The Republic of the Philippines
Department of Interior and Local Government (DILG)

THE STUDY ON
THE IMPROVEMENT OF INTERNAL REVENUE ALLOTMENT (IRA) SYSTEM
IN
THE REPUBLIC OF THE PHILIPPINES

FINAL REPORT

January 2009

JAPAN INTERNATIONAL COOPERATION AGENCY

KRI INTERNATIONAL CORP., JAPAN

PREFACE

In response to a request from the Government of the Republic of the Philippines, the Government of Japan decided to carry out a study entitled "Study on the Improvement of Internal Revenue Allotment (IRA) System" and entrusted the study to the Japan International Cooperation Agency (JICA).

JICA sent a study team headed by Mr. Yoseki NAGASE of Koei Research Institute 6 (six) times in total during the period from August 2007 to November 2008.

The team held a series of in-depth discussions with the officials concerned of the Government of the Republic of the Philippines, held workshops and seminars, and conducted field surveys covering many local government units (LGUs). This final report was prepared based on the results of the intensive analyses of the information obtained throughout the study period, and offers a set of policy options for the reform of IRA system.

It is my sincere hope that this report will contribute to the well-balanced development encompassing all the regions in the Republic of the Philippines through further promotion of devolution/decentralization that has been underway in the country since the enactment of Local Government Code in 1991. I also hope that the friendly relationship between the two countries has been renewed and even strengthened by this collaborative study.

Finally, I wish to extend my sincere appreciation to the officials concerned of the Government of the Republic of the Philippines, particularly the management and staff of the Department of the Interior and Local Government (DILG), for their kind support to the study team and also for their active participation in the entire process of the study. On Japanese side, I wish to acknowledge the invaluable support from two members of the Advisory Committee set up by JICA for this particular study, namely Prof. Fumio KANAZAWA of Yokohama National University and Mr. Masayuki TAKAHASHI of Seigakuin University. Various insightful comments and suggestions they provided throughout the study period have significantly contributed to improving the quality of the report, for which I am most grateful.

January, 2009

Izumi ARAI
Vice President
Japan International Cooperation Agency

January 2009

Mr. Izumi Arai
Vice President, Japan International Cooperation Agency (JICA), Tokyo, Japan

Dear Mr. Arai,

Letter of Transmittal

We are pleased to submit to you the Final Report of the Study on the Improvement of Internal Revenue Allotment (IRA) System in the Republic of the Philippines. This deliverable is the fruit of the work implemented by KRI International Corp., Japan under the contract with your Agency between August 2008 and January 2009.

The Study aimed at making policy recommendations on the improvement of the IRA system. Acknowledging the important role of IRA in the local government finance, the Study analyzed the current IRA system and in the end developed the options for new IRA distribution formula in order to address the fiscal imbalances among local government units. That is to say, this report contains the findings from the institutional and statistical analysis, the summary of the stakeholders' perception, the list of alternative formulas, the impact assessment of alternative formulas and the communication strategy in the promotion of the new IRA distribution formula.

The Study took a very cautious approach in order to come up with practical and effective recommendations. The Study conducted local government sample surveys and questionnaire surveys to the well-informed. Meanwhile, we also conducted a series of workshops and seminars, where our findings are openly discussed, and implemented the capacity-building to the counterpart staff.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Department of Interior and Local Government, other national government agencies, local government units and others concerned in the Philippines for the tremendous supports provided to us during the implementation of the Study.

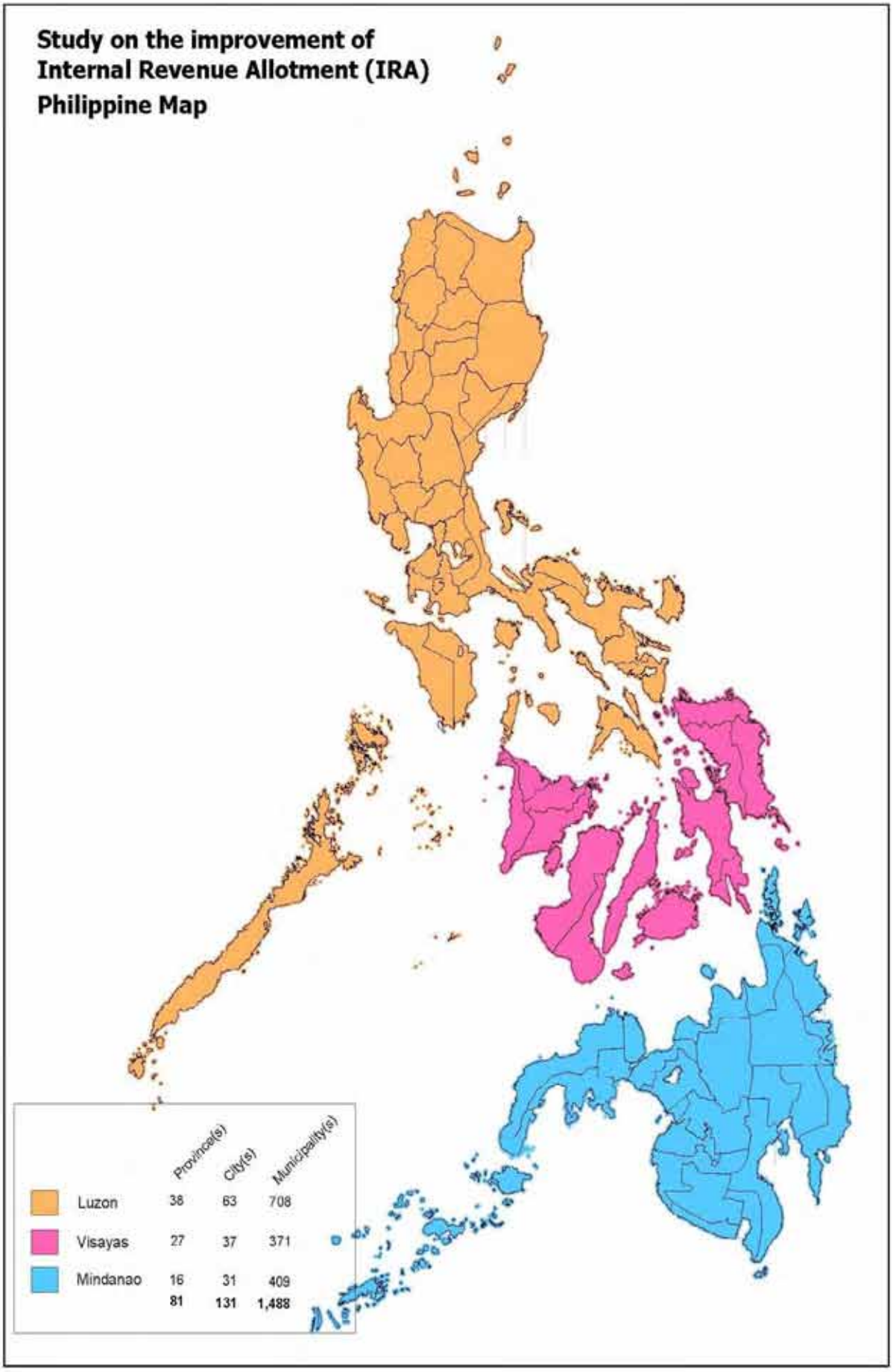
Finally, we sincerely wish that this report will be found useful for the improvement of the IRA system of the Philippines and that it will contribute to the further friendship between Japan and the Philippines.

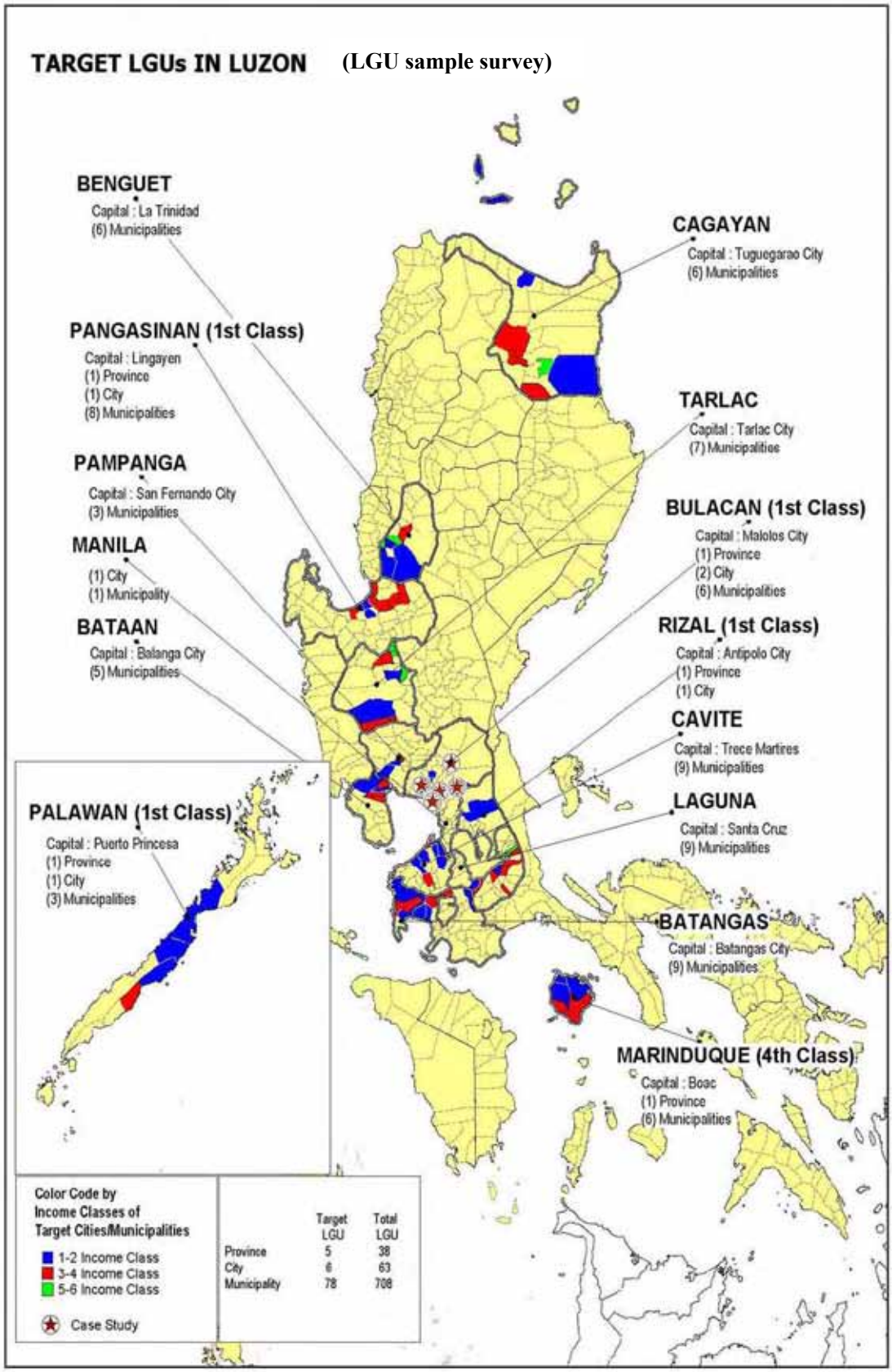
Sincerely yours,

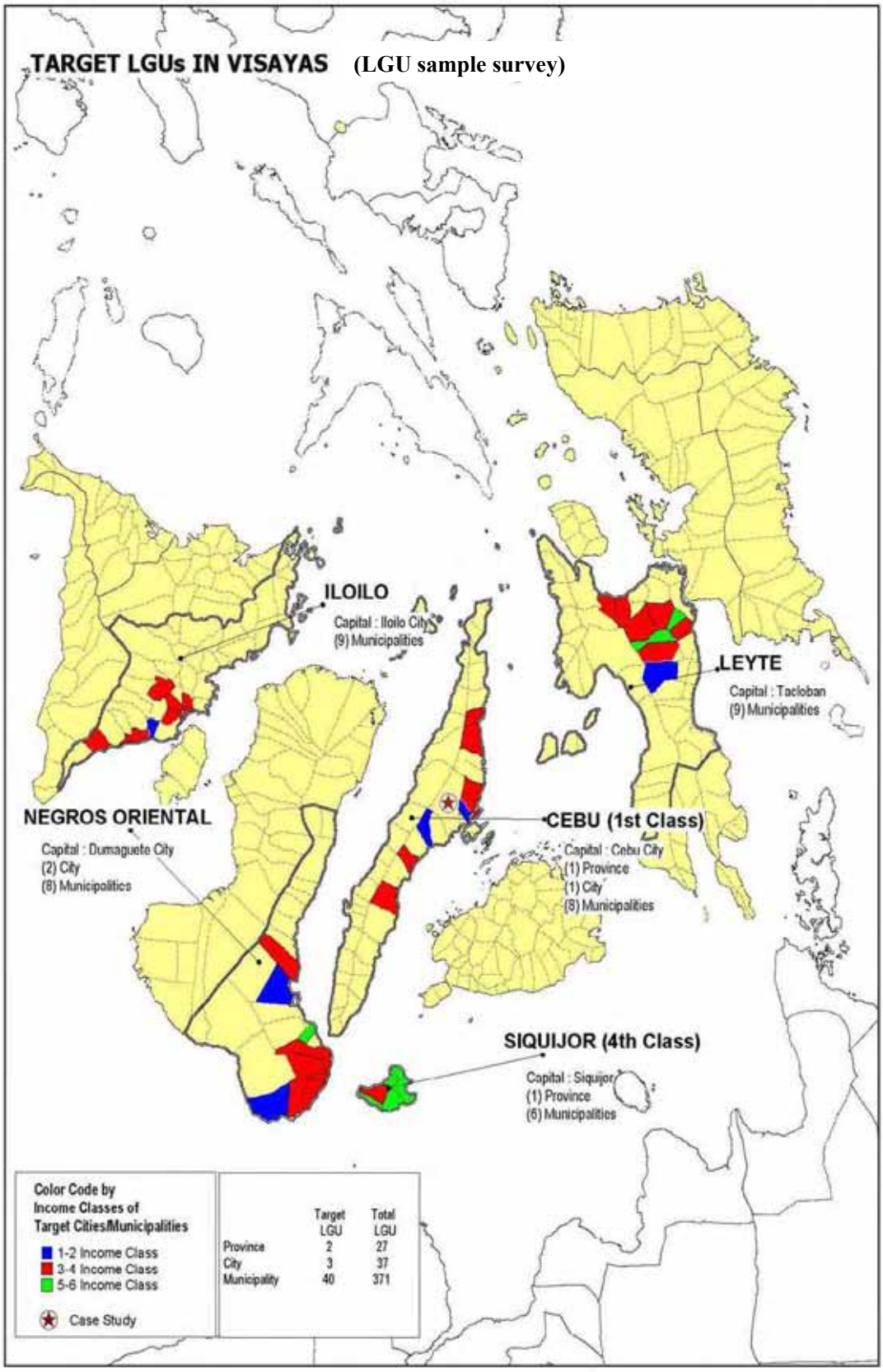
Yoseki Nagase
Team Leader, the Study on the Improvement of IRA System

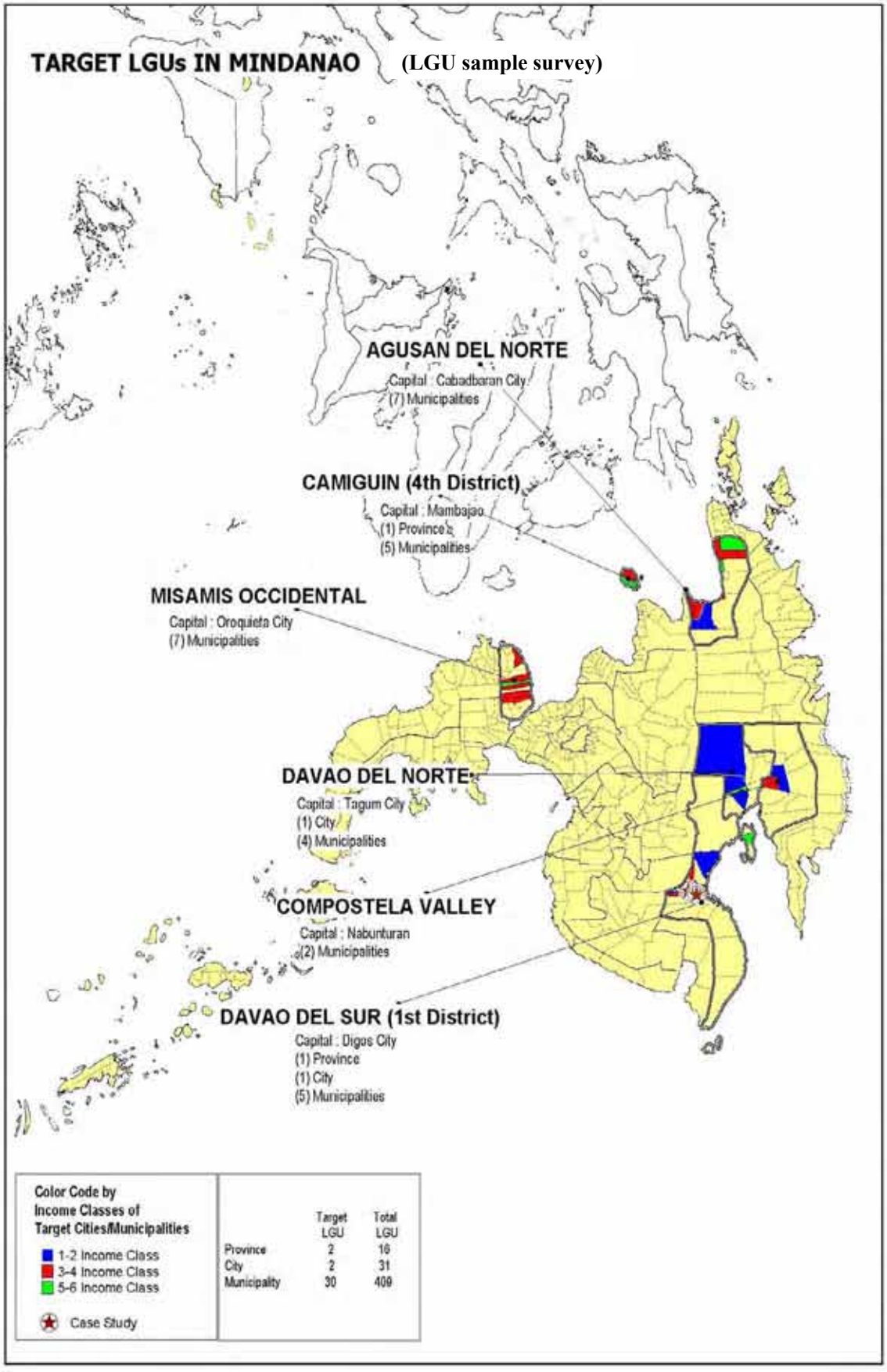
Study on the improvement of Internal Revenue Allotment (IRA)

Philippine Map




TARGET LGUs IN LUZON (LGU sample survey)
BENGUET
Capital : La Trinidad
(6) Municipalities
PANGASINAN (1st Class)
Capital : Lingayen
(1) Province
(1) City
(8) Municipalities
PAMPANGA
Capital : San Fernando City
(3) Municipalities
MANILA
(1) City
(1) Municipality
BATAAN
Capital : Balanga City
(5) Municipalities
PALAWAN (1st Class)
Capital : Puerto Princesa
(1) Province
(1) City
(3) Municipalities
CAGAYAN
Capital : Tuguegarao City
(6) Municipalities
TARLAC
Capital : Tarlac City
(7) Municipalities
BULACAN (1st Class)
Capital : Malolos City
(1) Province
(2) City
(6) Municipalities
RIZAL (1st Class)
Capital : Antipolo City
(1) Province
(1) City
CAVITE
Capital : Trece Martires
(9) Municipalities
LAGUNA
Capital : Santa Cruz
(9) Municipalities
BATANGAS
Capital : Batangas City
(9) Municipalities
MARINDUQUE (4th Class)
Capital : Boac
(1) Province
(6) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 5 38
City 6 63
Municipality 78 708


TARGET LGUs IN VISAYAS (LGU sample survey)
ILOILO
Capital : Iloilo City
(9) Municipalities
LEYTE
Capital : Tacloban
(9) Municipalities
NEGROS ORIENTAL
Capital : Dumaguete City
(2) City
(8) Municipalities
CEBU (1st Class)
Capital : Cebu City
(1) Province
(1) City
(8) Municipalities
SIQUIJOR (4th Class)
Capital : Siquijor
(1) Province
(6) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 2 27
City 3 37
Municipality 40 371


TARGET LGUs IN MINDANAO
(LGU sample survey)
AGUSAN DEL NORTE
Capital : Cabadbaran City
(7) Municipalities
CAMIGUIN (4th District)
Capital : Mambajao
(1) Province
(5) Municipalities
MISAMIS OCCIDENTAL
Capital : Oroquieta City
(7) Municipalities
DAVAO DEL NORTE
Capital : Tagum City
(1) City
(4) Municipalities
COMPOSTELA VALLEY
Capital : Nabunturan
(2) Municipalities
DAVAO DEL SUR (1st District)
Capital : Digos City
(1) Province
(1) City
(5) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 2 16
City 2 31
Municipality 30 409

Photographs

Workshop in Angeles, Pampanga
July 31-August 1, 2008

Workshop in Angeles, Pampanga
July 31-August 1, 2008

Workshop in Cebu
August 5-6, 2008

Workshop in Cebu
August 5-6, 2008

Workshop in Davao
August 7-8, 2008

Workshop in Davao
August 7-8, 2008

Workshop in Manila
July 29, 2008

Workshop in Manila
July 29, 2008

Seminar in Cebu
October 22, 2008

Seminar in Ortigas, Quezon City
October 28, 2008

Seminar in Davao
October 23, 2008

Steering Committee Meeting
in Ortigas, Quezon City
October 28, 2008

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Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BHN	Basic Human Need
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BLGS	Bureau of Local Government Supervision
BOC	Bureau of Customs
CBMS	Community Based Management System
CCs	Component Cities
CDP	Community Development Plan
CIDA	Canadian International Development Assistance
COA	Commission on Audit
CODEF	Cost of Devolved Functions
CPI	Consumer Prices Index
CSIS	Citizens' Satisfaction Index System
DBM	Department of Budget and Management
DepED	Department of Education
DGF	Dotation Globale de Fonctionnment
DILG	Department of Interior and Local Government
DOF	Department of Finance
DPWH	Department of Public Works and Highways
DevWatch	Local Development Watch
ELA	Executive Legislative Agenda
e-LGAS	electronic local government accounting system
ES	Economic Services
FAPs	Administration of Foreign Assisted Projects
GFIs	Government Financial Institutions
GOP	Government of the Philippines
GPS	General Public Services
HUCs	highly urbanized cities
IACC	Inter-Agency Coordinating Committee
ICC	Investment Coordinating Committee
IRA	Internal Revenue Allotment
LAMP	Land Administration and Management Program 1
LAT	Local Allocation Tax
LCP	League of Cities of the Philippines
LGAII	Local Governance Advocacy and Initiatives Inc.
LGC	Local Government Code

LGFBR	Local Government Financing and Budget Reform Program
LGPMS	Local Government Performance Management System
LGU	Local Government Unit
LOGOFIND	Local Government Finance and Development Project
LPPMS	Local Productivity and Performance Measurement System
MDF	Municipal Development Fund
MDFO	Municipal Development Fund Office
MLG	Ministry of Local Government
MIC	Ministry of Internal Affairs and Communications
MOF	Ministry of Finance
MOOE	Maintenance and Other Operating Expenses
NCR	National Capital Region
NEDA	National Economic Development Authority
NGA	National Government Agency
PBG	Performance-Based Grant system
PDAF	Priority Development Assistance Fund
PDF	Philippine Development Forum
PNP	Philippine National Police
SCALOG	System on Capacity Assessment for Local Governments
SEF	Special Education Fund
SIE	Statement of Income and Expenditure
SLGR	State of Local Government Report
SPA	Special Purpose Appropiration
SRE	Statement of Receipts and Expenditure
SS	Social Services
TLS	Total Local Source
ULAP	Union of Local Authorities of the Philippines
USAID	United States Agency for International Development
WB	World Bank
WGDLG	Working Group of Decentralization and Local Government

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

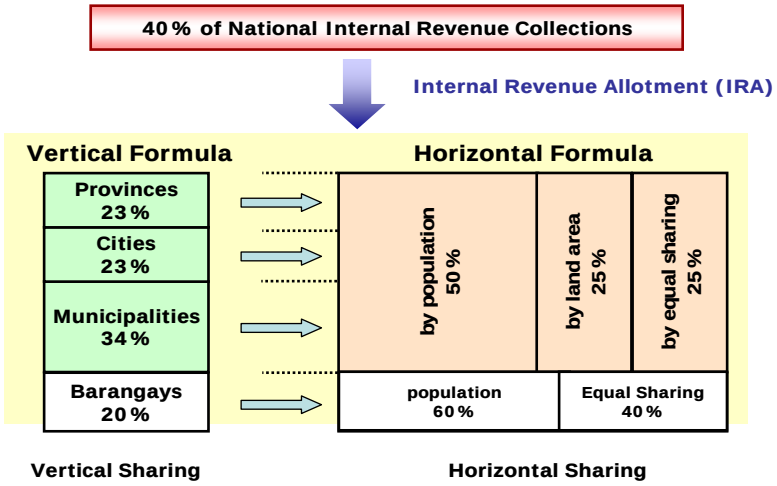
The Local Government Code (LGC) enacted in 1991 significantly increased the responsibilities and resources of the Local Government Units (LGUs). By empowering the local authorities, it aimed at attaining greater efficiency in promoting development and equitable growth at the local level. Seventeen years have passed since the enactment of LGC 1991. However, it remains uncertain whether the expected gains from the devolution are fully realized. Considerable criticisms have been directed against the internal revenue allotment (IRA), which constitutes substantial portion of intergovernmental fund transfers. It is generally perceived that IRA is inequitably distributed.

Section 284 of the LGC indicates that 40% of the central government's gross internal revenue in the third preceding fiscal year be transferred to the LGUs as IRA. Provinces and cities receive 23% each from the total transfer, municipalities 34%, and barangays 20%. The share of each province, city, and municipality is computed using the horizontal distribution formula composed of three determinants namely, population: 50%, land area: 25%, and equal sharing: 25%. This IRA distribution formula (refer to Figure 1-1) is considered too simple to respond to the already existing imbalances in the fiscal capacity among the LGUs. Thus, there is a clamor to revise it to achieve a better fiscal balance at the local level. In other words, the current formula needs to be revised in order that the IRA distribution would be made based on an accurate estimate of the financial needs and revenue potential of local government as well as on the disparity in development situation.

A pressing concern on IRA, among others, is that it comprises more than 60% of the combined total revenues of provinces, cities, and municipalities, and that its share has been increasing. The LGUs' high degree of dependency on IRA has often been criticized with a suggestion that the distribution formula should be reconfigured to stimulate their revenue mobilization efforts.

Much has been discussed and investigated with regards to IRA issues, but the struggle for an "ideal" IRA distribution formula has always been challenging. It is in this context that the Government of the Republic of the Philippines requested the Government of Japan to conduct the "Study on the Improvement of Internal Revenue Allotment System" (the Study). Japan International Cooperation Agency (JICA) sent a preparatory study team, and held preliminary discussions with Department of the Interior and Local Government (DILG) as presented in the Minutes of Meetings, signed on March 16, 2007. The implementing arrangement of the Study

was signed by JICA and DILG on May 25, 2007.



Source: JICA Study Team

Figure 1-1 Current IRA Distribution Scheme

1.2. Objectives of the Study

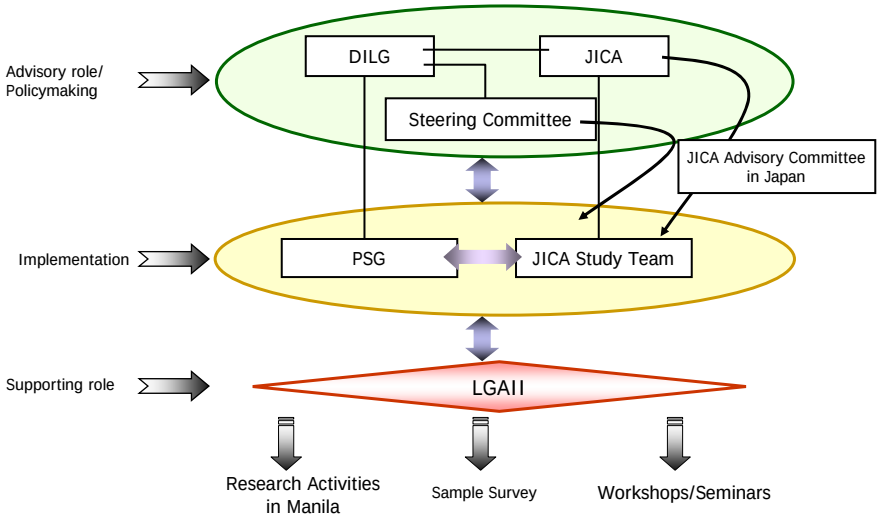
The objective of the Study is to provide options regarding changes on the allocation and the utilization of IRA with a view to achieving a better fiscal balance among LGUs. JICA Study Team is also expected to transfer to the concerned personnel the relevant skills and methodologies required to conduct a sound policy analysis.

1.3. Implementation of the Study

1) Implementation Structure of the Study

The implementation structure of the Study is shown in Figure 1-2. The Counterpart of the Study is DILG-Bureau of Local Government Supervision (BLGS). The Study covered the entire country of the Republic of the Philippines.

JICA Study Team worked closely with the Policy Study Group (PSG) set up within DILG-BLGS as well as with the subcontractor, the Local Governance Advocacy and Initiatives Inc. (LGAII) for the implementation of the Study. JICA Study Team also received a series of recommendation and advice in regard to the technical aspect of the implementation of the Study from JICA Advisory Committee in Japan. The Steering Committee dispensed advice as well to JICA Study Team in terms of the progress of the Study and proposals it had made.



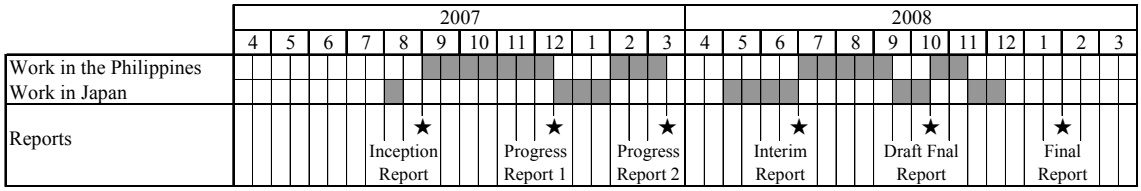
Source: JICA Study Team

Figure 1-2: Implementation Framework of the Study

2) Operation Schedule of the Study

The duration of the Study is from August 2008 to January 2009. Its operation schedule is shown in the Figure 1-3. The Study comprised of two phases.

Phase 1: Fact finding and problem identification
Phase 2: Making recommendations on how to improve the IRA system

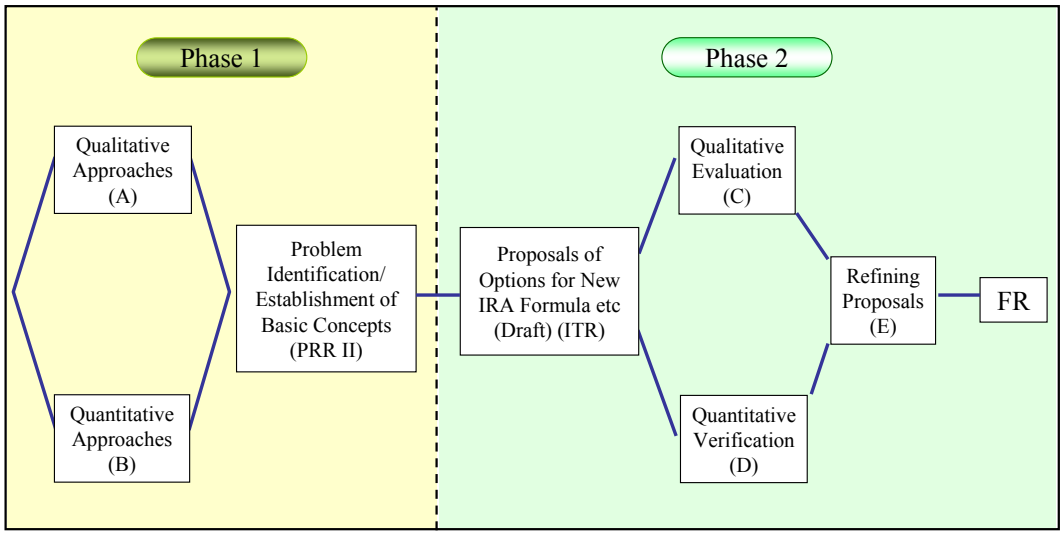


Source: JICA Study Team

Figure 1-3: Operation Schedule of the Study

3) Methodology of the Study

The Study conducted qualitative analysis and quantitative analysis in parallel with a view to producing the high-quality results for improvement of IRA distribution formula. The approach of the Study is shown in the figure below (Figure 1-4).



Source: JICA Study Team

Figure 1-4: Approach of the Study

i) Phase 1

One of the objectives of Phase 1 is to conduct a fact-finding study on the issues concerning IRA system. The Study takes the following approaches for the fact-finding study.

Qualitative approach

Generally, development studies conduct standard activities such as review of existing materials and consultations with stakeholders. On top of these standard activities, the Study includes LGU sample survey which differentiates itself from the other studies. Moreover, this sample survey is distinctive in a way that it includes a perception survey of the LGUs.

Quantitative approach

Improving IRA distribution formula cannot be achieved only through qualitative approach. It is necessary to measure financial needs of LGUs in numerical value in order to objectively present their financial situation. Because of the limited timeframe, JST collected the information not only through the LGU sample survey but also by tapping the existing secondary data.

ii) Phase 2

Phase 2 of the Study involves the formulation of new IRA distribution formula options and recommendations concerning other IRA issues based on the fact-finding study and data gathering conducted in phase 1. After formulating draft proposals, these will be refined through

the following activities during Phase 2.

Qualitative validation

The said draft proposals were validated qualitatively through the three activities namely, survey by questionnaire, workshops/seminars, and regular consultation with stakeholders and donors.

