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LOCAL DEVELOPMENT ASSISTANCE PROGRAM

(492-0436)

Program Assistance Approval Document

USAID/Philippines
September 1990

ACTION MEMORANDUM FOR THE DIRECTOR

THROUGH: Mr. Richard A. Johnson
Deputy Director

DATE: SEP 24 1990

FROM: for Fatima S. Verzosa
Office of Development Resources Management

SUBJECT: LOCAL DEVELOPMENT ASSISTANCE PROGRAM (492-0436): Program Assistance Approval Document (PAAD) Approval and Program Authorization

ACTION REQUESTED: Your approval of the subject PAAD and Program Authorization for FY 90 obligation.

BACKGROUND: During FY 1989, actions were initiated to develop the Local Development Assistance Program (LDAP). In April 1989, the ANE Bureau reviewed and approved the LDAP Program Assistance Initial Proposal (PAIP) and recommended program preparation and authorization by the Mission subject to AID/W approval of the policy agenda and performance benchmarks (see 89 State 154685 attached as TAB C). From mid- to late 1989, USAID financed a number of studies and carried out discussions with a wide range of Government of the Philippines' (GOP) officials. In January 1990, the Mission prepared a draft policy agenda to focus discussions with senior GOP officials on policy reforms to be included in the program. The final policy agenda and benchmarks were approved by the ANE Bureau in July 1990 (see State 231507 attached as TAB D).

The purpose of the program is to support GOP decentralization policy reform -- provide increased autonomy and resources and improve the capacity of local government units -- especially provinces and municipalities.

The life-of-program cost is $50,000,000 in Economic Support Funds. A total of approximately $45 million will be disbursed in three tranches over the period FYs 90 - 92, based on GOP performance on specified actions in the LDAP Policy Agenda. The remaining amount, approximately $5 million, will finance support grants to non-government organizations supporting decentralization efforts as well as technical assistance for policy performance and financial monitoring, policy studies, audit and evaluation. The planned support grants and technical assistance will be procured through AID-direct contracts. For FY 1990, a total of $45.022 million will be obligated for.LDAP.

The U.S. dollars provided will be used for the payment of specified Philippine multilateral debts. As detailed in the policy agenda, the GOP would provide the peso equivalent of approximately $670 million in support of decentralization actions and the implementation of policy decisions over the three-year life of the program. These funds are the estimated additional resources to local government units (LGUs), consisting of increased internal revenue allotments to LGUs, removal of mandatory LGU contributions to national police and hospitals, incentive funds for pilot provinces, funds for capacity building and funds for the expansion of property tax improvement activities.

DISCUSSION: The PAAD for the subject program was reviewed by the Mission on July 25, 1990, with the following recommendations: (NOTE: Revisions to the PAAD in response to the Mission Review are shown in parentheses.)

1. PASSAGE OF THE LOCAL GOVERNMENT CODE: Legal language should be added to clarify AID's position in adjusting or renegotiating the policy agenda and the level or timing of the remaining tranches. (OLA provided the Program Design Team with additional language on the implications of the passage of the Local Government Code to LDAP.)

2. GENERATING PESOS: An issue was raised by OFM on the necessity to generate and track local currency under the program as the GOP is required to raise revenues and use its own budget resources to support the program, and the dollars are being programmed. Subsequently, a decision was made to query AID/Washington on this and, as a result of this query, to send a revised Congressional Notification (CN) with a justification that generating pesos would be counterproductive to program sustainability. A revised CN was sent to AID/W on August 2, 1990 (see 90 MANILA 023860 attached as TAB E).

3. TRANCHING SCHEDULE: The proposed tranching schedule should be matched with policy performance, and spread over three years rather than two years. This will provide a more realistic and manageable time frame for implementation of targeted policy reforms. (The proposed Program Assistance Completion Date for the program has been extended to December 31, 1993 to provide the GOP with enough time to close out the program. The tranching schedule reflects the expected and realistic reforms that the GOP can implement prior to tranche releases.)

