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## A survey of literature on Philippine decentralization

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DISCUSSION PAPER SERIES NO. 2018-23

# A Survey of Literature on Philippine Decentralization

*Justine Diokno-Sicat and Ricxie B. Maddawin*



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# A Survey of Literature on Philippine Decentralization

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December 2018

## **Abstract**

Why, after more than twenty-five years of decentralization, are Philippine local government units (LGUs) at varied levels of development? How does the literature explain this phenomenon? This paper surveys empirical literature on Philippine decentralization with the aim to gather insights as well as distill stylized facts emerging from the evidence explaining local government performance and development. Looking at history, political science, economic and institutional perspectives, the role of past events and the evolution of local government institutions, politicians and voters evidently in influencing current decentralization dynamics became evident. Though mandates and laws are the same across local governments, except perhaps for the autonomous regions, some of these mandates were identified as limitations affecting performance. Political and socioeconomic differences across LGUs have also been offered as explanations.

What seems to be promising is the recent trend in examining Philippine governance and the roles of policymakers and voters more deterministically. Patronage and political dynasties have similar origins and, at present, are studied as reasons behind varied local government performance. Evidence has shown that certain activities used to perpetuate patronage and dynasties (also called family networks) such as coercion through vote-buying (also defined as clientelistic goods) were found to affect the provision and in one case, negatively affect the quality of public services. On the other hand, studies have also shown that publicly provided private/clientelistic goods such as social services are preferred by voters or are distributed by incumbent politicians who are members of political dynasties facing their last term in office.

All reasons behind varied local government performance summarized above fall under governance suggesting the crucial role local policymakers play in local government performance and development and the estimation of a decentralization index contributed an approximation of the proportion of discretionary local government expenditures that local policymakers accountable for.

Though this review was not exhaustive and presented scant and inconclusive evidence on Philippine decentralization, the discussion fortifies the need for further research. For institutional reasons behind varied LGU performance, much has already been written on the limitations of the provisions of the 1991 Local Government Code. At the same time, the presence of poverty and income inequality should also be considered in revising institutional mandates and designing policy. Further research could be done on examining and quantifying the effects of institutional and political economy variables on local government revenue mobilization and expenditures, in general and across local governments. This would provide insight on what the appropriate policy interventions could be taken.

**Keywords:** local governments, patronage, median voter, clientelism, political dynasties

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## **A survey of literature on Philippine decentralization**

***Justine Diokno-Sicat and Ricxie B. Maddawin\****

### **1. Introduction**

Why, after more than twenty-five years of decentralization, are Philippine local government units (LGUs) still at varied levels of development? How does the literature explain this phenomenon? With current efforts to implement Constitutional change, it is important to understand how existing literature and evidence explains the current state of Philippine local government units (LGUs). This paper surveys the literature on Philippine LGU performance from historical, political science, economic and political economic perspectives.

Though this review is not exhaustive, there are general areas emerging from the literature explaining varied local government performance. These are the institutional/fiscal, political science/historical and political economic/economic all of which are not mutually exclusive, but which have been used as individual approaches in the literature on decentralization.

For the Philippines, institutional mandates and laws are the same across LGUs except for the autonomous regions. There are, however, considerable political and economic differences across LGUs and, though there may have been nuances in how institutions developed across geographical areas, governance and the roles of policymakers and voters have been key in explaining varied fiscal performance. In recognizing the major role policymakers play in affecting LGU development, this study estimates a decentralization index. This index measures the level of decentralization in an economy dependent on discretionary LGU spending (the proportion of LGU expenditures that are not earmarked for a specific purpose or mandated by law). Though the resultant Philippine decentralization index did not differ significantly from traditional measures of local government contributions to the economy or public sector expenditures, the interesting outcome was that local policymakers exercised an average of 72% discretionary power over LGU expenditures from 2009 to 2016. This implies that LGU development depends largely on how local policymakers choose to spend the budget that is within their discretion.

The next section presents the current state of Philippine LGUs. Section 3 discusses the history of decentralization highlighting the centuries-old phenomenon of local government dependence on the central government and the development of Filipino voters from the elite class *principalia* landlords or patrons to the inclusion of the rest of the Filipino population. The fourth section reviews economic and political economy evidence on varied development/outcomes across Philippine LGUs. This section also includes a brief comparison of Philippine decentralization evidence to international evidence. Section 5 presents the estimates of a Philippine decentralization index which attempts to estimate discretionary powers of local chief executives. Though the extent of decentralization measured by the index does not significantly differ from traditional measures (e.g. the proportion of LGU expenditures to national government expenditures), its estimation involved the computation of a measure of the discretionary power of local chief executives averaging about 72 percent. The final section provides emerging issues and general findings.

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## 2. The Current State of Philippine LGUs

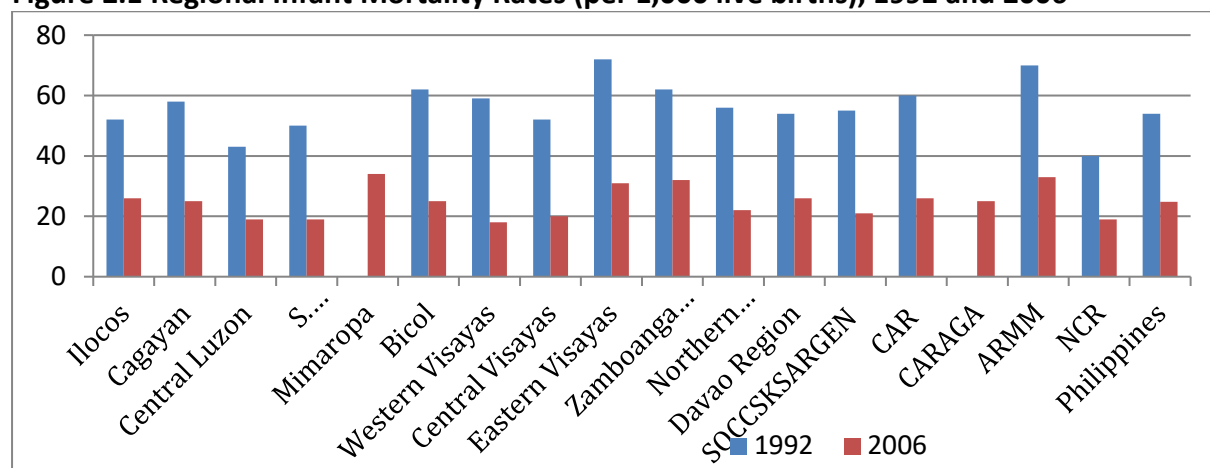
The Local Government Code (LGC) of 1991 solidified Philippine government's commitment to decentralization by creating local government units (LGUs) that would help attain national goals by providing "a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities and resources" (LGC 1991, Sec. 2a). The LGC changed the landscape of local fiscal decision-making by giving local government officials increased expenditure responsibilities and resources, via increased revenue-raising authority and the intergovernmental fiscal transfer called the Internal Revenue Allotment (IRA).

The main justification for decentralization is that economic efficiency can be enhanced with "each public service being provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs" (Oates 1972). This decentralization theorem suggests revenue-raising and expenditure responsibilities should be delegated to levels of government closest to voters. Efficiency is enhanced since local officials are presumed to know the preferences of their constituents and, thus, are in a better position to decide on local policy compared to the national government implying with decentralization, local fiscal decisions should reflect voter preferences.

Have Philippine local governments outcomes improved since decentralization? The answer so far is both yes and no.

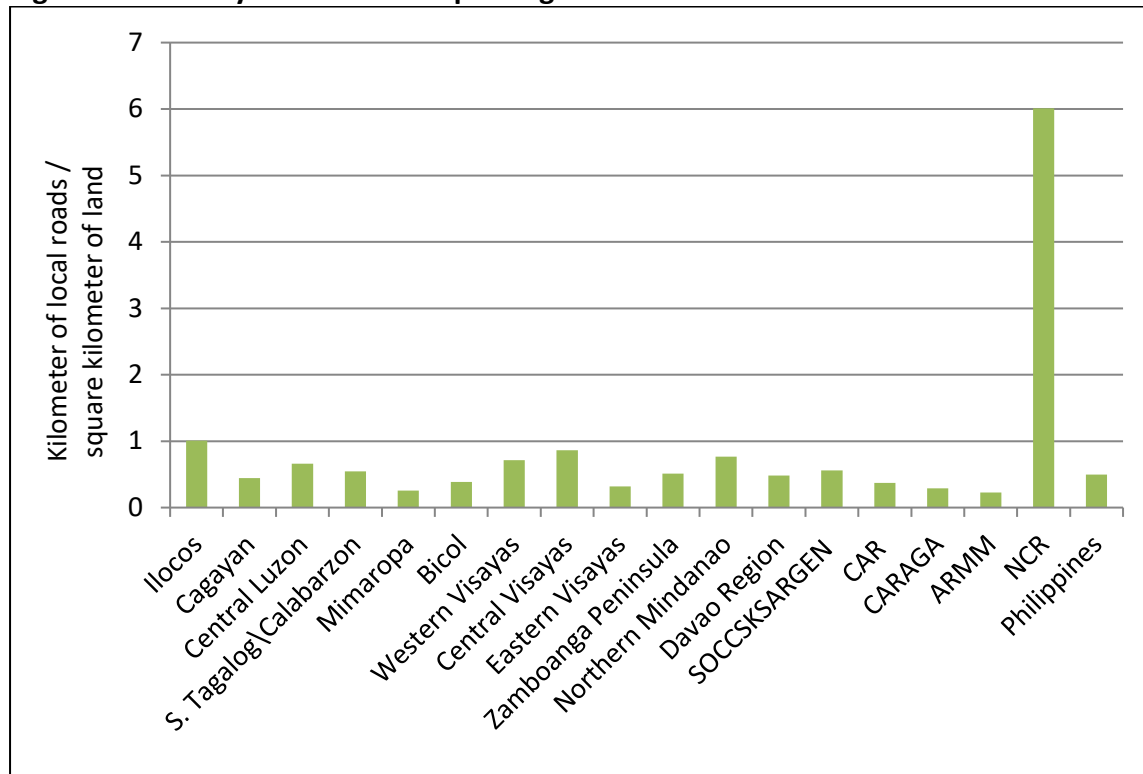
Studies show that there has been sluggish progress in human development across provinces (Capuno 2007) and slow regional income convergence (World Bank 2011). In health outcomes, though there have been improvements in infant mortality rates since decentralization, these remain varied across regions (Figure 2.1). There is also varied local service delivery as evidenced by varied local road density across regions (Figure 2.2).