The Study entails a high value day-to-day consultation with stakeholders for formulating, refining, and validating draft proposals. This includes coordination work with other donor-funded projects to ensure the relevance of the Study's proposals in a broader context of local government finances.

Quantitative validation

The econometric analysis helps in coming up with new formula options during the Phase 2 of the Study. It is also used to analyze the impacts of each option.

Combining two approaches

The Study sums up the results of the above validation work and utilize them to refine the proposed IRA distribution formula options as well as the draft recommendations of other IRA issues. The refined versions of options and recommendations are presented in the Draft Final Report and Final Report accordingly. Moreover, JST consults with JICA Advisory Committee in Japan and SC in the Philippines so as to make the necessary adjustments in the distribution formula options and other recommendations.

1.4. Accomplishments of the Study

1.4.1. Accomplishments of Phase 1

Phase 1 of the Study started in August 2007 after the signing of the contract between JICA and KRI International Corp., which formed the core of JST. During Phase 1, JST accomplished the following:

1) Fact-finding Study

The fact-finding study on the central/local government revenue/expenditure structure and the sharing of roles between different local government levels was conducted during the course of Phase 1. The findings from these research activities are presented in Chapter 2. The quantitative analysis of local government finance and IRA was also made and the findings are described in

Chapter 3. IRA-related literature, donor assistance in the thematic area of local government finance, and other countries' experiences were studied in detail as well. The summaries of these studies are presented in Chapter 8 and Chapter 9.

2) LGU Sample Survey

Along with the collection of the secondary data from agencies in the national level, sample surveys targeting a total of 168 LGUs were conducted during Phase 1 in order to gather the primary data necessary to compute the financial needs of LGUs. The steps taken for this LGU sample survey are listed in Table 1-1.

Table 1-1: Process of the Implementation of LGU Sample Survey

Date	Activity
September 2007	The target LGUs were identified by the DILG-PSG based on the selection criteria proposed by JICA Study Team (refer to Annex 1 for the list of sample LGUs)
October 2007	A set of survey materials such as survey forms and the guides for interviewers and respondents for facilitating data collection were developed (refer to Annex 2 for the survey forms).
End of October 2007	Pre-tests were conducted in the nearby provinces and Palawan province.
Mid-November 2007	Advance copies of survey forms and guides were sent to the target LGUs through the DILG regional offices.
November 19 to December 7, 2007	A full-scale survey (Stage-1) was carried out.
Mid-December, 2007 to the end of January, 2008	Reponses (qualitative) and data (quantitative) collected from the Stage-1 survey were processed and tabulated.
February 4 to February 22, 2008	The Stage-2 survey was conducted.
February 2008	The data collected from the Stage-2 survey was processed and analyzed.

Source: JICA Study Team

3) Workshop

A one-day workshop was held at Sulo Hotel, Quezon City on February 29, 2008 in order to present the progress of the Study and draw open-ended views on IRA issues from the stakeholders.

Representatives from National Government Agencies (NGAs), donor agencies, LGU leagues, LGUs and LGU practitioners attended the workshop which brought together nearly 60 participants.

In the morning session, JST explained the outline and progress of the Study, the theories of intergovernmental fund adjustment system, the quantitative analysis of the local government finance and the current IRA distribution. DILG-PSG also contributed by presenting the results of the perception survey.

In the afternoon session, a panel discussion with the theme on IRA reform was held. The former governor of the province of Southern Leyte, the Director of Research and Information Office, DOF and a member of JICA Advisory Committee participated as panelists. A lively discussion regarding the directions of IRA reforms took place. Following the panel discussion, the audience also took part in the question-and-answer session making the workshop more interactive (refer to Annex 3 for results of discussions).

4) First and Second SC

The 1st SC meeting was held at the DILG office on September 10, 2007, and was chaired by Undersecretary Austere A. Panadero. During this first meeting the contents of the Inception Report were discussed in detail. The 2nd SC, chaired by Director Roland Acosta, convened on February 29, 2008 where contents of Progress Report 2 and the implementation plans for Phase 2 were discussed.

5) Capacity-building of the Counterpart

On September 17, 2007, JST briefed DILG-PSG about the different intergovernmental transfer systems, particularly the Japanese Local Allocation Tax (LAT) system. On the same day JST also illustrated clearly to PSG members the econometric model the Study intends to adopt as part of capacity-building activities.

The presentation on the issues of intergovernmental fund adjustment made by JST during the workshop on February 29, 2008 is supposed to be instrumental for DILG-PSG.

Moreover, JST was always mindful of the importance of capacity building for the local counterpart of the Study. While in Metro Manila, JST exerted its best efforts on a daily-basis in order to help develop the capacity of PSG in policy making, policy analysis and policy evaluation.

1.4.2. Accomplishments of Phase 2

The contract for Phase 2 was signed between JICA and KRI on May 1, 2008. The following activities were completed during Phase 2.

1) Formulation of Draft Options for New IRA Distribution Formula and Impact Analysis

Based on the primary/secondary data acquired and the results of the Perception Survey of Phase 1, JST developed draft options for new IRA formula. JST also made simulation analysis of these draft options and verified their impacts on the local government finance. The details of the

options for new IRA formula and the impact analysis are presented in Chapter 11 and Chapter 12, respectively.

During the process of formulating the options for new IRA distribution formula, JST also ventured to compute the financial needs and make a detailed analysis of the expenditure structure of the local government. The results of these attempts are presented in Chapter 3 and Chapter 4.

2) Survey by Questionnaire

JST conducted two rounds of surveys by questionnaire, targeting a group of well-informed individuals in order to find out prominent opinions regarding strategic objectives of IRA as well as the general views on IRA reform direction. A total of 50 respondents were selected from different stakeholder groups such as NGAs, academe/research institutions, NGOs, business, media, congress, and others. The first round of the said survey was carried out in July, 2008 while the second round was conducted at the beginning of October 2008.

3) Workshops

During Phase 2, JST conducted a total of four workshops from July 29 to August 8, 2008 for purposes of fostering momentum on IRA reforms and consensus-building among the stakeholders. The workshop for the NGAs and some other stakeholders was held within Metro Manila. The workshops for local government level stakeholders were held in Pampanga, Cebu, and Davao. The details of the workshops and the summary of the opinions collected are presented in Chapter 7.

4) Comments from Experts

JST identified a group of Filipino experts in the local government finance who can provide assistance to DILG in deciding the best option from among the number of choices. JST sent out letters to these experts in order to solicit their comments on the options for newly developed IRA distribution formulas.

5) Seminars

During Phase 2, JST conducted a total of three seminars in order to share the results and findings of the Study with the stakeholders. These seminars were conducted in Metro Manila, Cebu and Davao. The results of seminars are presented in Chapter 7.

6) Third and Fourth SC

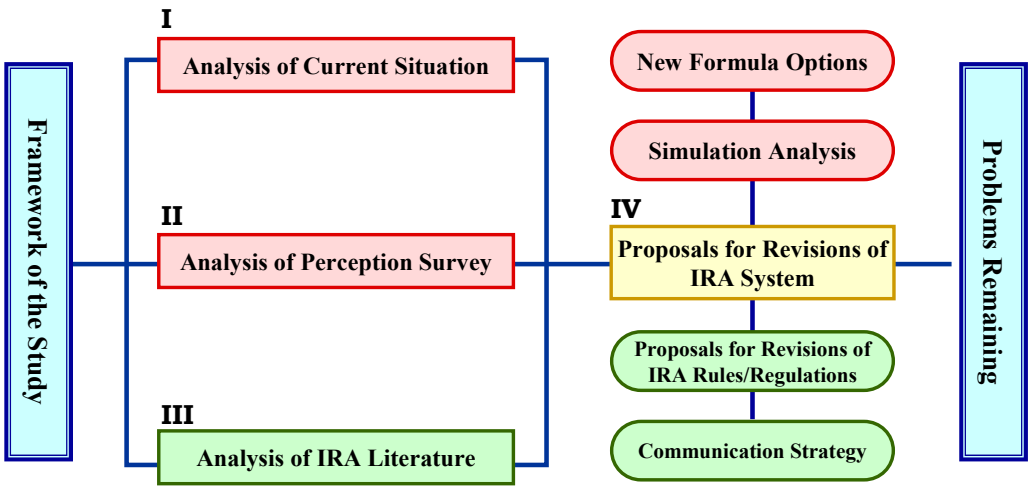
The 3rd SC meeting was held in Davao on August 7, 2008. The Undersecretary of DILG, Mr. Panadero chaired the meeting in which the contents of Interim Report were discussed. The 4th SC, also chaired by Usec. Panadero, took place on October 28, 2008 immediately after the Study's last seminar held in Quezon City. During this meeting the members discussed comprehensively all the issues and concerns expressed during the last seminar, as well as the contents of Draft Final Report. The minutes of the meeting is presented in Annex 4.

7) Capacity-building of the Local Counterpart

DILG-PSG presented the results of the perception survey as well as a part of the findings of the Study during the four workshops held between late July and early August 2008. Prior to these workshops, JST assisted DILG-PSG in comprehending the options and their simulation analysis so that the latter could deliver an articulate presentation in the workshops. Daily capacity-building activities for DILG-PSG were also significant during Phase 2 in continuation to those carried out during Phase 1.

1.5. Logical Structure of the Report

This report is made up of four parts. The first three parts show the analysis of the different aspects of the current IRA system while the fourth part presents the proposals on reforms, including the options for new IRA distribution formula (refer to Figure 1-4).



Source: JICA Study Team

Figure 1-5: Four Major Components of DFR

Part I summarizes the analysis of baseline surveys from both institutional and statistical aspects. Chapter 2 gives the summary of both qualitative and quantitative analysis of the local

government administration and finance especially in terms of the demarcation between central and local government. Chapter 2 also discusses monitoring tools that exist in the Philippines. Subsequently, Chapter 3 presents a comprehensive analysis of LGUs' financial situation based on the primary and secondary data collected from NGAs and LGUs through sample surveys. It shows clearly the current situation of LGUs' financial situation and current IRA distribution pattern. The last chapter of Part I shows the trial experiment for computing the financial needs of LGUs in a build-up approach. The procedural steps of the build-up approach and the results of this trial experiment are recorded herein.

Part II presents the analysis related to the stakeholders' perception on IRA reform. Due to its nature of policy-recommendation, the Study chose to take participatory methodology in several aspects. During the process, the Study initiated capacity-building assistance to the DILG-PSG, by conducting a perception survey, assisting in consensus-building among stakeholders, and integrating findings from these activities into the recommendations. Chapter 5 presents the analysis of the results of the perception survey which obtained from the past LGU sample survey conducted during Phase 1. Chapter 6 and Chapter 7 give the summary of the survey by questionnaire and workshops respectively, conducted during Phase 2. Those incorporated in Part II of the report, therefore, helps JST to be practical when formulating proposals on IRA reforms considering that views of the concerned stakeholders are essential in determining the direction of the reform.

Part III consists of the review of IRA-related literature and the overview of the other countries' experiences in intergovernmental financial adjustment. The Study considered these as relevant information because the findings and knowledge accumulated in the past as well as the experiences of other countries are informative and helpful to the undertaking. Chapter 8 gives an overview of the review of IRA-related literature and the donor assistance in the thematic area of local government finance. Chapter 9 analyzes the typology of intergovernmental financial adjustment systems in other countries and shows the LAT system which has been developed in Japan.

Part IV presents proposals on IRA reforms. Chapter 10 explains the concepts in IRA reform. The options for new IRA distribution formula are listed in Chapter 11. Chapter 12 introduces the evaluation framework of the aforesaid options, simulation results and the impact analysis of these options. Chapter 13 deals with IRA issues other than the distribution formula and provides proposals on required revisions. Chapter 14 is about communication strategy which is essential for DILG in spreading IRA reform direction among stakeholders.

In the end, Chapter 15 summarizes the outcome of the Study and the issues to be addressed in the future.

Additional Statement: Definition of several terms used in the Study

Financial Capacity	Capacity to cover the financial needs from the potential revenue (quantitatively it can be defined "potential revenue/financial needs")
Disparity in Financial Capacity	Disparity that is found among and across LGUs in financial capacity
Financial Gap	"Financial Needs – Revenue" or "Revenue – Financial Needs"
Financial Capacity Gap	"Financial Needs – Potential Revenue" (in this Study alternatively "Financial Needs – Total Local Source" is used.) (Note: In this Study, "Financial Capacity Gap" is substituted by "Financial Gap" as potential revenue is not calculated.)

Part I

Institutional and Statistical Analysis

CHAPTER 2

CURRENT CONDITIONS OF LOCAL GOVERNMENT ADMINISTRATION AND FINANCE

The proposals presenting options that will change the allocation and utilization of IRA should be made based on a full understanding of the current conditions of LGUs. In this chapter, the conditions of LGUs will be considered for two main aspects. The first is related to the mandates, roles and responsibilities of LGUs compared to other sectors such as the national government. The other is the financial aspect, i.e., their revenue and expenditure. This chapter also provides basic information on the analysis and proposals presented in subsequent chapters.

2.1. Mandates, Roles and Responsibilities of Local Government

2.1.1. Overview of Mandates, Roles and Responsibilities of LGU

In the Philippines, LGUs are expected to play a role in areas directly concerned with the lives of the people. The mandates, roles and responsibilities of four major concerned sectors, that is, LGU, national government, government-owned and controlled corporation and private sector, are shown in Table 2-1. For instance, both LGU and the national government are responsible for peace and order, building and maintenance of roads, and environmental management system as prescribed by laws and ordinances. Only LGU is responsible on management of traffic, drainage and sewerage, land utilization, construction control, and other related works. Moreover the private sector including the NGO, as well as LGU and national government provide services and facilities in the fields of health, education, housing and redevelopment in slum areas and fire fighting. In addition, for example, in the education sector, school buildings and other facilities for public primary and secondary schools are constructed under the jurisdiction of municipalities and cities, while salary of the teachers is paid by the Department of Education. In general, LGUs, which work in closer cooperation with the other concerned sectors, are regarded as institutions that fulfill many crucial functions directly related to residents.

Table 2-1: Shared Roles of Major Four Concerned Sectors

Function and Responsibility	LGU	National Government	Government-Owed and Controlled Cooperation	Private Sector including NGO
Peace and Order	○	○	—	—
Buildings and Maintenance of Roads	○	○	—	—
Health	○	○	—	○
Solid Waste Disposal System and Road	○	—	—	○

Cleaning				
Management of Traffic	○	—	—	—
Drainage and Sewerage	○	—	—	—
Education	○	○	—	○
Social Welfare Services	○	—	—	—
Family Planning	○	—	—	○
Waterworks Services	○	○	○	○
Electric Power Services	—	—	○	○
Market	○	—	—	○
Cemetery	○	—	—	○
Sports, Parks and Recreation	○	—	—	○
Environmental Management System	○	○	—	—
Housing and Redevelopment in Slum	○	○	—	○
Library	○	○	—	—
Fire Fighting	○	○	—	○*
Urban planning	○	—	—	—
Transportation	○	○	○	○
Promotion of Agriculture	○	—	—	—
Slaughterhouses	○	—	—	○
Land Utilization and Construction Control	○	—	—	—
Family Register	○	—**	—	—
Conservation of the Environment	○	○	—	○

Note 1: * Volunteer Group

Note 2: ** National Statistics Office (NSO) only keeps the documents submitted by LGUs regarding birth and marriage of residents.

Source: Compiled by DILG-BLGS, JICA Study Team based on Chihougyousei to Chihoubunken Houkokusho [The report on Local Administration and Decentralization], JICA International Training Center, 2001, p.113

2.1.2. Mandates, Roles and Responsibilities Provided by 1991 LGC

LGC tasks LGUs with a role on service delivery functions, obliging them to be more responsive to the basic needs of their respective constituencies. The basic services and facilities devolved to the LGUs based on 1991 LGC are shown in Table 2.2. Section 17 of 1991 LGC defines basic services and facilities of LGUs at respective level, and at the same time, it also states that it does not mean that LGUs cannot perform other matters apart from the prescribed basic services and facilities.

It is to be noted that even before 1991, LGUs played a role in the areas of basic services such as waterworks. After 1991 however, LGUs are expected to be more active and perform crucial functions efficiently to meet the needs of residents in communities (refer to Annex 5 for details).

Table 2-2: Basic Services and Facilities Devolved to the LGUs by LGC

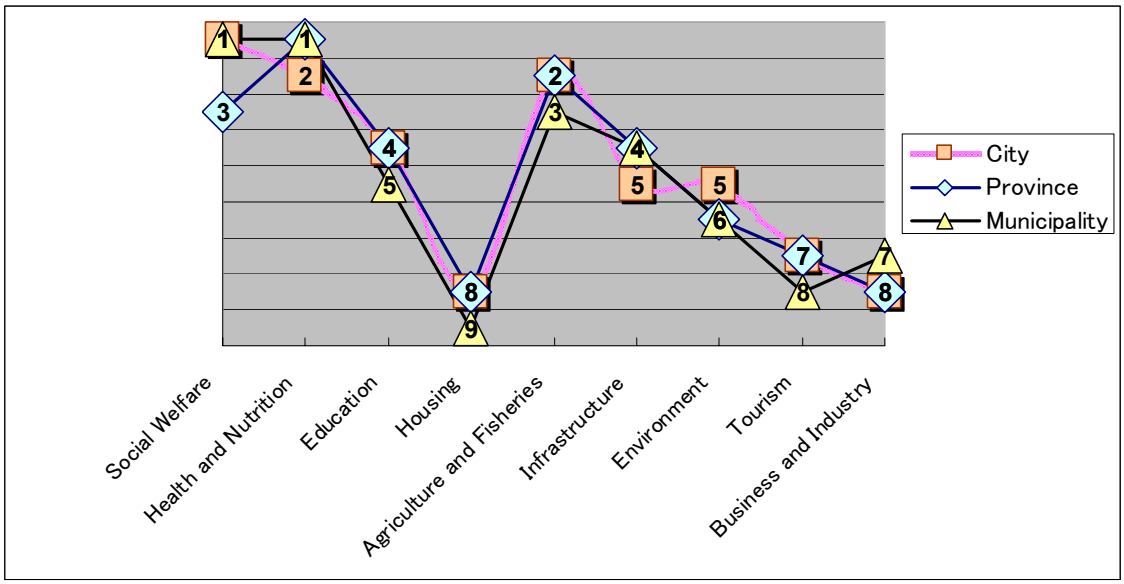
Province
· Agricultural research extensions and on-site research services
· Enforcement of forestry laws
· Hospitals and tertiary health services
· Social welfare services
· Infrastructure funded from provincial funds
· Low-cost housing
· Telecommunication services for provinces and cities
· Low-cost housing projects for province and cities
· Investment support services, industrial research and development services for provinces
· Tourism promotion
Municipality
· Agricultural extension and on-site research services
· Community-based forestry projects and management of communal forests
· Primary health care services and access to secondary and tertiary health services
· Public works and infrastructure projects funded out of local funds
· School buildings projects
· Social welfare services
· Information services
· Solid waste disposal system and environmental management system
· Municipal buildings, cultural centers, public parks and sports facilities
· Tourism facilities and promotion
City
· All the services and facilities of the municipality and province above
Barangay
· Agricultural support services including collection of produce and buying stations
· Health center and day care center
· Solid waste collection
· Villages justice system
· Roads and infrastructure funded by the barangay
· Information and reading center

Source: Milwida M. Guevara, "The Fiscal Decentralization Process in the Philippines: Lessons from Experience", 2004

2.1.3. Perceptions of the LGUs regarding Devolution and Priorities of Appropriating Funds

Devolution stipulated in 1991 LGC has changed public services in local governments. In a sample survey carried out for the Study, actual perceptions of governors, mayors and executives such as administrators regarding the devolution were investigated (refer to Chapter 5).

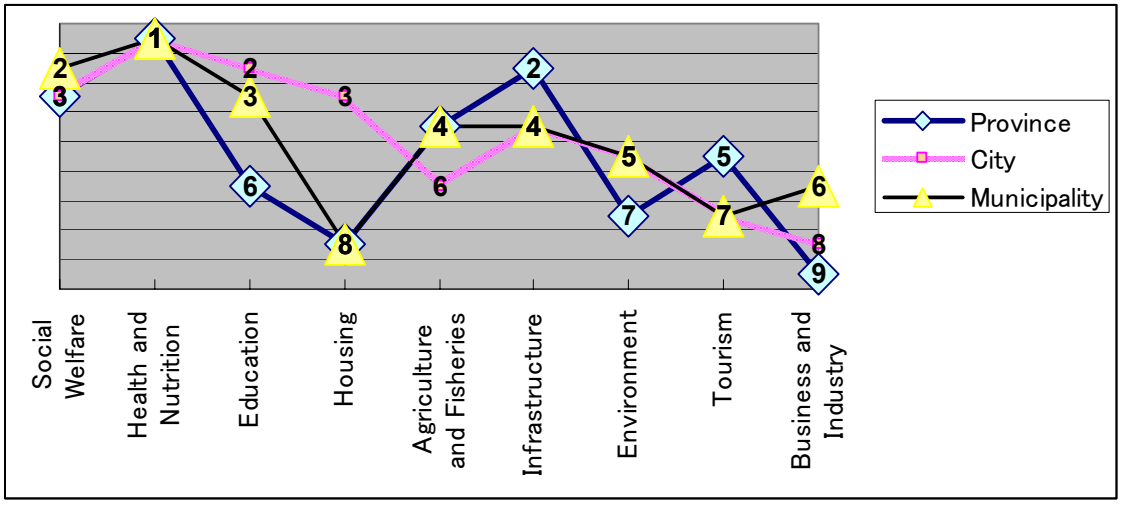
Respondents were asked regarding which area of service deliveries had been improved after the devolution. Based on obtained replies from interviewees in sample provinces, cities and municipalities, the top three service areas where improvement of devolution was noted are: 1) social welfare; 2) health and nutrition; and 3) agriculture and fisheries (refer to Chart 2-1).



Source: JICA Study Team

Chart 2-1: Ranking of Services and Facilities Improved with Devolution

On the other hand, during the same survey, all respondents were asked to rank the services in terms of prioritization in appropriating funds. Results indicated that provinces give priority to health and nutrition, followed by infrastructure and social welfare. In case of cities, topmost priority is given to health and nutrition followed by education, social welfare and housing. Lastly, for the municipalities, priority is given to health and nutrition followed by social welfare and education (refer to Chart 2-2).



Source: JICA Study Team

Chart 2-2: Ranking of Services in Terms of Priority in Appropriating Funds

2.1.4. Complementary Services and Facilities to LGUs by Other Organizations

Regarding mandates, roles and responsibilities defined by LGC, LGUs receive various supports from other organizations such as national government agencies, members of congress, donors, etc. Case Study A is conducted to find out the actual service delivery among different levels of LGUs, national government agencies, etc. Services with supports from other sources are investigated in three categories namely, financial assistance, technical assistance and service delivery carried out by other government levels.

The result of Case Study A shows that two target sample cities and one target sample municipality have received many supports from national governments agencies, provinces and other authorities (refer to Annex 6 for details), related to specific tasks.

For instance, though Section 17 (b) implies that municipalities and cities are in charge of corn seed farms and other kind of seedling nurseries, they do not always bear the costs of these services and facilities. They received subsidies for hybrid “palay” (rice grain) and high-value commercial crops from the regional office of Department of Agriculture, which were disbursed to the province. Furthermore the regional office provided technical assistance for municipalities and cities such as conducting crop production seminars and trainers’ training for municipal and city technicians for rice and corn.

2.1.5. Disparity in Services and Facilities Provided by Each LGU

In the Philippines, LGUs at same level do not always provide the same kinds of services and facilities. The reasons why LGUs cannot deliver uniformity services are realized as follows.

First, the own resources of LGUs are marked differently from one another. Secondly, as mentioned in Section 2.1.4, LGUs have been supported considerably by other organizations such as national government agencies. However, kind of supports vary. Thirdly, LGUs at different levels have complemented the services and facilities of other LGUs under them. These assistances provided to other LGUs vary according to the locality. Finally, the current IRA allocation does not fit the fiscal needs of LGUs appropriately. These factors have affected LGUs’ levels of services and facilities in quality and quantity.

2.2. Analysis on Central/Local Government Revenue/Expenditure Structure

Considering current IRA system from intergovernmental financial point of view, two main subjects are identified. First is whether or not the total amount of IRA is enough to meet the financial basic needs of LGUs. Second is whether or not the balance of distribution of IRA among LGUs is appropriate for their needs. The objective of this part is to examine these two

subjects from viewpoints of institutions (taxation) and revenue/expenditure structure in the national and local governments. The review and analysis provide essential materials for the improvement of IRA System.

2.2.1. Analysis on Revenue Structure in the National Government

In the current IRA system, LGUs receive 40% from the National Internal Revenue taxes based on the collection in the third fiscal year preceding the current fiscal year (Section 284, LGC). The total amount of IRA, which has crucial influence on the expenditure on services and facilities of LGUs, is in direct relation with the National Internal Revenue. Therefore, it is vital for the Study to recognize the stability and sustainability of internal revenue sources.

1) Trend in Amount of Internal Revenue

The Bureau of Internal Revenue (BIR) under the Department of Finance (DOF) is the collecting agency of internal revenue taxes. It contributes to about two-thirds of the total government revenues. The remaining one-third of the revenue is from grants, combined collections of the Bureau of Customs, and other legal tax sources of the government.

Table 2-3, Table 2-4 and Chart 2-3 indicate that the amount of internal revenue tax collection is evidently increasing. The percentage share of the internal revenue to the Gross Domestic Product (GDP), however, remains almost the same from 2002 to 2006. It means that the unitary elasticity of the internal revenue with respect to GDP is almost one, i.e. the internal revenue, which is the source of IRA, is a stable and sustainable financial resource for maintaining economic growth in the Philippines.

Table 2-3: National Government Revenue and Percent Contribution of Revenue Sources in 1991, 1996, 2002-2006 (In Million Pesos)

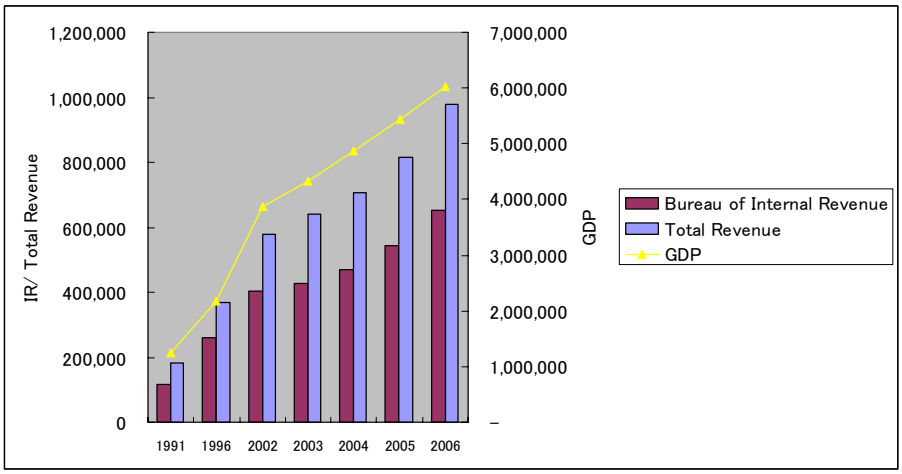
Particulars	1991	1996	2002	2003	2004	2005	2006
TOTAL REVENUE	**220,787**	**410,449**	**578,406**	**639,737**	**706,718**	**816,159**	**979,638**
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Tax Revenue	182,275	367,894	507,637	550,468	604,964	705,615	859,857
	83%	90%	88%	86%	86%	86%	88%
Bureau of Internal Revenue	**116,256**	**260,774**	**402,742**	**427,350**	**470,329**	**542,697**	**652,734**
	53%	**64%**	**70%**	**67%**	**67%**	**66%**	**67%**
Bureau of Customs	64,391	104,566	99,322	117,201	127,269	154,566	198,161
	29%	25%	17%	18%	18%	19%	20%
Other Offices	1,628	2,554	5,573	5,917	7,366	8,352	8,962
	1%	1%	1%	1%	1%	1%	1%
Non-Tax Revenue	35,440	41,986	69,717	88,071	101,680	110,456	119,598
	16%	10%	12%	14%	14%	14%	12%
Grants	3,072	569	1,052	1,198	74	88	183
	1%	0%	0%	0%	0%	0%	0%

Source: Bureau of Treasury, DOF

Table 2-4: Percentage Ratios of National Government Revenue to GDP: 1991, 1996, 2002-2006

Particulars	1991	1996	2002	2003	2004	2005	2006
TOTAL REVENUE	**18%**	**19%**	**15%**	**15%**	**15%**	**15%**	**16%**
Tax Revenue	15%	17%	13%	13%	12%	13%	14%
Bureau of Internal Revenue	**9%**	**12%**	**10%**	**10%**	**10%**	**10%**	**11%**
Bureau of Customs	5%	5%	3%	3%	3%	3%	3%
Other Offices	0%	0%	0%	0%	0%	0%	0%
Non-Tax Revenue	3%	2%	2%	2%	2%	2%	2%
Grants	0%	0%	0%	0%	0%	0%	0%

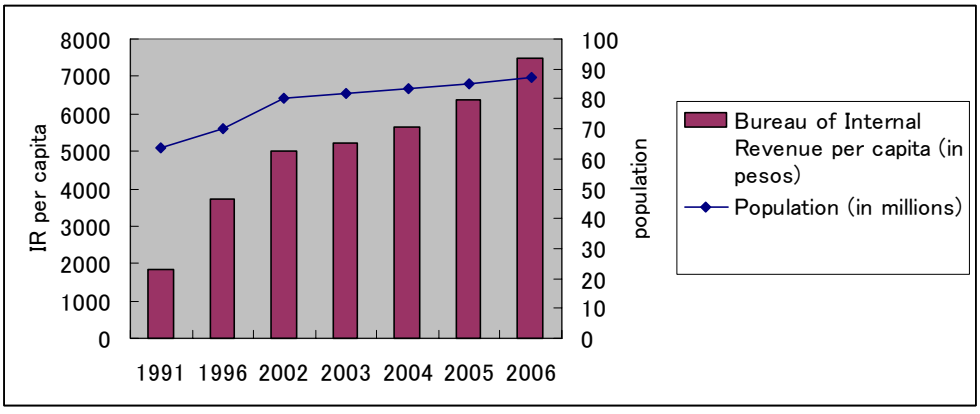
Source: Compiled by JICA Study Team based on Bureau of Treasury, DOF



Source: Compiled by JICA Study Team based on Bureau of Treasury, DOF

Chart 2-3: Comparison between Total Revenue, amount of IR and GDP (In million Pesos)

Chart 2-4 shows that growth rate of IR per capita is higher than that of population during several years ago.



Source: Compiled by JICA Study Team based on Bureau of Treasury, DOF

Chart 2-4: Comparison between IR Per Capita and Population

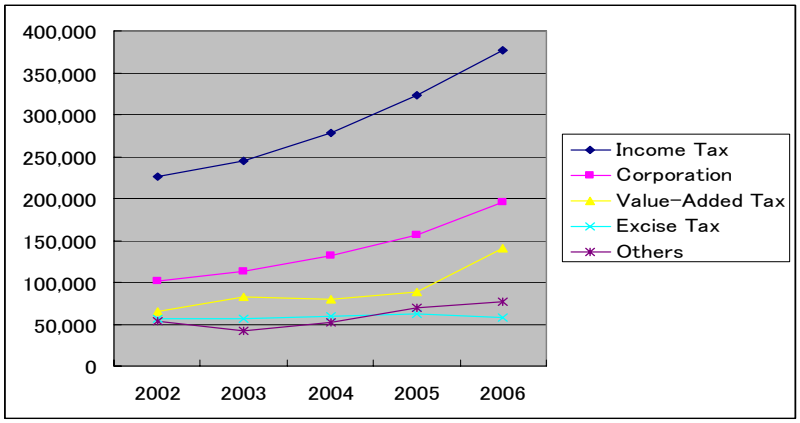
2) Component taxes of Internal Revenue

Considering stability and sustainability of internal revenues under circumstances of changing social and economic conditions, it is crucial to recognize the characteristics and trend of revenue of each component tax. Internal revenue collections are sourced from three major taxes, namely: 1) Income Tax; 2) Value-Added Tax (VAT); and 3) Excise Tax. In 2006, the income tax contributed about 58% to the total internal revenue collections; VAT, 22%; excise tax, 9%; and other taxes, 11% (refer to Table 2-5, Chart 2-5). Characteristics of main national taxes are explained in Annex 7.

Table 2-5: Component Taxes of Internal Revenue by Percent Contribution of Revenue Sources in 2002-2006 (In Million Pesos)

Particulars	2002	2003	2004	2005	2006
TOTAL	402,742 (100%)	427,350 (100%)	470,329 (100%)	542,697 (100%)	652,734 (100%)
Income Tax	226,501 (56%)	245,300 (57%)	278,213 (59%)	323,334 (60%)	376,991 (58%)
Corporation	100,753 (25%)	112,356 (26%)	131,168 (28%)	156,199 (29%)	195,600 (30%)
Individual	86,432 (21%)	91,361 (21%)	100,919 (21%)	115,941 (21%)	130,414 (20%)
Others	39,316 (10%)	41,583 (10%)	46,126 (10%)	51,194 (9%)	50,977 (8%)
Value-Added Tax	65,929 (16%)	82,633 (19%)	80,216 (17%)	87,855 (16%)	140,934 (22%)
Excise Tax	57,001 (14%)	56,905 (13%)	59,530 (13%)	61,816 (11%)	58,254 (9%)
Others	53,311 (13%)	42,512 (10%)	52,370 (11%)	69,692 (13%)	76,555 (12%)

Source: Compiled by JICA Study Team based on BIR Annual Reports



Source: Compiled by JICA Study Team based on BIR Annual Reports

Chart 2-5: Internal Revenue Collections from Taxes in 2002-2006 (In Million Pesos)

2.2.2. Analysis on Revenue/Expenditure Structure in the LGUs

1) Revenue and the amount of IRA in LGUs

For the period under review, IRA has been the biggest source of revenue of LGUs, contributing on the average, 63% of the total revenue. Its share to the total revenue declined over the years, although the amount of IRA is increasing, except in 2004.

Locally-sourced revenue consisting of tax and non-tax sources contributed, on the average, 32% of the total revenue. Its share to the total revenue indicated a slightly increasing trend from 31% in 2002, to 33% in 2006.

