

**15<sup>th</sup> Diliman Governance Forum**  
**Fifteen Years of Decentralization in the Philippines:**  
**Lessons Learned and the Way Forward**

Good morning once again. I'd like to welcome everyone to the fifteenth Diliman governance forum titled Fifteen years of decentralization in the Philippines: lessons learned and the way forward. In behalf of the National College of Public Administration and Governance, Center for Local and Regional Governance, United Nations Development Program, and the University of the Philippines System we all welcome you this morning in joining us for the forum. Especially we'd like to welcome the members of media, the academe, civil society and members of the diplomatic community especially we would like to welcome the members of the diplomatic community from the Indonesian embassy HE Amb Dr. IRZAN TANDJUNG Also from the Indonesian Embassy Ms Maila Sonja Tahar. We are also please to have with Hon. WM Dharmapala Charges d'affaire of sri lanka embassy. Also we'd like to acknowledge our guest from the Sweden embassy. Good morning to everyone. Now for our welcome remarks, o would like to call on the dean of NCPAG Dr. Alex B. Brillantes to provide also the background of the Diliman Governance Forum .

Abb: good morning and mabuhay po kayong lahat. On behalf of the National College of Public Administration and Governance we would like to welcome you to the 15<sup>th</sup> Diliman Governance Forum. This DGF was really an initiative that started some time ago with the previous dean Dr. Ledivina Cariño who initiated what we call the Policy Studies forum many years, four years ago. The whole idea was for us NCPAG to be involved, to participate actively, and to have some mainstream discussion on burning issues in governance. And since then we have tackled many, many burning issues pertaining to governance in general and even local governments in particular, graft and corruption, accountability, reorganization, non-reorganization, jueteng, burning issues and today obviously one of the burning issues is that on local governance. Even as we talk today we know two major things that are happening. One is of course; let me begin at the international level. And we're very happy that His Excellency the Ambassador is with us. Thank you for coming. We all know that decentralization is a trend that is occurring right now in this part of the world. The Philippines in 1992, Indonesia of course in the late 1998, and then of course Thailand has embarked on this decentralization but it has stopped for a while I guess because of the coup. Pakistan has been talking about decentralization and many other countries in the world today, Korea, Japan, in the western world they're talking about devolution decentralization including Australia. Of course many of us have looked about including the examples in North America including the US and Canada. The whole idea when we're talking about devolution decentralization it is really central to the core of good governance. It talks about transferring power and authority down to the lowest level possible in the context of subsidiarity and I think we in the Philippines have been doing our part. It's now been fifteen years. As a matter of fact this month we celebrate fifteen years of the anniversary of the Local Government Code. And therefore we have a lot of lessons learned over the past fifteen years. I do hope later on that you will be able to secure a copy of this newsletter called *Tapat Palakad* which is really good governance. It's a project that we have been initiating with UNDP Fostering Democratic Governance Program and maybe we'll write an article on why we need to celebrate. The whole idea here is that internationally many countries have gone through decentralization local empowerment because we all believe that really at the end of the day what matters is really local

governance. I have said this in other forums that here in the Philippines we get frustrated with what goes on in the national level but we said let the national level do what they want let us simply focus on the local level because it is there where there are already good practices. So that is one particular point where decentralization our discussion will focus on fifteen years of decentralization globally, internationally, the Philippines has been doing it. At the national level even as we speak today we have burning issues that could be traced once more to decentralization and devolution. Makati today is under siege if you may and that somehow shows the relationship between the national government and the local government. Today you might hear about Caloocan city, the other day Sta Rosa. To what extent really could the national government use its “powers” to suspend local officials, to what extent are the powers of control? This is a very contentious issue and I hope Director Sacendoncillo our colleague from the DILG will be able to address this. The whole idea is that local government continues to be central to our discussion. Perhaps that is one reason why Undersecretary Andanar was not able to make it because of what is happening right now in Makati. To those of you who might not have heard of it, we all know that there has been an attempt to suspend Mayor Binay and to a certain extent it is framed in two things. One is it a political issue? To what extent could the national government implement its supervisory powers At this point in time? So it is a burning issue. I did mention that the DGF tries to address some of these. We try to be dispassionate about it despite our biases which are always present but we try to present it in the context of an academic forum. The second point I am trying to make aside from the importance of the DGF is the participation of our friends from all over the country. Some of you might know that the DGF also occurs as much as possible when we have the national conference of the Association of Schools of Public Administration in the Philippines. And I am happy to note we have representatives, directors, chancellors from Tarlac State University, PLM, DMMSU up north, Mindanao state university, Nueva Vizcaya State University. These are members of the association from all over the country. St Mary’s College, Mountain province state polytechnic university, trinity university, western Mindanao state university, Valencia Colleges, Philippine western College, Silliman University, Benguet State University, University of Negros Occidental, Isabelita State University, Divine Word College in Legazpi, so far they are the ones coming. We are very happy that this occurs when our colleagues from all over the country, other schools of public administration are also here. NCPAG is part of ASPAP and part of our networking is to help organize the schools of public administration and to let you know that different schools of public administration have organized different chapters.

The third point I would like to mention is the Philippine Society for Public Administration, which is now an individual membership of professional individuals who are theorists and practitioners of public administration and we would certainly like to invite you if you are interested to be a member of the PSPA. It is a recognized organization of the Philippine Social Science Council some of whose members are here like Professor Endriga and Professor Cariño.

I would like to once more welcome you to NCPAG. This promises to be another important day. So once more thank you all for coming. We would like to say thank you to our distinguished panel of speakers. Engaging in the discourse of public administration and governance in tumultuous times and in times of reflection so with that please get a copy of *Tapat Palakad* later and we would like to thank our partners. Mabuhay po kayong lahat.

(Prof Cabo) Thank you Dean Brillantes. And now for our special message we have the honor to have a special message from Sen. Aquilino Q. Pimentel, the father of decentralization. Director Eleuterio Dumogho served as assistant secretary of the Department of Interior and Local Government during the Aquino administration and vice-chairman of the Technical Working Group that drafted the Implementing Rules and Regulations of the Local Government Code of 1991. He also teaches Local Government and Regional Administration courses at the Polytechnic University of the Philippines and currently serves as head of the Local Government and Political Affairs of Senate Minority Leader Aquilino Pimentel, Jr.

(Director Dumogho) Mina, Thank You very much. Dean Brillantes, Dean Cariño. Professor Liling Briones, Nung dumating ako kanina tinanong agad ako kung bakit di na ak pumupunta sa Silliman University. Liling is currently Chair of the Board of Trustees of Silliman University. Director Sacendoncillo, Professor Ilago. Good morning everyone.

Fifteen Years of Decentralization  
By Eleuterio C. Dumogho

A mayor whom I meet in the senate yesterday sarcastically quipped, "Fifteen years of decentralization in the Philippine starring 79 provinces, 117 cities, 1501 municipalities and 41, 968 Barangays, so what?" I immediately corrected him and said, "Those who are in the starring roles in the decentralization drama are the 79 Governors, 117 City mayors, 1501 Municipal mayors, including you and 41, 968 Punong Barangay. Mayor, you are one of those in the starring roles in the continuing decentralization drama in the Philippine political setting."

The Local Executive I am referring to is the Mayor who is in his third term as a municipal executive in one of the municipalities in the south. He submitted to the office of Senator Pimentel a letter with an attached resolution of the Sanggunian Bayan requesting funding assistance for the construction of a multi-purpose building (mainly a health center) in the amount P 2.0 million as well as the construction of a level two water system costing 2.5 million.

I just asked the mayor one, question, whether the projects covered in his requests are included in his municipal development plan as well as the annual investment program for CY 2006. Provisions for health centers and potable drinking water are devolved services.

We receive hundreds of request for similar projects since 1998 but Sen. Pimentel could only accommodate few requests considering his limited countrywide development fund.

## **Funding LGU Programs**

The salient features of the Local Government Code of 1991 are the following:

1. It increases the shares of the LGUs in national taxes as well as the shares in the taxes derived from the utilization and development of our natural wealth;
2. It broadens the taxing powers of the LGUs;
3. It gives power and authority to LGUs to develop their own organizational structure consistent with the provisions of the civil service law;
4. It gives authority to incur indebtedness, and to issue bonds to secure the same;

5. It authorizes the LGUs to establish, develop, own and operate economic enterprises; and
6. It empowers NGOs and POs to be participants in the development process of the LGUs.

The LGUs have two sources of funds: first, shares from national taxes and taxes derived from the utilization and development of the natural wealth and second, from the locally generated revenue.

The share of the LGUs from the national internal revenue is 40% while that of the central government is 60%. Before the enactment of the Local Government Code, the IRA share of the LGUs was only 11%.

Allow us to look at the magnitudes of the IRA under the Local Government Code of 1991 as shown in Tables 1 and 2.

