

# Philippines

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## 1. BRIEF DESCRIPTION OF THE COUNTRY

### 1.1 Socio-economic profile

The Philippines is an archipelago of 7,100 islands, with a land area of 30 million hectares. As of the last census in May 2002, the population was 76,498,735 with an annual growth rate of 2.36 per cent. Given this population growth rate the country is expected to double by 2029.

Most of the population is concentrated in the twenty largest islands, with about 56 per cent of the population residing in Luzon, 20.3 per cent in Central Philippines (or the Visayas Islands) and 23.7 per cent in Mindanao (or Southern Philippines). About 55 per cent of the total population is categorized as urban. Continuous migration to highly urbanized centers has increased the number of urban dwellers looking for employment opportunities in the industry, commercial and service sectors. In large cities like Metro Manila and Cebu, urban dwellers represent about 63 percent of the city's population.

The poverty threshold countrywide is P13, 823 (USD 261) while that of Metropolitan Manila is P17, 713 (USD 335). The poverty incidence of the total population of the country is 39.5 per cent.

About 20 of a total 79 provinces have populations over one million. According to the last survey (conducted in 2002), Bulacan, Cebu, Negros Occidental, Pangasinan and Cavite have provincial populations over 2 million.

### 1.2 Political and administrative structure

#### National government and political structure

The Philippines is a republic with a unitary presidential system. The national government has three branches: the executive branch headed by the President, the legislative branch and the judicial branch. The executive branch consists of 26 cabinet secretariat and equivalent ranks in specialized agencies, the national bureaucracy and the military, of which the President is Commander in Chief. The legislative branch or Congress is a two-chamber legislature. There are 24 senators in the Philippine Senate, while there are 220 Congressmen or House Representatives. The judicial branch consists of the Supreme Court, the Court of Appeals, Regional Trial Courts and other special courts (i.e. juvenile, family or sharing courts). Each branch of the national government is coequal to each other. The Philippines' Constitution of 1987 also provides for the creation of the following constitutional commissions:

- Civil Service Commission;
- Commission on Audit;

- Commission on Elections; and
- Ombudsperson

The Philippines has a multiparty democracy. The Constitution provides for the same term limits for all elected public officials. The people elect the President, Vice President, all members of the national legislature, provincial governors, city and municipal mayors, members of the local councils and *barangay* officials. Political parties at the local level are generally extensions of political parties engaged in national politics. For the purpose of administration and development planning, the Philippines is divided into 18 administrative regions. In each regional capital, the 26 departments of the national government have their regional offices. The political subdivisions of the nation state are:

- 79 provinces;
- 115 cities;
- 1,425 municipalities; and
- 43,000 *barangays*.

These political subdivisions are guaranteed in the Constitution. Likewise, the following political units have been created:

- Metropolitan Manila Development Authority (MMDA);
- Autonomous Region of Muslim Mindanao (ARMM); and
- Cordillera Administrative Region (CAR).

The MMDA is the metropolitan government for Manila, and its environs cover 13 cities and 4 municipalities. The ARMM is a regional government in the Muslim Region of Southern Mindanao while the CAR is a special region for the highlanders or mountain tribes in Northern Luzon and Cordillera. Philippine cities are classified into:

- Highly Urbanized Cities (HUC) independent from the province;
- Component Cities under supervision of the province; and
- Independent Component Cities in which residents cannot vote for the provincial officials.

Except for the *barangays*, all local governments in the Philippines undergo classification every five years based on their individual incomes. Classification ranges from first class, having the highest income down to sixth class, having the lowest income. Cities like Manila and Quezon City are classified as special cities under this city classification system.

## 2. EVOLUTION OF LOCAL GOVERNMENT

Local government in the Philippines has its roots in the colonial administration of Spain, which lasted in the Philippines for 327 years. The establishment of Cebu City in 1565 started the local government system. Three centuries under Spanish government were characterized by a highly centralized regime. The Spanish Governor General in Manila governed the provinces and cities in the whole country. An important Spanish law on local governments was the *Maura Law* of 1893, which allowed Filipinos to vote for their local officials.

After Spain, the United States came into power in the early 1900s and 'Filippinized' local government administration. The Americans issued *General Order No. 43*, which recognized local governments established by Spaniards. In the Commonwealth period (1935-1940), *Commonwealth Act No. 357* allowed women to exercise their suffrage and vote for local officials. The post war years (1946 to 1971) also saw several legislations aimed to strengthen local elections in the Philippines.