In particular, revenues from the real property tax and business tax represent 24% of the total revenue. Except for a slight decline from the real property tax in 2004 and from the business tax in 2006, collections from these two taxes were satisfactory during the period, recording their highest growths of 23% and 30%, respectively in 2005.

Lastly, special revenue consisting of shares of LGUs from national taxes (other than IRA), and extraordinary revenues such as those from grants and aids, loans, and inter-local transfers, represents 6% of the total revenue in 2006 (refer to Table 2-6, 2-7, Chart 2-6).

Tax sources of LGUs are explained in detail in Annex 8.

Table 2-6: Revenue of Local Government Units by Type of Sources: 2002-2006
(In Million Pesos)

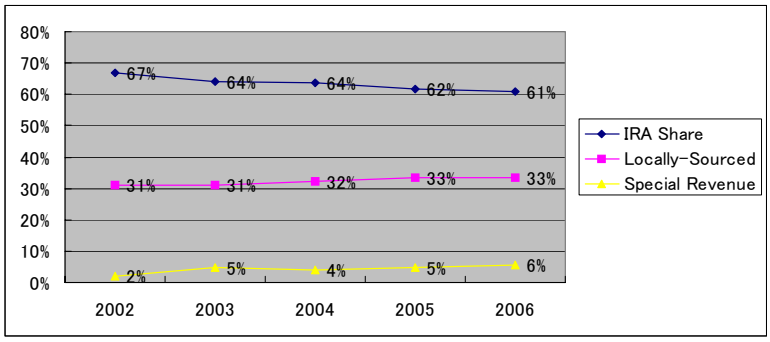
Particulars	2002	2003	2004	2005	2006
TOTAL REVENUE	**159,771**	**177,252**	**177,318**	**221,476**	**225,832**
IRA Share	107,118	113,680	112,883	136,690	137,521
Locally-Sourced	49,644	55,127	57,300	73,942	75,408
Tax Revenue	38,508	42,053	43,080	54,274	54,859
Real Property Tax	19,533	22,185	21,440	26,348	27,100
Business Tax	16,706	17,487	19,280	24,997	24,583
Other Taxes	2,269	2,381	2,360	2,929	3,176
Non-Tax Revenue	11,136	13,074	14,220	19,668	20,549
Regulatory Fees	2,894	3,414	3,577	4,910	4,495
Service/User Charges	1,301	1,630	1,910	2,985	3,379
Receipts from Economic Ent.	4,541	5,902	6,187	9,002	8,571
Other Receipts	2,400	2,128	2,546	2,771	4,104
Special Revenue	3,009	8,445	7,135	10,844	12,903
Share from Natl Taxes (Other than IRA)	524	2,020	2,073	4,598	3,590
Extraordinary Receipts/Grants/Aids	604	2,321	1,162	1,662	1,750
Loans and Borrowings	1,414	3,265	2,624	3,458	6,185
Inter-Local Transfers	467	839	1,276	1,126	1,378

Source: DOF-BLGF SIE

Table 2-7: Percent Distribution of Local Government Revenue by Type of Sources: 2002-2006

Particulars	2002	2003	2004	2005	2006
TOTAL REVENUE	**100%**	**100%**	**100%**	**100%**	**100%**
IRA Share	67%	64%	64%	62%	61%
Locally-Sourced	31%	31%	32%	33%	33%
Tax Revenue	24%	24%	24%	25%	24%
Real Property Tax	12%	13%	12%	12%	12%
Business Tax	10%	10%	11%	11%	11%
Other Taxes	1%	1%	1%	1%	1%
Non-Tax Revenue	7%	7%	8%	9%	9%
Regulatory Fees	2%	2%	2%	2%	2%
Service/User Charges	1%	1%	1%	1%	1%
Receipts from Economic Ent.	3%	3%	3%	4%	4%
Other Receipts	2%	1%	1%	1%	2%
Special Revenue	2%	5%	4%	5%	6%
Share from Natl Taxes (Other than IRA)	0%	1%	1%	2%	2%
Extraordinary Receipts/Grants/Aids	0%	1%	1%	1%	1%
Loans and Borrowings	1%	2%	1%	2%	3%
Inter-Local Transfers	0%	0%	1%	1%	1%

Source: Compiled by JICA Study Team based on DOF-BLGF SIE



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Chart 2-6: Share of Revenue Sources in Local Governments

2) Amount of IRA and Change in the Number of LGUs

i) Relation between the Vertical Ratio of Distribution of IRA and the Number of LGUs

In this section, the relation between the vertical ratio of distribution of IRA and the number of LGUs are analyzed. As compared to the number of LGUs in 1996, the total number of LGUs in 2007 has decreased from 1743 to 1711. By level of LGU, the number of province however has increased from 77 in 1996 to 81 in 2007. In cases of cities, the number increased more than twice, from 67 cities in 1996 to 136 in 2007. For municipalities, the number decreased by 105, from 1599 in 1996 to 1494 in 2007 (refer to Table2-8).

For reference, statistics from the National Statistical Coordination Board show that five municipalities were converted into new cities, two municipalities were newly created and one barangay was created during the third quarter of 2007 (refer to Annex 9 for details).

On the other hand, vertical rate of distribution among the four types of LGUs has remained fixed since 1991 when LGC became effective. Provinces and cities get a 23% share; municipalities, 34%; and barangays, 20%. The facts above mean that in cases of provinces or cities, the share of each LGU to the total amount distributed to each level of LGUs in 2007, has relatively decreased as compared to that in 1996.

Table2-8: Number of Provinces, Cities and Municipalities: 1991, 1996 &2002-2006

Particulars	1991	1996 (Sept)	2002 (June)	2003 (June)	2004 (July)	2005 (June)	2006 (June)	2007 (Sept)
TOTAL	**1,673**	**1,743**	**1,689**	**1,691**	**1,695**	**1,696**	**1,701**	**1,711**
Provinces	75	77	79	79	79	79	79	81
Cities	60	67	114	115	116	117	117	136
Municipalities	1,538	1,599	1,496	1,497	1,500	1,500	1,505	1,494

Source: 1991: Manuel S. Tabunda and Mario M. Galang, A Guide to Local Government Code of 1991, 1992, Mary Jo Educational Supply, 1996: DILG Planning Service, Profile of LGU by Region, 1997, 2002-2006: Philippines Statistical Yearbook

ii) Reasons of changes in the numbers of LGUs

The new provinces, municipalities and barangays were created from the existing LGUs because of fragmentation. Meanwhile, conversions of some municipalities into new cities were also implemented.

In the perception survey for the Study, the question regarding relation between fragmentation and distribution formula were conducted. When asked if IRA is one of the factors causing fragmentation of LGUs, 75% of respondents agreed while 22% disagreed (refer to Chapter 5).

Furthermore, it is realized that the number of cities has doubled for the past 10 years due to the fact that municipalities, when converted into cities, will consequently receive more IRA. As a result, current IRA distribution formula is one of the causes for the increase in the number of cities.

3) Expenditure Structure in LGUs

Trend in expenditure in LGUs during the past several years is made clear in comparison with the national government's expenditure.

i) Expenditure and Percent Distribution of LGUs

Tables 2-9 and Chart 2-7 respectively show Expenditure, Percent Distribution and Growth Rate

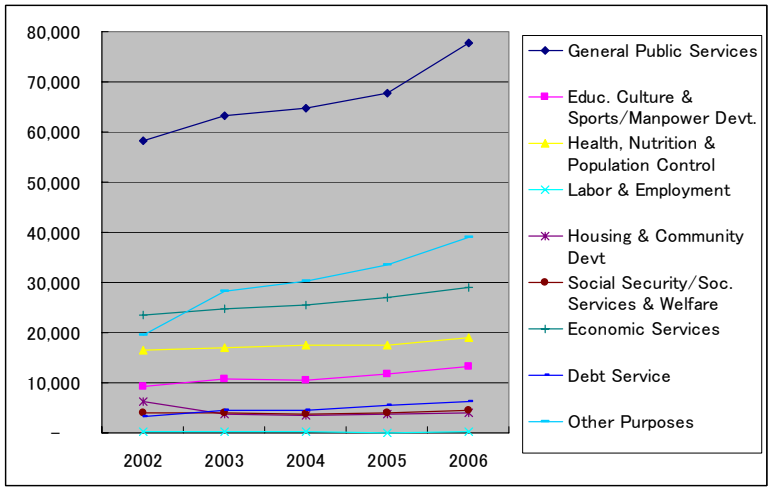
of Expenditure in the local governments by sector.

Table 2-9: Expenditure and Distribution Ratio of LGUs by Sector: 2002-2006
(In million Pesos)

Particulars	2002	2003	2004	2005	2006
TOTAL EXPENDITURE	**140,838** 100%	**156,206** 100%	**160,544** 100%	**170,825** 100%	**192,908** 100%
General Public Services	**58,256** 41%	**63,154** 40%	**64,859** 40%	**67,698** 40%	**77,855** 40%
Social Services	**36,120** 26%	**35,607** 23%	**35,549** 22%	**37,185** 22%	**40,759** 21%
Educ. Culture & Sports/Manpower Devt.	9,194 7%	10,708 7%	10,529 7%	11,872 7%	13,225 7%
Health, Nutrition & Population Control	16,499 12%	16,960 11%	17,426 11%	17,388 10%	18,907 10%
Labor & Employment	208 0%	172 0%	147 0%	113 0%	135 0%
Housing & Community Devt	6,228 4%	3,752 2%	3,619 2%	3,721 2%	3,963 2%
Social Security/Soc. Services & Welfare	3,991 3%	4,015 3%	3,828 2%	4,091 2%	4,529 2%
Economic Services	**23,538** 17%	**24,665** 16%	**25,440** 16%	**26,904** 16%	**29,011** 15%
Debt Service	**3,370** 2%	**4,492** 3%	**4,443** 3%	**5,580** 3%	**6,191** 3%
Other Purposes	**19,554** 14%	**28,288** 18%	**30,253** 19%	**33,458** 20%	**39,092** 20%

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

On a yearly basis, continuous growths were noted in the expenditures for general public services, economic services, and for other purposes. On the other hand, slight declines were noted for the subcomponents of social services, particularly in 2003 and 2004. Because of this trend, the combined share of social services continuously declined from 26% in 2002 to 21% in 2006. Similarly, the share of economic services likewise declined from 17% in 2002 to 15% in 2006. Meanwhile, expenditure share of general public services was maintained at 40% over the last four years, while that for other purposes continuously rose from 14% in 2002 to 20% in 2004.



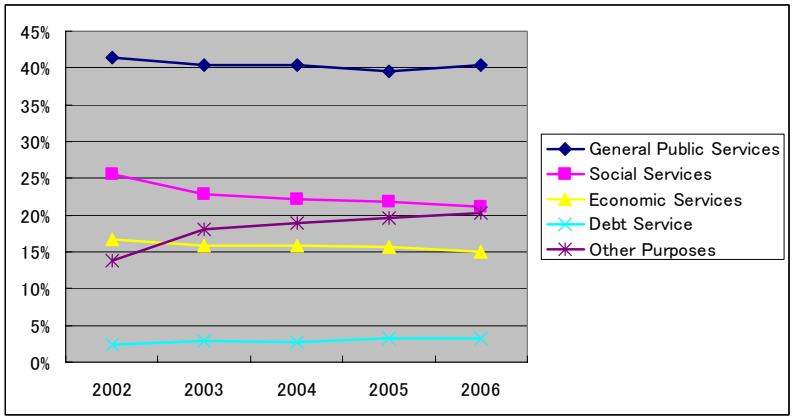
Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Chart 2-7: Trend in Expenditure of LGUs by Sector: 2002-2006 (In Million Pesos)

ii) Comparison between Share of Expenditure in LGUs and in National Government

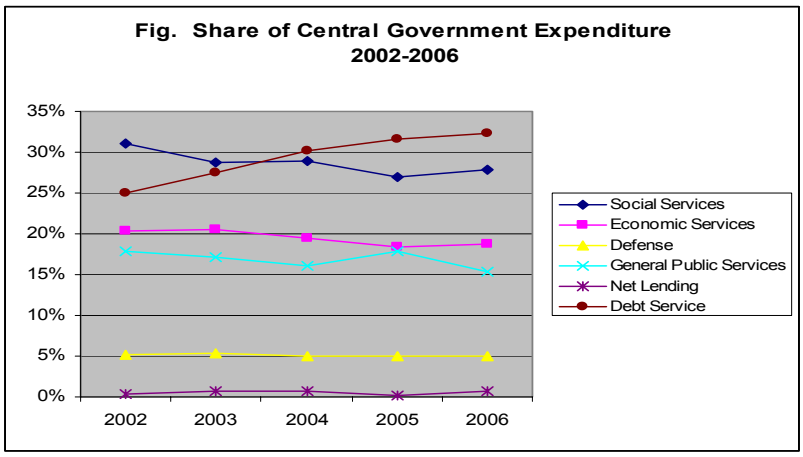
The share of expenditure of LGUs by sector shows that the share of general public services is the highest. Second highest is the share of social services. Debt services seem quite low at 5% (refer to Chart 2-8).

On the other hand, the national government expenditure by sector shows that social services (31%) topped the list of expenditure in 2002, followed by debt services (25%), then economic services (20%). Starting 2004, however, interest payment grew at a faster rate, surpassing expenditure on social services. The share of interest payment continuously increased from 30% in 2004 to 32% in 2005 and 2006 (refer to Chart 2-9).



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Chart 2-8: Trend in Share of LGUs Expenditure by Sector: 2002-2006



Source: Compiled by JICA Study Team based on Bureau of Treasury, DOF

Chart 2-9: Trend in Share of Central Government Expenditure by Sector: 2002-2006

iii) Comparison between Amount of Expenditure in LGUs and in National Government

The share between the expenditure of LGUs and that of the national government is generally 16% and 84%, respectively in 2002-2006, except in 2005 (refer to Table 2-10, Chart 2-10). This national government expenditure (84%) includes the subsidy that they are providing to LGUs. In the total national government expenditure, the share of subsidy it has granted to LGUs in 2006 is 16% (refer to Table 2-11). From the viewpoint of international comparison, the share on net budget of expenditure of LGUs to that of national government in the Philippines is regarded as a small share group as compared to that in other countries in the world.

Table 2-10: Amount/Percent Distribution of Expenditure of LGUs and National Government (In Million Pesos)

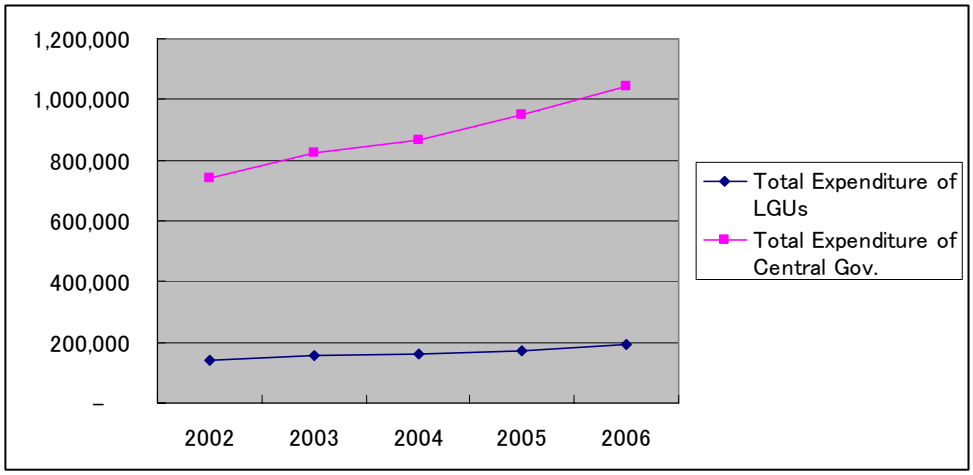
	2002	2003	2004	2005	2006
Amount/ Percent Distribution of Expenditure of LGUs	140,838 16%	156,206 16%	160,544 16%	170,825 15%	192,908 16%
Amount/ Percent Distribution of Expenditure of Central Gov.	742,022 84%	825,113 84%	867,011 84%	947,554 85%	1,044,827 84%

Source: Compiled by JICA Study Team based on BLGF SIE, Bureau of Treasury, DOF

Table 2-11: Subsidy from Central Government to LGUs (In Million Pesos)

	1991	1996	2002	2003	2004	2005	2006
Total Expenditure of Central Gov.	707,093 100%	416,141 100%	742,022 100%	825,113 100%	867,011 100%	947,554 100%	1,044,827 100%
Subsidy to LGUs	**115,828 16%**	**56,631 14%**	**134,422 18%**	**141,000 17%**	**141,000 16%**	**151,623 16%**	**166,467 16%**

Source: Compiled by JICA Study Team based on Bureau of Treasury, DOF



Source: Compiled by JICA Study Team based on BLGF SIE, Bureau of Treasury, DOF

Chart 2-10: Trend in Total Expenditure of LGUs and National Government

2.2.3. Issues on Local Finance

To sum up and make above analyses in order, features on macro finance of central/local governments in 2002-2006 are as follows.

First of all, an increase of total local expenditure is quite low compared with that of total central expenditure (refer to Chart 2-10).

Secondly, under the said macro financial condition, the expenditure for general public services (GPS) have been increasing, the distribution ratio of which have been maintaining 40% or more in total. Meanwhile the growth of expenditure for Health, Nutrition and Population Control, and Social Security/ Social Services and Welfare is modest, the distribution ratio of which also is decreasing (refer to Table 2-9).

Thirdly, on the other hand, LGUs at all levels have strong desire to expend for Health and Nutrition, and Social Welfare (refer to Chart 2-2). These above facts show that LGUs cannot provide basic services in health and social welfare sectors as much as they expected, because they would like to keep expenditure for GPS under the limitation of revenue resources.

Therefore, some issues brought through above features are as follows.

1) The distribution of sources of tax revenue and the intergovernmental fiscal adjustment system should be reconsidered so that LGUs may get more appropriate fiscal distributions at macro level for mandates/roles/responsibilities among LGUs and central government.

2) From a standpoint of fiscal discipline, the expenditure, especially the expenditure for GPS should be inspected in detail, and it should be improved to be implemented efficiently.

3) It is examined how the amount of IRA should be determined and how micro resource distributions should be achieved to provide necessary basic services as much as possible at each LGU level.

2.3. Analysis on IRA-related Rules and Regulations

The objective of the Study is not only to give options for a new distribution formula of IRA but also to suggest improvement for the utilization of IRA and other related issues. In accordance with Section 287 of LGC1991, every LGU shall appropriate in its annual budget no less than 20% for development projects. Hence, a DILG-DBM joint memorandum circular was issued (No.1s.2006) to provide guidelines on the appropriation and utilization of the 20% of the annual IRA, for development projects (refer to Annex 10).

In the perception survey of the Study, questions regarding utilization of the 20% of the annual IRA for development projects were raised to sampled LGUs. Most respondents answered that Section 287 of the LGC is clear, and agreed with the current joint memorandum circular in terms of utilization (refer to Chapter 5). On the basis of the analysis, JST presents proposals in Chapter 13 regarding improvements to the existing IRA-related systems.

2.4. Analysis on the Monitoring Tools of Local Government

2.4.1. Monitoring System of Local Administration in Perspective

In order to measure the performance and productivity of LGUs, a self-assessment tool called Local Governance Performance Management System (LGPMS) is now widely used in the Philippines. This web-based tool, managed and developed by DILG, helps LGUs not only in determining their capacities and limitations in the delivery of essential public services, but also in improving their management and operations. Therefore, it is not merely a means for monitoring the local government by a national government agency, but also serves as a development and management tool for the local government.

Currently this LGPMS is being upgraded, with the Asian Development Bank (ADB) technical assistance (TA4778) looking into the assimilation of the financial data items collected by DOF (SIE) into the LGPMS.

2.4.2. Brief History

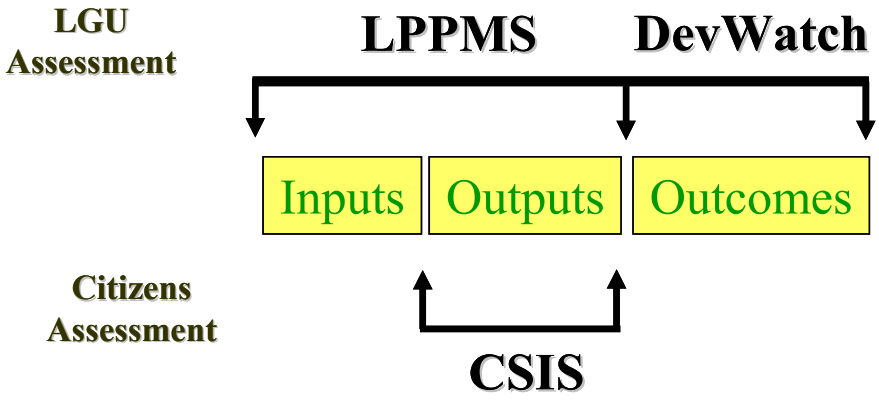
It was first introduced to the LGUs as Local Productivity and Performance Measurement System (LPPMS), which was intended to provide reports on the conditions of their service delivery to the Ministry of Local Government (MLG) Central Office. In 1984, LPPMS was fully implemented, and until 1985, the MLG Central Office was annually provided with local government reports. After the 1986 People Power, the use of LPPMS was discontinued and its implementation was decentralized to the regions.

In 2000, the enhanced version of LPPMS was developed. The Citizens' Satisfaction Index System (CSIS) was created to gauge client views on the quality of government services. A year later, the Local Development Watch (DevWatch) was established to complement with the funding from AusAID. This LPPMS version was designed as a self-assessment system of LGUs.

Prior to its nationwide implementation, the United Nations Development Programme and the Philippine-Canada Local Government Support Program provided technical and financial assistance in its field-testing in 113 LGUs that took place from February to October 2004.

2.4.3. Basic Features of LGPMS

Thus, LGPMS is an integration of different management systems developed by DILG. Some of the performance (input) and productivity (output) indicators were derived from LPPMS. The state of development (outcome) indicators is drawn from DevWatch. Soon, CSIS will be further integrated with the LGPMS. Once completed, it is expected that the LGPMS will become more responsive to customer views.



Source: DILG-BLGS Presentation Material of Integrating Child-friendly Indicators to LGPMS-UNICEF

Figure 2-1: LGPMS Framework

Input (performance) refers to the underlying capacity of a local government. This capacity is seen in terms of structures, policies, guidelines, administrative systems, managerial and technical competencies, tools, facilities, equipment and financial resources.

Output (productivity) means the availability and quality of basic services delivered by a local government, while outcome (state of development) refers to the socio-economic and environmental conditions in a locality.

As a self-assessment, management and development support tool, LGPMS serves three purposes:

i) supporting the development of a local government through the improved use of financial and human resources,
ii) benchmarking local government performance against established standards, and
iii) informing national policy-makers on the state of development in the LGUs

The number of indicators reaches 111 and they are distributed among the 17 service areas, as presented in the following:

Table 2-12: Number of Indicators at the Provincial Level and City/Municipal Level

Service Areas	No. of Indicators Provincial Government			No. of Indicators City/Municipal Government		
	Input	Output	Outcome	Input	Output	Outcome
(1) local legislation	2	1	-	2	1	-
(2) transparency	1	1	-	1	1	-
(3) participation	3	2	-	3	2	-
(4) development planning	2	3	-	2	3	-
(5) revenue generation	2	2	-	3	4	-
(6) resource allocation and utilization	2	1	-	2	1	-
(7) financial accountability	3	2	-	3	2	-
(8) customer services	1	-	-	2	4	-
(9) human resource management …	2	2	-	2	2	-
(10) health and nutrition	1	-	-	3	2	6
(11) education	1	-	-	5	2	4
(12) housing and basic utilities	3	1	-	3	1	4
(13) peace, security and disaster …	5	2	-	7	3	2
(14) agriculture and fisheries development	2	-	-	2	4	4
(15) entrepreneurship, business and …	3	1	-	3	2	2
(16) natural resource management	1	1	-	3	1	3
(17) waste management, pollution control …	2	-	-	2	2	1

Source: Compiled by JICA Study Team based on information in LGPMS User's Guide

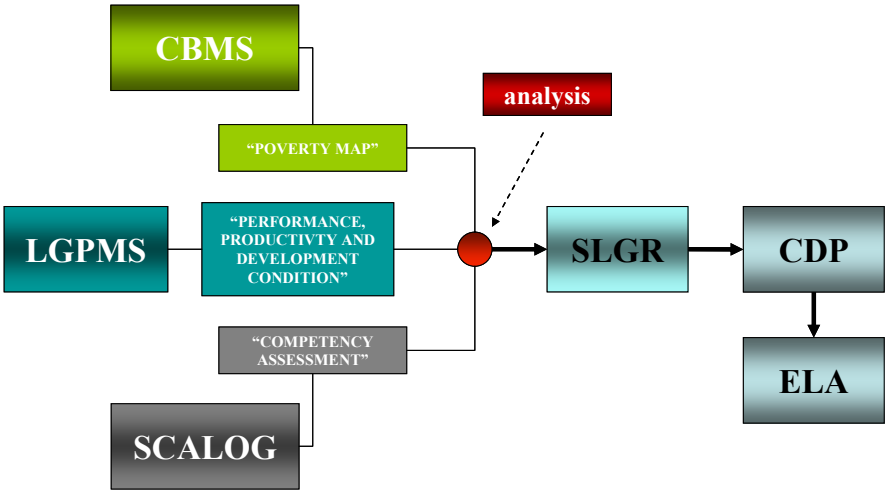
There are two sets of "data capture form", one for the provincial governments (refer to Annex 11) and the other is for the city and municipal governments. They are different in terms of content. For instance, since the outcome results at provincial level is the aggregate of the results of component cities and municipalities, no outcome indicators are assessed at the provincial level.

The data capture form is divided into two parts. Part 1 deals with general information which includes income data such as total income, actual IRA, locally-sourced amount, etc.

2.4.4. Implications of LGPMS Upgrading and Development Plans

As pointed out above, the remodeling and upgrading of LGPMS is underway. The harmonization of LGPMS, Community Based Management System (CBMS) and System on

Capacity Assessment for Local Governments (SCALOG) will serve as the inputs for the development of Community Development Plan (CDP) and Executive Legislative Agenda (ELA). The following figure shows a general operational framework in the future.



Source: DILG-BLGS Presentation Material of Integrating Child-friendly Indicators to LGPMS-UNICEF

Figure 2-2: General Operational Framework

2.4.5. Use of LGPMS data for IRA Study

The LGPMS was initiated nationally in 2004, but the extent of the data collected through this system remains limited to date, partly due to the refurbishment process described above. The database which was expected to be useful for the Study, particularly on the social indicators, turns out to be rather an unreliable source of data. These social indicators include number of public hospitals/health establishments, number of local government doctors, number of fully immunized children, etc., in the health and nutrition sector.

However, once the on-going upgrading process is completed and its use is finally initiated to the local governments nationwide, the LGPMS is a significant source of data for related studies such as IRA Study.

CHAPTER 3

STATISTICAL ANALYSIS ON LOCAL GOVERNMENT FINANCE AND IRA

Following the overall analysis in Chapter 2 regarding the institutional status quo of local government finance, this chapter addresses numerical relationship between LGU finance and the IRA. An annex at the end of this chapter also shows a result of regressions between LGU population and per capita LGU expenditure, together with an analysis of the budget structure of selected LGUs which are alienated from the regression line.

3.1. Database and Analytical Approach

3.1.1. Official Budget Data and Sample-Survey Data

The data base comprised of two parts;

1) Total and broad classified components of income / expenditure of all provinces, cities, municipalities (DBM's "Annual Financial Report of LGUs"): these series covers four years from 2002 to 2005[1]. Date for population (in year 2000) and land area (in year 2001) of each LGU were included in this database, considering those actually used by DBM, in order to calculate the IRA share.

2) Non-budgetary data (called as "output" and "outcome" indicators) for surveyed LGUs: in addition to the result of the sample LGU survey, some information were acquired from the Local Government Performance & Management System (LGPMS), Annual Statistical Yearbook and other related literatures.

3.1.2. LGU Identification and Use of an Official Geocode System[2]

Database 1) above contains data for 79 provinces, 117 cities and 1501 municipalities. To avoid

[1] In the Philippines, fiscal year corresponds to the calendar year. The 2006 data, which is the one currently available, were not used for the analyses, since we preferred to focus on 2005 as more rational.

[2] A Geocode is an official ten-digit number to identify an individual LGU, of which the first two digits represent the region, the succeeding two digits as the province, the next three digits represent city and municipality, and the remaining three as the barangay. A similar system is also adopted in the USA.

possible confusion between their identities, as well as to facilitate the classification, an official geocode system has been integrated into the database.

Table 3-1: Number of LGUs by Region and " Geocode"

BLOCKS	Regions Name	No. of Provinces	No. of Cities	No. of Municipalities	No. of Barangays	Geo Code	Re. ID	Pro. ID	Cit-Mun. ID
Luzon	NCR – National Capital Region	0	16	1	1,695	130000000	13	00	00
	CAR – Cordillera Administrative Region	6	2	75	1,176	140000000	14	00	00
	REGION I (Ilocos Region)	4	9	116	3,265	010000000	01	00	00
	REGION II (Cagayan Valley)	5	3	90	2,311	020000000	02	00	00
	REGION III (Central Luzon)	7	13	117	3,102	030000000	03	00	00
	REGION IV-A (CALABARZON)	5	12	130	4,011	040000000	04	00	00
	REGION IV-B (MIMAROPA)	5	2	71	1,458	170000000	17	00	00
	REGION V (Bicol Region)	6	7	107	3,471	050000000	05	00	00
Visaya	REGION VI (Western Visayas)	6	16	117	4,051	060000000	06	00	00
	REGION VII (Central Visayas)	4	16	116	3,003	070000000	07	00	00
	REGION VIII (Eastern Visayas)	6	7	136	4,390	080000000	08	00	00
Mindanao	REGION IX (Zamboanga Peninsula)	3	5	67	1,904	090000000	09	00	00
	REGION X (Northern Mindanao)	5	9	84	2,022	100000000	10	00	00
	REGION XI (Davao Region)	4	6	43	1,162	110000000	11	00	00
	REGION XII (Soccsksargen)	4	5	45	1,194	120000000	12	00	00
	ARMM – Autonomous Region in Muslim Mindanao	6	2	112	2,470	150000000	15	00	00
	REGION XIII (Caraga)	5	6	67	1,310	160000000	16	00	00
	PHILIPPINES (Total number of LGU's)	81	136	1494	41995				
	(Total number on DOF 2005 basis)	(79)	(117)	(1501)					

Source: Compiled by JICA Study Team based on the PSGC, the NSCBs Philippines Standard Geographic Code: http://www.nscb.gov.ph/activities/psgc

As shown in the table above, the numbers of LGUs slightly differ between the Geocode 2007 version and DBM 2005. Nevertheless, all analyses have been based on the Geocode ID, ignoring yearly variation (merger, creation, separation etc.) of LGUs notable identities.

3.1.3. Analytical Approaches

During the analysis based on the data base 1), after briefly checking the variation of budget from the year 2002 through 2005, structure of income and expenditure was examined for various aggregate groups for each of the three national levels (provinces, cities, municipalities), income-classes of each and 17 regions.

During the analysis based on the data base 2) relevant charts were plotted and econometric analysis (least square method) were performed. This was done to inspect any differentials among the sample-surveyed LGUs in terms of well-being or level of public services in each of the various fields of regional life, as well as relations between these differentials and LGU budgets.

3.2. Analysis of Budget Data for all LGUs

Table 3-2: An overview of the LGU budget, 2002-2005

	2002	2003	2004	2005
Number of LGUs (excluding those without data availability)				
Province (P)	79	79	79	79
City (C)	116	116	116	117
Municipality (M)	1,493	1,495	1,499	1,500
Total Income (in million PhP)				
Province (P)	37,801	41,360	41,148	45,515
City (C)	64,573	72,721	74,148	83,349
Municipality (M)	57,337	63,246	63,604	69,064
P+C+M	159,710	177,327	178,900	197,927
Total Income (% annual change)				
Province (P)	-	9.4%	-0.5%	10.6%
City (C)	-	12.6%	2.0%	12.4%
Municipality (M)	-	10.3%	0.6%	8.6%
P+C+M	-	11.0%	0.9%	10.6%
Total Income (% vertical share)				
Province (P)	23.7%	23.3%	23.0%	23.0%
City (C)	40.4%	41.0%	41.4%	42.1%
Municipality (M)	35.9%	35.7%	35.6%	34.9%
P+C+M	100.0%	100.0%	100.0%	100.0%

Source: Compiled by JICA Study Team based on DOF-BLGF SIE, 2002-2005

3.2.1. An Overview of the LGU budget data (SIE)

Table 3-2 exhibits the number of LGUs according to national level and their corresponding total income for the year 2002-2005, in order to give an overall picture of the recent development of LGU budget.

The following observations from this table may be noteworthy:

1) The numbers of provinces and cities are more or less stable for 4 years after a substantial increase between 1996 and 2002 (discussed in Chapter 2), while that of Municipalities seems to show increasing trend.

2) LGU budgets have been growing in total, although the growth was very limited in 2004, particularly for Provinces.

3) The rate of budget growth has been highest for the cities among the three levels.

4) The relative budget of the three levels of LGUs are roughly constant, as provinces, cities and municipalities occupy respectively 23%, 42% and 35% of the total.

The next sections discuss the structural and distribution features in both income and expenditure aspects of the LGU budget, focusing mainly on the year 2005.

