

# PHILIPPINES

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: PHILIPPINE PESO (PHP)

### POPULATION AND GEOGRAPHY

**Area:** 300 000 km<sup>2</sup>  
**Population:** 104 918 million inhabitants (2017), an increase of 1.6% per year (2010 - 2015)  
**Density:** 350 inhabitants / km<sup>2</sup>  
**Urban population:** 46.7% of national population (2017)  
**Urban population growth:** 2% (2017)  
**Capital city:** Manila (12.8% of national population)

### ECONOMIC DATA

**GDP:** 875 billion (current PPP international dollars), i.e. 8 342.8 dollars per inhabitant (2017)  
**Real GDP growth:** 6.7% (2017 vs 2016)  
**Unemployment rate:** 5.7% (2017)  
**Foreign direct investment, net inflows (FDI):** 10 057 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 25% of GDP (2017)  
**HDI:** 0.699 (Medium), rank 113 (2017)  
**Poverty rate:** 6.1% (2015)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Philippines is a unitary republic with a presidential regime and division of executive, legislative and judicial powers. The president is elected by universal suffrage for a 6-year term as both the head of the state and the head of government. The president may run two consecutive terms. The legislative power is vested in a bicameral congress which comprises the Senate and the House of Representatives. The Senate is composed of 24 members directly elected by universal suffrage; half of the seats are renewed every three years and each senator serves a six-year term. The House of Representatives is composed of 305 members, of which 245 are elected by district via universal direct suffrage. The remaining 60 are elected via a parallel party-list representation system.

The Philippines has a high degree of political decentralization. Local government is present in the 1987 Constitution (Article X) and regulated by the Local Government Code (LGC) of the Philippines, adopted by Congress in 1991 (Republic Act No. 7160). The LGC establishes a three-tiered system of local government and makes provisions for the basic structure, roles and responsibilities of local governments in the country. The Code entailed an expansion of local governments' fiscal capacity and autonomy. A "Master Plan for the Sustained Implementation" was developed in three stages of decentralization reform: (a) formal transfer of functions (1992–93) (b) adjustment by local governments (1994–96) (c) institutionalization of the decentralized system (1997 onwards). The current political debate in the country is heading towards the acknowledgement of a more explicitly federal form of government. In December 2016, the presidency signed an executive order to prompt a consultative committee tasked with reviewing the 1987 Constitution. A draft Constitution was presented to the President in July 2018.

The Department of Interior and Local Government (DILG), within the Ministry of Interior, is in charge of overseeing local governments. Every year it awards various local governments a Seal of Good Local Governance (SGLG). A number of other national agencies are mandated by laws and regulations to monitor local performance in service delivery. Coordination among these sectorial bodies, however, is still weak. The coordination mechanism includes the Department of Finance, the Department of Budget and Management, the National Economic and Development Authority (NEDA), as well as the Commission on Audit and the Civil Service Commission.

NEDA is the main government agency in charge of preparing national development plans, providing technical assistance to local government units and preparing regional planning policies. At the level of the National Capital Region (NCR) of Metro Manila, the Metropolitan Manila Development Authority (MMDA) is the agency directly in charge of regional development, in coordination with NEDA and the mayors of the cities and municipalities included in the region. In other regions, the Regional Development Council (RDC) and Local Development Councils are formed by regional, provincial, municipal and city-level elected officials and administrative officers, in charge of coordinating formulation, implementation and follow-up of development plans.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	42 045 Villages ( <i>Barangays</i> )	145 Cities and 1 489 municipalities	81 Provinces and 1 Autonomous Region.	
	Average municipal size: 2 398 07 inhabitants			
	<b>42 045</b>	<b>1 634</b>	<b>82</b>	<b>43 761</b>

**OVERALL DESCRIPTION.** According to the 1987 Constitution, local government in the Philippines is three-tiered and composed of 81 provinces; 1 489 municipalities (*bayan*); 145 cities; 42 045 villages (*barangays*), plus the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and NCR regions. The country is also composed of 7 107 islands. Each of the three levels of subnational governments is self-governing, and since the adoption of the Republic Act No. 7166 in 1991, elections for national and local officials are synchronized. Local government elections are to take place every 3 years, corresponding to midterm elections.

