

# **Inventory of Organizations' Assistance to Local Financial Planning and Management (LFPM) in the Philippines\***

by **Aser B. Javier, PhD\*\***

## **Abstract**

The corporate function of local financial planning and management (LFPM) play a critical role in the management of the local government units (LGUs) in the Philippines. This argument emanates from the general powers and attributes of LGUs as found in Chapter 2, Section 14 of the LGC of 1991 which explicitly described the political and corporate nature of LGUs, *“when a new local government unit is created, its corporate existence shall commence upon the election and qualification of its chief executive and a majority of the members of the sanggunian.”*

The organizations' inventory of LFPM assistance identifies and describes the various forms of assistance provided to LGUs. The type of LFPM assistance was three-fold: financial assistance, technical assistance, and policy assistance. Financial assistance refers to direct financial assistance and credit financing either through loans or grants. Technical assistance refers to the deployment of experts, capacity building, and non-cash support. Policy assistance refers to assistance in developing the regulatory framework and policy directions in LFPM.

The study found that the national government, in particular, has provided the three-fold assistance for policy and regulatory framework and directions to enhance the capacity of local governments in planning and managing their financial resources. Likewise providing the three-fold assistance are the international organizations and funding agencies not only to strengthen the management capacity but also to realize the development goals of the LGUs as part of development assistance. Both public and private financial institutions have offered options to finance local development initiatives. The non-government organizations (NGOs) have also re-focused their strategies to enhance participatory local governance among many LGUs through a technical assistance framework anchored on capacity building. Furthermore, academic institutions have continued to support the LGUs through formal and non-formal program offerings and dissemination of knowledge.

The study concluded that there is a need to match the assistance provided with the LGU needs and demands. Further, harmonization of key national governmental functions needs to be looked at for an enhanced LFPM assistance.

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\*Paper presented to the 44<sup>th</sup> Philippines Economic Society Annual Conference and Meeting, 21-22 November 2006, Bangko Sentral ng Pilipinas Manila. The paper draws largely from the research project “Institutional Mapping of Assistance, Efforts and Initiatives in Local Financial Planning and Management in the Philippines” of the Economic Policy Reform Advocacy (EPRA-USAID) Program of Ateneo de Manila University.

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## **Introduction**

The Local Government Code (LGC) of 1991 (Republic Act No. 7160) has changed many features of Philippine local governance. The Code enables the local government units (LGUs) to exercise their power to create and broaden their own sources of revenue and claim their right to a just share in national taxes. It also gives the LGUs the power to levy taxes, fees or charges that would accrue exclusively for their use and disposition. This corporate function of local financial planning and management (LFPM) play a critical role in the management of the local government units (LGUs) in the Philippines. This argument emanates from the general powers and attributes of LGUs as found in Chapter 2, Section 14 of the LGC of 1991 which explicitly described the political and corporate nature of LGUs, *“when a new local government unit is created, its corporate existence shall commence upon the election and qualification of its chief executive and a majority of the members of the sanggunian.”* This fiscal decentralization afforded to LGUs has made sound LFPM very important in Philippine local governments (Mendoza and Javier, 2006).

However, LFPM is also one specific area where capacities of many LGUs is found wanting. Specifically, LFPM as a function is crucial for all LGUs as the quality of their service delivery would heavily rely on their ability to generate and manage resources effectively specially for the poorer provinces and municipalities. Thus, LFPM is a daunting challenge (Javier and Medrana, 2006).

The challenge, nevertheless, lies in the active participation of institutions both state and non-state, in the form of organizational assistance, which by the way is an inherent feature of the LGC. This feature recognizes the important role of the civil society and provides a strong foundation for vibrant participatory governance. Section 3 of the LGC specifically states that the *“participation of the private sector in local governance, particularly in the delivery of basic services, shall be encouraged to ensure the viability of local autonomy as an alternative strategy for sustainable development.”* This

provision supports bottom-up, or community-based planning and management wherein both the local government and its constituents influence and share in the control over development initiatives, decisions, and local financial resources that affect them.

