

Building a Trusted Government Through Creative Intergovernmental Relationship: Decentralization and Local Governance

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Presentation Outline

- “Building Trust” through Good Governance
- “Building Trust through Decentralization and Effective Local Governance Capacity building framework
- Strengthening the capacity of local governments in intergovernmental relations

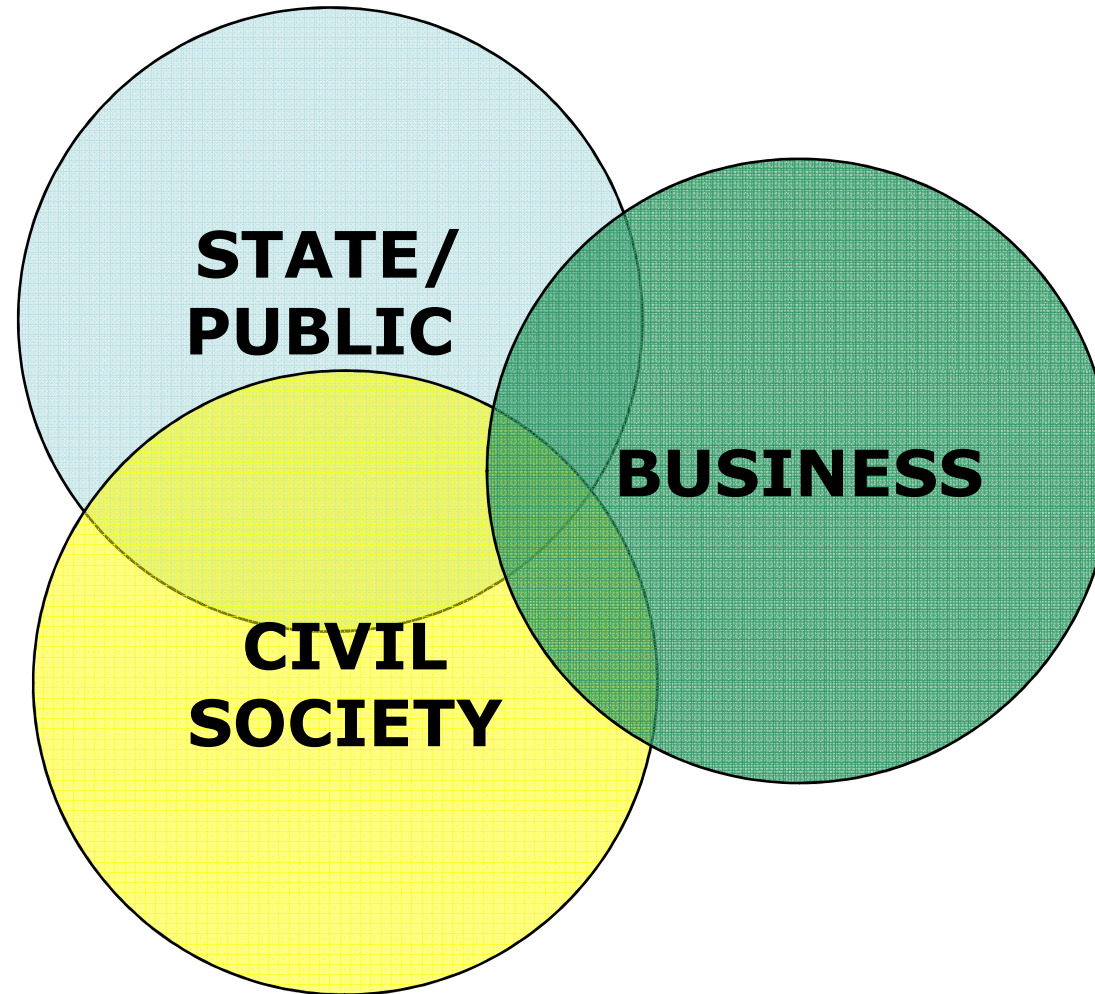
- Building trust through effective intergovernmental transfers
- Building trust through Improving Information Communication Technologies across levels of government
- An example: Innovative Tax Measures in Quezon City, the Philippines
- Concluding Remarks