4. LOCAL SUPPORT GRANTS: More funding should be provided, preferably at the $2 million level. This will provide the Mission with greater flexibility for assisting the League of Leagues and in conducting policy studies and operational research on LDAP. (Funding for local support grants has been increased to $2.5 million, with an additional $2.0 million for policy performance monitoring and $200,000 for evaluation and audit. This realignment was based on the reduction of the financial monitoring budget. In addition, the technical services component has been modified by moving the description of "policy studies" out of the NGO grants and into this component. It was felt that the Mission would want to direct these studies and the technical services component appeared a more appropriate mechanism that the NGO intermediary cooperative agreement).

5. DEPARTMENT OF LOCAL GOVERNMENT (DLG) ROLE: A section needs to be added on the PAAD to clearly specify the DLG's role and responsibilities as one of the main implementors of policy reforms under LDAP. (Language on the DLG role has been added to the "Implementing Entities" section of the PAAD. Further, additional language has been added describing the relative roles of the GOP agencies as outlined in the GOP Letter of Request, Annex A).

6. POLICY AGENDA WORDING: Regarding the negotiations of the final policy agenda, the Mission should attempt the retention of our preferred language on two items in the policy agenda: the removal of mandatory LGU contributions to the national police and hospitals, and the provision of funds for local government training.

7. PROGRAM PURPOSE: Under the Summary and Recommendations section, capacity-building should be added as a third objective of the Program Purpose. (Language to this effect was included in the PAAD).

AUTHORITY: The Acting Assistant Administrator for the ANE Bureau delegated authority to the Mission Director to approve the program for $50.0 million per 89 STATE 154685 (TAB D), dated May 17, 1989.

WAIVERS: At this time there are no requests for waivers. However, with respect to the Administrator's "Buy America" policy, source/origin waivers may be required during program implementation for contracts entered into locally on the technical assistance component.

CONGRESSIONAL NOTIFICATION: A revised CN for this program was submitted August 2, 1990 (see TAB F). A "hold" was placed on the CN pending further clarifying information. Cable STATE 316520, dated September 18, 1990, informed the Mission that the "hold" had been lifted (see TAB F).

RECOMMENDATION: That you indicate your approval of the PAAD and authorization of the subject program by signing: (1) in the space provided below; (2) the Project Data Sheet (TAB A). In addition, you are requested to sign the Gray Amendment Certification (TAB B), which appears as Annex G to the PAAD.

Approved: for

Date: SEP 24 1990

Attachments:

TAB A. Program Assistance Approval Document Facesheet
TAB B. Gray Amendment Certification
TAB C. STATE 154685
TAB D. STATE 231507
TAB E. MANILA 023860
TAB F. STATE 316520

Clearances:

ORAD:KAPrussner (draft)
HDickherber (draft)
OD/PE:PRDeuster (draft)
OFM:JCStanford (draft)
OLA:LChiles (draft)
DRM/DI:PJordan (draft)
DRM/PT:DAD'Antonio (draft)
DRM:JAPatterson 9/21

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 492-0436
2. Country: Philippines
3. Category: Cash Transfer
4. Date:
5. To: Malcolm Butler, Director
6. OYB Change Number: N/A
7. From: John A. Patterson, Associate Mission Director, DRM
8. OYB Increase: N/A
To be taken from:
9. Approval Requested for Commitment of: $ 50,000,000
10. Appropriation Budget Plan Code: ESF
11. Type Funding: [ ] Loan [X] Grant
12. Local Currency Arrangement: [X] Informal [ ] Formal [ ] None
13. Estimated Delivery Period: August 1990 - March 1992
14. Transaction Eligibility Date: September 1, 1990
15. Commodities Financed: N/A

16. Permitted Source		17. Estimated Source	
~~U.S.~~ local		U.S.	$5,000,000
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash	$45,000,000	Other	

18. Summary Description

The purpose of the Local Development Assistance Program (LDAP) is to support the Government of the Philippines (GOP) decentralization, especially for provinces and municipalities. LDAP will provide $50 million in grant assistance, including $45 million for GOP performance on agreed-upon policy actions and $5 million for support grants to selected organizations involved in decentralization and technical assistance for decentralization policy analysis, policy and financial monitoring, evaluation and audit. The GOP will use the U.S. dollars to service official debt with selective multilateral institutions. The planned support grants and technical assistance will be procured through AID-direct contracts.