The last 50 years of the twentieth century saw several developments towards decentralization. The *Local Autonomy Act* of 1959, the passage of the *Barrio Charter* and the *Decentralization Act* of 1967 were all incremental national legislation in response to the clamor for a self-rule concept. The Philippine Constitutions of 1972 and 1987 also significantly influenced the movement for political devolution. The most significant constitutional provision (Article 10 on Local Government) is the following:

*"The Congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization with effective mechanisms of recall, initiative and referendum, allocate among the different local government units their powers, responsibilities and resources and provide for the qualifications, election, appointment, removal, terms, salaries, powers, functions and duties of local officials and all other matters relating to the organization and operation of the local units".*

The legislative initiative promoting local autonomy was strongly supported by academics and public servants, who spearheaded the necessary reforms in changing the structure and organization of local governments, and included new functions to enable local governments to address a changing environment. The struggle for decentralization over the past 50 years culminated in the passage of the *Local Government Code* in October 1991. The *Local Government Code* is a most comprehensive document on local government touching on structures, functions and powers, including taxation and intergovernmental relations. The *Local Government Code* has been implemented for the last twelve years as part of the continuing advocacy of the country for effective decentralization and a working local autonomy.

### 3. MAIN FEATURE AND CHARACTERISTIC OF LOCAL GOVERNMENTS

#### 3.1 Local government categories and hierarchies

The categories of local authorities in the Philippines are as follows:

- 1 Metropolitan Government;
- 1 Autonomous Regional Government;
- 1 Special Administrative Region;
- 79 Provinces;
- 115 Cities;
- 1,420 Municipalities; and
- 43,000 *Barangays*.

Specific income categories and population size govern the classification of local governments from one type to another. The legal basis for such requirements is provided for in the *Local Government Code*. The Ministry of Finance decides upon the reclassification by income. The incremental income of a local government covering five years is the basis for upgrading local governments every five years.

#### 3.2 Local government structures and functions

All levels of local government exercise the following general functions and powers:

- Efficient service delivery;
- Management of the environment;
- Economic development; and
- Poverty alleviation.

The various provisions of the *Local Government Code* on provinces, cities, municipalities and *barangays*, all cite these functions. Enabling legislation from local councils may be initiated where necessary.

The *Local Government Code* or *Republic Act 7160*, contains the following four local government laws, defining the functions and powers of local governments:

- Section 468            Functions and powers of provinces (Provincial Law)
- Section 447            Functions and powers of municipalities (Municipal Law)
- Section 458            Functions and powers of cities (City Law)
- Section 398            Functions and powers of *barangays* (*Barangay Law*)

The functions and powers of the Metropolitan Manila Development Authority is defined in *Republic Act 7924*, that of the Autonomous Region of Muslim Mindanao (ARMM) in *RA 6649* and *RA 6766*, and that of Cordillera Administration Region (CAR) in *RA 6766*.

All these sections have been standardized so that the respective functions and powers are similar. For example, provincial, city, municipal and *barangay* councils shall all enact ordinances and approve resolutions, appropriate funds, and pursue Section 16 (General Welfare Clause) of the *Local Government Code*.

Local governments are likewise empowered to exercise their corporate powers as provided for in Section 22 (corporate powers). This specific section provides that local governments as a corporation, shall have the following powers:

1. To have continuous succession of its corporate name;
2. To sue and be sued;
3. To have and use a corporate seal;
4. To acquire and convey real or personal property;
5. To enter into contracts; and
6. To exercise such other powers as are granted to corporations, subject to limitations provided in the *Local Government Code* and other laws.

Moreover, provinces, cities, municipalities and *barangays* shall:

1. Approve ordinances and pass resolutions necessary for the efficient and effective local government administration;
2. Generate and optimize the use of resources and revenues for the development plans, program objectives and priorities of the specific level of local government provided under Section 18 (Power to Generate and Apply Resources of the *Local Government Code*);
3. Subject to the provisions of Book II of the *Local Government Code* grant franchises, approve the issuances of permits or licenses or enact ordinances, and levy taxes, fees and charges upon such conditions and for such purposes intended to promote the general welfare of the inhabitants;
4. Approve ordinances which shall ensure the efficient and effective delivery of basic services and facilities; and
5. Exercise such other powers and perform such other functions as may be prescribed by law or ordinance.

**Table 1: Functions of local government officials**

Local Chief Executives	Deputies
Supervise local department's performance	Oversee the local bureaucracy
Formulate plans and programs	General supervision over component local governments
Preside over the local legislative council	Exercise regulatory powers through the council
Approve local budget	Review local ordinances

Source: *Local Government Code* of 1991 and *Republic Act 7160* – sections on powers and functions

The structures of local governments are both governed by the *Local Government Code* and by local ordinance passed by the local government concern. A province must, for example, have a governor who is elected at large. The vice-governor acts as presiding officer of the provincial legislative council and all these offices are mandated by the *Local Government Code*. In the case of cities, whether it is highly urbanized or component cities, each has a city mayor, a vice mayor which presides over the city legislative council, and members of which, including the mayor and the vice-mayor are elected for a three-year term. Elected local officials are allowed only tenure of a three-year term or a total of nine consecutive years in the office as provided for in the Constitution.