- Building trust through
 - Good Governance
 - Good Enough Governance (Grindle)

Defining Governance

- **Definition:** Governance: Sound Development Management – the manner in which power is exercised in the management of a country's economic and social resources for development
- It is about the quality of the institutions to make, implement and enforce sound policies in an efficient, effective, equitable and inclusive manner

Actors in Governance (The Classic Paradigm)



State

- Enabling/facilitating participation from civil society and private sector
- Legal, regulatory framework; political order
- Provides resources (e.g. technical expertise, infrastructure, etc.)
- Create an enabling setting

Private/Business Sector

- Generates jobs and incomes
- Engine of society
- Economic development

Civil Society

- Facilitates political and social interaction
- Mobilizes various groups in society to participate
- Provides voice to the inarticulate and the unarticulated
- Instrument of checks and balances on government power and private sector behavior
- Alternative delivery system

Elements of Good Governance

- **Accountability:** government has the capacity to provide acceptable level of services in an effective and efficient manner and be held accountable to citizens
- **Transparency:** availability of information to the general public & clarity about government rules, regulations and decisions
- **Predictability:** The existence of laws, regulations, & policies to regulate society and their fair & consistent application
- **Participation:** government – citizen relations; building open and responsive government; engaging citizens in policy making and in the services provided to citizens

Building Trust through “Good Enough Governance” (Grindle)

- Grindle’s critique of the GG Paradigm: GG includes a variety of reforms affecting:
 - Institutions that set the rules of the game
 - Decision making structures
 - Organizations that administer and deliver goods and services
 - Human resources that staff government
 - The interface of officials and citizens

The Good Governance Paradigm (Grindle)

- Good governance is important
- The good governance agenda is far too ambitious
- This agenda can be made more feasible

Grindle's basic questions on GG

- Good Government is Important
 - But it is not necessarily the foundation on which all else must be built
- The Good Governance Agenda Is Overwhelming
 - What are governments being asked to do?
 - Too much...

Grindle's quick survey of the Good Governance Agenda in WDR

<i>World Development Reports</i>	# Govnance Reforms Recommended
1997	45
1998	75
1999/2000	66
2000/2001	106
2001/2002	100
2003/2003	116

Grindle asks the question: What's Wrong with the Good Governance Agenda?

- It is an unreasonably long list of “things that must be done”
- It provides no guidance about
 - What's essential and what's not
 - What should come first and what should follow
 - What is feasible and what is not
- In other words, the GG agenda can be made more realistic
- Hence, *GOOD ENOUGH GOVERNANCE*

Good Enough Governance

To reduce the agenda, Grindle suggests the following :

- Consult history
- Ask: Good enough for what?
- Ask: What's working?
- Establish priorities
- “Begin where the country is”

Good Enough Governance (Grindle)

- Reformulate the agenda
 - Research
 - Analysis
 - Country-specific assessments
- Roles for Donors
- Governance cannot be left solely to governments

Thus the question may be asked:

What are the implications of the Good
Governance and Good Enough
Governance Upon Building Trust through
Creative Intergovernmental Relations,
Decentralization and Effective Local
Governance?

