



WORKING GROUP ON DECENTRALIZATION AND LOCAL
GOVERNMENT



AGREEMENTS REACHED DURING THE RETREAT OF GOVERNMENT OVERSIGHT AGENCIES ON LOCAL GOVERNMENT FINANCE ISSUES

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FLOW OF THE PRESENTATION

- Review of Action Agenda Areas in Local Government Finance
- Agreements Reached During August 4, 2006 Retreat
 - Policy Reforms: Revenue Mobilization
 - Policy Reforms: Expenditure Management
 - Capacity Building
 - Institutional Strengthening



ACTION AGENDA AREAS

POLICY REFORMS

*Revenue
Mobilization*

1. LGU Financing Framework
2. Priv. Sector participation in LGU projects
3. Limited access to private capital
4. Utilize ODA to catalyze LGU-private partnership
5. Review revenue mobilization of LGUs
6. Improve management of economic enterprises

*Expenditure
Management*

1. Regular and automatic release of LGU shares in national wealth
2. Implementation of Procurement Act at the local level



ACTION AGENDA AREAS

CAPACITY BUILDING

1. Increase LGU internal and external sources of funds
2. Management of debt
3. Harmonization of capacity building programs on fiscal and financial management

INSTITUTIONAL STRENGTHENING

1. Strengthen institutions to ensure mobilization of own-source revenues
2. Improve coordination among oversight agencies

DATABASE DEVELOPMENT

1. Improve information access to LGUs
2. Guidance to LGUs in choice of financial advisors

Policy Reforms: Revenue Mobilization

1. LGU Financing Framework

Issues/Recommendations

- **Matching Grants**
 - Re-adopt NEDA Board-approved cost-sharing scheme policy
 - Review cost-sharing policy for feasibility studies



Agreements

- DOF will request the NEDA-ICC to circulate the information (MDFO, NEDA)
- Develop proposal for a multi-donor facility to fund feasibility studies, including guidelines and institutional arrangements (DILG, NEDA)

Policy Reforms: Revenue Mobilization

1. LGU Financing Framework (cont'd)

Issues/Recommendations

- **Performance-Based Grants**
 - Develop indicators for PBGs
 - Install various levels of coordination:
 - WG to link GOP and development partner efforts
 - Steering Committee for all PBGs
 - Technical coordination and clearly defined responsible unit within each sector agency
 - Organization of assessment teams and resource pool of experts



Agreements

- Oversight agencies to review preliminary list of PBG indicators (DOF, DBM, DILG, NEDA)
- Creation of Steering Committee to oversee all PBGs composed of DBM, DOF-MDFO, DOF-BLGF, DILG, and NEDA subject to approval of DOF, MDFO management (MDFO)

Policy Reforms: Revenue Mobilization

3. Limited access of LGUs in private capital

Issues/Recommendations

- **Pilot selective opening of credit-worthy LGU deposit accounts to private financial institutions**
- **Strategy review for Municipal Development Fund**
- **Set up innovative financing mechanisms including those created by various laws**



Agreements

- *Issue already prioritized and is set to be addressed as per government's priority agenda list*

Policy Reforms: Revenue Mobilization

4. Utilize ODA to catalyze private-LGU partnership

Issues/Recommendations

- **Untie loans and grants to LGUs (do not make loan a condition for providing grant)**



Agreements

- Fast-track development and implementation of performance-based grant mechanisms (MDFO)

Policy Reforms: Revenue Mobilization

5. Review revenue mobilization of LGUs through traditional and non-traditional sources

Issues/Recommendations

- **Address case of approving many tax exemptions; in some cases, huge opportunity costs for LGUs**



Agreements

- Develop policy study (e.g. cost-benefit analysis) on local taxation, including granting of fiscal incentives

Policy Reforms: Revenue Mobilization

6. Improve management of economic enterprises

Issues/Recommendations

- **Establish clear guidelines for LGU business enterprise development**



Agreements

- *Issue already prioritized and is set to be addressed as per government's priority agenda list*

Policy Reforms: Expenditure Management

1. Regular and automatic release of LGU shares in national wealth, other taxes

Issues/Recommendations

- **Review IRA sufficiency**



Agreements

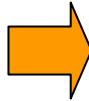
- There is a need to review IRA formula

Policy Reforms: Expenditure Management

2. Implementation of Procurement Act at the local level

Issues/Recommendations

- **Improvement of internal controls in LGUs**



Agreements

- Need to develop financial management system of LGUs (no specific recommendation)

Capacity Building

1. Increase LGU internal and external sources of funds

Issues/Recommendations

- **Scaling up TA to LGUs on fiscal and financial management**



Agreements

- Development of integrated manuals, modules, training team and undertake roll-out jointly (DILG, DOF, MDFO, BLGF)
 - *Dissemination of joint issuance*
 - *Inform donors on harmonization scheme*
 - *Link electronic systems which correspond to manuals/ tools with conduct of consultations with COA*

Capacity Building

3. Harmonization of capacity building programs on fiscal and financial management

Issues/Recommendations

- **Re-scoping of TAs (in general)**
- **Improve coordination efforts of NGAs to provide technical and financial assistance to LGUs in planning, budgeting, resource mobilization, financing options**
- **Screening and monitoring of ODA opportunities**



Agreements

- Oversight agencies to hold dialogues with concerned development partners as a team to present project scope)
- Keep “team” members informed; conduct regular meetings (lead agency per area)
- Develop ODA entry-point screening and monitoring system/ process (i.e. additional page in template for submission to DILG) (NEDA, DOF, DBM, DILG)
- Presentation of such to NEDA-ICC Board and request inclusion of DILG in ICC (DILG)

Capacity Building

3. Harmonization of capacity building programs on fiscal and financial management (cont'd)

Issues/Recommendations

- **Re-scoping and finalization of ADB TA 4778 configuration**
 - **Re-scoping/ Configuration of Outputs**

 - **Budget re-estimation**



Agreements

- Non-accommodation in ADB TA 4778 of new proposed outputs for Component B; possibility of “Review of release procedures for special shares of LGUs in national wealth, ecozones, Value-Added Tax (VAT), tobacco excise”, to be accommodated under EPRA will be explored
- No objection to limitations imposed by budget caps which will limit roll-out of manuals to trainors’ training and pilot-testing
- Budget to be re-estimated to take into account recent change in international and local consultancy rates (DILG)

Capacity Building

3. Harmonization of capacity building programs on fiscal and financial management (cont'd)

Issues/Recommendations

- **Re-scoping and finalization of ADB TA 4778 configuration (cont'd)**
 - **TOR for Project Outputs**
 - **Procurement Processes/ Implementation Arrangements**



Agreements

- Detailed TORs for each project output to be prepared (DILG as lead)
- Discuss with ADB on possible flexibility of in prescribed arrangement of hiring a single firm to undertake all procurement processes (DILG)

Institutional Strengthening

2. Improve coordination among oversight agencies

Issues/Recommendations

- **Establish oversight for non-IRA grants (screening)**



Agreements

- Create coordination mechanism and guidelines on grants (in general, not just on non-IRA grants)

Moving the Decentralization Policy Forward

Issues/Recommendations

- **Lead sectoral agencies to submit rationalization plans (EO 366) indicating plans for devolution of functions (in line with EO 444)**
- **Conduct and make public the strategic review of continuing decentralization (EO 444)**



Agreements

- Conduct information dissemination activities and provide advisory services to CMT teams of sectoral NGAs on EO 366 and EO 444 (DBM, DILG)

ANNEX

