

**PHILIPPINE GOVERNMENT-DEVELOPMENT PARTNERS  
WORKING GROUP ON DECENTRALIZATION AND LOCAL GOVERNMENT**

**Table 1. LGU Concerns of Local Government Finance as Articulated in Various Forums**

Issues/Areas (1)	Proposed Action Agenda (2)	Remarks (4)	Agency Responsible/ (5)	Status (6)	Fund Source <sup>1</sup> (7)
A. <u>Policy Reforms</u>  <i>Revenue Mobilization</i> 1. LGU Financing Framework	1.1 Formal adoption of the LGU Financing Framework	-raised by Leagues (based on LCP paper), EPRA consultations	-DOF (MDFO through the Policy Governing Board) to implement	- DOF committed to work towards the adoption of the policy either through a a NEDA Board resolution	GOP action; no funding needed
	1.2 Implementation of the NG-LGU cost-sharing arrangement adopted by the NEDA Board in March 2003	- raised by Leagues (based on LCP paper), WG March 15 consultations	DOF	NEDA ICC re-adopted the NG-LGU arrangement but allowed exceptions in projects where LGUs will undertake reforms	GOP action; no funding needed
	1.3 Introduction of performance-based grants	- raised by Leagues (based on LCP paper), WG consultation on March 15	- DOF, DBM and DILG; with donor assistance	DOF together with DBM and DILG is working out the mechanics for the system .	- Funded by the WB
2. Limited private sector participation in LGU projects	2.1 Review of actual LGU experiences with BOT projects and recommend measures to make BOT attractive for LGUs and private sector proponents; strengthen regulatory regimes in particular sectors for which BOT projects would be appropriate.	- raised by Leagues (based on LCP paper)	- DTI-BOT Center		Included in ADB TA 4556
	2.2 Improve coordination between the DTI-BOT Center and its regional offices with the DILG, NEDA and DOF in promoting LGU concerns	- raised by Leagues (based on LCP paper)	GOP	- DOF committed to the PDF to improve the coordination between NGAs and the LGUs on fiscal and financial matters	GOP action
	2.3 Dissemination of revised rules and procedures in BOT project approval process;	- raised by Leagues (based on LCP paper), WG consultation on March 15	- DTI-BOT Center		GOP action; no funding needed
3. Limited access of LGUs to private capital	3.1 Accreditation of more private financial institutions (PFIs) as depository banks. A study, which is proposed to be undertaken on the issue will: (1) trace the historical developments that led to the reduction of depository the number of depository banks of LGUs; (2) the pros and cons of accrediting additional PFIs as depository banks; (3) present options; and (4) the	- raised by Leagues (based on LCP paper) , WG consultation on March 15, EPRA consultations	- BSB, DOF	-DOF committed to: (1) undertake a policy study on depository banks of LGUs to complement the 1996	- included in the ADB TA 4556 (DOF)

<sup>1</sup> The ADB TAs for DOF and DILG are still being reviewed. The outputs identified in the matrix are those found in the original project document and may change after the review.