**Figure 2.1 Regional Infant Mortality Rates (per 1,000 live births), 1992 and 2006**



Source: National Statistical Coordination Board



**Figure 2.2 Density of Local Roads per Region**

Source: World Bank 2011

## 2.1 Fiscal State of Philippine Local Governments

The Philippines has 17 regions, 81 provinces, 145 cities, 1489 municipalities and 42,045 barangays (Department of Interior and Local Government 2018). With the 1991 Local Government Code designed to foster economic growth and development by giving increased revenue-raising authority and spending responsibilities to LGUs, what is the general fiscal state of Philippine LGUs?

### Low Revenue Effort

With the aim of creating self-reliant LGUs, the LGC mandated that: “each local government unit shall exercise the power to create its own source of revenue and levy taxes, fees, and charges . . . Such taxes, fees, and charges shall accrue exclusively to the LGUs” (LGC 1991, Secs. 2 and 129).

At the same time, with policymakers recognizing the additional fiscal burden of devolved functions on LGUs and to help LGUs execute their functions, “the 1991 LGC made the previously discretionary intergovernmental fiscal grant (called the Internal Revenue Allotment or IRA), mandatory” (Diokno 2012). The IRA is the LGU’s “share of national internal revenue taxes based on the collection of the third fiscal year . . .” (LGC 1991, Sec. 284) which is

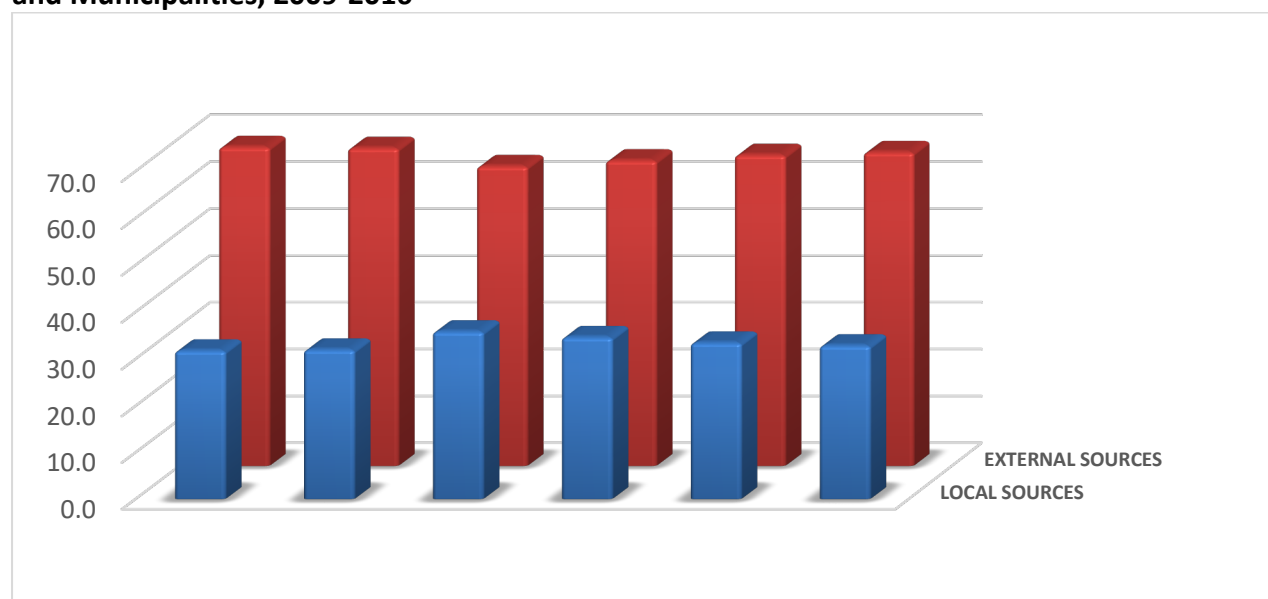
unconditional except for the requirement that 20% be allocated for development purposes (LGC 1991, Secs. 284 and 287).<sup>1</sup>

Revenues and IRA are the two main sources of income of LGUs. More formally/To be more specific, local government income includes both locally-sourced revenues and external sources.<sup>2</sup> Revenues from local sources are divided into two main categories: (1) tax revenue including real property, business and other taxes; and, (2) non-tax revenue such as regulatory fees, user charges, receipts from economic enterprise, tool fees and other receipts. External sources of local government income include the IRA, shares from national tax collections, national wealth, tobacco excise tax; loans and borrowings; extraordinary receipts/grants/aids, and inter-local transfers. Figure 1.3 shows the distribution of local and external sources of LGU income for all provinces, cities and municipalities.

Despite the increased revenue-raising authority given, LGUs still have low revenue effort (Figure 2.3). The largest income source of LGUs is external, averaging 68.5% from 2009 to 2016 (Figure 2.3), with the IRA being the biggest contributor. This trend of the large share of national government transfers in LGU income was also observed in the previous decade with an average of 66% from 1992-2003. In addition, the pre-LGC period of 1985-1991 had LGUs averaging 51% on national government transfers (Manasan 2005).

Of the local sources, business tax was the largest contributor averaging 10.7% while real property tax came in a close second with an average of 9.4% (Figure 2.4).

**Figure 2.3 Percent Distribution of Local and External Sources of Income of Provinces, Cities and Municipalities, 2009-2016**

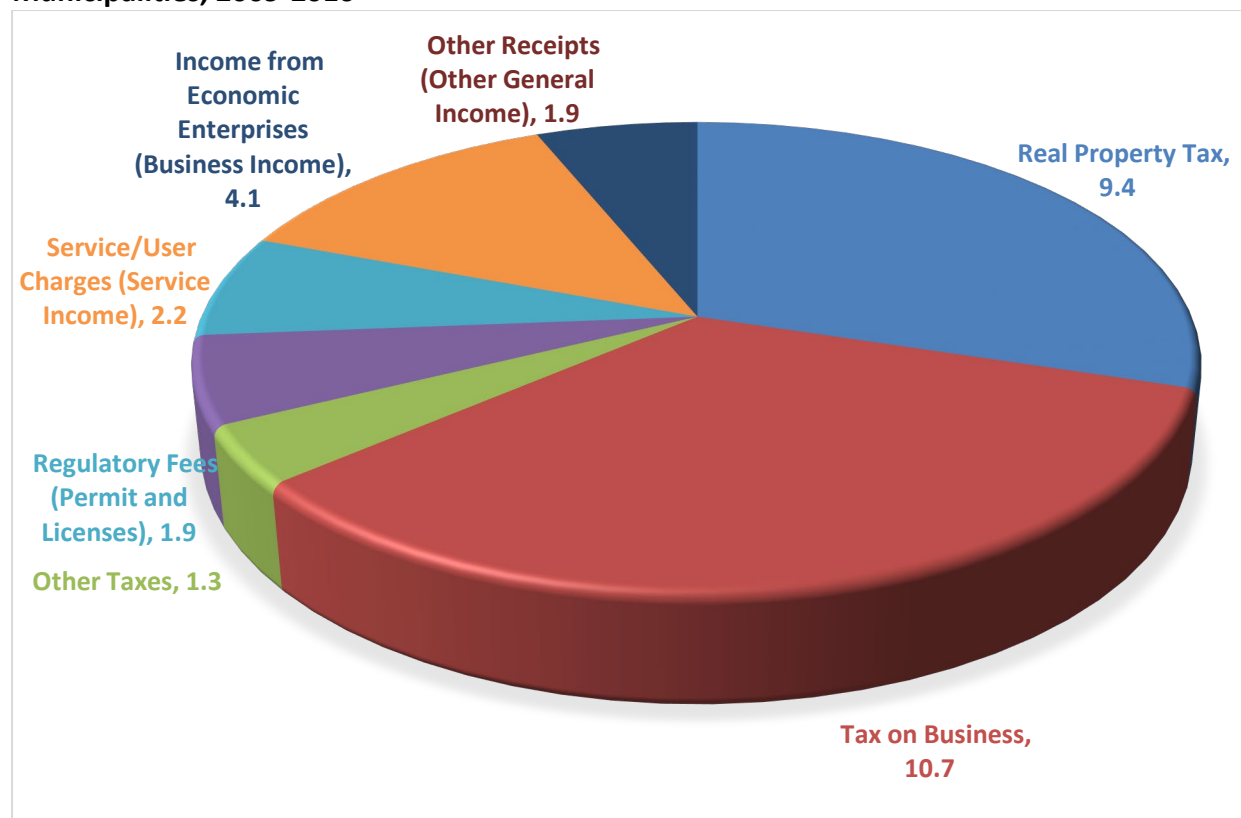


Source of basic data: Bureau of Local Government Finance

<sup>1</sup> Total IRA given by the national government to all LGUs is forty per cent (40%) of total internal revenue collections of the third preceding year (LGC 1991, Sec. 284.c).

