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LGU Access to Official Development Assistance (ODA): Status, Issues, and Concerns

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Abstract

Statistics on the distribution of ODA loans show that the local government sector is the smallest direct recipient of this funding source. While it has been observed that the amount of ODA grants and the number of ODA grant projects have been declining over the years, several factors could explain why LGUs have not been able to have a substantial share in ODA funds. The study discusses barriers to the greater of LGUs to ODA funds and provides specific recommendations for action by policy makers.

Key words: Official development assistance, local government units, ODA programming, grant financing framework, cost-sharing, foreign borrowing act, Philippine Development Forum

Contents

Abbreviations

ADB	---	Asian Development Bank
ARMM	---	Autonomous Region of Muslim Mindanao
AusAID	---	Australian Agency for International Development
BLGF	---	Bureau of Local Government Finance
BOT	---	build-operate-transfer
CIDA	---	Canadian International Development Agency
CI	---	congressional initiatives
DA	---	Department of Agriculture
DBCC	---	Development Budget Coordinating Committee
DBP	---	Development Bank of the Philippines
DENR	---	Department of Environment and Natural Resources
DepEd	---	Department of Education
DFA	---	Department of Foreign Affairs
DILG	---	Department of the Interior and Local Government
DOF	---	Department of Finance
DOH	---	Department of Health
DOTC	---	Department of Transportation and Communication
EC	---	European Commission
EIB	---	European Investment Bank
GDP	---	gross domestic product
GFI	---	government financial institution
GOCC	---	government-owned and-controlled corporation
GOJ	---	Government of Japan
GRDP	---	gross regional domestic product
ICC	---	Investment Coordination Committee
IRA	---	Internal Revenue Allotment
JBIC	---	Japan Bank for International Cooperation
JICA	---	Japan International Cooperation Agency
KfW	---	KfW Entwicklungsbank
LBP	---	Land Bank of the Philippines
LCE	---	local chief executive
LDIP	---	Local Development Investment Plan
LGC	---	Local Government Code of 1991
LGU	---	local government unit

MDF	---	Municipal Development Fund
MDFO	---	Municipal Development Fund Office
MOOE	---	maintenance and other operating expenses
MTPDP	---	Medium-Term Philippine Development Plan
MTPIP	---	Medium-Term Public Investment Plan
NCR	---	National Capital Region
NEDA	---	National Economic Development Authority
NEDA-PMS	---	National Economic Development Authority Project Monitoring Staff
NG	---	national government
NGA	---	national government agency
NZAID	---	New Zealand's International Aid & Development Agency
O&M	---	operations and maintenance
ODA	---	Official Development Assistance
OPIF	---	Organizational Performance Indicators Framework
PAPs	---	programs, activities and projects
PDAF	---	Priority Development Assistance Fund
PDF	---	Philippines Development Forum
PPDO	---	Provincial Planning and Development Office
PS	---	personnel services
RDC	---	regional development council
SIDA	---	Swedish International Development Cooperation Agency
SONA	---	State of the Nation Address
SRE	---	Statement of Receipts and Expenditures
TA	---	technical assistance
UN	---	United Nations
UNDP	---	United Nations Development Programme
WB	---	World Bank

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I. INTRODUCTION

A. Rationale of the Study

This study addresses a general concern of local governance in the Philippines: given the regime of devolution and local autonomy, and given further that financial autonomy and the imperative to augment local resources continues to be a primordial concern among local governments, the question has always been asked: how can local government units (LGUs) complement their financial resources from sources other than the traditional Internal Revenue Allotment (IRA)? Various modalities for doing so have been identified, and these range from the exercise of the LGUs' corporate powers through public-private partnerships, build-operate-transfer, privatization, and other such schemes, to availing of loans and grants from both local and international sources.

This study addresses one particular modality: that of local governments accessing Official Development Assistance (ODA) resources.

Statistics on the distribution of ODA loans show that the local government sector is the smallest direct recipient of this funding source. As of 2006, national government agencies held the biggest share of the ODA pie at 65%, with government-owned and controlled corporations and government financing institutions getting 22% and 13%, respectively, and LGUs receiving less than one percent (1%) (NEDA 15th Annual ODA Portfolio Review). While it has been observed that the amount of ODA grants and the number of ODA grant projects have been declining over the years, several factors could explain why LGUs have not been able to have a substantial share in ODA funds. One major factor is the fact that LGUs, with very few exceptions, have inadequate capacity to prepare feasibility studies, access and manage ODA funds. There is also a perception among LGUs that the process of accessing ODA is complex and cumbersome. They may also lack information on the procedures to be followed in availing themselves of ODA funds. Recognizing these ODA accessibility concerns, the Department of the Interior and Local Government (DILG) commissioned a study, with support from the Asian Development Bank Technical Assistance No. 4778 on Local Governance & Fiscal Management Project that would

[1] With the assistance of Alice Celestino, Jose Tiu Sonco II, Cristina Tiunfu, and Pauline Bautista, National College of Public Administration and Governance.

recommend measures to improve the LGUs' access to ODA.

B. Approach and Methodology

This ODA Study focuses on the current status of LGU access to ODA and attendant issues and concerns. Specifically, it analyzes the LGUs' access to both the grant and loan components of the ODA. It also provides a historical background and legal basis of LGU access to ODA.

In assessing the current status of LGU access to ODA, the study looks into ODA funds, which are composed of (a) ODA grants, and (b) ODA loans , including equity considerations in the distribution of ODA resources for LGUs. Additional concerns including managing and monitoring of ODA at the local level and difficulties in the implementation of the LGU financing framework are also addressed.

The conduct of the study involved a desk review of available documents on ODA, basic descriptive and statistical analysis, the conduct of workshops among stakeholders, a simple survey among LGUs, and formal and informal interviews with key persons of responsible national government line agencies[2] and the various leagues of local government authorities.

C. ODA Policy Framework of the Philippines

ODA is defined as a loan or loan and grant administered with the objective of promoting social and economic development and welfare in the Philippines. More specifically, ODA funds are meant to achieve equitable growth and development in all provinces through priority development projects for the improvement of economic and social service facilities taking into account such factors as land area, population, scarcity of resources, low literacy rate, infant mortality and poverty incidence in the area. (Section 4, RA 8182- ODA Act)

The underlying law for of the use of ODA in economic development is Republic Act (RA) No. 8182, or the Official Development Act of 1996, as amended by RA 8555. Foreign loans may be contracted with governments of foreign countries with whom the Philippines has diplomatic and/or trade relations or bilateral agreements, or which are members of the United Nations (UN), their agencies and international and multilateral lending institutions.

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[2] Key officials interviewed included Rolando Tungpalan and Rhoderick Planta of NEDA; Helen Habulan of the MDFO; Maloy Malvar, formerly of BLGF; and the technical staff of LBP and DBP. See also Appendix 1 for the participants of the workshop.

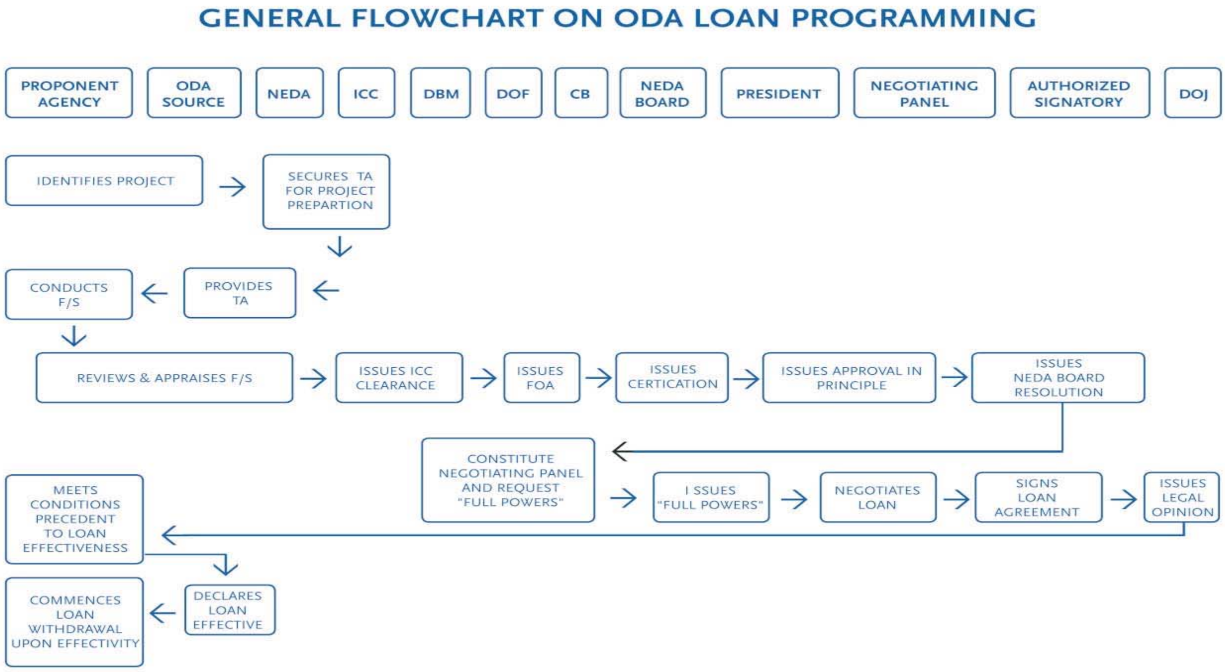
Sources of ODA. ODA comes either from multilateral institutions or bilateral programs. The former include the UN system, the European Community, the International Atomic Energy Association (IAEA), the International Fund for Agriculture (IFAD), and regional development banks, e.g., the World Bank (WB) and the Asian Development Bank (ADB). The latter include the programs of the following countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Italy, Japan, South Korea, Kuwait, The Netherlands, New Zealand, Norway, Spain, Sweden, United Kingdom, and the United States of America. The major bilateral sources are Japan, USA, Germany, Italy, France, Canada and Australia.

Forms or Types of ODA. The National Economic and Development Authority (NEDA) classifies ODA under two categories: 1) soft loans, and 2) grants. "Soft loans" have interest rates ranging from 0%-7%; maturity periods of from 10 years to 50 years; and grace periods of from 5 years to 10 years. ODA "grants," on the other hand, have no repayment obligations unlike soft loans. They are given in the form of technical assistance services, equipment, commodities and training.

NEDA has established the guidelines for the use of soft loans and grants. Soft loans are to be used for projects which are revenue generating and lead to capital formation. On the other hand, grants and highly concessional financing are preferred for development projects in the social sectors as well as for technical assistance types of projects.

Process of Accessing ODA Funds. The ODA Grant Programming Process, which particularly refers to local governments, seeks to maximize the benefits of ODA on sectoral and local/regional development by matching these with the needs of priority programs. It envisages beneficiaries obtaining the required goods and services available through ODA in the appropriate form, quality and cost. This process involves two main activities: the Country Program Review and project submission, negotiation and ODA availment. Figure 1 illustrates the flow of ODA Grant Programming.

Figure 1. ODA Grand Programming Flowchart



Source: National Economic and Development Authority.

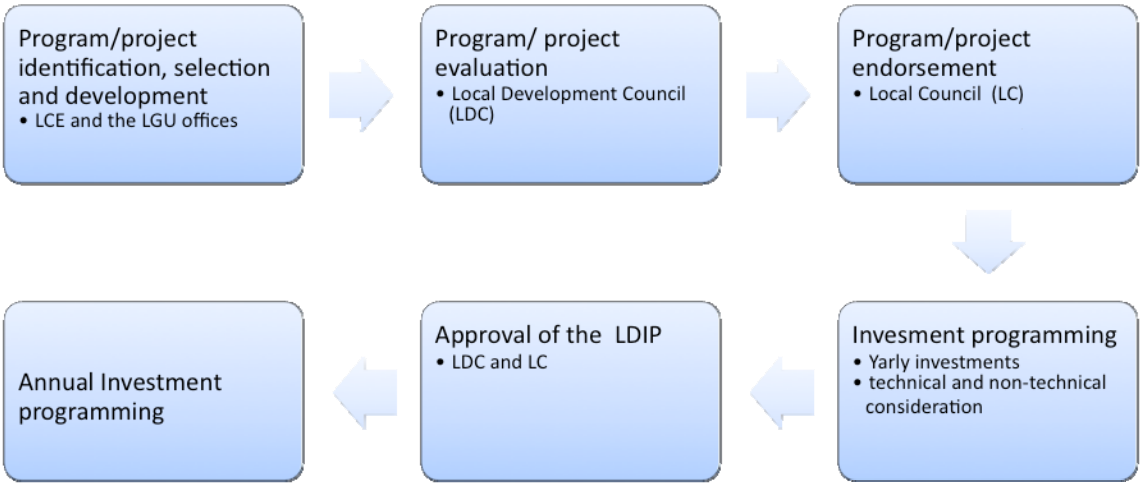
The Country Program Review (CPR) involves the assessment of projects by the Government of the Philippines (GOP) and the ODA funding agency, wherein they identify the common areas of concern and agree on the directions for future grant aid. Later, the ODA donors would pledge indicative ODA resources to the Philippine government as a whole. The project negotiation is the result of prior country programming exercises wherein the available ODA pledge is designated to a particular programmed project. Based on the CPR, project proposals are submitted or resubmitted; after which renegotiations on the nature, features and/or implementation modalities of the project. After the processing of the proposal which usually runs from three months to one year, ODA may then be availed of by the local government concerned.

D. Local Government Unit Access to Official Development Assistance

The Local Government Code of 1991 (LGC) provides the rationale behind availment of the ODA grant by LGUs. It empowers LGUs to directly propose projects and negotiate for grants with donor agencies. More specifically, Section 23 of the LGC states that local chief executives (LCEs) are accorded with the "authority to negotiate and secure financial grants or donations in kind -- from local and foreign assistance agencies without necessity of securing clearance or approval therefore from any department, agency or office of the national government or from any other higher local government units *xxx.*"

Project Identification and Project Preparation. Project identification and preparation are two prior major steps that need to be undertaken by LGUs before submitting, negotiating and securing ODA grants. These steps form the core planning activity referred to as "local investment programming" (See Figure 2) The process makes operational the strategies of local medium-term development plans into area-specific, viable and implementable packages of medium-term programs and projects. [3]

Figure 2. Local Investment Programming Process



Source: Based on the Guide on Availment of ODA Grants by LGUs.

In March 2007, Joint Memorandum Circular (JMC) No 1. Series of 2007 was jointly issued by the DILG, NEDA, DBM and DOF. It specifically aims to: (1) provide guidelines on the harmonization and synchronization of planning, investment programming, budgeting and expenditure management, and revenue administration at the local level; (2) strengthen the interface between LGUs and national line agencies (NLAs) and the complementation between and among all levels of the LGU in planning, investment programming, budgeting, revenue administration, and expenditure management; (3) clarify responsibilities and supportive roles of the oversight agencies following the principles of Rationalized Local Planning System (RPS) of the DILG, the Provincial Planning and Expenditure Management (PPEM) of the NEDA, the Updated Budget Operations Manual (UBOM) of the DBM and the upcoming local revenue guide of the DOF (DILG-NEDA-DBM-DOF JMC No. 1; NEDA).

