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SHIFTING TO A FEDERAL GOVERNMENT

SOME ISSUES TO CONSIDER

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The shift from a unitary to a federal form of government is one of the three major amendments advanced by proponents of Charter Change—the other two are the adoption of a unicameral Parliament in lieu of a bicameral Presidential system and the lifting of economic restrictions. Under the working draft of the House Committee on Constitutional Amendments, the federal system of government shall be installed within ten years from approval of the revised Charter. On the other hand, the Consultative Commission Report (ConCom) appears to have dealt very little on the subject of federalism. No concrete proposal was presented except that the Declaration of Principle simply looks "toward the ultimate establishment of a federal system of government" in some future date.

Perhaps, there is wisdom behind not instantaneously converting into a federal structure because major issues still need to be threshed out. These issues include, among others, the process of drawing state borders, estimating the cost of creating and maintaining state governments, ensuring fiscal sustainability, identifying schemes that will correct imbalances in development capacities, and developing a fiscal plan on how to service the country's debt.

DELINEATION OF TERRITORIES

Several proposals have been presented on how to divide the country into states *(see Annex A)*. From the existing regional groupings, some provinces were reassigned and the number of regions (states) was eventually reduced. State borders were drawn considering the following criteria[1]: *(1)* compact and contiguous land area including territorial waters; *(2)* common ethno-linguistic origin or cultural homogeneity; *(3)* financial and economic viability based on availability of natural wealth, tax sources, and investment potentials; and *(4)* availability and accessibility of infrastructure within each proposed state.

While the House draft mandates Parliament to partition the Philippine archipelago into as many independent states within the next ten years, the ConCom

* This paper benefited from the valuable inputs of Director Dina de Jesus-Pasagui, and the research assistance provided by Aurea Sempio and Ephraim Valenzuela. The author also wishes to thank Director-General Rodolfo Vicerra and Acting Executive Director Manuel Aquino for their comments.

[1] Proposals for the Creation of States presented during the Federalism Summit held 14 October 2003.

allows for the natural evolution of autonomous territories—thus, putting off the idea of deliberately drawing the state borders. In particular, the ConCom Report *(Transitory Provisions, Article XX, Sec. 15)* provides that Parliament shall enact the law establishing a Federal Republic of the Philippines upon petition of majority of the declared autonomous territories—i.e., within one year after at least 60% of the provinces and highly urbanized/component cities have joined in the creation of different autonomous territories *(later referred to as federal states).*

Allowing the natural evolution of autonomous territories as implied in the ConCom Report may encourage provinces/cities to mutually consolidate based on common interests, origins and shared vision. However, it cannot be denied that decisions of individual geographic units to join a creation of a territory will be greatly influenced by the political environment and alliances existing in the area. This could possibly isolate some areas that are not politically aligned with their neighbors.

Both proposals provide that Parliament shall pass an Organic Act defining the basic structure of government for the autonomous territory. The creation of autonomous territories shall be effective only when ratified in a plebiscite by a majority of the votes cast. Note that while the House Working Draft authorizes the Parliament to define state borders, it retained the provision of the 1987 Constitution stating that "only provinces, cities, and geographic areas voting favorably in such plebiscite shall be included in the autonomous [territory]". Retaining such provision violates the basic criterion of geographic contiguity as in the case of the Autonomous Region of Muslim Mindanao (ARMM).

COST OF CREATING A STATE

Establishing state governments entails costs and some form of reorganization in the existing government structure. Initially, there is the issue of whether provincial governments still need to be retained. Some scholars say that once state governments are created, it will render the provincial governments superfluous or unnecessary. However, a province as a geographic unit can be considered later as basis for representation to the state assembly or the legislature.

Adding another layer to the existing government set-up would bloat the bureaucracy and consequently increase overall spending to support operations. Each federal state would have to maintain their respective executive offices, a separate legislature, and a separate judiciary. Estimates show that the initial cost of creating a province could amount to around P248 million.[2] A more complex organization at the state level will require much more.

Any estimation of cost for the establishment of a regional government should at least consider the following: *(1)* organization cost—expenses in the conduct of plebiscite and special election, and survey cost for delineation of boundaries; *(2)* infrastructure cost—construction of roads, government offices, and other facilities; *(3)* purchase of regional government site, equipment/vehicles; and *(4)* operating cost for the initial year—salaries and wages, life and retirement premiums, rent, travel expenses, and supplies.

