

TOWARDS AN INFORMED CITIZENS' PARTICIPATION IN LOCAL GOVERNANCE

Sourcebook on Local Public Finance

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A project of Social Watch Philippines with support from UNDP and CSC



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Abbreviations and Acronyms

AAR	Annual Audit Report
AFR	Annual Financial Report
AFS	Audited Financial Statement
AIP	Annual Investment Plan
AO	Administrative Order
AOM	Audit Observation Memorandum
APP	Annual Procurement Plan
BAC	Bids and Awards Committee
BESF	Budget of Expenditure and Sources of Financing
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BOT	Build-Operate-Transfer
BPO	Business Process Outsourcing
CCAGG	Concerned Citizens of Abra for Good Government
CDA	Cooperative Development Authority
CDP	Comprehensive Development Plan
CITRR	Capital Investment to Total LGU Revenue Ratio
COA	Commission on Audit
CSO	Civil Society Organization
DAR	Debt to Net Asset Ratio
DBM	Department of Budget and Management
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOH	Department of Health
DSER	Debt Service Expenditure Ratio
DSR	Debt Service Ratio
EER	Economic Expenditure Ratio
EO	Executive Order
GAD	Gender and Development
GIS	Geographical Information System
GOSDSR	Gross Operating Surplus to Debt Service Ratio
GPPB	Government Procurement Policy Board
GRPA	Government Procurement Reform Act
IRA	Internal Revenue Allotment
JMC	Joint Memo Circular
LCE	Local Chief Executive
LDC	Local Development Council
LDIP	Local Development Investment Program
LEP	Local Expenditure Program

LFC	Local Finance Committee
LGC	Local Government Code
LGFPMS	Local Government Financial Management System
LGPMS	Local Government Performance Management System
LGU	Local Government Unit
LHB	Local Health Board
LSB	Local School Board
MCF	Marikina Citizens First
MDG	Millenium Development Goals
MIS	Management Information System
MMDA	Metro Manila Development Authority
MOA	Memorandum of Agreement
NEDA	National Economic and Development Authority
NGAS	New Government Accounting System
NGO	Non-government organization
NOSTRR	Net Operating Surplus to Total LGU Revenue Ratio
NSCB	National Statistics Coordination Board
NSO	National Statistics Office
OP	Office of the President
PBAC	Pre-qualification Bids and Awards Committee
PD	Presidential Decree
PDAF	Priority Development Assistance Fund
PDPFP	Provincial Development and Physical Framework Plan
PhilGEPS	Philippine Government Electronic Procurement System
PMS	Performance Management System
PO	Peoples' Organization
PPA	Program-Project-Activity
PPDC	Provincial Planning and Development Council
PPMP	Project Procurement Management Plan
PPP	Public-Private Partnership
PSER	Personel Services Expenditure Ratio
PTA	Parent-Teacher Association
RA	Republic Act
RPT	Real Property Tax
RPTAR	Real Property Tax Accomplishment Rate
RPTIS	Real Property Tax Information System
SCRA	Supreme Court Rulings Annotated
SEC	Securities and Exchange Commission
SEF	Special Education Fund
SER	Social Expenditure Ratio
SIE	Statement of Income and Expenditures
SK	Sangguniang Kabataan
SOA	Statement of Account
SRE	Statement of Receipts and Expenditures
TCC	Total Collection Cost
TRCC	Total Revenue Collection Cost
UBOM	Updated Budget Operatios Manual
UCBTER	Uncommitted Cash Balance to Total LGU Expenditure Ratio
UP-NCPAG	University of the Philippines National College of Public Administration and Governance
VAT	Value Added Tax

Introduction

This project is an offshoot of several institutions' common desire to enhance people's understanding and with greater understanding, informed participation, in local public finance matters. Fresh from and constantly renewing its participatory budgeting experience in Congress' annual budgeting exercise, Social Watch Philippines is now embarking on localizing its national experience. With support from the UNDP and the Civil Service Commission, this project came into being.

Rationale

Spending by local governments is a significant portion of total public sector expenditure. For the year 2010, it amounted to P351.3 billion or roughly 20 percent of total. This included the regular internal revenue allotment which is 40% of the total national taxes collected, plus other programs from different departments downloaded to local government units (LGUs) but excluded the Priority Development Assistance Fund (PDAF) of Senators and Congressmen which also largely goes to LGUs as beneficiaries.

Oftentimes, local government budgets and spending do not pass scrutiny of people's organizations and civil society organizations based in local communities. Likewise, sources of financing – whether coming from the traditional sources such as the Internal Revenue Allotment (IRA), real property taxes, or taxes from mineral and natural resource extraction – remain outside their radar.

While Social Watch has a fairly developed methodology and process for engaging Congress using the Millennium Development Goals (MDG) as lens for the national budget, local non-government organizations (NGOs) and people's organizations have yet to fully maximize openings provided by the Local Government Code (LGC) for local development planning, budgeting, identifying sources of revenues and spending. As a result, there are LGUs that exhibit the patronage-based and/or wasteful pattern of allocation and spending. Grand but ill-equipped hospital buildings without enough doctors, and even grander school buildings for schools that are grossly lacking in appropriate textbooks and good teachers are stark examples of such irresponsible spending.

An informed citizens' participation in local government budgeting, revenue generation and spending will hopefully contribute to more responsible and responsive spending and revenue generation by LGUs.

Discussion Flow

We shall start with the basics of local public finance. It shall be presented in a Question and Answer format for easy understanding and reference, citing best practices when available.

The second part identifies and explains the important role of the Commission on Audit in local public finance.

Part 3 shows areas within and outside the Local Government Code where people can participate in local public finance processes.

Part 4 talks about data sources on public finance and making sense of the tables and ratios that can be generated from those data sources.

Part 5 takes on two case studies – Marikina City and Guinayangan, Quezon and identifies areas for improvement for these two areas.

Part 6 presents the features of a draft legislation for people's participation in budgetary process in various levels of government – national government agencies, local government units and Congress.

Jessica Reyes-Cantos
Project Manager

I. Local Public Finance 101

By MA. GLADYS CRUZ-STA RITA

1. What is public finance and why should it concern you?

Local Public Finance refers to the conduct and management of financial affairs, transactions, and operations of provinces, cities, municipalities and barangays. You may think that's not something you should care about, but you're wrong. At heart, local public finance is about why some localities have more money, or spend money better than others. How local public finance is managed could spell the difference if a trip to the government doctor or nurse will take only half an hour or extend to half a day. It could spell the difference if the police or barangay tanod will turn up quickly or not at all when called for help.

In some laws, Local Public Finance is referred to as local fiscal administration. Regardless of how it is called, it is all about basically three things.

First, the generation of resources and revenues, primarily through taxes and transfer of grants from the national government.

Second, the allocation and utilization of such resources and revenues.

And third, the management and control over revenue generation and resource utilization.

Following is a more detailed enumeration of the scope of local public finance:

Scope of local public finance

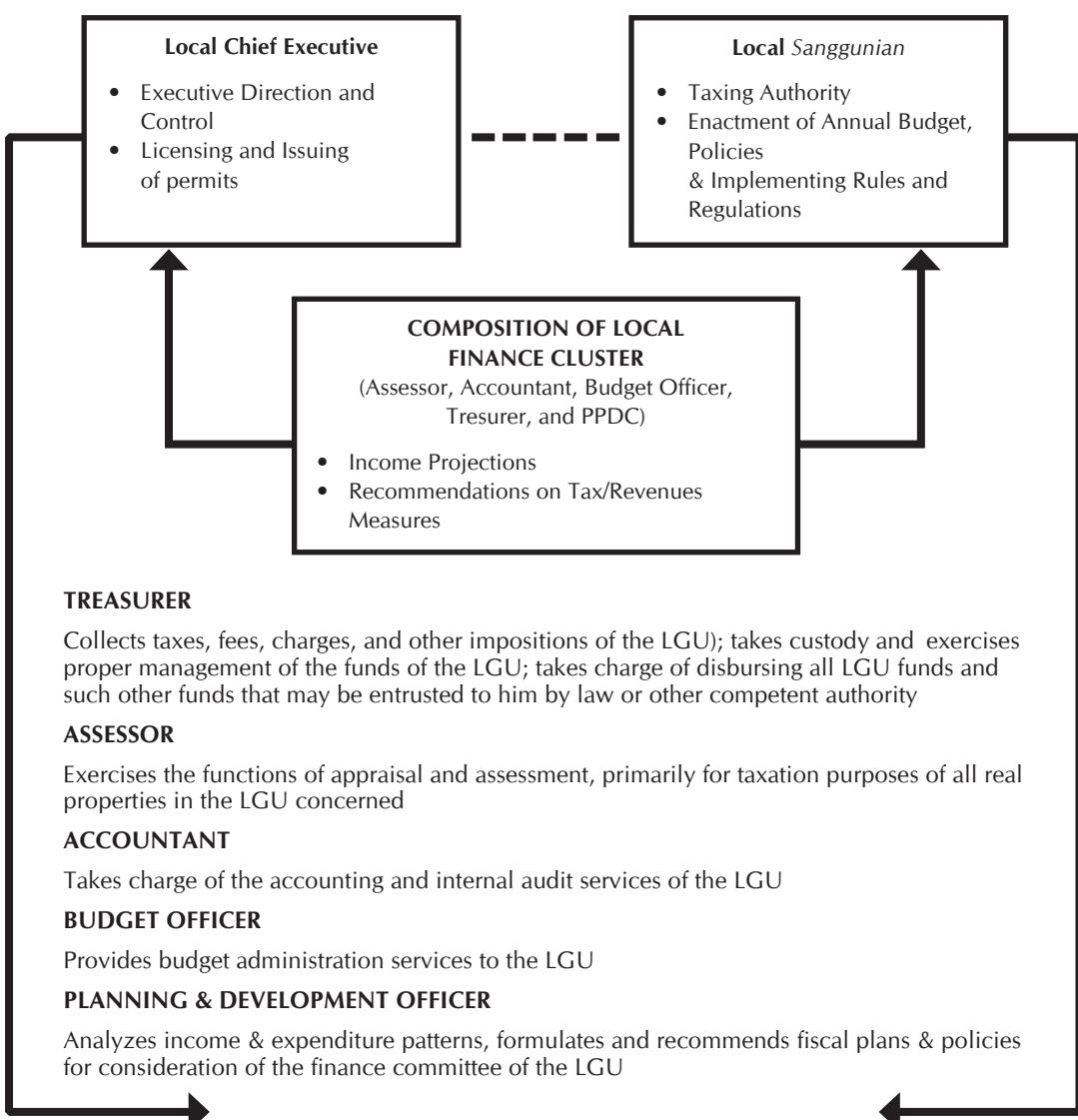
1. Revenue Generation
 - All aspects of local taxation
 - Loan and its management
 - Operation of public enterprises
 - Revenue enhancement measures
 - Revenue planning, forecasting and accounting
2. Revenue Allocation and Utilization
 - Synchronized planning and budgeting system and processes
 - Accounting and auditing of expenditures
3. Other Aspects
 - Property and supply management
 - Internal Control in all fiscal functions
 - Organization
 - Computerization of systems related to public finance

2. Who are the key officials who handle local public money?

The local chief executive -- the town or city mayor and the provincial governor -- along with members of their respective local law-making bodies, the local finance committees and the local development councils, are the officials tasked with the responsibility of raising, spending and managing local public funds and resources.

The main responsibility for ensuring that funds are available to implement programs, policies and rules made by the local chief executive and the local deliberative bodies fall on the treasurer, the budget officer, the accountant, the assessor, and the local administrator. Procurement is the main responsibility of the chief of the general services office. (See Figure 1 for an illustration of the roles of the various officials and bodies)

Figure 1



While some of the key officials involved, such as the local chief executive or members of law-making bodies, are directly elected by local voters (and therefore accountable to them), many more are merely appointed by the elected officials. Concerned citizens should also keep a close watch on all appointed officials, ensuring their qualifications and performance hew close to the standard if not the best practice.

Local citizens or people's organizations who want to change how their local governments are raising or spending public money should be familiar with the roles and responsibilities of the various officials and bodies. For example, a petition asking for a cut in real property tax rate should first be addressed to the town or city council, as it is the council that decides on such matters first before they are passed on to the mayor for final approval.

Below is a brief summary of the jobs of the key local officials and bodies.

The Local Chief Executive (LCE) is ultimately responsible for the collection, custody, disbursement, and proper utilization of government funds. He or she provides overall direction and control. He or she is the chief development and budget planner and is responsible for issuing all licenses and permits.

The Local Sanggunian approves the Annual Budget and supplemental budgets of the LGU. It also approves the local government's development and investment plans, which serve as guidelines in the preparation of the annual budget.

The Local *Sanggunian* is the local government's sole taxing authority. All policies on revenue generating measures such as taxes, fees, and charges require the enactment of appropriate ordinance of the *Sanggunian*. The *Sanggunian* prescribes the rates for such levies and has the power to grant exemptions, incentives or reliefs. The Local Chief Executive cannot sign any loan agreement or enter into any contract without the approval of the Local *Sanggunian*. It can also authorize the floating of bonds or other instruments of indebtedness for the purpose of raising funds to finance development projects.

The Local Finance Committee (LFC) comes up with the estimates and targets for both income and expenditures that go into the preparation of the draft local government budget that is debated and approved by the Local *Sanggunian*. It plays such an important role that the Local Government Code mandated all LGUs to create a local finance committee. It is composed of the local planning and development officer, the local budget officer and the local treasurer. The local chief executive may designate the chairman of the LFC and may expand the membership to include the local accountant, local assessor, the chairman of the Appropriations Committee of the *Sanggunian* or the LGU administrator. Apart from helping prepare the annual budget, the Local Finance Committee also helps the local *sanggunian* in evaluating the budgets of lower level LGUs and conducts semi-annual reviews of costs and accomplishments in undertaking development projects.

Despite its name, local public finance is not a purely local affair. Many national government agencies issue policies and regulations that govern how public funds are managed at the local level. These include the Commission on Audit (COA), the Department of Finance (DOF), the Department of Budget and Management (DBM), the Department of Interior and Local Government (DILG), and the Office of the President (OP).

3. I am just an ordinary citizen. How can I participate?

Traditionally, the role of citizens in local government affairs is limited to electing local leaders and engaging them through petitions, dialogue, legal suits or protest actions to adopt or change policies and regulations. The Local Government Code, however, has opened up another democratic avenue for people to influence local policy-making: the local development councils.

Perhaps unknown to many, the law requires the representation of non-government organizations at the local development councils. More than that, the law says that one-fourth of the members of local development councils should come from NGOs.



The councils are one of the five special bodies mandated by the Local Government Code, and are to be organized in all levels of LGUS – the barangays, towns, cities and provinces. The LDC may call upon any local official concerned or any official of national agencies in the LGU to assist in the formulation of development plans.

4. How powerful is the LDC?

LDCs that enjoy widespread support from citizens and are managed well can be a powerful voice that local officials will find hard to ignore. Even at the barangay level, local development councils have the power and responsibility to mobilize people's participation, prepare development plans and monitor and evaluate the implementation of national and local programs and projects. This means that local councils in poor or sickly communities can hold their barangay chairmen or mayors to account if their localities are lagging in meeting some targets of the millennium development goals, a flagship national program.

Who are the members of the LDC?

Barangay:

- Members of the *Sanguniang*
- Barangay Representatives of nongovernment organizations (NGO)
- Representative of the Congressman

City/ Municipality:

- All Barangay Chairman of the LGU
- Chairman of the Committee of the Appropriations of the *sanggunian*
- Congressman or his representative
- Representatives of NGOs

Province:

- All mayors of components cities and municipalities
- Chairman of the Committee on appropriation of the provincial *sanggunian*
- Congressmen or their representatives
- Representative of NGOs

Local development councils in towns, cities and provinces have even broader powers and responsibilities. They formulate many of the medium and long term plans and policies that guide the preparation of the annual budgets that are approved by the local *sanggunians* and implemented by the local chief executive. The development councils are also tasked with formulating the medium-term and annual investment programs, and with appraising socio-economic development programs and projects. They are also responsible for formulating local investment incentives to promote the inflow and direction of private capital. Lastly, they also coordinate, monitor and evaluate the implementation of development programs and projects.

Through the local development councils, the organized citizenry can have a powerful platform to influence the preparation of the long-term plans and policies that can guide the work of the elected and appointed officials of the local government units. They can hold officials to account for actions and decisions that are not consistent with the long-term plans and policies adopted by the local development councils.

5. Where does the money come from?

The money that can be spent by local governments come from internal and external sources:

The external sources of revenues of local governments are the following:

a. Internal Revenue Allotment (IRA)

IRA refers to the share of local governments in the collection of taxes imposed by the national government. This is in consonance with Sec. 6, Art. VI of the Philippine Constitution which provides that local governments are entitled to a joint share in national taxes. At present, local governments are entitled to 40% of the internal revenue taxes. These include the income tax, VAT and excise taxes. The IRA transfers resources to local governments to help them finance the expenditure responsibilities that have been devolved to them, such as primary health care among others. IRA is in the form of grant or allotment from the national government.

b. Share from the utilization of National Wealth

LGUs have an equitable share from the proceeds derived from the utilization and development of national wealth within their respective areas. Local governments are entitled to 40 percent of the National Government's gross collection in the preceding fiscal year from mining taxes, royalties, forestry and fishery charges, and such other taxes, fees, or charges—including related surcharges, interests, or fines—from their share in any coproduction, joint venture, or production-sharing agreement in the utilization and development of the national wealth within their territorial jurisdiction.

c. Grants and donations

LGUs may secure financial grants or donations from local and foreign assistance agencies. Other forms of grants may be fund allocation from Senators or Congressmen or special projects from the President or other national agencies.

d. Domestic loans and Credit-financing schemes

LGUs may contract loans and other forms of indebtedness from government or private banks and lending institutions.

The provisions allowing LGUs to tap nontraditional revenue sources for local governments are an innovative feature of LGC 1991. LGUs may utilize credit financing, build-operate-transfer (BOT) schemes, bond flotations, and other investment strategies to enable them to finance local development programs and projects.

The internal or locally generated revenues are the following:

a. Taxes, fees, and charges

Taxes are enforced contributions, fees are imposed in the exercise of regulatory powers, and charges are cost recovery impositions for services delivered or for use of LGU facilities.

Real Property Tax (RPT) is the biggest source of locally generated revenue for most provinces and municipalities. Many cities, however, collect big amount of business taxes comparable to their RPT collections.

b. Income derived from investments, privatized and development enterprises, and inter-local government

LGUs may incorporate development enterprises where income from investments may be derived. LGUs may also group themselves together or consolidate their efforts, services, and resources for purposes commonly beneficial to them and may derive income from such undertaking.

6. I already pay VAT and income taxes to the BIR. Can my local government still tax me?

Oh yes... Table 1 below illustrates the taxing powers allocated to each level of LGU

Table 1. Scope of Taxing Powers of LGUs Under LGC of 1991

Province	Cities	Municipalities	Barangays
• Real Property Tax	Real Property Tax (for chartered & non-component cities)	Real Property Tax	• Taxes on Stores or Retailers • Barangay Clearance
	• Tax on Business • Fees for Sealing and Licensing of Weights and Measures • Fishery Rentals, Fees and Charges • Community Tax		
• Tax on Transfer of Real Property Ownership • Franchise Tax • Amusement Tax • Professional Tax • Tax on Sand, Gravel & Other Quarry Resources • Tax on Business of Printing and Publication • Annual Fixed Tax on Every Delivery Truck or Van			
Common Revenue Raising Powers			• Service Fees and Charges • Public Utility Charges • Toll Fees or Charges

What is the distribution of Real Property Tax proceeds among different levels of LGUs?

