



Concept Paper

Project Number: 44253-013
June 2013

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Philippines: Local Government Finance and Fiscal Decentralization Reform Program

CURRENCY EQUIVALENTS

(as of 27 May 2013)

Currency unit	–	peso/s (P)
P1.00	=	\$0.0239
\$1.00	=	P41.67

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
COA	–	Commission on Audit
DBM	–	Department of Budget and Management
DILG	–	Department of the Interior and Local Government
IRA	–	internal revenue allotment
LGU	–	local government unit
PCR	–	project completion report
PDF		Philippines Development Forum
PDP	–	Philippine Development Plan
PPTA	–	project preparatory technical assistance
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

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I. THE PROGRAM

A. Rationale

1. The proposed Local Government Finance and Fiscal Decentralization Reform Program (the Program) aims to improve service delivery in the Philippines by increasing the efficiency and transparency of local governance and financial management systems. The program stresses the reform linkages between local economic development and transparent and participatory governance. The programmatic approach will provide the flexibility needed to translate structural reforms into measurable policy actions. The proposed program's problem tree is in Appendix 2, while the design and monitoring framework is in Appendix 3.

2. **Access to services.** Reducing local disparities in access to services is critical to achieving the government's goal of inclusive growth and poverty reduction.¹ The poverty rate was 26.5% in 2009 (an increase from 26.4% in 2006), above prevailing rates in neighboring countries in Southeast Asia.² Although recent high economic growth (6.6% in 2012) is encouraging, earlier growth spurts in Philippines have not been effective in reducing poverty. 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 average infant mortality rates in 2008 in the Eastern Visayas (45 deaths per 1000 births) and Cagayan Valley (38 per 1000) were more than 50% above the national average of 25 death per 1,000 births. In 2009, six regions of the country reported that less than 80% of their population had access to electricity, compared to almost 99% in the capital region; less than 70% of the population of Central Visayas and Zamboanga had access to potable water in 2009, compared to some 97% in Central Luzon.

3. **Distribution of financial resources.** The inadequate and inequitable distribution of financial resources to local government units is responsible for an important part of the regional disparities in access to services. Subnational government expenditures have remained stable between 2001 and 2011 at 4% of gross domestic product, and represented some 17% of total public expenditure (2011). The composition of local government unit (LGU) expenditures shows a worrisome declining trend in terms of the allocations made to health, education, and other basic services between 2001 and 2011. Against this background, LGUs collected only 20% of their total income from their own revenue sources in 2011 (the remaining income derived from transfers and revenue sharing). The share of local tax and non-tax as a proportion of LGU revenues is stagnating because of inadequate and unproductive tax instruments. As expected, large differences exist in revenue collection capacity, with the top province collecting more than four times the national average from their own revenue sources in 2011. The limited power of the transfer system to equalize the distribution of financial resources results in very significant disparities in expenditures per capita.³

4. **Needed improvements and reforms.** Improvements to local public financial systems must be followed by reforms to the regulatory framework for intergovernmental fiscal relations and improvements to local governance systems. The Philippines Development Plan (PDP), 2011–2016 (footnote 1) identifies specific challenges for LGUs in the achievement of its main goals: promoting inclusive growth and generating employment, eliminating corruption, and achieving fiscal sustainability. To assist these efforts, substantive changes to the existing regulatory framework for

¹ Government of the Philippines, National Economic Development Authority. 2011. *Philippine Development Plan 2011–2016*. Manila.

² ADB. 2009. *Poverty in the Philippines: Causes, Constraints, and Opportunities*. Manila.

³ ADB and AFD. 2012. *Philippines: Fiscal Decentralization and Local Public Financial Management Sector Assessment. Part 1: Fiscal Decentralization Reforms*. Manila.

intergovernmental fiscal relations are required. The Local Government Code (LGC) of the Philippines was passed in 1991, and there is widespread agreement among stakeholders that the code has structural deficiencies that need to be addressed through a government-led LGC review. The deficiencies include lack of clarity in functional assignments, unproductive sources of local revenues, and inadequate and inequitable transfer mechanisms. Recent reforms to local public financial management (PFM) systems have increased the predictability of transfers to LGUs, established financial management information systems for LGUs, and improved the capacity of LGU financial management personnel. The latter efforts need to be continued, however, and undertaken within the framework of a medium-term plan for local public financial management reforms that consolidates and harmonizes current initiatives.

5. **Accountable and transparent local governance systems.** The development of accountable and transparent local governance systems is progressing. The beginnings of a local government performance measurement system is in place, but significant work is required to expand and increase the efficiency of participatory planning, budgeting and monitoring processes, and to improve the transparency of local administrations. Additional instruments to channel local constituents' views and preferences are also required to enhance the efficiency of local budget formulation.