### **LFPM Defined**

The type of LFPM assistance used in this paper is three-fold: financial assistance, technical assistance, and policy assistance. Financial assistance refers to direct financial assistance and credit financing either through loans or grants. Technical assistance refers to the deployment of experts, capacity building, and non-cash support. Policy assistance refers to assistance in developing the regulatory framework and policy directions in LFPM. This definition of LFPM assistance builds upon the initial description of financial management assistance to LGUs as provided by the Local Government Support Program of the Canadian International Development Authority (LGSP-CIDA) where assistance falls only into two categories: financial assistance and technical assistance (LGSP, 2004).

To better map the assistance being provided by institutions to LGUs, the study considered the following as the “general areas of LFPM”: (a) purely financial planning and management areas; (i) revenue generation, (ii) accounting, and (iii) budgeting; and (b) financial planning and management-related areas: (i) internal auditing, (ii) local economic development, (iii) local development planning, and (iv) procurement process.

Table 1 provides the summary of LFPM description and nature of assistance.

**Table 1. Types, Description, Areas of LFPM, and Nature of Assistance**

<b>Types</b>	<b>Description</b>	<b>Nature of Assistance</b>	<b>Areas of LFPM</b>
<b>Financial Assistance</b>	<ul style="list-style-type: none"> <li>• Direct financial assistance</li> <li>• Credit financing (loans)</li> </ul>	<ul style="list-style-type: none"> <li>• Program/project</li> <li>• Financial assistance</li> <li>• Equipment/facility donation</li> <li>• Awards system</li> <li>• Policy support</li> <li>• Networking/ linking</li> <li>• Planning support</li> <li>• Capacity building support</li> <li>• Research studies/surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation</li> <li>• Accounting</li> <li>• Budgeting</li> <li>• Internal auditing</li> <li>• Local economic development</li> <li>• Local development planning</li> <li>• Procurement process</li> </ul>
<b>Technical Assistance</b>	<ul style="list-style-type: none"> <li>• Deployment of experts</li> <li>• Capacity building</li> <li>• Non-cash support (e.g., infrastructure)</li> <li>• Accessing grants and financial assistance</li> </ul>		
<b>Policy Assistance</b>	<ul style="list-style-type: none"> <li>• Regulatory framework</li> <li>• Policy directions</li> </ul>		

Source: Mendoza and Javier, 2006

## **Methodology**

A total of six hundred twenty three (623) institutions were surveyed with a response rate of twenty percent (20%) covering altogether around one hundred twenty five (125) institutions. Group 1 consists of International Financial Institutions (IFIs), NGOs, and academic institutions totaling forty two (42), Group 2 consists of National government agencies (NGAs) and government owned and controlled corporations (GOCCs) totaling twenty one (21), and Group 3 consists of LGUs (provinces, cities, and municipalities) totaling sixty two (62). Making an inventory of institutions directly engaged with LGUs on LFPM proved to be difficult because majority of these institutions were involved with LGUs on sector-specific interventions.

## **Findings**

The grant of autonomy to LGUs have opened up several opportunities for them to raise revenues and spend them for effective governance and delivery of important services to the public. However, years after the enactment of the Code in 1991, the idea of complete autonomy for LGUs has yet to be fully realized. The LGUs have not fully exercised their inherent fiscal powers as autonomous governments.

Indeed, it is generally believed that the local governments have not explored the available financial packages within their reach. Currently, less than 10 percent of all the 1,696 LGUs exercise their new financing mandate (Amatong, 2005). Only 21 or 1.24 percent of all LGUs have issued bonds (BLGF, 2005) and only 15 or 0.88 percent have build-operate-transfer (BOT) projects (BOT Center, 2005). The Galing Pook Foundation (2006) has documented only 8 (4.8%) of 171 awardees that are finance-related (Mendoza and Javier, 2006).

Fund transfer from the national government is the major source of revenue for the LGUs, contributing more than 65% of the aggregate LGU revenues. Such revenues are from the Internal Revenue Allotment (IRA) and other national sources. Tobacco-producing LGUs, for instance, share from the tobacco excise taxes. They also access national grants like the Local Empowerment Fund, the DepEd School Building program, the President's Bridge program, the President's Social Assistance Fund. They also get a considerable share in the Countryside Development Fund (CDF) or the pork barrel fund. These grants are usually provided to assist LGUs in their special expenditures towards national government priorities (Capuno, 2002).