Sharing among LGUs is as follows:

Provinces

- 1. Provincial Share 35%
- 2. Municipal Share 40%
- 3. Barangay Share 25%

Cities

- 1. City Share 70%
- 2. Barangay Share 30%
 - a. 50% shall accrue to the barangay where the property is located
 - b. 50% shall accrue equally to all component barangays of the city

7. I keep hearing about the IRA. How is it computed and distributed among LGUs?

Forty percent of the BIR collection (with a 3-year lag) is distributed to local governments following a predetermined formula. The amount is distributed in two stages: (1) distribution to local governments according to type, and (2) allocation following a predetermined set of criteria (LGC 1991).

Table 2. IRA Distribution Under LGC of 1991

First Stage: AMONG LGUs		
	Share	No. of LGUs
Provinces	23%	81
Cities	23%	136
Municipalities	34%	1,494
Barangays	20%	41,995
Second Stage: THROUGH WEIGHTED CRITERIA		
Population	50%	
Land Area	25%	
Equal Sharing	25%	

The second stage of sharing for barangays differ. After the 20% share of the barangays is determined, all barangays with 100 inhabitants or more is granted an amount of P80,000.00. The aggregate amount will then be deducted from the total barangay allocation. The balance will then be further sub-divided based on a formula:: 60% population, 40% equal sharing.

8. What are the major issues surrounding the IRA distribution among LGUs? Why the squabble for cityhood?

The situation now is that a lot of municipalities are aspiring to acquire cityhood status because such a status will automatically increase their IRA share. The currently existing cities are not happy about this because such increases for the new cities will mean a corresponding reduction in their share.

The purpose of IRA allotment to LGUs is to help them finance the expenditures of responsibilities devolved to them, primarily health care . But according to Dr. Guevarra (2007), the present LGU sharing of IRA is disproportionate to the services they absorbed from the national government. Provinces and municipalities, saddled by limited taxing powers, are receiving far less than the cost of services expected from them. Dr. Guevarra explains that in the present system, LGUs with higher income are receiving bigger share transfer on a per capita basis. Discussions on amendments to the Local Government Code, including the IRA sharing continues.

9. What enables the LGUs to collect taxes, fees and charges?

The 1987 Constitution, Section 5, Article X provides that "Each local government unit shall have the power to create sources of revenue and to levy taxes, fees, and charges subject to such guidelines and limitations as the Congress may provide, consistent with the basic policy of local autonomy. Such taxes, fees, and charges shall accrue exclusively to local governments."

However, the LGC only provides general guidelines and limitations for this, such that each LGU still needs to enact an enabling ordinance. Some of the provisions of the Code are also not self-executory. Each LGU, through its Local *Sanggunian*, must determine the base and rates to be imposed, the subject of the revenues, and the incentives and penalties. The approved tax ordinance is what gives authority to the Local Treasurer to collect revenues.

10. I've heard that a lot of LGUs are very much dependent on IRA. How can LGUs enhance their own tax revenues?

The Code has provided opportunities for LGUs to enhance existing revenues. The LGC provides the following:

"Local government units may exercise the power to levy taxes, fees or charges on any base or subject not otherwise specifically enumerated herein or taxed under the National Internal Revenue Code, that the taxes, fees or charges shall not be unjust, excessive, oppressive, confiscatory or contrary to declared national policy: provided, further, that the ordinance levying such taxes, fees or charges shall not be enacted without any prior public hearing conducted for the purpose" (LGC 1991, Sec. 129-130).

The framers of the 1987 Constitution did not intend Congress to cover all the aspects of local taxation. LGUs have the unique opportunity to continue exploring new revenue measures that will provide them with significant resources for improving both services and governance.

LGUs may consider the actions and programs for enhancing their tax revenues charted hereunder:

POLICY AND ACTION FRAMEWORK FOR ENHANCING LGU TAX REVENUES

Local Taxes

1. Prepare Local Revenue Generation Plan
2. Conduct public consultations on revenue measures
3. Update Local Tax Code
4. Computerize Tax Administration and Financial Management System
5. Improve taxpayer services and make it easier for taxpayers to pay; establish customer-friendly offices or one-stop shops for securing business permit applications
6. Provide incentives to tax collectors

Real Property Taxes

7. Conduct tax mapping operations for real property
8. Regularly conduct General Revision of Property Assessment and Classification and adopt realistic Schedule of Fair Market Values, e.g., zonal values of the BIRc
9. Computerize records of the Assessor's and Treasurer's Offices

10. Link up with the Registrar of Deeds, Building Official Geodetic Engineers, and other relevant government agencies
11. Strengthen tax collection enforcement (publication of list of delinquent taxpayers/ properties and use of judicial and administrative remedies, e.g., auction sale)
12. Engage the participation of other stakeholders (e.g., barangay officials and public school teachers) to help in a tax information and education campaign
13. Display approved Schedule of Fair Market Values in conspicuous places
14. Display transaction flow charts

Local Business Taxes

15. Conduct business tax mapping – inventory of business establishments – and tie up with the records and tax maps of the Assessor's Office
16. Use presumptive income levels in determining gross receipts of business establishments to calculate establishments' business tax liabilities
17. Conduct examination of books of accounts of business establishments (with proper authorization) to counteract massive under declaration by business establishments
18. Use information from databases of other government agencies, e.g., SEC, BIR, etc., through institutionalized interagency tax information-sharing scheme
19. Establish one-stop shops for tax payments and business permit applications

Source: Pardo, Erlito R. (2006).

11. Can local officials spend money just as they wish?

No. There are several types of funds maintained by LGUs each with a specific parameter of spending provided for in the Local Government Code.

Every LGU maintains different funds to hold the monies and resources that may be received and disbursed by the local treasurer. These are as follows:

1. General Fund

General Fund describes the fund that is available for any purpose to which the legislative body may decide to apply it. It is composed of receipts or revenues that are not, by law or by contractual agreement, applicable to a specific purpose

Included here are the 20% Development Fund, the 5% Calamity Fund, and Intelligence Fund.

2. Special Funds

Special Fund is the fund created for a special purpose or object and used to defray specified expenditures or classes of expenditures.

a. Special Education Fund

The LGC states that a province or city may levy and collect an annual tax of one percent on the assessed value of real property in addition to the basic real property tax and the proceeds of which will go exclusively to the special education fund and can be used only for that purpose.

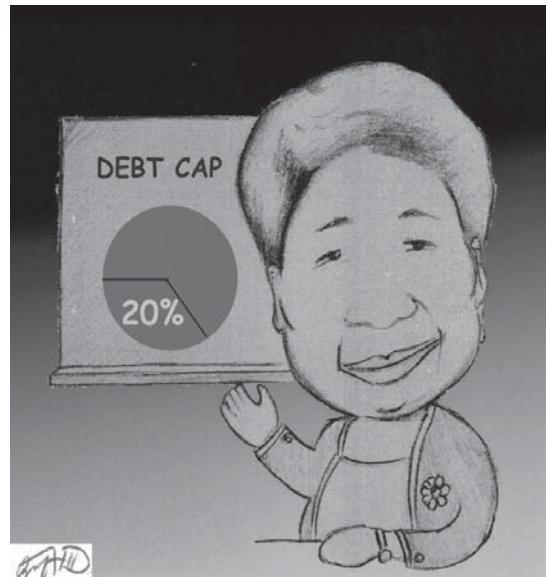
b. Trust Fund

Trust Fund consists of private and public monies which have officially come into possession of the local government or of a local government official as trustee, agent or administrator or which have been received as a guarantee for the fulfillment of some obligation.

12. What are the mandatory budgeting parameters of LGUs?

The *Sanggunian Tasks and Responsibilities Checklist (2007)* summarized these into 10 pointers as follows:

1. Total Appropriations shall not exceed the estimates of income.
2. Full Provision shall be made for all contractual and statutory obligations of the LGU.
3. Debt Servicing shall not exceed 20% of the regular income of the LGU.
4. Aid to Barangays shall not be less than One Thousand Pesos (PhP 1,000.00) per barangay.
5. Calamity Fund shall be 5% of the estimated revenue from regular sources.
6. Development Fund shall be at least 20% of the LGU's Annual Internal Revenue Allotment and shall be appropriated for development projects.
7. Personal Services shall not exceed 45% for 1st to 3rd class LGU, and 55% for 4th to 6th class LGU.
8. Discretionary Purposes shall not exceed 2% of the actual receipts derived from basic real property tax.
9. Intelligence or Confidential Undertakings shall not exceed 30% of the total annual amount allocated for peace and order efforts or 3% of the annual appropriations, whichever is lower (DILG MC No. 99-65. S. 199, as amended).
10. Allocation for the strengthening of the Local Council for the protection of children shall be 1% of the Internal Revenue Allotment of the LGU (RA 9344, 2006, Juvenile Justice and Welfare Act)



13. Money is always short. How do officials decide spending priorities?

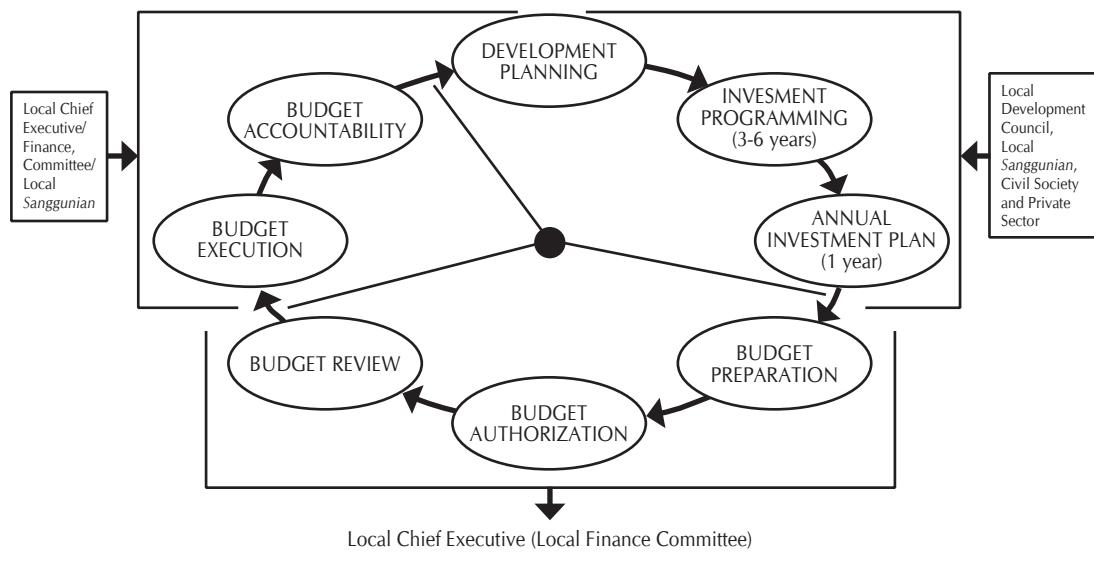
This is where citizen's participation is crucial. There is this so-called joint planning-budgeting process that citizens can be actively involved in.

The Updated Budget Operations Manual (UBOM) for LGUs, released by the Department of Budget and Management (DBM) in June 2005, emphasized the importance of linkage in planning, budgeting, and participative governance through the involvement of stakeholders, civil society, and the private sector in the planning process. A more recent issuance jointly

released by the Department of Interior and Local Government (DILG), the National Economic Development Authority (NEDA), the Department of Budget and Management (DBM), and the Department of Finance (DOF) outlines the “Guidelines for the Harmonization of Local Planning Investment Programming, Revenue Administration, Budgeting, and Expenditure Management

This is exemplified in the following Planning-Budgeting Cycle.

Figure 2. Planning-budgeting Cycle



Source: *Budget Operations Manual for LGUs*, DBM (2008, p. 29)

14. What is the planning horizon and vantage point of local development plans?

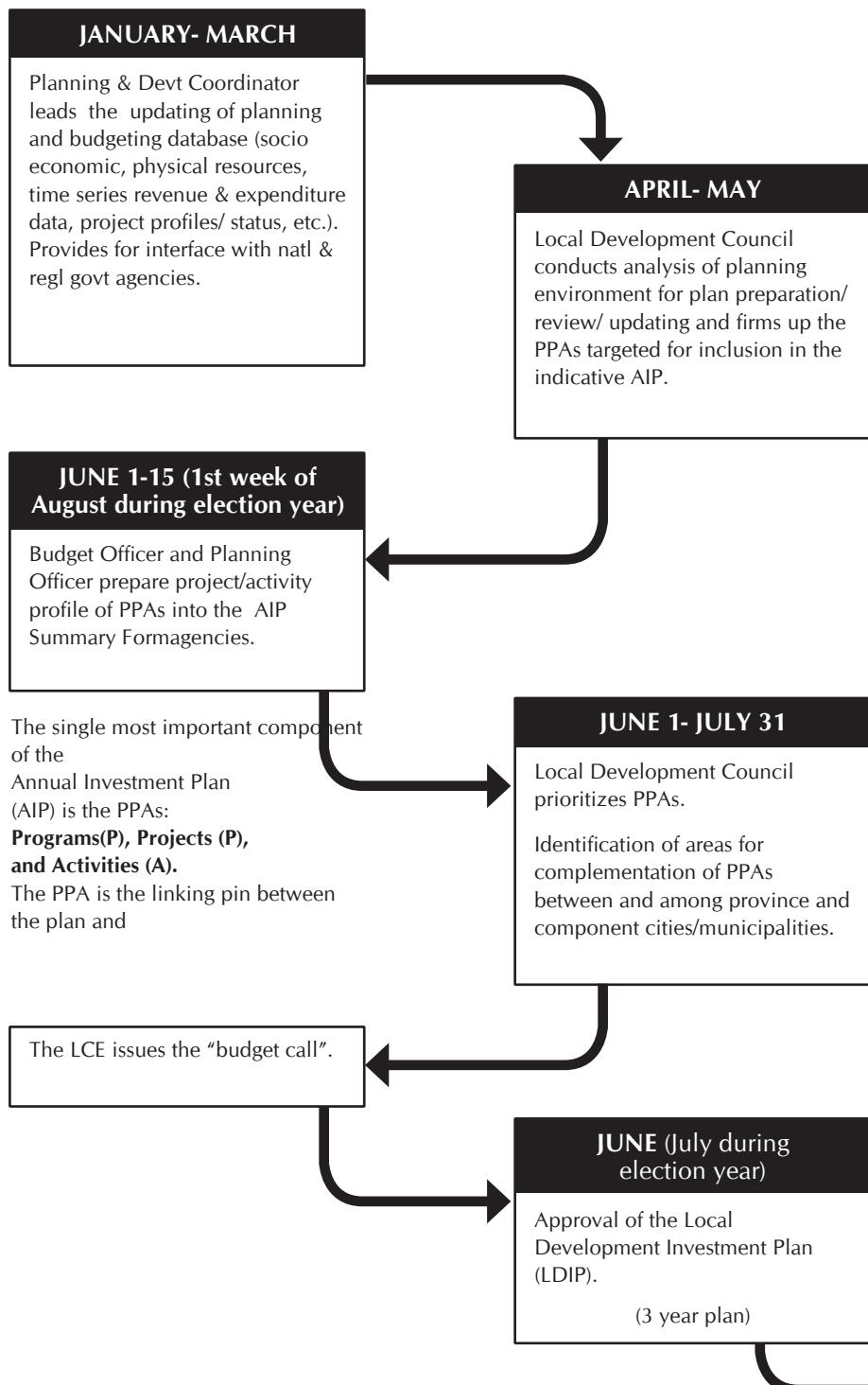
The Provincial Development and Physical Framework Plan (PDPFP) for provinces and the Comprehensive Development Plan (CDP) for cities and municipalities are six-year multisectoral plans embodying the long term vision, sectoral goals, development strategies, objectives and targets of LGUs.

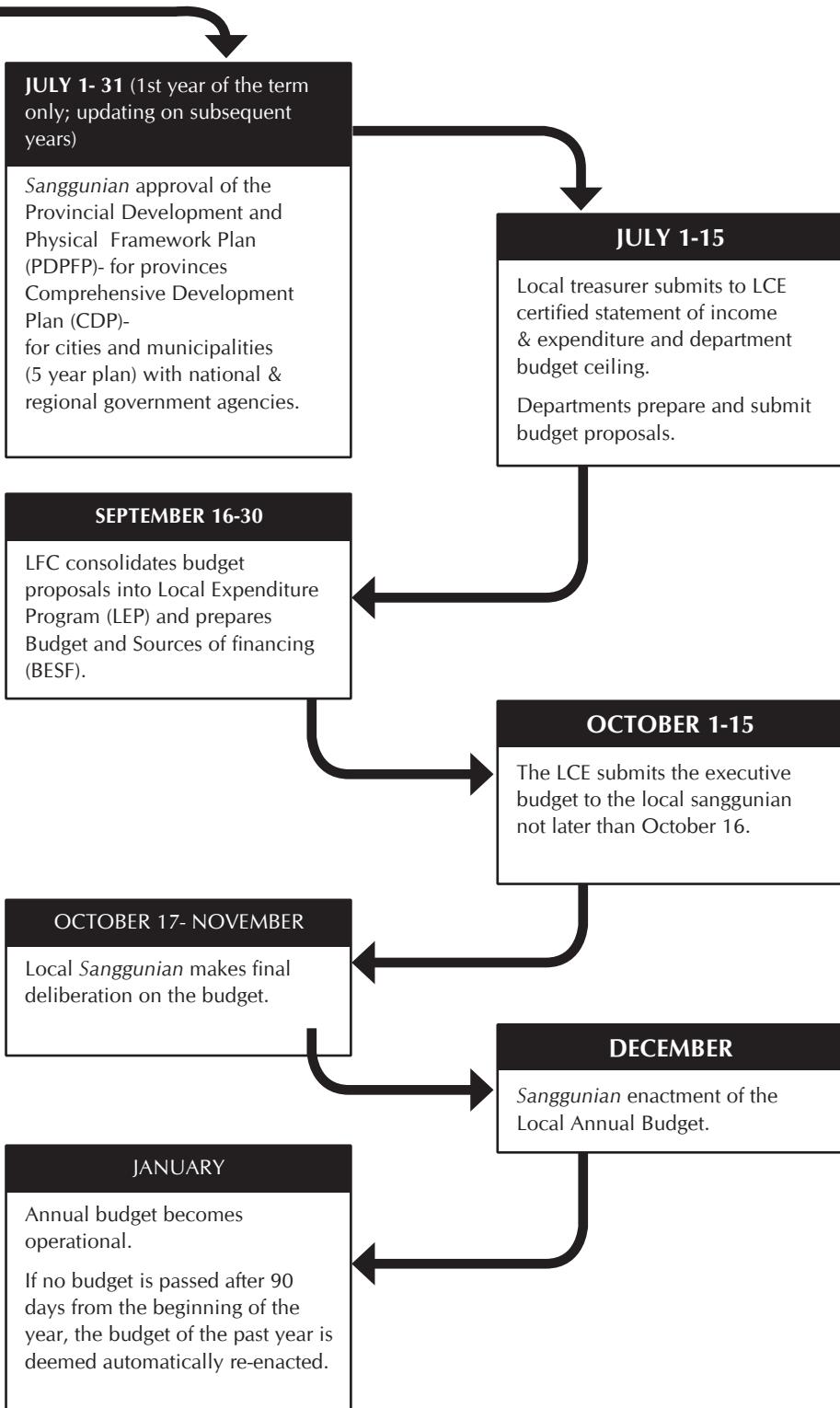
These two plans also contain the **Program-Project-Activity (PPA)** structure which consists of programs, projects, and activities designed to achieve specific objectives with corresponding performance indicators.

