

Manasan, Rosario G.

Working Paper

Local Public Finance in the Philippines: In Search of Autonomy with Accountability

PIDS Discussion Paper Series, No. 2004-42

Provided in Cooperation with:

Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Manasan, Rosario G. (2004) : Local Public Finance in the Philippines: In Search of Autonomy with Accountability, PIDS Discussion Paper Series, No. 2004-42, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<http://hdl.handle.net/10419/127875>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Local Public Finance in the Philippines: In Search of Autonomy with Accountability

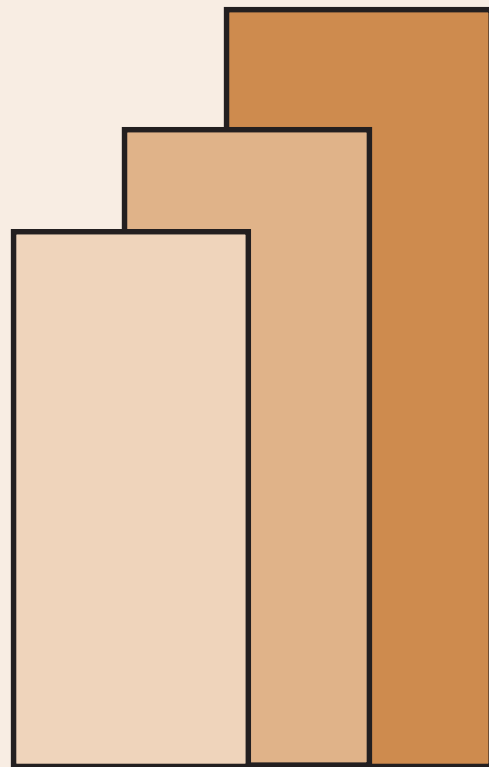
Rosario G. Manasan

DISCUSSION PAPER SERIES NO. 2004-42

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



December 2004

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: publications@pidsnet.pids.gov.ph
Or visit our website at <http://www.pids.gov.ph>

LOCAL PUBLIC FINANCE IN THE PHILIPPINES: IN SEARCH OF AUTONOMY WITH ACCOUNTABILITY

Abstract

Twelve years into the implementation of the Local Government Code of 1991, it is but opportune to assess how the key features of this landmark legislation has contributed to (or detracted from) achieving the balance between local autonomy and accountability. The literature on fiscal decentralization suggests that these two goals are not incompatible. In fact, real autonomy (in the sense of subnational governments being able to link their spending decisions with their revenue/tax decisions) promotes fiscal responsibility. In the context of the ongoing debate in the Philippines, however, local autonomy has been equated (by many LGUs officials) with the independence of LGUs from central government interference. As such, LGU officials have focused more on securing even higher levels of block grants in order to address the widely perceived vertical fiscal imbalance. However, closer scrutiny of the problem indicates that greater tax decentralization coupled with a well designed intergovernmental transfer system that includes elements of fiscal equalization and categorical grants conditional on the achievement of minimum service standards would better enhance the gains that are forthcoming from the decentralization process while minimizing the risks of macro-instability.

Keywords: *fiscal decentralization, fiscal autonomy, fiscal accountability, tax assignment, expenditure assignment, vertical balance, horizontal balance, block grants, categorical grants, equalization grants*

LOCAL PUBLIC FINANCE IN THE PHILIPPINES: IN SEARCH OF AUTONOMY WITH ACCOUNTABILITY

Rosario G. Manasan

1. INTRODUCTION

In 1991, fiscal decentralization started in earnest in the Philippines with the passage of the Local Government Code. Twelve years into its implementation, now is opportune time to assess how the key features of this landmark legislation has contributed to (or detracted from) achieving the balance between local autonomy and accountability.

It is clear from the literature on fiscal decentralization that these two goals are not incompatible. In fact, real autonomy (in the sense of subnational governments being able to link their spending decisions with their revenue/tax decisions) promotes fiscal responsibility. In the context of the ongoing debate in the Philippines, however, local autonomy has been equated (by many LGUs officials) with the independence of LGUs from central government interference. As such, LGU officials have focused on securing even higher levels of block grants in order to address the widely perceived vertical fiscal imbalance. However, closer scrutiny of the problem indicates that greater tax decentralization coupled with a well designed intergovernmental transfer system that includes elements of fiscal equalization and categorical grants conditional on the achievement of minimum service standards would better enhance the gains that are forthcoming from the decentralization process while minimizing the risks of macro-instability.

2. LOCAL GOVERNMENT STRUCTURE

The Philippines has a unitary form of government with a multi-tiered structure. It is a presidential republic with a bi-cameral legislature. The central government operates through some 20 departments/agencies. Administratively, the country is divided into 15 administrative regions and most departments maintain regional offices. However, these regions (with the exception of the ARMM) are just administrative sub-divisions and not regional governments with elected regional officials.

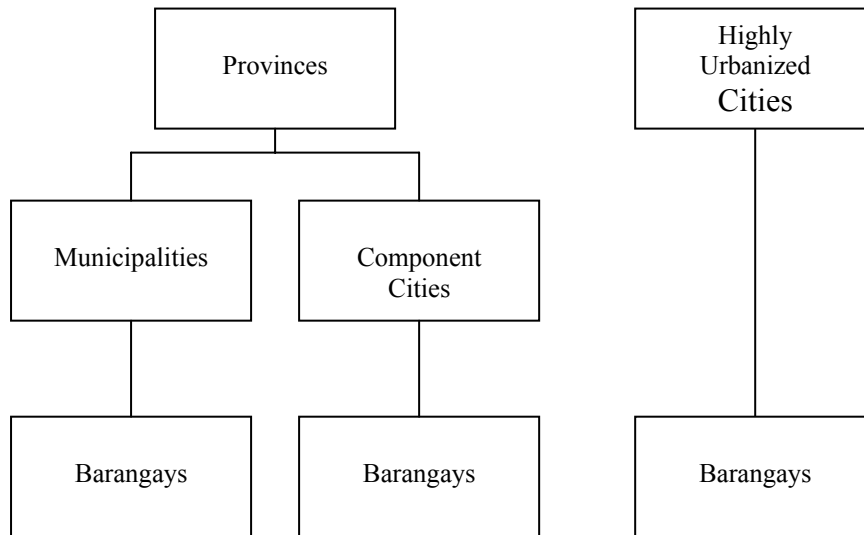
The second tier of government is composed of local government units (LGUs) and one autonomous region, the Autonomous Region of Muslim Mindanao (ARMM). In general, the local government structure is composed of three layers.¹ Provinces comprise the first layer. In turn, the province is divided into municipalities and component cities, each of which is further subdivided into barangays, the smallest political unit. At the same time, independent cities exist at the same level as the provinces, i.e., they share the same functions and authorities. However, independent cities are partitioned directly into barangays (**Figure 1**).

Each level of LGU is headed by an elected chief executive (governor, mayor, or barangay captain) and has a legislative body or Sanggunian (composed of an elected vice-

¹ There are four layers in the case of the autonomous region, with the regional government being comprised of the three layers of local governments as discussed below.

governor/ vice-mayor and council members). All elected officials have a three-year term of office and are subject to a three-term limit. To a large extent, each level of local government is autonomous although the higher level of government (e.g. province) exercises some degree of supervision over lower level governments (e.g., municipalities and component cities) in terms of budgeting and legislation.

Figure 1
Philippine Local Government Units



As of July 2004, the Philippines has a population of some 82 million living in 79 provinces, 116 cities, 1,500 municipalities and some 41,974 barangays.² The barangay is the smallest political unit and is typically composed of about 100-500 households (or about 500-2,000 individuals). The population of the averaged-size municipality is about 39,000; that of the averaged-size city is about 285,000; and that of the averaged-size province is about 835,000.

The Local Government Code (Republic Act 7160) of 1991 and the Organic Act for Muslim Mindanao (Republic Act 6734) of 1989³ jointly define central-local relations in the Philippines. On the one hand, the Organic Act for the Muslim Mindanao granted the regional government powers that were previously held by the central government. It provides for the ARMM's expanded share and automatic retention of national internal revenue taxes collected in the region, significant regional discretion in development planning, and the regional governments' primacy in the delivery of basic services and the utilization and management of natural resources.

On the other hand, the Local Government Code in 1991 (LGC or Code) is a landmark legislation that gave rise to a major shift in local governance. It consolidated and amended the Local Government Code of 1983, the Local Tax Code (Presidential Decree 231), and the Real Property Tax Code (Presidential Decree 464). The Code includes far-reaching provisions affecting the assignment of functions across different levels of government, the revenue

² These numbers change over time as new local government units are created or converted from one type to another. In 1991 there were 76 provinces, 66 cities and 1540 municipalities.

³ This law was subsequently amended in 2001.

sharing between the central and the local governments, the resource generation/utilization authorities of LGUs and the participation of civil society in various aspects of local governance. In toto, these provisions are aimed at providing the framework in support of increased local autonomy.

3. EXPENDITURE ASSIGNMENT AND SPENDING DISTRIBUTION

3.1. Legal Framework

The Organic Act for Muslim Mindanao transfers to the regional government of the ARMM all powers, functions and responsibilities heretofore being exercised by the central government except (1) foreign affairs, (2) national defense, (3) postal service, (4) fiscal and monetary policy, (5) administration of justice, (6) quarantine, (7) citizenship, naturalization and immigration, (8) general auditing, civil service and elections, (9) foreign trade, (10) maritime, land and air transportation and communications that affect areas outside the ARMM, and (11) patents, trademarks, trade names and copyrights. Consequently, the regional government is primarily responsible for the implementation of programs and projects on: agriculture; agrarian reform, education; environment and natural resources; health; tourism, trade and industry; social welfare; industrial peace, protection of workers welfare and promotion of employment; promotion of cooperatives; provision of assistance to local government units; and development and regulation of cooperatives.

On the other hand, the Local Government Code transfers from national government agencies to LGUs the principal responsibility for the delivery of basic services and the operation of facilities in the following areas: land use planning, agricultural extension and research, community-based forestry, solid waste disposal system, environmental management, pollution control, primary health care, hospital care, social welfare services, provincial/ municipal/ city buildings and structures, public parks, municipal services and enterprises (like public markets and slaughterhouses), and local infrastructure facilities (like municipal/ city and provincial roads and bridges, school buildings, health facilities, housing, communal irrigation, water supply, drainage, sewerage, flood control, and intermunicipal telecommunications).⁴ In contrast, prior to the implementation of the LGC, the functions assigned to LGUs were limited to: the levy and collection of local taxes; the issuance and enforcement of regulations governing the operation of business activities in their jurisdictions; and the administration of certain services and facilities like garbage collection, public cemeteries, public markets and slaughterhouses. Then, the central government had the primary responsibility for agricultural planning and extension, construction and maintenance of local roads and public buildings and operation of high schools, hospitals/health services.

Under the LGC, provinces are assigned functions that involve the inter-municipal provision of services, e.g., operation and maintenance of district and provincial hospitals whose catchment area covers more than one municipality. On the other hand, municipalities are generally made responsible for the delivery of frontline basic services, e.g., primary health care, construction, repair and maintenance of public elementary schools.

The devolution program transferred over 70,000 personnel from selected national government agencies to LGUs (**Table 1**). Corresponding to the shift in personnel and

⁴ Local Government Code, Section 17 (b).

facilities,⁵ the budgets of most of these agencies were then cut by 20% - 60% initially (**Table 2**). The national government agencies that were most heavily affected by devolution in these terms were the Department of Agriculture (DA), Department of Health (DOH), the Department of Social Welfare and Development (DSWD) and the Department of Budget and Management (DBM).

Table 1. Number of Devolved Personnel, 1992

	Number of Personnel Before Devolution	Number of Devolved Personnel	Ratio of Devolved Personnel to Pre-Devolution Personnel (%)
Department of Agriculture	29,638	17,673	59.6
Office of the Secretary	29,234	17,664	60.4
National Meat Inspection Commission	404	9	2.2
Department of Budget and Management	3,532	1,650	46.7
Department of Environment and Natural Resources	21,320	895	4.2
Department of Health	74,896	45,896	61.3
Department of Social Welfare and Development	6,932	4,144	59.8
Other Executive Offices	191	25	13.1
Philippine Gamefowl Commission	191	25	13.1
Total	<u>136,509</u>	<u>70,283</u>	<u>51.5</u>

Source: 1993 National Expenditure Program, Regional Coordination Staff

Table 2. Agency Budgets and Devolution, 1992 (in million pesos)

	Budget Before Devolution a/	Devolved Budget b/	Ratio of Devolved Budget to Pre-Devolution Budget (%)
Department of Agriculture	5,210.0	1,160.7	22.3
Department of Budget and Management	465.4	193.2	41.5
Department of Environment and Natural Resources	1,941.8	87.6	4.5
Department of Health	9,991.4	4,079.6	40.8
Department of Social Welfare and Development	1,320.7	742.7	56.2
Philippine Gamefowl Commission	15.2	0.6	4.1
Total	<u>18,944.5</u>	<u>6,264.4</u>	<u>33.1</u>

a/ Based on the 1992 Expenditure Program

b/ based on cost of devolved functions as allocated notionally by DBM to individual LGUs

It should be stressed that under Executive Order 507 (which defined the actual implementation of the devolution program mandated under the Local Government Code)⁶

⁵ Facilities devolved include hospitals, rural health units, barangay health stations, women's/ children's centers, demonstration farms and nurseries and the like.

⁶ Executive Order 507 guided DBM as to which programs and activities will be "excluded" or "disallowed" from the budgets of devolved central government agencies in the post-devolution period.

many health programs (like immunization, control of communicable diseases, provision of drugs and medicines to devolved facilities and operation of hospitals in the NCR) continue to be funded by the central government under the budget of the Department of Health (DOH). This implies that the central government budget for these activities was not devolved in the sense of being “disallowed” in the budget of the DOH in the post-devolution period. Similarly, the central government continues up to this day to allocate monies for the school building program (now called the Basic Education Facilities Fund) despite the fact that construction of school building is devolved to LGUs. This practice has serious implications on how the cost of devolved functions is reckoned which is an important first step in gauging the adequacy of the IRA.

3.2. Assessment

The extensive literature on fiscal decentralization identifies the key features of expenditure assignment that enhance the efficiency gains from fiscal decentralization: (1) appropriate assignment of expenditure responsibilities across levels of government, and (2) unambiguous and clear assignment of functions.

On the one hand, the assignment of functions to the different levels of government is guided by the decentralization theorem which states that “each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision” (Oates 1972). This means that expenditure responsibilities whose benefits extend beyond subnational jurisdictions are best assigned to the central government while the provision of public goods and services whose benefits are confined within LGUs’ own political boundaries should be assigned to them. At the same time, the stabilization and the redistributive functions of government are best assigned to the central government because LGUs have limited capacity to affect macroeconomic conditions and because they would find it difficult to sustain independent redistribution programs. On the other hand, the lack of clarity in the assignment of expenditure responsibility does not only give rise to disputes amongst the different levels of governments but also tends to blur accountability across levels of local government (McLure and Martinez-Vasquez 2002).

*Consistency with decentralization theorem.*⁷ The devolution of expenditure responsibilities to local governments under the LGC is found to be generally consistent with the decentralization theorem (Loehr and Manasan 1999). The activities devolved are those that can be provided at lower levels of government. Few of them have benefits that spillover outside the territorial jurisdiction of the LGU with the exception of those related to environmental management. Moreover, the Code permits LGUs to group themselves and consolidate/ coordinate their efforts, services and resources for purposes that are commonly beneficial to them (Section 33 of the LGC). To date, there are many documented cases of smaller LGUs working together to carry out specific responsibilities (like coastal resource management, solid waste management, water supply development and distribution) when economies of scale and/or externalities make such cooperative undertakings appropriate (e.g., Mercado and Manasan 1999).

⁷ The discussion that follows will focus on the assessment of expenditure assignment under the Local Government Code of 1991. The expenditure assignment under the Organic Act of the ARMM is tackled in **Box 1**.

Box 1. Assessment of Expenditure Assignment under the Organic Act of ARMM

A comparison of RA 6734 and RA 7160 shows that non-ARMM LGUs are treated on an almost equal footing as the regional government of ARMM in terms of expenditure assignment although the functions and responsibilities assigned to the regional government of ARMM are slightly broader than those given to non-ARMM LGUs. In particular, the regional government of the ARMM is charged with the provision of agrarian reform and education services, the promotion of employment and workers' welfare and the promotion of trade and industry while non- ARMM LGUs are not.

On the other hand, ARMM-LGUs and non-ARMM LGUs are treated asymmetrically in terms of the expenditure responsibilities that are assigned to them. This is so because the regional government of the ARMM has not devolved any of their functions to the LGUs within their jurisdiction even if RA 6734 allows them to do so. Thus, ARMM-LGUs are not responsible for any of the devolved activities that have been transferred to non-ARMM LGUs under the Local Government Code of 1991.

One important exception to the application of the decentralization theorem in the Philippines is education. The primary responsibility for the provision of basic education rests with the central government although the construction and maintenance of school buildings is devolved to LGUs under the Local Government Code.⁸

In contrast, basic education is administered by local governments in many countries. Three arguments are generally offered why primary education should be decentralized: (1) the provision of education services is spread out geographically; (2) smaller schools are generally found to provide higher quality education and (3) direct involvement of parents and the local community in schools is observed to be a beneficial determinant of school quality (Ahmad, Hewitt and Ruggiero 1997). On the other hand, the decentralization of education finance tends to lead to large differences in the quality of educational services and many countries take steps to enforce minimum standards of access and quality even as they decentralize the delivery of education services.