<sup>2</sup> Throughout the paper, local income and local sources will refer to revenues raised by the local government unit concerned. Total income or funds will include both local income and other sources of local government funds such as the IRA.

**Figure 2.4 Average Distribution of Local Revenues by Source for Province, Cities and Municipalities, 2009-2016**



Source: Bureau of Local Government Finance (2018)

### Philippine local government expenditure trends

The increased expenditure responsibilities given to LGUs, i.e. basic services and facilities mandated by the LGC, are presented in Table 2.1 (1991 LGC Sec.17.b).

**Table 2.1 Local Government Unit Basic Services and Facilities****ECONOMIC SERVICES**

*Agricultural extension and On-site research*  
*Community based forestry projects*  
*Tourism facilities and tourism promotion and development*  
*Public works and infrastructure projects funded out of local funds*  
*Telecommunication services for provinces and cities*

**SOCIAL SERVICES**

*School building program*  
*Field health and hospital services and other tertiary health services*  
*Social welfare services such as programs and projects on rebel returnees and evacuees; relief operations and population development services*  
*Housing projects for provinces and cities such as low-cost housing and other mass dwellings*

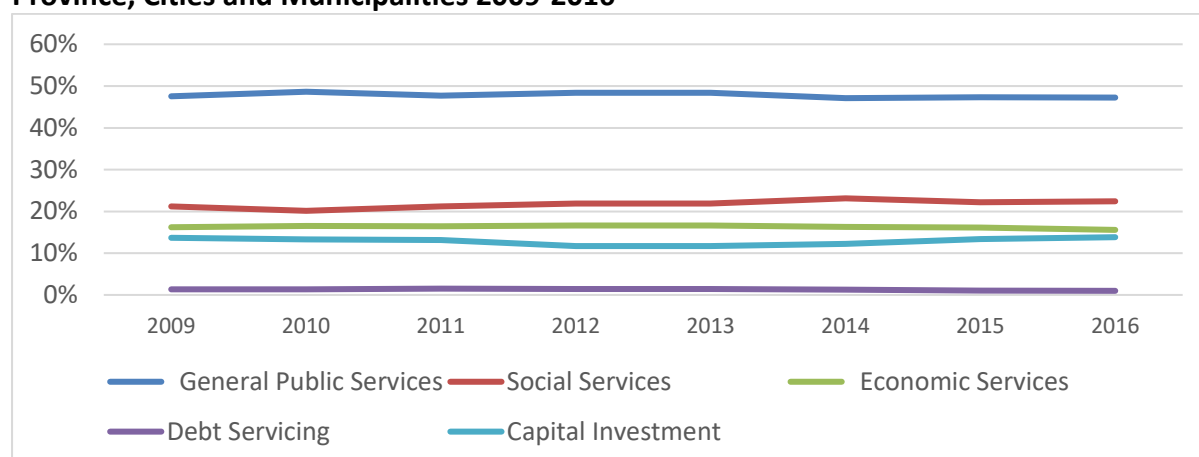
**OTHER SERVICES**

*Investment support and Industrial research and development*

Source: Bureau of Local Government Finance

Though LGU functions enumerated in Table 2.1 are the minimum basic requirement, LGUs have other functions in the following five general sectors: (1) general public services; (2) social service; (3) economic services; (4) debt financing; and, (5) other purposes.

General public service (GPS) represents the cost of running the local bureaucracy. This includes executive and legislative services; overall financial and fiscal services; the civil service; planning; conduct of foreign affairs; general research; public order and safety; and centralized services. For the period 2009 to 2016, GPS received the largest share of total local government expenditures<sup>3</sup> averaging 47% (Figure 2.5, Table 2.2).

**Figure 2.5 Percent Distribution of Philippine Local Government Expenditures, by sector Province, Cities and Municipalities 2009-2016**

Source: Bureau of Local Government Finance

Of these sectors, policymakers and researchers focus on social and economic services that are viewed as investments in both human and physical capital needed to attain economic growth and development (Mankiw 2010). Social services are mostly private goods and services, i.e. goods and services that are rival in consumption and excludable (Stiglitz and Rosengard 2015).

<sup>3</sup> All local government expenditures is defined as the sum of the expenditures of all provinces, cities and municipalities.

That is, there is an additional cost in providing the good or service and the beneficiary can be easily identified. These are goods that are available in the private market but are provided by government, primarily for redistributive/equity purposes. Examples are education; medical, dental, and health services; and social welfare. Economic services are more public in nature in that many can benefit from its provision simultaneously and, therefore, difficult to exclude people from its consumption.<sup>4</sup> Examples are local infrastructure; trade and industry; water resource development and flood control.

Social services received the third largest share of total LGU expenditures, averaging 21%/percent. Of these, expenditures on health, nutrition, and population control have the largest share of local government spending, averaging about 10 % or percent. This is to be expected, since health services is a devolved national government function. Health expenditures include medical, dental and health services; planning and administration of nutrition, population and family control programs. Health gets the largest spending and share among all of the social services, and its real per capita health spending has been increasing in recent years (Table 2.2, Table 2.3).<sup>5</sup>

**Table 2.2 Percent Distribution of Philippine Local Government Expenditures, Province, Cities and Municipalities 2009 -2016**

	2009	2010	2011	2012	2013	2014	2015	2016	Ave
<b>General Public Services</b>	46.0	47.3	46.3	46.9	49.6	45.4	45.8	45.8	46.6
<b>Social Services</b>	20.4	19.6	20.6	21.2	23.3	22.3	21.4	21.7	21.3
Department of									
Education	4.9	4.5	4.6	4.9	5.0	4.4	4.1	3.9	4.5
Health, Nutrition &									
Pop. Control	9.3	8.9	9.6	9.8	10.9	10.1	9.8	10.0	9.8
Labor &									
Employment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Housing &									
Community									
Development	2.3	2.3	2.2	2.2	2.3	2.3	2.1	2.0	2.2
Soc. Security/Soc.									
Services and									
Welfare	3.8	3.8	4.2	4.2	4.9	5.4	5.3	5.7	4.7
<b>Economic Services</b>	15.7	16.1	15.9	16.1	16.7	15.7	15.6	15.1	15.8
<b>Debt Servicing</b>	1.3	1.3	1.5	1.4	1.3	1.2	1.0	1.0	1.2

Source of basic data: Bureau of Local Government Finance

Of the social services, social welfare expenditures received the second largest share averaging 4.7 percent. These are “for the upliftment of disadvantaged families and children, the rehabilitation of the physically and socially handicapped, assistance to distressed and displaced individuals and families, care of the aged and other welfare services, and payments for retirement pension and other social security benefits,” (Appendix 1). Examples are practical skills development; burial assistance to elderly and veterans; assistance to senior

<sup>4</sup> In economic theory, one of the justifications of government interventions is the presence of the market failure called the public good. A public good as a market failure, is not the same as how it is commonly used to refer to any good or service by government. Public good as a market failure refers to goods that are non-rival and non-excludable. Or, goods that once provided can be used by many at the same time which makes it hard to exclude people from its consumption which is why such goods cannot be left to the private market since the pricing mechanism will not work.

<sup>5</sup> This is a welcome change in the declining trend observed for real per capita health expenditures from the period 2003 to 2009. Check the figures and cite.

citizens, battered women and abused children, disabled persons and individuals in crisis situations. Social welfare spending has received an increasing share in recent years, receiving the second largest share of social service spending of LGUs.

Under social services, education spending received the third largest share, with an annual average of 4.5 %/percent of total local government expenditures. But unlike health services, although the Department of Education school building program was devolved to local governments, basic education services (i.e. elementary and secondary levels) are still provided by the national government. Local government spending on education includes support of schools and education facilities; planning and manpower development; sports; and cultural preservation and enrichment.

There is, however, an earmarked fund of the LGU called the Special Education Fund (SEF) which allows, “(A) province or city or a municipality within the Metropolitan Manila area may levy and collect an annual tax of 1% on the assessed value of real property tax “ The proceeds of the SEF must be released automatically to the local school board and can be used for the operation and maintenance of public schools; construction and repair of school buildings, facilities and equipment; educational research; purchase of books and periodicals; and, sports development (LGC 1991, Sec. 272).

