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Gems in LGU Fiscal Management: a Compilation of Good Practices

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Abstract

Recognizing that the lack of financial resources to support the provision of basic services and to fund local development plans is a critical concern at the local level to attain improvements in key human development outcomes, the paper discusses the different sources of LGU revenues, both traditional and non-traditional. Moreover, the study presents corresponding issues (e.g., complex tax structures) that hamper efficient revenue generation/mobilization and at the same time emphasizes that there is some scope for local initiative and for some LGUs to do better than others by presenting examples of "good practices" which show innovative ways of some LGUs to overcome these hurdles. From here, a menu of policy actions that is aimed at enhancing not just LGU revenue generation and mobilization but also strategic allocation was drawn.

Keywords: *revenue generation, resource mobilization, LGU revenue sources, LGU good practices*

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1. INTRODUCTION

The lack of financial resources to support the provision of basic services and to fund local development plans is a critical concern at the local level if improvements in key human development outcomes are to be attained. On the one hand, revenue generation and resource mobilization at the local level is hampered by complex tax structures, poor systems and procedures, and weak local capabilities. On the other hand, planning and budgeting at the local level is bedeviled by the short political tenure of local officials, and the lack of a clear mandate supporting the linkage between the Local Development Plan, the Local Development Investment Program, and the Annual Investment Program. Consequently, there is a need to help LGUs develop strategies and systems that will enable them to increase their financial resources and to allocate their resources in a manner that is consistent with their goals and objectives as articulated their medium term development plans.

Undeniably, efficient revenue generation/ mobilization and allocation at the local level is stymied by poor incentives arising from structural problems in the way central-local relations have been defined (e.g., mis-match in revenue and expenditure assignment across levels of government, short term of office of local elected officials). Nonetheless, experience almost everywhere in the world suggests that even when incentives facing local governments are inappropriate there is some scope for local initiative and for some LGUs to do better than others even under the most perverse situations (Bird and Smart 2001). Numerous examples of LGU "good practices" are available all over the country. This study draws extensively from this list in putting forward a menu of policy actions that is aimed at enhancing not just LGU revenue generation and mobilization but also the strategic allocation of the same (**Table 1**).

The objective of this study is to develop a policy and action framework at the local level that will promote the expansion of LGU resources for the provision of improved services.

2. TRADITIONAL SOURCES OF LGU REVENUE: RESOURCE GENERATION

2.1. Local Taxation

The power of LGUs to raise revenues is inherent in their being a political subdivision of the government and in their corporate character. As such, they are charged not only with governmental functions, such as those related to taxation, regulation and service delivery, but also with proprietary functions, i.e., to enter into contracts, to own and manage economic enterprise, and the like.

Table 1. Policy and Action Framework for Improving LGU Finance

1. **Local taxes**
   - Update Local Tax Code
   - Computerization
   - Improve tax payer services – make it easier for taxpayers to pay, comfortable tax offices
   - Recognition of top taxpayers

1.1. ***Real property tax***
- Conduct general revision of assessment
- Reduce forms/ redesign forms to reduce cost
- Computerization of records
- Linking up with Register of Deeds
- Strengthen enforcement (auctions, publication of delinquent properties)
- Engage with stakeholders (e.g., barangay officials) to help in registration and collection

1.2. ***Local business tax***
- Tax mapping – operation suyod, GIS-aided approach
- Use of presumptive income levels
- Use of information from other agencies
- One-stop shops, flow chart of how to pay taxes

2. **Economic enterprise management**
   - Application of suitable rate setting model/s
   - Income retention to provide incentives to improve collection efficiency

3. **Cost recovery in locally provided services**
   - application of suitable rate setting model/s
   - increasing of fees and crafting of local ordinance
   - installation of appropriate institutional arrangements for income retention, (e.g., Sanggunian ordinance to effect this and/ or the establishment of a trust fund for this purpose and/ or designating government facility as economic enterprise)
   - addressing equity concerns in the event that fees for services provided by LGUs are increased
   - experience with community based health insurance schemes

4. **Non-traditional sources of financing**
   - access to non-traditional sources of financing like bank credit, issuance of bonds, BOT, joint venture

5. **Public expenditure management**
   - Government reorganization
   - Retrenchment
   - Performance based budgeting
   - Re-inventing Local School Board – to encourage constituency for education with once a year reporting of performance to stakeholders, commit ideas to budget

The literature on fiscal federalism suggests that the mis-match between revenue and expenditure assignment may engender poor incentives for local revenue effort (something that appears to be supported by quantitative analysis in earlier studies). On the one hand, some LGUs have no incentive to utilize their revenue raising authorities fully precisely because more resources have been transferred to them relative to their needs. On the other hand, other LGUs likewise tend not to maximize the use of their revenue powers because they can always point to the central government as the culprit for not allowing finance to follow function. At the same time, this situation also tends to weaken local accountability as local communities tend not to complain about the inadequacy of local services because they do not pay much in terms of local taxes anyway.

This tendency may explain the widespread perception that many LGUs have not fully utilized their revenue raising powers because of resistance on the part of either the local chief executive or the local Sanggunian (or both) to increase local tax rates for fear of a backlash from their constituents during elections. Related to this, only a few LGUs have revised their local tax codes since 1992 despite the fact that the rate of some local taxes is not indexed to inflation. Very often efforts to update/ amend local tax ordinances have been thwarted by the Sanggunian. For instance, the City Treasurer of Iligan City submitted a draft amendment of its Revenue Code (that seeks to increase the local business tax rate and to levy previously untapped taxes and fees) to its Sanggunian in 2002. As of April 2004, the proposal is yet to be approved.

Moreover, many provinces and cities undertook a general revision of the schedule of market values of real property only once since 1991, thus, resulting in declining collections in real terms.[1] Oftentimes, the Sanggunian refuses to provide the budget support that is needed for the conduct of the general revision of assessment (GRA). Moreover, the Sanggunian-approved schedule of real property values is generally reported to be lower than the BIR zonal value (which is used as the basis of the centrally-imposed capital gains tax). Celestino et al. (1998) noted that this practice tend to give rise to petty graft as the low schedule of values is sometimes taken advantage by some local assessment personnel who pretend to assist taxpayers in obtaining “lower” assessments for their property for a fee.

At the same time, very few LGUs have imposed the idle land tax.[2] Also, no LGU have so far imposed a benefit levy that they could, in principle, charge to recover the cost of infrastructure investments directly from beneficiaries.

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[1] The Code mandates that LGUs to conduct a general revision of market values once every three years with the first one taking effect in 1993.
[2] In contrast, the provinces of Cavite, Negros Oriental impose a tax on idle lands.

To make matters worse, tax administration is weak in many LGUs. Thus, many LGUs are not able to maximize the revenue potential of the taxes that they do impose. **Table 2** vividly illustrates this point. It shows that the collection efficiency of provinces and cities with respect to the RPT has declined somewhat from 58% in the pre-Code period to 55% in the post-Code period. While the collection efficiency of cities with respect to the RPT is consistently higher than that of provinces, a deterioration in the collection efficiency is evident at both levels of local government.

Table 2. Collection Rate of Current Year for Basic RPT, 1983-1999

	All LGUs	Provinces	Cities
1989	58.0	55.6	61.0
1991	58.9	54.1	65.1
1994	60.7	54.0	66.3
1997	57.4	50.0	62.0
1999	54.1	52.4	54.9
2000	54.6	44.7	57.1
Average			
1989-1991	58.2	54.4	63.1
1992-2000	55.4	49.0	59.7

In general, local tax administration is weighed down by: (1) complex tax structure and administration procedures, (2) poor tax registration systems and procedures which result in delinquent payments and accumulation of arrears, (3) infrequent exercise of LGU audit and enforcement authority erodes the credibility of the system and results in low compliance; (4) limited availability of taxpayer services which increase taxpayer compliance costs, and (5) low professional qualification of staff (Taliercio 2003).

One, the ability of cities and municipalities to administer the taxes that are under their authority is hampered by the tax structure specified under the Local Government Code as this increases both administrative and compliance costs. For instance, the Code specifies a highly complex structure for the local business tax, one that prescribes a different graduated rate schedule for each of a large number of different types of activities, sectors, and/ or transactions.

Also, many LGUs balk at revising their schedule of assessments because of the high costs that is associated with this exercise. The existing rules and regulations governing the conduct of the GRA necessitate the revision of numerous assessment forms and tax records (some of which are redundant). This makes the process “form-and-labor” intensive, and therefore, very expensive such that in some places the cost of administering the RPT is even greater than the revenues that are generated (Celestino et al 1998). The province of Nueva Vizcaya, however, has shown that the number of forms could be reduced from 7 to 4 without sacrificing the integrity of records management (**Box 1**). Celestino et al. (1998) also pointed out that there is an increasing pressure for automation because of the existing rule requiring Assessment Offices to maintain all assessment records since the initial assessment of the real property. In this regard, the experience of some LGUs (notably, Mandaluyong, Iligan, Marikina, and Caloocan) suggests that an alternative way of lowering the cost of the GRA is by computerizing RPT assessment and collection records (**Box 2**).

Box 1. Nueva Viscaya – Showing What Can Be Done to Improve RPT Collection Effort Even Under Difficult Conditions?: Nueva Viscaya

The experience of Nueva Vizcaya highlights how seemingly simple yet effective strategies can go a long way in improving RPT performance. Eighty percent of the province is mountainous and many of its barangays are not only poor economically but also difficult to reach. Prior to reform, the cost of administering the RPT is even greater than the revenues it generates. It costs PhP1.39 to collect every PhP1 of revenue. There is a high incidence of tax delinquency and tax resistance especially amongst occupants of Integrated Social Forestry (ISF) and Community-Based Forest Management (CBFM) areas. Moreover, valuation of real property for tax purposes is unduly low.

With assistance from the Governance and Local Democracy (GOLD) Project, the province adopted a number of processes and strategies to address their problems with the RPT.