Table 1. Historical Growth of Internal Revenue Allotment  
Share CY 1992-2006

<b>Year</b>	<b>Internal Revenue Allotment</b>
<b>1992</b>	<b>P 20.30 Billion</b>
<b>1993</b>	<b>P 36.12 Billion</b>
<b>1994</b>	<b>P 46.13 Billion</b>
<b>1995</b>	<b>P 52.04 Billion</b>
<b>1996</b>	<b>P 56.59 Billion</b>
<b>1997</b>	<b>P 71.04 Billion</b>
<b>1998</b>	<b>P 80.99 Billion</b>
<b>1999</b>	<b>P 96.78 Billion</b>
<b>2000</b>	<b>P 111.77 Billion</b>
<b>2001</b>	<b>P 111.77 Billion</b>
<b>2002</b>	<b>P 134.42 Billion</b>
<b>2003</b>	<b>P 141.00 Billion</b>
<b>2004</b>	<b>P 141.00 Billion</b>
<b>2005</b>	<b>P 151.60 Billion</b>
<b>2006</b>	<b>P 166.00 Billion</b>
<b>TOTAL AMOUNT =</b>	<b>P 1,417.55 Trillion</b>

Table 2. Historical Share of LGUs CY 1992-2006

<b>Local Government Units</b>	<b>Percentage</b>	<b>Share</b>
<b>Provinces</b>	<b>23 %</b>	<b>P 326.03</b>
<b>Cities</b>	<b>23 %</b>	<b>P 326.03</b>
<b>Municipalities</b>	<b>34 %</b>	<b>P 481.97</b>
<b>Barangay</b>	<b>20 %</b>	<b>P 283.51</b>
<b>TOTAL</b>	<b>100 %</b>	<b><u>P 1,417.55 Trillion</u></b>

We will appreciate more about the beauty of these magnitudes if we bring these down to the level of specific local government units as shown in Table 3 below:

Table 3. Historical Share of Selected LGUs from the CY 1992-2995

<b>Political Subdivision</b>	<b>Specific Local Government Units</b>	<b>IRA Share</b>
Provinces	Surigao del Norte	P 2,294,145,869
Cities	Tagaytay City	P 869,328,626
Municipalities	Mabinay	P 472,766,285
Barangay	Barangay Commonwealth	P 284,753,818

There is no doubt in the minds of the local government constituencies that there is enough money to finance devolved functions as well as for development projects. But it is very disturbing to note that when it comes to financing local budgets, local officials often say that there are no available funds for health and social services, road repair and maintenance. To repeat, these are all devolved functions.

Let us look at the fiscal authority in relation to providing funds for the devolved functions. Section 17, paragraph (g) is very clear on this issue. It says:

Section 17, paragraph (g). Local Government Code of 1991

*The basic services and facilities hereinabove enumerated shall be funded from the share of local government units in the proceeds of national taxes and other local revenues and funding support from the national government, its instrumentalities and government-owned or controlled corporations which are tasked by law to establish and maintain such as services or facilities. Any fund or resource available for the use of local government units shall first be allocated for the provision of basic services or facilities enumerated in subsection (b) hereof before applying the same for other purposes, unless otherwise provided in this code.*

We hope that the devolved functions, especially the health and social services would not be lumped up together with the misdirected program priorities of the LGU concerned.

The P 1.42 trillion however has considerably changed the socio-economic landscape of the countryside. Using the parameters adopted by the Department of Finance through its Bureau of Local Government Finance in measuring the socioeconomic profile of the local government units this upward change is reflected in Table 4 as follows:

Table 4. Income Classification of Municipalities on 1991 and 2002  
Total No. of Municipalities as of 2006= 1, 501

<b>INCOME CLASSIFICATION</b>	<b>1991</b>	<b>2001</b>
<b>1st</b>	17	130
<b>2nd</b>	20	140
<b>3rd</b>	51	204
<b>4th</b>	221	503
<b>5th</b>	832	401
<b>6th</b>	257	17
<b>TOTAL</b>	<b>1,398</b>	<b>1,435</b>

Not only changes in income classification of LGUs which are noticeable but also the number of municipalities which applied for conversion into component cities.

There were only 58 cities before the enactment of the Code, but starting in 1993, 50 new cities were created bringing to a total of P 117 cities as shown in Table 5. In the 11<sup>th</sup> Congress alone (1998-2001) 30 cities were created. Important reason for this is that income requirement was only P20 million based on the regular income of the municipality applying for conversion. Now the requirement is P 100 million based on the locally generated income as provided for in RA 9009 amending the P 20 million requirement.

Table 5. Number of Cities created before and after the enactment of  
Local Government Code of 1991  
Total Number of Cities= 117

	<b>BEFORE THE ENACTMENT OF THE CODE</b>	<b>AFTER THE ENACTMENT THE CODE</b>
<b>NO. OF CITIES</b>	58	59
<b>Note:</b> Thirty (30) Cities were created in the 11th Congress alone (1998-2001)		

### These are the gains enjoined by the Local Government Units

The LGUs are yearning or dreaming of a genuine and meaningful local autonomy. Fifteen (15) years, yes fifteen but it seems we are just experimenting its process. Instead of being pro-active in strengthening decentralization, the LGUs become re-active and allowed themselves to be pushed back to the wall through incursion of the executive department in fiscal matters. The unnecessary withholding of, the unnecessary delay in the release of the IRA shares of the LGUs are just one example of this executive interference, especially in the automatic release of the IRA shares of LGUs. There are still IRA shares unreleased. On this score the central government is resorting to the so-called monetization scheme whose legality is still doubtful. Under this scheme if the LGU wants to get its share, it will only be given 60% of what is due to it. But it can get the full amount after 6 years, interest free.

We can attain genuine and meaningful autonomy if we are strongly pro-active. We should initiate and push for radical changes and strengthen the Local Government Code of 1991.

Sen. Pimentel is pushing hard to strengthen the Code. Of the 156 proposed omnibus amendments embodied in S.B. 1121 which was filed in the 11<sup>th</sup>, 12<sup>th</sup>, and 13<sup>th</sup> Congress. The following deserve the support of all stakeholders in effective local governance.

### **Collaborative Efforts Needed**

The road to achieving genuine and meaningful local autonomy is paved with determined resistance from those whose control over local government units would be reduced. This was the situation 15 years back when the forces of pro-centralized system of governance tried to prevent the passage of the Local Government Code of 1991 if not minimize its impact. They were alarmed with certain revolutionary provisions of the Code such as

(a) the granting of broader taxing powers of the LGUs, (b) the radical increase of the shares of LGUs in national taxes from 11% to 40%, (c) the authority granted to the LGUs to structure their own organization, (d) the power to determine their annual budget consistent with their own local development plan and annual investment program, and (e) the power to appoint local officials wholly paid out of local funds, except the treasurers who are still appointed by the Secretary of Finance from the list of three nominees to be submitted by the local executive.

As we stated earlier, Sen. Pimentel has proposed omnibus amendments to the Code embodied in S.B. 1121, but among the proposed amendments which need the collective support of the major stakeholders in effective local governance are the following:

1. To amend Section 284 of the Code using the national taxes collected by all tax collection agencies of the central government including but not limited to the collection by the Bureau of Customs, Philippine Ports Authority, MARINA, Land Transportation Office, Land Transportation, Franchising and Regulatory Board, DENR and DFA as the basis of the share of the LGUs. Section 284 uses only the collection made by the BIR as the basis of the share of LGUs.
2. To devolve to Local Executives the authority to issue environmental clearance certificate.

3. To devolve to the city and municipal mayors the power to grant certificate of authority to subdivision and condominium developers to sell subdivision lots or condominium units.
4. Grant to the LGUs the authority to supervise and manage infrastructure projects undertaken in their respective territorial jurisdiction funded by the central government through the national budget, the projects funded from the loan proceeds as well as from grants.
5. Devolve to the provinces the authority to register all types of motor vehicles whose owners are residents of the province,
6. Vest the power to appoint treasurer to the local chief executives.

These are but few of the 156 proposed amendments. Copies of S.B. 1121 have been distributed to local government officials through their respective leagues, the Department of Interior and Local Government, NGOs and other institutions. The support of these institutions are needed, especially the LGUs. They are in the forefront tasked to carry out the development efforts in the countryside. In the light of the desire of the central government to spur development starting at the rural communities the role of the local government units in this effort is very crucial. But we have to provide them and other stakeholders with the necessary wherewithal to lighten their burden and hasten the desired development. The approval of the proposed amendments needs the support of the national leadership.

The enactment of the present code unto law after four tortuous years of floor debates in both houses of Congress was made possible due to the unqualified support of then President Corazon Aquino, the Herculean work of Sen. Aquilino Pimentel Jr., in the floor of the Senate and the effective leadership of Speaker Ramon Mitra in the House of Representatives.

President Arroyo could do the same by certifying SB 1121 as urgent bill and prod Senate President Manuel Villar and House Speaker Jose de Venecia to hasten floor debate on the proposed amendatory measure.