**Table 2.3. Total Local Government Expenditures 2001-2008 (PhP, real per capita terms)**

	2009	2010	2011	2012	2013	2014	2015	2016	Average
<b>General Public Services</b>	850	902	891	924	958	931	1026	1100	948
<b>Social Services</b>	378	373	396	418	449	457	480	521	434
<i>Department of Education</i>	92	86	88	97	97	91	91	92	92
<i>Health, Nutrition and Population Control</i>	172	170	184	193	210	208	220	240	200
<i>Labor and Employment</i>	1	1	1	1	1	1	2	2	1
<i>Housing and Community Development</i>	43	43	42	44	45	46	48	49	45
<i>Social welfare services</i>	71	73	81	82	95	111	120	137	96
<b>Economic Services</b>	290	307	306	317	322	322	350	362	322
<b>Debt Servicing</b>	24	25	28	27	26	25	23	23	25
<b>TOTAL EXPENDITURES</b>	1849	1909	1926	1971	1931	2052	2242	2400	2035
<b>Memo Items</b>									
<b>Population (in millions)</b>	90.6	92.3	94.3	95.8	98.2	99.9	101	103.2	
<b>Implicit Price Index (IPIN) 2000=100</b>	151.52	157.91	164.26	167.5	170.92	176.32	175.29	178.19	

Sources: Bureau of Local Government Finance; Department of Budget and Management and National Statistics Office

Other social service spending includes expenditures on labor and employment and housing and community development. Labor and employment services include expenditures for the formulation, implementation and regulation of labor policies such as the promotion, placement, and regulation of domestic and overseas employment and the maintenance of industrial peace (Appendix 1). Some examples of labor and employment expenditures are online job matching programs; labor sector assistance programs; and, special program for employment of students.

Housing and community development expenditures include the provision of housing and sanitary services; promotion of community development; slum clearance; zoning; and control of pollution (Appendix 1). Some programs are mobilizing against professional squatters and squatting syndicates; urban development and housing programs; and, identification of sites for possible socialized housing projects. Spending on housing and community development, in real per capita terms, has increased slightly (Table 2.3).

Economic services are spending on activities directed for the promotion and enhancement of economic growth. In practice, these are local government expenditures that either generate or help generate income (e.g. farm-to-market road). Economic services include engineering services; construction or rehabilitation of farm-to-market roads, local roads and bridges; crop and fish production; livestock and poultry development; and tourism development, like promotions and maintenance of tourism information and assistance centers. Economic services account for an annual average of 16% of local government spending (Table 2.2).

Debt service covers expenditures for the repayment of loans, interest, and other service charges for the debts of the LGU. On the average, this has the smallest share of LGU spending averaging 1.2% (Table 2.2).

### **3. Philippine Decentralization: A Historical Perspective/Evolution of Government, Voters and Politicians**

For more than four centuries the Philippine government was highly centralized resulting in local governments heavily dependent on the national government for fiscal resources. Despite sporadic efforts at decentralization for most of this period, local leaders were appointed by the central government leaving Philippine voters with limited, if any, roles in choosing their own leaders. It was only during the American colonial regime that local elective positions were accessible to Filipinos, however, due to stringent voter qualifications, only the educated and wealthy elite were eligible to run and exercise their right to suffrage (de Dios 2007).

These elements of our history might explain, in part, why LGUs are still heavily dependent on the national government for transfers and how the development of politicians from wealthy elites, and not from political ideologies, cultivated a weak state that allowed the breeding and entrenchment of political dynasties through patronage and coercion (Hutchcroft 1998; Rocamora 1995; Coronel 2004; Rivera 2011).

This section provides a brief history of decentralization, local governments, and the role of voters and politicians in the Philippines. It covers the following periods: (1) pre-Spanish colonial regime; (2) Spanish colonial regime (1565-1898); (3) Philippine independence (1898-1899/1900); (4) the American colonial regime and Philippine Commonwealth (1900-1946); (5) the Third (1946-1972) and Fourth (1973-1985); and, the Fifth Republic (1986 to present).

#### **3.1. *The Institutional Framework: The Philippine local government***

Centuries of Spanish and American colonization, the highly centralized structure of government, the limited involvement in governing and restricted participation in voting of Filipinos resulted in local governments dependent on the central government and only the elite class of Filipinos with experience in governing but with most Filipinos inexperienced in voting and selecting their own leaders. In addition, the institution of intergovernmental fiscal grants

as well as additional grants for well-performing local governments similar to current fiscal institutions.

Before the Spanish colonization of the Philippines, the first local government unit was the *barangay* which was led by a *datu*. The *datu* had executive, legislative, judicial and religious powers, and was advised by a group of elders and the transfer of power being primarily familial (De Guzman, Reforma and Panganiban 1998). During the Spanish era (1565-1898), government was highly centralized to facilitate colonization (Corpuz 1997). The *datu*s and their families were allowed to maintain their right to govern and were given recognition as a ruling class called the *principalia*, during the Spanish regime.

In 1898, the Revolutionary government made efforts toward strengthening local governments in the Malolos Constitution of 1899 but in 1890, the success of American colonization, cut short all efforts to establish an independent Philippine nation.

In 1900, the Philippine Commission was instructed to establish municipal (Philippine Commission 1905) and provincial governments (Philippine Commission Act No. 83 1905), and to delegate as much responsibilities and duties to the lowest level of government possible (De Guzman, Reforma and Panganiban 1998). These instructions were not carried out because the centralized form of government established by the Spanish regime left locals with little experience in directing local governments (De Guzman, Reforma and Panganiban 1998; Manor 1999, 35).

A major development in local government structure during this period was the creation of a legislated share of internal revenues (The Internal Revenue Law, Act No. 1189 1904). The Commission wanted autonomy in revenue and fiscal administration of provincial and municipal governments, however, it also recognized the need for support at the local levels. With this, local governments received a total of 25% of internal revenues with 10% going to provinces and 15% accruing to municipalities with intra-level distribution based on population (Corpuz 1997). Dependency of local governments on the central government further intensified with the introduction of intergovernmental transfers towards the end of American colonization (Corpuz 1997).

Other forms of aid were given to “progressive” local governments that promoted the Manila government’s public improvement projects, particularly civil works, public health, and schools. These forms of aid included: approval of projects by bond issues; loans from the insular government; and extended loan write-offs. This drove local governments to be dependent on the central government, and receipt of internal revenue shares required “fealty to and supplication with the authorities in Manila” (Corpuz 1997)

During Philippine Commonwealth, the 1935 Constitution provided that “the President shall exercise general supervision over all local governments as may be provided by law....” (Philippine Constitution, 1935: Art. VII, Sec. 10). As a result, government was centrally controlled under Pres. Manuel L. Quezon, who believed that under the unitary system, the national chief executive should control all local offices (De Guzman, Reforma and Panganiban 1998).

During the Third Republic (1946-1972), the trend was towards decentralization, with laws being passed to give local governments more revenue-raising authority and narrowing the application of the constitutional power of the President to supervise local governments (Local Autonomy Act 1959; Decentralization Act of 1967). However, despite the 1973 Philippine



Constitution's provisions of giving more power to local governments, actual policy increased the supervision and regulation by the national government.

During Martial Law (1972-1982), Pres. Ferdinand E. Marcos maintained the power to create, divide, merge, abolish, and alter the boundaries of LGUs. He also suspended local elections, allowing him to remove and appoint local officials. Until the fall of the Marcos regime, internal revenue shares were still a main source of local government income. In addition, their release was discretionary, based largely on political affiliations of local officials with the Marcos administration (Diokno 2012).

It was during the Fifth Republic of the Philippines that true commitment towards a decentralized government emerged with the passing of the 1991 Local Government Code of the Philippines (LGC). The discretionary power of the national government on intergovernmental fiscal transfers was eliminated by making IRA releases automatic and mandatory. However, despite the increased revenue raising powers given by the LGC, LGUs maintained their dependence on the IRA, which is now perceived to be a source of regular and increased patronage for local chief executives (Hutchcroft, 2012).

### 3.2. The Philippine voter

In almost four centuries of Spanish colonization, it was only during the American colonial regime that Filipinos could vote for their leaders. Before the first direct elections for provincial governors in 1906, "municipal presidents (equivalent to mayors), vice-presidents and councils were effectively chosen by and from the *principalia*<sup>6</sup> owing to stringent voter qualifications<sup>7</sup> (de Dios 2007, 161)." In hindsight, granting suffrage and access to elective positions to a limited and elite population gave the advantage to entrench and enrich themselves in the political and economic arena.

Non-elite or indigenous Filipino voters played a minimal role in affecting local governance. During the periods that local politicians were: (1) appointed (i.e., the Spanish regime, Philippine Commonwealth, during Martial Law); or, (2) elected and limited to the elite (i.e., the American colonial regime beginning informally in 1901), there was, at best, limited participation by elite voters. The non-*principalia* or non-elite Filipino were not allowed to vote, and it was only during the Third and Fifth Republics that all Filipinos were given the right to vote for local public officials.

In the Third Republic until before Martial Law (1946-1972), the local chief executive and members of the local legislative bodies were directly elected by the people. During Martial Law (1972-1982), Pres. Marcos suspended local elections, allowing him to remove and appoint local officials (De Guzman, Reforma and Panganiban 1998). In 1980, he restored the direct election of governors and mayors with a fixed term of office. After Martial Law ended on 17 January 1981, there was an election of *barangay* officials on 17 May 1982 (*Batas Pambansa Blg. 222*, 1982).

The dissatisfaction of the Filipinos with the Marcos dictatorship, the assassination of a popular exiled opposition senator Benigno Aquino Jr., and the blatant cheating of the administration in the 1985 Snap Elections led to public outrage that culminated with the overthrow of Pres.