**REGIONAL LEVEL.** The country is divided into 81 provinces, each led by an elected governor and an elected provincial council. Provinces are the upper tier of subnational governments, and according to the constitution, they shall ensure that the acts of their component cities and municipalities are within their prescribed powers and functions. Local legislative power is exercised by the *Sangguniang Panlalawigan* for the province. For the central government administration, the country is structured into 14 ordinary regions plus three special regions: The Cordillera Administrative Region, the BARMM and the NCR. The latter is composed of the mayors of the 16 cities and one municipality included in the region. It is the region with the second-highest number of cities (Calabarzon has 19 cities and 123 municipalities). The Bangsamoro Organic Law (Republic Act No. 11054) adopted in 2018 and confirmed by referendum in January 2019 gave rise to the Bangsamoro Autonomous Region of Muslim Mindanao, replacing the Autonomous Region of Muslim Mindanao. It provided a new legislative framework for the region and further political autonomy from the national government. The BARMM is the only region with an elected government.

**INTERMEDIARY LEVEL.** Cities and municipalities are the intermediate level of local government. The mayor is the elected holder of executive power, while an elected city/municipal council holds the legislative power. The legislative power is vested in the *Sangguniang Panlungsod* for the cities and the *Sangguniang bayan* for the municipalities. Filipino cities are further categorized into three sub-categories: Highly-Urbanized Cities (35); Independent Component Cities (5); and Component Cities (105). By being above a legally-determined threshold of resident population and financial availability, Highly Urbanized Cities and Independent Component Cities are outside provincial jurisdiction and oversight. The threshold to distinguish between Component Cities and Municipalities is set at 150 000 inhabitants and at least 20 million pesos/year of local revenue.

**BARANGAYS.** Villages, or *barangays*, are the lowest level of local government. *Barangays* are managed by an elected official – *Barangay* Chairperson or ‘captain’ – and an elected village council (*Sangguniang Barangay*). The *barangays* are the closest tier of local government, and represent a neighbourhood level of governance. According to the “*Barangay Code*” (book three of the Local Government Code) they are generally composed of 50 to 100 households. Over the past few years, new regulations have promoted local deconcentration in exchange for fiscal stimuli and incentives. Consequently, the number of local governments (and Municipalities in particular) has risen notably, although the process has recently slowed down. Two *barangays* were created by decree in 2016, and ten new ones were established as a result of the fragmentation of a former one.

**COOPERATION.** Provinces, cities and municipalities, as well as *barangays*, may establish Memoranda of Agreement to coordinate service delivery and cooperate with their respective assets. Moreover, Local Development Councils are mandatory by law, LGC (Book I Title VI) and are composed of local government representatives of the different tiers of government component of the territory, allowing for vertical coordination in policy formulation of long and middle-term development plans and public investments.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local government’s competences, powers and resources are defined in the 1991 Local Government Code, which establishes that local government units shall exercise their powers as corporate entities to promote the general welfare and provide citizens with basic services and facilities. *Barangays’* responsibilities include agricultural support and maintenance of health centres and infrastructures. Cities and municipalities are the local governments endowed with the majority of public service provision competences and authority. These include welfare programs, waste management, construction of municipal and infrastructure facilities and transportation, among others. Provinces are in charge, for instance, of building infrastructure funded with provincial funds, upgrading tax collection mechanisms and enabling inter-municipal cooperation.

In the National Capital Region, the national agency Metropolitan Manila Development Authority holds several planning, monitoring and coordination functions and exerts regulatory and supervisory authority over the delivery of metro-wide services. These tasks, however, do not interfere with the exercise of competences by lower local government units.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	CITY AND MUNICIPAL LEVEL	BARANGAYS
<b>1. General public services</b>	Public buildings and facilities	Civil Registry; Public buildings and facilities	Maintenance of Local justice facilities ( <i>Katarungang Pambarangay</i> )
<b>2. Public order and safety</b>	Provincial firefighting services; Traffic signs and regulation	Traffic control; Community Police	Public order maintenance (assist city and municipal authorities)
<b>3. Economic affairs /transports</b>	Provincial roads; urban transit systems; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Local roads; Park spaces; Urban transit; School transport; Local tourism; Local markets	Agricultural support services; Maintenance of barangay roads and bridges; Support satellite of public market
<b>4. Environmental protection</b>	Natural preservation; Soil and groundwater protection; Climate protection; Sewerage	Parks and green areas; Waste management and sanitation ; Street cleaning; Natural preservation	Support in beautification, solid waste collection and disposal
<b>5. Housing and community amenities</b>	Construction/renovation of housing; Housing management	Construction/renovation of housing; Water supply ; Public lighting; Urban and land-use planning; Urbanism	Maintenance of water supply systems
<b>6. Health</b>	Regional hospitals with Emergency Medical Systems	Primary healthcare (medical centres); Preventive healthcare	Barangay health services and day care centres; Hygiene and sanitation
<b>7. Recreation, culture &amp; religion</b>	Regional museums; Cultural heritage	Sports; Libraries; Local museums	Maintenance of reading; Sports facilities
<b>8. Education</b>	Secondary education	Pre-primary and primary education with school district	
<b>9. Social protection</b>	Elderly; Disabled individuals (benefits and services)	Social care for children and youth; Support services for families	

