

**2006 PHILIPPINES DEVELOPMENT FORUM:
A Meeting of the Philippines Consultative Group and Other Stakeholders
March 30-31, 2006
Tagaytay City, Philippines**

Strengthening Local Governance: Progress and Challenges

I. Background

The Working Group on Decentralization and Local Government was first convened in March 2005, with the Department of Interior and Local Government (DILG) and The World Bank as Lead Convener and Co-Convener, respectively. The membership of the Working Group includes representatives from government and the international development community, as well as local government, academe, civil society and the private sector.

During the March 2005 meeting of the Philippine Development Forum (PDF), the Working Group agreed on the following themes and corresponding goals:

- **Capacity building:** formulate the framework and mechanisms for improving coordination and harmonization of capacity building interventions
- **Performance benchmarking:** institutionalize performance benchmarking systems
- **Local Government financing:** improve the environment for Local Government Unit (LGU) financing
- **Policy reforms:** clarify roles of LGUs and national government agencies in the delivery of basic social services (e.g. health, social welfare, agriculture and environment and natural resources)

The activities of the Working Group during the year therefore focused on activities that would facilitate the accomplishment of these goals.

II. Accomplishments

A. The Working Group as a Mechanism for Aid Effectiveness

For the past year, the Working Group served as a catalyst for harmonization of development assistance for strengthening decentralization in the Philippines. Coordination improved among the government agencies involved in addressing decentralization issues, the LGU Leagues and the international development partners providing development assistance to LGUs and other decentralized activities. The “local government sector” is broadly defined with LGUs as the main focal point but also includes other organizations which

LGUs relate to (e.g. national agencies, LGU Leagues, service providers, civil society organizations and networks and academic institutions). The meetings of the Working Group facilitated consensus-building on national policies affecting LGUs, better identification of needs of the LGUs, greater ownership of programs and projects by both the LGUs and the National Government.

Coordination also led to better alignment of development assistance with LGU priorities, partly due to more effective engagement of LGUs through the Leagues. The Working Group promoted greater harmonization of assistance through meetings, information sharing and deployment of joint missions. For instance, the presentations made by CIDA, GTZ, AusAID, WB and USAID-EPRA, among others, contributed to identifying areas for complementarity in their new projects. The Working Group also facilitated quick donor response to the needs of the LGUs as shown in the mobilization of assistance for the conduct of sector studies for ensuring local government inputs to the rationalization strategies of key national government agencies under Executive Order 444. Consistent with the intent of the Paris Declaration on Aid Effectiveness, the coordinative activities of the Working Group, therefore, have significantly contributed to setting the institutional mechanisms for better aid coordination and more effective results on the ground.

B. Progress in Accomplishing the Agreed Action Program

On the specific themes, the Working Group has generally moved towards addressing a number of critical issues on local governance identified by Group.

1. Capacity Building

a. In March 2005, there was general recognition that capacity constraint is a deterrent to decentralization efforts at the local level. While several capacity development programs have been undertaken since 1991, there was a need to make these more effective and attuned to the needs of the LGUs through improved coordination using a common framework.

b. As an initial activity, the Working Group, with assistance from CIDA, commissioned a study that prepared an inventory of capacity building activities provided to LGUs (Fig. 1), identified areas where overlaps existed and/or harmonization is critical, and recommended measures that could be undertaken to pursue more harmonized capacity development programs at the local level.

c. From the recommendations of the study, three subcommittees under the Working Group have been set up to implement the recommendations of the study on capacity building. To date, each of the Subcommittees have approved terms of references and specific outputs as summarized below:

- (i) **Subcommittee on the Management and Coordination of Capacity Development Programs for the Local Government Sector** will recommend approaches for the establishment of institutional and coordinative mechanisms for harmonizing capacity development programs in the local government sector. The Subcommittee has agreed to produce the following outputs: (1) a conceptual and operational framework to serve as a common reference for organizations involved in capacity development initiatives, improving in the process the targeting of program sites and coordination among donors; (2) propose institutional arrangements for harmonizing capacity development initiatives; (3) share experiences on the approaches to capacity building for the local government sector; and (4) address cross-cutting issues of concern to the other Subcommittees; (5) recommend an accreditation system for service providers of capacity development for LGUs.