Where and what are we going to do from here?

Effective decentralization equals genuine and meaningful local autonomy.

Good day!

(Prof Cabo)Thank you very much Director Dumogho. At least now we know that decentralization has done some good things to thus country like municipalities richer today than ten years ago so we now have fewer poor municipalities. If you look at the title of our program “Fifteen years of Decentralization in the Philippines: Lessons learned and the way forward.” It is so very Filipino especially the “lessons learned and the way forward” because if you translate it into Filipino it says “ang hindi lumingon sa pinanggalingan ay hindi makakarating sa paroroonan and so today we try to take stock of what we have done and what we have achieved so far so that we can make better decisions and actions in the future. So that is a very good Filipino Tradition. Don’t you agree? So today’s program is divided into two major sessions. Morning session is devoted to the general assessment of central-local relations and local government finance. We



have invited experts from government to talk about central local relations and government finance. And we have also invited experts as reactors to the presentation that will be done by our two speakers. In the afternoon we'll have a discussion on devolved services particularly health, agriculture, social welfare and development. We have also distinguished resource persons and panel of reactors who will join us in the afternoon. So now we will start our discussion and the format of the program will be: our speakers will have 20 minutes for their presentation and our panel of reactors will have fifteen minutes each to present their reactions to the presentations of our resource person. Now our first resource person will discuss the topic on central and local relations. And for this topic we have invited the executive director of the local government academy ms Ms. Marivel C. Sacendoncillo. Currently the Executive Director of the Local Government Academy, she earned her Master's Degree in Development Management from the Asian Institute of Management. She has extensive training, exposure and involvement in decentralization and local government research and training. Director Sacendoncillo has expertise in integrating project and human resource management into local governance and has organized and attended seminars here and abroad. Ladies and gentlemen let us welcome Director Sacendoncillo.

Director Sacendoncillo:

Your Excellencies of the Diplomatic Corp, distinguished members of the panel of reactors, Assistant Secretary Terry Dumogho, my mentor and good friend Alex Brillantes, and my partner in many projects Sammy Ilago.

Colleagues in government, development partners, friends from the academe, ladies and gentlemen good morning:

The original invitation was really for the Secretary of the Department of Interior and Local Government which was delegated to Undersecretary Wencilito Andanar until yesterday afternoon at five pm. Like a good soldier of the bureaucracy, because of the urgent matters he had to attend to I was tasked to deliver his paper today. So allow me to read his paper. But later on I will take your questions and deliver them to the appropriate person who will answer them.

Thank you for this opportunity to take part in the Diliman Governance Forum. This is an excellent venue for exchanging views on issues and strategic directions pertaining to the Philippine Government System at both the national and the local levels. It gives us the opportunity to join hands in pushing for reforms and initiating actions with visionary goals.

Allow me first to thank you all for your commitment in promoting and advocating good local governance. Let me also take a moment to laud our local government units (LGUs) that serves as the primary catalysts of exchange in their respective areas. To the University of the Philippines National College of Public Administration and Governance-Center for Local and Regional Governance, more power to your admirable efforts at surfacing the key issues in various aspects of governance.

Let me now move on to my discussion.

Despite domestic difficulties, the economy has continued to show resiliency, with economic growth falling within the lower end of government's target. While the general public appreciates

the economic gains, the economy is capable of reaching even higher growth performance if we tap the potentials of LGUs. For the next five years, therefore, we envision the LGUs to contribute more significantly in attaining the country's development goals specifically that of raising economic growth to the level achieved by our ASEAN neighbors and in reducing significantly the country's poverty problems.

While the economic environment is generally good, the LGUs are confronted with challenges that tend to complicate the management of local governments. These are the fiscal problems at the national level, continuous environmental degradation and resulting natural calamities and the complicated national-local relations, among others. The LGUs therefore need to be more creative to mitigate the effects of these problems. On the latter any effort to promote growth will have to consider side-by-side the importance of promoting peace and order and public safety. Investments and consequently economic growth will not flourish in an environment of uncertainty. Poverty also worsens in areas where peace and order are difficult to achieve. We therefore seek the support of our partners in assisting LGUs promote good governance and efficient public service.

Ladies and Gentlemen, all of us embrace the aim of the local government code to promote local government self-reliance and to spur development in the countryside by equalizing delivery of critical services across the nation. We all welcome the concept of local empowerment by decentralizing decision-making and service delivery through devolution because it provides the venue for participatory governance.

To be sure, the Code's implementation has been uneven, but its continuing challenges should serve not as hindrances but as pointers toward further improvement. This brings us to the analysis of local governance issues at the policy, institutional and program or project levels.

Notably, most of the national government agencies have gradually shifted their role from regulator to facilitator and enabler. The DSWD, DOH and DA among others have sustained their programs to improve the abilities of the LGUs to perform the devolved function of their agencies. Similarly, a change in program initiatives from being generic to being customized, has increasingly become evident. However, policies in inter-governmental relations are inconsistent in some, if not many, instances. Parallel to this is the need to clarify the delineation of functions between the national government agencies (NGAs) with devolved functions and the LGUs.

In spite of the implementation of the Local Government Code, the National Government still exercise review power and considerable control over the local governments.

Policy dissonance of this nature generates a net retrogression in the implementation of relevant codal provisions.

What we therefore need, are mutually reinforcing policies that support the continuing growth of local autonomy. Specifically, we have to look at specific provision of the code that states:

The realization of local autonomy shall be facilitated through improved coordination of national government policies and programs and extension of adequate

technical and material assistance to less developed and more deserving local government units.

It should also be noted that existing local governance framework does not clearly spell out the relationship of local plans and budgets with national targets and priorities. This is aggravated by the absence of a roadmap or a system of incentives for the concerned NGAs to transform themselves from direct service providers to enablers or capacity-builders. Also, there is an increase in the number of unfunded mandates among government institutions which continue to hamper good performance and service delivery.

This needs to be continuously monitored through a functional monitoring and evaluation system which can provide feedback that will greatly enhance the national policy making process. The Department of Interior and Local Government advocates the institutionalization of effective representation of local government concerns in the appropriate governmental bodies. This will promote dialogue to resolve pending and emerging policy issues related to decentralization (RA 7160) and other existing laws such as the Agriculture and Fisheries Modernization Act (AFMA), Solid Waste Management Act, Clean Air Act, and Poverty Alleviation and Social Reform Act.

In addition, top-heavy administrative structure remains. For example, the Budget of the Department of Health, Which transferred many of its staff to local governments, did not decrease: on the contrary, it has substantially increased.

Furthermore, there is also a nagging debate on the hindering policies from the National government in the exercise of the corporate powers and functions of the local government units. Restrictions and disincentives continue to hamper LGUs in their exercise of revenue generation and management of public utilities and enterprises.

In relation to this, there is also a deeply-rooted coordinating function between politicians specifically as regards the CDF of the PDAF. The public for public works as we have noted is still included in the National Government Expenditures. For this reason, central-local share in terms of budgetary aspects could not be changed since such public works are assigned to local governments through individual negotiations between the President and the members of Congress. Parallel to this is the so-called “pork barrel politics” which serve as an issue concerning the allocation and implementation of the National Budget, rather than an issue of fiscal transfer from the central government and politicians perpetuating pork barrel.

The challenge therefore to all of us, is how to effectively articulate and support LGUs in improving local governance. While some NGA-LGU ventures have already provided models that can be replicable to other localities, some still need further assistance and support. Towards this end, we in the DILG will continue to support the local government units in replicating and adopting these governance models. We are also advocating the institutionalization of performance assessment of LGUs in the delivery of their mandates. The DILG has developed performance management tools such as the Local Government Performance Management System (LGPMS) and the system on organizational competency assessment (SCALOG) to identify gaps and corresponding specific interventions that will aid them in crafting the capacity development agenda. Furthermore, we have also established a knowledge management facility-

the Local Governance Resource Centers to promote a culture of sharing of information and experiences at the national, regional and sub-regional levels with the Local Government Academy at the helm of this effort.

Together with the partners and stakeholders, we have also embarked on the comprehensive review of the code to develop a good policy framework and improved coordination among oversight agencies through the Philippine Development Forum. Furthermore, on-going efforts such as the rationalization program under EO 366 and the continuing review on devolution under EO 444, we hope to transform the role of national governments in reinforcing the initiatives at the local level.

At this point, we invite our partners to join us propagate these endeavors.

This forum I believe will provide us fresh insights from various vantage points that will bring us further down the road to truly empowering local governments.

Let me now identify some fundamental review questions that may guide us in this afternoon's discussion:

1. Up to what extent supervision must be exercised by the National Government to the LGUs?
2. What mechanisms should be put in place to protect genuine local autonomy?
3. What codal provisions must be emphasized to improve National-Local Relations?
4. What are the political considerations and implications that we must consider to avoid conflicts between and among local and national leaders (i.e. enforcing suspension orders, etc)?