To date, only the ARMM budget could indicate the cost of maintaining a regional government. The proposed budget for ARMM in 2006 is P8.4 billion (excluding allocations to LGUs) of which personal services and other current operating expenses account for P6.9 billion. However, the cost of running the regional government could be much higher because additional funds are also made available through transfers from national government agencies and grants from donor institutions.

ENSURING FISCAL SUFFICIENCY

One of the pressing issues under devolution is the inability of local governments to generate sufficient revenues to support operations. While there are many LGUs that have maximized their taxing powers and used other revenue-generating options *(e.g., issuance of bonds and BOT schemes),* there are still many that are heavily reliant on national transfers particularly the Internal Revenue Allotment (IRA). As the country plans to culminate the devolution process by creating independent federal states, it is important that a thorough study be undertaken to determine the revenue and expenditure assignments between the federal and state governments.

Revenue Assignment. While there are no hard-and-fast rules in assigning revenues, there are important factors in determining what type of tax should go to which level of government. These factors are as follows: *(1)* redistributive equity; *(2)* mobility of resources; *(3)* administrative simplicity and cost of complying with tax regulations; and *(4)* cost recovery for government services.

[2] Original DILG estimates as of year of publication of the study (1999) totaled P225.5 million but assumed cost by this paper is net of cost to other provinces (P85.5 million). Assumed estimated cost of P140 million was updated to 2005 prices using actual inflation rates.

One of the major instruments for achieving *redistributive equity* is the tax-transfer system. Presumably, the federal government is in a better position to ensure that residents in different states are treated equitably through a well-functioning transfer system. This is why the federal government should be in command of a sizeable revenue base such as personal and corporate income taxes, and import duties. Taxation of important resources like oil, gas, and other mineral products can also be used as a redistributive tool. Since not all regions are naturally endowed with mineral deposits, it gives a compelling reason to centralize resource taxes *(see Annex B).*

The *equity* aspect of taxation is best served by subjecting similarly-situated taxpayers to a uniform tax treatment. This means that the central government should decide on the tax base—i.e., what types of income or collection should be taxed or exempted. However, state governments may be allowed to "piggy back" or impose supplemental tax on the federal base *(e.g. Brazil).*

An economy will function efficiently if mobile resources like labor and capital are allowed to move freely from one region to another without impediments or distortions imposed by policy. This makes the *mobility* principle a good argument for centralizing personal and corporate income taxes. Leaving income taxes solely at the discretion of individual states may result in unnecessary tax competition between sub-national governments as each may want to attract resources to their own jurisdiction (i.e. beggar-thy-neighbor policy). On the other hand, completely immobile factors of production like property and land are usually assigned to the sub-national government. In the Philippines, real property taxes have long been under the control of local government units.

Sales taxes on goods consumed by households are less mobile than capital so there is minute equitable loss if they are assigned at the state level. However, there is still a loss of efficiency in decentralizing sales taxes in the form of cross-border shopping—i.e., consumer from a high sales tax state may evade the levy by traveling to a state with lower sales tax. Moreover, competition between states (by lowering the rates and number of sales taxes) can worsen the ability of poorer territories to meet their expenditure requirements.

In the case of multi-level value added tax, a uniform VAT rate may be imposed by the federal government to address the problems incidental to interstate trade. For example, a manufacturer may face difficulty in deciding where to source his inputs if VAT rates vary across regions. Moreover, input tax credits may not be claimed in full if higher rates are imposed by state governments where the inputs originated.

Simplicity or ease in tax administration may be achieved if income tax collection is assigned to the federal government. Since many corporations operate simultaneously in more than one jurisdiction, enforcement of tax laws in a multi-jurisdiction setting can be a complicated matter. For instance, corporations may engage in transfer pricing or financial and book transactions to shift its profits around to reduce the tax burden. *Compliance cost* is another concern for corporate entities since their expenses will increase as they face different tax regimes in different jurisdictions.

For publicly-provided services, both federal and state governments may be allowed to recover their operating and maintenance cost through the imposition of user charges and fees. For example, toll fees may be collected from motorists using federal, state, and local roads. Beneficiaries of local health services, public utilities and recreational facilities may be required to pay appropriate amounts to state governments. Aside from *cost recovery*, another advantage of pricing public services is that it promotes the efficient use of services.