## SUBNATIONAL GOVERNMENT FINANCE

<b>Scope of fiscal data:</b> provinces, cities and municipalities.	Other	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
--	-------	---	---

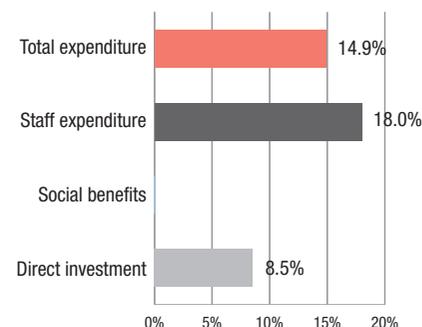
**GENERAL INTRODUCTION.** Besides providing the basic framework of local governance, the Constitution and the 1991 Local Government Code also set out the main local government finance systems and mechanisms. Although such regulatory framework establishes the legal grounds for local governments’ fiscal autonomy, most local governments – and the lower tiers in particular – still heavily dependent on mechanisms of fiscal transfers from the central government, mostly via Internal Revenue Allotment (IRA). According to the available data of the Bureau of local government finance, between 2013 and 2016, local government surplus grew by 130 percent.

## PHILIPPINES

UNITARY COUNTRY

## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>240</b>	<b>3.1%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>209</b>	<b>2.7%</b>	<b>87.0%</b>	
Staff expenditure	85	1.1%	35.5%	
Intermediate consumption				
Social expenditure				
Subsidies and current transfers				
Financial charges	3	0.0%	1.1%	
Others	16	0.2%	6.5%	
<b>Incl. capital expenditure</b>	<b>31</b>	<b>0.4%</b>	<b>13.0%</b>	
Capital transfers				
Direct investment (or GFCF)	31	0.4%	13.0%	

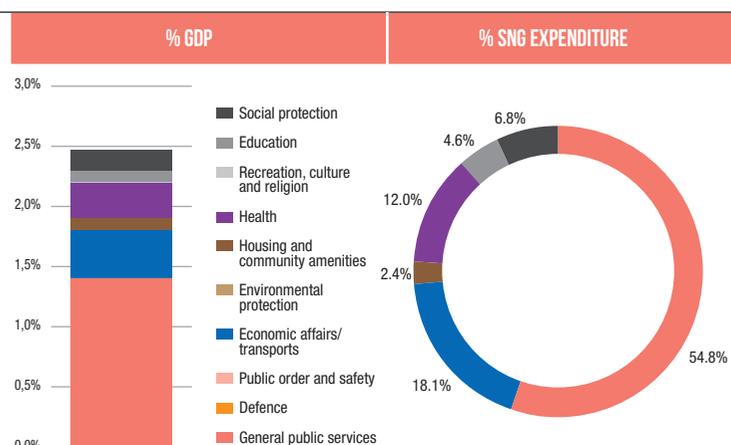


**EXPENDITURE.** Local government expenditure in FY2016 was mainly directed at covering current expenses, of which staff expenditure represented 35.5%. Total SNG expenditure accounted for 14.9% of general total government expenditure and 3.1% of GDP. The biggest share of SNG expenditure corresponds to cities (41.5 %) and municipalities (35.45%) – which are both at the intermediate level of government – and provinces (23%).

