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Critical Perspectives on Federalism for Regional Development

Proceedings of the
Third Annual Public Policy Conference 2017

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PIDS

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Third Annual Public Policy Conference 2017

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Foreword

Federalism has become a buzzword in the Philippines ever since President Duterte made it part of his campaign promises. Its proponents view it as an effective solution to the uneven development and worsening inequality across regions, which have persisted even after the passage of the Local Government Code in 1991.

Nonetheless, discussions on the substantive aspects of federalism, such as its structure, fiscal design, and feasibility in the Philippine setting, have been limited and somewhat scattered. This has inspired the Philippine Institute for Development Studies (PIDS) to dedicate the Third Annual Public Policy Conference (APPC) to critical discussions of federalism perspectives. Since 2015, the APPC has served as a platform for experts and researchers in the field of social sciences to engage in a rational and objective debate on critical issues that must be addressed in the immediate term. The APPC is also the highlight and culminating activity of the yearly celebration of the Development Policy Research Month (DPRM) every September.

This volume compiles the proceedings of the APPC, which form part of the Institute's growing contribution to the discussion of federalism in the Philippines. It covers evidence-based policy studies written by esteemed international and local experts on decentralization, governance, public administration, and regional planning.

By looking at federalism from a multiperspective angle, the Institute recognizes the need to link the proposed reform in the system of governance with other pressing issues in the country, including corruption, reign of political dynasties, and politics.

May the recommendations raised in these proceedings serve as a practical resource for the public and policymakers alike, especially as they make informed decisions regarding the adoption of federalism in the Philippines.

CELIA M. REYES
President

Preface

We are pleased to present the collection of evidence-based studies discussed during the 2017 Annual Public Policy Conference relating to federalism and its adoption in the Philippines. May you welcome this publication as our humble contribution to our country's discourse on federalism, especially now that the current administration is espousing it as one of its flagship programs.

Our sincere thanks goes to the Philippine Institute for Development Studies (PIDS) for providing us a platform to share our knowledge and expertise on the matter. Such commendable effort to raise Filipinos' awareness on federalism is not only timely but also germane to long-term Philippine prospects.

A distinguishing feature of this publication is its attempt to look at federalism through different lenses. As what readers may observe in the following pages of these conference proceedings, we, the authors, come from different areas of specialization, including, but not limited to, economics, political science, public administration, and regional planning. PIDS gathers us in this publication to make us all realize that we cannot simply isolate the issue of federalism from the larger context of our nation. After all, our system of governance is but one of the several elements building up our state.

We strongly believe that this multiperspective approach would be the most powerful way of helping Filipinos stay abreast of the widening range of issues concerning federalism and its adoption in our country.

We are certainly privileged to have been part of this undertaking.

AUTHORS

List of Acronyms

3Gs	– guns, goons, and gold
AFTA	– ASEAN Free Trade Agreement
APPC	– Annual Public Policy Conference
ARMM	– Autonomous Region in Muslim Mindanao
ASEAN	– Association of Southeast Asian Nations
BBL	– Bangsamoro Basic Law
BLGF	– Bureau of Local Government Finance
BPO	– business process outsourcing
BSP	– *Bangko Sentral ng Pilipinas*
CALABARZON	– Cavite, Laguna, Batangas, Rizal, and Quezon
CAR	– Cordillera Administrative Region
CBD	– central business district
CG	– central government
CHR	– Commission on Human Rights
COA	– Commission on Audit
COMELEC	– Commission on Elections
DILG	– Department of the Interior and Local Government
DPRM	– Development Policy Research Month
EU	– European Union
FEG	– fiscal equalization grant
FG	– federal government
GDP	– gross domestic product
GLA	– gross leasable area
GRDP	– gross regional domestic product
HDI	– human development index
HOR	– House of Representatives
IMF	– International Monetary Fund
IPRA	– Indigenous Peoples' Rights Act
IRA	– internal revenue allotment
LGC	– Local Government Code
LGU	– local government unit
MVUC	– motor vehicle user's charge
NCIP	– National Commission on Indigenous Peoples
NCR	– National Capital Region
NG	– national government
NOP	– net operating surplus
NOPS	– net operating primary surplus
NPA	– New Peoples' Army

OSR	– own-source revenue
PAG	– private armed group
PD	– Presidential Decree
PDP	– Philippine Development Plan
PIDS	– Philippine Institute for Development Studies
PNP	– Philippine National Police
RA	– Republic Act
RDC	– regional development council
Rep.	– Representative
RPT	– real property tax
SCMC	– South Central Mindanao Corridor
SMV	– schedule of market value
SNG	– subnational government
US	– United States

About the Conference

The Philippines has a long tradition of centralized governance. Since the Spanish period, Manila has served as the seat of economic and political power. This is considered the main driver of the uneven development in the country for it has resulted in inefficient and inadequate provision of government services at the local level, and worsening inequality among regions.

Through the passage of the Local Government Code in 1991, certain powers were devolved to local governments, which gave them political, administrative, and fiscal autonomy. Yet, inequality in the country has remained high relative to its East Asian neighbors, and the poverty profile has barely changed over the past two decades. Poverty has remained highly concentrated in the rural areas, particularly in Mindanao. Effective decentralization has not been realized, analysts noted, because devolved functions were not complemented by adequate revenue-raising powers, clear division of responsibilities, and bureaucratic capacity building. Thus, local governments continued to face various challenges in the exercise of their devolved service delivery functions.

In view of these issues, the shift to a federal system of government has gained traction both in the public space and within government. Federalism is often framed as representing the "countryside's revolt against imperial Manila" and a potential solution to weak regional development and inefficient public service delivery. Shortly after assuming office in 2016, President Rodrigo Duterte announced the administration's intent to adopt a federal system of government. The 2017 national budget reflects rural development as a key expenditure priority. The proposal has likewise roused strong support among members of the supermajority in the House of Representatives, while more critical perspectives have also started to emerge.

However, the discourse on federalism has remained unfocused. Advocacy work began even before substantive analytical work was made at the policy level. This has prompted the Philippine Institute for Development Studies to dedicate the 2017 Annual Public Policy Conference (APPC) to critical discussions of federalism perspectives based on independent analyses and insights from the country's most prominent scholars of political science, public administration, governance, and public finance. This is to provide policymakers with inputs for crafting evidence-based legislation not just on the proposed shift to federalism but encompassing decentralization reforms in general.

Foremost in the discussion will be key issues in choosing the form and fiscal design of a federal government in the Philippine setting. These include the allocation of functional responsibilities, taxing powers and financial resources, intergovernmental transfers and equalization, subnational government access to credit and bond markets, delineation of territorial boundary of states, treatment of local government units, intergovernmental arrangements, the character of the second chamber, and the features of a parliamentary versus a presidential form of government.

Meanwhile, from the perspective of political economy, the discussion will focus on the political feasibility of the proposed shift to federalism. The analysis will be based on a wide political data set on local government leadership in the country, focusing on political parties and political dynasties, and which political actors are likely to benefit and lose.

Then, using comparative politics, insights will be provided into current debates on federalism in the Philippines. First, the three basic decisions of democratic political reform will be differentiated: unitary versus federal; presidential versus parliamentary, versus a hybrid of the two; and the choice of electoral system/s. Three basic principles of political reform will be proposed, followed by a discussion of a conceptual basis for understanding centralization versus decentralization in both the administrative and the political spheres. A comparison of the Philippines with its neighbors follows, as well as some key lessons from comparative experience, and examples of what it might mean to undertake a problem-driven process of political reform.

Through the lens of political science and public administration, the implications of federalism will also be explored, taking into consideration the country's political, economic, social, and historical context. The analysis posits that the results—or the absence of results—in many reforms introduced in the 1987 Constitution and the subsequent reform legislations passed since emphasize the need to revisit the issue of government systems. It will review the prospects of federalism in view of the division of powers between different levels of government, the functions of different agencies, and the dynamics of political parties and other actors.

As a final consideration, a framework for delineating state boundaries under a federal republic will be examined. The framework recognizes two sets of parameters based on the perspective of regional development. The first set deals with urban-rural classification, while the second is concerned with political and fiscal equity. Three major parameters for regional development will be presented, as well as their concrete implications on determining the optimal number of states in a federal system of government.

The APPC serves as the main and culminating activity of the Development Policy Research Month (DPRM) held every September pursuant to Malacañang Proclamation No. 247. The DPRM is an annual nationwide celebration that aims to promote awareness and appreciation of the importance of policy research in crafting relevant and evidence-based policies and programs. Started in 2015, the APPC aims to convene experts and researchers in the social sciences to flag to policymakers critical issues that must be addressed in the immediate term. It is envisioned to serve as a platform to further bridge research and policymaking, and enhance evidence-informed planning and policy formulation in the Philippines.

Keynote Message

Rosemarie G. Edillon

Good morning, everyone. Dr. Gilberto Llanto, president of the Philippine Institute for Development Studies (PIDS), and I know that there are so many eminent persons in this room and I might miss out on a few names, so I would rather not name anyone except acknowledge the presence of our former Prime Minister Cesar Virata. It is always a pleasure, Sir.

I actually owe PIDS my comprehensive exposure to economics. I was fresh out of Statistics graduate school. I was part of a team led by Dr. Josef Yap that estimated the Philippines' annual macroeconometric model. Back then, I would always find it a bit odd that the economists in our team, meaning all the others, get excited at the results of my model estimates. As you know, us statisticians, we tend to be very clinical—always guided by scatterplots, diagnostic tests, etc. And so I figured, I should learn economics so that I would experience the same enthusiasm over equations, and the rest, as they say, is history.

After the project on the Philippines' annual macroeconometric model, we developed the Association of Southeast Asian Nations (ASEAN) macroeconometric model with other econometricians from the ASEAN countries. At that time, it was just the ASEAN 6. We were about to embark on the ASEAN Free Trade Agreement (AFTA)—so you can actually thank me.

For a long time before this, the ASEAN was a group of six different countries, with different systems of government and different levels of development at that. Bound together by a common purpose of maintaining security in the region amid territory disputes, we started undertaking various forms of cooperation and were getting ready to take on an ambitious feat of establishing a free trade area. But first, we had to find out whether the undertaking would be mutually beneficial. Hence, the need to develop the ASEAN macromodel.

We had to hurdle one challenge after another. First, finding competent econometricians from the other ASEAN countries and then harmonizing our variable-naming conventions, which was quite tedious. We tried adapting a common economic framework, which turned out to be not feasible. Singapore, even back then, was already a small open economy with no agriculture sector. The Philippines was a small economy, not really open, but with a substantial agrisector. Brunei was a small open economy, with very little agriculture, and very dependent on just one commodity—oil, and so on. Lots of differences, fundamental at that. For Brunei, the bigger challenge was finding an econometrician and we actually did not find any. Our study back then showed that Singapore would be the runaway winner of the AFTA. The Philippines' gain was almost nil, yet we proceeded with the AFTA based on the theoretical principle that trade makes everyone better off.

Before I proceed any further, let us just be mindful of what we want to achieve in all these. In the end, we want for every Filipino to enjoy a *matatag, maginhawa, at panatag na buhay*, for which we have crafted the following long-term development agenda: That for the succeeding medium-term development plans, we should identify policies, programs, and projects to ensure that by 2040, the Philippines will be a prosperous, predominantly middle-class society where no one is poor, where our people live long and healthy lives, are smart, innovative, and live in a high-trust society. Will federalism facilitate this desired development transformation? Just to be sure, we have this correspondence between the long-term development agenda and the vision.

Honestly, I do not have the answer. I just have a number of pointed questions to leave to you. So, by textbook definition—federalism is a system of government characterized by semiautonomous states with a central government and comprises multiple interacting governing units, each with its own preferences and decisions to make. Those state governments share sovereignty with the central government, and they have the final jurisdiction over a broad range of policy areas. Allow me to use the framework of the PDP—the Philippine Development Plan—which is the first to be anchored on this long-term development agenda.

So we have always said that this is a PDP for change. The sort of change that will lay down the foundation for inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy. We think that these will provide the solid foundation for the next three PDPs so that by 2040, all Filipinos will enjoy that matatag, maginhawa, at panatag na buhay.

This PDP will result in lasting changes because it will address the root problems of security, inadequate infrastructure, and vulnerability to disasters. It will bring about change that people can feel because it campaigns for a clean, efficient, people-centered governance, swift and fair administration of justice, and a better awareness of our cultural diversity.

It will result in changes that we can see in the middle-class sector. We will be seeing new centers of economic activity. And then we will make sure that these changes are sustained, if not even made better in the next three PDPs, through innovation, beginning now, and realizing the demographic dividend.

I would think that the biggest challenge to federalism would be at the roots. Is it really possible to make it work given our peace and security problems? Our vulnerability to disasters? For the former, we would need a strong and very nimble military to be able to move swiftly from one state to the other. For the latter, we should be able to pull resources to help the state or substate, in its time of need. On infrastructure, would we be seeing more rundown infrastructure in the boundary barangays? Obviously for some services, states would have to acquiesce to some form of central rule. Coming here from Taytay, I needed to traverse Ortigas Avenue Extension, cross C5, and then Ortigas Avenue. Now, traffic along this 6-kilometer Ortigas Avenue Extension is managed by three local government units (LGUs): Taytay, Cainta, and Pasig. They have different traffic management strategies. Taytay uses roundabouts, but manned by traffic enforcers who I think are just on on-the-job training. Cainta uses traffic lights—you know the numbered, countdown traffic lights. Pasig uses the old-fashioned *kaway-kaway* that adapts what I call a "*buhos* strategy"— you know when they stop traffic on one end, on one side for 15 minutes? And on the other side, all the vehicles will pass, they call that buhos. And they sometimes allow the use of counterflow on a very unpredictable basis. In addition, the Pasig LGU imposes an odd-even scheme on its major roads and it leads to more confusion. During mall hours, across SM East Ortigas, also along Ortigas Avenue extension, SM posts its own traffic management personnel, using its own methods of course. Bottomline, it takes more than 2 hours to traverse the 14-kilometer distance from my house to my office.

Now, the other big problem with having these states, federal structure, I suppose, is revenue collection. In the United States (US), where states impose different sales tax rates, it is a usual practice for residents to shop in the nearby state that imposes the lower sales tax. Now, given that the US is a huge country, such practice is limited. But this will not be the case in the Philippines, especially in Luzon and Mindanao, where you know, it is easy to go from one state to the other. But the extent of this problem would depend on how firms' production processes are structured and this will need more intensive study, except for banks and retailers.

Will federalism result in a race to the bottom where states wanting to attract the most investments will offer the sweetest package of incentives? Or the opposite—will states, in a bid to quickly beef up their fiscal resources, impose more regulations, thus increasing the cost of doing business?

In the aspect of human capital investments, I do not think there is an objection to the fact that quality human capital of every Juan and Juana is the key to inclusive growth. The problem is that the benefits of human capital investments take a long time to manifest, therefore it actually makes sense for governments who depend on accomplishments that are obvious to be able to stay in office, to focus on tangible investments instead. The problem is, human capital investments are cumulative. In fact, it would be difficult to reverse any underinvestment done at some point in time. For instance, the slow reduction in poverty during the previous decade—I am talking about 2006, 2007, and even in 2012, may be due to the underinvestment in human capital during our fiscal crisis years in the 1980s. Obviously, there will be a great need for funds transfer from the central going to the least-developed states. Know that only three regions in the country have populations greater than 10 million—National Capital Region; Central Luzon; and Cavite, Laguna, Batangas, Rizal, and Quezon Region. The rest have a population of about four million or even less, except for Central Visayas and the Bicol Region. Meaning, that for these other regions, they cannot rely on their own resources to spur development. The worst off I think would be the Occidental Mindoro, Oriental Mindoro, Marinduque, Romblon, and Palawan Region, with a population of less than three million next to the Autonomous Region in Muslim Mindanao, of course, spread over five island provinces. Thus, given our current development context, we may need to maintain a strong central structure. But we should first inculcate the value of "*malasakit*" to come up with a transfer formula that would work. I just hope that you do not depend on population size, so that we could really attain the demographic dividend.

Speaking about malasakit, we really need to work toward building a high-trust society. Will federalism not cause us to look even more inward, to our own state or even soft-state? How can we promote nationhood, nationalism, and more importantly, the virtue of malasakit in such a governance structure?

Another important matter (there are so many important matters)—Do we have enough human capital at a highly technical level of governance that can be deployed to the different states? I guess you get the picture. Lots of questions. But just like when the ASEAN macromodel study revealed that the benefits of the Philippines from the AFTA was close to nil, we still proceeded. Because we know deep down that openness to trade would eventually turn for the good for us. However, know that it was a long-term endeavor that required a sustained commitment. It has been more than two decades, and we are approaching a free trade regime in the ASEAN, but not quite. What we are seeing instead is a progressive realization resulting from a sustained commitment to get there, monitored annually at the highest level. And that is what I think we should have—a road map to prepare us for this change. I do not think the cold turkey approach would work for us to ensure that we get the most benefits, to minimize the cost of transition, and always not losing sight of what we want to achieve—a *matatag, maginhawa, at panatag na buhay para sa lahat*. Thank you for your attention and I wish you a productive conference.

MORNING SESSION

Fiscal, Taxation, and Equalization Arrangements in Federal Systems

Herwig Mayer

Federalism is a far-reaching part of decentralization. From centralization to deconcentration and then to devolution, the Philippines has evolved to involve the Local Government Code (LGC). It is also possible that the LGC could be the one that needs changing. Many in the country believe that the Philippines does not necessarily need to move toward federalism. However, considering Mindanao, there is a need for autonomy for the Muslim areas and the Cordilleras.

Without a functional assignment, there cannot be a fiscal assignment in order to shape federalism. Functions and resources have to match properly, otherwise it would cause major dilemmas. The Bangsamoro Basic Law's (BBL) 4-percent allocated fund is not enough and would have caused them to immediately become bankrupt with a budget deficit of 25 percent. It was right to increase it to 6 percent.

In terms of 'formulas' in fiscal decentralization and fiscal federalism, there is a huge possibility of getting it wrong in the beginning. For instance, some say education needs to be federalized, but is that a good thing? There should be more discussions about this. In Germany, the debate is about whether to make it a state affair instead of national. In the case of the Department of Public Works and Highways, if major thruways would be handled at the national level, then they should automatically have 20 percent of the budget. It is usually the case that the taxes are shared if the local level does not have enough taxes.

On the area of fiscal autonomy, the revenue side has four aspects that need to be discussed: (1) tax policy; (2) tax administration, which is about the body that will administer the collection of taxes (e.g., Bureau of Internal Revenue in the Philippines and State Tax Authority in Germany); (3) tax assignment, which is about the level of government that can get certain proceeds, and includes issues on location; and (4) tax sharing—about which formula should be employed in tax collection. Tax sharing should be based on population, not area, because development is about people. However, this is also dependent on what kind of formula the country will subscribe to. The fiscal autonomy on the expenditure side might be an even more important discussion because it talks about transparency, accountability, auditing, and monitoring. The BBL should have an auditing body. Germany also has the State Commission on Audit. There is a need to be truly committed if federalism would be adopted, because decentralization is cumbersome and involves things that one has not initially thought of.

For instance, after World War II, Bremen in Germany was small in terms of land area but had a thriving industry. Bayern had a vast land area but did not have a thriving economy. Now, it is the opposite—Bayern is better off because Germany no longer builds ships. It is not about the size of the land, but how development happened. Bayern currently holds most of the high-tech and automobile industries, but previously it was just agriculture.

Another issue of concern is centralization versus decentralization. Germany is decentralized but the tax system is very centralized. A lot of distribution transpires from a common pool to lower levels of government. Allocation of taxes in certain levels of government is possible but may not be sufficient. It is important that it is used to the maximum. Taking the example of the Philippines, where only 60 percent of real property tax is being collected, enforcement is also a dilemma. Will it also be a problem in the federal system of government? In Germany, the most important taxes account for around 70 percent of the revenue, which are shared on a pool basis—that is, the income tax, corporation tax, and value-added tax. Separate taxes in Germany are (1) federation, (2) länder/states, and (3) municipalities. Income tax is evenly distributed in Germany. The value-added tax is relatively arbitrary and is being haggled. These are redistributed once in a while. Every three or four years, this figure changes. In 2016, it might probably be 45–46 percent for federal states. This is where the national government negotiates and appeases the states.

There is a list of taxes that contributes to the fiscal position or revenues—national, state, and government. If one looks at the picture of Spain or the United States, it would be different. One must negotiate the distribution relative to the function of the government [agency]. If one does not need to place the funds in that area, it might as well be foregone. Also related to the discussion about resources is the human resources. Human resource is also needed to manage the funds at the local level. Take the example of the Autonomous Region in Muslim Mindanao, where there is lack of capacity even if there are funds. In Germany, there is something called equalization where Germans should have uniform living conditions as part of Basic Law 107.2. This is called horizontal equalization. There are 3 lender states and 13 are receiving. The formula is population based. Berlin is the primary borrower state. Bayern, Baden-Württemburg, and Hessen are lender states—which can be construed as the south paying to the north. Most likely, in the case of the Philippines, it would be the north paying to the south. In Germany, the Basic Law 107.2 was not as disputed because the lender states are not consistent. Bayern used to be a borrower state but is now a lender state. The European Union (EU) has a similar setup, where there are lender and borrower states. Estonia is the primary recipient state on a per capita basis. Sweden lends/pays the most on a per capita basis. Poland per capita is not the top recipient but has the largest population, thus, in absolute terms, it is the top receiver of funds from EU. For tax sharing, it contributes to the vertical and fiscal balance; risk sharing supports macroeconomic stability. This is the internal revenue allotment. It says in the constitution that it is about fair share in national taxes for the local government. It is not a grant or dole out, it is an entitlement.

The distribution can be discussed but the important item to note is that there should be sharing. For the other grants, these contribute to the horizontal fiscal balance and to regional equity and efficiency. Risks are unfunded mandates, soft budget constraints, and perverse incentives. Perverse incentives means someone gets funding to run the agency and does not need to collect taxes to do so. In this case, someone needs to be sanctioned because the enforcement of one's own revenue collection should be done. It is not about counting on receiving taxes, but one has to do his fair share of collecting it.

Federalism in Context: Laying the Foundations for a Problem-Driven Process of Political Reform*

Paul D. Hutchcroft

Federalism in the context of other types of political reform

There are three basic decisions of democratic political reform commonly mixed and matched with one another around the world. These three elements often get confused but they are in fact distinct from each other. First is the question of whether one wants their system to be unitary or federal; second is the character of representational structures, whether presidential, parliamentary, or a hybrid of the two; and lastly are the critical choices to be made in designing an electoral system, or how the votes are converted into seats. This latter decision, while often overlooked, is critical to understanding the way politics works. Using the Philippines as an example, if one wanted to come up with arrangements that would pretty much guarantee weak political parties, then the combined elements of the present Philippine electoral system would be a prime example: throughout the entire system, from the House, to the Senate, to the councils at the provincial, town, and city level, the system is not at all favorable to building stronger political parties or curbing patronage. It needs to be emphasized that these three elements of political reform, although interrelated, are distinct from each other.

Three basic principles of political reform

There are also three basic principles of political reform, each with a corresponding basic question. The first principle is to study and understand the preexisting conditions. There is no one-size-fits-all reform. Each country has its own distinctive historical configurations of power and authority. A model of federalism in a country that has a very strong bureaucracy and well-developed political parties will not work in a country that does not have that kind of heritage or has strong local bosses. The outcome of the application of that particular model will be very different. Following a problem-driven approach, the question that goes along with that is: What are the basic problems that need to be solved based on the local context? In a solution-based approach, by contrast, one would commonly hear assertions along the lines of "here is the clearly obvious preferred solution: federalism" followed by a post-hoc assertion of the problems that might justify its promulgation.

The second principle is to understand the nature of the underlying political institutions, especially the two critical institutions of the bureaucracy and political parties. If both are weak,

* Key points found in this brief summary of the talk are discussed in more detail in Hutchcroft (2017).

whatever is constructed may end up being unstable. We can compare this to constructing a house on shifting sand. Some may claim that shifting to federalism will fix things, but if a country still has the same foundations of weak bureaucracy and weak political parties, then it is as if one has reconstructed the house on the same shifting sand. Indeed, looking at these underlying political institutions is critical. The question that goes along with that is: What is the underlying capacity of the administrative system and political system? (This is basically just understanding the nature of the bureaucracy and the political parties within the context that is to be reformed.)

The third principle is the importance of recognizing and anticipating unintended consequences. In the context of political reform, the bigger the political reform, the bigger the risks of unintended consequences. The question here is whether there are small and hopefully more predictable reform solutions, such as electoral system redesign, that could perhaps resolve the problems that have been identified. We need to be cautious that if one answers 'no' to that question, and proceeds with the sweeping measures of political reform, they must be prepared for enormous unintended consequences ahead.

Defining centralization and decentralization in the administrative and political spheres[1]

The Philippines could theoretically use federalism for a range of highly divergent outcomes. First, federalism could be a means by which the country could *centralize* its polity. This could be achieved, hypothetically, by adopting Malaysian-style centralized federalism, where extensive authority lies with the central government. This model would also involve ending selection of local chief executives and local councils. Second, the Philippines could hypothetically use federalism to engage in a kind of "mid-levelization", strengthening the middle level of government, i.e., concentrating authority in 10–12 states and getting rid of the 81 provinces. But this is not a serious proposal in the case of the Philippines, where the provinces are well-established units and very much part of the identity of the people within them. Third, federalism could also hypothetically be used to further *decentralize* the polity. This could involve systematic decentralization to what is now the provincial level, devolving authority to 81 states that correspond to the current provinces. As part of this reform, there might be a decision to put all noncomponent cities under the control of provinces by turning them into component cities. On a cautionary note, however, this would not be politically feasible given the opposition that it would likely generate in the noncomponent cities—in particular, the well-established charter cities of Baguio, Cebu, Iloilo, Davao, Zamboanga, etc. In undertaking this thought exercise of not-very-realistic hypotheticals, the goal was to emphasize the point that federalism involves such a very large number of decisions and can take a country in many highly diverging directions depending on what decisions are made. In sum, "federalism" is not a fixed set of arrangements that one can simply take down off the shelf and plug into the Philippines.

Comparing the Philippines with its neighbors

The Philippines is actually one of the most decentralized countries within Southeast Asia—more decentralized than Malaysia, which is the only federal system in the Association of Southeast Asian Nations but nonetheless among the most centralized polities. Malaysia has a highly centralized form of federalism. Some of its characteristics include having a very strong Ministry of Home Affairs. There have not been any local government elections since 1964, unlike the Philippines which has very extensive opportunities to vote for local executives. Moreover, there has only been one dominant national political party since 1957. The Philippines, in contrast, had a major devolution in

[1] This section and the following section draw on the framework developed in Hutchcroft (2001).

1991 with the Local Government Code (LGC). This only highlights that federal systems, as well as their unitary counterparts, must be viewed as along a continuum of relatively more centralized to decentralized. There are some federal states that are actually more centralized than already decentralized unitary states such as the Philippines.

Lessons from comparative experience, central paradox of federalism, and some critical preconditions

Let us look at the paradox of decentralization and federalism. James Fesler, a scholar of political science from Yale University, once said that, "One of the most curious aspects of decentralization is the responsibility that a national government must assume to assure the realization that decentralization, as doctrinally advocated, is supposed to serve" (Fesler 1965, p. 549). Paradoxically, decentralization requires a strong and capable central state able to enforce the rules by which authority is being devolved to the subnational level. Looking at the issues of implementation, in federalism, it is not just about making hundreds of decisions and subdecisions, but also about enforcing them. Often heard in the Philippines is that it has beautiful laws but many are not implemented well. If the reproductive health bill is already too difficult for the Philippines to implement, all the more difficult would be enforcing and implementing all of the things that go into federalism.

We can also consider the LGC as an example. The LGC which was passed in 1991 was supposed to have a mandatory review in 1996 but, until now, this has not been done. The reason behind this might perhaps have something to do with how highly politically contentious it is to open it up. If it is already too politically contentious to open up the LGC from what is a mandatory review, think about all of the difficulties of dealing with the many elements of federalism. Another example is the internal revenue allotment which has not been amended since it was put in place more than 25 years ago. And just think of the challenges of all the new fiscal, electoral, law enforcement, etc., arrangements that need to be decided upon, implemented, and enforced within federalism. Even things as basic as decisions on which municipalities are able to become cities has become highly politicized in the Philippines. There have been cases wherein what should be straightforward technical decisions have instead led to high levels of political contention as well as litigation leading all the way to the Supreme Court.[2]

The Department of the Interior and Local Government will be more important than ever because of the critical tasks of implementing and enforcing federalism. As important as it is to delineate, on paper, the constitutional division of responsibilities between the national level, the federal level, and the local level, that is only the beginning of the story. It is something that would require a very effective Department of the Interior and Local Government, or whatever they decide to call it, in order to bring about the implementation and enforcement of a new federal system. All in all, that is the paradox of decentralization and federalism.

We need to highlight the importance of effective state bureaucracies, which in this case would be the bureaucracies of the proposed federal states. Federalism requires a basic level of administrative capacity across the constituent subnational units—and in most of the proposed models of federalism in the Philippines, these units do not even exist at this point. They would still need to be built up from scratch. This would be an enormous task. Consider, for example, if there were to be somewhere around 10–12 federal states. That means the Philippines would need to have 10–12 regional economic and development authorities (to supplement the current National Economic and Development Authority), 10–12 Departments of Budget and Management, 10–12 Departments of Public Works and Highways, 10–12 Departments of Agriculture, etc. In former

[2] On the complex political dynamics of the internal revenue allotment, see Hutchcroft (2012).

Senate President Aquilino Pimentel's proposal, the Commission on Audit, Commission on Elections, and Civil Service Commission would be kept at the national level. Beyond that, each state would still need to have the means to recruit and retain high-quality public servants able to staff the multiple agencies of these new federal states. A critical question thus arises: Is there a bureaucratic capacity to achieve this? If not, how might this capacity simultaneously be put in place across so many new states?

It is also important to ask what, currently, is the relative quality of the national versus local bureaucracies? According to old World Bank studies and based on my own experience, the number of political spoils (i.e., jobs created as political rewards) at the local level is much higher than at the national level. One scheme encountered involves the division of a single public sector job into 24 different positions—thus rewarding each of 24 political supporters with 15 days of salary at public expense. Given that political spoils (or jobs for political supporters) are very much part of the landscape at the local level, there are very important issues of bureaucratic capacity that need to be addressed. One idea is to have prospective federal states correspond to the current regions to ensure foundational administrative capacity. If the Philippines were to go federal, consideration should be given to basing 17 newly created states on the currently existing 17 administrative regions—which are already established entities that are in many cases well-grounded in salient regional identities. While this would by no means resolve the huge challenges of building effective administrative capacity in the federal states, it would at the least reduce the large shortfalls of capacity that would need to be addressed.

Problems to be solved

For the last part, we identify the problems to be solved by looking at common questions on federalism, based on a September 2016 forum at the UP School of Economics titled "If Federalism Is the Answer, What Is the Question?" The first question is: Will the imposition of a system of symmetrical federalism, across the entire archipelago, promote peace in Minadanao? Or rather, would it be better, as is already envisaged in the 1987 Constitution, to focus on asymmetrical arrangements that seek to address the historical injustices that have been experienced in very distinctive ways by the Bangsamoro?

The next question is: Will federalism curb the widespread patronage practices that undermine the quality of Philippine democracy? Or might it be better to think instead about electoral system redesign, which, when done well, has the capacity both to curb patronage and build stronger political parties (not to mention at far less risk of unintended consequences). We also need to highlight the potential of a closed-list proportional representation system, which comparative experience shows can help promote a more party-centric (as opposed to candidate-centric) polity (see Hutchcroft 2018).

The third question is: Will federalism undermine the oligarchy and enhance long-term development prospects in ways that will be beneficial to the population as a whole? Or rather, does it make sense to strengthen the capacity of the central state to promote competition and curb the cartels and duopolies that inhibit inclusive growth? I suggest we need to work instead to replace patterns of elite capture with more productive patterns of government-business relations and ensure that the central state has the regulatory capacity to act, at least occasionally, as a countervailing force to the powerful diversified family conglomerates.

For the last question, it goes like this: Will federalism help to resolve the long-standing problem of regional inequalities? Or maybe instead, might it be better to ensure that the national government play a more proactive role in nurturing the regional bureaucracy across the 17 administrative regions? The national government has the potential to uphold basic minimal standards across the regions, empower and fund the regional development councils, and make the regions work to support local autonomy, as they are the critical nexus between the national government and the local government units.

However, it makes sense to strengthen the regions, whether or not federalism pushes through. If federalism pushes through, it will be critical to have stronger states as a foundation, so why not begin that now, working with the national government agencies already deconcentrated to the regional level, and complement this with strengthening the regional development councils. This would give much more integrity to the regional planning process, enabling them to become less dependent on the whims of Manila. If federalism does not push through, all of the above is still a major accomplishment, and could have an extremely positive impact on the promotion of both national development goals and local autonomy.

Bottom line, it makes most sense to work out central–local arrangements that are best suited to the Philippines and, if you so choose, just call it federalism. Even under current central–local arrangements in the Philippines, this is not an indefensible assertion (Tigno 2017). There is no international police force that will come in and say you cannot use the term federalism. Having done so, the country could then refocus its attention on the myriad incremental yet critical tasks of promoting development objectives, both national and local. There are, after all, no quick fixes in the quest for sustainable and inclusive development.

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Federalism and the Challenge of Politics and Administration in the Philippines

Edmund S. Tayao

Abstract

Governments and political systems around the world are designed according to the country's history. Our case is no different. The presidential unitary system is in place today largely because of America's influence as the country's last colonial master. In many developed and successful democracies around the world, the structure of government resulted mainly from the struggle of political leaders and stakeholders in their society. The division of powers between the different levels of government, the function of the different agencies, even the significance of political parties and actors all reflect the dynamics that shaped the country and the state as a whole. There were opportunities and attempts, especially in 1971 and in 1986, to follow the same rationale and structure in the country's politics and governance. The process surrounding these attempts were, however, arrested and/or limited before it could be completed. Looking back, the issue of systems of government, even of the economy, is now so accepted by many as fundamental that since the 1990s, reforming the overall political and economic system has been part of our discourse.

This paper will argue that the above consideration has become fundamental for the following reasons.

- We are becoming more and more aware of the significance of our own identity as different peoples in one nation. The same has highlighted the growing gap between the different socioeconomic classes in the country.
- The result or absence of results of many reforms introduced in the 1987 Constitution and the subsequent reform legislations passed since only emphasize the need to revisit the issue of government systems.

Designing the appropriate political and governmental system for the country, on the other hand, is to say the least an intricate and difficult process that can only proceed with details in mind. Conflicting interests in society will be a factor in the whole process, especially that groups enjoying the current setup will surely not allow any change to happen. This administration may prove to be the most opportune time to seriously look at comprehensive reforms, as for the first time, we have a president and an administration party that actually see the significance of political systems as a fundamental mechanism for real development. Looking at how the federalism initiative has been moving, however, there are also challenges from within the administration that will impact on the success of any reform initiative.

The approach to reforms can only be comprehensive but detailed and problem driven. We cannot just debate on concepts and not factor in the country's political, economic, social, and even historical context. Only then can we have a political and governmental system that could possibly give the results needed.

The vicious cycle politics in the Philippines

We should essentially start with the premise that democracy was reestablished in 1986; and there are implications to it that we have yet to deal with completely. We are still in the process of democratization; we successfully transitioned from a very limited political and even economic environment to one that is clearly free yet wanting in terms of stability and predictability. The Philippine political, economic, and social environment remains undeveloped, and this is reflected in a state that operates mainly on the basis of who is in power in combination with the extent of influence particular interests wield on an incumbent government (Rivera 2002; Rogers 2004). There has to be a way to change this unstable characteristic and strengthen our political and or public institutions.

In this regard, some consider the 1986 EDSA Revolution as a "restoration" and not a "revolution" (Coronel 1991; Ileto 1999; Eaton 2003). Much remains to be done in terms of reform aimed at empowering the government to engage in a long-term development strategy and not remain subject to the changing political conditions. This unfinished democratization explains why in every change of administration, it seems common that every outgoing president is almost always seen as having failed expectations. Each administration at best could come up with palliatives, but long-term initiatives cannot be undertaken even if attempted; and this we have seen at least in one administration. There have been those administrations where expectations failed simply because the needed changes were essentially fundamental, far-reaching, and therefore divisive. And there have been administrations that failed expectations because these were extraordinarily hyped that many strongly believed, only to be disappointed in the end.

And so we always look forward to another opportunity, the next election, and hopefully elect the right leader that would usher in a new era of development, of prosperity. Unfortunately, our system simply does not allow us to effectively choose the right or good leader we need. And even if we were able to elect the right one, s/he would have a lot of work to do putting the house in order, if not substantially retrofitting or rebuilding the house before real work for development could even start. Now, let us say we managed to have the right leader, put the house in order and put in place a number of policies and programs that at least start the process of lasting institutional reforms, the question now is if it will be followed through by the next administration.

This briefly yet comprehensively describes the story of Philippine politics and governance. It is a vicious cycle that has to be arrested soonest, otherwise we'll remain as we are, developing but not enough to at least match the pace of our neighbors and possibly ending up forever with the title "developing country". No matter how an administration would declare that we are now a first-world country, and this has been done by at least three presidents now, it would still remain largely a dream. This is the lens we should be employing if we are to make sense of administration in this country, which is very much reflective only of the kind of politics we have—one that is complex and systemic.

