level of LGU is allocated a portion of the national internal revenue collections according to their percentage allocations and the cost of devolved functions assigned to them in 1992. The funds are distributed among various LGU levels according to this formula: 23% for the provinces, 23% for the cities, 34% for the municipalities and 20% for the barangays (villages). Shares are distributed accordingly within LGU levels based on population (50%), land area (25%) and equal sharing (25%).
23 Agglomeration of major cities and urban centers situated around the capital
24 Cebu province is aimed to be divided into three smaller provinces along with Bukidnon, Surigao del Norte and Quezon
25 Juan Mercado (2005) “Del-Norte-Del-Sur Virus” in inq7.net Mercado explains ‘chop-chop’ as a street jargon for the tactic of splintering election districts and saving political hides. This is the counterpart of political scientists’ ‘gerrymandering’, March.
28 Interview with Director Manuel Gotis and Mr. Paul De Castro, DILG, 3 May 2007.
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