Expenditure Assignment. Once the country federalizes, it will have to undergo some bureaucratic restructuring where powers and functions at each level of government will have to be clearly determined. Intergovernmental relations differ from country to country but it may be best to consider some principles that can guide the assignment of expenditure responsibilities *(see Annex C)*.

(1) Sub-national governments are more knowledgeable of the preferences of local residents and have the comparative advantage in fulfilling their expectations.

(2) Each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision *(Oates, 1972)*. For example, if the creation of a certain highway benefits only a particular state, the responsibility for its taxation and maintenance accrues to that same state as well.

(3) Presence of benefit spillovers is the major argument in favor of central government intervention although horizontal cooperation among sub-national governments can provide a solution to spillover problems. Expenditures on health and education have been traditionally assigned to the state although exemptions can be made if the spillover effects *(e.g., spread of diseases)* transcend borders.

(4) To ensure stability of national currency, monetary policy can best be pursued by the central government because it is better equipped in dealing with spillover effects of local spending, and cyclical shocks *(Oates, 1972)*.

According to Boadway and Watts, vertical imbalance occurs when expenditures are decentralized more than revenues or when state expenditures exceed own-source revenues. In the Philippines, the Local Government Code of 1991 gave LGUs greater taxing powers and a higher share in the national internal revenue collection to support the functions that were devolved to them. From less than 20% of total internal revenues, the Internal Revenue Allotment (IRA) was raised to 40% under the LGC. On the aggregate, the IRA is sufficient to cover the cost of devolved functions but its distribution has created some degree of fiscal imbalance. In particular, provinces enjoy the same share (23%) as that of cities but the former absorbed roughly five times more of the cost of devolved functions.

In a federation such as Germany which considers major tax bases (personal and corporate income, and value-added) as federal taxes, efforts to achieve vertical balance is done through revenue sharing schemes—i.e., VAT revenues are returned in equal per capita amounts to the Lander [state] and income taxes are returned proportionately to the origin of collection.

CORRECTING FISCAL IMBALANCES ACROSS STATES

As decentralization further proceeds, governments have to deal not only with vertical imbalances but horizontal inequities as well. Horizontal imbalances refer to differences in the capacity of state governments to provide 'reasonably comparable levels of public services at reasonably comparable levels of taxation'.[3] Imbalance occurs when states that have practically the same revenue potential delivers varying levels of services *(in terms of quality and access)*. Simply put, a citizen may expect to enjoy health care services of similar quality as that of a citizen in another state who pays taxes of comparable amounts.

Even progressive federal governments like Canada, Germany, Australia, and the USA have to contend with disparities in development conditions across states. This may be brought about by unequal revenue raising capacities and varying expenditure needs. Some states are endowed with natural resources and have greater investment potential which make differences in tax capacities among states more

[3] Robin Boadway and Ronald L. Watts, "Fiscal Federalism in Canada, the USA, and Germany" (2004).

pronounced. In Canada, for example, economic disparities exist between manufacturing-intensive Ontario and resource-rich Alberta and the rest of the provinces [states].

Horizontal imbalance may also arise from differences in spending requirements depending on demographic make-ups. States whose population grows much faster *(either through natural birth or migration)* will require more funds to deliver public services comparable in amount and quality as in other states. A state supporting a large old-age population may have to spend more for health care and pension while a large school-age population will particularly require bigger investments for education.

State borders may be drawn ideally taking into account the financial/economic viability and equal opportunity for development of each state. However, in the long run, some states will progress much faster possibly due to factors such as: political leadership, administration of state affairs, quality of policies that govern the state, and management of resources, among others.

IRA Under a Federal Set-up

A federal set-up requires some rethinking on how national transfers particularly the Internal Revenue Allotment (IRA) will be distributed and used as an effective equalizing tool. Reformulating the IRA should consider the inequities and inefficiencies brought about by the current sharing scheme.

At present, local governments enjoy a 40% share in the total collection of national taxes. The distribution is done in two steps: *first,* the total IRA is allocated by level of government—i.e., 23% to be shared by all provinces, another 23% by cities, 34% by municipalities, and 20% by barangays; and *second,* the individual LGU share at each level is determined through a formula based on population (50%), land area (25%) and equal sharing (25%). In the case of barangays, each unit with at least 100 residents gets a minimum of P80,000 chargeable against the 20% IRA share of barangays. The balance shall be allocated based on population (60%) and equal sharing (40%).