The Philippine state and society

The Philippines has been the first republic in Asia with the establishment of the Malolos Republic on January 23, 1899. Since then, the whole country has been referred to as The Philippines or The Philippine Islands, recognized internationally as a single consolidated state from one that was originally composed of several polities or principalities as it was in the Middle Ages in Europe, sharing only a common geographic, that is, archipelagic location. This characterization has been established internationally with several treaties with powerful countries starting with the Treaty of Paris that ceded the Philippines to the United States (US) for USD 20 million. From one colonial master to another, the many ethnolinguistic groups shared a common history. Mindanao was never colonized, but still, mainly due to proximity and through a bustling trade in the past, shares a good part of the history of the entire archipelago.

Other than the departure of colonial leaders and having Filipino leaders in government now, there has hardly been any change in our public institutions. The elites still control the country's politics and economy, only this time not in behalf of a colonial master but for their own and family's benefit. Public institutions hardly function without political favor, and a good part of what is known as public office is more of a personal tool of whoever occupies it instead of serving the interest of the greater public.

Popular theories on why the Philippines remains underdeveloped point to this political condition. What may arguably be the most frequently mentioned is that we are a divided people, which explains the presumed lack of discipline and indolence, and this is because we have not experienced a bloody civil war in the past that could establish a sense of identity in the country—what many assume to be common with established democracies and/or developed countries, and thus appear to be a requisite for establishing the state. This assumption is then thought to be the reason why we are not a developed nation or that we have yet to evolve as a developed nation, which then explains why the state we have in place is hardly comparable to the states of advanced democracies. This echoes the Westphalian doctrine as reinforced by the rise of nationalism in the 19th century, putting forth nationhood or national identity as the basis for the establishment of the state.

The state and its institutions as important components to development has been propounded since the 1990s and is useful in understanding conditions of developing countries like the Philippines. Not that the idea of the state is new in political science and sociology. Almond argues that a segment of political science literature has always incorporated the state in its analyses (Barkey and Parikh 1991). Almond cites the work of such eminent political scientists as David Truman, E.E. Schattschneider, V.O. Key, and Pendelton Herring, among others. Much of these tend to focus on the government, particularly as a collection of individuals performing specific functions. Others have focused on particular institutions such as the presidency or the Executive Department, or Congress. What is new is not the study of the state but in using it as a development variable. Rarely has the state been viewed as "an administrative apparatus where administration means the extraction of resources, control and coercion, and maintenance of the political, legal, and normative order in society" (Barkey and Parikh 1991).

The work of Evans et al. (1985) is a valuable contribution to this discussion as it reviewed contestations within the state. The book not only renews interest on the state but also prompts us to the unique conditions that characterize postcolonial states especially the advent of democratization and globalization. The phrase "bringing the state back in" is an invitation to look at development from the vantage point of the state and not of society or culture, for the purpose of providing a functional explanation of recent developments and also as an alternative to understanding why some states manage to develop and others do not.

Skocpol and Amenta (1986) argue the need to reconsider the role of the state in relation to economies and societies. Recent scholarship has, in fact, overshadowed the dichotomy that divided scholarship between state and society before, now that the state is almost always part of the explanation (Barkey and Parikh 1991). These researches have advanced a number of arguments. First, they conceived of the state as an actor with interests of its own which do not necessarily reflect those of society. The idea of the strong state comes to mind as the capacity of the state is the one that is given emphasis in this perspective. Empirical studies were also undertaken as this developed articulating a second more moderate vision of the state's role by "embedding it in its societal context" (Stepan 1978; Evans 1979; Evans et al. 1985; Katzenstein 1985). The state is still strong in this sense, but it is acting in relation to society. A third and possibly last category looks at the relation between state and society as essentially a contested one. The ideal state triumphs in its struggle with society and develops autonomy and capacity for action as a final result of a compact between itself and societal forces (Callaghy 1984; Kohli 1986; Azarya and Chazen 1987; Migdal 1988). Politics is thus seen in terms of either dominance of the state or that of society.

Of these three perspectives, the latter is the most popularly used by local scholars. The prevalence of patronage politics has led scholars to conclude that the Philippines is a captured or a weak state. The state apparatus is run by dynastic families (McCoy 1994); state policies are forged to favor particular economic interests, same interests that influence Philippine politics and governance (Rivera 1994; Hutchcroft 1998); and that the Philippine society developed first way before the Philippines as a state was established (Wurfel 1988; Steinberg 1994). All these point to only one thing, the structure of Philippine society explains the brand of politics and governance that we have. The state hardly exists because of the dominance of elites and particular interests. Little or no distinction separates economic and or political interests. And the tag 'trapo' used to identify political leaders espousing the traditional patronage politics is traced to this same socioeconomic structure.

All these studies, however, are purely diagnostic. There are limitations in terms of providing a prescription for developing countries like the Philippines to work with to create or recreate an autonomous state. To use the third framework we have mentioned, that is, to place the relation between society and the state as essentially a contested one is to acknowledge society as equal to the state in character and significance, and in effect suggests that a society needs to transform itself before the creation of an autonomous state is possible. Skocpol and Amenta in their 1986 study, on the other hand, argue that politics in society is shaped by the policies the state enacts. Of course, such enactment is dependent on existing political structures that should be designed to reflect the character of society in a state.

The politics of reform

The kind of policies a country has reflects the kind of state it has, as the foregoing suggests, and this is reflected by the reform measures we have had so far. There's no gainsaying that our leaders are aware and care enough to pursue needed reforms. Even if one is to argue the opposite, it will not be easy for leaders to just remain insensitive, given the vibrant civil society we have since the 1950s. Still, the systemic limitations of the state are revealed as even if there had been serious efforts to pursue reform, the result has always been either watered down or deficient policies and/or the implementation has been considerably inconsistent with the objectives set by the policy.

This is seen most especially if we start with the reading and understanding of the 1987 Constitution. The Constitutional Commission convened in 1986 suggests a serious effort to effectively represent the diverse sociocultural and political economic interests in the country; and with the unique provisions on social justice and considerable check introduced against what was originally mainly an executive power that is Martial Law, it showed a deliberate intent to correct considerable mistakes in the country's history. This constitution sets the policy direction toward political reform and led to many landmark legislations. Reforms started when the law operationalizing decentralization under the 1991 Local Government Code (LGC), the law mandating the representation for the marginalized sectors with the 1995 Partylist Act, and the empowerment of indigenous peoples with the Indigenous Peoples' Rights Act (IPRA) of 1997 were enacted.

More than these largely political reforms, there have been industry-directed reforms. Reforms were also introduced to open up the telecommunications industry, ending the monopoly of the Philippine Long Distance Telephone Company and allowing the entry of other players in as early as 1989, and the signing of Executive Order No. 59 in 1993 that prescribed policy guidelines for compulsory interconnection of authorized public telecommunications carriers. This culminated in the enactment of Republic Act (RA) 7925 or the Public Telecommunications Policy Act of the Philippines intended to provide a "healthy and competitive environment… while maintaining affordable rates" (Art. II, Sec. 4f). Another reform measure worth noting is RA 9136 or the Electric Power Industry Reform Act of 2001 intended to achieve reliable and competitively priced electricity. Most recently, with what essentially could complete the two previous economic and industry reform measures, Congress passed RA 10667 or the Philippine Competition Act aimed at achieving efficiency of market competition.

Now, reflecting on each and all of the foregoing reform measures is itself the challenge of politics and administration. Politics has always been viewed negatively in this country that when leaders grandstand or do nothing, we dismiss it as politicking. This is of course fundamentally different from the view that politics is about decisionmaking or getting things done amid diverse interests and/or stakeholders. Politics is then considered popularly as limited only to elections, to propaganda and partisanship, and definitely to political personalities. Politics is rarely considered part and parcel of policymaking that after legislation is done, it seems to just stop there. There is no question that we have well-meaning political leaders, as the above list of reforms could suggest, but whether or not the implementation of a policy is thought of, or there is appreciation of the kind of public administration we have that will implement the policies, is entirely a different story.

An in-depth study should be undertaken if these measures were implemented, how they were implemented, and determine whether the objectives of the measure have been met, or why the result has been different from what was expected or intended. For example, are we now able to actually represent the "marginalized sectors" with the partylist law? Is it even possible to define specifically what a marginalized sector is? Let us say it is; could there be an exhaustive enumeration of these sectors? Can these sectors be effectively represented under the existing electoral system and administration? Let us just say that the partylist as a reform measure simply did not meet expectations, the next step is to figure out how it could be made to work.

All the foregoing are reform measures intended to improve on governance and therefore fundamental; but which of these measures have been at the least assessed and the result of the assessment led to a revision? They say that measures have to have a sunset clause. The LGC has this provision, prescribing a "mandatory review every five years", even as often as necessary (Section 521, Title II, Book IV), which sadly has not been given considerable attention.

The foregoing is fundamental, as it provides the context of politics and governance in the country, the context of pursuing reform. It illustrates that from the start the strategy has always been piecemeal reforms as we have been circumspect with how things will turn out with needed reforms. If we stay the course, what could possibly be done so that this time around, the reforms will be successful? We should start by reflecting why if in the first place we have been guarded and has been proceeding only with piecemeal reforms, why did we still have "unintended consequences"? We have to make a serious reflection and pin down the very reason why, and then perhaps we can move on and finally make these reforms work or adopt a different strategy that this time, we might be able to get it right. There are those who say that we have already come a long way. As it is now, there may be some increments, but the overall scheme of things remains essentially the same.

Let us insist that it is just a matter of reviewing and revising these measures. With the remarkable majority the administration enjoys in the legislature, revising these measures should be easy, however divisive and requiring substantial political capital. Let us say these measures are revised, the next question then is if there is nothing more needed to be done to ensure that it could be successfully implemented this time around. Will these measures work without the need to at least amend some provisions in the constitution? We then go back to assessment if we are to consider revisions and/or piecemeal reforms.

For starters, many of the measures mentioned were expected to bring about market competition in key industries like energy and telecommunications. Apart from rules on competition, what is fundamental in fact is the existence of competitors. Public utilities require considerable capital and only those that have already made it big could possibly compete. Considering the size of the country's market, there could only be few that could have made it big by now. Then it is by no coincidence that the players in one industry would be the same in another. It is not surprising that despite deregulation, no company is able to provide the right, efficient, and competitive service, not in telecommunications, not in electricity, especially if we compare what we have with our neighbors. A simple comparison of costs would already reveal the inadequacy of public utilities in the country.

If we are to look at "autonomy" on the other hand, say for example in the case of the Bangsamoro, will the enactment of a new organic or basic law be enough without needing at the least a 'surgical' amendment of the constitution? Are autonomous regions as provided for in the 1987 Constitution classified in the same way as local government units (LGUs)? Whatever the answer is to this question, would it be possible for this autonomous region to perform more functions other than those already devolved? Can it decide to organize itself differently and adopt a different political structure compared to what is already established from the national to the local governments? Could there be enough fail-safe measures that could be included in their basic or organic law that would prevent the national government from diluting or taking back the powers already afforded them?

In the case of LGUs alone, is decentralization already provided for not only in the constitution but also with the 1991 LGC actually in practice as it is intended? Are the devolved functions as enumerated in the law actually devolved? With the autonomy that comes with decentralization, are LGUs actually able to do enough as they see fit? Take note that decentralization is anchored on the principle of 'subsidiarity'. If the LGU cannot do as much, then what is the value of the LGC and the state policy declared in the constitution that espouses autonomy (Art II, Sec. 25)? Is it right to say that the limitations of the LGUs are due largely to the ineptness of local political leaders, of the prevalence of political dynasties? Can we not instead ask if the political frame of local governance, e.g., the creation or reclassification of LGUs, contributes at least to the limitations of local governance in the country, even including the prevalence of political dynasties as we pejoratively see it? If we already have the fundamental reform measures in place, what then could still be lacking that we are still stuck to our current development situation?

Limited local public administration

There is much to gain if by the foregoing we are able to come up with the right form of government with the right political system. A more in-depth study should be undertaken in order to completely capture the significance of changing the country's form of government. A much-improved public administration is one fundamental gain we can certainly expect that a simple comparative discussion and analysis could show.

For example, our neighbor Indonesia has 735,400 square miles in total land area compared to the Philippines' total of 115,831 square miles. This means that the Philippines only has 15.7 percent of Indonesia's total land area. It is interesting that when we compare the number of provinces of both countries, the Philippines has more, 81, compared to Indonesia's 34. This is not comparing apples and oranges, as the province in Indonesia, like here in the Philippines, is the highest tier of local government and further divided into other LGUs. Our provinces then are diminutive with only about 6.7 percent of the size of a province in Indonesia. Local public administration is expectedly limited. Planning alone, including revenue generation, will be limited, including key governmental functions that require land use, traffic and waste management, disaster risk reduction, to name the most fundamental.

Political representation and even security is likewise limited under this setup. A particular political family can easily dominate a considerably small LGU, not to mention that we have been creating LGUs precisely to accommodate particular political interests. An antipolitical dynasty law will not be enough to put an end to it. Without changing the electoral and political party system, not only will it lead to new political dynasties but also, especially in the countryside where most of the residents are related, can result in the election of more unqualified political leaders. The immediate effect of an antipolitical dynasty law, without enlarging or at the least any provision for amalgamation of current LGUs, is opening up elective positions to those who barely have education, as the same elites are most likely better able to obtain education compared to most other local residents.

As our kind of political dynasties abound, governance suffers. There is just not much incentive to improve on local governance as doing so could only mean lesser political patronage to dispense. How many of our LGUs have existing and regularly updated maps from cadastral to hazard maps, integrated with a regularly updated basic local indicators and demographics or what we call community-based monitoring system? This is significant not only for revenue generation, planning, and budgeting processes but also for easily determining who are residents and nonresidents in the LGU, and thus useful for ensuring security not only locally but could very well complement also a national security strategy. It is a basic tool LGUs must have, but the lukewarm response of local political leaders only means it is one that is not to be given priority.

There are those who argue that current LGUs simply do not have the wherewithal to do all these and a reliable database mechanism in place. What is needed is to increase its share from the national revenue to allow it to do more. On the other hand, again without correcting the prevailing fragmentation of LGUs, will giving more funds to LGUs result in considerable improvement given its current absorptive capacity? What are the chances that these additional funds would not further strengthen the hold of the elites in the LGUs? If additional funds are considered but only with specific limitations for what and how LGUs can use it, then what good is autonomy for? The primary objective of giving additional funds should be giving more capacity and capability to LGUs, and this could happen only with concomitant political structural reforms other than a stand-alone reform initiative to fiscal decentralization. This explains why initiatives to bringing about better local fiscal capacity always tended toward recentralization.

Pursuing political reforms, on the other hand, is not that easy. This can be gleaned from the difficulty of revising even just reviewing laws that impact on the political system, say in terms of the political structure, representation, and contestation, e.g., the LGC and the partylist law, and even the IPRA. It can be surmised that it was only because the euphoria of EDSA was still high in the 1990s that these reform measures were passed. After that period, it was clear that any reform initiative would be difficult to pursue, not even to amend, even to just conduct a comprehensive review of existing political reform measures. New political reform initiatives like the antipolitical dynasty law and the political party development act have been attempted several times in several congresses but none of these fundamental reform initiatives have pushed through. If this has been the case with these measures, what would be the chances of any measure that is pursued to directly result in a restructuring of existing LGUs? Creating new and smaller LGUs without doubt is political yet easy to put into motion. The explanation is obviously because it favors the political elites. Merging existing LGUs would do the opposite, essentially meaning that political families have to let go, sacrifice, or be sacrificed.

Indonesia is not federal but has the advantage in terms of autonomy and size of subnational governments (SNGs) and/or LGUs commonly seen in a federal system. The pace of creating new LGUs, on the other hand, a total of 8 created since 1999 from an original 25 provinces, suggests that there is also a tendency to create smaller LGUs in Indonesia. This means that despite decentralization introduced after the fall of Suharto in 1998, the central government, good or bad, can alter the shape of LGUs in Indonesia. Still, at least compared to the Philippines that has yet to follow up on its 1991 decentralization law, Indonesia had already come up with several legislations, each building up on previous initiatives, i.e., from laws 22 and 29 in 1999, to 32 in 2004 and most recently law 23 in 2014 and revised law 32 of 2004 (Nasution 2016). Perhaps we can say that the tact taken by Indonesia is to do reforms gradually, building up on previous reforms as they see fit. Ours is different, in that we only came up with one big reform leap and found it difficult to look back and assess.

The limitation of Indonesia, on the other hand, is similar to what we also have under the current decentralized but unitary form of government. The powers that have already been given at the local level remain considerably subject to what the central government can opt to do at any given time, which, however minimal, is shown by a similar tendency to create more and smaller political units. This should not be taken to mean that central government control is fundamentally bad, but any feature of a political system that has to do with structuring power relations has to have some element of rigor that it cannot be changed easily while at the same time has the element of flexibility that allows complementation and collaboration between different levels of government more than control.[1] Of course, their political system is different, which could possibly explain why they have managed to follow through on their decentralization program, suggesting there is a better appreciation of the role played by LGUs.

Federalism in the Philippines

The relationship between decentralization and federalism may not be of causation but of correlation. In cases where federalism is the system of government but decentralization is hardly in place, the reason may be due to its history and political system, e.g., the US and Malaysia. The 1930s depression led then President Franklin Delano Roosevelt to move toward centralization. Malaysia, on the other hand, has always been more centralized but this is mainly because of its fundamental policy on nationalism, again owing to its history and the resulting dominance of a single party since the 1970s. If the purpose is to compare and determine whether federalism has the tendency to centralize as is illustrated in these two countries, perhaps it will be useful to note that both the US and Malaysia are classic cases of federalism, that is, "coming together" federalism. The federal system of government was adopted for the purpose of centralization as component units of government have been originally separate. Perhaps it is better to have a comparison of federal countries all over the world and determine the patterns of centralization and decentralization. It might be interesting to see that a centralized federal country is more an exception than the rule, and as mentioned, due to the unique conditions and concomitant political system in place. Especially in new federalism cases, where the federal form of government was adopted after colonialism or democratization, popularly referred to as "holding together" federalism, a thorough study could

[1] "Structuring federalism should allow, in fact, should encourage, collaboration and cooperation across and among different government offices, agencies and levels. Delineation of functions should be drawn up in terms of complementary roles" (Hofmeister and Tayao 2016, p. 133). Herbert Werlin's work (2003) on political elasticity is used to illustrate the importance of flexibility in the political structures.

reveal that it has less cases of centralization. In the first place, when centralization is a feature in a federal system of government, it should not be considered as comparable to centralization in a unitary form of government.

Scholars argue that federalism has primary and secondary meanings, which essentially explains why while centralism is a possibility, it does not and cannot amount to the same centralism in a unitary form of government. The primary definition says that there is a guaranteed division of power between the central government and regional governments (Lijphart 2012). This division of power should not be assumed, however, as some complete delineation of powers but more of a mechanism for complementing functions. This is fundamental especially with the tendency to focus on "exclusive powers" in structuring relations between different levels of government.

The secondary definition, which reinforces the first, provides that there should be strong bicameralism, a rigid constitution, and strong judicial review (Lijphart 2012). This is the specific feature, which sets decentralization in a federal system of government apart from that in the unitary. In a unitary government, any power that is given to the SNG and/or LGU can be easily taken back even without the benefit of a revised law on decentralization. Through a program of government, the central government can take over what is essentially a local government function. In a federal system of government, this second definition serves as the fail-safe that prevents the central government from just taking over what has been already set to be a power of the SNG and the LGU.

These basic features of a federal form of government without doubt makes it considerably better compared to a unitary form. The question, however, is how it could be properly adopted given our unique context. The fundamental significance of the Philippine Federalism Project is that it is an opportunity to restructure government, one that the country has attempted to do several times before but has always failed to get to fruition. In the specific issue of administration, federalism is an opportunity to restructure local governance without immediately and radically changing the current fragmented LGUs. The formation of regional governments is basically a mechanism of amalgamation. It is a strategy that provides space for local political leaders to consider working together in a bigger political arena next to their existing LGU. The need for size as a requisite of capacity is then addressed by this strategy.

The state and the fundamental role of political institutions

We are not lacking with good policies nor are we lacking with good leaders. What we lack is a good mechanism that could allow effective implementation of good policies. What we lack is a good mechanism that will choose not only good leaders but also the right leaders and keep them as good and right while they are in office. What we lack is the institutional mechanism that puts together a system that sanctions the choosing and keeping of the right leaders and the important contingent of effective formulation and implementation of good measures. The democratization that we had recently should have led to the strengthening of state institutions instead of just a change of leaders at the helm, or even the competition for power between old and new elites after the Marcos dictatorship. Only by understanding and reframing state and society relations in the country can there be real and successful reforms. Only by systemic reforms can we put in place a better system of politics and governance for the country.

Abinales and Amoroso (2005) explain that governance is a continual process in which a state imposes authority and society responds to that imposition with collaboration, resistance, or something in-between. Society does not act as one, of course, but in differentiated groups we call 'social forces'. Diversity in society, however, plays right into the heart of this continual process characterized mainly by 'collective action problems' that essentially depends on the state's internal quality as well as on its relations to society

(Lange and Rueschemeyer 2005). With a country that is distinguished by ethnolinguistic groups originally corresponding to geographical areas numbering about 78 languages and 500 dialects (Abinales and Amoroso 2005), or the sheer physical demand of public administration in an archipelago, the challenge to state capacity is, as to be expected, considerable. There should have been a conscious effort to bridge this divide, a conscious determination to devise the right political system and to frame the appropriate governmental structure. We had a number of opportunities to do so but each has a unique context that came short of a conscious effort.

The 1935 Constitutional Convention satisfied the requisites of an elected body to draft a constitution, but we were under the US tutelage then. The year 1971 had a perfect grounding; not only did we have a body tasked to draft a constitution that was elected but also, more importantly by then, we were essentially already an independent country. Of course, there will be an amendment number 6, and for the next 14 years we were under a constitutional dictatorship. The year 1986 could have been the best opportunity to finally structure the right government for us, considering that the president then not only enjoyed tremendous public support but also exercised 'revolutionary' power. The euphoria of EDSA was still so much in the air though that the overall sentiment that shepherded the drafting of a new constitution was not necessarily to envision a well-functioning state, but essentially to prevent another dictatorship. The members of the 1986 Constitutional Commission were all appointed, but the composition very well suggests of a serious effort to represent all the different interests and/or political persuasions in society then. Still, the conflicting provisions in the constitution only show that there was no conscious effort to build and strengthen the right political institutions. The primordial constraint of time also led to manifold incomplete provisions with the self-contradicting phrase "as may be provided by law". If the idea in the first place is to have Congress come up with implementable laws, that is, policies and programs, then the constitution could not have provided so many specific but unimplementable provisions.

Ultimately, the objective is to reengineer public institutions in the country. Reengineering public institutions includes both the political and administrative, i.e., governmental, mechanisms. The federalism project is not only about autonomy, not even the rather simplistic premise of giving more funds to the regions and local governments. It should fundamentally address the main problem of patronage politics and put in place a more effective mechanism that could at the minimum manage the distortion in society caused by the dominance of the elites in both politics and the economy. More than redefining the vertical relationship between the different levels of government and instituting the basic principle of "subsidiarity", the approach should be more comprehensive to include the political, electoral, and political party system. The bureaucracy, the civil service, and the judiciary should be strengthened and made more independent from partisanship, while the economy should allow real competition. These are important complementary reform components that will at the least minimize unintended consequences of giving more power at the regional and local level. Comprehensive studies should be undertaken in this regard to arrive at details that will make up a better political system and form of government for the country that will result in a better set of public institutions.

Without the important details, particularly in consideration of the unique conditions in a country, federalism and/or political decentralization may not result in the good governance that it is intended to achieve. Diamond argues there are also "pitfalls of decentralization" (1999). It may

- entrench or create authoritarian enclaves,
- permit intolerance of certain minorities,
- exacerbate geographical inequalities,
- foster redundancy and inefficiency, and
- stimulate ethnic and nationality consciousness.

In countries where there is considerable disparity between different social classes, these downsides should be considerable. Riggs refers to this as "prismatic society", a term he uses to describe semifeudalistic societies. Braudel describes the same as a social pyramid where everyone from the different social classes performs different tasks that are often characterized by rules and allegiances (as cited in Werlin 2003). This explains why there is no categorical political system that we can simply put in place, the very reason why we had to go through the extensive foregoing discussion. There is no categorical system because it has to be so designed to fit the unique conditions in the country. To fit the country's context, specific components have to be carefully determined and put together in one system. This means it is not a simple choice of which political system or form of government. It has to be one integrated political framework that best suits the country's requirements.

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Comments

Francisco A. Magno

The federalist project is a reform process that addresses the reallocation of power and resources. In federalism, it is important to consider the functional assignments that are supported with sufficient funding. The key challenge would be how to identify these functions and the budget to be allotted in the context of subsidiarity. How do you decide who should handle transboundary problems such as traffic management, disaster risk reduction, and river and watershed governance? Should these collective action problems be addressed at the local level or at the national level?

It is crucial to examine the fiscal requirements for the assigned functions. Federalism is a collaborative governance project. Tax revenues are apportioned among the national government and the various tiers of local government. Under federalism, regional governance is strengthened. Human resources are as important as funding resources. Competent people are needed for the mandates to be properly implemented.

Federalism is a political project. Therefore, we have to locate it in other types of political reforms related to planning and implementation issues in the state bureaucracy and the system of representation in political parties. It has been said that the Philippines is a country that is rich in law but poor in implementation. Can federalism be the answer to better implementation? But other things should be considered. Should local government officials be appointed based on competence or elected through popular vote? Are the local elites with coercive and economic power poised to become regional dynasties? Are there cohesive and well-disciplined national political parties that curb parochial tendencies? But ours is a culture of bossism and political patronage. There is also the issue of replicating the bureaucracy of national government agencies in every region. Do we have enough human and funding resources for that?

There are other questions to consider. Will it foster peace in Mindanao? Will it curb patronage politics? Will it undermine the oligarchy? Will it promote regional inequality? Perhaps answers can be provided by looking at the experiences of other countries.

The importance of federalism as a political project has been emphasized. The ultimate objective is really to reengineer public institutions in the country in a way that should address the main problem of patronage politics. It is crucial that the bureaucracy, civil service, and judiciary be strengthened and made more independent from partisan politics.

Comments

Salma Pir Rasul

In his article, Herwig Mayer mentioned that the fundamental principle is trust. But in the Philippine context, lack of trust is pervasive. Our criminal justice system, our penal laws are so voluminous we try to discover any act or omission that violates this trust. How then can the federalist proposals be adapted in this kind of context?

Essentially in federalism, the states will not be performing equally. The distribution of funds from the federal/central government is part of the equalization process. Does this not promote a culture of mendicancy, wherein you penalize the regional states that perform effectively and efficiently and reward the economies of the region that are weak, ineffective, and inefficient? Therefore, there must be something to balance it, such as reverting certain functions back to the federal state.

The third issue pointed out by all the speakers is human capital. The infrastructure for human capital in most regions is weak. For example, in the Autonomous Region in Muslim Mindanao, even if institutions were set up, there was a lack of mentoring for the bureaucracy, which stays put regardless of which political party gets the vote. The way bureaucracy is ran, it does not have enough effective and efficient bureaucrats. The level management is very weak. A suggestion to strengthen bureaucracy is to have the federal/central authority do a mentoring program that would oversee the middle-level bureaucrats so even if there is a change in administration, their careers would remain effective.

I agree with Paul Hutchcroft that there should really be an electoral reform and political parties should be strengthened. However, the problem is how long should the transition period be. Looking at the Philippines today (e.g., Marawi, crises in other parts of Mindanao), we cannot really afford much time when extremist groups threaten our country. How long do you think effective policies can be put in place to strengthen political parties? Maybe we look at the regional development councils (RDCs), as was mentioned, but RDCs have already been in existence and essentially are limited to mere recommendations. And sometimes, although they have been researched and conditions reflective of the region are looked at, it is hard-pressed to see any single recommendation put forth by the RDCs actually being implemented by the national government.

Edmund Tayao mentioned that the Philippines is essentially a weak state and it is constantly battling with society that is composed of prominent families controlling the economy. However, they should also consider that there are two other institutions that have to be looked at because these help shape what Philippine society, the type of government, and the economy we are in. What is the role of the judiciary? Is it going to be a mere arbiter between the central authority and the state? Or is it going to be supportive of either one? Because most of the federalist models use the judiciary to support the executive/parliament. The second institution is the role of the security sector. Prior to Martial Law, retired generals do not usually engage in civil service. But during the Martial Law and up to now, more and more retired generals join the civil service and actually get elected. The security sector is permeating civilian authority and this mind-set actually shapes policies of governance. Thus it is also important to look at this sector.

To end it, although the Philippine system is far from perfect, what is happening in Marawi is something that should concern us because the longer we delay addressing key issues like the inefficiency of our judicial system and the denial of access to justice, this exacerbates the impoverished condition that most of our population experience. If we do not do something to address it in the immediate future then who knows what will happen to the country.

Open Forum

Dr. Vicente Paqueo from the Philippine Institute for Development Studies (PIDS) inquired about the recent attempt of the House of Representatives to defund the Commission on Human Rights (CHR). Given the political context, he was specifically concerned whether the constitution, in relation to federalism, can protect the citizens' rights, particularly those of the minority groups, and their pursuit of life, liberty, and happiness.

Dr. Herwig Mayer explained that the CHR and the National Commission on Indigenous Peoples (NCIP) each received a budget of PHP 1,000. He said this is of great concern because a House representative threatened NCIP for not loosening up on selling ancestral domain to private investors. He likewise saw a need to protect areas in the constitutional change, not necessarily just about minority groups but also against shameless pocket filling.

Meanwhile, Dr. Paul Hutchcroft explained that constitutional revision may potentially change anything. Thus, there is a risk that it can undermine current provisions that are cherished. However, a plebiscite will also be held and ultimately, it will be the voters' decision.

Dr. Jose Ramon Albert from PIDS also inquired about the functionality in federalism. Given that federalism would be implemented and there would be federal plans, how can planning, monitoring, evaluation, and statistics at the local level be placed into the picture?

Dr. Mayer replied that the regional offices have already made some headway in that area, therefore there is no need to be concerned. Those federal states can handle planning, monitoring, evaluation, and statistics.

Dr. Hutchcroft said he will focus only on the planning aspect. The regional planning process has all kinds of limitations, such as being mere recommendatory bodies, but this can be addressed. The Philippines could contemplate on strengthening the regional process. One example would be the Budget Form C which is being replaced to provide more integrity to regional planning (i.e., local government participation vis-à-vis the national government).

Dr. Edmund Tayao explained that in the current structure, the Statistics Act only considers nationally generated data as national data. This shows a disconnect and possible distrust. There should be coordination with the local government on proper planning. One suggestion would be to have local governments conduct the planning and require them to converge at the regional level to get the data that they need (e.g., waste management, traffic management).

Jade Aquino from the Cordillera Administrative Region explained that in the past two plebiscites, Cordillera had failed to get the yes vote because people were afraid of the potential financial burden. She asked if there was a noticeable increase in the taxes in other countries when they became federal states.

Dr. Mayer expressed that there are 26 federal countries in this world out of 192. Germany has about 140 years' history as a federal country. It is difficult to say that there was an increase in their taxes. Belgium is one of the newest federal states and he is not aware that there was an increase in their taxes. The main issue, however, is the negotiation on the distribution and allocation of funds to different levels. A federal government does not mean there are more funds to be distributed, given that the local government needs to be revamped in a federal setup.

As far as the Cordillera is concerned, Dr. Tayao is unsure if there are existing studies on the increase of taxation. Perhaps it would be better to check cases of states that had different political structures then federalized afterwards.

Henrison Mercado, an online participant, asked whether the country should adopt a certain federal country's model, possibly Germany.

Dr. Hutchcroft explained that too much time is wasted on studying other countries' model. Analysis of the institutional capacity of the country itself is important.

Prof. Solita Collas-Monsod suggested that the Philippines should consider whether federalism is an answer to whatever question is being asked, and that it be answered in the form of a yes or no. If yes, the follow-up question should be—Can it be ready by 2022 without too much unintended consequences?

Atty. Salma Pir Rasul explained that she would consider federalism, in view of the Autonomous Region in Muslim Mindanao's (ARMM) situation, but 2022 might not be sufficient because there are not enough competent bureaucrats (speaking specifically from the ARMM's point of view).

Dr. Tayao is open to federalism, but only if the discussion is on pertinent details and departing from personalities. By 2022, it is feasible for a new constitution to be in place; but whether or not the country has transitioned into federalism is a different story. As far as unintended consequences is concerned, it might be difficult to determine. The details of the reforms need to be presented first.

Dr. Hutchcroft replied that in order to answer that question, he must answer these four questions. (1) Will it bring peace to Mindanao? Better to look at the asymmetrical provisions that are already in the 1987 Constitution. No. (2) Will it curb patronage practices? No. (3) Will it undermine the oligarchy? No. (4) Will it help solve regional inequalities? No.

Dr. Mayer believes that federalism can be considered in certain areas in the Philippines, particularly in the case of Mindanao, but it does not have to be a symmetric federalism. Those that are ready or willing can go for federalism.

Robert Marn from the Philippine Information Agency Radyo asked if federalism were in place, would it be possible for the Kiram Estate to secede from the Philippines?

Atty. Rasul replied that it might not be possible because there are many claimants to being the legitimate *sultan*. On the one hand, there are those with proprietary interests, and on another, there are those claiming to be the sultan of present-day Sulu and other areas.

Dr. Hutchcroft would not comment on that since he is not familiar with the topic. However, he believes there is little attention being paid to the defense and security aspect of federalism. The discussion often ends with the delineation of defense and security being at the national level. Case in point, however, is the United States where there is a strong suggestion that a major foreign power tried to be involved in the elections. Would it also be possible in the Philippines that some foreign power would be interested in who governs in Zambales, Palawan, and other littoral areas in the West Philippine Sea? The impact of 80 percent of the budget being given to some areas instead of defense modernization should also be part of the discussion.

Dr. Mahar Mangahas from the Social Weather Stations inquired how the panel would ask through the polls whether or not the Filipino people agree with federalism?

Atty. Rasul answered that, looking at the present political process, there is a need for a central authority for it to work.

Dr. Hutchcroft replied it would be better to frame in a set of distinct questions: Will federalism fix a, b, c, d. Dr. Mayer agrees with Dr. Hutchcroft and explains that it is about Philippine federalism, not a model somewhere else.

Finally, Dr. Francisco Magno explained that he believes regional governance is important. Whether the cities or the provinces are the fulcrum of development, regional development councils, regional universities serving as think tanks, and other regional public goods should be strengthened if federalism would not be adopted. Strengthen the "missing middle" in public governance.

AFTERNOON SESSION

Designing the Fiscal Features of a Federal System of Government: Autonomy, Accountability, and Equity Considerations

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Abstract

The adoption of a federal system of government was a key campaign promise of President Rodrigo Duterte, a thrust reiterated in his first State of the Nation Address in 2016. It has strong support among the members of the super majority at the House of Representatives (HOR), being part and parcel of proposed constitutional amendments that are currently being deliberated by the Committee on Constitutional Amendments. Further, the PDP Laban draft constitution, which proposes the adoption of a semipresidential federal system of government, was submitted to the same committee on September 27, 2017, while a different version was presented by ABS Party-list Congressman Eugene de Vera and Pampanga Congressman Aurelio Gonzales Jr. on August 2, 2017.

The federalism discourse in the public arena is oftentimes framed along two strands. First, the adoption of a federal system of government is seen as a means to reverse the unequal allocation of resources between what critics call 'imperial Manila' and the rest of the country. Second, advocates view the shift as key to attaining sustainable peace in Mindanao given its potential to secure national unity while protecting regional diversity. The discussion arising from both strands highlights the fact that there is no single federal model, and that the federal model may or may not work in the Philippine context depending on the specific design features of the particular model that is proposed. Given this perspective, this paper focuses on the design options of the fiscal elements of a federal model that will help ensure the realization of potential benefits from adopting a federal system of government.

The economic literature on fiscal federalism suggests that a federal system of government has the potential (1) to increase economic efficiency and societal welfare by bringing government closer to the people, thereby allowing subnational governments (SNGs) to better respond to local needs and preferences, and dampening rent-seeking tendencies of local politicians by promoting interjurisdictional competition; (2) to enhance accountability of lower-level governments to the extent that they have some degree of revenue autonomy (i.e., if they raise a significant amount of revenues from local taxes and user charges) and greater citizen participation in local governance; and (3) to strengthen national unity, helping address ethnocultural conflict to the extent that it accommodates regional diversity. However, the first two of these potential gains are largely a function of the extent of decentralization, and may be secured through greater fiscal decentralization

with or without shifting to a federal system of government. Further, with regards to the third potential benefit, the adoption of a federal system of government does not necessarily prevent the breakup of conflict-ridden states.

Guided by the literature, the paper discusses possible design options along the four pillars of intergovernmental relations: (1) functional or expenditure assignment, (2) tax/revenue assignment, (3) intergovernmental transfers, and (4) subnational government borrowing. These principles are aimed at ensuring that the federal government and SNGs face the right incentives for efficient and equitable delivery of public services, and at enhancing accountability of SNGs to their constituents. The discussion of the same is contextualized by lessons from the country's past decentralization experience under the Local Government Code of 1991.

The paper also provides estimates of the cost of shifting to a federal system of government under different scenarios. Finally, it concludes with the discussion on why adopting a federal system of government should take into account not only the net benefits of the reform but also the preconditions for its success: (1) reform of the party system so as to institutionalize strong political parties that sanction political turncoatism; (2) the lowering, if not the outright elimination, of the high barrier to entry in the political arena, including the presence of political dynasties; and (3) the reduction in the concentration of the power over resource allocation and mobilization in the president (and by extension, the executive branch).