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<sup>6</sup> The *principalia* were part of the local leaders that the Spanish regime had depended on to serve as intermediaries with the indigenous population and later became part of a middle class (de Dios 2007, 160).

<sup>7</sup> According to de Dios (2009, 200 endnote 15), "Voters had to be males of at least 23 years of age who had previously held a position in town government, who owned substantial property and who could read or write in either English or Spanish."

Marcos. In 1986, the peaceful civilian uprising called People Power was quickly succeeded by the Fifth Republic (1986-present) with the first local election of the Fifth Republic being held on 18 January 1988 (Commission on Elections).

The lack of experience in voting of the general Filipino population may have perhaps manifested in voting for candidates based on personal affiliations developed outside of the political arena, e.g. because of patronage or coercion. In a study on voter behavior from 1946-1963, there was evidence that voters did not vote based on political party affiliations, primarily because the political parties then were “based on loose confederations and unstable localized pyramids of leadership” (Lande 1973, 95). According to Lande (1973) what played a larger role in mobilizing voters were personal alliances between candidates and local political leaders or individual voters.

### 3.3. *The Philippine politician*

The first Philippine politician originated from Pre-Spanish era as the governing *datu* of a *barangay* whose power was transferred through familial ties (Sidel 1999). During the Spanish regime, *barangays* were renamed as *barrios* while the *datos* were kept as the head of this smallest government unit. The *datos* took on the role of tax collectors and were called the *cabeza de barangay*, while other officials were selected by the colonial government with no participation of local inhabitants (De Guzman, Reforma and Panganiban 1998).

During the Revolutionary government of 1898, the Malolos Constitution of 1899 institutionalized direct elections. However, during the American colonial regime, the centralized structure of government during the Spanish period left the locals unable to govern effectively, despite efforts of the Philippine Commission (De Guzman, Reforma and Panganiban 1998; Manor 1999).

As discussed earlier, local chief executives and members of local legislative bodies were directly elected by the people in the Third Republic but upon the declaration of Martial Law in 1972, Pres. Ferdinand Marcos suspended local elections, allowing him to appoint and remove local officials (De Guzman, Reforma and Panganiban 1998). In 1980, he restored the direct election of governors and mayors and after Martial Law was lifted, allowed an election of *barangay* officials on 17 May 1982 (*Batas Pambansa Blg. 222*, 1982). The Fifth Republic was constituted in 1986 after overthrowing the Marcos dictatorship and the first local election was held on 18 January 1988 (Commission on Elections).

A predominant element in the history of Philippine politics is that power was maintained and passed on through familial ties. Local politicians developed from *datos*, into the *principalia*, and then into the elite group of voters during the American years, who later thrust themselves into the national arena. As de Dios (2007, 161) states, “[T]he fact that the United States was bound to grant the Philippines self-rule and ultimately independence allowed what were formerly intermediary strata and local-level elites to assume national significance.”

Concurrent to the development of elite politicians was the absence of the progression of a strong political party system. The weakness of the political party system in the Philippines can be traced to: (1) lack of competition among local officials during the Spanish times; (2) one dominant party ruling among multiple parties during the American colonial period; (3) the competitive two-party system during the Third Republic (which according to some was not a true two-party system because the platforms were the same (Lande 1973) and these parties were only rival coalitions of families and clans); (4) no political parties during Martial Law;

(5) the dominant party rule of Pres. Marcos' Kilusang Bagong Lipunan (KBL); and finally, (6) the current multiple party rule (Manacsa 1999).

The weak political party system allowed the formation of political clans from these landed elite, wherein familial interests rule instead of ideologies. Coronel (2004) identified strategies to maintain familial power such as: (1) wealth accumulation; (2) violence; (3) expansion of political influence through strategic marriages; (4) diversification of economic interests; (5) alliances with national politicians; and, (6) patronage.

As mentioned earlier, there was evidence that when Filipinos elected local officials during the Third Republic, voting was based on personal alliances and not political party affiliations (Lande 1973). These personal affiliations were believed to have been established through patron-client or patronage relationships wherein the client (voter) relies on the patron (landowner) who possesses the economic resources for livelihood, protection and security (Sidel 1999).

The landowning patrons and elites in the Philippines were able to perpetuate their wealth and power by expanding their political influence from local to national politics as well as through economic reinvention. "At the turn of the twentieth century, the landholding class became the local economic elites that were able to graduate into the role of local and then national political leaders" (de Dios 2007, 167). Similarly, Crouch (1985) asserted that the dominant landowning class in the pre-Marcos era developed into a new class of political elite that later became commercial and industrial elite.

The high re-election rate for Marcos legislators and political clans in the post-Marcos period was a result of the persistence of direct class rule by a landed elite or oligarchs (Crouch 1985; Coronel 2004). Empirically, Lande (1973) finds evidence that tenancy, which is linked to landowning, is weakly related with political factors when examining voting behavior of the Southern Tagalog region in 1946 to 1968. There was evidence, however, that the *Nacionalista* party was susceptible to political control by landowning elite though the existence of tenancy does not translate into political strength. In 2004, almost 40% of the members of the 12<sup>th</sup> Congress of the Philippines were agricultural landowners (Coronel 2004).

Hutchcroft (1998) and Rocamora (1995) argue that the national elite or oligarchy was developed under the conscious effort of the American colonial regime. Suffrage was granted only to the propertied and educated Filipinos which led to political offices being held by landowning families (Coronel 2004). Weak political institutions made it easy for the educated and wealthy take advantage of the state and holding political office allowed these families to expand their wealth and entrench themselves (Huthcroft 1999).

Specifically, the political sphere began with municipal level elections which led to coalitions among the municipal elite for provincial elections which then boosted them to the national political arena. The local landowning elite or the local oligarchs who were the local political elite became the national political elite, encouraging local politicians to aspire for national offices (de Dios 2007).

Despite this, the power of the national elite was still circumscribed by the American colonial regime (Rocamora 1995). The rise of the local elite depended largely on the American trade policies that affected the wealth of the local elite. This, in turn, affected the ability of the local elite to bankroll presidential and senatorial campaigns. Rocamora (1995) identified this dependency as one of the sources of the weak Philippine state because the central government,

that dispensed economic power (i.e. quotas, contracts, subsidized loans), had weak control over foreign or local business people whose success depends on foreign ties.

Furthermore, because of the inadequacy of the political party system, the national elite became dependent on the local elite for voter mobilization (Lande, 1973; Manacsa, 1999).

Examining the evolution of Philippine local governments and history of decentralization has offered insights on current Philippine LGU performance. First, Philippine LGUs were highly dependent on intergovernmental fiscal transfers whether in a centralized or decentralized form of government. Internal revenue shares of local governments were first implemented during the American colonial period to prepare local governments for more autonomy. However, in practice, they became the colonial government's instrument for controlling local governments. This continued under the Marcos regime, where internal revenue shares were released to local politicians aligned with the administration. After decentralization efforts in 1991, though shares of the IRA were now automatically released regardless of political with the national government, LGUs are still largely dependent on IRA with, generally, low revenue effort.

Second, there were no Filipino voters for most of the past four centuries. The Filipinos that did participate in government during this period were either *datus* or the *principalia* selected by the colonial government. These Philippine leaders were used to power staying within the family or had the first-mover advantage, relative to the non-elite Filipinos, both allowing the propagation of patronage and their evolution into economic elite. On the other hand, for the centuries that the majority of Filipinos did not vote, the only leader they knew landowners/patrons to whom they depended on for socio-economic needs. These were perhaps the same patrons/leaders that either gained political power or supported politicians.

Finally, a weak political party system permitted the perpetuation of local elites and political families and elites and the dependency of national on local politicians entrenched as well as made the local elite to national politics. In addition, political and economic elite used patronage and coercion to persuade voters to vote in their interests. As such, "voting would be based on purely private, self-regarding considerations in disregard of social or communal interests," (de Dios 2007).

#### **4. Evidence on Philippine LGU performance**

The previous section looked to Philippine history and the evolution of institutions, voters and politicians for reasons behind current governance and varied fiscal performance across LGUs. This section looks at fiscal and political economy evidence on Philippine decentralization.

##### **4.1. Fiscal explanations**

Current explanations of varied fiscal performance of LGUs focus on differing socioeconomic conditions, restrictive LGC provisions, disincentive effects of the IRA, and the mismatch of devolved expenditure responsibilities. These studies focus on institutional reasons behind LGU performance and offer policy reforms to address the issues raised (i.e. amendments to the Local Government Code; enhancements in the implementation of LGC provisions).

Crucial to the ability of an LGU to mobilize revenues is the socioeconomic characteristics of its locality and tax base. It is expected that poorer LGUs would have difficulty in mobilizing revenues while the converse should be true for richer LGUs. It has been argued that different LGU development can be attributed, in part, to varied revenue-raising capacities of LGUs and

the IRA formula not considering equity are some reasons for (Manasan and Chatterjee 2003, Manasan 2004).

Still on revenue mobilization, Llanto (2009) argues that inefficient tax assignment has constrained local revenue mobilization and led to the dependency of LGUs on IRA. Though LGU tax assignment appears to be largely consistent with theory, it imposes limitations on tax rates and frequency of adjustments in tax rates (Manasan 2005, Manasan 2009 as cited in Rivera 2016). Some have also argued that the LGC provisions were only marginally different from pre-devolution fiscal powers and echoed the literature on the restrictive effect of these (Guevara 2004 as cited in Rivera 2016, 129-130).