From the approved PDPFP and CDP, a programming document called Local Development Investment Program (LDIP) is prepared. The LDIP is a basic document linking the local plan to the budget. It contains the prioritized PPAs, matched with financing resources, and to be implemented annually within a three to six- year period. The first 3 years of the LDIP shall be firmed up along the priorities of the incumbent LCE. (DILG, NEDA, DBM, DOF. JMC No.1, 2007)

The Annual Investment Plan (AIP) is the annual slice of the LDIP. It contains the capital and current operating requirements of the LGU that will serve as basis for the preparation of the Annual and Supplemental Budgets. (DBM, 2008)

Figure 3. Synchronization Calendar of Local Planning, Investment Programming, Revenue Administration, Budgeting and Expenditure Management
 (Per Joint Memo Circular No. 1 Series of 2007, DILG, NEDA, DBM, DOF)





15. How do we know local officials are spending money wisely?

Unfortunately, there is no instantaneous assessment of whether or not our elected government officials are spending the people's money wisely. But over a reasonable time period, perhaps after a year-and-a-half of serving their terms, we should be able to see tangible results and gauge if development has occurred, perhaps in terms of better roads or delivery of potable water systems and efficient health services.

16. Is there a system of internal control within LGUs?

The LGC mandates that internal control of LGUs is a responsibility of the local accountant. However, only financial or accounting control is being performed by them. The other important aspects of the task, such as administrative, program and management controls are not performed by the office.

In 2003, then President Gloria Macapagal-Arroyo issued AO No. 70 directing LGUs "to organize an Internal Audit Service in their respective offices." This is related to the earlier AO No. 278 in 1992 of Pres. Corazon Aquino, which directs the strengthening of Internal Control Systems in all government offices, including the LGUs.

The primary goals of an internal control audit are to establish the areas of vulnerability to corruption and devise control mechanisms to address those vulnerabilities. Internal control audit looks into the effectiveness and sufficiency of controls, tests the controls and recommends solutions for the identified weaknesses and inefficiencies of such controls.

The primary responsibility of ensuring effective internal control is on the Local Chief Executive. This is one aspect that has been lacking in many LGUs of the country.

17. We keep hearing about officials buying equipment and supplies from their friends and relatives. Is this allowed?

As insider information can readily be obtained especially in small towns, then there will always be attempts and maneuvers to collude amongst bidders or even exclude those who would wish to participate. But as long as there are safeguards and that a set of straightforward procedures that allow for a real competitive bidding is followed, then there should really be no reason to disallow friends and relatives. The clincher here are the qualifiers "straightforward" and "competitive".

18. What is the Bids and Awards Committee (BAC)? Who are its members? Can the mayor be part of it?

All LGUs are mandated to establish a Bids and Awards Committee (BAC) to decide the winning bids and questions of awards on procurement of property and supply.

The Local Chief Executive has the responsibilities to designate the Members of the Bids and Awards Committee (BAC) in accordance with the following rules:

- The BAC shall consist of at least five (5) but not more than seven (7) members.
- The Local Chief Executive shall designate from those occupying plantilla positions the members of the BAC
- All members designated by the Local Chief Executive are regular members except the end-user member who is considered as a provisional member. The members,

whether regular or provisional, are equally entitled to participate and to vote during deliberations.

- The regular offices under the Office of the Governor or Mayor, as the case may be, may be represented in the BAC. The offices that shall be represented are the following:
 - The Office of the Administrator
 - The Budget Office
 - The Legal Office
 - The General Services Office
 - Engineering Office
- In the case of municipalities which do not have an Office of the Administrator or a Legal Office, the Mayor shall designate a representative from the office/s performing the functions equivalent to that of the former offices.
- The BAC members shall elect among themselves the Chairman and Vice-Chairman. The Chairman shall be at least a third ranking permanent official of the provincial/city/municipal government.
- The BAC Members shall be designated for a term of one (1) year only, reckoned from the date of designation. However, the Local Chief Executive may renew such designation at his discretion.
- The following officials are disqualified from membership in the BAC:
 - The Local Chief Executive and other elective officials of the province/city/municipality
 - The official who approves procurement contracts
 - The Chief Accountant or Head of the Provincial/City/Municipal Accounting Office and his/her staff, unless the Accounting Department is the end-user unit, in which case the Chief Accountant, Head of the Accounting Department or his/her staff may be designated as an end-user member.

19. What are the procedures in procurement?

Government Procurement Reforms Act (GPRA) or the RA 9184 is the law governing the procurement of goods and services in government.

For the procurement of goods and services, following are the abridged steps:

1. Procurement planning and preparation of the annual procurement plan within the approved budget of the LGU
2. Requisitioning, which entails the submission of written request for supplies, materials and the like.
3. The Local Chief Executive or Department approves the requisition
4. Preparation of the Obligation Request which should include the purchase request and a certification from the Budget Officer that funds are available and that the requests are valid.
5. Competitive or Public Bidding which means that it should be open to any interested and qualified party. This involves 8 steps: advertisement, pre-bid conference, receipt of eligibility documents and bids, eligibility check, opening and preliminary examination of bids, detailed evaluation of bids, post qualification and award of contract.

6. Preparation, approval and delivery of purchase order (PO).
7. Payment for the items when they are delivered.

For the procurement of infrastructure projects, there are several steps in each phase:

PREPARATION:

- Procurement planning taking into consideration not just the budget but timing, engineering design, and right of way among others.
- Preparation of bid documents.
- Pre-procurement conference where the BAC discusses all aspects of the procurement.

BIDDING

- Advertisement and posting of Invitation to Apply for Eligibility and to Bid
- Accept Letter of Intents, Issue Eligibility Documents and conduct eligibility check
- Issue the Bidding Documents to eligible bidders
- Pre-Bid Conference and if necessary, issue a supplemental/bid bulletin.
- Receive and open the technical and financial envelopes
- Evaluate the bids
- Post qualification of the winning bidder. This entails verifying, validating and ascertaining all the statements made and documents submitted by the bidder,
- Award the contract
- Contract signing, approval and issue the notice to proceed

IMPLEMENTATION

- Effectivity of the contract
- Contractor's performance of his contractual obligations
- LGU's performance of his contractual obligations
- Final acceptance or project sign-off
- All other related activities; and
- Payment by the LGU

Procurement of services basically follows the same steps but in addition, the quality of the personnel to be assigned to the project, the experience and capability of consultants and the plan and methodology in delivering services are properly weighted.

20. What dubious procurement practices should we watch out for?

Note the following dubious procurement practices cited in The Governor's Handbook, 2nd Edition, of the League of Provinces of the Philippines (1994).

Unethical and Corrupt Practices in Awarding of Construction and Service Contracts

The people who control the awarding of contracts are vulnerable to corruption since they can favor specific construction and service contractors through the manipulation of bidding processes.

Among the unethical and corrupt practices in awarding of contracts are:

- over-pricing in the work program estimated prepared by the engineering office;
- invitation to bid given only to "choice contractors";
- collusion among contractors and fixing of bid prices;
- pre-assigning of contracts by the local government executive to favored contractors;
- breaking-up or splitting of contract amounts to suit the desired level of approving/signing authority;
- specifying track records and equipment to suit favored contractors;
- collusion of local officials with contractors with regard to quality and quantity of materials used as well as work accomplishment;
- awarding of contracts to contractor/people who worked for the approval of the project and release of funds;
- untruthful documents presented by contractors such as financial certification, track record, equipment and personnel qualifications;
- publication of bid notices in newspapers with dubious circulation or special supplements;
- leaking information on approved agency estimates;
- making payments that are not commensurate to work accomplished; and
- too much red tape in collection.

Questionable Practices in Purchases of Goods

- Specifying the quantity and price of goods that will favor specific firms and individual suppliers;
- exclusion of certain suppliers in canvassing and invitations to bid; maintenance of favored suppliers;
- breaking-up or splitting purchase amounts to suit levels of authority for approval;
- non-delivery ("ghost delivery") of purchased items;
- over-pricing;
- delivery of inferior or lower quality goods;
- double payments; and
- riding on government purchases for personal purchases to avail of discounts and tax exemptions.

21. Are there examples of best practices in local public finance management?

Yes. The case of Bulacan is one good example

BEST PRACTICE IN LOCAL PUBLIC FINANCE SUSTAINABILITY: THE CASE OF BULACAN

Bulacan ranks first among provinces of the country as the biggest income earner per official reports of the Commission of Audit (P1.71 B Php in 2007). The province has become a model of the kind of self-reliance and greater self-sufficiency among local government units that the Local Government Code intended to promote among the ranks of LGUs, specifically through the empowering provisions on local revenue generation.

In 1998, Bulacan's dependence on the Internal Revenue Allotment was at 74%. With a decisive and determined drive to increase local revenues, the province worked for a balanced, 50-50 ratio between IRA and locally-sourced funds. In less than 10 years, the province successfully reduced its dependence on the IRA by 22 percentage points. This further went down to 52% in 2007, when Bulacan registered a tax collection efficiency of 91%.

The province invested heavily on the computerization of its systems. It initiated the development and installation of Real Property Tax Information System (RPTIS). In 2002, the province embraced satellite technology when it adapted the Geographic Information System (GIS) to enhance critical services in real property and tax mapping. The computerization of various government operations proved to be a crucial support mechanism to the province's efforts in promoting transparency, efficiency, and effective governance.

Bulacan's declaration of an expansive Tax Amnesty Program in 1998, 2002, and 2005 contributed to the attainment of the goal of lowering IRA dependence. Because the initial focus was on unpaid real property taxes, the amnesty encouraged delinquent taxpayers to come out into the open and update their records.

Public auction was conducted in 2000. One effective strategy used after the first auction is the application of remedial measures for delinquent tax payers whose property were already subject for auction. Instead of auction, the *Sanggunian* authorized the Treasurer to negotiate on behalf of the province and enter into a tax compromise agreement with delinquent tax payers.

In 2003, various offices involved in local public finance underwent major organizational restructuring in preparation for a massive campaign for revenue generation. This resulted in the merging of the Provincial Treasury and the Provincial Assessment departments into one single department. This development became a cause of concern for Provincial Assessors in the country. The Civil Service Commission, however, approved the plan. The restructuring also created a Tax Mapping Division under the Provincial Assessor. The total workforce of the two

offices was reduced from 69 to 54 personnel. The new blueprint, which clarified accountabilities of financial frontline departments, proved effective in Bulacan's goal of increasing revenue.

Also in 2003, the province installed its very own Performance Management System (PMS), a system of monitoring and evaluating the quality and performance of the employees and departments, which played a key role in energizing the bureaucracy and reaching the goal. Under the PMS, expectations were defined to make sure that employees understand what must be accomplished by each one of them and their departments, how and when it must be accomplished, and how accomplishments will be measured. The PMS translated the province's goal of a 50-50 IRA-locally generated revenue ratio, into actual performance indicators, from which standards are based and measured. The employees embraced the system and resulted in positive results. The PMS also reinforced the values of performance among the employees within the context of teamwork.

In 2004, the province approved a Revised Provincial Revenue Code to address the shortcomings and pitfalls of the previous ordinance. Rates of all types of taxes were adjusted by 10 percent, except those levied on real property, amusement, and sand, gravel, and other quarry resources. Before this, the province already exercised the power to levy taxes provided in Section 129 to 130 of the LGC, taxing 10% of the fair market value for ordinary stones, sand, gravel, earth, and other quarry resources extracted from private lands. A cement factory in Bulacan refused to pay and lodged a protest arguing that the LGC applies only to public lands. This power of the LGU was upheld by the Supreme Court and Bulacan won a landmark case for LGUs of the country (Bulacan vs. Court of Appeals, 299 SCRA 442). It may be noted that this residual power provided by the LGC had not been utilized by many LGUs.

All the efforts were supported by massive information and education campaigns. Orientation of homeowners associations, barangay consultations, distribution of informative comics and flyers, and tax caravans were also conducted. Active participation of public schools, homeowners associations, and barangay officials in the tax campaigns were successfully utilized.

Also worth noting is the contribution of the Bulacan Investments Incentive Code, enacted in 1999, to the influx of investments in the province which also contributed to higher revenues.

Alma Rose Roxas, Increasing Local Government Revenue Through Institutional and Organizational Reforms, Pinoy Governance, UP NCPAG and Small Projects Facility, European Commission-Philippines Partnership. 2007.

Sta. Rita, M.G. (2008)

II. We need a SUPER COA!

By MA. GLADYS CRUZ-STA RITA



1. **Can anyone request for a copy of financial reports of the LGU? What is the role of the Commission of Audit on Local Public Finance?**

The Commission on Audit is a constitutional body mandated to perform the audit of all financial transactions of the LGU. COA is responsible for making rules on accounting and auditing to prevent irregular, unnecessary, excessive or extravagant expenditures of the LGUs.

2. **What is the basic process in government accounting?**

The Commission on Audit prescribed the New Government Accounting System (NGAS) effective January 1, 2002, replacing the old form of government accounting

in force since the 1950s. The NGAS uses : (1) new uniform guidelines and procedures that will simplify government accounting, (2) new coding structure and chart of accounts to conform with international accounting standards, and (3) new accounting books, reports/ forms, financial statements and accounting entries that generate periodic relevant financial statements for better performance monitoring. (COA, NGAS Manual, Vol. I)

The general accounting plan presents the whole accounting cycle in LGUs. Transactions emanate from the various departments of the LGU. These departments provide the source documents and accounting forms necessary to complete the transaction, whether budgetary, collection, or disbursement.

Government accounting covers the process of analyzing, recording, classifying, summarizing, and communicating all transactions involving the receipt, disposition of government funds and property, and interpretation of the results (PD 1445, Sec. 109).

3. What is COA's Annual Financial Report (AFR)?

The AFR is a consolidated report of COA to the President of the Philippines and to the Congress not later than the last day of September of each year. This is published in the country's national newspaper every year under the Financial Highlights of Local Government Units.

Based on the Balance Sheet of all LGUs, the following are highlighted in the published report:

- a. Top Ten Provinces, Cities, and Municipalities Based on Current Assets
- b. LGUs with Substantial Amount of Cash in Bank
- c. Top Ten Provinces, Cities, and Municipalities Based on Total Liabilities
- d. Top Ten Provinces, Cities, and Municipalities Based on Total Equity

Based on the Statement of Income and Expenditures, the following are generated:

- a. LGUs with Highest and Lowest Gross Income
- b. Highest and Lowest LGU Spenders
- c. LGUs with Highest and Lowest Share from Internal Revenue Allotment
- d. LGUs with Highest and Lowest Net Income.

LGUs included in the list are then the benchmark of other LGUs.

4. What is the COA's Annual Audit Report of LGU?

The Annual Audit Report (AAR) is prepared by auditors as the final output of the yearly comprehensive audit conducted by COA. It is the medium used by COA to communicate to the LGU and to proper authorities the result of COA appraisal of how management had discharged its fiscal responsibility. The report includes the auditor's recommendation of measures necessary to improve the economy, efficiency, and effectiveness of LGU operations. The significant findings and recommendations contained in the Audit Observation Memorandum (AOM) are summarized in this report. AOM's are the findings and observations on the audit of accounts and operations of different offices in the LGU which require comments and explanations from the responsible persons.

5. Can anyone request for a copy of financial reports of the LGU?

Yes. Concerned citizens who have inquiries or are requesting for documents from any government agency, including the LGUs, are protected by the Anti-Red Tape Act of 2007 or RA 9485. The law seeks to reduce bureaucratic red tape and cut down processing time of government transactions. It directs government offices to act on a simple transaction or request within five working days and on complex ones within ten working days. Requests therefore must be made in writing and properly stamped with "received" and signed by concerned employees. This way, concerned citizens can demand the stipulation of the law.

Employees proven guilty may be penalized for light offenses with 30 days suspension without pay on the 1st offense, 3 months suspension without pay on the 2nd offense and dismissal and perpetual disqualification from public service on the 3rd offense.

III. Let's get involved!

(Civil Society Participation in Local Public Finance)

By CIELO MAGNO

The critical role of the private sector and the participation of non-governmental, community-based, or sectoral organizations are recognized in the 1987 Philippine Constitution (Article II, Sections 20 and 23). The Local Government Code of 1991 consistently acknowledges the significant role of people participation in local governance. In particular, Chapter 4 of the Code provides for partnership between LGUs and non-governmental organizations in pursuing local autonomy.

1. Yes! I want to help out in local governance policy making but our town mayor seems indifferent. What laws or provisions can I invoke to say that I have a right to participate and that my voice should be heard?

The Local Government Code is teeming with such provisions. Some specifics are as follows:

SEC. 34. Role of People's and Non-governmental Organizations. – Local government units shall promote the establishment and operation of people's and non-governmental organizations to become active partners in the pursuit of local autonomy.

SEC. 35. Linkages with People's and Non-Governmental Organizations. – Local government units may enter into joint ventures and such other cooperative arrangements with people's and non-governmental organizations to engage in the delivery of certain basic services, capability-building and livelihood projects, and to develop local enterprises designed to improve productivity and income, diversify agriculture, spur rural industrialization, promote ecological balance, and enhance the economic and social well-being of the people.

SEC. 36. Assistance to People's and Non-governmental Organizations. – A local government unit may, through its local chief executive and with the concurrence of the *sanggunian* concerned, provide assistance, financial or otherwise, to such people's and non-governmental organizations for economic, socially-oriented, environmental, or cultural projects to be implemented within its territorial jurisdiction.

There are several laws that provide for transparency and accountability in Governance. Republic Act No. 3019 or the Anti-Graft and Practices Act outlines actions that constitute graft and corrupt practices for individuals in public office or for private individuals doing business with the government. The law also requires government officials to make their statement of assets and liabilities available to the public.

The Local Government Code of 1991, as discussed, provides for peoples' participation in special committees at all layers of LGUs. In addition, Chapter 4 of the Code specifies provisions on expenditures, disbursements, accounting and accountability. Section 352 of the law requires

"Local treasurers, accountants, budget officers and other accountable officers shall, within thirty (30) days from the end of each fiscal year, post in at least three (3) publicly accessible and conspicuous places in the local government unit a summary of all revenues collected and funds received including the appropriations and disbursements of such funds during the preceding fiscal year."

Cognizant of the above-stated provisions, the Local Government Code of 1991 mandates people participation in all areas of local public finance – from revenue/resource generation to revenue allocation and utilization through the local budget process discussed in the preceding sections as well as in program or expenditure tracking and monitoring.

2. Do I have a say in the kind of taxes and other revenue sources that our local sanggunian propose?

It is true that one of the inherent powers of a state is the power of taxation subject to certain limitations as provided in the 1987 Philippine Constitution. In other words, such power is not absolute. As mentioned in the preceding section, Section 5, Article X of the Constitution has empowered local government units "to create their own sources of revenues and to levy taxes, fees and charges subject to such guidelines and limitations as the Congress may provide, consistent with the basic policy of local autonomy..."

Public participation in the legislation of tax measures is mandatory. Before revenue measures can be enacted, they must go through a legislative process, which includes the conduct of series of consultations and public hearings as provided in the Local Government Code.

The extent of people participation in the enactment of revenue codes, however, cannot be quantified. There is no published data as to how many people attend consultations and public hearings. What is available is the number of congress and local legislative council members who voted for or against a certain revenue code and more importantly, the amount of revenues raised as these national and local revenue codes are implemented. Direct people participation in revenue generation, obviously, is through the payment of these tax and non-tax revenues.

LGC SEC. 187. Procedure for Approval and Effectivity of Tax ordinances and Revenue Measures; Mandatory Public Hearings.