Introduction

The shift to a federal system of government is one of President Rodrigo Duterte's campaign promises and he reiterated this thrust in his first State of the Nation Address in 2016. It has strong support among the members of the super majority at the House of Representatives (HOR), being part and parcel of proposed constitutional revision/amendments that are currently being deliberated by the HOR Committee on Constitutional Amendments.[1] On the other hand, the PDP Laban, headed by Senate President Aquilino Pimentel III, is actively involved in the advocacy and design of a "federalism model" for the Philippines. The PDP Laban draft constitution, which was crafted under the auspices of the PDP Laban Federalism Institute and which proposes the adoption of a semipresidential federal system of government, was submitted to the HOR Committee on Constitutional Amendments on September 27, 2017. Meanwhile, another draft "Constitution of the Federal Republic of the Philippines" was presented by ABS Party-list Congressman Eugene de Vera and Pampanga Congressman Aurelio Gonzales Jr. to the same committee on August 2, 2017.

The federalism discourse in the public arena is oftentimes framed along two strands. First, the adoption of a federal system of government is seen as a means to reverse the "unequal allocation of resources between what critics call 'imperial Manila' and the rest of the country" (Taruc 2016) that has, in turn, resulted in the persistence of wide regional disparities in per capita household incomes, per capita gross regional domestic product (GRDP), and poverty incidence. Proponents of the federal movement point out that the share of the National Capital Region (NCR) in the national government budget is disproportionately large, accounting for over 14 percent of total appropriations under the 2016 General Appropriations Act, for instance, compared to the combined share of the remaining seven regions in Luzon (21%), the aggregate share of the three regions in the Visayas (10%), and the share of the six regions in Mindanao taken together (13%) (Malaya 2016). The cumulative effect of such disproportionately favorable treatment of NCR and its periphery over the years, they note, is reflected in the highly uneven level of economic development across the regions and the persistence of poverty with the "rich regions becoming richer and the poor regions, much poorer" (PDP Laban Federalism Institute 2017). They then argue that

[1] On October 19, 2016, the committee voted to have the 17th Congress constitute itself into a Constituent Assembly for the purpose of amending the 1987 Constitution.

Table 1. Gross regional domestic product (GRDP), per capita household income, and poverty incidence across regions

Region	2015 GRDP			Per Capita Household Income (PHP)		Poverty Incidence of Population (%)			
	In PHP Billion	% Share	Per Capita	1994	2015	1991	2006	2009	2015
NCR	5,048	37.9	389,700	37,070	110,792	7.1	4.7	3.6	3.9
CAR	234	1.8	132,892	15,457	69,814	42.7	26.0	25.1	19.7
I	407	3.1	80,654	14,233	59,704	36.6	25.9	22.0	13.1
II	236	1.8	68,136	15,296	61,731	42.8	26.8	25.5	15.8
III	1,184	8.9	105,026	18,481	73,230	21.1	13.1	13.7	11.2
IV-A	2,061	15.5	140,491	21,875	81,075	22.7	10.3	11.9	9.1
IV-B	204	1.5	68,129	13,076	60,857	44.4	40.6	34.5	24.4
V	281	2.1	48,192	11,227	45,877	54.5	44.2	44.2	36.0
VI	547	4.1	72,006	13,418	55,881	39.6	29.1	30.8	22.4
VII	867	6.5	116,791	12,254	58,621	43.6	35.9	31.0	27.6
VIII	270	2.0	61,711	10,740	49,682	50.0	41.5	42.6	38.7
IX	276	2.1	73,795	10,401	47,344	40.3	45.0	45.8	33.9
X	516	3.9	108,506	12,254	54,468	46.6	39.0	40.1	36.6
XI	564	4.2	114,437	14,713	64,072	39.6	30.6	31.4	22.0
XII	356	2.7	76,698	12,802	48,001	53.3	37.9	38.3	37.3
Caraga	158	1.2	60,552	11,122	50,654	54.3	49.2	54.4	39.1
ARMM	99	0.7	28,262	9,661	26,437	30.5	47.1	47.4	53.7
Philippines	13,307	100.0	131,181	17,564	67,622	34.4	26.6	26.3	21.6

NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao
Source: GRDP from Philippine Statistics Authority [PSA] (2015); Per capita household income based on author's estimates using 1994 and 2015 Family Income and Expenditure Survey public use files from the PSA; Poverty incidence from PSA (various years)

a federal system of government will address this problem by allowing regional or state governments to "retain more of their income" and "channel their own funds toward their own development instead of the bulk of the money going to the national government" (Ranada and Villarete 2016; So 2016). However, closer scrutiny of the provincial level per capita household income from the Family Income and Expenditure Surveys of 1985, 1991, 1994, 1997, 2003, 2006, 2009, and 2015 provides evidence of beta-convergence[2] in 1991–2015 in contrast with the period 1985–1991 prior to the implementation of the 1991 Local Government Code (LGC) (Manasan and Tolin forthcoming). Not only is estimated speed at which the per capita household incomes of the poorer provinces are catching up with that of their richer counterparts faster in the post-LGC period relative to the pre-LGC period, but also the convergence coefficient in latter period is found to be statistically significant while that in the earlier period is not.

Moreover, simply allowing subnational units to keep most of their income may not be enough to undo the huge imbalance in economic and human development across regions at present; nay, it may even worsen the situation given the current wide disparity in the tax base across the different regions (Table 1). This paper highlights the fact that there is no single federal model, and that the federal model may (or may not) work in the Philippine context depending on the specific design features of the particular model that is proposed. To use a cliché, the devil is in the details.

Second, advocates view the shift to a federal system of government as key to attaining

[2] Absolute beta-convergence is said to exist if poorer economies (regions) tend to grow faster than richer ones (Sala-i-Martin 1996). That is, it measures the speed at which poorer regions catch up with richer ones.

sustainable peace in Mindanao given its potential in securing national unity while protecting regional diversity arising from religious, linguistic, ethnic, or cultural differences.[3] However, while Bangsamoro experts continue to support federalism as a solution to the Mindanao conflict, they also recognize that "there are potential pitfalls [from federalism] that may bring more harm than good in our search for [a] sustainable formula for peace in Mindanao. … In pushing for a shift to the federal system which is necessarily national in scope, the majority [of] Filipinos must guard against imposing their will on the minority and in the process violate their [the latter's] right to self-determination. The Moro people and other indigenous groups must always be considered *sui generis*—a class on their own. Thus, a symmetric federal system that fails to recognize the distinctiveness of the minority may not catalyze peace but more conflicts in the future" (Bacani 2009, p. 26).[4] Again, this discussion underscores the importance of paying close attention to the design of the federal model in ensuring its success.

Given this perspective, this paper focuses on the design options for the fiscal aspects of a federal model that will help ensure that the potential benefits from the adoption of a federal system of government are realized. In this regard, the economic literature on fiscal federalism provides some guidance. It suggests a framework that delineates the potential benefits that ensue from the adoption of a federal system of government, as well as the design elements of the fiscal architecture that supports the achievement of these benefits.

This paper then puts forward a possible design option for each of the four pillars of intergovernmental fiscal relations. These design options generally respond to the call for greater local autonomy while paying close attention to accountability and equity concerns. It should be emphasized though that the design options offered in this paper are for the most part illustrative and best characterized as "work in progress". They highlight the challenging task of establishing coherence and internal consistency among the different components of the intergovernmental fiscal relations based on available data on central government and local government unit (LGU) revenues and expenditures, as well as indicators of possible tax bases and expenditure needs across the regions.

Overview of the fiscal federalism framework

The literature on fiscal federalism posits that a federal system of government is likely to yield potential benefits in the form of (1) increased efficiency and, consequently, increased societal welfare; (2) enhanced local accountability; and (3) stronger national unity in the face of regional diversity. First, under a federal system, optimal provision of public services is likely to be achieved if the jurisdiction of the level of government responsible for the financing and delivery of a given public service coincides with the geographic area where benefits of said public service are confined (Olson 1969; Oates 1972). Otherwise, government would tend to underprovide services which has positive benefit spillovers to other jurisdictions, while overprovision may result if lower-level governments are able to secure funding from higher-level governments for projects that only benefit the local jurisdiction, i.e., they will tend to ask for more projects relative to a situation when they have to finance said projects themselves. Also, greater decentralization under a federal system of government would tend to increase efficiency and societal welfare to the extent that it brings government closer to the people, thereby allowing lower-level governments to respond to the local needs and preferences of their constituents (Oates 1972). This tendency is further reinforced through interjurisdictional competition when the population can "vote with their feet" to get the "public services-tax package" that they prefer (Tiebout 1956), thereby dampening the rent-

[3] No less than President Duterte articulated this thought during the first presidential debate held on February 23, 2016 (Inquirer.net 2016), and then again in a speech he delivered on November 30, 2016, five months after winning the presidency (Ramos 2016).

[4] While this article was originally written in 2009, it was republished on the Institute for Autonomy and Governance website on June 1, 2016, attesting to its continued relevance to ongoing federalism debate (Bacani 2016).

Box 1. Distinction between the multitiered unitary system of government and federal system of government

Under a multitiered unitary government, subnational units exercise only the powers delegated to them by the central government (CG) and the latter can unilaterally withdraw these powers. In contrast, the division of powers and allocation of resources between federal government (FG) and constituent units (which may alternatively be called state, regional, or provincial governments) are written/guaranteed in constitution. Neither level of government can unilaterally alter the powers of the other.

Multitiered Unitary System of Government	Federal System of Government
Subnational government units exercise only the powers that the CG chooses to delegate to them; "lower levels of government can be attributed with own political institutions, decision-making powers and resources" (i.e., some degree of self-rule) (Iff and Topperwien 2017, p. 26).	Powers are shared by at least two levels of government (i.e., federal central government and constituent units). Each one has some degree of autonomy in the exercise of powers assigned to them and each one "deals directly with the citizens in the exercise of their powers" (self-rule) (Watts 1996, p. 21).
• The CG can unilaterally withdraw powers delegated to subnational government units.	• Division of powers and allocation of resources between the FG and constituent units (state/regional/provincial governments) are written/guaranteed in constitution.
• Constituent units are not represented in decisionmaking at the CG level.	• Constitutent units are "involved in the decisionmaking at the federal level" through representation of the constituent units in central policymaking institutions (shared rule) (Iff and Topperwien 2017, p. 14).

Source: Adapted from Iff and Topperwien (2017)

seeking tendency of local politicians (Brennan and Buchanan 1977).

Second, the federal system enhances local accountability to the extent that lower-level governments have some degree of revenue autonomy (i.e., if they raise a significant amount of revenues from local taxes and user charges). Increased local accountability also results from greater citizen participation in local governance under a more decentralized setting (Slack 2006; Ivanyna and Shah 2010). Third, the federal system is also seen to have the advantage of addressing ethnocultural conflict as it accommodates regional diversity—religious, linguistic, ethnic, or cultural.

The first two of these potential gains are largely a function of the extent of decentralization. These gains may be secured through greater fiscal decentralization with or without shifting to a federal system of government. Also, countries with a federal system of government are not necessarily decentralized to the same degree, and some of them may even be less decentralized than those with a unitary system of government. (Box 1 summarizes the distinction between a multitiered unitary government and one with a federal system.) For instance, Germany, which is federal, is more centralized than Canada, which is also federal. Moreover, Australia and India, which are federal, are more centralized than Sweden, Norway, and Denmark, which are unitary (Shah 2007a).

With regard to the third potential benefit, the adoption of a federal system of government does not necessarily prevent the breakup of conflict-ridden states. For instance, pre-1971 Pakistan has split up into the present-day Pakistan and Bangladesh.

The fiscal federalism literature (e.g., Shah 1991; Litvack et al. 1998; Bahl 1999; Shah 2007a) also provides guidance in answering the basic questions that are key in crafting the country's fiscal constitution, i.e., the body of rules and regulations that frames intergovernmental fiscal relations, and which are enshrined in the constitution and/or the basic laws of federal governments and multitiered unitary governments (Blöchliger and Kim 2016):

- Which level of government should have the power to define and implement policies in the delivery of public service in specific policy areas? Or, the question of expenditure assignment.
- Which level of government should levy different types of taxes? Or, the question of tax assignment.
- What policy instruments and mechanisms should be used to address the gap in expenditure responsibilities and revenue powers assigned to SNGs and the regional imbalances in the fiscal capacity of SNGs? Or, the question of intergovernmental transfers.
- What rules should be put in place with respect to subnational borrowing to enforce hard budget constraints on all levels of government and ensure the fiscal sustainability of the government as a whole? Or, the question of SNG access to credit and capital markets.

These design principles are aimed at ensuring that the federal government and SNGs face the right incentives for an *efficient* and *equitable* delivery of public services, and enhancing the downward accountability of SNGs to their constituents. These principles are discussed in greater detail below, together with the design option for each of the four pillars of intergovernmental relations for a federal system of government for the Philippines.

Some caveats. The four pillars of intergovernmental fiscal relations (i.e., functional or expenditure assignment, tax assignment, intergovernmental transfers, and subnational borrowing and debt management) are best considered as parts of one system in which "all the pieces must fit together" (Bahl 1999). In this sense, the coherence among these four components of the intergovernmental fiscal arrangements is just as important as the details of the specific functions and taxes assigned to SNGs, the particular configuration of intergovernmental transfers, and the specific form and character of the rules that govern SNG borrowing. Said coherence may be defined in terms of "giving states similar degrees of autonomy in various budget items (taxation, spending, borrowing, etc.)," or in terms of the balance between "a certain level of autonomy with a matching level of responsibility" (Blöchliger and Kim 2016, p. 33). Put another way, the design of specific aspects of this system cannot be done in isolation. "If not assessed and designed as part of a comprehensive framework, these isolated changes may eventually create inconsistencies and imbalances across government levels and undermine the effectiveness of fiscal policy" (Fedelino and Ter-Minassian 2010, p. 31).

Also, the guidance from the fiscal federalism literature in designing the four pillars of intergovernmental relations should not be taken as rigid, one-size-fits-all prescriptions. No one single federalism model may be considered the best in a vacuum. Some aspects of the design principles may, at times, conflict with one another depending on the relative importance one assigns to the various objectives of fiscal federalism (i.e., efficiency, equity, and stabilization) given the specific political and economic circumstances of a country (Bird and Vaillancourt 2006).

Design options for the fiscal features of the proposed federal government

The design options for the critical fiscal elements of a federal system of government offered below do not only take the guiding principles available from the fiscal federalism framework, but are also informed by the lessons from the Philippines' past experience with fiscal decentralization since the enactment of the 1991 LGC. In addition, they are also informed by a review of the extent to which existing federal governments have incorporated the principles from the fiscal federalism literature in their constitutions.

Expenditure assignment

The importance of the distribution of powers between the federal government and the state governments is highlighted by Iff and Topperwien (2017, p. 71), thus, "The distribution of power determines the decisionmaking space of the different tiers of government. … [It] is at the core of the self-rule. The distribution of powers will determine in what fields the federal units have a genuine right to self-rule and can therefore define and implement their own policies."

The basic principle that guides what functional or expenditure responsibilities should be assigned to the different levels of government is attributable to Oates (1972, p. 55): "Each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision." Following this principle, functions and competencies whose benefits are national in scope should be assigned to the federal government. Thus, national defense, foreign affairs, functions related to economic stabilization and macroeconomic management (i.e., monetary policy, currency, and banking; fiscal policy), and functions related to the preservation of internal common market (e.g., regulation of international and interstate trade/commerce) are best assigned to the federal government. At the same time, the economic literature also suggests that functions related to the redistributive role of government be assigned to the federal government (Musgrave 1997). It is argued that generous redistribution programs carried out by subnational jurisdictions are not likely to be sustainable because such programs will tend to result in the in-migration of the poor from other areas, which may prompt them to increase tax rates in response to the pressure to expand these programs—a move that will likely drive away their richer, more mobile residents (Martinez-Vazquez 1999).

In contrast, public services with little or no benefit spillover (i.e., public services whose benefits are local in scope) are best administered and financed by lower-level governments. This principle may be tempered by government's desire to have some degree of uniformity in the delivery of "quasi-public goods" and "merit goods" (e.g., basic education, health, and social insurance) in line with its equity objectives. In this case, while the provision of these goods/services is typically assigned to SNGs because the benefits of these goods/services generally accrue to residents of subnational jurisdictions, the federal government is often involved in setting uniform standards of service that will apply across all jurisdictions (Shah 1991).

Provisions related to expenditure assignment in federal constitutions. Constitutions of countries with a federal system of government typically enumerate (1) the exclusive powers that are assigned to the federal government; (2) the exclusive powers assigned to the states, provinces, or regions; and (3) the level of government which is assigned residual powers (i.e., powers which are not explicitly assigned to either the federal government or the SNGs in the constitution). Some federal constitutions also specify the concurrent and/or shared powers. In particular, the Constitutions of India and Malaysia literally include "lists" of (1) exclusive powers of the federal governments, (2) exclusive powers of the states, and (3) concurrent powers of the federal government and the states.

Also, the level of detail with respect to the division of powers between the federal government and the states varies. In some countries with a federal system of government, the constitution specifies the distribution of powers not only in terms of policy or service areas, but also in terms of legislative-executive powers. For instance, the Constitution of Austria differentiates the policy or service areas in which (1) the federation has powers of legislation and execution; (2) legislation is the business of the federation, execution that of the *Länder*; and (3) legislation as regards principles and uniform regulations is the business of the federation, the issue of implementing laws and execution the business of the Länder.

In principle, assigning powers exclusively to one level of government bolsters its autonomy by giving it the right to define and implement its own policies in the specified area/s of competency. It also provides clarity as to which level of government is accountable and responsible to their citizens for the said function/s (Watts 1996).

The grant of concurrent powers over a given policy or service area to both the federal government and the state governments "establishes parallel competencies" and, by implication, the possibility of parallel legislation and parallel public service delivery systems. In case both levels of government choose to "act based on the concurrent competency," rules have to be put in place to delineate which legislation and/or delivery system will prevail if there is some conflict between them (Iff and Topperwien 2017). Otherwise, coordination issues between the two levels of government would tend to be magnified.

In a number of federal countries, the constitution provides that the legislation of the federal government related to areas of concurrency takes precedence over state legislation, e.g., Australia, Brazil, India, Mexico, and Nigeria (Boadway and Shah 2009). In others, state legislation is paramount, e.g., provincial legislation prevails over federal legislation in Canada in the area of old-age pensions.

As with concurrent powers, shared powers also give both the federal government and the state governments the authority to exercise legislative and/or administrative powers over some broad policy areas/fields. However, in the case of shared powers, each policy area/function is broken down, to the extent possible, into distinct tasks/subcompetencies which, in turn, are assigned exclusively to either the federal government or the state governments.

Concurrent/shared powers may be deemed desirable to balance the potential efficiency gains from the decentralized delivery of a given public service against the attainment of national objectives such as ensuring uniformity and equal access to certain merit goods, or compensating for interjurisdictional spillovers (Boadway and Shah 2009). The use of concurrent powers, instead of shared powers, tends to minimize the need to enumerate in detail the various tasks/subcompetencies that constitute any given shared policy area/field. On the other hand, clearer lines of accountability are more forthcoming with the use of shared powers.

However, there are alternatives to enumerating every subcomponent of each shared policy or service area. First, instead of listing every subcomponent of each shared policy area, the constitution may simply include a provision which defines how the subcomponents of any given policy area will be determined and how they will be assigned to the different levels of governments. Such an approach is especially suitable in the case where the sharing of powers may be defined along national-local dimensions of a broader policy area/field, e.g., national highways versus state highways and provincial roads. Still another way of providing greater clarity when the power over specific policy/service areas is shared by the federal government and the state governments is by giving the federal government the power to legislate national standards (or framework legislation) while assigning to the state governments the power to enact more detailed legislation and to administer the same in a manner that is responsive to the demand of their respective constituencies (Watts 1996). This is the case, for example, in Switzerland (Iff and Topperwien 2017).

The system of administrative federalism practiced in Germany, South Africa and, to a lesser extent, Austria and Malaysia may be viewed as an extreme form of shared powers (Iff and Topperwien 2017). In these federal countries, the power to legislate in certain policy areas/fields is assigned to the federal level while the administration (i.e., power to implement and execute) of the federal legislation is constitutionally assigned to state governments (Watts 1996).

There is also considerable variation in the distribution of functional/expenditure responsibilities between the federal government and the state governments as specified in federal constitutions not only in terms of exhaustiveness of the list of exclusive and concurrent powers, but also in terms of the level of government to which residual powers are assigned. The assignment of significant residual powers to state governments would highlight their autonomy and the limited nature of powers assigned to the federal government, and vice versa. At the same time, the significance of residual powers depends on the comprehensiveness of the enumerated list of exclusive, concurrent/ shared powers. Conversely, the assignment of residual powers becomes less important the more exhaustive the lists of exclusive and concurrent powers are.

In sum. The discussion above necessarily implies that, in practice, there is "no single best assignment" of expenditure responsibilities in terms of the specific functions assigned across different levels of government (Martinez-Vazquez 1999). However, establishing utmost clarity in the assignment of functional responsibilities to the different levels of government is critical if clean lines of accountability are to be established. Also, ambiguity in expenditure assignment is likely to result in either the duplication of efforts in service delivery or underprovision of some services.

Deficiencies in expenditure assignment under the 1991 LGC

At present, national government–local government relations are weighed down by the overlapping, and at times, unclear assignment of functions across various levels of government (i.e., among the national government and the different levels of LGUs), which tends to result in the waste of resources. A cursory reading of the LGC suggests that Section 17 (b) provides an explicit and clear delineation of functions across levels of governments, except perhaps in the area of environment and natural resource management (Table 2). However, Section 17 (c) allows central government agencies to continue to implement devolved public works and infrastructure projects and other facilities, programs, and services, provided these are "funded by the national government under the annual General Appropriations Act, other special laws, pertinent executive orders, and those wholly or partially funded from foreign sources". At the same time, Section 17 (f) allows the national government or the next higher level of LGU to "provide or augment the basic services and facilities assigned to a lower level of local government unit when such services or facilities are not made available or, if made available, are inadequate to meet the requirements of its inhabitants". In effect, Section 17 (c) and (f) obfuscate what initially appears to be a clear-cut assignment of expenditure responsibilities. Gonzalez (1996) goes even further to say that the prevailing regulatory framework effectively permits the existence of a two-track delivery system, where both national government agencies and LGUs can initiate devolved activities (Manasan 2005).

On the other hand, numerous unfunded mandates result in relevant services being delivered either in sufficient quantities or not at all. In either case, the welfare of local communities is adversely affected. The most important of these unfunded mandates refer to the implementation of the salary standardization law and the provision of additional benefits to health workers and social workers under their respective Magna Carta legislations. Moreover, LGUs are expected to provide budgetary support, in the form of either additional personnel benefits or outlays for maintenance and other operating expenditures to many central government agencies operating at the local level like the police, fire protection bureau, and local courts.

Possible design option for expenditure assignment for the proposed federal government

Given the foregoing discussion, the following illustrative design option for the assignment of expenditure responsibilities under the proposed Philippine federal model may be characterized as one that pushes the envelope in favor of a more decentralized regime where exclusive powers assigned to the federal government are very close to the minimum that is consistent with the guiding principles of fiscal federalism (Table 3).

The indicative costs of the assigned functions presented in Table 3 are estimated based on the actual allocation for these functions in

Table 2. Functional assignment under the 1991 Local Government Code

	Provinces	Municipalities	Barangays
Agriculture extension and on-site research services	Agricultural extension and on-site research services and facilities which include the prevention and control of plant and animal pests and diseases; dairy farms, livestock markets, animal breeding stations, and artificial insemination centers; and assistance in the organization of farmers and fishermen's cooperatives, and other collective organizations, as well as the transfer of appropriate technology	Agriculture extension related to dispersal of livestock, poultry, fingerlings, and seedlings; operation of demonstration farms, improvement of local distribution channels, interbarangay irrigation systems, enforcement of fishery laws	Agricultural support services which include planting materials distribution system and operation of farm produce collection and buying stations
Natural resource management services	Enforcement of forestry laws limited to community-based forestry projects, small-scale mining law, and minihydroelectric projects	Implementation of community-based forestry projects which include integrated social forestry programs and similar projects; management and control of communal forests with an area not exceeding 50 square kilometers; establishment of tree parks, greenbelts, and similar forest development projects	
Environmental services	Enforcement of pollution control law	Solid waste disposal system or environmental management system and services or facilities related to general hygiene and sanitation	Services and facilities related to general hygiene and sanitation, beautification, and solid waste collection
Health services	Health services which include hospitals and other tertiary health services	Health services which include the implementation of programs and projects on primary health care, maternal and child care, and communicable and noncommunicable disease control services; access to secondary and tertiary health services; purchase of medicines, medical supplies, and equipment needed to carry out the services herein enumerated	Health services which include maintenance of barangay health center
Local infrastructure services	Infrastructure facilities intended to service the needs of the residents of the province and which are funded out of provincial funds including, but not limited to, provincial roads and bridges; intermunicipal waterworks, drainage and sewerage, flood control, and irrigation systems; reclamation projects; provincial buildings, provincial jails, freedom parks, and other public assembly areas and similar facilities	Infrastructure facilities intended primarily to service the needs of the residents of the municipality and which are funded out of municipal funds including, but not limited to, municipal roads and bridges; school buildings and other facilities for public elementary and secondary schools; clinics, health centers, and other health facilities necessary to carry out health services; communal irrigation, small water-impounding projects and other similar projects; fish ports; artesian wells, spring development, rainwater collectors, and water supply systems; seawalls, dikes, drainage and sewerage, and flood control; traffic signals and road signs; municipal buildings, cultural centers, public parks including freedom parks, playgrounds, and other sports facilities and equipment, and other similar facilities	Maintenance of barangay roads and bridges and water supply systems; infrastructure facilities such as multipurpose hall, multipurpose pavement, plaza, sports center, and other similar facilities
Social welfare services	Social welfare services including programs for rebel returnees, relief operations, and population development services	Social welfare services including child and youth welfare programs, family and community welfare programs, welfare programs for women, elderly, and persons with disability, community-based rehabilitation programs for vagrants, beggars, street children, juvenile delinquents, victims of drug abuse; nutrition services and family planning services	Social welfare services which include maintenance of day-care center
Housing services	Programs and projects for low-cost housing and other mass dwelling		
Other services	Tourism development and promotion programs	Tourism facilities and other tourist attractions, including the acquisition of equipment, regulation and supervision of business concessions, and security services for such facilities	
	Intermunicipal telecommunication services	Information services which include investments and job placement information systems, tax and marketing information systems, and maintenance of a public library	Information and reading center

Table 2. (continued)

	Provinces	Municipalities	Barangays
		Public markets, slaughterhouses, and other economic enterprise	Satellite or public market, where viable
		Public cemetery	
			Maintenance of *Katarungang Pambarangay*
Planning	Adoption of comprehensive land use plan	Adoption of comprehensive land use plan	
Regulatory functions		Regulation of any business, occupation, or practice of profession within its jurisdiction	
		Enactment of integrated zoning ordinances and approval of subdivision plans	

Note: For cities, they are also assigned functions related to transportation and communication facilities in addition to functions assigned to provinces and municipalities.
Source: Section 17 (b) of the Local Government Code

the 2016 General Appropriations Act (Table 4). The exclusive powers of the federal government enumerated in Table 3 correspond to the functions of some 18 agencies, including the constitutional commissions, under the present government structure. On the other hand, the shared powers enumerated in Table 3 correspond to the functions of some 25 agencies. For any given policy area/function (e.g., road infrastructure) that falls under the shared powers category, the estimate of the respective shares of the federal government and regional governments in its total cost is arrived at by sorting the various components of that policy area/function into those whose benefits are national in scope and those that are regional/local in scope.

The combined cost of exclusive and shared powers assigned to the federal government is estimated to be equal to PHP 1,149 billion which is equivalent to 8 percent of the gross domestic product (GDP) (or 51% of the national government budget net of debt service). On the other hand, the combined cost of exclusive and shared powers assigned to regional governments (inclusive of those funded from LGU own-source revenue) is estimated to be equal to PHP 1,299 billion, which is equivalent to 9 percent of GDP (or 49% of the national government budget net of debt service). Unless new sources of revenue are assigned to regional governments and LGUs under the proposed federal model, intergovernmental transfers to SNGs inclusive of their revenue share in federal revenues will have to expand to 59 percent of total collections, from the current 22 percent of national internal revenue taxes.

Tax/Revenue assignment

Expenditure assignment and tax assignment are interrelated. Tax assignment is central to helping ensure that SNGs have access to revenues that they need to finance the expenditures assigned to them. Thus, "finance should follow function" is a well-established principle in fiscal federalism.

In the fiscal federalism literature, the assignment of taxing/revenue powers to different levels of government is guided by the following considerations: (1) economic efficiency, (2) equity, (3) administrative feasibility, and (4) revenue autonomy (Shah 2007a). The economic efficiency criterion is largely anchored on the benefit principle of taxation which states that, to the extent feasible, subnational taxes should be related to the benefits that local taxpayers receive from local services. As a corollary, user charges and fees should finance the services that SNGs provide. Conversely, this implies that SNGs should not be assigned taxes which may be exported to residents of other

Table 3. Illustrative design option for assignment of expenditure for the proposed Philippine federal model

Exclusive Powers of the Federal Government	Exclusive Powers of the Regional Government
Monetary policy, currency, and banking	Supervision of local government units
National defense	Fire protection
Foreign affairs	Early childhood education
Immigration	Water supply, sanitation, and sewerage
International trade	Waste management
Interstate commerce	Road traffic management
Agrarian reform	Parks
Social insurance	Social welfare/assistance
Redistributive programs	
Shared Powers[a]	
Regional planning	Agriculture, fisheries, and aquatic resources
Land use management	Environmental management
Education (basic, TVET, higher)	Natural resource management
Labor and employment	Industry
Health	Tourism
Housing	Road infrastructure[b]
Police	Flood control infrastructure[b]
Science and technology	Transportation and communication
Residual Powers	
Federal government	

TVET = Technical and Vocational Education and Training
[a] For the most part, the role of the federal government in shared powers involves national-level policy development and standard setting but may also involve financing for services with interregional externalities.
[b] National primary roads and flood infrastructure whose benefits are not confined to state boundaries are assigned to the federal government.
Source: Author's illustrative design option

jurisdictions or those that distort the location decisions of firms and households (McLure 1999). From this perspective, taxes on immobile factors (e.g., real property tax) are appropriately assigned to SNGs, while taxes on international and interjurisdictional trade and those on mobile factors are best assigned to the federal government. To the extent that SNGs are assigned functions that provide "generalized benefits or benefits that cannot be closely related to taxes on their beneficiaries" (Martinez-Vazquez et al. 2006, p. 24) and to the extent that consumption (the spending of income) is probably more closely related to the benefits of public spending than is production (the earning of income), "residence-based income taxes are probably superior to employment-based payroll taxes, and destination (consumption)-based sales taxes are better than origin (production)-based ones" (Martinez-Vazquez et al. 2006, p. 25).

Equity considerations, on the other hand, require that the progressive taxes (e.g., taxes on personal income and wealth) be assigned to the federal government which is likewise assigned the expenditure responsibilities related to the redistributive objective of government (Litvack et al. 1998). Meanwhile, the administrative feasibility criterion indicates that taxes are best assigned to the jurisdiction that is able to collect them most efficiently in terms of both collection and compliance cost.

Finally, from the perspective of securing incentives for local accountability to local constituents, the public choice strand of the fiscal federalism literature (e.g., McLure 1999) emphasizes the need to provide subnational units some degree of revenue autonomy. The revenue autonomy criterion requires that each level of government must be assigned sources of "own" revenues at whose level they have the power to control at the margin (McLure 1999).[5] The link between revenue autonomy and accountability is articulated succinctly by Bird (1999, p. 9): "If subnational governments are expected to act responsibly, such governments must be able to increase or decrease their revenues by means that make them *publicly responsible* for the consequences of their actions." A similar sentiment is expressed by Bahl (1999, p. 10): "Voters will hold their elected officials more accountable if local public services are financed to a significant extent from locally imposed taxes, as opposed to the case where financing is

[5] It should be emphasized that while revenue sharing with the central government (e.g., through the internal revenue allotment) may provide LGUs with "own" revenues, this scheme does not provide revenue autonomy because SNGs do not have the power to affect the amount of shared revenues they receive. On the other hand, SNGs are said to have control over their own revenues when they are able to (1) determine the tax rate/s, (2) define the tax base/s, or (3) administer tax collection.

Table 4. Estimate of indicative cost of expenditure responsibilities assigned to federal level and state governments per Table 3

	Exclusive Power	Shared Power	Total	Percent of Gross Domestic Product	Percent of the National Government Budget
Federal government	632.2	516.7	1,148.9	7.9	50.7
Regional government	687.8[a]	611.8	1,299.6	9.0	49.3[b]
Total	1,319.9	1,128.5	2,448.4	16.9	100.0[b]

[a] Inclusive of functions funded from the General Appropriations Act, internal revenue allotment, and local government unit (LGU) own-source revenue
[b] Exclusive of subnational government functions funded out of LGU own-source revenue netted out in computing this ratio
Source: Author's estimates

primarily by central government transfers. The tax must be visible to local voters, large enough to impose a noticeable burden, and the burden must not be easily exported to residents outside the jurisdiction." On the other hand, Shah (2007a, p. 9) argues that revenue autonomy also provides SNGs incentives to allocate their resources more efficiently and effectively: "If subnational governments are not responsible for raising at least some level of their own revenues, they may have too little incentive to provide local public services in a cost-effective way."

Provisions related to tax assignment in federal constitutions. Constitutions of existing federal countries vary relative to the manner by which the taxes assigned to the different levels of government are specified. "Some constitutions are very precise about how and which taxing powers are assigned to different levels of government. Others, by contrast, are vague or simply silent. … In some countries, constitutional voids are filled by legal interpretation" (Blöchliger and Kim 2016, p. 35). For instance, the Constitution of Germany sets out detailed provisions on the assignment of exclusive and shared taxes to the federal government and the Länders. In like manner, the Constitution of Switzerland contains provisions that delineate the taxing powers of the federal government and the canton in some detail. The same is also largely true of the Constitution of India.

In contrast, the only taxing power that is specified in the Constitutions of Australia and the United States (US) refers to the exclusive power of the federal government to impose custom duties and excises. Aside from this, these constitutions assign the federal government unspecified taxing powers while providing that provinces/states will retain all the taxing powers they enjoyed prior to the formation of their respective federation. The Constitution of Mexico, on the other hand, specifies the taxing powers of the federal government but is quiet with regard to the taxing powers of the state. Meanwhile, the Constitution of Belgium provides both the federal government and the communities/regions open-ended taxing authorities; thus, the authority to impose a tax on most subject matters may be considered as a concurrent power.

Related to this, Martinez-Vazquez et al. (2006, p. 25) cautions: "Excessive subnational latitude in the choice of tax bases and in tax administration can create unacceptable complexity and administrative burdens, as well as inequities and distortions in the allocation of resources." For instance, in the US, the courts have had to perform the task of reconciling alternative interpretation of the various constitutional provisions related to taxation.

The constitutions of some federal countries (e.g., Argentina and Germany) contain provisions governing the sharing of the revenues from certain specified taxes between the different levels of government. In contrast, in other countries (e.g., Australia), tax sharing is provided in ordinary law. In some countries (e.g., South Africa and Spain), their constitutions provide for the creation of an independent body tasked to set and adjust tax shares (Blöchliger and Kim 2016).

It is also notable that some constitutions include provisions that state certain important principles of taxation. Such provisions have the potential of providing some clarity in areas where there is lack thereof. For example, Article 127 of the Swiss Constitution says: "Principles of taxation. (1) The main structural features of any tax, in particular those liable to pay tax, the object of the tax and its assessment, are regulated by law. (2) Provided the nature of the tax permits it, the principles of universality and uniformity of taxation as well as the principle of taxation according to ability to pay are applied. (3) Intercantonal double taxation[6] is prohibited."

In sum. As with the assignment of expenditure responsibilities, there is no single best assignment of taxing powers in the sense of which particular taxes are assigned to the different levels of government. Oftentimes, the guidance provided by economic efficiency, equity, and administrative feasibility considerations are not consistent with each other. However, the revenue autonomy criterion appears to be of primordial importance in creating the right incentives for local accountability. Again, as with the assignment of expenditure responsibilities, greater clarity in the distribution of taxing powers between the central government and SNGs is critical.

Deficiencies in revenue/tax assignment under the 1991 LGC

Philippine fiscal decentralization to date is characterized by weak revenue autonomy. The low local tax-to-GDP ratio and own-source revenue (OSR)-to-GDP ratio of all LGUs in the aggregate, as well as their heavy reliance on fiscal transfers, particularly the internal revenue allotment (IRA), is indicative of the low degree of revenue autonomy of the LGU sector in the country during the post-LGC period. As a result, accountability at the local level is likely to continue to be rather weak. Given this, it is not surprising that the *Philippine Development Plan 2016–2020* has reiterated the call for the strengthening of local accountability.

[6] "Double taxation results from the overlapping of different taxation authorities. Consequently, the taxpayer is simultaneously subject to the same or similar taxes on the same tax object by different tax jurisdictions and for the same tax period" (Swiss Federal Tax Administration 2016, p. 8).