The existing IRA distribution may be viewed as inequitable on the following points:

(1) Cities have greater revenue potential especially from taxes on capital assets and income from businesses but receives the same share (23%) as that of provinces.

(2) Distribution of the IRA does not match the expenditure responsibilities devolved to local governments. Estimated cost of devolved functions show that provinces absorbed about 46% while cities only assumed 8% but both have the same IRA share.

(3) The equal sharing criterion favors highly fragmented local governments and it unnecessarily encourages the creation of new political units—i.e., sub-dividing a previous composite unit increases the aggregate IRA accruing to the geographic area.

To make the IRA more equitable and an efficient tool at equalizing development opportunities of states, it is proposed that instead of distributing the IRA by level of government, it shall be allocated by state or region primarily on per capita basis since expenditure needs are highly influenced by the population being served. The equal sharing criterion shall be replaced by indicators that will differentiate each state's level of development or revenue raising disability.

The second level of IRA distribution shall involve the determination of shares of local governments within the state. Intra-state distribution shall ensure that any reduction in IRA shares of LGUs resulting from the creation/conversion of LGUs shall be internalized within the state. This means eliminating uncontrolled reductions in IRA

Unlike vertical imbalances that can be corrected provided the sub-national governments have adequate revenue-raising discretion—*i.e., states can adjust their tax rates to meet their expenditure requirements*—horizontal imbalances are not self-correcting. More businesses and individuals tend to locate in states with higher fiscal capacity because states with less fiscal capacity are less likely to provide comparable services at comparable tax rates. To correct such imbalance, federal governments intervene through grants or intergovernmental transfers *(Boadway, 2004).*

Equalizing schemes have been set up to correct imbalances across states. Some of the practices by federations with highly developed equalization systems include the following:

(1) In Canada, the equalization system is designed to compensate provinces [states] whose tax capacities are below some minimum national standard. Although the system does not reflect the relative needs of different states, a needs-based equalization is in place through the Canadian Health and Social Transfer (CHST)—an equal per capita transfer to all states.

(2) A needs-based system in Australia attempts to estimate the cost per demographic group of providing a standard level of important public service. Ensuring horizontal balance means providing comparable services for similarly placed citizens in all states. This means that health provision to an urban dweller is compared with citizens in other urban areas and not with one who is rural-based. An independent body known as the Commonwealth Grants Commission oversees the mechanism for distributing grants to the states.

(3) Three-quarters of the VAT share of the Lander [state] are distributed on an equal per capita basis *(Germany).* The use of population in the equalization program is a way of approximating expenditure needs.

(4) In Germany, an inter-state revenue pool was created to which rich Lander contribute and from which poor Lander draw according to formula. The amount of equalization is primarily based on the state's revenue capacity but is adjusted to take account some elements of need. This horizontal equalization scheme is aimed at bringing weaker regions up to level of 95% of average fiscal capacity.

(5) Unique to Germany is an interim measure—"the German Unity Fund"—aimed at raising the fiscal capacity of states in the eastern side to levels comparable with the west.

(6) In Austria, a Lander receives a per capita federal grant sufficient to bring its average per capita tax revenue up to the national average.

(7) Although there is no formal equalization system in the US, grants are generally related to state expenditure needs and to some extent their revenue generating capacity (per capita income). However, since most of these grants are matching grants—i.e., it requires recipient states to put up counterpart funds, states with greater revenue-raising potential are better able to take advantage of these type of transfers.

ADDRESSING THE NG DEBT

One issue that needs to be addressed if the Philippines were to shift to a federal system is how the debt problem should be dealt with. How would the NG pay for its debt if it has to give up its revenue sources to state governments? It is important that the National Government develop a fiscal plan that would lay down the concrete steps/measures and the timing for the transfer of taxing powers to the sub-national level.