**INVESTMENT.** By law, specifically Section 287 of the Local Government Code, all subnational governments are required to allocate at least 20% of the received IRA for the development of social or economic projects. In 2016, local governments' investment accounted for 0.4% of GDP and 31 dollars PPP per capita. Moreover, in 1984, the Municipal Development Fund was created by presidential decree. It is a revolving fund, with a total of PHP 18 678 billion in 2016 allocated to ten financing lines: (i) the Municipal Development Fund Projects for revenue generating project in low income subnational governments (ii) Disaster Management Assistance Fund (iii) PPP Fund to assist LGUs finance PPP projects, (iv) Municipal Fund specific to upgrading public administration infrastructure; (v) Program Lending, specifically for provinces carrying policy reforms. In addition, the Local Government Unit Guarantee Corporation, created in 1984 by the Bankers Association of the Philippines, the Development Bank of the Philippine and other stakeholders, provides indirect lending to subnational governments and other public entities, such as water districts, to access funds from the private sector and carry out capital investment.

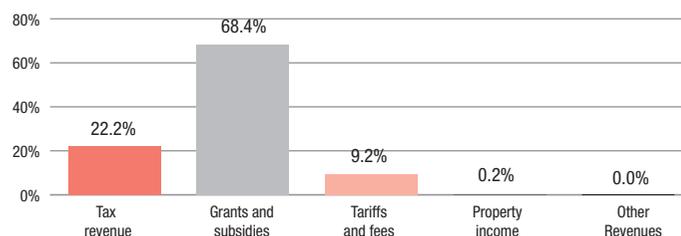
## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In 2016, total expenditure of subnational government accounted for 2.5% of the GDP. General public services accounted for approximately 55% of total subnational public spending: municipalities spend the most for general public services (64% of their expenditure), whereas provinces and cities spent 50% and 47% respectively. Social services corresponded to 26% of subnational public spending, covering education (4.6%), health (12%), social protection (6.8%) and housing (2.4%). These are unevenly distributed between provinces, cities and municipalities. For instance, cities are the local government spending the most on education (8% of their spending) and housing (5%), if compared to provinces and municipalities (both spending a total of 2% in education and 1% for housing and community development). Moreover, 20% of provinces' expenditure go to health, food security and population control, while cities and municipalities are spending 11% and 9% for health respectively. Economic affairs (accounting for 18%) include agriculture, natural resources and environmental management, tourism, trade, and communications among others, which are for a significant part under the realm of provincial and city-level decentralized functions. In fact, economic affairs account for 23% of provinces' spending, and 17% of cities' and 16% of municipalities' expenditure.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>311</b>	<b>4.0%</b>	<b>20.8%</b>	
Tax revenue	69	0.9%	6.1%	
Grants and subsidies	213	2.7%		
Tariffs and fees	29	0.4%		
Property income	1	0.0%		
Other revenues				



**OVERALL DESCRIPTION.** In FY2016, subnational government revenue represented 3.8% of GDP and 20.1% of total public revenues. Section V of the Constitution provides local governments with the powers to create their own sources of revenues and to levy taxes, fees and other charges. “Locally raised revenue”, as per the national nomenclature, correspond to taxes (23.2%) and tariffs and fees (9.2%). However, most local government revenues come from fiscal transfers from the central government under the Internal Revenue Allotment (IRA) mechanism as established by section 238 of the Local Government Code. This section states that local governments should receive 40% of the total internal revenue allotment, which corresponds to 68% of subnational revenues. The IRA accounts for 93% of grants and subsidies and, by itself, represented 62% of subnational revenues. The remaining 6% of grants and subsidies came from other shares from national tax collection (at 4.6%), extraordinary grants and donations (performance Based Grant System (PBGs) (at 1.6%) and inter-local transfers (at 0.6%).

**TAX REVENUE.** Subnational government tax revenue is defined in the LGC Book II (titles I and II) as part of the locally-sourced revenue. It corresponds to 0.9% of the GDP. In FY 2016, the main sources of local tax revenue for local authorities are the business tax levied on business activity (accounting for 54% of SNG tax revenue and 12.4% of SNG revenue), and the property taxes levied on land and real estate (at 40% of SNG revenue) within their territory, the real estate property tax amounted to 40% of subnational tax revenue and 9.2% of local revenue.

There are a few other local taxes such as taxes paid by business to local governments (5% of subnational tax revenue) or the special education tax. All such taxes are collected at the local level. Cities are the local government unit with the highest capacity to collect revenue locally (51% of their revenue). Local governments may adjust tax rates up to 10%, once every 5 years. Moreover, the real property tax base is set by local governments through the Schedule of Market Values, which is revaluated once every 3 years. According to the Department of Finance, in 2017, 75% of provinces and 80% of cities maintained outdated market valuations. Moreover, according to the Ministry of Finance’s revenue collection efficiency report published every year there is a wide gap in regards to taxing and collection capacity among local governments. The central government, together with international donor agencies, provides capacity-training programmes to local governments: the 2017 LGU Financial performance shows that effort to locally collect revenue grew by 37% between 2013 and 2016.