Clarity in expenditure assignment. On the surface, Section 17 (b) of the Local Government Code provides an explicit and clear delineation of functions across levels of governments except perhaps in the area of environment and natural resource management.⁹ However, Section 17 (c) allows central government agencies to continue to implement devolved public works and infrastructure projects and other facilities, programs and services provided these are “*funded by the national government under the annual General Appropriations Act, other special laws, pertinent executive orders, and those wholly or partially funded from foreign sources.*” In line with this, Executive Order 53 mandates national government agencies (NGAs) to retain management control over all foreign-assisted projects and/or nationally funded projects even if the same involve devolved activities. At the same time, the Code and its Implementing Rules and Regulations failed to define the mechanism/s through which the central government can direct assistance to LGUs under Section 17 (f) which allows the national government or the next higher level of local government unit to “provide or *augment* the basic services and facilities assigned to a lower

⁸ One of the reasons for not devolving basic education in the Philippines can be traced to the fact that teachers serve in the Board of Election Inspectors. That is, the teachers man the precincts during elections and play an important role in the counting of votes. During debate prior to the enactment of the Local Government Code, concerns were raised that devolving teachers could overly politicize elections at the local level.

⁹ To wit, the Code gives municipalities responsibility for the implementation of community-based forestry and watershed projects but allows the Department of Environment and Natural Resources (DENR) to retain supervision and control over such projects.

level of local government unit when such services or facilities are not made available or, if made available, are inadequate to meet the requirements of its inhabitants”.

Many of the so-called devolved NGAs tend to make full use of Section 17 (f) of the Code and EO 53 regarding augmentation because they deem it their responsibility to direct LGU behavior in support of national objectives (Loehr and Manasan 1999).¹⁰ Section 17 (f) also allows Congressmen easy access to pork barrel funds by the simple act of inserting a special provision in the General Appropriations Act which ordains that monies from such augmentation funds can only be released for “projects that are identified by members of Congress.” Because of these incentives on the part of both Congress and devolved central government agencies to retain funding and implementation of devolved activities at the center, the budgets of devolved central government agencies grew disproportionately relative to the IRA in the post-Code period. In particular, while the IRA grew by 15 percent yearly on the average between 1994-1997, the budget of the Department of Agriculture expanded by 48 percent, that of the Department of Health by 25 percent, and that of the Department of Social Welfare and Development by 22 percent. Along this line, Capuno et al. (2001) estimate that central government agencies (specifically, the DepEd, DOH, DPWH and DILG) spent significant amounts on devolved activities in 1995-1999 (**Table 3**).

In effect, Section 17 (c) and (f) obfuscate what initially appears to be a clear cut assignment of expenditure responsibilities. Gonzalez (1996) goes even further to say that the prevailing regulatory framework effectively permits the existence of a two-track delivery system, where both NGAs and LGUs can initiate devolved activities.

Table 3. Budget Allocations of Selected Central Government Agencies for Devolved Activities, 1995-1999 (in billion pesos)

	DepEd	DOH	DILG	DPWH	Total
1995	4.7	0.6	0.2	4.7	10.2
1996	4.2	0.5	0.2	10.6	15.5
1997	4.7	0.4	0.6	10.8	16.5
1998	2.9	0.3	0.2	30.6	34.0
1999	2.8	0.5	0.1	4.0	7.4

Source: Capuno et al. (2001), Table 1a, Table 1b, table 1c, Table 1d and Table 1e

On the other hand, a continuing source of irritant between the central government and LGUs’ is the propensity of the central government to pass on so-called unfunded mandates to LGUs. The most important of these unfunded mandates refer to the implementation of the salary standardization law and the provision of additional benefits to health workers under the Magna Carta for Health Workers. More recently, LGUs are also mandated to pay for the health insurance premium of their indigent residents. At the same time, LGUs are expected to provide budgetary support (either in the form of additional personnel benefits or outlays for MOOE) to many central government agencies operating at the local level like the police, fire protection bureau, and local courts.

¹⁰ For instance, DOH is accountable for the overall health status of the country in the same way that the DENR is accountable for overall environmental and natural resource management results.

3.3. Trend and Composition of LGU Expenditures, 1991-2003

Central-local expenditure distribution. Consistent with the devolution program, total LGU expenditure doubled relative to GNP and relative to total general government expenditure. Thus, total LGU spending increased from an average of 1.6% of GNP in 1985-1991 to 3.3% of GNP in 1992-2003. Similarly, the share of LGUs in total general government expenditure net of debt service rose from an average of 11.0% in the pre-Code period to an average of 21.2% in the post-Code period (**Table 4**).

Table 4. LGU Expenditure Relative to GNP and to General Government Expenditure

	Ratio of LGU Expenditure to GNP (%)	Expenditure to General Gov't. Expenditure Net of Debt Service (%)
1985	1.54	11.42
1987	1.44	10.04
1989	1.53	10.62
1991	1.89	12.61
1993	2.72	19.97
1995	3.53	21.83
1997	3.75	21.39
1999	3.67	23.04
2001	3.75	25.70
2003	3.43	25.38
Average		
1985-1991	1.61	11.00
1992-2003	3.32	21.23

Meanwhile, **Table 5** documents the changing distribution of government spending on various sectors

across different levels of government over time. It confirms that many devolved functions continue to be shared by the LGUs with the central government in a significant way.

In line with the transfer of functions to LGUs mandated under the Local Government Code, the share of local governments in the aggregate in total general government spending net of debt service doubled from 12.6% in 1991 to 25.4% in 2003. In particular, the local government share in general government spending registered substantial increases in the areas of water resource development and flood control (from 13% in 1991 to 86% in 2003), housing and community development (from 33% to 71%), health (from 10% to 58%), power and energy (from 4% to 40%), other economic services (from 57% to 93%), agriculture (from 3% to 15%), environment and natural resource management (from 0% to 15%), and education (from 2% to 7%). It is remarkable, however, that the share of LGUs in total general government spending on the social welfare and labor/ employment sector declined from 11% in 1991 to 8% in 2003 despite the transfer of about 60% of pre-devolution DSWD personnel to LGUs. On the other hand, the share of LGUs in total general government spending on the transportation and communication sector has grown only minimally (from 15% to 18%) although the Local Government Code calls for the devolution of the construction and maintenance of all local infrastructure facilities and the provision of local telecommunication services to LGUs.

Table 5. Percent Distribution of NG and LGU Expenditures, by Type of Government

Sectors	1991			1995			2003		
	TOTAL	NG	LGU	TOTAL	NG	LGU	TOTAL	NG	LGU
GRAND TOTAL	100.0	91.0	9.0	100.0	82.0	18.0	100.0	81.1	18.9
Total Economic Services	100.0	88.5	11.5	100.0	81.5	18.5	100.0	77.2	22.8
Agrarian Reform	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0
Agriculture	100.0	96.6	3.4	100.0	86.1	13.9	100.0	85.2	14.8
Natural Resources	100.0	100.0	0.0	100.0	94.6	5.4	100.0	85.0	15.0
Industry	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0
Trade	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0
Tourism	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0
Power and Energy	100.0	95.6	4.4	100.0	93.0	7.0	100.0	60.0	40.0
Water Resource Devt/ Flood Control	100.0	86.6	13.4	100.0	82.5	17.5	100.0	13.6	86.4
Transportation and Communication	100.0	84.2	15.8	100.0	80.1	19.9	100.0	81.9	18.1
Other Economic Services	100.0	46.8	53.2	100.0	35.4	64.6	100.0	7.0	93.0
Total Social Services	100.0	93.2	6.8	100.0	82.2	17.8	100.0	82.7	17.3
Education	100.0	97.5	2.5	100.0	92.6	7.4	100.0	92.8	7.2
Health	100.0	90.3	9.7	100.0	51.5	48.5	100.0	41.8	58.2
Soc. Welfare/ Labor/ Other Soc. Serv.	100.0	89.3	10.7	100.0	88.2	11.8	100.0	91.7	8.3
Housing/ Community Development	100.0	67.4	32.6	100.0	46.0	54.0	100.0	29.3	70.7
General Public Service	100.0	74.2	25.8	100.0	64.8	35.2	100.0	59.4	40.6
Public Administration	100.0	60.7	39.3	100.0	49.9	50.1	100.0	40.0	60.0
Peace and Order	100.0	99.3	0.7	100.0	98.4	1.6	100.0	98.8	1.2
Others	100.0	75.4	24.6	100.0	0.0	100.0	100.0	35.4	64.6
Defense	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0
Debt Service	100.0	99.8	0.2	100.0	97.8	2.2	100.0	98.1	1.9
Total Net of Debt Service	100.0	87.4	12.6	100.0	78.2	21.8	100.0	74.6	25.4

Distribution of LGU spending by function. With more resources at their disposal, total LGU expenditures rose from an average of 1.6% of GNP in 1985-1991 to 3.5% of GNP in 1993-2003 (**Table 6**). The increase in total LGU expenditure was particularly rapid in 1993-1995 but started to taper off in 1996. It is noteworthy that LGU expenditure at all levels of local government (with the exception of cities¹¹) declined relative to GNP in 1998 and 1999 following the onset of the Asian financial crisis. It bounced back in 2000 but contracted once again in 2001-2003 due to the adverse impact of fiscal restraints on LGU financing.

LGU spending on all sectors also posted increases when expressed relative to GNP. Thus, LGU spending on the social services sector almost tripled from 0.3% of GNP in 1991 to 0.8% of GNP in 2003. Meanwhile, LGU allocation on the general public services sector

¹¹ Although the total spending level of city governments in the aggregate did not contract in 1998-2001 but it started to decline in 2002 and 2003.

rose from 0.8% of GNP in 1991 to 1.4% in 2003. In contrast, LGU spending on the economic services sector expanded only minimally, from 0.7% of GNP in 1991 to 0.8% in 2003.

Table 6. Ratio to GNP of Local Government Expenditures (in percent)

ALL LGU's	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	1.9	2.7	3.5	3.8	3.7	3.8	3.4
Total Economic Services	0.7	0.7	1.0	1.0	0.9	0.9	0.8
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Natural Resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water Resource Devt/ Flood Control	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation and Communication	0.5	0.4	0.6	0.5	0.5	0.5	0.4
Other Economic Services	0.1	0.2	0.3	0.3	0.2	0.3	0.3
Total Social Services	0.3	0.8	0.9	1.0	1.0	1.0	0.8
Education	0.1	0.2	0.3	0.3	0.3	0.3	0.2
Health	0.1	0.3	0.4	0.5	0.4	0.4	0.4
Soc. Welfare/ Labor/ Other Soc. Serv.	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Housing/ Community Development	0.1	0.2	0.2	0.2	0.2	0.2	0.2
General Public Service	0.8	1.1	1.4	1.5	1.5	1.5	1.4
Public Administration	0.8	1.1	1.3	1.5	1.5	1.5	1.4
Peace and Order	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Debt Service	0.0	0.0	0.1	0.1	0.1	0.1	0.1

*adjusted for DOH & DA advances

Source: Annex Table 1

The mandated transfer to LGUs of functions previously discharged by national government agencies caused a major shift in the size and composition of LGU budgets. Amongst the major sectors, the social services sector posted the fastest rate of growth in 1991-2003, increasing by 21.7% yearly on the average during the period compared to the overall growth in total LGU spending of 8.2%. In contrast, the general public services sector and the economic services sector grew at a slower pace (respectively, by 16.4 and 12.6% yearly on the average). Consequently, the share of the social services sector to total LGU expenditure expanded from 20.5% in 1985-1991 to 25.9% in 1993-2003 while that of the economic services sector and the general public services sector contracted, respectively, from 32.9% to 24.6% and from 42.8% to 40.7% (**Table 7**).

Table 7. Sectoral Distribution of Local Government Expenditures (in percent)

A. ALL LGU's	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Economic Services	32.9	24.6	35.8	25.5	27.6	26.0	25.2	24.6	22.4
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	1.3	3.0	1.1	3.6	3.0	3.0	3.1	2.9	2.7
Natural Resources	0.0	0.6	0.0	0.4	0.4	0.5	0.6	0.6	0.8
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	1.1	0.5	1.2	0.7	0.6	0.5	0.6	0.5	0.1
Water Resource Devt/ Flood Control	0.6	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.2
Transportation and Communication	24.6	13.2	27.9	13.4	16.1	14.6	13.9	12.8	11.1
Other Economic Services	5.3	7.1	5.1	7.1	7.3	7.1	6.8	7.4	7.4
Total Social Services	20.5	25.9	15.4	27.9	26.5	26.8	26.3	26.6	24.4
Education	7.5	7.1	3.6	7.2	7.2	8.1	7.4	7.6	6.3
Health	4.9	11.7	4.2	12.7	11.4	12.2	12.2	11.5	11.0
Soc. Welfare/ Labor/ Other Soc. Serv.	2.7	2.3	2.8	2.3	2.1	2.3	2.2	2.5	2.3
Housing/ Community Development	5.3	4.7	4.8	5.8	5.8	4.3	4.4	5.1	4.8
General Public Service	42.8	40.7	44.5	40.8	38.4	39.2	39.9	40.6	41.3
Public Administration	40.3	40.3	44.0	40.0	37.8	38.8	39.6	40.2	40.8
Peace and Order	2.5	0.4	0.6	0.7	0.5	0.4	0.3	0.4	0.4
Others	3.0	6.6	3.5	4.7	5.1	5.4	6.5	5.9	9.2
Debt Service	0.9	2.3	0.8	1.0	2.4	2.6	2.1	2.2	2.8

The increase in LGU spending on social services between 1991 and 2003 went to health, education, housing/community development and social welfare, in that order. Thus, aggregate LGU expenditure on health rose almost five-fold from 0.08% of GNP in 1991 to 0.38% of GNP in 2003 while LGU spending on education increased by more than three-fold from 0.07% of GNP to 0.22% of GNP (**Table 6**). In contrast, total LGU expenditure on housing/ community development and social welfare services in 2003 were less than twice as large their 1991 levels when expressed relative to GNP.

On the one hand, the hefty increases in LGU spending on health and social welfare were largely due to the fact that the LGUs had very little discretion but to absorb the cost of devolved health and social welfare personnel which accounted for more than half of the total cost of all devolved personnel. On the other hand, higher LGU expenditures on education and housing/community in the post-Code period largely reflect the higher priority that local officials assign to these sectors in the more decentralized regime since LGUs were not locked into previously set (i.e., pre-devolution) central government expenditure levels in these sectors precisely because LGUs did not have to absorb devolved personnel. The increase in LGU spending on the education sector may also be attributed to the fact that the LGUs'

Special Education Fund grew by substantial amounts in the post-Code period because of the mandated adjustments in real property assessments under the LGC.

Although aggregate LGU spending on the social services sector registered a general upward trend in 1991-1997 (when measured relative to GNP and in real per capita terms), it manifested some stagnation (especially with respect to health expenditures) in 1998-2001 and a small decline in 2002 and 2003 (**Table 6** and **Table 8**). These movements are common across all levels of local government and appear to be related to the fiscal difficulties faced by LGUs during this period.¹² This trend is worrisome considering that provinces and municipalities are primarily responsible for the delivery of basic health services. It also highlights the importance for designing a grant program aimed at ensuring that LGUs provide education and health services that are consistent with minimum service standards of access and quality.

**Table 8. Per Capita Local Government Expenditures, in 1985 prices
(including transfers to NG)**

ALL LGU's	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	218	311	426	488	474	506	486
Total Economic Services	78	79	118	127	119	124	109
Agriculture	2	11	13	14	15	15	13
Natural Resources	0	1	2	2	3	3	4
Power and Energy	3	2	2	3	3	3	1
Water Resource Devt/ Flood Control	1	1	1	1	1	1	1
Transportation and Communication	61	42	68	71	66	65	54
Other Economic Services	11	22	31	34	32	38	36
Total Social Services	34	87	113	131	124	135	119
Education	8	22	31	39	35	38	31
Health	9	39	49	59	58	58	53
Soc. Welfare/ Labor/ Other Soc. Serv.	6	7	9	11	11	12	11
Housing/ Community Development	11	18	25	21	21	26	23
General Public Service	97	127	163	191	189	206	201
Public Administration	96	125	161	189	188	204	199
Peace and Order	1	2	2	2	2	2	2
Others	8	15	22	26	31	30	45
Debt Service	2	3	10	13	10	11	13

*Adjusted for DOH & DA advances

Source: Annex Table 2

¹² While the IRA share of LGUs declined relative to GNP in 1998 and then again in 2001, own-source LGU revenue has been on a downtrend since 1998.

On the other hand, the transportation/ communication sub-sector bore the brunt of the contraction in the budget share of the economic services sector in 1991-2003. With the devolution of agricultural extension and environment/ natural resource management, the expenditure share of these sub-sectors rose somewhat between 1991 and 2003. In contrast, the share of the transportation communication sub-sector in total LGU expenditure dipped from 24.6% in 1985-1991 to 13.2% in 1993-2003 (**Table 7**).