Under the House Committee Working Draft, the federal government is expected to be in place within ten years after approval of the amendments to the Constitution. On the other hand, a possible shift to federal form of government (under the ConCom Report) will have to wait for the creation of autonomous territories and eventually the decision of the respective regional assemblies to consolidate these independent territories to a Federal Republic. Both proposals give NG some amount of time to deal with the debt problem. If by 2008, the NG will be able to balance its budget and eventually operate on a surplus, it can use excess revenues to retire its debts and consequently reduce interest payments.

It is important for NG to manage its deficit as this feeds into the debt problem. This calls for the implementation of measures embodied in the "Fiscal Responsibility" Bill (HB 3890) such as the PAY-GO scheme, imposition of a cap on personal services, and removal of automatic guarantees to government corporations. Under HB 3890, the adoption of a PAY-GO policy—i.e., laws shall be enacted only if a corresponding revenue source is identified— is intended to avert the accumulation of "unfunded mandates".

To provide more flexibility in the budget process, HB 3890 proposes that total expenditures for personal services shall not exceed 45% of net current revenues. No agency/office shall be created unless existing ones of substantially the same size in terms of manpower and budget resources have been abolished. Personnel cap shall also apply to local government units and government corporations. Finally, there is a need to repeal the automatic guarantee provisions in the charters of many GOCCs. In cases where NG guarantee is determined to be necessary, the amount of guarantee fee shall be based on the DOF's assessment of the financial risks involved.

SOME LESSONS FROM THE ARMM EXPERIENCE [4]

The Autonomous Region in Muslim Mindanao was established through the initiative of the Moro National Liberation Front which envisioned a separate *Bangsamoro* state. In the early 1990's, it was granted autonomy although many observers would argue that the established territory was not entirely independent of the National Government. The ARMM may not present the ideal set-up but it certainly has been the closest the Philippines has experienced in creating independent territories—a vital requisite if the country were to pursue federalism. It is important, therefore, to draw lessons from the ARMM experience so that any lapses from the existing set-up can be avoided and improvements can be made.

(1) If only provinces voting favorably in a plebiscite will compose an autonomous territory, it will defeat the purpose of establishing territories that are compact and geographically contiguous. Originally, the ARMM Organic Act (RA 9054) proposed a regional grouping of fifteen provinces and thirteen cities[5]. However, only five provinces (Maguindanao, Lanao del Sur, Tawi-Tawi, Basilan and Sulu) and one city (Marawi) agreed to be part of the ARMM. Instead of a set of compact and contiguous provinces and cities, what emerged was a group of culturally homogenous yet geographically scattered units.

(2) ARMM remains heavily dependent on the National Government for its fiscal needs. Although the Regional Government of ARMM is authorized to collect taxes and fees, the bulk of its budget is provided by the National Government through the

[4] Under the Working Draft of the House Committee on Constitutional Amendments, the ARMM shall continue to exist until the ultimate establishment of a federal system. It shall correspondingly be adjusted and aligned under a federal system as mandated.

[5] The fifteen provinces are Basilan, Cotabato, Davao del Sur, Lanao del Norte, Lanao del Sur, Maguindanao, Palawan, Saranggani, South Cotabato, Sultan Kudarat, Sulu, Tawi-tawi, Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay. The thirteen cities are Cotabato, Dapitan, Dipolog, General Santos, Iligan, Kidapawan, Marawi, Pagadian, Puerto Princesa, Digos, Koronadal, Tacurong, and Zamboanga.

General Appropriations Act. Unlike local governments which enjoy a fixed share of the national internal revenue collection (Internal Revenue Allotment), the ARMM Regional Government is treated like any other agency or department which annually negotiates and competes for a bigger portion of the NG budget pie. Note that despite the autonomous status of ARMM, it still gets additional assistance through funds or in-kind transfers of line agencies for the implementation of specific projects/programs.

(3) The ARMM Regional Government may be viewed as an archetype of future federal states. Its organizational set-up, revenue sources and spending requirements, as well as its relationship with the central government can be subject to in-depth study. The Regional Government of ARMM is headed by a regional governor elected by popular vote, and the legislature (Regional Assembly) is composed of 24 assembly members with three representatives coming from every legislative district. The ARMM bureaucracy is further composed of about 20 line agencies or departments in charge of agriculture, agrarian reform, education, health, housing, natural resources, trade, and tourism, among others. Note that with departments operating under the ARMM Regional Government, satellite or regional offices of the National Government are no longer necessary. Any request or communication with NG is usually coursed through the regional office of line agencies located in neighboring regions.