- Engage with the stakeholders/ beneficiaries of the RPT system (like barangay officials, heads of the Integrated Social Forestry and Community-Based Social Management areas, and members of the Local School Board) to get them involved in tax administration in terms of identification of occupants, assistance in the distribution of assessment notices, assistance in field collection, and raising tax consciousness amongst students and parents
- adoption of "door-to-door" service for taxpayers in remote barangays whereby property assessments from the filing of the tax declaration, appraisal and collection is done in the field on the spot by roving assessment teams
- delegation to Municipal Assessors the authority of the Provincial Assessor to approve/ sign transactions
- greater coordination between the assessor and the treasurer in the collection of the RPT
- redesign of assessment forms and tax records to eliminate redundancies and reduce the cost of general revision of schedule of market values
- updating of the schedule of fair market values to reflect increase in prices
- computerization of RPT records

As a result of these interventions,

- number of forms used was reduced from 7 to 4
- structure of office was improved and manpower requirement was cut from 28 to 18
- tax delinquency is reduced as occupants/ beneficiaries of ISF/ CBFM programs began paying their RPT dues
- RPT collection efficiency went up from 42% to 54%
- cost of administering the RPT was cut such that it now only takes PhP0.87 to collect every P1 of revenue

Two, tax registration systems and procedures in many LGUs are inadequate. Taliercio (2003) attributed this to lack of regular maintenance/ validation of RPT and business registries, lack of computerized registries, and low quality record keeping. One manifestation of this problem is the considerable fluctuation in the number of registered business establishments from year to year. Tax mapping both of business establishments and real properties, done with the help of the GIS (e.g., Cabanatuan and Naga as described in **Box 3**; Iligan as described in **Box 4**) or manually (e.g., San Fernando, Pampanga as described in **Box 5**), is found to have greatly improved local revenue performance in this regard.

Box 2. Real Property Tax Computerization and Administration Technology: Muntinlupa's Replication Efforts

The thrust of the Muntinlupa City's RPTA is twofold: to harness the power of technology for better service delivery and to provide technical assistance to other local government units who intend to do the same. The city government has already computerized its real property tax base successfully. Assessment tools like tax maps and cadastral surveys have been used to develop a master list of all real properties within the locality. It contains a description and location of each property, the market and taxable value, the amount of taxes that were paid and the list of delinquent payers. Monthly tax reports were generated and collection bills are sent promptly to concerned citizens.

The system which covers both the RPTA operations of the City Assessor's Office and the Property Billing and Collection of the City Treasurer's Office is recommended by the BLGF as a model system worth replicating by other local units. It is not only cheap but it also works.

Transaction time has been reduced dramatically from 30-45 minutes to barely 3-10 minutes, done in a friendly and personalized manner thus, establishing good linkage with taxpayers. A computer is always available with an easy manual to follow for instructions. Likewise, a flyleaf is provided by the Assessor's Office outlining the correct sequence to transactions to complete payments.

As a result, collection for 1999 grew by 15% despite the absence of a revaluation in values or increase in tax rates. The city's RPT base grew from PhP2.6 billion in 1988 to PhP19.5 billion in 2000.

As of 2000, the system has been replicated in 21 municipalities since 1997. To systematize the replication process, the office instituted the following steps: (1) memorandum of agreement is drawn between the two LGUs; (2) Muntinlupa City provides the training and the software is provided for free while the host LGU provides the hardware; and (3) an on-site evaluation is done aside from follow-up visits and consultations provided by Muntinlupa. Installation typically takes up to 6 month.

Source: Innovations and Excellence in Local Governance: Galing Pook Awards 2000

Box 3. Use of GIS in Mapping of Real Property

Naga City developed a pilot geographic information system (GIS) at the request of Mayor Roco Suplicio and with the assistance of USAID's GOLD project. The project started out on a pilot basis with surveys of several central city blocks. The pilot data set was used to develop a DOS-based Fox Pro system called the Building Information Database System, in which each building is assigned a unique property index number so that all city information about that building—including whether the building has a permit—can be easily accessed.

Cabanatuan city's GIS system, based on aerial photography maps, doubled the number of registered properties and thus improved revenues significantly. The city has also assigned each building a unique number and undertaken a door to door campaign to register taxpayers under the leadership of Mayor Jay Vergara.

Source: Taliercio 2003.

Box 4. Revenue Enhancement Measures in Iligan

To cope with the loss of its biggest taxpayer and the general weakening of the industrial tax base, Iligan City installed a number of revenue enhancement measures.

Systematization of tax records. The local government began to systematize its tax records. This objective was greatly aided by the Philippine Regional Municipal Development Project (PRMDP), a project funded by the Asian Development Bank (ADB) and the Australian Assistance for International Development (AusAID). Through the PRMDP, Iligan City government developed the Tax Revenue Assessment and Collection System (TRACS). It is a system which computerizes and integrates the tax records for the local government. Iligan's TRACS was made the pilot system for other cities under the PRMDP.

The orientation for TRACS involved three modules: Real property assessment, collection, and business permit modules. Computerized tax registration started in 2001. The TRACS summarizes a taxpayer's records covering real property, business, and permits, including building permits, clearance from the fire department, sanitation compliance, and even community tax certificate (CTC). For instance, a City Hall officer could easily verify from a computer if an individual applying for a business permit have already obtained a CTC (unless the individual got the CTC from a barangay unit which are not yet linked to the system). If not, the person would be asked to get a CTC first before being issued a business permit. The TRACS also consists of assessment calculations and issuance of billing receipts.

Intensification of tax mapping. The City government conducts business mapping in most areas of the city. This aims to identify new businesses that have been put up, know whether there has been a conversion or use of a residential area for business purposes, verify and update (if necessary) the true value of existing businesses, and validate the line of businesses as registered. The Treasurer's Office coordinates with the Planning Office by linking to the geographic information system (GIS) in order to identify new business and commercial areas more easily. One remarkable result of this was the registration of more small establishments. In 2001, the number of sari-sari stores, general merchandise, and dry goods shops were 35, 3 and 2, respectively. In 2002, these numbers went up to 2,490, 239, and 243. The local government, through the Assessor's Office, also updated land classification and valuation of properties. This covers 44 barangays although some barangays would not be surveyed in entirety. The Assessor's Office coordinates with the Department of Environment and Natural Resources (DENR), CREBA and other agencies for additional information.

Easier ways for tax payments. To motivate tax compliance, the City government set up a "one-stop shop" so the taxpayers would just need to be in one complex to get all the documents they need in paying taxes, and they could make all the necessary payments in the complex. This scheme is also applied to business registration and renewal of permits. Participating units include the departments of the City government like the offices of the Treasurer, Assessor, Engineer, Health, Fire Department, and others. There are also representatives from local branches of national agencies like the Department of Trade and Industry, Bureau of Internal Revenue, DENR, and the Social Security System.

Tax payment advisory or reminder is also intensified before the tax payment period or permit renewal. This is done through advertisements like posters, radio and television ads, a government vehicle touring the barangays making public announcements, and other schemes.

Updating of property assessment. The City Assessor's Office (CAO) recommended new assessment levels of properties based on new land classification and market values. The schedule of market values for properties was revised in 2002. Before this, it had skipped two revision years and had no adjustments since 1997 due mainly to political reasons. The CAO forwarded the recommendations to the Sangguniang Panglunsod (SP) which approved the proposal as is. However, there was strong public opposition to the ordinance because the increase would be too high given that there had been no prior adjustments since 1997. The SP then suspended the implementation of the ordinance. Later on, in order to compromise, the new assessment was made based on the classification rates of 1997 but adopted the new market values. The recommendation would have been closer to the real property values but nevertheless, with the new scheme, the government managed to get some increases.

Con't. of Box 4

Innovative Financing Strategies

Reconstruction of the public market. The City Market was destroyed by fire in year 2000. Two hundred forty (240) stalls were needed to be re-built. The city government tried to source out funding from government financial institutions but interest payments tend to be too high and would eat up the city's finances. The government thought that it could work with the stall owners to raise resources for the re-construction.

The city government then entered into an agreement with the stall owners so that they would initially shoulder part of the cost of the re-construction of their respective stall. The expenses should not exceed P20,000 for each stall and all the receipts are submitted to the Treasurer's Office. This initial investment exempts the stall owners from tax payment and rental for five years. After five years, ownership of the stalls would be transferred to the City Government.

Construction of the Integrated Bus-Jeepney Terminal. To maximize revenues from the terminal, a commercial center is also built inside it. Allocation of stalls in the complex was done through a bidding process. Stalls were priced according to their locations which reflect their expected profitability. The City government gave minimum price for each stall and the bidding starts from there. This process generated prices that are more reflective of the stalls' market values.

Source: Basilio, Lani. 2004.

Box 5. Fiscal Management Reform in San Fernando, Pampanga

The Mount Pinatubo eruption in June 1991, the second largest volcanic eruption of the twentieth century, has inflicted damages in the City of San Fernando which was a municipality at that time. In 1995, a massive lahar flow due to the Typhoon Sybil submerged six of the city's most thickly populated barangays including a portion of the commercial district. The devastation caused the outflow of investments and businesses.

To confront the problems of inadequate delivery of basic services and lack of funds to perform its devolved functions and pay its long overdue debts, the city government ventured on a strategy that would sustain the fiscal requirements of various programs which gave birth to the program "Breaking Financial Barriers". Its main thrust was to generate more financial resources for the local government by adopting two approaches: 1) saving on expenditures and 2) improving tax collection.

Reducing Expenditures:

- To minimize administrative overhead expenses, the city started with personal services by terminating the services of more than 200 casuals whose services were not needed by the bureaucracy. **(This resulted to a PhP700,000 savings per month or PhP8.4 million a year)**
- Austerity measures were imposed in the use of utilities and office supplies.
- Budgets were prepared by the departments which must be followed strictly and strong justifications were demanded for any change to prevent arbitrariness, inefficiency and sloppy budgeting.
- These internal housekeeping efforts sent a strong signal to the community that the city was serious, sincere and committed in its desire to reinvent itself. Thus, they respond positively on the city's campaign to increase collection.

Con't of Box 5

Creation of Special Project Operations Unit :

- A special unit under the Office of the Engineer was established to implement the infrastructure project of the city. The Special Project Operations Unit is headed by 1 engineer with few technical staff and drivers and operators of heavy equipment. In the construction of roads for instance, laborers from the area where the road is being constructed were being employed.
- The implementation of the infrastructure projects by the Unit had resulted to a 30% savings in the construction cost as compared with the cost estimates of DPWH.