6. **Lessons.** ADB has supported government efforts in local government finance and budget reforms in the Philippines through the Local Government Finance and Budget Reform program (LGFBF), including two policy-based loans and several technical assistance (TA) projects.⁴ Earlier support has focused on the strengthening of national and local PFM systems, improving the efficiency of budgeting processes, assisting access to credit by LGUs, and laying the basis of LGU performance monitoring systems. Implementation of the LGFBF program underlined the need to sustain a long-term perspective for reforms, ensuring future initiatives are demand-driven. This program adopts a more ambitious governance approach to decentralization, including through (i) a review of the regulatory framework; and (ii) an emphasis on demand-side aspects of local governance and performance-based monitoring approaches, while fostering incremental progress made through earlier PFM reform initiatives. The Philippines displays a generally adequate institutional setting for intergovernmental relations and a rich, although inconsistent, policy framework, making policy-based loans the most effective lending modality.

7. **Donor coordination.** The country partnership strategy (CPS), 2011–2016 for the Philippines has incorporated two policy-based loans in its lending pipeline: one for \$250 million equivalent in 2013 and another for \$200 million in 2015 (LGFFD, subprograms 1 and 2).⁵ The program design is informed by (i) the sectoral assessments (one on fiscal decentralization and the other on public financial management systems) produced out of an ADB-Agence Française de Développement (AFD) joint appraisal mission; (ii) the lessons from implementation of recent TA projects;⁶ and (iii) the dialog sustained during the Philippines Development Forum (PDF) held in February 2013, and during the regular meetings with national government institutions, local

⁴ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan and Technical Assistance Grant to the Republic of the Philippines for the Local Government Financing and Budget Reform Program Cluster (Subprogram 1)*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan and Technical Assistance Grant to the Republic of the Philippines for the Local Government Financing and Budget Reform Program Cluster (Subprogram 2)*. Manila.

⁵ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila. This was confirmed in ADB. 2012. *Country Operations Business Plan: Philippines, 2013–2015*. Manila. The program confirmation mission conducted in March 2013 confirmed with the government a possible increase of the 2013 subprogram to \$250 million depending on progress assessed during fact finding.

⁶ ADB. 2009. *Technical Assistance to the Republic of the Philippines for Support to Local Government Financing*. Manila; ADB. 2011. *Technical Assistance to the Republic of the Philippines for Support to Local Government Revenue Generation and Land Administration Reforms*. Manila.

government representatives, private sector organizations, academe, and civil society. The processing team is coordinating program design with the European Commission's LGU public financial management program, which is devoted to capacity development, and with the World Bank-administered DIALOG Fund.

B. Impact, Outcome, and Outputs

8. The expected impact of the program is improved efficiency in the delivery of services by LGUs. The expected outcome of the program is efficient and transparent local governments with an adequate and equitable fiscal framework. The program includes two subprograms focused on four policy outputs:⁷

- (i) **An intergovernmental fiscal system conducive to inclusive growth.** Subprogram 1 includes the establishment of a review committee for a comprehensive review of the LGC. Subprogram 2 will assist in drafting proposals for an LGC amendment on expenditure and revenue assignments, the system of fiscal transfers and LGU borrowing powers.
- (ii) **Adequate and equitable local resource frameworks for fiscal sustainability.** Subprogram 1 provides for establishment of performance-based transfers and for regulatory measures to improve the productivity of local revenue sources. Subprogram 2 incorporates improvements to the LGU performance monitoring systems, and the development of LGU creditworthiness and debt management systems.
- (iii) **Strengthened local public financial management systems.** Subprogram 1 includes actions to improve strategic planning and align national and local development priorities, in order to improve LGU revenue forecasting and rationalize LGU expenditures; Subprogram 2 provides for harmonization of planning processes, to improve local expenditure management information systems and rationalize local economic enterprises.
- (iv) **Transparent, accountable and participatory local governance.** Subprogram 1 includes the implementation of public disclosure policies, and the re-design of performance monitoring systems for LGUs. Subprogram 2 actions include establishing a citizen's satisfaction index and improving policies for local-level cooperation.

C. Program Costs and Financing

9. The proposed loan amount for the entire program is \$500 million in ordinary capital resources. Subprogram 1 is \$250 million equivalent. The amount is commensurate with development financing needs and is incorporated in the government's financing requirements for 2013. The Agence Française de Développement (AFD) will provide parallel cofinancing for subprogram 1 of \$150 million.

Table 1: Tentative Financing Plan

Source	Amount (\$ millions)		Share of Total (%)
	Subprogram 1	Subprogram 2	
Asian Development Bank	250.00	250.00	76.69
AFD	150.00	tbd	23.00
Government ^a	1.00	1.00	0.31
Total	401.00	251.00	100.00

AFD = Agence Française de Développement

^a Government contribution will be in-kind.

Source: Asian Development Bank. Basic project information is provided in Appendix 1.

⁷ The implementation of the program will be supported by project preparatory TA, described in Appendix 4.

D. Indicative Implementation Arrangements

10. The executing agency of the policy-based loan will be the Department of Finance. The Coordinating Committee on Decentralization will serve as the steering committee for the program, as it includes all the implementing agencies and relevant stakeholders. The program's implementing agencies include the Department of the Interior and Local Government (DILG), the Department of Budget and Management (DBM), and the National Economic and Development Authority.