3.2.2. Allocation of IRA and the relative importance of local income sources.

1) Comparisons of Income Structure: Provinces, Cities and Municipalities

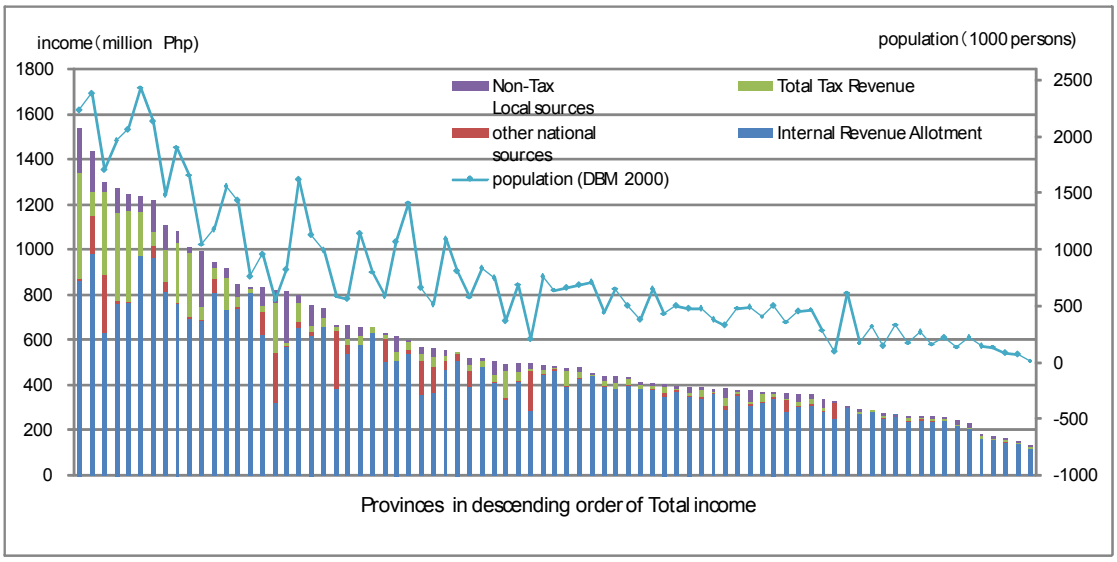
Looking into the income components of LGUs, Table 3-3 clearly shows that IRA plays an outstanding roll in supplying resource funds. In fact, IRA accounts for almost three quarters in provinces and municipalities, and more than 40% in cities where local sources seems more abundant. Among total local taxes collected, some 74% were accumulated from the cities. The vertical distribution of IRA, the highest for municipalities (42%) and the lowest for cities (28%), contribute to compensating the own-source gap to some extent.

Table 3-3: Percent (%) Share of Income Components by LGU Level, 2005

year 2005	Total Income	Local Sources	of which Tax	IRA	Other national sources
Component share					
Province (P)	100.0%	16.3%	9.8%	78.8%	4.9%
City (C)	100.0%	54.7%	44.3%	40.9%	4.4%
Municipality (M)	100.0%	20.5%	12.6%	74.3%	5.2%
Layer share					
Province (P)	23.0%	11.0%	8.9%	29.6%	23.0%
City (C)	42.1%	67.9%	73.8%	28.1%	40.9%
Municipality (M)	34.9%	21.1%	17.3%	42.3%	36.1%
P+C+M	100.0%	100.0%	100.0%	100.0%	100.0%

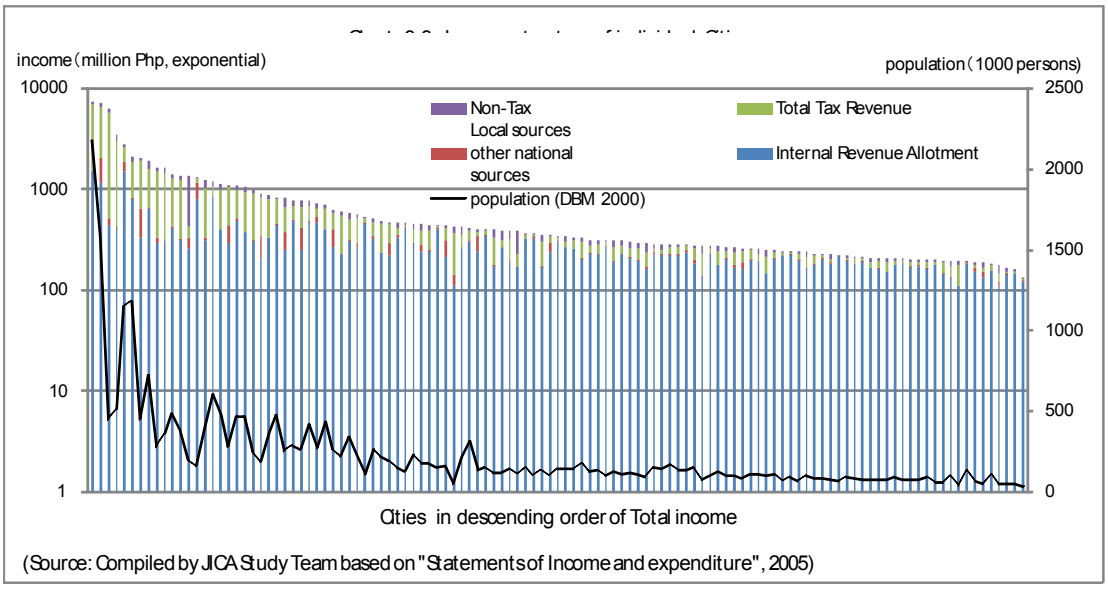
Source: JICA Study Team based on DOF-BLGF SIE, 2002-2005

The issue seems critical when one looks at the IRA dependency of each individual LGU as exhibited in charts 3-2, 3-3 and 3-4.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

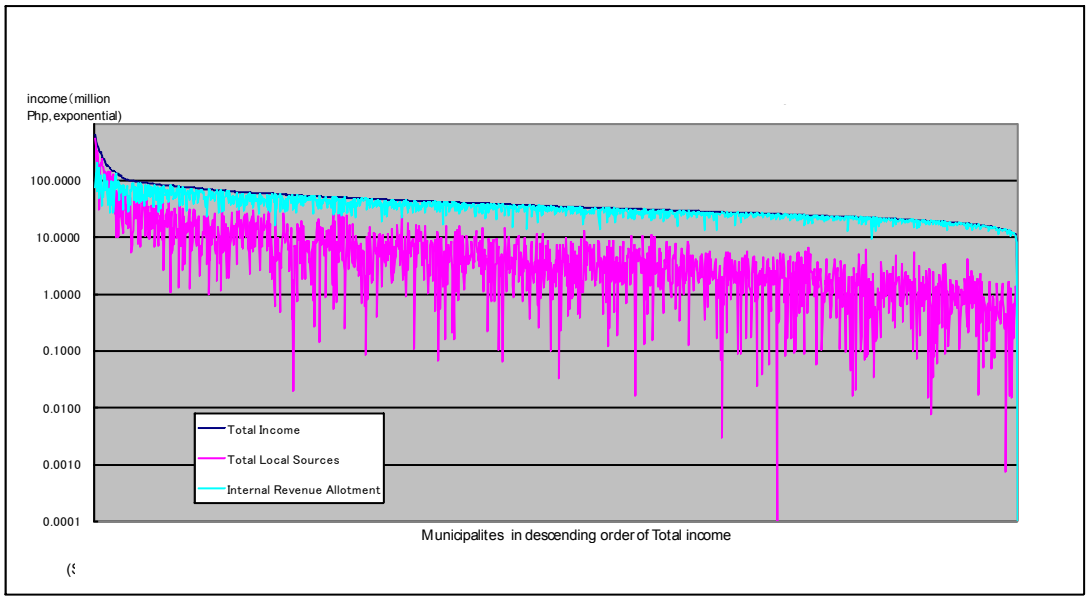
Chart 3-1: Income Structure of Individual Provinces



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Chart 3-2: Income Structure of Individual Cities

In each of the three levels, only LGUs which are relatively large in terms of total income as well as population, gained significant revenues from local sources. Especially among the 1500 municipalities, it is notable that a) dependency on IRA is extremely high except for very limited number of "top groups" and b) the share of local tax varies erratically from one Municipality to another.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Chart 3-3: Income Structure of Individual Municipalities

2) Comparisons of Per-capita Income of LGUs

A disparity of revenue generation among LGUs should be more properly examined on per-capita basis. It is also convenient from analytical point of view to introduce an “Income class division” into each of the three levels of LGU.

Table 3-4: Per capita LGU Income and Its Components by Income Class (2005)

Class	popul -ation (2000)	Total Income	Total Local Sources	of which Total Tax Revenue	of which Non-Tax Revenue	IRA	Others
	1000 persons	PhP	PhP	PhP	PhP	PhP	PhP
Provinces							
P-1 (44)	48,864	700	131	82	49	531	38
P-2 (14)	6,586	852	101	56	45	741	9
P-3 (12)	3,446	1,094	64	22	42	960	70
P-4 (7)	1,141	1,429	86	28	59	1,265	77
P-5 (2)	91	3,183	198	53	145	2,985	0
Σ Class(79)	**60,127**	**757**	**123**	**74**	**49**	**596**	**37**
Cities							
C-special (2)	3,755	3,861	2,911	2,578	334	720	230
C-1 (42)	14,962	3,259	1,975	1,599	376	1,137	147
C-2 (14)	2,131	2,445	746	499	247	1,508	191
C-3 (27)	2,832	2,682	766	490	276	1,886	29
C-4 (25)	2,178	2,658	471	302	169	2,171	16
C-5 (6)	370	3,008	466	272	194	2,429	113
Σ Class(117)	**26,367**	**3,161**	**1,731**	**1,401**	**330**	**1,293**	**138**
Municipalities							
M-1 (170)	13,461	1,487	559	388	170	824	104
M-2 (142)	6,935	1,233	220	114	106	944	69
M-3 (265)	9,842	1,218	184	91	92	994	41
M-4 (443)	10,739	1,344	162	81	80	1,116	66
M-5 (299)	4,029	1,575	108	50	58	1,384	83
M-6 (11)	53	3,300	213	55	158	2,816	271
Σ Class(1500)	**50,104**	**1,378**	**283**	**173**	**110**	**1,024**	**72**

notes: 1. The totals(Σ Class) include LGUs which has no class rating , Naga City and 170 Municipalities.
2.Oothers comprises of "Non-IRA Shares from National Tax Collections ","Extraordinary Receipts/Aids","Loans & Borrowings", and "Inter-Local Transfers".
3.In parenthses are the number of LGU included in the class.

Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Based on table 3-4, chart 3-4 was generated as its graphic version, which has lead to the following observations:

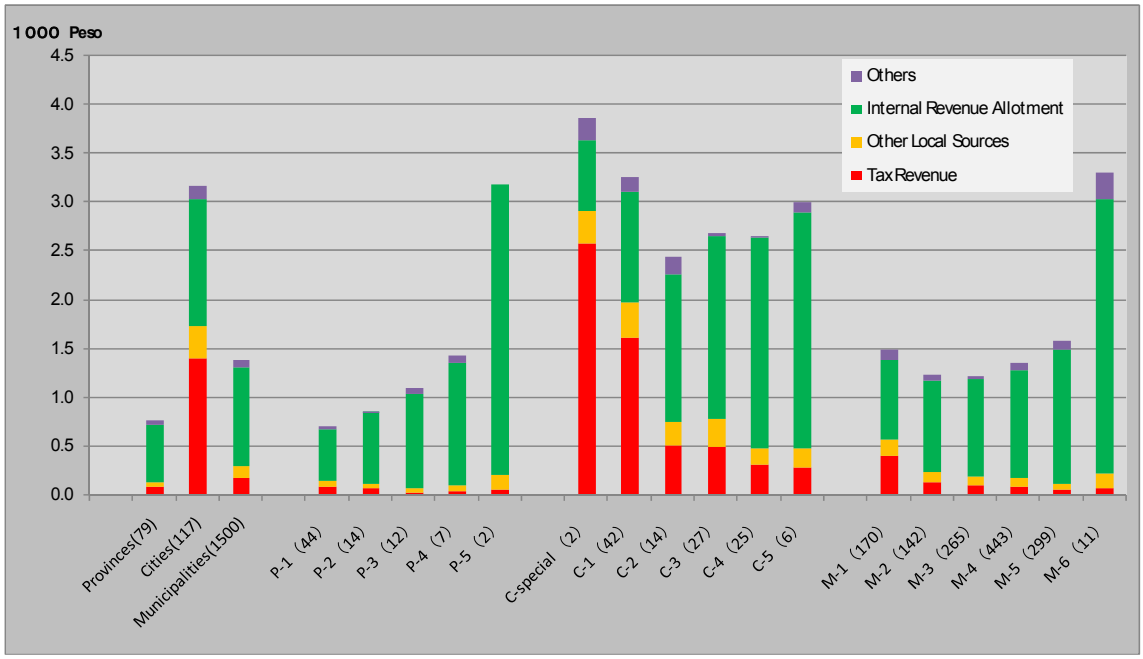
i) Among the three levels of LGUs, per-capita total income is substantially high in the city, which is more than double that of the municipality. While the difference is mainly attributable to "tax", per-capita IRA allocation in the city is also somewhat higher than that of the municipality.

ii) Per-capita income is much lower in the provinces as compared with the other two levels. Its per-capita IRA receipt is about half of the other two levels. But given the magnitude of the population and administrative mandates of provinces, it can not be judged at this point whether

this is an unjustifiable inequality or not.

iii) Looking at each level by income class, some similarities and contrasts are found.
Per capita total Income forms a gradual U-shape curve in case of cities and municipalities while an increase towards a smaller end is observed in the case of provinces.
Total local source, tax revenue in particular, is remarkably high only in the highest two classes of cities and, to a lesser extent, in the first class municipalities.
With regard to IRA, the concept is similar to all levels, i.e., the lower the income class, the higher the per capita IRA receipt. While this feature attributes to the total income imbalance in favor of the lower class provinces, IRA seems to be rather successfully allocated to regain the balance in the case of cities and municipalities.

It is advised to refer also to charts 12-5, 6, 7 in Chapter 12 which show IRA and total local source in per capita terms and by individual LGU of each level.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

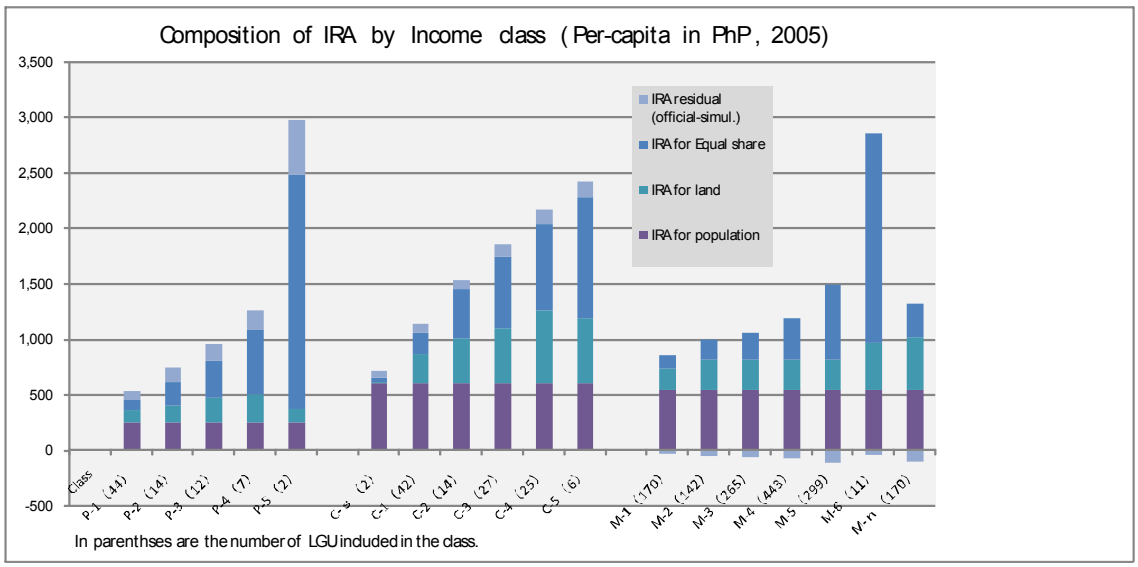
Chart 3-4: Per capita LGU Income and Its Components by Income Class (2005)

3) Formula effects on IRA distribution

In the previous section, it was shown that IRA plays a certain balancing role, as far as per capita level comparison of LGU income by income class is concerned. This is, to some extent, a

natural consequence of the IRA formula itself, as clearly shown in chart 3-5. Columns in the chart exhibit four components of IRA, in per capita terms and by income class of the three levels of LGUs. The four components comprised of the formula-dependent portions of "population", "land", and "equal share", as well as the "residual", which is the difference between the official IRA total and the sum of above three portions.

As mentioned earlier, per capita IRA of each level is on a clearly increasing curve across income classes. The principal reason for this trend is the fact that "equal share" portion increases significantly as income class goes down. The value of "equal share" portion is the same for all LGUs in the same level while the population of a lower class LGU is generally smaller than that of the higher classes.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Chart 3-5: Comparison of IRA by Income Class

4) Time Series variation in LGU income components

To examine the direction of the change in LGU income distribution during the recent years, Table 3-5 indicates the changes in total income and its component share between the year 2002 and 2005 for each level of LGUs.

Total Income grew much faster in the cities as compared to the other LGU levels, which is spurred by local sources, indicating a substantial increase of 3.2 % in its share of total income. It is noted at the same time that in all three levels there has been some shift of shares from national

to local source during the four years from 2002 to 2005.

Table 3-5: LGUs Income Components: Share in Total Income, Changes from 2002 to 2005

	Total Income	Local Sources	of which Local Tax	IRA	Other national sources
	change 2005/2002	share in Total Income : difference 2005-2002			
Province (P)	20.4%	2.5%	1.0%	-5.5%	3.0%
City (C)	29.1%	3.2%	1.1%	-5.7%	2.5%
Municipality (M)	20.5%	1.1%	-0.1%	-4.4%	3.3%

Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Table 3-6 shows the degree of dispersion of LGU incomes, in terms of "variation coefficient" (standard deviation divided by average) among each level of LGUs.

Table 3-6: Intra Layer Distribution of LGU Incomes

Changes of Variation Coeffiecient (Stantard Deviation/Average)

		Total Income	Local Sources	Tax Revenue	IRA
Variation coefficient in 2005	Province (P)	0.56	1.36	1.74	0.46
	City (C)	1.61	2.41	2.65	0.77
	Municipality (M)	0.94	2.94	3.93	0.52
Change from 2002	Province (P)	0.01	-0.22	-0.21	0.00
	City (C)	0.03	-0.12	-0.14	-0.03
	Municipality (M)	-0.05	-0.45	-0.55	-0.03

Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

The following are several observations based on this table:

i) In the year 2005, "Total Income" is most widely dispersed in the city (where the Standard deviation amounts to 1.61 times the average, as compared to 0.56 for the province and 0.94 for the municipality).

ii) By income component, the coefficient for municipality's tax revenue seems eminently high, although its contribution to "Total" dispersion is limited given the relatively small weight of this component.

iii) IRA dispersion is relatively small for all the three levels, albeit with somewhat higher coefficient (0.77) determined for the city. Comparing the dispersion level between 2002 and 2005, the changes are generally slight for "Total" and IRA, while uneven distribution of local tax seems to have been somewhat mitigated.

3.2.3. Characteristics in LGU Expenditure Structure

Table 3-7: Percentage Share of Expenditures of LGUs, 2005

Income Class	General Public Services	Education, Culture & Sports/ Manpow er Development	Health, Nutrition & Population Control	Economic Services	others	Total Expenditures	Total Expenditures, per capita level	Total Expenditures, per capita level
	Percent Share in Total Expenditure						PhP	City Total=1.00
Provinces								
P-1 (44)	30.4%	6.8%	17.1%	17.2%	28.5%	100.0%	607	0.23
P-2 (14)	34.6%	2.5%	25.3%	17.6%	20.0%	100.0%	680	0.26
P-3 (12)	32.5%	0.8%	20.9%	17.0%	28.6%	100.0%	1,018	0.38
P-4 (7)	33.4%	0.8%	19.7%	16.1%	30.0%	100.0%	1,226	0.46
P-5 (2)	33.6%	0.5%	25.1%	19.6%	21.2%	100.0%	2,784	1.05
Σ Class(79)	**31.2%**	**5.6%**	**18.5%**	**17.2%**	**27.6%**	**100.0%**	**654**	**0.25**
Cities								
C-special (2)	30.1%	14.1%	8.0%	27.2%	20.5%	100.0%	2,849	1.08
C-1 (42)	35.7%	13.7%	7.7%	12.8%	30.1%	100.0%	2,768	1.05
C-2 (14)	37.3%	6.5%	9.9%	17.6%	28.7%	100.0%	1,978	0.75
C-3 (27)	37.1%	7.5%	5.7%	13.0%	36.7%	100.0%	2,433	0.92
C-4 (25)	35.3%	5.7%	7.1%	23.6%	28.4%	100.0%	2,410	0.91
C-5 (6)	30.6%	9.3%	4.7%	36.7%	18.7%	100.0%	2,818	1.06
Σ Class(117)	**35.3%**	**10.9%**	**7.3%**	**16.9%**	**29.6%**	**100.0%**	**2,648**	**1.00**
Municipalities								
M-1 (170)	44.9%	7.1%	8.0%	16.0%	24.0%	100.0%	1,313	0.50
M-2 (142)	45.5%	2.7%	8.7%	17.1%	25.9%	100.0%	1,103	0.42
M-3 (265)	50.8%	2.2%	8.8%	13.7%	24.5%	100.0%	1,101	0.42
M-4 (443)	53.7%	2.0%	8.3%	10.9%	25.1%	100.0%	1,203	0.45
M-5 (299)	56.2%	0.9%	8.0%	9.3%	25.6%	100.0%	1,435	0.54
M-6 (11)	62.7%	0.5%	7.1%	8.7%	21.0%	100.0%	3,084	1.16
M-n (170)	53.6%	1.7%	6.5%	11.8%	26.3%	100.0%	1,327	0.50
Σ Class(1500)	**49.9%**	**3.4%**	**8.1%**	**13.6%**	**25.0%**	**100.0%**	**1,232**	**0.47**

notes: 1. The City total(Σ Class) includes , Naga City w hich has no class rating.
2.In parenthses are the number of LGU included in the class.

(Source: Compiled by JICA Study Team based on "Statements of Income and expenditure"

Source: Compiled by JICA Study Team

Considering expenditure, the biggest item for all levels of LGUs spending is "General public services", but the share is dominantly high in municipality (50%), compared with that of the province (31%) and city (35%) as shown in Table 3-7. One reason would be the fact that the smaller the size of LGU, the more important share the wage cost tends to occupy. It may reflect also the existence of a common practice for smaller LGUs to designate various services into a single category as "general public services"

Important spending items except for “general public services” and “others” somewhat vary among the three LGU levels. For the province, “Health care” and “Economy” occupies 17-18% share respectively, while for the city, “Education” (11%) comes next to “Economy” (18%). In the case of Municipality, it seems unique that the share of “Education” (3%) is much lower while “Health care” (8%) is given a relatively high priority.

Several features come up from examining the income class.

Expenditure share for “General public services” as well as “Health care” is more or less equal (or mildly increasing towards lower classes) in all the LGU levels. Meanwhile “Education” generally indicates a remarkably high share in the 1st and 2nd classes of all the LGU levels as compared with the other income classes. With regards to “Economy”, however, trend varies from one level to another. The curve across the classes seems constant for the provinces, U-shape for the cities and downward slope for the municipalities.

3.3. Analysis of Numerical Data Collected through the Sample LGU Survey

3.3.1. Collection and Selection of Numerical Data

Numerical data (secondary data) attained through the sample survey proved, even after a complementary survey was conducted in February-March, to be unsatisfactory in terms of quantity and quality. Out of the 169 target LGU, 136 have responded. However, not only were there many blanks in the response sheets, but also the data fields where numerical values provided appear not sensible. Lesson learned from this kind of survey include paying attention in the future to better planning and more effective conducts of hearing. To be more specific, the following points should be noted.

- Survey sheets should contain clearer definitions and numerical formats (percentage vs. ratio, etc) of indicators to be provided by respondents. It will be useful to show an example such as the national average figure.
- Collectors of the survey information should confirm the relevance to the above-mentioned points. If data provided appears not sensible, then details such as data source and the process of calculation should be checked together with the respondent.
- Collectors should ask reasons for items which were not filled up and, if possible and necessary, give adequate instructions to maximize filling up of the required data.

Notwithstanding the data insufficiency, efforts were made to find out any fundamental inequality in regional standard of life as well as its relation to LGU budget, picking up indicators which appear to have a certain level of coverage and credibility for statistical analyses to be performed.

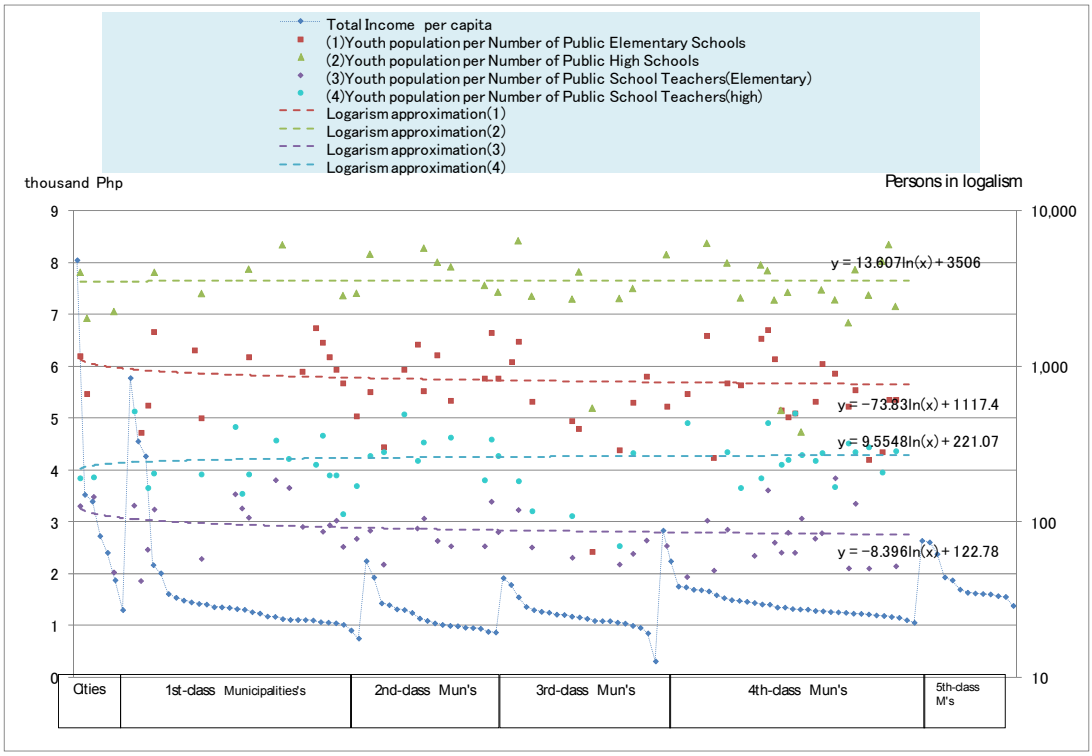
3.3.2. Disparity exists among LGUs in terms of "Basic Human Needs(BHN)"

The tentative results derived from the selected indicators mentioned above are shown in the following charts, focusing on four essential fields namely, education, health-care, general public services and local taxing potential.

In each chart, 130 LGUs (6 provinces are intentionally omitted as irrelevant to compare with cities and municipalities) are horizontally placed according to income-classification and per-capita income size, and other values, if any, of selected indicators. These information are plotted in the form of "scattered chart" considering necessary logarithmic approximations. A line chart for "total income per capita" is added to all the charts as common reference. All data refer exclusively to the year 2005.

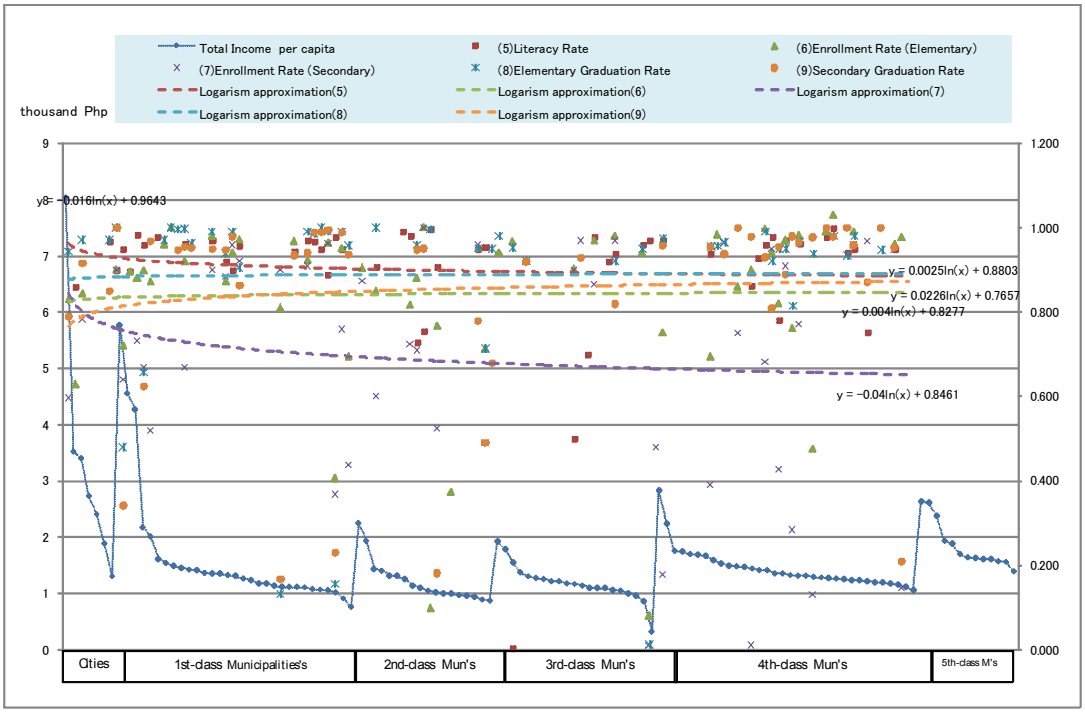
1) Education

Chart 3-6 deals with the number of public schools (primary and secondary schools) together with the number of teachers, in relation to youth population (under 14 years old). In all the four cases, the observations are scattered fairly erratic and approximation line appears almost horizontal. If the line forms an increasing slope, it may suggest that shortage of school facilities are due to the smaller LGU budget. However, this is hardly observed among the case presented in the chart.



Source: Compiled by JICA Study Team

Chart 3-6: Selected Indicators in Education Field (1)



Source: Compiled by JICA Study Team

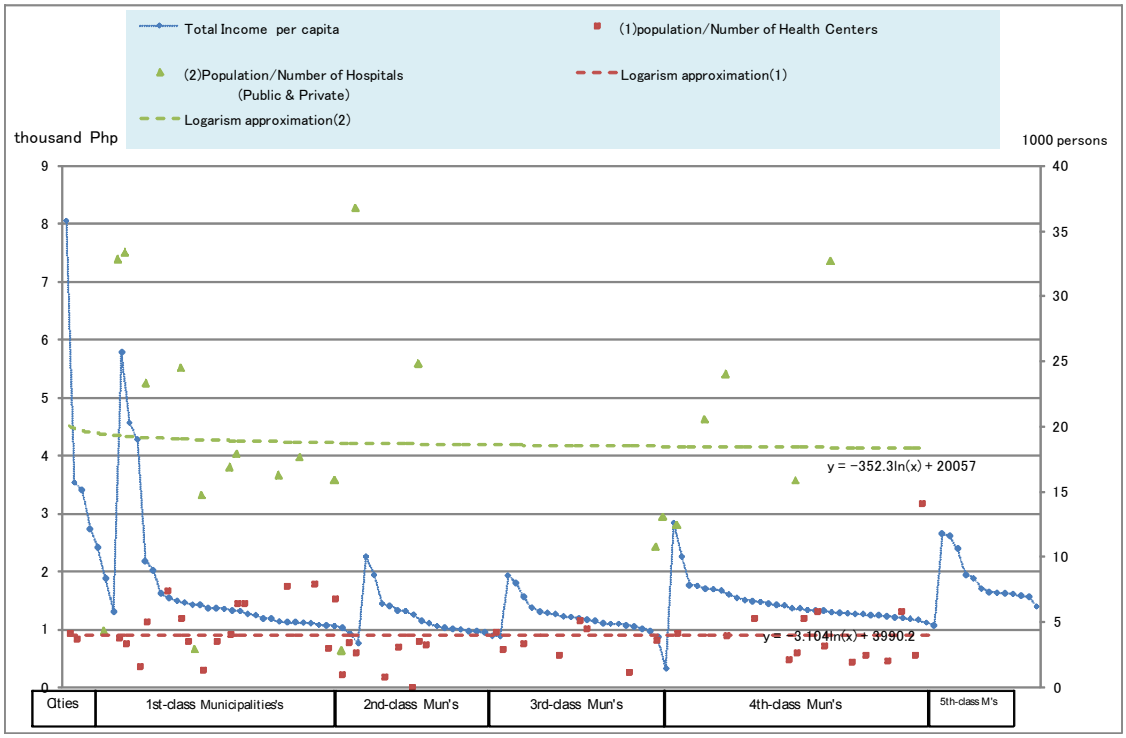
Chart 3-7: Selected Indicators in Education Field (2)

In Chart 3-7, five more indicators for education performance are plotted namely, literacy rate, enrollment rate and graduation rate for primary and secondary schools. Similarly, sample observations are generally so broadly scattered from each approximated line that not much can be concluded with regards to statistical accuracy. Except in the case of secondary enrollment rate, although not very distinctive, where relation observed seems to indicate a lower trend in smaller LGUs.