Although aggregate LGU spending on transportation/ communication was fairly stable at 0.5% of GNP for most of the post-Code period, a downtrend in LGU transportation spending (when measured relative not only to total LGU spending but also relative to GNP) has become evident in 2002-2003. This trend is true for all levels of local governments (**Annex Table 3**).

These developments appear to be link to the mismatch in the distribution of resources and expenditure responsibilities across levels of local governments. (See further discussion on this below.) At the same time, these movements are a cause of concern considering the robust and strong association between economic growth and infrastructure spending. Given that the Code assigns the primary responsibility for the construction and maintenance of local infrastructure to local governments, this trend also points to the increasing disparity in economic development across levels of local government. It likewise underscores the importance of creating a suitable regulatory framework for encouraging private sector participation in infrastructure (through BOT and joint ventures) at the local level as well as the need for an appropriate grants program for LGU capital investments.

Distribution of LGU spending across levels of local government. In 1991, prior to the implementation of the Local Government Code, provinces contribute 29.0%, municipalities 40.1% and cities 30.9% of total local government expenditure (**Table 9**). On the other hand, under the devolution program, provinces absorbed 47.5%, municipalities 48.10%, cities 4.3% of the total cost of functions devolved to said levels of government (**Table 10**).

Given the relative importance of the provincial and municipal levels in terms of both pre-Code spending levels and the cost of devolved functions, the dramatic expansion in the share of cities and the corresponding contraction in the share of provinces and municipalities in total LGU expenditure in the post-Code period is rather unexpected and is perhaps best explained by the distribution of resources across levels of local government in the post-Code period. Moreover, this trend appears to have gained in intensity over time. Thus, while the share of cities in total expenditure of all LGUs in the aggregate rose from 37.8% in 1995 to 41.9% in 2003, the share of municipalities declined from 37.6% to 34.5% and that of provinces dipped from 24.6% to 23.6%.

The share of provinces and municipalities in total LGU spending on the economic services sector contracted from 35.4% and 33.7%, respectively, in 1991 to 27.8% and 31.9%, respectively, in 2003 while the share of cities expanded from 30.9% to 40.3%. This development is largely driven by the growing share of cities in total LGU spending on the transportation/communication sub-sector in the post-Code period. Said movement dominates the expansion in the share of provinces in total LGU spending on the other economic services sub-sector and the increase in the share of municipalities in total LGU spending on the agriculture and the water resource development sub-sectors.

Table 9. Distribution of LGU Expenditures Across Levels of Local Government by Function

Sectors	1991				2003			
	LOCAL	Prov.	Mun.	Cities	LOCAL	Prov.	Mun.	Cities
GRAND TOTAL	100.0	29.0	40.1	30.9	100.0	23.6	34.5	41.9
Total Economic Services	100.0	35.4	33.7	30.9	100.0	27.8	31.9	40.3
Agriculture	100.0	46.9	8.2	44.9	100.0	34.0	46.2	19.8
Natural Resources					100.0	16.1	4.5	79.4
Power and Energy	100.0	16.2	16.3	67.5	100.0	9.0	73.4	17.6
Water Resources Devt. & Flood Control	100.0	37.0	49.3	13.7	100.0	4.8	73.5	21.7
Transportation and Communication	100.0	39.6	31.2	29.2	100.0	32.5	19.2	48.3
Other Economic Services	100.0	14.5	55.2	30.3	100.0	22.4	42.6	35.0
Total Social Services	100.0	33.5	24.1	42.4	100.0	27.8	26.5	45.7
Education	100.0	12.9	41.8	45.3	100.0	20.7	21.0	58.3
Health	100.0	19.8	16.7	63.5	100.0	41.9	27.7	30.3
Soc. Welfare/ Labor/ Oth. Soc. Serv.	100.0	19.2	32.1	48.7	100.0	17.4	44.9	37.7
Housing/ Community Development	100.0	68.9	12.8	18.3	100.0	9.6	22.0	68.3
General Public Service	100.0	22.4	51.0	26.6	100.0	19.9	42.9	37.2
Public Administration	100.0	22.6	51.2	26.2	100.0	20.0	43.2	36.8
Peace and Order	100.0	1.6	25.5	72.9	100.0	3.3	19.5	77.2
Others	100.0	30.1	44.9	24.9	100.0	20.2	30.3	49.5
Debt Service	100.0	10.1	15.4	74.5	100.0	20.1	15.2	64.7
Total net of debt service	100.0	29.1	40.3	30.5	100.0	23.7	35.1	41.2

Similarly, the share of provinces in total LGU spending on the social services sector declined from 33.5% in 1991 to 27.8% in 2003 despite the absorption of a large number of personnel in the health sub-sector by provinces and corresponding dramatic rise in the share of provinces in total LGU spending on the said sub-sector as the share of provinces in total LGU spending on social welfare and housing/ community development sub-sectors slipped in the post-Code period. In contrast, the share of municipalities and cities in total LGU expenditure on the social services sector rose from 24.2% and 42.4%, respectively, in 1991 to 26.5% and 45.7%, respectively, in 2003. The movement is due to the expansion in the share of municipalities in total LGU spending on the health, social welfare and housing/ community development sub-sectors and the expansion in the share of cities in total LGU spending on the housing/community development and education sub-sectors in the post-Code period.

Table 10. Distribution of Cost of Devolved Functions Across Levels of Local Government by Function, 1992

Percent distribution across levels of local government	Provinces	Munis	Cities	All LGUs
General Public Services	7.1	87.7	5.2	100.0
Economic Services	37.9	57.4	4.8	100.0
Agriculture	33.4	61.6	5.0	100.0
Environment and Natural Resources	97.6	0.8	1.6	100.0
Social Services	51.7	44.2	4.2	100.0
Health	60.2	37.2	2.6	100.0
Social Welfare and Employment	4.8	82.3	12.9	100.0
TOTAL	47.5	48.1	4.3	100.0
Percent distribution across functions				
General Public Services	0.5	5.6	3.7	3.1
Economic Services	15.9	23.8	22.0	19.9
Agriculture	13.0	23.7	21.5	18.5
Environment and Natural Resources	2.9	0.0	0.5	1.4
Social Services	83.7	70.6	74.3	77.0
Health	82.5	50.4	38.9	65.1
Social Welfare and Employment	1.2	20.3	35.4	11.9
TOTAL	100.0	100.0	100.0	100.0

Distribution of LGU expenditure by economic category. In the aggregate, LGU spending on personal services (PS) grew from an average of 0.7% of GNP in 1985-1991 to an average of 1.6% of GNP in 1993-2003 (Table 11). Because it has grown at the same pace as total LGU expenditures, its share in total LGU spending has remained fairly stable at 47% in the pre-Code period as well as the post-Code period, making it the most important expenditure item according to economic category (Table 12).

On the other hand, the share of capital outlays (CO) in aggregate LGU expenditures expanded from an average of 16.4% in 1985-1991 to an average of 18.3% in 1993-2003 even as the budget share of maintenance and other operating expenditures contracted from 37.1% to 35.2%.

However, these figures mask variations across different levels of local governments. Because the budget share of personal services expanded in the post-Code period in the case of provinces and municipalities, there is a squeeze not only on their MOOE but also on their capital outlays in the post-Code period. Thus, the share of MOOE in total LGU spending contracted from 39.2% in 1985-1991 to 31.0% in 1993-2003 in the case of municipalities and from 36.9% to 35.7% in the case of provinces. Similarly, the share of capital outlays in total LGU spending declined from 14.9% to 13.0% in the case of municipalities and from 18.9% to 16.5% in the case of provinces.

Table 11. Ratio to GNP of Local Government by Object

A. ALL LGU's	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	1.6	3.5	1.9	2.7	3.5	3.8	3.7	3.8	3.4
PS	0.7	1.6	0.8	1.3	1.6	1.8	1.8	1.7	1.4
MOOE	0.6	1.2	0.6	0.9	1.2	1.2	1.3	1.3	1.4
CO	0.3	0.7	0.4	0.5	0.8	0.7	0.6	0.7	0.6
B. ALL PROVINCES	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	0.5	0.8	0.5	0.7	0.9	0.9	0.8	0.9	0.8
PS	0.2	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.3
MOOE	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
CO	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1
C. ALL MUNICIPALITIES	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	0.6	1.3	0.8	1.2	1.3	1.4	1.3	1.3	1.2
PS	0.3	0.7	0.4	0.6	0.7	0.8	0.8	0.7	0.6
MOOE	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
CO	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1
D. ALL CITIES	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	0.5	1.4	0.6	0.9	1.3	1.5	1.5	1.5	1.4
PS	0.3	0.5	0.3	0.3	0.5	0.6	0.6	0.6	0.5
MOOE	0.2	0.5	0.2	0.3	0.5	0.5	0.6	0.6	0.6
CO	0.1	0.3	0.1	0.2	0.4	0.4	0.4	0.4	0.3

The salary structure applicable to mandatory LGU positions is set by the Compensation and Position Classification Act (CPCA) of 1989. The CPCA in tandem with the Codal provisions on mandatory positions tend to restrict LGUs' ability to re-align their outlays for personal services in consonance with their specific needs and circumstances. In some cases, these restrictions impose a heavy fiscal burden on LGUs (particularly in the case of provinces and municipalities), and thus, effectively putting a squeeze on ability of these LGUs' to fund maintenance and capital outlays. In other cases, they make it difficult for low income class LGUs to retain personnel, particularly in the health sector.

The Local Government Code imposes a ceiling on PS spending of LGUs (45%-55% of total regular income depending on LGU's income class) but many exemptions are allowed in reckoning compliance to this mandate. Thus, although aggregate LGU spending on personal services was slightly below the ceiling in 1993-2003 (at 53.9% of total LGU regular income in the previous year), the situation is particularly problematic in the case of municipalities which posted an aggregate PS ratio of 61.8% during the same period (Table 12).

Table 12. Percent Distribution of Local Government Expenditures by Type of Expenditure (in percent)

A. ALL LGU's	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PS	46.5	46.4	44.7	46.6	45.3	47.3	48.1	45.5	49.2
MOOE	37.1	35.2	32.8	34.5	33.4	33.0	34.3	35.5	34.1
CO	16.4	18.4	22.4	18.9	21.4	19.7	17.5	19.1	16.7
Ratio of PS to Reg. Income in Previous Year	63.9	53.9	66.0	72.8	55.4	62.4	57.8	50.4	54.2
B. ALL PROVINCES	Average		1991	1993**	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PS	44.2	47.7	41.6	49.9	48.4	48.8	50.8	45.1	42.1
MOOE	36.9	35.7	35.2	37.3	35.9	33.8	33.9	35.4	42.8
CO	18.9	16.5	23.3	12.8	15.6	17.4	15.3	19.6	15.1
Ratio of PS to Reg. Income in Previous Year	75.5	55.2	75.9	87.1	58.4	67.5	59.1	50.1	41.2
C. ALL MUNICIPALITIES	Average		1991	1993**	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PS	45.9	55.0	46.1	51.5	52.6	55.7	57.9	55.3	50.8
MOOE	39.2	32.0	33.3	32.4	31.3	30.8	31.0	31.1	36.9
CO	14.9	13.0	20.5	16.1	16.1	13.5	11.2	13.6	12.3
Ratio of PS to Reg. Income in Previous Year	63.6	61.7	68.4	80.7	62.4	71.8	68.8	57.6	48.4
D. ALL CITIES	Average		1991	1993**	1995	1997	1999	2001	2003
	1985-1991	1993-2003							
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PS	49.4	37.8	45.8	37.4	35.9	38.4	38.1	37.5	34.2
MOOE	34.6	37.8	30.0	35.1	33.8	34.5	37.6	39.2	43.7
CO	16.0	24.4	24.2	27.4	30.3	27.1	24.3	23.4	22.1
Ratio of PS to Reg. Income in Previous Year	57.1	45.4	57.1	53.8	45.8	50.5	47.0	43.8	36.1

To make matters worse, personal services expenditure as recorded in the financial statements of LGUs tends to underestimate the amounts that LGUs actually spend on compensation of personnel because of the practice of charging the salaries and wages of contractual employees hired under so-called “job orders” or “service contracts” against MOOE or CO (for development projects). Some LGUs report that this practice is no longer allowed under new government accounting system (NGAS) but other LGUs report that this practice is still in effect. For instance, a number of the LGUs report that 15%-20% of their

MOOE is actually used to pay for contractual personnel. Still other LGUs charge some of their “excess” personal services against the accounts of public enterprises like public markets.

4. REVENUE ASSIGNMENT AND DISTRIBUTION

4.1. Legal Framework¹³

Table 13 summarizes the various taxes that are assigned to the different levels of local government. Under the Local Government Code, only provinces and cities are authorized to levy the real property tax but the proceeds from this tax are shared with lower levels of governments (i.e., municipalities and barangays in the case of the province and barangays in the case of the city). In addition, both provinces and cities are also allowed to impose a tax on the transfer of real property, on sand, gravel and other quarry resources, on amusement places, on franchises, on professionals, on delivery vans and trucks, and on idle lands.¹⁴ Meanwhile, municipalities and cities (but not provinces) are authorized to levy the community tax and the local business tax (basically a turnover tax that is levied on the gross receipts of businesses/ traders).

On the other hand, Section 133 of the LGC lists in some detail the taxes that LGUs are not allowed touch and which are reserved for the central government. This includes: the income tax (both individual and corporate), customs duties, the value added tax, and excise taxes on alcoholic beverages, tobacco products and petroleum products are reserved for the central government alone. At the same time, the National Internal Revenue Code does not provide for a central government real property tax nor for a central government community tax (poll tax).

Table 13
Tax Assignment in Cities, Provinces, and Municipalities

Subject	Cities	Prov.	Muni's	Brgy.
On Real Property Transfers	✓	✓		
On Business of Printing and Publication	✓	✓		
On Franchise	✓	✓		
On Sand, Gravel and other Quarry Resources	✓	✓	a/	a/
On Amusement Places	✓	✓	a/	
On Professionals	✓	✓		
On Delivery Vans and Trucks	✓	✓		
On Real Property	✓	✓	a/	a/
On Idle Lands	✓	✓		
On Business	✓		✓	✓
On Community Tax	✓		✓	a/

a/ Shares in proceeds of levy of province.

¹³ The discussion that follows refers to the tax assignment under the Local Government Code. Tax assignment in the ARMM is taken up in **Box 2**.

¹⁴ Lower level local governments likewise have a share in the proceeds of the sand/ gravel tax, amusement tax and the community tax.

Box 2. Tax Assignment in ARMM

Under RA 6733, the regional government of the ARMM was authorized to levy all types of taxes with the exception of the income tax and customs duties. In practice, however, the regional government of the ARMM does not touch any of the taxes that the central government levies. Instead, it has chosen to impose a supplementary rate (i.e., a surcharge) on taxes that are typically levied by provincial governments under the Local Government Code like the real property tax, the sand and gravel tax, the amusement tax, the professional tax, and the franchise tax.* In this sense, the amended Organic Act of the ARMM (Republic Act 9054) simply formalizes the symmetrical treatment of the ARMM and the LGUs with regards to the limitations on their taxing powers.

* In practice, the regional government of ARMM imposes tax rates that are 60%-90% lower than those of the LGUs’.

4.2. Assessment

The traditional literature on fiscal federalism (e.g., Shah 1994, Ter-Minassian 1997, Bird 1999) provides three general criteria for assessing the appropriateness of tax assignment: economic efficiency, equity and administrative feasibility. The economic efficiency criterion suggests that each level of government should be assigned taxes that are related to the benefits of its spending responsibility. Thus, user charges for identifiable public services that are provided by subnational governments and taxes that are levied based on the benefit principle (e.g., motor vehicle taxes which may be used to finance the construction and finance of local infrastructure) are best assigned to LGUs. To the extent that LGUs have to resort to non-benefit taxation, theory suggests that local governments are assigned tax bases which have low inter-jurisdictional mobility. Otherwise, non-uniform tax rates levied by different LGUs will distort the geographic allocation of economic resources.

At the same time, the literature argues that progressive taxes (i.e., those that are based on ability to pay) should finance the redistributive function of government. And, because the said function is generally viewed as a central government function, progressive taxes are best assigned to the central government. Lastly, the concern for administrative efficiency indicates that the authority to collect particular types of taxes should be given to the level of government that is able to do so with the lowest possible collection and enforcement cost.

On the other hand, the new view on tax assignment (e.g., Mc Lure 1999, Bird 1999) emphasizes the need to provide subnational governments with fiscal autonomy. Here, what is important is for local governments (1) to have their own source of revenues and (2) to have the power to control the amount of revenues they receive at the margin so as to be able to fund the level of services they prefer.¹⁵ In this way, “subnational governments would have to face the full marginal tax price of the spending decisions for which they are responsible” (Bird 1999).

Given this background, the Philippine tax assignment appears to largely be consistent with the traditional view. The two most important sources of tax revenue for LGUs, the real property tax and the community tax, are taxes on immobile factors. At the same time, LGUs are given wide latitude on the amount of fees and other user charges they may levy.

¹⁵ Related to this, it may be noted that while revenue sharing with the central government (e.g., through block grants) may provide LGUs with adequate own-source revenues, this scheme does not provide fiscal autonomy because subnational governments do not have the power to affect the amount of shared revenues they receive.