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	feasibility of allowing PFIs to have the same arrangement as GFIs in having access to IRA for LGUs who fail to service debt promptly.			LGU financing framework;	
	3.2 .Put up a mechanism for assessing credit worthiness of LGUs and for preparing creditworthiness action plans	- raised by Leagues (based on LCP paper) , WG consultation on March 15	- DOF		- ADB TA 4778 (DILG) under Component C which includes as outputs: (1) creditworthiness assessments of participating LGUs; and (2) creditworthiness action plans for all participating LGUs - ADB TA 4556 (DOF) includes as output “ analytical study of LGU income group classification system and recommendations for reform” which is an input to the creditworthiness assessment of LGUs
	3.6 Review the provision of the Tax Code subjecting to tax the interest earnings from LGU bonds with maturity of over 5 years with the end in view of granting exemption	- raised by Leagues (based on Sarmiento paper)	- DOF/EPRA		- Proposed for inclusion in the USAID EPRA
	3.7 Recognize local government bonds as government securities and automatically list in the fixed income securities market	- WG consultation on March 15	- DOF with SEC (?)		- Proposed for inclusion in the USAID EPRA
4. Utilize ODA and GFIs to catalyze private-LGU partnership and more effectively assist lower income class LGUs	4.1 Leverage ODA resources to secure LGU access to private capital rather than used only for direct on-lending including two-step loans from PFIs	- raised by Leagues (based on LCP paper)	- Donors/DOF	GOP will continue to work with the donors in developing schemes for leveraging ODA resources to secure LGU access to private capital	-Donors to individually work on the scheme per project
	4.2 Harmonize GFIs’ on-lending terms from ODA;	- raised by Leagues (based on LCP paper) , WG consultation on March 15	- DOF, GFIs with donor assistance	- committed by DOF to PDF; National Credit Council to conduct a study to decide and provide a clear policy environment	WB assistance already provided; inception report being discussed
	4.3 Streamline the approval process for LGU projects by giving GFIs a free hand to approve sub-projects; - Keep project eligibility requirements to a minimum; - Reduce documentary requirements to fast-track approval and implementation of sub-projects	- raised by Leagues (based on LCP paper)	- Donors/DOF		GOP/Donors action; no funding needed
	4.4 Use ODA to finance project preparation activities of LGUs; provision for a financing facility for the preparation of feasibility studies	- raised by Leagues (based on LCP paper)	- DOF/DILG/NEDA		Project preparation guidelines already

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		WG consultation on March 15			included in the ADB TA on planning; pilot testing included in the proposed AusAID PEGR grant
5. Improve revenue mobilization of LGUS from traditional sources	5.1 Property assessments have not kept pace with changes in market values: - Propose measures including provision of incentives to LGUs to ensure enforcement of the law; - Develop standard valuation for real property tax for the entire country	- raised by Leagues (Sarmiento paper), WG consultation on March 15, EPRA consultations	- DOF	- LAMP is already working on the following: (1) approval of fair market values to be decentralized to the BLGF regional offices instead of the <i>Sangguniaian Bayan</i> ; and (2) revision of the LGC so that LGUs not complying with the GRA requirement would have their GRA performed by NG.	- Included in the USAID EPRA are advocacy activities leading to the formulation of a draft consolidated bill for LARA, NAA, RESA incorporating the positions generated from the consultations
	5.2 National government agencies to address different reporting systems and conflicting guidelines in relation to resource mobilization	- raised by Leagues (Sarmiento paper)	- DOF, DBM, COA	- DOF, during the PDF meeting, agreed to work towards improving the coordination between NGAs and the LGUs on fiscal and financial matters; - DILG, through the WG Subcommittee on Management and Coordination of Capacity Building Programs, is harmonizing NEDA planning manuals, DBM budgeting manuals and DOF revenue manuals.	- Partly addressed by ADB TA 4556 with the proposed development of the LGAS harmonized treasurers' manual - Addressed partly by ADB TA 4778 (DILG) with DBM proposal to prepare integrated manuals for planning, revenue and expenditure management under Component B as well as a joint training program on the use of said manuals.
	5.3 Review SITUS of tax rule	- WG consultation on March 15	- DOF		- Included in USAID EPRA strategic plan
6. Policy reforms to encourage better management of economic enterprises	6.1 Policy and legal review of municipal enterprises	- raised in the PDF meeting	- DILG		- Proposed for inclusion in ADB TA 4778
	6.2 Separate accounting system for municipal enterprises	- raised during PDF meeting	- DOF, DILG		- Proposed to be included in the ADB TA 4778 (DILG). To be studied in relation to the crafting of