Many studies on Philippine decentralization have highlighted the high and persistent dependency of LGUs on the IRA (Diokno 2012, Manasan 2009, Llanto 2009). Though there is a need for such assistance from the national government, some have argued that limitations in revenue mobilization discussed above, is part of the reason behind this dependency (Llanto 2009). Furthermore, the current formula for computing IRA does not include any revenue-raising effort variable of LGUs, creating an adverse incentive (Diokno 2003 (Manasan 2004)). Manasan (2004) found empirical evidence that suggested “LGUs which received higher IRA tended to be lax in their tax effort” (Manasan 2004, 39).

Turning to expenditures, Manasan and Chatterjee (2003) argue that there is a mismatch in expenditure responsibilities devolved to different levels of LGUs, which has contributed to varying fiscal performance and outcomes across LGUs. Others have also argued that despite the mandated spending of 20% of LGU annual IRA on development projects called the local development fund (LDF), the amount is spent for programs and projects that do not contribute to economic development. For example, some prescribed development projects include construction or rehabilitation of health centers, manpower development centers, locally-owned potable water systems, farm-to-market roads, local roads or bridges, and sanitary landfills; community reforestation and flood control programs; and, other programs and projects of similar nature (Department of the Interior and Local Government; Department of Budget and Management 2017). In practice, development projects are broadly defined to include “soft” facilities improvement projects (e.g. beautification of the plaza) and capacity-building programs (e.g. study tours of local officials) (Diokno 2003, 4). This behavior has continued until recently, though perhaps with The Commission on Audit reported that in 2016, approximately 2.3 % of the LDF funds were used for purposes other than intended (Commission on Audit 2017).

#### *4.2. Political science and political economy explanations*

In general, political science and political economy literature have attributed varying LGU fiscal performance and development outcomes on elements of patronage (Sidel 1999); the weak state (Crouch 1995; Coronel 2004; Hutchcroft 1991) and oligarchies (Rocamora 1995; Hutchcroft 1999); coercion such as bossism (Sidel 1999) and vote-buying (Rocamora 1995); and entrenched politicians and political dynasties/clans/families (De Dios 2007; Rivera 2011). These elements allow politicians to design policy for their own benefit and at the expense of LGU development.

There have been some efforts in Philippine literature to examine the effect of political dynasties on local development outcomes and spending patterns. Balisacan and Fuwa (2004) and Balisacan (2007) tested the effects of political dynasties on provincial income growth. They

found that political dynasties had an initial negative effect for the period of 1988-1997, but that for a longer time period, 1988-2003, there was no significant effect.

More recently, Mendoza et.al. (2016) found that political dynasties in Luzon neither exacerbate nor reduce poverty but, they do exert a significant and positive influence on poverty in the Visayas and Mindanao regions. That is, for the Visayas and Mindanao regions, the evidence suggests that there is a positive association between political dynasties and poverty incidence. The authors argue that there is an interrelationship between geography and institutions in the determination of socioeconomic outcomes such as poverty. To explain the insignificant effects of political dynasties on poverty in Luzon, the authors suggested that because of the proximity to Manila, it is easier to benefit both from the concentration of economic activity in the capital as well as compare public goods and services, increasing the pressure on these local chief executives to provide similar goods and services.

There are also studies that have looked at the effect of political dynasties on outcomes at various stages of the electoral process. In terms of voter turnout, Cruz, Labonne and Querubin (2017) found that for the Philippines, candidates for public office are disproportionately drawn from more central (in terms of accessibility of voters to the political dynasty candidate member) families and family network centrality contributes to higher vote shares during the elections.

As for political dynasties and specific sectors, Labonne, Parsa and Querubin (2017) show that in the Philippines, binding term limits constitute critical junctures in which dynastic women are 240% more likely to access political office. If women accede to political office dynastically, there is no difference in policy outcome between a male or female mayor, that is, there is no gender mandate. That is, if a female politician accedes office as a member of a political dynasty, there is no change in gender policy.

For studies on political dynasties and expenditures, Capuno, Fabella and Solon (2009) found that incumbent governors increased their chances of re-election with higher spending on economic services. In addition, they found that governors who are members of political clans have higher economic service spending when faced with rival clans.

Still on political dynasties and public expenditures, Diokno-Sicat (2016) found that there is a difference in LGU spending priorities of an incumbent official who is facing his last term in office, or a lame-duck<sup>8</sup>, depending on his or her membership in a political dynasty. The results show that incumbent officials facing their last term in 2000 and 2003, in general, spent more on general public and economic services in their last term. However, last-term incumbent officials who were members of political families spent more on social services and less on economic services while non-political dynasty last-term incumbents spent more on general public and economic services and less on social services. The evidence seems to suggest that, to extend the political dynasty's horizon, end-term officials spend more on goods and services that directly benefit voters or groups of voters (e.g. health, labor and employment which are also known as clientelistic goods<sup>9</sup>) than goods that are more public in nature/benefit everyone (e.g. infrastructure such as roads, buildings) once provided.

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<sup>8</sup> Defined as an incumbent politician who is no longer eligible to run for re-election because he or she is on his or her last term in office (Barro 1973, Persson and Tabellini 2000). In the case of Philippine LGUs a lame-duck incumbent official would be on his third term in office.

<sup>9</sup> Clientelistic goods to refer to private political goods—distributed both before or after elections—in exchange for political support. Examples include jobs (patronage), money (vote buying), and access to government services (Cruz, Labonne and Querubin 2017).

Though economic services, particularly infrastructure, are crucial in development, this is also commonly perceived to be a source of rents for politicians. Documented evidence has shown that infrastructure built are sub-standard if, in fact, built at all (PCIJ 1998). The argument is that politicians earn kickbacks or rents from the contractors of infrastructure projects which is why contractors end up delivering poor quality infrastructure (PCIJ 1998).

Another strand of political literature looks at how patronage affects public goods and services through clientelism. For the Philippines, Khemani (2011) provided evidence that a direct measure of clientelist political strategy (i.e. vote-buying) was significantly, systematically and robustly related to both the lower quality and availability of public health services. Khemani (2011) argues that by “doing so (providing evidence) adds to the knowledge base of why and how politics matters for good governance—for effectively translating public spending into development outcomes—and what this implies for public policies to improve the quality of governance” (Khemani 2011, 2-3).

Local public choice theory has tried to explain the difference in the provision of public goods across localities by voters ‘voting-with-the-feet,’ or, moving to places where goods and services provided by the local government reflect their preferences (Tiebout 1956). This assumes, however, that incumbent politicians are responsive to voter preferences. A more general public choice theory that assumes such is the median voter model which suggests that with a majority voting rule, for a candidate to win an election, he or she must satisfy the preferences of the median voter (Stiglitz and Rosengard 2015). This would result in goods and services provided by the government reflecting median voter preferences.

There has been one such effort to test this model in the Philippines. The results showed that for Philippine provinces in 2000 and 2003, there was a robust, significant and positive association between median voter income<sup>10</sup> and social welfare expenditures (Diokno-Sicat 2016). That is, the evidence seems to suggest median voters prefer spending on social services, which are mainly transfers that are also considered as clientelistic goods. This was explained by the fact that the provincial median income voter is not poor but is poorer than the then national median voter which is why he or she would prefer spending from which he or she directly benefits from.

Clearly, more research needs to be done to understand varied LGU performance in the Philippines, however, patterns seem to emerge. First, fiscal limitations on revenue raising powers, lack of incentives in raising own revenues in the IRA formula and the mismatch in revenue and expenditure responsibilities indicate the need for revisiting the LGC.

Second, despite the sparse empirical evidence on the effect of political dynasties and clientelism in the Philippines, the results highlight the role that governance plays in different development and outcomes across LGUs. The presence of political dynasties and clientelism affects policies chosen, or not, and consequently affect the LGU development.

#### *4.3. International explanations of varied levels of development with decentralization*

How does the literature on Philippine decentralization compare to international literature? Regarding decentralization and development, there has also been mixed and inconclusive evidence across and within countries (Mookherjee 2015). There is, however, a strong

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<sup>10</sup> Diokno-Sicat (2016) defined the median voter as the voter with median income as has been done in similar literature (Borcherding and Deacon 1972, Bergstrom and Goodman 1973, Ahmed and Greene 2000) .

association between the level of fiscal decentralization and the level of development, with larger countries tending to decentralize more quickly (Bahl and Bird 2018). It has not yet been ascertained whether decentralization leads to faster economic growth or if faster economic growth leads to more demand for decentralization. “Nor do we know if fiscal decentralization, at the margin, leads to faster economic growth” (Bahl and Bird 2018, 65). Similar to the Philippines, there is still need for further research.

An interesting study assessed the impact of government fiscal policies on income inequality in Asia (Martinez-Vazquez, Claus and Vulovic 2012). Though it examined general government, and not local governments, the result that government expenditures are a more effective tool for redistributing income provides some insights on the design and focus of policy. There are unusual results suggesting that social protection spending appears to increase income inequality in Asia, whereas it reduces it in the rest of the world. Also, adversely affecting the distribution of income in Asia is government expenditure on housing. The authors offered that social protection programs in Asian economies are more of policy rather than programs. The significance by which expenditures affect income redistribution might be suggestive of the impact as well at the local level of government spending. That is, how the incumbent local chief executive decides to spend would affect development outcomes.