Table 5. Own-source revenue and local tax revenues for all local government units (LGUs) combined in pre-1991 Local Government Code (LGC) and post-1991 LGC period, by level of local government

	1985–1991				1992–2016			
	Provinces	**Cities**	**Municipalities**	**All LGUs**	**Province**	**Cities**	**Municipalities**	**All LGUs**
Percent of gross domestic product								
Local government unit own-source revenue	0.14	0.31	0.27	0.72	0.14	0.77	0.24	1.15
Local tax	0.07	0.22	0.18	0.48	0.07	0.62	0.15	0.84
Real property tax	0.06	0.13	0.11	0.29	0.05	0.26	0.06	0.37
Local business tax		0.07	0.06	0.13		0.30	0.07	0.36
Percent of total local government unit tax								
Real property tax	80.5	56.9	58.2	61.0	73.8	41.1	43.3	44.4
Local business tax	0.0	31.9	33.3	27.8		48.2	44.0	42.3
Percent of provinces/cities/municipalities to all local government units								
Local government unit own-source revenue	19.7	42.7	37.6	100.0	12.2	66.7	21.1	100.0
Local tax	15.2	46.8	38.0	100.0	8.7	73.7	17.6	100.0
Real property tax	20.1	43.6	36.3	100.0	14.5	68.3	17.2	100.0
Local business tax		54.1	45.9	100.0		82.1	17.9	100.0
Own-source revenue to total local government unit income ratio	16.2	62.9	47.4	49.5	16.4	54.1	21.8	33.6

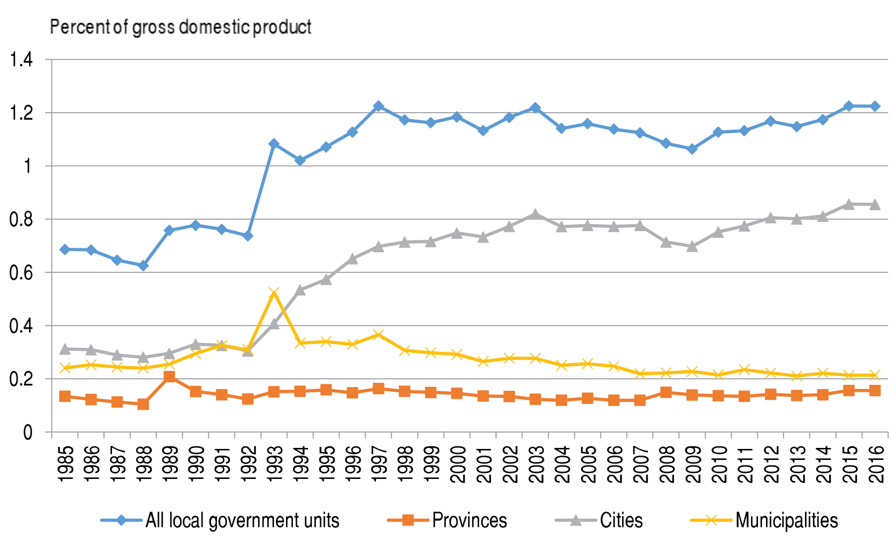
Source: Author's estimates based on data from the annual financial reports on local governments of the Commission on Audit (COA)

The improvement in the OSR effort of LGUs under the 1991 LGC is fairly modest, with OSRs for all LGUs in the aggregate rising by only a slim margin from 0.7 percent of GDP in 1985–1991 to 1.2 percent of GDP in 1992–2016 (Table 5). The increase in LGU OSRs is also more limited when compared to the expansion in the IRA and other external sources of LGU income. Consequently, LGUs in the aggregate have become less self-reliant (and, therefore, less revenue autonomous) with LGU OSR accounting for a smaller proportion of total LGU income in the post-LGC period (34%) relative to the pre-LGC period (50%) (Table 5). Because of this, many analysts (e.g., Manasan 2007; Llanto 2012) give the 1991 LGC a low score in terms of the revenue autonomy criterion so that downward accountability at the local level is likely to be deficient.

Weak local revenue autonomy and high IRA dependency are manifested by all levels of local governments but is more muted in the case of cities. Moreover, local revenue autonomy has deteriorated with the implementation of the 1991 LGC in the case of both cities and municipalities. To wit, the share of OSR in total LGU income of cities and municipalities declined from 63 percent and 47 percent, respectively, in 1985–1991 to 54 percent and 22 percent, respectively, in 1992–2016. While the revenue autonomy of provinces has remained practically unchanged before and after the enactment of the LGC, provinces are the least self-reliant, with their OSR accounting for only 16 percent of their total LGU income (Table 5).

After the initial upswell in the early years of LGC implementation, LGU OSR, in general, and local taxes, in particular, have started to show signs of stagnation, if not deterioration, in 2000–2013, with exception of some slight improvement in 2014–2016. In particular, after increasing almost imperceptibly from 0.14 percent of GDP in 1991 to 0.15 percent of GDP in 1993–2000, the OSR of all provinces in the aggregate deteriorated to an average of 0.14 percent of GDP in 2001–2013 (back to pre-LGC level) before rising to 0.16 percent of GDP in 2014–2016 (Figure 1). In like manner, the OSR of all municipalities in the aggregate increased from 0.33 percent of GDP in 1991 to an average of 0.38 percent in 1993–2000 but dipped to an average of 0.23 percent of GDP in 2001–2016, a level even lower than the average in pre-LGC period. In contrast, the OSR of all

Figure 1. Own-source revenue of local government units as percentage of gross domestic product, by level of local government, 1991–2016



Source: Author's estimates based on data from the annual financial reports on local governments of the COA

Table 6. Taxes assigned to provinces, cities, municipalities, and barangays under the 1991 Local Government Code

	Cities	Provinces	Municipalities	Barangays
On business	x		x	x
On real property	x	x	a	a
On idle lands	x	x		
On transfer of real property ownership	x	x		
On business of printing and publication	x	x		
On franchise	x	x		
On sand, gravel, and other quarry resources	x	x	a	a
On amusement places	x	x	a	
On professionals	x	x		
On delivery vans and trucks	x	x		
On community tax	x		x	b

a = Shares in proceeds of levy of province
b = Shares in proceeds of levy of municipalities/cities
Source: Manasan (2007)

cities as a group increased steadily in the post-LGC period. To wit, it went up from 0.20 percent of GDP in 1991 to a peak of 0.61 percent of GDP in 1992–2013 and subsequently to 0.67 percent of GDP in 2014–2016.

Low local revenue autonomy may be attributed to (1) limited local taxing authority particularly with respect to rate setting, (2) limited revenue productivity of assigned local tax bases, and (3) less than optimal utilization of local taxing powers by LGU officials.

First, LGU tax authority under the 1991 LGC is limited with respect to their power to set tax rates. The LGC or the code explicitly enumerates 11 taxes that LGUs may impose (Table 6). In addition to these 11 taxes, Section 186 of the code also gives LGUs the power to levy other taxes, fees, or charges "on any base or subject not otherwise specifically enumerated herein or taxed under the provisions of the National Internal Revenue Code". In contrast, Section 133 of the LGC contains the common limitations on the taxing powers of the LGUs, i.e., the taxes, fees, and charges that all LGUs are specifically not allowed to levy.

The low score of the 1991 LGC in terms of the revenue autonomy criterion has been primarily ascribed to the limited power of LGUs to set local tax rates (Manasan 2005; ADB and AFD 2012; Diokno 2012). One, the code fixes the tax rate of some of the taxes that are assigned to LGUs (like the Special Education Fund, real property tax [RPT], and the community tax). Two, while LGUs do have some discretion in setting tax rates in the case of other local taxes, the code sets limits (i.e., floors and ceilings) on the tax rates that LGUs may impose. Moreover, the maximum allowable rates appear to be low. For instance, although the LGC raised the ceiling rate for real property taxation at the provincial level from 0.5 to 1 percent, it withdrew the power of municipalities[7] to impose such tax, thus maintaining the effective RPT rate in provincial municipalities at the pre-LGC level (Manasan 1992). In terms of real property assessment levels, the LGC set maximum assessment rates for different classes of property, whereas the levels themselves were fixed in the pre-LGC period. The maximum assessment rates set under the LGC are no higher and often significantly lower than the fixed assessment rates in the pre-LGC period,[8] thereby resulting in the reduction in the effective assessment levels of residential land, all types of buildings, and all types of machinery, leading to a potentially substantial reduction in RPT revenues. Three, the code mandates that tax rates can only be adjusted once in five years and by no more than 10 percent.

[7] Municipalities in Metro Manila are still allowed to impose RPTs.
[8] The LGC also provided for the exemption of residential buildings with market value below PHP 175,000 from real property taxation.

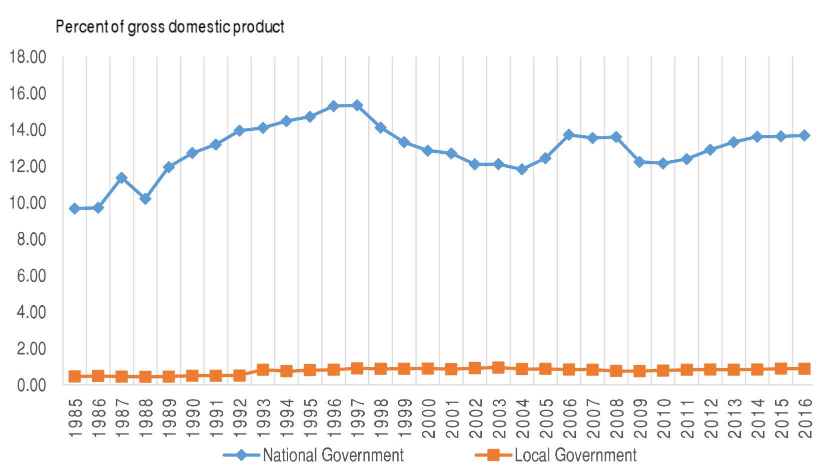
This provision is particularly restrictive in the case of taxes (like the professional tax and the tax on delivery vans and trucks) whose rates are specified in nominal peso terms. Clearly, the resulting adjustments will not allow LGUs to maintain the real value of their revenues.

Second, the revenue productivity of the local tax bases assigned to LGUs under the 1991 LGC is likewise limited. The 1991 LGC authorizes LGUs to levy local taxes on a good number of tax bases (including some which were not allowed under Presidential Decrees (PD) 231 and 464 during the pre-LGC period, like banks and other financial institutions, and printing/publication). However, despite these changes, the size of the tax base outside of the RPT and the local business tax is not significant as the bulk of the productive tax bases still rests with the central government. This point is illustrated starkly in Figure 2 which shows how small LGU tax revenues (which never breached 1 percent of GDP in 1991–2016) are relative to national government tax revenues (which ranged from 12% to 15% of GDP during the same period) when measured in terms of GDP. Thus, the increase in the share of LGUs in total tax revenues of the general government between the pre-LGC and the post LGC period is modest, from 4.0 percent in 1985–1991 to an average of 6.0 percent in 1992–2016.

Only two of the taxes that are assigned to LGUs are actually important in terms of revenue yield. In 1985–1991, prior to the implementation of the LGC, RPT contributed the bulk (61%) of total local tax revenues of all LGUs in the aggregate, followed by the local business tax (28%) while other taxes accounted for the remainder (11%). In 1992–2016, the local business tax gained more importance with the share of local business tax and RPT in total local tax revenues about equal at 44 percent and 42 percent, respectively, while the share of other taxes went up to 13 percent.

The inadequacy of the tax bases assigned to LGUs is most pronounced in the case of provinces and municipalities. The local tax-to-GDP ratio of provinces is not only the lowest among all levels of local government, but has also shown a declining trend in more recent years. To wit, after increasing from 0.07 percent of GDP in 1991 to an average of 0.10 percent of GDP in 1992–2000, local tax revenue of all provinces in the aggregate gradually dipped to 0.06 percent of GDP in 2014–2016, a level that is even slightly lower than its 1991 level (Figure 3). In like manner, after increasing sharply from 0.21 percent of GDP in 1991 to 0.41 percent of GDP in 1993, local tax revenue of all municipalities combined persistently declined to 0.12 percent of GDP in 2016. On the other hand, local tax revenue of cities has exhibited an upward trend from a low of 0.23 percent of GDP in 1991 to an average of 0.69 percent of GDP in 2014–2016. It appears that the LGC has redistributed local tax bases away from provinces and municipalities in favor of cities. Thus, the share of cities in local tax revenues of all LGUs combined increased from 47 percent in 1985–1991 to 74 percent in 1992–2016,

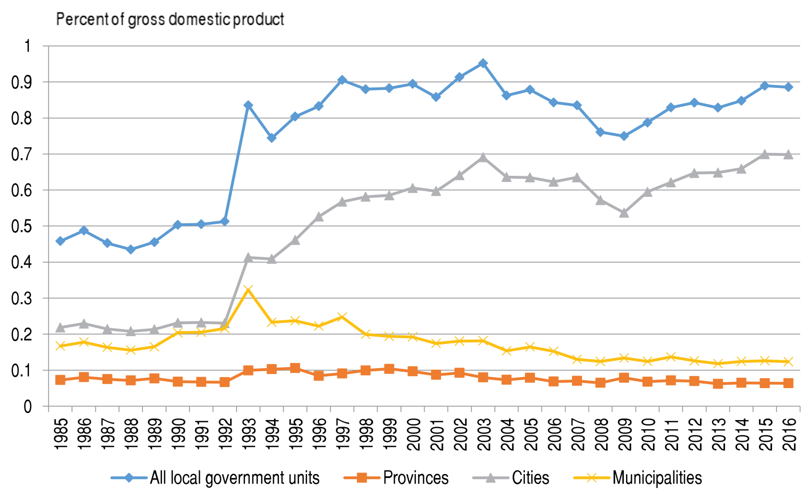
Figure 2. Tax revenues of national government and local government unit as percentage of the gross domestic product, 1991–2016



Source: Author's estimates based on data from the annual financial reports on local governments of the COA and from the Bureau of the Treasury for national government while the share of provinces in local tax revenues of all LGUs combined decreased from 16 percent to an average of 9 percent in 2009–2013, and that of municipalities contracted from 37 percent to 18 percent (Table 5).

It is also notable that there are significant differences in the degree of self-reliance of LGUs across regions (see last column of Table 7), a reflection perhaps of the varying level of economic development across the regions. When all LGUs in a region are taken as a group, LGUs in the NCR, Region IV-A, and Region III are found to be the most self-reliant in 2016, posting OSR–to–total-LGU-income ratios of 78 percent, 41 percent, and 31 percent, respectively. In contrast, LGUs in the Autonomous Region in Muslim Mindanao (ARMM), Region IV-B, and Region VIII are ranked poorly in this regard, with OSR-to-total-LGU-income ratios of 2.1, 13.8, and 14.7 percent, respectively.

Figure 3. Local tax revenues as percentage of gross domestic product, by level of local government, 1991–2016



Source: Author's estimates based on data from the annual financial reports on local governments of the COA

The differences in the revenue performance of provinces, cities, and municipalities may partly be explained by differences in their tax bases as well as differences in their taxing powers. Being more urbanized and having economies that are more market based, the tax base of cities tends to be more buoyant when compared to those of municipalities and provinces. However, the changes in the OSR effort of cities may also be explained by the reclassification (i.e., the conversion) of a significant number of municipalities into cities in more recent years. Manasan (2007) compared the revenue effort of the original 60 cities at the time the code was enacted with the revenue effort of all cities (including those that have been converted from municipalities into cities following the implementation of the code) and found that almost all improvement in the revenue effort of all cities in the aggregate in the last half of the 1990s and early 2000s is due to the latter factor.

Third, earlier studies have pointed out that LGUs have not fully maximized the utilization of the local taxing powers that have been assigned to them under the LGC (Manasan 2005, 2007; Taliercio 2005). First, many of the personnel assigned to the tax division are not technically well equipped for their tasks. Very few of these units have certified public accountants in their rolls, thereby impairing their audit capability. Also, not many LGUs have computerized the assessment and collection functions of their local treasurers office. Two, the LGC prescribes different tax rate schedules for different categories of firms. This situation tends to increase administrative and compliance costs and further strains the capacity of an already weak local tax administration (Taliercio 2005). Three, many LGU officials tend not to fully utilize the tax powers assigned to them. For instance, as of the end of 2015, the schedule of fair market values of real properties was up-to-date in only a small number of LGUs, 22 percent of all provinces and 7 percent of cities.[9] Also, few LGUs have revised their local tax codes since 1992 despite the fact that the rates of some taxes are not indexed to inflation. This development is

[9] The code mandates that LGUs conduct a general revision of market values once every three years with the first one taking effect in 1994.

Table 7. Own-source revenue performance of local government units, by region, 2016 (in PHP million)

Region	Real Property Tax	Local Business Tax	Own-Source Revenue	Own-Source Revenue Percentage Distribution	Own-Source Revenue as Percentage of Total Income of Local Government Unit
NCR	21,288	38,664	74,554	41.1	78.5
CAR	518	527	2,378	1.3	15.5
I	1,445	1,419	6,543	3.6	18.9
II	627	928	3,572	2.0	15.9
III	5,135	4,900	15,397	8.5	31.0
IV-A	10,395	9,215	26,973	14.9	40.7
IV-B	496	669	2,578	1.4	13.8
V	866	1,003	4,044	2.2	16.1
VI	2,369	1,881	9,097	5.0	23.9
VII	2,436	3,895	11,184	6.2	28.3
VIII	527	590	3,590	2.0	14.7
IX	474	607	2,737	1.5	15.4
X	1,413	1,683	6,027	3.3	23.5
XI	1,517	2,245	6,500	3.6	27.0
XII	811	832	3,431	1.9	17.0
Caraga	473	752	2,661	1.5	14.8
ARMM	40	151	337	0.2	2.1
All	50,829	66,028	181,603	100.0	33.8

NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao
Source: Bureau of Local Government Finance

reportedly due to resistance on the part of either the local chief executive or the local *Sanggunian* (or both) to increase the tax rates for fear of a backlash from their constituents during election. It may also be due to the disincentive effect of the IRA distribution formula on local tax effort (Manasan 2007).[10]

Thus, reform in the area of revenue assignment need to be focused on enhancing LGUs' revenue autonomy by assigning them more taxes whose rates and bases they can control. In this manner, LGUs will have the incentive to allocate public funds and deliver services in an effective and efficient manner. Greater downward accountability of SNGs will also be enhanced. Related to this, a number of specific amendments to the 1991 LGC have been proposed including: (1) transferring the authority to approve the schedule of market value (SMV) of real properties (which is used as the basis of real property taxation) from the local Sanggunians to the Department of Finance, while still retaining the autonomy of provinces and cities to set tax rates and assessment levels so as to depoliticize the needed adjustments in the RPT tax base, if the SMVs of all provinces and cities were to be fully updated; (2) simplifying the differentiated and graduated local business tax structure that currently applies to different types of business enterprises to a single flat tax rate not exceeding 1.5 percent of their gross receipts/sales, a recommendation that is justified on the grounds that the different graduated local business tax rate schedule for different types of businesses complicates local tax administration and provides a venue for tax evasion; (3) finding

[10] This finding is based on a regression analysis of per capita local tax revenue on per capita household income (as a proxy for the local tax base) and per capita IRA (as a way to check whether intergovernmental grants stimulate or substitute for local government revenue effort) using panel data for provinces, cities, and municipalities for 1995–2000.

Table 8. Projected subnational government revenues aggregated at the regional government level (in PHP million)

Region	Proposed new taxes			2016 Total Own-Source Revenue (existing under Local Government Code)	Own-Source Revenue Percentage Distribution	Projected Revenues from Old Revenue Sources + New Taxes	Percentage Distribution
	1-percent Personal Income Tax Surtax	Motor Vehicle Registration	Percentage Distribution of New Taxes Combined				
NCR	5,641	5,075	33.5	74,554	41.1	85,270	39.9
CAR	345	240	1.8	2,378	1.3	2,963	1.4
I	609	511	3.5	6,543	3.6	7,663	3.6
II	637	320	3.0	3,572	2.0	4,529	2.1
III	2,348	1,634	12.4	15,397	8.5	19,380	9.1
IV-A	2,283	1,591	12.1	26,973	14.9	30,847	14.4
IV-B	631	103	2.3	2,578	1.4	3,312	1.6
V	358	261	1.9	4,044	2.2	4,663	2.2
VI	985	651	5.1	9,097	5.0	10,734	5.0
VII	1,110	952	6.4	11,184	6.2	13,246	6.2
VIII	571	199	2.4	3,590	2.0	4,360	2.0
IX	494	341	2.6	2,737	1.5	3,572	1.7
X	690	396	3.4	6,027	3.3	7,113	3.3
XI	900	454	4.2	6,500	3.6	7,853	3.7
XII	553	477	3.2	3,467	1.9	4,497	2.1
XIII	351	162	1.6	2,661	1.5	3,174	1.5
ARMM	116		0.4	301	0.2	416	0.2
Philippines	18,624	13,367	100.0	181,603	100.0	213,594	100.0

NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao
Source: Author's estimates

a pragmatic solution to the *situs* issue in the local business tax;[11] and (4) expanding the taxing powers of provinces by allowing them to impose a surcharge on the national personal income tax (Manasan and Avila 2014).

Local taxation and the cost of doing business. More recently, the business sector has called for greater clarity on the taxing powers of LGUs. Section 18 of the 1991 LGC gives LGUs the power and authority to create their own sources of revenues and to levy taxes, fees, and charges, provided they do not impose a specified list of taxes levied by the central government. Perhaps because of their desire to raise revenues on their own, some LGUs have decided to raise permit fees and licenses that are at times deemed to be excessive by the business sector and to impose taxes on bases that are otherwise reserved for the central government. This practice has led to numerous disagreements between the LGUs and the business sector that have oftentimes ended in court and added to the cost of doing business and introduced greater uncertainty in the local business environment.

Possible design option for tax assignment for the proposed federal government

Given this background, the following illustrative design option for the assignment of taxing powers puts emphasis on enhancing the revenue autonomy of subnational units by giving regional governments the power to impose/levy.

[11] While the LGC authorizes all cities and municipalities to levy the local business tax on the gross receipts of all businesses that operate in their jurisdiction, many firms, especially those whose operations are vertically integrated, choose to pay the local business tax on the basis of their consolidated financial statement in the city/municipality where their head office is located. As a result, LGUs which host the plants, branches, warehouses, sales offices, etc. of these vertically integrated businesses find it difficult to secure their rightful share in the local business tax paid by the head office of these businesses. It has also magnified the inequality in the distribution of OSRs of LGUs across regions.

1. A residence-based surtax on personal income tax, say, 1 percent of taxable personal income of residents; this measure is estimated to yield PHP 19 billion a year in 2016 prices.
2. The motor vehicle user's charge (MVUC) and drivers' license fees which are assigned to the central government at present;[12] this measure is estimated to generate PHP 13 billion a year in 2016 prices (Table 8).

It should be emphasized that these two measures need not increase the total tax burden overall. With respect to item (1), the federal government may reduce the personal income tax rate in order to give regional governments more space to exercise more control over their OSR. On the other hand, item (2) is a tax that is currently being collected by the national government. Essentially, the proposal is intended to transfer the power to levy and collect the MVUC from the central government to regional governments without necessarily increasing tax rates. Taken together, the two proposed measures will increase total OSRs of SNGs by 19 percent. Despite this, total projected SNG OSRs inclusive of these two measures represent 19 percent of the total cost of expenditures assigned to SNG, even lower than the 44-percent share of LGU OSRs in total LGU expenditures in 2016.

Table 8 also presents the likely distribution of revenues from these taxes across the different regional or state governments, assuming that their jurisdictions will coincide with the existing administrative regions. Ideally, this table should reflect fiscal capacity which may be measured in terms of potential revenue, *not* actual collections as it does right now.[13]

These figures highlight the importance of further enhancing the revenue autonomy of SNG moving forward. In this regard, the possibility of transferring the authority to levy the excise tax on sin products to regional governments appears to be justified, given that it is the regional governments which bear the burden of the health-care costs related to smoking and the consumption of alcoholic beverages. In like manner, the authority to levy the excise taxes on gasoline and diesel may also be transferred to regional governments which are responsible for maintaining regional and local roads. Needless to say, if the power to levy said taxes are indeed transferred to regional governments, the manner of collecting these excise will have to change—from collection upon removal of products from the factory, to collection at point of final sale. The administrative feasibility of such a change will require further study.

Alternatively, the proposed assignment of expenditure responsibilities shown in Table 3 may be revisited with the end in view of moving some of the functions in the shared powers list to the list of exclusive federal powers.

Intergovernmental fiscal transfers

Intergovernmental transfers of one form or the other[14] are ubiquitous in all federal and decentralized unitary states, generally serving as the primary instrument in the attainment of the following objectives.

- To close the vertical fiscal gap
- To compensate for the disparities in the fiscal capacities and expenditure needs of SNGs
- To assist the federal governments influence SNG spending toward meeting national government objectives in areas of low local priority

[12] The transfer of the MVUC from the central government to regional governments may be justified from the perspective of benefit taxation, since proceeds from the tax are conceivably used to finance the maintenance of regional and local roads.

[13] For Table 8, actual collections of MVUC at the national level are distributed across regions on the basis of the number of registered motor vehicles in the regions. On the other hand, the revenues from the proposed surtax on personal income tax are estimated based on personal household income from the Family Income and Expenditure Survey in the regions.

[14] Intergovernmental transfers may take various forms: (1) unconditional or general-purpose grants, (2) conditional matching grants which delimit the use of the grant to prespecified activities and which require counterpart financing on the part of SNGs, and (3) conditional nonmatching grants which delimit the use of the grant to prespecified activities and which do not require counterpart financing on the part of SNGs. Differences in the form that intergovernmental transfers take result in differences in the way they affect the behavior of subnational units.

- To ensure common minimum standards in quality, access, and level of service in certain service areas

Because intergovernmental transfers create incentives that affect the efficiency and effectiveness of local public service provision and the accountability of SNGs, the importance of their design cannot be overemphasized. In this regard, the fiscal federalism literature indicates the need to use the type of transfer that is consistent with the objective that it is meant to achieve. Conversely, the use of a single type of grant to address multiple objectives will likely result in failure to achieve most of these objectives (Shah 2007a).

One, in many decentralized economies, a *vertical fiscal gap* (which results when the revenue capacity of SNGs as a group falls short of their expenditure responsibilities) is evident. Such gaps have been attributed to one or some combination of the following reasons: (1) inappropriate assignment of responsibilities, (2) centralization of taxing powers, (3) SNGs' pursuit of wasteful tax competition policies, or (4) lack of tax room at the subnational orders due to heavier tax burdens imposed by the national government (Shah 1991). In principle, vertical fiscal gaps are best addressed by expenditure and/or tax reassignment, including tax-base sharing. Moreover, the fiscal federalism literature cautions that while unconditional transfers/revenue sharing may also be considered to rectify the situation, this policy alternative tends to weaken local accountability to taxpayers.

Two, *horizontal fiscal gaps*, or disparities in fiscal capacity, across regions are largely driven by variations in the economic base available to the regions as a result of the uneven level of economic development across regional jurisdictions (Table 1). However, the fiscal capacity of regional governments may also diverge because of differences in their ability to collect taxes as a result of differences in the structure of their local economy (Martinez-Vazquez and Boex 2000). More urbanized jurisdictions whose economies are more market based and dependent on the formal sector may find it easier to collect the business tax than more rural jurisdictions whose economies are less market based and more dependent on the informal sector. On the other hand, variations in fiscal needs across regions may result from cost differentials due to differences in geographic conditions, poverty incidence, and demographic composition.

In the fiscal federalism literature, the use of equalization transfers to compensate for disparities in the net fiscal capacity of SNGs is justified on equity and efficiency grounds. On one hand, the inability of SNGs to "provide comparable levels of public services at comparable rates of taxation" weakens social cohesion and may be politically divisive (Boadway 2007). On the other hand, disparities in net fiscal capacities across regions create incentives for fiscally induced migration which, in turn, results in the inefficient allocation of labor and capital across regions.

Equalization transfers aim to reduce, if not fully eliminate, differences in net fiscal capacities by equalizing fiscal capacity, as measured by "potential revenues that can be obtained from the tax bases assigned to the region if an average level of effort is applied to those tax bases" (Martinez-Vazquez and Boex 2000, p. 15), to a *specified standard* and by providing compensation for differential expenditure needs across regions. As such, equalization transfers provide more resources to regions/states with lower fiscal capacity relative to their expenditure needs. Ideally, the equalization standard will determine the total pool of funds for the transfer as well as the allocation among recipient units. Shah (2007b) further underscores the need for a national consensus on the standard of equalization for the sustainability of any equalization program.

Martinez-Vazquez and Boex (2000, pp. 19–20) enumerate the following principles that should guide the design of equalization grants.

- The transfers should take the form of unconditional lump-sum grants because "the objective of equalization is best served by providing subnational governments with the equivalent of their own revenues, which in principle they can use without any limitations or constraints."

- The transfer should "not create negative incentives for revenue mobilization by subnational governments, neither should they induce inefficient expenditure choices… In order to avoid these negative incentives, it is critically important that the formulas do not try to equalize *actual* revenues and expenditures but instead fiscal capacity and expenditure needs."[15]
- The equalization formula should be simple and transparent so that it is easily understood by all stakeholders and "not be subject to political manipulation or negotiation in any of its aspects".
- Introduction of equalization transfers should include "hold harmless" or grandfathering provisions to ensure that there is no diminution in the amount of unconditional transfers received by all subnational units relative to the pre-reform period.

While there is agreement in the literature that, in principle, equalization transfers should equalize net fiscal capacity of SNGs, the design of equalization transfers *actually* used by different countries shows some variation with respect to the inclusion of the two components of net fiscal capacity in the equalization formula. Some countries like Australia and Switzerland incorporate fiscal capacity and expenditure need in the design of their equalization transfers. In contrast, other countries like Canada and Germany do not include compensation for differences in expenditure need in the design of their equalization transfers. Related to this, Shah (2007b) proposes that, given the practical difficulties in implementing expenditure needs equalization, equalization transfers focus solely on the equalization of fiscal capacity to an explicit standard and that fiscal need compensation be undertaken through specific-purpose transfers for merit goods.

Three, intergovernmental transfers are also used for the purpose of assisting the *achievement of national objectives* when spending authority has been decentralized. There are instances when the central government deems it necessary to set national minimum standards for certain public services which have been assigned to SNGs because these standards serve a national equity objective or assist in the preservation of the internal common market. Education, health, and social welfare services are commonly viewed as merit goods and, as such, there is demand for common minimum standards in quality, access, and level of service. On the other hand, the proper maintenance of the road network may be deemed important to ensure the free flow of goods and services across regional boundaries. The fiscal federalism literature suggests that conditional output-based nonmatching grants with conditions on standards of service and access are most appropriate in ensuring that SNGs do not underprovide merit goods. On the other hand, conditional capital grants with matching rates that vary inversely with local fiscal capacity are considered most suitable to address local infrastructure deficiencies that affect the functioning of the internal common market.

Provisions related to intergovernmental transfers in federal constitutions. Intergovernmental transfers is not a subject matter that is found in the constitutions of all countries with a federal system of government despite the prevalence of vertical and horizontal fiscal gaps. For instance, the US Constitution is absolutely silent about intergovernmental transfers of any kind despite the widespread use of the federal government's power of the purse or spending power to influence state-level governments' spending priorities (Shah 1991). The same is true in Mexico.

The constitutional provisions related to intergovernmental transfers in federal countries also differ with respect to the purpose of said transfers. For example, the provision on intergovernmental

[15] Expenditure needs refer to the amount of funding necessary to cover the costs of providing all the responsibilities assigned to the SNG at a standard level of service provision taking into account "differences in needs arising from different demographic profiles (percent of the population of school age or retired), geographical and climatological conditions, incidence of poverty and unemployment, and so on" (Martinez-Vazquez and Boex 2000, p. 21).

transfers in the Australian Constitution is rather open-ended with the federal-level parliament being given the power to grant financial assistance to any state on such terms and conditions as the former sees fit.[16]

In contrast, the Swiss and German Constitutions contain provisions that differentiate intergovernmental transfers with respect to the objectives that these grants are meant to support. For instance, the German Constitution contains a provision which enables the federal government to extend capital grants to SNGs for economic stabilization purposes.[17] On the other hand, both the German and the Swiss Constitutions have provisions that allow their federal governments to use transfers in the pursuit of national level objectives.[18] Finally, the constitutions of both countries provide for equalization transfers. In the case of Germany, equalization transfers are intended to be distributed in a manner that "will establish a fair balance, avoid excessive burdens on taxpayers, and *ensure uniformity of living standards throughout the federal territory*." In comparison, equalization transfer under the Swiss Constitution are intended to: "(i) reduce the differences in financial capacity among the cantons; (ii) guarantee the cantons a minimum level of financial resources; (iii) compensate for excessive financial burdens on individual cantons due to geotopographical or sociodemographic factors; (iv) encourage intercantonal cooperation on burden equalization; (v) maintain the tax competitiveness of the cantons by national and international comparison" (Article 135). In both cases, the scheme may be considered fraternal in nature in the sense that the transfer payments are financed partly from the contributions of the richer Länders/cantons and partly by the federal government.

Equalization transfers are also guaranteed in the Constitutions of Canada and South Africa. The Constitution of Canada states this guarantee in unequivocal terms: "Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that *provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation*."[19] On the other hand, the Constitution of South Africa requires an independent council for the crafting and implementation of its equalization policy (Blöchliger and Kim 2016).[20]

Meanwhile, the Constitution of Argentina includes a provision which allows its National Treasury to grant subsidies to provinces whose incomes fall short of their ordinary expenses. This is perhaps one of the surest ways to disincentivize sound fiscal management.

Deficiencies in intergovernmental transfer arrangements under the 1991 LGC

The IRA, a formula-based block grant, accounts for the bulk (94%–99%) of all national government transfers to LGUs in 1994–2014. Most of the remaining transfers come in the form of derivation-based special share of LGUs in other taxes, like the excise tax on tobacco products, and the value-added tax and origin-based LGU share in national government income from the exploitation of natural resources. In addition, LGUs also receive sector-specific categorical/matching grants that are administered by a number of sectoral national government agencies and the Department of the Interior and Local Government (DILG).

[16] Australia's fiscal equalization transfers, one of few such transfers in the world that considers both revenue capacity and expenditure needs, is not constitutionally guaranteed but is instead enacted under ordinary legislation.

[17] Article 104b of the German Constitution provides that the federal government may give capital grants to the Länder and municipalities for the purpose of averting a disturbance of the overall economic equilibrium or for promoting economic growth.

[18] Article 104a of the German Constitution provides that when the Länders act on federal commission (i.e., when the Länders implement functions that are inherently the responsibility of the federal government), the federal government is responsible for financing the resulting expenditures. On the other hand, Article 46(2) of the Swiss Constitution provides that the cantons may implement programs that receive financial support from the confederation when there is agreement between the confederation and the cantons that said programs are needed to fulfill specific goals.

[19] This definition is perhaps the closest to the economic definition of equalization transfers.

[20] The Commonwealth Grants Commission was established on 1933 under the Commonwealth Grants Commission Act to recommend how the revenues raised from the goods and services tax should be distributed to the states and territories to achieve horizontal fiscal equalization.

The 1991 LGC increased the aggregate IRA from a maximum of 20 percent of total collections from national internal revenue taxes, three years prior to the current year as mandated under PD 144, to 40 percent of collections of national internal revenue taxes.[21] As such, under the 1991 LGC, the IRA has not only increased but has also become a more predictable and secure source of funding for LGUs that allows them wide discretion in terms of spending allocation.[22]

Nonetheless, a vertical fiscal imbalance is evident after the implementation of the 1991 LGC given the mismatch between tax assignment and intergovernmental transfers on the one hand, and expenditure assignment, on the other (Manasan and Chatterjee 2003). As pointed out earlier, the cost burden of expenditure assignment under the 1991 LGC weighs more heavily on provinces than on municipalities and cities, in that order, while tax assignment tended to favor cities and municipalities, in that order, more than provinces. On the other hand, the distribution of the IRA across the different levels of LGUs under the 1991 LGC favors cities and barangays relative to provinces and municipalities. Under the 1991 LGC, the intertier allocation of the aggregate IRA is 23 percent to the province, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays. In comparison, the share of provinces in the aggregate IRA under PD 144 was 27 percent, that of cities 22 percent, that of municipalities 41 percent, and that of barangays 10 percent. Thus, the share of provinces and municipalities in the aggregate IRA contracted following the passage of the 1991 LGC while that of cities and barangays expanded. Clearly, there appears to be some inconsistency in the design of expenditure assignment, tax assignment, and intergovernmental transfers under the 1991 LGC.

Table 9. Internal revenue allotment as percentage of gross domestic product and of total income of local government units

	1985–1991	1992–2016
Percentage of gross domestic product		
All local government units	0.5	2.2
Provinces	0.2	0.6
Cities	0.2	0.6
Municipalities	0.2	0.9
Percentage of local government unit income		
All local government units	36.7	63.9
Provinces	59.3	79.9
Cities	33.2	44.2
Municipalities	38.2	76.2

Source: Author's estimates based on data from the annual financial reports on local governments of the COA

Because of the higher LGU share in national internal revenue taxes under the 1991 LGC, the IRA rose from 0.5 percent of GDP in 1985–1991 to 2.2 percent of GDP in 1992–2016, and the contribution of the IRA to total LGU income of all LGUs combined went up from 35 percent to 64 percent (Table 9). However, because of the assignment of greater taxing powers to cities and municipalities and the more buoyant local tax base in cities, plus the smaller share of provinces in the aggregate IRA compared to that of municipalities, provinces are more IRA-dependent than cities and municipalities in the post-1991 LGC period.