Improving Tax Collection:

1. Creation of Tax Enforcement Unit (TEU) instead of relying solely on the Office of the Treasurer.
    - The unit was composed of staffs from selected departments.
    - Surveys were done to come up with a list and basic information on the establishments operating in the city. Tax mapping was done by all the barangays with the help of the residents. The master list served as reference in determining those who paid and did not pay taxes and if they paid the right amount. Business that paid their taxes were given plate number where a strip containing the year when the business firm paid its taxes was attached. The plate was prominently displayed by the firm in their office for easy monitoring.
    - A report was made by the TEU to the Treasurer of all those firms operating without business permits and those who have not paid their taxes. The Treasurer then issued a demand letter to the delinquent taxpayer requesting him to pay his obligations within ten days from the receipt of the letter. The PNP Investigator then filed a criminal complaint in city trial court against the taxpayers with delinquent accounts.

2. Conducting information campaigns: Pay your taxes, fees and charges for better public service.
    - The city government made a promise to its citizens that the increase in resources will be used to undertake flood prevention measures, develop the infrastructure of the city which were destroyed by Mt. Pinatubo's lahar flow, construct school buildings, day care centers, develop its human resource pool to supply the skills needed by industries, among others.
    - A regular dialogue with the accountants of major business firms was set every month of December to inform them that in preparing the declaration of gross income of their respective companies, the reported amount must not be as close as possible to their actual gross earnings. This also served as a good forum for the discussion of problems and concerns affecting the business sector as well as the discussion of recommendations on improving the business climate in the city.
    - Arrangements with banks were also made so that income from loans which were generated in San Fernando is declared in the city and not in the loaning center which is located in another locality.
    - For payment of annual community tax, coordination was made with the personnel officer of the big firms in the city. Hence, actual income received by each employee serves as the basis for the computation of community tax.

3. Improving Systems and Procedures and Establishing a One-Stop-Shop
    - A one-stop-shop was set up in the Treasurer's office where all the offices of the city which collect taxes, fees or charges are represented so that taxpayer need not go from office to office.
    - The city government embarked on a computerization program to come up with an integrated system on accounting and finance; civil registry system; payroll and personnel system; real property taxes; and business licenses.

Con't of Box 5

4. Communicating with the citizenry
   - The city published a quarterly and yearly accomplishment and financial report summarizing the income and expenditures and the list of the projects implemented, the cost of each project, the status of implementation and the implementing agency for each project.

5. Recognizing the Taxpayers
   - There was creation of recognition rites for the "Top 50 Biggest Business Taxpayers" and the "Top 50 Biggest Real Property Taxpayers" where each awardee received a plaque from the mayor.

Sources:

Guiza, Edel. "Transforming a Ravaged City into a Model in Local Revenue Generation: The Case of San Fernando, Pampanga, Philippines". Center for Development Management, Asian Institute of Management, July 2002.

Legaspi, Perla. "The Changing Role of the Local Governments Under a Decentralized State: Some Cases in the Philippine Local Governance". National College of Public Administration and Governance, University of the Philippines, 2001.

Three, despite large number of delinquent taxpayers (particularly, with respect to the RPT), not many LGUs actually implement the appropriate civil and administrative remedies that are available (e.g., warrant of levy or auction of delinquent property). In like manner, many LGUs do not actually impose the sanctions found in their revenue codes (typically, closure of firms) that are applicable to firms which are delinquent in paying the local business tax and licenses. For instance, Taliercio (2003) reported an ocular inspection of several individual tax accounts in one LGU revealed that some firms, including a large multinational company and a large national bank, operate without licenses due to delinquencies. In contrast, some LGUs (like Quezon City as described in **Box 6**) have initially threatened and, later, actually conducted auctions of delinquent real properties as part of their enforcement menu and achieved positive results.

Box 6. Improving Tax Administration in Quezon City

Quezon City, the largest city in Metro Manila in land area and population, was faced with a serious budget deficit in 2001. The incoming city administration of Mayor Feliciano Belmonte, Jr., who assumed office in July 2001, inherited outstanding obligations of PhP1.4 billion and bank debt of PhP1.2 billion. The city decided to take the bull by the horns and improve its revenue collections.

The mayor's first step was to convene a search committee, headed by the UP Dean of the College of Public Administration, to recommend candidates for treasurer. The mayor settled on Dr. Victor Endriga, who quickly implemented a set of reforms over the next 18 months that would reverse the city's fiscal course. Treasurer Endriga adopted a "carrot and stick approach."

The "sticks" include:

- property auctions for delinquent RPT taxpayers (three auctions were conducted in 2002 and four are planned for 2003; these are the first post-code auctions in Quezon City), in spite of the fact that the city has been sued by delinquent taxpayers (the treasurer is not phased by the suits: "it's part of the game";

- delinquency letters sent out by staff (each staff member is required to send out at least 20/day, whereas very few had been sent before) to address the estimated PhP 10.7 billion owed the city;

- use of presumptive minimum gross sales/receipts levels for the business tax and for markets.

- requiring that all business establishments with gross receipts over PhP 500,000 submit their previous year's financial statement and monthly payments of VAT and non-VAT information from the BIR;

- requiring that all real estate transfer tax payments must be accompanied by confirmation of payment of other taxes, including the business tax and mayor's permit fees; and

- direct withholding (from 12% to 75% of gross collections) of taxes due to the city from the city's contractors.

On the other hand, the "carrots" include:

- an increase in the discount on early payment of the RPT from 10% to 20% for annual payers and from 5% to 10% for quarterly payers;
- improved taxpayer facilities, including modern air-conditioned lounges with automatic queuing systems, free coffee and tea, free local telephone calls and television; and
- plaques from the mayor presented in a public ceremony to the ten most "outstanding" taxpayers.

In addition, the city: (a) computerized its RPT and business tax registries and collection processes, while hiring an outside firm to input all paper records into the system; (b) raised tax rates; (c) reassigned employees within the treasurer's office to avoid familiarization; (d) instituted new official receipts with security features that show up under black light; (e) provides rewards (e.g., trip overseas) and punishments for revenue examiners based on actual collections; and (f) house to house visits for delinquent taxpayers. The reform paid off: total own-source revenue (OSR) rose from PhP2.3 billion in 2001 to PhP3.9 billion in 2002. The city closed the year 2002 with a surplus of PhP0.5 billion.

Source: Endiga (2003) as cited in Taliercio (2003)

On the other hand, it is not uncommon amongst LGUs to merely require firms/ business establishments for a sworn statement from the manager/ owner as to their gross receipts. More often than not, there is no attempt to cross check this with relevant information that may be available in other government agencies like the BIR. This practice has been known to result in grave under-declaration of income and/ or taxpayer harassment. Said "common practice" stands in sharp contrast with one of the reforms instituted in Quezon City whereby the City Treasurer required all business establishments with gross receipts over PhP 500,000 to submit their previous year's financial statement and monthly payments of VAT and non-VAT information from the BIR. For smaller firms, Quezon City made use of presumptive income levels (**Box 6**). In like manner, use of third party information has helped San Fernando, Pampanga improve its collection of the community tax (**Box 5**).

Four, information on rules and procedures governing tax matters (i.e., when, where, how much taxes to pay) are not easily accessible to taxpayers in many LGUs. Thus, Taliercio (2003) observed that taxpayer services are virtually non-existent in many LGUs. However, there appears to be a trend in an increasing number of cities to install a "one-stop shop" complete with simplified and well-documented flow chart of steps involved in securing the local business permit and paying all local taxes (e.g., Mandaue, Lapu-Lapu). On the other hand, other LGUs have established comfortable taxpayer lounges and provided taxpayers with various amenities (like free coffee/ tea, television) in an attempt to make the actual act of paying taxes at city hall more pleasant and, thus, encourage taxpayer compliance (e.g., Quezon City as described in **Box 6**).

Five, very few LGUs have certified public accountants in their rolls, thereby impairing their audit capability. This point is particularly relevant to provinces with respect to the problems they encounter when they try to collect the franchise tax or to determine the "situs" of the local business tax. In this regard, San Fernando, Pampanga made arrangements with banks operating in the LGU so that income from loans which were generated in the city are booked at the local branch (**Box 5**).

2.2. Management of LGU Economic Enterprises

The management of LGU economic enterprises in many cities and municipalities is weak. Thus, most of these economic enterprises lose money and become cost centers rather than revenue centers. In the aggregate, total receipts of LGU economic enterprises amounted to PhP5.9 billion while their expenditures reached PhP7.0 billion in 2002 resulting in a PhP1.1 billion deficit.

Current accounting practice does not engender a clear appreciation of the true cost of the local economic enterprise. For instance, market management cost are sometimes charged under the office of the mayor, collection cost budgeted under the Treasurer's Office and loan repayment treated as another special account (Pardo, LGSP presentation Oct. 12, 2004). Also, economic enterprise is oftentimes used as the vehicle for charging casual employees who are utilized elsewhere in the LGU system so as to circumvent the 45%-55% limitations on PS expenditures of LGUs. Consequently, the incentives for cost recovery are poor.

Key to addressing this problem is the accurate determination of cost of operations, proper price and rate setting using principles of cost recovery, drafting of ordinance to increase fees and charges, elimination of leakages, rationalization of operating cost, good records management to improve collection of fees, and, perhaps most important, retention of income. Olongapo City successfully turned its solid waste management program into a sustainable public enterprise by charging garbage fees (**Box 7**). To facilitate collection of the garbage fees, it integrated said fees in the electricity bill (it is able to do this since it also operates the power firm). In contrast, Iligan City (**Box 4**) raised more revenues from the operation of its bus terminal complex than it would have done otherwise by auctioning off the stall rights there.

Box 7. Charging User Fees: Olongapo's Solid Waste Management Program

The Olongapo's Solid Waste Management Program was garbage collection and disposal program designed to make residents responsible in their handling of solid wastes. In 1989, the integrated garbage collection program was formally launched after a massive IEC campaign.

A central feature of the program was the collection of garbage fees. Initially, many residents objected to the garbage fees. Despite this, however, the city government proceeded with the program. Over time, as the residents saw how efficient the collection was and how clean the city had become, their opposition softened.

Features of the program.

Residents are compelled to put their garbage in plastic bags. The bags made the collection neater and faster. No garbage is collected unless it is placed in the prescribed garbage bags.

The collection schedule is strictly followed. Garbage collection was done twice weekly in residential areas and daily in commercial zones and markets.