In terms of revenue sources, the bulk of the ARMM budget comes from the National Government through a lump sum appropriation. For 2006, ARMM expects to receive P8.3 billion of which P5 billion (60%) will go to personal services to pay for salaries and benefits of 26,223 government employees, P1.8 billion (22%) for maintenance and other operating expenses, and the remaining P1.5 billion (18 %) for capital outlay. However, a more accurate accounting of the ARMM budget should consider other revenue sources such as grants from multilateral institutions and additional transfers coursed through projects of national line agencies.

(4) It is no assurance that granting autonomy could mean being better off in terms of socio-economic development. While there may be a host of factors affecting the socio-economic development status of ARMM, an autonomous status provides the region the opportunity to govern closer to the people. This means that the Regional Government may be in a better position to come up with policies and programs that are more attuned to local needs and preferences. Moreover, it allows government to deliver public services much faster without going through the bureaucratic processes at the national level.

However, a regional comparison of basic socio-economic indicators shows that ARMM lags behind most of the other regions. It has the lowest gross regional domestic product (GRDP). In 1993, GRDP of Muslim Mindanao at constant 1985 prices was only P6.9 billion while national GDP was at P734.2 billion. Ten years later, Philippine GDP grew to P1.1 trillion while that of ARMM modestly inched up to P9.9 billion. Note that regional GDP of ARMM on a per capita basis even declined from P3,439 in 1993 to P3,253 in 2003.

In terms of major health indicators, ARMM ranks the lowest compared with other regions. Child mortality rate (deaths among children 1-4 years of age per 1,000 live births) in 2003 was 33 while the national average was 12. Deaths from pregnancy-related causes or maternal mortality rate (MMR) was also high at 320 compared with the national average of 180. Other regions with high MMR are also in Mindanao—Northern Mindanao (225) and Western Mindanao (200).

Education statistics also show that ARMM consistently has the lowest cohort survival rate. Out of 100 students who entered Grade 1 in SY 1994-1995, only 27.7% reached Grade 6 after the required six years of study. The national average was reported at 66.5%. While there was marked improvement in ARMM cohort survival (48.1%) in SY 2002-2003, it was still way below the national average of 69.8%.

SUMMARY

The proposed amendments to the 1987 Constitution dealt very little on federalism. It barely gives the idea on how the country will go about shifting to a federal form of government. However, as federalism is gaining the interest of many Filipinos, perhaps more in-depth studies and intelligent debates can tackle practical issues related to delineation of state borders, cost of creating and maintaining state bureaucracies, revenue and expenditure assignments, fiscal imbalances across states, and the country's debt burden.

The ARMM experience which is the closest the country has so far in implementing some form of federalism may be a good case study. A more thorough review of the ARMM set-up can give insights as to practices and processes leading up to the creation of federal states. It is also important to look into the ramifications of intra-state relations because state charters will eventually make the Local Government Code of 1991 inoperative under a federal system. ❑

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Republic Act No. 9054, "An Act to Strengthen and Expand the Organic Act for the Autonomous Region in Muslim Mindanao, Amending for the Purpose Republic Act No. 6734".

Annex A
PROPOSALS FOR THE CREATION OF STATES

Citizens' Movement for a Federal Philippines (10 states)

1. Northern Luzon and Cordillera
   Ilocos Norte, Ilocos Sur, La Union, Pangasinan, Batanes, Cagayan, Isabela, Nueva Vizcaya, Quirino
   Abra, Apayao, Benguet, Ifugao, Kalinga, Mt. Province

2. Central Luzon
   Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, Zambales

3. Metro Manila
   Manila, Quezon City, Makati City, Mandaluyong City, Kalookan City, Muntinlupa City, Las Piñas City, Parañaque City, Valenzuela City, Navotas, Malabon, Taguig, Pateros, San Juan

4. Southern Luzon
   Rizal, Quezon, Laguna, Batangas, Aurora, Cavite, Mindoro Occidental, Mindoro Oriental, Marinduque

5. Bicol
   Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, Sorsogon, Romblon

6. Western Visayas
   Palawan, Aklan, antique, Capiz, Guimaras, Iloilo, Negros Occidental

7. Eastern Visayas
   Negros Oriental, Cebu, Bohol, Suquijor, Biliran, Leyte, Southern Leyte, Northern Samar, West Samar, Eastern Samar