Another weakness of the IRA design pertains to its inability to sufficiently equalize the net fiscal capacity of LGUs in the sense of providing more resources to LGUs with lower revenue capacity relative to their needs and less to LGUs with greater revenue capacity relative to their needs. This follows from the fact that the IRA distribution formula only takes into account indicators of expenditure needs like population and land area and does not explicitly consider the revenue-raising capacity of LGUs. Note that the IRA is distributed to specific LGUs within each level according to a predetermined formula that

[21] The amount of IRA that was actually appropriated in the pre-Code era was 13 percent of net Bureau of Internal Revenue tax receipts on the average in 1987–1990.

[22] Despite a provision in the 1991 LGC that calls for the *automatic release* of the 40-percent IRA share of LGUs in national internal revenue taxes, the national government failed to either appropriate or release the designated IRA amount in 1998–2004 because of fiscal difficulties faced by the national government. However, after two Supreme Court rulings that supported the LGU position, one in 2000 and another one in 2004, a law was passed in 2006 stating that, henceforth, the IRA will be automatically appropriated.

is based on population (50%), land area (25%), and equal sharing (25%).[23] There is also some evidence that the IRA distribution formula was counterequalizing in the case of provinces and municipalities but was weakly equalizing in the case of cities (Manasan 2003). This finding is still generally supported by analysis done for this study using more recent data.[24]

Finally, there is widespread agreement among LGU officials that the share of LGUs in national taxes is not enough for them to deliver the basic services that they are responsible for. Thus, there are proposals to increase the IRA share from the current 40 percent of national internal revenue taxes to as much as 50 percent of all national taxes. Expectedly, said proposals are being opposed by the fiscal oversight agencies because of fears that they will weaken national government control over the fiscal aggregates even while doubts have been raised as to how well LGUs have performed in delivering the services assigned to them (Diokno 2012).

The most important reform in the area of intergovernmental transfers, from the perspective of the country's past experience with decentralization, pertains to the need to introduce a new transfer mechanism in the form of an equalization grant that shall take into account the disparities in the revenue-raising capacity or revenue potential of LGUs in line with their expenditure needs.

Considerations in the design of intergovernmental transfers under the proposed federal government

If the proposed design option for the assignment of expenditure functions is as outlined in the expenditure assignment section of this paper, and if the proposed design option for the assignment of taxing powers is as discussed in the tax/revenue assignment section, then the vertical fiscal gap is estimated to be about PHP 1,086 billion, 84 percent of the total expenditure needs of SNGs, or 57 percent of total revenues from national government internal revenue taxes in the current year, or 7.5 percent of GDP (Table 10). It should be emphasized that this figure is inclusive of the amount that is currently distributed to LGUs in the form of the IRA.

The estimates of the expenditure needs in Table 10 refer to actual expenditures of LGUs in the case of old SNG expenditure functions. In the case of new SNG expenditure functions which are proposed to be reassigned to regional governments under a federal setup, the estimates are based on actual aggregate spending of the central government at present which is distributed to the different regions using some allocation factor like population, etc. Admittedly, this approach is far from ideal and should be treated as indicative only.

It is notable that the assignment of taxing powers to SNGs (i.e., regional governments and LGUs) discussed in the expenditure assignment section is still limited relative to the assignment of functional responsibilities to SNGs discussed in the tax/revenue assignment section, such that *not a single one* of the 17 regions would be self-sufficient. To be sure, the indicative estimate of the fiscal gap for NCR is smallest at PHP 15 billion per year, or less than 1.5 percent of the aggregate fiscal gap. However, while estimates of the fiscal capacity of Region IV-A and Region III are high, ranking second and third after NCR, estimates of their expenditure needs are considerably higher than those of the other regions. Consequently, the indicative estimates of the fiscal gap for these two regions are ranked second and third after the ARMM.

The large variations in the indicative estimates of SNG expenditure needs and SNG revenue capacity in absolute terms (Table 10) and in per-capita terms (Table 11) highlight that one of the more demanding tasks at the technical level in designing the fiscal features of the proposed federal government involves the design of the equalization transfer. Otherwise, preexisting inequities in the level of economic development across regions may actually worsen with the introduction of the federal system of government.

[23] In contrast, the weights used under PD 144 were: population (70%), land area (20%), and equal sharing (10%).

[24] When 2012 data are used, the distribution of the IRA across individual cities and municipalities was found to be counterequalizing. On the other hand, the same data set shows that the distribution of the IRA across provinces is weakly equalizing.

SNG borrowing

Subnational borrowing is a primary source of finance for local infrastructure which is critical for the delivery of local services. This is so because financing local infrastructure from local taxes and other forms of recurrent revenues tends to be inefficient for a number of reasons. First, if SNGs have no recourse but to finance local infrastructure from their recurrent revenues, the lumpy nature of most infrastructure investments means the amount of resources needed to finance the same is typically too large to be adequately sourced from their recurrent revenues in any given year. Thus, this situation would tend to result in the underprovision of local infrastructure as local communities wait for several years until their SNGs have accumulated enough savings before they are able to access and enjoy the benefits from these capital investments. Also, given the close association between infrastructure investment and economic growth, the underprovision of local infrastructure necessarily constrains local economic growth and development. Second, because the benefits from infrastructure investments are spread out over several years, borrowing allows for a more equitable way of financing long-lived infrastructure investments (i.e., those with long life spans) as it provides a venue for matching the economic life of the investment with the maturity of the loan. As such, the cost of infrastructure services is essentially paid for by those who use them over the entire life span of the investment. Third, SNGs which access the credit and capital markets are necessarily exposed to the discipline of the market place as banks and other financial institutions subject them to rigorous creditworthiness

Table 10. Indicative estimates of SNG expenditure needs and SNG revenue capacity

	Subnational Government Expenditure Need (in PHP million)			SNG Revenue Capacity	Fiscal Gap[b]	
	New SNG Expenditure Functions	Old SNG Expenditure Functions[a]	Total SNG Expenditure Need		Level (in PHP million)	Percent Distribution
NCR	54,970	45,252	100,222	85,270	-14,952	1.4
CAR	14,427	18,210	32,637	2,963	-29,674	2.7
I	31,372	33,967	65,340	7,663	-57,676	5.3
II	25,852	31,611	57,463	4,529	-52,933	4.9
III	60,811	58,121	118,932	19,380	-99,552	9.2
IV-A	72,397	62,479	134,876	30,847	-104,030	9.6
IV-B	23,664	26,010	49,674	3,312	-46,362	4.3
V	37,914	34,781	72,695	4,663	-68,031	6.3
VI	46,528	48,044	94,573	10,734	-83,839	7.7
VII	44,465	45,662	90,127	13,246	-76,880	7.1
VIII	32,185	36,225	68,410	4,360	-64,050	5.9
IX	25,383	28,049	53,432	3,572	-49,860	4.6
X	32,538	38,371	70,909	7,113	-63,796	5.9
XI	32,720	39,439	72,158	7,853	-64,305	5.9
XII	30,680	33,641	64,321	4,497	-59,823	5.5
Caraga	19,556	22,550	42,106	3,174	-38,932	3.6
ARMM	26,366	85,340	111,707	416	-111,290	10.2
Philippines	611,828	687,753	1,299,580	213,594	-1,085,987	100.0

SNG = subnational government; NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao
[a] refers to local government unit expenditure responsibilities under the Local Government Code
[b] inclusive of the amount that is now distributed in the form of internal revenue allotment
Source: Author's estimates

Table 11. Indicative estimates of per-capita subnational government expenditure needs and per-capita subnational government revenue capacity (in PHP)

	Subnational Government Expenditure Need			SNG Revenue Capacity	Fiscal Gap	Percent Distribution
	New SNG Expenditure Functions	Old SNG Expenditure Functions[a]	Total SNG Expenditure Need			
NCR	4,269	3,514	7,783	6,622	-1,161	0.1
CAR	8,378	10,575	18,953	1,721	-17,232	1.6
I	6,242	6,758	13,000	1,525	-11,475	1.1
II	7,490	9,159	16,649	1,312	-15,337	1.4
III	5,421	5,181	10,602	1,728	-8,874	0.8
IV-A	5,022	4,334	9,357	2,140	-7,217	0.7
IV-B	7,986	8,777	16,763	1,118	-15,645	1.4
V	6,540	6,000	12,540	804	-11,736	1.1
VI	6,174	6,375	12,549	1,424	-11,125	1.0
VII	6,011	6,173	12,184	1,791	-10,394	1.0
VIII	7,249	8,159	15,407	982	-14,425	1.3
IX	6,993	7,727	14,720	984	-13,736	1.3
X	6,939	8,183	15,121	1,517	-13,605	1.3
XI	6,687	8,060	14,746	1,605	-13,141	1.2
XII	6,750	7,401	14,151	989	-13,162	1.2
Caraga	7,531	8,684	16,215	1,222	-14,993	1.4
ARMM	6,973	22,569	29,541	110	-29,431	2.7
Philippines	6,059	6,811	12,870	2,115	-10,755	1.0

SNG = subnational government; NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao
[a/] refers to local government unit expenditure responsibilities under the Local Government Code
Source: Author's estimates

assessment and reporting requirements, thereby strengthening fiscal transparency and public financial management (Liu 2008).

However, SNG borrowing is associated with risks related to fiscal distress and fiscal insolvency, which may result from excessive or inappropriate local government debt accumulation. Excessive borrowing by SNGs results in adverse externalities not just on the federal government but also on other SNGs in the form of higher interest rates and higher risk premiums on government debt/bonds (Fedelino and Ter-Minassian 2010).

In principle, fiscally unsustainable behavior of SNGs can be avoided if they face hard budget constraints. If the credit market is functioning properly, the risk of excessive borrowing by SNG is averted even if SNGs have full borrowing autonomy. This occurs as the credit market ensures that only creditworthy SNGs will be able to borrow and only to the extent that they have the capacity to service their debt. However, when the market players perceive a lack of credible commitment on the part of the central government not to bail out SNGs in fiscal distress, then market discipline breaks down. On the one hand, financial institutions do not have the incentive to diligently apply prudent creditworthiness tests when they evaluate SNG loan applications. On the other hand, SNGs will have the incentive to spend beyond their means and borrow excessively.

The credit market's bailout expectations are driven by (1) previous history of actual central government bailouts and/or (2) the extent of the revenue autonomy of SNGs. The first point is obvious. If the central government has a history of assuming the debt of fiscally weak

SNGs in the past, then the market will come to expect that they will behave in the same manner in the future. Second, the political economy fiscal federalism literature suggests that bail expectations are strong when SNGs rely on revenue-sharing and intergovernmental transfers rather than on local taxes in financing local spending. Rodden (2006, p. 12) expounds on this point further: "When a highly transfer-dependent government faces default and must close schools and fire stations or fail to deliver health or welfare benefits that are viewed as national entitlements, the eyes of voters and creditors turn quickly to the center for a solution, even if the fiscal crisis was actually precipitated by bad decisions at the local level. If local governments believe that the center's role in financing them will cause the political pain of default to be deflected upward, this affects not only their beliefs about the probability of a bailout, but also reduces their own disutility of default." …. Thus, "intergovernmental grants are at the heart of the commitment problem." … "When the link between taxes and benefits is distorted or broken, as is the case with intergovernmental grants, voters are less likely to sanction overspending by politicians. Intergovernmental grants create the appearance that local public expenditures are funded by nonresidents."

Given this perspective, the guidance from the fiscal federalism literature on SNG access to the credit and capital market may be summarized as follows.

- The first best approach to the issue is to increase the revenue autonomy of SNGs, giving them more independent taxing authority. In this manner, the efficiency and accountability gains from more decentralized spending and more autonomous subnational borrowing will be more forthcoming.
- A strong commitment on the part of the central/federal government not to bail out fiscally distressed SNGs and not to guarantee SNG borrowing is needed to help ensure fiscal discipline in all levels of government. The no-bailout rule may be reinforced by the institution of insolvency frameworks that will specify the policies and mechanisms that will apply in the event of SNG bankruptcy.
- Perhaps in response to the subnational debt crises in a number of countries (e.g., Brazil, Mexico, India, and Russia during the 1990s), multilateral agencies (e.g., World Bank, International Monetary Fund [IMF]) have advised decentralized governments, particularly those where taxation is not, or only weakly, decentralized, to strengthen the regulatory frameworks for SNG debt financing. These frameworks generally include fiscal rules or *ex ante* borrowing regulations which "may take the form of quantitative ceilings on borrowing, debt, or debt service of subnational governments (often specified in relation to these government revenues, as in Brazil and Colombia); or of procedural rules relating to subnational governments' budget processes. These rules may be embodied in national legislation (e.g., Brazil and Spain) or in subnational government constitutions or laws (e.g., some states of the US and some Canadian provinces). The effectiveness of such rules depends on their specificity, comprehensiveness of coverage, and most important, the degree of political commitment to their observance and enforcement. The design of the rules also matters, particularly clear specification of appropriate escape clauses (that is, legal provisions that would waive the application of the fiscal rules under well-specified circumstances, such as a national disaster) and of credible sanctions for noncompliance" (Fedelino and Ter-Minassian 2010, pp. 57–58).

Related to this, Boadway and Shah (2009, p. 426) argue that "fiscal rules are neither necessary nor sufficient for fiscal discipline. However, fiscal rules accompanied by 'gatekeeper' intergovernmental councils or committees provide a useful framework for fiscal discipline and fiscal policy coordination for countries with fragmented political regimes." On the other hand, Blöchliger and Kim (2016, p. 43) point out that "constitutional fiscal rules are more difficult to amend and may entail high reputation costs for the government if breached."

- One of the fiscal rules related to SNG budget processes mandates balanced budgets net of public investment or, alternatively, that borrowing is allowed only for long-term public capital investments (sometimes referred to as the "golden rule"). Many countries (e.g., Germany, Brazil, India, and Russia) have enacted laws to this effect. On the other hand, the South African Constitution prohibits borrowing for consumption expenditure (South Africa National Treasury 2001 as cited in Liu 2010).

Provisions related to SNG borrowing in federal constitutions. The adherence to the golden rule (i.e., borrowing for the sole purpose of making capital investments) is specified in the constitutions of some federal countries. This is true, for example, of Mexico (Article 117-viii, paragraph 2), Brazil, except when authorized otherwise by supplemental or special appropriations for a precise purpose and approved by an absolute majority of the Legislature (Article 167-iii), and South Africa as noted above.

With regards to provisions related to federal government bailout of SNGs' debt, "the Brazilian and Spanish Constitutions forbid them, while those of Argentina and Germany enable them, … And, although, some fiscal constitutions do not contain explicit bailout provisions, they offer alternatives such as federal borrowing guarantees which are akin to an implicit bailout (e.g., Pakistan)" (Blöchliger and Kim 2016).

The treatment of SNG access to borrowing in federal constitutions varies from country to country. For instance, the Constitution of Mexico does not allow the states to borrow directly or indirectly from foreign sources or in foreign currency (Article 117-viii, paragraph 1). In contrast, the Constitution of Pakistan allows provinces to borrow from domestic and international sources within such limits as may be fixed by provincial legislation (Article 167-1&4). Meanwhile, the Constitution of Malaysia provides that states may borrow only from the federation or from a bank or other financial source approved by the federal government, and subject to such conditions as may be specified by the federal government and only under the authority of a state law (Article 111). In like manner, in Spain, the state and the self-governing communities must be authorized by law before they can issue bonds or contract loans (Section 135-3).

The constitutions of a good number of federal countries include references to balanced budget rules or the like. For example, the Constitution of Germany provides that the budgets of the federation and the Länder shall in principle be balanced without revenue from credits (Articles 109-3 and115-2). Similarly, the Constitution of Switzerland states that the confederation shall maintain its income and expenditure in balance over time (Article 126-1). The Constitution of Austria includes a somewhat less prescriptive, more aspirational provision: "The Federation, the Länder, and the municipalities must aim at the securement of an overall balance and sustainable balanced budgets in the conduct of their economic affairs" (Article 13-2).

Finally, constitutional provisions that call for the enactment of legislation that would set debt/deficit limits and other types of fiscal rules are also evident in the constitutions of some federal countries. This is the case in Mexico (Article 73-3), Brazil (Article 52), and Spain (Article 135).

Deficiencies in SNG borrowing framework under the 1991 LGC

The 1991 LGC liberalized LGUs' access to the credit and capital markets. More specifically, the 1991 LGC gives LGUs the power to borrow from government banks, *domestic* private banks, and other lending institutions for the purpose of financing the construction, installation, improvement, expansion, operation, or maintenance of public facilities, infrastructure facilities, housing projects, the acquisition of real property, and the implementation of other capital investment projects (Section 297). Under PD 752 of 1975, which governed LGU credit finance in the pre-1991 period, LGUs were only allowed to borrow from government financial institutions. Provinces, cities, and municipalities are also allowed to issue bonds, debentures, securities, and other obligations to finance self-liquidating, income-producing development or livelihood projects (Section 299), but under PD 752 only provinces and cities were given this power. Moreover, the 1991 LGC incorporated relevant provisions of Republic Act (RA) 6957 (Build-Operate-Transfer Law) and authorized LGUs to enter into public-private partnership arrangements for the financing, construction, operation, and maintenance of any financially viable infrastructure facilities (Section 302).

The regulatory framework governing subnational debt in the Philippines is largely oriented toward the enforcement of ex ante rules and procedures that apply before LGUs are actually able to access the credit market. However, it does not include *ex post* remedies, i.e., procedures to work out cases of fiscal distress and insolvency. Thus, the system may be described as one that is focused solely on the prevention of borrowing default and fiscal distress but one that is extremely weak in mitigating their ex post impact (Manasan 2015).

Statutory ex ante rules. The regulation of LGU debt in the Philippines operates largely through ex ante fiscal rules for LGUs that are defined in the 1991 LGC and take two forms: (1) balanced budget constraint and (2) cap on debt service capacity.

Local governments in the Philippines are subject to some form of the balanced budget constraint (golden rule), albeit somewhat weaker relative to those in other countries. One of the fundamental principles of local fiscal administration set forth in Section 305 of the LGC says: "The local government unit shall endeavor to have a balanced budget in each fiscal year of operation" (Section 305 - m).

The LGC also provides that the aggregate amount appropriated in the budgets of LGUs for any given fiscal year shall not exceed the estimates of income (Section 324). Taken together, these two provisions of the code have generally been interpreted to mean that proposed and approved budget appropriations for current operating expenditures during any given fiscal year shall not exceed current revenues in that year. In other words, the operating fiscal balance or current fiscal balance (i.e., current revenues less current expenditures) is not allowed to be in deficit.

For many, these provisions have also meant that LGU borrowing can only be undertaken to finance investment expenditure. This view is further reinforced by the Updated Budget Operation Manual which includes borrowings as one of the income sources that has to be estimated as part of budget preparation and which specifies that the proceeds from borrowings are to be used to finance the development of capital projects (DBM 2005).

However, Section 296(b) of the LGC (General Policy on Credit Financing) says: "A local government unit may avail of credit lines from government or private banks and lending institutions for the purpose of stabilizing local finances."[25] This provision implies that LGUs may also borrow to bridge short-term cash flow shortfalls that may result in an actual current operating fiscal deficit.

On the other hand, Section 324(b) of the 1991 LGC provides that appropriations for debt service shall not exceed 20 percent of LGUs' regular income. This is translated into a ceiling for borrowing capacity by the Bureau of Local Government Finance (BLGF). Enforcing this

[25] Unlike the 1991 LGC which poses no restrictions on LGU borrowing for the purpose of stabilizing LGU finances, PD 752 limited the size of such borrowing to not more than 15 percent of their regular income (or roughly equivalent to two months' worth of regular LGU income) and required that the same be paid in full in the first quarter of the year immediately following the year when the loan was secured.

provision is at the core of central government control of LGU borrowing in the Philippines as can be seen below.

Central government administrative and procedural controls. The current regulatory system in the country also employs a number of additional central control mechanisms which cut across five central agencies, namely, BLGF, *Bangko Sentral ng Pilipinas* (BSP), DILG, Commission on Audit (COA), and Department of Finance. Changes in the procedural and documentary requirements put in place to enforce the ex ante fiscal and monetary rules outlined in the LGC and the New Central Bank Act[26] that were instituted in 2012 have made the regulatory regime governing LGU borrowing more complicated and burdensome. Prior to 2012, central government controls over LGU access to the credit market were limited solely by the BLGF's issuance of the Certificate of Debt Service Capacity and the Certificate of Borrowing Capacity. In April 2012, new central government regulations on LGU access to loans were put in place which involve more documentary requirements from more central government agencies.

For instance, starting in 2012, after securing the Certificate of Debt Service Capacity and Certificate of Borrowing Capacity from the BLGF, LGUs are required to obtain a Monetary Board opinion before their loans can be released by the lending institution. Furthermore, the BLGF requires LGUs to have a Seal of Good Housekeeping from the DILG, audit certificates from the COA showing no adverse findings in the last three years, and a certification from lenders that it will not require LGU deposits as compensating balance for the loan. This shift toward a more restrictive regulatory regime apparently came about because of concerns with poor governance on the part of both LGUs and lending institutions (Manasan 2015).

Trends in LGU borrowing. Concomitant with the enhancements in LGU access to the credit and capital market under the 1991 LGC, LGU borrowing for all LGUs combined rose more than tenfold from a miniscule 0.01 percent of GDP in 1985–1991 to an average of 0.14 percent of GDP in 1992–2013 (Table 12). Also, the contribution of borrowing to the financing of capital investments rose from 5 percent in 1985–1991 to 24 percent in 1992–2013 for all LGUs in the aggregate.

Although borrowings of all levels of government increased markedly in the post-1991 LGC period, the growth in the borrowings of cities was more pronounced compared to that of provinces and municipalities (Figure 4). Thus, the share of cities and municipalities in total LGU borrowing expanded from 38 percent and 11 percent, respectively, in 1985–1991, to 49 percent and 24 percent in 1992–2016, while that of provinces contracted from 51 percent to 27 percent (Table 12).

However, the overall level of LGU indebtedness in the Philippines at 0.6 percent of GDP in 2002–2016 (Table 13) remains low not only when viewed relative to that of other countries[27] but also relative to the high unmet need for LGU capital spending that is suggested by its low levels of capital spending. This is worrisome considering the close association between capital spending and LGU borrowing (Figure 5). The low demand for LGU debt in the Philippines has been attributed by Liu et al. (2013) to a number of factors that includes, among others, (1) the major role that national government agencies continue to play in the delivery and finance of devolved services, (2) the dependence of many LGUs on "pork barrel" of legislators to finance local projects, (3) the low fiscal capacity of poorer LGUs to leverage borrowings, and (4) the weak technical capacity to develop projects suitable for credit

[26] Section 123 of the New Central Bank Act (RA 7653) provides that "whenever the Government (including all its political subdivisions and instrumentalities) contemplates borrowing from within or outside the Philippines, the prior opinion of the Monetary Board shall be sought with regard to the probable effects of the proposed operation on monetary aggregates, price levels, and the balance of payments." While the law has been in effect since 1993, the BSP did not enforce this requirement with respect to LGU loans until 2012, when it issued a circular requiring all LGU borrowings to secure a Monetary Board opinion before loan transactions can be processed (Bangko Sentral Circular No. 769, Series of 2012).

[27] Subnational debt outstanding was estimated to be equal to 5.0 percent of GDP on the average for a sample of 20 developing and transitioning countries in 2006 (Petersen and Soriano 2008 as cited in Liu et al. 2013).

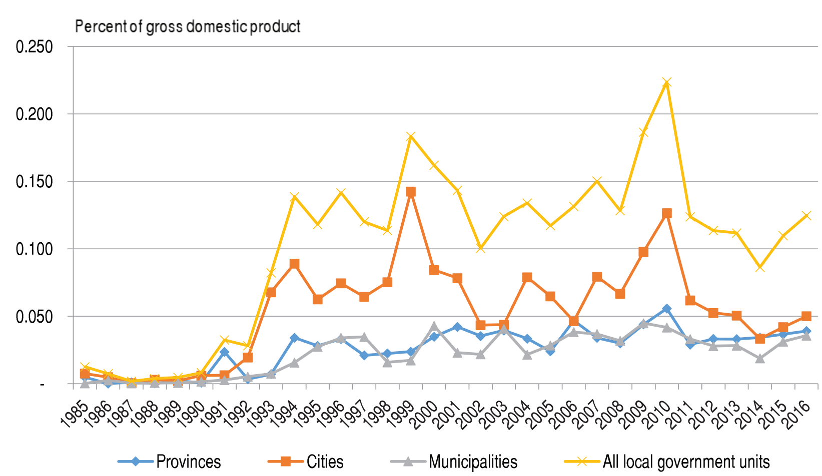
Table 12. Local government units' borrowing and capital expenditures, 1985–2016

	1985–1991	1992–2000	2001–2010	2011–2016	1992–2016
Borrowings as percentage of gross domestic product					
All local government units	0.01	0.13	0.15	0.11	0.13
Provinces	0.01	0.02	0.04	0.03	0.04
Cities	0.00	0.08	0.08	0.05	0.06
Municipalities	0.00	0.02	0.03	0.03	0.03
Share in borrowings of all local government units					
All local government units	100.0	100.0	100.0	100.0	100.0
Provinces	51.4	19.0	26.1	31.0	27.1
Cities	37.5	62.1	51.1	42.7	49.3
Municipalities	11.1	18.8	22.8	26.2	23.6
Borrowings as percentage of capital expenditure					
All local government units	5.0	21.1	26.5	18.8	22.1
Provinces	7.7	19.2	32.2	24.9	26.8
Cities	5.9	24.9	26.7	17.3	22.2
Municipalities	1.6	15.0	21.7	16.3	18.1
Capital expenditure as percentage of gross domestic product					
All local government units	0.23	0.62	0.57	0.59	0.59
Provinces	0.08	0.13	0.12	0.14	0.13
Cities	0.07	0.32	0.29	0.28	0.29
Municipalities	0.08	0.16	0.16	0.18	0.17
Share in capital expenditure of all local government units					
All local government units	100.0	100.0	100.0	100.0	100.0
Provinces	33.5	20.8	21.4	23.4	22.2
Cities	31.6	52.7	50.7	46.4	49.0
Municipalities	34.9	26.5	27.9	30.3	28.8

Source: Author's estimates based on data from the annual financial reports on local governments of the COA

financing. Moreover, the stringent procedural requirements that LGUs have to comply with to access the credit market that were put in place in 2012 appear to have contributed to further muting of the demand for LGU borrowing (Table 12). On the supply side, the LGU credit market is also constrained by the limited participation of private financial institutions as a result of the undue advantage that government financial institutions have in effectively being able to intercept the IRA arising from their role as primary LGU depository bank. This lack of competition in the LGU debt market has increased the cost of LGU borrowing which further compresses LGU demand for debt.

Figure 4. Local government units' borrowing, by level, 1985–2016



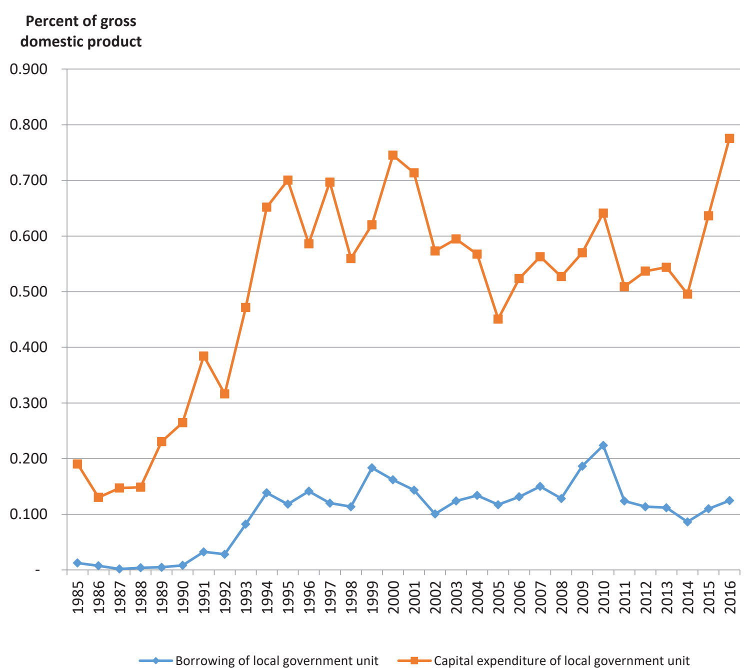
Source: Author's estimates based on data from the annual financial reports on local governments of the COA

Table 13. Local government units' borrowing, debt outstanding, and overall fiscal position, 2002–2016

	2002	2003	2004	2005	2006
Local government units' (LGU) borrowings (in PHP million)	4,090	4,937	6,806	6,373	8,211
LGU borrowings (% of gross domestic product)	0.10	0.11	0.13	0.11	0.13
LGU loans outstanding (in PHP million)	25,100	28,162	31,782	37,841	36,798
LGU loans outstanding (% of gross domestic product)	0.60	0.62	0.62	0.67	0.59
LGU overall surplus/(deficit) (in PHP million)	25,544	54,977	13,570	26,284	26,096
LGU overall surplus/(deficit) (% of gross domestic product)	0.61	1.21	0.27	0.46	0.42
LGU capital expenditure (% of gross domestic product)	0.57	0.59	0.57	0.45	0.52
National government debt (% of gross domestic product)	67.1	73.8	74.4	68.5	61.4
National govennment overall surplus/(deficit) (% of gross domestic product)	(5.0)	(4.4)	(3.7)	(2.6)	(1.0)

Source: Author's estimates based on data from the annual financial reports on local governments of the COA, gross domestic product from National Statistical Coordination Board, and national government debt from Bureau of the Treasury

Figure 5. Local government units' borrowing and capital expenditure as percentage of gross domestic product, 1985–2016



Source: Author's estimates based on data from the annual financial reports on local governments of the COA

Direction of needed improvements in the statutory LGU borrowing framework. Although LGU debt level in the Philippines is undoubtedly low at present, it cannot be denied that SNG borrowing is associated with risks of fiscal distress and fiscal insolvency that may result from excessive or inappropriate local government debt accumulation.

The 1991 LGC appears to fall short when viewed from the perspective of international good practice as discussed in the previous subsection. Although the 1991 LGC includes provisions that allude to a balanced budget constraint or golden rule, Section 296(b) allows LGUs to borrow to bridge short-term cash flow shortfalls. Moreover, the 1991 LGC, unlike PD 752 before it, does not include a provision that mandates LGUs to pay in full provisional advances in the first quarter of the year immediately following the year when the loan was secured, in order to prevent the rolling over of borrowings undertaken for financing current operating deficits. Related to this, Liu et al. (2013) estimated that about 80 percent of government financial institutions' lending to LGUs is for capital projects, and the other 20 percent is for cash flow purposes (borrowing in anticipation of collections of taxes or aid payments).

Furthermore, the debt service cap under the 1991 LGC is expressed in relation to LGU total regular income. The COA (2009) points out that some LGUs had difficulty amortizing their

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
10,286	9,578	14,362	19,768	11,760	11,993	12,225	10,909	14,621	18,044
0.15	0.12	0.18	0.22	0.12	0.11	0.11	0.09	0.11	0.12
45,844	46,779	57,560	68,346	72,039	74,804	76,190	75,634	61,726	65,450
0.67	0.61	0.72	0.76	0.74	0.71	0.66	0.60	0.46	0.45
21,120	45,696	33,896	32,076	52,781	34,535	42,585	76,076	68,779	63,076
0.31	0.59	0.42	0.36	0.54	0.33	0.37	0.60	0.52	0.44
0.56	0.53	0.57	0.64	0.51	0.54	0.54	0.50	0.64	0.78
53.9	54.7	54.8	52.4	51.0	51.5	49.2	45.4	44.7	42.1
(0.2)	(0.9)	(3.7)	(3.5)	(2.0)	(2.3)	(1.4)	(0.6)	(0.9)	(2.4)

indebtedness even if their actual debt service capacity was less than 20 percent of the debt service cap. Because of this, the COA recommended that the computation of debt service capacity should take into account not just regular revenues but also mandatory expenditure and cash flow. In like manner, Escolano et al. (2012) recommended that the debt service cap be computed relative to LGUs' net operating surplus (NOS) on the ground that the NOS provides a better measure of LGUs' capacity to service their debt than their regular income. On the other hand, Manasan (2015) further refined the IMF's advice in the context of the existing LGU budgeting practice in the Philippines, and recommended that debt service capacity of LGUs be computed relative to LGUs' net operating primary surplus (NOPS), i.e., total LGU recurrent revenues less current operating expenditures before interest payments, adjusted for continuing appropriations and accounts payable (or adjusted NOPS, for short) while at the same time increasing the prescribed debt service ratio from the present 20 percent to a number very close to 100 percent.[28]

Also, the importance of revisiting the rules on LGU depository bank cannot be overemphasized, given the need to make the LGU credit and capital market more competitive by fostering greater participation of private financial institutions in the market so as reduce the cost of borrowing and increase LGU demand for financing.

Provisions related to SNG borrowing that may be included in the constitution of the proposed federal government are the following.

- Federal governments shall not guarantee payment of regional government and local government debt. In other words, the federal government is committed not to bail out regional and local governments in the event that the latter will default on their debt.
- Regional and local government shall borrow for the purpose of financing capital investments only (golden rule).
- Legislature shall enact a Fiscal Responsibility Law that shall specify quantitative ceilings on borrowing, debt, debt service, or fiscal deficits of regional and local governments.
- Legislature shall enact a law addressing bankruptcy policy and insolvency mechanisms for regional and local governments.

Fiscal cost of adopting federal system of government

The adoption of a federal system of government involves additional cost in the government operation. The elements of this cost include:

[28] Manasan (2015) found that 27 percent of all LGUs for which data are available in 2013 either have negative adjusted NOPS or have debt service in excess of 100 percent of their adjusted NOPS and, thus, score low in terms of creditworthiness. At the same time, the prevalence of LGUs with less than sterling creditworthy qualities which were able to access new or additional borrowing in 2013 is not small. More specifically, 78 (or 43%) out of the 181 LGUs that accessed new or additional borrowing in 2013 either have negative adjusted NOPS or have debt service in excess of 100 percent of their adjusted NOPS.

- Salaries of governors and vice governors of regional governments and their staff as well as operating expense of their offices;
- Salaries of senators (second chamber) and their staff as well as operating expense of their offices—three to seven senators per regional government under the original PDP-Laban model;
- Salaries of members of the judiciary at the state government level, their staff as well as operating expense of their offices (The cost related to this has not been included in the estimates because of the lack of details on how the judiciary would be affected by the proposed shift to the federal form.); and
- Salaries of state legislators and their staff as well as operating expense of their offices
  - Prior to the enactment of the Organic Act of each region, Regional Consultative Assembly—three from each LGU comprising the regional government
  - After enactment of Organic Act of each region, Regional Assembly—two from each province and one from each city.[29]

Assuming there are 17 regions under the PDP-Laban model, the estimates of the incremental fiscal cost of setting up a federal system of government range from PHP 44 billion to PHP 51 billion. The estimates of the incremental fiscal cost vary from PHP 53 billion to PHP 60 billion under Senator Nene Pimentel's proposal. In comparison, the estimates vary from PHP 66 billion to PHP 72 billion if the number of regional government legislators proposed in the Bangsamoro Basic Law were adopted in all the regions. Needless to say, these estimates will rise if the number of regions is increased.

[29] Federalism models other than the PDP-Laban's propose a bigger number of regional-level legislators (1) three legislators elected by popular vote in each province/city plus three sectoral representatives in each province/city or a total of 1,428 regional-level legislators under former Senator Nene Pimentel's proposal and (2) at least 10 legislators per legislative district (40% of whom are elected by popular vote, 50% are party representatives, and 10% are sectoral representatives) or a total of 2,380 regional legislators under the current version of the proposed Bangsamoro Basic Law.

Conclusion

The discussion so far has focused on the design of the fiscal features of a federal system of government guided largely by the economic literature on fiscal federalism. The exercise undertaken in the design of the fiscal features section indicates that there is no single best expenditure assignment in a federal setup. The same is true for tax assignment. However, it is critical that the expenditure assignment, the tax assignment, and intergovernmental transfers are designed in an internally consistent and coherent manner that provides SNGs the right incentives to deliver the services assigned to them efficiently and effectively and to be more accountable to their constituents. In the context of the Philippines, the analysis also suggests that greater attention should be given to (1) the design of equalization transfers (otherwise, regional disparities may widen) and (2) securing greater revenue autonomy for SNGs (otherwise, local accountability may weaken). At the same time, the policy framework for subnational borrowing should be given more space in the federalism dialogue. Otherwise, fiscal discipline might be compromised under a federal model of government. In this regard, it should be pointed out that greater decentralization of taxing powers to SNGs is a prerequisite condition for autonomy in SNGs' access to the credit and bond markets.

Moving forward, it should be stressed that even if the initial design of the federal model is coherent at the start, the likelihood is high that the initial model will be changed to reflect the particular interests of the framers of the new constitution. In this regard, a good understanding of the political economy of attempts to reform the decentralization regime in the Philippines is instructive. Matsuda (2011) pointed out that Congress as an institution is not likely to expand the resource of local governments. To wit: "Fiscally stronger LGUs depend less on individual national legislators for financial assistance and hence would result in loss of political leverage for members of the Congress [over the LGUs within their districts]. … If more resources were made available to provinces, governors could emerge as strong political rivals, more so than they are already" (Matsuda 2011, p. 23). From this perspective, it matters a lot whether it is the Constituent Assembly or a Constitutional Convention that is given the task to amend/overhaul the Philippine Constitution if the potential benefits from the shift to a federal system of government are to be realized.

The political economy literature likewise suggests the following preconditions for success in adopting a federal system of government (e.g., Watts 1996, Weingast 2008, Koeppinger 2016).

