

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

Table 2. Other LGU Concerns of Local Government Finance

Issues/Areas (1)	Proposed Action Agenda (2)	Remarks (4)	Agency Responsible/ (5)	Status (6)	Fund Source ¹ (7)
A. Policy Reforms					
<i>Revenue Mobilization</i> 1. Clear assignment of revenue assignment across levels of LGUs	1.1 Give provinces and municipalities discrete assignment of revenue sources e.g. property and business licensing to municipalities and business taxes to provinces	- raised in ADB- WB Study and EPRA consultations	-DOF	- Need legislation	- Included in ADB TA 4778 (DILG) and USAID EPRA
	1.2 Allow LGUs to impose excise taxes on motor vehicle registration	- raised in ADB-WB Study	- DOF		-
	1.3 Allow provinces to impose piggyback rates on certain taxes	- raised in ADB- WB	- DOF	- DOF committed to the PDF the conduct of a policy study on this proposal	-
	1.4 Amend LGC restrictions on the frequency and rate of tax rate adjustment	- raised in ADB- WB	- DOF		-
	1.5 Issue IRR enabling LGUs to provide fee-based services for assistance provided to other LGUs in core administrative functions	- raised in ADB- WB	- DOF		-
	1.6 Amend the provision in the LGC prohibiting the use of the private sector for tax collection	- raised in ADB- WB	- DOF		-
	2. Limited access of LGUs to private capital	2.1 Establish a mechanism for LGU bond pooling or securitization through specialized revolving fund;	- raised by Leagues (based on LCP paper)	- DOF	
2.2 Make LGU bonds automatic reserve eligible for insurance companies		- raised in EPRA consultations	- Insurance Commission		-
2.3 BSP to reclassify LGU bonds as risk free following LGC rather than under the 50% risk category		- raised by Leagues (based on Sarmiento paper)	- BSP		-
2.4 Establish a credit rating system for all LGUs		- raised by Leagues (based on LCP paper), WG consultation on March 15	- DOF		-
2.5 Issuance of an Executive Order by the Office of the President expressing full support for LGU bond market development and providing for a conducive policy environment					-
2.6 Examine possibility of channeling funds to community-based organizations/NGOs with LGUs as guarantors		- WG consultation on March 15	- DOF		-
3. Real property tax constraints	3.1 Examine ways to assist LGUs in addressing payment of capital gains tax for real properties	- raised in EPRA consultations	- Leagues to advocate		-
	3.2 Amend the LGC to reflect the change in property valuation and assessment revisions every 5 years instead of 3 years	- raised in Sarmiento paper, WG consultation(Mar. 15), EPRA consultations	- DOF		-

¹ 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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<i>Expenditure Management</i> 4. Reduce expenditure for personnel services	4.1 Re-assess the compensation and position classification system provided in the LGC	- raised in the WB-ADB Study and EPRA consultations	- CSC and DBM	- DBM and CSC now reviewing the position classification and compensation system in the NG. LGU systems can take off from that	- ADB TA 4778 (DILG) includes the development of an improved personnel services expenditure policy for LGUs
	4.2 Provide incentives and technical assistance to Class 1 LGUs to design and install personnel management systems which can facilitate management of (1) compensation classification, personnel and positions; (2) streamlining, restructuring and reorganization where feasible; (3) actions to mitigate the effects of redundancy; and (4) capacity building in LGUs.	- raised in ADB- WB Study			
5. Procedural issues hamper correct IRA amount and timely release of IRA	5.1 Address the procedural issues such as transparency in IRA computations, timely releases of IRA. Some of the LGU requests are presented below: - address IRA shortfall amounting to P82.048 B net of P17.5B being monetized - avoid re-enacting the IRA in years when the national budget is re-enacted	- raised in Sarmiento paper, EPRA consultations; March 15 WG consultations	- DBM	- Congress has long insisted that the IRA must be appropriated in the GAA. Hence, rules on reenactment also apply to it	- IRA-related issues have been included in the ADB TA 4556 (DOF), ADB TA 4778 (DILG), the USAID EPRA and JICA
6. LGUs are burdened with unfunded mandates	6.1 Stop passing laws requiring functions for LGUs without corresponding resources	- raised in Sarmiento paper	- GOP with Congress	- DOF committed to the PDF to improve the coordination between NGAs and the LGUs on fiscal and financial matters	- USAID EPRA will draft necessary issuances on unfunded mandates
7. Withholding the share of cities and provinces in the motor vehicle users' charge (MVUC)	7.1 No forfeiture of share in any case (e.g. non-submission of reports)	- raised in Sarmiento paper	- DBM (?)		
8. Coordination Issues	8.1 Review of the LGC specifically sections 17 © and (f) to clarify expenditure responsibilities of government agencies	- raised in EPRA consultations	- DBM/DILG	- This is being addressed in EO 444 and the rationalization process	
<i>Financial Management</i> 9. Weak internal control environment in LGUs	9.1 Establish internal audit units in Class 1 provinces and cities	- raised in ADB- WB Study	- COA	- Will take off from current efforts being pursued by PAGC	- Will be done under ADB TA 4778 for pilot provinces
	9.2 Amend the LGC to provide for mandatory establishment of internal audit unit in each LGU, specify an internal auditor for Class 1 LGUs and a standing audit committee	- raised in ADB- WB Study	- COA	- Now can be done through an administrative order	- GOP action
10. Implementation of NGAS	10.1 Form an NGAS review and implementation monitoring committee	- raised in EPRA consultations	- COA		
	10.2 Re-engineer COA reports to include revenue and expenditure analysis	- raised in EPRA consultations	- COA		
	10.3 Make an inventory of LGUs using e-NGAS and get their feedback on the cost and efficiency of the program	- raised in EPRA consultations	- COA		

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B. <u>Capacity Building</u> 11. Budgeting	11.1 Training in budgeting		- DBM	- DBM is studying whether the proposal will be included in the ADB TA 4778 (DILG) Currently, DBM is conducting trainings on its LGU budgeting manual	- ADB TA 4778 (DILG) includes as output the “ <i>training in the use of medium-term expenditure frameworks and output-based budgeting</i> ”
C. <u>Institutional Strengthening/Improved Coordination</u> 12. Strengthen institutions to ensure the mobilization of own-source revenues	12.1 Mobilization of the DOF and its constituents (e.g. BIR) in strengthening financial capacity of LGUs, e.g. - opening the book of accounts of BIR to local Treasurers	- raised by Leagues (based on LCP paper) and the Sarmiento paper	- DOF		
	12.2 Rationalization of DILG (particularly Local Government Academy and Local Government Resource Centers)	- raised by Leagues (based on LCP paper), WG consultation on March 15	- DILG with donor assistance	- A study has already been done with CIDA funding. Recommendations were incorporated in the DILG rationalization plan.	
	12.3 Establishment of an LGU Bank	- raised during the PDF Meeting			
	12.4 Possible merger of NEDA and DBM	- Leagues (based on LCP paper)	- DBM and NEDA	- Will need a law. But initial areas of duplication being addressed with PEGR TA and the rationalization program	