2) Health care

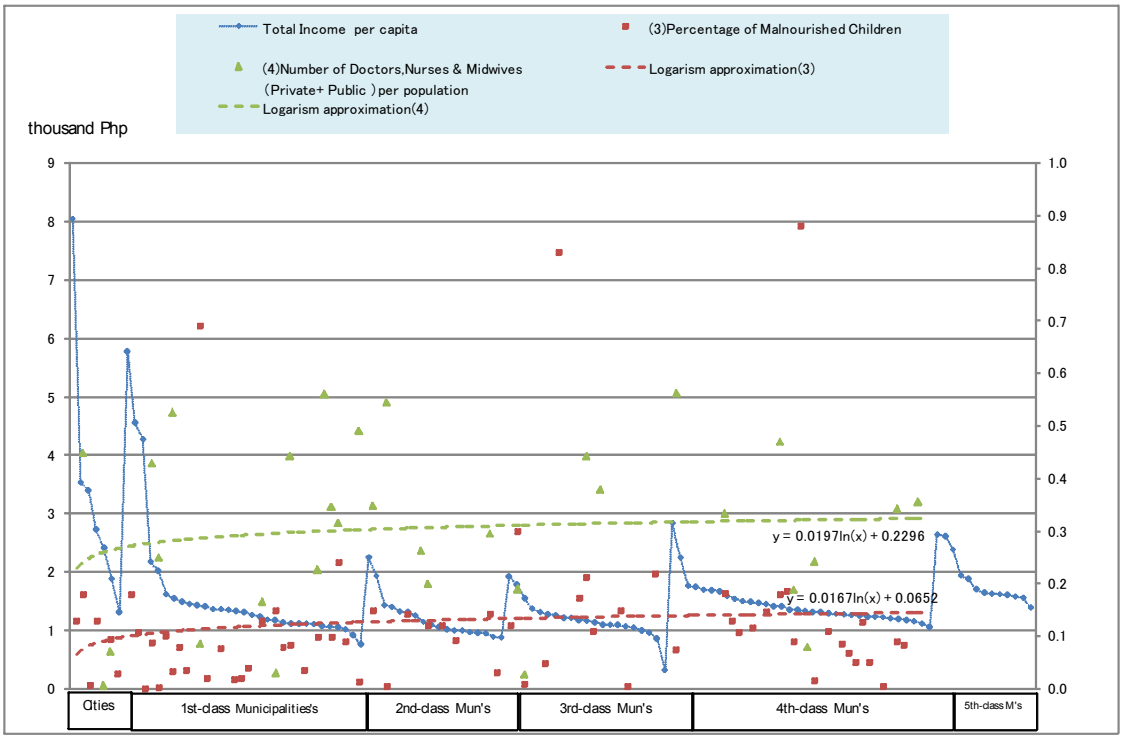
Shown in chart 3-8 and 3-9 are percentages of malnourished children as well as the number of hospitals (public & private), medical staff (doctors, nurses, midwives; public & private) and health centers in relation to the local population.

There are too many outliers in the first three indicators. However, but with regard to "health centers", it seems that there is no clear disparity in relation to the size of LGUs.



Source: Compiled by JICA Study Team

Chart 3-8: Selected Indicators in Health Care Field (1)



Source: Compiled by JICA Study Team

Chart 3-9: Selected Indicators in Health Care Field (2)

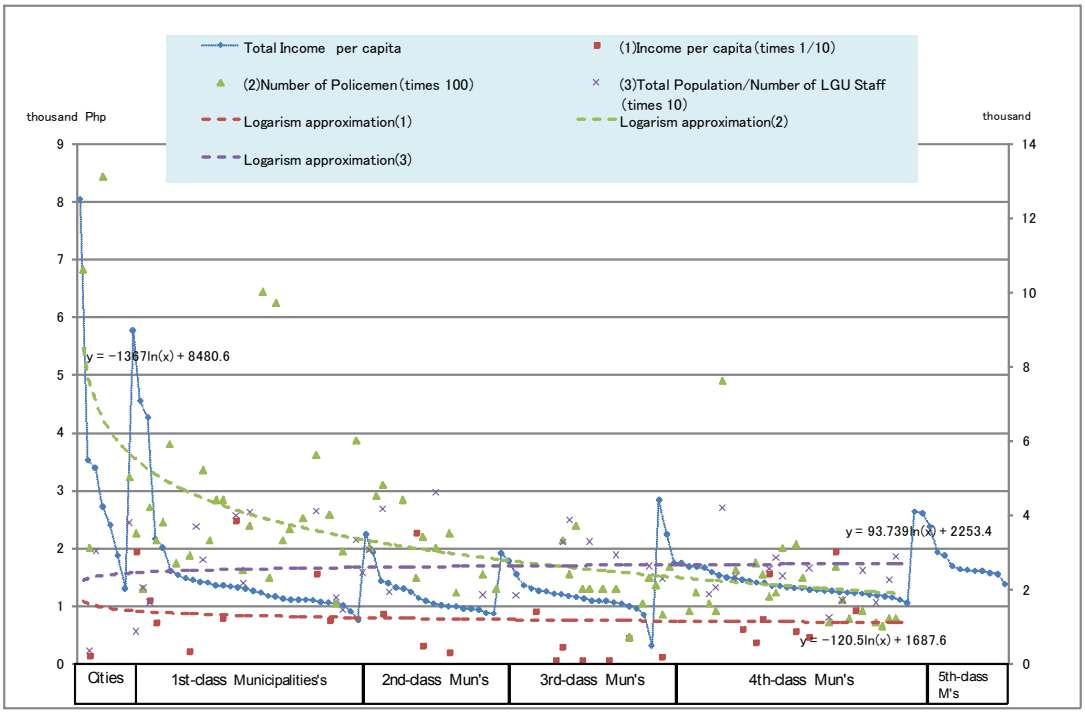
3) General public services

Chart 3-10 clarifies two variables for public personnel, i.e., number of LGU staff and policemen.

The former, expressed in relation to local population, does not show any evidence of systematic disparities with the size LGUs. On the other hand, the latter appears to lie fairly close, with a few exceptions, to the decreasing approximation line. This seems natural as this indicator is maintained as fixed (not standardized according to population).

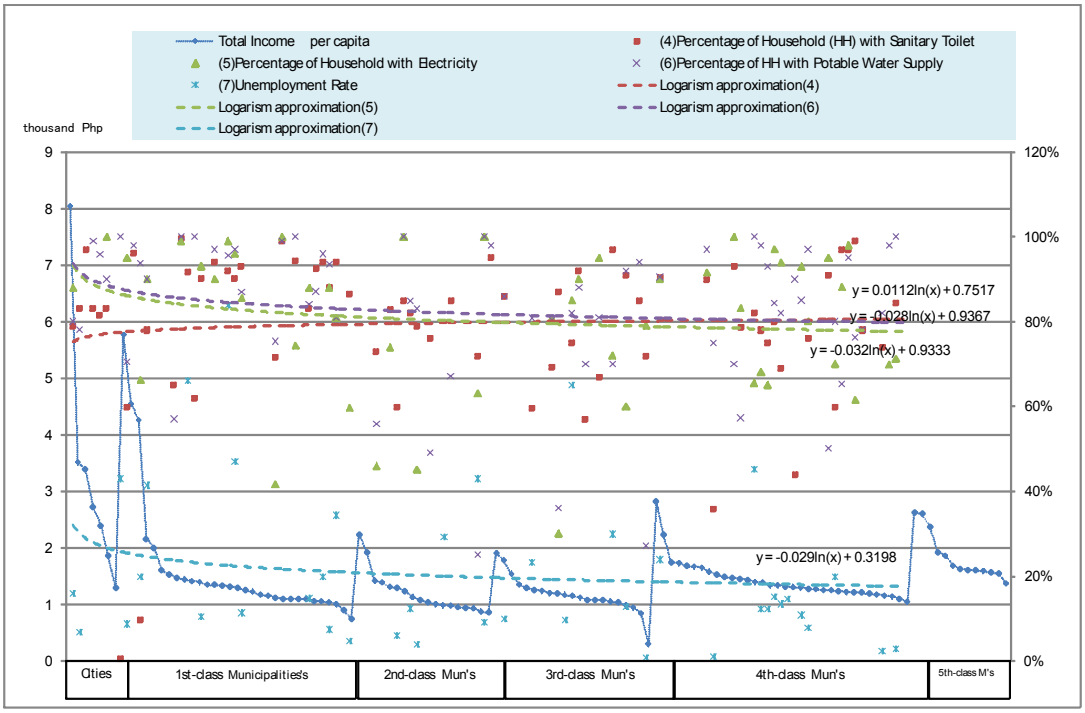
Plotted in Chart 3-11 are indicators in relation to basic housing conditions such as percentages of household with sanitary toilet, electricity and potable water supply.

All of the three approximation lines happen to lie very close to each other, taking a virtually horizontal trend. But given the very large and irregular discrepancy of individual observations, it is realized that the chart shows no other fact other than the evidence that there is no disparity of the indicators in relation to LGUs budgets.



Source: Compiled by JICA Study Team

Chart 3-10: Selected Indicators in General Public Service Field (1)



Source: Compiled by JICA Study Team

Chart 3-11: Selected Indicators in General Public Service Field (2)

3.3.3. Estimation of Potential Taxing Power of LGUs

A local tax function was initially planned to be estimated in order to measure the "potential taxing power" of LGUs. This is a concept that indicates how far a LGU could maximize their source revenue through administrative efforts.

In practice, within total local tax revenue, an utmost importance is observed for real property tax, as shown in the table below. In this context, it was expected that the sample survey will obtain data on "tax base" of real property tax. However, outcome of data collection does not seem encouraging.

Table 3-8: Composition of Local Tax Revenue. 2005

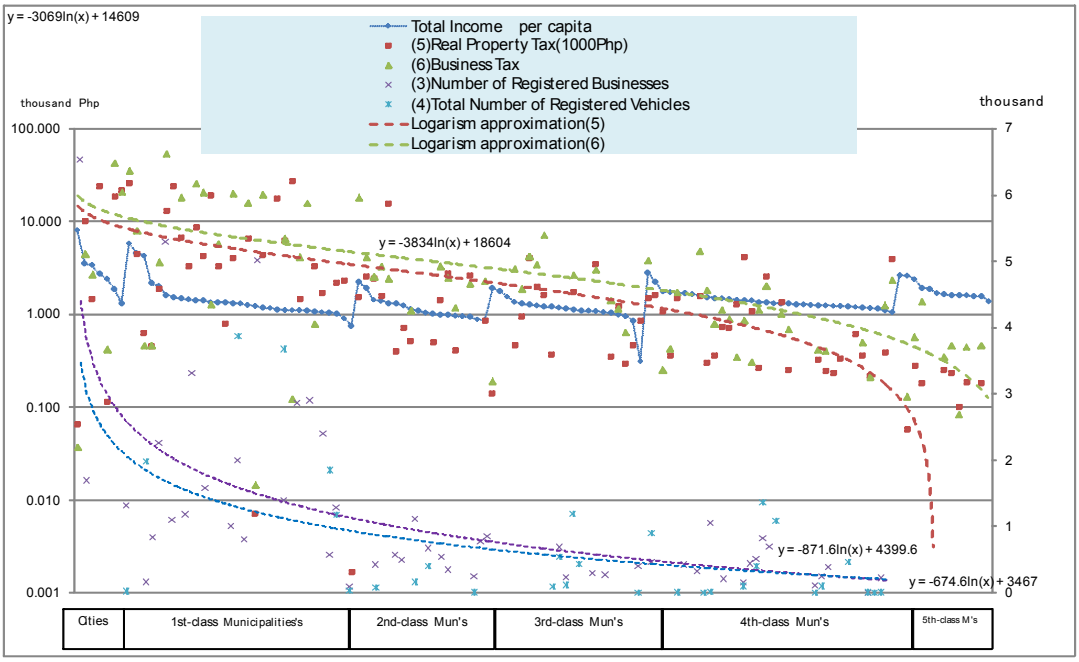
Year:2005	Percentage share of local taxes in total income of LGU's				local taxe,total (million PP, %)	
	Real Property Tax	Business Tax	Other Taxes	local taxe, total		
Provinces	8.0%	*1.0%*	*0.8%*	9.8%	4,479	8.9%
Cities	21.3%	20.5%	*2.5%*	44.3%	36,938	73.8%
municipalities	6.2%	5.7%	*0.6%*	12.6%	8,668	17.3%
All Phillippines	13.0%	10.9%	*1.4%*	25.3%	50,085	100.0%

* Shaded figures denote percentage less than 5 %.

Source: Compiled by JICA Study Team

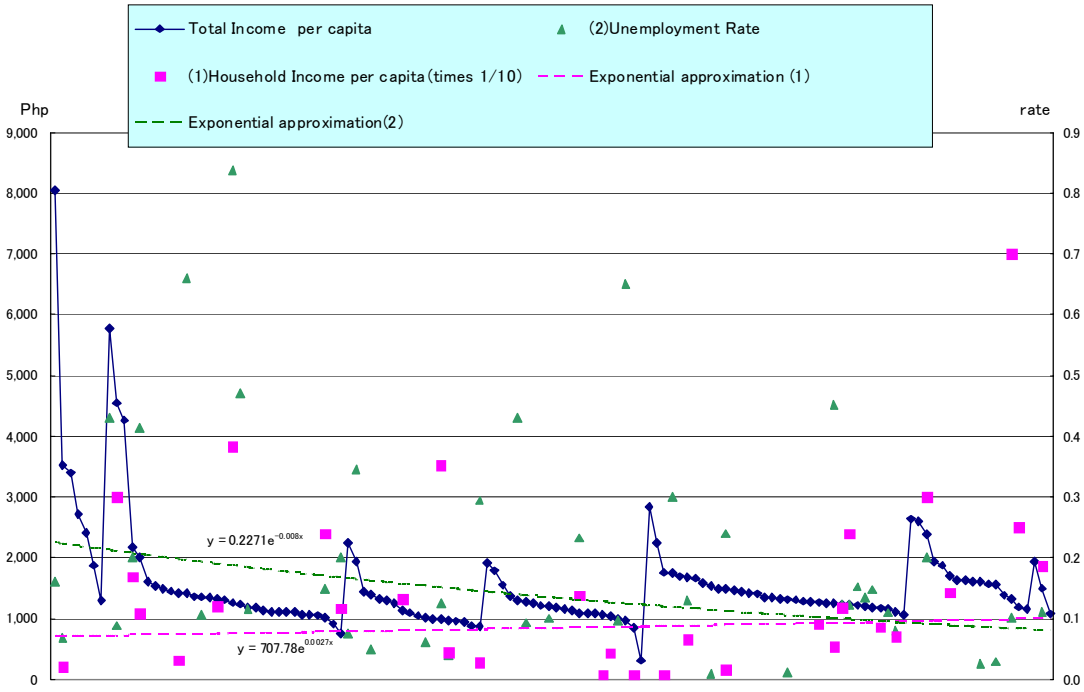
Chart 3-12 indicates two variables available from the sample survey, which may serve as proxy for the local tax base: "Number of Registered Businesses" and "Number of Registered Vehicles". Their approximation lines exhibit downward slope incompatible with those for "Real property tax" and "Business tax." However, the observation is too few (54 for "Registered Businesses" and 32 for "Registered Vehicles") while their variance seems too high and erratic.

In Chart 3-13, indicators for general economic conditions were checked to possibly identify the difference in tax revenues in relation to LGUs budgets. As clearly realized at a glance, however, the observations are widely scattered without any significant correlation with the LGU budget.



Source: Compiled by JICA Study Team

Chart 3-12: Selected Indicators related to Local Tax (1)



Source: Compiled by JICA Study Team

Chart 3-13: Selected Indicators related to Local Tax (2)

3.3.4. Tentative Conclusions

1) Relationship between Expenditure and Regional Standards of Living

In the sample LGU survey, a number of "outcome indicators" have been collected. These are expected to represent a local standard of living in such field as "education", "health and nutrition", "housing", "mobility", "safety", "economic activity" and "environment".

These data were supposed to serve the following purposes:

i) To find disparities among LGUs in terms of "quality of life", and

ii) To estimate the so-called "basic fiscal needs" which defines the LGU budget required to assure a certain minimum standard in terms of "quality of life"

More specifically, in each of the above-mentioned fields, estimates using econometric equation were attempted in a form relating "outcome indicators" to LGUs expenditure and any other possible explanatory factors.

However, as shown in the preceding section, this attempt proved to be too tedious at least depending on the data collected at this time. In order to achieve fruitful results which can develop into the impact analysis initially planned, it will be essential to devise a more systematic data collection. For that purpose, the following two specific measures are suggested:

- The Philippines' central government should plan and carry on the establishment of a comprehensive database on socio-economic situations of each LGU. It may be too ambitious to introduce a full-scale "Social Indicators System" as done in Japan and in other developed countries. Nevertheless, it will be useful and possible to build up a system where a relevant central agency designates, collects and supervises common indicators across all LGUs representing the status quo of residents' living standards in such major fields as education, health and housing.
- In the case of data collection by an external study team, it is necessary to select indicators that are fully available and effective, based upon a deeper understanding on the reality of the local budget and related institutions, as well as of the residents' quality of living. In this context, further cooperation from the counterpart team of the host country and assistances by

relevant experts will be indispensable. An improvement of survey methods as described in the section 3.3.1 is also important.

2) Estimation of Local Tax Functions.

On the tax side as well, the stage in conducting any estimation of local tax functions has not been reached yet. Further efforts should be made to find proxy tax base supported with justified explanations. These should include indicators that represent the level of local economic activities, such as provincial GDP, number of employees per LGU and amounts of consumed taxes generated in each LGU.

APPENDED ARTICLE

Regression Analysis between Population and Per Capita Expenditure of LGUs and Analysis of Fiscal Structure of Deviant LGUs

The objective of this article is to analyze the actual condition of IRA allocation by conducting the following tasks:

i) to analyze a correlation between population size and per capita income of LGUs and verify an existence of correlation between two variables; and
ii) to analyze fiscal structures of LGUs which are largely deviated from an approximated curve, if there exists correlation.

3 - Appendix.1 Province

(1) Correlation between Population and Per Capita Income

A function with a per capita total expenditure as dependent variable and an inverse of population as explaining variable has a strong correlation of a correlation coefficient of 0.90.

A strong correlation between a per capita total expenditure and an inverse of population can be explained with the following fact. There exists an ex-post equality of "fiscal expenditure = fiscal revenue ± fiscal surplus or deficit." Accordingly, this equality can be read as "per capita total expenditure = (own-source revenue + IRA receipt + other revenue + fiscal deficit (or - fiscal surplus)) / population." If regard fiscal deficit (surplus) is negligibly small, the following

equality is true:

per capita total expenditure = revenue except IRA/population + β_1 x population/ population + β_2 x land area / population +β_3/population

= (revenue except IRA +β2 x land area +β3)/population +β1

A degree of correlation between two variables is decided by a correlation between revenue except IRA and population and a correlation between land area and population.

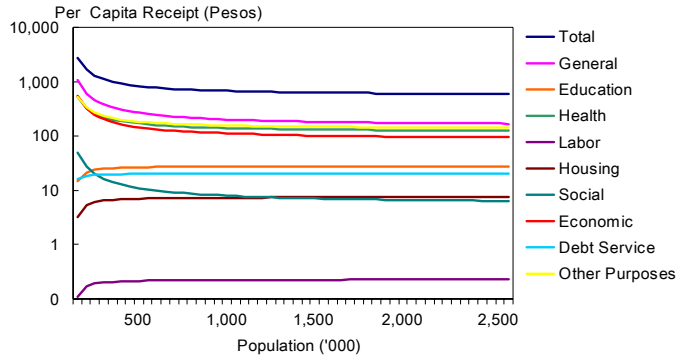
Because of a strong correlation between a per capita total expenditure and an inverse of population, an approximated curve is calculated for each expenditure item. The results of calculations are as shown in the following table.

Table 3-Appendix-1: Approximated Curve by Per Capita Expenditure by Item (Province)

Expenditure Item (Per Capita)	Approximated Curve	R^2
Total Expenditure	y = 110,804 x (1/population) + 550.09	**0.8998**
General Public Service	y = 45,970 x (1/ population) + 149.86	**0.9244**
Education, Culture & Sports/Manpower Development	y = -682.85 x (1/ population) + 28.462	0.0103
Health, Nutrition & Population Control	y = 20,796 x (1/ population) + 117.05	**0.6724**
Labor and Employment	y = -6.1956 x (1/ population) + 0.2323	0.0019
Housing and Community Development	y = -220.02 x (1/ population) + 7.6098	0.004
Social Security /Social Services & Welfare	y = 2168 x (1/ population) + 5.5625	**0.6346**
Economic Services	y = 23,571 x (1/ population) + 85.469	**0.7957**
Debt Service	y = -193.86 x (1/ population) + 20.401	0.0016
Other Purposes	y = 19,401 x (1/ population) + 135.44	**0.4034**

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

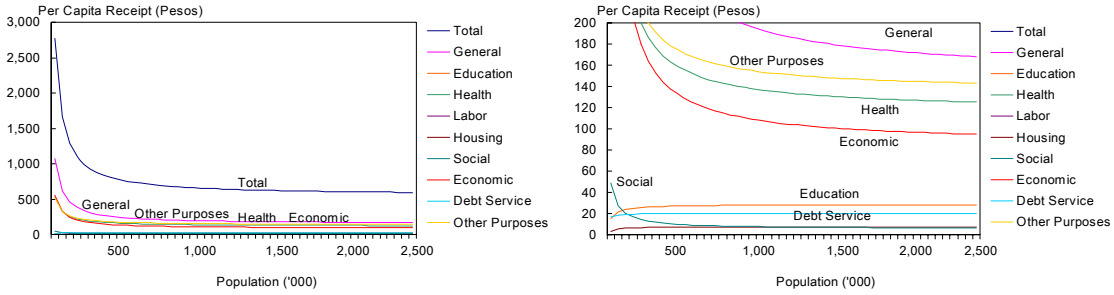
The calculated approximated curves are illustrated in Figure 3-Appendix-1 and Figure 3-Apeendix-2. These figures clearly show that expenditures for education, labor, housing, and debt service are very small compared with other expenditures.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix-1: Approximated Curves of Per Capita Expenditure by Item

(Logarithmic Scale) (Province)

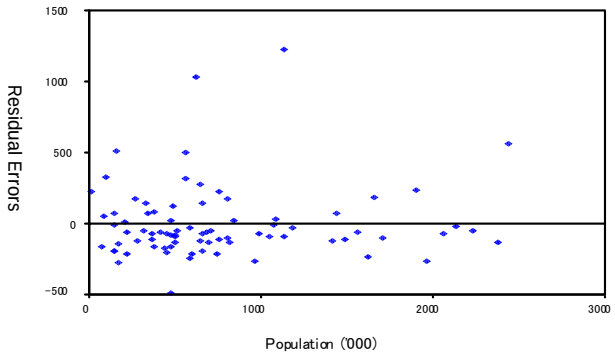


Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix -2: Approximated Curves of Per Capita Expenditure by Item (Province)

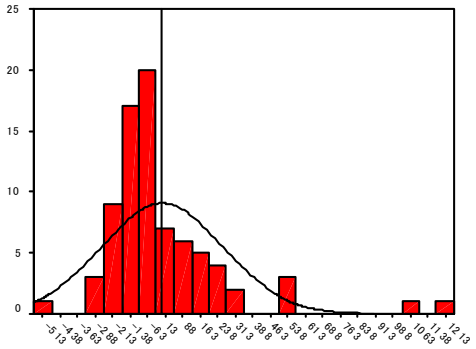
(2) Analysis of Samples Deviated from Approximated Curve

The residual errors between the calculated approximated curve (per capita total expenditure = 110,804 x (1/ population) + 550.087) and samples are as illustrated in the following figures.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix -3: Plotted Displays of Residual Errors (Province)



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix-4: Histogram of Residual Errors (Province)

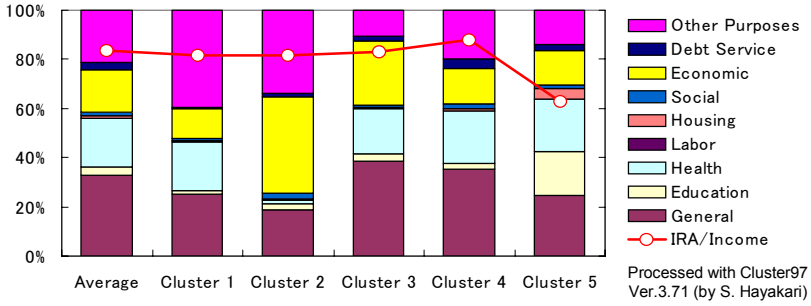
Provinces which are far from the approximated curve are as shown in the following table.

Table 3-Appendix -2: Provinces with Largest Residual Errors from Approximated Curve

Provinces with Largest Positive Residual Errors		Provinces with Largest Negative Residual Errors	
Region	Province	Region	Province
CAR	Abra	Region VIII	Biliran
CAR	Apayao	Region II	Nueva Vizcaya
CARAGA	Agusan Del Sur	Region V	Camarines Sur
Region II	Quirino	Region VII	Siquijor
Region III	Bataan	Region: ARMM	Sulu
		CARAGA	Surigao Del Norte

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

All the provinces are divided into five clusters with a cluster analysis method with the purpose of analyzing the characteristics of expenditure structure of provinces with largest residual errors.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix -5: Average Expenditure Compositions of Five Clusters (Province)

The following tables show the clusters to which the provinces with largest residual errors belong. There is no clear commonality of expenditure composition for both provinces with largest positive residual errors and those with largest negative residual errors. As for the provinces with largest positive residual errors, two largest provinces belong to the cluster 1, next two provinces belong to the cluster 4, and the fifth province belongs to the cluster 5. As for the provinces with largest negative residual errors, three provinces belong to the cluster 1, two provinces to the cluster 3 and one province to the cluster 2.

Table 3-Appendix-3: Clusters to Which Provinces with Largest Positive Residual Errors Belong

Region	Province	Cluster
CAR	Abra	Cluster 1
CAR	Apayao	Cluster 1
CARAGA	Agusan Del Sur	Cluster 4
Region II	Quirino	Cluster 4
Region III	Bataan	Cluster 5

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Table 3-Appendix -4: Clusters to Which Provinces with Largest Negative Residual Errors Belong

Region	Province	Cluster
Region VIII	Biliran	Cluster 1
Region II	Nueva Vizcaya	Cluster 3
Region V	Camarines Sur	Cluster 1
Region VII	Siquijor	Cluster 3
Region: ARMM	Sulu	Cluster 1
CARAGA	Surigao Del Norte	Cluster 4

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

3 - Appendix.2 City

(1) Correlation between Population and Per Capita Income

Although approximated curves are calculated for cities, there was no clear correlation between per capita total expenditure and population. When the cities are divided into two groups, i.e., i) highly urbanized cities and independent cities, and ii) components cities, a correlation between two variables is identified for component cities. Therefore, a correlation between per capital total expenditure and population is calculated for component cities and expenditure compositions of samples which are deviated from the approximated curve are analyzed.

As for component cities, approximated curves with an inverse number of population or

exponential number of population as an explaining variable have relatively strong correlation. An approximated curve with an inverse number of population as an explaining variable is adopted same as province. As an inverse number of population is adopted as an explaining variable, an approximated curve by expenditure can be calculated although some of expenditure items include samples with nil figure.

As there is a correlation between a per capita total expenditure and an inverse number of populations, an approximated curve by expenditure item is calculated by adopting an inverse number of population as an explaining variable for component city. The results of calculation are as shown in the following table. By expenditure item, the expenditure for general public service has a certain level of correlation but other expenses have no clear correlation.

Table 3-Appendix -5: Approximated Curve by Per Capita Expenditure by Item (Component City)

Expenditure Item (Per Capita)	Approximated Curve	R^2
Total Expenditure	y = 110,980 x （1/population） + 1,353.41	**0.308**
General Public Service	y = 57,491.5x (1/ population) + 399.659	**0.389**
Education, Culture & Sports/Manpower Development	y = 11,951.4 x (1/ population) + 44.0903	0.0032
Health, Nutrition & Population Control	y = 2,169.93x (1/ population) + 137.038	0.0023
Labor and Employment	y = 3.3626 x (1/ population) -160.16	0.0012
Housing and Community Development	y = -1437.1x (1/ population) + 40.7061	0.0013
Social Security /Social Services & Welfare	y = 2,789.83x (1/ population) + 35.1919	0.052
Economic Services	y = 16,660.3x (1/ population) + 266.270	0.093
Debt Service	y = 4,123.82x (1/ population) +41.6042	0.032
Other Purposes	y = 17,391.0x (1/ population) + 385.491	0.050

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

(2) Analysis of Samples Deviated from Approximated Curve

Samples which are largely deviated from the calculated approximated curve of per capita total expenditure and inverse number of population (per capita total expenditure = 110,980 x (1/population) + 1,353.41） are identified as shown in the following tables.

Table 3-Appendix -6: Component Cities with Largest Positive Residual Errors from Approximated Curve

Region	Province	City
Region IV-A	Cavite	Tagaytay City
Region IV-A	Laguna	Sta. Rosa City
Region IV-A	Batangas	Batangas City
Region VII	Negros Oriental	Bayawan City

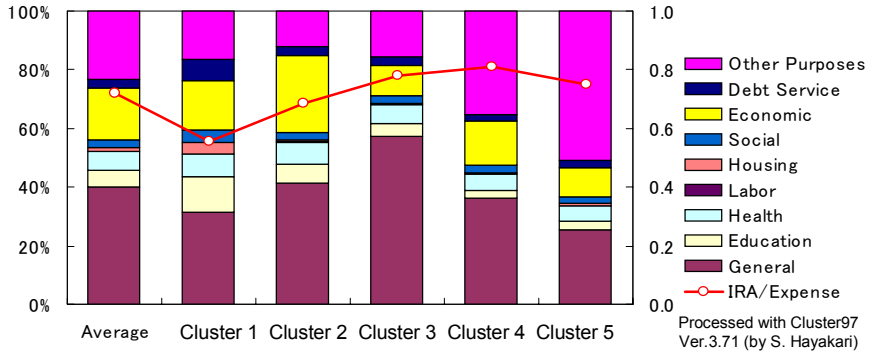
Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Table 3-Appendix-7: Component Cities with Largest Negative Residual Errors from Approximated Curve

Region	Province	City
Region VII	Negros Oriental	Bais City
Region V	Albay	Ligao City
Region I	Ilocos Sur	Candon City
Region VII	Negros Oriental	Canlaon City

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

All component cities, like provinces, are classified into five clusters by conducting a cluster analysis with the purpose of analyzing expenditure compositions of component cities with largest residual errors.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix-6: Average Expenditure Compositions of Five Clusters (Component City)

Among the four component cities with largest positive residual errors, Tagaytay City, Sta. Rosa City, and Batangas City belong to the cluster 1 and Bayawan City belongs to the cluster 4. As for the four component cities with largest negative residual errors, Ligao City and Candon City belong to the cluster 4, Canlaon City to the cluster 2, and Bais City to the cluster 3.

Table 3-Appendix-8: Clusters to Which Component Cities with Largest Positive Residual Errors Belong

Region	Province	City	Cluster
Region IV-A	Cavite	Tagaytay City	Cluster 1
Region IV-A	Laguna	Sta. Rosa City	Cluster 1
Region IV-A	Batangas	Batangas City	Cluster 1
Region VII	Negros Oriental	Bayawan City	Cluster 4

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Table 3-Appendix-9: Clusters to Which Component Cities with Largest Negative Residual Errors Belong

Region	Province	City	Cluster
Region VII	Negros Oriental	Bais City	Cluster 2
Region V	Albay	Ligao City	Cluster 4
Region I	Ilocos Sur	Candon City	Cluster 4
Region VII	Negros Oriental	Canlaon City	Cluster 3

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

3 - Appendix.3 Municipality

(1) Correlation between Population and Per Capita Income

A function with a per capita total expenditure as dependent variable and an inverse of population as explaining variable (per capita total expenditure = 1,078.8003 + 8308.5472 /population) has a correlation coefficient of 0.494[3].

(2) Analysis of Samples Deviated from Approximated Curve

In order to analyze expenditure compositions of municipalities which are deviated from the approximated curve, 10 samples are picked up from municipalities with smallest per capita total expenditure and from municipalities with largest per capita total expenditure respectively among relatively less-populated municipalities (less than 50 thousand population). The municipalities which are picked up are as shown in the following tables.

Table 3-Appendix-10: Ten Municipalities with Smallest Per Capita Total Expenditure Unit: Pesos

Province	Municipality	Total Revenue (Pesos)	IRA (Pesos)	IRA ratio of Total Revenue (%)	Per Capita Total Expenditure (Pesos)	Population (DBM 2000)	Land Area (2001, Km2)	Per Capita Land Area (Km2)
Average of All Municipalities		46,042,353	34,199,879	74.3	1,552	33,403	204	0.006
Capiz	Dao	36,264,760	28,976,130	79.9	241	30,623	89	0.003
Negros Occidental	S. Benedicto	24,016,990	22,955,040	95.6	310	17,259	171	0.01
Surigao Del Norte	Tubod	19,247,956	17,059,854	88.6	365	43,067	45	0.001
Surigao Del Norte	San Isidro	14,549,074	14,036,910	96.5	413	31,705	42	0.001
Surigao Del Norte	Sison	18,195,628	16,836,913	92.5	435	40,955	55	0.001
Northern Samar	San Vicente	12,145,157	11,799,576	97.2	494	21,654	16	0.001
Lanao Del Sur	Tagoloan	25,293,794	25,201,112	99.6	536	46,649	362	0.008
Pangasinan	Sta. Maria	29,637,845	26,144,751	88.2	552	45,571	70	0.002
Leyte	Calubian	40,601,960	27,485,870	67.7	557	28,421	101	0.004
Isabela	San Manuel	29,786,000	25,817,000	86.7	588	41,206	113	0.003

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

[3] An exponential function(per capita total expenditure = 5,129.74 x population ^ -0.418) has a correlation coefficient of 0.408.

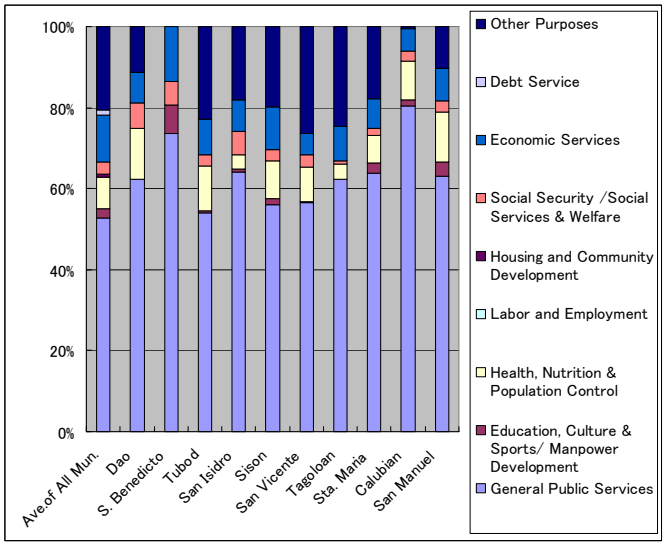
Table 3-Appendix-11: Ten Municipalities with Largest Per Capita Total Expenditure

Unit: Pesos

Province	Municipality	Total Revenue (Pesos)	IRA (Pesos)	IRA ratio of Total Revenue (%)	Per Capita Total Expenditure (Pesos)	Population (DBM 2000)	Land Area (2001, Km2)	Per Capita Land Area (Km2)
Average of All Municipalities		46,042,353	34,199,879	74.3	1,552	33,403	204	0.006
Nueva Vizcaya	Afonso Castañeda	150,783,600	27,600,000	18.3	31,251	4,808	375	0.078
Isabela	Divilacan	51,025,239	50,778,630	99.5	13,445	3,413	889	0.261
Isabela	Dinapigue	42,391,000	42,181,000	99.5	13,302	3,171	874	0.276
Ilocos Norte	Dumalneg	17,247,743	13,236,992	76.7	10,827	1,486	88	0.06
Palawan	San Vicente	93,396,528	79,078,864	84.7	10,312	5,831	1,463	0.251
Rizal	Taytay	245,846,337	112,196,658	45.6	10,019	23,616	39	0.002
Ilocos Norte	Adams	17,551,373	16,126,032	91.9	9,835	1,480	159	0.108
Abra	Daguioman	15,489,528	14,412,063	93.0	8,733	1,748	114	0.065
Abra	Tineg	43,143,337	41,673,015	96.6	8,506	4,995	745	0.149
Isabela	Maconacon	34,269,609	32,558,445	95.0	8,340	3,721	539	0.145

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

The expenditure compositions of municipalities with smallest per capita total expenditure are as shown in the following table. The shares of general public service range from 54.1% to 80.5%, over the average of total municipalities (52.5%). On the contrary, at seven municipalities among ten municipalities, the share of expenditure for education, culture & sports and manpower development is below the average (2.3%).