II. DUE DILIGENCE REQUIRED

11. In coordination with development partners, the due diligence for the proposed program will include (i) sectoral assessments focusing on fiscal decentralization and local public financial management reforms; (ii) macroeconomic and debt sustainability analysis; (iii) a risk assessment and management plan, including an assessment of national public financial management systems; (iv) a gender analysis, and (v) a program impact assessment. The program is expected to be classified as category C with respect to all safeguard classifications. The initial poverty and social analysis is in Appendix 5.

III. PROCESSING PLAN

A. Risk Categorization

12. The proposed program is categorized as complex, because the loan amount for subprogram 1 exceeds \$50 million. The proposed policy reforms will entail strategic and sequenced coordination among a large number of stakeholders, including the legislature. ADB's local government finance reform experience in the Philippines in association with national and local agencies will be valuable during program implementation. The loan design reflects the government's commitment to reforms and ensuring executing agency capacity is adequate.

B. Resource Requirements

13. Part of the preparatory work for the design of the proposed program was financed under TA for Support to Local Government Financing and for Support to Local Government Revenue Generation and Land Administration Reforms (footnote 6) and staff consultant's funds. The proposed project preparatory TA (Appendix 4) provides details on additional TA activities required.

C. Processing Schedule

14. The processing schedule for the loan is detailed in Table 2. ADB processing will be in parallel to AFD loan processing, including joint reconnaissance and fact-finding missions.

Table 2: Proposed Processing Schedule

Milestones	Expected Completion Date
Concept Clearance	June 2013
Fact-finding Mission	May 2013
Management Review Meeting	June 2013
Loan negotiations	July–August 2013
Board Consideration	September 2013

Source: Asian Development Bank.

IV. KEY ISSUES

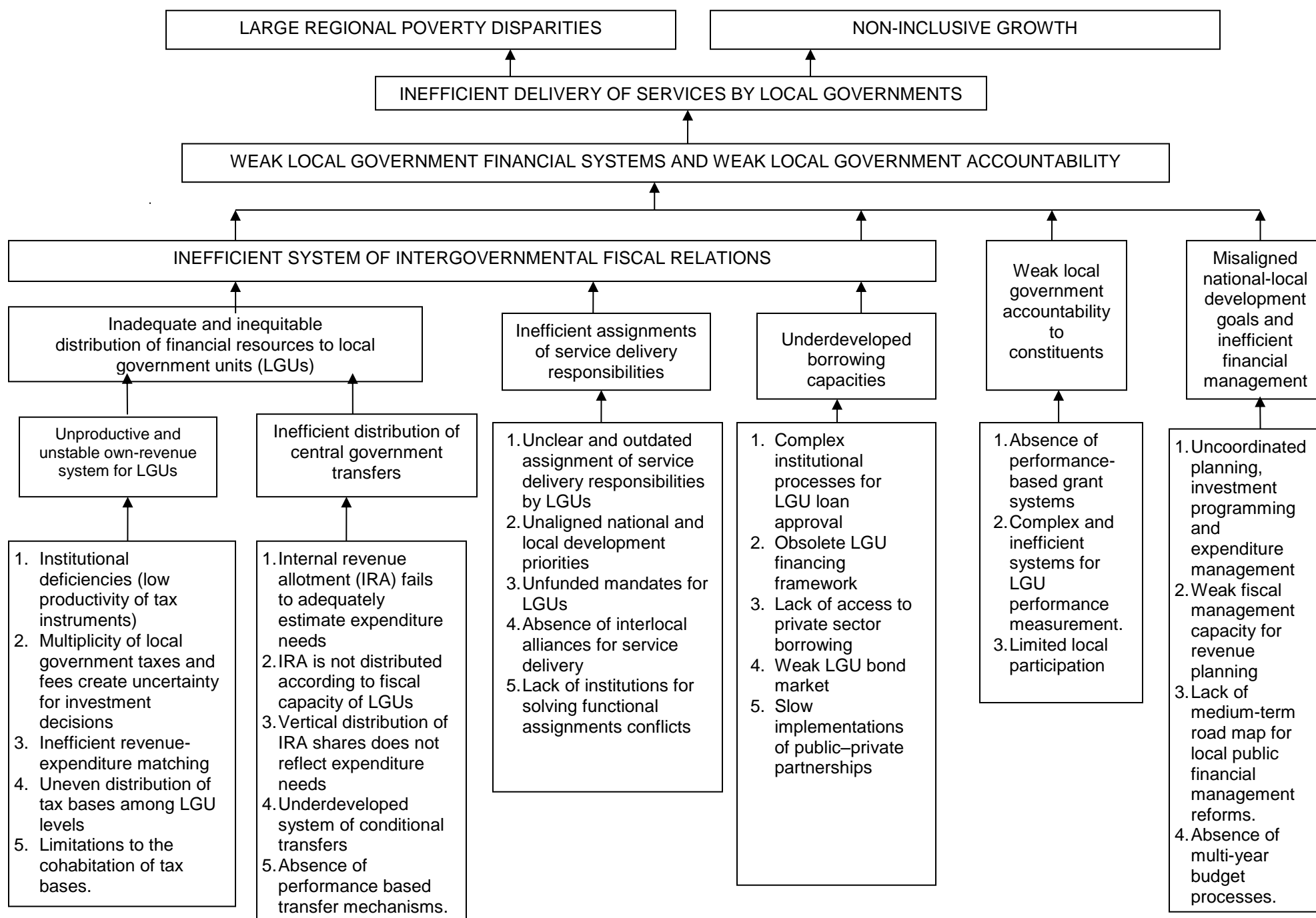
15. Coordinating the review of the LGC will entail intense work among national government agencies, local government representatives, and the Congress.