The city charges service fees ranging from PhP10-PhP20 per month for households and from PhP30-PhP300 per month for business establishments. To make billing and collection easier, garbage fees are incorporated in the electricity bill.

Sanitary inspectors from the City Health Office regularly inspected their assigned areas. Citation tickets were issued to residents and owners of business establishments whose premises were found to be violating sanitation ordinances.

Financing the program

The program operated on a budget of PhP4 million a year. It generated an income of PhP 6 million annually from garbage fees, thus ensuring the sustainability of the program.

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Source: Kaban ng Galing, Promoting Excellence in Urban Governance, 2001

2.3. Charging for LGU provided services

Charging of fees for some of the services they provide can also be tapped by LGUs for sustainable delivery of services. This can be done even for some services that many LGUs have always deemed should be provided free of charge. For instance, a number of provinces (e.g., La Union Medical Center) have started to rationalize their hospital fees (**Box 8**). In like manner, some municipalities have also explored charging for some of the services provided in their rural health units (RHUs). In the case of Malalag, Davao del Sur, the municipality introduced a graduated socialized payment scheme for health services based on the annual family income of patients (**Box 9**). Recognizing that its tax base is limited and, therefore, not sufficient to sustain the provision of free health services, the municipality initiated said program by authorizing the collection of said fees in its revenue code. The experience of Malalag also highlights the importance of a good public information campaign breaking down initial resistance from the local community and in making the program a success.

Box 8. La Union: Health Programs and Services,

Medical and health services are so expensive that many Filipinos cannot afford to get sick. But in La Union, poor residents can worry less about getting sick because there is a hospital that wouldn't turn them away—the La Union Medical Center.

However, the hospital has a system to discourage "dole out mentality" and enable indigent patients to pay in kind. Patients are categorized from class A to D. Class A and B patients pay their bills. Class C patients get discounts of 25-75%. Class D patients get charity and pay in kind. The amount not paid is considered "quantified free service." Since 2002, the quantified free service had amounted to P36 million.

From April 2002 to December 2003, the hospital rendered services to 77,308 patients (including those from Pangasinan and Benguet), 66% of such were charity patients, 26% were Philhealth-covered patients, and 8% were private pay patients. As of September 2004, it had served 122,100 patients, consisting of 98,268 out-patient consultations and 23,832 hospital admissions.

Paradigm shift in the hospital's services came after a P650-million donation from the European Union. The hospital was transformed in April 2002 into a world class 100-bed medical center with 16 air-conditioned rooms and several state-of-the-art equipments, including a CT Scan unit worth P14 million, a hemodialysis unit worth P5 million, and a reagent/solution machine worth P3 million. These equipments are operated in joint venture with the private sector.

To operate, manage, and sustain the hospital as a medical center, the provincial government turned it into an "Economic Enterprise for Sustainability and Development" through Executive Order No. 4 series of 2002. It formulated a private-public mix type of cost recovery and revenue enhancement program involving joint ventures with the private sector, which invested on the CT scan and home dialysis units.

The investors pay for the rent, electricity, and employees. Of the gross revenue, 15% goes to the hospital. The income is placed in a trust fund to subsidize indigent patients who use the said machines.

The Department of Health-Region I also granted P1.5 million to the trust fund for retail pharmacy operation. Of the net income, 60% goes to the charity fund, 20% to capital build-up, and 20% to miscellaneous expenses. In 29 months of operation, the pharmacy earned a net income of P2.17 million.

Con't of Box 8

The medical center implements an Integrated Hospital Operation-Management Information System (HOMIS). Through a network of 33 computers, the system links the cost resource areas, the billing and cash sections for easy access to the hospital's cash flow.

The hospital had increased its employees from 139 to 238, including part-time or contractual specialists in the fields of neurosurgery, thoracic surgery, orthopedic surgery, urology, gastroenterology, ophthalmology, radiology, ENT, internal medicine, cardiology, diabetology, nephrology, and anesthesia.

The hospital's growing economic viability had made it less and less dependent on subsidy from the provincial government. Its actual cash collection from April 2002 to September 2004 representing regular hospital services is P64.66 million. There are also accounts receivables from Philhealth amounting to P5.5 million.

The medical center's sustainability is ensured by the continuing partnership with stakeholders and the signing of Republic Act No. 9259 by President Macapagal-Arroyo last March, transforming it into a non-stock, non-profit local government owned and controlled corporation.

Source: Galing-pook website: http://www.galingpook.org

The Makati Health Program (MHP), popularly known as the "Yellow Card", is another good example of harnessing additional resources for the health sector from the beneficiaries themselves (**Box 10**). Though the bulk of the cost of the program is supported by the city government and Makati Medical Center, the patients share in its cost. A classification system based on the MHP beneficiaries' gross family income is used to determine each member's category for the "*maximum service fee*" they are required to give for whatever health or medical services they availed of. The payment scheme has changed the people's perception from a mere beneficiary to a program partner. Because they are required to pay services fees, beneficiaries become aware of their obligations and the importance of sharing in the program's sustainability.

Box 9. Socialized Health Payment Scheme for Health Services in Malalag, Davao del Sur

Malalag is a 5th class municipality in Davao del Sur of some 40,000 people. Faced with the difficulties in funding devolved health services, it introduced socialized payment scheme for services in 1993.

Graduated service fees for health services were determined based on households' annual income:

- Those with family income below PhP15,000 can avail of free medical services
- Those with family income of PhP15,000 were made to pay 25% of fixed service charge;
- Those with family income between PhP15,000 and PhP50,000 were charged 50% of the actual service charge, and
- Those with family income above PhP50,000 paid the full service charge.

The payment scheme was approved by the Sanggunian Bayan and included in the Malalag Revenue Code which was enacted in December 1993. Initially there was strong opposition to the scheme. In fact, opponents of the administration exploited the issue and defeated the Sanggunian members in the ensuing elections. However, the opposition was not able to remove the measure as the Malalag Revenue Code was protected from any amendments until 1998.

Over time, the public came to accept that fact that health services were no longer free. A massive information campaign at the purok level with the Barangay Health Workers (BHWs) broke the resistance to the payment scheme and facilitated its acceptance.

With the scheme, the LGU was able to provide services which had been unavailable to the citizens before. Moreover, the quality of medical care improved as the local community (in their role as customers rather than beneficiaries) did not tolerate poor service or shabby treatment from public health personnel.

Source: Kaban ng Galing: Transforming the Local Economy, 2001

Box 10. Makati City's Yellow Card: Another Example of Socialized Health Care

The unique feature of the Makati Health Program, popularly known as "Yellow Card", is the involvement of the private sector, NGOs and the beneficiaries in its successful implementation. Though the cost of the program is supported by both the city government and the Makati Medical Center, the beneficiaries are still required to pay service fees based on their gross monthly household income. The income bracket determines the **maximum** service fee each cardholder is required to give for the health and medical services availed of.

For MHP 1 (Monthly HH income less than PhP2,000) cardholders, the maximum service fee they are required to pay is:

- PhP1,000 for medical
- PhP 800 for obstetrics
- PhP 1,200 for surgery

For MHP II (Monthly HH income is between PhP2,000 to PhP2,999) cardholders, the maximum service fee they are required to pay is:

- PhP1,100 for medical
- PhP 900 for obstetrics
- PhP 1,200 for surgery

Con't of Box 10

For MHP III (Monthly HH income is between P3,000 to P10,999) cardholders, the maximum service fee they are required to pay is:

- P1,200 for medical
- P 1,000 for obstetrics
- P 1,600 for surgery

In the year 2002, there were 47,093 MHP patients treated at the Makati Medical Center, of which 3,918 were in patients while 43,175 were out-patients. The total cost incurred amounted to P241.52 million where the city government paid the amount of P120 million (49.7% of the total cost), while Makati Medical shouldered the other 42% and the patients paid the remaining 8.22% or P19.85 million. Makati's integrated and holistic approach to socialized health care has earned the city's distinction of being the First Health City Model in the country in 1995. This program has also changed the people's perception from a mere beneficiary to a program partner. Being required to pay services fees, the beneficiaries become aware of their obligations and the importance of sharing in the program's sustainability.

Source: "Quality Health Care: The Makati City Experience", presented during the Regional Seminar and Learning Event on Local Governance and Pro-Poor Service Delivery, 10-12 February,, 2004, ADB Headquarters, Manila.

3. ACCESS TO NON-TRADITIONAL SOURCES OF LGU REVENUE: RESOURCE MOBILIZATION

3.1. LGU Access to Credit and Capital Market

The passage of the Local Government Code allowed LGUs greater flexibility in tapping various sources of credit financing which could include bank credit, bonds and private sector participation (PSPs). Moreover, the LGU Financing Framework developed by the Department of Finance in 1996 envisions the greater participation of the private capital market in local government financing. This framework promotes the establishment of a "graduation program" that will induce creditworthy LGUs to shift from Government Finance Institutions (GFIs) to the private capital market.

Even while it provides supplementary financial resources to the LGUs, access to credit/ capital at commercial rates will also infuse the market discipline on them and boost their propensity in intensifying their tax collection efficiency, in recovering cost from local services, and in improving their financial management systems.

However, there are outstanding issues that hamper the development of the LGU bond market. These include: political succession risks, lack of technical knowledge on bond flotation on the part of LGUs, lack of private financial sector confidence in LGUs, regulatory constraints (like restrictions on depository accounts, bidding of specialized professional services), and administrative constraints (like absence of clear accounting and recording system for bond proceeds and disbursements for projects funded by bonds and the need for unified LGU financial reporting system) [Pardo, Presentation in LGSP Policy Forum, October 12, 2004].

Though LGU access to private capital remains to be limited, some gains have been achieved in terms of LGU access to the bond market. The creation of the LGU Guarantee Corporation (LGUGC) effectively provided some impetus to the LGU bond market. Six LGUs have successfully issued bonds worth P1.4 billion with the help of the LGUGC.

3.2. Private Sector Participation Modalities

LGUs could benefit from (1) access to more sophisticated technology that the private sectors could have, (2) cost-effective design, construction and/or operation of projects, (3) guaranteed cost, (4) flexible financing, including use of private capital and (5) delegation of responsibility and risk through various modalities of private sector participation (PSPs)[3], through various modalities of private sector participation (PSPs)[4], (Pardo, Presentation in LGSP Policy Forum, October 12, 2004).