Given the multitude of support mechanisms and policies of the organizations involved in the development of financial planning and management, an institutional study that will determine the status of support provided by the various organizations is necessary.

### **The National Government**

The national government agencies (NGAs) and their branch offices in the municipalities and provinces, provides all three types of LFPM assistance. The NGAs exercise their regulatory mandates and extend their activities to LGUs. The Bureau of Local Government Finance (BLGF) of the Department of Finance (DOF), the Department of Interior and Local Government (DILG), the Commission on Audit (COA), and the National Economic and Development Authority (NEDA) lead the government agencies in providing support to LFPM.

Policy support involved (a) provision of policy agenda and direction, (b) preparation of guidelines, (c) clarification of issues, and (d) initiatives to entice implementation of policies. This was done primarily through the issuance of orders, memoranda, and circulars.

While the Bureau of Local Government Finance (BLGF) is the Department of Finance (DOF) arm that is directly responsible over the fiscal and financial affairs of local government, there exists still a municipal development fund office (MDFO), also under the DOF, which is the fund conduit of foreign-assisted projects. On the other hand, the Department of Interior and Local Government (DILG) through the Bureau of Local Government and Development (BLGD), also has a Local Fiscal and Resource Development Division. The Department of Budget and Management (DBM) also oversee and manages the Municipal Development Fund and the Local Government Empowerment Fund.

The most common forms of BLGF assistance are in real property taxation (RPT) especially in tax mapping, revisions of the Real Property Tax Administration (RPTA), databasing of RPTs, and information support. In terms of revenue generation, the BLGF provides the policy and regulatory directions to local governments. BLGF also implements the Business Tax Enhancement Program (BETP) which aims to provide medium-term financing and technical support to LGUs in generating revenues from business taxes.

The DILG, on the other hand takes the lead in improving the planning system in local governments through its Rationalized Planning System (RPS) Project. The RPS limits the LGUs' plans only to the comprehensive land use plan (CLUP) and the comprehensive development plan (CDP) with the National Economic Development Authority (NEDA).

The Build-Operate-Transfer (BOT) Center, an attached agency of the Department of Trade and Industry (DTI) provides technical, financial and capacity building support on

project preparation, implementation and monitoring and evaluation. In addition, it contributes to policy formulation and review to create a policy environment responsive to the needs of the local communities. The BOT Center also promotes private sector participation in local government. On bond flotation, national government support is limited to capacity building and research.

The Bureau of Small and Medium Business Development helps LGUs comply with the Magna Carta for Small Enterprises (R.A. No. 6977) and its amendments (R.A. No. 8289) so that small and medium enterprises (SMEs) may flourish in the countryside.

Government funding institutions (GFIs), on the other hand, provide funding support to local infrastructure and other socio-economic development projects in accordance to approved local development plans and investments programs. Although government funding institutions sometimes also provide training to LGUs in relation to the programs for which the LGUs applied for financing.

### ***IFIs and Aid Agencies***

Similar to the national government, IFIs and aid agencies provide all types of LFPM support to LGUs. The World Bank, for instance, has established a mechanism to provide LGUs with direct access to long-term financing; developed the capacity of LGUs on project preparation, and implementation, real property assessment and valuation, and computerized tax system; and developed a policy framework for local government financing that encourages stronger LGUs to access market-based credit.

The World Bank also initiated the Local Government Finance and Development (LOGOFIND) Project. This project expands and upgrades the basic infrastructure, services, and facilities of participating LGUs and strengthens their capabilities in municipal governance, investment planning, revenue generation, and project development and implementation. A grant from the Institutional Development Fund (IDF) of the World Bank aims to establish adequate internal controls particularly in the procurement process, thus lowering opportunities for corruption.

The Asian Development Bank (ADB), on the other hand targets the strengthening of local financial planning and budgeting. Together with the World Bank and the Department of Budget and Management, the ADB developed a public expenditure manual, which serves as a guide for improving the budgeting and planning process in both the national and local levels.

One of the most significant interventions in local development planning is the ADB technical assistance on Strengthening Provincial and Local Planning and Expenditures Management currently implemented by NEDA.

Meanwhile, the United States Agency for International Development (USAID) is also active in the Philippine local governance sphere. One of its major efforts, the “Strengthening Local Government Finance” capacitated the Congressional Committee on Local Government and the DOF on improving financial structure of LGUs and on recommending amendments to the LGC.