[3] Parts of the section are drawn from the NEDA Guide on Availment of ODA Grants by LGUs.

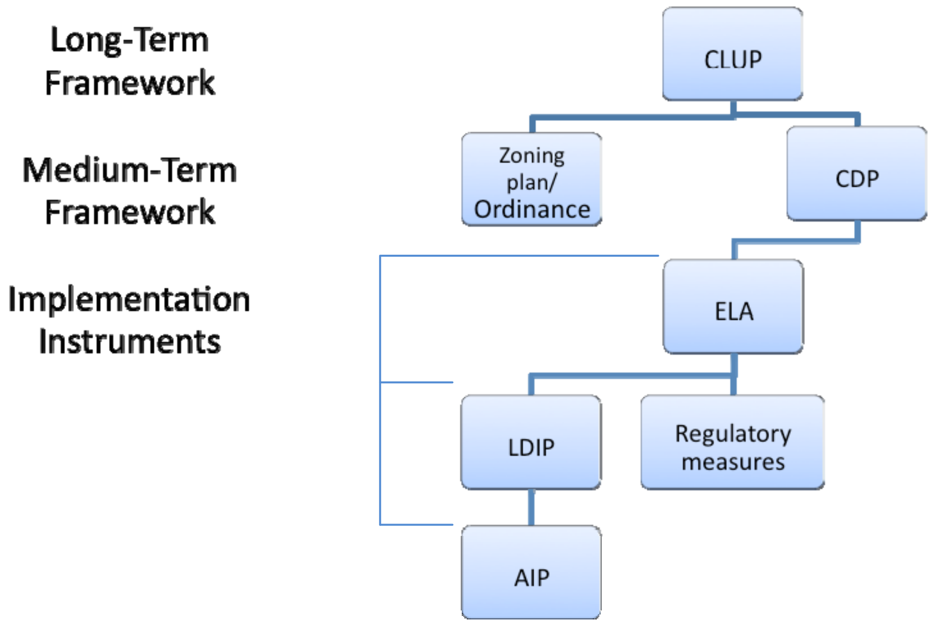
As such, JMC No. 1 provides for the medium and long-term planning and implementation framework and instruments for LGUs. The matrix below indicates the key planning and investment programming instruments. Figure 3 shows the planning framework for LGUs.

Matrix 1. LGU Planning Instruments

Planning Instrument	Content	Timeframe
CLUP	Policy guide for the regulation of land uses embracing the LGU's entire territorial jurisdiction. It covers policies on settlements, protected areas, production areas, and infrastructure	10 to 15 years
CDP	A multi-sectoral plan to promote the general welfare of the LGU. Sectoral goals, objectives, strategies, programs, projects and legislative measures	6 years
ELA	A term-based component of the CDP. Sectoral goals, objectives, 3-year strategies, prioritized programs and projects, prioritized legislative measures	3 years
LDIP	Principal instrument for implementing the CDP and ELA and to some extent, certain aspects of the CLUP prioritized PPAs and program planned financing	3 years
AIP	Yearly investment program of the LDIP. Prioritized PPAs proposed for inclusion in the annual local budget.	1 year

Source: Drawn from the Roll-out Plan for JMC No. 1, Series 2007, DILG-NEDA-DBM-DOF.
Legend: CLUP=Comprehensive Land Use Plan; CDP=Comprehensive Development Plan; ELA= Executive Development Plan; LDIP= Local Development Investment Plan; AIP= Annual Investment Program

Figure 3. LGU Planning Framework



Source: Drawn from the Roll-out Plan for JMC No. 1, Series 2007, DILG-NEDA-DBM-DOF.

LGU-NGA Linkage. After the local investment programming process has been undertaken, the medium-term Local Development Investment Plans (LDIPs) of concerned LGUs are integrated into a Regional Development Investment Program (RDIP). This is done through a formal forum on regional planning and development participated in by local government executives, legislative representatives, national government officials and private sector representatives. It must be remembered that after the LGUs have identified and planned the development and implementation of their projects in their respective LDIPs, they must then ensure that these projects are prepared for financing, whether through local or foreign ODA sources. These are covered by the Preparation of Programmed Local Development Projects. The LDIP will be translated into the Annual Investment Program and the Local Finance Committee (LFC) will identify funding sources, that is, whether it will be externally or internally sourced.

LGUs may acquire financial assistance through NEDA Regional Offices (NRO). Financial assistance may sourced from the different NGAs depending on its availability and NEDA regional offices may just provide information on the ODAs and other available windows. This is another process which facilitates the preparation of programmed local development project for eventual financing and implementation. The LGUs may request for assistance through the preparation of the following activities:

a) Assisting in enhancing the capability of LGUs in project identification, preparation, evaluating and appraisal, implementation, monitoring and ex-post evaluation;
b) Reviewing the concerned LGUs programmed local development projects to develop project concepts into detailed project proposals and implementation plans;
c) Coordinating the provision of technical expertise of specific national government agencies either to develop project development capabilities of LGUs or to match necessary technical or financial resources of these national agencies in support of local development projects; and
d) Monitoring the implementation and evaluating the impact of on-going and completed local projects respectively to flag potential or existing problems in project development, and to derive lessons for improving the LGUs project development capability.

As to fund sources, the LFC determines the amount of total allocation for the budget including the fund sources for the priorities included in the LDIP and AIP. They normally coordinate with NGAs on available fund sources as to whether it is a loan or a grant. No single agency coordinates available financing for LGUs.

Table 1 describes the broader policy framework of LGU financing support from the national government (NG). The financing framework provides directional focus on the type of assistance to LGUs. It broadly segmented the market to two types of LGU clusters and rationalized MDFO to concentrate on less creditworthy LGUs. This framework, which was formulated under a technical assistance managed by DOF, provides that social and environmental projects are eligible for grants. Such projects are expected to have positive spillovers to other LGUs, On the other hand, revenue generating projects, even if these may have positive externalities, are classified as ineligible for national government grants other than technical assistance.

Table 1. LGU Financing Framework

Social/Environmental Projects	Revenue-Generating Projects
Creditworthy LGUs	
MDFO, GFI Loans	BOT Projects
Commercial bank loans	Bonds
Limited MDFO grants	GFI, Commercial bank loans
Marginally Creditworthy or Non-Creditworthy LGUs	
MDFO grants and technical assistance (TA)	BOT Projects
	GFI, limited MDF Loans and TA

Source: Department of Finance.

There have been several minor revisions in the LGU financing policy framework since its formulation, but the basic principles underlying it have remained the same. The issues associated with this framework will be discussed later in this report.

II.BACKGROUND[4]

A. National Government Involvement in Devolved Functions

The early years of decentralization and devolution in the Philippines saw a strong hesitation by the NG oversight agencies (e.g., DOF, DBM and NEDA) to continue NG support to devolved activities. The flow of ODA to local development activities was thus significantly affected. Meanwhile, the line agencies (national government departments) continued to provide local public goods and services like school buildings, rural roads, communal irrigation, and health services with their locally funded projects, although at a smaller scale than before.

However, the NG realized the need to have clear and definite policy guidelines on: (1) defining the conditions that warrant NG support for devolved functions; (2) determining the appropriate form and level of this support; and (3) identifying mechanisms for channeling funds to LGUs for such assistance. Two studies were commissioned by the NEDA and the DOF with the support of the World Bank. The NEDA study identified policy options on the respective roles of national and local governments in the development and financing of local development projects that have high spillover effects and are not "bankable," especially those addressing social and environmental concerns, and recommended an action program that specifies the regulatory and institutional measures needed to facilitate the flow of foreign assistance to such projects. The DOF study looked into modes of LGU access to capital markets and prepared an action plan for the development of a municipal credit system.

B. The Policy Framework for Selective National Government Intervention

1. The Rationale for NG Involvement

The first study proposed that continued NG intervention in LGU responsibilities is necessary as the devolution process poses problems for LGUs in fully undertaking devolved activities on their own, foremost of which is the lack of financial resources. Even if the IRA has risen and grant funds are made available to LGUs, some local public investment activities are so lumpy that LGUs have to source out funds through loans or credit financing. Loan programs are made available to LGUs from different sources, e.g., ODA, commercial,

[4] Some parts of this section draw from Alonzo R. *Channeling Resources to Local Development Concerns: Issues and Options. Philippine Review of Economics and Business*, vol. XXXIV, No. 2, December 1997; reprinted as Chapter 4 in *Studies in Governance and Regulation: the Philippines*, edited by D.B. Canlas and S. Fujisaki, Tokyo: IDE, 1999 (48-76).

NG-administered programs, and programs of government financial institutions or GFIs, depending on the financial capacity of the LGUs to repay the loans.

ODA is often considered the best source of external financing made available to LGUs given the concessional terms under which it is given (high grant element or soft terms). The LGC 1991 does not prohibit LGUs from applying for loans from foreign financing sources (commercial or ODA) to finance local infrastructure and other socioeconomic development projects in accordance with the approved local development plan and public investment program. What constrains LGUs from contracting ODA funds is the NG "guarantee" required of LGUs by the international lending institutions. The Foreign Borrowings Act (R.A. 4860) states "that the guarantee of the Philippine Government could be issued only for loans granted to government-owned and -controlled corporations (GOCCs) and GFIs. Based on the results of the first study, the inter-agency Investment Coordination Committee (ICC) of the NEDA Board, the body that approves all foreign-assisted projects, issued, in 1998, the Policy Framework for National Government Assistance for the Financing of Local Government Projects with Environmental and Social Objectives.

The policy framework identifies the following grounds for NG intervention: (a) externalities or spillover effects, (b) economies of scale, and (c) equity.

Externalities or spillover effects. Intervention by NG is justified by spatial externalities, or when benefits or costs of public services provided by an LGU are realized by non-residents. In cases such as these, the jurisdiction that would be providing the service may not consider the benefits accruing to non-residents and thus may give low priority to such service. Similarly, the costs of providing the service may spill over to other jurisdictions, thus necessitating higher-level intervention.

Economies of scale. The provision of some services may be made more cost-effective if designed for a service area larger than the jurisdiction of a single LGU. A national agency can help LGUs with small jurisdictions undertake investments jointly with adjacent LGUs to realize such economies of scale. However, if this criterion is the only basis for NG intervention, the NG share in the cost shall have to be very limited.

Equity considerations. If LGUs that are faced with tight budgetary constraints are unable to provide the minimum level of services to their constituents, NG intervention may be warranted. The eligibility of LGUs will be based on their respective income and economic classifications, the latter to be measured by poverty incidence.

Programs of assistance should give priority to the needs of relatively disadvantaged LGUs in the allocation of resources.

2. The Nature of National Government Assistance

Providing assistance to LGUs under the Policy Framework for National Government Assistance for the Financing of Local Government Projects with Environmental and Social Objectives shall be in the form of matching, specific and closed-ended grants. The grants shall be conditional on the participating LGUs putting up their share of the cost and preparation work. They shall be for specific and authorized expenditures in line with the intentions of the national program, and cannot be used to finance deficits of LGUs arising from spending decisions that are outside of the scope of the program. Finally, they are meant to be temporary and limited where costs are well known to both LGUs and the national agency at the outset.

In cases where LGUs need to tap external financing for devolved projects, NG intervention is necessary and LGU borrowings shall be governed by the standing ICC policy on LGU access to ODA funds. Under this policy, ODA loans for devolved activities are to be channeled as loans to LGUs through either two conduits, namely, the Municipal Development Fund (MDF) or through a GFI under relending terms to be determined by their respective policy making bodies.

3. Principles for Designing NG Assistance

A set of considerations and parameters were formulated in order to ensure the effectiveness of LGU programs being partly supported by NG, and to make sure that ODA facilities guaranteed by NG cater to the needs of the LGUs.[5] These are:

a. *The role of community involvement cannot be taken for granted.* Consultation with, and participation of, communities ensures that programs are need-based and appropriate for the local resources and capabilities.

b. *LGUs are, in principle, better implementers of local projects than national line agencies because they have a closer feel of the people's needs.* National programs should allow LGUs to make decisions in targeting interventions based on their awareness of the different conditions and preferences of communities within their respective jurisdictions.

[5] Based on Alonzo R. Channeling Resources to Local Development Concerns: Issues and Options 1999.

c. *Community equity contributions and LGU counterpart are essential to the quality of project outcomes.* Imposing local counterpart induces a degree of local involvement and accountability for the spending, even as it is supported by the NG.

d. *Cost recovery through user charges shall be encouraged; recurrent operation and maintenance expenditures shall be given low priority for NG grants.* National programs should develop mechanisms to enable LGUs to collect user charges to raise revenues for the operation and maintenance of local public facilities.

e. *Implementing arrangements shall promote inter-agency coordination.* Inter-agency coordination is needed for programs that may overlap in target areas and beneficiaries. NG agencies shall seek to harmonize their prioritization criteria in order to convey consistency in NG policies for supporting LGU investment activities.

f. *Private sector participation shall be elicited whenever feasible.* Private sector participation shall be harnessed at all levels of government through, among other modalities, competitive bidding, build-operate-transfer schemes, franchising and volunteerism.

g. *The grantors' objectives shall be safeguarded.* The NG shall monitor the implementation of programs against stated national objectives for the sector. The national line agencies shall take the lead role in the sponsorship of such programs and the sectoral justification that shall usher the program through the investment appraisal process to the mobilization and release of funds for them.

C. The Foreign Borrowings Act of 1966

Republic Act No. 4860 or better known as the Foreign Borrowings Act of 1966 authorizes the President of the Philippines to obtain foreign loans and credits to finance approved economic development projects or purposes. It also allows the President to guarantee, on behalf of the Philippine government, foreign loans or bonds issued by government-owned and controlled corporations for economic development purposes. The Act however has no provision either for foreign borrowings of local governments or for the issuance of a guarantee from the President, on behalf of the Philippine government, for such loans. Since this law was enacted in 1966 (prior to the passage of Decentralization Act of 1967 and the 1991 Local Government Code), this deficiency is understandable.

D. The LGU Grant Financing Framework and Cost-Sharing Principles

Within the policy framework adopted by the ICC, the national line agencies, in consultation with the LGUs, shall be responsible for the preparation of sectoral projects and programs that shall contain priority LGU activities eligible for NG grant assistance. These activities shall be financed through NG-LGU cost-sharing arrangements. The implementation of the program activities, however, shall always be the responsibility of the LGUs, with NG providing technical assistance.

A set of sectoral guidelines for the financing of devolved activities with social or environmental objectives was formulated by DOF to provide more specific guidance to NG agencies as well as LGUs in the preparation of programs and projects.