However, LGU access to PSPs is encumbered by the following factors: lack of capacity of the LGU to prepare project feasibility studies and to negotiate contract terms (i.e., fees/ tariffs, performance standards and appropriate risk sharing arrangements) prompting them to rely on unsolicited proposals which typically result in terms that are not beneficial to them; LGUs lack of creditworthiness, primarily due to poor public sector governance structures and limited financing sources; absence of long-term funds to shortcomings in capital market; and LGUs relying on unsolicited proposals which typically do not result in keen competitions, thus, resulting in litigation (Pardo, Presentation in LGSP Policy Forum, October 12, 2004). Nonetheless, as of March 2002, a total of 9 LGU BOT projects have been documented (WB/ ADB 2003).

Moreover, a number of LGUs provide examples of "good practice" in the use of PSPs. Mandaluyong, having no money to rebuild its public market, pioneered in using the Build, Operate and Transfer scheme with a business consortium (**Box 11**). Iligan City likewise utilized the BOT model in the construction of its public market. However, instead of working with an organized business group, Iligan City entered an agreement with the stall owners so that they would initially shoulder part of the cost of the re-construction of their respective stall (**Box 4**).

The experience of Esperanza, Sultan Kudarat shows how a medium sized municipality can benefit from the use of a management contracting arrangement in the operation of its public market (**Box 12**). On the other hand, while the privatization of the water and the power utilities of Bohol province was met with serious popular resistance, it does provide

[3] A PSP is a contractual agreement entered by an LGU with a private sector entity authorizing the latter to finance, construct, operate and maintain a facility in exchange for giving the private sector entity the authority to charge user fees or receive compensation from government.
[4] A PSP is a contractual agreement entered by an LGU with a private sector entity authorizing the latter to finance, construct, operate and maintain a facility in exchange for giving the private sector entity the authority to charge user fees or receive compensation from government.

a good study on evaluating the various financing options available to the province for the large investment needed to rehabilitate its water and power supply systems and the specific steps that have to be taken prior to privatization (**Box 13**).

Box. 11. Mandaluyong City: Building a Public Market through a BOT Program

The public market was an important source of revenues for Mandaluyong. It was not only a place of trading that time but it also served as a communication and recreation center. Hence, when the market burned down in 1990, Mandaluyong was in a hurry to build it.

The Build, Operate and Transfer had just been passed that time, thus, had not been tried before anywhere in the country. Having no money to finance the rebuilding of the market but with the option to BOT, the mayor and his team drew up a plan of a brand-new market with modern commercial complex.

Seeing from the feasibility studies that the plan will succeed, the mayor talked with the private sector to get the resources needed to finance the plan. Thus, after 6 months, bids were already being made on the project. A business consortium, which was organized purposely for the project, won the bidding.

Two Novel Concepts Utilized:
The partnership was worked out under the BOT scheme which utilized two components.
Under the Build-Transfer Concept (BT):

- The developer built the public market and transferred it immediately to the city government.
- The city government constructed half of the number of stalls that can be built inside the market with the remaining half was constructed by the stallholders themselves.
- The city government collected stall fees and deposited them in the bank.
- The developer took care of the maintenance and security.

Under the Develop-Operate-Transfer Concept (DOT):

- The developer was allowed to construct a 6-storey commercial complex over a portion of the land in exchange for putting up the public market for the city government.
- The developer manages the commercial complex to be turned over to the city government after 40 years.
- Rent-free use of the land for the developer.
- The city government does not collect dues from the developer for the operation of the commercial complex.

Source: Kaban ng Galing: Transforming the Local Economy, 2001

Box 12. Esperanza, Sultan Kudarat: LGU-Civil Society Partnership for Improved Public Terminal Management

The public transport terminal project in Esperanza, Sultan Kudarat exemplifies how a municipal government can turn over the management of a public economic enterprise to a civil society organization (CSO) and reap the benefits of such a venture, in terms of improved management and profit.

Esperanza's public terminal1 had been managed by a private contractor for years without turning a profit while being a constant source of headache for the LGU. In an attempt to solve the problem, Esperanza's local government decided in 2002 to re-bid the terminal's management and invite CSOs to participate. The Esperanza Market Vendors Multi-Purpose Cooperative (EMVMPC) won the contract in December 2003. since then, the local government of Esperanza has been receiving a net income of P685.95 per day or more than Php20000 a month from EMVMPC's terminal operations, without having to field any LGU employees, or being involved in the day-to-day operations and maintenance of the terminal.

Con't of Box 12

In addition, EMVMPC has also reaped the benefits of its decision to forge a partnership with the LGU and take on the responsibility of managing the terminal. It has posted significant additional income from the enterprise, and built up its organizational capacities for public enterprise management. Membership in the cooperative has grown, with more investors joining the group and establishing small businesses such as food and cafeteria stands around the terminal.

At the same time, commuters and other terminal clients are enjoying the services and facilities of a better-managed public terminal. The terminal is clean and traffic has eased due to new regulations and transport drivers being more willing to follow traffic rules, thanks to improved relations with the EMVMPC management.

Source: LGSP website: http://www.lgsp.org.ph

Box 13. Improving Water and Electric Services Through Privatization: Bohol's Case

The Provincial Water System (PWS), which services 90% of Tagbilaran City and Dauis Municipality, is operated, administered and maintained by the provincial government of Bohol. On the other hand, the Provincial Electric System (PES), whose franchise had been obtained by the province from the National Electrification Commission in 1997, services the entire city of Tagbilaran.

In 1998, the PWS and the PES were beset by a number of common problems: (a) slow response to requests for repairs and other emergencies, (b) bureaucratic procurement processes causing poor and delayed services, (c) systems losses that exceeded industry standards, (d) old and outdated equipment, and (e) no source of funds for rehabilitation and future improvement. A study on the rehabilitation of the PWS and PES showed that the province needed P212 million (in 1998 prices) to rehabilitate PES facilities and P967 million (in 1998 prices) to set up two water treatment plants, lay main and transmission lines, and establish several reservoirs for the PWS. Since the provincial government had no capacity to borrow such big amount, much less provide it, the provincial government decided to explore its privatization.

A Technical Working Group, composed of technical staff from the Governor's office, and PPDO, GOLD consultants, and several other hired technical staff, looked on the different options in obtaining resources needed for the water and electricity sector rehabilitation. These include (1) outright sale, (2) bond issue, (3) transfer to cooperative, (4) the water district/the Metro Cebu Water District (MCWD) model, (5) Rehabilitate-Operate-Transfer (ROT) Arrangement, (6) Stand-Alone Entity (debt financing), (7) pure joint venture (JV), and (8) Joint Venture on Rehabilitate-Own-Operate-Maintain (ROOM) Agreement. After assessing the different options using certain criteria, the provincial government went for ROOM since this has fulfilled the objectives of Bohol's privatization strategy.

Strategies in the process of privatization:

Preparation: This was the strategic planning done by the provincial government which included the appraisals on the assets of PWS and PES (P75.839 and P59.39 million, respectively).
Tendering: The provincial government, with the assistance of consultants, prepared the tender documents in December 1999. Two corporations bought and submitted tender documents for the power utility only, tow corporations for the water utility only and three for both utilities.
Selection and Negotiation: The Provincial Bids and Awards Committee (PBAC) inventoried the bids and evaluated the technical (technical organization, rehabilitation program, Capex program, system loss reduction program, targets/milestones, and timetables) and financial (bid amount, funding proposals and tariff proposals) proposals of all bidders. It also considered the following criteria: overall organization, commitment, presence in RP, employees benefits, employees retirement plan and employees stock option plan. The joint venture agreement was granted with SALCON.

Con't of Box 13

Problems Encountered:

The privatization of the PWS and the PES was beset by a number of hindrances, including: (a) the absence of legal framework for the joint venture agreements, and (b) the lack of legal and technical expertise of the provincial government in the conduct of the project using Joint Venture or BOT schemes. Also, popular resistance to the scheme was strong that several petitioners filed a Petition for a Class Action for Prohibition with a Prayer for the Preliminary injunction and a request for the issuance of Temporary Restraining Order (TROs) on July 19, 2000.

To address these problems:

(a) The provincial government consulted the National Committee on Privatization (COP) and the National Coordinating Council for Private Sector Participation (CCPSP) to clarify the legal basis for JV agreements. It was determined that the privatization transactions of LGUs do not require the approval of the COP or the Office of the President.

(b) Financial consultants, through Governance for Local Democracy (GOLD) project, assisted the technical working group in the preparation of financial feasibility of the utilities under a JV system as compared to the stand-alone arrangement.

(c) To ensure social acceptability, the provincial government held initial consultations and presentations with the Provincial Development Council (PDC), the Provincial Board, and NGOs. Issues concerning the necessity of the privatization, the joint venture scheme, the transparency of the bidding process, and the responsibility of the provincial government to provide basic services were raised. The Bohol Social Marketing Team (BoholSMART) strategize the information campaign on privatization which included conduct of barangay assemblies in all the barangays in Tagbilaran City.

Source: Kaban Galing: Transforming the Local Economy, 2001.

On the other hand, the story of Sebaste, Antique as it transformed a rural health center into a community clinic (**Box 14)** provides a good example of how to raise resources for health from various sectors. The sources of finance include: the Countryside Development Fund (CDF); the Barangay Councils giving 10% of their Development Fund for the clinic; the private sector through concerned associations raising funds for purchase of medicines, supplies and medical equipment; and entering into a joint venture with private sector for laboratory and dental services. In addition, the municipality, through a Sanggunian Resolution, created a trust fund for the community clinic to ensure that the resources raised are used exclusively for the community clinic.

Box 14. Transforming a Rural Health Center into a Community Clinic – Harnessing Multi-Stakeholder Partnership (Sebaste, Antique)

Sebaste is a 6th class municipality in Antique. It is one of the more isolated and impoverished towns in the province. The nearest government town was 4 km. away in the town of Pandan but residents preferred to bring their sick to a secondary hospital 20 km. away because of better facilities in the latter. When health emergencies happen, residents had to spend P500-P1000 for transportation alone.

