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SUBNATIONAL GOVERNMENT (SNG) FINANCE

Implications on Public Service Delivery and the Sustainable Development Goals (SDGs)

Country-Level Insights and Perspectives: The Philippines

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Department of Finance

BUREAU OF LOCAL GOVERNMENT FINANCE

Improving Local Finance, Empowering Local Governments



Presentation outline

1. SNG finance-public service delivery-SDGs nexus
2. SNG fiscal profile, performance
3. SNG challenges, opportunities
4. Conclusion and recommendations



SNG finance's role in public service delivery

- **SNG finance has a vital role in the ‘whole-of-government’ approach in economic growth and development:** in the Philippines, they are the partners of the central government to attain national goals through a system of decentralization in 82 provinces, 147 cities, 1,487 municipalities, 42,047 barangays
- **Fiscal decentralization provides the design mechanism for this purpose and the four pillars in SNG finance are key**—revenue assignment, expenditure responsibilities, intergovernmental transfers, and credit financing policies and systems that are responsive
- **Legal framework and operating landscape for effective fiscal decentralization must be set:** revenue generating powers exclusively accruing to SNGs clearly provided by the Constitution and the Local Government Code

SNG finance's role in public service delivery

- **Quality of local public service delivery is contingent on fiscal capacity, priorities:** SNGs' fiscal space has grown substantially, but quality of spending vary; Covid-19 experience
- **Timely, reliable local finance data are important!** CG's efforts in aggregating, analyzing and using local finance reports matter. SNG-WOFI allows open innovations and learning of local finance practices between and among SNGs across the globe
- **Oversight, standards-setting roles of CG to SNGs designed to strengthen capacity across different levels, improve quality of public service delivery standards, promote convergence of actions with SNG finance:** roles of DILG, DBM, DOF, NEDA, COA, etc., in partnership with LCEs/SNG leagues
- **Stakeholder partnerships, collaboration, citizen engagements and feedback:** NGOs/CSOs, academia, business sector, taxpayers, etc.

Linking SNG finance with SDGs

- **Local PFM and SNG finance are inextricably linked with SDGs:** financing and resource mobilization challenges when SDGs are localized, implemented
- **SDGs' dimensions are found in the devolved basic services and functions:** health & social services, agriculture, environmental protection & management, infrastructure, tourism, other local regulatory functions
- **Development financing for SNGs with weak capacity:** unfunded devolved functions, low capital investments supported by CG financing/budget support
- Overall Country Vision: **By 2040, Filipinos enjoy a strongly rooted, comfortable, and secure life**



Revenue Assignments vis-à-vis Expenditure Responsibilities

External sources CG transfers (national tax allotment); Share from national wealth; Direct share from national taxes; Grants and aids; Borrowings/loans; PPPs

Internal/ Local sources Local taxes, regulatory fees, user charges, business income from economic enterprises

Tax Base	Prov	City	Muni	Brgy
Local businesses	x	✓	✓	x
Real properties; Sand, gravel and other quarry resources	✓	✓	Shared	Shared
Idle Land; Real Property transfers; Printing and publication; Delivery vans and trucks; Professionals; Franchise	✓	✓	x	x
Amusement Places	✓	✓	Shared	x
Community Tax	x	✓	✓	Shared

Regulatory Fees, User Charges; Toll Fees, Public Utility Charges Base: Defined by Sanggunian in accord with LGC and set by ordinance Rate: At cost of regulation, inspection, surveillance, licensing