The four sectors covered by the initial guidelines are: a) water supply; b) rural infrastructure, e.g. roads, communal irrigation, public markets, abattoirs, etc.; c) health; and d) the environment. The said guidelines are:

a. Water supply – Only 5th and 6th class LGUs shall be eligible for a 50% grant from the NG, and the grant shall apply only to level 1 (source development) systems.

b. Rural Infrastructure – Given the large investments involved in communal irrigation projects, all LGUs, irrespective of income class, shall be eligible for NG grants for such projects. The maximum NG grant shall be 50% for 5th and 6th class LGUs. First class LGUs shall receive a maximum of 20%. These NG grants shall be applied as a percentage of capital costs, *i.e.,* exclusive of O&M expenditures. Meanwhile, revenue-generating projects such as public markets and bus terminals, as well as provincial and municipal roads shall not be eligible for any NG grant.

c. Health – For health projects, all LGUs are eligible for NG grants, which range from 50% to 90%, depending on the LGU's income class. These NG grants shall also be applied as a percentage of capital costs. LGUs shall be required to shoulder operating costs to ensure that the project can be sustained.

d. Environment – Projects under the green and blue sub-sectors (e.g., forest management, protected area management, soil conservation, watershed protection, and coastal resource management) require less capital costs and the environmental concerns they address usually cut across several LGUs. For these sub-sectors, therefore, NG grants shall be based on total project cost. Personnel services as well as maintenance and operating expenses are eligible cost items under the NG grant. These grants range from 20% to 70%, depending on the LGU income class. “Brown” projects (solid and industrial waste management and pollution control projects) are expected to be located in urbanized areas and may be designed as revenue generating. Environment-related projects, e.g., sanitary support facilities for public markets, will also be eligible for NG grants. Third to sixth class LGUs that require sanitary support facilities may avail of 50%-70% grant for the total cost of these support facilities. Annex 1-A contains the different NG-LGU cost-sharing schemes.

The cost-sharing scheme between NG and LGUs for devolved activities is meant to be temporary. As the LGUs’ financial resources improve, or as factors affecting LGUs’ capacity to provide for devolved activities change, this ICC policy would be adjusted accordingly.

In 2009, DOF issued DO 40-09 adopting the revised guiding principles and NG-LGU Cost-Sharing Policy, which covers the cost of civil works only for devolved activities. It excludes pre-implementation activities, e.g., FS, detailed engineering design, site development and right of way, among others; and the post-implementation costs for operation and maintenance. It maintains the ICC policy that the maximum allowable grant should not be more than 50% of the total subproject cost. It also provides that of the total equity requirement of the LGU, 10% of the total subproject cost should be a cash component.

Moreover, the financing policy included the newly-approved NG-LGU Cost Sharing Policy for Solid Waste Management project, excluding Metro Manila LGU since they have special SWM requirements and management arrangements.

The new policy categorizes civil works into three (3) clusters and classifications with an indicative list of subprojects.

Cluster 1 covers “public economic enterprises” subprojects such as public markets, slaughterhouse, bus and jeepney terminals, municipal wharves and fish ports, post harvest facilities, cold storage facilities, ice plants, water supply level III, and public memorial parks.

Cluster 2 is further classified into social subprojects and green/blue subprojects. “Social” subprojects include health centers, lying in clinics, schools buildings, water supply level I and II, communal irrigation, farm to market roads, rural roads or local roads, bridges, among others. Green/blue subprojects may include reforestations, forest related activities, soil conservation, mangrove and watershed protection, review and seashore protection, etc.

Cluster 3 consists of brown environment-related subprojects, which are sub-categorized as water waste facilities and projects, e.g. drainage, sewerage and sanitation support; and SWM facilities and projects such as materials recovery facilities, sanitary landfill and transport systems. Annex 1-B the revised Loan-Grant-Equity for the three clusters.

II. CURRENT SITUATION

A. LGU Access to ODA

This part of the study report presents the general picture of LGU access to ODA as it covers both the loan and grant components of the facility. It is based on a rapid survey conducted by the authors among NG agencies with ODA funded projects accessed by LGUs for the period 1998 to 2008. The survey did not include the Department of Education (DepED) and the attached agencies of the Department of Agriculture (DA). It also did not cover the GFIs (Development Bank of the Philippines or DBP and Land Bank of the Philippines or LBP) and the GOCCs (e.g., Local Water Utilities Administration or LWUA, Subic Bay Metropolitan Authority or SBMA, Bases Conversion and Development Authority or BCDA, and Laguna Lake Development Authority or LLDA). These government agencies and financial institutions were not present in the workshop-meeting convened by NEDA-PMS and the authors.

Among the agencies surveyed were the following:

- National Irrigation Administration
- Department of Social Welfare and Development
- Department of Agriculture
- Department of Agrarian Reform
- Department of Health
- National Economic and Development Authority

Aside from the survey conducted in the aforementioned NGAs, another source of data for ODA funded projects is the Asian Development Bank.

Results of the survey reveal that, from 1998 to 2008, there were 1,625 ODA funded projects in the 80 provinces across the country. Table 2 presents the 10 provinces with the most number of ODA funded projects, while Annex 2 shows the complete ranking of provinces based on the number of ODA funded projects per LGU.

Table 2. The Ten Provinces with the Most Number of ODA funded projects, 1998-2008

Province	Regional Location	No. of ODA funded projects
1. Agusan del Sur	Region XIII	43
2. Negros Occidental	Region VI	39
3. Antique	Region VI	37
Iloilo	Region VI	37
Surigao del Sur	Region XIII	37
4. Cebu	Region VI	34
5. Bohol	Region VII	33

Province	Regional Location	No. of ODA funded projects
North Cotabato	Region XII	33
Zamboanga del Sur	Region IX	33
6. Zamboanga del Norte	Region IX	32
7. Maguindanao	ARMM	31
8. Albay	Region V	30
Misamis Occidental	Region	30
9. Leyte	Region VIII	28
10. Agusan del Norte	Region XIII	26
Bukidnon	Region X	26
Capiz	Region VI	26
Lanao del Sur	ARMM	26
Pampanga	Region III	26
Sultan Kudarat	ARMM	26

Of the top ten provinces, only Albay and Pampanga are in Luzon. The majority is in Mindanao (11) and the rest, in the Visayas (7). The province with most ODA funded projects is Agusan del Sur with a total of 43 ODA-funded projects, followed by the province of Negros Occidental with 39 ODA-funded projects. The provinces of Antique, Iloilo and Surigao del Sur tied for the third slot with 37 projects each.

Meanwhile, of the seven (7) provinces with the least number of ODA funded projects, the majority is located in Luzon (Table 3). The fact that Dinagat Island had the least number of ODA funded projects could be explained by the fact that the province is a newly created one.

Table 3. Provinces with the Least Number of ODA funded projects, 1998-2008

Name of Province	Regional Location	Number of ODA funded projects
1. Dinagat Island	Region XIII CARAGA	2
2. Marinduque	Region IV-B	3
3. Batanes	Region II	5
4. La Union	Region I	7
5. Catanduanes	Region V BICOL	8
Siquijor	Region VII	8
Zambales	Region III	8

Mindanao and the Luzon had two each of regions with the most number of ODA funded projects (Table 4). Region VI or Central Visayas had the highest number of projects assisted by ODA at 167. Next in rank was Region XIII (CARAGA) with 133 ODA funded projects. (Also see Annex 3)

Table 4. Top Five Regions Based on ODA funded projects, 1998-2008

Rank	Region	No. of ODA funded projects
1	Region VI (Central Visayas)	167

Rank	Region	No. of ODA funded projects
2	Region XIII (CARAGA)	133
3	Region V (Bicol)	122
4	ARMM	120
5	Region III (Central Luzon)	117

Except for one, the five regions with the least number of ODA funded projects are all in Luzon. Ilocos region had the least number of ODA funded projects with 60, followed closely by Cagayan Valley with 62. Zamboanga Peninsula had the fifth least number of ODA funded projects, but this could be explained by the fact that there are only three (3) component provinces in this region. (Table 5) In reality, two provinces of Zamboanga Peninsula are among the 10 provinces with the most number of ODA funded projects. (Table 2)

Table 5. Bottom Five Regions Based on ODA funded projects, 1998-2008

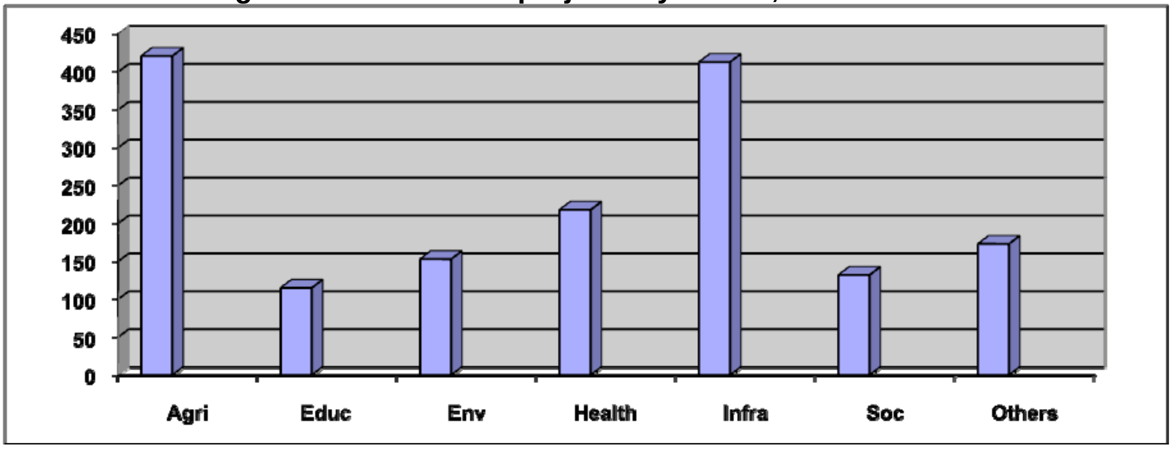
Rank	Region	No. of ODA funded projects
1	Region I – Ilocos Region	60
2	Region II – Cagayan Valley	62
3	Region IV-A – Calabarzon	75
4	Region IV-B – Mimaropa	77
5	Region IX- Zamboanga Peninsula	84

The ODA accessed by LGUs funded projects in the following sectors: health, social services, infrastructure, environment, agriculture and others (energy, rural development, and good governance). Of these sectors, agriculture/agrarian reform accounted for the most number of ODA funded projects (421 or 26%). It was followed closely by infrastructure (413 or 25.4%) and then by health (218 or 13.4%). Education (115 or 7.1%) and social services (132 or 8.1%) had the least number of projects (Table 6, Figure 3, and Annex 4, with the latter containing the sectoral distribution of ODA funded projects by province).

Table 6. Number of ODA funded projects by Sector, 1998-2008

Sector	Number of ODA funded projects	Percentage to Total
Agriculture/Agrarian Reform	421	26.0%
Infrastructure	413	25.4%
Health	218	13.4%
Environment	153	9.0%
Social Services	132	8.1%
Education	115	7.1%
Others	173	11.0%
Total	**1625**	**100.00%**

Figure 3. ODA funded projects by Sector, 1998-2008



Source: Survey.

All the provinces with the most number of ODA funded projects in agriculture/agrarian reform are in Mindanao except for Leyte (Visayas) and Albay (Luzon) (Table 7). The rest of the provinces in the country had less than 10 projects except for Dinagat and Rizal which had no agriculture/agrarian reform projects that were ODA funded (Annex 5).

Table 7. Provinces with the Most Number of ODA-Funded Agriculture/ Agrarian Reform Projects, 1998-2008

Provinces	No. of ODA funded projects in Agriculture/Agrarian Reform
1. Agusan del Sur	13
Davao del Norte	13
Zamboanga del Norte	13
2. Davao del Sur	12
Misamis Occidental	12
Misamis Oriental	12
3. Albay	11
Zamboanga del Su	11
4. Leyte	10
Surigao del Norte	10

Most of the provinces with 10 or more infrastructure projects funded by ODA are in Luzon (5) and in the Visayas (4) while only Surigao del Sur and Zamboanga del Norte are in Mindanao (Table 8). On the other hand, the eight (8) provinces with no infrastructure projects funded by ODA are mostly in Mindanao (Basilan, Dinagat Island, Siquijor, Sulu, Tawi-tawi and Zamboanga Sibugay) (See Annex 6).

Table 8. Provinces with the Most Number of Infrastructure Projects, 1998-2008

Provinces	No. of ODA funded projects in Infrastructure
1. Negros Occidental	23
2. Antique	20
3. Iloilo	19
4. Surigao del Sur	16
5. Pampanga	14
6. Cebu	12
Rizal	12
7. Ilocos Norte	11
8. Albay	10
Pangasinan	10
Zamboanga del Norte	10

While the 2008 survey was certainly not exhaustive due to resource and time constraints, and did not cover all government agencies availing of ODA and offering LGUs access to the ODA funds, the survey results nevertheless indicate that practically all provinces have received ODA assistance. At lower units of jurisdiction, however, one will invariably find a municipality or barangay that has not received any direct support from ODA funds. This arises from the sheer number of municipalities (more than 1,500) and barangays (more than 40,000) around the country. These LGUs nevertheless are likely to have benefitted indirectly from ODA through government projects that are national or regional in scope but with strong local benefit incidence (such as arterial roads, railroads, ports and airports, and irrigation facilities).

B. LGU Access to ODA Grant Funds

While Section 23 of the LGC grants authority to LGUs to negotiate and secure grants from foreign agencies without needing to get a clearance from any NG entity, the reality is that there is not much ODA grant funds to move around. ODA grants have historically comprised at most 10% of total ODA flows (Table 9).[6] The average value of a grant project is also much less than the average value of a loan project.

Table 9. Value and Number of ODA Loans and Grants,1997, 2002, and 2007

	1997	2002	2007
Loans ($ mln)	11,400	11,900	9,747
Number	187	204	130

[6] Based on NEDA ODA Portfolio Reviews.

	1997	2002	2007
per project value	61.0	58.3	75.0
Grants ($ mln)	1,230	940	723
Number	237	211	89
per project value	5.2	4.5	8.1
Grants/Total ODA	10.8%	7.9%	7.4%
Grant/loan size	8.5%	7.6%	10.8%

Source: NEDA, ODA Portfolio Reviews, various years.

The relative amounts of ODA grant funds are even smaller in terms of budgetary obligations and appropriations. Grant proceeds from ODA, as reflected in the national government's budget, comprise less than 2% of allocations for foreign-assisted projects (Table 10), which accounted for less than 10% of all projects for 2008 and 2009 (Table 11).

Table 10. Appropriations and Allocations for Foreign-Assisted Projects (In thousand pesos)

	GAA 2008	Share	BESF 2009	Share
Peso Counterpart	10,393,080	31.2%	11,897,150	29.2%
Loan Proceeds	22,401,683	67.2%	28,486,473	69.8%
Grant Proceeds	538,815	1.6%	423,756	1.0%
Total	33,333,578	100.0%	40,807,379	100.0%

Source: DBM, Budget of Expenditures and Sources of Financing, 2009.

Table 11. Obligations for Projects, by Type, 2007-2008 (In thousand pesos)

Project Type	2007		2008		2009	
	Amount	%	Amount	%	Amount	%
Locally-Funded	304,698,010	88.6%	490,122,756	93.6%	557,414,406	93.2%
Foreign-Assisted	39,235,689	11.4%	33,333,578	6.4%	40,807,379	6.8%
Total Projects	343,933,699	100.0%	523,456,334	100.0%	598,221,785	100.0%

Source: DBM, 2009 National Expenditure Program.

Thus, the likelihood of an LGU securing an ODA grant is low relative to getting a locally-funded project. Not only have the absolute amount and relative share of grant funds in total ODA commitments been declining, but the absolute number of grant projects has also been falling (from 237 projects in the 1997 ODA portfolio to only 89 projects in the 2007 ODA portfolio).