Social Marketing

The mayor with the support of the MHO decided to convert the RHU into a 5-bed community clinic, to purchase a municipal ambulance and hire additional staff. Other local government officials were initially skeptical of the plan because of obvious financial constraints (the LGU's IRA at the time was less than P1 million per year while its total own-source revenue was just P0.8 million per year).

Mobilizing Resources

However, after presenting her case to the barangay councils, the mayor convinced them to appropriate 10% of their Local Development Fund to the proposed clinic. Later, she also convinced the Municipal Sanggunian to allocate part of the LDF for the same purpose. She also raised funds from Sebaste natives who were already based abroad. Sebaste migrants in Austria helped raised funds for the purchase of medicines, supplies and medical equipment, including an ambulance, for the clinic.

The municipal government then entered into a joint venture with a private business firm to set up a pharmacy and laboratory in the community clinic. The said firm also brought in its own staff to operate these facilities. The LGU received 10% of its income and exercised regulatory functions over its pricing. Likewise, the LGU also entered into a partnership with a local dentist who put up the equipment and provided the services himself while the LGU provided the building space which was funded by the Congressman's CDF.

Sustaining the Community Clinic

To sustain the operations of the clinic, the Sanggunian passed a resolution (in 1995) placing all income of and donations for the clinic in a trust fund. The initial target for the fund was P3 million. Under the conditions set by the resolution, only the interest of the fund would be used for the operations of the clinic. As of January 1998, the trust fund had P1.1 million. Nearly half of this amount came from clinic operations. Thirty two percent came from the pharmacy and laboratory and 20% came from donations.

From 1994 to 1998, the LGU allocated P3.1 million to the clinic. In 1998, there is an indication that the clinic was relying more on its internally generated funds for its operations. To address the inability of some of the patients to pay, the municipality explored the possibility of tapping the PHIC's Indigent Program.

Results/ Impact

As of 1997, there are 2 physicians, 4 nurses, and 3 nursing attendants serving in the clinic compared to 1 physician, 1 nurse and 6 midwives prior to the clinic's establishment. The clinic now provides not only primary health care services but also minor surgery, dental care and laboratory services. Moreover, these services are available around the clock rather than from 9 am to 6 pm as it used to be.

Source: Kaban ng Galing, 2001

Prospectively, the Philhealth is emerging to be a source of an important source of funding for health and family planning services, particularly, through the capitation mechanism that LGUs should learn to tap. One of the good practices that other LGUs can emulate is the experience of the municipality of Bindoy, Negros Oriental in this regard (**Box 15**). In addition to enrolling indigents in the Indigent Program, it worked to have its RHU accredited by PhilHealth. The capitation fund received from PhilHealth served as an added income and was used to buy medicines, medical supplies and other supplies for local services. The importance of the Sanggunian resolution creating the PhilHealth capitation fund is also worth highlighting.

Box 15. PhilHealth Capitation Fund as an Additional Source of Revenue: Bindoy, Negros Oriental

In addition to securing health insurance for the indigents, the local chief executive of Bindoy, Negros Oriental decided to acquire PhilHealth accreditation for its rural health unit upon recognizing that the capitation fund could be an additional source of funds for the municipality. To meet the standards of PhilHealth for accreditation, it required Bindoy to allocate P300,000 for the upgrading of RHU's laboratory equipment and services. In November 2001, the LGU signed a MOA with PhilHealth. In January 2002, the Sangguniang Bayan passed resolutions committing premium subsidy amounting to P100,000 and creating the PhilHealth capitation fund.

Since the payment of premiums under the local health insurance in the municipality is shared by the municipal government, province, barangays and households, the municipality got higher proceeds from the capitation fund. As of 12 April 2003, it received PhilHealth capitation fund amounting to P482,003 for its first batch of enrolled families. A big part of this amount (almost 83%), was used to purchase medicines, medical supplies and other supplies.

Source: "Initiating a Social Health Insurance Program in the Municipality of Bindoy", Best Practices No. 3, Series of 2003, Management Science for Health

4. EXPENDITURE MANAGEMENT

Good public expenditure management is concerned with the pursuit of three key objectives: (1) fiscal discipline; (2) strategic allocation of resources; and (3) good operational management (Schiavo-Campo and Tommasi 1999). *Fiscal discipline* refers to expenditure control at the aggregate level and requires good revenue forecasts at the very least. *Strategic allocation of resources* refers to resource allocation that is consistent with policy priorities. And, good *operational management* calls for economy (acquiring quality inputs at the lowest cost), efficiency (minimizing cost per unit of output) and effectiveness (achieving the outcome for which the output is intended). As such, good public expenditure management calls for the existence of a strong link between planning and budgeting and for a perspective beyond the immediate future.

Personal services account for a disproportionate share of LGU budgets, thereby cutting funding support for MOOE and capital outlays. At the same time, local planning and budgeting is bedeviled by a poor incentive structure that is driven by (1) the short political tenure of local elected officials, (2) the lack of clear mandate supporting the linkage between the PDP, the AIP and the local budget, and (3) the mismatch between revenue means and expenditure needs of LGUs, especially provinces.

4.1. Rationalizing Expenditures on Personal Services

On the one hand, high spending in personnel services is attributed to the transfer to LGUs of 60% of the total pre-devolution personnel in key NGAs and the proliferating size of LGU employment as a result of many plantilla positions and hiring of numerous casual staff. In some cases, the devolution of personnel has given rise to excess staff for the same position. In many LGUs, casuals outnumber permanent employees, accounting anywhere from a third to almost half of the total workforce. In the Metro Manila, only seven LGUs employ more regular workers than casuals. (ADB/ WB 2003**)**

In contrast, a number of LGUs have been successful in keeping their personal services expenditures in check. The personal leadership of the Local Chief Executive (LCE) is shown to be fundamental in implementing a coherent strategy to reduce spending on personal services (either by retrenching casual employees or by leaving some permanent positions unfilled). In the case of San Fernando, Pampanga, the termination of more than 200 casual employees was initiated under the flagship program of the mayor, "Breaking Financial Barrier" (**Box 6**). This has saved the LGU some P8.4 million in wages annually. In Cabanatuan City, on the other hand, the mayor initiated the step-by-step but rapid reform process in administrative simplification and reorganization (**Box 16**) where plantilla and personnel were reduced from 1500 to about 700.

Box 16: Administrative Streamlining in Cabanatuan City

Cabanatuan City (Nueva Ecija Province) demonstrates the significance of the political economy of administrative streamlining: how technical success with an administrative reorganization and wage bill control program can be transformed into a springboard for more ambitious initiatives to strengthen the resource base and public service delivery – and political support for further institutional reforms.

In 1998, the new mayor inherited a bloated city administration (1500 employees) with few resources to finance public services, severe security concerns due to political conflict, and the looming specter of economic recession. Realizing that administrative streamlining and consolidation were keys to all other reforms, including higher revenue collection to finance improved service delivery, the mayor initiated a step-by-step but rapid reform process. He first defined the motivation and objective of the proposed administrative streamlining. Next, he formed a Reorganization Committee (including employee representatives and private sector professionals) to prepare a reorganization plan. The plan proposed (i) a new staffing pattern and organizational structure, (ii) a compensation package for displaced staff, (iii) a 'Life After City Hall' Plan, and (iv) how savings from the exercise could be used to improve services. After consultations with the Civil Service Commission (CSC) to ensure the legality of the proposed reforms, notices of lay-off were issued to more than 700 employees. At the same time, a Placement Committee was formed. It set objective criteria for employee recruitment and selection, conducted recruitment exams and interviews, and announced new staff appointments.

Con't of Box 16

The plan met with opposition. Displaced staff filed grievance petitions with the CSC. The appeals were dismissed. The opposition demonstrated against the retrenchments. Undeterred, the mayor implemented the plan, and some results were immediately apparent. Plantilla and personnel were reduced from 1500 to about 700. A simplified organization structure was established. But the successful reorganization extended the impact of the exercise far beyond the immediate technical confines of administrative and civil service reform. Savings were located to better finance services. Security, health, education and infrastructure provision improved. During the mayor's first term, the financial and administrative leeway he wrested through the successful downsizing initiative enabled him to propose and implement a broad range of development projects, enhance borrowing capacity (obtaining AAA status from a commercial bank), increase own source revenues (principally through using a GIS for land and property mapping), and improve service delivery. These efforts were vindicated through increased citizen support – the mayor won re-election in 2001, obtaining 75 percent of the vote.

Key success factors comprise (i) accurately gauging of the trade-off between alienating one interest group (city employees) and winning over a wider set of interests (citizens, businesses, lenders, investors), (ii) reducing the political risks through appropriate timing (the reforms were done in the mayor's first year in office so that the second and third years could demonstrate results), ensuring the legitimacy of the reform objective (improving service delivery, not infusing relatives and cronies into the administration) and the reform process- transparent and participative management of the reform (e.g. the employee association leader and other staff representatives were members of the Reorganization and Placement Committees), public disclosure of the reforms (through an active public campaign), and a strong public commitment to improve services (by demonstrating that taxes collected were spent on services for taxpayers).

Despite the clear need for administrative simplification and streamlining elsewhere, most political executives are hesitant to act, possibly due to (a) the risk of losing staff support; (b) the need to pay back constituencies' electoral support by hiring relations and political supporters; and/or (c) the incompatibility of running a clean administration and recovering electoral costs incurred/generating campaign finance. Cabanatuan holds important lessons for other LGUs (indeed for national agencies as well). Reorganization **is** possible within the existing legal and institutional framework – there is no need to enact or amend any laws. Opposition was expected from employee associations and political parties, and indeed did materialize. But the legitimacy, transparency and rule-based nature of the technically sound program helped bring varied interests on board and was sufficient to counteract the forces arrayed against reform.

Source: ADB/ WB 2003

4.2. Strengthening Local Planning

Poor planning and budgeting at the local level can be traced to (1) the short political tenure of local elected officials, (2) the absence of clear mandate supporting the linkages among the Local Development Plan (LDP), the Local Development Investment Program (LDIP), the Annual Investment Program (AIP) and the budget, and (3) the low level of local accountability due to the mismatch between the revenue means and expenditure needs of LGUs. Thus, local elected officials (governors as well as members of the Sangguanian) tend to have short-term planning horizons with concomitant adverse effect on development spending. Also, since LGUs are dependent on monies that are not raised from within their jurisdictions/ constituencies, waste and fiscal irresponsibility tend to go unpunished by local taxpayers.