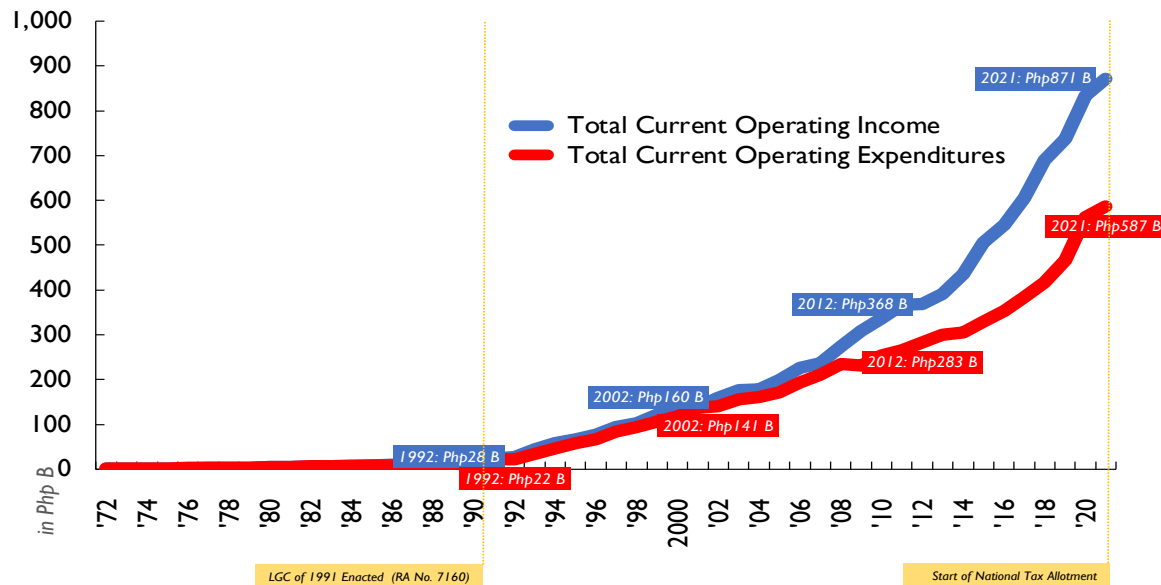
Devolved Basic Services, Facilities, and Functions	Prov	City	Mun	Bgy
Agricultural research extensions and on-site research services	✓	✓	✓	
Social welfare services	✓	✓	✓	
Tourism facilities and promotions	✓	✓	✓	
Enforcement of forestry laws	✓	✓		
Hospitals and tertiary health services	✓	✓		
Infrastructure funded from provincial funds	✓	✓		
Investment support services, industrial R&D services	✓	✓		
Low-cost housing	✓	✓		
Telecommunication services	✓	✓		
Communication and transportation facilities		✓		
Support services and facilities for education, police and fire protection		✓		
Community-based forestry projects; management of communal forests		✓	✓	
Primary health care; access to secondary/tertiary health services		✓	✓	
Public works and infrastructure projects funded out of local funds		✓	✓	
School building projects		✓	✓	
Solid waste disposal system and environmental management system		✓	✓	
Information services and reading center		✓	✓	✓
Agri-support services (collection of produce and buying stations)				✓
Health center and day care center				✓
Roads and infrastructure funded by the barangay				✓
Solid waste collection				✓
Villages justice system				✓

Improved local finance in the last 30 years...

- **SNG income** has grown significantly
- **Local income-to-GDP ratio** has increased
- **Increasing SNG fiscal space:** income outpacing expenditures

