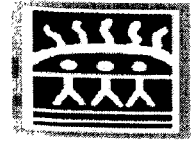




# PHILIPPINES DEVELOPMENT FORUM

Working Group on Decentralization  
and Local Government



## Position Paper for the 2011 Philippine Development Forum

February 26, 2011

The theme of the 2011 Philippine Development Forum on “Implementing President Aquino’s Social Contract to Achieve Inclusive Growth” represents an opportunity to highlight the crucial role that local government units (LGUs) play in achieving the development goals embodied in the President’s Social Contract. Together with the national government, civil society, and the private sector, LGUs must serve as a critical partner in the formulation and successful implementation of the priority programs of the Philippine Development Plan (PDP).

Since the onset of decentralization in 1991, LGUs have assumed extensive responsibilities in providing basic services and promoting local economic development. Yet numerous challenges need to be addressed—uneven serviced delivery outcomes, under-investment in local infrastructure, weaknesses in the institutional environment for governance, capacity constraints, and others—before LGUs can fulfill their full potential as providers of basic services and drivers of inclusive growth. The Working Group on Decentralization and Local Government (WG-DLG) has taken the lead in identifying these critical issues and coordinating the efforts of national government and development partners to address these issues.

The WG-DLG recently reviewed the activities under its new work-plan to ensure consistency with the major goals and strategies of the PDP. This position paper summarizes the priorities of the PDF-WG in relation to the PDP and suggests critical issues that require government action.

### **Overview of the WG-DLG Work-Plan for 2011-12**

1. **Economic Development.** The macroeconomic goal of the PDP is to “ease fiscal space and achieve a sustainable revenue and spending path to support physical and human capital investments and provide basic social services.” The WG-DLG Work-Plan for 2011-12 strongly supports this goal mainly through its development agenda on “Improving Fiscal Autonomy for Local Development.” This agenda is focused on strengthening the fiscal capacities of LGUs to accelerate local economic development and includes activities organized around five specific objectives: a) more efficient local fiscal policies and procedures; b) increased own-source revenues; c) improved access of LGUs to financing; d) more efficient allocation of expenditures; and e) improved revenue management capacity.

The PDP also identified the development of globally competitive industry, agriculture and fisheries, and services sectors as among the strategic directions to achieve high, sustained, and inclusive growth. In support of this goal, the WG-DLG Work-Plan for 2011-12 includes a development agenda on “Accelerating Local Economic and Sustainable Development”, which aims to create an enabling environment for local economic and sustainable development. The activities under this agenda are organized around five specific objectives: a) streamlined business registration systems; b) improved LGU capacity to facilitate increased local investments, particularly through inter-LGU

alliance building and local public-private partnerships; c) better management of local public enterprises and utilities; and d) disaster resilient LGUs and communities.

2. Human Development. The PDP states that improving the quality of life of all Filipinos involves equitable access to adequate and quality social services and assets. The WG-DLG Work-Plan for 2011-12 supports this goal mainly through various activities that seek to strengthen the institutional framework and advocacy for critical devolved sectors, including water supply and sanitation, and local roads and infrastructure. The work-plan also includes activities to strengthen LGU disaster preparedness and capacity to adapt to climate change.
3. Governance and Security. With respect to governance, the goal of the PDP is to “promote and practice effective and honest governance... through four key strategies: ensure effective, efficient, transparent, accountable, and economical delivery of public service; curb corruption; strengthen the rule of law; and enhance citizen’s access to information and participation in governance.” The WG-DLG Work-Plan for 2011-12 strongly supports this goal through its development agenda on “Promoting Good Local Governance”, which aims to promote accountable LGUs exercising transparent and participatory local governance. There are six specific objectives under this agenda: a) transparent and accountable local operations; b) improved local government performance and monitoring; c) improved local public financial management; d) promotion of inter-LGU governance models for replication; e) improved capacities of local chief executives; and f) more efficient local service delivery.