Three provisions of the Local Government Code are central to the implementation and financing of the local development plan. These are:

- LGUs are required to have a comprehensive multi-sectoral development plan which should be initiated by its Local Development Council and approved by the local Sanggunian. (Section 106)
- Local budgets should operationalize local development plans. (Section 305 - i)
- LGUs should appropriate in its annual budget no less than 20% of its annual IRA for development projects. (Section 287)

These provisions have been interpreted to mean that the Local Development Fund (LDF) can only be spent on projects identified in the local development plan. Furthermore, as a matter of practice, the term "plan" is taken to refer to the AIP. Consequently, the AIP is at the core of the planning-budgeting linkage as only projects listed in the AIP are assured of funding.

As a result of this practice, the Department of Budget and Management (in the conduct of its budget oversight function vis-à-vis provinces and independent cities) refers exclusively to the AIP (rather than the PDP or the PDIP) when checking on the utilization of the Provincial Development Fund. The DBM does not check on the consistency of the AIP with the PDP. And, neither does the DILG nor the NEDA.

"Politics" of AIP Preparation. In practice, less than 70% of LGUs have up-to-date LDPs and Local Development Investment Plans or LDIPs (ADB 2004). Moreover, even for LGUs which have current LDPs, the preparation of the AIP is essentially a "political" process. It is done quite independently of the LDP and the LDIP.

The programs and projects in the AIP, therefore, bear little resemblance to those in the LDP and LDIP (Carino et al. 2004; GTZ 2004). Closer scrutiny of the LDPs, the LDIPs, and the AIPs in 5 provinces shows that there is an imperfect match between the projects listed in the LDPs/ LDIPs, on the one hand, and those that are listed in the AIPs, on the other (Carino et al. 2004). In fact, in one of the provinces, only 4% of the projects listed in its 2002 AIP was found in its LDP. In the "best" province in this small sample, 61% of the projects listed in its 2002 AIP were found in its Provincial Physical Framework Plan (PPFP).

In contrast to the formal local planning process that is suggested by a reading of the Local Government Code, the actual investment and development planning process at the local level is typically mayor-centric/ governor-centric although LGUs invariably report the token participation of various stakeholders in the local community. The governor/ mayor typically starts the AIP preparation process by calling a meeting/s of the Local Development Council (comprising of all the mayors/ barangay captains, selected members of the Sanggunian and NGO representatives). Many LGUs also include other stakeholders like heads of offices in the local government and representatives of national government agencies operating in the LGU. In some places (e.g., some areas in Central

Visayas), the LDCs are perceived to be passive observers to the planning process and simply approve whatever plan is presented to them in a fairly automatic fashion (GTZ 2004).

The participants in these discussions are typically asked to identify the projects for possible inclusion in the AIP. The staff of the local planning and development office (LDPO) then collates and consolidates the list of projects. The consolidated list is reviewed and prioritized by a smaller group (e.g., executive committee of the LDC). Most of the time the final decision in the prioritization of the projects rests with the local chief executive and his priorities dominate. Nonetheless, some link is established between barangay plans, municipal plans and provincial plans despite the lack of real popular participation.[5]

For all intents and purposes, the AIPs in many LGUs are put together in order to comply with the budgetary requirement that no appropriation chargeable to the Local Development Fund can be made if the project is not listed in the LGU's AIP. Many LGUs have a limited view of the AIP and they consider the LDF as the only resource available for investment programming (GTZ 2004).[6]

In preparing the AIPs, LGU officials typically do not set program targets and, seldom if ever, is there an explicit assessment of benefits versus costs. At best, some qualitative assessment of the projects (on the basis of urgency/ need, relevance to sectoral concerns, and alignment with the governor's thrusts) is made.

Ad hoc-ery appears to rule investment programming process in many LGUs. This tendency is underscored by the widespread practice in many LGUs of including lump sum allocations for broadly defined programs (and with specific projects being identified in the course of the budget year). Carino et al. (2004) found that the allocation for all lump sum items account for some 20% - 65% of the LDF of a sample of 5 provinces.

In essence, the planning horizon for these activities is even shorter than 1 year. Planning (project identification as well as project evaluation) is crammed into the current budget year and, thus, coincides with budget execution. This practice results in poor project preparation and causes delays in implementation.

In some LGUs, some of these lump sum allocations are euphemistically described as "counterpart funds" for municipal/ barangay projects. However, the cost sharing

[5] In practice, many LGUs do not have active LDCs. The IRIS (2000) estimates that only 30%-50% of LGUs have LDCs in place and notes that "those that do function have no clear organizational link to public budgeting processes, hence it is hard to have real "bottom-up" planning as envisioned." Formally, 25% of the total number of members of the LDC should come from the ranks of NGOs and people's organizations. However, one survey found that less than a third of LGUs have development plans that benefited from meaningful NGO/ PO inputs (GOLD 2002). Moreover, anecdotes abound on how local chief executives have themselves created NGOs according to their own image.

[6] However, some LGUs intentionally prepare a longer list of projects for their AIPs for the purpose of using it to solicit funding from external sources.

arrangements are not always well defined nor are they strictly followed even if they exist. In other LGUs, they are referred to as the pork barrel of the local chief executive. In either case, they are used to fund roads, waterworks, other small infrastructure at the municipal/ barangay level on the basis of intermittent request made by local communities to governor/ mayor in the course of the budget year.

At the same time, many LGUs provide for a CDF-like allocation to the members of the Sanggunian and/ or to each of the municipal/ city mayors in the province. At the same time, because the mayor or the SP member wants his projects to have as many beneficiaries as possible, he then further tends to divide his CDF into many small projects. An SP member reported that in allocating his pork barrel, he makes sure that each project does not cost more than P30,000. Meanwhile, SP member in another province, simply divided his pork barrel equally amongst all the barangays in his district such each barangay receives P10,000.[7]

As a result, the LDF tends to be dissipated on tiny projects that lack strategic focus. For instance, many LGUS implement local road projects that lack direction and that do not contribute to the completion of an ideal road network.[8] Thus, contrary to expectations that the province will take care of projects that have an inter-municipal focus, many of their LDF projects are in reality municipal level (even barangay level) projects.

The experience of the GOLD project (USAID) and the LGSP (CIDA) in strengthening the local planning process suggests that key to the success of their interventions is the promotion of other mechanisms for local accountability. For the most part, these center on greater community participation through (1) the early engagement of local elected officials in the plan preparation process so as to promote their commitment to the plans that are formulated (thus, the emphasis on the drafting of an Executive Agenda), and/ or (2) the meaningful participation of a broad-based multi-sectoral group in the exercise so as to give local communities greater voice in the process and to promote greater accountability on the part of local officials. In this context, the multi-sectoral planning group includes representatives not just from the local community (LGU officials, NGOs and the wider population) but also from national government agencies that are operating in the local area in order to re-establish a link between the local plans and the national plans and, more importantly, to generate external funding for local projects. While the quality of the guidance provided in the Executive Agenda Manual with respect to the technical aspects of planning may not be the best, the manner by which the EA process is able to engage local chief executives (thereby, to promote LGU officials' ownership of the plans) appears to have worked.

Other LGU initiatives in this area involve the adoption of citizen's feedback mechanisms. One good example is provided by Naga City (**Box 17**) which made use of the information technology in improving, enhancing and redefining traditional notions of governance and participation. For instance, the*i*-Governance program encourages the greater participation

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[7] One economist calls this practice the "divide by N" syndrome.

[8] This finding is notable considering that the bulk of infrastructure investment of LGUs are concentrated in the transportation sub-sector.

of citizens in local decision-making process by allowing them to give their feedback through the use of Internet and short-messaging service (SMS). What is more, the residents have access to extensive catalog of critical information on local services using the city website. This process is enhanced by the availability of information on the "standard response time" for the delivery of basic services (as found in the Citizen's Charter). At the same time, transparency in the procurement process is promoted by making all unit prices of awards bids publicly available not only in the internet but also in the newspapers.

Box 17. Innovations on Technology and Governance in Naga City

The City of Naga has took advantage of the use of information technology in improving, enhancing, and redefining traditional notions of governance. The city believed that governance could be improved through increased efficiency and local participation, thus, the following programs were introduced:

Productivity Improvement Program
To enhance the productivity of the workers in the city government, a merit and result-oriented assessment system was instituted by rewarding and motivating employees to pursue higher levels of productivity.

Information and Communications Technology Development Program (ICT-DEV)
Efforts were initiated in streamlining internal process and improving information access through the computerization of the city government operations, the establishment of local database and the creation of technical assistance services to line departments.

i-Governance
Noting that the participatory mechanism through organized groups (that was previously used by the city government) was ineffective (i.e., citizens remained uninvolved), the city opened wider avenues for participation through the i-Governance. This program incorporated the citys' ICT-DEV while placing new emphasis on greater participation of individual citizens. The projects under this program are:

- *NetServe* is an extensive online catalog of local government services which include procedures, response time on service delivery and responsible personnel for each type of service; information about city finances (including the details of the annual city budget), city ordinances and resolutions, and the directory of city officials with their contact numbers and email addresses.
- *TextServe* is a system where the citizens can send their views, comments, and complaints to the city using cellular phone-based short messaging service (SMS) at a cost of P2 for every message sent. Messages are redirected in the city's email inbox with a response rate of one day and follow-up actions are immediately directed to concerned department.
- *Naga City Citizens Charter* is a guidebook that describes the key services of the city which could be used when there is no access to internet. In particular, the guidebook contains a detailed description of services with a step-by-step guide in using the service, the standard response time for its delivery, and the city hall officers and staff responsible for its operation.

Results and outcomes:

- Transparency in local governance and enhanced feedback mechanism
- Streamlining of processes and computerization of common applications has improved service delivery rate (reduction in service time of frontline services)

Source: Rodriquez, Luz Lopez and Brian Min. I-Governance in Naga City, Philippine: Innovations in Technology and Governance project

NG-LGU coordination in local planning. Poor coordination between NG and LGU planning has resulted in a break in the planning chain with the break occurring between the regional and the provincial levels. Thus, there is a need to reorient the Regional Development Council (RDCs) so that they become an effective venue for integrating national and local plans. In this regard, it is important that regional offices of national government agencies reflect LGU priorities in their planning submissions before forwarding the regional sectoral plans to their central offices. The NEDA regional offices (as the secretariat to the RDCs) would have to play an even more active role in coordinating the regional offices of the sector agencies and LGU planning offices.