BASIC PROJECT INFORMATION

Aspects	Arrangements
Modality	Policy-based Loan. Subprogram 1: Programmatic-based Approach.
Financing	OCR Loan - \$500 million equivalent Proposed Subprogram 1: \$250 million in 2013; Proposed Subprogram 2: \$250 million in 2015
COBP or RCOBP	ADB. 2012. Country Operations Business Plan: Philippines, 2013–2015. Manila.
Classification	<p>Sector (subsectors): Public Sector Management</p> <p>Themes (subthemes): governance (economic and fiscal decentralization), capacity development.</p> <p>Targeting classification: General intervention</p> <p>Gender mainstreaming category: Some gender benefits</p> <p>Location impact: National (high)</p> <p>Safeguards: For the overall Subprogram – Involuntary resettlement category C, Environment category C, and Indigenous peoples category C.</p>
Risk categorization	Complex
Partnership(s)	Agence Française de Développement (AFD): Parallel cofinancing of \$150 million
Use of a PBA	A programmatic-based approach (PBA) will be used involving a greater focus on country ownership, reliance on country systems, a comprehensive program and budget framework in the DMC, and development coordination. ADB uses the Organization for Economic Co-operation and Development definition of PBAs, which lists the following features: (i) leadership by the host country or organization; (ii) a single comprehensive program and budget framework; (iii) a formal process for development coordination and harmonization of development partner procedures for reporting, budgeting, financial management, and procurement; and (iv) efforts to increase the use of local systems for program design and implementation, financial management, monitoring, and evaluation. ADB is a leading member of the Philippines Development Forum working group on decentralization and local government, the venue for development partner coordination. The loan will use existing institutions for its implementation and monitoring (e.g., Coordinating Committee on Decentralization)
Parallel PIU	No parallel PIU will be established
Department and division	SERD/SEPF
Mission leader and members	Juan Luis Gomez (Senior Public Management Specialist, Team Leader, SEPF); Claudia Buentjen (Principal Country Specialist, PHCO); Uzma Hoque (Social Development Specialist, SEOD), Irum Ahsan (Counsel, OGC). The team is further reinforced with members from the AFD.

ADB = Asian Development Bank, COBP = country operations business plan, DMC = developing member country, OCR = ordinary capital resources, OGC = Office of the General Counsel, PBA = programmatic-based approach, PIU = project implementation unit, RCOBP = regional cooperation operations business plan, PHCO = Philippines Country Office, SEOD = Office of the Director General, SERD, SEPF = Public Management, Financial Sector, and Trade Division, SERD = Southeast Asia Department, TA = technical assistance.

PROBLEM TREE



PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved efficiency in the delivery of services by local government units	<p>By 2017, a 10% increase in the CSI from its 2013 baseline currently under preparation.</p> <p>By 2017, a 10% increase in the state of local development index (2009 baseline: 2.94)</p> <p>By 2017, local government expenditures increase to 20% of total public expenditures (2011 baseline: 17%).</p> <p>By 2017, local government expenditures on health increase by 10%. (2011 baseline: 14.8% of total expenditure)</p>	<p>DILG CSI reports</p> <p>DILG LGPMS</p>	Assumptions Sustained implementation of good governance reforms with greater emphasis on LGUs. Sustained economic growth and macroeconomic management performance allows for reform. Risks Asian economic downturn prompts reduced investment and limits fiscal revenue growth. Wavering commitment to reforms to the system of intergovernmental fiscal relations.
Outcome Efficient and transparent local governments with an adequate and equitable fiscal framework.	<p>By 2015, improve LGU PFMAT average score by 10% (2013 baseline currently under preparation)</p> <p>By 2015, increase real property tax collection by 20% (2010 baseline: P29.6 billion)</p> <p>By 2017, the disparities in LGU financing (measured by the coefficient of variation on per capita expenditure) decrease by 5%. (2010 baseline: 1.23 for provinces)</p>	<p>DBM PFMAT reports</p> <p>DOF ESRE</p>	Assumption Sustained political climate for reform at the local government level. Risks Short terms of local chief executives limit the incentives for reform implementation. Lack of coordination in policy formulation among central government agencies may undermine the pace of reform.
Outputs 1. An intergovernmental fiscal system conducive to inclusive growth. 2. Adequate and equitable local resource frameworks for fiscal sustainability.	<p>Completion of a government-led review of the Local Government Code by 2015</p> <p>Establishment of the Performance Challenge Fund in 2011</p> <p>Implementation of new credit worthiness and debt management modules for the ESRE LGU system by 2013</p> <p>Improved LGU revenue forecasting systems on the ESRE by 2013.</p>	<p>1. OCD report</p> <p>DILG PCF reports</p> <p>DOF (BLGF)</p> <p>DOF (BLGF)</p>	Assumptions Representatives of the local government committees of the House and Senate participate and lead OCD work. Sustained economic growth maintains local government revenues through transfers and allows the expansion of national government programs for LGUs