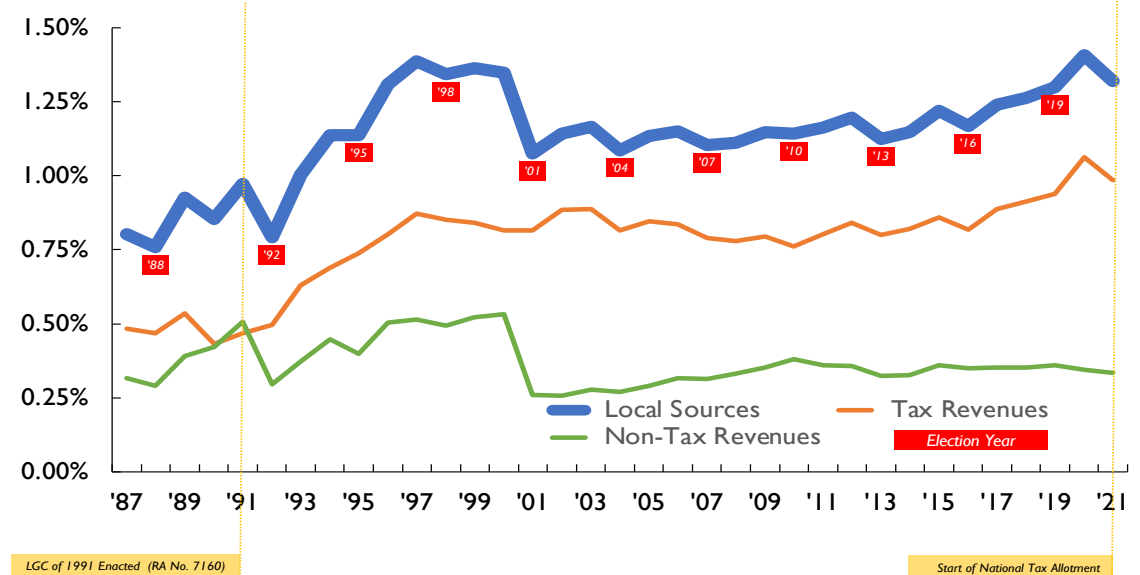
SNG Income & Expenditure Profile: 1972 - 2021

PHILIPPINES: All Provinces, Cities, and Municipalities Only; Excluding Barangays



SNG Locally Sourced Income-GDP Ratio: 1987 - 2021

PHILIPPINES: All Provinces, Cities, and Municipalities Only; Excluding Barangays



Increased Intergovernmental-Transfers from CG

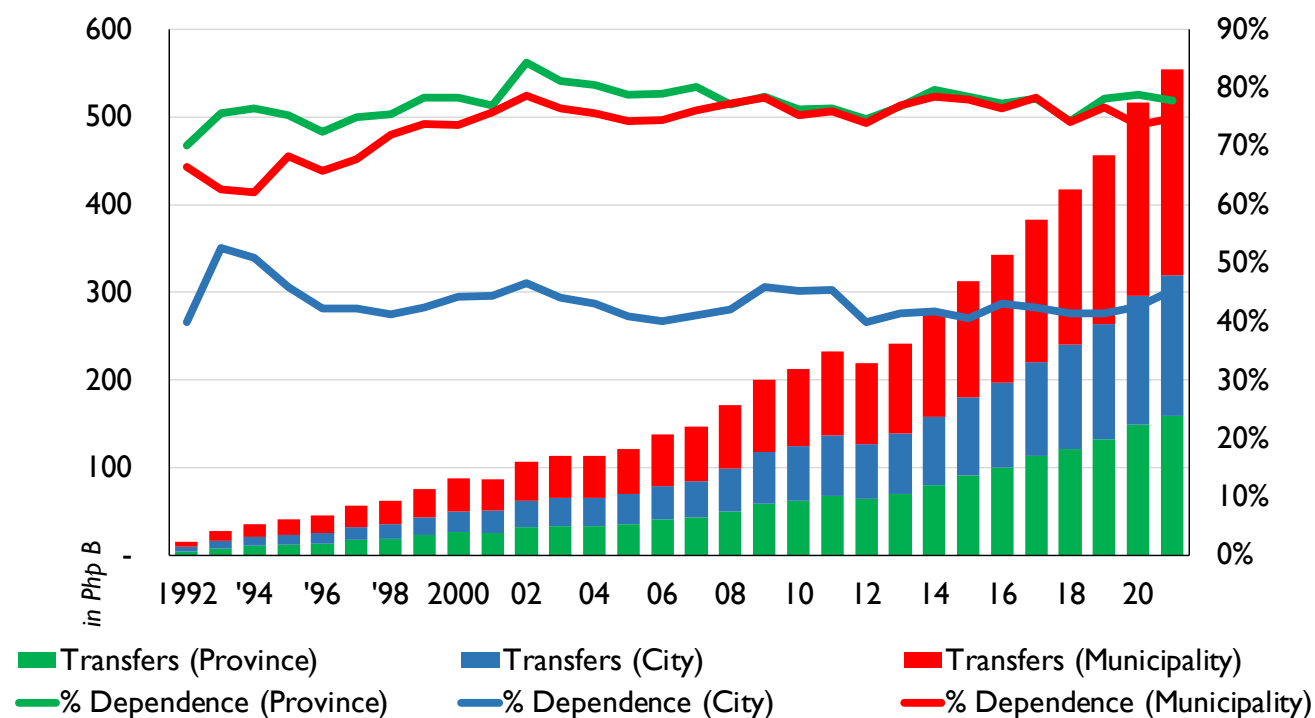
- CG transfers grew up to 40% as share of national taxes under the LGC:** From only Php724M in '72 to Php15B in '92 to Php664B in '22
- Dependency ratios on IRA/NTA has hardly changed over time**