**GRANTS AND SUBSIDIES.** The design of intergovernmental transfers as defined in Book II of the Local Government Code includes four categories of grants: The **Internal Revenue Allotment (IRA)** is the main formula-based transfer from central government to subnational governments. It corresponds to 3% of the GDP and 93% of total grants in 2016. In 2016, IRA accounted for 72% of provinces’ revenue (compared to 80.5% in 2014), 41% of cities’ (at 43.5% in 2014) and 73% of municipalities’ (at 80% in 2014). The IRA is a revenue sharing system conceived to make sure that all local governments are provided basic revenues to fulfil the duties required by the Code: even the smallest *barangay*, for instance, is guaranteed at least 80 000 pesos per year (approx. \$4 450 PPP per year). The actual distribution of funds to each local government is done according to population and area criteria and a fixed common quota (Section 284 of the Local Government Code). Based on this formula, IRA allocation increases with the creation of every new *barangay* and, thereby, the IRA rate increased from 2014 to 2016 and from 2016 to 2018. In FY2016, 23% of the total IRA amount was allocated to provinces, 23% to cities, 34% to municipalities, and 20% to *barangays*. Based on the available open government data on Internal Revenue Allotment Dependency by administrative regions in 2017, IRA corresponded to 20.2% of the National Capital Region total for the operating income. In July 2018, confirmed in April 2019, the Supreme Court, ruled against the enactment of a new Section 284 in the LGU Code. The Court recognized that, until now, national revenue was not properly collected (with regards the tax base) and allocated to LGU units. The rigid formula-based mechanism, moreover, is at risk of widening the gap between richer and poorer local communities. It is argued that such a mechanism may serve as disincentive for local governments to find alternative sources of local revenue and instead excessively rely on the transfer system. In addition, **inter-local transfers** correspond to provinces and cities have to share a portion of their revenues with the municipalities and *barangays* and are restricted on the types of taxes they can collect. It accounts for 0.4% of local governments’ revenue.

**Performance Based Grant System (PBGs)** account for 1.6% and are divided into two types of grants. First, the Capital Grant providing additional funding for subnational governments capital investments. Second, the Capacity Development Grant (CDG) that supports the poorest subnational governments to attain the needed threshold of development capacity.

**OTHER REVENUES.** The LGC makes specific provisions regarding the Other Revenue-Raising Powers of Local Government Units, including a list of user charges and fees to be collected by each level of government. Administrative fees and charges include market place selling fees, visitor fees and exploitation fees, among others. Property income, on the other hand, consists of property leasing and sales, as well as of income from municipal companies and public utilities.

#### ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>47</b>	<b>0.6%</b>	<b>1.4%</b>	<b>100%</b>
Financial debt*	46	0.6%	1.4%	100%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** As specified in the Republic Act No. 7160, Local Development Councils are required to submit to the local finance committee their local development plan and annual investment program approved during the fiscal year before the calendar for budget preparation in accordance with applicable laws. The local finance committee must use the plan to ensure that projects proposed for local funding are included in the budget. Additionally, the local government must endeavour to have a balanced budget in each fiscal year of operation. According to the Section 324 of the LGC, debt ceiling is set at 20% of the total local government revenue. According to the Bureau of Local Government Finance, between 2013 and 2016, the debt service has decreased from 4.43% to 3.71%, far from the statutory limit.

**DEBT.** According to Title IV of the Local Government Code (LGC), local government units may contract debt obligations to finance local infrastructure and other socioeconomic development projects in accordance with the provisions of the local development plan and the public investment programme. Local governments may secure short, medium and long-term loans from any government bank or lending institution against real estate or other acceptable securities. All local governments request a certification of Net Debt Service Ceiling and Borrowing Capacity to the Department of Finance. Since 2014, the 171 local governments affected by the Yolanda Typhoon have been supported via special requirements for certification. Since 2016, by department order, verification and validation of the certificates has been delegated to the BLGF Regional Offices. According to Section 296 of the LGC, all local government units are also authorized to issue bonds and other obligations, subject to the rules and regulations of the Philippines’ Central Bank and the Securities and Exchange Commission. In 2016, subnational debt accounted for 0.6% of the GDP.