– The procedure for approval of local tax ordinances and revenue measures shall be in accordance with the provisions of this Code: Provided, that **public hearings shall be conducted** for the purpose prior to the enactment thereof...

Although there is no Philippine law on people participation on the generation of income for local governments, extensive literature has been written on the link between transparency, citizen participation in planning, budgeting and monitoring process and their willingness to pay local taxes (Ahmad, 2008; Sirker, 2006; Ziria, 2008). Availability of data and information like local tax collection, budget and expenditure allow citizens to have a greater understanding

and appreciation of the link between quality and quantity of public service and the amount of tax they pay to their localities.

The participatory budgeting and access to financial information in Porto Alegre, Brazil is a great example of the relationship between participatory budgeting and tax collection. Their tax collection increased by 50% because of transparency in public finance information (Sirker, 2006).

3. What is being done to enhance tax revenue collection?

There are joint government-private initiatives to enhance tax revenue collection. One example is the DOF-BIR-LGU-private sector consultation/dialogues for setting a uniform valuation for real properties. This has resulted in the DOF Department Order No. 6-2010 dated March 12, 2010, circularized through BIR Memorandum Circular No. 27-2010 dated March 17, 2010. It called for the creation of an Executive Committee on Real Property Valuation (ECRPV), the members of which, among others, should include two (2) representatives from the private sector, specifically licensed and competent appraisers from reputable association/organization of realty appraisers. This is to make the valuation of land systematic and to improve the efficiency of land utilization. As this will affect revision of tax bases, it will require the conduct of public hearing relative to the proposed zonal values.

Another example is the memorandum between the BIR, IBP, Philippine Institute of Certified Public Accountants (PICPA) and the Philippine Chamber of Commerce and Industry (PCCI) to jointly undertake a project for the enhancement of taxpayer service, entitled "*Handang Maglingkod Project*" (HMP) (Bureau of Internal Revenue, 2010). There is also the memorandum of agreement between the Department of Finance and LGUs for the sharing of information with respect to the declaration of gross receipts of business owners whereby BIR VAT and Percentage Tax Returns are required by LGUs to renew business permits.

The latest memorandum of agreement, dated October 15, 2010, is between the DILG and the PCCI, which among others, calls for both parties to jointly:

1. Promote a culture of local database development for investment and business promotion purposes;
2. Engage in regular policy discussions on prevailing concerns affecting business, initially identified as follows:
 - a. Streamlining of the Business Permits and Licensing Systems
 - b. Strengthening of Business Permits and Licensing Offices of LGUs
 - c. Review of the Local Government Code, for the possible inclusion of provisions that will enhance LGU-Business Sector partnerships
 - d. Review of RA 9514, also known as the Revised Fire Code of the Philippines of 2008, for possible policy recommendations to address the concerns of the business sector in its implementation
 - e. Review of RA 9184, also known as the Government Procurement Reform Act, for possible policy recommendations to allow more meaningful private sector participation, particularly with regards to Bids and Awards Committees.

Investing and doing business in the Philippines have been largely criticized due to the local bureaucratic red tape in securing business permits and licenses. It is hoped that the

MOA will address this concern and spur economic development in the local as well as the national levels.

Other Private Sector Incentives

The private sector is likewise allowed to undertake infrastructure projects as provided in Sec. 302 of the Local Government Code:

SEC. 302. Financing, Construction, Maintenance, Operation, and Management of Infrastructure Projects by the Private Sector. – (a) Local government units may enter into contracts with any duly prequalified individual contractor, for the financing, construction, operation, and maintenance of any financially viable infrastructure facilities, under the build-operate-and-transfer agreement, subject to the applicable provisions of Republic Act Numbered Sixty-nine hundred fifty-seven (R.A. No. 6957) authorizing the financing, construction, operation and maintenance of infrastructure projects by the private sector and the rules and regulations issued thereunder and such terms and conditions provided in this Section.

RA 6957 was amended by Republic Act 7718 in May 1994 to further enhance public-private partnership. Last September 9, 2010, the Philippine President issued Executive Order No. 8 Reorganizing and Renaming the Build-Operate and Transfer (BOT) Center to the Public-Private Partnership (PPP) Center of the Philippines and Transferring its Attachment from the Department of Trade and Industry to the National Economic and Development Authority and For Other Purposes.

4. I have a few ideas in improving the quality of education in our community school. Where can I sound out these ideas?

Public participation is also inherent the setting of policies for education through the local school board (LSB). One of the main functions of the local school board is “to determine the annual supplementary budgetary needs for the operation and maintenance of public schools within the province, city or municipality and the supplementary local cost of meeting such needs which shall be reflected in the form of an annual school board budget corresponding to its share in the proceeds of the special levy on real property constituting the Special Education fund and such other sources of revenue.”

The LGC requires that the annual school board budget prioritizes the following:

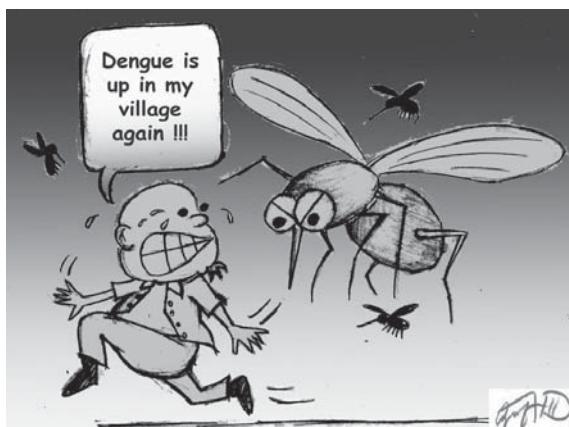
- 1) Construction, repair, and maintenance of school buildings and other facilities of public elementary and secondary schools;
- 2) Establishment and maintenance of extension classes where necessary; and
- 3) Sports activities at the division, district, municipal, and barangay levels.

It may also influence the decision of the local *sanggunian* on issues concerning education particularly local appropriations for educational purposes by serving as an advisory committee to the *sanggunian*.

Non-government organizations are represented at the LSB through the representatives of the parent-teacher association, teacher organization and the non-academic personnel organization. The LSB shall be composed of the following:

Provincial	City	Municipality
<ul style="list-style-type: none"> the governor and the division superintendent of schools as co-chairpersons <p>Members:</p> <ul style="list-style-type: none"> the chairperson of the education committee of the sangguniang panlalawigan the provincial treasurer the representative of the <i>pederasyon ng mga sangguniang kabataan</i> in the <i>sangguniang panlalawigan</i> the duly elected president of the provincial federation of parents-teachers association the duly elected representative of the teachers' organization in the province the duly elected representative of the non-academic personnel of public schools in the province 	<ul style="list-style-type: none"> the city mayor and the city superintendent of schools as co-chairpersons <p>Members:</p> <ul style="list-style-type: none"> the chairperson of the education committee of the sangguniang panlungsod the city treasurer the representative of the <i>pederasyon ng mga sangguniang kabataan</i> in the <i>sangguniang panlungsod</i> the duly elected president of the city federation of parents-teachers associations the duly elected representative of the teachers' organizations in the city the duly elected representative of the non-academic personnel of public schools in the city 	<ul style="list-style-type: none"> the municipal mayor and the district supervisor of schools as co-chairpersons <p>Members:</p> <ul style="list-style-type: none"> the chairperson of the education committee of the sangguniang bayan the municipal treasurer the representative of the <i>pederasyon ng mga sangguniang kabataan</i> in the <i>sangguniang bayan</i> the duly elected president of the municipal federation of parents-teachers associations the duly elected representative of the teachers' organizations in the municipality the duly elected representative of the non-academic personnel of public schools in the city

In Naga City, the composition of the local school board was modified to further improve the involvement of stakeholders in improving the quality of education. Naga City created an advisory council composed of members from the academe, business, religious, alumni associations and non-governmental organizations. This reorganization ensured that the priorities of the local school board in Naga is attuned with the needs of the stakeholders (Pabico, 2008).



5. Dengue is up in my village again. How can I participate in developing health policies so that the occurrence of these things are avoided?

You can take advantage of the opportunity to participate in the local health board (LHB). One of the main functions of the LHB is "to propose... the annual budgetary allocations for the operation and maintenance of health facilities and services within the municipality,

city or province, as the case may be. It should also serve as an advisory committee to the local sanggunian on health matters such as the necessity for, and application of, local appropriations for public health purposes.”

The composition of the LHB is as follows:

Provincial	City	Municipality
<ul style="list-style-type: none"> • the governor as chairperson, • the provincial health officer as vice-chairperson <p>Members:</p> <ul style="list-style-type: none"> • the chairperson of the committee on health of the <i>sangguniang panlalawigan</i> • a representative from the private sector or non-governmental organizations involved in health services • a representative of the Department of Health in the province 	<ul style="list-style-type: none"> • the city mayor as chairperson • the city health officer as vice-chairperson <p>Members:</p> <ul style="list-style-type: none"> • the chairperson of the committee on health of the <i>sangguniang panlungsod</i> • a representative from the private sector or non-governmental organizations involved in health services • a representative of the Department of Health in the city 	<ul style="list-style-type: none"> • the municipal mayor as chairperson • the municipal health officer as vice-chairperson <p>Members:</p> <ul style="list-style-type: none"> • the chairperson of the committee on health of the <i>sangguniang bayan</i> • a representative from the private sector or non-governmental organizations involved in health services • a representative of the Department of Health in the municipality

In a study on community participation in local health boards, the authors found out that “there are more consultation with communities, more fund raising activities, health initiatives and higher per capita expenditure on health in LGUs with functional LHB” (Ramiro, et al., 2001).

In 2009, Talisay City in Negros Occidental received the hall of fame award as the most outstanding local health board in Western Visayas. The success of Talisay’s LHB is a result of a functional local health board that worked collaboratively with different stakeholders.¹

¹ For more information on Talisay’s local health board, a feature article is available at the NEDA website – [www.neda.gov.ph/Knowledge.../Project02\(Talisay\)-NRO6-KE\(Part1\).pdf](http://www.neda.gov.ph/Knowledge.../Project02(Talisay)-NRO6-KE(Part1).pdf)

6. Can I take a look at how our town's funds are being allocated? Can local stakeholders help make the budget?

The budget process has five (5) major phases and stakeholders have roles in each step. The UBOM explains the 5 stages of the budget process and the Budget Operations Manual for LGUs of the Department of Budget and Management lined up the roles of stakeholders in the various stages of budget preparation. Excerpts from the two

Budget Preparation

It starts when the local treasurer submits the Certified Statement of Income covering actual receipts in the past year and the first semester of the current year, as well as the estimated income for the second semester of the current year.

The issuance by the LCE of a directive in the form of a budget call signals the start of the budget preparation.

Step 1 Stakeholders, such as civil society groups, NGOs and the private sector, as observers of the Local Finance Committee (LFC), shall represent the aggregate needs of the people, particularly the weak and the disadvantaged. These observers may provide relevant inputs to the LFC and the LCE in the formulation of policy decisions that are embodied in the AIP.

Step 2 Stakeholders may also provide inputs to department heads of

Participatory Budgeting²

Participatory budgeting is a social accountability tool designed to increase transparency, improve efficiency and reduce corruption in governance. Wampler (2007:21) describes participatory budgeting as

..."a decision-making process through which citizens deliberate and negotiate over the distribution of public resources. Participatory budgeting programs are implemented at the behest of governments, citizens, nongovernmental organizations (NGOs), and civil society organizations (CSOs) to allow citizens to play a direct role in deciding how and where resources should be spent. These programs create opportunities for engaging, educating, and empowering citizens, which can foster a more vibrant civil society."

A celebrated practice of participatory budgeting is the one implemented in Porto Alegre, Brazil. The participatory budgeting in Porto Alegre is a very intricate process conducted annually by the organized groups of the city together with the local government officials and city planners and administrators. It is composed of different preliminary meetings in the different regions of the city. It involves the citizens of Porto Alegre in every step of the budgeting process. The mayor, executive officials and civil servants are present in these meetings to discuss previous and current investment plans. The participants in the plenary can raise any issue they want to the local officials.

Any investment project planned by the local government has to be approved by the public through the participatory budgeting process. Information are disclosed freely and the government is made accountable for the investment decision it failed or plan to undertake.

One thing that is important to highlight in the participatory budgeting process of Porto Alegre is the way it has empowered the traditionally disadvantaged groups like women and ethnic minorities as reflected by their above average participation in the process. The significant improvement in the infrastructure of Porto Alegre is attributed to participatory budgeting. It has improved the provision of basic needs, increasing the number of households with access to sewage and running water. The number of school children in public schools also increased.³

² For a detailed discussion on participatory budgeting, see (Anwar Shah (ed.), 2007) available at <http://siteresources.worldbank.org/PSGLP/Resources/ParticipatoryBudgeting.pdf>

³ For a more thorough discussion on participatory budgeting in Porto Alegre, please see (Koonings, 2004; Menegat, 2002; Novy & Leubolt, 2005; Wampler, 2004)

line agencies that could help these decision makers in the accurate determination of targets or in the identification of beneficiaries in the delivery of agency services

The budget preparation phase ends when the executive budget is submitted to the *Sanggunian* for authorization.

Budget Authorization

This phase starts when the LCE submits the proposed budget to the *Sanggunian* for legislative deliberation and ends with the enactment of the corresponding appropriation ordinance, the legislative instrument authorizing the budget.

The Committee on Appropriations of the *Sanggunian* is responsible for conducting a preliminary review and evaluation of the executive budget. The committee may conduct its own budget hearing and may call upon the Local Finance Committee and heads of departments.

The *Sanggunian* may not increase the proposed amount in the executive budget or include new items except to provide for statutory and contractual obligations that may not have been considered in the preparation of the budget, or if the amount provided is deficient.

Step 3 Stakeholders may participate in the *Sanggunian* deliberation of the Executive Budget during public or committee hearings and consultation with specific sector groups affected by the budget.

Step 4 Stakeholders may clarify or ask questions on changes in the executive budget not found in the approved AIP.

Budget Review

The primary purpose of the budget review is to determine if the enacted appropriation ordinance complied with the requirements set in the LGC. In the case of provinces, highly urbanized cities, independent component cities, and municipalities within Metropolitan Manila, the secretary of the *Sanggunian* shall forward to the DBM Regional Office the appropriation ordinance within three (3) days of its approval. In the case of component cities and municipalities, the review is done by the *Sangguniang Panlalawigan*.

Step 5 Stakeholders may relay information to the reviewing authority on the consistency or inconsistency of the budget with the AIP.

Budget Execution

This fourth phase involves the release and actual disbursement of funds appropriated for the performance of functions and implementation of projects and activities.

The critical aspect of this phase is the collection of funds so that disbursements do not exceed appropriations.

- Step 6 Stakeholders may assist implementors in advocating the benefits of the PPAs to prospective clients.
- Step 7 Stakeholders may also assist the LGU in providing for the service gaps due to fund constraint.
- Step 8 Stakeholders shall see to it that the standards of service delivery, in terms of quality and proper specifications, are observed by the LGU.

Budget Accountability

This involves the accurate recording and reporting of the LGU's income and expenditures and the evaluation of the LGU's physical and financial performance.

The fundamental principle on accountability affirms that fiscal responsibility must be shared by all those exercising authority over the financial affairs, transactions, and operations of the LGU.

7. How do citizens participate in the local councils?

The Local Government Code of 1991 also provides for representation of sectoral groups in the local *sanggunian*. Section 41 of the Code states that:

SEC. 41. Manner of Election.
 - (a) The governor, vice-governor, city Mayor, city vice-mayor, municipal Mayor, municipal vice-mayor, and punong barangay shall be elected at large in their respective units by the qualified voters therein. However, the *sangguniang kabataan* chairman for each barangay shall be elected by the registered voters of the katipunan ng kabataan, as provided in this Code.



- (b) The regular members of the *sangguniang panlalawigan*, *sangguniang panlungsod*, and *sangguniang bayan* shall be elected by district, as may be provided for by law. *Sangguniang barangay* members shall be elected at large. The presidents of the leagues of *sanggunian* members of component cities and municipalities shall serve as ex officio members of the *sangguniang panlalawigan* concerned. The presidents of the *liga ng mga barangay* and the *pederasyon ng mga sanggunian ng kabataan* elected by their respective chapters, as provided in this Code, shall serve

as ex officio members of the *sangguniang panlalawigan*, *sangguniang panlungsod*, and *sangguniang bayan*.

(c) In addition thereto, there shall be one (1) sectoral representative from the women, one (1) from the workers, and one (1) from any of the following sectors: the urban poor, indigenous cultural communities, disabled persons, or any other sector as may be determined by the sanggunian concerned within ninety (90) days prior to the holding of the next local elections, as may be provided for by law. The Comelec shall promulgate the rules and regulations to effectively provide for the election of such sectoral representatives.

Sections 446, 457 and 467 of the Code discussed the composition of the *Sangguniang Bayan*, *Panglungsod at Panlalawigan* and reiterated the membership of sectoral representatives in the said council. This could have been a very good opportunity for underrepresented sectors to participate and influence policy making at the local level. Unfortunately, after a bitter campaign between the League of Municipalities and Philippine Councilors' League on one side and the advocates of sectoral representation on the other side, Republic Act No. 7887 was enacted amending the Local Government Code of 1991. It stated that an enabling law is necessary to implement the election of sectoral representatives. There are several pending bills in Congress on the implementation of local sectoral representatives.

8. Can ordinary citizens take a look at what's happening in bids and local procurement procedures?

The Local Government Code of 1991 provides for the inclusion of two representatives from non-government organizations that are represented in the local development council to be included in the Local Prequalification, Bids and Awards Committee (Local PBAC). This committee is responsible for the conduct of prequalification of contractors, bidding, evaluation of bids, and the recommendation of awards concerning local infrastructure projects ("Local Government Code," 1991). However, the Local Government Code was amended by the Government Procurement Reform Act of 2003. The Local PBAC was replaced by the Bids and Awards Committee (BAC) as the main committee responsible for procurement and bidding.

The procurement law requires a representative of the Commission on Audit and at least two (2) observers to sit in the procurement proceedings. At least one observer should represent a duly recognized private group in a sector or discipline relevant to the procurement at hand. Another observer should represent non-government organizations (Government Procurement Policy Board, 2009b).

Observers of the procurement process must meet the following criteria:

1. From an organization duly registered with the Securities and Exchange Commission (SEC) or the Cooperative Development Authority (CDA), and should meet the following criteria:
2. Knowledge, experience or expertise in procurement or in the subject matter of the contract to be bid;
3. Absence of actual or potential conflict of interest in the contract to be bid; and
4. Any other relevant criteria that may be determined by the BAC.

As the title suggests, the observers do not have the right to vote in the procurement hearings unlike in the local PBAC in the LGC of 1991 where NGOs actually have voting power in the committee. They are granted access to the following documents upon their request subject to signing of confidentiality agreement:

- a. minutes of BAC meetings;
- b. abstract of bids;
- c. post-qualification summary report;
- d. Annual Procurement Plan (APP) and related Project Procurement Management Plan (PPMP) and
- e. opened proposals

These rights and access as observers come with the following responsibilities:

- a. Prepare the report either jointly or separately indicating their observations made on the procurement activities conducted by the BAC for submission to the Head of the Procuring Entity, with a copy furnished to the BAC Chairperson. The report shall assess the extent of the BAC's compliance with the provisions of this IRR and areas of improvement in the BAC's proceedings;
- b. Submit their report to the procuring entity and furnish a copy to the Government Procurement Policy Board (GPPB) and Office of the Ombudsman/Resident Ombudsman. If no report is submitted by the observer, then it is understood that the bidding activity conducted by the BAC followed the correct procedure; and
- c. Immediately inhibit and notify in writing the procuring entity concerned of any actual or potential interest n the contract to be bid.