- Reform of the party system to institutionalize strong political parties with "coherent ideological programs and policy platforms and internal organizational discipline" (Matsuda 2014, p. 242); related to this, government budget support of political parties is also indicated.
- The lowering, if not the outright elimination, of the high barrier to entry in the political arena, including presence of political dynasties (Pilapil 2016).

There is also a need to reverse the currently prevailing undue concentration of power over fiscal resources in the executive branch of the central government because such a situation tends to distort the incentives for more autonomous and accountable subnational units. This point may be better appreciated in the light of the discussion below.

Despite the promise of greater fiscal decentralization under the 1991 LGC, resource allocation and revenue mobilization continued to be highly centralized in the post-code period. In 2015, for instance, the central government had effective control in allocating 84 percent of aggregate general government spending even as it was responsible for generating 93 percent of total general government revenues. Beyond these aggregate numbers, the ambit of central government control over spending is manifested in the disproportionate appropriations intended for the regional operations of various departments under the General Appropriations Act that is set aside for their central offices (Table 14). This is indicative of the wide degree of discretion that these central offices possess in allocating these amounts to the different regions during budget execution. It should be emphasized that the issue here is not so much that the NCR and its periphery (i.e., Regions III and IV-A) receive a disproportionate share of national government spending relative to their contribution to the economy (as measured by GRDP share, for instance) or to their need for public services (as measured by their share in population, for example) because, in fact, this is not necessarily the case especially in recent years. Compare the share of the various regions in the budgets of various departments with their corresponding share in GRDP and population in the last two columns of Table 14. Rather, the issue is that, by providing the venue for legislators and local government officials to access additional budgetary resources in the common pool via transactional politics, this undue concentration of power over fiscal resources that is currently lodged with the executive branch of the central government puts an additional layer of distortion on the incentives for more accountable governance at the local level that have already been compromised by the weak structural design of the national government-LGU fiscal relations under the present decentralized setup. For instance, weak revenue autonomy of LGUs and the unclear expenditure assignment under the 1991 LGC do not foster the right incentives for efficient, effective, and accountable local governance. This discussion, thus, further highlights the equal importance of the design of the details of the fiscal decentralization framework and the overall political context.

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Table 14. Allocation for regional operations in the 2016 GAA budgets of selected departments

Regions	DA		BFAR		DENR		DPWH[a]		DTI	
	PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution
CO++	4,528	16.4	2,964.4	53.9	2,379	19.9	15,911	18.9	261	13.9
NCR		0.0		0.0	54	0.5	18,105	21.5	6	0.3
CAR	1,114	4.0	34.8	0.6	546	4.6	746	0.9	81	4.3
I	2,023	7.3	152.3	2.8	302	2.5	2,205	2.6	90	4.8
II	2,195	8.0	148.3	2.7	501	4.2	1,762	2.1	106	5.7
III	2,243	8.1	174.3	3.2	550	4.6	4,610	5.5	140	7.5
IV-A	1,754	6.4	170.9	3.1	864	7.2	5,752	6.8	160	8.6
IV-B	1,311	4.8	189.4	3.4	731	6.1	1,469	1.7	86	4.6
V	1,440	5.2	218.9	4.0	521	4.4	2,711	3.2	135	7.2
VI	1,543	5.6	191.4	3.5	521	4.4	2,359	2.8	92	4.9
VII	1,164	4.2	294.5	5.4	586	4.9	3,817	4.5	90	4.8
VIII	1,337	4.8	250.8	4.6	631	5.3	3,886	4.6	101	5.4
IX	1,230	4.5	160.0	2.9	895	7.5	7,300	8.7	71	3.8
X	1,441	5.2	127.1	2.3	694	5.8	4,032	4.8	93	4.9
XI	1,426	5.2	130.3	2.4	484	4.1	4,029	4.8	99	5.3
XII	1,773	6.4	122.8	2.2	949	7.9	3,485	4.1	123	6.6
XIII	1,064	3.9	166.8	3.0	728	6.1	2,003	2.4	141	7.5
Phililippines	27,588	100.0	5,497	100.0	11,934	100.0	84,183	100.0	1,876	100.0

GAA = General Appropriations Act; DA = Department of Agriculture; BFAR = Bureau of Fisheries and Aquatic Resources; DENR = Department of Environment and Natural Resources; DPWH = Department of Public Works and Highways; DTI = Department of Trade and Industry; DSWD = Department of Social Welfare and Development; DILG = Department of the Interior and Local Government; DOH = Department of Health; DepEd = Department of Education; GRDP = gross regional domestic product; CO++ = Central Office; NCR = National Capital Region; CAR = Cordillera Administrative Region

[a] refers only to "various local infrastructure" and "local infrastructure"

Source: Author's estimates based on 2016 General Appropriations Act

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DSWD		DILG		DOH		DepEd		Total		GRDP Share	Population Share
PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution	PHP million	Percentage Distribution		
5,843	47.7	969	9.0	17,176	17.0	20,483	5.5	70,514	11.2		
748	6.1	156	1.4	3,169	3.1	30,835	8.3	53,073	8.4	37.9	12.8
197	1.6	640	5.9	2,609	2.6	7,787	2.1	13,755	2.2	1.8	1.7
355	2.9	444	4.1	5,576	5.5	20,893	5.6	32,041	5.1	3.1	5.0
274	2.2	317	2.9	3,745	3.7	13,207	3.5	22,256	3.5	1.8	3.4
514	4.2	383	3.5	7,463	7.4	31,326	8.4	47,404	7.5	8.9	11.1
560	4.6	469	4.3	7,441	7.4	39,600	10.6	56,772	9.0	15.5	14.4
294	2.4	557	5.2	4,062	4.0	20,040	5.4	28,740	4.6	1.5	3.0
417	3.4	1,142	10.6	6,717	6.6	24,425	6.5	37,728	6.0	2.1	5.7
523	4.3	829	7.7	7,623	7.5	30,375	8.1	44,057	7.0	4.1	7.5
451	3.7	706	6.5	7,440	7.4	28,525	7.6	43,075	6.9	6.5	7.3
366	3.0	1,159	10.7	5,121	5.1	23,808	6.4	36,660	5.8	2.0	4.3
428	3.5	539	5.0	5,291	5.2	17,839	4.8	33,752	5.4	2.1	3.7
423	3.4	662	6.1	5,405	5.3	16,942	4.5	29,817	4.7	3.9	4.7
347	2.8	680	6.3	5,011	5.0	16,471	4.4	28,678	4.6	4.2	4.9
284	2.3	364	3.4	4,140	4.1	17,122	4.6	28,362	4.5	2.7	4.6
235	1.9	794	7.3	3,121	3.1	13,521	3.6	21,773	3.5	1.2	2.6
12,259	100.0	10,811	100.0	101,109	100.0	373,200	100.0	628,457	100.0		

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Delineation of Philippine Federal State Boundaries Based on Hierarchies and Sizes of Urban Centers

Arturo G. Corpuz

Introduction

The fundamental premise of this paper is that state boundaries matter. They represent physical or institutional barriers that affect movements across regions and states. Otherwise, there is little sense in discussing how they are delineated.

The events leading to the delineation of the physical boundaries of political units are not always deliberate—defining boundaries may or may not be the intent—and likewise, the factors that turn out to be most influential are not always anticipated. In the Philippines, if we look at provincial boundaries, topography, ethno-linguistics, the structure and extent of the Hispanic conquest, and transportation (or lack of it) are among the most important. In the United States, to provide an example from a very different setting, the four elements considered to have determined current state boundaries are the American Revolution, the 1808 proposal for the Erie Canal, railroads, and slavery (Stein 2008). Delineating state boundaries, whether purposeful or not, should be viewed as part of a larger and continuing historical process.

Two sets of objectives are recognized to drive the deliberate delineation of boundaries. One set seeks to increase efficiency, while the other is concerned with equity or political considerations. Clearly the two sets are interrelated. Boundaries that include productive assets in one state exclude them from another, which can affect the performance of both states.

With this context, this paper suggests an approach to a specific efficiency-oriented objective: how to identify boundaries under a scenario of a Federal Republic of the Philippines such that the resulting territory of each state, particularly the urban centers therein, enhances the state's competitiveness. The intent is to provide technical inputs for consideration if or when the states of the proposed federal republic are identified. Here, a state is treated as an autonomous form of a region, and competitiveness refers to the ability of a state to attract leading firms, those with rising market shares, that can help drive the state economy through the local employment and income they generate (Storper 1997; Kitson et al. 2004).

The relationships between competitiveness and urban centers in the Philippines are not easy to pin down primarily because of the dearth of subregional or city-level data. (To date, for example, there are no consistent and reasonably accurate estimates of the country's gross domestic product (GDP) accounted for by the urban and rural sectors.) Consequently, this paper resorts to population-based indicators and inferential analyses. Although there is a lot of room to be more conclusive if more data are available, the use of such indicators is consistent with private sector practice in assessing the feasibility of actual investments.

We begin by elaborating briefly on equity or political considerations that oftentimes dominate the process of delineating boundaries. A discussion on the way urban centers are organized hierarchically in space is next. This provides the context for identifying criteria to delineate state boundaries. Several scenarios of state boundaries are then presented based on the criteria, followed by a concluding summary.

The subjective and political nature of state boundary delineation

Identifying the boundaries of states tends to be a subjective and political exercise. It is subjective because the resulting boundaries depend on the objectives of delineation and these objectives can vary substantially. Consider, for example, a situation where Metro Manila's boundaries are being reconsidered and the primary objective is service delivery and infrastructure efficiency. In this case, it is logical to expand the boundaries to include Central Luzon and CALABARZON or Cavite, Laguna, Batangas, Rizal, and Quezon. This internalizes regular functions and activities that extend beyond existing formal boundaries—transactions to and from the ports and airports of Clark, Subic, and Batangas, for example—and reduces the friction of interlocal government unit (LGU) planning, implementation, and management. However, if the objective is to contain or reduce the influence of "imperial" Metro Manila, then its boundaries are likely to be maintained or even shrunk. Clearly, finding a common delineation that satisfies both objectives can be a problem. If pressed, the result is likely to be a compromise with each objective weighing in according to corresponding interests.

Elite interests will tend to prevail in the delineation of boundaries. This can be done blatantly, as in the practice of gerrymandering which defines a territory with boundaries that only make sense from the perspective of the proponent political party. It is also evident in a more subtle way in the increasing number of provinces in the country (from 39 to 81 according to the 1903 and 2015 censuses, respectively) as generations of political leaders continue to carve out their respective bailiwicks, adhering to the tradition of addition through geographical division. The inefficiencies resulting from dividing existing provinces into smaller ones have been recognized and, in one instance, in 1934, there was a proposal to consolidate the 49 provinces existing at that time to 28 in the interest of "homogeneity and economy". The proposal was not approved, primarily because it would reduce the number of representative districts from 95 to 60 and the senatorial districts from 12 to 10 (Corpuz 1989).

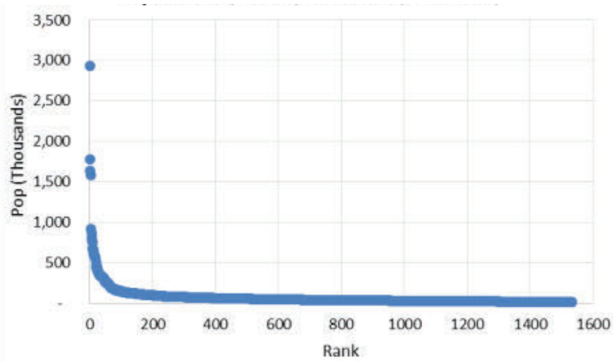
Regardless of the objectives, defining boundaries will be political in nature because ultimately, boundaries deal with location. Location has value, and change in location means a change in value, i.e., changes in the extent and identity of representation as well as changes in ownership or control of resources.

Hierarchy of centers

Population and economic activities are not distributed evenly in space. They are concentrated in varying degrees across different locations. These centers of production and consumption are the primary, function-based spatial elements of a state or region. They form hierarchies, span urban and rural areas, with external linkages and internal networks of circulation.

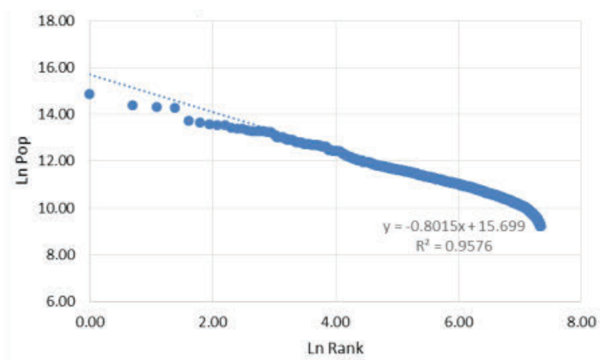
In mainstream regional economics, the theoretical foundation of these hierarchies is the equilibrium-oriented Loschian landscape, which was built on the works of Von Thunen and Christaller, among others, and which have been followed by more dynamic models and historical applications. It is useful to note that even Losch's model, which assumes an isotropic plain without resource differences, has city-rich and city-poor zones and thus, emphasizing that equilibrium is not the same as equality (Losch 1954). Liberal and radical (Marxist) theories have also been

Figure 1. Philippine cities and municipalities: Rank versus population, 2015 (minimum of 10,000)



Source: Philippine Statistics Authority [PSA] (2017)

Figure 2. Philippine cities and municipalities: Log-linear rank versus log-linear population, 2015 (minimum of 10,000)



Source: PSA (2017)

part of this academic tradition, with the latter disputing an inherent state of spatial as well as economic equilibrium in order to justify structural intervention in the political economy of the region (see for example, Hirschman 1958, Johnson 1970, Friedmann and Douglass 1978, Santos 1979, Slater 1983).

Regardless of ideology, hierarchies of centers exist. In the Philippines, using the population sizes of cities and municipalities as data points, the national hierarchy can be described as a negative exponential distribution or as a log-linear rank size distribution (Figures 1–2). Political jurisdiction over parts of this hierarchy will fall under new states under a new federal republic.

The key to a hierarchy's performance is its largest urban center (municipality, city, or metropolis). For the rest of this paper, an urban center refers to a city, municipality, or metropolis where the latter is formed when a city or municipality merges functionally with surrounding areas to form a larger urban center. Except for Metro Manila, metropolitan centers and their component cities and municipalities are defined based on the author's assessment of the extent to which local markets are functionally interrelated on a day-to-day basis, primarily as they relate to jobs and housing.

The larger the population of an urban center, the larger the number and scale of services and markets. These foster greater competition and allow more opportunities for specialization, innovation, and improved efficiency. Globally, a recent study has shown that for every doubling of a city's population, wages, GDP, patents produced, service output, and so on tend to increase by 115 percent on a per capita basis. In terms of transportation and utilities, only an 85-percent increase is needed in the amount for infrastructure—roads, power, water, drainage, etc.—to serve a city that has doubled in population size. Scale and agglomeration, however, have their downsides. Congestion, pollution, disease and crime, for example, also tend to increase by 115 percent as city size doubles (West 2017).

Although the paucity of city-level data does not allow verification of these global tendencies as they apply to Philippine cities, available regional data are consistent with the scaling directions. Metro Manila, in particular, has the highest gross regional domestic product (GRDP) per capita, highest average household income, highest bank deposit per capita, highest basic literacy rate, to cite several indicators. But Metro Manila also has the highest levels of traffic congestion and air pollution, most crimes, and HIV infection per capita (DOH 2017; Numbeo 2017; PNP 2017).

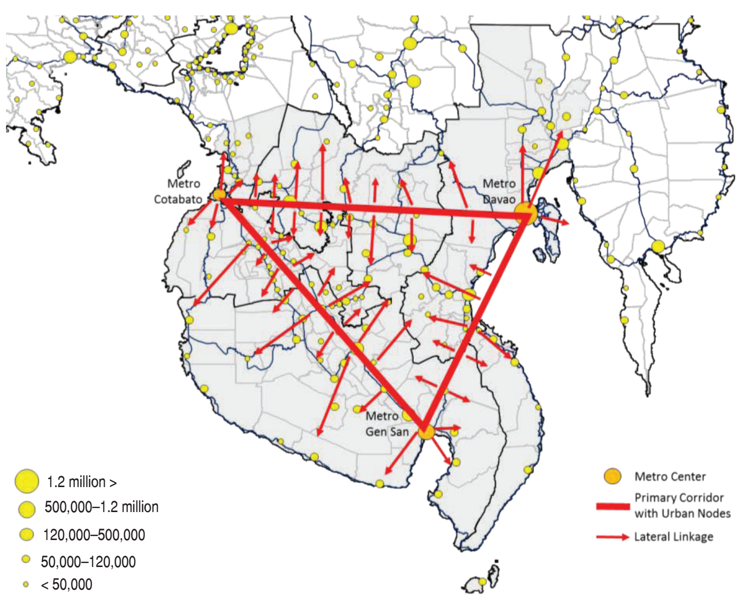
Despite diseconomies, urban areas in the Philippines continue to grow and the share of the rural population remains on a decline. Outside

Metro Manila, the largest 24 urban centers in the country increased their collective share of total population from 8.6 percent in 1980 to 13.0 percent in 2015—the fastest growth among the largest 100 centers. Growth is taking place across the board but more of it is accounted for by the largest cities of the country. This suggests that scale and agglomeration economies continue to be felt, at least outside Metro Manila. Metro Manila appears to be experiencing the opposite trend from a population growth point of view. While it continues to grow (1.6% annually in 2010–2015), this is slower than the country's growth rate (1.8%) and even more so compared to its surrounding regions (2.0–2.7%). Metro Manila actually experienced a decline in its share of total population, between 2000 and 2015, which contrasts sharply with the rapid growth experienced by the rest of the regional centers (PSA 2017).

With sufficient connectivity, a hierarchy becomes a physical framework for internal and external economic integration. Consider the South Central Mindanao Corridor (SCMC), one of three development regions identified by the Mindanao Development Authority as an example of how a hierarchy might function (Figure 3).

- The metropolitan centers of Davao City, General Santos, and Cotabato City are the largest urban centers of the SCMC. They anchor both the physical as well as the economic geography of the SCMC. The larger and more complex (socially and economically) these metropolitan areas are, the stronger and more diverse the region in terms of scale and level of services, economic base, and employment opportunities. The metropolitan centers also host the major external linkages—ports, airports, and interregional road connections—to markets and employment outside the region.
- The primary corridors between Davao City, General Santos, and Cotabato City connect the three metropolitan areas and carry the largest volumes of people, goods, and services within the region. The less friction (physical and institutional) within the corridors, the greater the efficiency, and thus the more productive the regional economy.

Figure 3. South Central Mindanao Corridor metropolitan centers, primary corridors and urban nodes, and lateral linkages (conceptual)



Source: Asian Development Bank (2017)

- The production and service capabilities of the corridors are dependent on the number, size, and efficiency of the urban centers within each corridor, e.g., Digos, Koronadal, Tacurong, Midsayap, Kidapawan. Without these centers, the corridors merely add friction to economic activities between the metropolitan areas. A corridor is like a string of urban nodes with each functioning as market, production, employment, and service centers.
- The extent to which the triangle of primary corridors contributes to the region's inclusive growth also depends on the extent to which the corridors extend their lateral linkages and influence throughout the hierarchy. The longer the lateral linkages extend from the corridor—the "fatter" the corridors—the larger the area that benefits from the triangle's activities. This enhances urban-rural integration as well as agriculture-industry-service linkages.

In general, the regional economy benefits as the size, economic diversity, and external linkages of its largest center increase (allowing increasing economies of scale and agglomeration), as the corridors of the hierarchy become more efficient in terms of transportation and logistics, and as the number of urban centers and their lateral linkages within the corridors increase (ADB 2017; see Srivastera [2011] and Brunner [2013] for further discussion on economic corridors and regional development).

It should also be pointed out that while the hierarchy discussed in the SCMC example is located entirely within a region, there is no *a priori* reason for a state to have a full hierarchy of centers within its boundaries. What is important is that the state has a metropolitan center that can attract and support activities capable of driving its economy. Despite the friction of boundaries, you can have a single center, a city-state (e.g., Singapore, Hong Kong), and this state can continue to function as part of, and benefit from, a hierarchy even if the rest of the hierarchy is outside the state's territory.

Minimum population size of the largest center

Given that the largest center anchors the hierarchy, the question arises as to what should be the minimum size of the largest center in a state. To answer this question, we use two indicators that relate the ability of a state to attract leading firms to a minimum population size.

The first indicator is the presence of a purpose-built place traditionally referred to as a central business district (CBD). For our purpose, the key characteristic of a CBD is that it is the physical expression of the highest form of service activity. It is where the command and control of capital used for the various sectors of the economy—whether in the agriculture, industry, or service industries, private or public sector based—take place. These tertiary level functions and facilities may be present in separate parts of a city but their combined presence in a single location, built to conform to their requirements, signals deliberate market recognition of the benefits of agglomeration.

Using the presence of a purpose-built CBD as an indicator assumes that leading firms are more likely to locate in such a CBD or at least in the city where the CBD is located. This is an assumption because there is no readily available data on market shares of firms (in order to qualify them as "leading firms") that are comparable geographically and historically. But the assumption is supported by the following arguments.

First, leading firms, in order for them to have rising market shares, are likely to compete beyond the local (city or municipal) market and therefore their business practices and service requirements need to conform to external as well as local standards.

And second, a purpose-built CBD is purpose-built to attract leading firms because these are the firms that are most likely able to afford the relatively high cost of a CBD location—usually a minimum of twice and up to four times the price of prime residential real estate. And in order to attract these firms, a CBD has to have the infrastructure, services, and access to other requirements following standards that are acceptable across markets. The success or attraction of most CBDs, or other property developments for that matter, is based typically on the number of locators that are of foreign or Metro Manila origin. Although local (nonforeign or non-Metro Manila) firms are also becoming visible throughout the country or even abroad, it is precisely their success in these markets, and not in their respective locales, that qualifies them to be considered successful. In short, they cease to become local once they are successful. In large retail formats that form part of a CBD outside Metro Manila, only about 5–15 percent of locators or tenants are local; this is usually done on purpose to strengthen affinity with local customers without sacrificing the larger and more profitable market of nonlocal locators. For the office market, almost all CBDs, or at least those considered successful, have foreign-based business process outsourcing (BPO) locators.

The absence of a CBD does not mean that a city cannot attract leading firms just as the presence of one, at face value, simply means the likely presence of such firms. Clearly, other firm- or industry-specific factors, such as market size, sources of inputs, infrastructure, logistics, and regulatory environments, among others, are more directly influential to investment decisions compared to the presence of a CBD. But the presence of firms in one location such as a CBD suggests a scale and an environment supportive of at least some of these factors.

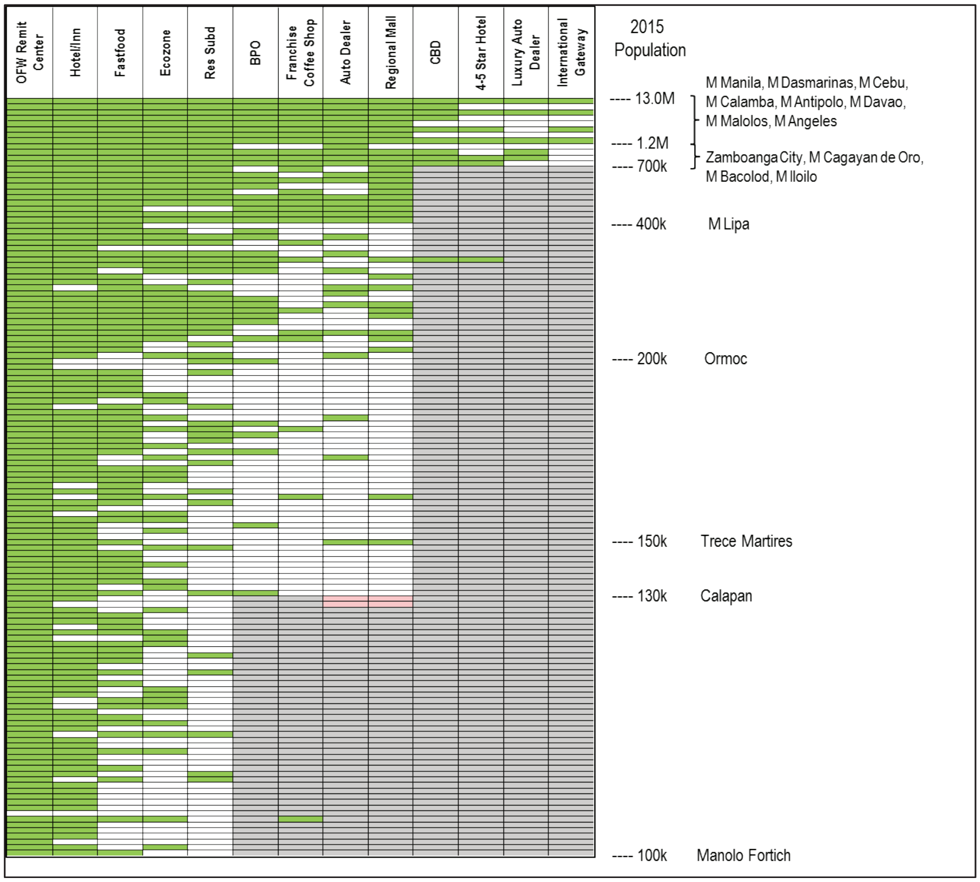
Typically, and despite its traditional anachronistic label, CBDs provide more than just a venue to conduct business. In the Philippines, regional and smaller format retail (at least 100,000 square meters of gross leasable area for large formats), hotels, mid-high-density residences, various types of offices and services (private, government, other nongovernment institutions) dealing with business, technology, education, culture, personal needs, entertainment and recreation, utilities, and even religious and aid activities cluster in and around CBDs, tapering in density with increasing distance from the center (Corpuz 2013). As a whole, the presence of the following land uses indicates a thriving CBD: office (traditional or BPO), retail, and residential/hotel. These are usually accompanied by support uses and amenities.

Table 1. Metro centers with population more than 700,000 (2015)

Rank	Metro Area	Population	Central Business Districts
1	Metro Manila	12,877,253	Makati, Bonifacio Global City, Ortigas, Alabang, Eastwood, Mall of Asia, Vertis
2	Metro Dasmariñas-Bacoor	2,546,728	Vista City, Evo City*, Vermosa*, Alabang West*
3	Metro Cebu	2,526,798	Cebu Business Park, Asia Town I.T. Park, South Road Properties, Mactan Newton, Gatewalk*
4	Metro Calamba	2,028,535	Nuvali, Greenfield, Eton City*
5	Metro Antipolo	1,871,130	
6	Metro Davao	1,737,114	Abreeza, SM Lanang, Davao Park*, Landco*, Damosa*
7	Metro Malolos	1,600,089	
8	Matro Angeles	1,328,032	Clark, Marquee, Alviera*, Nepo Center*
9	Zamboanga City	861,799	
10	Metro Cagayan de Oro	810,603	Centero, Limketkai, Pueblo Business Park*
11	Metro Bacolod	791,019	Northpoint, Capitolyo, Goldenfield*
12	Metro Iloilo	713.091	Iloilo Business Park, Atria

* Emerging central business district; lacking office or retail or residential/hotel
Source of the population data: PSA (2017)

Figure 4. Presence/Absence of selected indicators in centers with minimum 100,000 population, 2015



OFW = overseas Filipino worker; BPO = business process outsourcing; CBD = central business district
Source: Author's rendition based on data from Information Technology and Business Process Association of the Philippines, Department of Tourism, Philippine Deposit Insurance Corporation, Civil Aviation Authority of the Philippines, Philippine Economic Zone Authority, LBC, Cebuana Lhuillier, Toyota, Honda, BMW, Jollibee, Starbucks, Shoe Mart, ALI through the assistance of N. Casanova and S. Silva-Mazon in August 2017

CBDs are not always purpose-built. As a city grows, new and more service and management activities are attracted to its traditional downtown or other existing commercial areas. Some of these may develop into a CBD. A purpose-built CBD, however, catering to more than just one or two establishments and typically occupying around five hectares or more, is indicative of a higher level of investment compared to those that evolve incrementally.

Purpose-built CBDs start to appear when an urban center reaches a population of about 700,000, as shown in Table 1.

Figure 4 indicates the presence or absence of selected facilities/developments (columns) in metropolitan centers, cities, or municipalities (rows) with a minimum population of 100,000 (2015 census). As expected, the largest centers have the largest number and broadest range of facilities—from the ubiquitous (delivery and remittance center) to the most selective (CBD, five-star hotel, luxury auto dealer, international gateway). Twelve metropolitan centers in the country have populations of at least 700,000. Table 1 lists existing and some emerging purpose-built CBDs in each of these centers (each listed CBD contains at least office, retail, and residential/hotel uses; emerging CBDs lack at most one of these uses).

Figure 4 also tracks how some markets evolve in light of competition and diminishing growth of traditional demand. Regional mall developers, for example, had a minimum population threshold of 400,000 with about 100,000–300,000 gross leasable area (GLA), but they have now gone down to the 200,000 population level and more recently even to cities with a population of 150,000, with formats as small as 20,000 GLA. Notably, the information provided by the figure are driven primarily by the private sector and thus reflect actual market conditions. The only exception is the international airport/port, which is essentially a state-provided facility (although it also needs a viable market in order to survive). Overall, Figure 4 shows that population size is consistent with the scaling characteristics of urban functions and services.

Notably, there is a lack of purpose-built CBDs in Malolos, Antipolo, and Zamboanga. The first two still rely on Metro Manila partly because of the momentum of proximity but also because of the lack of large parcels of relatively flat land available for consolidation and mixed-use development compared to Cavite and Laguna. But there are business industrial parks and mall-based developments in these centers, along MacArthur and Marcos highways, that indicate a trend toward larger-scale and emerging CBDs. A similar trend can be seen in Zamboanga City (with KCC Mall anchoring a growing commercial strip near the airport). Despite having a population larger than Cagayan de Oro, Bacolod, and Iloilo, Zamboanga has not been considered a similar priority investment destination (as demonstrated by the conspicuous absence of an SM Mall). Security concerns, perceived or real, are mostly responsible for the lack of interest among external investors.

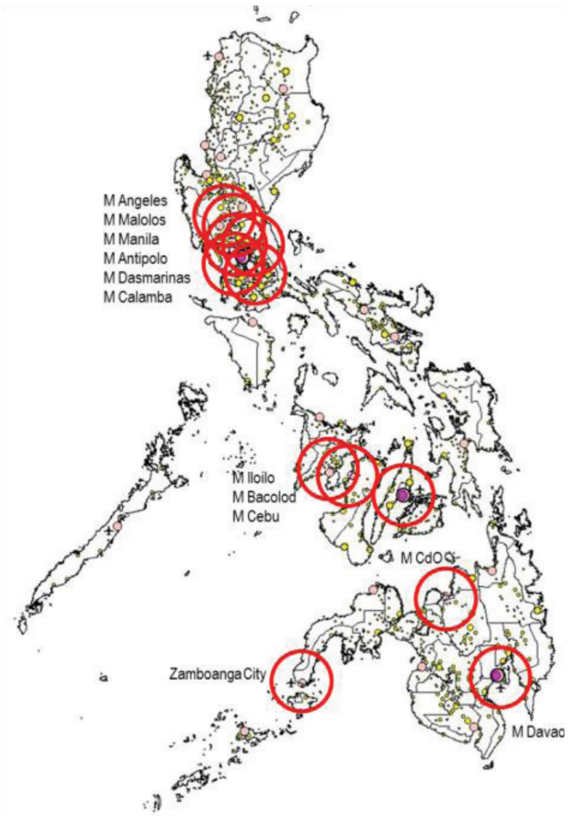
The second indicator that relates the ability of a state to attract leading firms to a minimum population size is required by the first indicator. It is the presence of a regular international gateway—an international airport and an international port or, for noncoastal locations, regular access to the latter. These facilities have appeared in centers with a population of at least 1.2 million.

The minimum population requirement that satisfies the two indicators is 1.2 million. We will lower it to 700,000 with the assumption that all of the 12 urban centers that have a population of at least 700,000 can be served sufficiently by an international airport and port if not at present but soon after these are required.

Of the 12 centers, Metro Manila, and the metro centers of Angeles, Malolos, Antipolo, Calamba, and Dasmariñas are assumed to be served by the Ninoy Aquino International Airport and Clark International Airport. Metro Cebu, Metro Davao, Metro Iloilo, and Zamboanga have international airports as classified bv the Civil Aviation Authority of the Philippines. The Silay and Laguindingan airports, however, which serve Metro Bacolod and Metro Cagayan de Oro, are classified as domestic airports. But both airports are relatively new (built in the 2000s), located in suburban sites that are easier to expand compared to their former urban locations (CAAP 2016). There is a long-standing proposal to transfer the Zamboanga City airport to Mercedes, Zamboanga City because the current airport is located very close to the urban core, thus hampering urban expansion as well as compromising airport operations.

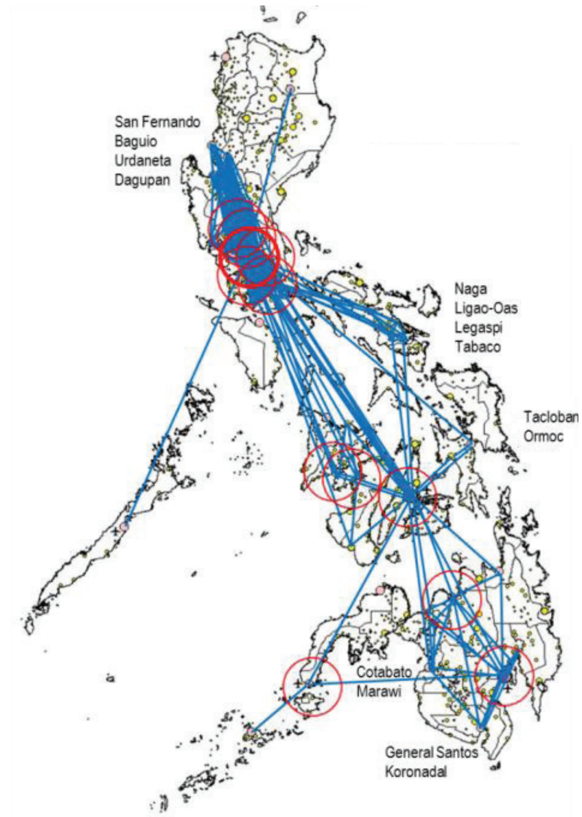
Population thresholds can change as new technologies are adopted, incomes and affordability rise, and market behavior shifts. Even the nature and physical characteristics of a business district will evolve as they have been continuously evolving, e.g., the increasing mix of uses, expanding working hours, and the blending of live-work-play activities. The predicted decline or even disappearance of individual automobile use if or when self-driving cars become the norm promises a sweeping wave of change in the CBD landscape. Likewise, the increasing use of artificial intelligence could lead to a drastic decline of the BPO industry and a major transformation of the office market. The prescribed 1.2 million and 700,000 thresholds are therefore valid only for the present analysis; sorting out future trends may require new thinking and updated data. What can be expected to remain, however, despite the spatial ubiquity that the internet and the rest of digital technology have allowed, is the need for

Figure 5. Metro centers with population more than 700,000 (2015)



Note: Gravity model based, maximum 1,000 kilometers
Source: Author's rendition

Figure 6. Top 300 potential linkages among centers with population more than 200,000 (2015)



Note: Gravity model based, maximum 1,000 kilometers
Source: Author's rendition

places where a concentration of direct physical interactions occurs regularly—a central place—not just for business or economic reasons but for society in general to thrive.

Spatial clusters and linkages

Based on their population sizes, each of the identified 12 metropolitan centers is capable of anchoring a hierarchy with the potential to attract leading firms as discussed earlier. In order to define the boundaries that go with each center, we now need to consider geography in more detail.

Figure 5 shows the 12 metropolitan centers with a population of at least 700,000. Each center is circumscribed within an approximate 60-kilometer radius circle that roughly indicates a 1–2 hour land travel time depending on road conditions. The circles visually represent likely spatial clustering of the centers' markets.

Figure 6 is a gravity model-based representation of the top 300 land-based linkages (maximum of 1,000 kilometers) among the country's largest centers (minimum population 200,000); the 12 metropolitan center circles are likewise shown. It reinforces the images of clustering shown in Figure 5. Figure 6 also provides a visual summary of potential interregional linkages and thus, hierarchies. These are potential linkages because in the absence of data on subregional land-based commodity flows, they are based only on population and road distance. The model provides only a ranking, but not estimates, of any values associated with the linkages. The intensities of the linkages are not shown but based on the model, they get progressively weaker the lower the rank. Not surprisingly, Metro Manila, Central Luzon, and CALABARZON are dominant. In fact, less than 20 percent of the linkages shown involve Visayas and Mindanao; of these, none are in the top 50 linkages and only 4 are in the top 100.

Together, Figures 5 and 6 provide a view of the spatial dimension within which the activities of the metropolitan centers and their hierarchies take place. Although these figures are based primarily on population data and road distance estimates, several points may still be raised.

First, clustering suggests economic integration which further suggests that the clustered centers can more efficiently function under a single state. This appears to be the case for Metro Manila and its satellite metropolitan centers of Malolos, Antipolo, Calamba, and Dasmariñas. One can make a similar argument to include Metro Angeles, especially as Clark Airport increasingly serves a larger part of the Metro Manila population. Likewise, the proximity of Metro Iloilo and Metro Bacolod to each other (i.e., an approximate one-hour ferry ride) suggests frequent market interactions and opportunities for further scale and agglomeration economies if connectivity between the two centers is improved (the proposed Iloilo-Guimaras-Negros bridge comes to mind).