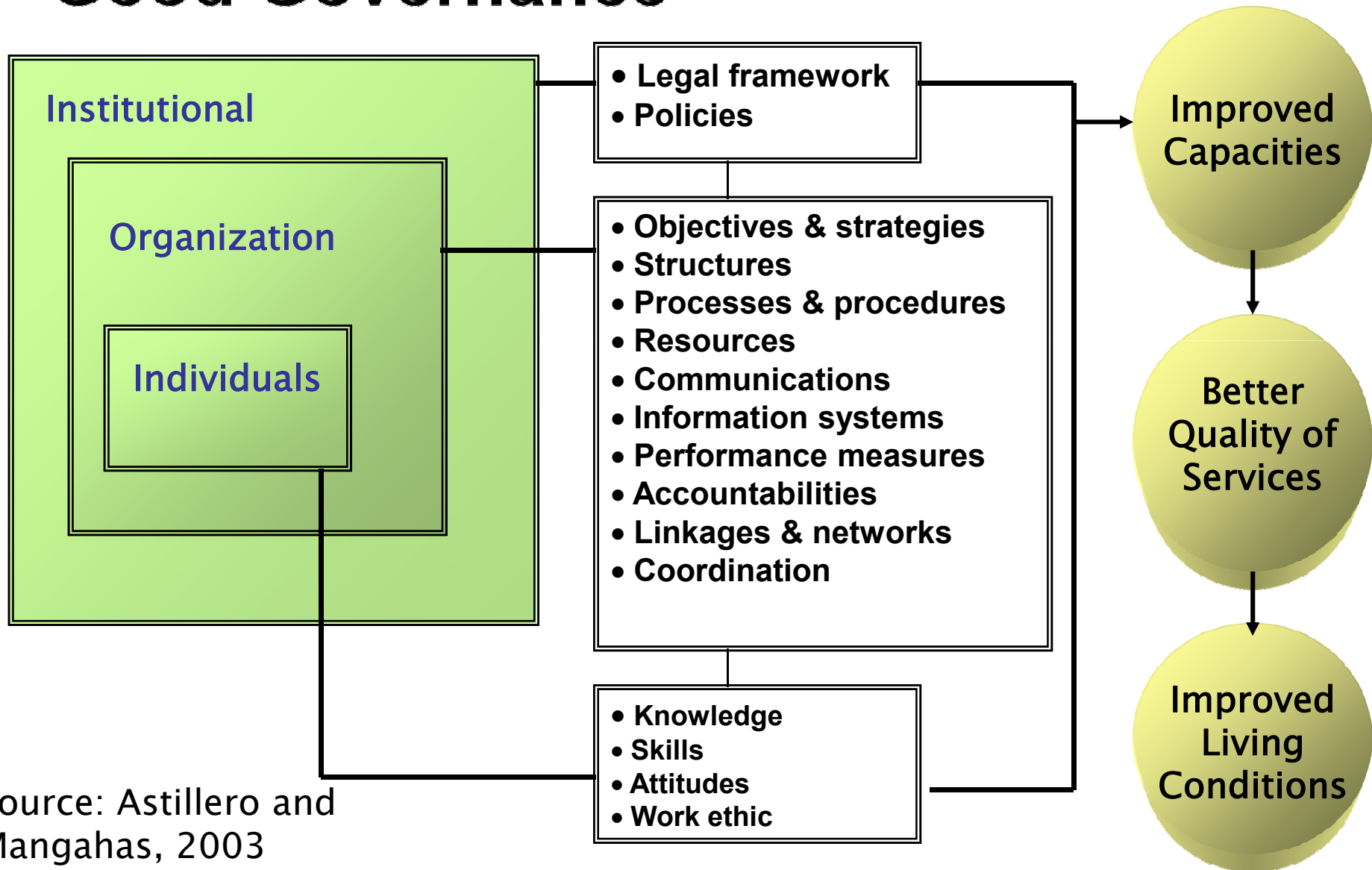
Some Emerging lessons on Decentralization Based on the Experience of Various Countries

- Decentralization is about:
 - Good Governance (and Good Enough Governance)
 - Inter-governmental cooperation and inter-institutional arrangement
 - Implementation, e.g. *sequencing, build-up, and continuity*
 - Capacity building

But it is important to consider the following:

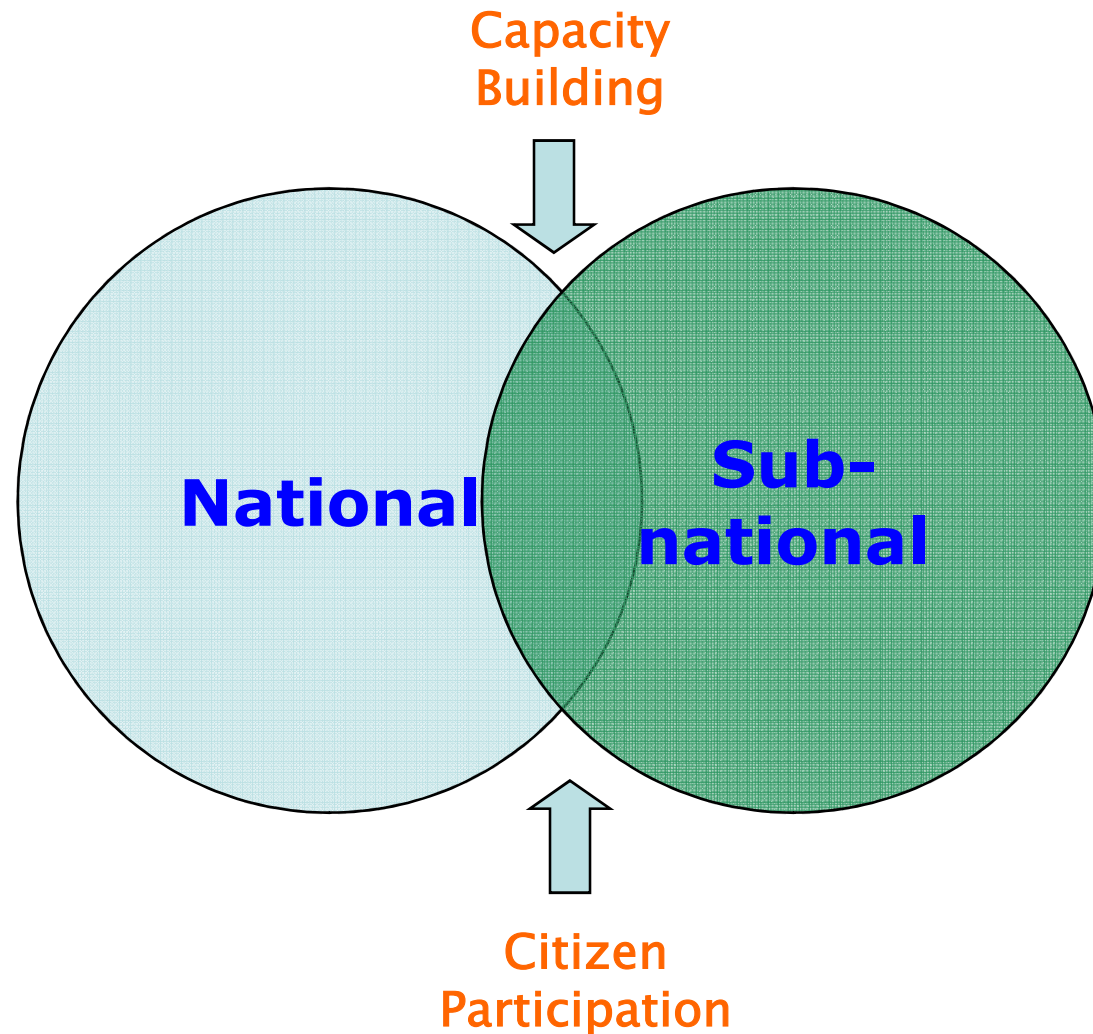
- Lack of capacities - *financial and human resources*
 - “absorptive capacities” – central and sub-national
 - Learn from the locals
- *No ONE size fits all formula for decentralization*
- Leadership matters

Capacity Building Framework for Good Governance



Source: Astillero and Mangahas, 2003

Intergovernmental relations capacity



Building Trust through Intergovernmental Relations through Capacity Building of Local Governments

- Devolution and local autonomy
- Assignment of appropriate revenue and expenditure responsibilities
- Enhance local capability for effective revenue mobilization and utilization
 - Revenue adequacy and tax collection efficiency
- Harmonize local plans with regional and national development frameworks
 - Participatory planning and budgeting processes
- Establish performance measures for local government accountability

Building Capacities of LGUs through IGT

- Observe basic public expenditure management principles:
 - *Fiscal discipline* (spending within our means)
 - *Allocative efficiency* (spending on the right things)
 - *Operational efficiency* (obtaining the best value for money)
- Adequate safety nets for credit financing/borrowing