However, the current tax assignment scores low in terms of the autonomy criterion. While the Local Government Code authorizes LGUs to levy local taxes on a good number of tax bases (including some which were not allowed under the Presidential Decree (PD) 231 and Presidential Decree 464 during the pre-LGC period like banks and other financial institutions, and printing/publication), the size of the base of taxes outside of the real property tax and the local business tax is not significant. Also, despite these changes, the bulk of the productive tax bases still rests with the central government.

The LGC also seriously limits their power to set local tax rates. One, the Code fixes the tax rate of some of the taxes that are assigned to LGUs (like the SEF real property tax and the community tax). Two, while LGUs do have some discretion in setting tax rates in the case of other local taxes, the Code sets limits (i.e., floors and ceilings) on the tax rates that LGUs may impose. Moreover, the maximum allowable rates appear to be low. For instance, although the Local Government Code raised the ceiling rate for real property taxation at the provincial level from 0.5% to 1%, it withdrew the power of municipalities¹⁶ to impose such tax (**Table 13**), thus maintaining the effective real property tax rate in provincial municipalities at the pre-Local Government Code level (Manasan, 1992). In terms of real property assessment levels, the LGC set maximum assessment rates for different classes of property whereas the levels themselves were fixed in the pre-LGC period. The maximum assessment rates set under the LGC are no higher and often significantly lower than the fixed assessment rates in the pre-LGC period¹⁷, thereby resulting in the reduction in the effective assessment levels of residential land, all types of buildings and all types of machinery, leading to a potentially substantial reduction in real property tax revenues.

Three, the Code mandates that tax rates can only be adjusted once in 5 years and by no more than 10%. This provision is particularly restrictive in the case of taxes (like the professional tax and the tax on delivery vans and trucks) whose rates are specified in nominal peso terms. Clearly, the resulting adjustments will not allow LGUs to maintain the real value of their revenues.

Thus, future Code amendments should look at giving LGUs greater discretion in setting tax rates by raising the maximum allowable tax rates. Moreover, there is a need to move away from tax rates that are not indexed to inflation as such practice necessitate frequent revisions of local tax ordinances if LGUs want to keep their own-source revenues buoyant.

Also, the tax structure prescribed by the Code for the local business tax is too complicated such that different categories of firms are subject to different rate schedules. This situation tends to increase administrative and compliance costs and further strains the capacity of an already weak local tax administration (Taliercio 2003).

¹⁶ Municipalities in Metro Manila are still allowed to impose real property taxes.

¹⁷ The LGC also provided for the exemption of residential buildings with market value below P175,000 from real property taxation.

Related to this, it is noted that many of the personnel assigned to the tax division are not well-equipped technically for their tasks. Very few of these units have certified public accountants in their rolls, thereby impairing their audit capability. Also, not many LGUs have computers that will help them improve their revenue performance.

That local tax administration is severely inadequate in many LGUs is highlighted in **Table 14**. It shows the declining trend in RPT collection efficiency of both provinces and cities in the post-Code period.

Table 14
Collection Rate of Current Year
For Basic RPT, 1983-1999

	All LGUs	Provinces	Cities
1989	58.0	55.6	61.0
1991	58.9	54.1	65.1
1994	60.7	54.0	66.3
1997	57.4	50.0	62.0
1999	54.1	52.4	54.9
2000	54.6	44.7	57.1
Average			
1989-1991	58.2	54.4	63.1
1992-2000	55.4	49.0	59.7

Finally, many LGU officials tend not to fully utilize the tax powers assigned to them. For instance, many provinces and cities have done a general revision of the schedule of market values only once since 1991, resulting in declining collections in real terms.¹⁸ Also, few LGUs have revised their local tax codes since 1992 despite the fact that rate of some of the taxes are not indexed to inflation. This development is reportedly due to the resistance on the part of either the local chief executive or the local Sanggunian (or both) to increase the tax rates in general for fear of a backlash from their constituents during election. It also appears to be related to the poor incentives resulting from the mismatch between the assignment of taxes and the assignment of expenditure responsibilities to the different levels of local government (More on this point below.) In particular, the share of provinces and municipalities in total LGU own-source revenue declines in the post-Code period despite their large share in the cost of devolved functions.

4.3. Trend and Composition of LGU Revenues, 1991-2001

National/ subnational revenue distribution. **Table 15** and **Table 16** confirm that the bulk of the productive sources of local revenue remain with the central government even in the post-Code period. Also, many LGUs have not fully utilized their revenue raising powers due to political constraints and to dis-incentive effect of the IRA distribution formula on local tax effort. Thus, the contribution of LGUs to total revenues of the general government (central government and LGUs combined) remains low – an average of 6.9% in 1992-2003 compared to an average of 4.9% in 1985-1991 (**Table 15**). Moreover, local government revenue effort rose only marginally from an average of 0.8% of GNP in the pre-Code period to an average of 1.2% of GNP in the post-Code period (**Table 16**).

¹⁸ The Code mandates that LGUs to conduct a general revision of market values once every three years with the first one taking effect in 1994.

Table 15. Share of National and Sub-national Governments to General Government Revenue (in percent)

Levels	National Government			Local Government		
	Total	Tax	Non-Tax	Total	Tax	Non-Tax
1985	94.1	95.5	84.2	5.9	4.5	15.8
1987	95.5	96.2	92.2	4.5	3.8	7.8
1989	95.2	96.3	90.6	4.8	3.7	9.4
1991	95.4	96.3	91.6	4.6	3.7	8.4
1993	93.6	94.4	88.2	6.4	5.6	11.8
1995	94.1	94.8	90.0	5.9	5.2	10.0
1997	93.5	94.4	87.4	6.5	5.6	12.6
1999	92.7	93.8	83.8	7.3	6.2	16.2
2001	92.8	93.6	87.4	7.2	6.4	12.6
2003	92.0	92.6	88.6	8.0	7.4	11.4
Average						
1985-1991	95.1	96.1	90.9	4.9	3.9	9.1
1992-2003	93.1	94.0	87.4	6.9	6.0	12.6

Table 16. General Government Revenues by Level of Local Government as a Percent of GNP

Levels	General Government			National Government			Local Government		
	Total	Tax	Non-Tax	Total	Tax	Non-Tax	Total	Tax	Non-Tax
1985	13.3	11.6	1.7	12.5	11.1	1.4	0.8	0.5	0.3
1987	16.2	13.4	2.8	15.5	12.9	2.6	0.7	0.5	0.2
1989	17.7	14.0	3.6	16.8	13.5	3.3	0.9	0.5	0.3
1991	18.4	15.1	3.4	17.6	14.5	3.1	0.8	0.6	0.3
1993	18.5	16.3	2.3	17.4	15.3	2.0	1.2	0.9	0.3
1995	19.6	16.7	2.9	18.4	15.9	2.6	1.2	0.9	0.3
1997	20.0	17.3	2.7	18.7	16.3	2.4	1.3	1.0	0.3
1999	16.5	14.7	1.8	15.3	13.8	1.5	1.2	0.9	0.3
2001	15.7	13.5	2.2	14.5	12.6	1.9	1.1	0.9	0.3
2003	14.8	12.6	2.2	13.6	11.6	1.9	1.2	0.9	0.2
Average									
1985-1991	16.6	13.6	3.0	15.8	13.1	2.7	0.8	0.5	0.3
1992-2003	16.9	14.7	2.3	15.8	13.8	2.0	1.2	0.9	0.3

Distribution of LGU own-source revenue across levels of local government. The assignment of revenues under the Local Government Code has effectively shifted the distribution of own-source revenue from municipalities and provinces in favor of cities. Note that the Code not only allows cities to impose all the taxes that provinces and municipalities are authorized to levy, it also gives them a greater discretion in setting the tax rates. Also, the share of the province and the municipality in the proceeds of the real property tax was reduced by the LGC relative to PD 464.

Thus, the share of provinces and municipalities in total LGU own-source revenue contracted from an average of 19.9% and 37.1%, respectively, in 1985-1991 to 12.5% and

27.3%, respectively, in 1992-2003 (**Table 17**). In contrast, the share of cities in total LGU own-source revenue expanded from 40.0% in the pre-LGC period to 60.2% in the post-LGC period. This kind of movement is evident for tax as well as non-tax sources of own-source revenues. Recall, however, that the cost of devolved functions is heavily skewed in favor of provinces and municipalities (**Table 10**). A comparison of **Table 17** with **Table 10**, thus, highlights the inconsistency between tax assignment and expenditure assignment across levels of local government.

Table 17. Distribution of LGU Own-Source Revenue Across Levels of Local Government by Type of Revenue (%)

	LG Total Own Source Revenue				LG Total Tax Revenue				LG Non-Tax Revenue			
	Total	Provinces	Munis	Cities	Total	Provinces	Munis	Cities	Total	Provinces	Munis	Cities
1985	100.0	19.5	35.1	45.4	100.0	15.8	36.5	47.7	100.0	27.0	32.3	40.7
1987	100.0	17.4	37.8	44.8	100.0	16.6	36.1	47.3	100.0	19.5	41.6	38.9
1989	100.0	27.4	33.6	39.0	100.0	17.0	36.2	46.8	100.0	43.3	29.7	27.1
1991	100.0	18.4	38.9	42.7	100.0	13.3	40.7	46.0	100.0	28.4	35.5	36.1
1993	100.0	14.0	48.4	37.6	100.0	11.9	49.4	38.7	100.0	21.0	45.1	33.9
1995	100.0	14.8	31.7	53.5	100.0	13.1	29.5	57.4	100.0	19.7	38.3	42.0
1997	100.0	13.3	29.8	56.9	100.0	10.0	27.3	62.7	100.0	22.6	36.9	40.5
1999	100.0	12.8	25.6	61.6	100.0	11.7	21.9	66.3	100.0	16.1	37.1	46.7
2001	100.0	11.9	23.3	64.8	100.0	10.2	20.2	69.6	100.0	17.5	32.9	49.6
2003	100.0	10.1	22.1	67.9	100.0	8.4	18.8	72.8	100.0	16.3	34.4	49.3
average												
1985-1991	100.0	19.9	37.1	43.0	100.0	15.2	38.0	46.8	100.0	29.1	35.3	35.6
1992-2003	100.0	12.5	27.3	60.2	100.0	10.7	24.4	64.9	100.0	18.3	36.2	45.5

Distribution of LGU own-source revenues by type. For all LGUs in the aggregate, tax revenues is the major source of own-source revenue, accounting for 66.3% of their total own-source revenue in 1985-1991 and 75.7% in 1992-2003 (**Table 18**). While revenues from the real property tax are more important than those from other taxes for all provinces in the aggregate in the post-Code period, the opposite is true in the case of municipalities and cities. Moreover, the increase in the share of other taxes in total own-source revenue of cities and municipalities is remarkable in the post-Code period.

The bulk of the increase in total own-source revenues of all LGUs in the aggregate came from tax revenues. Real property revenues rose from 0.5% of GNP in 1985-1991 to 0.9% of GNP in 1992-2003 while revenues from other taxes increased from 0.2% of GNP to 0.4% of GNP (**Table 19**). In contrast, revenues from user charges and fees rose from 0.2% of GNP to 0.3% of GNP.

However, own-source revenue effort for all LGUs in the aggregate show some stagnation in the second half of the 1990s (**Table 19**). This trend is true for all sources of revenues but is more pronounced in the case of provinces and municipalities than in the case of cities. However, the positive trend in the case of cities may be traced more to the conversion of a good number of municipalities into cities and less to their good performance per se.

Table 18. Distribution of LGU Revenue By Source (%)

ALL LGUS	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1992-2003							
TOTAL OWN-SOURCE REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Tax Revenues	66.3	75.7	66.3	77.2	75.1	73.9	75.9	75.8	79.0
Real Property Tax	40.4	38.4	40.8	31.8	38.8	38.4	38.6	39.7	39.7
Others	25.8	37.4	25.5	45.4	36.3	35.5	37.3	36.1	39.3
II. Operating & Misc. Revenues	31.2	23.7	31.4	22.7	24.7	24.1	23.8	23.7	21.0
III. Capital	2.5	0.6	2.3	0.2	0.3	1.9	0.3	0.6	0.0
PROVINCE	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1992-2003							
TOTAL OWN-SOURCE REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Tax Revenues	50.7	64.6	48.0	65.7	66.7	55.7	69.6	64.5	66.0
Real Property Tax	40.8	48.9	38.3	47.3	44.2	44.9	48.3	51.2	52.3
Others	9.9	15.7	9.7	18.5	22.5	10.8	21.3	13.3	13.7
II. Operating & Misc. Revenues	42.1	32.2	50.4	34.0	32.6	32.8	29.5	31.4	34.0
III. Capital	7.2	3.1	1.7	0.3	0.7	11.5	0.9	4.0	0.0
MUNICIPALITIES	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1992-2003							
TOTAL OWN-SOURCE REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Tax Revenues	68.0	67.8	69.2	78.7	69.8	67.7	65.1	65.8	67.3
Real Property Tax	39.6	30.5	41.3	25.7	32.1	30.7	29.1	30.8	30.3
Others	28.4	37.3	27.9	53.0	37.7	37.0	36.0	35.0	36.9
II. Operating & Misc. Revenues	31.6	31.8	30.1	21.2	29.6	31.3	34.3	34.0	32.7
III. Capital	0.4	0.4	0.7	0.1	0.5	1.0	0.6	0.2	0.0
CITIES	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1992-2003							
TOTAL OWN-SOURCE REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Tax Revenues	72.1	81.7	71.5	79.4	80.4	81.4	81.7	81.5	84.7
Real Property Tax	41.0	39.7	41.3	33.8	41.2	41.0	40.5	40.8	40.9
Others	31.0	41.9	30.1	45.6	39.2	40.4	41.2	40.7	43.8
II. Operating & Misc. Revenues	25.9	18.2	24.5	20.4	19.5	18.4	18.2	18.5	15.3
III. Capital	2.1	0.1	4.1	0.2	0.0	0.2	0.0	0.0	0.0

Table 19. Revenue Effort of All Local Governments, (Ratio to GNP in Percent)

ALL LGUS	Average		1991	1993	1995	1997	1999	2001	2003
	1985-1991	1992-2003							
TOTAL OWN-SOURCE REVENUE	0.81	1.17	0.84	1.18	1.15	1.30	1.20	1.13	1.18
I. Tax Revenues	0.53	0.89	0.56	0.91	0.87	0.96	0.91	0.86	0.93
Real Property Tax	0.33	0.45	0.34	0.37	0.45	0.50	0.46	0.45	0.47
Others	0.21	0.44	0.21	0.53	0.42	0.46	0.45	0.41	0.46
II. Operating & Misc. Revenues	0.25	0.28	0.26	0.27	0.28	0.31	0.29	0.27	0.25
III. Capital	0.02	0.01	0.02	0.00	0.00	0.03	0.00	0.01	0.00
Average									
PROVINCE	1985-1991	1992-2003	1991	1993	1995	1997	1999	2001	2003
TOTAL OWN-SOURCE REVENUE	0.16	0.15	0.15	0.16	0.17	0.17	0.15	0.14	0.12
I. Tax Revenues	0.08	0.09	0.07	0.11	0.11	0.10	0.11	0.09	0.08
Real Property Tax	0.07	0.07	0.06	0.08	0.08	0.08	0.07	0.07	0.06
Others	0.02	0.02	0.01	0.03	0.04	0.02	0.03	0.02	0.02
II. Operating & Misc. Revenues	0.07	0.05	0.08	0.06	0.06	0.06	0.05	0.04	0.04
III. Capital	0.01	0.00	0.00	0.00	0.00	0.02	0.00	0.01	0.00
Average									
MUNICIPALITIES	1985-1991	1992-2003	1991	1993	1995	1997	1999	2001	2003
TOTAL OWN-SOURCE REVENUE	0.30	0.32	0.33	0.57	0.37	0.39	0.31	0.26	0.26
I. Tax Revenues	0.20	0.22	0.23	0.45	0.26	0.26	0.20	0.17	0.18
Real Property Tax	0.12	0.10	0.13	0.15	0.12	0.12	0.09	0.08	0.08
Others	0.08	0.12	0.09	0.30	0.14	0.14	0.11	0.09	0.10
II. Operating & Misc. Revenues	0.09	0.10	0.10	0.12	0.11	0.12	0.11	0.09	0.09
III. Capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average									
CITIES	1985-1991	1992-2003	1991	1993	1995	1997	1999	2001	2003
TOTAL OWN-SOURCE REVENUE	0.35	0.71	0.36	0.44	0.62	0.74	0.74	0.73	0.80
I. Tax Revenues	0.25	0.58	0.26	0.35	0.50	0.60	0.61	0.60	0.68
Real Property Tax	0.14	0.28	0.15	0.15	0.25	0.30	0.30	0.30	0.33
Others	0.11	0.30	0.11	0.20	0.24	0.30	0.31	0.30	0.35
II. Operating & Misc. Revenues	0.09	0.13	0.09	0.09	0.12	0.14	0.13	0.14	0.12
III. Capital	0.01	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00

When measured relative to GNP, total own-source revenue of provinces registered a slight contraction in the post-Code period, from an average of 0.16% of GNP in 1985-1991 to 0.15% in 1992-2003 (**Table 19**). This is primarily traceable to a decline in their non-tax revenue (particularly operating and other miscellaneous income). The decline in non-tax effort of provinces is surprising given the greater autonomy that LGUs enjoy in the setting of fees and user charges.