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Strengthened local public financial management systems.	Rationalization of investment incentives to ensure neutral impact on LGU fiscal bases by 2014.	DOF, legislature	Continued implementation of national public financial management reform program. Risk Parliamentary consideration and approval of adhoc LGC reform proposals without providing an opportunity for consideration by stakeholders.
	Establish a single LGU loan monitoring agency by 2014 and streamline procedures and remove limitations to access to private credit from LGUs	DOF, BSP	
	Approval of the medium-term LGU PFM reform road map, 2013–2015 in 2014, incorporating gender targets for PFM capacity building.	DBM, DOF, DILG memorandum	
	Over 1,200 LGUs participate in the BUB, with more than \$20 billion budgeted in 2015	DBM	
	Gender-sensitive project identification process implemented by 2014.	DBM annual reports on BUB	
	Revision of the UBOM by 2015.	updated DBM manual	
	Harmonization of CDP and BUB planning guidelines by 2014.	DILG	
	Containment of personnel salary growth through the use of job orders by 2015.	DBM Circulars	
	Approval of new guidelines for the establishment and operation of local economic enterprises by 2014.	DBM Circulars and UBOM updates	
	Approval of corporate and financial policy framework for LGU alliances by 2015.	DILG	
4. Transparent, accountable and participatory local governance.	Issuance of the full disclosure policy in 2011.	DILG Reports	
	Full implementation of the citizen's satisfaction index in 2015, incorporating gender topics.	DILG Reports	
	Redesign of the LGMPs completed by 2015, including alignment with the “seal of good governance” and mainstreaming gender aspects.		

Activities with Milestones	Inputs
<p>1. An intergovernmental fiscal system conducive to inclusive growth</p> <p>1.1 Program approval by the DBCC and inclusion of the LGC review on the LEDAC agenda (July 2013).</p> <p>1.2 Approval of the schedule of meetings and scope of the review(July 2013)</p> <p>2. Adequate and equitable resource frameworks</p> <p>2.1 Establishment of the Seal of Good Housekeeping and PCF (September 2011)</p> <p>2.2 Implementation of local revenue forecasting, credit worthiness and debt management modules and roll out to regional offices (March 2012).</p> <p>2.3 Issuance of guidelines for the review of a revised SMV by LGUs and completion of training for regional offices (December 2013).</p> <p>3. Strengthened local public financial management systems</p> <p>3.1 Review of the UBOM and incorporation of reviewed policies on LEE, SEF, participatory budgeting (December 2014).</p> <p>3.2 Approval of the medium-term local PFM road map (June 2014).</p> <p>3.3 Approval and piloting of the BUB initiative, and issuance of new revised guidelines (January 2012).</p> <p>3.4 Establishment of joint committees on LGU personnel matters and LEE (July 2013).</p> <p>4. Transparent, accountable and participatory local governance</p> <p>4.1 Finalization of baseline report on LGU alliances and preparation of position paper on corporate powers and financial framework (December 2013).</p> <p>4.2 Piloting of the citizen's satisfaction index in highly urbanized and component cities (June 2014).</p> <p>4.3 Approval and implementation of the competency and performance certification system for local treasurers (December 2014).</p> <p>4.4 Preparation of a position paper on the re-design of the LGPMS to align it with the "seal of good governance" (December 2013).</p>	<p>ADB: \$250 million equivalent for Subprogram 1</p> <p>AFD: \$150 million equivalent for Subprogram 1</p> <p>ADB: \$250 million equivalent for Subprogram 2</p> <p>ADB Cluster TA:</p> <p>Project Preparatory TA \$1 million (2013)</p>

ADB = Asian Development Bank, AFD = Agence Française de Développement, BLGF = Bureau for Local Government Finance, BSP = Bangko Sentral ng Pilipinas (Central Bank of the Philippines), BUB = bottom-up-budgeting, CDP = Comprehensive Development Plan, CSI = citizen's satisfaction index, DBCC = Development Budget Coordination Committee, DBM = Department of Budget and Management, DILG = Department of the Interior and Local Government, DOF = Department of Finance, ESRE = Electronic Statement of Receipts and Expenditures, LEDAC = Legislative-Executive Development Advisory Council, LEE = Local Economic Enterprises, LGC = Local Government Code, LGU = Local Government Unit, LGPMS = Local Governance Performance Measurement System, OCD = Office of Committee Decentralization, PFM = Public Financial Management, PFMAT = Public Financial Management Assessment Tool, SEF = Special Education Fund, SMV = schedule of market values, TA = technical assistance, UBOM = Updated Budget Operations Manual.