Building Trust through Intergovernmental Relations and Effective IGTs

- A well-designed intergovernmental fiscal transfers can play a critical role in:
 - Promoting development (national, regional and local)
 - Delivering essential services
- A poorly designed system may exacerbate:
 - Inequalities across sub-national governments
 - Inability of sub-national governments to deliver basic services even at the minimum level
 - Poor targeting of national priorities, and
 - Weak accountability in resource utilization, among others

Context for Effective IGTs in Developing Countries

(Ma 1997; Smoke and Kim 2003; Shah 2006)

1. Central governments have advantages over sub-national governments in raising revenue (Vertical)
2. Sub-national disparities in revenue-raising capacity across decentralized levels of government (Horizontal)
3. Resources from the central government can be used to ensure that basic national priorities will be met in all sub-national government jurisdictions

Economic Rational For Effective IGT

- To address fiscal gap or avoid vertical fiscal imbalances at the sub-national level
 - Central retains major taxes (especially in developing countries)
 - Balance local budgets with fiscal transfers
- To address horizontal fiscal disparities
 - Pursue redistribution equity
 - Maintain a minimum level of services across local governments
- To address inter-jurisdictional spillovers
 - Pursue national priorities with benefit spillovers at the local level
 - Provide incentives externalities, which require provision, solution or intervention

Political and Administrative

Rationale	Context	Issues
Enable better administrative efficiency in tax collection efforts	<ul style="list-style-type: none"> ■ Central government has a better administrative capacity to collect taxes, particularly in developing countries 	<ul style="list-style-type: none"> ■ Inability to provide minimum public services by some sub-national governments
Create a sense of unity	<ul style="list-style-type: none"> ■ Increasing regional disparities 	<ul style="list-style-type: none"> ■ Large regional disparity can be politically divisive ■ Threat of secession
Maintain political stability	<ul style="list-style-type: none"> ■ Vertical central and subnational relations 	<ul style="list-style-type: none"> ■ In a federal structure, IGFT has high concern for political stability rather than allocative efficiency

Criteria for Effective IGFTs

Revenue adequacy	<ul style="list-style-type: none">▪ Sub-national governments should have sufficient resources to cover for designated responsibilities with the transfers
Local tax effort and expenditure control	<ul style="list-style-type: none">▪ Formula should not encourage fiscal deficits, nor dependency
Equity	<ul style="list-style-type: none">▪ Transfer should vary directly with local fiscal needs and inversely with local fiscal capacity
Transparency and stability/ predictable	<ul style="list-style-type: none">▪ Formula-based, rather than ad hoc▪ Each subnational government knows how to forecast total revenue (own source and transfers)▪ Allow long-term planning at the local level

Designing Effective IGFTs

- Should be designed carefully and, if possible deliberately
 - Very difficult to “undo” mistakes once ingrained in the politico-institutional infrastructure
- Consider the following:
 1. Normative
 - Economic and political rationale
 - Established objectives and principles and mechanisms
 2. Technical and administrative
 - Organizational capacity and operational constraints
 3. Rules and Interests
 - Institutional constraints
 - Manage the politics of reform/change
- Learn from the better practices like Canada, Australia, Germany, Japan, among others
 - But, innovate and localize based on context

(See the works of Anwar Shah for WBI, Jorge Martinez-Vazquez and his colleagues at the Andrew Young School of Public Policy, Robert Ebel, Roy Bahl, Bob Searle, Paul Smoke, Larry Shroeder , Jun Ma to mention a few))

Building Trust through Improved ICT across levels of government

- ICT promotes good governance
 - A tool for better revenue collection efficiency
- Design of ICT based on “need” of local government
 - Customize ICT to fit basic systems and procedure design and needs
 - Sophisticated program/s might be too costly and less effective (e.g. pre-packaged GIS based tax mapping software)
 - Match with appropriate technical requirements (staff competency and hardware)