	'92-'01	'02-'11	'12-'21
Province	75%	79%	77%
City	45%	43%	42%
Municipality	69%	76%	76%
All PCM	61%	63%	62%

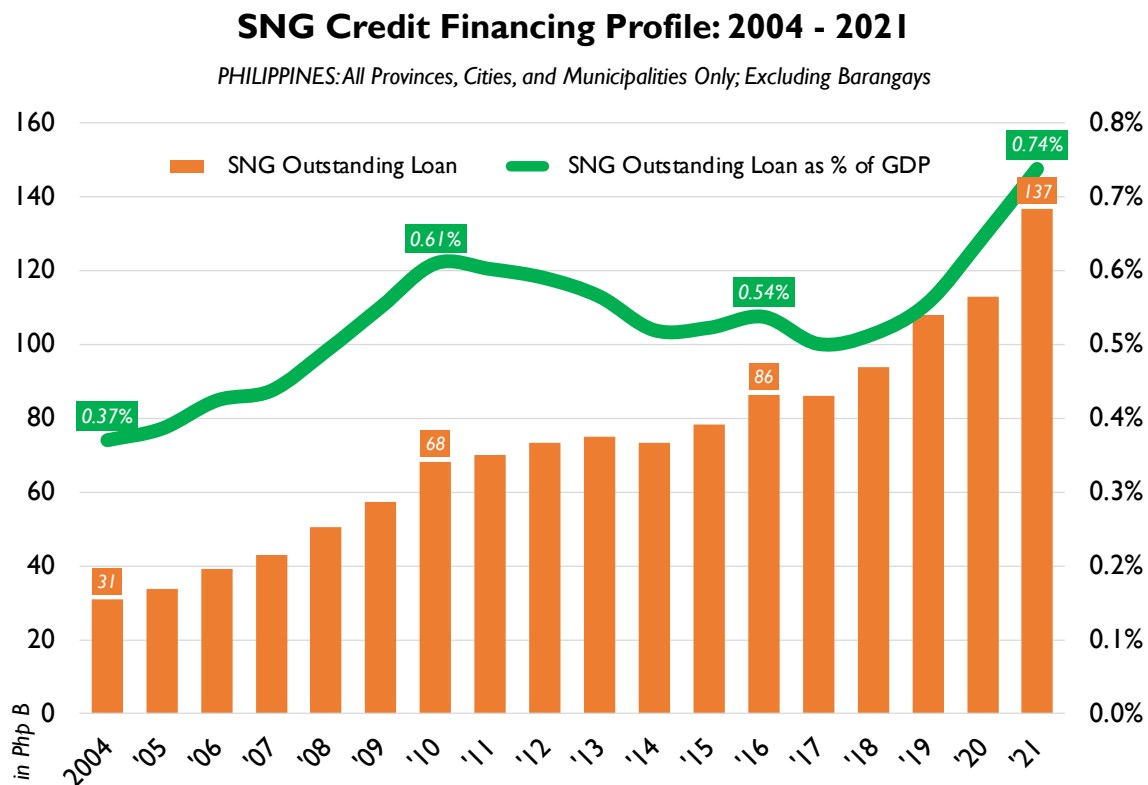
- Increased CG transfers under Mandanas-Garcia:** up by 27%-30% in 2021 compared to previous IRAs

