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**Decentralization in Philippines**

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# The Philippines Case Study

In Asia, as in many other regions of the world, decentralization occurs in countries of all sizes and in highly diverse contexts. A few countries are large and have substantial and heterogeneous populations, while others are much smaller in area and have populations lower in number and less varied in composition. Some countries have attained middle income status, while others remain poor. A number of countries have some history of decentralization and democratization, while others have had little previous experience.

Despite the great variety, many Asian countries have chosen to pursue some form of decentralization. The way decentralization is structured and functions, however, is as diverse as the countries themselves, and not always in systematic ways. This variety results from considerable differences in country characteristics, histories and various political economy drivers that shape the dynamics underlying how public governance is managed.

In order to better understand decentralization in Asia, EC DEVCO B2 prepared a set of short case studies--on Bangladesh, Bhutan, Cambodia, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka, Vietnam and Yemen. This note presents the case of the Philippines.

The Philippines was a leader on the decentralization front in East Asia, initiating its local governance reforms before the broader wave of decentralizations that emerged in the 1990s and 2000s (World Bank and Asian Development Bank 2005, World Bank 2005, Matsuda (2011). It is also among the more decentralized countries in the region, certainly in terms of devolution. Although its strong decentralization effort was initially motivated by a crisis, the details of the reforms were negotiated and designed over a period of time rather than quickly formulated and implemented--it is a substantial but not a "big bang" decentralization. The designers gave considerable attention was given from the outset to improving governance and involving citizens—local democracy was a very conspicuous goal. At the same time, certain aspects of the Philippine intergovernmental system and the country context constrain local government autonomy and performance. Although this is recognized, the national government has not been able to take tough remedial steps to strengthen decentralization.

## Underlying political economy context/drivers of decentralization

The political economy of decentralization in the Philippines has received considerable attention (Rood 1998, Eaton 2002, Hutchcroft 2004 and 2010, Matsuda 2011).

As in many former colonized countries, the legacy of foreign dominated regimes shaped the government system in ways positive and problematic, but it did lay some foundation for modern administration and governance. During the Marcos era, various laws and presidential decrees intended to improve the operation of subnational administration further established the architecture for a functioning intergovernmental system. Democratic decentralization, however, was not a priority for the Marcos regime, and local governments were heavily managed and influenced.

After Marcos fell in 1986 to the People’s Power revolution that arose in opposition to his regime, there was a strong consensus to re-establish a democratic system. An important milestone in this process was the adoption of a new constitution in 1987. Decentralization, local autonomy, and popular participation were among the fundamental principles embodied in the new constitution.

Marcos' presidential successor, Corazon Aquino, piloted decentralization project and created autonomous regions in Muslim Mindanao and the Cordilleras (the latter status was later abolished). But despite the constitutional mandate, the complex politics around decentralization led to a five-year delay before the national Congress was able to adopt the law that created the operating framework for the local government system. The system that emerged was very much the result of a hotly debated political compromise, the effects of which endure to the present day.

## Decentralization policy

The 1987 generally made provisions for local government autonomy, the passage of the Local Government Code (LGC) in 1991 provided the detail on the specific roles and rights of local governments. The LGC not only replaced the previous local government law, but it also merged and amended existing laws to create the larger decentralization framework currently in force. It defined a system designed to increase local government autonomy and accountability through assignment of functions and dedicated revenue powers to local government units (LGUs). These LGUs have reasonable autonomy, although within a framework. LGUs, for example, are empowered to prepare their own budgets--these are subject to legality review by higher-level government, but the latter cannot interfere in budget priorities. Similarly, there are centrally issued civil service regulations, but they provide for considerable LGU discretion.

Several specific functions were devolved to LGUs (primary or shared), including health, social services, environment, agriculture, public works, education, tourism, telecommunications, and housing. The principal LGU revenues include real property tax, public enterprise proceeds tax and local business turnover tax. Other sources include taxes on property transfer, quarries and amusement, and there is a wide range of allowable fees and charges. Cities are authorized to impose the full set of allowable taxes, while provinces and municipalities are granted more limited access. have more limited access. Cities and provinces are required to share some of their revenues with the municipalities and *barangays.*

Generous revenue sharing is provided for in the LGC. The Internal Revenue Allotment (IRA), which is the main transfer program, shares 40 percent of internal revenues through a clearly defined formula and according to specific shares with different types of LGUs. These resources are considered a block or unconditional grant, although there are certain guidelines/standards LGUs must follow is using their resources. There are also a number of much smaller special purpose (conditional) grant programs, and borrowing is allowed for LGU investment. There have been efforts to broaden borrowing access in recent years, but much of the loan portfolio still flows through government operated or supported lending mechanisms

The LGC defines a solid basis for civic participation in local governance There are direct elections for local bodies at all subnational levels, with number of local assembly members determined by LGU status (province, city, municipality, *barangay*) and population. There are direct elections for provincial governors, municipal mayors and *barangay* captains. Beyond elections, the LGC makes some specific provisions for transparency, public participation and accountability in LGU affairs.