#### **Critical Issues for Government Action**

1. Harmonization of Policies for Local Economic Development. The globalization of trade and commerce has expanded the role of LGUs in promoting national competitiveness. Among the major constraints that have limited the ability of LGUs to serve as engines of local economic development is the weak coordination between national government and LGUs and the inconsistency between national and local policies and procedures.

An important area that demands improved harmonization is bureaucratic procedures for business permitting and licensing. One of the major activities of the WG-DLG in the past two years is the streamlining of business registration processes at the LGU level. However, even as these efforts have already produced successful, tangible results at the local level, bottlenecks in business registration and operation remain at the national level. In order to fully streamline business registration procedures, which is critical for improving the investment climate, the national government and LGUs must work collaboratively to address the bottlenecks in the entire process.

Local economic development is also constrained by the inconsistent and unpredictable local investment policy environment resulting from conflicts between national and local policies and legislation. Prominent examples of these include: a) the passage of restrictive local mining ordinances that appear to conflict with national laws; b) the unclear legal position on the local taxation of government-owned and operated enterprises; and c) the establishment of special economic zones without the close consultation of the LGUs where the zones are located. There is an urgent need to provide a consistent and predictable policy environment for investments, which requires greater harmonization between national government and LGUs in terms of investment policies and incentives, investment planning for high impact industries (such as tourism and mining), and infrastructure plans.

2. Aligning LGUs to National Development Priorities using Categorical Grants and Incentives. Another dimension of the weak coordination between national government and LGUs relates to the challenge of aligning LGUs to the national development agenda. The PDP provides a framework to deliver on the President's Social Contract and identifies strategic priority sectors under the plan. Categorical grants and incentives to LGUs represent powerful tools that the national government may leverage to align the large number of LGUs to strategic national development strategies and programs.

Presently, there are numerous programs implemented by various national agencies that channel grants to LGUs, often in a discretionary and non-transparent manner. These proliferating programs (potentially including PDAF) may be consolidated into a simpler, more transparent system of categorical grants such that there would be a specific grant program for each priority sector of the national government, with objective, sector-specific access requirements for each program. Categorical grants would facilitate increased and better-targeted investments by LGUs in strategic priority sectors.

Currently, there is also a heightened interest to utilize performance-based incentives to promote good local governance—DILG's new Performance Challenge Fund program is a prime example although similar efforts have been piloted by other line agencies such as DOH. The utilization of incentives is a potentially powerful tool for strengthening the institutional environment for local governance, in particular, systems of accountability for performance and service delivery. At this early stage, the national government may develop and adopt a strategic policy for LGU incentive systems to ensure harmonization and consistency among the different sectoral and cross-sectoral incentive programs for LGUs. A strategic policy for LGU incentive systems may also ensure that basic governance requirements (such as the "seal of good housekeeping") are integrated into categorical grant programs, which will facilitate the institutionalization of good governance practices.

3. Increased Government Support for Civil Society. Sustained, high-quality participation is necessary to attain the inclusive growth envisaged by the President's Social Contract and the governance goals of the PDP. Yet the challenge of achieving sustainability and scale of participatory governance remains 25 years after the pioneering People Power Revolution and 20 years after the Local Government Code enshrined the role of people's and non-government organizations as active partners in local governance.

Civil society organizations (CSOs) that are active in local governance are few in number and have uneven levels of capacity. Many lack knowledge of local governance processes to meaningfully participate in statutorily-mandated local special bodies. Participation is often project-based and donor-funded, which has limited the sustainability of such efforts. Demand for civil society participation has been mandated but the quantity and quality of supply has merely been assumed.

In light of these prevailing challenges, there is an emerging need for the government to support the capacity development of CSOs to facilitate genuine and meaningful participation in local governance. The PDP has correctly pointed out the critical need for effective and honest governance and it is now time to deepen the broad extent of the Filipinos' civic engagement to bring the President's Social Contract to bear.