OFM Comment: The provision of the payment verification policy regarding methods of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in this document.

J.C. Stanford, Controller

19. Clearances	Date
ORAD:KPrussner	9/12/90
OD/PE:PDeuster	9/13/90
OFM:JCStanford	9/13/90
OLA:LChiles	9/13/90
DRM:DADAntonio	9/14/90
OD:RAJohnson	

20. Action

[ ] APPROVED [ ] DISAPPROVED

Authorized Signature: for Malcolm Butler

Title: Director

Date: SEP 24 1990

AID 1120-1 (5-82)

CLASSIFICATION:

LOCAL DEVELOPMENT ASSISTANCE PROGRAM
(492-0436)
Program Assistance Approval Document

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ACRONYMS

AAP	Accelerated Agricultural Production
ADB	Asian Development Bank
AID	Agency for International Development
AIDAB	Australian International Development Assistance Bureau
BOP	Balance of Payment
BTr	Bureau of Treasury
BWP	Barangay Water Projects
CB	Central Bank
CDIT	Cabinet Decentralization Implementing Team
CIDA	Canadian International Development Agency
DA	Department of Agriculture
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DLG	Department of Local Government
DOF	Department of Finance
DPWH	Department of Public Works and Highways
DOH	Department of Health
ECD	Enterprise in Community Development
FY	Fiscal Year
GAA	General Appropriations Act
GNP	Gross National Product
GOCC	Government Owned and Controlled Corporations
GOP	Government of the Philippines
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
LDC	Local Development Council
LGA	Local Government Academy
LGP	Local Government Projects
LGRSF	Local Government Revenue Stabilization Fund
LGU	Local Government Units
LRM	Local Resources Management
MOA	Memorandum of Agreement
NALGU	National Assistance to Local Governments Units
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Proposal
PC/INP	Philippine Constabulary/Integrated National Police

PDAP	Provincial Development Assistance Program
PDP	Provincial Development Project
PIL	Program Implementation Letter
PMO	Program Monitoring Office
PVO	Private Voluntary Organization
RDCs	Regional Development Councils
RPTA	Real Property Tax Administration
RRD	Rainfed Resources Development
SPREAD	Systematic Programming for Rural Economic Assistance Development
STA	Specific Tax Allotment
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development

I. SUMMARY AND RECOMMENDATIONS

1. PROGRAM TITLE AND NUMBER: Local Assistance Development Program (492-0436)

2. GRANTEE: The Government of the Philippines (GOP).

3. IMPLEMENTING AGENCY: National Economic Development Authority (NEDA), Department of Finance (DOF), Department of Local Government (DLG), Department of Public Works and Highways (DPWH), Department of Environment and Natural Resources (DENR), Department of Budget and Management (DBM).

4. FUNDING LEVEL AND TERMS: U.S. $50 million grant from Economic Support Fund (ESF).

5. LIFE OF PROGRAM: August 31, 1990 to December 31, 1993.

6. PROGRAM PURPOSE: To support the GOP decentralization policy reforms, provide increased autonomy and resources and improve the capacity of local government units (LGUs), especially provinces and municipalities.

7. SUMMARY PROGRAM DESCRIPTION: The cash transfer mode will be used to support this important policy reform activity. Of the planned $50 million assistance to be disbursed over a 18-24 month period in FYs 90-92, approximately $45 million will be disbursed in three tranches of budget support for GOP performance on specified actions. The remaining assistance will finance support grants to non-government organizations supporting decentralization efforts and technical assistance for monitoring, policy studies, audit and evaluation. U.S. dollar budget support will be provided for the payment of Philippine multilateral debt.