Source: Asian Development Bank.

PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. Achievement of the development goals defined by the Philippines Development Plan (PDP), 2011–2016 will require local government finance and fiscal decentralization reforms.¹ The PDP specifies a challenging role for local government units (LGUs) in order to attain its key objectives: inclusive growth and employment creation, elimination of corruption, and fostering of fiscal sustainability. Through the efficient allocation of LGUs budgetary expenditures, LGUs can improve service delivery standards and the prospects for local economic growth and employment creation. By increasing the predictability of local tax and non-tax revenue sources, LGUs can have a beneficial impact on investment decisions and improve the local business environment. Local governments can help curb corruption by strengthening the transparency of public financial management systems and implementing participatory planning, budget and monitoring mechanisms. Lastly, improved revenue collection from LGUs will reduce transfer dependency and increase fiscal sustainability.

2. Despite important progress in local government reforms since 2010, there is a widely shared understanding—in government, civil society and the private sector—that a comprehensive review of the Local Government Code (LGC) of the Philippines, 1991 is required to enable LGUs play their required role in implementation of the PDP. The code has not been amended since it was approved in 1991. The review and eventual amendment of the code will be a challenging process that will require a sustained stakeholder commitment as well as adequate resources, including specialized technical and financial support for the high-level committee in charge of the review, and its secretariat and technical working groups.

B. Major Outputs and Activities

3. The proposed project preparatory technical assistance (TA) will provide the required technical and logistical resources to assist the government-led review of the LGC. Considering the interconnected nature of the main elements of the system of intergovernmental fiscal relations, the LGC review needs to include assessments and policy recommendations with respect to the structure of the system, including expenditure and revenue assignments, the system of fiscal transfers and LGU borrowing powers.

4. The proposed project preparatory TA will promote fiscal sustainability by strengthening local revenue frameworks. It includes support for the (i) assessment of the impact of national tax incentives on local government revenues and economic growth; and (ii) development of a financing framework for LGU alliances that assists joint service delivery. The TA will also contribute to the strengthening of local public financial management systems by assisting the development of bankruptcy procedures for LGUs.

5. Lastly, the TA will assist the implementation of good local governance procedures by providing (i) assistance for re-engineering the local government performance measurement system to align it with the government “seals of good governance” system, to improve the reliability of data collected from LGUs, and to improve the analytical value of the reports produced through the system; and (ii) support to capacity development for comprehensive development planning, and in particular harmonization of the different planning processes linked

¹ Government of the Philippines, National Economic Development Authority. 2011. *Philippine Development Plan 2011–2016*. Manila.

to national and local programs (e.g., the bottom-up budget initiative and comprehensive land use plans).

C. Cost Estimate and Proposed Financing Arrangement

6. The project preparatory TA is estimated to cost \$1,000,000 equivalent, which will be financed on a grant basis by the Asian Development Bank (ADB) Technical Assistance Special Fund (TASF-Others). The government will contribute office space, transport, national staff per diem, and communications as allowed by the executing agency's budget. Assets required for TA implementation will be procured under the ADB Procurement Guidelines (2010, as amended from time to time). The detailed cost estimate is presented in Table A4.2.

Table A4.2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (11 person-months)	244.0
ii. National consultants (42 person-months)	261.0
b. International and local travel	101.0
c. Reports and communications	35.0
2. Equipment (computer, printer, etc.) ^b	39.0
3. Workshops, training, seminars, and conferences ^c	
a. Facilitators	93.0
b. Training program	69.0
4. Surveys	54.0
5. Miscellaneous administration and support costs	40.0
6. Contingencies	64.0
Total	1,000.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources). This amount also includes ADB's administration fee, audit costs, bank charges, and a provision for foreign exchange fluctuations (if any), to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant from the Government of the Philippines.

^b Equipment

Type	Quantity	Cost
Computers	8	\$16,000
Printers	2	\$ 5,000
Servers	3	\$18,000

^c Workshops, training, seminars, and conferences

Purpose	Venue
Review of the Local Government Code of the Philippines	Different locations
Piloting of Upgrades to the Local Government Performance Measurement System	Different locations

Source: Asian Development Bank.

D. Consulting Services

7. TA will be provided through a mix of individual consultants and a firm selected through fixed-budget selection, indicatively including 11 person-months of international consultant inputs, and 42 person-months of national consultant inputs. ADB will select and engage consultants in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Some of the contingency funds will remain unallocated for individual consultants, to be identified as needed. Upon completion of the TA, equipment procured under the TA will be transferred to the executing agency.