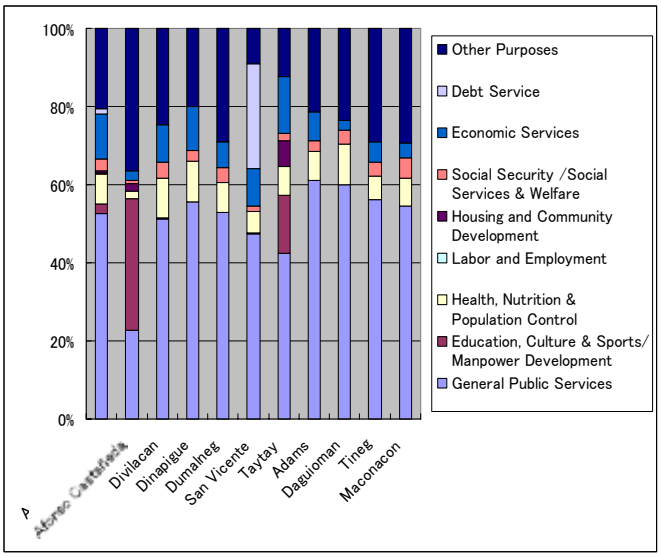


Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix-7: Expenditure Composition of Municipalities with Smallest Per Capita Expenditure

Secondary, the expenditure compositions of municipalities with largest per capita total expenditure are as shown in the following table. A remarkable tendency is that the share of

expenditure for education, culture & sports and manpower development is significantly higher than the average (2.3%) at Afonso Castañeda (33.6%) and Taytay (14.8%). These two municipalities are less dependent on IRA for its revenue. A dependency ratio is 18.3% for Afonso Castañeda and 45.6% fro Taytay. This fact seems to enable two municipalities to focus on education, culture & sports and manpower development based on its own policy. In addition, at Taytay, a share of expenditure for economic services (144%) is also higher than the average (11.6%). Due to its location nearby the Manila Metropolitan Area, a share of business tax to total revenue is large at Taytay. Therefore, it is considered that Taytay focuses on economic services. In the case of San Vicente, a share of debt service is much large (26.9%) compared with the average (1.2%). As mentioned above, there is no clear common characteristic among municipalities with largest per capita total expenditure.



Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Figure 3-Appendix-8: Expenditure Composition of Municipalities with Largest Per Capita Expenditure

CHAPTER 4

ESTIMATE OF FINANCIAL NEEDS IN A BUILD-UP APPROACH

This chapter discusses the estimate of the financial needs of local government computed in a build-up approach. There are three sections in this chapter. The first section (4.1.) explains the methodology, basic policies and limitations of the build-up approach. The second section (4.2.) presents the results of the computation of the financial needs of each LGU level and in the end, reemxamines the vertical sharing of IRA through the comparison of aggregate financial gaps of different LGU levels. The third section (4.3.) looks into an ideal IRA disribution vis-à-vis the financial gaps at the provincial government level based on the computation of the financial needs of individual provincial governments.

4.1. Methodology, Basic Policies, and Limitations

4.1.1. Methodology

The Study takes on the challenge of estimating the financial needs of LGUs. It is done through what is called a build-up approach. The financial requirements are estimated in extensive detail according to sub-sectors and their component expense items, and in the end these are all added up. Once the total financial requirements for each sub-sector are determined, the measurement unit, or a set of measurement units, automatically leads to the identification of unit costs in respective sub-sectors.

With the identified unit costs and corresponding measurement units, as far as related data can be obtained, the estimate of the financial needs of any LGU is theoretically possible.

The steps the Study adopts are shown as follows:

1) Step 1: Tabulation of service responsibilities and “expense items” for all levels of LGUs

First of all, the service responsibilities of each LGU level according to sectors (General Public Services or GPS, Social Services or SS, and Economic Services or ES) and sub-sectors (education, health, agriculture, infrastructure, etc.) are tabulated and made clear. The expense items for each sector and its subs-sectors are also identified as shown in the table below (refer to Annex 12 for the detailed tabulation).

It should be noted that the Study takes a prudent approach and separated component cities (CCs) from the rest of the cities, that is, highly urbanized cities (HUCs) and independent component

cities (ICCs), since the scope of service responsibilities of the different categories within the city level seems vague. Accordingly, the estimate of the financial needs is made for four city levels, namely, province, HUCs/ICCs, CCs, and municipality.

Table 4-1: Sample Tabulation of Service Responsibilities of Different LGU Levels

Summary Sheet						
Sectors	Sub-sectors	Expense Items	P	HUC	CC	M
General Public Service (GPS)		Personal Services (PS)	x	x	x	x
		MOOE	x	x	x	x
Social Services (SS)	Primary Education	Extra Teachers' Salary		x	x	x
[Education]		Maintenance of Classrooms		x	x	x
		Construction of New Classrooms		x	x	x
	///////////	///////////	x	x	x	
[Health]	///////////	///////////	x	x	x	
Economic Services (ES)	///////////	///////////	x	x	x	
[Agriculture]	///////////	///////////				

Source: JICA Study Team

2) Step 2: Identification of "Reference" LGUs at each level of LGU

At each level, a reference LGU is identified in order that JST can present more realistic service responsibilities. This does not mean that the estimate of the financial needs should be grounded on reality. Rather, the Study attempts to estimate the financial needs of different LGU level in accordance with the service responsibilities prescribed in the LGC or other relevant laws. The reasoning for this is explained later.

Table 4-2: References for Selection of Reference LGUs

Average Population (Y2007)			
Province	HUC	CC	Mun,
854,272	590,028	137,419	37,337

Average Own-source Income (Y2005) (million pesos)			
Province	HUC	CC	Mun,
97	1,413	119	10

Source: JICA Study Team

Reference LGUs are selected based on the proximity to the average population and average own-source income as shown above.

3) Step 3: Computation of the cost required in each sub-sector when providing the services prescribed by laws

The next step involves computation of budget requirements of each sub-sector. What is

appropriated in reality may not be sufficient to provide the standard services regulated by law or set forth by relevant national agencies.

When figuring out the financial requirements of the standard services, the standards set by NGAs or relevant national level agencies are commonly used as references. For instance, in the health sub-sector, the standard number of medical personnel such as doctors and nurses in relation to population is specified. This can be used to identify the number of medical personnel required in each LGU, which in turn becomes the basis of the estimated cost of personal services.

When the set national standards are not available for some sub-sectors, interviews with chief officers of different departments in the selected reference LGUs are conducted in order to find out how much the current budget meets the requirements of standard services. If this fails, the actual value of current budget is utilized as reference.

4) Step 4: Identification of "Measurement Unit" and "Unit Cost" for all sub-sectors

Table 4-3: Sample of Calculation of Unit Cost

Provincial Level			
Sectors/Sub-sectors	Total needs (a)	Measurement Unit (b)	Unit Cost (c)
GPS	(a)1	(b)1 e.g. Number of Staff	(c)1=(a)1/(b)1
SS Education	(a)2	(b)2 e.g. Number of School-going age children	(c)2=(a)2/(b)2
SS Health	(a)3	(b)3 e.g. Number of Barangays	(c)3=(a)3/(b)3
SS Social Welfare	(a)4	(b)4 e.g. Poverty Incidence	(c)4=(a)4/(b)4
SS Others	(a)5	(b)5 e.g. Population	(c)5=(a)5/(b)5
ES Infrastructure	(a)6	(b)6 e.g. Length of Road	(c)6=(a)6/(b)6
ES Agriculture	(a)7	(b)7 e.g. Workforce in Agricultural Sector	(c)7=(a)7/(b)7
ES Local Enterprises	(a)8	(b)8 e.g. Population	(c)8=(a)8/(b)8
ES Others	(a)9	(b)9 e.g. Population	(c)9=(a)9/(b)9
////////////	////////////	////////////	////////////

Notes: GPS (General Public Services), SS (Social Services), ES (Economic Services)

Source: JICA Study Team

The next step is to identify suitable measurement units for the items in each sub-sector. Once measurements units are identified for all sub-sectors, the unit costs can be calculated by dividing the financial needs by the measurement unit in each sub-sector shown in Table 4-3.

4.1.2. Basic Policies and Assumptions

The build-up approach in the Study adopts the following basic policies and assumptions.

1) Coherence with the provisions of the LGC

The financial needs of local government are estimated strictly in accordance with the service responsibilities delineated in the LGC. In other words, it presents the estimated cost of the service delivery of local government while exercising its own powers and performing specific duties and functions as provided by the LGC.

The appropriations of the funds in reality do not necessarily accord with the laws due to many reasons. One reason can be the budget constraints. Higher level LGUs may find it necessary to subsidize their component LGUs for the services or projects which are not within their jurisdiction, due to the budget constraints of these component LGUs. There are cases where HUCs may have to provide certain services in order to complement the ones provided by provincial governments.

It should be stressed here that the financial needs defined in the Study is not the current budget or wish list budget. It is an attempt to find out the budget level if, again, a LGU performs the standard services prescribed and set by laws and relevant national agencies. If a certain service responsibility is clearly identified on municipalities' by-laws, the cost required for the said service responsibility should be under municipalities, and not under provinces, regardless of the reality. For instance, if DPWH standardizes the depreciation period of municipal road at 20 years, this figure is to be used for the computation of the construction cost of the new road.

2) Special Accounts

The accounts of the publicly owned enterprises such as public markets, slaughter houses, and bus terminals as well as publicly operated facilities like hospitals are reported as special accounts. They are independent of the general accounts of LGUs. However, the Study chooses to include the budget requirements of these public entities because their income is reported as part of the own source income of LGUs or total local source (TLS) in the DOF-SIE. Particularly with a view to computing the financial gaps of LGUs, it is indispensable to figure out the required budget for these public entities within the financial needs of LGUs. This is ideal since their own source income will be subtracted from the financial needs to determine the financial gaps.

For reference purposes, most LGUs are compelled to earmark substantial amount as subsidy to these special accounts to meet the requirements. In the case of bus terminals and district

hospitals of the selected reference LGU at the provincial level, the income from their own business and activities is far from sufficient. For the year 2007, Transport mall's requirement was PhP4,933,181.33 while the total income from within the enterprise was PhP2,391,376.69. This means that the shortage of PhP12,541,804.64 was subsidized from the general account. One of the district hospital's budget requirement for year 2007 was PhP24,882,103.20 while the income from the hospital operations is PhP2,260,000.00. This means subsidy from General Fund proper reaches PhP22,622,103.20.

Table 4-4: Subsidies to Special Accounts in the Selected Provincial LGUs (Year 2007)

	Required budget	Income from its own business	Subsidies from General Fund
Transport Mall	PhP14,933,181.33	PhP2,391,376.69	PhP12,541,804.64
District Hospital 1	PhP24,882,103.20	PhP2,260,000.00	PhP22,622,103.20
District Hospital 2	PhP24,635,409.24	PhP1,040,000.00	PhP23,595,409.24
District Hospital 3	PhP12,945,960.28	PhP170,000.00	PhP12,775,960.28

Source: Compiled by JICA Study Team based on the Budget 2008 of the selected LGU

3) General Public Services

The expenses under the GPS are far more than other sectors of LGUs, without any exception. Therefore the estimate of the financial needs of GPS was made as precise as possible. Population is chosen for the measurement unit for this sector although the concept of fixed cost is also introduced. The fixed costs are derived from 30% of the GPS financial needs of the selected LGUs.

4) Education

One of the major challenges in the estimate of the financial needs of LGUs is in the education sector. As there is an independent fund appropriated to cover the cost of education at each level of LGUs, that is, the Special Education Fund (SEF)[1], LGUs are not supposed to finance any expenses through their general funds. The reality is rather chaotic. Many LGUs share a similar experience in providing subsidies from their general funds to meet the budget requirements of primary and secondary education. Stakeholders' views on the handling of the financial needs in the education sector may be divided into total subsidy (SEF + subsidies from general accounts), partial (subsidies from general accounts only) or should not be included at all in the financial needs of local government. The Study makes a preference of not including them at all in the

[1] SEF is managed by Local School Board. It is to over i) salaries for locally funded school teachers (PS), ii) extra salaries for nationally funded teachers (PS), iii) subsidies to school events such as Athlete Meet, iv) electricity/communication of schools (MOOE), iv) subsidies to the school events, v) improvement/construction of school building.

estimate primarily due to the existence of mechanism of funding the educational expenses through SEF.

Although this is not a suitable choice, any attempt to figure out how much each LGU has to subsidize SEF from its general account requires the dataset of both SEF and subsidies from general accounts in the education sub-sector of all LGUs. Hence, due to time constraints, JST could not acquire such dataset. Therefore, the Study opted not to include at all any expenditures from the general account in the financial needs of local government.

5) Health

The financial needs in the health sub-sector are usually considerable and higher than those of the other sub-sectors in the social services sector. The cost of personnel (medical personnel), for instance, is under the responsibility of the local government while in education the majority of personnel like teachers is still with the national agency, i.e. Department of Education. The cost of operating health facilities bear heavily on the finances of small-scale LGUs. Because of these factors, financial needs of some provincial hospitals, or tertiary hospitals, are now transferred back to the responsibility of the national government.

However, as explained previously, the basic policy is to find the financial needs in accordance with the responsibilities stipulated by laws. The Study chooses to include the expenses of those provincial hospitals funded by the national government. The expenses of provincial hospitals, which have been transferred back to the responsibility of the national government, are recognized as financial needs of the provincial governments.

6) Social Welfare

In the social welfare sub-sector, the number of poor families is selected as measurement unit as it seems to represent more suitably the estimate of the financial needs of said sub-sector. There is no collected national data available for the number of poor families in the city and municipal levels, thus, these are estimated as shown in the table above. For instance, the number of poor families for the reference LGU at the component city level (953 families) is estimated by applying the poverty incidence of the province where it belongs (6.8%), to the total number of families (14,018 families) in the reference LGU. Table 4-5 shows the estimated numbers of poor families in the reference LGUs.

Table 4-5: Estimated Number of Poor Families at Each LGU LVEL

LGU	2007 Population	Average Family Size	Est. Number of Families	2006 Poverty Incidence	Est. Number of Poor Families
Reference LGU Province (Actual)				6.80%	8,679
Reference LGU HUC	568,928	6	94,821	9.8% (for NCR-3rd district)	9,292
Reference LGU CC	84,105	6	14,018	6.8% (for Province it belongs)	953
Reference LGU Municipality	39,294	6	6,549	7.8% (for Province it belongs)	511
Aggregate Figures:				National Average	
All Provinces (Actual)					4,489,920
All HUCs/ICCs	19,753,896	6	3,292,316	26.90%	885,633
All CCs	13,357,476	6	2,226,246	26.90%	598,860
All Municipalities	55,706,297	6	9,284,383	26.90%	2,497,499

Note: The actual figure is shown under the reference LGU at the provincial level but the figures under those at other LGU levels are estimated by the Study.

Source: Compiled by JICA Study Team based on the Data from NCSB

7) Infrastructure

i) The main expense item for the infrastructure sub-sector is the construction/ repair/maintenance of roads and bridges. For this reason, the length of road is chosen as the measurement unit for this sub-sector, even though it is evident that considering more than one set of measurement units and unit costs is better in terms of estimating the needs of other expense items such as flood control system, water supply system, public buildings, etc. Incidentally the drainage system is often constructed along the road, thus the road length may suit as measurement unit for this expense item.

ii) The data on road lengths seem disorganized, especially at municipality level. The Study gives the following estimate of the aggregated length of road at municipality level, where the data available are only for the 779 out of the 1,505 LGUs . The aggregate length of road of all municipalities is estimated from the value found in the inventory (24,286.04 km) and the proportion of the number of LGUs with data (779) to the total number of LGUs (1,505).

Table 4-6: Aggregated Figures of Length of Road at each LGU Level

Province	HUCs/ICCs	CCs	Municipality
30,491,664 km	7,737,218 km	7,041,210 km	46,703,923 km

Note: The figure under Municipality level is estimated by the Study, but those under other LGU levels are actual.

Source: Compiled by JICA Study Team based on the Data from DPWH Road Inventory

iii) For simplification purposes, the depreciation period for the provincial road is set at 30 years. Since it proves to be a difficult task to set (for instance, the depreciation period for city/municipal roads and unit cost for their construction) the estimate of the financial needs for road at the city and municipality levels is derived based on interviews with relevant offices in

the selected LGUs.

8) Special Purpose Appropiration

Appropriations such as Special Purpose Appropriation (SPA)[2], Appropriation for Confidential Expenses[3], Appropriation for Calamity Fund[4] are not considered as financial needs of local government. The budget requirements of these programs are difficult to measure as their starndard services are not set forth by the law.

4.1.3. Limitations and Restrictions

The attempt to compute the financial needs of LGUs meets a lot of challenges in the Philippines. Since this is mainly due to the lack of national standards set, the Study has to establish its own assumptions in the calculation of the needs in many sectors, making the estimate less convincing. Listed as follows are some major limitations the Study encountered. If some of these limitations are resolved, the certainty of the estimate of the financial needs can be raised to some extent.

1) Selection of Reference LGUs and Measurement Units

i) Selection of reference LGUs for reference purposes

Because of the lack of national service standards in some of the sub-sectors and due to time constraints in completing the Study, JST utilized the current budget value and actual service delivery situation for deriving the estimates of the financial needs. For this reason, a reference LGU is selected at each LGU level for reference. Since the attempt in the Study turns out to be more influenced by the current budget than it had been planned, part of the estimate may be distorted by specific situation of selected LGUs. For instance, in the selected LGU, there is no outstanding expenditure in the sub-sectors of low-cost housing, sports/recreation and transportation/communication, which may not be applicable to other provincial governments.

To minimize this uncertainty, the best approach is to find the establish national service standards. Once these standards are developed, the financial needs of the LGUs with specific circumstances are adjusted using modification coefficients.

[2] Appropriations for grants, donations and financial assistance under the Office of Mayors and Governors are transferred to SPA in accordance with the Updated Budget Operations Manual for Local Government Units.
[3] The appropriation for Confidential Expenses should be consistent with the guidelines prescribed in DILG Memorandum Circular No. 99-65 dated April 23, 1999 and the utilization of the fund should be subject to COA Circular No. 2003-003 dated July 30, 2003.
[4] The utilization of Calamity Fund should be in accordance with Section 324 of RA7160 as amended by RA8185 and DBM-DILG Joint Memorandum Circular No.2003-1 dated March 20, 2003.

ii) Selection of one measurement unit for each sub-sector

It is preferred that a set of measurement units and their corresponding unit costs should be identified for each major expense item in each sub-sector. However, for the sake of simplification and partly due to the unavailability of data, only one measurement unit is considered for each sub-sector, which is identified as most suitable in the estimation of the financial needs in respective sub-sectors.

For instance, the measurement units for the sub-sector of infrastructure in the Study are represented by road length. However, there are some expense items within this sub-sector where road length cannot be used as a measurement unit, such as flood control, water supply, public buildings, etc. When circumstances allow, setting more than one measurement unit for this sub-sector should be initiated to improve the accuracy of the estimate.

This is similar in the case of environmental management sub-sector, where measurement units are represented by population considering that solid waste management is its largest expense item. However, other expense items like forest management may be better estimated using the data on forest area.

2) Lack of set national service standards and data

i) Education: SEF data

As mentioned earlier, even if in reality some LGUs provide subsidies from their general funds, the Study considered that the financial needs of the education sub-sector are not part of the overall financial needs of LGUs. It is preferable to determine at least the size of the required subsidies from the general fund for each LGU. For this to be realized, a complete dataset of SEF is required. As for the standards in the education sub-sector, the ratio of students per classroom is specified. The data on the number of school-going age children is not difficult to determine, neither is the cost estimate for the construction/repair/maintenance per classroom. If the depreciation period for classrooms can be standardized, the only issue remains to be the availability of SEF data for all LGUs.

If any attempt is made to calculate the financial needs of education, the expenses for primary and secondary education should be strictly allocated to the needs of city and municipality level[5]. This should be considered even if in reality, the provincial governments spend considerable

[5] According to LGC, it is obvious the cost pertaining to the construction and maintenance of school buildings in primary and secondary education is under the responsibility of cities and municipalities. (BOOK III “LOCAL GOVERNMENT UNITS” - Title Two “ The Municipality” - Chapter 1 “Role and Creation of the Municipality” -)

funds from their general account to serve this sub-sector.

ii) Social Welfare: established national standards

One of the sub-sectors which is seemingly easy for setting of national service standards, is social welfare. The estimate of the financial needs in the social welfare is challenging for the projects and its related activities may vary from one place to another, though the core programs such as assistance for the welfare of children, women and elderly may be uniformly carried out nationwide.

iii) Agriculture: Number of families engaged in agriculture and fishery

In the sub-sector of agriculture/fishery, the number of families or population engaged in the said sub-sector may be the best option as measurement unit. If a complete dataset of such data is available, the estimate may become more persuasive.

3) Time constraints of the Study

Due to time constraints in the preparation of the Study, the following limitations can be found in the attempt to compute the financial needs of LGUs.

i) Different expense items under infrastructure

The estimate for all the expense items related to infrastructure sub-sector takes considerable time as it requires detailed computation of a wide range of items. Mainly due to time constraints, the estimate in most of the expense items is derived from the current budget especially at municipal level. When circumstances allow, a meticulous estimate of all major expense items should be initiated to obtain better results.

ii) Population Development/ Employment

Similar above case, due to time constraints in completing the Study, the detailed programs and activities under the population development and employment sub-sectors have not been completed. Accordingly, the estimate of their financial needs is made through interviews with the concerned offices of the selected reference LGUs and/or through consideration of the current budget.

4.2. Results of Computation of Financial Needs

4.2.1. Computation of financial needs

The financial needs in all sectors and their sub-sectors according to different LGU levels are estimated. Obtained results are shown in Annex 12.

The measurement units and unit costs for province, HUCs/ICCs, CCs and municipality levels are identified. The detailed computation is shown in Annex 12.

Table 4-7: Measurement Units and Unit Costs at Different LGU Levels

Sectors/Sub-sectors		Mesurement Unit	Unit Cost			
			Province	HUC/ICC	CC	Municipality
General Public Services (GPS)		Ppulation	P154.0 (P43,713,831)	P354.0 (P86,409,780)	P785 (P28,295,482)	P416 (P7,008,698)
Social Services (SC)	[Education]	N/A				
	[Health]	Population	P172.6	P346.9	P287.7	P206.1
	[Social Welfare]	No. of Poor Families	P702.8	P3,002.5	P14,060.8	P6,457.9
	[Low-cost Housing]	Population		P10.2		
	[Sports/Recreation]	Population		P1.9		
	[Population Development]	Population	P6.1	P5.9		
	[Employment]	Population	P4.2	P12.3		
Economic Serivces (ES)	[Agriculture/Fishery]	Population	P24.9	P16.1	P87.9	P45.8
	[Infrastructure]	Length of Road (/km)	P976,992.7	P5,061,107.1	P816,933.6	P545,836.2
	[Environmental Management]	Population	P4.3	P175.7	P67.7	P67.7
	[Transportation/Communication]	Population		P73.8		
	[Tourism]	Population	P4.6	P26.0		
	[Investment/Industrial Dev't]	Population	P3.1	P4.4	P19.0	P66.1
	[Local Enterprises]	Population	P21.4	P6.1	P229.4	P127.2

Note: Figures in parenthesis under GPS are fixed costs.

Source: Compiled by JICA Study Team

4.2.2. Computation of financial gaps and review of vertical formula

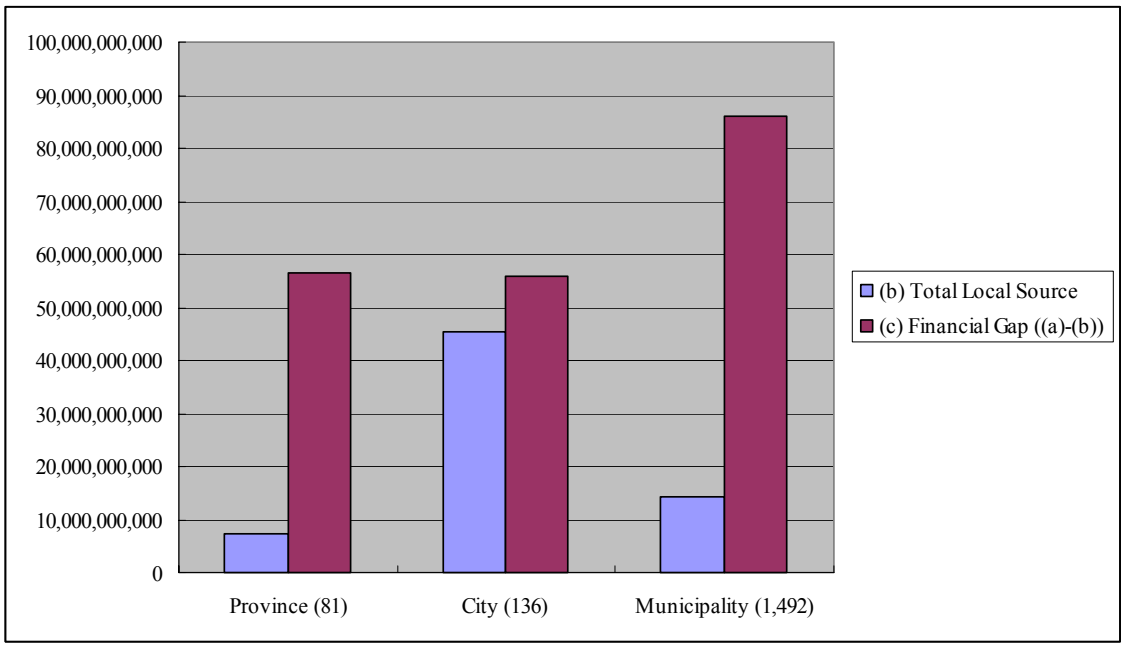
Based on the unit costs identified above, the financial gaps of different levels of LGUs are estimated (refer to Table 4-8). It turns out that the size of the aggregated financial gaps of provincial governments is almost the same as that of the cities.

Table 4-8: Aggregated Financial Gaps of Different Levels of LGUs (Pesos)

	Province	HUC/ICC	Component	Municipality
Number of LGUs	81	36	100	1492
(a) Financial Needs	63,836,605,850	64,698,283,019	36,590,843,351	100,062,913,418
		101,289,126,370		
(b) Total Local Source	7,414,128,304	45,518,216,707		14,154,911,330
(c) Financial Gap ((a)-(b))	56,422,477,546	55,770,909,663		85,908,002,088

Source: JICA Study Team

The chart below shows the aggregated financial gaps of different levels of LGUs in comparison with the aggregated own source income.



Source: Compiled by JICA Study Team

Chart 4-1: Aggregated Financial Gaps of Different Levels of LGUs Compared with the Aggregated Own Source Income

Based on the aggregate figures of financial gaps of all LGU levels, the sharing scheme of IRA can be adjusted as per Table 4-9 below, provided that the share of barangays remains the same at 20%.

Table 4-9: An Option of Vertical Sharing of IRA

	Province	HUC/ICC	Component	Municipality
Number of LGUs	81	36	100	1492
(a) Financial Needs	63,836,605,850	64,698,283,019	36,590,843,351	100,062,913,418
		101,289,126,370		
(b) Total Local Source	7,414,128,304	45,518,216,707		14,154,911,330
(c) Financial Gap ((a)-(b))	56,422,477,546	55,770,909,663		85,908,002,088
(d) Aggregated Financial Gap (subtotal of (c))	198,101,389,297			
(e) Proportion of finacial gap to Aggregate Financial Gap ((c) /(d))	28.48	28.15		43.37
(f) If 80% scale is applied ((e)x80%)	22.78	22.52		34.69

Source: JICA Study Team

4.3. Computation of Financial Needs and Estimate of Financial Gaps of Individual LGUs at the Provincial Level

4.3.1. Redefined Measurement Unit and Unit Cost

As shown in the above section 4.2., when computing the aggregate financial needs of different LGU levels, three different measurement units are utilized namely, population, number of poor families and road length. Despite the lack of a complete dataset of all LGUs for these measurement units especially at the city and municipality levels, the aggregate figures were estimated by JST. This enabled the Study to provide a figure for the aggregate financial needs of collective LGUs at different LGU levels. However, for computing the financial needs of individual LGUs the complete dataset is vital whatever the measurement units may be.

Complete datasets for some possible measurement units are available at the provincial level. Therefore, JST attempted to compute the financial needs of individual provincial governments with a view on estimating their financial gaps. As the data of the number of families engaged in the agriculture and fishing industries is available at the provincial level, it is utilized to compute the financial needs of agriculture/fishery sub-sector. The measurement units and unit costs used for the computation of the financial needs of individual provincial governments are shown in Table 4-10.

Table 4-10: Measurement Units and Unit Costs for Computation of the Financial Needs of Provincial Governments

Sectors/Sub-sectors		Mesurement Unit	Unit Cost
General Public Services (GPS)		Ppulation	P154.0 (P43,713,831)
Social Services (SC)	[Education]	N/A	
	[Health]	Population	P172.6
	[Social Welfare]	No. of Poor Families	P702.8
	[Low-cost Housing]	Population	
	[Sports/Recreation]	Population	
	[Population Development]	Population	P6.1
	[Employment]	Population	P4.2
Economic Serivces (ES)	[Agriculture/Fishery]	No. of Employed in Agri./Fishery	P351.1
	[Infrastructure]	Length of Road (/km)	P976,992.7
	[Environmental Management]	Population	P4.3
	[Transportation/Communication]	Population	
	[Tourism]	Population	P4.6
	[Investment/Industrial Dev't]	Population	P3.1
	[Local Enterprises]	Population	P21.4

Note: Figures in parenthesis under GPS are fixed costs.

Source: JICA Study Team

4.3.2. Computation of Financial Needs and Financial Gaps of Provincial Governments

By using the measurement units and unit costs of Table 4-10, JST computed the financial needs of all provincial governments. The financial gaps of all provincial governments are also estimated by subtracting the total local source from the financial needs. Table 4-11 shows the results of computation of the financial needs and financial gaps of provincial governments (the details of this computation is found in Annex 13).

