

UGNAYAN Paper Series: Revisiting Policy Reform Areas for Effective Decentralization

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EXECUTIVE SUMMARY

Amidst initial advancements in decentralization such as the constitutionalization of local autonomy in 1973 and the landmark enactment of RA 7160, also known as the Local Government Code (LGC), several Local Government Units (LGU) continue to grapple with persistent institutional challenges that hinder the full realization of the country's decentralization objectives. It is within this context that the Center for Local and Regional Governance (CLRG) initiated the *UGNAYAN Webinar Series* which aims to gather insights and facilitate discussions on necessary policy reforms to address decentralization issues. The first webinar took place on June 30, 2023, and broadly explored the *futures* of local governance in the Philippines. This policy brief outlines some of the major policy reform areas discussed during the webinar.

POINTERS FOR POLICYMAKERS

- 1. Reassign functions and services across different tiers of local government.** Instead of assuming a broad set of functions, LGUs can focus primarily on essential programs aimed at enhancing the delivery of basic services at the grassroots level.
- 2. Clarify intergovernmental relations and central-local dynamics.** In line with Executive Order No. 138, public services involving major interjurisdictional externalities, benefits and cost spillovers can be assigned to higher-tier LGUs. With respect to the role of the national government, it could take a more proactive role in supervising LGUs by not only facilitating developmental direction but also through the provision of technical assistance and additional resources at the local level.
- 3. Align local fiscal capacities with service provision responsibilities.** The alignment between the revenue-generating capabilities of LGUs and their responsibilities in terms of local service delivery should be reassessed.
- 4. Revise the Internal Revenue Allotment (IRA)/National Tax Allotment (NTA) distribution formula.** The formula for IRA/NTA distribution has proven to be inherently skewed as it mainly considers land area and population. This has resulted in LGUs with relatively smaller territory and population to receive disproportionately small IRA/NTA allocations.
- 5. Institutionalize partnerships between LGUs and academic institutions.** Establishing enduring partnerships between academic institutions and LGUs can promote research endeavors that hold the potential to positively shape local governance in the country.

ABOUT THE AUTHORS

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CONTEXT NOTE

This policy brief is intended to provide insights and analysis based on the authors' research and expertise. The views expressed herein do not necessarily represent the official views of the authors' affiliations.

BACKGROUND

Since gaining independence in 1946, the trajectory of the Philippine administrative system has generally leaned towards decentralization (Atienza, 2006 & Brillantes, 1987). Notable policy milestones include the legislation of RA 2264 in 1959, the first local autonomy act, followed by significant developments such as the promulgation of the Integrated Reorganization Plan (IRP) in 1972; the constitutionalization of local autonomy in 1973; and the landmark enactment of RA 7160, also known as the Local Government Code (LGC), in 1991.

However, amidst these initial advancements, LGUs continue to grapple with persistent institutional challenges that hinder the full realization of the country's decentralization objectives. Many LGUs still heavily depend on external sources, particularly on their Internal Revenue Allotment (IRA)/National Tax Allotment (NTA) shares, struggling to generate adequate revenues to meet their mandated expenditures (Diokno-Sicat & Paqueo, 2021). Technical and administrative capacity limitations have also impeded the efficient delivery of local services (Atienza & Go, 2023). Against this backdrop, there is a growing imperative to comprehensively review and amend policies governing LGUs, especially the LGC which has remained largely unchanged since its enactment in 1991.

It is within this context that the Center for Local and Regional Governance (CLRG) initiated the *UGNAYAN Webinar Series*. The series aims to gather insights and facilitate discussions on necessary policy reforms to address decentralization issues. The first webinar took place on June 30, 2023, and broadly explored the *utures* of local governance in the Philippines, featuring insights from *Gov. Dakila Carlo Cua*, President of the Union of Local Authorities of the Philippines (ULAP) and Governor of the Provincial Government of Quirino; *Usec. Marlo Iringan*, Undersecretary for Local Government at the Department of the Interior and Local Government (DILG); *Dr. Aekapol Chongvilaivan*, Senior Economist (Public Finance) at the Asian Development Bank (ADB); and *Dr. Reginald G. Ugaddan*, Director of CLRG. This policy brief outlines some of the major policy reform areas discussed during the webinar.

POLICY REFORM AREAS

Reassign functions and services across different tiers of local government. Under ULAP's proposition of a 'service-oriented paradigm', there is a need to revisit the existing functions and services associated with each tier of local government. Subsequently, considering the scale and extent of their responsibilities, a systematic determination should be made regarding the basic services and mandates that could be shouldered by each level of local government, as aligned with the needs of their respective constituents. Within this framework, instead of assuming a broad set of functions, LGUs will focus primarily on essential programs aimed at enhancing the delivery of basic services at the grassroots level. This will enable LGUs

to optimize their resource allocation in accordance with their unique requirements, plans, and aspirations.

Clarify intergovernmental relations and central-local dynamics. In line with the implementation of the Full Devolution, as also stipulated in Executive Order No. 138, assigning public services involving major interjurisdictional externalities, benefits, and cost spillovers to higher-tier LGUs is an important consideration. Conversely, those with limited or no benefit spillovers are better suited for administration and financing by lower-tier LGUs. Furthermore, the provision of services benefitting from economies of scale, as well as targeted programs, projects, and activities (PPAs) requiring significant funding or involving substantial technical expertise can be entrusted to higher-tier LGUs. With respect to the role of the national government, it could take a more proactive role in supervising LGUs through their regional offices. This oversight may include not only the facilitation of developmental direction but also the provision of technical assistance and additional resources at the local level, especially for LGUs with limited capacities.