At the same time, the number of LGUs (provinces, cities, and municipalities) has been growing. Making the situation worse for LGUs is that they have to compete with the large number of agencies of the NG, both line and oversight for the limited amount of grants. As the 16th ODA Portfolio Review notes, however, some grants (e.g., for the 2007 ODA Portfolio, 26 out of the 89 grant projects) "have no indicated amounts as assistance from multilateral and bilateral partners and come in the form of experts, equipment and studies."   In the 2007 ODA Portfolio, practically all reported grants were coursed through the line agencies of the NG (Table 12), with the notable exception being the grant assistance to the Supreme Court. What this implies is that much of what ODA grant funds the LGUs may expect would ordinarily pass through the national government agencies (NGAs). Incidentally, the NGA with the biggest share of grant aid, the Department of Transportation and Communications (DOTC), is one that is not likely to have subprojects at the local level. The Department of Health (DOH) and the Department of Environment and Natural Resources (DENR), received the second and third largest grant amount, are actually departments with many devolved functions under the 1991 LGC.

Table 12. ODA Grants, by Implementing Agency, (2007 ODA Portfolio)

Implementing Agency	Grant Amount (In US$)	Share (in %)
DOTC	196,472,143	27.2%
DOH	178,845,461	24.7%
DENR	109,065,631	15.1%
DepEd	89,760,000	12.4%
DAR	35,050,000	4.8%
DOE	33,516,761	4.6%
DSWD	22,550,000	3.1%
DOF-BIR	19,557,224	2.7%
DTI-SBGFC	7,580,000	1.0%
DA	7,000,000	1.0%
MWSS	2,000,000	0.3%
PNP	1,540,000	0.2%
PRRC	1,000,000	0.1%
DILG	511,409	0.1%
Supreme Court	18,869,866	2.6%
TOTAL	**723,318,495**	**100.0%**

Source: NEDA, 16th ODA Portfolio Review.

The average grant amount per project among the top four donor institutions (Table 13) is huge compared to the size of the economy of the typical LGU. In peso terms, for example, the average JICA grant project amounts to more than P1 billion, of the typical LGU – whether it be a province, city, or municipality.

Table 13. ODA Grants, by Funding Source (2007 ODA Portfolio)

Donor Agency	Grant Amount (in US$)	Share in Total	Amount per Project (US$)
JICA	228,940,239	31.7%	25,437,804
USAID	148,286,180	20.5%	13,480,562
UN	141,195,885	19.5%	14,119,589

EC	67,310,000	9.3%	22,436,667

Source: NEDA, 16th ODA Portfolio Review.

Perhaps mainly because of the initiatives of the Philippine Development Forum's Working Group on Decentralization and Local Government, the NEDA website now carries a listing of ODA facilities for LGUs (dated 31 March 2009). The 11-page downloadable document gives the name of the project, the implementing agency, the donor, the project objectives and main areas of assistance, the target regions and LGUs, the eligibility criteria for assistance, the project duration and status, and the contact details.

Only five of the 19 projects are managed directly by the donors and the rest involve an NGA or a GFI. Not all projects in the list are grant projects as nine are credit facilities for relending to LGUs. These nine relending facilities involve the GFIs Land Bank and the Development Bank of the Philippines and the Municipal Development Fund Office (MDFO) as conduits (Table 14).

Table 14. ODA Facilities for Local Government Units, (as of 31 March 2009)

No.	Program/project	Development Agency
1	Perez-Guerrero Trust Fund for Economic and Technical Cooperation	DFA/UNDP
2	LGU Investment Program	LBP/KfW
3	Philippines-Australia Community Assistance Program (PACAP)	AUSAID
4	Small Projects Scheme (SPS)	NZAID
5	Secondary Education Development and Improvement Project (SEDIP)	DEPED/JBIC/ADB
6	Grant Assistance for Grassroots Human Security Project	GOJ/EMBASSY
7	Mindanao Basic Urban Services Sector Project	DILG/LBP/ADB/NDF
8	Infrastructure for Rural Productivity Enhancement Sector Project	DA/ADB
9	Credit Line for Waste Management Program for LGUs	DBP/KfW
10	Health Sector Reform Agenda Support Program	DOH//MDFO/KfW
11	Japan Fund for Poverty Reduction (JFPR)	ADB
12	Local Governance Support Program in ARMM	DILG/CIDA
13	EIB-DBP Global Loan Facility	DBP/EIB
14	Credit Facility for Environmental Management Project	DBP/SIDA
15	LGU Finance and Development (LOGOFIND) Project	MDFO/WB
16	Support for Strategic Local Development and Investment Project	LBP/WB
17	Mindanao Rural Development Project, Phase 2	DA/WB
18	Credit Line for Energy Efficiency and Climate Protection	DBP/KfW

No.	Program/project	Development Agency
19	Dialogue on Governance: Strategic Project Facility 2	EC

Source: www.neda.gov.ph/progs_prj.asp

The above list, though partial, may be indicative of the directions that LGUs should pursue in view of their known capacity constraints and the limited amount of ODA that is channeled to local governments. There will be a need for greater collaboration with oversight agencies (NEDA, DILG and DOF) and donor agencies to improve the access of LGUs to ODA facilities.

C. Other ODA Resources Available to LGUs

Other than grants, LGUs may wish to consider loans as fund sources for their development projects. Loans constitute a much bigger share of ODA resources (Table 9) and there are many loan projects that are meant for collaboration with LGUs. And, the share of ODA loan-financed projects with LGU participation to total ODA loan projects have been increasing, from 16.7% in 2000 to 21.1% in 2008 (Table 15). In the context of the NEDA's ODA Portfolio Reviews, a project with LGU participation is one where the LGU enters into an agreement with the executing agency (an NGA, a GOCC, or a GFI, or a combination of two or three institutions) as co-implementer of a subproject, with the LGU committing to put up equity as its contribution to the subproject cost. Especially (but not exclusively) for projects that are revenue generating, the LGU is also expected to assume a sub-loan to help finance the subproject. Loan-financed projects with LGU participation that are undertaken by the GFIs invariably involve relending to the LGUs. Most projects of the MDFO also involve relending.

Table 15. ODA Loans with LGU participation, 2000-2008

Year	With LGU Participation	Total, Projects	% LGU
2000	1,977.3	11,846.3	16.7%
2001	1,846.9	11,963.3	15.4%
2002	1,910.4	10,790.9	17.7%
2003	1,866.2	10,129.5	18.4%
2004	1,898.8	10,531.2	18.0%
2005	1,826.9	9,844.1	18.6%
2006	1,633.6	8,167.0	20.0%
2007	1,387.7	7,575.5	18.3%
2008	1,722.9	8,155.9	21.1%

Source: NEDA, ODA Portfolio Reviews, various years.

However, the absolute amount of loans with LGU participation has been declining, even without adjusting for inflation. One reason for this phenomenon is that in recent years, the Philippine Government and its major donor partners, particularly the multilateral agencies, have been moving away from project loans towards program loans (Table 16). The surge in program loans since 2006 may also be attributed to the "easing up" on the policy reform conditionalities that go with them, as the Philippine fiscal situation has begun to show substantial improvements.

The total amount of ODA commitments has also been declining, from US$13.3 billion in 2000 to only US$9.7 billion in 2007, bouncing back only slightly to US$10.0 billion in 2008. This is partly the outcome of the improving fiscal situation in the country, with domestic interest rates and the spread on commercial borrowings from the international financial markets declining.

Table 16. Project vs. Program Loans, 2000-2008

Year	Projects		Programs		% Programs	
	$ mln	No.	$ mln	No.	$ mln	No.
2000	11,846	196	1,467	7	11.0%	3.4%
2001	11,963	195	1,211	7	9.2%	3.5%
2002	10,791	198	1,065	6	9.0%	2.9%
2003	10,129	184	788	5	7.2%	2.6%
2004	10,531	176	150	1	1.4%	0.6%
2005	9,844	160	350	2	3.4%	1.2%
2006	8,167	135	1,310	6	13.8%	4.3%
2007	7,576	119	2,171	11	22.3%	8.5%
2008	7,906	119	2,131	11	21.2%	8.5%

Source: NEDA, ODA Portfolio Reviews, various years.

D. Equity in the Distribution of ODA Resources

Much concern has been expressed about the distribution of ODA across the different regions of the country. There is often the presumption that the National Capital Region has been getting the lion's share of public investments, including those from ODA.

Luzon's share in foreign assisted projects is almost equal to its share in the total population of the country. The imbalance is between the Visayas and Mindanao, the latter having a smaller share of the ODA funded projects while having a bigger share in the total population. However, Luzon's share in ODA funded projects is not matched by its share in the GDP. The ratio of share in ODA funded projects to share in GDP favors the Visayas and Mindanao, with the Visayas having a 24.5% share in ODA funded projects while having a 16.4% share in the GDP. Mindanao meanwhile has a 19.1% share in ODA funded projects and a 17.8% in GDP (Table 17). Thus, relative to their regional GDP, the poorer regions do get more ODA-funded projects than the richer ones. The distribution seems to reflect the conscious effort of the national government and the donor agencies to channel most of the ODA resources to the poorer regions of the country.

Table 17. Shares in ODA funded project Costs*, Population, and GDP by Region (Based on 2003 ODA Portfolio)

Area	Share in ODA Projects	Share in 2003 Popularion	Share in 2003 GDP
LUZON	**56.4**	**55.9**	**65.7**
I	6.3	5.5	3.0
II	2.0	3.7	2.1
III	14.2	10.5	9.0
IV	8.6	15.2	15.9
V	3.5	6.1	2.9
NCR	19.1	13.0	30.5
CAR	2.7	1.8	2.4
VISAYAS	**24.5**	**20.3**	**16.4**
VI	10.0	8.1	7.1
VII	8.5	7.5	7.0
VIII	6.1	4.7	2.3
MINDANAO	**19.1**	**23.8**	**17.8**
IX	3.0	3.7	2.6
X	3.2	4.6	4.8
XI	3.3	4.8	4.5
XII	3.0	4.2	3.6
ARMM	1.4	3.7	0.9
CARAGA	5.2	2.7	1.4

Source: NEDA, 12th ODA Portfolio Review.
* Includes loan proceeds and GOP counterpart.

Table 18 compares resources per capita from ODA-funded projects with poverty incidence (percent of poor families) across regions. No clear pattern is discernible concerning the relationship between poverty incidence and project presence. In fact, a regression analysis using data from Tables 17 and 18 indicate that neither poverty incidence nor per capita gross regional domestic product (GRDP) has any statistically significant influence on per capita ODA-financed public investment across regions. Thus, while at initial glance Tables 17 and 18 may initially suggest that poorer regions get more ODA-funded public investment, statistical analysis does not show any significant affirmative action bias in favor of poorer regions. Neither is there a bias in favor of the richer regions.

Table 18. Per Capita Cost* of ODA funded projects by Region vs. Poverty Incidence (Based on 2003 ODA Portfolio)

Area	P million*	P/capita	% Poor
LUZON	**12,874**	**4,989**	**17.9**
I	23,675	5,636	24.4

Area	P million*	P/capita	% Poor
II	7,450	2,648	19.3
III	53,595	6,674	13.4
IV	32,647	2,805	19.5
V	13,350	2,849	40.6
NCR	72,112	7,260	4.8
CAR	10,044	7,356	25.8
VISAYAS	**92,590**	**5,963**	**29.4**
VI	37,735	6,075	31.4
VII	31,934	5,596	23.6
VIII	22,921	6,349	35.3
MINDANAO	**72,006**	**3,971**	**38.1**
IX	11,159	3,941	44.0
X	12,055	3,439	37.7
XI	12,425	3,380	28.5
XII	11,230	3,485	32.1
ARMM	5,429	1,937	45.4
CARAGA	19,707	9,405	47.1

Source: NEDA, 12^{th} ODA Portfolio Review.
* Includes loan proceeds and GOP counterpart.

Provincial, subproject-level data on ODA utilization are available from a survey of line agencies that have projects involving LGU participation. An earlier section of this paper describes the results of the survey and analyzes the survey data in detail. Here the analysis is extended by way of appending additional variables onto the provincial database and running multivariate analysis on the revised set of data. The new variables added are: (a) the 2001 fiscal income class of the province, (b) population, and (c) 2003 poverty incidence among families.

Table 18 reports the average number of subprojects per province, by fiscal income class of province. Based on this table, the poorer (lower-class) provinces tend to have fewer subprojects than the richer ones. For example, 4^{th} class provinces have, on average, 13 subprojects each, while 1^{st} class provinces have 22 subprojects each. The same pattern is observed across the three major island groupings.

Table 19. Average Number of ODA Subprojects per Province, by Area by 2001 Income Class

Class	Luzon	Visayas	Mindanao	Total
1	17.6	27.5	27.8	22.2
provinces	19	6	10	35
2	16.6	20.7	25.6	21.6

Class	Luzon	Visayas	Mindanao	Total
provinces	8	6	11	25
3	15.0	28.0	20.5	17.0
provinces	9	1	2	12
4	4.0	20.7	11.3	13.0
provinces	2	3	3	8
Total	16.1	23.7	24.4	20.3
provinces	38	16	26	80

Source: survey data.

As one corrects for provincial population, however, the opposite pattern emerges. Table 20 gives the number of projects per million residents per province, across fiscal income class. It shows that the poorer LGUs in fact have access to more ODA-funded subprojects.

Table 20. ODA Subprojects per Million Residents per Province, by Area by 2001 Income Class

CLASS	Luzon	Visayas	Mindanao	Total
1st	14.2	38.8	34.7	24.3
provinces	19	6	10	35
2nd	31.0	39.2	46.0	39.6
provinces	8	6	11	25
3rd	82.8	6.26	37.5	69.7
provinces	9	1	2	12
4th	163.0	75.5	62.8	92.6
provinces	2	3	3	8
Total	41.8	44.4	43.0	42.7
provinces	38	16	26	80

Source: Survey data.

Another way of ascertaining if access to ODA funded projects has been equitable is by comparing the number of subprojects per province (absolute and per capita) with poverty incidence. It must be noted that a 1st class province does not necessarily have a low poverty incidence. Zamboanga del Norte, for example, is a 1st class province in terms of LGU income, but 65% of its resident families were poor in 2003, the highest poverty incidence among provinces. On the other hand, Batanes, a 4th class province, had a poverty incidence of only 6% in 2003.

In Table 21, provinces are grouped by quintile in terms of poverty incidence; the richest provinces, grouped in the first quartile have poverty incidences above or below the national mean of 24.4%. No discernible pattern emerges.

