

**WORKING GROUP ON DECENTRALIZATION
AND LOCAL GOVERNMENT**

**PROGRESS REPORT & PROPOSED 2006
ACTION PROGRAM ON LOCAL
GOVERNMENT FINANCE**

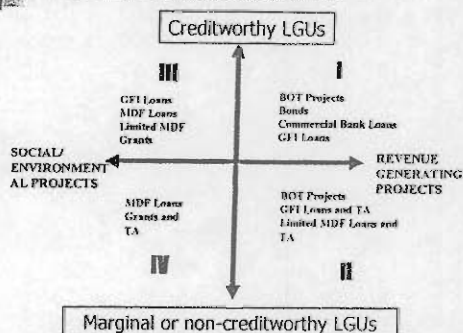
Undersecretary Roberto B. Tan
March 29, 2006

**1. Strict Implementation of
LGU Financing Framework**

Issue:

- While the LGU Financing Framework was approved in 1996, this has not been strictly followed, hampering access to private capital

LGU Financing Framework



**1. Strict Implementation of
LGU Financing Framework**

Action Needed:

- Reiterate adoption of the policy through NEDA-ICC & strictly enforce it
- DOF to issue a memorandum to ICC to clarify roles of GFIs, MDFO, PFIs, directions for ODA, channeling of grants

2. Shift to Performance-Based Grants

Issues:

- Need to rationalize NG policy and mechanisms on grants to LGUs
 - While grants are available, NGAs were retained as implementors of LGU devolved Projects
 - Grants have brought down interest rates but diluted effectiveness of credit programs
 - There is no transparency on the eligibility criteria and mechanics for accessing grants by LGUs

2. Shift to Performance-Based Grants

Action Needed:

- Re-adopt the 2003 NEDA Board approved NG-LGU cost sharing policy over the zero grant policy
- DOF to design and develop a framework for a performance-based grants system using governance indicators under the LGFPMS and LGPMS
- Policy Grants to be handled by oversight agencies
- Grants can be leveraged to access more credit from private sector to promote developmental activities and partnerships

3. Harmonize On-Lending Terms of ODA among GFIs

Issue:

- Different on-lending terms and levels of concessionality distorts the market

Action Needed:

- National Credit Council to conduct a study to decide and provide a clear policy environment

4. Developing LGUs Own Source Revenues

Issues:

- LGU revenue generation needs to be optimized
 - Need to improve LGU understanding of local taxing and revenue raising powers
 - Collection efficiency of RPT and BT remains below acceptable levels
 - Values for Real Property Taxation are low

4. Developing LGUs Own Source Revenues

Action Needed:

- Develop greater awareness of LGUs on their Taxing and Revenue Raising Powers and Fiscal and Financial Performances through the ff:
 - Publication of Fiscal and Financial Performance Rating System
 - Continue providing capacity building initiatives
 - Documentation and Sharing of Best Practices
 - Provide direct revenue raising projects such as RPTA and BTE
 - Study possibility of piggy-backing on certain national taxes

4. Developing LGUs Own Source Revenues

Action Needed:

- De-politicize the preparation of schedule of fair market values for RPT purposes
- Introduce Valuation Reforms (e.g. LAMP)
- Explore Non-traditional Revenue Sources
- Improve Coordination of NGAs and LGUs on Fiscal and Financial Matters
- Review cost efficiency of local finance operations and overall expenditure management of LGUs

5. Information Sharing to Increase Tax Collections

Issues:

- Stronger coordination among DOF Agencies is necessary to optimize revenue collection
- BIR-BLGF and ULAP-DOF-BIR MOA for information sharing has been passed but only on a one way basis as BIR invokes the NIRC provision on confidentiality of data (Sec.270, NIRC & Sec.171, LGC)

Action Needed:

- BIR-BLGF-DOF to find an administrative solution on the matter

6. Re-engineer BLGF

Issues:

- Issuance of the LGC mandated additional responsibilities to BLGF without funding support
- BLGF is not adequately structured to respond to new challenges after the issuance of the LGC
- BLGF to shift to facilitation rather than regulation

6. Re-engineer BLGF

Action Needed:

- Push for re-engineering rather than rationalization of BLGF to respond to new challenges
- Support capacity building activities for BLGF

7. LGU Access to Financing

Issue:

- Clarification on channeling of ODAs through MDFO/MFC, and government policy on management of grants to LGUs.

7. LGU Access to Financing

Action Needed:

- Draft bill to transform MDFO/MFC Charter and amend EO 252
- Maintain MDFO as fund conduit/ implementer of ODA sourced lending-grant projects for less creditworthy LGUs
- MDFO to expand financing facilities through MDF 2nd Generation Fund

MDF-SGF Financing Facilities for LGUs

- Program Lending (PROLEND) Facility for Provinces
- Millennium Development Goal-Fund
 - Operational guidelines being developed;
 - For social projects of 4th to 6th income class LGUs
- LOGOFIND & LISCOP Projects Sub-loan Financing
- Stand-by Credit Line for Water Revolving Fund
- Bridge Financing for ODA Funds

8. LGU Access to Capital Markets

Issues:

- LGUs' lack of information on Capital Markets
- Opportunistic/unscrupulous financiers and financial advisers expose LGUs to unwarranted financial risks and problems
- Clarify BLGF role in processing of LGU bond flotation

8. LGU Access to Capital Markets

Action Needed:

- Provide training assistance to creditworthy LGUs on capital market opportunities for financing
- DOF to develop a Manual for Debt Policy and Risk Management to eliminate opportunistic/unscrupulous financiers and financial advisers (e.g. accreditation of financial advisors)
- Limit BLGF role in assessment of LGUs financial capacity & available sources of financing

9. Government Depository Banks

Issues:

- Government depository banks are limited to GFIs, MB accredited banks, per Department Order 27-05
 - LGUs should be given free choice of depository banks since Sec. 311 of the LGC only specified preference & not prescription on the use of depository banks
- Lack of information on LGU financial operation by PFIs limits banking relationship and LGU access to private capital

9. Government Depository Banks

Action Needed:

- Policy study to be conducted on depository banks of LGUs to complement 1996 LGU Financing Framework

Mabuhay!