## Basic structures, actors and mechanisms

The Philippines intergovernmental system is comprised of four levels of subnational government, all of which are empowered in the Local Government Code. These include provinces (of which there are 79); cities (112); municipalities (1,496) and *barangays*/villages (41,944). In addition to the regular jurisdictions. the Autonomous Region of Muslim Mindanao includes a number of largely Muslim provinces with a dedicated regional assembly and more autonomy than other subnational government entities. The basic system remains in place.

As noted above, the LGC is specific about certain functions, but there is also a provision that allows central agencies to provide public works and infrastructure services and supplement local public services where they are not being provided or are provided insufficiently by LGUs. As a result, some ambiguity and unevenness in functional assignments persists. In addition, the Congress established (as part of the deal to enact decentralization) a program known as Priority Development Assistance Funds (PDAF). This is a constituency fund that allocates to members of Congress a pool of discretionary resources that can be used to finance priority projects in their constituencies. The PDAF is large and generally growing, and it finances infrastructure projects that are the legal responsibility of LGUs, further confusing accountability channels.

The Department of Interior and Local Government (DILG) has primary central government responsibility for LGU oversight, regulation and support. A number of other national agencies, including the Department of Finance, the Department of Budget and Management, the National Economic and Development Authority, and the Commission on Audit, are also very important players in LGU affairs. There is also a Local Government Academy (LGA), which provides training and capacity building for LGUs and DILG staff. Coordination of all of these central government actors is lax, and development partners are also lacking on this front, although they make efforts to coordinate with each other.

Although the LGC was years in development, once it was passed the efforts to execute its provisions does not appear to have been very strategic. The government did develop a Master Plan for the Sustained Implementation of the 1991 Local Government Code. This laid out three stages of decentralization reform: (a) the first phase (1992–93) was supposed to involve formal transfer of functions to the LGUs; (b) the second phase (1994–96) was defined to allow local governments the time needed to adjust to the adoption of their responsibilities; and (c) the final phase (beginning in 1997) was intended to institutionalize the system and strengthen it over time. There was some phasing of devolution, including the transfer of many central government staff to LGUs. There is not, however, information available on the extent to which this strategy was followed or how well it worked.

## Decentralization outcomes

Most observers seem to agree that decentralization has been a productive force in the Philippines. It marked a turning point in the country's history, and there is a general consensus that it has contributed to some improvements in development and citizen well being. Despite such sentiment, there have also been some disappointments and frustrations with decentralization reform. Empirical evidence, however, is limited and uneven, so it is difficult to be definitive about the impact of decentralization on local development outcomes.

The bulk of the empirical literature on decentralization focuses on system design (Manasan (2004), World Bank and Asian Development Bank (2005), Capuno (2007), and World Bank (2011). Multiple problems are identified, including the mismatch between revenues and expenditures (including unfunded mandates), the poor link between local revenues and service delivery, the structure of the IRA, and the weak transparency of non-IRA funding, among others. Given how much of LGU expenditures are devoted to administration, there are also concerns about spending efficiency.

A range of studies on the initial period of decentralization suggest that local service delivery spending increased dramatically, local accountability was improved, civic participation rose, and some LGUs acted more innovatively (Rood 1998, Brillantes 2003). Such findings, however, were based largely on informal research.

Perhaps the most striking feature of the full body of empirical evidence on service delivery is how weak it is. The literature is full of cases and anecdotes, but there is not much hard data. Even available indices and survey results are largely focused on selective description of LGU performance, with limited systematic analysis of underlying factors.