Table 21. Subprojects per Province and per Million Residents per Province by Quintile in Poverty Incidence

Quintile	% Poor, 2003	Projects	Per million
Richest	3.4% - 20.9%	15.1	46.7
Second	21.6% - 30.3%	20.1	32.8
Third	31.1% - 34.5%	23.3	45.5
Fourth	34.6% - 41.5%	20.3	35.6
Poorest	43.1% - 64.6%	22.8	52.8
Total	3.4% - 64.6%	20.3	42.7

Regressions were run on the survey data aggregated by province, with the dependent variables composed of the overall number of projects and the sectoral breakdowns. The first row of Table 22 below shows that population, income class, and poverty incidence together explain more than one-fourth of the variation in the number of subprojects across provinces. All the three explanatory variables are significant at the 2% level or better. The bigger the population, the poorer the LGU, and the higher the poverty incidence in the province, the more ODA-funded projects there are. Across sectors, health has the poorest fit. Of the explanatory variables, poverty incidence is the one most consistent in its influence on the number of projects, overall and by sector, within the province. It would seem, therefore, that indeed, there is a pro-poor bias in ODA-funded projects, at least at the subproject level.

Table 22. Significance Levels of Regression Coefficients

Dependent Variables	Independent Variables				
	POPN	CLASS	POV03	F	adj R2
All Projects	0.016	0.020	0.000	0.000	0.280
Infrastructure	0.001	0.829	0.070	0.002	0.144
Education	0.198	0.740	0.048	0.035	0.071
Social Services	0.703	0.659	0.000	0.001	0.172
Agric/Agrarian Reform	0.264	0.000	0.002	0.000	0.230
Health	0.249	0.830	0.472	0.654	-0.018
Environment & Nat Res.	0.000	0.815	0.041	0.000	0.366

E. Summary

The empirical evidence gathered by the study shows that: (a) LGUs should not pin much hope on access to ODA grants as the total amount of ODA grants has historically been small relative to the number of LGUs and their corresponding development needs; (b) the much bigger ODA pool open to LGUs is the portfolio of loans for relending to LGUs coming from the GFIs and MDFO, as well as the matching grant projects of some NGAs like DOH, DepEd, DAR, and DENR; and (c) there does not seem to be any bias in access in favor of either the rich or the poor LGUs. However, there may be a case for enlarging the share of LGUs in the limited pool of ODA grants. To do this there is a need not only to address the capacity constraints of LGUs but also to argue this point among policy makers and the oversight agencies. A good forum to discuss the goal of expanding the access of LGUs to ODA grants and of generating support from donors and oversight agencies is the Working Group on Decentralization of the Philippine Development Forum,

III. CERTAIN ISSUES AND CONCERNS

A. Seeking, Managing, and Monitoring ODA at the Local Level

1. Positive Stories and Good Practices to Share

Section II of this report has shown that ODA grant funds are scarce and getting scarcer. Yet stories of successful LGU-ODA donor partnerships abound, especially with those involving the bilateral aid agencies. The high visibility of successful projects is attributable to the advocacy conducted for them by the donor, the LGU concerned, and the project itself.

As mentioned earlier, most of the bilateral grant projects are small relative to loan projects. Their coverage is therefore limited initially to a few LGUs so that they could be more focused, with their project design often involving some innovative aspects of local development. The idea is to identify and develop new modes of intervention that, if proven to be successful, may be graduated or scaled up to the national level. A project that is deemed worth replicating may get picked up by a multilateral agency (ADB or the World Bank) or by the same bilateral donor agency that developed it.

The geographical spread and coverage of ODA grants is the outcome of the regular country assistance programming meetings between the GOP and the donor partner. All donor partners, multilateral or bilateral, take off from the GOP's own official statements of development goals and strategies, as enunciated in the current Medium-Term Philippine Development Plan (MTPDP), Medium-Term Public Investment Program (MTPIP), the President's State of the Nation Address (SONA), and other major policy pronouncements that the President and the Cabinet may have made. The MTPDP contains the President's agenda for the nation, which may cover such areas as the following: better health outcomes, better access to education, fiscal strength, poverty reduction, national harmony and other development objectives.

In the country assistance programming meetings, the GOP, which is represented by NEDA (as lead agency), other oversight agencies and some line agencies, especially those with which the donor agency has an ongoing project or program, may suggest particular areas of assistance or projects. Generally, however, donor agencies are given much leeway in choosing their LGU partners. The bilateral donor agencies often propose projects to be implemented at the local level, particularly some parts of the Visayas and Mindanao, or areas where they may have had some previous exposure, so as to "build on" earlier assistance.

Drawing from a presentation made by the program director of the Local Governance Development Program of AusAID during the workshop on "Enhancing Coordination and Management of ODA by LGUs,"[7] the following are the "success factors" for effective LGU access to ODA funds and facilities:

- Dynamic leadership of the local chief executive
- United vision and ability to gain consensus
- Clear development goals
- Competence of the PPDO – effective human resource selection, training and development
- Good information to support decision making and funding applications
- Proactive effort to attracting ODA -- marketing of needs, demand driven
- Counterpart support that anticipates needs to make the partnership work, including a specific allocation of counterpart funds
- Active effort to coordinate projects at all levels
- Active seeking of ways to develop public-private sector partnerships
- Policy environment that encourages building on initiatives of previous administrations

2. Scaling Up and Avoiding Duplication

Precisely because donor agencies want to have nice and positive stories to tell to illustrate the success of their assistance, careful planning and selection of pilot sites or LGUs for project implementation are conducted by both donor agencies and the recipient LGUs, sometimes with the collaboration of certain national government agencies. Equipment and technical experts are supplied by the donors while counterpart personnel and sometimes, counterpart funds too, are provided by the pilot LGUs. However, it may happen that when the pilot project is replicated or expanded to include more LGUs project performance may fall short of the level of success achieved in the pilot LGUs. The LGUs in the expansion or scaling up phase may not have the same technical and managerial resources present in the pilot LGUs. Here is where weak local capacity arises as a constraint to successful project implementation.

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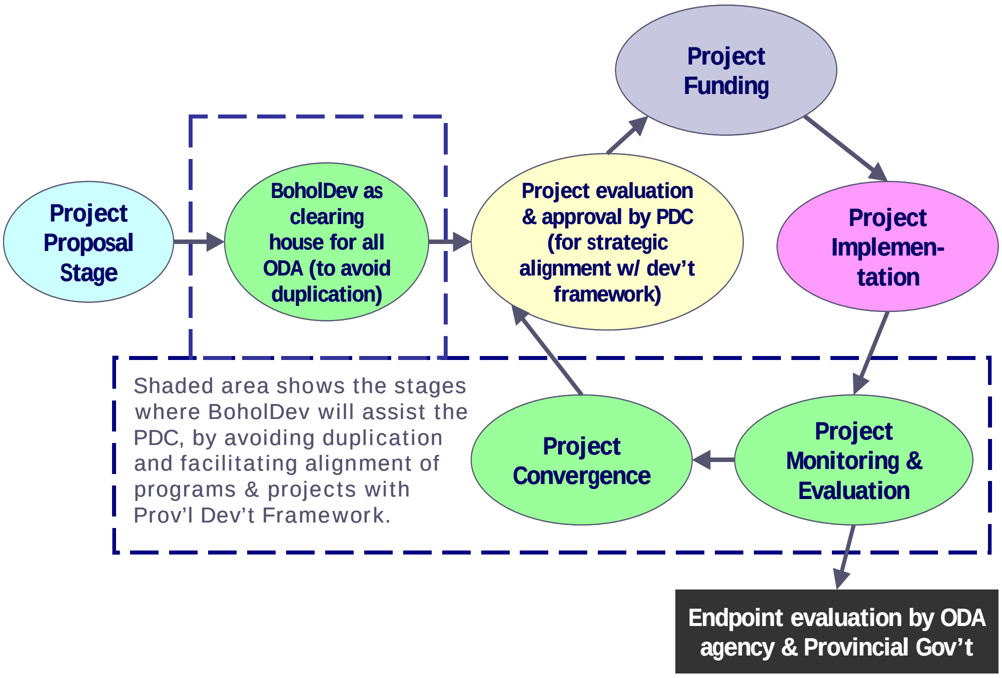
[7] The Workshop was sponsored by the PDF Working Group on Decentralization and Local Government, held in Tagbilaran City on November 23, 2006. The enumeration above is slightly edited.

There is also the problem of finding a sufficient number of LGUs to participate in the scaling up as the LGUs are now expected to put up most of the resources (that is, equity in cash or in kind) to complement the grants or given by the donor partner to the pilot LGUs.

Moreover, because LGUs with those desirable traits are not that easy to find, donor agencies sometimes converge on the (already) financially and technically capable LGUs with offer of more technical assistance, loans or grants, which results in wasteful duplication of assistance. A decade ago, for example, there were several competing ODA grant facilities on poverty monitoring and local development planning, such that one province in Mindanao had four such facilities going on at the same time, all on how to prepare a medium-term provincial development plan and install a community-based poverty monitoring system.[8] Because donor assistance often comes with resources such as computers, office equipment and sometimes even vehicles, some LGUs just keep quiet and accept the assistance despite the duplication (and confusion when the various advisors offer conflicting advice). The system installed by the Bohol Provincial Government, one of the most successful provincial governments insofar as accessing ODAs is concerned, to program, implement, and monitor ODA flows to the province, which is depicted in Figure 4 below, helps avoid this duplication, with the "clearinghouse" and with the LGU having a clearly defined and well-articulated local development plan.

[8] This information was shared by the Planning and Project Development Officer (PPDO) of the province with NEDA at a workshop on poverty monitoring for local officials back in 1999.

Figure 4. Bohol ODA Coordination Framework



Source: PDF Working Group on Decentralization and Local Government, Tagbilaran City, 23 Nov 2006.

3. Monitoring ODA Flows to LGUs

At the national level, probably the best venue for installing a tracking and monitoring mechanism for ODA funds going to LGUs is the DILG, as chair of the PDF Working Group on Decentralization and Local Government. While NEDA-PMS is the agency with the official mandate to monitor ODA funded projects, the subprojects that trickle down to the LGUs (especially at the municipal level and below) are so many and so widely dispersed across the country that monitoring could tax this agency beyond its capacities. DILG, on the other hand, has offices down at the local level.

Whether or not the DILG would be given the responsibility of monitoring ODA flows, or the NEDA-PMS gets to retain its mandate, or whether or not there would be monitoring jointly done by DILG and NEDA the tracking and monitoring system should gather information not just from the LGUs but from the donor agencies as well. It is noted that grant aid recipients in many instances are not informed by the donors on the magnitude of assistance, especially on financial matters.

It is not just grant assistance that should be monitored. As discussed earlier, the bulk of ODA funded projects with LGU participation is in the form of sub-loans and sub-grants. Sub-loans are often for those activities that have been devolved (e.g., the provision of local social and environmental infrastructure) while sub-grants are for those activities that are the responsibility of the national government, such as basic education.[9]

B. On the Foreign Borrowings Act of 1966 and on Programming Foreign Assistance

The Foreign Borrowings Act has to be amended since it only recognizes national government agencies as the major players in the pursuit of economic development. Since the time of its enactment into law, the development agenda has included decentralization and devolution as key strategies for development, in particular local development. It does not contain a provision allowing local governments to borrow from foreign sources (e.g. ODA) with national government guarantee. Under the existing decentralized set-up, the local governments now serve as an important partner of the national government in achieving the country's socio-economic development goals. Thus, the national government should now consider giving guarantee to local government foreign loans. This is a possibility but the LGC and foreign borrowings act must be amended. We suggest selective guarantee for LGUs based on certain parameters in order to avoid abuse of the borrowing route to finance local development activities. It is noted that recent developments show that a few LGUs have borrowed without sovereign guarantee.

On programming development assistance, donors overlook the inclusion of local governments in the exercise. Considering the enhanced role of local governments in countryside development, donors should also consider the involvement of LGUs in the programming process, and not limit it to national government agencies.

One foreign aid agency, the Asian Development Bank (ADB), recognizes the increasing role of local governments in promoting economic development and it has now expressed its willingness to lend directly to LGUs. This is indeed a welcome development since it could serve as a wake-up call for other donor agencies to do the same.

C. Challenges in the Implementation of the LGU Financing Framework

Practically all of the NEDA's annual ODA Portfolio Reviews in recent years point to the same implementation issues plaguing ODA loans with LGU participation. The list from the 13th ODA Portfolio Review (2005) is typical:

9 For the poorer LGUs, the sub-loans often are accompanied by grants.

(a) Funds for the transfer of NG grants to LGUs with ongoing projects are available, but there is no mechanism acceptable to both MDFO and DBM. This statement has to be explained by NEDA in view of possible disagreement coming from the MDFO and DBM.

(b) The lack of LGU equity is a major problem. A number of local government units (LGUs) withdrew participation in projects due to the inability to shoulder the NG-LGU cost sharing scheme for LGU-devolved programs.

(c) The limited technical capacity of LGUs likewise delayed implementation. A number of LGUs had difficulties in complying with pre-qualification requirements, documentary requirements for clearances, and preparation of detailed engineering designs.

(d) Other LGU financing facilities exist, e.g. GFI- and NGA-led facilities as funding options for LGUs. The LGU Financing Framework is supposed to guide the focus of GFIs and NG but is lightly regarded by all parties because DOF has not strongly monitored and supported the implementation of the financing framework.

These issues are interrelated, stemming mainly from the perception held by national oversight agencies, i.e. the Department of Finance (DOF), Department of Budget and Management (DBM), and NEDA, that there is too much national government support to LGUs in the devolved activities. There should be an empirical study and policy analysis of this perception in order to guide national government policies toward LGUs.

Thus, while the basic principles underlying the LGU Financing Framework remain the same, at various times the Investment Coordination Committee (ICC) would revise the parameters defining NG support to LGUs, such as raising the minimum share of LGU equity or lowering the maximum share of NG grant in subproject financing. But the fact that target LGUs withdraw participation because of lack of counterpart equity should be taken as indication that perhaps the rules should be revisited. Current maximum grant for devolved responsibilities is 50%, however, there is an emerging view to allow additional grants but these should be based on performance. A performance-based grant system is currently under analysis by a technical committee chaired by the DILG.

Table 23 shows the November 2002 NG-LGU cost sharing scheme under MDFO for environmental projects. The scheme represents a substantial “tightening” from the 1996 ICC policy resolution on the NG grant component, where only 5th and 6th class cities could get a grant (and only for “brown” projects at that). This was tightened further by a joint ICC-DBCC memorandum issued in August 2004 that declared a zero grant policy on devolved activities. The zero grant policy was reversed back to the 2002 cost-sharing scheme mainly because of LGUs protests. There is an updated version of the cost-sharing scheme but essentially the sharing is the same.

Table 23. MDFO Loan-Grant-Equity Mixes, by Project Category, By Type and Fiscal Class of LGU, 2002, (In percent)

	Municipality/Province			City		
Green/Blue	Loan	Grant	Equity	Loan	Grant	Equity
1st & 2nd	50	30	20	80	0	20
3rd & 4th	45	40	15	80	0	20
5th & 6th	40	50	10	80	0	20
	Municipality/Province			City		
Brown	Loan	Grant	Equity	Loan	Grant	Equity
1st & 2nd	60	20	20	80	0	20
3rd & 4th	45	40	15	80	0	20
5th & 6th	40	50	10	60	20	20

Source: ICC Secretariat.