- (ii) **Subcommittee on Capacity Building for Planning and Project Development** will harmonize capacity building programs in planning, investment programming and project development for the local government sector, through recommendations on the following: (1) common core competencies for LGU personnel and institutions; (2) common diagnostics tools; (3) inventory existing capacity building programs, modules and guidelines; (4) technical, institutional and policy constraints related to capacity building; (5) effective delivery mechanism including a strategy for achieving harmonization of these programs for the local governments sector; and (6) a system for identifying providers.

- (iii) **Subcommittee on Capacity Building for Fiscal and Financial Management** will address issues that impede the harmonization of capacity building programs on revenue mobilization, expenditure allocation and financial management for LGUs. The Subcommittee has agreed to work towards producing the following outputs related to fiscal and financial management: institutional core competencies, common diagnostic tools and modules, delivery mechanisms and a strategy for achieving harmonization of capacity-building programs in revenue generation, expenditure allocation and financial management at the local level.

2. Performance Benchmarking

- a. During the PDF in March 2005, the Working Group agreed on the importance of assessment tools to evaluate the performance of LGUs,.
- b. The government made substantial progress in rolling out the two existing local government performance systems: the Local Government Performance Management System (LGPMS), maintained by DILG, and the Local Government Financial Performance System (LGFPS), maintained by Bureau of Local Government Finance under the Department of Finance. As of end-January 2006, the LGPMS has been rolled out to 1,418 LGUs (84% of LGUs). A number of LGUs have used the results of the LGPMS in identifying programs and projects at their localities, and DILG has started preparing the State of Governance Report using data generated by the LGPMS.
- c. It was also agreed in March 2005 to move towards integrating the , LGPMS and LGFPMS systems. A Technical Working Group (TWG) was created to oversee the integration. To date, the TWG has (1) identified the financial indicators for inclusion in the LGPMS; (2) mapped the operational details for implementing the integration including the assistance needed; (3) drawn up the memorandum of agreement between the DILG and the DOF that contains the institutional responsibilities for the integration. The integration will benefit both the DOF and the LGUs in the following ways: (1) it will improve efficiency in the collection of financial information on LGUs with the decentralization of data capture to the LGU level from the DOF national office; (2) it will provide LGUs with more relevant indicators to assess their own financial performances which can now be related to service delivery outcomes; and (3) it will improve the LGU financial database at the DOF which can improve their capacity to provide advice to LGUs.
- d. The Working Group also agreed to review these and other performance monitoring systems, to identify further needs for local performance monitoring. A preliminary review of the two systems was undertaken through an ASEM grant to assess their usefulness to the performance-based grant system which the government has committed to support.

3. Local Government Finance

- a. In the March 2005 PDF meeting, the Working Group agreed to address key issues related to mobilizing additional own-source revenues by LGUs and expanding LGU access to borrowing, including more active private sector participation in LGU lending. These issues and the actions undertaken so far are presented below:
- (i) **Adopt a consistent framework for government credit and grants; consider options for market segmentation and financing of project preparation.** A concept paper on LGU Financing Framework was prepared with WB assistance and has been presented to the Working Group. A number of recommended areas for action in this framework have been addressed, as discussed below.
 - (ii) **Three studies were completed which provide substantial background information and policy recommendations:** the World Bank-ADB on strengthening local government financing and resource management; a study on the scope and management of non-IRA transfers to LGUs; and a study on performance grant mechanisms (refer to v below).
 - (iii) **Accreditation of selected private banks as LGU depository banks.** The DOF issued Department Order 27-05 on December 9, 2005, accrediting selected private financial institutions as depository banks for LGUs and liberalizing LGU options in the selection of such. However a number of constraints remain and this issue has been highlighted by local governments in a number of forums throughout the year.
 - (iv) **Harmonize on-lending terms of government financial institutions.** Technical assistance has been provided to the DOF with the objective of providing options and transitional strategies for aligning the current policy framework with changes in the financial environment of GFIs. The study is in progress and results will be discussed with the Working Group.
 - (v) **Consider well-targeted and performance-based grants.** A preliminary study was conducted on the design of a performance-based grant, leading to an IDF grant for a larger study, and organization of a Steering Committee to oversee the operational details of the system.
 - (vi) **NG-LGU cost sharing arrangement.** The government, through the Investment Coordination Committee Technical

Board re-adopted the 2004 NEDA Board-approved arrangement which provides a maximum of 50% grant for devolved functions. Some provision for performance incentives in national agency grants is also being considered.