Table A4.3: Summary of Consulting Services Requirement

Positions	Person-Months Required
International	
Senior Fiscal Decentralization Experts	6
Senior Financial Management Experts	2
Senior Performance Monitoring Systems Specialist	3
National	
Senior Fiscal Decentralization Experts	18
Senior Public Sector Economists	4
Senior Planning Expert	2
National Performance Monitoring Experts and Programmers	18

Source: Asian Development Bank.

8. The outline terms of reference for the TA consultants are described in paras. 9 to 15 below.

9. **Senior fiscal decentralization experts** (international, 6 person-months). Four international experts on intergovernmental fiscal relations will be recruited to provide advisory assistance to the review of the LGC in the areas of: (i) expenditure assignments and territorial fragmentation, (ii) revenue assignments, (iii) transfer systems, and (iv) the borrowing powers of LGUs. The international experts will (i) critically assess available research conducted in their respective areas and best international experience; (ii) develop proposals for the amendment of the LGC, including an implementation sequence and required modifications to the LGC implementing regulations; (iii) provide direct testimony to the committee leading the review of the LGC as requested; and (iv) administer workshops, seminar, and conferences. The senior experts will have at least 15 years of relevant experience in the provision of advisory assistance on intergovernmental fiscal relations reforms. Southeast Asian experience, and in particular familiarity with the fiscal decentralization process in the Philippines, will be an advantage.

10. **Senior fiscal decentralization experts** (national, 18 person-months). Two national experts on intergovernmental fiscal relations will be recruited to provide advisory and TA to the review of the LGC. The national experts will work with international experts in preparing amendments to the code in the areas identified. Tasks will include (i) research and critical assessment of earlier reform proposals and analysis; (ii) development of amendment proposals and preparation of simulation results under the guidance of the international experts; (iii) assistance in the presentation of proposals to the technical working committees and the testimony of experts to the high level committee leading the review; and (iv) administration of workshops, seminars, and conferences. The senior experts will have at least 10 years of relevant experience in providing advisory assistance on intergovernmental fiscal relations reforms in the Philippines.

11. **Senior public sector economists** (national, 4 person-months). Two national economists will be hired to assist in the (i) development of bankruptcy procedures for LGUs on the basis of the current regulatory framework and best international experience, and (ii) assessment of the impact of national tax incentives on local government revenues and economic growth to assist processing of national legislation. The senior experts will have at least 10 years of relevant professional experience with local public financial management policy analysis in the Philippines.

12. **Senior financial management experts** (international, 2 person-months). Two international experts will assist, separately in the (i) development of a policy proposal for implementing regulations for LGU alliances, including the development of corporate powers and

financing options for project implementation and joint service delivery; and (ii) assessment of allocative efficiency and the development of options for budget cap determination under the bottom-up-budget initiative. The senior experts will have at least 15 years of relevant experience in providing advisory assistance on intergovernmental fiscal relations reforms. Southeast Asian experience, and in particular familiarity with the fiscal decentralization process in the Philippines is an advantage.

13. **Senior planning expert** (national, 2 person-months). The national expert will provide support to the development of a comprehensive land use plan and comprehensive development plans in one city or municipality. In particular, the consultant will showcase how disaster risk management, climate change, poverty, and gender can be mainstreamed. The consultant will also prepare an ADB publication to document the experience. The senior expert will have at least 15 years of relevant experience in local government planning in the Philippines, preferably with a focus on land use planning. Familiarity with e-systems (such as geographical information systems) and experience in Southeast Asia are advantageous.

14. **Senior performance monitoring systems specialist** (international, 3 person-months). The international expert will lead the preparation of the assessment and development of upgrading options for the Local Government Performance Measurement System (LGPMS) with the aim of (i) strengthening the analytical capacity of the LGPMS and usefulness of reports produced, and (ii) re-engineering the system to align it to the “seal of good governance” in order to produce all necessary information. The specialist will have at least 15 years of relevant experience in providing advisory assistance on the development of performance measurement systems for local governments. Southeast Asian experience is an advantage.

15. **National performance monitoring experts and programmers** (national, 18 month-persons). The experts and programmers will develop (i) system design, (ii) software modules, and (iii) programming and piloting of the upgrades. They will have at least 10 years of relevant professional experience in the development of similar government performance monitoring systems. Experience in the Philippines will be viewed favorably.

Implementation Arrangements

16. The executing agency for the TA will be the Department of the Interior and Local Government, and the implementing agencies will be the Department of Finance and the Municipal Development Office. The TA is expected to commence in June 2013 and be completed by June 2015. Disbursements under the TA will be done in accordance with the ADB's *Technical Assistance Disbursement Handbook* (May 2010, as amended from time to time). The proposed TA processing and implementation schedule is listed in Table A4.4.