Table 4-11: Financial Needs and Financial Gaps of Provincial Governments

	Data Collected				GPS	Economic Services												
Serial No.	Population (2007)	Number of poor families (2006)	Length of road (kms) (Sep 2006)	No. of employed in Agri/Fishery (Apr 2003)	(P154.0 plus 43,713,831)	Health (P 172.6)	Social Welfare (P 702.6)	Population Devt (P 6.1)	Employment (P4.2)	Agriculture (P 351.06)	Infrastructure (P976, 992.7)	Enviromental Management (P 4.3)	Tourism (P 4.6)	Investment/Industrial Devt. (P 3.1)	Local Enterprises (P21.4)	Total Financial Needs	TLS	FG
					Population	Population	Number of poor families	Population	Population	Population	Length of road (kms)	Population	Population	No. of employed in Agri/Fishery	Population			
1	2,439,005	184,207	898.07	288,000	419,320,601	420,972,263	129,423,838	14,877,931	10,243,821	101,105,280	877,407,834	10,487,722	11,219,423	7,560,916	52,194,707	2,054,814,335	283,537,481	1,771,276,854
2	1,230,110	92,354	1,239.68	165,000	233,150,771	212,316,986	64,887,920	7,503,671	5,166,462	57,924,900	1,211,161,241	5,289,473	5,658,506	3,813,341	26,324,354	1,833,197,626	73,475,698	1,759,721,927
3	2,645,395	151,660	702.13	269,000	451,104,661	456,595,177	106,556,316	16,136,910	11,110,659	94,435,140	685,975,884	11,375,199	12,168,817	8,200,725	56,611,453	1,910,270,940	262,579,428	1,647,691,512
4	682,152	74,770	1,177.52	148,000	148,765,239	117,739,435	52,533,402	4,161,127	2,865,038	51,956,880	1,150,428,444	2,933,254	3,137,899	2,114,671	14,598,053	1,551,233,443	22,490,299	1,528,743,143
5	1,693,821	134,599	637.57	380,000	304,562,265	292,353,505	94,569,257	10,332,308	7,114,048	133,402,800	622,898,305	7,283,430	7,791,577	5,250,845	36,247,769	1,521,806,109	46,684,000	1,475,122,109
6	2,370,269	190,455	369.15	531,000	408,735,257	409,108,429	133,813,683	14,458,641	9,955,130	186,412,860	360,656,855	10,192,157	10,903,237	7,347,834	50,723,757	1,602,307,840	205,533,860	1,396,773,980
7	1,722,036	147,900	543.08	334,000	308,907,375	297,223,414	103,914,540	10,504,420	7,232,551	117,254,040	530,585,196	7,404,755	7,921,366	5,338,312	36,851,570	1,433,137,537	97,366,207	1,335,771,331
8	1,691,878	100,759	688.68	224,000	304,263,043	292,018,147	70,793,273	10,320,456	7,105,888	78,637,440	672,835,333	7,275,075	7,782,639	5,244,822	36,206,189	1,492,482,300	183,790,700	1,308,691,600
9	1,853,853	121,010	699.57	302,000	329,207,193	319,975,028	85,021,626	11,308,503	7,786,183	106,020,120	683,474,783	7,971,568	8,527,724	5,746,944	39,672,454	1,604,712,126	305,486,000	1,299,226,126
10	847,440	101,644	836.01	305,000	174,219,591	146,268,140	71,415,074	5,169,384	3,559,248	107,073,300	816,775,667	3,643,992	3,898,224	2,627,064	18,135,216	1,352,784,905	91,032,319	1,261,752,585
11	2,245,869	108,782	569.51	192,000	389,577,657	387,636,989	76,430,233	13,699,801	9,432,650	67,403,520	556,407,113	9,657,237	10,330,997	6,962,194	48,061,597	1,575,599,987	314,431,967	1,261,168,021
12	1,401,495	69,434	599.64	283,000	259,544,061	241,898,037	48,784,328	8,549,120	5,886,279	99,349,980	585,843,903	6,026,429	6,446,877	4,344,635	29,991,993	1,296,665,641	70,057,000	1,226,608,641
13	735,769	74,307	778.46	181,000	157,022,257	126,993,729	52,208,098	4,488,191	3,090,230	63,541,860	760,549,737	3,163,807	3,384,537	2,280,884	15,745,457	1,192,468,787	43,551,108	1,148,917,679
14	1,243,449	53,338	679.22	163,000	235,204,977	214,619,297	37,475,279	7,585,039	5,222,486	57,222,780	663,590,051	5,346,831	5,719,865	3,854,692	26,609,809	1,262,451,105	114,431,222	1,148,019,883
15	547,284	20,362	320.49	116,000	127,995,567	94,461,218	14,306,341	3,338,432	2,298,593	40,722,960	313,117,367	2,353,321	2,517,506	601,227,627	11,711,878	1,214,050,812	75,696,278	1,138,354,533
16	907,238	115,560	804.18	162,000	183,428,483	156,589,279	81,192,456	5,534,152	3,810,400	56,871,720	785,677,989	3,901,123	4,173,295	2,812,438	19,414,893	1,303,406,228	241,083,479	1,062,322,749
17	767,254	82,129	665.87	194,000	161,870,947	132,428,040	57,703,835	4,680,249	3,222,467	68,105,640	650,549,152	3,299,192	3,529,368	2,378,487	16,419,236	1,104,186,615	71,493,158	1,032,693,457
18	637,366	62,669	778.48		141,868,195	110,099,372	44,031,239	3,887,933	2,676,937	0	760,569,277	2,740,674	2,931,884	1,975,835	13,639,632	1,084,330,977	56,660,201	1,027,670,776
19	2,856,765	42,077	358.09	64,000	483,655,641	493,077,639	29,563,300	17,426,267	11,998,413	22,467,840	349,854,247	12,284,090	13,141,119	8,855,972	61,134,771	1,503,459,298	476,448,574	1,027,010,724
20	1,231,904	110,724	494.58	206,000	233,427,047	212,626,630	77,794,682	7,514,614	5,173,997	72,318,360	483,199,096	5,297,187	5,666,758	3,818,902	26,362,746	1,133,200,020	115,373,529	1,017,826,491
21	1,072,571	41,175	498.43	330,000	208,889,765	185,125,755	28,929,555	6,542,683	4,504,798	115,849,800	486,961,494	4,612,055	4,933,827	3,324,970	22,953,019	1,072,627,722	79,585,000	993,042,722
22	1,190,288	68,973	635.03	384,000	227,017,567	205,443,018	48,460,430	7,260,732	4,999,193	134,807,040	620,419,674	5,118,221	5,475,306	3,689,880	25,472,078	1,288,163,140	298,224,650	989,938,491
23	914,278	91,618	444.81	379,000	184,512,643	157,804,383	64,367,990	5,577,096	3,839,968	133,051,740	434,576,123	3,931,395	4,205,679	2,834,262	19,565,549	1,014,266,834	33,942,620	980,324,214
24	1,911,953	34,405	290.44	85,000	338,154,285	330,002,743	24,172,953	11,662,901	8,030,194	29,840,100	283,757,760	8,221,389	8,794,975	5,927,048	40,915,751	1,089,480,099	118,907,377	970,572,722
25	1,190,823	88,678	422.59	128,000	227,100,573	205,536,058	62,303,758	7,264,020	5,001,457	44,935,680	412,867,345	5,120,539	5,477,786	3,691,551	25,483,612	1,004,782,371	49,514,842	955,267,529
26	822,406	39,088	532.54	261,000	170,364,355	141,947,276	27,463,229	5,016,677	3,454,105	91,626,660	520,285,738	3,536,346	3,783,068	2,549,459	17,599,488	937,849,797	37,849,797	949,776,603
27	1,138,544	70,544	416.62	118,000	219,049,607	196,512,694	49,564,214	6,945,118	4,781,885	41,425,080	407,036,653	4,895,739	5,237,302	3,529,486	24,364,842	963,342,621	24,433,250	938,909,372
28	1,646,510	146,188	348.40	256,000	297,276,371	284,187,626	102,711,689	10,043,711	6,915,342	89,871,360	340,382,303	7,079,993	7,573,946	5,104,181	35,235,314	1,186,381,835	250,049,236	936,332,600
29	1,121,974	59,940	447.86	277,000	216,497,827	193,652,712	42,113,844	6,844,041	4,712,291	97,243,620	437,552,043	4,824,488	5,161,080	3,478,119	24,010,244	1,036,090,310	109,432,004	926,658,306
30	675,644	53,776	546.85	135,000	147,763,007	116,616,154	37,783,018	4,121,428	2,837,705	47,393,100	534,268,458	2,905,269	3,107,962	2,094,496	14,458,782	913,349,380	19,215,513	894,133,867
31	748,885	82,730	562.49	102,000	159,042,121	129,257,551	58,126,098	4,568,199	3,145,317	35,808,120	549,544,716	3,220,206	3,444,871	2,321,544	16,026,139	964,504,880	80,330,155	884,174,725
32	710,829	107,074	386.20	235,000	153,181,497	122,689,085	75,230,192	4,336,057	2,985,482	82,499,100	377,311,650	3,056,565	3,269,813	2,203,570	15,211,741	841,974,752	1,367,910	840,606,842
33	2,826,926	56,008	338.22	125,000	479,060,435	487,927,428	39,351,221	17,244,249	11,873,089	43,882,500	330,438,471	12,155,782	13,003,860	8,763,471	60,496,216	1,504,196,721	667,945,000	836,251,721
34	486,104	54,153	548.84	111,000	118,573,847	83,901,550	38,047,898	2,965,234	2,041,637	38,967,660	536,213,650	2,090,247	2,236,078	1,506,922	10,402,626	836,947,350	44,985,352	791,961,998
35	2,473,530	50,689	252.25	119,000	424,637,451	426,931,278	35,614,091	15,088,533	10,388,826	41,776,140	246,446,409	10,636,179	11,378,238	7,667,943	52,933,542	1,283,498,630	502,220,532	781,278,098
36	701,664	34,986	387.97	160,000	151,770,087	121,107,206	24,581,164	4,280,150	2,946,989	56,169,600	379,041,904	3,017,155	3,227,654	2,175,158	15,015,610	763,332,678	53,257,590	710,075,088
37	390,847	57,510	467.45	150,000	103,904,269	67,460,192	40,406,526	2,384,167	1,641,557	52,659,000	456,695,238	1,680,642	1,797,896	1,211,626	8,364,126	738,205,239	30,300,536	707,904,703
38	849,670	50,701	217.37	126,000	174,563,011	146,653,042	35,622,523	5,182,967	3,568,614	44,233,560	212,367,926	3,653,581	3,908,482	2,633,977	18,182,938	650,570,641	703,219	649,867,422
39	230,953	22,482	477.77	58,000	79,280,593	39,862,488	15,797,252	1,408,813	970,003	20,361,480	466,777,802	993,098	1,062,384	715,953	4,942,394	632,172,268	24,719,391	607,452,877
40	632,255	35,778	267.51	183,000	141,081,101	109,127,213	25,138,325	3,856,756	2,655,471	64,243,980	261,358,249	2,718,697	2,908,373	1,959,991	13,530,257	628,578,411	27,495,650	601,082,762
41	609,447	58,161	312.58	193,000	137,568,669	105,190,552	40,863,939	3,717,627	2,559,677	67,754,580	305,388,378	2,620,622	2,803,456	1,889,286	13,042,166	683,398,932	53,669,400	599,729,530
42	720,972	40,641	271.90	140,000	154,743,519	124,439,767	28,554,367	4,397,929	3,028,082	49,148,400	265,648,223	3,100,180	3,316,471	2,235,013	15,428,801	654,040,752	58,050,626	595,990,127
43	538,283	72,484	283.02	155,000	126,609,413	92,907,646	50,927,258	3,283,526	2,260,789	54,414,300	276,507,497	2,314,617	2,476,102	1,668,677	11,519,256	624,889,081	41,566,264	583,322,817
44	768,939	80,512	159.15	143,000	162,130,437	132,718,871	56,567,731	4,690,528	3,229,544	50,201,580	155,488,388	3,306,438	3,537,119	2,383,711	16,455,295	590,709,642	12,145,342	578,564,300
45	709,673	62,071	216.94	108,000	153,003,473	122,489,560	43,611,085	4,329,005	2,980,627	37,914,480	211,948,796	3,051,594	3,264,496	2,199,986	15,187,002	599,980,104	25,687,718	574,292,385
46	2,284,046	27,217	61.34	32,000	395,456,915	394,226,340	19,122,664	13,932,681	9,592,993	11,233,920	59,927,755	9,821,398	10,506,612	7,080,543	48,878,584	979,780,404	410,280,036	569,500,368
47	409,468	55,510	314.25	112,000	106,771,903	70,674,177	39,001,326	2,497,755	1,719,766	39,318,720	307,016,048	1,760,712	1,883,553	1,269,351	8,762,615	580,675,925	20,566,803	560,109,122
48	541,347	47,591	280.48	104,000	127,081,269	93,436,492	33,437,437	3,302,217	2,273,657	36,510,240	274,026,912	2,327,792	2,490,196	1,678,176	11,584,826	588,149,214	28,149,868	559,999,346
49	475,514	43,750	307.19	108,000	116,942,987	82,073,716	30,738,750	2,900,635	1,997,159	37,914,480	300,123,365	2,044,710	2,187,364	1,474,093	10,176,000	588,573,260	36,669,441	551,903,819
50	495,122	42,271	330.33	53,000	119,962,619	85,458,057	29,699,605	3,020,244	2,079,512	18,606,180	322,729,999	2,129,025	2,277,561	1,534,878	10,595,611	598,093,291	53,159,630	544,933,661
51	405,118	35,403	290.01	139,000	106,101,387	69,922,676	24,874,148	2,471,195	1,701,479	48,797,340	283,334,722	1,741,990	1,863,524	1,255,853	8,669,440	550,733,755	18,338,999	532,394,756
52	546,186	36,868	267.26		127,826,475	94,271,704	25,903,457	3,331,735	2,293,981	0	261,114,977	2,348,600	2,512,456	1,693,177	11,688,380	532,984,941	16,318,157	516,666,784
53	450,346	49,423	213.68	90,000	113,067,115	77,729,728	34,724,600	2,747,111	1,891,453	31,595,400	208,763,800	1,936,488	2,071,592	1,396,073	9,637,404	485,560,755	13,000	485,547,755
54	408,520	17,477	263.30	63,000	106,625,911	70,510,552	12,279,340	2,491,972	1,715,784	22,116,780	257,242,178	1,756,636	1,879,192	1,266,412	8,742,328	486,627,085	2,851,933	483,775,152
55	397,857	10,704	391.98	108,000	104,980,729	68,666,664	7,520,630	2,426,806	1,670,915	37,914,480	382,961,599	1,710,699	1,830,050	1,233,293	8,513,712	619,429,581	155,788,000	463,641,581
56	148,661	14,258	351.66	65,000	66,507,625	25,658,888	10,014,860	906,832	624,376	22,818,900	343,569,253	639,242	683,841	460,849	3,181,345	475,166,013	23,882,612	451,283,401
57	372,533	10,990	309.68	82,000	101,083,913	64,299,190	7,721,574	2,272,451	1,564,639	28,786,920	302,555,099	1,601,892	1,713,652	1,154,852	7,972,206	520,726,394	72,676,775	448,049,620
58	493,085	33,841	225.85	43,000	119,648,921	85,106,471	23,776,687	3,007,819	2,070,957	15,095,580	220,653,801	2,120,266	2,268,191	1,528,564	10,552,019	485,829,274	40,675,987	445,153,288
59	549,759	56,901	119.43	124,000	128,376,717	94,888,403	39,978,643	3,353,530	2,308,988	43,531,440	116,682,238	2,363,964	2,528,891	1,704,253	11,764,843	447,481,909	20,112,315	427,369,594
60	314,027	40,668	258.64	89,000	92,073,989	54,201,060	28,573,337	1,915,565	1,318,913	31,244,340	252,686,461	1,350,316	1,444,524	973,484	6,720,178	472,502,167	47,553,393	424,948,774
61	531,680	54,247	157.27	122,000	125,592,551	91,767,968	38,113,942	3,243,248	2,233,056	42,829,320	153,651,642	2,286,224	2,445,728	1,648,208	11,377,952	475,189,839	57,184,425	418,005,414
62	695,149	23,634	90.15	61,000	150,766,777	119,982,717	16,605,248	4,240,409	2,919,626	21,414,660	88,075,892	2,989,141	3,197,685	2,154,962	14,876,189	427,223,306	9,927,879	417,295,427
63	421,952	42,660	187.27	81,000	108,694,439	72,828,915	29,972,916	2,573,907	1,772,198	28,435,860	182,965,331	1,814,394	1,940,979	1,308,051	9,029,773	441,336,763	27,531,933	413,804,831
64	279,774	26,165	238.36	47,000	86,799,027	48,288,992	18,383,529	1,706,621	1,175,051	16,499,820	232,871,095	1,203,028	1,286,960	867,299	5,987,164	415,068,587	14,542,426	400,526,162
65	513,785	39,421	146.59	83,000	122,836,721	88,679,291	27,697,195	3,134,089	2,157,897	29,137,980	143,217,360	2,209,276	2,363,411	1,592,734	10,994,999	434,020,951	39,906,339	394,114,612
66	515,265	46,005	137.53	80,000	123,064,641	88,934,739	32,323,113	3,143,117	2,164,113	28,084,800	134,365,806	2,215,640	2,370,219	1,597,322	11,026,671	429,290,180	41,767,510	387,522,670
67	180,711	11,082	228.24	50,000	71,543,325	31,190,719	7,786,213	1,102,337	758,986	17,553,000	222,988,814	777,057	831,271	560,204	3,867,215	358,959,141	18,248,811	340,710,330
68	662,153	8,679	306.86	47,000	145,685,393	114,287,608	6,097,865	4,039,133	2,781,043	16,499,820	299,799,980	2,847,258	3,045,904	2,052,674	14,170,074	611,306,752	273,482,315	337,824,437
69	229,636	20,581	203.92	38,000	79,077,775	39,635,174	14,464,426	1,400,780	964,471	13,340,280	199,225,420	987,435	1,056,326	711,872	4,914,210	355,778,168	22,202,360	333,575,808
70	232,757	16,995	151.63	45,000	79,558,409	40,173,858	11,943,497	1,419,818	977,579	15,797,700	148,141,403	1,000,855	1,070,682	721,547	4,981,000	305,786,349	10,040,503	295,745,844
71	163,611	5,418	178.04	40,000	68,909,771	28,239,084	3,803,879	998,021	687,162	14,042,400	173,943,780	703,523	752,606	507,197	3,501,254.00	296,088,671	19,968,000	276,120,671
72	87,695	4,198	189.78	16,000	57,218,861	15,136,157	2,950,217	534,940	368,319	5,616,960	185,413,675	377,089	403,397	271,855	1,876,673	270,168,142	14,130,765	256,037,377
73	103,633	12,128	154.97	35,000	59,673,313	17,887,058	8,521,133	632,161	435,259	12,287,100	151,404,559	445,622	476,712	321,262	2,217,746	254,301,922	2,662,634	251,639,289
74	182,326	16,115	109.52	49,000	71,792,035	31,469,468	11,320,994	1,112,189	765,769	17,201,940	106,999,264	784,002	838,700	565,211	3,901,776	246,751,346	16,975,663	229,775,683
75	151,238	11,097	130.31	27,000	67,004,483	26,103,679	7,796,752	922,552	635,200	9,478,620	127,311,919	650,323	695,695	468,838	3,236,493	244,304,553	19,539,400	224,765,153
76	187,802	12,826	107.41		72,635,339	32,414,625	9,011,548	1,145,592	788,768	0	104,938,786	807,549	863,889	582,186	4,018,963	227,207,245	18,034,437	209,172,808
77	81,293	6,619	104.52	21,000	56,232,953	14,031,172	4,650,509	495,887	341,431	7,372,260	102,115,277	349,560	373,948	252,008	1,739,670	187,954,675	9,769,508	178,185,167
78	150,031	10,077	56.66	43,000	66,818,605	25,895,351	7,080,100	915,189	630,130	15,095,580	55,352,498	645,133	690,143	465,096	3,210,663	176,798,489	16,217,965	160,580,524
79	15,974		54.37	5,000	46,173,827	2,757,112	0	97,441	67,091	1,755,300	53,120,070	68,688	73,480	49,519	341,844	104,504,373	8,157,000	96,347,373

TLS: Total Local Source
FG: Financial Gaps

Source: JICA Study Team

4.3.3. Financial Gaps and IRA Distribution at the Provincial Level

Table 4-12 shows the financial gaps of all provincial governments and the current IRA shares. It also shows an ideal IRA sharing pattern if it is defined as proportionate to the financial gaps. Table 4-13 lists up ten provincial governments with most financial gaps, as well as the ten with least financial gaps.

Table 4-12: Financial Gaps and IRA Distribution

Province (79)	Financial Gap	Ideal IRA Distribution	Current IRA Distribution (2003)
Cebu	1,771,276,854	1,079,266,268	370,881,980
Bohol	1,759,721,927	1,072,225,674	387,158,270
Pangasinan	1,647,691,512	1,003,963,816	389,748,509
Palawan	1,528,743,143	931,486,743	633,150,327
Camarines Sur	1,475,122,109	898,814,621	249,920,095
Negros Occidental	1,396,773,980	851,075,899	251,616,486
Leyte	1,335,771,331	813,906,045	539,612,000
Iloilo	1,308,691,600	797,405,949	398,881,360
Nueva Ecija	1,299,226,126	791,638,489	288,570,690
Davao Del Norte	1,261,752,585	768,805,284	341,248,000
Batangas	1,261,168,021	768,449,100	425,795,966
Isabela	1,226,608,641	747,391,537	454,846,191
Oriental Mindoro	1,148,917,679	700,053,237	351,692,125
Tarlac	1,148,019,883	699,506,196	761,302,281
Ilocos Norte	1,138,354,533	693,616,950	504,046,676
Zamb. Del Norte	1,062,322,749	647,289,613	403,182,239
South Cotabato	1,032,693,457	629,236,029	124,941,000
Compostela Valley	1,027,670,776	626,175,632	656,707,023
Cavite	1,027,010,724	625,773,452	256,721,000
Negros Oriental	1,017,826,491	620,177,358	808,245,000
Cagayan	993,042,722	605,076,225	763,420,141
Bukidnon	989,938,491	603,184,769	351,364,948
Zamb. Del Sur	980,324,214	597,326,642	976,273,940
Pampanga	970,572,722	591,384,908	284,516,074
Albay	955,267,529	582,059,218	395,348,511
Davao Del Sur	949,776,603	578,713,513	812,878,452
Lanao Del Sur	938,909,372	572,091,941	352,454,755
Quezon	936,332,600	570,521,875	280,500,000
North Cotabato	926,658,306	564,627,178	695,779,000
Sultan Kudarat	894,133,867	544,809,537	279,238,678
Misamis Oriental	884,174,725	538,741,278	361,825,332
Maguindanao	840,606,842	512,194,696	486,574,535
Bulacan	836,251,721	509,541,053	328,183,246
Davao Oriental	791,961,998	482,554,643	208,815,917
Laguna	781,278,098	476,044,778	323,038,898
Capiz	710,075,088	432,659,687	575,365,987
Southern Leyte	707,904,703	431,337,239	153,731,771
Sulu	649,867,422	395,974,230	442,961,781
Abra	607,452,877	370,130,394	387,358,826
Ilocos Sur	601,082,762	366,248,984	284,881,962
Agusan Del Sur	599,729,530	365,424,439	738,652,160
La Union	595,990,127	363,145,964	473,760,311
Lanao Del Norte	583,322,817	355,427,577	309,540,650
Masbate	578,564,300	352,528,139	340,717,720
Sorsogon	574,292,385	349,925,196	631,658,900
Rizal	569,500,368	347,005,346	368,279,662
Surigao Del Norte	560,109,122	341,283,115	741,186,386
Surigao Del Sur	559,999,346	341,216,227	387,336,055
Sarangani	551,903,819	336,283,497	294,879,371
Aklan	544,933,661	332,036,473	243,980,202
Eastern Samar	532,394,756	324,396,325	145,828,294
Zamboanga Sibugay	516,666,784	314,813,029	304,325,546
Tawi-Tawi	485,547,755	295,851,725	321,488,857
Basilan	483,775,152	294,771,651	268,720,676
Nueva Vizcaya	463,641,581	282,503,956	472,231,555
Mt. Province	451,283,401	274,973,927	661,757,000
Benguet	448,049,620	273,003,534	984,529,017
Zambales	445,153,288	271,238,755	380,612,286
Northern Samar	427,369,594	260,402,876	617,245,036
Agusan Del Norte	424,948,774	258,927,833	691,198,812
Misamis Occidental	418,005,414	254,697,137	965,838,890
Samar	417,295,427	254,264,531	357,465,802
Occidental Mindoro	413,804,831	252,137,657	166,943,670
Romblon	400,526,162	244,046,759	509,085,531
Camarines Norte	394,114,612	240,140,104	433,040,715
Antique	387,522,670	236,123,531	623,134,418
Ifugao	340,710,330	207,600,052	766,696,559
Bataan	337,824,437	205,841,633	869,087,000
Marinduque	333,575,808	203,252,878	222,349,668
Catanduanes	295,745,844	180,202,498	246,911,199
Quirino	276,120,671	168,244,577	583,152,900
Siquijor	256,037,377	156,007,517	409,551,286
Apayao	251,639,289	153,327,694	159,248,904
Kalinga	229,775,683	140,005,863	508,068,914
Guimaras	224,765,153	136,952,870	818,598,466
Aurora	209,172,808	127,452,214	379,102,567
Camiguin	178,185,167	108,570,967	321,721,287
Biliran	160,580,524	97,844,186	541,164,744
Batanes	96,347,373	58,705,938	250,187,882

Source: JICA Study Team

Table 4-13: LGUs with Most Financial Gaps

1	Cebu
2	Bohol
3	Pangasinan
4	Palawan
5	Camarines Sur
6	Negros Occidental
7	Leyte
8	Iloilo
9	Nueva Ecija
10	Davao del Norte

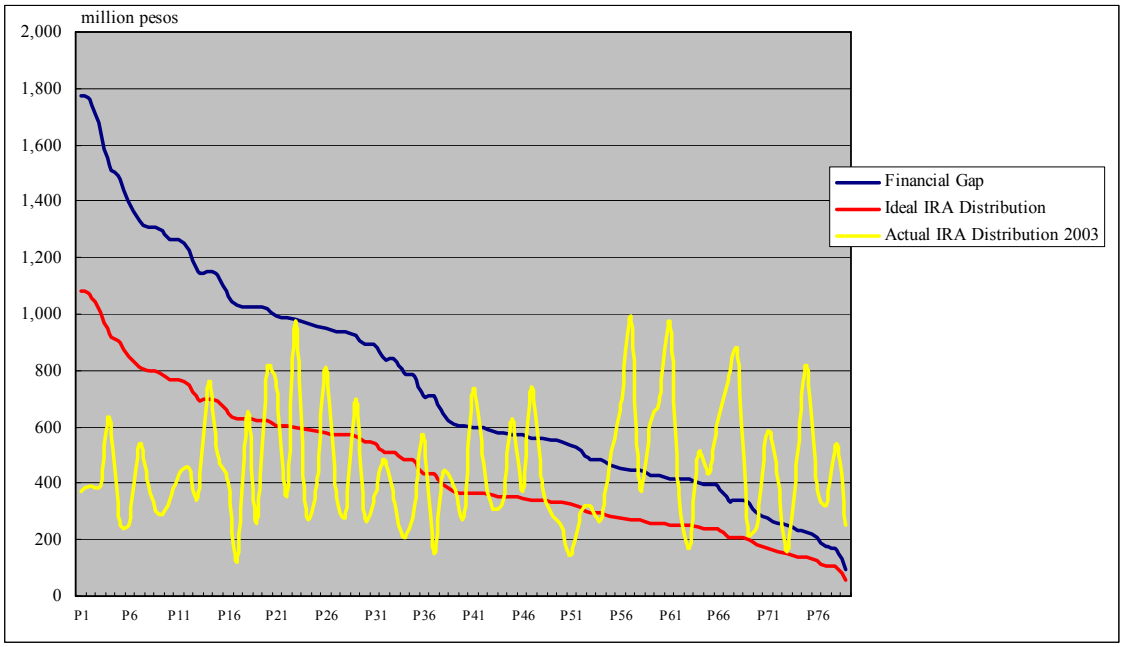
LGUs with Least Financial Gaps

70	Catanduanes
71	Quirino
72	Siquijor
73	Apayao
74	Kalinga
75	Guimaras
76	Aurora
77	Camigin
78	Birilan
79	Batanes

Source: JICA Study Team

Figure 4-1 illustrates the current IRA distribution pattern in relation to the financial gaps at the provincial level. It indicates that the IRA is distributed regardless of the financial gaps of provincial governments. The limitations that the Study faced can not be further reduced. With this in mind, JST also ventures to show an ideal IRA distribution pattern (shown in red curve).

Once the financial gaps of LGUs are estimated, the IRA distribution can be evaluated in terms of its effect on the disparity adjustment in the financial capacity of LGUs. If the overall precision of the computation of the financial needs and potential revenue is improved, the financial gaps may be used not only for the verification of the IRA distribution determined by formulas but also for other related purposes, if necessary.



Source: JICA Study Team

Figure 4-1: Financial Gaps and IRA Distribution at the Provincial Level

Part II

Perceptional Analysis

CHAPTER 5

ANALYSIS ON LGU PERCEPTION SURVEY

The perception of stakeholders in IRA issues is substantial for considering the options on new IRA distribution formula. Especially, LGUs views would be essential in the proposals for the options.

Therefore, as part of LGU's sample surveys conducted in this study, Perception Survey intended for governors, mayors and executives of LGU was carried out by JST. It included a total of 166 out of the 168 target sample LGUs. These consist of six provinces, 10 cities and 150 municipalities, further sorted according to different income classes. The other two target provinces failed to participate in the survey.

By income class, four provinces belong to the 1st class, and one each in the 4th and 5th class. There were four identified highly urbanized cities (HUC): three in 1st class; two in 2nd class; and one 5thclass. Municipalities were also sorted as follows: 35 belong to the 1st class; 24 are in the 2ndclass; 26 in 3rdclass; 46 are in 4th class; 18 are 5th class and one in the 6th class municipality.

Target sample LGUs were sorted into four types according to size of population and land area,, i.e., 45 LGUs (27%) have big population and land area (BB); 67 (40%) have big population and small land area (BS); 44 (27%) have small population and small land area (SS); and 10 (6%) have small population and big land area (SB)[1].

A total of 78 local chief executives, 26 administrators and 62 department heads, e.g. planning and development officers, budget officers, agriculturist, social welfare officers, health officers, etc., expressed their views on the allocation, utilization and other issues related to IRA (refer to Annex 14 for the list of sample LGUs).

The results of this survey have given many implications to the options. For example, respondents from the cities were in favor of the current formula on vertical distribution compared with those from the provinces and municipalities. Regarding the horizontal distribution formula, poverty incidence and performance indicator were suggested as factors in determining allocation.

[1] An LGU is considered to have a big population if the number is above national average (median), otherwise, population is considered small. Similarly, an LGU has big land area if its size is above national average (median) and small if otherwise. BB, BS, SB,SS stand for big population & big land area, big population & small land area, small population & big land area and small population & small land area respectively.

5.1. Perception on Allocation of IRA

5.1.1. On Vertical Distribution Ratio

Out of the 166 sample LGUs, 131 respondents (79%) do not agree with the present vertical sharing formula among different levels of LGUs. After classifying survey results by LGU level, it was realized that all six respondents in the provinces and 120 out of the 150 respondents (80%) in the municipalities disagree with the present sharing formula. Finally, among the ten respondents in the cities, five expressed disagreement with the present formula (refer to Table 5-1).

Table 5-1: Distribution of Respondents Who Agree/Do Not Agree with the Present Vertical Sharing Formula, among Different Levels of LGUs: CY 2007

Level of LGU	Total		Agree		Do Not Agree		No Answer	
	No.	%	No.	%	No.	%	No.	%
Total	166	100%	33	20%	131	79%	2	1%
BB	45	100%	13	29%	31	69%	1	2%
BS	67	100%	8	12%	58	87%	1	1%
SB	10	100%	2	20%	8	80%		
SS	44	100%	10	23%	34	77%		
Provinces	6	100%			6	100%		
BB	3	100%			3	100%		
BS	1	100%			1	100%		
SB	0	100%						
SS	2	100%			2	100%		
Cities	10	100%	5	50%	5	50%		
BB	3	100%	2	67%	1	33%		
BS	3	100%			3	100%		
SB	2	100%	1	50%	1	50%		
SS	2	100%	2	100%				
Municipalities	150	100%	28	19%	120	80%	2	1%
BB	39	100%	11	28%	27	69%	1	3%
BS	63	100%	8	13%	54	86%	1	2%
SB	8	100%	1	13%	7	88%		
SS	40	100%	8	20%	32	80%		

Source: JICA Study Team

Thus, it was generally observed that a greater percentage of respondents who do not agree are those belonging to 87% sample LGUs having big population and small land area (BS) and 80% of those with small population and big land area (SB).

When respondents who do not agree with the present formula were asked about their suggested percentage share of each LGU category, there were more than 59 different percentage combinations determined. It should be noted that respondents have the tendency to propose an option to satisfy their own advantage.

All the six respondents from the provinces suggested that the present 23% provincial share should be increased. Three of these respondents implied that the increase may be taken from the city's share alone, while the other three suggested taking the shares from both the city and municipality. All of them stated that the barangay share should remain at 20%.

In the case of cities, two respondents suggested that the present 23% city share should be increased by reducing either the provincial share or both the provincial and barangay shares. One respondent opted to retain the 23% but increase the municipal share while reducing the provincial share. One respondent recommended a reduction of the city share as well as the provincial and municipality shares, in order to increase the share for barangays to as high as 40%.

In the case of municipalities, 119 out of 120 respondents recommended an increase in the municipal share to a range of 35% to 60%. Among the various vertical percentage combinations, the most popularly suggested percentage sharing is: Provinces - 20%; Cities - 20%; Municipalities - 40%; and Barangays - 20%. This option was suggested by 19 respondents from BS municipalities, 11 from SS municipalities, and five each from BB and SB municipalities (refer to Annex 15 for the list of suggested percentage shares).

5.1.2. On Factors in Determining Horizontal Allocation

As shown in Table 5-2, among the 166 sample LGUs, two-thirds (108 respondents) disagree with population, land area and equal sharing as the factors for determining horizontal allocation for each LGU. It is observed that the largest percentage of respondents who disagreed (76% based on 32 out of 42 respondents) were from the SS group. It should also be noted that even the respondents from BB LGUs, 60% do not agree with the present factors while only 36% agreed.

By level of LGU, only one out of the six provincial respondents agrees with the present factors. It is also realized that even the respondents from BB provinces who are already benefiting, still disagrees with the present factors.

In the case of cities, six out of ten respondents agree with the present factors. These respondents belong to all city area/population classifications including the two respondents from SS (Table 5-2).

Table 5-2: Distribution of Respondents who Agree/Do Not Agree with the Present Factors in Determining Horizontal Allocation for each LGU, by Size of Population and Land Area of Different Levels of LGUs: CY 2007[2]

Level of LGU	Total		Agree		Do Not Agree		No Answer	
	No.	%	No.	%	No.	%	No.	%
TOTAL	**166**	**100%**	**52**	**31%**	**108**	**65%**	**6**	**4%**
BB	45	100%	16	36%	27	60%	2	4%
BS	67	100%	21	31%	42	63%	4	6%
SB	12	100%	5	42%	7	58%		
SS	42	100%	10	24%	32	76%		
Provinces	**6**	**100%**	**1**	**17%**	**5**	**83%**		
BB	3	100%			3	100%		
BS	1	100%	1	100%				
SB	2	100%			2	100%		
SS	0							
Cities	**10**	**100%**	**6**	**60%**	**4**	**40%**		
BB	3	100%	2	67%	1	33%		
BS	3	100%	1	33%	2	67%		
SB	2	100%	1	50%	1	50%		
SS	2	100%	2	100%				
Municipalities	**150**	**100%**	**45**	**30%**	**99**	**66%**	**6**	**4%**
BB	39	100%	14	36%	23	59%	2	5%
BS	63	100%	19	30%	40	63%	4	6%
SB	8	100%	4	50%	4	50%		
SS	40	100%	8	20%	32	80%		

Source: JICA Study Team

The reasons cited by respondents who agree with population, land area and equal sharing as the factors are the following: a) Present factors are easy to understand according to 27 respondents (52%); b) IRA amount is easily computed for each LGU as quoted from 19 respondents (37%); and c) IRA amount is equitably allocated to each LGU as cited by 12 respondents (23%).

By classification of LGU according to the size of population and land area, those who find the present factors easy to understand include 80% of SS respondents, 48% of BS respondents, 44% of the of the BB respondents and 40% of the SB respondents. Meanwhile those who find it easy to compute the IRA amount are from 50% of the SS respondents and 40% of the SB respondents. Lastly, 40% of the SB respondents agree with the present factors considering that IRA amount seemed equitably distributed to each LGU.

[2] The confidence intervals of answer in "Agree" with present sharing formula are statistically 17%±32.5% in provinces; 6%±25.2% in cities and 30%±6.5% in municipalities considering the number of sample LGUs. Meanwhile, those in "Do Not Agree" are 83%±32.5% in provinces; 40%±25.2% in cities and 66%±6.5% in municipalities.