Table 2. Federal state scenarios

Scenario		State	Population, 2015		GRDP 2015			GRDP per Capita, 2015		
			In Million	Percent	In Billion	Percent	Gap (%)	In Thousand	% to Largest	% to Largest Gap
A	1	Luzon	57.5	57	9,654	73		168.0	100	
	2	Visayas + Mindanao	43.5	43	3,653	27	45	84.0	50	50
B	1	Luzon	57.5	57	9,654	73		168.0	100	
	2	Visayas	19.4	19	1,684	13	60	86.9	52	
	3	Mindanao	24.1	24	1,969	15		81.6	49	51
C	1	North Luzon	21.4	21	2,060	15		96.2	46	
	2	South Luzon + NCR	36.1	36	7,594	57		210.6	100	
	3	Visayas	19.4	19	1,684	13	44	86.9	41	
	4	Mindanao	24.1	24	1,969	15		81.6	39	61
D	1	North Luzon	21.4	21	2,060	15		96.2	25	
	2	NCR	12.9	13	5,048	38		392.0	100	
	3	South Luzon	23.2	23	2,546	19		109.9	28	
	4	Visayas	19.4	19	1,684	13		86.9	22	
	5	Mindanao	24.1	24	1,969	15	25	81.6	21	79
E	1	North Luzon (excluding CAR)	19.7	20	1,826	14		92.7	24	
	2	CAR	1.7	2	234	2		135.8	35	
	3	NCR	12.9	13	5,048	38		392.0	100	
	4	South Luzon	23.2	23	2,546	19		109.9	28	
	5	Visayas	19.4	19	1,684	13		86.9	22	
	6	Mindanao (excluding ARMM)	20.4	20	1,870	14		91.9	23	
	7	ARMM	3.7	4	99	1	37	26.2	7	93
		Philippines	101.0	100	13,307	100		131.8		

NCR = National Capital Region; CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao; GRDP = gross regional domestic product
Source of the population data: Philippine Statistics Authority

Second, substantial interregional linkages without clustering suggest that transactions take place regularly between the centers but these do not occur on a day-to-day level for the general population, i.e., daily jobs-housing commutes are not taking place between the centers even if intercenter activities are regular and frequent. Separating these centers into different states is less likely to compromise the efficiency of intrametro services compared to separating centers that overlap or cluster.

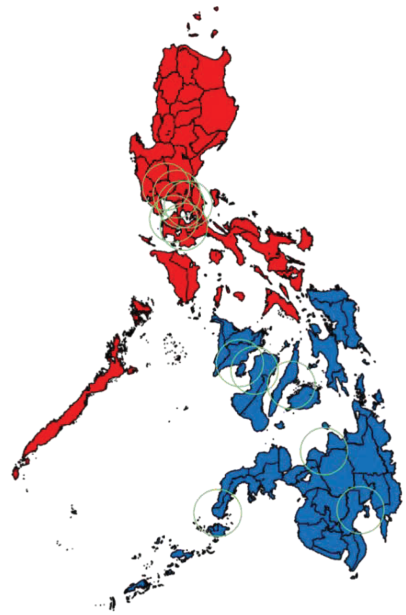
Noticeable too in Figure 6 are metropolitan centers with less than 700,000 population but are also showing multiple linkages and clustering: Dagupan-Urdaneta-San Fernando-Baguio, Naga-Ligao-Oas-Legaspi-Tabaco, General Santos-Koronadal, Cotabato City-Marawi, and to a lesser extent, Tacloban-Ormoc. Also, the Metro Manila-based conurbation appears to be extending north to Urdaneta-San Fernando, east to Cabanatuan and Tanay, south to Batangas and Lucena, and west to Subic-Olongapo. These apparent linkages are worth investigating further and if confirmed, improving the connections between these secondary clusters and the largest metropolitan centers, as well as extending lateral linkages to smaller centers—fattening the corridors involved—are likely to be among the effective ways of strengthening regional economic integration and promoting inclusive growth.

State boundary scenarios

Within a framework of a hierarchy of urban centers, two criteria may be derived to guide the delineation of state boundaries: (1) the largest center of a state must have a population of at least 700,000 as an indication that the state has reasonable potential to attract leading firms and (2) clustered urban centers, particularly the large urban centers, should be kept together in the same state in order to enhance the efficiency of interurban or metropolitan functions.

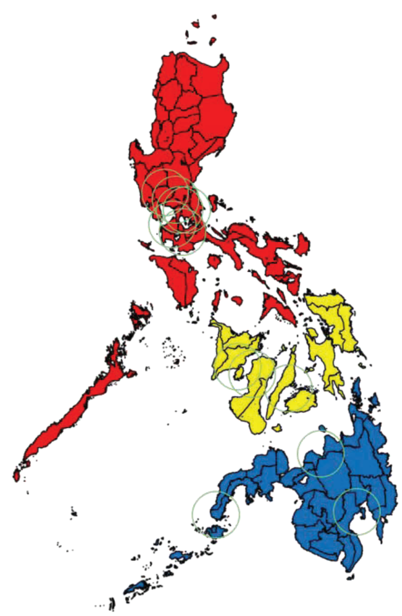
Given these, five scenarios of state boundaries are listed in Table 2 and mapped in Figures 7–11. The first two adhere to the two criteria mentioned above; the rest of the scenarios have additional boundaries that reduce interstate differences in population and GRDP shares. The key features of each of the scenarios are as follows.

Figure 7. Scenario A



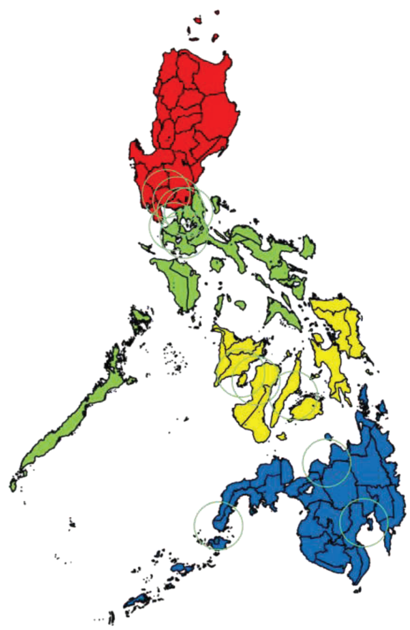
Division: Luzon and Visayas-Mindanao
Source: Author's rendition with the assistance of J. Gargallo

Figure 8. Scenario B



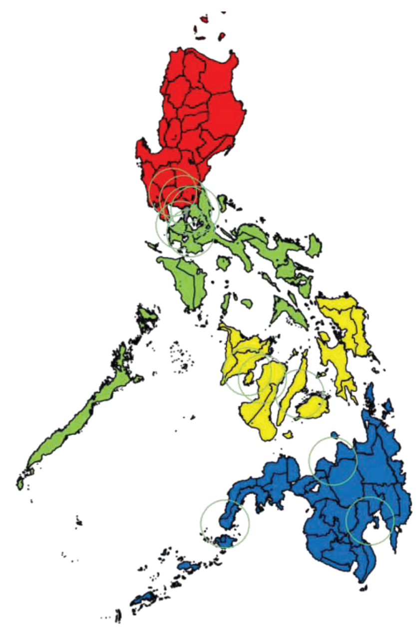
Division: Luzon, Visayas, and Mindanao
Source: Author's rendition with the assistance of J. Gargallo

Figure 9. Scenario C



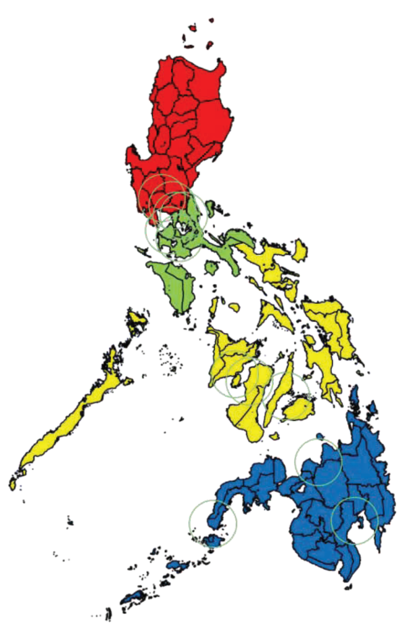
Division: North Luzon, National Capital Region-South Luzon, Visayas, and Mindanao
Source: Author's rendition with the assistance of J. Gargallo

Figure 10. Scenario D



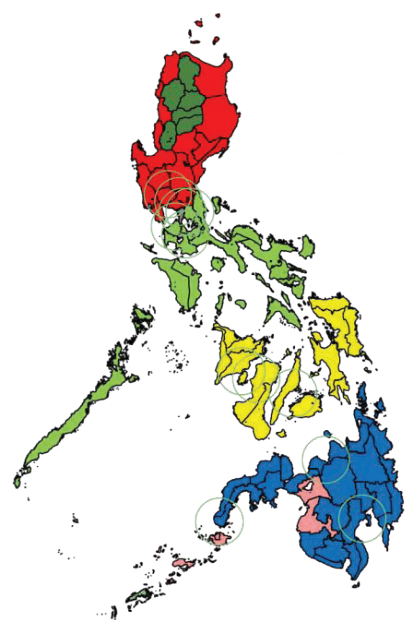
Division: North Luzon, National Capital Region, South Luzon, Visayas, and Mindanao
Source: Author's rendition with the assistance of J. Gargallo

Figure 9a. NEDA super regions



Division: North Luzon, National Capital Region-CALABARZON-Mindoro-Romblon, Visayas-Bicol-Palawan, and Mindanao
NEDA = National Economic and Development Authority
Source: Author's rendition with the assistance of J. Gargallo

Figure 11. Scenario E



Division: North Luzon, Cordillera Administrative Region, National Capital Region, South Luzon, Visayas, Mindanao, and Autonomous Region in Muslim Mindanao
Source: Author's rendition with the assistance of J. Gargallo

- Scenario A is the simplest with just two states; in principle, it is the most efficient from an interurban or interstate point of view.
- Scenario B adheres to the traditional Luzon-Visayas-Mindanao island groupings and their Metro Manila (National Capital Region), Metro Cebu, and Metro Davao anchors.
- Scenario C splits Luzon into two states, lumping Metro Manila with South Luzon, resulting in four states. Figure 9a is a variant of Scenario C; it was once used by the National Economic and Development Authority when it consolidated administrative regions into super regions for planning purposes.
- Scenario D separates Metro Manila altogether, resulting in five states. This scenario has the narrowest gap among the states in terms of both population and GRDP shares.
- Scenario E builds on Scenario D and recognizes the existing Autonomous Region in Muslim Mindanao and Cordillera Administrative Region as states, resulting in a total of seven states. These two additional states do not conform to the minimum population requirements for the largest center; their largest centers are Metro Cotabato and Metro Baguio with 2015 populations of approximately 400,000 and 600,000, respectively.

Scenarios A–D all conform to the largest center minimum population requirement of 700,000. But only Scenarios A and B comply with the second criterion.

Scenarios A–D are not the only scenarios that can conform to the minimum largest center population requirement. Based solely on this requirement, there can be 12 separate states. But geography and the efficiencies that can be expected with clusters—the rationale of the second criterion—suggest that Metro Manila and its satellite centers be kept together in a single state; likewise, to a lesser extent but with the same basic reasoning, Metro Iloilo, Metro Bacolod, and Metro Cebu.

Clustering among the large urban centers of Mindanao is not evident. So Mindanao can be divided into three states, anchored by Metro Zamboanga, Metro Cagayan de Oro, and Metro Davao, respectively. Keeping a Mindanao-wide state also makes sense, however, if reducing the gap with Luzon with respect to population and GRDP shares is an objective, or simply on the basis of adhering to the tradition of the Luzon-Visayas-Mindanao island grouping.

The number of states increases progressively from two to seven across the scenarios. But there are no compelling technical reasons based on the identified criteria to justify the increase. Consistent with the fundamental premise of this paper, increasing the number of states increases the potential for interstate governance inefficiencies because more states mean more boundaries and more boundaries mean more opportunities for territorial and institutional friction. As far as equity considerations are concerned, increasing the number of states beyond the two and three states of Scenarios A and B, respectively, reduces the GRDP share gaps. But this also worsens the GRDP per capita gaps among the states (Table 2). In short, as more political equity accommodations are made, the less economically equitable the states become.

In the end, only Scenarios A and B satisfy the two criteria of this paper's suggested approach to the delineation of state boundaries.

Conclusion

Among the five scenarios presented, only Scenario A (Luzon and Visayas+Mindanao) and Scenario B (Luzon, Visayas, Mindanao) satisfy the criteria intended to enhance the ability of each state to be competitive. The rest compromise this intention with boundaries that separate clustered centers or end up with urban centers that lack the scale to attract leading firms. None of these are fatal flaws, however, and it might be possible to address them by putting in place processes and institutions that manage interstate coordination, planning, and implementation as well as improve the investment environment through other means, regardless of the location of boundaries.

It is also useful to reiterate that while this paper focused on the objective of enhancing competitiveness, other objectives are expected to weigh in as demonstrated when population and GRDP distributions were considered in Scenarios C–E. The scenarios presented earlier, therefore, should be viewed as part of a larger set of considerations. Appendix 1 presents a brief discussion on how environmental management efficiency can be considered in delineating boundaries.

Overall, the process by which the criteria to guide the delineation of boundaries was derived highlights the need for additional data at the city-municipal level in order to improve analyses and validate assumptions made in this paper. Ideally, these should include measurements of output, income, and expenditures, commodity and capital flows, service and environmental conditions. Among others, there is a need to pin down more accurately the relationships between leading firms, actual investments (competitiveness), and CBDs, likewise between the type and quality of linkages between centers and their economic and welfare conditions.

Finally, state or LGU boundaries, like geography, are not destiny. A lot depends on how cross-border relationships are managed. But no matter where the boundaries are, whether under a unitary or federal republic, autarky is not efficient and should be avoided, and therefore there will always be a need for efficient interstate or inter-LGU coordination.

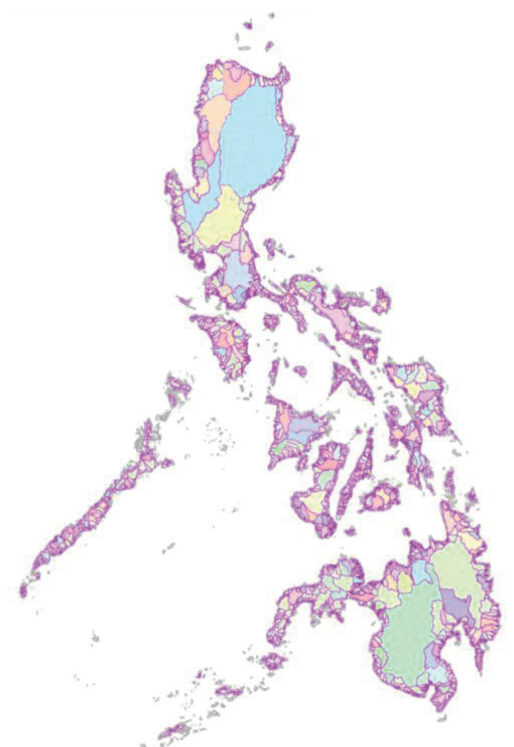
Appendix 1

One efficiency-oriented objective that was not discussed but needs to be considered is environmental management efficiency. This can be done by making river basin and ridge-to-reef coastal plains boundaries coincide with state boundaries (Appendix Figure 1). This is ideal from an environmental management point of view because upstream, midstream, and downstream activities fall entirely within the jurisdiction of a single political unit, and management of the terrestrial, freshwater, and marine ecosystems is internalized. Thus, the potential for interstate conflicts and other institutional complexities that can result in higher disaster risks and unnecessary depletion of state resources is reduced.

A state that wholly encompasses an island or groups of islands—or in general does not contain only a part of a river basin—conforms with the objective of environmental management efficiency.

Notably, if no adjustments to conform to river basin boundaries are made among the scenarios presented earlier, then only Scenarios A and B, with their large island-based states, achieve this objective.

Appendix Figure 1. Riverbasins (224 in total) and coastal plains in the Philippines



Source: Paringit et al. (2016) with the assistance of NEDA Regioinal Development Council Staff

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Political Economy of Federalism: Insights from Data on Guns, Goons, and Gold

Miann S. Banaag, Ronald U. Mendoza, and John E. Peñalosa

Abstract

Even deeper decentralization (deconcentration and devolution) in the Philippines will likely face chronic challenges in local governance. Emerging evidence from several decades of policy experience from the implementation of the Local Government Code suggests that weak governance and traditional politics—perhaps epitomized by the adage "guns, goons, and gold"—still frustrate strong and inclusive development outcomes in the entire country. If federalism is to succeed, it will need to address these challenges and create more effective mechanisms to help new federal jurisdictions and subjurisdictions transition toward better governance and stronger development outcomes.

As a contribution to the ongoing discussions on decentralization and local governance, this paper examines some of the possible governance and political economy issues in rolling out federalism reforms. It explores the risks and potential of the current governance structure of the country upon transition to a federal system of government. To help illustrate challenges and opportunities in this transition, this paper examines the cases of three proposed states and the potential for successful federalism reforms by highlighting three areas: guns and goons (dynasties, conflict, and private armies and gold (wealth and socioeconomic variables)

Introduction

Some analysts contend that decentralization in the Philippines is one of the responses to the governance challenges posed by an overconcentration of political and economic power in the capital (Manila), which is associated with imbalanced (Manila-centric) and inequitable (antipoor) economic growth. Through administrative deconcentration and political devolution, decentralization is expected to bring government closer to the people, allowing local government units much more flexibility to respond to administrative challenges and, in principle, making government leaders much more accountable to their constituents. While the track record of decentralization in the country reflects mixed results (Gatmaytan 2001; ADB 2005; Manasan 2005; Llanto 2012; De la Rosa-Reyes 2016; Mendoza and Banaag 2016; Tayao 2016), recent discussions have focused on deepening decentralization by pursuing a more federal system of government.

Should even deeper decentralization be pursued by the Philippines, persistent challenges in local governance will need to be addressed. As a contribution to the ongoing discussions on decentralization and local governance, this paper examines some of the governance and political economy issues in rolling out some federalism reforms. It will focus, in particular, on the creation of "states" under the proposed federal structure by the PDP Laban political party (Federalism Institute 2017). To help illustrate challenges and opportunities in this transition, this paper examines the case of three proposed states and the potential for federalism rollout by highlighting three areas: guns and goons (dynasties, conflict, and private armies) and gold (wealth and socioeconomic variables). We find it convenient to use the "3Gs framework" as a means to monitor and communicate key areas for monitoring, notably as these areas will reflect the possible changes (if at all) from deeper reforms. Meanwhile, the possible federal states examined herein include:

- State of Bangsamoro – where the proposed state is based from an existing entity (Autonomous Region in Muslim Mindanao [ARMM]) and where dynastic shares, private armies, conflict, and underdevelopment are high. This current state of family politics, arms possession, and conflict can be traced back to the American colonial period when the colonial government allowed local strongmen to possess arms and participate in the shadow economy to ensure their cooperation.
- State of Northern Luzon – where there will be 15 provinces that will merge into one state, and where the second largest concentration of private armies is located. This is also where Abra—tagged as the "murder capital of the North"—is situated.
- State of Central Visayas – where only five provinces will merge into one state and where the third highest concentration of private armies is located. This state is an example of where stark asymmetry between the constituent provinces exist—the highly developed province of Cebu versus more underdeveloped Masbate. The latter is also one of the most highly dynastic and political conflict-laden provinces in the country.

An initial review of the political and economic data in these proposed states help highlight a number of risks, notably arising from political conflict and in some states an overwhelming number of weak governance jurisdictions. This suggests that some states will be created with an immediate disadvantage of mostly weakly governed and poorly growing jurisdictions comprising it. A transition toward better governance under a system that espouses greater deconcentration and devolution must, nevertheless, include strong oversight mechanisms implemented at the federal level.

Data

This paper makes use of different data sources and maps out asymmetries among provinces in the proposed states in terms of key variables which can be broadly categorized in terms of guns, goons, and gold. For guns and goons, which are often associated with traditional politics and patron-client political environments, the paper turns to proxy measures including the pervasiveness of political dynasties, prevalence of private armies, and incidences of conflict. Gold would include the different socioeconomic variables pertaining to wealth and development of the region, indicating possible economic motivations for contesting or supporting better governance outcomes.

Political dynasties and dynasty share

Political dynasties are members of the same family that have occupied the same posts in the past or have spread to different elected positions. The pervasiveness of these dynasties could vary from province to province, depending on how people from the same family are currently occupying elected posts at present or how many of them have "passed on" their posts by letting another member run for office after a family member's term expires.

Following Mendoza et al. (2015), this paper uses surname matching to determine whether a particular elected official belongs to a dynasty. Using the elected officials' list from the Commission on Elections (COMELEC), an elected official is tagged as dynastic—or part of a dynastic political clan—

if there is a similar surname in other elected posts from the same province and/or there are matching surnames among officials in past election periods.

The paper then expresses the pervasiveness of political dynasties by looking at the number of elected posts occupied by a member of a dynasty versus the total number of elected posts in a particular province. This is referred to as dynasty share. A province with a higher dynasty share, therefore, has more elected posts occupied by members of a family dynasty in relation to total elected posts when compared to another province with a lower dynasty share.

Count of private armed groups

The count of private armed groups (PAGs) varies depending on the source. The Philippine Department of National Defense and Philippine National Police (PNP) have released diverging figures even within the same period. For this discussion, we refer to the count published in 2012 (Mendoza 2012) as this contains information suitable for analysis at the provincial level.

Incidences of conflict

Several sources of information were used to map out conflict at the province level. For the ARMM, International Alert Philippines (2015) provides a comprehensive database on all conflict cases in 2015 drawing on police reports and verified cases from media sources. However, because their database contains conflict in a broad sense, only governance and political conflict categories were extracted for this analysis.

- Conflicts related to governance – includes competition over nonelective positions, military versus police conflicts, corruption in public office, political/geographic splitting of administrative and political boundaries, misfires from security groups, etc.
- Political conflict – includes election-related violence, rebellion, political repression, conflict among political parties, elective positions, etc.

Drawing on details contained in the International Alert conflict database, the paper analyzes the magnitude (count) of conflict and examines the names of the actors in the database. Unfortunately, the same does not hold true for all other provinces in the country. While it is possible to compile media sources and media articles on various issues, the most that can be done for comparison purposes is to mark whether a province has had governance/political conflict in the 2016 elections based on media reports (Mendoza and Banaag 2016). While this paper turns to a number of media articles on conflict, this is not a sufficient surrogate to determine the magnitude of this discussion. A systematic monitoring similar to the International Alert for other provinces, while needed, is beyond the scope of this discussion. Instead, this paper turns to these media articles to understand political conflict in each of the provinces in detail.

Development, underdevelopment, and socioeconomic metrics

This paper also examines the development and wealth indicators of the constituent provinces within the proposed states. Just by looking at inequalities in terms of development, a proposed state would benefit from several developed provinces while a state with more underdeveloped provinces might pose high potential, but also face more challenges. Another scenario would be a state comprised of a more developed province combined with a very underdeveloped province. In this case, the former may serve as the center while the latter has the potential to benefit from the resources of its more developed neighbor. The dynamics become more interesting when we juxtapose these development variables with the political landscape. In fact, previous studies have linked poverty and underdevelopment to political dynasties (Mendoza et al. 2015). Using government data, this paper covers the following indicators to understand and explore the levels of development of Philippine provinces: human development index (2012); unemployment rate (2012); poverty rate (2012); income inequality (2012); internal revenue allotment (IRA) dependency (2012); count of airports (2016, see CAAP 2017); count of seaports (2017); and count of mining sites (2017).

Key findings

Table 1 provides the key metrics and an overview of the asymmetries that exist within each of the proposed states.

Composition

The first column labeled "Former Regions" looks at how many administrative regions have combined to form the proposed new states. This is a first possible gauge of the extent of political and economic change that would happen in the newly formed state. A count of one means there is minimal change since the proposed state would just be the administrative regional structure currently in place. There are some advantages to this, since existing structures are familiar and may not require a major overhaul.

For instance, the proposed State of Central Luzon is essentially Region III, while the proposed state of Minparom would be the group of provinces currently comprising the MIMAROPA region. These states are marked green as there would be no drastic change in the structure. However, those states that would involve the merging of provinces coming from different administrative regions would present more changes structurally and therefore could pose more challenges (thus the red marks). For instance, more new political dynamics are possible where previously separate political jurisdictions would now need to form collective action under the aegis of a federal state.

Meanwhile, the second column labeled "Composition" provides a count of the actual provinces that make up the proposed state. As the leadership is at the provincial level, the higher count of provinces would mean that more provincial leaders could potentially vie for leadership in the newly formed state. This is not necessarily a problem—except for those in high-risk situations such as Northern Luzon which, apart from having a large number of provinces that would merge into one state, also has the second largest number of private armies.

Guns and goons

The next set of columns are metrics to understand the prevalence of PAGs, the number of provinces with recorded conflict, and prevalence of dynasties. Notably, Bangsamoro state has the highest concentration of private armies (42 PAGs). This is more glaring especially when we look at the fact that this state is only composed of five provinces. This is in stark contrast to the proposed State of Northern Luzon which, while having the second largest concentration of private armies (13 PAGs), is composed of 15 different provinces that account for the larger concentration of private armies. Albeit far from the high concentration of PAGs found in the State of Bangsamoro, one glaring example is the Central Visayas region where there are eight PAGs in contrast to only having five provinces. This is in fact driven by Masbate which is infamous for its political killings especially during election periods. In terms of conflict, both the proposed states of Bangsamoro and South Luzon have the highest number of provinces with conflict in relation to the total number of constituent provinces (4 out of 5 provinces with recorded conflict in the 2016 elections). Coincidentally, these two regions have the highest prevalence of dynastic elected officials on the average, as expressed by their dynastic shares (61.9 and 57.5%, respectively).

Gold

The last columns in Table 1 represent the development and wealth indicators of each of the proposed states. The cells marked in red have the lowest development indicators, while green cells mark higher development in relation to other provinces. Clearly the proposed State of Bangsamoro has the lowest human development index (HDI), the lowest middle-income share, and the highest poverty levels. The relatively

Table 1. Summary of key indicators across selected proposed states

State	Composition		Guns and Goons			Gold					
	Former Regions[a]	Composition[b]	Dynasty (%)[c]	Private Army[d]	Conflict[e]	Human Development[f]	Poverty Rate[g]	Middle Class Share (%)[h]	Unemployment[i]	Income Inequality[j]	Financial Resources (%)[k]
Northern Luzon	3	15	49.6	13	2	0.587	20.3	14.0	4.3	0.417	81.5
Central Luzon	1	7	53.8	3	1	0.642	12.5	19.9	8.3	0.443	74.1
Southern Tagalog	1	5	57.5	7	4	0.701	9.5	23.3	9.0	0.405	61.9
Minparom	1	5	43.4	4	1	0.557	25.2	12.5	3.8	0.481	94.1
Bicol	1	5	52.6	2	0	0.523	29.1	8.9	5.3	0.437	85.3
Eastern Visayas	1	6	53.1	2	3	0.493	38.1	9.9	5.8	0.507	91.2
Central Visayas	2	5	54.7	8	2	0.569	31.6	9.3	4.8	0.473	88.1
Western Visayas	1	6	53.4	1	2	0.613	21.5	14.7	5.8	0.436	83.0
Northern Mindanao	3	11	47.0	0	4	0.518	34.9	11.1	4.5	0.462	83.9
Southern Mindanao	3	10	43.2	4	2	0.502	33.8	9.4	3.9	0.439	85.3
Bangsamoro	1	5	61.9	42	4	0.330	43.2	1.5	4.1	0.295	87.1

Measure: a - Count of regions; b - Count of provinces; c - Average dynasty share of provinces in 2016; d - Count of private armed groups in 2012; e - Provinces with conflict during the 2016 elections; f - Average human development index of provinces in 2012; g - Average poverty rate in 2012; h - Average middle class share in 2015; i - Unemployment rate in 2012; j - Income Gini coefficient in 2012; k - Internal revenue allotment dependency ratio in 2012
Source: Authors' elaboration based on various data sources enumerated in Part II

low income inequality means that many of its inhabitants experience poverty despite having relatively lower-average unemployment versus other states. In describing traditional politics in the Philippines, "gold" in the 3Gs descriptor is often used in a pejorative way, often signaling the concentration of wealth under corrupt and rent-seeking scenarios. In lieu of more detailed wealth indicators linked to political actors, we opt instead to capture this angle using proxy indicators for inclusive development (or the lack thereof).

The proposed State of Bangsamoro

As shown in Table 1, the proposed State of Bangsamoro is an agglomeration of the most dynastic, underdeveloped, and conflict-laden states compared to the rest. In short, this state appears to have the most difficult political and economic conditions for good governance. Table 2 drills further into its constituent provinces and looks at patterns of asymmetry in terms of guns, goons, and gold to identify risks and potentials in the transition to statehood.

Guns and goons

Overall, the Bangsamoro region is highly dynastic with all of its provinces having high dynastic shares compared to the total national average of 50 percent (Figure 1). Maguindanao is the most dynastic among the provinces, with 69.1 percent of total elected posts belonging to a dynasty. Coincidentally, it also has the largest concentration of PAGs and conflict, with 20 armed groups and 91 recorded incidences of political conflict in 2015. Meanwhile, Tawi-Tawi would have the least dynasty share, albeit still higher than the national average, and also has the least recorded conflict, according to International Alert.

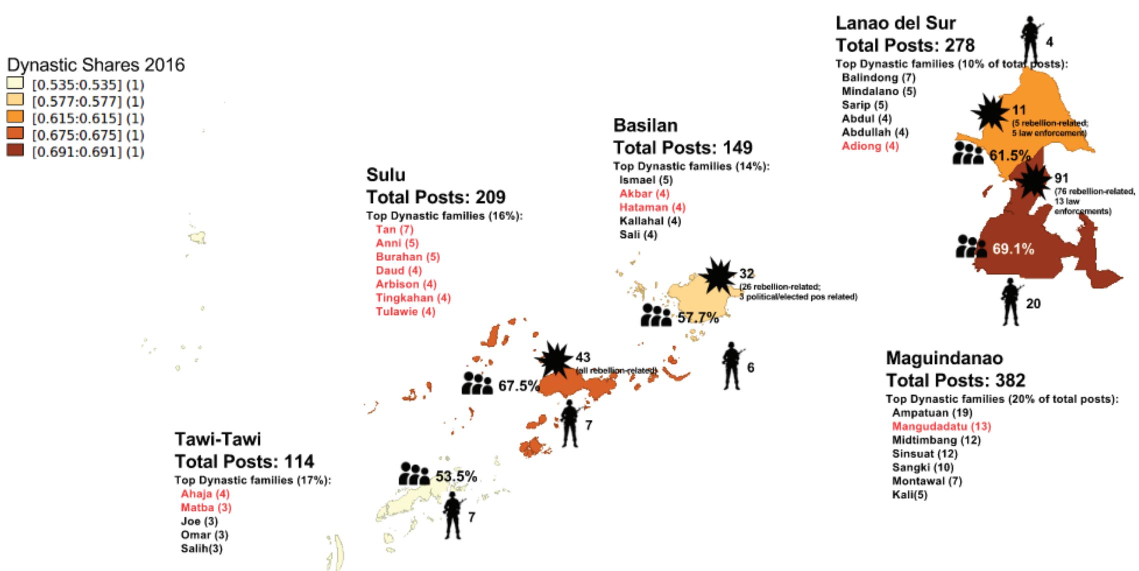
Examining dynastic families and conflict together, it can be observed that a large number of conflict incidences are tagged as rebellion related and law enforcement related in terms of count. There are only a few cases identified as governance or politics related. Only minimal matches can be found between the dynastic families and the actors identified in the International Alert conflict database.

Table 2. Proposed State of Bangsamoro summary of guns, goons, and gold

Bangsamoro	Guns and Goons			Gold					
	Dynasty (%)[a]	Private Army[b]	Conflict[c]	Human Development[d]	Poverty Rate[e]	Middle Class Share (%)[f]	Unemployment[g]	Income Inequality[h]	Financial Resources (%)[i]
Maguindanao	69.1	20	91	0.309	54.5	1.9	1.5	0.369	94.5
Sulu	67.5	7	43	0.303	40.2	0.9	1.3	0.220	93.3
Lanao del Sur	61.5	4	11	0.217	67.3	2.2	8.3	0.330	96.4
Basilan	57.7	6	32	0.419	32.1	1.2	5.4	0.261	64.0
Tawi-Tawi	53.5	5	0	0.403	21.9				
Total Bangsamoro	**61.9**	**42**	**4**	**0.330**	**43.2**	**1.5**	**4.1**	**0.295**	**87.1**

Measure: a - Dynasty share of provinces in 2016; b - Count of private armed groups in 2012; c - Incidences of conflict from International Alert in 2015; d - Human development index of provinces in 2012; e - Poverty rate in 2012; f - Middle class share in 2015; g - Unemployment rate in 2012; h - Income Gini coefficient in 2012; i - Internal revenue allotment dependency ratio in 2012
Source: Authors' elaboration based on various data sources enumerated in Part II

Figure 1. Top political dynasties in the proposed State of Bangsamoro



Note: Dynastic families are marked red if they occupy key positions in the government, such as regional governor and vice governor, provincial governor and vice governor, regional leg assembly, and representative.
Source: Authors' elaboration based on various data sources enumerated in Part II

It is important to note, however, that armed conflict and political dynasties are not separate phenomena but are historically linked. In contrast with the Spanish colonizers, the United States colonial government established alliances with the *datus*/local strongmen, allowing them to keep their weapons and engage in economic activities without regulation or effective transaction to maintain peaceful collaboration (Lara 2016).

Since then, insurgencies and conflict have continued to be part of the provinces under the proposed State of Bangsamoro. State-sponsored licenses for bearing arms during the Marcos and Arroyo periods, initially intended to fight against separatist insurgencies and maintain peace, have enabled families to use PAGs for their own political gain. The culture of conflict and maintaining PAGs has permeated so extensively that provinces in this state have become a potential source of private armies for provinces outside the regions. One example is Masbate, discussed in detail in the last section of this paper. Some news reports note how armed groups from this province are sourced out and recruited from Mindanao.

Gold

Overlaying socioeconomic data against dynasty shares in Figure 2, Maguindanao is not only the most dynastic and conflict laden but also has lower HDI, high poverty rates, and high income inequality compared to all other regions. This poses a challenge since it is where one of the larger airports and seaports are located which should make this province a suitable location for a regional capital compared to the proposed capital in Lanao del Sur, which lacks a major seaport.

In terms of resources and wealth, mining activity—at least those officially sanctioned by the Mines and Geosciences Bureau (2017)—is nonexistent in the region. Moreover, the most dynastic states, Maguindanao, Sulu, and Lanao del Sur, all show high dependency on IRA which means that these provincial governments have not set up other ways of gaining income. Augmenting government revenue at the provincial level is potentially precluded due to the existence of a pervasive shadow economy that permeates the region. In the literature, smuggling, kidnap for ransom, and the illegal guns and drugs trade are among the key activities that are flagged repeatedly. In addition, middle class shares remain low even for bigger provinces such as Lanao del Sur (2.2%) and Maguindanao (1.9%), and have seen a very minimal growth trend compared to 2009.

The shadow economy in the Bangsamoro is of particular concern, as the illicit drugs trade in particular has strong links with the weak state capability and weak institutional and regulatory environment in this part of the Philippines. Cagoco-Guiam and Schoofs (2016, p. 107) note that "Drug money can be converted into political power, but control over public office represents the real prize because it ensures the diversification and protection of illicit sources of wealth."

The shadow economy also creates particularly strong incentives for its stakeholders to preserve the weak institutional environment, prompting many to actively contravene efforts to improve this

Figure 2. Guns, goons, and gold of the proposed State of Bangsamoro

HDI = human development index; IRA = internal revenue allotment
Source: Authors' elaboration based on various data sources enumerated in Part II

and enhance good governance. Finally, an overall environment of weak institutions, poverty, and underdevelopment actively crowds out alternative means for economic development, further fueling economic and political concentration of power, and sustaining the patron-client relationships. It is not uncommon for even drug lords and warlords in the region to be well loved by communities that continue to depend on them for largesse and means of income.

In summary, the proposed State of Bangsamoro continues to be a key cause for concern especially as the current structures and economic situation could bring forth challenges in the transition to statehood. In terms of conflict, its top dynastic families occupy the highest posts. One of these families, the Ampatuans of Maguindanao, is known to have their own private army and are linked to the massacre of 58 people in 2009. These are elements that might contribute to potential violence, especially when these different political clans vie for control over the newly formed state. This current leadership structure and pattern of governance has yet to provide development opportunities and socioeconomic development in the region.

The proposed State of Northern Luzon

In the previous sections, we hypothesized that the consolidation of different seats of power into a state government could pose a big challenge as leaders of each province vie for leadership within the proposed federal state. Control of the state would lend access to all resources and wealth of its constituent provinces. In the case of the proposed State of Northern Luzon, 15 provinces would combine to form a new state (Table 3). In addition, some areas in this newly formed state also has a high count of political clans.

Guns and goons

The proposed state of Northern Luzon is an agglomeration of provinces that fall under two ends of the dynasty share spectrum, making it seem less dynastic relative to other proposed states. On one hand, there are the highly dynastic provinces of Isabela (58.6% dynasty share), Ilocos Norte (64.3%), La Union (60.0%), and Pangasinan (64.6%). On the other hand, the state also hosts the two least dynastic provinces in the country, Benguet (25.3%) and Mountain Province (18.9%). Still, 9 out of the 15 provinces overindex versus the total Philippine dynasty share of 50 percent. This means that in terms of quantity, many provinces remain highly dynastic.