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					better guidelines on the 45/55 personal services cap, and the development of criteria for the establishment of municipal enterprises
	6.3 Amend the LGC such that the debt service for real revenue generating and self-liquidating enterprises be no longer subjected to the 20% debt cap	- raised by Leagues (Sarmiento paper)	- DOF		- Proposed to be included in the ADB TA 4778 (DILG)
	6.4 Exemption of economic enterprises to the personal services limitation	- raised in the WG consultation on March 15	- DBM, COA	DBM is studying the possibility of a joint DBM-DILG Circular to implement the proposed policy	- Proposed to be included in the ADB TA 4778 (DILG), see above
<i>Expenditure Management</i> 7. Regular and automatic release of LGU shares in national wealth and other taxes	7.1 Address procedural problems related to the release of LGU shares in national wealth and other taxes, e.g. synchronization of deadlines, estimation problems	- raised by Leagues (based on Sarmiento paper)	- DBM, DOF-BIR	DBM has been addressing the problem related to the submission of collection reports but synchronization of deadlines and better estimation procedures will help	- USAID EPRA will address these through the drafting of necessary issuances
8. Some provisions in the Procurement Act may not be practical to implement at the LGU level	8.1 Hold dialogues with LGUs on the implementation of the Procurement Act and amend provisions of the Act to make them more relevant to LGU operations	- raised in EPRA consultations	DBM	- DBM is proposing the development of simplified local procurement manuals under the ADB-TA for DILG	Simplified bidding documents are being developed under WB ASEM . - Presently included in the ADB TA 4778 (DILG) and the USAID EPRA
<b>B. Capacity Building</b> 9. Increase LGU internal and external sources of funds	9. 1 Develop training and capacity building programs in the following areas: - revenue generation,	- raised by Leagues (based on LCP paper), WG consultation on March 15	-DOF (MDFO and BLGF together with LGA and DILG)	- DOF committed to PDF the continued provision of capacity building initiatives for (1) credit worthy LGUs on capital market opportunities for financing	- ADB TA 4556 (DOF) includes the design of financial and economic models for determining LGU fiscal capacity - ADB TA 4778 (DILG) includes training in revenue and expenditure estimation; (2) design and implementation of a resource mobilization training program; and (3) development of a new LGU tax manual.

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					- Proposed AusAID PEGR project includes the development of a revenue and expenditure forecasting model.
	- expenditure management	-do-			ADB 4778 will address the development of the revised edition of the current budgeting manuals to include multi year budgeting and performance mgt
	- financial management	-do-			- ADB TA 4778 (DILG), ADB TA 4556 and AusAID include assistance for the development of investment proposals and financing packages for LGUs
	- planning	-do-			- ADB TA (NEDA) already developed a comprehensive set of planning guidelines for provinces covering budgeting, project development and revenue mobilization; - AusAID is proposing a model for LGU local development/capital investment programming - GTZ is also proposing as part of its planned Support for Decentralization Program the development of standards, instruments and methods for planning, budget management, among others.
	- project development; and	-do-			Already addressed in ADB TA (NEDA) but

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					still included in ADB TA 4778 (DILG)
	- municipal enterprise management	-do-			Proposed for inclusion min the ADB TA 4778 (DILG)
	9.2 Use of IT systems to improve revenue mobilization	- WG consultation on March 15	- DOF		- ADB TA 4556 (DOF) will incorporate into the BLGF computer system the following: (1) the LGU debt-monitoring system; (2) the LGU financial services provider database; and (3) LGU fiscal capacity model. - LOGOFIND is providing funding support to LGUs for RPT computerization
	9.3 Better documentation and sharing of best practices among LGUs	- WG consultation on March 15	- DOF	- DOF committed to PDF : (1) the documentation and sharing of best practices; and (2) providing direct revenue raising projects such as RPT and BTE	Included in the AusAID proposal
10. Management of debt	10.1 Make available to LGUs a manual for the management of debt	- WG consultation on March 15	- DOF	DOF committed to the PDF the development of a Manual for Debt Policy and Risk Management	- ADB TA 4778 (DILG) has identified as an output “debt management manual for LGUs” - ADB TA 4556 (DOF) includes as output LGU Debt Monitoring System and Database
11. Harmonization of capacity building programs on fiscal and financial management	11.1 The following outputs have been agreed by the Subcommittee on Fiscal and Financial Matters - Agreement on core competencies for fiscal and financial management - Harmonization of training modules - Development of common needs assessment tools - Recommendations on delivery mechanisms - Strategy to harmonize CB programs on fiscal and financial management including recommendations on institutional arrangements	- part of WG work plan	- DOF, WB, DILG-LGA	- Agreed during the PDF Meeting and endorsed by the WG Subcommittee on Capacity Building on Fiscal and Financial Management and the WG (Meeting of May 2, 2006)	- Proposed for inclusion in the ADB TA 4778 (DILG). Related activities will include development of internal audit manuals for LGUs in coordination w/ COA and PAGC