- (vii) **Explore untapped LGU revenue bases (e.g. centralized land valuation, asset privatization).** The DOF-BLGF conducted the review and updating of the Revenue Code which identified untapped revenue bases which the LGUs can consider. The results of the review, however, still need to be disseminated.

b. In addition to the above actions, the government also initiated measures that improved the environment for LGU financing and expenditure management.

- (i) As part of the implementation of the financing framework for government credit and grant programs, the DOF installed certification requirements to determine the debt service capacity of LGUs and initiated an LGU Credit Monitoring Database.
- (ii) Reform measures in property valuation were also started by the DOF through the Land Administration and Management Project, which includes the setting up of ethical standards on valuation, the professionalization of real property assessors, and development of a Manual of Operations for Assessors, among others.
- (iii) To increase access of LGUs to capital, financing facilities have been developed for LGUs (e.g. Millennium Development Goals Fund, a program lending (PRO-LEND) facility for provinces, Water Revolving Fund for LGUs and the Water Districts).
- (iv) Trainings were also conducted on project preparation under the LOGOFIND Project.
- (v) To improve information generation and dissemination, the BLGF website has been set-up, containing financial information on LGUs. The BLGF and the Commission of Audit have also started to reconcile the financial accounts prescribed for LGUs.
- (vi) On expenditure management, the DBM issued the revised budgeting manual for LGUs in June 2005 and conducted the corresponding training components.

4. Policy Reforms

- a. The group discussed ways in which it could contribute to policy reforms to support decentralization.
- b. The Working Group initially concentrated its efforts on the issuance of EO 444 which led to the creation of a Committee on Devolution as a venue for undertaking studies and dialogues on devolution. With assistance from a number of development partners, studies were commissioned to further identify areas for devolution in agriculture, environment and natural resources, health, social welfare and financial matters with the different Leagues taking the lead in coordinating the studies and finalizing the official position of the LGUs on the recommendations of the study. The quick response of the donors enabled the concerned NG agencies to take into account the LGU perspectives in their rationalization plans. To date, however, the concerned national agencies are still studying the LGU positions and the implications of the recommendations on their operations.
- c. To identify other priority reforms for devolution, a technical assistance funded by the Asian Development Bank was approved with the objective of improving the legal framework for decentralization and undertaking an in-depth assessment of Philippine decentralization experience to date.

II. Proposed 2006 Action Program

For 2006, the Working Group will continue to focus on the four themes identified in the March 2005 PDF Meeting. Since many activities and programs have been started in 2005, it is logical that the WG continue the unfinished activities and build on the gains started. It is therefore proposed that its action program for 2006 consist of (1) on-going activities with firmed-up funding on the areas identified in its 2005 work plan; (2) new activities which will be discussed in the 2006 PDF meeting; and (3) important policy areas identified in the different forums but which can only be implemented by government.

A. On-Going Activities

1. *Capacity Building*: The work of the Subcommittees in the identified areas will continue with the following expected outputs, which have been agreed upon by their members:

- (i) A conceptual and operational framework for harmonizing capacity building programs for LGUs;
- (ii) Agreed common diagnostic tools, modules and delivery mechanisms for capacity development programs in planning, investment programming, project development, revenue generation, expenditure management and financial management at the local level;
- (iii) A strategy for achieving harmonization of capacity building programs for LGUs in planning, project development, fiscal and financial management, including institutional arrangements for better coordination of capacity building programs; and
- (viii) Mechanisms for enhancing information-sharing among donors, government agencies, LGUs and service providers on capacity building programs in the identified priority areas.