9. How do I know where the money went?

You can do expenditure tracking and project monitoring.

Non-government organizations and peoples' organizations can conduct an independent expenditure tracking and project monitoring in their localities. Procuring entities of the government are required to submit the Notice of Award to the Philippine Government Electronic Procurement System (PhilGEPS) under the Government Procurement Reform Act (GPRA) of 2003 or Republic Act No. 9184. PhilGEPS publishes all Notice of Awards in their website – www.philgeps.net.

One NGO that is successful in engaging the government on systematic monitoring and evaluation of government projects is the Concerned Citizens of Abra for Good Government (CCAGG). The organization is composed of teachers, lawyers, doctors, engineers, priests, housewives, farmers and out-of-school youth.

Among the factors that contributed to the success of CCAGG is their effort to engage in community building and organizing at the barangay and municipal level to recruit volunteers for the organization. To encourage people participation, CCAGG educates and raises the awareness of the public about their work, the projects they are monitoring and the benefits the community will derive from these projects (Kalaw-Tirol, 1998; Lopez-Wui, 2003).

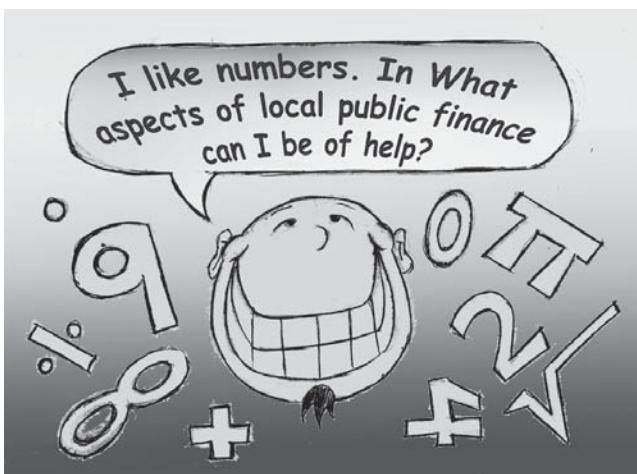
In addition, CCAGG has technical capabilities, logistical resources and organization. Members of CCAGG, especially the housewives, the students and other youth members, relentlessly volunteer their time to monitor road construction projects and report their observations to the engineers and accountants in the organization (Ramkumar & Krafchik, 2005). The lawyers in the group handle cases against erring government officials (Lopez-Wui, 2003).

Financial resources come from local and international donors and from annual dues of members amounting to P20 each. They also organize fund raising activities to support their monitoring activities. The organization has a website (www.ccagg.com) where they provide more detailed information about the organization and their activities.

IV. Let's crunch some numbers: Local Public Finance Analysis

By LEILANI L. GALVEZ

1. I like numbers. In what aspects of local public finance can I be of help?



Great to hear that. You can do independent financial analysis.

Independent financial analysis is done by examining the financial data of local government units. It focuses on analyzing the budget and identifying the priority spending of the LGU, looking at the revenue resources of the LGU and comparing the expenditure report with the proposed budget. This exercise is highly dependent on the availability of financial data and technical skills in analyzing

fiscal data. Understanding the financial data of the LGUs enable the public to engage and influence the government in the allocation and utilization of public funds.

The succeeding discussion summarizes the data needed, possible sources of data and the assessment ratios that may be utilized in evaluating the fiscal data of an LGU. The Social Accountability website of the World Bank (http://www.worldbank.org/socialaccountability_sourcebook/essd9.swf) also provides different tools and methods in increasing participation in public finance.

2. I want to look at the numbers of our town's budget, spending, etc. Where do I get them?

Access to information is critical in conducting an analysis of local public finance. Access to financial data makes governance more transparent and efficient and encourages public participation. In some local government units, information about their revenue, budget and expenditure are readily available in the LGU's website. An example of this is the website of Naga City where they publish their financial documents (See www.naga.gov.ph). If the data are not available in the LGU's website, it can be requested directly from the officers in your locality.

A. The Local Chief Executive Budget

Local government budgets, known as the Local Chief Executive Budget shall contain:

- a. A Budget Message
- b. Local Expenditure Program (LEP)
- c. Budget of Expenditures and Sources of Financing (BESF)

The budget message of the local chief executive sets forth in brief the significance of the executive budget, particularly in relation to the approved local development plan.

Local government budgets shall primarily consist of two (2) parts:

- (1) The estimates of income; and
- (2) The total appropriations covering the current operating expenditures and capital outlays and summary of financial statements

B. Other sources of information

- Commission on Audit – www.coa.gov.ph

Every year, the Commission on Audit publishes their Annual Financial Report (AFR) on the local government units. These annual reports contain all important financial statements of the LGU and most importantly, are accompanied by an Annual Audit Report (AAR) containing critical observations and recommendations on the financial undertakings of the local government like improving tax collection, inconsistencies in bidding and procurement process and inconsistencies in financial reporting.

The Audited Financial Statements (AFS) are prepared in accordance with the Commission on Audit's New Government Accounting Systems (COA-NGAS), in compliance with International Accounting Standards. Financial Statements include the Balance Sheet, the Statement of Income, Statement of Cash Flow and the Notes to the Financial Statements.

Looking at the face value of the audited income statements does not provide any data on what constitutes tax revenues as it lumps together revenues from real property taxes and business taxes. Even the notes to the financial statements, which supposedly contain information and explanation on accounts used in the financial statements, do not give the details of these tax revenues.

On the expenditures side, expenses are indicated by class or nature which does not provide a basis for evaluating if the particular local government was able to provide the basic services to its constituents or if expenditures were incurred in relation to its local development plan.

From a layman's point of view, the account "deferred credits" as a liability in the balance sheets may not mean much. But one when one looks at the notes and sees this as a "deferred real property tax income" then we get to see so much more potential from RPT collection.

Similarly, the account "receivables" in the asset portion of the balance sheets may look so big but when one reads the notes, these include "Real Property Tax Receivable". It is, again not presented that it is actually in relation to the "deferred real property tax income" and in turn, to "deferred credits." If only these were collected, the amounts per year for some local government units may even be close to its annual operating income.

- Bureau of Local Government Finance – www.blgf.gov.ph

The Bureau of Local Government Finance also provides fiscal data on LGUs. They also have manuals for fiscal analysis, opinions, rulings and issuances related to local government finance. Statement of Receipts and Expenditures (SRE) Report (formerly known as the Statement of Income and Expenditures (SIE) is required to be prepared by each LGU's Treasurer and submitted to the Bureau of Local Government Finance (BLGF). The latter refers to the SRE Report as "the basic financial statement."

The Manual for the preparation of this report is prescribed by the BLGF pursuant to the provisions of Republic Act (RA) No. 7160 and Executive Order (EO) 127, Series of 1987, which provide, respectively, that:

"...the Department of Finance has the authority to monitor and regulate the financial performance of LGUs."

and

"...the Department of Finance is responsible in the fiscal and financial management of the Government including the Local Government Units. The Bureau of Local Government Finance being the arm of DOF is responsible in the administration and technical supervision of LGUs. The BLGF is specifically directed to supervise the revenue operations of all local government units, with the objective of making these entities less dependent on funding from the national government."

Renaming the Statement of Income and Expenditures (SIE) to Statement of Receipts and Expenditures (SRE) provides transparency and a better understanding of the sources of funds of the local government as it includes loan proceeds, donations and grants, which in financial terms, are not considered income.

Generating the SRE Report, however, requires the preparation of voluminous supplemental statements and supporting reports from the LGU level, specifically the City Treasurer. (Chapter 3, Section 7 of SRE Manual). These reports are forwarded to the BLGF for the generation of electronic copies of the basic financial report, the SRE Report which can be accessed and downloaded from the BLGF website.

- Bureau of Local Government Supervision, Department of Interior and Local Government – <http://www.blgs.gov.ph/lgpmsv2/cmshome/index.php>

The Bureau of Local Government Supervision has the Local Governance Performance Management System (LGPMS) that produces summary information on the profile of LGUs, state of local governance performance specifically administrative governance, financial performance, social governance, economic governance and environmental governance. It also generates a report on the state of local development.

3. How do I know if my LGU is in good financial standing? Are there financial performance indicators?

The Statement of Receipts and Expenditures (SRE) Manual of the Bureau of Local Government Finance (BLGF) of the Department of Finance summarized several LGU financial performance indicators (Bureau of Local Government Finance, 2010). These ratios are useful in evaluating and assessing the public finance of the local government unit. It includes the following:

A. Revenue indicators

- revenue stability and reliability
- revenue mobilization and efficiency

B. Expenditure indicators

- Total Expenditures per Capita
- Personnel Services Expenditure Ratio (PSER)
- Debt Service Expenditure Ratio (DSER)
- Social Expenditure Ratio (SER)
- Economic Expenditure Ratio (EER)

C. Debt and Investment Capacity Indicators

D. Financial Management Capacity Indicators

The indicators cover the three basic elements of fiscal/financial policy- revenues, expenditures and debt - and attempts to measure LGU's fiscal/financial condition beyond having excess cash and presence of physical infrastructure.

Key factors arising from the interaction of the said elements provide a better understanding of the LGUs' financial position. These factors are quality and efficiency of resource mobilization; quality and sustainability of spending; and capability to manage expenditure and the debt burden. Financially strong and financially weak LGUs may be identified after the application of the performance indicators. Simply, LGUs are considered financially weak if they fail to meet at least one third of the benchmarks and its regular operation incur cash deficit. Otherwise, they are financially strong.

It is advisable to sort LGUs by income class, political level (i.e., municipalities, cities, and provinces), or by level of internal revenue allotment before doing a comparative analysis of the fiscal/financial performance indicators to make the assessment fair and meaningful (BLGF, SRE Manual).

These ratios and their interpretations are summarized in Table 3.

Table 3. LGU Financial Performance Indicators (LGFPMS)

A. Revenue Indicators - reflect LGU revenue generation capacity

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
A.1 Revenue Potential					
1	Revenue Level	Total Revenues	Total revenues as compared to the average value for the LGU income class to which the LGU belongs	LGU Revenue > = income class average	Also a creditworthiness ranking indicator. Used as evidence for the availability of an appropriate revenue level.
2	Revenue Growth	$\frac{(\text{Total Revenues Yr1} - \text{Total Revenues Yr0})}{\text{Total Revenue Y0}} \times 100$	Revenue growth or the trend in revenue across time	The average annual % increase in LGU revs > = Annual inflation rate + Annual population growth rate	Also a creditworthiness ranking indicator. Used as evidence for the sustainability of an appropriate revenue level.
<p>Annual inflation rate – Calculated as the average annual increase in the Gross Regional Domestic Product (GRDP) Implicit Price Index (1985 = 100) for the region to which the LGU belongs as published by the National Statistical Coordination Board (NSCB).</p> <p>Annual population growth rate – Annual compound growth rate of the LGU population calculated from the formula $P_n = P_0(1+r)^t$ where P_t = population at year n. P_0 = base year population, t = number of years elapsed between the base year and year n, and r is the annual growth rate. The appropriate population levels may be taken from the National Statistical Office (NSO).</p>					
A.2 Revenue Stability and Reliability					
3	Locally-Sourced Revenue per Capita	Locally Sourced Revenue / Population	Amount of Revenues under LGU control on a per capita basis.	Per capita locally sourced revenue > = average for the LGU income class to which the LGU belongs.	This is used as evidence of the degree of tax effort exerted by the LGU.
4	Growth in Locally Sourced Revenue per Capita	$(\text{Locally Sourced Rev per Capita Yr1} - \text{Locally Sourced Rev per Capita Yr0}) * 100 / \text{Locally Sourced Revenue per Capita Yr0}$	Growth in the amount of revenues under LGU control on a per capita basis.	Growth in locally sourced revenue per capita > = average for the LGU income class to which the LGU belongs.	Used as evidence of the degree of improvement of the tax effort exerted by the LGU.
5	% Locally Sourced to Total LGU Revenue	Locally Sourced Revenues / Total Revenues X 100	The share of revenues that are under LGU control and results from local economic activity.	% Share of locally sourced revenue to total LGU revenue > = average share for the LGU income class to which the LGU belongs.	Also a creditworthiness ranking indicator and is used as evidence of the reliability of an appropriate revenue level.
<p>Locally sourced revenues include income from business and other local taxes, real property taxes, economic enterprises, fees and charges. This does not include IRA, LGU share in national wealth, loans, credits, bond proceeds, tobacco excise taxes, etc.</p>					

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
6	% Regular Revenues to Total Revenue	Regular Revenues/Total Revenues x 100	% Regular Revenues to Total Revenue	% Share of recurring revenue to total LGU revenue >= average share for the LGU income class to which the LGU belongs.	Also a creditworthiness ranking indicator and is used as evidence of the predictability of an appropriate revenue level.
Regular Revenues = Locally Sourced Revenues + IRA)					
A.3 Revenue Mobilization Efficiency					
7	Total Revenue Collection Cost to Total Revenues Collected (TRCC)	Total Local Revenue Collection Cost/ x 100 Total Local Revenues	The cost of collecting a peso of revenues.	TCC > = average for the LGU income class to which the LGU belongs.	This reflects the cost effectiveness of the local revenue generation efforts of an LGU. The cost of collecting taxes can be considered highly indicative of the cost effectiveness of the local revenue efforts of a LGU.
8	Real Property Tax Accomplishment Rate (RPTAR)	Actual RPT Collections *100/ Targeted RPT Collections	% of current RPT collected within the year to the total RPT due for the year as estimated from the assessed value of taxable real properties.	RPTAR > = 100%	Also a creditworthiness ranking indicator and is used as evidence of the collection efficiency of the LGU.
<p>The Real Property Tax (RPT) is the major source of local revenues for most Philippine LGUs and also mirrors the local economy as the real property tax base (the value of existing properties) reflects the status of the local economy, especially in urban areas. As such, the collection efficiency for the real property tax largely mirrors the overall collection efficiency of the LGU. Many LGUs require a certificate of full payment of RPT before the issuance of a new or renewed business permit.</p>					

B. Expenditure Indicators – define the degree of flexibility that an LGU has to allocate resources for different purposes. The expenditure indicators distinguish between rigid or compulsory expenditures that cannot be avoided by the LGU and discretionary expenditures.

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
9	Total Expenditures per Capita	Total Expenditures/ Population	Average amount spent by the LGU per constituent.	Per capita total LGU expenditures \geq average for the LGU income class to which the LGU belongs.	This is indicative of the amount of services extended by the LGU to its constituent on a per capita basis.
10	Personnel Services Expenditure Ratio (PSER)	Personnel Services Expenditures *100/ Total Expenditures	The ratio of LGU expenditures for personal services to total LGU expenditures.	PSER $<=$ 45% for 1st to 3rd class LGUs and 55% to 4th or lower class LGUs and should exhibit a decreasing trend. (These are legal ceilings imposed under Section 325 (a) of the 1992 Local Government Code (LGC))	Also a creditworthiness ranking indicator and is regarded as the most rigid expenditure category for an LGU.
11	Debt Service Expenditure Ratio (DSER)	Debt Service Payments *100/ Total Expenditures	The ratio of LGU expenditures for debt service 10 to total LGU expenditures, where Debt Service = Interest + Loan Amortization	DSER \leq average for the LGU income class to which the LGU belongs and should be decreasing.	Debt service is regarded as an equally rigid expenditure category for an LGU. Also a recommended creditworthiness ranking indicator.
12	Social Expenditure Ratio (SER)	Social Services Expenditures *100/ Total Expenditures	The ratio of LGU social expenditures to total LGU expenditures	SER \geq average for the LGU income class to which the LGU belongs and should be increasing.	The level of LGU social expenditures has a high degree of relationship with poverty alleviation and improvement in the human development index.
13	Economic Expenditure Ratio (EER)	Economic Services Expenditures *100/ Total Expenditures	The ratio of LGU economic expenditures to total LGU expenditures	EER \geq average for the LGU income class to which the LGU belongs and should be increasing.	The level of LGU economic expenditures also has a high degree of relationship with poverty alleviation and improvement in the human development index.

C. Debt and Investment Capacity Indicators – define the extent to which the LGU considers the importance of capital expenditures and local government capacity to attract long term financing for investments.

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
14	Debt Service Ratio (DSR)	Debt Service Payments *100/ Regular Revenues	The ratio of LGU expenditures for debt service to total LGU annual regular income, where Regular Income = Locally Sourced Income + IRA	DSR < = 20% of annual regular income and ratio should at least be stable if not decreasing across time.	The debt service cap is a statutory limitation imposed under Section 324 of the 192 LCG. Also a recommended creditworthiness ranking indicator. This indicator defines the extent to which a local government could engage additional debt, taking into account the debt limits provided by the law. These limits give decision autonomy to the local government as long as the expenditures related with the debt service remain within the prudent acceptable limits.
15	Gross Operating Surplus to Debt Service Ratio (GOSDSR)	Gross Operating Surplus (Deficit)/ Debt Service Payments	The ratio of LGU operating surplus to debt service, where Operating Surplus = Operating Revenues-Operating Expenditures	GOSDSR > = average for the LGU income class to which the LGU belongs and should be increasing.	The gross operating result represents the main and essential source that could be mobilized by the LGU in order to finance the public service infrastructure investments or the servicing of loans contracted for these purposes. This is also a creditworthiness ranking indicator.

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
16	Debt to Net Asset Ratio (DAR)	Total Debts*100/ Total Assets- Accumulated Depreciation	The ratio of an LGU's debt to its depreciated asset base (or Net assets = Total Assets less Accumulated Depreciation.)	DAR should be ≤ 1 indicating that an LGU has a sufficient asset base to back up its debt.	This reflects the value at risk of lenders to a LGU in case of a default.
17	Capital Investments to Total LGU Revenue Ratio (CITRR)	Capital Investments/ Total Revenues	The % share of capital investments to total LGU revenues	CITRR \geq average for the LGU income class to which the LGU belongs and should be stable if not increasing.	Measures the extent to which the LGU considers the importance of capital expenditures. Also a credit worthiness ranking indicator.

D. Financial Management Capacity Indicators – compare LGU revenues with LGU expenditures and define the extent to which the LGU implements an efficient financial resources management.

No.	Indicator	Formula	Definition	Benchmark	Concerns Addressed
18	Net Operating Surplus to Total LGU Revenue Ratio (NOSTRR)	Net Operating Surplus (Deficit)*100/ Total Revenues	The ratio of LGU net operating surplus to total LGU revenues. Net Operating Surplus = Gross Operating Revenues - Debt Service	NOSTRR \geq average for the LGU income class to which the LGU belongs and should be increasing in case of operating surpluses and decreasing in case of operating deficits.	This indicator shows the ability of the local governments to be sure their budget will be balanced. The NOSTRR is also a recommended creditworthiness ranking indicator.
19	Uncommitted Cash Balance to Total LGU	Uncommitted Cash Balance*100/ Total Expenditures	The calculated figure reflects the uncommitted cash portion of government equity in the LGAS. This is roughly equivalent to a sort of an annual financial reserve. Uncommitted Cash Balance = Total Ending Cash Balance - Financial Commitments.	UCBTER \geq average for the LGU income class to which the LGU belongs and should be increasing.	Few LGUs explicitly provide for financial reserve, and the nearest equivalent will be the uncommitted or free cash balance of LGUs. This indicator shows the ability of the LGU to ensure their budget will be balanced even in the face of financial uncertainties. Also a creditworthiness ranking indicator.