In the case of municipalities, the position of mayor, the vice-mayor as well as the members of the municipal legislative council is likewise mandatory structures in the *Code*. The *barangay* government likewise has the *barangay* captain and six members of the *barangay* council, all of who are also elected at the *barangay* level. All local governments are empowered by the *Local Government Code* to create their own departments and offices based on the principle of affordability and actual need

The legal relationship between local governments and parastatal bodies is minimal. However, the relationship between parastatal bodies and local government is closer in the implementation of plans and programs of investment and development programs in areas where these plans and programs are located in specific local governments.

Local councils generally formulate laws and other regulatory measures. These regulatory measures are operationalized in the form of ordinances, proclamations, resolutions and/or other administrative forms. The process of legislation is usually based on identified needs of the municipality concerning development, peace and order or in the promotion of economic project activities including requirements in the social welfare clause provision of the *Local Government Code*. When the local council tackles vital ordinances, such as increasing local taxes, closure of local roads and other issues vital to the community, the regulatory measures or proposed ordinances undergo a series of public hearings. These ensure that the community is aware of the measures, and participate in the formulation of laws to be implemented in response. This process makes people consciously aware of the actions of local authorities, which are regulatory in nature.

### **3.3 Local government finances**

#### **Intergovernmental fiscal relations**

Fiscal relations between national and local government center on the following major areas:

- Allotment of internal revenue shares;
- Shares of local governments in national wealth exploitation;
- Shares of earnings of government agencies or government-owned or controlled corporations engaged in the utilization and development of national wealth;

- Local government borrowing; and
- Review of local government budgets.

Local governments have their shares in the national internal revenue taxes, representing 40 per cent of the total internal revenue collections, based on the third preceding year (Section 284). However, there is at present a bill pending in congress to increase these shares to 50 per cent.

The regional distribution of the Internal Revenue Allotment to local governments is as follows: Provinces (23 per cent), Cities (23 per cent), Municipalities (34 per cent) and *Barangays* (20 per cent).

Each *barangay* should at least receive eighty thousand Pesos per annum or USD1,510. The *Local Government Code* provides that local governments shall have an equitable share in the proceeds derived from the utilization and development of national wealth within their respective areas, and share these with inhabitants by way of direct benefits (Section 289). Local governments in addition have a share of 40 per cent of the gross collection. The national government derives collection from the preceding fiscal year from numerous sources, including mining taxes, royalties, forestry and fishery charges and other taxes, fees or charges (including surcharges, interests or fines) from its share in any co-production, joint venture or production sharing agreement in the utilization and development of the national wealth within the territorial jurisdictions (Section 290).

Local governments likewise have a share based on the preceding fiscal year from the proceeds derived from any government agency or government-owned or controlled corporation engaged in the utilization and development of the national wealth. This is based on the following formula; whichever will produce a higher share for the local government unit:

- 1 per cent of the gross sales or receipts of the preceding calendar year; or
- 40 per cent of the mining taxes, royalties, forestry and fishery charges and such other taxes, fees or charges, including related surcharges, interests, or fines the government agency or government-owned or controlled corporation would have paid if it were not otherwise exempt (Section 291).

At the same time, local governments are authorized to issue bonds, debentures, securities, collateral notes and other obligations to finance self-liquidating, income-producing development and livelihood projects. However the power given to local governments in the issuance of bonds and other long-term securities is subject to the rules and regulations of the Central Bank and the Securities and Exchange Commission (Section 299). The market for local government bonds is new and has yet to be fully developed. Under Section 299 of the *Local Government Code*, local authorities through their respective legislative councils can float local bonds with sovereign guarantee. However, only very few cities and provinces has floated local bonds for such projects as building roads, constructions of public markets or for public housing.

There is thus still a need to institutionalize the Philippine market for local bonds. One policy that will facilitate institutionalization is to make local government bonds, tax-free. The Department of Budget and Management has the power to review appropriation ordinances of provinces, highly urbanized cities, independent component cities and the municipalities within the Metropolitan Manila Area (Section 326). An important provision in local fiscal administration, within the context of intergovernmental relations, is a provision that national planning be bottom-up. This is to ensure that the needs and aspirations of the people, as articulated by the local governments in their respective local development plans, are considered in the formulation of budgets of national line agencies or offices (Section 350 K).