Linking this with private armies and conflict, provinces with private armies and conflict all fall under those that overindex versus the average state dynasty share (49%). The most notable case would be in the province of Abra which some have tagged as the "murder capital of the North" due to political killings. This province also hosts 5 of the 13 private armies and is also identified to be one of two provinces where political violence occurred in the last 2016 elections. It ranks fourth and ties with Tawi-Tawi in terms of the highest count of PAGs in the country.

Looking into the top dynastic families of selected provinces, it can be observed in Figure 3 that family membership, or the count of family members in elected positions, is high in the Northern Luzon provinces. This can go as high as 10 people—as with the case of the Sison family of Pangasinan. This is followed by de Guzman and Perez families, with nine family members each elected in 2016. Provinces like Isabela would have seven members each for the Dy and Uy families.

On the other hand, in Benguet where dynasty share is low, none of the dynastic families occupy the higher elected positions of governor or congressman, and the number of family members in dynasties is not very high. While not belonging to provinces with the highest dynasty shares (dark brown patches in Figure 3), all the highest posts in Abra Province, infamous for its political violence, rest exclusively within two dynasty families—Balao-as and Bernos.

The provinces of Abra, Ilocos, and Pangasinan are among those identified as hot

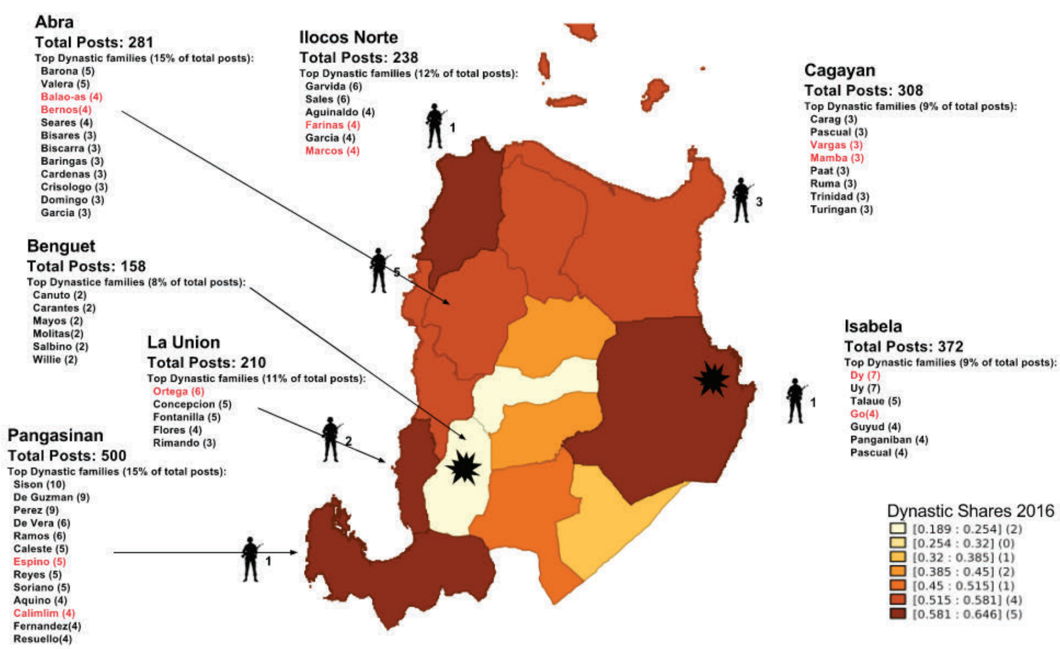
Table 3. Proposed State of Northern Luzon: Summary of guns, goons, and gold

Northern Luzon	Guns and Goons			Gold					
	Dynasty[a]	Private Army[b]	Conflict[c]	Human Development[d]	Poverty Rate[e]	Middle Class Share[f]	Unemployment[g]	Income Inequality[h]	Financial Resources[i]
Pangasinan	64.4	1		0.580	14.9	12.0	6.6	0.417	85.6
Ilocos Norte	64.3	1		0.731	8.4	23.5	8.4	0.384	73.2
Batanes	62.3	0		0.512	18.2	10.0	0.0	0.470	70.0
La Union	60.0	2		0.687	15.3	11.1	9.7	0.398	71.2
Isabela	58.6	1	Yes	0.587	19.0	14.1	2.8	0.412	88.0
Abra	56.9	5	Yes	0.526	27.2	14.7	7.1	0.404	66.2
Apayao	56.8	0		0.379	54.7	10.2	1.2	0.463	98.4
Cagayan	56.5	3		0.626	15.2	12.6	2.1	0.432	87.9
Ilocos Sur	55.3	0		0.640	13.7	16.2	6.7	0.391	75.2
Nueva Vizcaya	46.6	0		0.644	15.1	11.8	3.2	0.419	82.4
Ifugao	42.1	0		0.488	36.0	7.6	1.0	0.404	94.4
Kalinga	41.9	0		0.546	20.9	16.4	6.0	0.452	94.4
Quirino	33.8	0		0.549	15.5	9.4	0.0	0.428	88.0
Benguet	25.3	0		0.842	2.8	29.8	8.7	0.402	64.6
Mountain Province	18.9	0		0.473	27.9	9.9	0.7	0.387	82.8
Total Northern Luzon	**49.6**	**13**	**2**	**0.587**	**20.3**	**14.0**	**4.3**	**0.417**	**81.5**

Measure: a - Average dynasty share of provinces in 2016; b - Count of private armed groups in 2012; c - Provinces with conflict during 2016 elections; d - Average human development index of provinces in 2012; e - Poverty rate in 2012; f - Average middle class share in 2015; g - Unemployment rate in 2012; h - Income Gini coefficient in 2012; i - Internal revenue allotment dependency ratio in 2012

Source: Authors' elaboration based on various data sources enumerated in Part II

Figure 3. Political dynasties and conflict in the proposed State of Northern Luzon



Note: Dynastic families are marked red if they occupy key positions in the government, such as regional governor and vice governor, provincial governor and vice governor, regional leg assembly, and representative.

Source: Authors' elaboration based on various data sources enumerated in Part II spots by PNP and COMELEC especially during election periods. The sentencing of former Abra Governor Vicente Valera after being found guilty of the assassination of political rival Luis Bersamin demonstrates how a long-standing combination of dynastic rule and access to PAGs could perpetuate conflict and violence.

According to Ballesta (2009), some people believe that the Paredes-Barbero rivalry in 1963 gave birth to Abra's private armies when Jose Valera—married to a Paredes—ran against Barbero for governor. However, it was not until 1965 when the actual hiring of goons to meet political ends was documented in the media. The Valeras lost their power around this time but regained power in 1986 when Vicente Valera was appointed as acting governor. In 2006, Vicente was linked to the assassination of Congressman Luis Bersamin. Despite this, the Valera family continued to hold on to power during the last 2016 elections, with five members holding elected posts. Ballesta (2009) attributes the extraction of money from the IRA as the primary driver for politicians in Abra to hold on to politics:

> "It would not be as easy for me to conclude that many of those in power have only a personal interest in IRA had there been improvements in roads, infrastructure, and lives of the people. But there is Tineg town, which receives the highest IRA of more than PHP 41 million a year, yet has impassable roads. And the last time I was in Malibcong, another Abra town, there was not a single span of cemented road. I have been told the same holds true in other upland municipalities."

Gold

Provinces in the proposed State of Northern Luzon also show no particular pattern between dynasty shares and socioeconomic indicators, at least in terms of magnitude (Table 3). The most dynastic province, Pangasinan, does not necessarily have unfavorable indicators for HDI, income inequality, poverty rate, and IRA dependency. Nor does it have the highest compared to all other provinces. Ifugao and Apayao provinces, for instance, both have lagging indicators of HDI, poverty rate, middle class share, income inequality, and IRA dependency, but the former overindexes versus the total Philippines and Northern Luzon state dynasty shares, while the latter shows the reverse. However, when we look at improvements in HDI (Figure 4), three out of the four most dynastic regions—Ilocos Norte, Pangasinan, and Isabela (shaded in brown) showed positive improvements in 2012 versus 2009.

In terms of resources, the State of Northern Luzon has the third largest count of mining firms, with Cordillera Administrative Region provinces having one of the larger employee sizes per establishment. However, it remains relatively smaller in terms of value output compared to other mining regions in the country. The entire state also shows a scarcity of seaports in contrast to the number of provinces with coastlines. However, this is offset by the number of airports—at least one can be found in the provinces that lie in the state's periphery. The proposed capital, Tuguegarao (blue dot), is situated in Cagayan Province which hosts three of only five seaports in the province and a principal Class 1 airport.

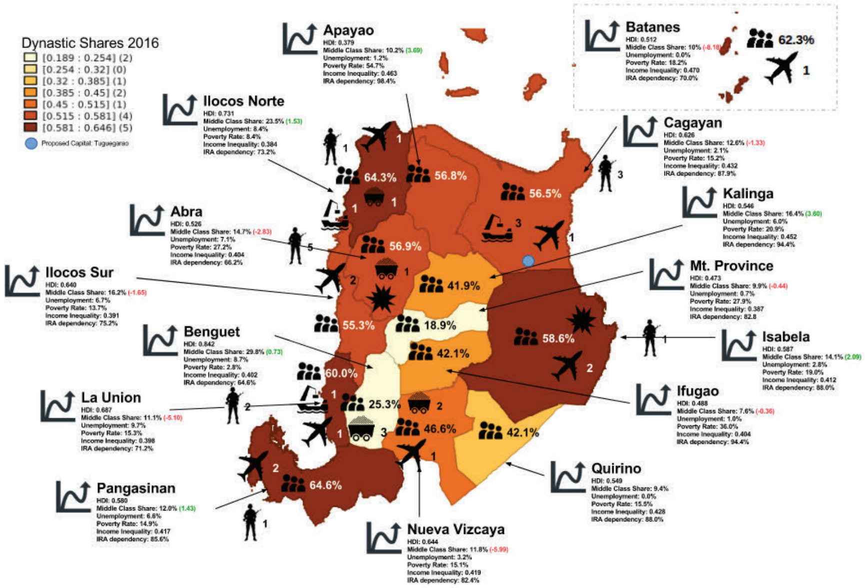
The proposed State of Central Visayas

The proposed State of Central Visayas is another case of asymmetry among its constituent provinces (Table 4). First, it has the second largest concentration of private armies and overindexes versus the Philippine total in terms of percentage of dynastic posts. This concentration of private armies is driven largely by the province of Masbate which has been infamous for being a hot spot for political violence as well as its underdevelopment. Yet, it also has the Cebu region which—despite still overindexing versus the total national dynasty shares—shows high human development, lower poverty rates, high middle class shares, and lower IRA dependency.

Guns and goons

Examining the dynasty shares from highest to lowest (Figure 5), all five provinces except Siquijor overindex versus the total national dynasty share of 50 percent. Masbate Province is the most

Figure 4. Guns, goons, and gold of the proposed State of Northern Luzon



HDI = human development index; IRA = internal revenue allotment
Source: Authors' elaboration based on various data sources enumerated in Part II

Table 4. Guns, goons, and gold of the proposed State of Central Visayas

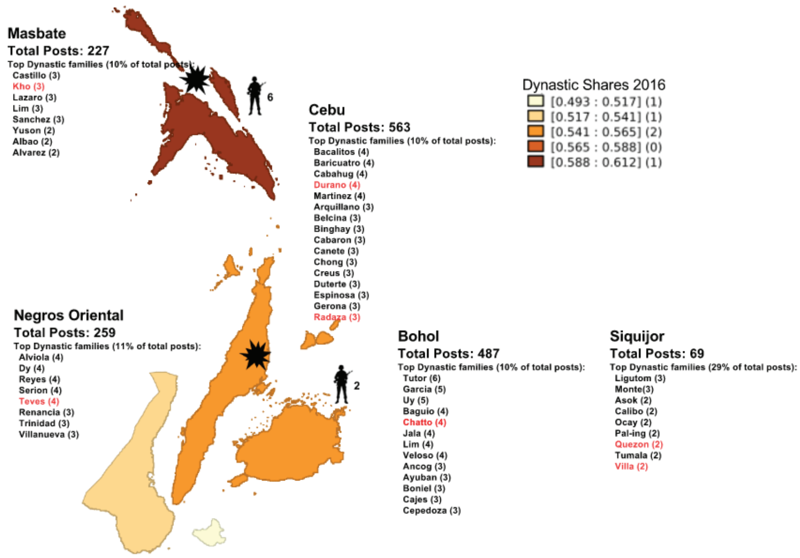
Central Visayas	Guns and Goons			Gold					
	Dynasty[a]	Private Army[b]	Conflict[c]	Human Development[d]	Poverty Rate[e]	Middle Class Share[f]	Unemployment[g]	Income Inequality[h]	Financial Resources[i]
Masbate	61.2	6	Yes	0.422	40.6	4.8	1.7	0.387	97.9
Bohol	55.4	2		0.574	30.6	12.2	6.5	0.473	90.7
Cebu	54.9	0	Yes	0.636	18.9	17.6	7.0	0.472	74.9
Negros Oriental	52.5	0		0.522	43.9	8.2	5.3	0.459	83.7
Siquijor	49.3	0		0.690	24.0	3.5	3.5	0.572	93.1
Total Central Visayas	**54.7**	**8**	**2**	**0.569**	**31.6**	**9.3**	**4.8**	**0.473**	**88.0**

Measure: a - Average dynasty share of provinces in 2016; b - Count of private armed groups in 2012; c - Provinces with conflict during 2016 elections; d - Average human development index of provinces in 2012; e - Poverty rate in 2012; f - Average middle class share in 2015; g - Unemployment rate in 2012; h - Income Gini coefficient in 2012; i - Internal revenue allotment dependency ratio in 2012
Source: Author's elaboration based on various data sources enumerated in Part II

dynastic, with 61.2 percent of elected posts in 2016 having families elected either in the past or at present. Coincidentally, Masbate is also where six of the eight PAGs in the region are based. It ties with Basilan Province and ranks third overall in terms of count of PAGs per province. Sharing the second spot in terms of dynasty share is Bohol, which hosts two PAGs but without any reported conflict as of the 2016 elections.

A closer look into the dynastic families reveal that highly dynastic families across regions are elected in major government posts. For instance, the Khos of Masbate tie with several other families for having the most number of elected posts within a family (three members as of 2016 elections). The same is true with the Duranos of Cebu (four members), Chattos of Bohol (four members), and Teves of Negros Oriental (four members). In

Figure 5. Political dynasties and conflict in the proposed State of Central Visayas



Note: Dynastic families are marked red if they occupy key positions in the government, such as regional governor and vice governor, provincial governor and vice governor, regional leg assembly, and representative.
Source: Authors' elaboration based on various data sources enumerated in Part II

Siquijor, the topmost positions still belong to the most dynastic families—Quezon and Villa (each with two members), albeit not the highest in terms of the number of family members (i.e., the highest in Siquijor is the Ligutom and Montes clans with three members each).

Apart from having the highest dynasty share and a relatively large count of PAGs, Masbate has also been identified as a perennial hot spot by PNP and COMELEC during elections. Political killings have become so prevalent that it necessitated a peace covenant program among those running for office during the 2016 elections. While this covenant was signed by politicians and stakeholders from the state, media, and the church, this was not signed by Antonio Kho and his wife Olga. Tagged as Masbate's "reigning political kingpin" by Dr. Prospero de Vera of the University of the Philippines National College of Public Administration and Governance, Kho has been linked to violence perpetrated against many of his clan's political opponents.

Chua (2013) mentioned that Kho was incarcerated but later acquitted for allegedly ordering the murder of Representative (Rep.) Tito Espinosa in 1995. He was also accused of killing Rep. Moises Espinosa Sr. in 1989 but was later absolved. He is also blamed by the Lanetes "for the ambush of the late Rep. Fausto Seachon Jr. and the attacks on incumbent Governor Rizalina Seachon-Lanete". In the same article, he also admits to keeping an armed group in the past.

Regardless of who the masterminds are, the fact remains that Masbate's political history is tainted by violence. Anecdotal information connecting violence in Masbate to Mindanao, where the highest concentration of PAGs are situated, support existing bodies of literature on the shared histories of political dynasties, PAGs, and conflict. Quoting Barcia (2016):

> "Former policeman Elpidio Daligtig of Cataingan, Masbate, who is running for town councilor, supported Sera's claim, noting that bigtime politicians have recruited active soldiers and policemen from Mindanao as their hired thugs for a monthly salary of PHP 25,000.
>
> Some politicians are also reportedly swapping goons from Samar and Sorsogon provinces, the former cop added.
>
> Politicians here are hiring active soldiers and PNP officers in Mindanao,' Daligtig said. 'It has been a usual practice here by the politicians

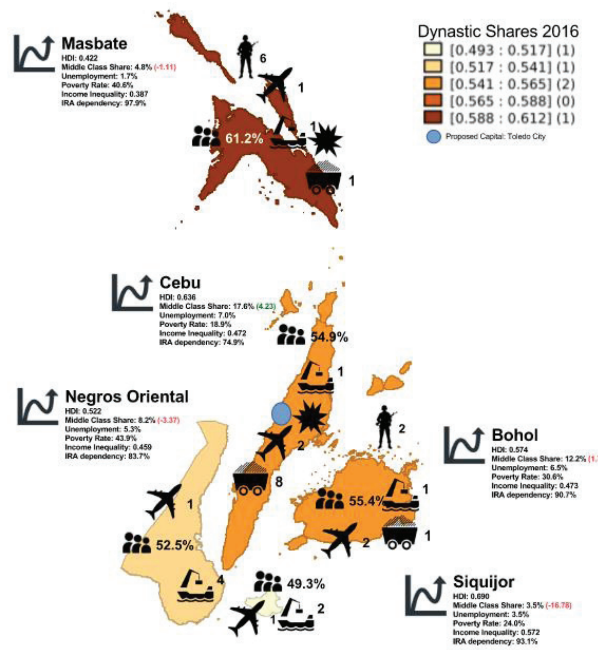
> to use the New Peoples'Army (NPA), and so now they're trading off goons from Samar and Sorsogon.'
>
> Baleno town Mayor Romeo C. dela Rosa said the series of killings in Aroroy and Baleno towns are election-related, and supported the claims of Sera and Daligtig.
>
> 'Criminals, ex-soldiers, and NPAs were hired by the politicians so we need the Special Task Force of the PNP and AFP to neutralize these elements every election period or even after elections,' Dela Rosa said."

Gold

Apart from being the province with the highest dynasty share, count of PAGs, and the prevalence of conflict, Masbate also has the lowest development indicators (Figure 6). It shows the lowest HDI within Central Visayas (0.422) while Cebu and Siquijor show the highest HDI scores in the region (0.636 and 0.690, respectively), comparable to the national average (0.644). Similarly, Masbate shows the highest poverty rate (25.2%), while Cebu falls on the other end of the spectrum (18.9%) and far from the total state average (31.6%). Inequality is also low for Masbate which indicates that the poor conditions are experienced by majority of its inhabitants. Meanwhile, Siquijor shows a relatively higher income inequality despite having a high HDI. This, alongside the low middle class share, indicates that only a handful benefit from developments in this region. Meanwhile, both Bohol and Cebu have higher unemployment rates than the national average, while Masbate shows lower unemployment.

As the province with the best development metrics, Cebu is a suitable place to build the state capital. It hosts a major airport and key seaports. In addition, it is the center of mining extraction within the state. The 2012 mining census indicate that mining operations in Central Visayas have the second highest value in gross addition to tangible fixed assets and the third largest region in terms of value output. In contract, Masbate's development is marred by frustrated land reforms in the country. In 2007, it ranks eighth among

Figure 6. Guns, goons, and gold of the proposed State of Central Visayas



HDI = human development index; IRA = internal revenue allotment
Source: Authors' elaboration based on various data sources enumerated in Part II

the provinces with the biggest number of unmet land reform beneficiaries and hectarage that are not fully covered by the Comprehensive Agrarian Reform Program according to the Department of Agrarian Reform (Castaneda 2008).

Conclusion

This paper presents a very preliminary mapping of some of the possible contexts under which the proposed federalism reforms might take place. Using a very simple framework of guns, goons, and gold or the 3Gs, the paper tried to identify several key indicators to help monitor the ex-ante prospects for a more successful federalism rollout. The three proposed states examined herein—Northern Luzon, Central Visayas, and Bangsamoro—indicate the range of challenges to be faced in continued decentralization reforms. While some states have some of the ingredients associated with good governance—a strong middle class and lower IRA dependency (ergo, a strong domestic revenue base), still others scored unfavorably on variables linked to traditional politics and patron-client relationships (e.g., dynasties, high inequality, low human and economic development, presence of private armed groups, and history of violence).

Clearly, any planned transition toward even greater decentralization must balance the transfer of resources and political power with much more stringent mechanisms for accountability, including possible innovations in transparency and oversight institutions, as well as plans to dismantle the most egregious violations of democratic politics at both the national and local levels (e.g., fat dynasties and private armed groups, as well as impunity in crime and corruption). In some regions in the country, the persistence of violence and conflict has become intimately linked to the illicit trade and shadow economy. Deep political and economic interests conspire to preserve these structures, and plans to dismantle them should be complemented with more effective and inclusive economic development policies that empower citizens and reform groups to begin to support the alternative equilibrium. It is unlikely that this will take place naturally, and within the confines of the local jurisdiction. There is still a role to play for the federal structure for imposing transition mechanisms at the national/federal level.

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Comments

Joseph J. Capuno

First, I would like to congratulate the Philippine Institute for Development Studies (PIDS) for successfully organizing this policy forum with a very limited time theme. PIDS has proven once again that it rightly deserves to be called a **think tank**, in that it informs, guides, and influences the nation's policy discussions. And, thanks to PIDS for inviting me here.

Second, I would also like to congratulate the three presenters for their enlightening take on the proposed federalization of the country. The three papers nicely complement each other and altogether contribute to the clarification of the various and complex issues, reminding us of the realities on the ground, and how we may start thinking about reconfiguring the country's economic, spatial, and governance setup.

I will discuss the three papers around five questions for which the answers, I think, at least some of us would want to take away from a forum like this. At the onset, let me say these questions are my preferences and they are not necessarily the most important or interesting to policymakers. Also, the three papers have other merits beyond those answers they provide to my questions. It is likely that these questions were already answered in the morning session, which unfortunately I was not able to attend.

First, what is federalism? How is that different from decentralization or devolution?

By beginning with the need for definitions, I, of course, betray my being a teacher. But it is often useful to have a common understanding of the terms that we use. Here, Dr. Rosario Manasan's paper differentiates the two succinctly. Decentralization involves the transfer of powers or responsibilities that the national government (NG) decides to delegate or cede to local government units (LGUs). Federalism involves the division of power and responsibilities as stipulated in the constitutions (or as the sovereign people has directly decided).

So, the takeaway here is that federalism is much more permanent or durable and therefore harder to amend or reverse. Now, if there is any lesson that we have learned in our many failed attempts to revise the Local Government Code (LGC) in the last 25 years is that we should set the objectives and as much details of the reform right in the beginning, for amending a flawed reform later would be extremely difficult. If the code is hard to amend, surely changing a federal constitution will not be less hard.

Second, what powers and responsibilities should be assigned to the NG and to subnational governments (SNGs), meaning the LGUs as we know them, and the states on top of the LGUs?

Here, Manasan's paper again illumines. It reminds us of the economic principles for the assignment of expenditure and revenue-raising powers between the different layers of government, and how a higher-level government (i.e., the NG or state) will coordinate the various behaviors/ activities of the lower-level government.

An inevitable consequence of fiscal decentralization or fiscal federalism will be fiscal imbalances across LGUs. Through a well-designed and executed fiscal equalization grant (FEG) scheme, this problem can be minimized. Ideally, the FEG scheme should be designed together with the assignment of expenditure and revenue-raising powers, if only to call the attention of policymakers and federalism advocates about the limited resources that can be claimed and shared. To put it differently, if the states would claim 80 percent, say, of all tax and nontax revenues generated within their jurisdictions, how much would be left to correct the fiscal imbalances among states or LGUs that might arise and for the NG to finance the national public goods and other functions it will retain? Since the PDP Laban-proposed federal constitution is broad, it allows all sorts of combinations of FEG and expenditure-revenue assignments, with their own supporters. However, only some combinations may prove to be economically viable, much less efficient, and they may not necessarily be the ones pushed forward by the noisiest advocates. We can already anticipate the risks of fiscal imbalances, and the opportune time to manage the risks is now rather than later.

Third, how will the states be configured?

Here the papers by Manasan and Dr. Ronald Mendoza and partner take the proposed states (by Sen. Pimentel or the PDP-Laban Party) as a given, and then ask the questions whether these states are administratively or politically viable. Manasan estimates how much it would cost to have an extra layer of government (the state government). By putting a figure there, we can now ask the question of whether the extra PHP 30–50 billion that we will be forking out is better spent this way than, say, for infrastructure, health, or education. Putting it differently, do we stand a better chance of lifting millions of Filipino families by putting up state governments and bureaucracy than investing it in the *Pantawid* program?

Mendoza's paper reminds us that, well, guns, goons, and gold are everywhere in the three proposed states that they evaluated in their paper, and that the same guns, goons, and gold (3Gs) may yet frustrate again the hope for regional development under a federal setup. I would not be surprised if the same 3Gs will be found in the other proposed states.

Of the three papers, Dr. Arturo Corpuz's paper takes us farther in answering the questions. His approach reminds me of a point a German scholar made in a previous forum about why federalism works in Germany. He said it is because they have economic decentralization—which means that Germany has many highly developed regional economies that can be independent of the political capital. Without such regional economies, all of Germany might be subservient to their own "imperial" Berlin or Bonn.

Corpuz's exercise has the same end goal. Beginning with the central business districts (CBDs), he asks what would be the external boundaries of the state that would be economically viable, using population as indicator of economic potential? His most optimistic findings—two or three states—do not coincide with any of the proposed configuration of the federal states in the country. However, if there are only two or three viable states, do we really need to federalize?

Art mentioned extending his model, and in doing that, he might want to consider the following.

- Tax revenue potentials. The idea is that component LGUs can raise a substantial portion of their revenues from local sources; otherwise, they will be dependent again on imperial Manila. Of course, the tax revenue potentials will depend on the types and range of functions that will be assigned to states and SNGs.

- Maximize agglomeration economies. CBDs and growth areas are such because people and firms find it beneficial to locate together; they will try to do so with or without government intervention. And so, it is important to take existing and potential agglomeration economies in deciding the state boundaries.
- Juxtapose the "3Gs" in the putative or configured states. The idea is that we might as well anticipate the emergent political economy in these states.
- Demographic characteristics of the population. Besides economic viability, including economies of scale (which favor bigger states), the states should be populated with people of similar preferences for public services (which favor small states).
- Fiscal equity and fiscal equalization grant. While we want the LGUs in a state to be self-reliant (less dependent on internal revenue allotment), there will be fiscal inequities; this is where Manasan's point about fiscal equalization grants come in. We could learn from the experience of other countries, like Australia or Canada I believe, in this aspect.

To paraphrase Manasan, Corpuz's modeling exercise will be an iterative process until the ideal number of states are identified. However, in this case, we need to juxtapose over economic viability the efficient fiscal scale and scope (of expenditures and revenues) and the sociopolitical harmonization (balanced political competition). In other words, the papers taken together provide a much more comprehensive view and assessment of the issues and of the available options.

Fourth, how do we get there? Or, how do we amend the constitution or the LGC to get to a federal setup (assuming we have agreed on the design). What do we do if we get derailed or were not headed in the desired direction?

These questions are more about the political economy of reform. It has been raised before, by Matsuda of the World Bank, for example, that the LGC is taking some time to amend because the legislators will not amend something that will empower their local political opponents. I think it is safe to assume that some of our incumbent legislators will have the same motivations. They will configure the states and the governance setup in their favor.

So, what do we do? How can we make them dissolve or consolidate existing LGUs for efficiency or viability? I think this is where we can learn from other disciplines (political scientists, policy experts).

What if we get derailed? Or, what if the empowered states or LGUs are captured, say, by political dynasties or those with 3Gs?

Here both Manasan and Mendoza underscored the need for accountability. To ensure that the LGUs are answerable to their constituents, I would say ensure that the people are able to vote with their hands, vote with their wallets, and vote with their feet—vote with their hands as an exercise of choice through the election ballots; vote with their wallets when they cross the border to shop and get a better value for their hard-earned money; vote with their feet when they migrate elsewhere if their LGU fails them. Besides electoral or political reforms, there are structural interventions that should remain the NG's responsibility—the provision of public infrastructure to enable physical mobility across states, and the provision of health and education services to enhance and secure the capabilities of the population (i.e., something they can take with them wherever they choose to locate).

If you recall, the LGC has a provision about mandatory review, I think, every five years. We have had several attempts at this through the years, but the code remains largely as is, despite everybody's view that it must be revised. Again, it remains as is because the reform process to get initiated and completed is derailed by political capture.

The lesson then is what provision in the federal constitution or law should be there such that reviewing and/or amending it becomes credible. Will it be possible to have a 'sunset clause'—like, "unless such and such provision is reaffirmed, then it will be automatically amended as…."

Fifth, do we really want to federalize?

I caught only the tail end of the open discussion in the morning session where answers to this question were advanced and challenged. So, I may just be repeating what has been tackled with what I am going to say. Anyway, here is what I think are the more salient reasons provided.

The first reason why we are moving toward a federal setup is because it is President Duterte's campaign promise and now the policy. I cannot think of a better quip here than to quote or rephrase Secretary Ben Diokno: *Differentiate the Duterte as candidate, and the Duterte as the president*. What I mean is that Duterte the president now surely has better information, a different vantage point, and faced with more interlocutors than he was accustomed to in Davao, that he might be more open-minded about the pros and cons of federalism.

The other excuse is that federalism can promote a more balanced regional development or reduce poverty. This claim is very loaded and seem to suggest two channels by which federalism can reduce growth imbalances or poverty.

The first channel is that local officials know the poor and therefore are in a better position to directly provide for them. A review of local government spending under decentralization reveals two patterns. First, much of the LGU provisions for the poor is short-term redistributive transfers—*perang tulong para sa kasal, binyag, at libing*. These transfers will surely temporarily alleviate poverty but will not permanently solve it. There are also patronage or clientelist transfers, i.e., while the LGUs may know the poor and provide for them, the problem is that they cannot say "no" to the nonpoor who may crowd out the poor from the limited public provisions. The case of "political indigents"—or the nonpoor but politically connected constituents—enlisted with LGU money in PhilHealth's indigent program comes to mind.

The second channel is that LGUs can promote local economies by incentivizing local businesses. This is a big "if". Yes, the LGU may do that if they have the expertise, willingness, and foresightedness, because local development happens only after several terms in office. There is also inter-LGU competition that can be expected under a decentralized or federal setup. Manasan talked about the need to manage this competition in her paper.

I think I should stop now, lest I further reveal my confusion about the question that federalism is really trying to answer.

Comments

Alex B. Brillantes Jr.

The whole discussion of sharing resources among local government units (LGUs), especially with respect to financial resources, has been ongoing for decades, and federalism is underpinned by the same set of issues. Here, I want to highlight that the discourse on federalism should not be separated from those on devolution. Moreover, it should be up to the people to define the terms of the public discussions and develop their own model of federalism. There are also several continuing issues and concerns on devolution and federalism, namely, (1) national-local relations; (2) delineation of functions, responsibilities, and powers; (3) financial decentralization; (4) interlocal cooperation; (5) bossism and dynasticism; and (6) capacity building of local and national government.

On his presentation, Dr. Ronald Mendoza noted that political dynasties have always been a feature of the Philippine polity since the 1950s, even under a unitary form of government. He enjoined a deeper understanding of how to weaken political dynasties from "the demand side" (as opposed to the supply side, as current analyses are often preoccupied with) by emphasizing local accountability. Such provisions should be enshrined in the federal structure. The present challenge is how to work on the demand side, which should be provided for in the federal structure.

However, Dr. Mendoza may have forgotten to consider accountability and people's participation when he examined the devolution of authority in Abra, as in the case of Concerned Citizens of Abra for Good Governance, a citizens' group with a thrust to encourage people's participation. Still, I add glitter to his characterization of the Philippine political economy as rife with guns, goons, and gold, where celebrities can easily become elected officials in the Philippine political arena.

On the presentation of Dr. Arturo Corpuz, I want to highlight that state boundaries matter, as they represent physical or institutional barriers that affect movements across regions and states. Additionally, the discussion of the role of interlocal cooperation in decentralization is nothing new. For this, I cite the Integrated Reorganization Plan (IRP), the first decree signed by former President Ferdinand Marcos, though the discussant noted that the decree had been pending in Congress since 1969. One provision of the IRP is the division of countries into administrative regions. I suggest that the creation and delineation of states could be taken from there. Similarly, the idea of dividing the country into geographical, linguistic, and other cultural factors has already been proposed in the past.

Further study should be conducted to gather data on good practices learned from the Philippine experience with decentralization. For instance, we can start with Galing Pook, which has been recognizing the innovative practices of LGUs since 1993, and the Local Government Leadership Academy of the DILG. It is imperative to base the decision to shift to a federal form of government on evidence and data. Working with local and regional universities outside Manila may also contribute significantly to building a repository of hard data.

I am in favor of federalism if it would strengthen subnational governments, which should be the ultimate source of power in the country's governance structure. In this sense, interlocal cooperation must be emphasized, for instance through cross-border solid waste management and watersheds protection programs.

In the end, I disagree with a statement made earlier in the conference by Professor Paul Hutchcroft, who does not believe that federalism is the next logical step. Instead, I argue that the shift to a federal form of government is an instrument to deepen devolution, alongside initiatives to build the capacity of LGUs to implement meaningful decentralization reforms.

Open Forum

One question sourced from the live online feed pertained to the assignment of functions under a federal system of government. According to Dr. Rosario Manasan, the functional assignment under a federal system of government would be contingent on the scope of benefits. National functions (e.g., territorial security, foreign borrowing, etc.) are usually assigned to the central government, while local functions/services (e.g., health care, education) are usually assigned to the state governments. Meanwhile, Dr. Arthur Corpuz said that some economic services, such as solid waste management, have 'natural' scope and boundaries that may not coincide with administrative and political boundaries. Two or more local government units (LGUs) might be needed to provide a certain service efficiently.

Another question raised by an audience member from the Congressional Policy and Budget Research Department pertained to resistance from local governments that might be unwilling to forgo their assigned powers under the 1991 Local Government Code (LGC). Dr. Manasan responded by emphasizing the role of the regional development councils (RDCs), as they could be seen as a means to reap some of the benefits of the LGC without shifting to a federal system of government. However, the question remains as to how RDCs can be made more effective in strengthening local autonomy. Dr. Alex Brillantes added that RDCs have been in existence for the longest time, and building on them could significantly advance the decentralization process.

An audience member from the Region VI Office of the National Economic and Development Authority contributed her views on RDCs. She argued that the RDCs are not maximized despite the fact that the Constitution provides the mandate for the same. She expressed frustration over the fact that RDCs contribute significantly to the planning process for economic growth at the regional level yet national agencies decide during the budgeting stage. In this sense, the audience member argued that regional offices would know their respective area's needs and priorities more than the department secretaries. However, she understands that department secretaries consider the sectoral perspective, while regional offices focus solely on their area of jurisdiction. Nonetheless, she hopes that further discussions on federalism would take into account the empowerment of LGUs, as it can be frustrating for them when the budget approved by national government is not aligned with local priorities.

Another question was addressed to Dr. Corpuz pertaining to how cross-border government systems may be made more responsive to geography. Dr. Corpuz discussed the potential of provinces as the key geographic level rather than regions, owing to the lack of budget and clout of the RDCs. However, this recommendation is being made under the assumption that the current unitary form of government is retained. In his experience, Dr. Corpuz stated that in the absence of federalism, one strategy to manage local-level conflict is to approach the project and planning by sector. In this manner, there tends to be less resistance from local governments as it does not threaten autonomy.

Dr. Paul Hutchcroft closed the forum by returning to an earlier question raised by Prof. Solita Monsod on whether federalism is the answer, and if the Philippines would be prepared for such a transition by 2022. For Dr. Manasan, the answer depends on one's risk appetite, and she herself is a risk-averse person. Similarly, Dr. Joseph Capuno sees no need for federalism as the government can strengthen decentralization under the current form of government. Dr. Corpuz would also prefer that the government focus on current issues and maintain the country's current trajectory of growth, and argued that federalism might distract us from this trajectory. Dr. Ronald Mendoza opted not to make a stand on federalism owing to the difficulty of arriving at a consensus on its definition within the Philippine context and setting. On the contrary, Dr. Brillantes supports the shift to a federal system of government as he believes it will provide an opportunity to deepen decentralization.

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CRITICAL PERSPECTIVES ON FEDERALISM FOR REGIONAL DEVELOPMENT

Proceedings of the Third Annual Public Policy Conference 2017

Since the beginning of the Duterte administration, federalism has been espoused as an alternative to the centralized system of governance in the Philippines. In its attempt to promote an intelligent discourse on this issue, the Philippine Institute for Development Studies dedicated the Third Annual Public Policy Conference (APPC) to the discussion of federalism under the theme, "Critical Perspectives on Federalism for Regional Development". Through the APPC, the Institute convened local and international experts and scholars to promote awareness and appreciation of the importance of policy research in crafting relevant and evidence-based policies and programs related to federalism. It specifically focused on the fiscal design and political feasibility of federalism in the country, as well as state boundaries under a federal republic.

The Institute hopes that the recommendations raised in these proceedings will serve as a practical resource for the public and policymakers alike, especially as they make informed decisions regarding the adoption of federalism in the Philippines.

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