2. *Performance Benchmarking*: With the roll-out of the LGPMS and the LGFPMS, the Working Group can continue to support the following activities:

- (i) Strengthen the capacity of the national and regional management systems of DILG in overseeing the implementation of the LGPMS;
- (ii) Support the full utilization of the LGPMS by the LGUs, the Leagues, national government agencies and other stakeholders;
- (iii) Assess and improve the quality of administrative data used for LGPMS;
- (iv) Promote the use of performance information to enhance governance and fiscal performance;
- (v) Review other data collection tools available at the LGU level (e.g. community-based monitoring systems) for possible integration with the LGPMS.

3. *Local Government Finance.* The initiatives in improving resource mobilization and expenditure and financial management at the local level, which are listed below, have already been provided with funding support and should logically continue in 2006:

- (i) Establishing a credible performance grant mechanism to enhance local governance and revenue generation (IDF Grant);
- (ii) Review and coordinate lending terms of concessional finance provided through the GFIs (WB TA);
- (iii) Improve LGU expenditure and financial management (ADB TA);
- (iv) Enhance LGU access to budget resources both from traditional and own-source revenues like bank credit, bonds and BOT-arrangements (ADB TA); and
- (v) Improve the efficiency and effective delivery of services of the BLGF (ADB TA).

4. *Policy Reforms.* Policy reforms in the next 12 months will continue to focus on further moving forward the decentralization process:

- (i) Support implementation of agreements or action plans between the concerned NG agencies and the Leagues on the areas for further devolution in agriculture, environment and natural resources, health, finance and fiscal matters⁵
- (ii) Expand the sectoral studies and dialogue on other sectors, including government corporations and GFIs
- (iii) Conduct an assessment of the devolution experience in the Philippines and impact on service delivery for continuing policy reforms (ADB TA) and

⁵ Before an agreement can be reached, the transition process will involve identifying problems (e.g. legal constraints, readiness of LGUs) to full devolution in the concerned agencies, searching for successful models of devolution for replication and developing collaborative mechanisms among concerned agencies which are critical for the devolution process.

- (iv) Undertake capacity building programs for DILG and other oversight bodies to oversee the devolution process (ADB TA)

B. Possible New Working Group Activities for 2006

In addition to the above on-going activities, there are also new proposals which have been raised in various consultation fora that the Working Group may wish to consider as part of its work program for 2006:⁶

1. Capacity Building

- (i) Set up a sustainable and predictable funding source for project preparation, financial/project/enterprise management and other capacity building activities that are geared towards enhancing the exercise of corporate powers by LGUs.

2. Local Government Finance

- (i) A review of the legal constraints to expanding the list of private financial institutions as depository banks of LGUs, and address obstacles which limit access of creditworthy LGUs to private finance.
- (ii) Improve the coordination between the national government agencies and LGUs on fiscal and financial matters
- (iii) Develop innovative financing options/modes for scaling up ODA for LGU projects (e.g. leveraging ODA to facilitate LGU access to private capital rather than direct lending);