### **Local taxes**

Local government taxation and other fiscal matters are contained in Book II of the *Local Government Code*. These include real property taxation, shares of local governments in the proceeds of national taxes, credit financing and local budgets including property and supply management. Some illustrative revenue raising powers of local governments are listed below:

<b>Provinces</b>	<ul style="list-style-type: none"> <li>• Real property tax; 25 per cent.</li> <li>• Tax on transfer of real property ownership; 10-15 per cent of the property assessment.</li> <li>• Tax on business of printing and publication; no less than 1 per cent but no more than 10 per cent.</li> <li>• Franchise tax; percentage based on total gross income.</li> <li>• Sand and gravel tax; - computed based on cubic meters of sand and gravel collected based on the tax level authorized in the tax ordinance.</li> <li>• Professional tax; 5-15 per cent.</li> <li>• Amusement tax on admission; 3 per cent.</li> <li>• Annual fixed tax per delivery truck or van of manufacturers or producers of or dealers in certain products. Tax rates varies on the regulations of the local government concerned.</li> </ul>
<b>Municipalities</b>	<ul style="list-style-type: none"> <li>• Tax on business; based on the volume of business of the applicant.</li> <li>• Fees and charges; will be fixed by the local council or the city which have the power to levy a rate.</li> <li>• Fishery rental or fees and charges; stipulated in the Local Tax Code and municipalities and coastal areas.</li> <li>• Fees for sealing and licensing of weights and measures; dependent on the tax code of local governments concerned.</li> <li>• Community tax – computed based on the income of individual citizens.</li> </ul>
<b>Cities</b>	<ul style="list-style-type: none"> <li>• The city may levy and collect taxes, fees and other impositions that the province or municipality may levy and collect. There is not much variation with the taxing powers of the provinces and municipalities, except that the rates in cities are much higher than those of the provinces of municipalities.</li> </ul>
<b>Barangays</b>	<ul style="list-style-type: none"> <li>• Taxes and fees; like the power to tax in the province, cities and municipalities, the taxing power of <i>barangays</i> are also defined in the Local Government Code. However, <i>barangay</i> government collects</li> </ul>

	<p>simple taxes like fees in the issuance of personal identification, <i>barangay</i> share is 15 per cent of the total Real Property collection in cities and municipalities that can also tax livestock such as cockfighting.</p> <ul style="list-style-type: none"> <li>• Service charges: <i>barangays</i> may impose and collect fees on services rendered by an agency as part of the regulatory power of the <i>barangay</i> government.</li> <li>• Contributions: <i>barangay</i> likewise are empowered to receive contributions from the private sectors, financial institutions and the like.</li> </ul>
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### Audit

As mentioned, the Commission on Audit (COA), which is a constitutional body, audits the utilization of public funds in accordance with the constitutional provision on auditing requirements and the compliance of local governments with the new governmental accounting system. The COA does not only audit the financial cashbooks or financial transactions but also undertakes performance auditing as part of its responsibilities in monitoring local government administration.

### Expenditure allocations

Table 2 and Figures 3 and 4 below indicates the nature of expenditures of local governments, as an indicative profile of expenditure of almost all levels of local government in the country.

The central government has no role in budgeting except in determining that the budget does not exceed expected revenues; that all statutory obligations debts or loans with sovereign guarantee are in the local government budget; and that the local government does not exceed the 45-55 per cent personnel service limitations. Local governments are only authorized up to a maximum of 55 per cent ceiling of the total budget for personnel services or salaries. Lower local government or financially poorer local governments are to observe 45 per cent on the same type of expenditure.