A recent World Bank (2011) review/assessment of local service delivery in the Philippines characterizes the state of empirical evidence on decentralization as follows: “After almost 20 years since the passage of the LGC…data on public services provided by LGUs have been scarce. On one hand, there have been numerous documented examples of innovative LGU practices to effectively deliver public services. On the other hand, assessments of the overall quality and extent of local service delivery vis-à-vis the mandates of the LGC and subsequent legal mandates have thus far been inconclusive.”

The governance literature is similarly mixed and inconclusive, although much of it suggests at least some modest gains (Azfar et al 2000, Campos and Hellman 2005, De Dios 2007, Capuno 2007). Levels of citizen engagement improve and perceptions of corruption declined in some areas, but establishing strong citizen-LGU linkages seems elusive and patronage politics appear to persist. A more recent study (Khemani 2013) finds that vote buying is associated with lower expenditure on primary health services for the poor and some health outcomes are unsatisfactory. Thus, even if there is more citizen engagement, some evidence casts doubt on the how local democracy affects development outcomes.

In short, available evidence on service delivery is restricted, diverse and hard to systematically interpret. The bottom line is that some outcomes have improved and others have not, and there is limited analysis of the factors underlying the findings. The majority of the limited literature on governance outcomes paints a similar picture of modest gains tempered by considerable challenges.

## The evolution of decentralization and local government performance

The evolution of decentralization in the Philippines has been both typical and unusual compared to global experience. On the one hand, decentralization was driven by a crisis situation that opened the door to and even mandated political change. On the other hand, it took years to develop a basic local government framework despite the apparent urgency of reform. The key priority in the crisis was removing Marcos from power, and the promise of decentralization seems to have been enough to satisfy the public for a period. In addition, the politics of working out the local government system details took some time, and this seems to have been understood as preferable to rushing into major reform without consultation. This is of course sensible, but a key question is whether the political compromises embedded in the system framework have contributed to the weaker than expected performance of decentralization.

Some of the key debates in the decentralization policy formulation centered on the structure of the IRA. Members of Congress may have wanted to please LGU mayors and avoid heavy financing of provinces because of a perceived electoral competition from provincial governors. They also wanted to establish the constituency fund noted above (the predecessor of the PDAF was the Countrywide Development Fund, which was established before the LGC became law). Thus, keeping LGU own source revenues weak opened up some space for members of Congress to use their pork-barrel funding and reduced the political effect of allocating such a large share of the IRA to the LGUs.

Whether PDAF is on balance a positive force (its proponents claim it reaches areas and fills gaps where LGUs are weak) can be debated, but it unambiguously blurs lines of accountability, especially if members of Congress provide funding for services that are legally under the jurisdiction of LGUs. This situation is further aggravated to the extent that central agencies, as noted above, are also able to step in if LGUs are not performing. These are just examples of the many political economy forces at work and the kinds of impact they can have on local outcomes.

A further concern at the local level is that, as discussed above, political patronage, elite capture, vote buying, and other nondemocratic dynamics stubbornly persist. Such behaviour challenges local democracy, and some of the evidence referred to above suggests that it can hinder and distort local service delivery. Although civil society is generally stronger in the Philippines compared to much of the region, there does not seem to be enough pressure from citizens to counter the effects of LGU political dynamics and press the LGUs for improving service delivery.

The concerns briefly outlined here are well known and there have been many attempts to correct some of the weaknesses of the system, but most national level attempts have failed. More than 700 decentralization-related bills have been introduced in Congress since 1987, but only five (none on the most consequential matters) have made it out of Congress. A number of these initiatives were not intended to strengthen LGUs, but to recentralize some of their authority. Most of the initiatives that have been taken have involved attempts to introduce performance based funding and to increase access of LGUs to development finance (which requires that they face incentives to spend on better services). Many attempts on other matters, such as to reform the IRA and introduce stronger local revenues, have fallen flat.

At the local level, only a small number of LGUs seem inclined to adopt major reforms, again perhaps because they face no strong pressure from above or below. There does not seem to be a great demand from citizens for better services, and there is no great movement to contribute more to local government functions by paying local taxes. Thus, LGUs seem comfortable with receiving substantial fiscal transfers, keeping local revenue collections small, and allowing other actors--central agencies and members of Congress--to finance some LGU services.

This is not to say that there are not constructive reforms and movements in some LGUs, but there does not appear to be a broad and deep movement to fix the LGU system. Perhaps this will emerge over time as the consequences of mediocre or weak performance are recognized, but that time seems not to have come, and it appears that individual reform minded LGUs will need to take their own steps with other reformist actors to improve on the status quo.

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