Source: BLGF, SRE Manual

V. Case Studies

We shall now take a look at two contrasting cases: Marikina City which is part of Metro Manila, enjoying a high Internal Revenue Allotment and having a significant share of its financial resources from its own taxes – real property, business permits, and the like. The other is Guinayangan, a small, far-flung town in the province of Quezon with limited economic activity and struggling to provide decent public goods to its citizens. Following is a comparative snapshot of the two cases:

	Guinayangan	Marikina
Population	39,074	424,610
land area	22,800 ha	2,150 ha
Income class	third class municipality	first class city
Total Expenditure per capita	P 1,297.44	P 3,128.10
IRA	P 52,787,403	P 446, 492,645
% Locally Souced to Total LGU Revenue	6.04%	61.63 %
% age of IRA dependence	94.11 %	30.50%
Personnel Services Expenditure Ratio (PSER)	53.67%	43.75 %
Debt Service Expenditure Ratio (DSER)		9.26%
Real property tax efficiency ratio	91.00%	99.50%

Note: Except for the land area and income class, all other figures appearing above are the average of the years 2007 to 2009.

Case Study: Marikina City

By CIELO MAGNO

Marikina is known to be one of the best managed cities in the country and if there is one thing it can stand improvement on, it would be in the area of participatory governance. Incorporating people's participation in running Marikina City's government could further improve city governance, improve the process of identifying priorities and solutions to problems and open new and creative opportunities to address these challenges. People's participation could help Marikina further improve its social and economic status.

This case study examines the extent of people's participation in public finance of Marikina from 2007 until the end of Mayor Marides C. Fernando in June 2010.

A. Background

Marikina City is the shoe capital of the Philippines. It was the largest shoe producer in the country until the shoe industry took a toll in the early '90s because of trade liberalization. About two decades later, it has now reemerged as one of the country's premier business and financial districts in the country (Ishii, Hossain, & Rees, 2007 citing Galing Pook Foundation, 2003).

Marikina became a chartered city in 1996 and over the past several years, has transformed into a highly urbanized and first class city ("An Act Converting the Municipality of Marikina into a Highly Urbanized City to be Known as The City of Marikina," 1996). Shoemaking is still considered the primary industry in the city (Marikina City, 2007), but aside from shoes, other products that come from Marikina City include cigarettes, food, candies, bags, porcelain, guns and ammunitions, cosmetic and beauty products (Dulay, 2010).

The city has two legislative districts and 16 barangays with a land area of 2,150 hectares. There are around 14,000 business establishments and 11 tourism establishments in the city (Marikina City, 2007). Based on the 2007 Census, Marikina has a total population of 424,610 with a growth rate of 1.14 (National Statistics Office, undated). There are 18 public schools and 47 private schools in the city. Literacy rate is at 99%. There is one public hospital, nine private hospitals and 16 health centers. There are 18, 355 registered senior citizens in the area.

Marikina has been a recipient of numerous *Galing Pook* Awards, the country's top recognition for innovation and excellence in governance. In 2007, it received a *Galing Pook* Award for environmental protection through its ecosavers' program which taught school children waste segregation and recycling practices that can be done at the household level. This resulted in the decrease of the cost incurred in the disposal of local solid waste.



Members of Marikina's CSOs, local government officials of the city led by Vice Mayor Jose Fabian Cadiz (front row, 4th from right) and the Project Team in Kapitan Moy during the validation workshop

In 2008, the city received an award for its centralized warehousing management which resulted to “operational prudence in the use of Marikina’s resources and efficient supply chain and property management”. Most recently, it received another Galing Pook Award for health and sanitation because of its clean food and water laboratory, which ensures the safety of food and water sold in the markets through regular testing (Galing Pook Foundation, 2010).

B. Marikina's leadership paradigm

Under the leadership of Mayors Bayani and Marides Fernando, Marikina rapidly transformed into a first class city from a lowly municipality of Rizal. Mayor Bayani Fernando served as mayor of Marikina from 1992 to 2001. He was replaced by his wife Marides Fernando in 2001. She served three terms and ended her stint as mayor in June 2010.

From the beginning of the Fernandos' leadership, Marikina has been geared towards becoming a “A Little Singapore.” While continuing to pursue the delivery of basic services to the residents of Marikina, the city sought to make itself (Commission on Audit, 2007):

- A place for quality living
- A place for work and business
- A place for history
- A place for socializing
- A place for entertainment
- A place for arts, culture, tourism and sports
- A place for education
- A place for religion

Compared to other cities in the Philippines known for exemplary participatory leadership like Naga, Marikina's government under the Fernandos was described as “governance with trusts.” While people participation in governance was modest, the government was successful in launching “pro-poor” policies (Ishii, et al., 2007). Another governance expert coined the term “Marikina Way” to brand the leadership style of the Fernandos .

Dulay (2009) described this as the application of well-settled business sector management practices into the public administration. He further explained that Marikina under the Fernandos can be described to be a “convergence of good timing, character traits of the leaders and a series of judgment calls, decisions and innovations based on the proper appraisal of the situations.”

The Fernandos’ style of governance has also been described as “top-down style of governance that emphasizes discipline and adherence to rules” emphasizing that Marikina’s challenge during their leadership was to increase participatory governance (Pabico, 2007).

C. Civil society presence in Marikina⁴

Marikina has a very diverse civil society. Aside from the presence of political parties like *Bayan, Sanlakas and Akbayan*, there are a number of socio-civic groups, religious based organizations, neighborhood organizations, transport associations, jeepney, tricycle and pedicab drivers and operators associations. There are almost 500 neighborhood organizations and homeowners associations. Nine of the seventeen barangays have their own Catholic parishes. There are Christian-based groups in almost all barangays.

There are amateur radio and civic action radio groups. Professional organizations are also present in the city, foremost among them are the Marikina Bankers Association, Marikina Dental Society, Marikina Valley Medical Society, United Architect of the Philippines and the Marikina Valley Contractors Association. As well, there are two major footwear associations, namely the Marikina Footwear and Leathergoods Association and the Marikina Shoe Trade Fair Association.

Also existing in Marikina are several chapters of Jaycees, Lions Clubs and Rotary Clubs as well as war veterans associations like the Marikina Defenders of Bataan & Corregidor and the Veterans Federation of the Philippines Marikina Chapter. Individuals with business interests also have their own business associations. There is the Marikina Valley Chamber of Commerce & Industry, Inc. and the Marikina Fil-Chinese Chamber of Commerce.

D. Access to information and civil society participation in public finance in Marikina

One of the venues for participation is through the sangguniang panglungsod. According to the interview with the local finance committee of Marikina, the sangguniang panglungsod conducts appropriate consultations and public hearings before approving the annual budget. They also conduct appropriate consultations and public hearings before approving ordinances on fair market values of real property and other taxes.

In addition to regular consultations and public hearings, there is also transparency of information in Marikina. They have a Citizens Fact Book that provides basic information about the local government. They also post the financial records of the city in the city hall bulletin boards and near the entrance of the Accounting and Treasury offices. They publish the schedule of fair market values in newspapers and in barangay halls. City ordinances related to tax are available in the city’s website. Pertinent financial reports are also submitted by the accountant to the *Sanggunian* 30 days after the end of each month and 60 days after the 31st of December.

⁴ The list was provided by the Office of Public Information of Marikina City.

In addition to participation in public hearings and consultations, peoples' organizations and non-government organizations are mandated by law to directly participate in different special committees in the local government. The city engineer, the city health officer, the district superintendent and the members of the local development council of Marikina City were interviewed using questionnaires about the functions of the special committees in Marikina and the extent of participation of non-government organizations in these committees.

1. Bids and Awards Committee (BAC)

Engineer Alfonso P. Espiritu is the Chairman of the Bids and Awards Committee of Marikina City since 2007. He is the City Engineer and a building official of Marikina City. The City Engineering Office provided us with the copy of the Implementing Rules and Regulations of the Procurement Reform Act of 2003 suggesting that the bids and awards process of Marikina City is consistent with this process. According to Engineer Espiritu, they invite members of the Civic Action Team as representatives of the NGOs to observe in the BAC. The Marikina Chamber of Commerce is also part of this committee. The LFC stressed that peoples' participation can further be strengthened in the Bids and Awards Committee by adopting a transparent process of selecting the private sector representative in the committee similar to Naga City.

2. Local School Board (LSB)

A paper interview was conducted with Dr. Eduardo V. Lopez, the School Division Superintendent of Marikina City. Marikina has a functional local school board that meets as often as necessary. The school board is composed of the Mayor as the Chairperson and Dr. Lopez as the Vice-Chairperson. The members include the City Treasurer; the City Councilor in-charge of Education; the SK Councilor President; the Teachers' Federation President, Mr. Macario Carullo; the PTA Federation President, Mr. Gary Pasco, and the Non-Teaching Association President, Mr. Antonio Santiago.

In 2009, the LSB of Marikina had a budget of around 54 Million pesos which was utilized in the construction of school buildings, hiring of teachers and purchase of instructional materials and equipment in public schools (Department of Education, 2009). An official of the city revealed that the PTA federation and the non-teaching association have not had any elections in recent years. This creates doubt on the credibility of these individuals to participate in the local school board in behalf of the stakeholders.

3. Local Health Board (LHB)

Information regarding the Local Health Board of Marikina was provided by Dr. Alberto P. Herrera, the City Health Officer of Marikina through phone and paper interview. In the phone interview, Dr. Herrera explained that the health budget of Marikina is prepared by the City Health Office. It is then forwarded to the Budget Officer of Marikina for consolidation and submission to the *Sangguniang Panglungsod* for approval. The approved budget is then presented to the Local Health Board.

The Mayor is the Chairperson and the City Health Officer is the Vice-Chairperson of the LHB. The members of the Board are the City Councilor in-charge of Health, the DOH representative for Marikina and the NGO members represented by the Marikina Valley Medical Society, the Zonta Club of Marikina and the Rotary Club of Marikina. The roles of the NGOs in the LHB were to conduct socio-civic and health programs in partnership with

the city government. They do not receive any financial assistance from the city government in conducting these activities.

4. Local Development Council (LDC)

Marikina has a duly constituted and functional Local Development Council. The members of the LDC include the mayor as head of the LDC, the *punong barangays* in Marikina, the Chairperson of the Committee on Appropriation, the representatives of Marikina Congressmen (Del de Guzman and Marci Teodoro during Fernando's time) and three NGO representatives - the Marikina Chamber of Commerce and Industry, Marikina Valley Contractors' Association and the Chinese Chamber of Commerce and Industry.

During Mayor Marides Fernando's term from 2007 to June 2010, the LDC was meeting twice a year but most of the time, the NGO representatives were not present or were not actively participating. The Planning Office of Marikina, serving as the Secretariat of the LDC, would frequently furnish the NGO representatives copy of the LDC output for comments and suggestions and the representatives would provide verbal inputs.

It should be noted that based on the Commission on Audit Reports, the Agency reported that Marikina did not have an Annual Development Plan from 2007-2009. For 2008, the City Government also lacked the required Annual Investment Plan making it impossible to measure the efficiency and effectiveness of the City's operations. However, according to Marikina's Planning Office, the city has already complied with the requirement to submit an annual investment plan with the proposed budget of the city since 2009.

E. Marikina public finance analysis

1. Local Finance Committee

The City's Local Finance Committee consists of the Treasurer, the Budget Officer, the Planning & Development Officer and the City Accountant. It performs its role in accordance with the mandate of the Local Government Code.

In support of the City's budget, the members of the LFC reported that it has recommended appropriate tax and other revenue measures or borrowings, such as:

- (1) the amendment on the general revision of real property in 2002, although it noted that this is not yet synchronized with the zonal valuation of the Bureau of Internal Revenue;
- (2) maximization of the tax rate on real property to 2% as the city is currently using 1.5%;
- (3) the sale/privatization of non-performing assets like the hotel which the previous administration has not adopted;
- (4) grant of amnesty/relief of penalties on delinquent taxpayers;
- (5) pursuit of existing and new local economic enterprises;
- (6) consideration of loan from local banks to finance certain infrastructure projects, and
- (7) the annual auction of foreclosed assets from 2003 to 2008.

The LFC also recommend to the city mayor the amount to be allocated for infrastructure projects. The system or standard in ranking priorities for investment was essentially based on

priority development thrusts of the leadership of the city government. The LFC collectively decided on these recommendations.

With regard to the synchronization of zonal valuation with that of the Bureau of Internal Revenue, the LFC noted that this has been a challenge not only to Marikina but to other local governments as well. Naga City was the only city that was able to synchronize its zonal valuation with the Bureau of Internal Revenue.

It should be pointed out that a major challenge to the current city's administration is the significant reduction in its budget due to the 50% discount in real property tax. Through Ordinance No. 162 series of 2009, the city government granted the discount as an economic assistance to the residents of Marikina who were greatly affected by the flood and heavy rains brought about by typhoon Ondoy. The discount was to end on June 30, 2010. However, after the election and before the end of the term of Mayor Fernando, the city council decided to extend the 50% discount until the year 2013.

The total loss in income because of the tax discount can amount to almost P300M. Based on the data provided by the Treasurer's office, the P300M loss will reduce the city's budget by P133.5M, the barangays' share in RPT by P47.3M, the city's contribution to MMDA by P7.8M and the Special Education Fund (SEF) by P105M. The challenge of the current administration is in identifying priorities to ensure that the welfare of the residents of Marikina is not compromised given the decrease in their budget.

2. The Local Chief Executive Budget⁵

The city's 2007 budget was geared towards improving the areas where the city ranked low in terms of city competitiveness based on the City Competitive Ranking Project. These areas are 1) the cost of doing business, accessibility and linkages, 2) economic dynamism and human resource, and 3) development and training. Towards this end, the following were planned and implemented:

- a) building of additional schools and facilities and upgrade of existing ones.
- b) establishment of a modern Diagnostics Center to improve healthcare services.
- c) Completing several infrastructure projects including an eight storey Marikina Sports Complex and City Women's Council extension office.
- d) promoting the city through special events by funding more grandiose activities with greater impact on the economy, tourism, arts, cultural awareness and development.

For 2009, the city stressed that people's participation was encouraged in the preparation of the budget. Among the city's aims for that year were to be a more technologically-savvy institution and to focus on more intensive capability building programs that will aim to a) empower people know-how for jobs, b) develop a highly employable workforce including top managerial positions, c) streamline business processes for improved business-friendly environment and d) achieve greater milestones in education-related pursuits.

⁵ This section summarizes the budget messages of Marikina for the years 2007 and 2009. Due to typhoon Ondoy, Marikina lost some of its important data. A copy of the 2008 budget message was not available when this case was written.

3. Statement of Receipts and Expenditures (SRE)

The consolidated data on sources of revenue for the years 2007 to 2009 is shown in Table 4. The details of expenditures for the period were lifted from the BLGF website for the years 2007 and 2008 while the 2009 data were taken from the COA report.

Table 4. Total Sources of Revenue and Percent Distribution by Source of Revenue City of Marikina (For the Years 2007 to 2009)

	2009	%	2008	%	2007	%
Total Sources of Revenues	1,625,422,638	100%	1,442,311,621	100%	1,322,088,968	100%
Local Sources	967,902,732	59.5%	865,305,024	60.0%	744,577,798	56.3%
Tax Revenue	608,680,647	37.4%	565,057,856	39.2%	501,010,430	37.9%
Real Property Tax	235,915,026	14.5%	211,095,375	14.6%	203,342,872	15.4%
Business Tax	295,632,580	18.2%	279,666,261	19.4%	229,756,879	17.4%
Other Taxes	77,133,041	4.7%	74,296,220	5.2%	67,910,679	5.1%
Non-Tax Revenue	359,222,085	22.1%	300,247,168	20.8%	243,567,368	18.4%
Regulatory Fees-Fees and charges	122,256,297	7.5%	115,239,770	8.0%	107,555,675	8.1%
Receipts from Economic Enterprise	97,799,216	6.0%	92,604,930	6.4%	55,563,473	4.2%
Other Receipts	139,166,572	8.6%	92,402,467	6.4%	80,448,219	6.1%
Total Shares from National Tax Collections	657,519,906	40.5%	577,006,597	40.0%	577,511,170	43.7%
Internal Revenue Allotment	510,067,069	31.4%	415,816,479	28.8%	413,594,386	31.3%
Extraordinary Receipts/Aids-Grants & Donations	6,085,457	0.4%	-	0.0%	-	0.0%
Loans & Borrowings	141,367,380	8.7%	161,190,118	11.2%	163,916,784	12.4%

Source: LFC of Marikina

Based on the interview with the city treasurer, tax collection efficiency ratio for 2008 is at 94% while for 2009 it improved further to reach 96%.

Table 5 shows the percent distribution of each type of local source for the years 2007 to 2009. The city's primary source of tax revenue is business tax followed by real property tax. Non-tax revenue constitutes around 20% of the local revenue.

Table 5. Percent Distribution by Type of Local Source City of Marikina (For the Years 2007 to 2009)

	2009	2008	2007
Tax revenue	63%	65%	67%
Real Property Tax	24%	24%	27%
Business Tax	31%	32%	31%
Other Taxes	8%	9%	9%
Non-Tax Revenue			
Regulatory-Fees - Fees and charges	22%	29%	18%
Receipts from Economic Enterprise	13%	13%	14%
	10%	11%	7%
	14%	11%	11%



The members of the Project Team during the Marikina validation workshop.

The city has a Local Revenue Generation plan. It also has a Local Revenue Code which was approved in 1995. The LFC agreed with the observation that Marikina's revenue code is outdated and should be updated. The city has a computerized tax administration and financial management system which was implemented in 1997 for real property tax. The computerization of tax administration and financial management system helped improve the efficiency in information dissemination particularly in sending statement of accounts.

As a highly urbanized city, Marikina City's sources of income are diverse, with local sources comprising an average of almost 59% over the 3-year period. As such, it is not highly dependent on its share from national tax collections, particularly from the Internal Revenue Allotment to fund its total expenditures. Nor does it need to avail of credit financing to fund its infrastructure projects. The tax and non-tax revenues contribute 65% and 35%, respectively of its local sources. With a vibrant business environment, revenues from business tax contribute the biggest share in local revenues, surpassing revenues from real property taxes. However, as noted by COA in its annual report, revenues from local sources could still be increased if the City amends its 1995 Revenue Code.

The city treasurer identified specific remedies that helped boost revenue collection in so far as delinquent taxpayers are concerned. Since 2003, the city has done seven public auctions and has been able to raise P176.8M out of these public auctions. They also had tax amnesty which raised another P143M. However, these strategies are not really considered long term solutions in improving the city's revenue.

For 2010 or 2011, the treasurer might recommend judicial remedies especially for multiple claims. Other noteworthy innovations which contributed to increased tax collection were the distribution of Statement of Accounts (SOA) for taxpayer awareness, e-payment deposit kiosk, Q-querying and door to door tax campaign for notice of delinquency. The city has one-stop shops for tax payments and business permit applications in January during the peak season of tax payment. Real property tax mapping is also being done continuously. The city is currently developing a Geographical Information System (GIS) program alongside their management information system (MIS).

The general revision of property assessment and classification was done in 2002 but the Bureau of Internal Revenue revised the zonal valuation after 2002. This created inconsistency between the BIR zonal valuation and the city's schedule of fair market value.

The expenditure levels and per cent distribution by expense class of Marikina City for the years 2007 to 2009 are summarized in Table 6.