8. Northern and Western Mindanao
   Zamboanga del Norte, Zamboanga del Sur, Zamboanga Sibugay, Bukidnon, Camiguin, Misamis Occidental, Misamis Oriental, Agusan del Norte, Agusan del Sur, Surigao del Norte and Surigao del Sur

9. Central and Southern Mindanao
   Compostela Valley, Davao del Norte, Davao del Sur, Davao Oriental, Sarangani, South Cotabato, Sultan Kudarat, Lanao del Norte

10. Bangsamoro
    Lanao del Sur, Marawi City, Maguindanao, Basilan, Sulu, Tawi-Tawi

Coalition for Charter Change Now (10 states)

1. Territory of Northwestern Luzon
   Ilocos Norte, Ilocos Sur, La Union, Pangasinan, Apayao, Kalinga, Mountain Province, Abra, Ifugao, Benguet

2. Territory of North-Eastern Luzon
   Batanes, Cagayan, Isabela, Nueva Vizcaya, Nueva Ecija, Aurora, Quirino

3. Territory of Central Luzon
   Zambales, Bataan, Tarlac, Pampanga, Bulacan

4. Territory of Southern Tagalog and Palawan
   Metro Manila, Rizal, Cavite, Laguna, Batangas, Quezon, Occidental Mindoro, Oriental Mindoro, Romblon, Marinduque, Palawan

5. Territory of Bicol and Eastern Visayas
   Camarines Norte, Camarines Sur, Albay, Sorsogon, Catanduanes, Masbate
   Northern Samar, Samar, Eastern Samar, Leyte, Southern Leyte, Biliran

6. Territory of Central and Western Visayas
   Cebu, Bohol, Negros Oriental, Negros Occidental, Siquijor, Iloilo, Guimaras, Capiz, Aklan, Antique

7. Territory of Northern Mindanao
   Misamis Oriental, Camiguin, Bukidnon, Agusan del Norte, Agusan del Sur

8. Territory of Eastern Mindanao
   Surigao del Norte, Surigao del Sur, Davao, Davao Oriental, Davao del Sur, Compostela Valley

9. Territory of Western Mindanao
   Misamis Occidental, Sultan Kudarat, Lanao del Norte, Cotabato, South Cotabato, Sarangani, Zamboanga del Norte, Zamboanga del Sur, Basilan

10. Territory of ARMM
    Lanao del Sur, Cotabato City, Marawi City, Maguindanao, Tawi-Tawi, Sulu

Gaudioso Sosmeña (7 states)

1. State of Northern Luzon
   Ilocos Norte, Ilocos Sur, La Union, Pangasinan, Batanes, Cagayan, Isabela, Nueva Vizcaya, Quirino, Abra, Apayao, Benguet, Ifugao, Kalinga, Mt. Province

2. State of Central Luzon
   Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, Zambales, Rizal, Quezon, Laguna, Batangas Kalookan, Las Piñas, Mandaluyong, Marikina, Muntinlupa, Parañaque, Valenzuela, Pasig, Pasay, Malabon,

3. State of Southern Luzon
   Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, Sorsogon, Mindoro and Marinduque

4. State of the Visayas
   Aklan, Antique, Capiz, Guimaras, Iloilo, Negros Occidental including Palawan, Bohol, Cebu, Negros Oriental, Siquijor, Biliran, Eastern Samar, Leyte, Northern Samar, Samar, Southern Leyte

5. Bangsa Moro State
   Lanao del Sur, Maguindanao, Sulu, Tawi-Tawi, Basilan, Zamboanga del Norte, Zamboanga del Sur, Zamboanga City

6. State of Northern Mindanao
   Bukidnon, Camiguin, Misamis Occidental, Misamis Oriental, Agusan del Norte, Agusan del Sur, Surigao del Norte and Surigao del Sur

7. State of Southern Mindanao
   Compostela Valley, Davao del Norte, Davao del Sur, Davao Oriental, Sarangani, South Cotabato Lanao del Norte, North Cotabato, Sultan Kudarat

Senator Aquilino Pimentel (10 states)

1. Northern Luzon
   Ilocos Norte, Ilocos Sur, La Union, Pangasinan, Batanes, Cagayan, Isabela, Nueva Vizcaya, Quirino Abra, Apayao, Benguet, Ifugao, Kalinga, Mt. Province