C. Proposed National Government Action Program

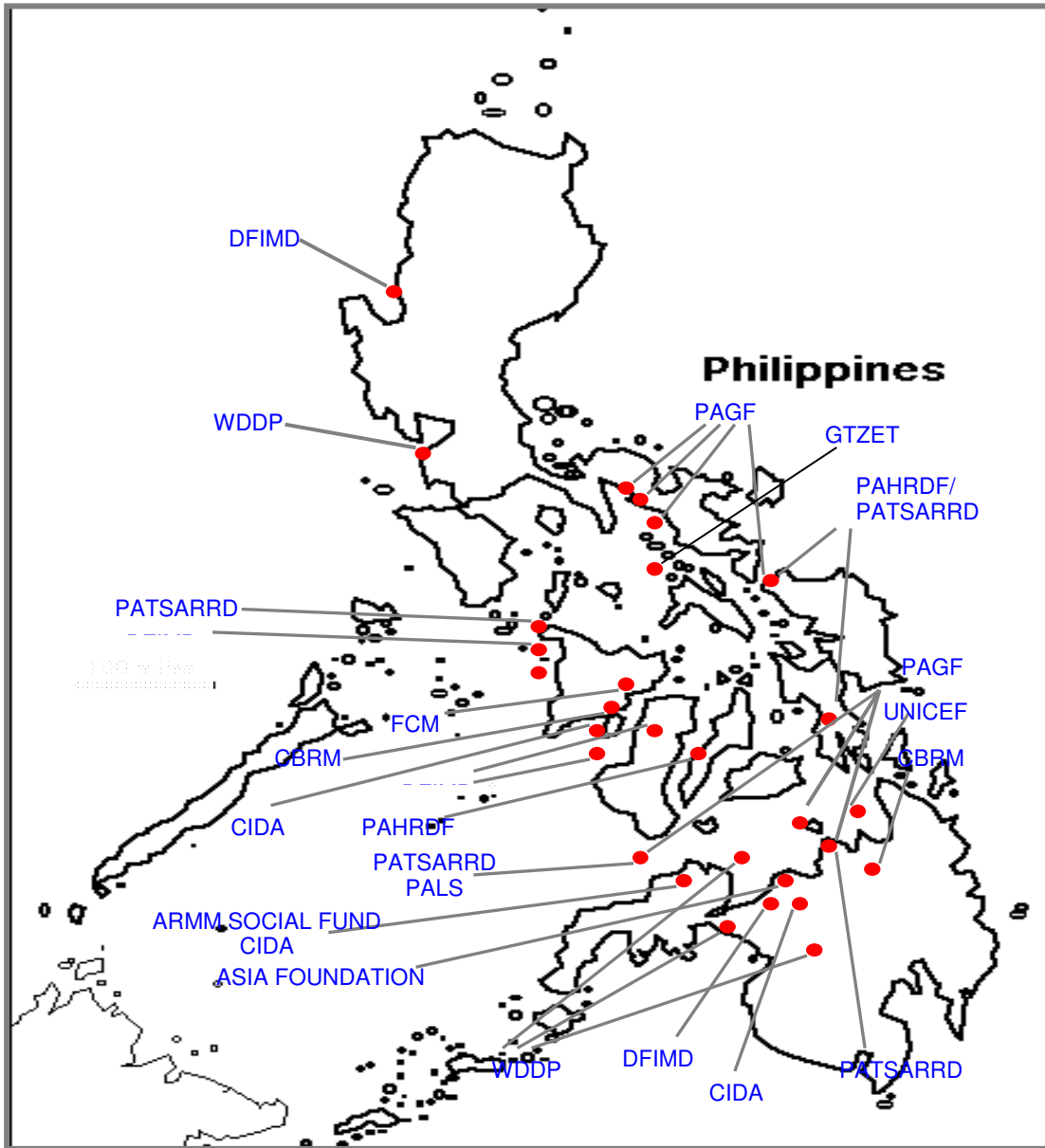
While the Working Group, as a committee, will work together towards the attainment of commonly agreed agenda, the government, for its part, may have to consider addressing some the issues raised by the local government sector:

1. Adopting as a policy the LGU Financing Framework, further clarifying in the process the NG-LGU cost sharing policy;
2. Clarify the government policy on the management of grants to LGUs;
3. Review restrictive policies on LGU credit such as debt service capacity, collateral requirements, placing of deposits and assignment of IRAs with private banks, etc.;

⁶ These proposals were raised during the Consultation Workshop held on March 15, 2006 as well as in the consultations of the USAID-funded EPRA project.

4. Simplify procedures of NG agencies to be more responsive to LGU priorities;
5. Streamline approval of BOT projects and LGU loans;
6. Improve BLGF-BIR coordination on the sharing of information (e.g. on business taxes); and
7. Improve coordination of efforts of NG agencies in providing technical and financial assistance to LGUs

Figure 1: Capability Building Programs



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*Source: Inventory and Assessment of Local Government Capacity Building Programs
(Guevara, 2006)*