The Australian Agency for International Development (AusAID) funds programs or projects that encourage and assist good governance in the Philippines. It also funds projects that strengthen institutions and improve accountability. Currently, AusAID funds jointly with ADB the "Philippines Regional Municipal Development Project." This project aims to develop the capacity of local governments in providing, operating, and maintaining essential infrastructure and basic services for the public.

### **The NGOs**

In the **NGOs'** group, results showed that barely half of the NGO respondents actively extended their operations to assist LGUs in LFPM for two reasons. First, specific programs and projects of NGOs were found to have only circumstantial level of assistance to LGUs as one of the former's beneficiaries. Second, the most frequent NGO/CBO tasks have been community mobilization and capacity building outside LFPM. In other words, LGUs are just one of the target beneficiaries of NGOs. Further,

the services of NGOs are mostly outside of LFPM. These programs reflect their organizational character, having been formed from communitarian roots (Mendoza and Javier, 2006).

In addition, NGOs provide support to LGUs on real property taxation through capability building on real property assessment and valuation, and use of computerized taxation system. Some NGOs also provide training programs on a variety of topics related to LFPM such as business licensing.

The Asia Foundation, for instance helped several cities in Mindanao enhance their business permits and licensing (BPL) system. It also embarked on the program “Making Cities Work” which aims to improve the investment climate and business-enabling environment for LGUs. The Helvetas Philippines Governance Office contributes to the promotion of participatory governance especially in local development planning and of the involvement of civil society groups in project preparation and implementation.

### **The Academe**

The academe’s main contribution to LFPM comes in the form of technical assistance, especially in capacity building and deployment of experts. In many cases, educational institutions serve as the training arms of international funding agencies and NGOs.

Meanwhile, they also offer their own training programs and even courses on some LFPM areas. Many universities now offer curricular programs in governance. Leading the pack are the University of the Philippines (UP) through its National College of Public Administration and Governance (NCPAG) in UP Diliman; the UP Los Baños Institute of Development Management and Governance (IDMG); the UP Open University (UPOU); the Ateneo de Manila University School of Government; the De La Salle University Institute of Governance; and the Development Academy of the Philippines (DAP).

### **The Local Government Units (LGUs)**

The LGUs' LFPM assistance to other LGUs is in both policy and technical assistance. Policy assistance refers to building up a regulatory framework (e.g., tax collection policies and revenue codes). Direct technical assistance through grants and donations is provided by higher levels of LGUs to their own barangays. Most LFPM assistance to barangays was on information support on revenue enhancement. Activities for LFPM assistance provided by LGUs to other LGUs included: (a) enactment of municipal/city/barangay ordinances pertaining to local taxation and revenue code; (b) assessment of real property and analysis of revenue collection; (c) scholarship grants; (d) financial grants and other donations to LGUs; (e) seminar and information support on revenue enhancement; (f) active participation in leagues; and (g) establishment of one-stop shop processing centers and their replicates in different areas.

Inter-LGU LFPM assistance is noted also to be high among the LGUs as part of the performance of their mandate for municipality/city to barangay operation. Other forms of assistance were capacity-building through networking and linkaging using study tours and exchanges. Twenty five percent (25%) of the LGUs provided financial assistance to other LGUs for study tours. Further, trainings were conducted to facilitate local policy directions. Majority of the assistance was in the form of "big brother" type where richer LGUs assisted other LGUs especially in times of emergency. For example, the Cebu provincial government donated Php2 million to the Oriental Mindoro provincial government to assist flood victims in late 2005 (The Governor Newsletter, 2006). Another was a city-province model where Quezon City donated Php5.3 million to the province of Southern Leyte for victims of a landslide (Philippine Star, 2006).