An example of a Good Practice for Building
Trust through Intergovernmental
Relations:

Innovative Tax Administration Measures
Quezon City in the Philippines

Context

- 161.12 KM
- 2.174 Million (population)
- 23 – 31% IRA dependency
- Real property tax (RPT) – 32 to 47 % of total income
- Business taxes 42 to 60% of total income
- Expenditure exceeded income: deficit
 - 1995 - 63.4 million pesos
 - 1994 – 24.99 million pesos
 - 2000 – 944.9 million pesos

Problematic Situation

- 2001 – New leadership
- Financially distressed LGU
 - Pending financial obligations
 - 1.25 B – Land Bank
 - Unremitted withholding taxes and unpaid allowance of Police
 - Unpaid claims and suppliers
 - Php 60 M electricity bill
 - Php 560 M garbage haulers and equipment rental
 - 1.4 Billion other contractors and suppliers
- 10.7 billion tax collection deficiency

Policy Options

The administration had three (3) options:

1. Raise taxes
2. Declare tax amnesty
3. Contract loans

Revenue-Raising Innovations

1. Initiatives on Real Property Tax (RPT)

- Tax Incentives for prompt RPT Payer
 - 20% and 10% discount as incentive for prompt payment
- Public auctioning of default properties
 - To recover taxes from delinquent property owners
- Corrective measures affecting transfer tax
- Computerization of RPT Records
 - From index card entries into computerized information system

Revenue-Raising Innovations

1. Initiatives on Real Property Tax (RPT)...
 - Geographic Information System (GIS)
 - For tax mapping real estate properties
 - Incentive Program for the City's Top RPT Payers
 - Yearly recognition program for the Top 100 RPT-payers

Revenue-Raising Innovations

2. Approaches to Business Tax Collection

- Increased Business Tax (BT) rates to be at par with Metro Manila rates (perceived to be politically costly)
- Adoption of Presumptive Income Level Approach (PILA)
 - “presumes” a more realistic and current minimum level of annual gross sales of a particular business enterprise on which the BT assessment shall be based
- Consultation and Dialogue with the Business Sector
- Incentive Program for the City’s Top BT Payers

Revenue-Raising Innovations

3. Administrative Control Measures
 - e.g. Tamper proof forms and control
4. Central Management Information System
 - Ready access to information by decision-makers/ offices, i.e. local chief executive, treasurer, and assessor offices
5. Non-Tax Revenue Collections
 - Stricter Requirements for Various Permits
 - Security of NTR, Official Receipts, and Documents

Results

- Quezon City has emerged as the richest city in the country today
- 6.4 billion pesos in current assets (2005)
- 64 % income increase from 2001 to 2004
 - Gross income rose from 3 to 6.5 billion in 2004
- Highest net income (COA)
- Galing Pook Fiscal Management Program (Top Ten Outstanding LG Programs in revenue collection)
- LGU with the highest surplus in the Philippines

Concluding remarks

- Start with the basics of good governance
- Clear role between central and sub-national
- Optimize powers and authority to improve service delivery under devolution
 - Maximize revenue potentials to attain fiscal sustainability
 - Utilize ICT to improve revenue performance and accountability
 - deliver public services, i.e. accessible, adequate, responsive and efficient
- “Continuity” of good policies/programs and build upon past gains

Concluding remarks

- Set performance measures: benchmark and continuously improve
- If “status quo” is UNACCEPTABLE, institute change
 - Search for models – what works and what doesn’t work
 - Build a coalition of reformists – within and outside the government institutions
- Innovate, innovate, innovate
- Leadership matters!

To Sum, Building a Trusted Government . . .

- “Building Trust” through Good Governance
 - Good Enough Governance
- “Building Trust through Decentralization and Effective Local Governance Capacity building framework
- Strengthening the capacity of local governments in intergovernmental relations

To Sum ...

- Building trust through creative intergovernmental relationship through effective intergovernmental transfers
- Building trust through Improving Information Communication Technologies across levels of government
- An example: Innovative Tax Measures in Quezon City, the Philippines

Thank You!