Ladies and gentlemen, I am very confident that our deliberations this afternoon will bring light to how we will be able to move forward the decentralization agenda.

We in DILG, in partnership with the Local Government Units and the key oversight agencies are committed to attain the promise of decentralization.

We also need to bear in mind that decentralization is not meant to dismember and weaken the Philippine State. On the contrary, it is supposed to unleash and harness the genius and multifaceted skill of the Filipino through empowered local governments and communities.

At the end of the day, even in our decentralized diversity, we should be pulling in the same direction-building a nation we can all take pride in.

Mabuhay ang pamahalaang local!  
Maraming salamat po.

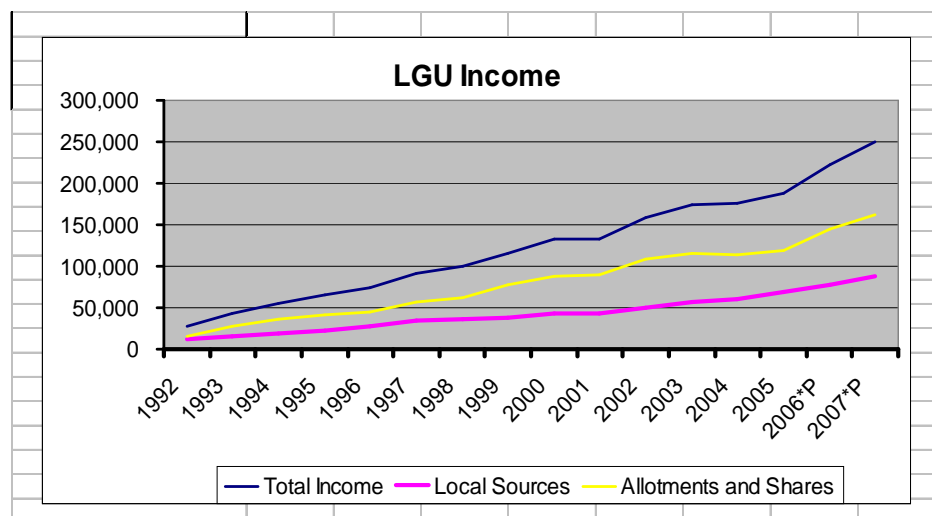
Thank you very much director Marivel. That was really thought provoking, especially the last part of her presentation. It is a challenge that we will be taking up when we go to the open forum I think. And now to discuss with us the status of local government finance, we have invited

Director Norberto G. Malvar from the Bureau of Local government Finance, Department of Finance.

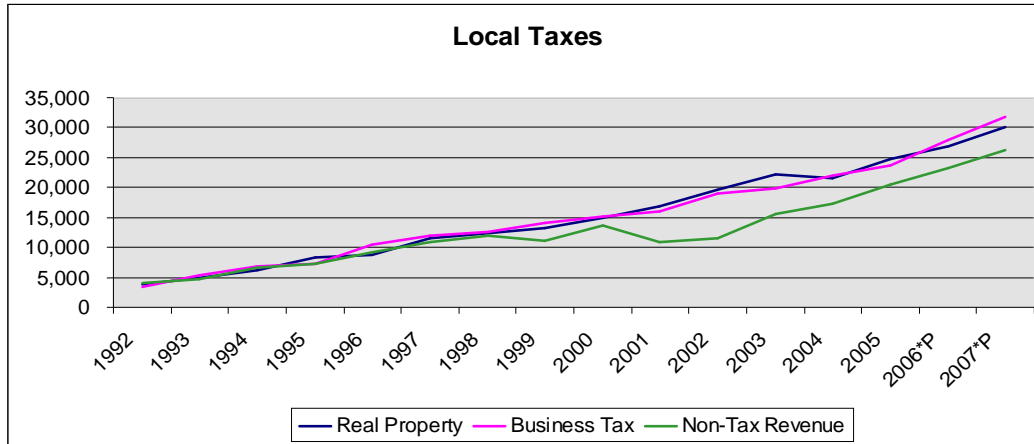
He is an alumnus of the University of the Philippines School of Economics, Director Malvar rose through the ranks in the Bureau of Local Government Finance where he served in various capacities and is now its OIC-Deputy Executive Director. He has extensively participated on issues relating to decentralization and local government financial administration and management and is active resource person for local finance in seminars and projects. May I now call on Director Malvar. And as he is approaching, I would like to acknowledge the presence of Congresswoman Etta Rosales. Thank you madam for attending.

(Director Malvar) Dean Alex Brillantes, Professor Ilago, Director Sacendoncillo, Director Dumogho, Distinguished guests, participants, panel of reactors: Good morning!

I will not really deliver a speech but rather provide insights on local resource mobilization. It has been fifteen years, so I intend to give you some report on the trends and patterns and eventually, some of the policies that we have been doing or pushing through for the next few years. So may I just run through the slide presentation and I will answer your questions later.



So we start with fifteen years of local government performance by looking at the total local government income and the total local government income in 1992 to year 2007, the last two years are projected and we can see that it has been experiencing continuing increases and that ratio is almost 2/3-1/3. Two-thirds are usually allotment of shares or income from the internal revenue allotment and shares from national wealth while local sources include tax and non-tax revenue which will comprise thirty percent of local income. Total government income projected for the year 2007 is about Php 250 million but from almost Php 30 to 35 million in 1992. It registered an increase of more than 800% for the past fifteen years.



When you look at local taxes, the real property tax and business taxes are dominant, they are just almost the same. They did not change in terms of dominance in the local tax scene. So it's more or less thirty-thirty-thirty or one-third/one-third/one-third. But as we move along from 1992 to year 2007, the non-tax revenues faltered. By now the business tax is more dominant than the real property tax. But it's concentrated in cities but the real property tax remains to be the most important because it is shared by all province, municipalities and Barangays. It has an add-on which is the special education fund. But our data does not actually include the SEF which is actually benefiting the education sector. But we can see that they are almost equal and the local taxes comprise 30-35 percent of the total resource base of local governments.

#### Percentage of Accomplishment on the Conduct of General Revision as Mandated Under Sec. 219 of Local Government Code(LGC)

REGION	No. of LGUs			1st G. R. 1994			
				P	C	ToT	%
NCR							
CAR	6	1	7	6	1	7	100%
I	4	5	9	3	5	8	89%
II	5	1	6	5	1	6	100%
III	6	5	11	4	6	10	91%
IV-A			0	7	4	11	
IV-B			0	5	1	6	
V	6	3	9				
VI	6	8	14	6	8	14	100%
VII	4	9	13	4	6	10	77%
VIII	6	3	9	6	3	9	100%
IX	5	4	9	5	4	9	100%
X	7	7	14	5	8	13	93%
XI	7	2	9	3	1	4	44%
XII	5	3	8	5	3	8	100%

Although we are missing figures for some regions, this is actually the conduct of the general revision of real property assessment, which is mandatory under the local government code, supposed to be done in 1992 to 1994 and three years thereafter. What we are looking at is compliance level of local governments in 1992 and 1994 to conduct a revaluation of their values. On the left side would be the number of cities and provinces and on the right side the black

colors would represent these provinces and cities that actually conducted the general revision. So in 1994, we are experiencing 85% compliance, of course it varies from region to region, we are missing some regions there but I think the printout is complete. We have experienced 85% compliance in 1994 but slowly declined in the subsequent years in 1997, 2000 and 2004.

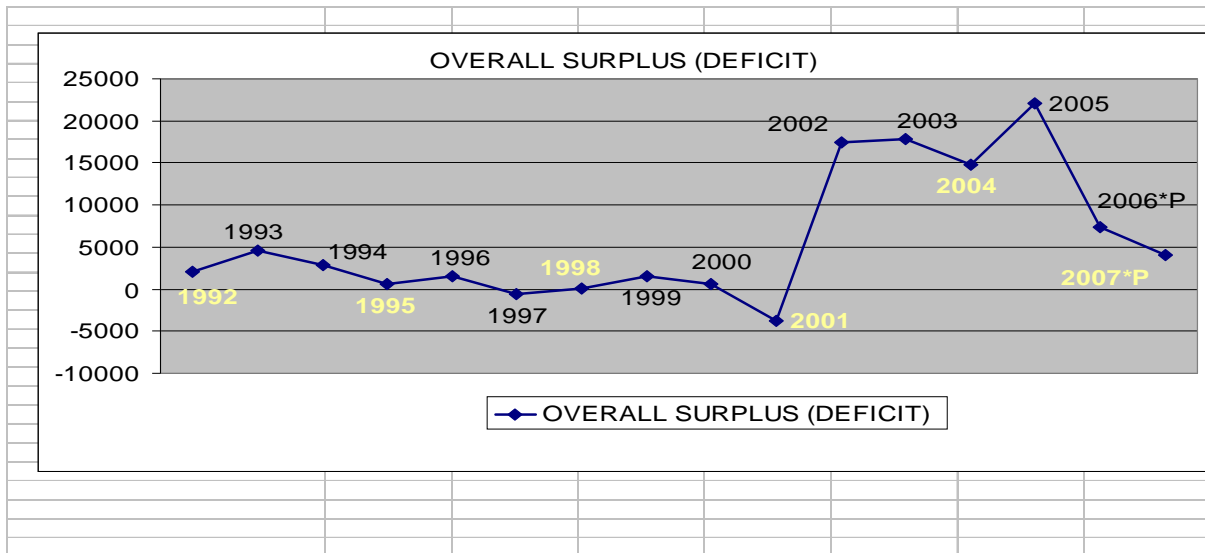
**Percentage of Accomplishment on the Conduct of General Revision as Mandated Under Sec. 219 of Local Government Code(LGC)**