How would a market-based or market-inspired mechanism ration a given supply? When there are hardly any takers, the NG grant component is probably too low or the LGU equity component too high. On the other hand, if the national grant component is too high, queuing is likely to result. How then shall the limited grant funds be rationed? It is tempting to suggest that the NG share be lowered iteratively until the excess demand vanishes. But the ones who would drop out with this procedure may be those most in need of assistance. Richer LGUs and communities with the financial capacity to put up the higher counterpart would be the ones getting access to the NG grant funds. A strategy is to create a window for LGUs eligible for full grant. However, the LGUs are always taking advantage of single window for all LGUs.

The creation of separate sub-windows for different income classes addresses this problem, but only partially. The common approach is to rank project proposals within a given sub-window according to some simple, transparent criteria that take levels of community needs and resources into consideration, together with benefit and cost effectiveness indicators. For "small" projects, actual community needs may be generated through rapid appraisal techniques, for the conduct of which guidelines may be disseminated to the proponents.

The “competition” among the different LGU on-lending and other forms of co-financing facilities is perhaps partly due to eligibility criteria that favor the “exemplary” LGUs, i.e., the ones with the “ideal” traits described earlier. These LGUs, after two or three subprojects of the on-lending or co-financing type, soon run out of local resources for counterpart equity. After a few projects on highly concessional terms, the LGUs should be able to generate capacity to put up the counterpart requirement and not depend on continuing subsidy. The different ODA facilities therefore run out of “eligible” LGUs willing and able to participate.

Another form of competition is in the financing charges being assessed by the different LGU lending facilities. The on-lending rates may differ across lending facilities e.g., the Municipal Development Finance Office (MDFO), Development Bank of the Philippines (DBP), and Land Bank of the Philippines (LBP), because of differences in the interest rates being charged by the ODA funding sources. The World Bank, ADB, and Japan International Cooperation Agency (JICA) (formerly JBIC) impose different rates. There are also differences in the “hidden” costs to the LGUs, in terms of processing time, access to the loan officers, documentary requirements, and the like.

There have been suggestions that this “competition” should be removed and that there should be only one LGU financing window for ODA (and that would be MDFO). Centralizing ODA to MDFO may bring along operational issues such as budgetary allocation and inability to handle so many LGUs because of organizational constraints. However, from the LGU standpoint, competition even among different agencies of government is healthy in that it encourages the sub-loan or co-financing providers to be more efficient. While the NG oversight agencies would call it forum shopping by LGUs, it is but natural for the LGUs to seek the best terms from the variety of sources. Monopoly, in government as well as in the private sector, almost always works against the interest of the consumer.

The limited technical capacity of LGUs is a perennial problem that cannot be solved simply through more training and capability building. The local planning and project development officers who perform well sometimes get pirated by the donor agencies themselves. The compensation package for local government personnel should thus have a performance-based component, which will create a motivation for good personnel to stay with the LGU. While this is more easily said than done, the LGUs should not be deterred from exploring various options to increase local revenues thereby creating opportunities for an appropriate incentive system for local personnel. We note that the third phase of the Salary Standardization Law (SSL III) shall substantially raise the salaries of government employees, both at the national and local levels, but fears have been expressed that the poorer LGUs may not be able to afford the higher pay scales. This and other local issues deserve a closer look by the PDF Working Group on Decentralization and Local Government.

D. On Access to LGU Financing and the MDFO facility

Consultations with stakeholders revealed that the major i concerns pertaining to LGUs' availment of ODA financing are the following: the lack of technical support, limited staff and financial capacity, and the length of the ODA availment process.[10]

The study also identified major bottlenecks that limit the access of LGUs to ODA, with special reference to the MDFO loans facility, include: a) lack of technical capacity of LGUs to prepare for loan requirements; b) partisan politics getting in the way of technical decisions; c) cash flow problem of the national government (NG); d) perceived high interest rates; e) failure by LGUs to meet the Bureau of Local Government Finance (BLGF) certification requirement.

Lack of technical capacity of LGUs to prepare for loan requirements. On the demand side, it appears that many LGUs lack the technical capacity to prepare the documentary requirements for loan availment. These requirements include completed application forms, financial statements, feasibility study/studies, preparation of detailed architectural and engineering design (DAED), and proof of borrowing capacity. LGUs normally hire consultants to help them prepare all the requirements. This also reflects weak planning capability of the LGUs.

Partisan politics getting in the way of technical decisions. Once some LGUs are ready with their pre-loan activities and documents, partisan politics at the local level come into play. To be able to implement local projects, including those supported by ODA, the LCE needs to secure the support of the *sanggunian* to enact an ordinance or resolution. Here partisan politics may get in the way of getting support for a good project. On the other hand, opposition by the sanggunian (local councils) may also be a good deterrent for bad projects submitted by the LCE. Some bargaining and compromise inevitably happen and project specifications, which have been determined mainly on technical considerations, may be altered and compromised. In some cases, projects do not secure approval. The rather uninspiring perception is of some local officials who seek personal gain out of the loan proceeds; in other cases, sanggunian

[10] Also see Annex 9 for other issues raised by members of the League of Cities of the Philippines based on the Philippines-Australia Local Governance Development Program PDF Consultations held in Tagbilaran City, Bohol on November 23, 2006.

approval of a proposed loan by the LCE may be withheld pending satisfaction of parochial political objectives. It is noted that the risk of not being able to secure approval for the project is high in LGUs where the LCE and the sanggunian are not political allies.

Some LGUs feel that the requirements, processes and procedures set by the MDFO to enable LGUs to gain access to ODA loan funds are tedious and lengthy as compared to those of GFIs and private banks, which also offer loan facilities to LGUs. Some of these financial institutions even provide technical assistance to LGUs to facilitate the latter's access to expedient financing assistance. There are cases of project loans, with technical plans for funding through the MDFO, being cancelled by the LGU loan applicants.

On the other hand, the MDFO supports the applicant LGUs by providing technical assistance in the preparation of FS and DAED. The preparation of these required documents take time and may have been seen by the applicant LGUs as a lengthy processing from time of loan application to approval. The MDFO points out that there are instances when once all the requisites for loan approval have been completed, other creditors take over with a promise to immediately release project funds.

There is also the perception that MDFO's lengthy processing of loans, which takes at least 9 months, gets lengthier as an election period approaches. A forty-five day ban on infrastructure projects is imposed before the election period with exceptions for foreign assisted projects. Either because a project is vital for the development of the municipality or city concerned, or because the LCE and all other politicians involved with the project need "visible" projects to increase their chances of getting elected, or both, there arises the inevitable greater pressure for the MDFO to process projects more expeditiously.

NG cash flow problem. The national government (NG) sometimes faces cash flow problems. This somehow delays access to funds by qualified LGUs. However, there has been some improvement in bridging the cash flow gap by the NG through various fiscal measures. Additionally, the MDFO can use the so-called second-generation funds at its disposal to cover the financing gap.

High interest rates. The interest rates of MDFO are seen to be higher compared to those of other financial institutions, primarily due to some built-in technical assistance and capability building activities for recipient LGUs. However, the MDFO has taken note of this and is taking steps to provide more competitive interest rates.

Failure to meet the BLGF certification requirement. The perception among LGUs is that there is a relatively slow issuance of the Certificate of Debt Service Capacity and the disclosure of the loan that LGU is going to avail. The provision of LGC allows the LGU to allocate 20% of regular income for debt service. A *Bangko Sentral ng Pilipinas (*BSP) letter circular required the attachment of a BLGF certification of a debt service capacity to inform the MDFO Policy Governing Board if the scheduled loan amortization is below the mandatory ceiling. Some LGUs have the tendency to manufacture their own certifications of borrowing capacity in order to be granted access to the MDFO facility. These certifications have not been honored because the mandate to issue such certification of borrowing capacity lies with a third party institution, that is, the BLGF. The BSP urges all financial institutions to ensure that entities to be granted loans have good debt service capacity. Because of this exhortation from the BSP, the BLGF has been collecting the Statement of Receipts and Expenses (SREs) of LGUs and has created and maintained a database of such submissions. It is noteworthy that this database for SREs of LGUs has a three-year lag. This is not a welcome situation because it has implications on determining the creditworthiness of the LGUs and one aspect of this is the debt service capacity. The BLGF has to attend to these concerns in order to expedite the loan application process for LGUs.

E. Other policy issues

There are also other overarching policy issues which may be considered in setting the appropriate LGUs financing framework. Firstly, NG has provided funding – mostly dole out for LGUs – for various sectoral programs, e.g. health, etc. without appropriate screening or identification of the most needy and financially incapable LGUs. This serves to stunt the initiative in most LGUs as they simply await fiscal transfers from the NG agencies and do not raise nor allocate resources for the delivery of local services, which are funded by dole outs. Second, LGUs fail to maximize their revenue raising potential; they would rather continue to be dependent on NG fiscal transfers. Finally, there seems to be no monitoring nor evaluation of the development impact of individual sub-projects of LGUs financed by either grants or the MDFO loan facility. Inasmuch as the NEDA monitors total ODA and program portfolio, individual projects of LGUs needs further attention not only by NEDA but also by other oversight agencies such as DBM (on the budgetary aspects of the LGU project) and DILG (on the impact of such sub-projects to the community being served by the LGU).

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Recommendations on Policies, Processes and Procedures

1. On Policies

At the policy level, the government needs to seriously consider the following: i) allow LGUs to use private commercial banks as depository institutions; ii) fast-track the implementation of Executive Order 809; and, iii) establish a monitoring system to be established and based among NEDA, DILG, DBM, and DOF for ODA funded local government projects.

Allow LGUs to use private commercial banks as depository institutions. With proper safeguards to be developed by the DOF and BSP, the prohibition against LGUs using commercial banks as depositories should be lifted. This will allow LGUs to develop a working relationship with private commercial banks, which are expected to compete for LGU business by way of offering higher interest on deposits, lower interest on loans, and better banking services in general. For many areas in the countryside, the LGU has been the single biggest potential banking client. With access to LGU accounts, more private banks could be motivated to establish branches in areas with limited banking facilities, thereby providing financial services not only to the LGU but also to a wider client base as well.

There seems to be some scope for this recommendation to prosper because many sectors including those from the different PDF Working Groups and even some high-level DOF officials themselves have supported this recommendation.

It is noted that as early as 1998, Llanto and his colleagues at the Philippine Institute for Development Studies have made this recommendation. This recommendation and a few others in their landmark study[11] have been picked up by other analysts who echoed very similar recommendations. The latest reiteration of their recommendations are those expressed by Soriano and Pellegrini (2009)[12]. The curious fact is that despite the good reason behind this practical recommendation and the widespread support for it, the national government has failed to act on it.

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[11] Llanto, Gilberto M and others (1998). **Local Government Units' Access to the Private Capital Markets**. Makati City: The Philippine Institute for Development Studies.

[12] These policy recommendations are presented in Annex 6.

An idea worth exploring is the proposal from the League of Provinces of the Philippines to allow LGUs direct access to ODA without any sovereign guarantee by the national government. This used to be a moot issue before, when practically all donor partners, multilateral and bilateral, refused to lend without sovereign guarantee. Lately, however, ADB has been open to relaxing this condition. The fear of most central governments in allowing direct sub-national foreign borrowing is that, even without sovereign guarantee, a default by the LGU may negatively affect the country's sovereign risk rating. Studies of experiences in other countries would help policy makers have a better appreciation of the merits and demerits of the proposal and enable them to make an informed decision.

Fast-track the implementation of Executive Order 809. Executive Order 809 issued on June 9, 2009 ("Implementing the Financing Policy Framework for Local Government Units by Identifying New Sources of Funding for First Tier LGUs under Republic Act No. 7160") directs the DILG and the DOF to implement the LGU Financing Framework, whereby first-tier LGUs, or those provinces, cities, and municipalities whose average regular and locally-sourced funds for the past three years comprise 60% of their total income, may borrow directly from multilateral agencies to ensure that they have sufficient funding sources for their vital projects.

The EO stresses that "any such loan obtained shall be on a stand-alone basis, without any direct or indirect National Government guarantee." The LGUs are expected to enjoy a lower cost of funds if they are able to borrow directly from ODA sources. However, a loan guarantee such as that provided by the LGU Guarantee Corporation (a private corporation that was established by the government and private commercial banks to guarantee LGU indebtedness, e.g., bonds) that those lending agencies may require may increase the cost of funds for LGUs. The LGU Guarantee Corporation charges a guarantee fee of 1.5 percent.

But perhaps the greater benefit to the LGU comes from being able to define its own public investment needs and priorities and have direct access to multilateral lending institutions. Under existing arrangements where the borrower is a national government agency or a GFI that then relends to the LGU, not only do the borrowing costs of the LGU get inflated, but local priorities also sometimes get distorted by national concerns.

To jumpstart this initiative, the first project should be an "easy," well-prepared one that would serve as a showcase for emulation by other LGUs. Among the

Philippines' ODA partners, the ADB is probably the one most ready (and willing) to lend directly to LGUs. The ADB also has the advantage of having its headquarters in Manila.

Establish a monitoring system among NEDA, DILG, DBM and DOF for ODA-funded individual LG projects. The heads of concerned government agencies need to agree that there is a need to establish such a system and develop an institutional arrangement that would monitor not only the disbursement of ODA funds, but also their utilization and development results. For ODA funded projects still in the pipeline, information on which LGU access is covered by a particular project is at best indicative, as such projects are often demand-driven, and the list of participating LGUs included in the project proposal may change upon implementation. For ongoing foreign-assisted projects, however, coordination among the oversight agencies will help towards greater transparency and accountability for both the government and the donor community.

Under the ODA Act of 1996, NEDA is the agency mandated to monitor foreign-assisted projects (through its Projects Monitoring Staff, or NEDA/PMS). NEDA's monitoring, however, is at the agency and project levels. It does not have the personnel and other resources to monitor subprojects. It is at the LGU subproject level that DILG can help in the monitoring process. DBM, meanwhile, would have data on the financial flows, while DOF (through BLGF and MDFO) would have the broader fiscal picture for the LGU (such as borrowing capacity and projected amortization of LGU loans). A database can be created to determine distribution, availment and implementation performance of specific LGUs.

A byproduct of such an ODA monitoring system that goes down to the LGU level is transparency in the award of subprojects. It sometimes happens that an LGU may already have expressed interest in getting a subloan from, say MDFO or LBP, to finance its domestic water supply project. Then, the local officials hear that the neighboring town is getting a grant from a donor agency for a similar project. They cancel the subloan application, hoping that they would get a grant as well. The ODA monitoring system, aside from simply providing a database, may be tapped to apprise the LGU if the expectation of getting a grant is realistic or not.

2. On Processes and Procedures

At the organizational level, efforts should be exerted to: i) acquaint LGUs of sources of local public investment funds other than direct ODA grants; ii) develop both LGU capabilities and LGU capacities in local planning and project development;

iii) streamline the development and approval processes for small subprojects; iv) involve LGU representatives in the programming exercises with donors; and v) improve the monitoring system on ODA flows, particularly grants.

Acquaint LGUs with sources of public investment funds other than direct ODA grants. LGUs should be reminded that they have access to external resources other than the ODA grants. By far the bigger resources are in the programs, activities, and projects (PAPs), whether foreign-assisted or locally funded, that are undertaken by the line agencies of the NG in their respective localities and jurisdictions. The NG, for strategic reasons, often reserves ODA for those large projects that, if funded from the President's budget, may stir much debate and have a rough sailing in Congress.