There have been attempts to link public expenditures to development outcomes at the local government level. Some have argued that politics and governance affect how public spending impacts development outcomes (Khemani 2011). Mookherjee (2015) surveys the literature on political decentralization and discusses much micro-evidence on intra-community elite capture and corruption. Capture is when there is a lack of involvement of poor and marginalized groups in decision-making and project outcomes are less aligned with their needs. The capacity of elites to hijack programs to suit their ends, or of officials to pocket rents or divert sources is higher in communities with greater inequality, are remote from centers of power, have low literacy rate, are poor, or with significant caste, race or gender disparities (Mansuri and Rao 2013 as cited in Mookherjee 2015). Such evidence was for countries such as Ecuador, Sierra Leone, the Philippines, India (there are several studies looking at India and for its separate provinces of West Bengal and Maharashtra). In the Philippines, Labonne and Chase (2009) present evidence of capture by local leaders who exercised greater influence over resource allocation at the supra---village level meetings where proposed projects are approved (as cited in Mookherjee 2015, 16).

Mookherjee (2015) offers that these studies suggest considerable heterogeneity across and within countries depending on the extent of local capture. Furthermore, the author argues that it would be expected that the benefits of decentralization would also exhibit corresponding heterogeneous patterns and goes on to present evidence of such heterogeneity in many contexts such as for: (1) educational quality in Argentina (Galiani, Gertler and Schargrodsky 2008); and, (2) varied child health indicators in Uganda (Bjorkman and Svensson 2010).

The discussion above shows that varied LGU development with decentralization is not unique to the Philippines. Many other countries experience heterogeneous development within their country among local governments, and like in the case of the Philippines, there is still a need to study this further. What is common in the literature on differing LGU performance is the role that governance seems to play in the resultant development outcomes.



## 5. Decentralization Index: How decentralized is the Philippine government?

The limited evidence explaining varied LGU performance shows that there is still a need for research on decentralization. It is interesting to note that both Philippine and international evidence points to the crucial role played by local officials and governance in local development, especially since LGUs are given the same responsibilities through the LGC and, in general, operate within similar institutions. One of the realities faced by LGUs, that might affect discretion over spending, are the additional fiscal burden of laws requiring mandatory budget allocations (Bahl and Bird 2018). How much discretionary spending do LGUs have? How decentralized is the Philippine government?

This section estimates a decentralization index based on the proportion of local government spending that the local chief executive has discretion over (Bahl and Bird 2018). This index is based on the definition of decentralization– the empowerment of local populations through the empowerment of their elected officials (Bahl and Bird 2018, 37). Though the estimated decentralization index appears to be similar, though smaller than, more traditional measures that show the contribution of local governments to national government expenditures, the result that should be highlighted is that LGUs have an average of 72% discretion over LGU expenditures. This suggests though Philippine LGUs are mandated to allocate funds for certain purposes and operate within similar institutions, local policymakers have enough discretion to impact local development.

One of the main justifications of decentralization is the increased accountability of local policymakers from bringing the responsibility of providing goods and services closer to the constituents. With this, decentralization should give local government officials more discretion over local government expenditures. Commonly used measures of decentralization, focusing on expenditures, are the proportion of local expenditures to total government expenditures, respectively. From 2009 to 2016, the proportion of Philippine LGU expenditures with and without debt servicing to total NG expenditures averaged 18.2 % and 17.6 %, respectively (Table 5.1).

**Table 5.1. Share of LGU expenditure to total national government expenditures (in percent), 2009-2016**

Year	Share of LGU Expenditures to Total National Government Expenditures	Share of LGU Expenditure (including debt servicing) to Total National Government Expenditure
2009	18.88	19.54
2010	19.89	20.46
2011	19.40	20.02
2012	17.49	18.05
2013	16.01	16.52
2014	17.30	17.92
2015	15.77	16.27
2016	15.48	15.94

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

Even with decentralization, there are some limitations on expenditures or stipulations of expenditure requirements that must be met by LGUs. For instance, by the LGC, LGUs are entitled to receive IRA which is almost completely an unconditional grant with the only condition being that 20 % of the IRA should be spent on development projects as the Local

Development Fund (LDF)<sup>11</sup> (Republic of the Philippines 1991, Sec. 287). An example of a limitation is a ceiling on the share of expenditures for personal services, e.g. salaries, depending on the income class with 45 % for richer LGUs (first to third income class) or 55 % for poorer LGUs (fourth to sixth income class) (Republic of the Philippines 1991, Sec. 325).<sup>12</sup> Another mandated expenditure but which is tied to a local revenue source is the Special Education Fund which is under the control of a local school board (Republic of the Philippines 1991, Sec. 272).

In recent years, the national government passed laws that had additional expenditure implications for LGUs such as: (1) the Philippine Disaster Reduction and Management Act which requires LGUs to allocate 5% of regular income (Department of Budget and Management 2018)<sup>13</sup>; and, (2) gender and development purposes which is mandated to be 5% of the LGU budget (Department of Budget and Management, National Economic and Development Authority, National Commission on the Role of Filipino Women 2004).

Using the methodology of Bahl and Bird (2018), this study estimates a decentralization index for Philippine local government expenditures for the years 2009 to 2016. Data is sourced from government agencies such as the Bureau of Local Government Finance and the Department of Budget and Management. The decentralization index,  $DE_j$ , tries to capture discretionary spending of LGUs and is defined as:

$$DE_j = \alpha LE_j / (LE_j + CE_j) \quad (1)$$

where,  $\alpha$  is the percentage share of subnational government expenditures over which subnational governments have discretion.<sup>14</sup> It ranges from 0 to 1 with 1 indicating the local government has complete discretion over expenditures. It was computed as the ratio of the difference of total LGU expenditure and spending required by laws/mandates to total LGU expenditures. Required Philippine LGU spending are those enumerated above, namely: (1) the LDF; (2) allocations for disaster reduction and management; and, (3) gender and development allocations.

as the proportion of LGU expenditures over which local policymakers have control over,  $\alpha$ , was computed as can be seen in Equations 1 and 2.1 below,

$$\alpha = ((Total\ LGU\ Expenditures - Mandated\ LGU\ Spending) / (Total\ LGU\ Expenditures)) \quad (2)$$

Where,

$$Mandated\ LGU\ Spending = 20\%IRA + 5\% LGU\ Income + 5\% LGU\ Budget \quad (2.1)$$

$$Total\ LGU\ Expenditure = Total\ Current\ Expenditure + Capital\ Investment\ Expenditure + Debt\ Service \quad (2.2)$$

<sup>11</sup> The Department of Budget and Management issues budget circulars identifying possible development projects that can be funded from the LDF.

<sup>12</sup> Other budgetary requirements defined the LGC are: (1) the aggregate amount shall not exceed the estimates of income; (2) the amount of appropriations for debt servicing shall not exceed 20 % of the regular income of the local government unit concerned; (3) for provinces, cities and municipalities, aid to component barangays should be at least One thousand pesos (P1,000.00) per barangay; and, (4) Five percent of the estimated revenue from regular sources shall be set aside as an annual lump-sum appropriation for unforeseen expenditures arising from the occurrence of calamities (Secs.324 (a) to (d)).

<sup>13</sup> Republic Act 10121 of 2010, Section 21

<sup>14</sup> Subnational government is the term commonly used internationally as well as by Bahl and Bird (2018) to define levels of government that are smaller in scope than or under national governments. In the Philippines, the equivalent of subnational governments are local governments or local government units. Local governments or local government units will be used for the rest of the paper.

The variable  $LE_j$  in equation 1 is the direct expenditure of local governments in country  $j$  (including the expenditure of revenue from intergovernmental transfers); and the variable  $CE_j$  is the direct expenditure of the central government in country  $j$  (excluding intergovernmental transfers to local governments). For this study,  $LE_j$  was computed as the sum of total current operating, capital investment expenditure and debt service.

For the last variable  $CE_j$  in equation 1, Bahl and Bird (2018) define it as the direct expenditure of central government in country  $j$  (excluding intergovernmental transfers to local governments). For the Philippine, this variable was computed as the difference between total national government expenditures and Allocations to Local Government Units.

$$\text{Decentralization Index} = (\alpha * (\text{Total LGU Expenditure})) / (\text{Total LGU Expenditure} - (\text{Total National Government Expenditure} - \text{Allocation of LGU}))$$

(3)