REGION	No. of LGUs			2nd G. R. 1997			
	P	C	ToT	P	C	ToT	%
NCR							
CAR	6	1	7	3	0	3	43%
I	4	7	11	3	7	10	91%
II	5	1	6	4	1	5	83%
III	6	6	12	4	4	8	67%
IV-A			0	3	6	9	
IV-B			0	3	1	4	
V	6	3	9				0%
VI	6	13	19	3	15	18	95%
VII	4	7	11	4	7	11	100%
VIII	6	4	10	6	4	10	100%
IX	5	4	9	3	2	5	56%
X	4	6	10	2	6	8	80%
XI	7	4	11	3	0	3	27%
XII	4	4	8	4	2	6	75%
CARAGA	4	2	6	4	2	6	100%
<b>TOTAL</b>	<b>67</b>	<b>62</b>	<b>129</b>	<b>49</b>	<b>57</b>	<b>106</b>	<b>90%</b>

REGION	No. of LGUs			3rd G. R. 2000			
	P	C	ToT	P	C	ToT	%
NCR							
CAR	6	1	7	1	0	1	14%
I	4	7	11	1	1	2	18%
II	5	3	8	5	1	6	75%
III	6	11	17	3	3	6	35%
IV-A			0	2	2	4	
IV-B			0	3	0	3	
V	6	3	9				0%
VI	6	13	19	3	11	14	74%
VII	4	10	14	1	1	2	14%
VIII	6	4	10	4	3	7	70%
IX	3	4	7	0	2	2	29%
X	5	7	12	2	1	3	25%
XI	4	3	7	4	2	6	86%
XII	4	3	7	4	2	6	86%
CARAGA	4	2	6	2	1	3	50%
<b>TOTAL</b>	<b>63</b>	<b>71</b>	<b>134</b>	<b>35</b>	<b>30</b>	<b>65</b>	<b>55%</b>

REGION	No. of LGUs			4th G. R. 2003			
	P	C	ToT	P	C	ToT	%
NCR							
CAR	6	1	7	0	0	0	0%
I	4	8	12	0	0	0	0%
II	5	3	8	1	2	3	38%
III	7	12	19	1	0	1	5%
IV-A	5	11	16	0	0	0	0%
IV-B	5	2	7	0	1	1	14%
V	5	2	7				0%
VI	6	16	22	3	6	9	41%
VII	4	12	16	0	0	0	0%
VIII	6	4	10	3	2	5	50%
IX	6	5	11	0	0	0	0%
X	5	8	13	1	1	2	15%
XI	4	5	9	3	1	4	44%
XII	6	6	12	0	1	1	8%
CARAGA	4	3	7	0	0	0	0%
<b>TOTAL</b>	<b>78</b>	<b>98</b>	<b>176</b>	<b>12</b>	<b>14</b>	<b>26</b>	<b>22%</b>

The next slide show the status in year 2003 by regions and it plummeted from 85% percent in 1994 to approximately 22% in 2003. It means realm property tax administration seems to have declined in terms of importance because maybe local government units have not been putting in enough efforts in revising their values plus the fact that there are still three serious challenges. First challenge is the collection efficiency, the second challenge is the cost of collection, meaning how efficient LGUs manage the administration of property tax and the third is coping up with the values because it's quite political because the Sanggunian issues the schedule of market values for real property tax administration purposes.



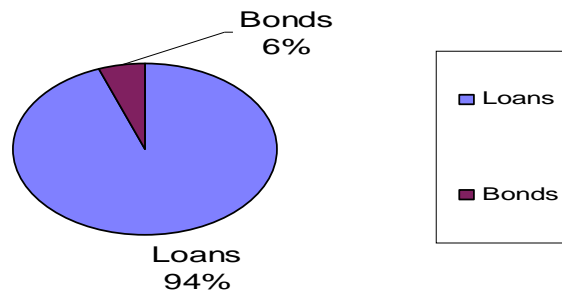
So we look at overall surplus and deficit and normally local governments are experiencing surplus except for years 1997 and 2001 and local government sector in consolidated public sector deficit contributed a positive report. And if we look at this, it seems that in year 2001 to 2005 there seems to be a huge amount of surplus and we cannot really understand why and our interpretation is maybe there are some inconsistencies in the internal revenue allotment. Especially at this time, we have three variables that we can think about. First of all, we have changed the format of the financial report. We shifted to NGAS and there were some confusion. Secondly, there is a huge amount in the LGSCM, which was released to the local government much later than expected and there might be LGUs which were not able to disburse and so it became surpluses and that holds true for years 2002-2005. We expect local government units will have declining surplus for the next years to come. What seems to be interesting in this graph is that the yellow years: 1992, 1995, 1998, 2001, 2004 and 2007 are election years. If you look at the trend of the surpluses of local government units always go down as it approaches election years or during election years. So you see the decline in 2001, 2004 except in 1998 which is almost co-equal to 2001. Maybe in Filipino we call it “bumubwelo” for the elections so they have the propensity to spend during election periods.

Next we go to borrowings. This the borrowing of local governments for 2006 and the level is about Php 54.23 billion which is very much higher than 1992 level which was estimated at something like Php 2.8 billion for the municipal development fund and I think most of the GFIs have closed their windows during those periods. So it increased from about Php 2.8 billion to



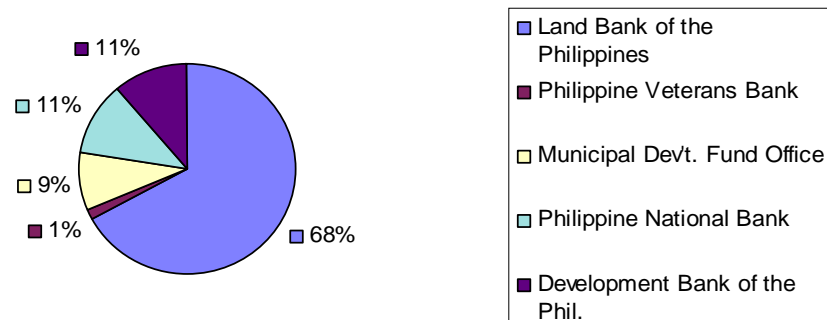
Php 54.2 billion. As you look at this graph, loans seem to be the most popular source of financing and 94% of LGUs utilize loans for development projects and it is because of transparency. They can easily understand loaning as compared to other modes of financing like floating bonds or public-private partnerships. The 54 billion is the amount we monitored. Some loans are not monitored because they are somewhere in the balance sheets but they are not declared as loans or borrowings.

**Borrowings 6/30/2006  
Php 54.234 B**



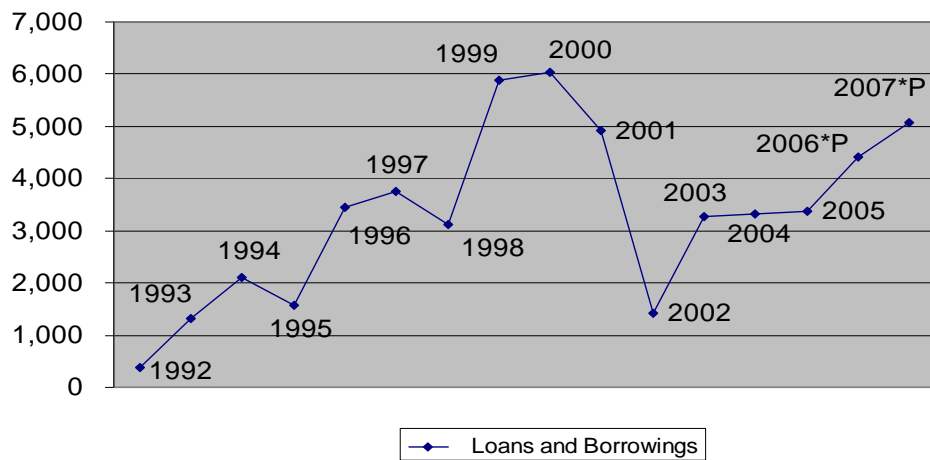
If we look at the next slide, the loan availments which is actually Php 52.23 billion, you can see that the private sector or PFIs are still closed to local government lending and if you look at the sources of funds for LGUs, Land Bank dominates at 68% while the other GFIs and PNB have the remaining 32%. The Municipal Development Fund Office has its share and this is the one concentrating on the third to sixth class local government units.