Another source is the Priority Development Assistance Fund (PDAF) or congressional initiatives (CIs) which are allocated by congressional district and run into billions of pesos.[13] The PDAF is a significant extra-budgetary source for many small and poor LGUs. The national government, particularly DBM, has been trying to "rationalize" the uses of the PDAF by defining the set of local infrastructure projects that may be funded by the facility. Lobbying by the local chief executive (usually the mayor, as the governor is often a rival of the congressman) helps assure that the small local project is consistent with the local development plan.

For the bigger projects, locally funded or foreign-assisted, the immediate venue for the LGUs' influence on design and implementation is the regional development council (RDC), where the regional directors of the national line agencies sit as members. But not all LGUs are members of the RDC. The smaller LGUs (the municipalities) have to course their requests through the governors or lobby with the regional directors. If the regional directors have less influence in their respective central offices, LGU representation or lobbying may have to be with the central officials themselves. These are political realities with which LGUs have to contend.

Develop LGU capabilities and capacities in local planning and project development. As mentioned earlier, the limited technical capacity of LGUs is a perennial problem that cannot just be solved simply through more training and capability building. The donor agencies themselves complicate the situation as they compete for the services of local planning and project development officers who perform well. It is within this context that the Local Government Academy (LGA) of the DILG can also play

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[13] The PDAF or CIs reached their highest levels in 2003 (P19.5 billion) and 2004 (P19.7 billion)

a key role in providing a framework for sustainable LGU capacity building.

The compensation package for local government personnel should have a performance-based component, but while this is more easily said than done, LGUs should explore various options for raising their revenue intake, e.g., improve the collection of real property taxes through better valuation of properties, improve the administration of local business taxes even as they deliver better local public services. The third phase of the Salary Standardization Law (SSL III) substantially raises the salaries of government employees, both national and local, but fears have been expressed that the poorer LGUs may not be able to afford the higher pay scales.

A possible way of stemming the outflow of good, trained LGU technical personnel is a temporary, periodic cross-posting or special secondment scheme with the major donor agencies. At present, this may be observed at the more senior level among NGAs (oversight and line), where a bureau director or division chief goes on leave to join a foreign-assisted project for, say, six months or one year. A similar arrangement may be developed for capable LGU technical personnel. This suggestion deserves a closer look by the PDF Working Group on Decentralization and Local Government.

Again, the DILG's LGA may enter into partnership with other training institutions, especially in the regions, so that the supply of training services could be sustained and made more easily accessible.[14]

Establish a Project Feasibility Studies Fund for LGUs. Side-by-side with the capacity and capability building initiatives, especially in the short run, is the need to set aside a Project Feasibility Studies Fund, especially for the smaller LGUs. It may be unrealistic for these small LGUs to build up their own internal capability to conduct full-blown project studies, as the typical municipal development office may have only one or two technical persons. The ODA Act actually says that "NEDA shall endeavor to obtain ODA funds from donor countries, which shall approximately be five percent (5%) of the total ODA loan from the immediately preceding year. Said funds shall be administered by the NEDA for project identification, feasibility studies, master planning at local and regional levels, and monitoring and evaluation." Unfortunately, this has not been implemented. Nevertheless, the NEDA Regional Offices (NROs) have a facility to

[14] In fact, LGA has been working with local training institutes and the Philnet which is based on the Local Government Training and Research Institutes (LOGTRI) network in the Asia region. The network of the Association of Schools of Public Administration in the Philippines (ASPAP) may also be tapped.

assist LGUs in project preparation, but these resources are limited. The establishment of a Project Feasibility Studies Fund, lodged within NEDA or DILG, would go a long way towards helping LGUs gain better access to ODA funds.

Streamline the development and approval processes for small subprojects. For the on-lending facilities of the GFIs and MDFO, templates can probably be developed for small sub-loans,(e.g., P3 million and below), such that full-blown feasibility studies may be dispensed with. For example, school-building projects are fairly standard and a checklist-type template on the market, technical, financial, and economic aspects may be easily developed. This would substantially reduce the project development costs and make the ODA on=lending facilities more accessible for the lower-tier LGUs.

Involve LGU representatives in the programming exercises with donors. A common question asked by LCEs is why a neighboring town received a grant from a particular donor while his own town was apparently bypassed. While DILG participates in most (if not all) of the bilateral and multilateral consultations on country programming, in accordance to the basic spirit of transparency and participation, it may be good to invite representatives of local government leagues to attend, even as observers.

Improve the monitoring system on ODA flows, particularly grants. As discussed earlier, probably the best venue for installing a tracking and monitoring mechanism for ODA funds going to LGUs is the DILG, as chair of the PDF Working Group on Decentralization and Local Government. The subprojects that trickle down to the LGUs, especially at the municipal level and below, are many and widely dispersed across the country. It must be emphasized that DILG as a national government agency is uniquely positioned since it has presence all the way down to the local level.

The tracking and monitoring system should gather information not just from the LGUs but from the donor agencies as well. Especially on financial matters, grant aid recipients in many instances are not informed by donors on the magnitude of the technical assistance involved. In the interest of transparency and accountability, a common reporting system should be devised and installed that would allow the Philippine government (and the donor governments themselves) to say, with a reasonable degree of confidence, how much aid flowed in and where it went.

3. Other Recommendations

The study team likewise recommends the following: i) establishment of an

MDFO website for greater transparency and wider reach of the facility, with the site having an appropriate easy-to-follow steps and procedures on LGU ODA availment; ii) making available a ready pool of consultants to assist LGUs in preparing for the necessary financing application requirements through MDFO; iii) use ODA for better access to performance-based LGU financing; and iv) build-up of the SRE database within the BLGF and harmonizing this with those of other concerned agencies.

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Annexes

Annex 1-A. NG-LGU Cost Sharing Schemes (Financing Mixes), 1990s

Sector/Activity	LGU Income Class	NG Share (%)	Remarks
Water Supply (only for Level 1)	1st 2nd 3rd and 4th 5th and 6th	0 0 0 50	No National Government grants for Levels 2 (communal faucet) and 3 (house connection) water systems.
Rural Infrastructure Public Market Bus Terminal	 1st – 6th 1st – 6th	 0 0	 Revenue-generating Projects will not be provided National Government grants.
Provincial Roads Municipal Roads	1st – 6th 1st – 6th	0 0	NG support only possible for access roads, farm-to-market roads covered by approved national programs (e.g. environment or agrarian reform).
Communal Irrigation	1st 2nd and 3rd 4th 5th and 6th	20 30 40 50	The cost-sharing arrangement applies only to capital costs.
Health	1st and 2nd 3rd and 4th 5th and 6th	50 70 90	The cost-sharing arrangement applies only to capital costs.
Environment Blue (watershed protection, municipal fishery mgt, coastal resource mgt, mangrove protection and rehabilitation	1st 2nd and 3rd 4th – 6th	20 50 70	Cost-sharing based on total project cost (PS & MOOE included in the National Government grant).
Green (reforestation and Forest-related activities, soil conservation, protected area mgt, wildlife conservation)	1st 2nd and 3rd 4th – 6th	20 50 70	Cost-sharing based on total project cost (PS & MOOE included in the National Government grant).
Brown (solid waste mgt, Vehicular emission control, water pollution control, traffic engineering	1st and 2nd 3rd and 4th 5th and 6th	0 0 0	NG shoulders costs of rehabilitation of ecosystems. LGU shoulders all other costs (enforcement, investment, O&M)
Sanitary support facilities for public markets and slaughterhouses	3rd and 4th 5th and 6th	50 70	

Annex 1-B. Revised Loan-Grant-Equity Mix for Provinces/Municipalities, and for Cities, 2009

Cluster	LGU Income Class	Municipalities and provinces			Cities		
		Loan %	Grant %	Equity %	Loan %	Grant %	Equity %
Cluster 1	1st & 2nd	0	0	0	0	0	0
	3rd & 4th	70	20	10	0	0	0
	5th & 6th	40	50	10	0	0	0
Cluster 2	1st & 2nd	50	30	20	80	0	20
	3rd & 4th	45	40	15	80	0	20
	5th & 6th	40	50	10	50	30	20
Cluster 3 - Water waste	1st & 2nd	60	20	20	80	0	20
	3rd & 4th	45	40	15	80	0	20
	5th & 6th	40	50	10	60	20	30
	LGU Income Class	**Grant**	**LGU share (Loan/equity)**		**Grant**	**LGU share (Loan/equity)**	
Cluster 3- SWM	1st & 2nd	20	60/20		40	60	
	3rd & 4th	40	45/15		25	75	
	5th & 6th	50	40/10		20	80	

Annex 2. Ranking of Provinces Based on ODA funded projects

Province	Regional Location	No. of ODA funded projects
1. Agusan del Sur	Region XIII	43
2. Negros Occidental	Region VI	39
3. Antique	Region VI	37
Iloilo	Region VI	37
Surigao del Sur	Region XIII	37
4. Cebu	Region VI	34
5. Bohol	Region VII	33
North Cotabato	Region XII	33
Zamboanga del Sur	Region IX	33
6. Zamboanga del Norte	Region IX	32
7. Maguindanao	ARMM	31
8. Albay	Region V	30
Misamis Occidental	Region	30
9. Leyte	Region VIII	28
10. Agusan del Norte	Region XIII	26
Bukidnon	Region X	26
Capiz	Region VI	26
Lanao del Sur	ARMM	26
Pampanga	Region III	26
Sultan Kudarat	ARMM	26
11.Camarines Sur	Region V	25
Davao del Sur	Region	25
Surigao del Norte	Region XIII	25
12. Compostela	Region	23
Southern Leyte	Region	23
13. Davao del Norte	Region	22
Davao Oriental	Region	22
Ilocos Norte	Region	22
Lanao del Norte	Region	22
Negros Oriental	Region	22
Oriental Mindoro	Region IV-B	22
Palawan	Region IV-B	22
Sorsogon	Region V	22
South Cotabato	Region	22
Tawi-tawi	ARMM	22
14. Basilan	Region	21
Eastern Samar	Region	21
Masbate	Region V	21
Nueva Ecija	Region III	21
Pangasinan	Region I	21
15. Benguet	CAR	20
Romblon	Region IV-B	20
Sulu	ARMM	20
16. Aurora	Region III	19
Batangas	Region IV-A	19
Isabela	Region II	19
Quezon	Region IV-B	19

Province	Regional Location	No. of ODA funded projects
Saranggani	Region XII	19
Zamboanga Sibugay	Region IX	19
17. Misamis Oriental	Region	18
Mt. Province	CAR	18
18. Abra	Region I	17
Biliran	Region	17
Ifugao	CAR	17
19. Bulacan	Region III	16
Camarines Norte	Region V	16
Guimaras	Region	16
Northern Samar	Region	16
Rizal	Region IV-A	16
20. Kalinga	CAR	15
21. Cagayan	Region II	14
Nueva Vizcaya	Region II	14
Tarlac	Region III	14
22. Bataan	Region III	13
23. Aklan	Region	12
24. Apayao	CAR	11
Laguna	Region	11
25. Camiguin	Region	10
Cavite	Region IV-A	10
Ilocos Sur	Region I	10
Occidental Mindoro	Region IV-B	10
Quirino	Region II	10
Western Samar	Region	10
26. Catanduanes	Region V	08
Siquijor	Region	08
Zambales	Region III	08
27. La Union	Region I	07
28. Batanes	Region II	05
29. Marinduque	Region IV-B	03
30. Dinagat Island	Region XIII	02
TOTAL		**1,625**

Annex 3. Ranking of Regions Based on ODA funded projects

Rank	Regions	LGUs (Provinces)	Total Number of ODA Projects Per Province	Total # of ODA funded Projects Per Region
1	**Region 6**	Aklan	12	**167**
		Antique	37	
		Capiz	26	
		Guimaras	16	
		Iloilo	37	
		Negros Occidental	39	
2	**Region 13 Caraga**	Agusan del Norte	26	**133**
		Agusan del Sur	43	
		Dinagat Island	2	
		Surigao del Norte	25	
		Surigao del Sur	37	
3	**Region 5**	Albay	30	**122**
		Camarines Norte	16	
		Camarines Sur	25	
		Catanduanes	8	
		Masbate	21	
		Sorsogon	22	
4	**ARRM**	Basilan	21	**120**
		Lanao del Sur	26	
		Maguindanao	31	
		Sulu	20	
		Tawi-tawi	22	
5	**Region 3**	Aurora	19	**117**
		Bataan	13	
		Bulacan	16	
		Nueva Ecija	21	
		Pampanga	26	
		Tarlac	14	
		Zambales	8	
6	**Region 8**	Biliran	17	**115**
		Eastern Samar	21	
		Leyte	28	
		Northern Samar	16	
		Western Samar	10	
		Southern Leyte	23	
7	**Region 10 Northern Mindanao**	Bukidnon	26	**106**
		Camiguin	10	
		Lanao del Norte	22	
		Misamis Occidental	30	

Rank	Regions	LGUs (Provinces)	Total Number of ODA Projects Per Province	Total # of ODA funded Projects Per Region
		Misamis Oriental	18	
8	**Region 12 Soccsksargen**	North Cotabato	33	**100**
		Sarangani	19	
		South Cotabato	22	
		Sultan Kudarat	26	
9	**CAR**	Abra	17	**98**
		Apayao	11	
		Benguet	20	
		Ifugao	17	
		Kalinga	15	
		Mt. Province	18	
10	**Region 7**	Bohol	33	**97**
		Cebu	34	
		Negros Oriental	22	
		Siquijor	8	
11	**Region 11 Davao Region**	Campostela Valley	23	**92**
		Davao del Norte	22	
		Davao del Sur	25	
		Davao Oriental	22	
12	**Region 9 Zamboanga Peninsula**	Zamboanga Del Norte	32	**84**
		Zamboanga Del Sur	33	
		Zamboanga Sibugay	19	
13	**Region 4-B MIMAROPA**	Marinduque	3	**77**
		Occidental Mindoro	10	
		Oriental Mindoro	22	
		Palawan	22	
		Romblon	20	
14	**Region 4-A Calabarzon**	Batangas	19	**75**
		Cavite	10	
		Laguna	11	
		Quezon	19	
		Rizal	16	
15	**Region 2**	Batanes	5	**62**
		Cagayan	14	
		Isabela	19	
		Nueva Viscaya	14	
		Quirino	10	
16	**Region 1**	Ilocos Norte	22	**60**
		Ilocos Sur	10	
		La Union	7	
		Pangasinan	21	

Rank	Regions	LGUs (Provinces)	Total Number of ODA Projects Per Province	Total # of ODA funded Projects Per Region
Total ODA Projects			1625	1625