The Regional Development Plan (RDP) which is formulated by the RDC is seldom, if ever, taken into consideration by the LGUs (GTZ 2004; WB/ ADB 2003). Thus, the LDPs of many are formulated quite independently of regional and national development plans.

Conversely, RDPs tend to ignore local developments plans ostensibly because they are meant to focus solely on inter-provincial projects. Many LGU officials complain that national government agencies do not adequately consult with the LGUs in the planning and implementation of programs and projects that are located within their jurisdictions (GTZ 2004). Many of these projects are reported to be inconsistent with the perceived needs of the LGUs (i.e., local demand). The national line agencies are not obliged to follow the RDIP-based regional budget. Consequently, the RDPs are usually more reflective of the national government line agencies that have the budget to fund the projects contained therein (GTZ 2004).

At the same time, the regional plans have no champions in the central level discussions on the MTPDP, thereby, reducing the prominence of the regional plans vis-à-vis the sectoral plans (WB/ ADB 2003). LGU officials note that they have little influence on outcomes of the deliberations on the MTPDP after regional plans are submitted to the central level. While the RDCs endorse projects to the national government, they fail to establish a strong link between the LGU and the national government agencies. This inadequacy appears to be linked to the inability of the RDCs to secure funding for the programs and projects included in the RDP (GTZ 2004).

4.3. Increasing Transparency in Local Budgeting

On the whole, budgeting at the local level is done largely in an incremental fashion. First, funds for the mandatory expenditures (like personal services, debt service and LDF) are set aside. Then, heads of offices are allowed to apply prescribed maximum rates of increase on the existing allocation for recurring expenditure programs.[9]

Then, after the baseline budget is determined, most budget officers simply ask each department to prepare proposals for new programs without providing any budget ceiling.

[9] Some LGUs go through the pretense of allowing the different offices in the local government to prepare an un-constrained budget proposal. However, regardless of the approach followed, the end result is the same.

In situations like this, the budgets proposed by the various departments would invariably exceed the aggregate amount of available resources. However, at the end of the day, the budget proposals are consolidated and trimmed down according to the priorities of the local chief executive. Thus, the budget process like the planning process is also governor-centric/ mayor-centric.

Another concern in local budgeting is the lack of transparency in the preparation and implementation of local budgets. Four factors contribute to making the budget process highly non-transparent: (a) the estimation of the income targets on which the annual budget is tied-up, (b) the recent practice of granting additional personnel benefits of "savings", (c) budgeting, in actual practice, is done largely in an incremental fashion after funds are set aside for mandatory expenditures and, (d) the lack of effective community participation in the preparation and monitoring of the local budget.

Many LGUs, however, have forged ahead with successful innovations in the local planning and budgeting. One good example is the province of Bulacan which made use of the survey method to ascertain the budget preferences of its constituents (**Box 18**).

Box 18. Knowing What the People Really Want: The Case of Bulacan Province

The Governor of Bulacan believes that to be able to have constituent-responsive governance, the provincial government should know the real opinion of the people. Thus, it launched a scientific way of knowing what the people really want through the ***Constituent-Responsive Governance*** project which utilizes the survey research method.

As part of the pilot-testing of this innovation, the province conducted a poll on the citizen's preference for a health insurance program, solid waste disposal, real property tax billing statement, and a community radio. In each case, the province established that the scientific approach using surveys lessened the probability of mistakes in the implementation of the projects. It also improved local services by considering the people's preferences and trying to incorporate these on its budget. Moreover, the province was also able to get information on "willingness to pay" for health insurance from the survey. The provincial government also changed the programming of its radio station to suit the interests and lifestyles of its constituents.

Source: Gawad Galing Pook: A Tribute to Innovation and Excellence in Local Governance, 2002.

4.4. Performance Based Budgeting

On the other hand, Naga City (in cooperation with Synergeia) re-invented the local school board not only by allowing it to serve as the venue for the participation of the entire community in the planning and budgeting process for basic education in the city but also through the application of performance based-budgeting in the allocation of the Special Education Fund (**Box 19**). The budget priorities for the SEF are set relative to targeted improvements in student performance, thereby linking budgets with performance. The initiative also calls for the continuous monitoring of student and teacher performance and reporting of the results to the community. Lastly, under the program, the SEF is used to provide performance-based incentives to teachers.

Prospectively, an analogous program can be done for the Local Health Board to help improve health and family planning outcomes at the local level.

Box 19. Re-inventing the Local School Board

A pro-active local school board can function beyond budgeting the SEF. It can institute: proactive planning and budgeting, performance-based incentives for schools, division-wide achievement testing, transparent teacher recruitment, and efficiency in spending the SEF.

How-to steps in reinventing the local school board

1. Identify and develop a committed coalition to work as a team.

The Mayor can bring together a group of reform minded educators to develop a shared vision for the kind of education hey would like for their children. The team meets regularly to strategize and determine how their vision can be accomplished.

2. Assess the state of basic education in the community.

Usually, communities are not involved because they do not know the extent of the problem in the education sector. A situation analysis can be made by putting together data on education, dropout rates, reasons for dropping out number of students per class, ratio of textbook to number of students, facilities and utilities available in schools, average scores in reading and mathematics tests. The Superintendent/Supervisor can help put together these data.

3. Hold and education summit.

Engage the entire community in improving basic education. The local school board can host an education summit to disseminate findings from its situation analysis. The summit should ensure broad representation: Department of Education personnel, parents, the corporate sector, local government officials, academic institutions and NGOs.

The Governor/Mayor can present an education situationer and targets that the local government units should strive to attain, i.e. reduction in the number of non-readers, and an increase in the reading and mathematics test scores of the children. The participants can be organized into workshops to discuss problems and priorities and ways to improve student performance. Participants can be asked how they would like to spend the SEF tax revenue. The summit can end with the Governor/Mayor summarizing the consensus of the participants.

4. Commit ideas to budget.

The local school board can organize summit output and relate it to the budget. This means using the priorities set in the summit as basis for allocation the SEF budget.

5. Empower broad-based action.

The local school board can initiate changes, communicate strategies for reform, and lead by example. It can transform old and closed systems into participatory processes. More transparency is needed in procurement and an incentive system based on improvement in academic performance is needed.

6. Conduct regular, participative local school board meetings with a rich agenda.

Use local school board meetings to engage parents and community members and sustain their interest in improving education. Open agenda items for their participation, include parents, feedback and suggestions. Enrich the agenda by discussing policies, school programs and activities. Monitor progress of programs on students, and teachers, performance.

7. Develop a report card system.

Encourage principals to report on student performance to the community once or twice a year. How did students do in reading and mathematics tests? What were the highs and the lows with respect to school programs for the year?

Con't of Box 19

8. Consolidate gains and produce more changes.

Local school boards can use their increased credibility and experience to improve all systems, structures and policies that do not enhance their vision for quality education. What practices can be systematized? Are there administrative orders or ordinances that need to be drafted to institutionalize changes? Are there other persons and institutions that can be involved in the change process? How can parents be given more opportunities to support the learning system? How can the young people in the community help?

What happened in Naga?

The Reinventing the Local School Board Project was able to initiate new processes and programs, which gave the community greater voice and responsibility in the governance of education. Some of the activities they undertook were:

- Regular consultations and meetings with (parents, teachers, school officials)
- A community-wide summit on education planning and budgeting
- A transparent hiring system for teachers
- A fund for schools to spend on developmental needs like instructional materials
- Additional performance-based incentives for teachers
- Workbooks and lesson plans in English, Math and Science (all elementary levels)
- Surog Adal (alliance for Learning), similar to the adopt a school program
- CLICK (Computer Library and Instructional Center for Kids)

What has been achieved?

The project has been able to transform the community from being passive recipients to being active participants in improving basic education. What is better proof of this than the improvement in the performance of the elementary schools students?

- 17 percentage points in English
- 15 percentage point in Math
- 15 percentage point in Science

Source: Synergeia Brochure, 2004

Lastly, local government procurement has also posed a challenge in many LGUs. Some of the outstanding problems in LGU procurement relate to the bidding process and the terms, conditions and procedures for contract awarding result to: (a) inefficiency and delays, (b) higher cost procurement for LGUs, (c) manipulation of the rules for benefiting favored bidders, and opportunities for graft and corruption, (d) high possibility of contract default for want of qualifications, and (e) lack of a system of accountability.

Nevertheless, the Municipality of Goa (**Box 20**) was able to reduce the cost of the drugs and medical supplies it buys by 20% by participating in the "direct purchase program" of the Department of Health Regional Office.

Box 20. Medicine Procurement Program of Municipality of Goa, Camarines Sur

In an attempt to maximize the utilization of its meager resources, the Municipality of Goa put in place a new Medicine Procurement Program. LGUs typically procure medicines and medical supplies through public bidding (which is the method advocated by the Commission on Audit). However, public bidding do not necessarily result in the acquisition of goods at the lowest possible cost. Thus, Goa opted to participate in the bulk procurement of medicines and other medical supplies through the Department of Health (DOH), Regional Office. This required submission of Letter of Intent, passage of resolution by the Sangguniang Bayan allowing the Local Chief Executive to sign the Memorandum Of Agreement (MOA) between DOH Regional Office and the local government of Goa, and submission of duly accomplished Purchase Request.

Program Accomplishments:

1. Prices of medicines for 2001 were lesser by 20% from the original prices quoted by the bidders. Medicine procurement from the DOH proved to be lower than the lowest prices the bidders could offer the LGU.
2. Some unintended benefits were also realized.
    a. Not only does the LGU saved costs on drugs and medicines, additional medicines were also given by the DOH Regional Office.
    b. The LGU was also spared of the requirements of the drug testing and analysis where 20% of the total quantity of medicines delivered by the suppliers were usually taken out to be tested and analysed in the Bureau of Food and Drugs (BFAD). With this program, 100% of medicine procurement was received by the LGU because these were purchased from DOH suppliers whose medicines were already tested by BFAD.
    c. Having the same requirements with DOH, the LGU is also assured of the availability of drugs and medicines.
    d. Medicine procurement of the LGU encourages greater advocacy of the Generic Law.