**Loan Availments Php 51.230B**



The next slide shows the story of the debt service and it seems that it is fluctuating and the highest seem to be from 1999 to 2000 and the lowest was in 2002. The maximum debt service ceiling is 20% of the regular income and the debt service ratio as a ratio of income is approximately 2%. So if the local governments combine, it is way off the 20%. However, the concentration or there are local governments already nearing the 20% debt service ceiling.

## Loans and Borrowings



Here is a comparison of profiles of local government units from a four year period: 1992-1996, 2000, and 2004 to 2007. In 1992 the IRA was something like 58% while local sources is at 41.9% and the ratio declined to 61% and 38.4% Meaning from 1992 to 1996. The local government units are becoming more dependent. And the ratio was caused by the fact that for 1992, 1993, and 1994 the IRA was increased from 30%, to 35% and 40% respectively. I think it shows a semblance of a substitutive effect of IRA to taxes because during those times, IRA went increasing at approximately at 85%. Only after the period of transition that Local Governments realized that the or the increments or the acceleration was actually decelerating and the IRA declined to something like 14% and towards year 2004 the increased became single digits to approximately 7%. So when you look at the trend between 2000 and 2007, the ratio or the local government is gaining meaning the local resources are increasing at a much faster rate than the IRA hence the ratio of local sources increase from 33.2% to 35.2%. So we have gained over a seven year period we have gained 2% in the IRA because IRA will now become like 64.8%. Surplus level is at 1.6%, and 2004 has a high of 8.5%.

CONSOLIDATED STATEMENT OF INCOME & EXPENDITURES					
(Provinces/Cities/Municipalities)					
In Million Pesos					
				2004	
	PARTICULARS	1996	2000		
TOTAL INCOME		73,909	131,991	175,331	
A. Local Sources		28,404	43,797	60,685	
1. Tax Revenues		19,330	30,108	43,464	
Real Property Tax		8,847	14,947		
Business Tax		10,483	15,161		
2. Non-Tax Revenues		9,075	13,689	17,222	
Receipts from Economic Enterprise		2,860	4,617		
Fees/Charges		2,415	3,394		
Other Receipts		3,799	5,678		
B. Allotments and Shares		45,504	88,195	114,645	
1. Internal Revenue Allotment		44,931	87,318		
2. National Aids		436	789		
3. National Wealth		138	88		
TOTAL EXPENDITURES		72,396	131,390	160,498	
A. Current Expenditures		66,076	118,362	160,498	
1. General Government		22,850	40,926		
2. Public Welfare and Internal Safety		17,735	31,273		
3. Economic Development &		9,873	16,840		
4. Operation of Economic Enterprises		3,362	4,790		
5. Other Charges		12,255	24,533		
		6,320	13,027		
OVERALL SURPLUS (DEFICIT)		1,513	602	14,833	
Loans and Borrowings		3,455	6,040		
*Preliminary					

<b>CONSOLIDATED STATEMENT OF INCOME &amp; EXPENDITURES</b>					
<b>(Provinces/Cities/Municipalities)</b>					
In Million Pesos					
<b>PARTICULARS</b>	<b>1992</b>	<b>1996</b>	<b>2000</b>	<b>2004</b>	<b>2007(P)</b>
<b>TOTAL INCOME</b>					
<b>A. Local Sources</b>	41.9%	38.4%	33.2%	34.6%	35.2%
1. Tax Revenues	27.2%	26.2%	22.8%	24.8%	24.7%
Real Property Tax	14.4%	12.0%	11.3%	12.3%	12.0%
Business Tax	12.8%	14.2%	11.5%	12.5%	12.7%
2. Non-Tax Revenues	14.8%	12.3%	10.4%	9.8%	10.5%
Receipts from Economic Enterprise	5.4%	3.9%	3.5%	3.6%	3.5%
Fees/Charges	3.1%	3.3%	2.6%	3.0%	3.1%
Other Receipts	6.2%	5.1%	4.3%	3.2%	3.8%
<b>B. Allotments and Shares</b>	58.1%	61.6%	66.8%	65.4%	64.8%
1. Internal Revenue Allotment	56.7%	60.8%	66.2%	64.4%	63.8%
2. National Aids	1.4%	0.6%	0.6%	0.8%	0.6%
3. National Wealth	0.0%	0.2%	0.1%	0.2%	0.3%
<b>OVERALL SURPLUS (DEFICIT)</b>	7.3%	2.0%	0.5%	8.5%	1.6%
Loans and Borrowings	1.4%	4.7%	4.6%	1.9%	2.0%
<i>*Preliminary</i>					

Let me now give you some of the things that we are doing which actually our thrust for the next few years on the fiscal side. This would be the development and harmonization of capacity building programs on the following:

- Revenue Generation
- Expenditure Management
- Planning and Financial Management
- Planning
- Project Development
- Enterprise Management
- Debt Management.

We also propose for the revisiting of the central transfers meaning the IRA and actually we have a technical assistance program which is Technical Assistance 4778 to be spearheaded by DILG to revisit the IRA and the thrust would be to look at the 40% share and the vertical and horizontal distribution and matching of responsibilities against the resources that are made available to LGUs. We are also looking into the procedural problems related to the release of the LGU shares from the national wealth because at this point LGUs have been complaining about delayed releases or most often the unreleased portion of their shares from National wealth and their direct shares from National Taxes. On issues of resource mobilization, our objective is to ensure that real property assessments are at pace with changes in market values. We are pursuing a project we call the Land Administration and Management Project which seeks to improve the regulatory environment of Land Administration and Management. There will be some legislative measures,

we call it the National Appraisal Authority which will regulate the conduct of general revision and the RESA (Real Estate Service Act) which intends to accredit appraisers. We also would like to address the different reporting systems and conflicting guidelines in resource mobilization. We tried to look at or compare our data with COA and we found out that the main problem is the harmonization of accounts and we have embarked on a dialogue and we are now ready to reissue a reporting format which coincides with the reporting system of COA. The next thing to do is to reconcile our reporting system with the DBM. There is also a proposal to review the Situs Rule on taxation. Situs rule is actually section 150 of the Local Government Code which gives or allocates the business tax depending on the kind of service delivered within an assembly line or whether you are a factory or you are a showroom and I think that local governments could have issues as to the equity of the business tax saying that most of the taxes are being paid at the principal office which are normally based at Metro Manila or the Urban cities and of course we would want to explore new areas or new avenues of resource mobilization.

We also would like to harmonize the credit facilities by adopting the LGU Financing Framework. In 1996, we started a financing framework which tried to cluster local governments according to credit worthiness and whether their projects that are being pursued are being credit worthy and revenue generating and non-revenue generating. So what we would like to do is to reestablish the LGU financing framework and help LGUs establish the NG-LGU Cost Sharing scheme wherein lower income classification LGUs would be given subsidized credits. And of course there is another study conducted by the World Bank to move towards a performance based grants and we have already agreed in principle, the fiscal performance base as basis for giving additional grants. There is a policy of the ICC that the maximum grants that LGUs would have is up to 50%. But given some performance measurements report done on the fiscal side of the LGU, there is a proposal for them to be given an additional grant of 20% and we have already established the criteria and we are already to implement one project, which is the MRBT to be implement in Mindanao.

Then we are looking forward to enhance public-private partnership and we are looking at BOT so we want to disseminate the rules and procedures in BOT project approval process, improve coordination among oversight agencies and review the BOT for Local government if it is effective or not. We are also looking at the possibility of giving some information packages on bond floatation because right now bond floatation has been implemented at the local government level but only about 20 have successfully floated bonds. As a means of increasing access to private capital, what we want to do is to accredit some PFIs as depository banks. We would want to start a relationship between local governments and PFIs so that there would be clear understanding of the operations of local governments by these PFIs. Although there is already a procedure that local governments can be accredited by the Monetary Board, but what we are looking at would be a selective basis of accreditation of some bigger banks or PFIs. We also under a certain TA, Technical Assistance 4556 of ADB, we are assessing mechanisms for credit worthiness and I think we are ready by May to reissue a credit worthiness assessment facility. And we have already started talking with the Bureau of the Treasury to list LGU bonds to the fixed-income securities market.

I think that negotiations are going on. Another policy we want to pursue is to use ODA to assist lower income LGUs and this can be done by streamlining approval for LGU projects because in

most instances, project development up to project approval under the municipal development fund takes about nine months, so the LGUs given the three year period are too much in a hurry that we have to streamline towards a minimum period maybe 3-6 months. We also would like to use ODA to finance project preparation activities of the Local government units and harmonize GFIs own lending terms using ODA funds and of course we want to use ODA funds to secure access to private capital. There is an on-going study to leverage the ODA funds and utilize these to attract private investment or capital. And the initial activity will be the Water Revolving Fund.