In contrast, total own-source revenue effort of cities and municipalities rose from an average of 0.35% and 0.30% of GNP, respectively, in 1985-1991 to 0.71% and 0.32% of GNP, respectively, in 1992-2003 (**Table 19**). In cities, all sources of own-source revenues increased in the post-Code period but the improvement in local tax effort (both RPT and other taxes) was more dramatic. On the other hand, the expansion in the own-source revenue effort of municipalities was largely driven by increases in their other taxes and in their operating/miscellaneous revenues. These differences in the revenue performance of provinces, cities and municipalities may be explained by differences in their tax bases as well as differences in their taxing powers. Being more urbanized and having economies that are more market-based, the tax base of cities tends to be more buoyant when compared to those of municipalities and provinces. But, a lot of the improvement of the own-source revenue effort of cities (particularly in the last half of the 1990s and early 2000s) is also explained by reclassification (i.e., the conversion) of a significant number of municipalities into cities.

5. INTERGOVERNMENTAL TRANSFERS

5.1. Legal Framework

In the Philippines, central government transfers to sub-national governments are of two types: formula based block grants (i.e., internal revenue allotment or IRA and share in national wealth) and *ad hoc* categorical grants. In principle, LGUs have almost full discretion in the utilization of their IRA. In contrast, the categorical grants are conditioned on their use for specific purposes.

Internal revenue allotment. While LGUs receive a fixed share of central government tax revenues (IRA) on the basis of a formula fixed by law, the ARMM's share is based on the origin principle. Specifically, said share of subnational governments in internal revenue taxes is transferred as a block grant and, as such, both the regional government of the ARMM and the LGUs enjoy considerable discretion in its utilization.

The IRA is allocated to the different levels of local government and to specific LGUs within each level according to a pre-determined formula that is based on population, land area and equal sharing. Under the Local Government Code, the aggregate IRA of LGUs is set at 40 percent of actual internal revenue tax collections of the central government three years prior to the current year.¹⁹

Under the Code, the IRA is divided amongst the different levels of local government as follows: 23 percent to provinces, 23 percent to cities, 34 percent to municipalities and 20

¹⁹ In comparison, the share of LGUs in national taxes was equal to 20 percent of internal revenue taxes *at the maximum* in the pre-Code regime. The amount of IRA that was actually appropriated in the pre-Code era was 13% of net BIR tax receipts on the average in 1987-1990.

percent to barangays.²⁰ In turn, the IRA share of each tier of local government is then apportioned to individual LGUs on the basis of population (50 percent), land area (25 percent) and equal sharing (25 percent).²¹

Meanwhile, actual collections of internal revenue taxes in the ARMM area are divided as follows: 30 percent to the central government, 35 percent to the regional government itself and 35 percent to the local governments in the region (distributed to each one of them according to the derivation principle).²² The collecting agent (in this case the regional office of the Bureau of Internal Revenue) *automatically* remits to the regional government the latter's share of the regional government together with those of its constituent LGUs. Thus, LGUs in the ARMM are not only entitled to their share of national taxes as defined under the Local Government Code but also to their share as provided under the organic act of the ARMM.

On the other hand, while the Local Government Code provides for the *automatic release* of the IRA, the IRA has emerged to be a highly unpredictable source of financing for LGUs since 1998 as the central government, faced with severe fiscal constraints, persistently reduced the amount of intergovernmental transfers to LGUs as mandated by the LGC (**Table 20**). For instance, in 1998, 5% of the IRA was not released to LGUs on the basis of a fiscal austerity measure implemented by the DBM.²³ A case questioning the legality of the central government's action in this regard was brought to the Supreme Court which subsequently ruled in favor of LGUs. However, this did not deter the central government from continuing its raid of the LGUs' IRA share.

Table 20. Comparison of IRA Appropriations and IRA Obligations
(in billion pesos)

	1998	1999	2000	2001	2002	2003	2004
(1) Mandated IRA share 40% of net BIR revenues 3 years back	81.3	100.9	121.8	131.9	134.4	141.0	150.3
(2) Appropriations	81.0	96.8	111.8 ^{a/}	111.8	134.4	141.0	141.0
(3) Obligations	76.9	95.3	114.3 ^{a/}	115.8	134.4	141.0	141.0
(1) less (3)	4.4	5.6	7.5	16.1	0.0	0.0	9.3

^{a/} P10 billion of the P121.8 billion mandated share was put under "unprogrammed funds" by a member of the Senate.

^{b/} in the course of the budget year, P2.5 billion was transferred from the "unprogrammed fund" to the "programmed" portion of budget

²⁰ Prior to the implementation of the Code, the inter-tier allocation of the IRA was: 27 percent to provinces, 22 percent to cities, 41 percent to municipalities and 10 percent to barangays.

²¹ In the pre-Code period, the intra-tier allocation to individual LGUs was determined as follows: 70 percent on the basis of population, 20 percent based on land area, and 10 percent based on equal sharing.

²² Prior to the amendment of the organic act of the ARMM in 2001, the share of the central government was 40%, that of the regional government was 30% and that of the province or city was 30%.

²³ Initially, 10% of the IRA was withheld by the DBM. However, towards the end of the year, the DBM announced that it will release half of the unreleased portion.

In 2000, Congress lopped off P10 billion from the mandated IRA share of LGUs and set aside the said amount under Unprogrammed Funds (i.e., appropriations that will only be released when revenues in excess of targets are realized). In that year, DBM also went through the ruse of requiring the submission of LGUs' Annual Investment Plan prior to releasing 20% of the IRA of individual LGUs in an attempt to delay the release of the IRA so as to reduce the central government's fiscal deficit.

In 2001, the IRA was effectively reduced by P16 billion relative to its mandated share when the government had to operate on the basis of a re-enacted budget (i.e., the previous year's appropriations) because of the failure of Congress to enact a new GAA on time.²⁴ Once again, in 2003, LGUs lost another P9 billion of its mandated IRA share due to the re-enactment of the budget.

Categorical grants. Categorical grants to LGUs come from various sources: (1) lump sum allocations for the same under the General Appropriations Act (GAA) of various years, (2) allocations made by central government sector agencies from their own budgets, and (3) lump sum and/or line item appropriations for pork barrel funds of legislators.

In the 1998 and 1999 GAA, for instance, there are three major lump sum funds that finance the implementation of devolved activities supportive of major national government programs. These are the Local Government Service Equalization Fund (LGSEF), the Local Government Empowerment Fund (LGEF), and the Municipal Development Fund (MDF).²⁵

The principal difference amongst these funding sources stems from (1) the nature of the fund transfers and (2) the agencies that administers them. Both the LGEF and the LGSEF are comprised exclusively of grant funds. In contrast, the MDF includes funds for both loans and grants.

The LGSEF was created by Executive Order 48 of 1998 and, consequently, the 1999 and the 2000 GAA earmarked P5 billion that was carved out of the aggregate IRA share of LGUs. The LGSEF was originally designed to provide equalization grants to LGUs.²⁶ However, many LGUs officials resent the fact that the money for the LGSEF was taken from the IRA – thus, diminishing what they interpret to be theirs as a matter of entitlement. Because of this, the implementation LGSEF has been short-lived.

On the other hand, the LGEF provides budget cover for foreign-assisted projects supportive of major national government programs in the 21 priority provinces and in 5th and 6th class local government units identified under the Social Reform Agenda (SRA) of the Ramos administration. For instance, the list of projects under the LGEF in the 2002 GAA includes: (1) the Cordillera Highland Agricultural Resource Management Project (CHARM) of the DA and the DENR; (2) the Rural Water Supply, Sewerage and Sanitation Project (RWSSP) of the DILG, the DOH; and (3) the Integrated Community Health Services Project of the DOH.

²⁴ The reduction would have been P20 billion had the DBM not released the P4 billion it withheld in 1998 (as per the ruling of the Supreme Court).

²⁵ The LGSEF has been discontinued since 2000 but both the LGEF and MDF are still operational to date. However, the LGSEF is discussed here because it is one of the first attempts to address equalization concerns.

²⁶ The LGSEF was meant to provide grant funds to support affirmative action projects of LGUs belonging to the 5th and 6th income classes.

In addition to the LGSEF and the LGEF, many sector agencies implement matching grants programs out of their own budgets under the GAA. These programs are aimed at encouraging LGUs to fund and to undertake activities that are supportive of national programs and objectives. The Matching Grants Program of the DOH for the promotion of family planning is an example. Generally, LGUs have to apply for the grant and, if they qualify, are required to open a special bank account that will be used for the purpose of tracking and implementing the grant funds and the LGU counterpart.

Initially, many LGUs did not encounter difficulties in providing counterpart funding support to ODA-assisted and/or NG-assisted projects. This situation appears to be changing. The reason lies in the convergence of a number of these projects in the same LGUs, thus, putting a strain on the absorptive capacity of said LGUs. Moreover, the SRA provinces which are targeted by many of these projects are inherently less capable financially to start with.²⁷

The rationale for the continued involvement of central government agencies in devolved activities has to be revisited. While this issue appears to have waned given the current fiscal difficulties faced by the government, it is one that is likely to recur when the fiscal position of the central government improves.²⁸ On the one hand, there appears to be some justification for matching grants in cases of activities that have significant benefit spillovers across LGU jurisdictions since LGUs would tend to under-provide these services without national government grants. On the other hand, there is a need to evaluate these expenditures in the context of possible turf-maximization behavior on the part of national agency bureaucrats.

In contrast, the MDF is a facility for channeling the proceeds of various loans that the central government has obtained from foreign governments and multilateral institutions. Official development assistance (ODA) funds intended for LGUs are first appropriated and allotted to the MDF. The MDF then release said funds in the form of either loans and/or grants to LGUs. The MDF prescribes a loan/equity/grant mix in the financing of varying types of LGU projects depending on the income type of the LGU concerned. For instance, LGUs of whatever class are not entitled to grants for revenue generating projects. On the other hand, grants are made available for projects with social and environment objectives with the grant share of lower income LGUs being larger than that of higher income LGUs and, correspondingly, the equity share and the loan share of less-well-off LGUs being smaller than those of their better-off LGUs.

One of the issues relating to the current operation of the MDF is the need to unbundle grants from loans. It is argued that decisions involving the grant system should be isolated from the credit system. An LGU which has access to a grant should not be automatically be given access to a loan, and vice versa. This is so because the reasons for providing grants are quite different and independent for the reasons for giving credit. Grants to LGUs are typically justified on economic efficiency (e.g., existence of externalities) and equity grounds while the decision to grant an LGU a loan depends on its creditworthiness. Unbundling does not mean

²⁷ Thus, there appears to be some tension between equity and efficiency considerations, i.e., there appears to be some trade-off between the need to focus on the most needy LGUs and the need to encourage LGUs to take fuller responsibility over devolved activities.

²⁸ Note that not all of the budgets that sector agencies have devolved activities are transferred as grants to LGUs. In many instances, the funds are used for the direct provision of devolved services by the central government agency concerned.

that an LGU cannot access both sources of financing at the same time. What is critical, here, is the separate and independent evaluation of the grant and the loan application of LGUs.

The present system (by prescribing a loan-equity-grant mix for various types of projects) effectively results in a subsidized credit program even if the credit component is priced at market rates of interest. In turn, such a situation tends to promote continued LGU dependence on subsidized credit while easing out private capital in the LGU credit market (Llanto et al. 1998). There has been some attempt to move the administration of all central government grant transfers to LGUs to another agency outside of the MDFO (e.g., DBM, the DOF after the latter has shed off the MDFO, or the MDFO itself if it spins off its credit function) but concerns about turf muddled up concerns about grant policy and the proposal was shelved.²⁹

5.2. Size and Composition of Central Government Transfers to LGUs.

With the implementation of the Local Government Code, there has been a remarkable increase in the size of central government transfers to LGUs as well as a palpable shift in their composition. On the one hand, central government transfers to LGUs surged from 5.4% of national government revenues (or 4.6% of national government expenditures or 0.9% of GNP) in 1985-1991 to 14.5% of national government revenues (or 12.3% of national government expenditures or 2.3% of GNP) in 1992-2003 (**Table 21**). This development has been a source of increasing pressure on national government expenditures in recent years.

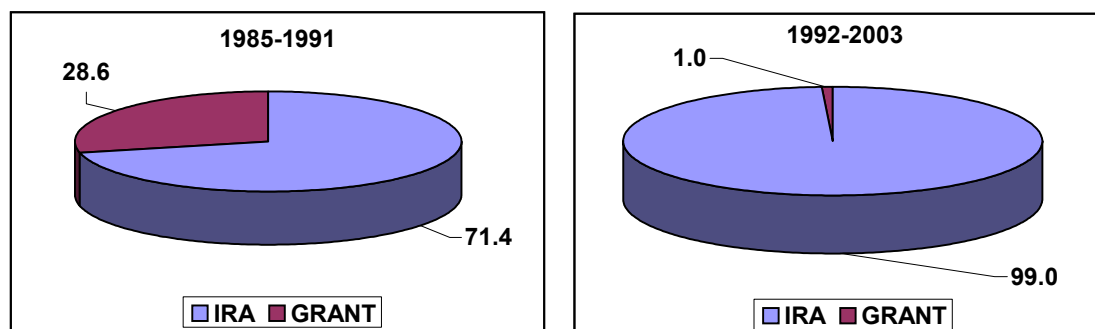
Table 21. IRA and Other Grants as a Portion of National Revenues, National Expenditures, and GNP

	NG Transfers as Percent of NG Revenue			NG Transfers as Percent of NG Expd			Percent to GNP		
	Total	IRA	Other Grants	Total	IRA	Other Grants	Total	IRA	Other Grants
	1985	5.9	4.8	1.1	5.0	4.1	0.9	0.7	0.6
1987	3.9	3.2	0.6	3.2	2.7	0.5	0.6	0.5	0.1
1989	4.9	3.3	1.6	4.8	3.2	1.6	0.8	0.6	0.3
1991	5.8	4.3	1.5	5.2	3.8	1.4	1.0	0.8	0.3
1993	10.1	9.8	0.2	9.5	9.2	0.2	1.7	1.7	0.0
1995	11.8	11.6	0.2	11.5	11.3	0.2	2.2	2.1	0.0
1997	12.1	12.0	0.1	11.6	11.5	0.1	2.3	2.2	0.0
1999	16.0	15.9	0.1	13.2	13.1	0.1	2.4	2.4	0.0
2001	15.7	15.5	0.1	12.5	12.4	0.1	2.3	2.3	0.0
2003	18.4	18.3	0.1	13.9	13.9	0.1	2.5	2.5	0.0
Average									
1985-1991	5.4	3.9	1.6	4.6	3.3	1.3	0.9	0.6	0.2
1992-2003	14.5	14.3	0.1	12.3	12.2	0.1	2.3	2.3	0.0

On the other hand, there has been a movement away from *ad hoc* grants in favor of formula-based block grants in the post-Code period. In particular, the share of the IRA in total central government transfers to LGUs rose from 71.4% in 1985-1991 to 99.0% in 1992-2003 while the share of ad hoc grants declined from 28.6% to 1.0% (**Figure 2**).

²⁹ Refer to the ADB-DBM Technical Assistance on the creation of a LGU Development Fund.

Figure 2. Percent Distribution of National Government Transfers, 1985-2003



Conversely, while the hefty increase in the IRA relative to LGU revenues and LGU expenditures following the implementation of the Code is well known, it is not always fully appreciated that total central government transfers did not increase by as much as the IRA in the post-Code period (Table 22). This occurred as ad hoc grants declined to less than 1% of total LGU revenue in 1992-2003 from 14.7% in 1985-1991.

Table 22. IRA and Other Grants as a Portion of Total LGU Income and LGU Expenditure (%)

All LGUs	NG Transfers as % of LGU Total Income			NG Transfers as % of LGU Expenditure		
	Total	IRA	Other Grants	Total	IRA	Other Grants
1985	48.0	39.1	8.9	47.5	38.7	8.8
1987	44.8	37.7	7.1	41.6	35.0	6.6
1989	48.9	32.7	16.1	53.6	35.9	17.7
1991	55.0	40.5	14.5	54.5	40.1	14.3
1993	59.7	58.2	1.5	64.1	62.5	1.6
1995	65.3	64.2	1.1	61.7	60.6	1.1
1997	62.9	62.4	0.6	60.0	59.5	0.5
1999	67.0	66.6	0.4	66.7	66.3	0.4
2001	66.7	66.1	0.6	60.7	60.2	0.5
2003	67.6	67.2	0.4	72.7	72.3	0.4
Average						
1985-1991	51.4	36.7	14.7	53.2	38.0	15.2
1992-2003	66.0	65.3	0.6	65.8	65.1	0.6

5.3. Consistency of Revenue and Expenditure Assignment across Levels of Local Government: Adequacy of the IRA

As is the case in other countries, there is a mismatch between revenue means and expenditures needs of various levels of local government in the Philippines. Many types of

taxes are either easier to administer at the central level or are deemed to be unsuitable for local sub-national government imposition because their tax bases are geographically mobile. On the other hand, the principle of subsidiarity implies that many functions are best assigned to local governments. In this context, intergovernmental transfers are generally viewed as an instrument that may be used to correct for the imbalance in the tax and expenditure assignment.