Table 5-3: Reasons Cited by Respondents who agree with the Present Factors in the Horizontal Allocation of IRA: 2007

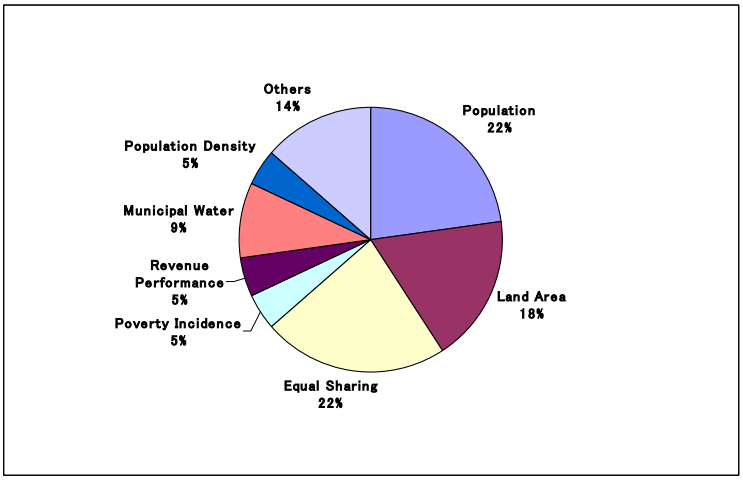
Level of LGU	TOTAL	Present factors are easy to understand	IRA amount is easily computed for each LGU	IRA amount is equitably allocated to each LGU
TOTAL	100%	52%	37%	23%
BB	100%	44%	31%	19%
BS	100%	48%	33%	24%
SB	100%	40%	40%	40%
SS	100%	80%	50%	20%
Provinces	100%	0%	100%	0%
BB				
BS	100%	0%	100%	0%
SB				
SS				
Cities	100%	17%	17%	17%
BB	100%	0%	0%	50%
BS				
SB				
SS	100%	50%	50%	0%
Municipalities	100%	58%	38%	24%
BB	100%	50%	36%	14%
BS	100%	53%	32%	26%
SB	100%	50%	50%	50%
SS	100%	88%	50%	25%

Source: JICA Study Team

Table 5-4: Suggested Factors in Determining Horizontal Allocation for each Province, City and Municipality

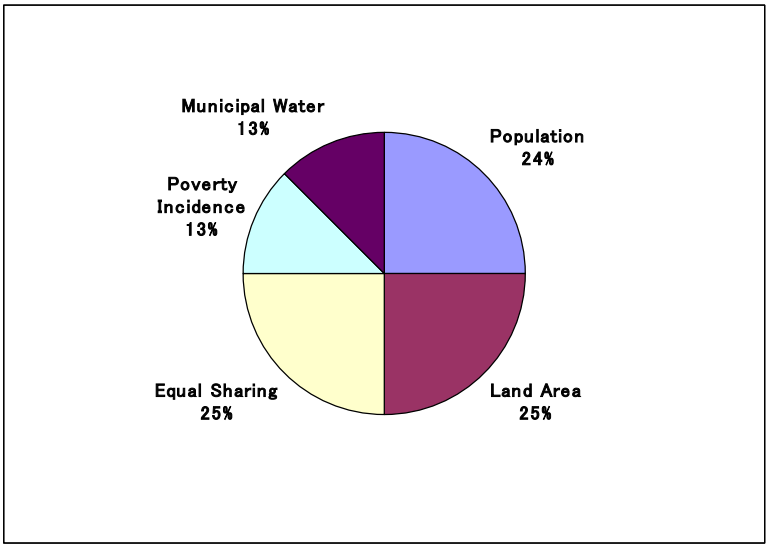
Factors	Number of Respondents Who Suggested the Factors				Ranking			
	Total	Prov.	Cities	Mun.	Total	Prov.	Cities	Mun.
Population	113	5	4	104	1	1	1	1
Land Area	102	4	4	94	3	2	1	3
Equal Sharing	105	5	4	96	2	1	1	2
Service Delivery Performance	31			31	6			5
Poverty Incidence	62	1	2	59	4	4	2	4
Revenue Performance	27	1		26	7	4		7
Municipal Water	38	2	2	34	5	3	2	6
Population Density	16	1		15	9	4		9
Others	19	3		16	8			8

Source: JICA Study Team



Source: JICA Study Team

Chart 5-1: Factors in Determining Horizontal Allocation Suggested from Sample Provinces



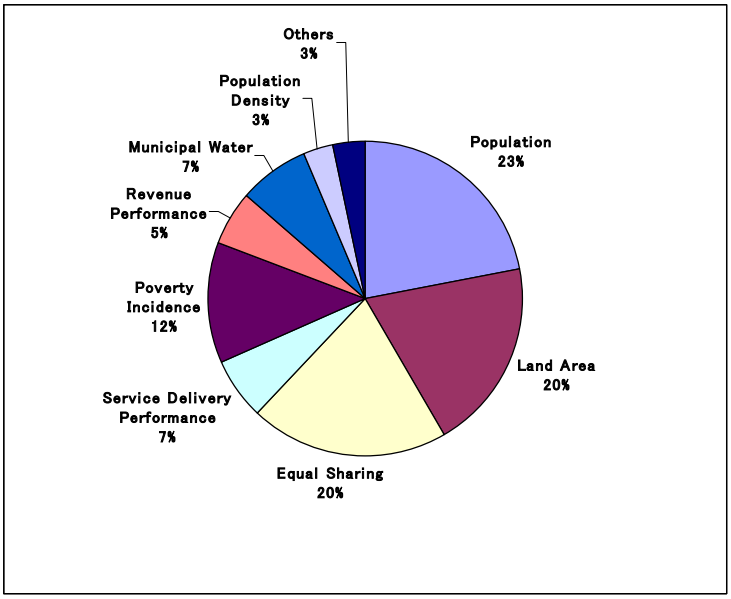
Source: JICA Study Team

Chart 5-2: Factors in Determining Horizontal Allocation Suggested by Sample Cities

In the perception survey conducted, a variety of proposals for options regarding the horizontal allocation are brought forward. Typical proposals at different levels of LGUs are as follows.

Firstly, in terms of weights, a BB provincial respondent suggested the retention of the 50% weight of population and 25% weight of land area, while reducing the weight of equal sharing from 25% to 15%, to include cost of devolved services with a weight of 10%. Another BB provincial respondent suggested the retention of the 50% weight of population and adding water facility to the land area with a 25% weight while reducing the weight of equal sharing from 25% to 20% in favor of poverty incidence with 5% weight. Moreover, another BB provincial

respondent suggested a reduction in the weight of population and land area in favor of the inclusion of municipal water and other factors. In case of SS provincial respondents, one suggested to reduce the weights of population and land area, while adding to that of equal sharing and income class. Another suggested the reduction in the weight of population and addition to the weight of equal sharing, and inclusion of municipal water.



Source: JICA Study Team

Chart 5-3: Factors in Determining Horizontal Allocation Suggested from Sample Municipalities

Secondly, opinions of city respondents were also noted. A BB city respondent suggested an increase in the weight of population through the reduction in the weight of equal sharing. A BS city respondent also suggested the retention in the weight of population and equal sharing, and to reduce the weight of land area while including poverty incidence as one of the factors. Still another BS city respondent suggested a reduction in the weight of population and land area, while including municipal water as additional factor. Finally a SB city respondent suggested the reduction in weights of the three present factors and to include poverty incidence and municipal water as new additional factors.

Thirdly, opinions from municipalities were obtained. Five BB respondents suggested an increase in the weight of population, although four of them suggested a reduction in the land area for the inclusion of the other factors. It is noteworthy that 13 respondents suggested a reduction in the weight of population, and a modification to the weights of land area, and equal sharing to include other factors cited.

For BS municipalities, seven respondents suggested an increase in the weight of population and

a reduction in the weight of land area, and the inclusion of additional factors. There are 21 respondents who suggested the reduction in the weight of population and a modification of the weights of land area and equal sharing, and the inclusion of other factors. It is also noted that there were five respondents that do not consider population as one of the components, despite its resulting advantageous benefits as one of the determining factors.

For SB municipalities, three out of the four respondents suggested a reduction in the weight of population. It is noteworthy that despite belonging to a big land area, no respondent suggested an increase in the weight of land area factor. Two of the four respondents suggested the retention of the 25% weight of land area while the other two implied its reduction in weight.

For SS municipalities, most of them suggested a reduction in the weight of population, while three respondents suggested the retention of the 50% weight. They likewise suggested a reduction in the weight of land area except for a few who suggested either an increase or retention of the weight of land area, and include other factors (refer to Annex 16 for the list of the suggested factors in allocation and weights of distribution ratio).

5.2. Perception on Utilization of IRA

Out of the 166 respondents, 132 respondents (80%) stated that Sec 287 of the LGC clearly provides guidance on the utilization of no less than 20% of IRA on development projects, while 31 respondents mentioned that it remains unclear (refer to Table 5-5).

Table 5-5: Answers regarding whether Section 287of the LGC is Clear/Not Clear on the Utilization of the 20% Component of IRA, by Levels of LGUs

Level of LGU	Total		Clear		Not Clear		No Answer	
	No.	%	No.	%	No.	%	No.	%
Total	**166**	**100%**	**132**	**80%**	**31**	**19%**	**3**	**2%**
Provinces	6	100%	4	67%	2	33%		0%
Cities	10	100%	9	90%		0%	1	10%
Municipalities	150	100%	119	79%	29	19%	2	1%

Source: JICA Study Team

When the respondents who stated that Section 287 is unclear were asked if it needs to be revised, and that the types of projects as listed in the DILG-DBM Joint Memorandum Circular No. 1 2005 should be embodied in said section, 25 respondents concurred while the rest gave no answer.

When the respondents were asked if the 20% component of IRA should be solely utilized for investment and capital expenditure, 100 respondents (60%) concurred, 62 (38%) disputed, and 4

(2%) did not reply.

Those who suggested that it should not be solely utilized for investment and capital expenditure, enumerated the following to be funded, out of the 20% IRA components: a) Provision of basic services, e.g. health services to include purchase of medicines; b) Purchase and maintenance of heavy equipment; c) Purchase of communication equipment; d) Maintenance of infrastructure; e) Scholarship and other education-related programs; and f) capability building programs, among others (refer to Annex 17 for the list of explanations given by the respondents).

5.3. Perception on Other Issues on IRA

Among the 166 respondents, 154 (93%) stated that their current IRA amount is not sufficient to cover the cost for providing basic services (refer to Table 5-6). Adding local sources and grants to IRA, 142 (86%) replied that these amounts are still insufficient. Those who stated that the combined IRA and other sources are sufficient, belong to the high income levels.

Table 5-6: Answers regarding whether Current IRA Amount Is Sufficient/Not Sufficient to Cover the Cost for Proving Basic Services, by Levels of LGUs: CY 2007

Level of LGU	Total		IRA Amount is Sufficient		IRA Amount is Not Sufficient		No Answer	
	No.	%	No.	%	No.	%	No.	%
Total	**166**	**100%**	**5**	**3%**	**154**	**93%**	**7**	**4%**
Provinces	6	100%		0%	5	83%	1	17%
Cities	10	100%	1	10%	6	60%	3	30%
Municipalities	150	100%	4	3%	143	95%	3	2%

Source: JICA Study Team

When asked if they favor a performance-based grant (in addition to IRA), 159 respondents (96%) agreed while five disagreed (refer to Table 5-7).

Table 5-7: Answers regarding whether Separate Performance-Based Grant should be Provided or not (in Addition to the Current IRA), by Level of LGUs: CY 2007

Level of LGU	Total		In Favor		Not in Favor		No Answer	
	No.	%	No.	%	No.	%	No.	%
Total	**166**	**100%**	**159**	**96%**	**5**	**3%**	**2**	**1%**
Provinces	6	100%	5	83%		0%	1	17%
Cities	10	100%	10	100%		0%		0%
Municipalities	150	100%	144	96%	5	3%	1	1%

Source: JICA Study Team

The suggested criteria for the grant should include service delivery performance as implied by 129 respondents (78%) and revenue performance as mentioned by 97 respondents (58%).

When asked if IRA is one of the factors causing fragmentation of LGUs, 124 (75%) responded affirmatively while 36 respondents disagreed (Table 5-8).

Table 5-8: Answers regarding whether IRA is One of the Factors Causing Fragmentation of LGUs, by Level of LGU

Level of LGU	Total		Yes		No		No Answer	
	No.	%	No.	%	No.	%	No.	%
Total	**166**	**100%**	**124**	**75%**	**36**	**22%**	**6**	**4%**
Provinces	6	100%	3	50%	2	33%	1	17%
Cities	10	100%	7	70%	3	30%		0%
Municipalities	150	100%	114	76%	31	21%	5	3%

Source: JICA Study Team

In the perception survey, other issues/recommendations on IRA were given by the respondents (refer to Table 5-9). These vary, and some are out of the scope of the Sudy. However, most of them e.g. opinions regarding "Factors in Determining Allocation" and "Monitoring on Utilization of IRA" would be useful when the proposals and IRA-related policy are made.

Table 5-9: Main Opinions on the Other Issues/Recommendations

Total amount of IRA - National and local government's shares should likewise be modified to say 50/50 or 40/60 ratio considering that NGAs e.g. COMELEC, PNP, BFP, etc are also relying on LGU funds for MOOE. - IRA base should include customs collection.
Factors in Determining Allocation - IRA share should be based on the needs of the LGUs. - IRA system should address needs of the population. - Lower class LGUs should get more IRA. - IRA allocation should be reviewed as there are devolved functions which are still performed by NGAs. - Self-sufficient LGUs should no longer be entitled to IRA. - There should be additional share of IRA to rural areas. Municipalities should get bigger share compared to cities which have other sources of revenue.
Statistics for Computing - The use of 2000 Census of population as basis for the allocation of IRA is disadvantageous to cities and municipalities with unusually high migration rates in recent years. Additional funds are needed to provide basic services to migrants and informal settlers. - Boundary disputes have impact on the allocation of IRA. - As per municipality records, there are discrepancies between the land areas per DBM and the actual land areas.
Impact by Changes - Changes in statistics on land area as released by the Land Management Bureau, wherein some LGUs experience either increase or decrease, have impacts on IRA. LGUs subjected to decrease in land area generally complain.
Extra Portion of IRA - LGUs with perennial problem due to geographic location, e.g. prone to flooding, should be given a fixed portion of IRA in the distribution.
Magna Carta

- The Magna Carta for Health Workers benefits significantly from the LGU budget. This has caused resentment among LGU employees, as others are not receiving the same monetary benefits.
Criteria in the creation of LGUs - Criteria in the creation of LGUs should be reviewed. - The big share of cities in IRA makes municipalities aspire to be converted to a city, leading to the detriment of provinces.
Disbursement - Release of IRA should be on time.
Monitoring Utilization of IRA - DILG should closely monitor utilization of IRA on development projects. - There should be strict implementation of the 20% component of IRA on development projects based on guidelines. Sanctions should be imposed if there is deviation from the guidelines. - An independent body should audit the utilization of IRA.
Intergovernmental Relationship among LGUs - Some barangays depend considerably on municipalities/cities for funding their development projects.
Others - Local Government Stabilization Funds (LGSF) was effective to assist LGUs in the institutionalization of devolution. - Priority Development Assistance Funds (PDAF) should be added directly to IRA, rather than to be coursed through the congressmen

Source: JICA Study Team

CHAPTER 6

ANALYSIS OF SURVEY BY QUESTIONNAIRE TO KNOWLEDGEABLE PERSONS

This chapter explains the results of the Questionnaire Survey conducted during the Phase 2 of the Study targeting knowledgeable persons in the area of local finance.

6.1. Objective and Methodology

The objective of the questionnaire survey is to obtain opinions of knowledgeable persons in the local finance on (1) what is a strategic objective of IRA and (2) what is an ideal allocation of IRA.

The survey was conducted adopting the Delphi method[1]. Interviewers visited the same respondents twice and asked them to answer the same questionnaire. At the second round, the respondents were provided the results of the first round survey before they answered the questionnaire. They were asked to revise their answers on the first round survey. The survey aimed to identify the consensus among knowledgeable persons about IRA allocation as well as their opinions.

The questionnaire consisted of the following questions:

Question 1. What do you consider as the strategic objective of the IRA?
Question 2. What could be the critical factors or variables that have to be considered if the strategic objective is to be eventually achieved?
Question 3. In quantitative terms, how would such factors be operationalized across the 4 types of local governments in consideration of the strategic objective of the IRA and their mandated roles?
Question 4. How would the factors mentioned in Q2 be operationalized within each type of local governments in quantitative terms?

The first round of survey was conducted during the period from July 21 until August 8, 2008. The second round of survey was conducted during the last two weeks of September 2008. The

[1] The Delphi method is a qualitative survey method which is used in such areas as scientific/technological forecast, marketing research, etc. It is conducted according to a procedure which consists of i) collection of opinions of professionals/ knowledgeable people with questionnaire, ii) statistical processing and consolidation of the collected opinions, iii) collection of second opinions of the professionals/ knowledgeable people by sending the same questionnaire with the results of the first questionnaire, and iv) examine the convergence of opinions based on the results of second questionnaire.

number of respondents is 40 for the first round survey and 18 for the second round survey.

6.2. Results of the Survey

6.2.1. Strategic Objectives of IRA

(1) First Round Survey

In the first question of the questionnaire, "What do you consider as the strategic objective of the IRA?" was asked. The results are as shown in Table 6-1.

As an objective of IRA, 75% of the respondents (30 persons) pointed out "to provide LGUs with funds to deliver services which are devolved to LGUs." This fact shows that most knowledgeable persons tend to look upon IRA as being closely related to local autonomy and functions devolved from the central government to LGUs.

Forty percent of respondents (16 persons) consider that IRA must undertake a role of adjusting financial inequity among LGUs. In addition, ten respondents answered that IRA must supplement insufficient own-sourced revenue of LGUs. These answers show that a certain number of knowledgeable persons are concerned about the insufficiency of own-sourced revenue suffered by most LGUs and the disparity of financial capability among LGUs.

There are also opinions that IRA must assume a role of promoting capacity building of LGUs and of encouraging performance of LGUs.

Table 6-1: Strategic Objective of IRA (First Round Survey)

Strategic Objective	No. of Respondents	(%) *
To help LGUs deliver services as a function of local autonomy	30	75
To reduce financial inequity (equalizer)	16	40
To supplement LGUs own sourced revenue	10	25
To help LG acquire high capability in engaging development activities	7	18
To serve as performance grant/incentive	4	10

Note: * The number of effective answers is 40.

Source: JICA Study Team

(2) Second Round Survey

Half of the respondents consider that IRA should serve as a financial equalizing mechanism to realize a more equitable share between central government and local government and address the financial gap between poor LGUs and rich LGUs.

Three respondents have an opinion that IRA should finance the basic services within LGUs' mandate. Two respondents consider that a strategic objective of IRA is to encourage income generation by LGUs. Other answers were supported by one respondent.

Table 6-2: Strategic Objective of IRA (Second Round Survey)

Strategic Objective	No. of Respondents	(%) *
- be a financial equalizing mechanism	8	50
- for service delivery requirements/devolved functions	3	19
- should encourage self-reliance in income generation/should be an incentive to improve tax effort	2	13
- should be made a national grant	1	6
- primary source of fund of LGUs	1	6
- supplemental fund	1	6
- to finance developmental activities	1	6

Note: * The number of effective answers is 16.

Source: JICA Study Team

6.2.2. Critical Factors of IRA allocation

(1) First Round Survey

The second question asked for critical factors (or variables) of IRA allocation to achieve the above-mentioned strategic objective. Table 6-3 below shows the answers to this question.

The factors which garnered higher score are "population", "revenue performance/tax collection effort", "land area", "fiscal management performance", "equal sharing", and "service delivery performance."

Among the currently-used three factors, "land area" and "equal sharing" received less support than "population" from the knowledgeable persons in the area of local finance.

Except the factors used in the current IRA formula, the rest of the factors are related to performance. It goes against the fact that the number of respondents who pointed out performance grant/incentive as a strategic objective is minority in Question 1.

"Revenue performance/tax collection effort" is a controversial factor. A certain number of knowledgeable persons consider that some incentives must be added to IRA allocation to encourage tax collection by LGUs. On the other hand, it may or may not reduce financial inequity among LGUs.

The next group consists of “human development index”, “poverty incidence”, “state of development”, “income per capita”, and “handicapping factors”. These factors favor those LGUs suffering from underdevelopment and poverty. In this sense, these factors may contribute to the alleviation of financial inequity among LGUs.

However, no respondent pointed out “own-source revenue” as a factor, even though in Question 1, 16 respondents answered that IRA’s role is to balance financial inequity and ten respondents considered supplementing LGUs own-sourced revenue. The “revenue performance/tax collection” is the only factor which is related to “own-source revenue”, but this does not directly address the financial disparity among LGUs as mentioned above.

(2) Second Round Survey

Half of the respondents pointed out “population” as a factor for horizontal allocation. Among them, one respondent suggested both “population” and “migration.”

At the second round survey, “cost of devolved services” was supported by 44% (7 persons) of the respondents, much higher than 8% at the first round. Similarly, “poverty incidence” was pointed out by 31% (5 persons) of the respondents, which is higher than the first round. Other major factors, such as “land area” and “fiscal management performance” received similar level of support compared with the first round. Such factors as “equal sharing”, “revenue performance/tax collection effort”, and “service delivery performance” slightly decreased their share and “human development index” was less popular at the second round.

These are shown also in Table 6-3 below.

Table 6-3: Critical Factor to Allocate IRA

Factor/Variable	First Round		Second Round	
	No. of Respondents	(%)*	No. of Respondents	(%)**
Population	17	43	8	50
Revenue Performance/Tax Collection Effort	17	43	5	31
Land Area	12	30	4	25
Fiscal Management Performance	12	30	4	25
Equal Sharing	11	28	3	19
Service Delivery Performance	9	23	2	13
Human Development Index	8	20	1	6
Poverty Incidence	5	13	5	31
State of Development	4	10	-	-
Per Capita Income	4	10	-	-
Handicapping Factors	4	10	-	-
Cost of Devolved Services	3	8	7	44
Compliance to National Policies	2	5	-	-
Municipal Waters	1	3	1	6
Migration	-	-	1	6

Note: * The number of effective answers is 40.
** The number of effective answers is 16.

Source: JICA Study Team

6.2.3. IRA vertical allocation with weights

At the third question, respondents were asked what desirable vertical allocation of IRA is across the four types of LGUs - provinces, cities, municipalities and barangays.

At the first round survey, only six out of 40 respondents showed concrete percentage figure of IRA allocation to each level of LGU. At the second round survey, only three among 18 respondents showed concrete percentage figure of IRA allocation to each level of LGU. Because of limited samples, it is difficult to make a conclusion for this question. It may be noted that four of six respondents at the first-round survey considered that the current share of 20% allocated to barangays is appropriate and five respondents suggested that the share to cities must be decreased.

6.2.4. IRA horizontal allocation with weights

The fourth question is what desirable horizontal allocation of IRA at each LGU level is.

At the first round survey, the answers were obtained from 11 respondents out of 40 respondents. All the respondents suggested additional factors. Income-related factors are popular. They are “income class”, “tax collection performance”, “taxable capacity”, “own -source income gap”, “income of LGUs”, and “revenue generation performance.” Three respondents suggested “poverty incidence”.

At the second round survey, six respondents answered the question of a desirable horizontal allocation at each LGU level. Among 11 respondents who had answered this question, two respondents, Dir. Paisal Q. Abutazil and Dir. John M. Castaneda, answered this question again. Their answers were not changed despite of the results of the first round. In addition, four respondents newly answered this question.

Broadly speaking, there is no significant common tendency among answers. However, it can be said that the addition of income-related factor(s) and/or “poverty incidence/income class” may receive a certain level of support by the knowledgeable persons in the area of local finance.

CHAPTER 7

ANALYSIS OF RESULTS OF DISCUSSIONS AT THE WORKSHOPS

This chapter presents the results of workshops held in the National Capital Region (NCR) and three local cities during the second phase of the Study.

7.1. Objective and Methodology

In the second phase of the Study, JST held a series of workshops at both central and local level in collaboration with DILG. The objective of the workshops was to present the options for a new IRA formula which the study team proposes to the stakeholders and to hear their opinions and/or suggestions on the improvement of IRA allocation.

Four workshops were held during the period from July until August 2008. Over 150 persons participated in these workshops, as follows (refer to Annex 18 for the list of participants):

Date	Place
July 29, 2008	Sulo Hotel, Quezon City (NCR)
July 31, 2008 - August 1, 2008	Oasis Hotel, Angeles City
August 5 - 6, 2008	Rajah Park Hotel, Cebu City
August 7 - 8, 2008	Grand Regal Hotel, Davao City

Each workshop was a one-day workshop[1].

After the opening program, the Study Team and the DILG Policy Study Group made presentations on the results of the Study and proposals of options for IRA allocation. After the presentations, the participants were divided into groups for discussion (as shown below) according to their character, i.e., i) local chief executives (LCEs), ii) LGU functionaries (administrators, treasurers, budget and planning officers), iii) national government agencies (NGA) officials, and iv) representatives from LGU Leagues and donor agencies (only at the workshop in NCR).

NCR	Group 1:	NGA officials, LGU Leagues and donor agencies
	Group 2:	LGU Functionaries
Angeles	Group 1:	LGU Functionaries

[1] The workshops at Angeles, Cebu and Davao were a one-day workshop which consisted of half-day session of the first day afternoon and half-day session of the second day morning.

	Group 2:	LCEs and NGA officials
Cebu	Group 1:	LGU Functionaries
	Group 2:	NGA officials
	Group 3:	LCEs
Davao	Group 1:	LGU Functionaries
	Group 2:	NGA officials

All the groups were given the same questions as follows and the same discussion schedule.

1) What should be the strategic objective of the IRA?
2) Based on the strategic objective, what should be the vertical allocation formula of the IRA?
3) Based on the strategic objective, what should be the horizontal allocation formula of the IRA?

7.2. Results of Group Discussions

7.2.1. Strategic Objective of IRA

The strategic objectives of IRA proposed by discussion groups are shown in Table 7-1.

Out of nine groups, seven groups pointed out “to finance basic service” as a strategic objective of IRA. “To finance cost of devolution” and “to use as supplement fund for LGUs” were supported by four groups, and “to serve as equalizing fund” by three groups.

In addition, there were two groups which proposed “to finance LGU projects” as a strategic objective of IRA. Other objectives in the table were proposed by one group each.

Table 7-1: Strategic Objective of IRA in Summary

Strategic Objective of IRA	No. of Groups	Share in Total Groups
To finance basic services	7	77.8%
To finance cost of devolution	4	44.4%
To use as supplement fund to LGUs	4	44.4%
To serve as equalizing fund	3	33.3%
To finance LGU projects	2	22.2%
To equalize financial resources	1	11.1%
To serve as impetus of development	1	11.1%
To serve as tools to motivate LGUs	1	11.1%
To finance public services	1	11.1%

Source: JICA Study Team

7.2.2. Vertical Allocation of IRA

Table 7-2 shows the tendency of proposals of the percentage shares of IRA vertical allocation by LGU level, i.e., proposed increase/decrease in terms of share to total IRA for each LGU layer.

Out of nine proposals, six proposals considered that the share of provinces should be decreased while one proposal suggested an increase in the share of provinces to total IRA. As for cities, four proposals demanded a decrease in the share of IRA and one proposal claimed an increase in the share. Regarding municipalities, six proposals were to increase their share against one proposal for a decrease. As for barangays, six proposals admitted the current share. Two proposals demanded an increase in the share of barangays because they considered barangays are a frontline of basic public service provision.

Table 7-2: Tendency of Proposed Vertical Allocation

	No. of Proposals Which Proposed to Increase	No. of Proposals Which Proposed No Change	No. of Proposals Which Proposed to Decrease	Total
Provinces	1	2	6	9
Cities	1	3	4	8*
Municipalities	6	1	1	8*
Barangays	2	6	1	9

Note: *One proposal proposed an integration of two layers of LGUs, cities and municipalities. This is not included in total.

Source: JICA Study Team

7.2.3. Horizontal Allocation of IRA

At the four workshops, eight discussion groups presented 12 proposals for the horizontal allocation of IRA. The Group 2 at Cebu workshop presented two proposals, the Group 3 at Cebu workshop, three proposals, and the Group 1 at Davao workshop, two proposals.

Table 7-9 shows how many discussion groups and proposals supported each determinant to calculate the horizontal allocation of IRA.

Most groups considered in their proposals that the existing three determinants, i.e., “population”, “land area” and “equal sharing”, are the basic determinants for the calculation of horizontal allocation. While one group or one proposal did not choose both population and land area, this group claimed “population density”, a composite index of population and land area.

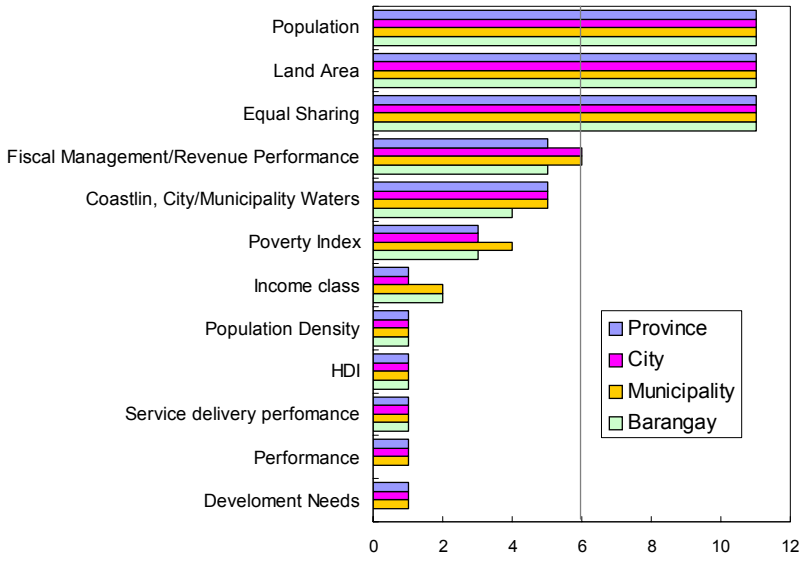
Other major determinants pointed out by discussion groups were “revenue/fiscal management performance”, “coastline, city/municipality waters”, and “poverty index.”

There are several determinants which were supported by only one discussion group. They are "population density", "service delivery performance", "performance[2]", "human development index (HDI)", "income classification" and "development needs."

Table 7-3: Determinants Proposed by Discussion Groups

	No. of Proposal among 12 Proposals				No. of Proposals among 8 Groups			
	Province	City	Municipality	Barangay	Province	City	Municipality	Barangay
Population	11	11	11	11	7	7	7	7
Land Area	11	11	11	11	7	7	7	7
Equal Sharing	11	11	11	11	7	7	7	7
Fiscal Management Performance/revenue performance	5	6	6	5	4	5	5	4
Coastline, City/Municipality Waters	5	5	5	4	3	3	3	2
Poverty Index	3	3	4	3	3	3	4	3
Income class	1	1	2	2	1	1	2	2
Population Density	1	1	1	1	1	1	1	1
HDI	1	1	1	1	1	1	1	1
Service delivery performance	1	1	1	1	1	1	1	1
Performance	1	1	1	0	1	1	1	0
Development Needs	1	1	1	0	1	1	1	0

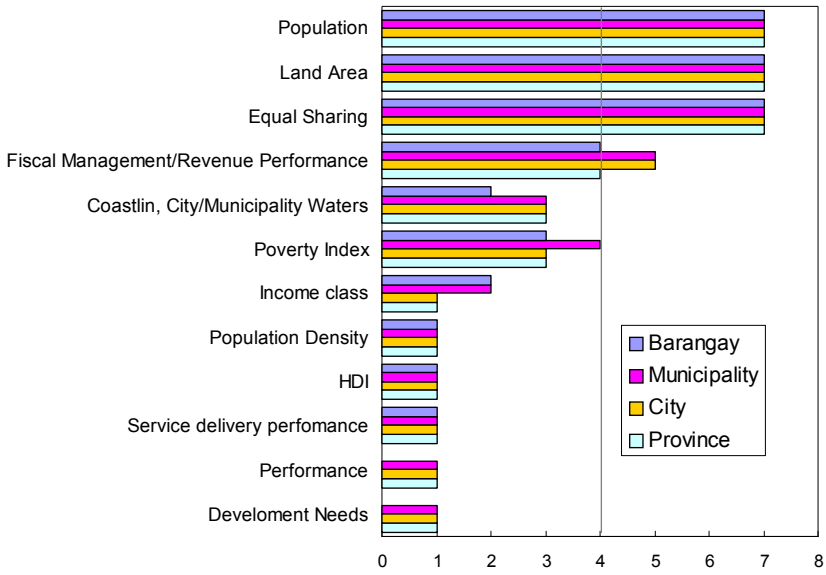
Source: JICA Study Team



Source: JICA Study Team

Figure 7-1: Determinants Proposed by 12 Proposals

[2] This is treated an independent factor because it is not clear to mean revenue performance or service performance.



Source: JICA Study Team

Figure 7-2: Determinants Proposed by 8 Groups

7.3. Other Issues

During discussions at the four workshops, several participants proposed an increase of IRA share among the distribution of Internal Revenue Tax between National Government and LGUs. They considered whether the 50 - 50 sharing (50% for LGUs and 50% for National Government) or the 60 - 40 sharing is desirable.

There were several opinions on how to allocate the increment of 10% or 20% of Internal Revenue Tax to LGUs. Some considered that the total amount of IRA should be allocated with a common IRA allocation formula if the share of IRA among Internal Revenue Tax is increased. Some advocated the increment should be distributed with specific purpose, for example, as a specific allocation to the frontline of basic service provision.

7.4. Remarks

It must be noted that there may be a possibility of bias in the results of workshops based on the following aspects:

i) Home LGUs of participants: The participants of workshops came from a limited number of LGUs in the country. Participants' opinions might be influenced by specific conditions of the LGU from where they

came.

ii) Attribute of participants: At each workshop, participants were divided into groups according to their attribute, i.e., LCE, LGU functionary, and NGA officials. A proposal proposed by a group might reflect an opinion of its attribute.

iii) Process of discussion: During the course of discussion, some influential persons might give influence on the perception of other participants.