Of course on the economic enterprise, we want to first look at policy and legal review of municipal enterprises and look into their accounting system and maybe lessen the burden by exempting economic enterprise 45-55 personal services limit. And of course the debt service to a good LGU is too low for them to pursue quality projects and the improvement we want to pursue is to exempt them from the twenty percent debt service limitation. The rest of the measures are:

- Develop the relation between and Among Oversight Agencies and LGUs
- Develop Databases
- Improve Access to Information (websites)
- Harmonize Reporting Systems

That is it. Thank you.

(Prof Cabo) Thank you very much Director Maloy. From the presentation of our two experts we have seen that decentralization since it has been implemented fifteen years ago has indeed achieved definite gains over the last fifteen years but there also remains that have to be addressed. We have also seen that decentralization presents opportunities as well as challenges for us all. And indeed it is a work in progress and an on-going process that we have to periodically assess like what we have doing now. We'll move on to the reactions of our panel. We have invited four distinguished persons who will act as reactors.

We have invited Professor Leonor Briones, our own faculty from UP-NCPAG. She is an acknowledge authority in fiscal and development administration. She was the former National Treasurer of the Philippines and the former Vice-President for Administration and Finance of UP. She has also spoken before the UN General Assembly as the representative of Civil Society and was recently at Sofia Bulgaria to attend the World Social Forum in behalf of Social Watch Philippines which she convened, and Social Watch Asia where she is co-convenor.

The other member of the Panel is Dr. Benjamin Cariño. Dr. Cariño is currently a Professor in the School of Urban and Regional Planning-UP He earned his BA here in NCPAG and his PhD from Indiana University. It was during his term as Dean that SURP's activities and programs for teaching, training, research, and extension services were all geared toward assisting local government units in the preparation of their Comprehensive Land Use Plans or CLUPs, as well as in the development of a pool of professional planners at the local level. He serves as resource person for conferences here and abroad as expert in Regional planning.

We also have invited a member of the Media and we have Ms Lourdes Fernandez. Ms. Lourdes Molina-Fernandez is a professional journalist and she became reporter, editor, and EIC of various publications and was also the director of NEDA's Development Information Staff under

then Minister Solita Monsod. She is now Editor-in-Chief of Business Mirror, an English-language national business broadsheet published Monday-to-Friday.

Last but not the least is a local government official, Mayor Gerardo “Jerry” Calderon. He is the local chief executive of Angono, Rizal and is currently the Secretary-General of the League of Municipalities of the Philippines. Mayor Jerry is the local chief executive of Angono, Rizal and is currently the Secretary-General of the League of Municipalities of the Philippines. As mayor he has committed Angono to be an ideal place to live in - healthy and peaceful, nourished and flourished by different forms of art, endowed with cultural treasures and local government innovations.

Now to proceed with the presentation of reactors the sequence follows the program. Each of the reactors would have fifteen minutes maximum to make their presentations. Thank you.

(Prof Briones) Good morning everyone, Magandang umaga, maayong buntag sa iyong tanan. You will excuse me if I speak very, very fast because of the time constraints. I apologize that I don't have a PowerPoint presentation because I only received a copy of the presentation of Maloy this morning because I would have provided additional data and information with regards to the financing of local governments. Maloy is a very dear and treasured colleague in the field of local government finance. And to Dean Alex Brillantes for selecting the issue of financial autonomy as a major concern, as a major test on how decentralization has fared for the past fifteen years. Actually, I am tempted to respond to the four questions that were raised but I think I should concentrate on local finance because that is my assignment.

Maloy has given us a broad picture and the opportunities for further enhancing fiscal autonomy among local government units as well as initiatives that have been undertaken by their bureau to create a much more enabling environments for LGUs. My task as usual is to identify what the challenges are. And I'll go very quickly and very, very fast. Atty. Dumogho has pointed out the fact that LGUs since the 1990's have received billions and billions of the IRA. For additional information, I'm just talking from the top of my head because the data are all in my office, for 2007 budget which has been recommended by Congress, the allocation for local governments totaled Php 193 billion so we citizens, local governments as well as civil society have Php 193 billion to monitor and to watch. And about 183 billion will go to IRA. Maloy correctly points out that there is no going back. IRA is going up, up, up, up, for as long as the economy grows IRA will grow automatically. But the allocations for LGUs is not only IRA which is Php183 billion, you have as Maloy points out shares that accrue to the National Government in national wealth. You are supposed to have a share in national wealth but what is not clear is the accounting as to who is getting this share of the national wealth because some LGUs are also complaining that they are not getting their just share in the national wealth. As a matter of fact there is 2.5 billion in arrears due to local governments for their shares from the national wealth. There are also shares in special taxes like tobacco tax and so on which are provided for and then you have the allocation for the MMDA, shares of the local governments from the VAP, as well as a very interesting and a very sharp increase and this we should also be watching out for, for the year 2005 and 2006 the allocation for insurance premiums of indigents, all of a sudden we are worried about the indigents, is from 500 million to 3.5 billion pesos. In one city alone, and Maloy has pointed the correlation between levels of expenditure and elections, in one city which is very high profile in 2004 they allotted for 60, 000 indigents then by 2005, 2006 this went down

sharply to about 20, 000 and now for 2007 they are allocating for 70, 000 indigents. And since this will be financed from national funds as well as local funds you have this interesting practice of putting photographs of local officials in the insurance cards, the correlation is very clear. Why this sevenfold increase for insurance for indigents?

What is also very interesting is how indigents are defined. There is an official definition of an indigent but the practice again in this high profile municipality which claims to have the highest level of revenue is that if you are nominated and if you are recommended by the Barangay captain and you faithfully attend all the Barangay meetings of the Cha-Cha then you are an indigent. I have challenged my class to test this practice, that they should attend Barangay assemblies and demand their free insurance cards with the photographs of the local official as well as the president. So we are not talking IRA here only. We are talking about the allocations for local government units for 2007 which has gone up sharply to 193 billion. There has also been a sharp increase in the allocation from the national wealth and so for those who think that they have not been getting their share of the national wealth then that is something to watch out for.

The second issue, and which Maloy has also pointed out, he is very polite and very gentle so I have to be the bastos one. On the matter of the IRA, all of us here are students of local governments or local government officials, you know for a fact that the dependency of LGUs to the IRA is very, very high. Now Maloy has presented to you wonderful and beautiful charts about how revenues(non-tax and tax) are increasing vis-à-vis IRA but the problem here is that these are national totals. It is when you disaggregate that you will see the very, very high level of dependency ranging from 96%, 97%, 98% and 99% especially for the smaller municipalities. So the objective of the IRA which was provided for and protected by the constitution and affirmed by the Supreme Court, the objective is to ensure the fiscal autonomy of local government units what has happened is to ensure its continued dependency on IRA. So even as we continually nag and lecture and tell local government units to please collect more real property taxes, to please collect more business taxes, well you have the IRA to depend on.

The second challenge related to IRA; one congressman is going to file a bill which he said is a call for a new IRA, whatever it is. Or maybe more IRA. One problem with the IRA is the uncollected part of it and you know all of that. Because the LGUs have been asking for the uncollected portions of their IRA, they have been advised to monetized through the Land Bank of the Philippines with the intercession of the ULAP and you know how much it costs? It costs 29% if you want your uncollected IRA now, otherwise you wait until government decides that it has sufficient funds. This is very much higher than commercial rates. I know some mayors who know how to add and who know the difference between 39% and 12% who said that they would rather borrow from private commercial banks than go through the monetization process which the government is recommending and pay 29%. That is practically 30% of what you are supposed to get.

Another problem, and all of you know this because we have always been discussing whenever we have meetings and forums and the battery of speakers always discuss how iniquitous the sharing of the IRA is. And because the cities are lesser in number they tend to get a bigger share of the IRA. So now you have the phenomenon of many municipalities wanting to be cities. You



have provinces that have more cities than they can possibly handle. The municipalities complain, the provinces complain, the cities complain but why is it, and I always ask the DILG officials ‘you all know what is wrong with the IRA distribution why are you not doing anything about it?’ and the answer always is if you increase the allocation for the provinces, municipalities and cities will complain, if you increase the Barangay shares then somebody will lose and there will be trouble. So we are very happy and we are very contented with the present state of distribution of IRA.

I also ask some local government units need IRA like they need a hole in the head especially since they are publicizing the fact that they are not as IRA –dependent as the lowly municipality or the lowly province. Perhaps they should be encouraged to adopt a poor municipality or a poor local government units and share their billions of IRA with those that probably need it more. So that is for the IRA.

