



# PHILIPPINES DEVELOPMENT FORUM

Working Group on Decentralization  
and Local Government



## STRENGTHENING DECENTRALIZATION & THE REFORM PROGRAM FOR LGUS; PROGRESS REPORT FOR APRIL-AUGUST 2006<sup>1</sup>

### I. Objectives for 2006

During the March 2006 meeting of the Philippine Development Forum (PDF), the Working Group on Decentralization and Local Government agreed to pursue the following objectives for 2006 along the four themes of the Working Group:

- **LGU financing:** catalyze efforts in creating a more positive environment for financing LGU activities through consistency in policy implementation, improvement in the environment for LGU financing and formulation of new policies that will provide greater flexibility in accessing financing and promote greater accountability & performance;
- **Capacity building:** build the momentum for harmonizing capacity building efforts through more focused interventions, greater coverage and more cost-effective and innovative delivery mechanisms;
- **Performance benchmarking:** expand the utilization of performance monitoring systems through the vigorous promotion of the use of the systems by various stakeholders, putting in place an incentive system for their sustained use and for the promotion of good performance and improving the integrity and credibility of the performance measures; and
- **Policy reforms:** support devolution and rationalization through a through assessment of the devolution experience in the country and support for the capacity building of DILG, DOF and the LGU Leagues to oversee the devolution process.

Given the above objectives, the Working Group approved a more detailed action program on May 2, 2006 together with the a list of activities which will be undertaken during the year. Attachment A contains the detailed agenda for decentralization and local government which was based on the 2006 PDF and confirmed by the national government oversight agencies and the Leagues as priority measures through a series of consultation meetings organized in the last four months.

### II. Accomplishments

For the first four and one half months after the 2006 PDF, the Working Group focused its attention on the following three areas which set the stage for enhancing the capacity of LGUs to undertake the challenges of decentralization: (1) strengthening government commitment to the reform program by building consensus on the reform areas for local government finance, capacity building and performance benchmarking; (2) working towards a more aligned and harmonized donor assistance to local government units (LGUs) to ensure better use of resources; and (3) facilitating information-sharing on LGU related matters.

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<sup>1</sup> Prepared for the Interim PDF Meeting on August 18, 2006 to be held in Shangrila Manila, Makati City.

## 1. Consensus-Building on Key Reform Areas on Decentralization and Local Government

- a. Through the initiative of the DILG and the DOF, the government members of the Working Group together with the LGU Leagues agreed on a set of policy reform measures on local government finance which was endorsed to the Working Group in its meeting of June 20, 2006 as the framework of assistance on local government finance.
- b. To show its commitment to the reform program for LGUs, the government, in partnership with the donors, paved the way for removing some of the policy bottlenecks in the flow of financial resources to LGUs. The Investment Coordination Committee, in its meeting of May 12, 2006, reiterated the 2003 NEDA Board-approved cost-sharing policy between the national government and the LGUs which provided for a maximum 50% grant component for projects involving devolved activities. The following studies were also conducted to aid policy-making in the area of local government finance: (1) mechanisms for linking performance with the allocation of grants; and (2) harmonization of on-lending rates of Government Financial Institutions (GFIs).
- c. The Working Group, through the leadership of the DILG, addressed the issues on the proliferation of manuals and guidelines for planning, budgeting, revenue mobilization and financial management through assistance being provided by CIDA-LGSP and WB-CDS. A joint circular is being drafted by the DILG, DBM and DOF that will guide LGUs in their planning and budgeting activities and synchronize the planning and budgeting calendars at all LGU levels. The harmonized planning and budgeting circular will be the basis for formulating integrated training modules for LGUs in planning, project development, investment programming, budget/expenditure management, revenue mobilization and financial management which is planned to be delivered using a composite team of regional government agencies' staffs and service providers.
- d. The Working Group has identified the next steps in further expanding the use of the performance monitoring systems for LGUs, i.e. the Local Government Performance Management System (LGPMS) and the Local Government Fiscal Performance Monitoring System (LGFPMMS). To make these systems more responsive to both the LGUs and the oversight agencies, efforts will also focus on improving the indicators in the systems and in further enhancing their management. In the last four months, the Working Group facilitated the integration of ten of the 14 indicators from the LGFPMS into the LGPMS, which was operationalized in July 2006 with the data capture for 2005 LGU performance. With assistance from the UN agencies, the preparation of a State of Local Governance Report using the LGPMS data has been contracted, with the initial output for the State of the Cities Report expected in October 2006.