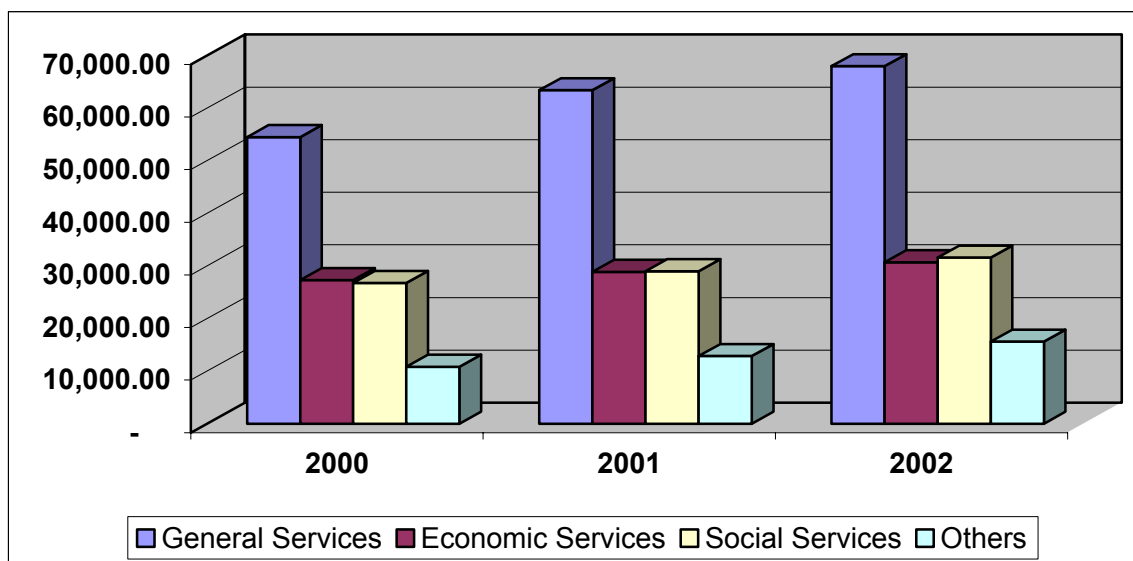
**Table 2: An indicative profile of the receipts and expenditures of Philippine local government (2000-2002) (In million Pesos)**

Particulars	2000		2001		2002	
	Amount	%	Amount	%	Amount	%
<b>Beginning Balance</b>	<b>31,601.15</b>		<b>39,790.05</b>		<b>38,225.90</b>	
<b>Receipts</b>	<b>129,562.25</b>	<b>100.00</b>	<b>132,530.36</b>	<b>100.00</b>	<b>159,404.24</b>	<b>100.00</b>
<b>Revenues</b>	<b>126,111.91</b>	<b>97.34</b>	<b>130,881.04</b>	<b>98.76</b>	<b>157,111.55</b>	<b>98.56</b>
Tax Revenue	113,133.05	87.32	116,834.65	88.16	140,455.68	88.11
Internal Revenue Allotment	6,730.00	66.94	86,730.00	65.44	108,834.84	68.28
Property Tax	8,912.16	6.88	11,659.29	8.80	12,290.48	7.71
Local Tax	17,490.89	13.50	18,445.35	13.92	19,330.36	12.13
<b>Non-Tax Revenue</b>	<b>12,978.86</b>	<b>10.02</b>	<b>14,046.40</b>	<b>10.60</b>	<b>16,655.87</b>	<b>10.45</b>

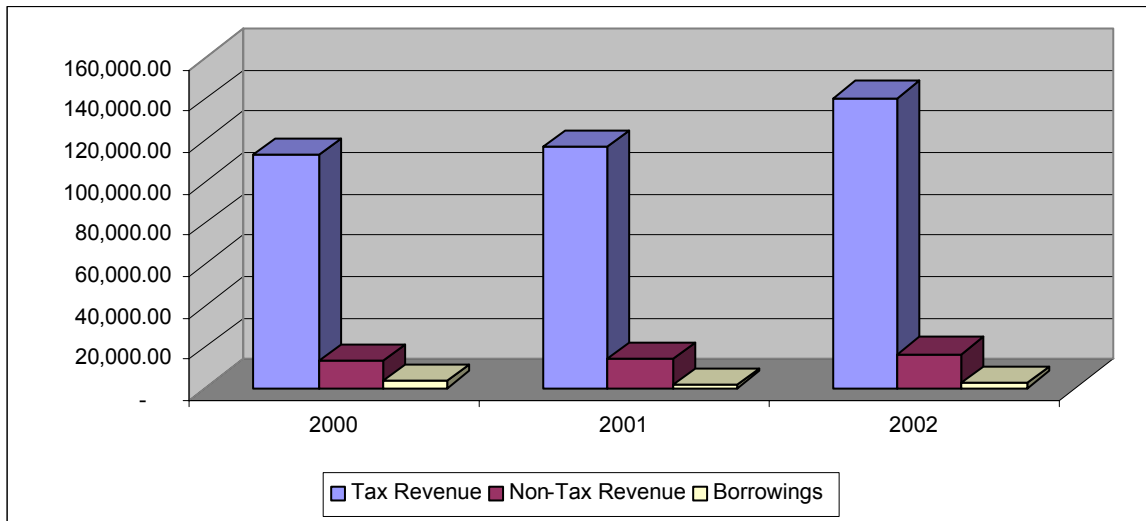
**Country Reports on Local Government Systems:  
Philippines**

