

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Philippines	Project Title:	Local Government Finance and Fiscal Decentralization Reform Program
Lending/Financing Modality:	Project	Department/ Division:	Southeast Asia Department/ Public Management, Financial Sector and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: Targeted intervention—geographic

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The Philippines is a lower middle-income country with an estimated population of 96.7 million (World Development Indicators 2012). In 2012, the country reported a current per capita gross domestic product of \$2,613 and a human development index of 0.654 (which ranked Philippines 114th out of 187 countries). Its economy grew by an average of 4.8% from 2001 to 2010, and growth has accelerated over the last 2 years, reaching 6.8% in 2012. Despite this, poverty remains a continuing and significant challenge, with a quarter of the population considered poor. The poverty rate was 27.9% in 2012 (down from 28.6% in 2009), which is above prevailing rates in neighboring countries in Southeast Asia. The high poverty rate can be explained by income and consumption disparities. Geographically, the poor remain concentrated in the southern Philippines and in rural areas. The poverty rate in the Visayas and Mindanao regions is double that in Luzon, and two-thirds of the poor live in rural areas. Similar disparities are found in terms of access to services.

The Philippine Development Plan (PDP), 2011–2016 employs three broad strategies to achieve inclusive growth:^a (i) attaining high, sustained economic growth through a stable macroeconomic environment, rapid growth of industry, investments in infrastructure, and actions to curb corruption and enforce the rule of law; (ii) providing equal access to development opportunities by investment in human capital, especially in education, health, and other basic services; and by improving access to infrastructure, credit, land, technology, and other productive inputs; and (iii) formulating effective social safety nets to ensure both the protection and the promotion of extremely vulnerable groups. The PDP targets a poverty rate of 16.6% by 2016, which appears ambitious.

The Local Government Finance and Fiscal Decentralization Reform Program reflects the Philippine Country Partnership Strategy (CPS), 2011–2016 assessment that regional disparities in poverty reduction and living standards remain prevalent. The program focuses on improving the efficiency of local government units in the Philippines for service delivery through a combination of regulatory reform, capacity development initiatives, and the implementation of financial management systems. The program responds to the development priorities outlined in the PDP and aims to facilitate inclusive growth through local economic development; to assist the elimination of corruption with transparent financial management processes and participatory local governance, and to foster fiscal sustainability via improved local revenue frameworks.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Recent economic growth in the Philippines has not been effective in reducing poverty. Although the pace of economic growth accelerated in 2011 and 2012, it is not yet clear whether this growth has been more inclusive, or provided greater benefits to the poor. Per capita income growth in the Philippines lags behind that of neighboring countries as a result of sustained rapid population growth; the global financial crisis, and a series of damaging natural disasters, which may largely explain the somewhat disappointing poverty reduction performance since 2006. The poor are largely employed in the agriculture and fisheries sector, with 75% of poor households found in rural areas. The impact of economic growth has been limited, both in terms of reducing poverty disparities, and in creating decent, sustainable jobs for people with lower incomes. Unemployment averaged 7.4% between 2006 and 2012, and is particularly prevalent among young people, especially women.

2. Beneficiaries. The main project beneficiaries are national oversight agencies, LGUs, the business community and citizens. The project will strengthen national and local government institutions. By increasing the efficiency and transparency of local governance and financial management systems, the program will indirectly benefit the constituents by providing them with improved and more efficient service delivery.

3. Impact channels. The program will support the government in reducing poverty and achieving inclusive growth by (i) helping prioritize and improve coordination of pro-poor expenditures at the national and local government levels; (ii) assisting in the creation of predictable and transparent LGU revenue policies that support private entrepreneurship

and business investment; and (iii) developing participatory and accountable planning, budgeting, and monitoring systems for LGUs that allow for good project selection and good governance practices in implementation. The impact on efficient service delivery is expected to be felt over the medium term, and will not be concentrated on any particularly vulnerable group. The activities supported by the loan, such as strengthening administrative and financial management capacity, will contribute indirectly to poverty reduction through improved local government service delivery. Pilot initiatives such as the “Citizen Satisfaction Index System” will ensure that the constituents’ opinions and feedback on the government’s service performance and programs are heard.

4. Other social and poverty issues. The project does not provide social assistance nor livelihood project assistance to individuals or private companies.

5. Design features. To achieve its development objective, the project will support: the establishment of a review committee for a comprehensive review of the Local Government Code (LGC) and the drafting of proposals for an LGC amendment on expenditure and revenue assignments and the system of fiscal transfers; establishment of performance-based transfers and regulatory measures to improve the productivity of local revenue sources; improvements to the LGU performance monitoring systems; development of LGU creditworthiness and debt management systems; improved strategic planning and alignment of national and local development priorities; strengthened local expenditure management information systems and rationalization of local economic enterprises; and implementation of public disclosure policies, the redesign of performance monitoring systems for LGUs, establishment of a citizen’s satisfaction index, and improved policies for local cooperation.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation. Explain how this is reflected in the DMF, loan agreement, and PAM.

The program emphasizes the need to develop participatory processes to enable local constituencies to convey their development priorities, preferences, and assessment of local government operations, which would facilitate improved targeting of infrastructure projects and service delivery. The participatory process for local planning implemented under the Bottom-up-Budget initiative, the implementation of the Full Disclosure Policy and the piloting of the Citizen’s Satisfaction index are among the most important of these processes, and are reflected in the design and monitoring framework.

2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation.

Local government leagues and civil society representatives will take part in the LGC review. Civil society organizations are being empowered to assist with implementation of the full disclosure policy. The upgrade of the Local Government Performance Measurement system will incorporate the views of local constituents.

3. Explain how the project ensures adequate participation of civil society organizations in project implementation.

The project will ensure adequate participation of civil society organizations in project implementation by ensuring their participation at the policy forums for the review of local government finance and fiscal decentralization reforms. These include the Coordinating Committee on Decentralization and the Philippines Development Forum’s Working Group on Decentralization and Local Governance. Associated technical assistance (TA) will support CSOs in mitigating governance risks in procurement and public financial management at the LGU level drawing on the increased availability of information due to recent transparency initiatives introduced by the Department of Interior and Local Government.

4. What forms of civil society organization participation is envisaged during project implementation? Indicate in each box the level of participation by marking high (H), medium (M), low (L), or not applicable (N) based on definitions in ADB’s Guide to Participation.

(M) Information gathering and sharing (M) Consultation (M) Collaboration (M) Partnership

5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

() Yes. Describe key features, responsibilities and allocated resources (X) No. Explain why.

The current institutional framework for fiscal decentralization reforms incorporates adequate venues for rich interaction of civil society with local government representatives.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Some Gender Elements

A. Key issues. Key gender issues include the mainstreaming of gender issues in local expenditure programs, women’s participation in local governance processes, inclusion of gender indicators in local government performance measurement systems, and the inclusion of women in capacity-development initiatives. Associated TA will support women’s participation in policy dialogue and reform processes.

B. Key actions. The project’s gender interventions support women’s participation in budgeting and local governance processes and in capacity development activities. A gender analysis and quantitative and qualitative data will inform the review and development of all policies and programs on local budgeting, expenditure and revenue assignments, and fiscal transfers. Other key actions include: consultations with women’s groups to be conducted as part of the review and amendment of the legal framework for intergovernmental fiscal relations, including the review and