2. Central Luzon
   Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, Zambales

3. Southern Tagalog
   Aurora, Batangas, Cavite, Laguna, Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan, Quezon, Rizal, Romblon

4. Bicol Area
   Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, Sorsogon, Mindoro and Marinduque

5. Eastern Visayas
   Biliran, Eastern Samar, Leyte, Northern Samar, Samar, Southern Leyte

6. Central Visayas
   Bohol, Cebu, Negros Oriental, Siquijor

7. Western Visayas
   Aklan, Antique, Capiz, Guimaras, Iloilo, Negros Occidental

8. Northern Mindanao
   Zamboanga del Norte, Zamboanga del Sur, Zamboanga Sibugay, Bukidnon, Camiguin, Misamis Occidental, Misamis Oriental, Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur

9. Southeastern Mindanao
   Compostela Valley, Davao del Norte, Davao del Sur, Davao Oriental, Sarangani, South Cotabato, Lanao del Norte, North Cotabato, Sultan Kudarat

10. Bangsamoro
    Lanao del Sur, Maguindanao, Sulu, Tawi-Tawi, Basilan

Annex B
CONCEPTUAL BASIS FOR REVENUE ASSIGNMENT

TYPE OF TAX	COMMENTS
Federal Responsibility	
Customs	International trade taxes
Corporate Income	Mobile factor, stabilization tool
Personal income	Redistributive, mobile factor, stabilization tool
Value-added tax	Border tax adjustments possible under federal assignments; potential stabilization tool
Excise tax on alcohol and tobacco	Health care shared responsibility
Resource rent (profits, income) tax	Highly unequally distributed tax bases
Wealth taxes (inheritance, transfers, bequests)	Redistributive
Carbon Tax	To combat global/ national pollution
State Responsibility	
Business taxes	Benefit tax
Property	Completely immobile, benefit tax
Land	Completely immobile factor, benefit tax
Excises	Residence-based taxes
Conservation charges	To preserve local environment
Parking fees	To control local congestion
Mobile Vehicle Tax	State responsibility
Amusement Tax (race tracks, lotteries, etc.)	State and local responsibility
Concurrent Responsibility	
Effluent charges	To deal with interstate or local pollution issues
Congestion tolls	Tolls on federal/provincial/local roads
Motor fuel tax	Tolls on federal/provincial/ local roads
Poll	Payment for services
User Chargers	Payment for services rendered

Reference: Anwar Shah, The Reform of Intergovernmental Relations in Developing Emerging Countries as cited by Robert Ebel and Serdar Yilmaz in Intergovernmental Relations: Issues in Public Policy.

Annex C
CONCEPTUAL BASIS FOR EXPENDITURE ASSIGNMENT

EXPENDITURE CATEGORY	COMMENTS
Federal Responsibility	
Defense	Benefit and costs are national in scope
Foreign affairs	Benefit and costs are national in scope
International trade	Benefit and costs are national in scope
Monetary policy, currency, banking	Benefit and costs are national in scope
Interstate commerce	Benefit and costs are national in scope
Subsidies to business and industry	Regional development, industrial policy
Immigration	Benefit and costs are national in scope
Unemployment insurance	Benefit and costs are national in scope
Airlines and railways	Benefit and costs are national in scope
Transfer payment to persons	Redistribution
Concurrent Responsibility	
Fiscal policy	Coordination is possible
Spending Power	Fiscal transfers to advance own objectives
Natural resources	Promotes a common market
Environment	Benefit and costs may be national, regional, or local in scope
Parks and recreation	Primarily local responsibility, but national and state governments may establish own parks
Industry and agriculture	Significant in inter-jurisdictional spillovers
Education	Transfers in kind
Health	Transfers in kind
Social welfare	Transfers in kind
Interstate highways	Internal common market
State Responsibility	
Police	Primarily local benefits
Water, sewage, refuse	Primarily local benefits
Fire protection	Primarily local benefits
Provincial, inter-regional highways	Provincial, inter-regional benefits and costs

Reference: Anwar Shah, The Reform of Intergovernmental Relations in Developing Emerging Countries as cited by Robert Ebel and Serdar Yilmaz in Intergovernmental Relations: Issues in Public Policy.