Particulars	2000		2001		2002	
	Amount	%	Amount	%	Amount	%
Operating and Miscellaneous Revenue	9,342.44	7.21	10,120.47	7.64	10,547.77	6.62
Capital Revenue	460.89	0.36	987.49	0.75	1,393.22	0.87
Grants	983.90	0.76	889.25	0.67	1,985.37	1.25
Extra Ordinary Income	25.22	0.02	85.58	0.06	394.02	0.25
Interfund Transfers	371.45	0.29	364.35	0.27	664.44	0.42
Other Receipts	1,794.97	1.39	1,599.26	1.21	1,671.04	1.05
<b>Borrowings</b>	<b>3,450.33</b>	<b>2.66</b>	<b>1,649.31</b>	<b>1.24</b>	<b>2,292.69</b>	<b>1.44</b>
<b>Financial Resources</b>	<b>161,163.39</b>		<b>172,320.41</b>		<b>197,630.14</b>	
<b>Expenditures</b>	<b>121,373.35</b>	<b>100.00</b>	<b>134,094.51</b>	<b>100.00</b>	<b>145,829.69</b>	<b>100.00</b>
General Services	56,476.11	46.53	63,375.82	47.26	67,963.32	46.60
Economic Services	27,286.02	22.48	28,844.51	21.51	30,676.87	21.04
Social Services	26,766.39	22.05	28,979.11	21.61	31,562.31	21.64
Others	10,844.83	8.94	12,895.07	9.62	15,627.18	10.72
<b>Ending Cash Balance</b>	<b>39,790.05</b>		<b>38,225.90</b>		<b>51,800.45</b>	

**Figure 1: Three-year expenditures pattern (in million Pesos)**



**Figure 2: Three-year revenue pattern (in million Pesos)**



Source: DBM Annual Report on the Revenue of Local Government Budgets.

Sources for figures shown as indicative profile of the receipts and expenditures of Philippine local government include the Department of Finance (DOF); the Department of Budget and Management (DBM) and the National Economic Development Authority (NEDA).

The general expenditures which local governments incur consist of (a) personnel services (45-55 per cent of the total budget); (b) infrastructure development and maintenance; (c) the cost of delivering basic services out of local government existence; and (d) payments of debts, loans and other mandatory obligations.

Allocation of subsidies like the Internal Revenue Allotment is primarily based on the following three factors (a) land area; (b) population; and (c) 10 per cent equity. For the other sources of revenues (i.e. local sources), 25 per cent comes from real property tax, 15 per cent from licenses and fees and the balance from the exercise of taxing powers as well as earnings from local public utilities like markets and telephone services.

### **Credit financing**

Credit financing is important to the financial viability of local governments. In the *Local Government Code*, there are several provisions that authorize local governments to go into loans, credits and other forms of indebtedness (such as deferred payments and other financial schemes) and inter-local government loans, grants and subsidies, including funds secured by the national government from foreign sources. However, loans from foreign sources require a sovereign guaranty. While there are laws that authorize local governments to go into various financial schemes to improve its financial position, many of the local governments are still shy to take advantage of loans or borrow from the banks.

While this is the general situation, there is also an increasing number of provinces and cities that are aggressive enough to go into a financial ventures since

they are burdened by heavy infrastructure requirements which the local governments wants to realize in support of regional and local development and for investments.

### 3.4 Personnel system in local government

The Philippine local government personnel system is primarily governed by personnel policies of the Civil Service Commission, and applicable provisions of the *Local Government Code*, i.e. the Local Personnel Board and the Policy on Human Resource Development. The merit system is the guiding principle in the selection, recruitment and promotion of the officers and employees of the local government bureaucracy or in the executive departments. Most locally appointed officers and employees are career personnel with security of tenure who can only be removed for cause. All local government employees are covered with limited medical care and are insured in the Government Service Insurance System. Discipline over career employees is lodged with the local chief executives and the Civil Service Commission.

Local executives have the power to appoint personnel and disciplining action of personnel rests under the Civil Service Commission. The secondment of staff from the central to local government is possible but it is not a general practice except in few cases, which are categorized as training interventions or on-the-job training. The chain of command of seconded officials is to the agency where s/he is seconded. The mother agency of the seconded official has no operational or technical supervision of such personnel.

Local governments generally do not have training institutions of their own. They are usually provided with training activities by the Local Government Academy, local government centers of academic institutions or private consulting firms, which also provide training opportunities for local officials and it's appointed personnel.

### 3.5 Local autonomy

Philippine local governments are fully autonomous with the central government exercising only general supervision. However, this general supervision is only applicable at the provincial- and highly urbanized city-levels. Lower class local governments, such as component cities, municipalities and *barangays* are being supervised both by the provinces and highly urbanized cities (HUCs). HUCs are independent from provinces and under direct supervision of the president and supervise *barangays* in their respective jurisdictions.