Table A4.4: Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Approval	June 2013
Inception	June 2013
Consultants reports	June 2013–June 2015
TA financial closure	June 2015

Source: Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Philippines	Project Title:	Local Government Finance and Fiscal Decentralization Reform Program
Lending/Financing Modality:	Policy-Based Programmatic Approach	Department/ Division:	SERD/SEPF

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The Local Government Finance and Fiscal Decentralization Reform Program responds to the three main development priorities outlined in the Philippines Development Plan (PDP) 2011–2016:^a facilitating inclusive growth through local economic development, assisting the elimination of corruption with transparent financial management processes and participatory local governance, and fostering fiscal sustainability via improved local revenue frameworks. The reform program reflects the Philippine country partnership strategy (CPS), 2011–2016 assessment of increasing regional disparities in poverty reduction and living standards,^b and focuses on improving the efficiency of local government units in the Philippines in service delivery through a combination of regulatory reform, capacity development initiatives, and financial management system implementation.

B. Targeting Classification (Select one):

☒ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☐ Non-Income MDGs (TI-M1, M2, etc.)

The proposed policy-based lending operation is not specific to households or geographical areas.

All elements of the program loan are concerned with strengthening the national and subnational institutions, and the activities supported by this assistance, such as strengthening administrative and financial management capacity, have an indirect impact and contribute indirectly to poverty reduction via local government service delivery.

C. Poverty and Social Analysis

Key Poverty Issues. Recent economic growth in the Philippines has not been effective in reducing poverty. Although real gross domestic product growth averaged 4.3% during 2006–2009, poverty rates increased slightly, reaching 26.5% in 2009, from 26.4% in 2006. Although the pace of economic growth has accelerated in 2011 and 2012, it is not yet clear whether this growth has been more inclusive, or provided greater benefits to the poor. With sustained rapid population growth, per capita income growth in the Philippines lags behind that of its Southeast Asian neighbors; when added to the global financial and economic turmoil and a series of damaging natural disasters, this may largely explain the somewhat disappointing poverty reduction performance of since 2006. The country's poverty profile shows that poverty is spatially concentrated in the southern Philippines, and in rural areas. The poverty rate in the Visayas and Mindanao regions is more than double than in Luzon, and two-thirds of the poor live in rural areas, largely employed in the agriculture and fisheries sector. In addition, 75% of the poor households are 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.

Proposed program's transmission channels for poverty reduction. The program will assist the government reduce poverty and achieve 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; (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.

Key Social Issues. The program's social impact will be dependent on the sustainability of current economic growth patterns and of national efforts to curb corruption at all levels of government. If a predictable level of resources is provided through transfers, the beneficiaries of the improved service efficiency delivery by LGUs will include both citizens (especially those who make extensive use of local services such as health and education) and businesses (which will benefit from an environment that is conducive to investment).

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and subsector that are likely to be relevant to this project or program?

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.

<p>2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Please explain.</p> <p>Improved participation by women in planning, budgeting, and monitoring processes is expected; important new national government spending programs mainstream gender considerations into their project formulation.</p> <p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain.</p> <p>The policy reforms expand participation by stakeholders in local governance processes, whereas the public financial management aspects have a neutral gender impact.</p> <p>4. Indicate the intended gender mainstreaming category:</p> <p><input type="checkbox"/> GEN (gender equity theme) <input type="checkbox"/> EGM (effective gender mainstreaming)</p> <p><input checked="" type="checkbox"/> SGE (some gender elements) <input type="checkbox"/> NGE (no gender elements)</p>
III. PARTICIPATION AND EMPOWERMENT
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.</p> <p>The main project beneficiaries are national agencies, local governments, the business community, and citizens. All have been consulted during the preparatory phases of design and their views will continue to be sought during processing.</p> <p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?</p> <p>By assisting the implementation of participatory planning, budgeting, and monitoring processes at the local level, and by improving the transparency of local governments.</p> <p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?</p> <p><input checked="" type="checkbox"/> Information generation and sharing (H) <input checked="" type="checkbox"/> Consultation (M) <input checked="" type="checkbox"/> Collaboration (M) <input checked="" type="checkbox"/> Partnership (M)</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain, and provide information on the extent of land and assets acquisition and the estimated number of affected persons. Also describe actions/measures to be conducted during due diligence to address involuntary resettlement.</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability</p>

<input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____ None _____ Indicate high (H), medium (M), low (L) for selected boxes
2. How are these additional social issues and risks going to be addressed in the project design?
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (iv) other social risks. Are the relevant specialists identified? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Recent poverty and gender assessments are completed from the CPS, 2011–2016 (footnote b). The project will have no impact on any of the safeguard categories and is not expected to generate any other social risks.
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? Poverty and social analysis are drawn from recent assessments under the CPS and policy-based loans. An updated country gender assessment is being conducted by the World Bank using the 2006 ADB base and will be available to development partners. Initial and summary poverty and social assessment will be completed by team members, including the gender specialist.

^a Government of the Philippines, National Economic Development Authority. 2011. *Philippine Development Plan 2011–2016*. Manila.

^b ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.