**Table 6. Total Expenditures and Percent Distribution by Expense Class
City of Marikina (For the Years 2007 to 2009)**

	2009	%	2008	%	2007	%
Total Expenditures	1,165,027,455	100%	1,036,453,094	100%	953,875,769	100%
Personnel Services	481,988,014	41%	455,779,813	44%	414,037,681	43%
Maintenance and Other Operating Expenses	663,277,780	57%	562,242,514	54%	518,960,307	54%
Cash expenditures	562,717,965	48%	465,583,373	45%	428,326,365	45%
Non-cash expenditures	100,559,815	9%	96,659,141	9%	90,633,942	10%
Total Expenses before Financial expenses	1,145,265,794	98%	1,018,022,327	98%	932,997,988	98%
Financial Expenses	19,761,661	2%	18,430,767	2%	20,877,781	2%

Table 7 shows the expenditure and per cent distribution of expenditure by sector of Marikina City for the years 2007 to 2009.

**Table 7. Total Expenditures and Percent Distribution by Sector
City of Marikina (For the Years 2007 to 2009)**

	2009	%	2008	%	2007	%
	1,685,934,289	100%	1,165,523,060	100%	1,139,659,050	100%
General Public Services	366,186,250	21.7%	284,193,900	24.4%	254,866,530	22.4%
Educ., Culture & Sports/ Manpower Development	85,196,216	5.1%	162,124,410	13.9%	205,999,490	18.1%
Health, Nutrition & Population Control	72,180,785	4.3%	55,777,560	4.8%	50,082,100	4.4%
Labor and Employment	2,804,408	0.2%	1,902,990	0.2%	1,940,050	0.2%
Housing and Community Development	174,501,398	10.4%	112,377,190	9.6%	96,808,360	8.5%
Social Security /Social Services & Welfare	9,008,950	0.5%	3,778,290	0.3%	4,426,420	0.4%
Economic Services	577,792,243	34.3%	374,707,190	32.1%	358,044,180	31.4%
Debt Service	182,258,000	10.8%	104,597,430	9.0%	91,104,330	8.0%
Other Purposes	216,006,040	12.8%	66,064,100	5.7%	76,387,590	6.7%

Source: COA 2009; BLGF 2007 & 2008

According to the interview with the city budget officer, the programs which get the biggest budget shares are general services, social services and economic services. This is not quite consistent with the data presented in Table 7 as debt service gets a bigger share than social services. The smallest shares go to labor and employment/trainings. The mayor's discretionary fund is 2% of the actual real property tax which is around P4.2M. The city council has an available budget of P5M to be used at the discretion of the councilors. The fund for Intelligence or confidential undertakings is P15M.

Based on the above data, the growth between revenues and expenditures are erratic. In 2007, while revenues declined by 3.35%, expenditures increased by 17.01%. The year 2008 showed a significant increase in revenues by 9.09% and a remarkable decrease in expenditures by 2.27%. In 2009, revenues increased by 12.70% notwithstanding that Marikina was hardly hit by typhoon Ondoy mainly because most of the local revenues were collected before the typhoon struck. However, because of the same typhoon, expenditures grew by 44.65%.

3. Financial Performance Indicators

Some of the financial performance indicators presented in Part 4 were computed to further examine the financial performance of Marikina City. Using the above data, financial performance indicators for Marikina is summarized in Table 8.

Table 8. Financial Indicators⁶, City of Marikina (For the Years 2007 to 2009)

	2009	2008	2007
Revenue Growth	12.70%	9.09%	-3.35%
Revenue Stability and Reliability			
Locally-Sourced Revenue per capita ^a	2273.03	2034.98	1753.56
Growth in Locally Sourced Revenue per Capita	11.70%	16.05%	-
% Locally Sourced to Total LGU Revenue	59.55%	59.99%	56.32%
% Regular Revenues to Total Revenue	90.93%	88.82%	87.60%
Revenue Mobilization Efficiency			
Real property tax accomplishment rate (RPTAR) ^b	102%	97%	
Expenditure Indicators			
Total Expenditures per Capita	3959.26	2741.02	2684.01
Personnel Services Expenditure Ratio (PSER) ^c	42.09%	44.77%	44.38%
Debt Service Expenditure Ratio (DSER) ^d	10.81%	8.97%	7.99%
Social Expenditure Ratio (SER) ^d	0.53%	0.32%	0.39%
Economic Expenditure Ratio (EER) ^d	34.27%	32.15%	31.42%
Debt and Investment Capacity Indicators			
Debt Service Ratio (DSR)	12.33%	8.16%	7.87%
Gross Operating Surplus to Debt Service Ratio ^e	24.30%	23.02%	18.64%
Debt to Net Asset Ratio			
Capital Investments to Total LGU Revenue Ratio			
Net Operating Surplus to Total LGU Revenue Ratio			
Uncommitted Cash Balance to Total LGU Expenditure			
Population	425,821	425,215	424,610
Regular revenue	1,477,969,801	1,281,121,503	1,158,172,184

a. Marikina's population based on 2007 Census was at 424,610. Annual growth rate is at .14%. Estimated Marikina population is 425,215 for 2008 and 425,821 for 2009.

b. Based on the report of the LGU Treasurer

c. Based on COA data

d. Based on BLGF data

e. Computed this using Income before Financial Expense & Financial Expense data from COA

⁶ Please refer to the SRE indicators summarized in the table in Part 4 for a guide in interpreting the indicators. You may also consult the SRE manual available at the Bureau of Local Government Finance website – www.blgf.gov.ph.

Marikina's revenue growth was -3.35% in 2007 but it increased to 9.09% in 2008 and 12.7% in 2009. The revenue growth should be greater than or equal to the sum of the annual inflation rate and annual population growth rate. The annual inflation rate was computed as the average of monthly inflation rate in NCR.⁷ Adding the inflation rate and the population growth rate will give us the following values:

2009	2008	2007
1.87	7.07	4.91

Compared with the revenue growth indicators of Marikina, we can see that for 2008 and 2009, Marikina's growth rates surpassed these benchmarks indicating sustainability of the revenue levels for these years.

The locally-sourced revenue per capita of Marikina increased from 2007 to 2009. It indicates improvement in the degree of tax effort exerted by the city. The growth in locally sourced revenue per capita however is bigger in 2008 than in 2009. The percentage of locally sourced to total LGU revenue indicates the portion of revenue that is under the control of the city and results from local economic activity.

Of the total revenue of Marikina, more than half comes from local economic activity. This is a good indication of reliability of the revenue source of the city. The percentage of regular revenues to total revenue indicates the predictability of the revenues of the local government. In the case of Marikina, there is very high level of predictability in terms of revenue (87.60% for 2007, 88.82% for 2008 and 90.93% for 2009). Marikina's real property tax accomplishment rates for 2008 and 2009 were also very high (97% and 102% respectively) indicating efficiency in tax collection.

With respect to expenditure indicators, the total expenditure per capita shows the amount of services extended by the LGU to its constituents on a per capita basis. We can see that this has consistently increased from 2007 to 2009. For personnel services expenditure ratio (PSER), the value should be $\leq 45\%$ for 1st to 3rd class LGUs. This should also exhibit a decreasing trend. In the case of Marikina, the values of PSER from 2007 to 2009 were all less than 45%. It however increased from 44.38% in 2007 to 44.77% in 2008 but declined again to 42.09% in 2009.

The debt service expenditure ratio (DSER) for 2007 and 2008 were less than 10% of the total expenditure. It slightly increased to around 11% in 2009. The DSER is used as a creditworthiness ranking indicator for LGUs.

The social expenditure ratio (SER) is related with poverty alleviation and improvement in the human development index. In the case of Marikina, SER were all less than 1% of the total expenditure.

The economic expenditure ratio (EER) is similar to SER in its relation with poverty alleviation and human development index. Marikina's EER increased from 2007 to 2009. Economic expenditure is about a third of the total expenditure of Marikina.

⁷ The inflation rates for NCR were as follows:

2009	2008	2007
1.87	7.07	4.91

With respect to debt service ratio (DSR), the value should be \leq 20% of annual regular income and ratio should at least be stable if not decreasing across time. It indicates the extent to which a local government could engage additional debt. Marikina's DSRs for 2007 to 2009 were all \leq 20%. The value, however, is increasing from 7.87% in 2007 to 8.16% in 2008 to 12.33% in 2009.

The gross operating surplus to debt service ratio (GOSDSR) represents the main and essential source that could be mobilized by the city to finance the public service infrastructure investments or the servicing of loans. This value has been increasing from 18.64% in 2007 to 24.30% in 2009.

F. Workshop on Peoples' Participation: Marikina's CSOs face the new set of public officials

In December 2010, a workshop was conducted with some sectoral representatives of Marikina City. The participants were from neighborhood associations, labor groups, transport groups, shoe makers' association, seniors and women. An overview of the areas for people's participation on local public finance and the Marikina budget for 2011 were presented and the participants were asked to discuss and develop proposals addressing two concerns: (a) how the city revenues can be increased; and (b) what should be the priorities of the city government in terms of budgetary allocations/expenditures.

The following are the recommendations to improve the revenue of Marikina:

- Reduce the real property tax discount from 50% to the usual 20% (10 % for early filing plus 10 % more via Marikina Citizens First (MCF) privilege card) provided basic social services are ensured.
- The city should encourage local and foreign investors by providing incentives like reduced or zero tax for the first three years of operation and assuring them of zero or greatly minimized red tape by way of a "one-day permit processing" scheme and improved peace and order.
- Intensify collection from delinquent tax payers particularly from those already given the privilege to own land but refuse to pay appropriate taxes.
- Strict monitoring of unregistered businesses by way of a special committee or a taskforce.
- Strengthen/intensify the implementation of measures regarding licensing/issuance of business permits.
- Strict monitoring and prosecution of violations/violators of city ordinances for imposition of penalties.
- Development of a program that would provide a bounty/reward system for whistle blowers/tipsters regarding tax cheats.
- Tax those who lease/rent out premises yet remains outside the tax net.
- Regular tax mapping should be conducted.

In terms of spending priorities, the participants identified the following:

- Health
- Education
- Livelihood. Access to training and liberal credit or financing.
- Worsening traffic situation.

- Low cost housing by way of Public-Private Sector Partnership with informal settlers and workers getting the first crack
- Job creation thru skills development program with an appropriate jobs-skills matching scheme.
- Improve peace and order by identifying problematic areas and get people involved in the campaign; strict implementation of the 10:00 p.m. curfew for minors' and better police visibility to avert petty crimes and other forms of lawlessness.

The current Vice Mayor of Marikina City, Dr. Jose Fabian I. Cadiz, responded to the suggestions of the participants by stressing the following points:

- The inputs of the participants of the workshop revalidated the current leadership's priority programs.
- NGOs like *Bantay Bayan* and Civic Action Group (CIVICOM) are active in maintaining peace and order and expressed openness/appreciation for other NGOs/POs wanting to also help in the campaign;
- Traffic experiments should not be done during the x-mas/tiangge season but after the holidays;
- Skills development program is going strong but intimated the need to include training for shoe industry-related skills;
- Agreed for the need to develop a jobs-skills matching scheme;
- Agreed to work for a "One-Day Processing" of business permits/licenses;
- Admitted the difficulty of enforcing curfew ordinance considering that computer shops and the tiangge are magnets for minors to congregate;
- Mentioned that there is a holding area or custodial area for children in conflict with the law (CICL holding center) under the supervision of the city DSWD but will work on a MOA between the city and the City of Manila which oversees the Boy's Town in Parang for us to have access to the complex for a better holding/custodial center for minors violating the law;
- Commended the suggestion to repeal the ordinance regarding the 50% reduction in RPT;
- Stressed that tax mapping is being assiduously done and that the computerized data capture regarding taxation and valuations affected by the Ondoy flood has been recovered/restored and now fully operational;
- Mentioned that the city has an Investment Code with enough incentives in place which resulted to the coming over of SM, Marquinton and other BPO firms.

G. Conclusion

As mentioned in the literature, people's participation during the terms of the Fernandos was very limited.

- The local health board does not prepare the budget as mandated by the Local Government Code of 1991. Instead, the local health office would prepare the budget,

and upon approval of the Local *Sanggunian*, will present the budget to the local health board. The NGO representative in the local health board has lost the opportunity to participate in preparing the health budget of Marikina.

- There is a question on the legitimacy of the representatives of the PTA and the non-academic personnel as their representation were not mandated by their constituents.
- The Local Development Councils only meet when necessary. The NGO members of the LDC, which are limited to groups involved in business and construction, do not really attend the meeting of the LDC. The other members of the LDC will just provide the NGO members with copies of documents to get their comments and suggestions. This indicates that the LDC of the city is not functioning as mandated by the Local Government Code.
- Because the city has a non-functional LDC, it lacks a medium term development plan and annual investment plans. These documents are prepared by the LDC but unfortunately, the city failed to provide us with these documents. The annual COA reports validated these observations. The main function of the LDC is to prepare the development plan and the annual investment plan.
- The city council has been approving the budget of the city without an annual investment plan which is a critical component of the local budget. A functioning LDC with civil society representatives from more diverse groups will help the city prepare development and annual investment plan. The current mayor of the city, Mayor Del de Guzman, suggested the inclusion of the shoemakers association in Marikina in the LDC. Another evidence of weak people participation in the LDC is the note on the 2007 and 2009 COA reports that "67.59% was utilized for purposes other than those provided under DILG Circular No. 97-30 dated February 10, 2007." A strong civil society participation in the LDC could have tracked the allocation of the 20% Development Fund to ensure it is utilized according to the law.

Another critical result of weak people participation in Marikina is the lack of activities for Gender and Development (GAD). Strong participation from women's groups will make it easier for the city to come up with activities related to gender and development. The COA report noted that Marikina has yet to come up with projects related to GAD.

Limited people participation may have also resulted in government projects that are disadvantageous to Marikina. In the 2008 Annual Audit Report, COA noted that "the management agreement entered into by the City with El Cielito Tourist Inn, Inc. for the management and operation of the Marikina Hotel was not in accordance with the consulting services provisions of RA 9184, resulting in conditions disadvantageous to the City. Moreover, the amount of consulting services paid to El Cielito Tourist Inn, Inc. for CY 2008 exceeded the appropriation provided in the approved Annual Budget."

In the 2009 Annual Audit Report, COA reiterated the problem with this contract. COA also pointed out that the new contract of El Cielito Tourist Inn, Inc. effective April 1, 2009 did not reflect the recommendations made by COA in the 2008 Annual Audit Report. Specifically, COA pointed out that the management fee in the contract "is without legal basis and is disadvantageous to the city government". The current administration is opening up the

bidding to receive proposals on how they can make this arrangement more advantageous to the city.

With respect to the current challenge on the decrease in the city's budget due to the extension of the 50% discount on real property tax, the city may focus on revising its local tax revenue code which the Commission on Audit (COA) identified as obsolete and not fitting for a first class city. In addition, the city administration may decide to present the current budget to the residents of Marikina, identifying the negative impact of the decrease in budget, and consult the public on (1) possible ways to improve tax collection, (2) identifying priorities for spending and (3) the possibility of repealing the ordinance on the 50% discount if the public realizes its impact on social welfare.

Marikina is a multi-awarded city that has received awards year after year. It is apparent, however, that the city can still achieve much more and could benefit a lot from increasing people's participation in governance.

Case Study: Municipality Of Guinayangan

By LEILANI L. GALVEZ

A. Background⁸

Guinayangan is a 3rd class income municipality and is one of the forty municipalities of Quezon Province. It is comprised of fifty four barangays and has a total land area of 22,800 hectares. It is about 132 km. from the provincial capital, Lucena City and about 255 km. from Manila. The municipality is generally hilly and mountainous with some barangays located in the coastal areas.

The municipality's population is estimated at 39,074 based on the 2007 census of the National Statistics Office. Population growth rate is at 1.45% (National Statistics Office).

The municipality has 37 day care centers, 25 public elementary schools, a catholic elementary school, four public and three private high schools and two technical/vocational schools. According to the latest census of population conducted by the National Statistic Office (NSO) in August 2007, the annual population growth rate is computed at 0.17%, way below that of the provincial population growth rate.

There are about 6,116 pupils enrolled in elementary, 2,631 in high school and 114 in technical school. Approximately 750 students are in tertiary education in colleges and universities outside the municipality. Basic literacy rate was relatively high at 97 percent as of 2009.

Over-all health facilities and performance indicators revealed an improving health condition in the municipality, albeit moderately. Except for infant mortality rate where an erratic case was noted, other indicators such as crude death rate, maternal mortality and neonatal deaths had been gradually reduced. Health facilities existing in Guinayangan includes the 15-bed capacity Guinayangan Medicare Community Hospital, a Municipal Health Center, five private clinics and nine satellite barangay health stations.

Guinayangan is primarily an agricultural municipality with 68 percent of its total land area devoted to agricultural production. Fish production is another major economic activity of the municipality's 15 coastal barangays. Coconut is the primary agricultural product with 79 percent of the total agricultural land use being devoted to coconut production. Other crops grown in the municipality are corn, rice, banana, citrus, rootcrops, vegetables and coffee. Majority of the farmers are also raising livestock and poultry for family consumption and also as a source of additional income for their families. Other existing animal productions are basically for home consumption.

⁸ The entire section was lifted from the brochure and website of the Municipality of Guinayangan – www.guinayangan.com.

Aside from agricultural production, other sources of income in Guinayangan include small business enterprises and the exercise of professional, skilled and other personal services. Per capita income is at P 20,400.00. The total labor force of Guinayangan was at 23,668 with 92 percent employment rate. Of the 21,775 employed, 57 percent belongs to the agricultural sector.

Most of the business and commercial activities are concentrated in the Metro Poblacion area at the Municipal Public Market site and at the Municipal Fish Port area. Some of the commercial establishments in Guinayangan, Quezon include wholesale and retail of commercial goods, hardware, gasoline stations, pharmacies, pawnshops, fast foods and videoke bars, sport/cockfighting center, lodging room accommodations, resorts and recreations, rural banks and cooperatives and some private professional offices and personal services.

Guinayangan is also regarded as one of the transportation capitals of Quezon province. More than a hundred buses taking regular routes from Southern Quezon to the city of Lucena, Batangas, Naga and Metro Manila originate from Guinayangan. The two big bus companies in the municipality are AB liners and Barney Autolines.

The following discussion is based on 2007 to 2009 data, which came out of the paper interviews that were done with NGOs and local government officials and the validation workshop that was conducted in October 2010.

B. Civil society participation in public finance in Guinayangan

1. Bids and Awards Committee (BAC)

Guinayangan also has a Bid and Awards Committee responsible for the conduct of prequalification of contractors, bidding, evaluation of bids, and the recommendation of awards concerning local infrastructure projects.

Eng. Russell C. Narte, the Municipal Planning & Development Coordinator was the Chairman of the BAC. The members were Ms. Amelia V. Bello, the Municipal Budget Officer; Ms. Rexie E. Brusas, Municipal Treasurer; Ms. Gregoria M. Arguelles, Municipal Engineer; Mr. Ner B. Rosales, Assessor; Ms. Yolanda P. Regalado, Human Resource Management Officer as alternate member and the head of the requesting office as provisional member. Representatives from the Commission on Audit and Mrs. Angelina Vizcarra of CCF/Tanglaw Silangan Inc., a representative from the non-government organizations, served as observers of the BAC.

2. Local School Board (LSB)

The Local School Board of Guinayangan was also functional. It determined the annual school board budget of the municipality and authorized the municipal treasurer to disburse funds from the Special Education fund pursuant to the budget prepared and in accordance with existing rules and regulations. It served as advisory committee to the *sanggunian* on educational matters and recommended changes in the names of public schools within the territorial jurisdiction of Guinayangan.