The third issue is also a matter on revenue. Again Maloy points out that through the years the shares of real property taxes have been going down. You know taxes are so difficult to collect take it from any treasurer who will tell you that. Especially real property taxes because the biggest owners of real property are municipal officials, provincial officials or the big business leaders of LGUs. So it is better, easier and faster to borrow. It is easier to monetize your IRA. It is easier and faster to issue bonds. It is easier to borrow from a bank than collect real property taxes. And so Maloy also said that we should encourage LGUs to revisit and renew their revenue codes. Now I have been involved, please don’t mistake me. I am a genuine *promdi* from the province of Negros Occidental. I live in Valencia which is a very, very tiny town. And I believe in the potential of local government units and I have been looking at revenue structures for a very long time. And what is happening is that there is great reluctance to collect real property taxes. It is always easier to borrow. It is very political. Now some of the LGUs and they are properly listed in DILG have supposedly revised their revenue codes. I went through some of the revenue codes of one of the poorest province. I was wondering why there were fees for internet cafes, there were fees for very sophisticated blood tests, fees for night clubs and karaoke bars in a province where the main mode of transportation is the *trisikad*. This is because there is a tendency to be lazy and just copy somebody else’s revenue code. So maybe DILG should look at revenue codes which have already been reported and maybe they’ll notice this.

So revenue codes may be there but they are meaningless in so far as the real situation of local governments are concerned. Now still with revenue, Maloy has gently pointed have the habit of treating their loans and borrowings in such a manner that they are not noticed by him or they did not come out in the reports. The main issue in revenue raising, because sometimes you classify borrowings as revenue, is how do you balance it with the pressure to borrow and to borrow and to follow the magnificent example of the national government. I was once in a seminar where we were faithfully exhorting, and teaching, and convincing a provincial government that you know real property tax is a more sustainable source of revenue. Then they saw material on what is available on the municipal development funds, how much World Bank is giving in loans, how much ADB is giving, how much provincial governments can borrow and if they can issue bonds they can borrow from the private banking sector then the eyes of the provincial treasurer started gleaming and gleaming and the direction of the discussions changed. As I said if on the one hand we tell and exhort LGUs to be fiscally dependent, to collect more taxes and on the other hand we

tell them the good news of additional funds for borrowing , how easy it is to borrow, you tell them that bonds are the future of local government finance then the LGUs will go for whatever is the easier way.

Let me give you an example of the experience of local governments with issuance of bonds. I know many of you are fascinated by bonds because they are hi-tech and you deal with banks and you have a financial adviser and it really sounds very nice and you go to Manila for consultation and you have a big private bank who serves as your financial adviser for as long as they receive their usual fee. Now we had a doctoral student here in NCPAG who conducted a study of five local government units who issued bonds, and these are not small local government units, out of the five who issued bonds with practically the same financial adviser, only one was able to pay its bonds from the income generated by the projects. All four were paying their bonds, including Tagaytay and Palawan which are high-profile, from their IRA. What is happening is napeprenda ang IRA for bonds and for loans. And if you have local government units 99% dependent on IRA then if they are unable to make their budgets work they have to, you know, because the banks understandably are very wise.

If you are a small municipality somewhere in Davao, or somewhere in Batanes or the hinterlands of Negros and this municipality wants to issue bonds because it is sexy, because it is hi-tech and because you have doctoral students interviewing them. If you want them to do that and they want to go into, what they don't realize is that there is a very high risk involved and that feasibility studies are important. And so they stake their IRA. I will not mention the name of the local government. It is dangerous these days to mention the name of local governments. A while ago when we singing the National Anthem and then we sing "ang mamatay ng dahil sayo" I think the theme songs of LGUs would be "ang masususpend ng dahil sa iyo." Anyway, you have this little local government somewhere in Mindanao who has won an award from the United Nations for faithfulness in delivering services related to the millennium development goals, but this little local government at the same time is unable to pay the salaries of its personnel because its IRA has already been hawked to a particular loan. So you might have seemingly high performing LGUs but who are actually mired in debt and are using up their IRA and have difficulty paying their personnel and Maloy knows which local government this is. So you have to balance between the irresistible seduction of international funds available for borrowing, domestic funds which the banks are putting under your nose, and the real need to raise more revenues by the sweat of your brow, by collecting taxes whether they are non-tax revenue or tax revenue for sustainable operations of your local government.

Two more items related to local finance. Expenditure habits. We have local government units exhibited to the country as icons of success in collecting revenue. But they also have IRA in the billions. Now I have observed two local governments who are well known for collecting high levels of revenue. One local government who claims the most local revenue and another says, no they have collected more revenue, they have this habit of visiting other local governments and one city mayor decided to go one step further since they have such a huge income he sent his Barangay captains to Singapore with dollar allowances and all that as a reward to the Barangay captains. Another province which is considered an icon in provincial management, two weeks ago I asked where is the governor and the team and they said 'the entire team is now in Los Angeles conducting a trade fair.' So also if you collect money because you are efficient and you

are lionized and you are rewarded and you appear on TV, your picture is all over the streets and the highways, there has to be prudence also in what you spend with your increased revenue on. One mayor I know celebrated his birthday by giving money to Barangay officials. One Barangay kagawad received five thousand pesos, so how much did the Barangay captains receive? Let us hope it was his personal money but this city also has the highest number of dengue cases. This is why when you compare two local government units, one which has a hospital, one which has a very extensive zero-maternal mortality rate, very low infant mortality rate, and the other which also has a high income which can afford to send their Barangay captains to Singapore but which has a very high level of dengue cases.

And on the matter of insurance for the indigents. Suddenly as I said we are admitting that we have indigents so that we have to give them insurance where before we are saying poverty is going down. But how come we are increasing the number of our indigents? So there is a correlation between expenditures and election period. So I think I have said enough, I have used up my fifteen minutes but I hope I have given food for thought to all of us who are committed, who are loyal, who believe that local governments are the hope of the future, who believe that they should be given more autonomy, but at the same time they should be imbued with more authority and accountability. For all of us who believe that we should not be silent when autonomy and local government officials are threatened. Thank you very much.

Prof Cabo: Thank you Ma'am Briones. May I call on Dr. Cariño please.

Dr. Cariño: Good morning. You know I always have the misfortune of following the heels of a very fiery speaker like Liling Briones. This happened in San Fernando, La Union during a forum where I had to speak after Lily Aquino and then that very fiery lady governor. It's just like listening to a real revolutionary all over again. That and the fact that I still don't know why I am on this panel. I asked my wife early this morning, "why am I on this panel? I have not done much work on central-local relations, much less on local government finance, ang sagot sa akin baka wala nang ibang makuha." So here I am.

Since I represent the Planning discipline, I will discuss two things that were presented this morning, central-local relations and local finance in the context of the planning process and I think that's just fair. And I will in the process, report some of the findings of a preparatory study that I was involved in, which was done for ADB and NEDA for provincial planning and expenditure management.

I'm afraid that like Professor Briones here I might be playing the role of Devil's Advocate here. Many of the findings of this study that we conducted are not very encouraging insofar as decentralization and local autonomy are concerned. I suppose the overall theme that I want to emphasize is the fact that while certain structures and systems have been put in place following the passage of the Local Government Code, after fifteen years of experience, such structures and systems are not as yet operating as they should be. In other words, there is a gap between political realities and dynamics on one hand and the achievements of ideals envisioned in the Local Government Code on the other. Let me now turn to some specific comments. In terms of central-local relations, there is supposed to be a hierarchy of plans, from the National, Regional, Provincial, to Local levels and these plans are supposed to be related to each other. The reality, however, is that linkages are hardly existent. They are virtually non-existent. There are no

relationships. In other words, while municipal plans are supposed to be inputs to provincial plans and municipal plans should be prepared in the context of provincial plans, and the interim provincial plans are supposed to be prepared in the context of regional plans and regional plans are supposed to be prepared in the context of a medium-term national plan, such linkages do not exist and virtually non-existent. There no relationships between lower-level planning and higher level plans substantively. That I think is symptomatic of inadequate central-local relation, and symptomatic of the lack of interface between personnel and planners at various levels.

More disturbing, horizontally, there is a lack of linkage between plans, the investment program and the budget or local financing. Ideally, there is supposed to be a linkage. Plans and programs that are identified are supposed to serve as inputs to the investment programming process. Investment programs are nothing but a list of priority projects per year of implementation with cost estimates. So investment programs are prepared independent of plans and programs that are identified in the plan and AIPs are prepared independently from the plans. AIP or annual investment program is supposed to be the basis of the capital budget. The budget after all is nothing more than allocations for personal services, MOOE and investments. Again, the link between AIP and the capital budget is virtually non-existent. What it means is that the plans are virtually useless. They are not taken into account in the preparation of investment programs and eventually, the preparation of the budget. There are several reasons why this is the case. There are many reasons, such minor reasons like the LGU has no plans, that is the reason why consultancy firms like our foundation UP-PLANADES have remained in business. We have prepared numerous plans or CLUPS, or Comprehensive Land Use Plans for many LGUs because the capability level in many LGUs is simply not there. Many of them have to rely on external consultants to fill this particular requirement of the Local Government Code.