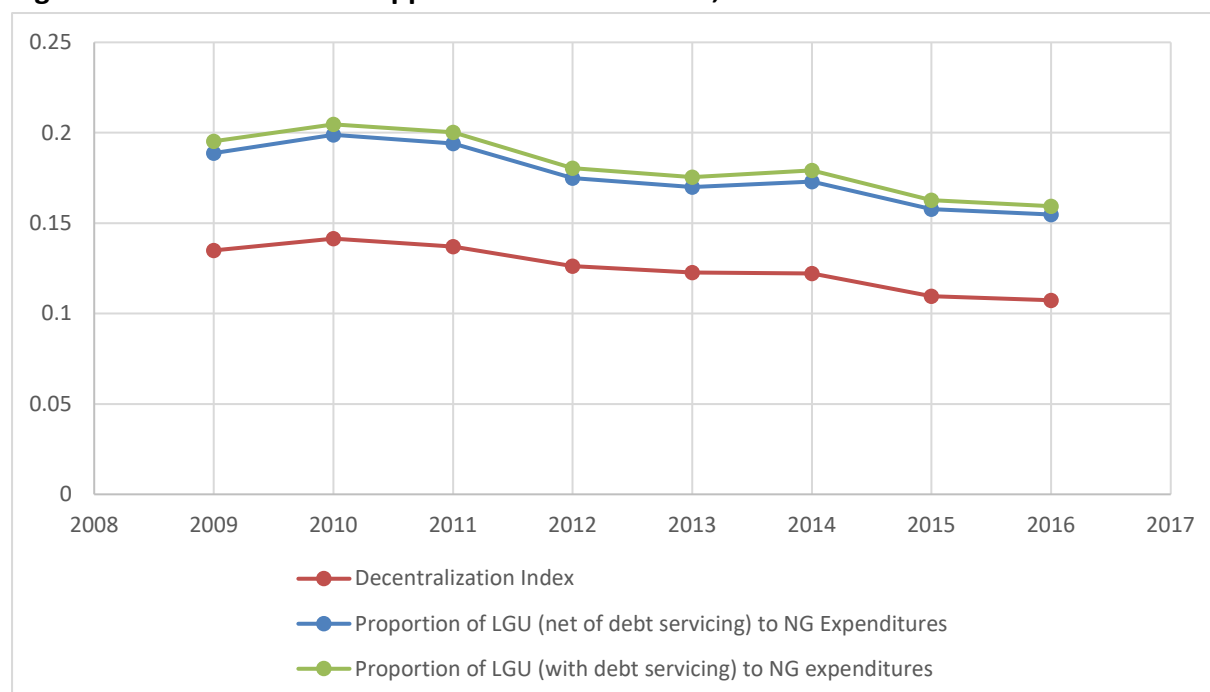
Table 5.2 presents the Philippine decentralization index for years 2009 to 2016. Compared to the share of LGU to national government expenditures in Table 5.1 above, the decentralization index is smaller. However, without any basis for comparison in the Philippines or other developing countries, not much can be concluded from this. What can be highlighted is the similar trend of the decentralization index and the proportion of LGU to NG expenditures indicators in Figure 5.1

**Table 5.2. Philippine Decentralization Index (2009-2016)**

Year	$\alpha$	Decentralization Index
2009	0.73	0.13
2010	0.73	0.14
2011	0.72	0.14
2012	0.74	0.13
2013	0.74	0.12
2014	0.71	0.12
2015	0.70	0.11
2016	0.69	0.11

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

Another item that should be highlighted is that the discretionary power of local policymakers, as represented by  $\alpha$ , averages about 72 % (Table 5.2). This suggests that policymakers play a substantial role in determining expenditures, and consequently, affect LGU outcomes and development.

**Figure 5.1. Indicators of Philippine decentralization<sup>15</sup>, 2009 to 2016**

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

## 6. Summary and Ways Forward

This paper surveyed empirical literature on Philippine decentralization with the aim to gather insights as well as distill, from similar reasons and implications, any stylized facts emerging from the evidence explaining local government performance and development. Looking to history, political science and economic disciplines and institutional perspectives, it became evident that the history and the evolution of local government institutions, politicians and voters influenced current decentralization dynamics.

First, for centuries, Philippine local governments were fiscally dependent on the central government because of the highly centralized form of colonial governments. Despite the institutionalization of decentralization through the 1991 Local Government Code, local governments are still largely dependent on the national government, by way of the intergovernmental fiscal transfer the Internal Revenue Allotment (IRA). The literature has tried to explain this dependency, and consequently, the low and varied revenue effort of local governments, on varying socioeconomic characteristics and income inequality across LGUs, the presence of institutional limitations and poor governance. All of these plausible reasons, none of these sufficient in itself, and collectively evoking the need for further research.

Second, in the Philippines, the culture of patronage (like clientelism and capture) is rooted in the socioeconomic tenancy arrangement, wherein the landowning elite were patrons to tenants (also called as clients) who grew crops on their land in exchange for a share of the proceeds and other economic favors. The literature further suggested that these landowning Filipino

<sup>15</sup> The indicators representing LGU to NG expenditures are the same as in Table 5.1 but in this graph are presented as a proportion of to be consistent and comparable with the decentralization index as defined by Bahl and Bird (2018).

elite were opportunistic in promoting and entrenching themselves during the American colonial regime since, initially, they were the only class permitted to participate in elections.

Third, because of the convention of power being transferred within the family dating from the pre-Colonial Philippines and the absence of a political party system from centuries of colonization in the Philippines, national leaders needed the political and economic support of the landowning local elites. At the same time, local elites were opportunistic to advance their interests in national policy. This interdependence of national and local leaders provided another avenue for local elites, another form of patron-client relationship, to entrench themselves through the design of national policy and access to national political positions. It has been argued that these were the roots of political dynasties.

These last two findings seem to suggest that patronage and political dynasties have similar origins and, at present, are studied as reasons behind varied local government performance. Evidence has shown that certain activities used to perpetuate patronage and dynasties (also called family networks) such as coercion through vote-buying (also defined as a clientelistic good) were found to affect the provision and in one case, negatively affect the quality of public services. On the other hand, studies have also shown that publicly provided private/clientelistic goods such as social services are preferred by voters or are distributed by incumbent politicians who are members of political dynasties facing their last term in office. Much work still has to be done in understanding local public choice and the Philippines political economy.

Fourth, as one of the reasons identified for varied revenue collection across LGUs, poverty and income inequality must be considered in determining ways to move forward in both research and policy. Though there is mixed evidence on the effect of the presence of political dynasties on poverty and economic growth, logic would, however, point to the role that poverty or income inequality play to make voters more susceptible to patronage/clientelistic strategies. If evidence were to be found on poverty indicators and patronage, this should serve as motivation to strengthen both local, but more of national government strategies to address poverty which would include but go beyond short-term stop-gap programs to long-term investments in physical and human capital. At the same time, the presence of poverty and income inequality should also be considered in revising institutional mandates and designing policy.

Fifth, all the identified reasons behind varied local government performance summarized above fall under governance suggesting the crucial role local policymakers play in local government performance and development. The exercise of estimating a decentralization index contributed an approximation of the proportion of discretionary local government expenditures that local policymakers are accountable.

Though this review was not exhaustive and presented scant and inconclusive evidence on Philippine decentralization, the discussion fortifies the need for further research. For institutional reasons behind varied LGU performance, much has already been written on the limitations of the provisions of the 1991 Local Government Code as well as proposed revisions of this. Further research could be done on examining and quantifying the effects of institutional and political economy variables on local government revenue mobilization and expenditures, in general and across local governments in the Philippines. This would provide insight on what the appropriate policy interventions could be taken.

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## Appendix

### Appendix 1. Definition of Philippine Local Government Expenditure

#### Philippine Local Government Expenditure Sectors

Sector	Definition	Specific LGU Offices/Purposes or Examples
General public services	Represents the cost of running the local bureaucracy. This includes executive and legislative services; overall financial and fiscal services; the civil service; planning and conduct of foreign affairs; general research; public order and safety; and centralized services.  This excludes general administration, regulation, research and other support services of departments that can be identified under a separate sector.	Office of the Governor/Mayor, Vice Governor/Vice Mayor, Sanggunian Panlalawigan/Panglungsod/Bayan, Secretary, Treasurer, Assessor, Accountant, Budget Officer, Planning & Development Coordinator, Auditor, Civil Registrar, Administrator; General Services Office; Human Resource Management Office; Information Officer
Social services		
Department of Education	Includes expenditures for the support of schools and education facilities; planning and manpower development; sports; and cultural preservation and enrichment.	
Education (SEF)	Education spending funded from the Special Education Fund (SEF)	
Education (from General fund)	Education spending funded from the General fund	
Health, nutrition and population control	Includes expenditures for the health program including medical, dental and health services; planning and administration of nutrition, population and family planning programs.	

Social welfare services	<p>Includes expenditures for the upliftment of disadvantaged families and children, the rehabilitation of the physically and socially handicapped; assistance to distressed and displaced individuals and families; care for the aged and other welfare services; and, payments for retirement pension and other social security benefits.</p> <p>The sector also covers expenditures for the provision of services and facilities for recreational, religious and other social activities not elsewhere classified.</p>	
Labor and employment	<p>Includes expenditures for the formulation, implementation and regulation of labor policies; promotion, placement, and regulation of domestic and overseas employment; and the maintenance of industrial peace.</p>	<p>Examples are online job-matching programs; labor assistance programs; and , special program for the employment of students</p>
Housing and community development	<p>Includes expenditures for the provision of housing and sanitary services, promotion of community development, slum clearance, zoning and control pollution.</p>	
Economic services	<p>Expenditures for activities directed to the promotion, enhancement and attainment of desired economic growth.</p>	<p>Engineer's Office; Agriculture; Agrarian Reform; Natural Resources; Office of the Architect and the Veterinarian; Cooperatives Officer; Trade and industry; Tourism; Water Resource Development &amp; Flood Control; Communications, Roads and Other Transport; Economic Enterprises</p>

Others (Debt+Other purposes)		
Debt service	Expenditures for the repayment of loans, interests and other service charges for debts of the LGUs.	
Other purposes	Expenditures for all other services not falling under any of the other sectors.	20% Development fund; Budgetary reserve; 2% Extraordinary Expenses; 5% Calamity Fund; Aid to Barangays; Other (non-Office)