The municipal mayor and the district supervisor of schools were co-chairmen of the LSB. The members were the chairman of the education committee of the *sangguniang bayan*; the municipal treasurer; Ms. Ma. Andrea Teressa Sales, the representative of the *pederasyon ng*



(From left to right) Guinayangan Vice Mayor Eduardo C. Cambronero, Mayor Angel T. Ardiente and Deputy Speaker Lorenzo "Erin" R. Tañada III facing Guinayangan CSOs during the validation workshop

mga sangguniang kabataan in the *sangguniang bayan*; Mr. Fernando Lagar, the duly elected President of the Municipal Federation Of Parents-teachers Associations; Mrs. Edna Soriano, the duly elected representative of the teachers' organizations in the municipality and Mr. Armando Agno, the duly elected representative of the non-academic personnel of public schools in Guinayangan. The LSB met every quarter.

3. Local Health Board (LHB)

The Municipality of Guinayangan had a functional Local Health Board. It prepared the annual budgetary allocations for the operation and maintenance of health facilities and services within the municipality. Serving as an advisory committee to the *sanggunian* on health matters, it also created committees which advised local health agencies on personnel selection and promotion, bids and awards, grievances and complaints, personnel discipline, budget review, operations review and other matters related to public health.

The chairman of the Local Health Board was the municipal mayor. The health officer was the vice-chairman and the chairman of the committee on health of the *sanggunian*. A representative from *Tanglaw Silangan Inc.* which represents the NGOs and a representative of the DOH in the municipality were the members. The LHB met every quarter. The representative from *Tanglaw Silangan Inc.* participated in the deliberation and decision making of the LHB including the annual budgetary discussions of the LHB.

4. Local Development Council (LDC)

Guinayangan has a duly constituted Local Development Council composed of the mayor as the chairman, and the president of the Association of Barangay Captains, 54 *punong barangays*, the chairperson of the Committee on Appropriations of the *sangguniang bayan* and representatives of non-government organizations as members. The NGO representatives were always present in the LDC meetings. They voted on issues discussed by the LDC and engaged in the discussions during LDC meetings.

C. Analyzing Guinayangan's Finances

1. The Local Finance Committee

The members of Guinayangan's Local Finance Committee (LFC) are the Acting Treasurer, the Budget Officer and the Municipal Planning and Development Officer (MPDO) who all indicated that they are performing their mandated functions in accordance with the provisions of the Local Government Code. Notwithstanding that the Municipal Assessor and Accountant are not members of the LFC, both were present during the interview as it was emphasized that in addition to the Treasurer, the Accountant also signs the Certified Statement of Revenues/Income and Expenditures.

The LFC, collectively as a body, recommends to the Municipal Mayor the proper allocation and level of expenditures, by sector and by expense class and provides revenues/income projections to be used in the budget preparation. It also assists the *Sanggunian* in the analysis and review of annual regular and supplemental budgets to determine compliance with statutory and administrative requirements.

With respect to revenue measures in addition to regular sources to support the budget, the LFC recommended the adoption of a Revised Municipal Tax Code in 2008 and the availment of credit financing/borrowings in 2009.

2. The Local Chief Executive Budget

Based on the responses of the members of the LFC, the preparation of the Local Chief Executive's Budget was in accordance with the provisions of the Local Government Code and conforms to the DBM Manual for Budget Preparations. The LFC graciously provided soft copies of the LCE's Budget Messages, Local Expenditure Programs (LEP) and Budget of Expenditures and Sources of Financing (BESF) for the years 2007-2009.

However, in the course of doing the financial analysis as well as comparing the data with those from the BLGF and as noted by the COA (discussed below), and upon further confirmation with the Budget Officer, the Local Chief Executive Budget, particularly the Certified Statements of Revenues/Income and Expenditures did not consolidate the General Fund and Economic Enterprises.

**Table 9. Projected vs. Actual Revenues
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009		2008		2007	
	Projected	Actual	Projected	Actual	Projected	Actual
TOTAL SOURCES	61,028,883	62,477,241	54,366,341	57,114,596	46,881,206	48,680,664
EXTERNAL SOURCES	58,792,883	59,326,883	52,060,341	54,460,121	44,575,206	44,575,206
Internal Revenue Allotment	58,792,883	58,792,883	52,060,341	52,060,341	44,575,206	44,575,206
Grant and Donations	-	534,000	-	2,399,780	-	-
INTERNAL SOURCES	2,236,000	3,150,358	2,306,000	2,654,475	2,306,000	4,105,458
Real Property Tax	850,000	864,339	850,000	892,964	850,000	564,477
Business Tax	750,000	836,686	750,000	815,094	750,000	698,055
Other taxes	250,000	263,115	250,000	250,002	250,000	224,384
Fees and Charges	336,000	569,128	395,000	676,416	395,000	2,593,148
Income from Economic Enterprise	-	-	-	-	-	-
Other Receipts	50,000	617,090	61,000	20,000	61,000	25,393

Table 9 shows that for the years 2007 to 2009, Guinayangan's actual sources exceeded those of its projections. However, it can be gleaned that the actual internal sources of revenues in 2007 were below its projected revenues, except for sources from fees and charges.

3. Statements of Receipts and Expenditures

The primary source of revenues of the Municipality of Guinayangan, Quezon Province is its share from national taxes which accounts for an average of 94% of total sources, with the Internal Revenue Allotment amounting to almost P45M, P52M and P59M for the years 2007 to 2009, respectively or an average of 92% over this 3-year period. Total local sources contributed an average of 6 % only over the same three-year period. These data are presented in Table 10. Note that it does not include revenues/receipts from economic enterprise, meaning those coming from wet markets, slaughterhouses and the like.

**Table 10. Actual Receipts, Percent Distribution and Growth
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009	% Distribution	% Growth	2008	% Distribution	% Growth	2007	% Distribution
INCOME	62,477,241	100%	9.39%	57,114,596	100%	17.33%	48,680,664	100%
LOCAL SOURCES								
Tax Revenue								
Real Property Tax	864,339	44.01%	-3.21%	892,964	45.60%	58.19%	564,477	37.96%
Business Tax	836,686	42.60%	2.65%	815,094	41.63%	16.77%	698,055	46.95%
Other Taxes	263,115	13.40%	5.25%	250,002	12.77%	11.42%	224,384	15.09%
Total Tax Revenue	1,964,140	62.35%	0.31%	1,958,059	73.76%	31.69%	1,486,916	36.22%
Non-Tax Revenue								
Regulatory Fees	79,064	6.67%	-78.68%	370,801	53.24%	-76.65%	1,588,155	60.65%
Service/User Charges	490,064	41.31%	60.35%	305,615	43.88%	-69.59%	1,004,993	38.38%
Other Receipts	617,090	52.02%	2985.45%	20,000	2.87%	-21.24%	25,393	0.97%
Total Non-Tax Revenue	1,186,218	37.65%	70.33%	696,416	26.24%	-73.40%	2,618,542	63.78%
Total Local Sources	3,150,358	5.04%	18.68%	2,654,475	4.65%	-35.34%	4,105,458	8.43%
SHARES FROM NATIONAL TAX COLLECTIONS								
Internal Revenue Allotment	58,792,883			52,060,341			44,575,206	
Total Shares from National Tax Collections	58,792,883	94.10%	12.93%	52,060,341	91.15%	16.79%	44,575,206	91.57%
Other Sources								
Extraordinary Receipts/Aids	534,000			2,399,780				
Total Other Sources	534,000	0.85%		2,399,780	4.20%		-	

Source: LFC, Guinayangan

Expenditures for General Public Services amounted to an average of P28.5M for the years 2007 to 2009 or an average of 56% share of total expenditures, followed by expenditures for Economic Services, with an average amount of P12.7M or 25% share. Social Services get the smallest share, with an average of 3.5% only or an average amount of P1.8M per year. As with the revenues, expenditures did not include those for operating the economic enterprise.

**Table 11. Total Expenditures by Sector
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009	2008	2007
General Public Services	31,054,170	28,948,661	25,27,891
Health Nutrition and Population Control	5,471,666	5,057,523	4, 126,985
Social Security/Social Services and Welfare	2,523,237	1,595,915	1,436,603
Economic Services	14,480,001	12,780,067	10,943,340
Other Purposes	4,504,652	3,739,872	434,575
Total Expenditures	58,033,726	52,122,038	42,217,394

Source: Guinayangan, Local Finance Committee

**Table 12. Percent Distribution of Expenditures by Sector
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009	2008	2007
General Public Services	54%	56%	60%
Health Nutrition and Population Control	9%	10%	10%
Social Security/Social Services and Welfare	4%	3%	3%
Economic Services	25%	25%	26%
Other Purposes	8%	7%	1%

**Table 13. Total Expenditures by Expense Class
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009	2008	2007
Personal Services	29,274,048	27,754,489	24,311,689
Maintenance and Other Operating	10,850,111	9,831,506	8,549,414
Capital Outlay	1,849,514	1,392,005	483,285
Non-Office Appropriations	16,060,053	13,144,039	8,873,006
Total Expenditures	58,033,726	52,122,038	42,217,394

Source: Guinayangan, Local Finance Committee

**Table 14. Percent Distribution of Expenditures by Expense Class
Municipality of Guinayangan, Quezon (For the Years 2007 to 2009)**

	2009	2008	2007
Personal Services	50%	53%	58%
Maintenance and Other Operating	19%	19%	20%
Capital Outlay	3%	3%	1%
Non-Office Appropriations	28%	25%	21%

As revenues were increasing in 2009 and 2008, at 9.39% and 17.33%, respectively, expenditures were also increasing at 7.27% and 14.53% for the years 2009 and 2008, respectively. Unlike Marikina, however, the increase in expenditures was lower than the increase in revenues.

4. Financial Performance Indicators

With the non-inclusion of data on economic enterprises and the non-availability of balance sheets for the years 2007 and 2009, particularly the amounts of total net assets, only the following financial indicators, Table 15, were derived.

Table 15. Financial Indicators⁸, Municipality of Guinayangan, Quezon

	2009	2008	2007
Revenue Potential			
Revenue Growth	9.39%	17.33%	-3.35%
Revenue Stability and Reliability			
Locally-Sourced Revenue per Capita ^a	80.35	67.82	105.07
Growth in Locally Sourced Revenue per Capita	18.48%	(35.45)%	
% Locally Sourced to Total LGU Revenue	5.04%	4.65%	8.43%
% Regular Revenues to Total Revenue	99%	96%	100%
Revenue Mobilization Efficiency			
Real property tax accomplishment rate (RPTAR) ^b	66%	105%	102%
Expenditure Indicators			
Total Expenditures per Capita	1480.19	1331.67	1080.45
Personnel Services Expenditure Ratio (PSER)	50%	53%	58%
Debt Service Expenditure Ratio (DSER)	—	—	—
Social Expenditure Ratio (SER)	4.35%	3.06%	3.40%
Economic Expenditure Ratio (EER)	24.95%	24.52%	25.92%
Debt and Investment Capacity Indicators			
Debt Service Ratio (DSR)	—	—	—
Gross Operating Surplus to Debt Service Ratio	—	—	—
Debt to Net Asset Ratio	—	—	—
Capital Investments to Total LGU Revenue Ratio			
Net Operating Surplus to Total LGU Revenue Ratio			
Uncommitted Cash Balance to Total LGU Expenditure			

a. The population in Guinayangan according to 2007 population census of NSO was 39,074. Using population growth rate = 0.17%, the population of Guinayangan was estimated at 39,140 for 2008 and 39,207 for 2009.

b. Based on the interview with the municipal treasurer

⁸ Please refer to the SRE indicators in Part 4 for a guide in interpretation. You may also consult the SRE manual at the Bureau of Local Government Finance website – www.blgf.gov.ph.

Guinayangan's revenue growth was -3.35% in 2007 but it increased to 17.33% in 2008 and decreased to 9.39% in 2009. The revenue growth should be greater than or equal to the sum of the annual inflation rate and annual population growth rate. The annual inflation rate was computed as the average of monthly inflation rate in areas outside of NCR.⁹ Adding the inflation rate and the population growth rate will give us the following values:

2009	2008	2007
4.22	10.53	2.98

Compared with the revenue growth indicators of Guinayangan, we can see that for 2008 and 2009, Guinayangan's growth rates surpassed these benchmarks indicating sustainability of the revenue levels for these years.

The locally-sourced revenue per capita of Guinayangan decreased from 2007 to 2008. It increased in 2009 but still below the 2007 level. As explained by the Local Finance Committee during the validation workshop, the 2007 locally-sourced revenue was unusually high as it included an extra-ordinary income derived from equipment rental by a private contractor which was not included as locally-sourced revenues in the 2008 and 2009 Local Chief Executive budget and was instead included in a separate Budget of Economic Enterprises.

The improvement in tax effort from 2008 to 2009 is also reflected by the increase in the growth in locally sourced revenue per capita. The percentage of locally sourced to total LGU revenue indicates the portion of revenue that is under the control of the municipality and results from local economic activity.

Of the total revenue of Guinayangan, only less than 10% came from local economic activity. This has declined from 2007 to 2008. Although it slightly increased in 2009, it was still less than the 2007 level and is not a very good indication of reliability of the revenue source of the municipality. The percentage of regular revenues to total revenue indicates the predictability of the revenues of the local government. Regular revenue includes the locally generated revenue and the internal revenue allotment from the national government.

Guinayangan has a very high level of predictability in terms of actual revenues collected compared to what was projected (100% for 2007, 96% for 2008 and 99% for 2009). Guinayangan's real property tax accomplishment rates for 2007 and 2008 were also very high (102% and 105% respectively) indicating efficiency in tax collection. However, this declined in 2009 to 66% but this cannot be interpreted as low collection effort as the municipality implemented an amnesty program in 2007.

With respect to expenditure indicators, the total expenditure per capita shows the amount of services extended by the LGU to its constituent on a per capita basis. We can see that this has consistently increased from 2007 to 2009.

For personnel services expenditure ratio (PSER), the value should be $\leq 45\%$ for 1st to 3rd class LGUs. This should also exhibit a decreasing trend. At face value, Guinayangan's PSER

⁹ The inflation rates for areas outside of NCR were as follows:

2009	2008	2007
4.05	10.36	2.81

from 2007 to 2009 were all greater than 45% though constantly decreasing from 2007 to 2009. However, during the validation workshop conducted with the Local Finance Committee, the Budget Officer noted that Guinayangan's PSER is in accordance with the limit set by the Local Government Code. It should be less than 45% as the total amounts for Personnel Services should not have been used in computing the PSER as these include "waived" items like plantilla items for devolved functions.

The social expenditure ratio (SER) is related with poverty alleviation and improvement in the human development index. Guinayangan's SER were all less than 5% of the total expenditure.

The economic expenditure ratio (EER) is similar to SER in its relation with poverty alleviation and human development index. The EER decreased from 2007 to 2008 and very slightly increased in 2009. Economic expenditure is about a quarter of the total expenditure of Guinayangan.

5. Audited Financial Statements and Annual Audit Report (AAR)

Listed below are some highlights of the findings and recommendations of COA in its Annual Audit Report (AAR) of Guinayangan's financial report for the year 2008.

- Non-compliance with Sec. 313 of the Local Government Code and Section 107 of NGAS Manual which provides for the maintenance of Special Accounts for Economic Enterprise, Loan and Development Projects. As noted in the above discussion on the Local Chief Executive's Budget and Statement of Receipts and Expenditures, these did not include receipts and expenditures for the Economic Enterprises.
- Payment of legal services were not supported with written authority from the Office of the Solicitor General.
- Non-titling of five (5) parcels of lots owned by the Municipality.
- Payment of various expenditures without supporting documents.

D. Conclusion

Guinayangan perhaps represents a typical Philippine municipality in Luzon - far from Manila, direly lacking in farm to market roads and other rural infrastructure, limited electrification to households, constrained by a small local tax base and dependent on the internal revenue allotment.

Yet, a silver lining that has been there for quite some time is the active participation of citizens , women and fisherfolk groups in local concerns – sitting in local school boards and being active in the fisheries management council. The tax effort can still be improved and the people and its local officials remain optimistic that some other economic activity can be created and sustained – something like eco-tourism – so that other revenue streams can come in.

We hope that with sustained people's participation and the openness of the local government for people's engagement, Guinayangan will overcome these geographic and economic constraints .

VI. Legislative Initiatives to Enhance People's Participation in Public Finance

By JESSICA REYES-CANTOS

1. If the Local Government Code already mandates citizen's participation in local governance, is there need for another law on that? Isn't it one too many laws already?

Indeed, there are already a lot of provisions within the Local Government Code that require people's participation in local governance, including local public finance. However, what these provisions lack are:



- Guidelines as to what kind of NGOs can participate, as we cannot just simply allow fly-by-night NGOs, or NGOs that are actually led by the mayor's relatives and friends, and the like, to create a semblance of people's participation in those matters;
- A reasonable amount of time for the local government to act on the applications for accreditation of NGOs and POs intending to participate in local governance processes;
- The kind of information that should be readily available and disclosed to the public by the Local Government Unit;
- Penalties should there be violation of the provisions of the law.

2. So, is there any existing proposal in Congress with regard to addressing those gaps?

Yes. In the House of Representatives, Deputy Speaker Lorenzo "Erin" R. Tañada III has filed House Bill 219 entitled "An act institutionalizing the participation of bona fide civil society organizations (CSOs) in budget hearings and deliberations in Congress, in National Government Agencies (NGAs), and Local Government Units (LGUs)." It has already been

reported out by the Committee on People's Participation under a substitute bill – House Bill 3773 and was already sponsored for floor debates.

In the Senate, Senator Teofisto "TG" Guingona III likewise sponsored a similar measure – Senate Bill No. 2186. It was already heard by the Committee on Finance.

You would note from the title itself of the House Bill that it covers not just LGUs, but Congress and National Government Agencies budget deliberations and processes.

3. What then are the provisions with regard to the kind of NGOs that can participate? What is the accreditation process?

NGOs must present the following documents to institutions where they wish to participate:

- a) Articles of Incorporation and by-laws of the applicant POs and NGOs;
- b) Certificate of Registration with the Securities and Exchange Commission (SEC) or other government accrediting agencies;
- c) Affidavit describing the organization, its work, and operations showing:
 1. The character of the organization;
 2. The purpose for which it is organized;
 3. The list of activities or projects for the past two (2) years; and
 4. List of officers, directors, trustees, and members.
- d) Certificate of Good Track Records and Standing from the proper authority or concerned office, and
- e) Duly audited financial statements for the past two (2) years showing the assets and liabilities of the organization; and
- f) Board Resolution or any other form of legal evidence to prove that the respective organization has the desire and is mandated by its representation to apply.

Applications for accreditation shall be acted within a period of ten (10) working days. A certificate of accreditation shall be issued to the organization which shall be valid for three (3) years after its approval.

Unless an applicant is given notice and due and proper hearing, no application for accreditation shall be disapproved. The decision for disapproval shall be rendered within ten (10) working days from the time of the notice of disapproval of application.

4. So what if my organization is accredited? What are the rights and entitlements that go with having an accreditation?

Accredited NGOs have the following rights and entitlements:

- Right to be notified and invited to public hearings
- Access to documents and budget submissions
- Submit alternative budget proposals
- Serve as resource person
- Participate in budget oversight/tracking
- Participate in the Annual Investment Planning

5. What are the kinds of information that should be made available by local government units to the public?

LGUs should post in their websites and community bulletin boards their proposed budget, sources of revenues and their annual investment plans. Such information should be provided in a timely manner such that NGOs and ordinary citizens can engage them during the regular budget cycle of the LGU.

6. Our mayor and councilors frown upon having NGOs participate in these processes. They said, if NGOs want a piece of the action, they should run as public officials and have themselves elected first.

So what do we do?

HB 3773 provides for penalties should NGOs be denied of their right to participate – suspension of one (1) month to three (3) months, or a fine of not less than Thirty Thousand Pesos (P30,000.00) but not more than Fifty Thousand Pesos (P50, 000.00), or both at the discretion of the court.

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