**Table 2. Types and Nature of Assistance by Groups of Providers**

<b>Groups</b>	<b>Types of Assistance</b>	<b>Nature of Assistance</b>	
<b>Group 1</b> International Financial Institutions (Multilateral/Bilateral)	Financial Assistance Technical Assistance Policy Assistance	Program/Project Loans	
		Policy-based Loans	
		Technical Assistance Grants/Loans	
		Infrastructure Support	
		Technical Cooperation Program	
		Commodity Assistance	
		Emergencies' Assistance	
		Advisory Services	
		Development Studies	
		Trainings/scholarships	
		Support to civil society organizations (CSOs)	
NGOs	Technical Assistance	Training/Capacity Building	
		Dispatch of Experts	
		Community Organization and Mobilization	
		Sector-specific Development Interventions	
Academic Institutions	Technical Assistance	Curricular Programs in Local Governance	
		Short-term Courses	
		Policy Support	
		Deployment of Experts	
		Project Feasibility Studies	
<b>Group 2</b> GOCC (LBP, DBP, PVB)	Financial Assistance Technical Assistance Policy Assistance	Lending Program to LGUs	
		LGU Credit Support	
		Technology Promotions	
		LGU-Cooperative Strengthening Partnership	
		National Government (Revenue Shares)	Internal Revenue Allotment
			Shares in National Wealth
		National Government (Grants)	Tobacco Excise Tax
			Calamity Fund
			President's Bridge Program
			DepEd School Building Program
			Local Government Empowerment Fund
<b>Group 3</b> LGUs	Financial Assistance Technical Assistance Policy Assistance	Interlocal Cooperation	
		Calamity Assistance	

Source: Mendoza and Javier, 2006.

### **Gaps and Overlaps**

The results of the study showed that the assistance to LGUs was concentrated on certain areas such as the traditional revenue generation, local development planning, and local enterprise development. Such concentration also reflects that services in certain areas are least provided.

Table 3 summarizes the specific areas where institutions provided least assistance to LGUs. These were as follows: (a) alternative sourcing of income through innovative

means and investment management for revenue generation; (b) expenditure management for accounting; (c) research studies that will enhance the supply capacities to fulfill the demands of constituents for budgeting; (d) compliance to managerial control systems and research studies for internal auditing; and (e) implementation of the newly enacted procurement acts. The awards systems benchmarking the LGUs' effective practices covering important areas of LFPM was also inadequate.

This validates also the limitations of LFPM assistance as identified by respondents which are the following (1.) mismatch of LFPM assistance with current demands in local governments; (2.) competing or conflicting roles of government institutions; (3.) weak coordination among government institutions.

**Table 3. Least Provided LFPM Assistance**

<b>Areas of LFPM</b>	<b>Specific Concerns</b>
1. Revenue Generation	<ul style="list-style-type: none"> <li>• Bonds</li> <li>• BOT Mechanisms</li> <li>• Sourcing of Credit/Financing</li> <li>• Investment Management</li> </ul>
2. Accounting	<ul style="list-style-type: none"> <li>• Expenditure Management</li> <li>• Incentives and Award System</li> </ul>
3. Budgeting	<ul style="list-style-type: none"> <li>• Research Studies</li> <li>• Incentives and Award System</li> </ul>
4. Internal Auditing	<ul style="list-style-type: none"> <li>• Managerial Control Systems</li> <li>• Research Studies</li> </ul>
5. Procurement	<ul style="list-style-type: none"> <li>• New Procurement Law</li> </ul>

Source: Mendoza and Javier, 2006

Second, almost all the institutions were clearly engaged in capacity building in LFPM. However, majority of the assistance provided did not match the current demands of LGUs specifically in the provision of trainings on alternative revenue generation strategies, local debt borrowing, expenditure management, and procurement process. Further, it was not clear if the capacity building programs provided in LFPM had standards corresponding to the public sector.

Further, LFPM assistance has become a consequence of other sector-specific development interventions rather than a direct assistance intervention of institutions. As

a result, the focus of intervention has been geared toward the development of certain sectors and not on the fundamental requirements and significant components of local finance.

### **Lessons for the Future**

Following the principle of decentralization, the national agencies should provide a catalytic role in the LGUs effective and sustainable management of fiscal and financial resources. Hence, it is of utmost importance to determine (a) the LFPM roles that LGUs have to play under decentralized modes of operation, and (b) the NGAs roles to meet the decentralized modes of operation. This is in the LFPM context of (1) matching of assistance with current demands; (2) harmonization of functions among government institutions; (3) enhancing the functioning of non-state network in LFPM; and (4) strengthening the internal financial management of LGUs.

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