In the case of the Philippines, LGUs have become increasingly dependent on the IRA. Thus, the contribution of the IRA to total LGU income net of borrowings surged from 38.0% of in 1985-1991 to 65.1% in 1992-2003 for all LGUs combined (**Table 22**). This trend is more dramatic in the case of provinces and municipalities than in the case of cities. In particular, the share of the IRA in total income net of borrowings of provinces expanded from 38.8% in the pre-LGC period to 81.3% in the post-LGC period. The corresponding figure for municipalities rose from 38.3% to 74.1% while that for cities increased from 33.2% to 47.0%.

*Vertical imbalance.*³⁰ The mismatch between the revenue means and the expenditure needs of various levels of local government may be measured by comparing the subnational government's share in general government revenues with its share in general government expenditures (Shah 1994). **Table 23** shows that the vertical fiscal imbalance (before transfers) has worsened at all levels of local government with the implementation of the Local Government Code. Thus, the fiscal deficiency for all LGUs in the aggregate grew from 6.7% in 1985-1991 to 16.9% in 1992-2003. Furthermore, transfers have not been able to fully close the vertical fiscal imbalance in both periods.

Also, while the vertical fiscal imbalance after the IRA was trimmed down to less than 4% in 1998-2000, it has went up to 6.9% in 2001 and more than 4% in 2003 because of additional unfunded mandates (**Table 23**). This resonates with the widespread perception that a vertical imbalance exists in the sense that the LGUs' prevailing share in national taxes is deficient to cover both the cost of devolved functions and the cost of the so-called unfunded mandates despite the significant increase in the IRA share of LGUs under the Code. These unfunded mandates include the salary increases under the Salary Standardization Law, the additional personnel benefits under the Magna Carta for Health Workers, and the additional number of mandatory positions as well as the sectoral representation mandated under the Local Government Code.

³⁰ The following discussion refers to the vertical imbalance in the case of local government units in general. The vertical balance issue in the case of the ARMM is discussed in **Box 3**.

Table 23. Indicator of Vertical Imbalance, with and without the IRA

ALL LGUs	Ratio of Own-Source Revenue to General Government Revenue %	Ratio of Own-Source Revenue Plus IRA to Gen. Gov't Revenue %	Ratio of LGU Expenditure to General Gov't. Expenditure Net of Debt Service %	Surplus/ (Deficit) - Without the IRA %	Surplus/ (Deficit) - With the IRA %
1985	5.62	9.88	12.01	-6.39	-2.13
1987	4.36	7.35	10.55	-6.20	-3.21
1989	4.63	7.61	11.10	-6.47	-3.50
1991	4.31	8.20	12.65	-8.33	-4.44
1993	5.81	14.20	19.99	-14.18	-5.79
1995	5.30	15.14	21.85	-16.54	-6.71
1997	5.86	15.89	21.47	-15.61	-5.57
1999	6.36	19.21	23.05	-16.69	-3.84
2001	6.32	18.89	25.73	-19.41	-6.85
2003	6.85	21.21	25.41	-18.56	-4.20
Average					
1985-1991	4.62	8.13	11.30	-6.67	-3.17
1992-2003	6.09	17.85	22.96	-16.87	-5.12

A matching of the aggregate IRA levels with LGU expenditure responsibilities (including devolved functions, additional mandatory positions, unfunded mandates, and the budgetary requirement for the 20% development fund) in 1993, 1994 and 1995 shows that while the concern about the vertical balance was not justified in the aggregate in those years, such was not the case in 1996, 1997 and 1998 when the salary adjustments under the Salary Standardization Law were so hefty that the increases in the IRA were not able to keep up with the rising cost of devolved functions and unfunded mandates and the increasing pressure for additional expenditures due to population growth (**Table 24**).³¹ On the other hand, a similar analysis for 1999-2003 indicates that in those years the increase in the IRA is more than sufficient to fully cover the inflation, population growth and salary adjustments in the cost of devolved functions for all LGUs combined.³²

³¹ The analysis underlying **Table 24** is limited by the fact that, in the computation, the cost of devolved functions refers only to the cost of personnel and facilities that were actually transferred to the LGUs as well as the MOOE associated with the said devolved facilities. There are cases, however, where functions were transferred to LGUs without any corresponding devolution of personnel and facilities from the central government. This is true in the case of public works and, to some extent, in the area of environment and natural resource management. In this sense, the estimates of the cost of new LGU expenditure responsibilities used in this analysis would tend to underestimate their true cost. Moreover, the cost used in the estimation refers to the cost of the devolved functions as budgeted by the central government prior to devolution and as such they do not necessarily reflect local preferences.

³² The mandated increase in salaries of government employees during this period was moderate compared to the earlier period. However, it should be emphasized that the estimates used in the latter period did not include the newer mandate given to LGUs with respect to paying for the health insurance premiums of indigent residents.

Box 3. Vertical Imbalance in the Case Of Local Government Units In General

Vertical balance in the ARMM. Under RA 6734, the share of the regional government of the ARMM in national taxes is determined according to the derivation principle. In other words, the regional government of the ARMM and its component LGUs share in the actual collections of internal revenue taxes that are actually collected from the region. The sharing is as follows: 30 percent to the central government, 35 percent to the regional government itself and 35 percent to the local governments in the region (also distributed to each one of them according to the derivation principle).^{a/} The collecting agent (in this case the regional office of the Bureau of Internal Revenue) *automatically* remits to the regional government the latter's share of the regional government together with those of its constituent LGUs. Like the IRA, these transfers are block grants.

RA 6734 and the Local Government Code, in combination, has resulted in a severe vertical fiscal imbalance in the ARMM as there has been a mismatch between the expenditure responsibilities that were transferred and the revenue means of the subnational government. On the one hand, the regional government's share in internal revenue taxes is not sufficient to cover the expenditure responsibilities assigned to it. In particular, the share of the regional government in internal revenue taxes is equivalent to about 3 percent of the cost of the devolved functions.

This occurs largely because the ARMM's share in national taxes is computed on a derivation basis. Precisely because the ARMM is a less developed region, its tax base is lower than the average tax base for the country in its entirety. However, the problem also partly stems from the fact that all of the responsibilities devolved by the central government are shifted to the regional government, with none being assigned to the LGUs in the area despite the fact that RA 6734 allows the regional government to devolved their functions to the LGUs.^{b/}

As a result, the regional government of ARMM is dependent on yearly allocations from the central government's general appropriations to carry out its mandate. The regional government has very little control over the size and the composition of this funding. To wit, the size of this direct funding support is entirely dependent on the central government and the ARMM competes for these resources like any other central government agencies. Also, the allocation of the said transfers to various uses is predetermined by the central government as these uses are represented by line items in the General Appropriations Act. As such, the regional government is reduced to an administrative arm of the central government - simply implementing the latter's plans and programs.

It should be pointed out that since 1992 central government transfers to the regional government has grown at a faster pace than what would have been necessary if one were simply making appropriate adjustments for inflation and population growth. In fact, central government allotment for the ARMM's regular operations is about twice the amount that what it used to spend in the region. This may have been the central government's way of making up for its negligence of the region's needs in the past but it has truly detracted from the region's fiscal autonomy.

On the other hand, it should also be emphasized that LGUs in the ARMM are entitled not only to their IRA share as provided by the Local Government Code but also to their share in internal revenue collections in the ARMM as mandated by RA 6734. Consequently, the aggregate intergovernmental transfer accruing to ARMM LGUs is more than 20 times that of the regional government itself. Moreover, as indicated earlier, the regional government has not devolved any expenditure responsibility to its component LGU. Thus, ARMM LGUs get the resources but not the expenditure responsibilities

^{a/} Prior to the amendment of the organic act of the ARMM in 2001, the share of the central government was 40%, that of the regional government was 30% and that of the province or city was 30%.

^{b/} Note, however, that even if one adds the IRA share of ARMM LGUs to the share of the regional government in internal revenue taxes, the sum would still be substantially lower than cost of functions devolved to the ARMM.

Table 24. Matching of IRA and LGU Responsibilities, 1995-2000

	Province	Cities	Municipalities	All LGUs
1995				
Aggregate Net Resource	(0.320)	2.692	(0.114)	2.258
Transfer (in billion pesos) ^{a/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	48	0	983	
1997				
Aggregate Net Resource	(1.569)	1.501	(2.231)	(2.299)
Transfer (in billion pesos) ^{b/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	58	12	1,327	
1998				
Aggregate Net Resource	(2.743)	0.052	(3.029)	(5.72)
Transfer (in billion pesos) ^{c/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	65	35	1,336	
1999				
Aggregate Net Resource	(0.745)	2.746	(0.312)	1.689
Transfer (in billion pesos) ^{d/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	50	28	893	
2000				
Aggregate Net Resource	0.115	5.052	1.555	6.722
Transfer (in billion pesos) ^{e/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	38	11	684	
2001				
Aggregate Net Resource	(0.139)	4.692	0.284	4.837
Transfer (in billion pesos) ^{f/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	45	17	772	
2002				
Aggregate Net Resource	3.548	7.989	8.073	19.610
Transfer (in billion pesos) ^{f/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	12	18	141	
2003				
Aggregate Net Resource	4.040	8.830	8.811	21.681
Transfer (in billion pesos) ^{f/}				
Number of LGUs with Negative Per Capita Net Resource Transfer	12	15	68	

Source: 1995-1998 results from Manasan (2001), 1999-2000 re-estimated to reflect actual developments in IRA in those years

Note: see Appendix A for footnotes

Moreover, variations in net resource transfer³³ across levels of local government are substantial. **Table 24** shows that, in the aggregate, the net resource transfer for cities is consistently larger than those for provinces and municipalities. While the net resource transfer has consistently been positive for cities in 1995-2003, those for provinces were negative in 1995-1999 and 2001. In contrast, while the net resource of municipalities was also negative in 1995-1999, they have turned positive in 2000-2003. This analysis suggests that provinces and municipalities in the aggregate are relative net losers while cities were relative net winners from fiscal decentralization. It is easy to see why.

Provinces absorbed 37.0% of the total cost of devolved functions, municipalities 38.5%, cities 5.7% and barangays 18.8.³⁴ When this is contrasted with the mandated share of LGUs in the IRA (provinces 23 percent, cities 23 percent, municipalities 34 percent and barangays 20 percent), it becomes immediately clear that there is a mismatch in the resources transferred and the cost of additional expenditure responsibilities that were devolved to the different levels of local government.

This imbalance may be traced to the fact that the IRA distribution formula was decided much earlier (i.e., during the Congressional debate on the LGC) the actual assignment of functions (including the devolution of personnel) to different levels of local government. However, some observers note that this skewed distribution may reflect the reality that governors are a more common threat to congressmen than are mayors since the latter either represent congressional districts that are coterminous with the boundaries of a single province or are one of many districts within a single province. While mayors pose similar threats to some congressmen, there are fewer big city mayors than there are governors and most legislators represent districts without highly urbanized cities in them. Thus, by making provinces responsible for more services than they could pay for with automatic revenue transfers, Congress ensured that governors would remain dependent on legislators who could subsequently offer their services as brokers of additional revenues from the center in a personalized manner (Eaton 2000).³⁵

In sum. Finance did not follow function overall. The discussion in **Section 3.2.** and **Section 4.2** shows that this is true when one compares the expenditure responsibilities assigned to LGUs with the own-source revenue authorities that are vested on them under the LGC. This is also certainly true for all LGUs in the aggregate in 1995-1999 when one

³³ The net resource transfer for any given year is computed as the difference between the IRA for said year, on the one hand, and the sum of the adjusted cost of devolved functions, cost of other mandates including the provision for the 20% Development Fund and sectoral representation, and 1992 IRA, on the other hand. Adjustments on the cost side were made to take into account population growth and inflation.

³⁴ Barangays received P1.5 billion in Barangay Administration Fund under the National Assistance to Local Government Units (NALGU) in 1991. This assistance which was used to pay for the salaries of barangay officials was discontinued with the implementation of the Local Government Code and barangays are then expected to pay said salaries out of their own IRA share.

³⁵ When the Code was being debated in Congress, the attitude of congressmen towards decentralization was ambiguous. On the one hand, many of them felt threatened knowing that true local autonomy would reduce their political clout over their respective constituents (who heretofore were largely dependent on projects identified by the congressmen and funded from pork barrel funds) as local government politicians become more empowered with the higher revenue share and expanded expenditure responsibility with fiscal decentralization. On the other hand, many congressmen maintain fraternal relations with local government politicians as Philippine local politics is very much dominated by a small number of families. Thus, it is not uncommon to find cities (or provinces) where the mayor (or governor) is the congressman's wife (or brother/sister/father/son). Thus, in agreeing to decentralize revenues and expenditures, the congressmen then tried to protect against what they feared most about decentralization.

compares the additional revenues from the IRA with the cost of devolved functions. While the vertical imbalance does not appear to be a problem in 2000-2003, the actual picture in those years might be less optimistic than that shown in **Table 24** if one takes into account the cost of devolved functions which did not involve the actual transfer of personnel from the national government agencies to LGUs and the newer expenditure mandate of LGUs with regards to the financing of the health insurance premiums of indigent residents. Clearly, there is a need to improve on the IRA distribution formula so that the varying fiscal capacities of the various levels of local governments are matched more closely with their expenditure needs.

5.4. Impact of Intergovernmental Fiscal Structure on Horizontal Fiscal Balance

In addition to the vertical imbalance across levels of local government, an imbalance also exists across LGUs within each level. Thus, while the increase in the IRA share of some LGUs is not enough to finance the functions devolved to them, others have received resources beyond their requirements. For instance, in 2001, per capita net resource transfer was negative in 45 (57%) out of 79 provinces, 772 (52%) out of 1494 municipalities and 17 (15%) out of 113 cities (**Table 24**).³⁶

Also, when all LGUs are aggregated at the provincial level, per capita IRA is found to be positively related to per capita household income in 1995-1999, suggesting that the IRA distribution formula has been counter-equalizing with respect to the fiscal capacities of LGUs (**Table 25**). In contrast, the IRA was found to be equalizing in 2000 (as indicated by the negative correlation coefficient between per capita IRA and per capita household income in that year).³⁷ In addition, categorical grants are also found to have played an equalizing role in 1998-2000. However, even in 2000, the combined equalizing effect of the IRA and categorical grants is not sufficient to compensate for the inherent disparities in the tax base (as indicated by the positive correlation coefficient between the per capita household income and the sum of the LGUs' per capita own-source revenue and per capita IRA aggregated at the provincial level in **Table 25**).

Some variation in the equalization character of the IRA distribution formula is evident across levels of local government. Thus, while the correlation coefficient between per capita IRA of city governments and per capita household income is consistently negative for all years in 1995-2000, it is negative in the case of provinces and municipalities.³⁸ This indicates that the existing IRA distribution formula has had some success in equalizing the fiscal capacities of cities but not in the case of provinces and municipalities. Nonetheless, the equalizing effect of the IRA in the case of cities is not enough to counteract the large disparities in their tax base.

³⁶ Per capita net resource transfer in 2000 is defined as per capita 2000 IRA less per capita 1992 IRA less per capita cost of devolved functions adjusted for inflation.

³⁷ The difference in the sign of the correlation coefficient between per capita IRA and per capita household income in the years 1995-1999, on the one hand, and the year 2000, on the other, suggests that the implementation of the LGSEF scheme in 1999-2000 may have resulted in some equalization. Note that the LGSEF provided additional transfers to lower income class LGUs in 1999-2000. Also, the LGSEF transfers were treated as part of the IRA in the financial statements of LGUs.

³⁸ In the case of municipalities, the correlation coefficient is found to be negative in 1999-2000, apparently due to the implementation of the LGSEF scheme.

Table 25. Simple Correlation Coefficient between the Per Capita Transfer and Per Capita Household Income

ALL LGUS AGGREGATED AT PROVINCIAL LEVEL	1991	1995	1996	1997	1998	1999	2000
PC IRA w/ PC Household Income	-0.08	0.10	0.10	0.21	0.25	0.00	-0.02
PC Grants w/ PC Household Income	0.38	-0.05	0.12	0.15	-0.12	-0.01	-0.10
PC OSR + PC IRA w/ PC Household Income	0.31	0.22	0.19	0.35	0.44	0.16	0.14
PC OSR + PC IRA + PCGRANTS w/ PC Household Income	0.40	0.22	0.19	0.35	0.44	0.16	0.14
PC OSR w/ PC Household Income	0.49	0.48	0.44	0.53	0.61	0.59	0.61
PROVINCES	1991	1995	1996	1997	1998	1999	2000
PC IRA w/ PC Household Income	0.12	0.16	0.28	0.33	0.31	0.06	0.05
PC Grants w/ PC Household Income	0.40	-0.11	0.14	0.04	0.02	-0.02	-0.03
PC OSR + PC IRA w/ PC Household Income	0.27	0.21	0.35	0.38	0.39	0.13	0.10
PC OSR + PC IRA + PCGRANTS w/ PC Household Income	0.38	0.21	0.35	0.38	0.39	0.13	0.10
PC OSR w/ PC Household Income	0.34	0.34	0.50	0.51	0.48	0.45	0.52
CITIES	1991	1995	1996	1997	1998	1999	2000
PC IRA w/ PC Household Income	-0.38	-0.41	-0.38	-0.43	-0.46	-0.57	-0.55
PC Grants w/ PC Household Income	0.02	-0.09	0.03	0.20	0.12	0.05	0.02
PC LSR + PC IRA w/ PC Household Income	0.31	0.32	0.49	0.31	0.45	0.30	0.28
PC LSR + PC IRA + PCGRANTS w/ PC Household Income	0.28	0.30	0.48	0.31	0.45	0.30	0.28
PC OSR w/ PC Household Income	0.61	0.81	0.84	0.77	0.80	0.69	0.69
MUNICIPALITIES BY PROVINCIAL LEVEL	1991	1995	1996	1997	1998	1999	2000
PC IRA w/ PC Household Income	-0.10	0.02	-0.02	0.09	0.12	-0.08	-0.11
PC Grants w/ PC Household Income	0.20	-0.11	0.02	0.33	-0.02	0.09	0.01
PC LSR + PC IRA w/ PC Household Income	0.68	0.29	0.09	0.36	0.43	0.21	0.18
PC LSR + PC IRA + PCGRANTS w/ PC Household Income	0.59	0.29	0.09	0.37	0.43	0.21	0.18
PC OSR PC Household Income	0.81	0.71	0.42	0.72	0.75	0.81	0.83

In this regard, the literature on fiscal decentralization suggests that future amendments to the LGC should look more closely into the inclusion of equalization grants that are designed to help reduce disparities in revenue capacities (or alternatively, the net fiscal capacities, i.e., revenue means less expenditure needs) amongst individual LGUs.