Annex 4. Distribution of ODA funded projects by Sector, By Province

LGU (Provinces)	Infra	Educ	Social Services	Agriculture /Agrarian Reform	Health	Environ ment	Others (e.g. Energy, Governance etc.)	Total Number of ODA funded projects
Abra	7	3	3	2	1	1		17
Apayao	4	2		2	2	1		11
Benguet	3	3		2	10	2		20
Ifugao	2	2	3	2	7	1		17
Kalinga	6	2	3	2	1		1	15
Mt. Province	4	3	3	2	6			18
Ilocos Norte	11			4	5	1	1	22
Ilocos Sur	6			4				10
La Union	3			4				7
Pangasinan	10			4	4	3		21
Batanes		2		2	1			5
Cagayan	6			3	1	4		14
Isabela	5	2		6	3	2	1	19
Nueva Vizcaya	2			3	6	3		14
Quirino	4			3	1	2		10
Aurora	8	4	1	2	2	2		19
Bataan	2			5	1	5		13
Bulacan	4			2	2	8		16
Nueva Ecija	5			4	2	9	1	21
Pampanga	14			2	2	7	1	26
Tarlac	3			4	1	6		14
Zambales	1			5	1	1		8
Batangas	8			3	1	3	4	19
Cavite	2			2	3	2	1	10
Laguna	3			3	1	2	2	11
Quezon	4	1	3	6	2	2	1	19
Rizal	12				1	3		16
Marinduque	1		1	1				3
Occidental Mindoro	1		2	6			1	10
Oriental Mindoro	8		3	6	5			22
Palawan	7			6	1	3	5	22
Romblon	4	2	3	3	7		1	20
Albay	10	1	4	11	1	2	1	30
Camarines Norte	6		2	4	1	1	2	16
Camarines Sur	8	1	2	9		4	1	25
Catanduanes	3		2	2	1			8

LGU (Provinces)	Infra	Educ	Social Services	Agriculture /Agrarian Reform	Health	Environ ment	Others (e.g. Energy, Governance etc.)	Total Number of ODA funded projects
Masbate	7	2	2	4	4	1	1	**21**
Sorsogon	6	1	2	7	3	1	2	**22**
Aklan	4			4	2	2		**12**
Antique	20	2		3	7	1	4	**37**
Capiz	5	2	3	5	7	1	3	**26**
Guimaras	2	2		1	7	1	3	**16**
Iloilo	19		4	4	3	5	2	**37**
Negros Occidental	23	1	2	5	2	4	2	**39**
Bohol	3	2	6	8	4	6	4	**33**
Cebu	12		1	5	4	5	7	**34**
Negros Oriental	2	1		6	7	3	3	**22**
Siquijor			2	2	2	2		**8**
Biliran	1	3	2	2	8		1	**17**
Eastern Samar	5	2	2	4	7		1	**21**
Leyte	7	3	3	10		5		**28**
Northern Samar	2	1	3	6	2		2	**16**
Western Samar	2		4	3	1			**10**
Southern Leyte	5	2		7	6	1	2	**23**
Zamboanga Del Norte	10	2	3	13		1	3	**32**
Zamboanga Del Sur	6	5	5	11	1	1	4	**33**
Zamboanga Sibugay		3	3	9		1	3	**19**
Bukidnon	9	1	1	8	2	1	4	**26**
Camiguin	1		2	5		1	1	**10**
Lanao del Norte	4	1	4	7	1		5	**22**
Misamis Occidental	5		4	12	4		5	**30**
Misamis Oriental	3		1	12			2	**18**
Compostela Valley	5	2	3	9		2	2	**23**
Davao del Norte	3	1	3	13			2	**22**
Davao del Sur	7	1		12		2	3	**25**
Davao Oriental	4	2	2	9		1	4	**22**
North Cotabato	1	6	3	8	7	3	5	**33**
Saranggani	3	2	3	5	1	2	3	**19**
South Cotabato	1	2	3	7	3	3	3	**22**
Sultan Kudarat	4	2	3	6	4	2	5	**26**
Agusan del	5	1	5	9	1	4	1	**26**

LGU (Provinces)	Infra	Educ	Social Services	Agriculture /Agrarian Reform	Health	Environ ment	Others (e.g. Energy, Governance etc.)	Total Number of ODA funded projects
Norte								
Agusan del Sur	6	3	6	13	9	3	3	43
Dinagat Island			1				1	2
Surigao del Norte	5	2	2	10	1	1	4	25
Surigao del Sur	16	3	4	9	3	2		37
Basilan		5		3	4	1	8	21
Lanao del Sur	1	6		5	3	2	9	26
Maguindanao	2	5		2	6	2	14	31
Sulu		4		3	4		9	20
Tawi-tawi		4		4	5		9	22
Total ODA funded projects	413	115	132	421	218	153	173	1625

Sources of Data:

1 DA (Infres) - Department of Agriculture (infrastructure for Rural Productivity Enhancement Sector)

2 DAR - Department of Agrarian Reform

3 DBP - Development Bank of the Philippines

4 DENR (FAPSO) - Department of Environment and Natural Resources (Foreign-Assisted and Special Projects)

5 DepEd - Department of Education

6 DOH - Department of Health

7 DPWH (BOC) - Department of Public Works and Highways (Bureau of Construction)

8 DSWD (Kalahi-CIDDS) - Department of Social Welfare and Development

9 LBP - LandBank of the Philippines

10 NEDA - National Economic and Development Authority

11 NIA - National Irrigation Administration

Annex 5. Ranking of Provinces with ODA funded projects in Agriculture/ Agrarian Reform

Rank	LGU (Provinces)	No. of Agriculture/Agrarian Reform Projects
1	**Agusan del Sur**	13
1	**Davao del Norte**	13
1	**Zamboanga Del Norte**	13
2	**Davao del Sur**	12
2	**Misamis Occidental**	12
2	**Misamis Oriental**	12
3	**Albay**	11
3	**Zamboanga Del Sur**	11
4	**Leyte**	10
4	**Surigao del Norte**	10
5	**Agusan del Norte**	9
5	**Camarines Sur**	9
5	**Compostela Valley**	9
5	**Davao Oriental**	9
5	**Surigao del Sur**	9
5	**Zamboanga Sibugay**	9
6	**Bohol**	8
6	**Bukidnon**	8
6	**North Cotabato**	8
7	**Lanao del Norte**	7
7	**Sorsogon**	7
7	**South Cotabato**	7
7	**Southern Leyte**	7
8	**Isabela**	6
8	**Negros Oriental**	6
8	**Northern Samar**	6
8	**Occidental Mindoro**	6
8	**Oriental Mindoro**	6
8	**Palawan**	6
8	**Quezon**	6
8	**Sultan Kudarat**	6
9	**Bataan**	5
9	**Camiguin**	5
9	**Capiz**	5
9	**Cebu**	5
9	**Lanao del Sur**	5
9	**Negros Occidental**	5
9	**Saranggani**	5
9	**Zambales**	5
10	**Aklan**	4
10	**Camarines Norte**	4
10	**Eastern Samar**	4
10	**Ilocos Norte**	4

Rank	LGU (Provinces)	No. of Agriculture/Agrarian Reform Projects
10	**Ilocos Sur**	4
10	**Iloilo**	4
10	**La Union**	4
10	**Masbate**	4
10	**Nueva Ecija**	4
10	**Pangasinan**	4
10	**Tarlac**	4
10	**Tawi-tawi**	4
11	**Antique**	3
11	**Basilan**	3
11	**Batangas**	3
11	**Cagayan**	3
11	**Laguna**	3
11	**Nueva Vizcaya**	3
11	**Quirino**	3
11	**Romblon**	3
11	**Sulu**	3
11	**Western Samar**	3
12	**Abra**	2
12	**Apayao**	2
12	**Aurora**	2
12	**Batanes**	2
12	**Benguet**	2
12	**Biliran**	2
12	**Bulacan**	2
12	**Catanduanes**	2
12	**Cavite**	2
12	**Ifugao**	2
12	**Kalinga**	2
12	**Maguindanao**	2
12	**Mt. Province**	2
12	**Pampanga**	2
12	**Siquijor**	2
13	**Guimaras**	1
13	**Marinduque**	1
	Dinagat Island	
	Rizal	
	Total ODA funded projects	**421**

Annex 6. Policy Recommendations on Improving LGU Access to ODA

By M.C. Soriano and A. Pellegrini

1. Government should use ODA more strategically and effectively

2. Government should clarify its policy with respect to encouraging private funding of creditworthy LGU projects.

3. The Government should ask its ODA partners to design projects and programs that would leverage ODA funds destined for LGUs with domestic commercial financing.

4. ODA should not be used to crowd out commercial financing
    a. ODA funds should not be used for projects that require financing of ten years or less.
    b. For projects requiring longer term financing, where PFIs or other commercial finance is potentially available (perhaps with the support of MDFO or LGUGC), GFIs and other government lending institutions should not use ODA funds to compete with these private funding.
    c. Even where there is no commercial financing interest in longer term LGU projects, ODA funded project design should seek to leverage the internal funds of GFIs and other government lending institutions and to allow the LGU borrowers to benefit as much as possible from the long tenor of ODA funds .

5. Review of the pricing of ODA funds provided to GFIs including whether GFIs should bear the foreign exchange risk. Any pricing policy must reconcile the following conflicting objectives:
    a. The desire not to undercut commercial financing sources;
    b. The desire to price loans as cheaply as possible to increase affordability to LGUs;
    c. The desire to better price or wean away the GFIs from foreign exchange risk cover and sovereign guarantee by the DOF; and
    d. The desire to avoid ODA providers and their local financial intermediaries from competing with each other on the basis of the price of a loan from a GFI.

6. The government should develop capacity at the LGU level to prepare and operate projects that would be suitable for ODA and for commercial financing

7. Government should strengthen MDFO's operational capacity to support LGU financing by approving the proposal to make it an 'Attached Agency' of DOF and approving its rationalization plan.

8. Evaluate the NG-LGU cost sharing policy, pilot-test the performance-based incentive policy and finalize design of the performance-based grant system

9. MDFO to continue initiatives for mobilizing private capital for LGU projects

10. BLGF and DILG to enhance initiatives for disseminating information about LGUs' creditworthiness and achievements

11. Re-invigorate the LGU bond market
    a. Relaxation of the BSP requirement that BLGF review the feasibility studies for projects proposed for bond flotation if LGUGC is guaranteeing it since LGUGC does this already. LGUGC also has a project monitoring board for each ongoing project. For bonds not being guaranteed by LGUGC, review of the feasibility study can be done by LGUGC or MDFO for a fee. A requirement for a credit rating by LGUGC or in the future by any other established rating agency, or a review by MDFO should suffice in place of national government review.
    b. Bidding out of financial advisory services and other measures to lower costs
    c. Clarification of tax implications of use of special purpose vehicles (SPVs) for bond issuance
    d. Promotion of a larger stock of financially and technically sound feasibility studies, particularly for projects costing at least P50 M.
    e. Bond pooling for smaller LGUs through a 'bond bank' type of institution that would create economies of scale, or
    f. Establishing a liquidity facility that would back bonds with put options. Put options help longer tenor bonds to be sold because the bonds would be liquid and investors with a shorter term horizon would be able to buy longer term bonds because of the knowledge that they can be sold. Both bond banks and liquidity facilities would help develop the secondary market.

12. ODA providers to consider the following:
    a. Lending in pesos
    b. Not requiring sovereign guarantees for loans of GFIs
    c. Directly leveraging or extending the tenor of PFI loans to LGUs
    d. Providing credit enhancements for BOT and similar arrangements, revolving funds/bond pooling, and securitization

e. Providing support to strengthen regulatory framework and capacity in critical sectors especially where private sector participation is desired (e.g. water supply and sewerage).

Annex 7. Guidelines for Grant Design

By Anwar Shah

1. *Clarity in grant objectives*. Grant objectives should be clearly and precisely specified to guide grant design.
2. *Autonomy*. Subnational governments should have complete independence and flexibility in setting priorities. They should not be constrained by the categorical structure of programs and uncertainty associated with decision making at the center. Tax-base sharing—allowing subnational governments to introduce their own tax rates on central bases, formula-based revenue sharing, or bloc grants—is consistent with this objective.
3. *Revenue adequacy*. Subnational governments should have adequate revenues to discharge designated responsibilities.
4. *Responsiveness*. The grant program should be flexible enough to accommodate unforeseen changes in the fiscal situation of the recipients.
5. *Equity (fairness)*. Allocated funds should vary directly with fiscal need factors and inversely with the tax capacity of each jurisdiction.
6. *Predictability*. The grant mechanism should ensure predictability of subnational governments' shares by publishing five-year projections of funding availability. The grant formula should specify ceilings and floors for yearly fluctuations. Any major changes in the formula should be accompanied by hold harmless or grandfathering provisions.
7. *Transparency*. Both the formula and the allocations should be disseminated widely, in order to achieve as broad a consensus as possible on the objectives and operation of the program.
8. *Efficiency*. The grant design should be neutral with respect to subnational governments' choices of resource allocation to different sectors or types of activity.
9. *Simplicity*. Grant allocation should be based on objective factors over which individual units have little control. The formula should be easy to understand, in order not to reward grantsmanship.
10. *Incentive*. The design should provide incentives for sound fiscal management and discourage inefficient practices. Specific transfers to finance subnational government deficits should not be made.
11. *Reach*. All grant-financed programs create winners and losers. Consideration must be given to identifying beneficiaries and those who will be adversely

affected to determine the overall usefulness and sustainability of the program.

12. *Safeguarding of grantor's objectives*. Grantor's objectives are best safeguarded by having grant conditions specify the results to be achieved (output-based grants) and by giving the recipient flexibility in the use of funds.
13. *Affordability*. The grant program must recognize donors' budget constraints. This suggests that matching programs should be closed ended.
14. *Singular focus*. Each grant program should focus on a single objective.
15. *Accountability for results*. The grantor must be accountable for the design and operation of the program. The recipient must be accountable to the grantor and its citizens for financial integrity and results—that is, improvements in service delivery performance. Citizens' voice and exit options in grant design can help advance bottom-up accountability objectives.

[Some of these criteria may be in conflict with others. Grantors may therefore have to assign priorities to various factors in comparing design alternatives (Shah 1994b); Canada 2006).]

Annex 9. Experiences of LGUs surveyed on their ODA Experience

Some of the issues and concerns on accessing ODA funds as raised by two survey respondents from the League of Cities of the Philippines (LCP) are the following:

- lack of technical support;
- limited staff and financial capacity
- length of the ODA availment process

Other issues not related to the ODA process were also identified. A survey respondent stated that one impediment to pursuing local priorities is that ODA priorities can skew local priorities placing projects of lesser importance to an LGU on its priority list simply because of the availability of ODA funds. The province of Bohol has also identified the following issues based on its experience:

- differing requirements of development partners
- start-up processes involving NGAs can take some time
- need to properly decentralize the approach and allow more ODA to go directly to LGUs
- need to emphasize a demand driven approach rather than an ODA driven approach
- success breeds success—hard for the less fortunate and less capable LGUs to attract ODA
- need for accurate information to make investment decisions and demonstrate results

While the case of Iloilo province has raised several issues and observations, including:

- underinvestment in infrastructure is threatening economic and environmental development in Region VII
- infrastructure and investment still appear to be piecemeal and ad-hoc
- unreliable statistics as a basis for policy development and decision-making
- unclear guidelines on LGU partnership formation and operation
- majority of ODAs implemented through NGAs which involve individual LGUs
- ODA information is monitored by NGAs and obtained on request
- ODA coordination is semi-formal or informal; LGUs participate through consultation meetings, information gathering and M & E activities
- LGUs generally have inadequate knowledge of effective ODA management and coordination