## 2. Alignment and Harmonization of Donor Assistance for Decentralization and Local Government

- a. Following government efforts to firm up an agenda for decentralization and local government, the Working Group organized thematic discussions on three of its four themes, namely local government finance, capacity building and performance benchmarking. The thematic discussions were venues for information-sharing on the priority reform areas of government provided with ODA funding support and those without assistance.
- b. The Working Group, through the development partners (i.e. the WB, ADB, GTZ, CIDA, AusAID and the UN agencies) provided or pledged support to many of its proposed activities.
- c. In response to the LGUs' call for greater flexibility in lending conditions in order to facilitate own-source revenue generation, the Working Group, through the development partners, explored innovative financing options for LGUs. The International Finance Corporation under the WB and the ADB presented proposals for LGU borrowing without sovereign guarantee. The WB also conducted studies on the possible design options for performance-based grants.
- d. Starting with issues related to local government finance, the Working Group identified areas where possible duplication in ODA may be occurring. This led to the re-scoping of some of the ODA proposals being contemplated by both the government and the donors. A similar exercise has been initiated with the proposed projects on capacity building for planning, budgeting, fiscal and financial management.
- e. The Working Group on Decentralization and Local Government also identified possible areas of duplication among the LGU-related proposals/activities of other PDF Working Groups. In a meeting held in May 2006 with other PDF Working Groups, the Working Group on Decentralization and Local Government proposed areas for harmonizing activities related to LGUs, which were generally endorsed by the participants.
- f. As part of the process of harmonization, the Working Group, through the government sector representatives, agreed to set up institutional mechanisms to address coordination problems among oversight agencies and improve harmonization of ODA, starting with local government finance issues.<sup>2</sup>
- g. Going further in harmonizing capacity building initiatives, initial discussions during the Working Group's thematic discussion on local government finance were undertaken to put a stop to the proliferation of capacity-building tools, including manuals and modules and develop a facility to support the scaling up of existing materials previously developed and endorsed by the government.

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<sup>2</sup> Decision during the government retreat held on August 4, 2006.



### 3. Information-Sharing on LGU-related Matters

- a. Since information sharing is important in promoting harmonization, the Working Group also devoted time to developing an LGU portal, [www.lguph.org](http://www.lguph.org), to complement the PDF website. The intention is to expand the present the Working Group website to include additional relevant information on LGUs, and to facilitate interaction among development partners, LGUs, the Leagues and government.
- b. The WG also prepared the maiden issue of the Working Group newsletter which can be used to disseminate information on LGU matters (refer to Attachment B).

### III. Future Challenges

Since the PDF meeting in March 2006, the WG has paved the way for improving the environment for resource mobilization of LGUs through more consistent policy implementation at the national level and by removing bottlenecks for increasing financing for LGU projects. The major task of the Working Group in the next months is to ensure that development partners can work closely with the national and local governments to promote consistent and strong support for local government reform programs.

Specifically, the Working Group will continue to provide avenues for continuous dialogues among the various stakeholders, promote transparency in ODA operations, synergize resources and to become more effective. Mechanisms for inter-Working Group coordination on LGU-related matters within the PDF will be undertaken to prevent unnecessary waste of resources on duplicative activities. Beyond coordination and harmonization, the Working Group has started discussions on the possibility of a vehicle where the development partners can contribute resources and expertise to a common facility to support agreed priorities for local government reforms, possibly following the successful example of the Mindanao Multi-donor Trust Fund. Such a common funding facility can significantly strengthen the partnerships toward achieving a common goal and bigger impact. On government's part, institutional mechanisms for better coordination of LGU-related issues is being worked out by the concerned oversight agencies headed by the DILG and the DOF.



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