Align local fiscal capacities with service provision responsibilities. Within the context of unfunded mandates and vertical fiscal imbalances, a critical reassessment is warranted in terms of the alignment between the revenue-generating capabilities of LGUs and their responsibilities in terms of local service delivery. This would entail a comprehensive consideration of factors that influence the performance of LGUs in fulfilling their mandated functions and in providing basic goods and services. For example, while notable progress has been made by numerous LGUs in the realm of Disaster Risk Reduction and Management (DRRM), these advancements have been counteracted by the increasing frequency and intensity of disasters generally driven by climate change. As such, LGUs must be further empowered to diversify their resource generation methods, thereby improving their capabilities to generate revenues despite the fluctuating factors that could affect the resource demands for service delivery. By doing so, LGUs can also gradually reduce their unsustainable reliance on their IRA/NTA shares. Pursuant to this goal, efforts to bolster the fiscal capacities of LGUs must be complemented by the development of guidelines and the implementation of capacity-building initiatives by the national government, aimed at enhancing the technical and administrative proficiencies of LGUs. This would better enable LGUs to optimize their revenue-generation potential and manage their financial resources more effectively.

Revise the IRA/NTA distribution formula. Recognizing the issue of horizontal fiscal imbalance, it is crucial to acknowledge that LGUs have varying socio-economic and demographic bases that affect their ability to maximize their powers for generating their own revenues. Consequently, there is a need for a proper fiscal equalization scheme. While there is currently a specified formula in the LGC for the distribution of the IRA/NTA, it has proven to be inherently skewed as it mainly considers land

area and population. This approach results in LGUs with relatively smaller territory and population to receive disproportionately small IRA/NTA allocations. This is counterproductive since smaller LGUs also have restricted capacities for tax collection, as well as for earning non-tax revenues, and fees/charges derived from their practice of regulatory powers, service or business incomes, and other sources. Therefore, there is a need to revise the IRA/NTA distribution formula with the goal of implementing a more equitable equalization scheme for the distribution of LGU shares from the national government's collected revenues. For instance, the 25% component of the formula can be revised to instead consider the socio-economic and demographic bases of LGUs which determine the extent to which they can earn from their tax and non-tax revenue generation powers.

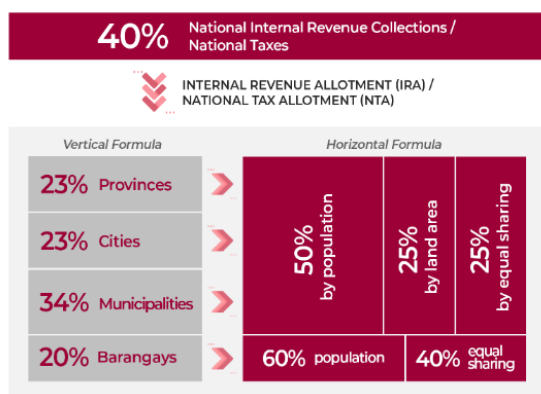


Diagram adapted and modified from JICA (2009)

Institutionalize partnerships between LGUs and academic institutions. Academic institutions can hold important roles in providing guidance and support to LGUs in formulating and implementing policies, as well as in performing their regular functions and operations. For instance, various research outputs and knowledge products can serve as invaluable resources for informing the decisions made by local policymakers. This helps ensure that policy issues/challenges within their respective areas are addressed through data-driven, and evidence-based solutions. Establishing enduring partnerships between academic institutions and LGUs can promote research endeavors that hold the potential to positively shape local governance in the country. Such collaborations can provide major contributions to the work of LGUs, particularly in the formulation and implementation of PPAs and policies that are not only technically robust but also more attuned to the needs of their localities.

WAYS FORWARD

In summary, the policy reform areas outlined above generally encompass the aspects of functional assignments, fiscal capacities, and institutional partnerships among LGUs. These recommendations, presented during the webinar, are broad in scope and thus, necessitate more specific and in-depth discussions for practical implementation and operationalization. This will be covered in the succeeding webinars of the *UGNAYAN Series*. Furthermore, each of the highlighted issues/challenges often intertwines with numerous other,

more specialized areas. For instance, in redistributing functions and services across different tiers of local government, it is also crucial to consider the differences in service provision and needs between urban and rural areas. This might lead to the exploration and consideration of an asymmetric assignment of functions.

To further facilitate this process, it may be advantageous for policymakers to establish Technical Working Groups (TWGs) with representatives from national government agencies, LGUs, local government leagues, experts, and other stakeholders. These TWGs can collaboratively organize and elaborate on the proposed policy reforms, transforming them into actionable amendments to existing legislations, especially the LGC. Nonetheless, it is important to view the policy reform areas outlined in this policy note as a general benchmark or a point of reference for steering discussions on improving the state of decentralization in the country through policy reforms.

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The Center for Local and Regional Governance (CLRG) is the research, training, and consulting center for local governments of the National College of Public Administration and Governance (NCPAG), University of the Philippines (UP).

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