Territorial jurisdictions among local governments are usually defined by law. Functional jurisdiction is provided for in the *Local Government Code*, but the Constitution encourages inter-local cooperation, beneficial to all concerned, and can readily alter traditional function sharing to cover local authorities beyond traditional political jurisdictions. Philippine local authorities are empowered to provide services and assistance to other local authorities, which are outside their political boundaries. This means that two or more local governments can pull their resources in projects and activities that are mutually beneficial. The traditional notion that each local government takes care of themselves is thus passé.

Local governments usually have their internal rules and regulations insofar as the workings of local legislative councils are concerned. Manuals of Operations serve as useful guides for executive departments in large local governments (like provinces or HUCs.) Standards of development are usually determined by the central government and in cooperation with the local governments concerned. Local authorities by tradition follow the national framework of development. However, this policy does not prevent local authorities from establishing their own development priorities.

Local governments perform the practice of development administration autonomously. Only in cases where development efforts affect national security and other environmental consideration, will higher levels of government review the local government's priorities.

Local government ordinances and resolutions are usually not reviewed by higher levels of government except when it concerns incurring debts or in floating local government bonds, requiring sovereign guarantee or the allocation of central government subsidies. Financial control is also partly exercised by the Commission on Audit and the Department of Budget and Management (DBM), as well as the Department of Finance (DOF) in the allocation of central subsidies to local authorities.

The most comprehensive official document that governs local government operations is the *Local Government Code*. This law defines how a local government can be created, and how it can be abolished, merged or upgraded to a higher category of city, municipality or province. Only an Act of Congress can dissolve cities, municipalities and provinces and any decision thereof will finally be decided by residents of local government concerns in a plebiscite or referendum. However, *barangays* can be abolished or created much more easily but are still subject to a *barangay* plebiscite just like any proposed abolition for cities, provinces or municipalities. Ordinances of cities and provinces create *barangays* and not an Act of Congress or Parliament.

### **Central-local links**

After the approval of the *Local Government Code* in 1991, intergovernmental relations tilted more towards local autonomy and decentralization. Most departments of the national government are now primarily responsible for policy formulation and standard setting, in addition to implementing national sectoral or departmental programmes in consultation with local governments. The codal provision applicable in this regard is Section 17 of the *Local Government Code*.

The power of general supervision by the President over local governments, as provided for in the Constitution, is now limited and extend only to provincial governors and mayors of HUCs. General supervision over lower level officials is entrusted to the provincial governor and to some extent to the local legislative councils. The national government has no control over local governments except for the power of general supervision. The national government cannot abolish a local government. The legislature can pass a law abolishing a local government but only after the law is approved by the people through a referendum. Political jurisdictions

are governed with full administrative autonomy. However, the national government still exerts influence and regulatory of national government subsidies. National government under certain circumstances likewise guarantees loan application of local governments and regulates the issuance of local government bonds.

#### **4. EXTENT OF PUBLIC PARTICIPATION**

The extent of public participation in local governance is a barometer as to how democratic local governance is in the Philippines.

Public-private partnerships at the local level are very much alive and well. The Constitution and the *Local Government Code* have provisions on the concept of the three P's (Public Private Partnership). The 1987 Constitution has a separate provision on the roles and rights of People's Organization (POs) in public affairs and in local governance. It states that the State shall respect the role of independent POs to enable the people to pursue and protect, within the democratic framework, their legitimate and collective interests and aspirations through peaceful and lawful means.

POs are bona fide associations of citizens with demonstrated capacity to promote the public interest, and with identifiable leadership, membership and structure. The right of people and their organizations to effective and reasonable participation at all levels of social, political and economic decision-making shall not be abridged, as provided for in the Constitution of 1987. The state shall, by law, facilitate the establishment of adequate consultation mechanisms. Likewise, the *Local Government Code* has provisions (in Sections 324, 35 and 36 of Chapter IV) entitled Relations with People and Non-Governmental Organizations, which states the following provisions:

*Local government units shall promote the establishment and operation of POs and NGOs to become active partners in the pursuit of local autonomy (Section 34).*

*Local government units may enter into joint ventures and such other cooperative arrangements with POs and NGOs to engage in the delivery of certain basic services, capability-building and livelihood projects and to develop local enterprises designed to improve productivity and income, diversify agriculture, spur rural industrialization, promote ecological balance and enhance the economic and social well-being of the people (Section 35).*

*A local government unit may, through its local chief executive and with the concurrence of the sanggunian concerned, provide assistance, financial or otherwise to such POs and NGOs for economic, socially-oriented, environmental or cultural projects to be implemented within its territorial jurisdiction (Section 36).*

Civil societies are represented in various local development councils. Several administrative orders of the central government, implementing the constitutional provision and the *Local Government Code* regarding public participation, require that

all local councils in all levels should be represented by various NGOs and POs such as farmer cooperatives and fishermen's associations. Several sectors of society like youth, women, farmers and other special groups have voices in the process of public decision-making. A mandatory provision insofar as membership of POs and NGOs is concerned is that these groups should represent 25 per cent of the total membership of the councils.