5.5. Impact of Intergovernmental Fiscal Structure on Revenue Mobilization

Earlier studies shows that while intergovernmental transfers had a neutral effect on local revenue performance in 1985 (prior to the Code), it substituted for local tax revenues in all levels of local governments in 1992 and 1993 (Manasan 1995).

Using panel data of provinces, cities and municipalities for 1995-2000, regression analysis of per capita local tax revenues on per capita household income³⁹ (as a proxy for the local tax base) and per capita IRA (as a way to check whether intergovernmental grants stimulates or substitutes for local government revenue effort) reconfirm the disincentive effect of the IRA on local tax effort in the post-Code period. The results show that LGUs which were net winners in the fiscal decentralization tended to have lower per capita local tax revenue (as indicated by the negative and statistically significant coefficient of the product of the dummy variable for the sign of the per capita net resource transfer and per capita IRA in both the real property tax and the local business tax equations of provinces and in real property tax equations of cities).⁴⁰ Similarly, the coefficient of per capita IRA itself is negative and statistically significant in the local business tax equation of cities. These findings suggest that LGUs which received higher IRA (whether in absolute terms or relative to their expenditure responsibilities) tended to be lax in their tax effort. Thus, there appears to be a need to alter the IRA distribution formula so as to provide incentives for local tax effort.

Consistent with *a priori* expectations, the analysis also shows that per capita local tax revenue is positively and significantly related to per capita household income for both real property tax and local business tax for cities, municipalities and provinces alike in 1995-2000 (**Table 26**). This finding confirms that local tax effort is largely determined by the ability to pay. Given the wide disparities in the distribution of the local tax base across regions, this result further highlights the potential for increased regional inequality with greater fiscal decentralization unless part of intergovernmental transfers are designed to have an equalization role.

6. AGENDA FOR REFORM

6.1. Expenditure Assignment.

Overall, the devolution of expenditure responsibilities to subnational governments is consistent with the decentralization theorem. One important exception to the application of this principle in the Philippines is education. Although the construction and maintenance of school buildings was devolved to LGUs under the Code, the primary responsibility for the

³⁹ Household income data is obtained from the Family Income and Expenditure Survey (FIES) of the National Statistics Office.

⁴⁰ In the regression analysis, a dummy variable which takes on a value of 1 if the LGU had a positive per capita net resource transfer due to the fiscal decentralization (and zero, otherwise) is introduced to check whether net winners behaved differently from the net losers. Note that net resource transfer is defined as the difference between the increment in the IRA and the cost of devolved functions and unfounded mandates.

provision of education remains with the central government. In contrast, the experience in many countries shows that devolving education could possibly improve production efficiency and thus, a review of this specific expenditure assignment may be warranted.

Table 26. Regression of Per Capita Tax Revenue of LGUs ^{a/}

	Province		Cities		Municipalities ^{b/}	
	PCLBT ^{b/}	PCRPT ^{b/}	PCLBT ^{c/}	PCRPT ^{b/}	PCLBT	PCRPT
Constant	-17.246 (-2.91)	-17.980 (-3.82)	-0.886 (-0.25)	-241.829 (-2.25)	-15.072 (-5.38)	-16.392 (-5.26)
Density	-0.360 (-1.48) *	0.204 (1.05)	0.213 (2.19) **	0.005 (1.35) *	0.468 (3.45) **	0.490 (3.24) **
PCFIESTY	2.128 (3.67) **	2.155 (4.62) **	0.732 (3.26) **	0.015 (6.68) **	1.289 (4.47) **	1.399 (4.36) **
PCIRA	-0.384 (-1.03)	-0.163 (-0.55)	-0.469 (-1.63) **	0.114 (1.72) **	0.504 (1.74) **	0.538 (1.66) **
D1*PCIRA	-0.102 (-1.70) **	-0.070 (-1.45) *		-0.080 (-1.36) *		
X ² (Chi-square)	4.83	10.66	40.78	22.13	25.77	23.69

^{a/} numbers in parenthesis refer to t-statistics

^{b/} follows double log specification.

^{c/} follows linear specification.

* statistically significant at 10%

** statistically significant at 5%

While Section 17 (b) of the Local Government Code provides an unambiguous delineation of functions across levels of governments, Sections 17 (c) on nationally funded devolved activities and Section (f) on national government augmentation of devolved services effectively obfuscating what initially appears to be a clear cut assignment of expenditure responsibilities.

There is need to revisit the LGC 1991 in order to clarify the assignment of expenditure responsibilities across levels of local government. In particular, Section 17 (c) and (f) of the Code has to be re-examined hand in hand with the review of the distribution formula of the IRA. This would require a careful re-assessment of the need for the continued funding of devolved activities by national government agencies as well as LGU budgetary support of local offices (and employees) of many national government agencies. Also, the imposition of unfunded mandates that are not associated with compensating funding transfers to LGUs should be avoided in the future. In addition, the devolution of functions from the regional government of the ARMM to ARMM-LGUs should be encouraged.

Three major trends in LGU expenditure are a major source of concern. First, aggregate LGU spending on the social services sector registered a general upward trend in 1991-2007 when expressed as a percent of GNP and in real per capita terms. However, some stagnation (especially with respect to health expenditures) is evident in 1998-2003 when either of these measures are used. These movements are common across all levels of local government and appear to be related to the fiscal difficulties LGUs faced when their IRA was not released in full in the late 1990s at the same time that they suffered from a decline their own-source revenue. This development is worrisome considering that LGUs are primarily responsible for the delivery of basic health services. It also highlights the need to design grants that will help ensure that LGUs are able to deliver health and education services that are at least equal to minimum service standards.

Second, LGU spending on transportation and communication contracted from 0.5% of GNP in 1991 to 0.4% of GNP in 2003 despite the devolution of the responsibility for local infrastructure to LGUs. This decline masks even larger reductions in the infrastructure spending of provincial and municipal governments. These developments appear to be link to the mismatch in the distribution of resources and expenditure responsibilities across levels of local governments. Also, given the robust and strong association between economic growth and infrastructure spending, they may be indicative of a widening of the disparities in economic development in across levels of local government. They also underscore the need to strengthen the regulatory framework and arrangements for LGU borrowing and to address the requirement for LGU capital investment financing in the design of intergovernmental transfers.

Third, personal services is the single biggest expenditure item at all levels of local government. While the share of personal services in total LGU expenditure contracted from 45.8% in 1991 to 34.2% in 2003 in the case of cities, it expanded from 41.6% to 42.1% in the case of provinces and from 46.1% to 50.8% in the case of municipalities. Because of these developments, there has been a squeeze on the capital outlays of provinces and both MOOE and capital outlays of municipalities.

In this regard, there is a need to re-assess the compensation and position classification system as well as the list of mandatory LGU positions provided for in the Local Government Code in order to give LGUs more leeway in adjusting their PS expenditures. Also, a review of the cap on PS expenditures is in order. Existing practices and procedures that allow LGUs to comply with this requirement do not appear to be helpful in enabling LGUs to effectively control their PS spending.

6.2. Tax Assignment

The current tax assignment does not fare well in terms of the autonomy criterion. While the Local Government Code authorizes LGUs to levy a good number of taxes, the more revenue productive taxes are retained by the central government even as the Code seriously constrain the power of LGUs to set local tax rates. Thus, the link between LGU spending responsibilities and their taxing powers is weak.

Given this background, future Code amendments should focus on promoting greater tax decentralization. In particular, said amendments should give LGUs greater discretion in setting tax rates by (1) raising the maximum allowable tax rates, (2) allowing LGUs to adjust the tax rates more frequently, and (3) relaxing the restrictions on the size of the tax rate

adjustments that they are authorized to make. More importantly, LGUs should be allowed to impose a surcharge (i.e., piggyback) on some of the central government taxes (possibly, the individual income tax).

Also, the tax structure prescribed by the Code for the local business tax should be simplified so as to ease up tax administration and improve taxpayer compliance. At the same time, support for greater computerization and capacity building for the staff of the tax division is critical.

Finally, the conduct of the general revision of the schedule of market values of real property may be de-politicize by lodging this activity with the central government. Such a move will not reduce the autonomy of LGUs provided they retain, if not increase, their control over local tax rates and assessment levels.

6.3. Intergovernmental Transfers

As in other countries, LGUs in the aggregate in the Philippines suffer a vertical fiscal gap. Many types of taxes are either easier to administer at the central level or are deemed to be unsuitable for local sub-national government imposition because their tax bases are geographically mobile. On the other hand, the principle of subsidiarity implies that many functions are best assigned to local governments. To a large extent, this gap is addressed by intergovernmental transfers (specifically the IRA) and LGUs have been clamoring to increase the size of the IRA pool.

Also, as indicated above, there is a mismatch between the assignment of revenues (local taxes plus IRA) and the assignment of expenditure responsibilities to the different levels of local government. The share of provinces and municipalities in total LGU own-source revenue declines in the post-Code period despite their large share in the cost of devolved functions.

In this context, there is a need to re-assess the tax and expenditure assignment across different levels of local government. At the same time, the vertical imbalance should be primarily be addressed through greater tax decentralization – the assignment of more tax bases to LGUs. Consequently, intergovernmental transfers would then be re-designed to help close the disparities in the fiscal capacities of LGUs as well as to ensure that LGUs get the appropriate financing for them to achieve minimum service standards for key basic social services.

BIBLIOGRAPHY

Ahmad, Ehtisham, Daniel Hewitt and Edgardo Ruggiero. "Assigning Expenditure Responsibilities" in Ter-Minassian, Teresa ed., *Fiscal Federalism in Theory and Practice*. Washington DC: International Monetary Fund. 1997.

Bird, Richard. "Rethinking Subnational Taxes: A New Look at Tax Assignment," *IMF Working Paper No.99/165*, Washington DC: International Monetary Fund, 1999.

Capuno, Joseph J., Thelma C. Manuel, Ma. Bella T. Salvador. "Estimating the IRA, Centrally-Provided Local Public Goods and Services, and Other Central Fiscal Transfers to Local Governments", Report prepared for National Economic and Development Authority with support from the Australian Government through the Philippines-Australian Governance Facility, February 2001

Celestino, Alicia, Norberto Malvar and Romulo Zipagan. *Local Fiscal Administration in the Philippines*. Manila: UP Center for Local and Regional Governance, 1998.

Jimenez, Emmanuel, Vicente Paqueo and Lourdes de Vera. "Does Local Financing Make Primary Schools More Efficient," PPR Working Paper WPS 69, Washington DC: World Bank, 1988.

Loehr, William and Rosario Manasan. "Fiscal Decentralization and Economic Efficiency: Measurement and Evaluation," Report submitted to USAID Manila, 1999.

Manasan, Rosario G. "The Role of Education Decentralization in Promoting Effective Schooling: the Philippines," ERD Working Paper N. 24, Asian Development Bank, Manila, 2002.

McLure, Charles E. "The Tax Assignment Problem: Conceptual and Administrative Considerations in Achieving Subnational Fiscal Autonomy," 1999, in www.worldbank.org/decentralization

McLure, Charles E. and Jorge Martínez-Vázquez. "The Assignment of Revenues and Expenditures in Intergovernmental Fiscal Relations," 1999, in www.worldbank.org/decentralization

Shah, Anwar. *The Reform of Intergovernmental Fiscal Relations in developing and Emerging Market Economies*. Washington DC: World Bank, 1994.

Ter-Minassian, Teresa. *Fiscal Federalism in Theory and Practice*. Washington DC: International Monetary Fund, 1997.

Appendix A

- ^{a/} LGU cost adjusted for inflation, salary standardization increases (1.42), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.
- ^{b/} LGU cost adjusted for inflation, salary standardization increases (1.79), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.
- ^{c/} LGU cost adjusted for inflation, salary standardization increases (2.22), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.
- ^{d/} LGU cost adjusted for inflation, salary standardization increases (2.5), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.
- ^{e/} LGU cost adjusted for inflation, salary standardization increases (2.5), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.
- ^{f/} LGU cost adjusted for inflation, salary standardization increases (2.625), benefits under the Magna Carta for Health Workers, salaries of additional mandatory positions and 3 sectoral representatives and population growth.

Annex Table 1. RATIO TO GNP OF LOCAL GOVERNMENT EXPENDITURES (in percent)

A. ALL LGU's	Average		1985	1987	1989	1991	1993**	1995	1997	1999	2001	2003
	1985-1991	1993-2003										
GRAND TOTAL	1.61	3.54	1.54	1.44	1.53	1.89	2.72	3.53	3.75	3.67	3.75	3.43
Total Economic Services	0.53	0.87	0.51	0.41	0.50	0.68	0.69	0.98	0.97	0.92	0.92	0.77
Agrarian Reform	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Agriculture	0.02	0.11	0.02	0.02	0.02	0.02	0.10	0.11	0.11	0.11	0.11	0.09
Natural Resources	0.00	0.02	0.00	0.00	0.00	0.00	0.01	0.01	0.02	0.02	0.02	0.03
Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Power and Energy	0.02	0.02	0.03	0.03	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.01
Water Resources Devt. & Flood Control	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Transportation and Communication	0.40	0.47	0.39	0.30	0.33	0.53	0.36	0.57	0.55	0.51	0.48	0.38
Other Economic Services	0.09	0.25	0.06	0.05	0.15	0.10	0.19	0.26	0.26	0.25	0.28	0.26
Total Social Services	0.33	0.92	0.41	0.41	0.30	0.29	0.76	0.94	1.01	0.96	1.00	0.84
Education	0.12	0.25	0.20	0.19	0.10	0.07	0.19	0.25	0.30	0.27	0.28	0.22
Health	0.08	0.41	0.08	0.09	0.08	0.08	0.34	0.40	0.46	0.45	0.43	0.38
Social Services, Labor & Employment	0.04	0.08	0.04	0.04	0.04	0.05	0.06	0.08	0.08	0.08	0.09	0.08
Housing and Community Development	0.09	0.17	0.09	0.09	0.08	0.09	0.16	0.20	0.16	0.16	0.19	0.16
General Public Service	0.69	1.44	0.57	0.57	0.66	0.84	1.11	1.36	1.47	1.46	1.52	1.41
Public Administration	0.65	1.43	0.51	0.52	0.60	0.83	1.09	1.34	1.46	1.45	1.51	1.40
Peace and Order	0.04	0.01	0.06	0.06	0.06	0.01	0.02	0.02	0.01	0.01	0.01	0.01
Others	0.05	0.23	0.02	0.03	0.05	0.07	0.13	0.18	0.20	0.24	0.22	0.32
Defense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service	0.01	0.08	0.02	0.02	0.01	0.01	0.03	0.08	0.10	0.08	0.08	0.10
B. ALL PROVINCES	Average		1985	1987	1989	1991	1993**	1995	1997	1999	2001	2002
	1985-1991	1993-2003										
GRAND TOTAL	0.47	0.85	0.48	0.42	0.48	0.55	0.69	0.87	0.91	0.85	0.91	0.81
Total Economic Services	0.19	0.24	0.19	0.15	0.22	0.24	0.19	0.24	0.27	0.25	0.26	0.21
Agrarian Reform	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Agriculture	0.01	0.04	0.01	0.01	0.01	0.01	0.03	0.04	0.04	0.04	0.04	0.03
Natural Resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Power and Energy	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.00	0.00	0.00
Water Resources Devt. & Flood Control	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transportation and Communication	0.15	0.12	0.16	0.12	0.12	0.21	0.10	0.13	0.15	0.13	0.13	0.11
Other Economic Services	0.02	0.07	0.01	0.01	0.09	0.01	0.05	0.06	0.07	0.07	0.09	0.07
Total Social Services	0.10	0.27	0.11	0.11	0.09	0.10	0.26	0.32	0.31	0.28	0.28	0.23
Education	0.01	0.05	0.02	0.02	0.01	0.01	0.03	0.05	0.06	0.04	0.05	0.04
Health	0.02	0.18	0.02	0.02	0.02	0.02	0.16	0.19	0.21	0.20	0.18	0.16
Social Services, Labor & Employment	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.01
Housing and Community Development	0.06	0.03	0.07	0.06	0.06	0.06	0.05	0.07	0.02	0.02	0.03	0.02
General Public Service	0.16	0.27	0.16	0.13	0.14	0.19	0.21	0.26	0.27	0.27	0.30	0.28
Public Administration	0.16	0.27	0.16	0.13	0.14	0.19	0.21	0.26	0.27	0.27	0.30	0.28
Peace and Order	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	0.01	0.05	0.01	0.01	0.02	0.02	0.02	0.05	0.04	0.04	0.06	0.06
Defense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service	0.01	0.02	0.01	0.01	0.01	0.00	0.01	0.01	0.02	0.02	0.02	0.02