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<u>C. Institutional Strengthening/Improved Coordination</u>					
12. Strengthen institutions to ensure the mobilization of own-source revenues	12.1 Establish the Municipal Finance Corporation (MFC) with an original charter	- raised by Leagues (based on LCP paper) , WG consultation on March 15	DOF with Congress; with donor assistance	- DOF committed to the PDF to (1) draft the bill to transform the MDFO/MDF charter and amend EO 252; (2) maintain the MDFO as fund conduit/implementer of ODA sourced lending-grant projects for less credit worthy LGUs	- Drafting of legal instruments to be funded by LOGOFIND
	12.2 Re-engineering of the BLGF, including redefining its role given rationalization objectives (e.g. coaching of LGUs)	- raised by Leagues (based on LCP paper) , WG consultation on March 15	DOF with donor assistance	- A study on the re-engineering of BLGF has already been done which includes proposal on its structure.	- Done but still included in the ADB TA 4556 (DOF)
13. Improve coordination among oversight agencies involved with LGUs and between LGUs and NGAs	13.1 Facilitate dialogue with between LGUs and the Commission on Audit on mutual concerns such as: - the implementation of the New Government Accounting System; and - the proposed LGU innovations in remittance procedures for tax Payments - procurement guidelines on consultancy services and underwriting in relation to the hiring of financial advisors by LGUs	- raised by Leagues (based on LCP paper) , WG consultation on March 15	GOP; with donor assistance	- On implementation of e-NGAS, the DBM is proposing (1) the implementation of the e-NGAs and the LGPMS; and (2) development of internal audit manuals in selected LGUs under the ADB TA for DILG, in coordination with COA and PAGC	- ADB TA 4778 (DILG) includes preparation of: (1) an action plan to implement e-LGAS; and (2) creation of an internal audit function in LGUs where one is lacking - USAID EPRA will draft Administrative Order on a standard and uniform implementation of NGAs
	13.2 Provide regular tax advisory updates to LGUs	- raised in EPRA consultations	DOF -	-Partly addressed by the BLGF which posts advisories in its website	GOP; No need for funding
<u>D. Database Development</u>					
14. Improve information access on LGUs	14.1 Ensure timely preparation and disclosure of uniform and accurate financial reports, including information on outstanding debt stock of LGUs	- raised in Leagues (based on LCP paper) WG consultation on March 15	- DOF	- DOF committed to PDF the publication of Fiscal and Financial Performance Rating	ADB TA 4556 (DOF) includes as output (1) the study of the Statement of Income and Expenditures

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				System	statement; (2) the development of an LGU Debt Monitoring System and Database; (3) LGU Financial Services Provider Database.
15. LGUs need to be guided in hiring of financial advisors	15.1 Provide a list of qualified financial advisors for LGUs	- raised during the WG consultation on March 15	- DOF	- DOF agreed to the accreditation of financial advisors as part of the Manual for Debt Policy and Risk Management it will prepare under the ADB TA 4556 (DOF)	ADB TA 4556 (DOF) includes as output the development of an LGU Financial Services Provider Database which the LGUs can access.