Local legislative councils do not execute local laws (such as ordinances with finality) unless public hearings are conducted first. The idea of consulting people before local legislative bodies adopt any taxes operationalizes the concept of representation by constituencies.

NGOs and POs are very active in local development activities and work very closely with local authorities in attaining mutual community interests. Up until 2003, some 16,000 NGOs and POs have undergone a process of accreditation that determines the types and classes of NGOs. This process also includes the determination of the issues and ideas NGOs advocate for, such as environmental protection, legal issues and rights to development, including lobbying efforts to protect/promote specific sectoral interests. It is noteworthy to mention that local governments and NGO/PO cooperation is increasing expanding.

The Barangay Justice Programme, established by the government in 1978, is the largest community voluntarism programme in the Philippines, involving 42,000 *barangays* and some one million community mediators. It is a system of settling disputes outside the judicial courts without the coercive power of the state and by the people themselves. This paralegal system has saved the government billions of pesos in adjudication costs besides an equally important contribution of maintaining peace and order at community level. The formal administration of justice is characterized by an over clogging of dockets in the courts, resulting in the delay in the dispensation of justice.

The review tier of local law stops at the Provincial Government. Municipal laws or those of component cities are subject to review by the Provincial Legislative Council. *Barangay* ordinances are likewise subject to review by component cities or municipalities to which they belong. Except for controversial local tax laws, the national government has no control or supervision on local legislative making. The power of general supervision by the President, as provided for in the Constitution, has been decentralized and there is tiering in the exercise of power of general supervision now shared by the President, Governors, City and Municipal Mayors.

## **5. CONCLUSIONS**

The Philippines may have taken significant strides in the implementation of devolution since 1991 when Congress passed the *Local Government Code*. Power relations between the national and local governments have been reconfigured. However, ten years later, in spite of the gains achieved by devolution, there are still a number of issues to be addressed. Foremost is the issue of fiscal federalism, and central to this, the Internal Revenue Allotment (IRA) formula. The formula is devoid of any performance indicator, thus threatening the agenda of devolution in terms of

equity, fiscal performance and efficiency in service delivery. It is imperative, therefore, to establish certain parameters/indicators of performance to apply to the Revenue Sharing Allocations in order to ensure vertical and horizontal balances as well as fiscal empowerment of local governments as the heads of decentralization.

Local governments continue to treat IRA as dole out and their increasing dependence on IRA has been observed as a proof that IRA has become more regular and predictable. Local governments have not exerted greater effort in raising revenues through the exercise of their taxing powers. Likewise, unconditional grants do not stimulate local governments to engage in long-term capital investments and other development projects beyond the required basic services

However, as local governments confront the challenges of devolution, they will become increasingly aware of the extent of their responsibilities. There is now a growing clamor to revise the present IRA formula, because it has resulted in inequitable increments for the different levels of local governments. More and more LGUs, especially the urbanizing ones, are also beginning to realize the importance of mobilizing local revenues and even availing of credit financing to underwrite the massive financial requirements of devolution and development.

To rationalize the IRA formula, there is a need to establish certain minimum standards of service delivery by sector. Apart from the minimum standards of service delivery, an incentive feature should also be present in the formula to encourage local governments to exert greater tax effort and embark on development projects beyond the basic services they are supposed to deliver. Administrative and operational efficiency should also be rewarded using the national grant through special projects. A portion of the IRA could be transformed into a specific grant tied to tax effort or its variant. Provision of national government grants over and above the IRA, for devolved activities should be strictly justified on the basis of equity, externality and economy of scale and such intervention should be in a form of matching grant and must be specific and time bounded. The local governments must put up equity to the grant in order to have a sense of ownership of the project and also to ensure goal congruence.

There is at present a new Code of Local Governance, which is filed in the Senate as Senate Bill No 2111. This Bill proposes major recommendations of improvement in local fiscal administration that is worthwhile to pursue in improving financial viability of local governments in the Philippines. The mandatory review of the *Local Government Code*, after five years of implementation, is currently underway, which will be an opportune time to revisit the present IRA formulates.

The issue of fiscal federalism is central to the success of the decentralization programme in the Philippines. The fact that there are gainers and losers among different levels local government, and that national government continues to fund some devolved responsibilities, strongly suggests the need to review the present expenditure assignments between national and local governments to once and for all minimize, if not totally eliminate, the overlaps and duplications that currently exist.

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