NG Transfers to SNGs and SNG Dependence: 1992 - 2021

PHILIPPINES: All Provinces, Cities, and Municipalities Only; Excluding Barangays



More SNGs availing of credit financing options



- **SNGs venture in credit financing schemes, non-traditional options for priority development projects, capital investments:** outstanding loan from Php31 B in 2004 to Php137B in 2021
- **SNG debts are minimal, within very manageable levels:** average 3.6% debt servicing only vs. 20% statutory limit; GDP ratio is always below 0.8% of GDP; only 21% of PCMs are borrowing
- **GFIs predominantly providing financing support;** BLGF, BSP-MB ensure *ex-ante* compliance checks

Challenges, opportunities in SNG finance

1. **Most SNGs do not update their tax bases thus undermining revenue generation capacity and transition to full devolution—***the Schedule of Market Values, the tax ordinances on business and other taxes, regulatory fees and user charges*
2. **Optimization of mandatory local funds—average utilization can still be improved:** *the Local Development Fund (LDF) at 71%; Special Education Fund (SEF) at 66%, the Local Disaster Risk Reduction and Management Fund (LDRRMF) at 52%*
3. **Sectoral spending remain unchanged, reforms could drive development:** *high in general administration (55%), modest in economic (15%) and health (14%) services, low in social (9%), education (4%), housing (2%), debt (1%), labor (0.5%) services*
4. **CG pursuing legislative measures for SNGs to improve local resource mobilization:** *Real Property Valuation Reforms, LGU Income Classification, LGC amendments*

Challenges, opportunities in SNG finance

5. **Financing the SNGs through CG transfers:** in FY2023, CG is providing **Php820.3B NTA budget** (15.6% of total CG expenditure program for FY2023), and LG support fund (Php28.8 B) proposed for other SNG programs. *High-income SNGs have good fiscal space because of their growing their surpluses, but other SNGs need more support*
6. **ICT tools and digitization needed for efficient, responsive revenue generation and tax collection systems:** *despite high demand/new business models, only 7% of SNGs are using ICT for electronic payment and collection systems at the local level*
7. **Capital investment planning and budgeting can still be improved:** *rich and metropolitan SNGs should consider investing in big-ticket inter-LGU infrastructure through non-traditional financing modes (bonds, TIF/TOD, etc.) that promote greater transportation and people-to-people connectivity, build resilient infrastructure, and create jobs/business opportunities*

Way forward, recommendations

1. **Establish good PFM and SNG finance must-haves:** standards, systems, people, practice—strengthen CG-SNG coordination, support for better public goods and services
2. **Domestic resource mobilization strategies must build local revenue autonomy:** SNGs' toolkits are available; SNG should be supported to build capacity in exercising their DRM mandates towards financing local development priorities/SDGs
3. **Fiscal decentralization is a continuum and data-driven reforms must be carried out** to respond to national priorities, meet the SDGs/Ambisyon2040, and enhance SNG landscape to effectively transition to full devolution as per the LGC.
4. **Sustain SNG finance data collection and analysis efforts—results matter!** M&E cuts across the pillars of fiscal decentralization, and reliable and timely data contribute to better planning, good fiscal operations, responsive budgeting, accountable SNG leadership

THANK YOU! SALAMAT PO!



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