Annex Table 1. RATIO TO GNP OF LOCAL GOVERNMENT EXPENDITURES (in percent)

C. ALL MUNICIPALITIES	Average		1985	1987	1989	1991	1993**	1995	1997	1999	2001	2002
	1985-1991	1993-2003										
GRAND TOTAL	0.62	1.28	0.50	0.52	0.59	0.76	1.17	1.33	1.37	1.32	1.30	1.18
Total Economic Services	0.17	0.27	0.13	0.10	0.15	0.23	0.25	0.32	0.30	0.28	0.28	0.24
Agrarian Reform	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Agriculture	0.00	0.05	0.00	0.00	0.00	0.00	0.05	0.06	0.05	0.06	0.05	0.04
Natural Resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Power and Energy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water Resources Devt. & Flood Control	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01
Transportation and Communication	0.12	0.11	0.09	0.07	0.10	0.16	0.10	0.14	0.13	0.11	0.11	0.08
Other Economic Services	0.04	0.10	0.03	0.03	0.04	0.05	0.08	0.11	0.11	0.11	0.11	0.11
Total Social Services	0.09	0.26	0.11	0.12	0.09	0.07	0.28	0.27	0.30	0.28	0.27	0.22
Education	0.05	0.06	0.07	0.08	0.05	0.03	0.09	0.07	0.07	0.05	0.05	0.05
Health	0.01	0.12	0.02	0.02	0.01	0.01	0.12	0.12	0.14	0.13	0.12	0.10
Social Services, Labor & Employment	0.02	0.04	0.02	0.02	0.01	0.02	0.03	0.04	0.04	0.04	0.04	0.04
Housing and Community Development	0.01	0.04	0.01	0.01	0.01	0.01	0.04	0.04	0.05	0.05	0.05	0.04
General Public Service	0.34	0.66	0.25	0.28	0.33	0.43	0.59	0.66	0.70	0.69	0.68	0.61
Public Administration	0.32	0.66	0.22	0.25	0.30	0.43	0.59	0.66	0.69	0.69	0.68	0.60
Peace and Order	0.02	0.00	0.03	0.03	0.03	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Others	0.02	0.06	0.01	0.01	0.02	0.03	0.04	0.06	0.06	0.05	0.06	0.10
Defense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.01
C. ALL CITIES	Average		1985	1987	1989	1991	1993**	1995	1997	1999	2001	2002
	1985-1991	1993-2003										
GRAND TOTAL	0.52	1.41	0.56	0.51	0.46	0.58	0.87	1.34	1.47	1.50	1.54	1.44
Total Economic Services	0.17	0.36	0.20	0.15	0.13	0.21	0.26	0.42	0.40	0.40	0.39	0.31
Agrarian Reform	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Agriculture	0.01	0.02	0.01	0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02
Natural Resources	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.02	0.02	0.02
Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Power and Energy	0.01	0.01	0.03	0.02	0.00	0.02	0.01	0.01	0.01	0.01	0.01	0.00
Water Resources Devt. & Flood Control	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transportation and Communication	0.13	0.23	0.14	0.11	0.11	0.15	0.17	0.30	0.27	0.27	0.25	0.18
Other Economic Services	0.02	0.08	0.02	0.02	0.02	0.03	0.06	0.08	0.09	0.07	0.09	0.08
Total Social Services	0.14	0.38	0.19	0.18	0.11	0.12	0.23	0.35	0.40	0.41	0.45	0.38
Education	0.06	0.15	0.11	0.10	0.04	0.03	0.07	0.13	0.18	0.17	0.18	0.13
Health	0.05	0.11	0.04	0.05	0.04	0.05	0.07	0.10	0.11	0.12	0.12	0.11
Social Services, Labor & Employment	0.02	0.03	0.02	0.02	0.02	0.03	0.02	0.03	0.03	0.03	0.03	0.03
Housing and Community Development	0.01	0.10	0.01	0.02	0.01	0.02	0.07	0.09	0.09	0.09	0.12	0.11
General Public Service	0.19	0.50	0.16	0.16	0.20	0.22	0.31	0.44	0.50	0.50	0.54	0.53
Public Administration	0.17	0.49	0.12	0.13	0.16	0.22	0.29	0.43	0.49	0.49	0.53	0.51
Peace and Order	0.02	0.01	0.04	0.03	0.03	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Others	0.02	0.12	0.01	0.01	0.02	0.02	0.06	0.07	0.11	0.15	0.11	0.16
Defense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service	0.01	0.05	0.01	0.01	0.00	0.01	0.02	0.06	0.06	0.05	0.05	0.06

Annex Table 2. PER CAPITA REAL OF LOCAL GOVERNMENT EXPENDITURES, in million pesos
(including transfers to NG)

A. ALL LGU's	1985-2003	1993-2003	1985	1987	1989	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	352.8	453.4	156.8	152.3	176.3	218.0	311.3	426.1	487.8	473.5	506.4	486.3
Total Economic Services	92.0	112.7	52.3	43.0	57.9	78.0	79.4	117.7	126.6	119.3	124.5	108.7
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	9.5	13.8	1.7	2.2	2.1	2.4	11.1	12.9	14.4	14.6	14.7	13.2
Natural Resources	1.6	2.5	0.0	0.0	0.0	0.0	1.2	1.8	2.4	2.9	3.1	3.7
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	2.1	2.3	3.4	2.9	0.7	2.6	2.2	2.5	2.6	2.6	2.6	0.7
Water Resources Devt. & Flood Control	1.1	1.2	1.5	0.9	0.9	1.1	1.0	1.1	1.5	1.4	1.4	1.1
Transportation and Communication	53.8	60.8	39.8	31.8	37.4	60.7	41.7	68.5	71.3	65.8	65.0	53.9
Other Economic Services	23.8	32.1	5.9	5.3	16.7	11.2	22.1	31.0	34.4	32.0	37.7	36.2
Total Social Services	88.8	118.3	41.7	43.5	34.6	33.7	87.0	112.9	130.9	124.5	134.9	118.5
Education	26.2	32.8	20.2	20.5	12.0	7.8	22.3	30.5	39.3	35.3	38.4	30.6
Health	37.0	53.5	8.2	9.1	8.7	9.1	39.5	48.6	59.4	57.9	58.2	53.4
Social Services, Labor & Employment	8.2	10.3	4.3	4.5	4.6	6.2	7.1	9.1	11.0	10.5	12.5	11.2
Housing and Community Development	17.4	21.8	9.1	9.4	9.4	10.5	18.1	24.6	21.2	20.8	25.8	23.3
General Public Service	144.9	183.7	58.2	60.8	76.1	97.1	126.9	163.5	191.2	189.1	205.7	200.6
Public Administration	142.0	181.7	51.7	54.8	69.0	95.9	124.5	161.1	189.3	187.5	203.7	198.6
Peace and Order	2.9	1.9	6.4	5.9	7.1	1.2	2.3	2.3	1.9	1.5	1.9	2.0
Others	20.2	28.8	2.4	3.4	6.2	7.7	14.7	21.9	26.3	30.7	30.1	44.9
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	6.9	10.0	2.2	1.6	1.4	1.7	3.3	10.2	12.8	10.0	11.4	13.5
B. ALL PROVINCES	1985-2003	1993-2003	1985	1987	1989	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	111.8	139.6	62.5	55.9	70.4	80.0	99.3	134.9	153.2	143.0	156.7	149.5
Total Economic Services	34.1	39.1	24.7	20.5	32.1	35.0	27.3	37.1	45.2	41.8	44.5	39.4
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	4.4	6.0	1.4	2.0	1.6	1.4	4.8	5.5	6.9	6.6	6.4	5.8
Natural Resources	0.5	0.7	0.0	0.0	0.0	0.0	0.5	0.7	0.7	0.7	0.9	0.8
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	0.6	0.7	0.3	0.2	0.3	0.5	0.8	1.0	0.8	0.8	0.1	0.1
Water Resources Devt. & Flood Control	0.3	0.2	0.9	0.5	0.3	0.5	0.2	0.3	0.2	0.2	0.1	0.1
Transportation and Communication	20.3	20.6	20.6	16.7	17.2	30.5	14.1	19.9	25.1	21.7	22.1	20.4
Other Economic Services	8.0	10.9	1.6	1.1	12.7	2.1	7.0	9.7	11.4	11.7	14.9	12.2
Total Social Services	33.7	45.4	14.7	14.6	13.8	14.3	37.4	49.0	52.0	46.6	48.4	43.0
Education	5.6	7.6	2.3	2.8	1.4	1.3	5.0	7.4	10.1	7.4	8.8	8.3
Health	20.0	30.4	2.8	2.8	2.5	2.3	23.7	29.1	34.9	33.0	31.7	29.3
Social Services, Labor & Employment	2.0	2.5	0.9	0.9	1.0	1.5	1.4	2.0	3.0	2.5	3.5	2.5
Housing and Community Development	6.2	4.9	8.6	8.2	8.8	9.2	7.2	10.5	4.0	3.7	4.4	2.9
General Public Service	36.2	44.5	21.0	18.1	20.1	27.5	30.4	40.0	46.0	44.7	51.1	51.9
Public Administration	36.1	44.3	21.0	18.0	20.1	27.5	30.0	39.6	46.0	44.7	51.1	51.8
Peace and Order	0.1	0.2	0.0	0.0	0.0	0.0	0.4	0.4	0.1	0.0	0.0	0.1
Others	5.9	8.1	1.0	1.8	3.3	3.0	3.2	7.0	6.6	7.2	9.5	11.7
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	1.9	2.5	1.1	0.9	1.1	0.2	1.1	1.8	3.4	2.7	3.2	3.5

Annex Table 2. PER CAPITA REAL OF LOCAL GOVERNMENT EXPENDITURES, in million pesos
(including transfers to NG)

C. ALL MUNICIPALITIES	1985-2003	1993-2003	1985	1987	1989	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	173.6	227.6	64.6	69.5	85.8	111.0	169.4	209.4	240.1	241.4	248.9	257.7
Total Economic Services	38.7	49.1	16.2	13.2	21.9	33.3	36.3	50.6	52.8	51.2	53.0	53.3
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	5.8	9.3	0.2	0.2	0.3	0.2	7.5	8.9	9.4	10.2	10.1	9.4
Natural Resources	0.1	0.2	0.0	0.0	0.0	0.0	0.7	0.1	0.1	0.1	0.2	0.3
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	0.6	0.7	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.7	0.8
Water Resources Devt. & Flood Control	0.8	1.0	0.6	0.5	0.7	0.7	0.6	0.7	1.2	0.9	1.3	1.2
Transportation and Communication	17.9	19.5	11.4	8.8	14.9	24.0	14.9	22.7	22.1	19.6	20.4	18.4
Other Economic Services	13.5	18.5	3.5	3.4	5.7	7.8	12.1	17.7	19.4	19.6	20.4	23.2
Total Social Services	34.3	47.4	14.2	16.3	13.4	10.3	39.9	43.3	52.1	50.7	51.0	48.2
Education	9.6	10.8	8.5	10.3	7.8	4.1	12.9	11.6	11.8	10.0	10.0	9.9
Health	14.3	22.1	2.0	2.4	2.0	1.9	16.8	19.0	24.9	24.5	23.5	22.7
Social Services, Labor & Employment	4.8	6.6	2.2	2.3	2.1	2.5	4.7	5.6	6.6	7.0	7.8	7.7
Housing and Community Development	5.5	8.0	1.4	1.3	1.5	1.7	5.4	7.1	8.8	9.1	9.6	7.9
General Public Service	91.4	117.8	32.5	37.9	47.9	62.8	86.1	104.1	121.6	127.4	131.1	132.4
Public Administration	90.0	117.2	29.0	34.1	43.8	62.2	85.1	103.5	120.9	126.9	130.5	131.8
Peace and Order	1.4	0.6	3.5	3.8	4.1	0.6	1.0	0.6	0.7	0.5	0.5	0.6
Others	7.7	10.9	1.3	1.6	2.3	4.3	6.5	10.0	10.1	9.1	10.9	20.7
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	1.6	2.4	0.5	0.4	0.3	0.3	0.7	1.5	3.5	3.0	3.0	3.1
C. ALL CITIES	1985-2003	1993-2003	1985	1987	1989	1991	1993*	1995	1997	1999	2001	2003
GRAND TOTAL	539.2	654.6	267.6	252.9	251.4	319.2	470.8	684.2	745.2	654.9	702.3	624.8
Total Economic Services	144.8	169.9	95.0	77.5	72.4	114.3	138.6	213.0	204.6	172.7	176.1	134.4
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	6.9	8.6	2.6	2.4	3.0	5.0	6.9	7.7	8.2	7.9	8.8	8.0
Natural Resources	4.6	6.6	0.0	0.0	0.0	0.0	1.1	4.9	6.7	7.7	7.7	8.9
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	5.0	4.6	13.0	11.1	0.5	8.2	6.0	5.6	6.0	5.1	6.8	0.4
Water Resources Devt. & Flood Control	1.2	1.3	1.7	1.0	1.0	0.7	1.8	1.5	1.5	1.8	1.4	0.7
Transportation and Communication	97.6	111.7	68.8	54.9	57.5	84.2	89.6	151.2	138.4	119.3	112.2	80.4
Other Economic Services	29.5	37.1	8.9	8.2	10.5	16.0	33.2	42.2	43.9	30.9	39.2	36.0
Total Social Services	146.4	177.0	89.7	90.2	62.2	67.5	123.5	177.3	202.9	179.3	205.8	166.1
Education	58.4	69.4	54.9	48.2	22.0	16.7	38.8	67.6	88.9	76.1	82.4	54.7
Health	42.3	50.1	20.8	23.7	24.4	27.4	35.4	48.7	54.2	51.8	56.4	49.6
Social Services, Labor & Employment	12.2	13.1	8.6	9.3	10.1	14.2	10.8	13.8	14.8	12.2	14.4	13.0
Housing and Community Development	33.6	44.5	5.4	8.9	5.6	9.2	38.6	47.2	45.1	39.1	52.6	48.8
General Public Service	191.7	231.7	75.8	78.6	106.4	122.4	166.2	224.1	254.4	219.9	247.3	228.7
Public Administration	184.9	226.7	58.4	64.8	88.1	119.2	159.9	217.6	249.1	215.9	242.2	224.0
Peace and Order	6.8	4.9	17.4	13.8	18.3	3.2	5.8	6.5	5.3	3.9	5.1	4.7
Others	39.3	53.0	2.9	3.5	8.8	9.1	33.6	37.4	53.6	63.3	50.5	68.7
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	16.9	23.0	4.2	3.0	1.6	5.9	8.9	32.4	29.6	19.7	22.7	26.8

*adjusted for DOH & DA advances

Annex Table 3. Ratio to GNP of Local Government Expenditures (in percent)

C. ALL MUNICIPALITIES	Average		1985	1987	1989	1991	1993*	1995.0	1997.0	1999.0	2001.0	2002.0
	1985-1991	1993-2003										
GRAND TOTAL	0.6	1.3	0.5	0.5	0.6	0.8	1.2	1.3	1.4	1.3	1.3	1.2
Total Economic Services	0.2	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Natural Resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water Resources Devt/ Flood Control	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation and Communication	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other Economic Services	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Social Services	0.1	0.3	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.2
Education	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Health	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Soc. Welfare/ Labor/ Other Soc. Serv	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing/ Community Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
General Public Service	0.3	0.7	0.3	0.3	0.3	0.4	0.6	0.7	0.7	0.7	0.7	0.6
Public Administration	0.3	0.7	0.2	0.3	0.3	0.4	0.6	0.7	0.7	0.7	0.7	0.6
Peace and Order	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. ALL CITIES	Average		1985	1987	1989	1991	1993*	1995.0	1997.0	1999.0	2001.0	2002.0
	1985-1991	1993-2003										
GRAND TOTAL	0.5	1.4	0.6	0.5	0.5	0.6	0.9	1.3	1.5	1.5	1.5	1.4
Total Economic Services	0.2	0.4	0.2	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.3
Agrarian Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power and Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water Resources Devt/ Flood Control	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation and Communication	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.2	0.2
Other Economic Services	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total Social Services	0.1	0.4	0.2	0.2	0.1	0.1	0.2	0.3	0.4	0.4	0.5	0.4
Education	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1
Health	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Soc. Welfare/ Labor/ Other Soc. Serv	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing/ Community Development	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
General Public Service	0.2	0.5	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.5	0.5	0.5
Public Administration	0.2	0.5	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.5	0.5	0.5
Peace and Order	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2
Defense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1