8. GRANTEE CONTRIBUTION: The GOP plans to provide approximately $16.7 million of GOP funds in support of decentralization actions and policy decisions over the three year life of the program.

9. STATUTORY REQUIREMENTS: All statutory requirements have been met. (See Annex C.)

10. RESOLUTION OF PROGRAM ISSUES: All program issues have been satisfactorily resolved; these are detailed in the Action Memorandum requesting Program Authorization.

11. RECOMMENDATION: Authorization of a grant of U.S. $50 million, if negotiations do not significantly alter the Program in form or substance.

12. PROGRAM COMMITTEE: The USAID Program Committee members are:

ORAD: Charles Rheingans, Jane Nandy, Napoleon de Sagun, Jose Dulce, Leonardo Dayao
OD/PE: Paul Deuster, Maria Luisa Panlilio
OFM: Fatima Tullao
DRM: Jean Du Rette, Fatima Verzosa
OLA: Lisa Chiles

II. BACKGROUND

A. Political Context

Following the momentous February 1986 people's power revolution and the advent of the present administration, President Corazon Aquino made a vow before the nation to restore, rebuild and strengthen democratic processes and institutions. Fundamental political changes and the restoration of democratic institutions with a system of checks and balances characterized the first two years of the new government, e.g., the complete revamp of the judiciary, the creation of a Constitutional Commission and the ratification of a new Philippine Constitution in 1987, which provided for a bicameral legislature, and national and local elections. The local government at the provincial, city, municipal and barangay levels were once again headed by popularly elected instead of appointed officials. There has been a resurgence of interest on decentralization as a strategy towards democratizing the political system and accelerating the attainment of development goals.

To make the delivery system for public services more efficient and responsive to the needs of the citizenry, deliberate efforts are being made to streamline the government bureaucracy and to decentralize government powers. Thus, towards this end, the 1987 Constitution enshrines local autonomy as a cardinal mandate to which the government commits itself. It expressly provides for a decentralization policy and explicitly mandates Congress to enact a local government code which institutes a "system of decentralization" in the designation of powers, responsibilities and duties entrusted to local government units, and in the allocation of resources involving national-local distribution. An act providing for such a local government code has been filed in Congress together with other related legislative measures. If approved as envisioned, the code will change the landscape of public governance in the Philippines.

President Aquino has repeatedly pronounced decentralization as the centerpiece of her public administration program. Various acts and pronouncements of her administration since its inception have attested to the seriousness of this commitment. With its resolve to expand democratic space in all areas, the environment for genuine local participation and decentralization has never been more auspicious. Indeed, the political will is apparent, from the Constitution itself as well as from various presidential initiatives.

Despite strong aspirations for greater local participation, however, the culture of Philippine bureaucracy has for decades been dominated by a pervasive preference for centralism. And the political system, which has been characterized by a web of constituency patronage, kinship ties and the so-called family dynasties, may be considered as paternalistic and authoritarian. Furthermore, at both the national and local levels may be found well-entrenched economic and political elites. It has been shown that for almost each of the 73 provinces in the Philippines, one or two families can be identified as exercising virtually uncontested political and economic control.

To push for decentralization and greater local participation in such an environment is a difficult task, for this means overcoming a socio-political culture that has evolved through many decades. Yet the momentum for decentralization is growing and advocates are exerting increasing pressure for legislators to act on emerging legislation and administrative reform proposals. Of particular note is the strong call for local autonomy by governors and mayors, elected in 1988. Local executives have organized themselves into a League of Leagues, composed of the League of Governors and League of Mayors, which had begun to challenge the reluctant legislators and national department heads to surrender powers, and privileges to local governments.

Advocates of decentralization, notably local government officials but significantly including strong commitment from legislators and the Administration, generally perceive that any deployment of power, services, facilities and resources to the communities would create opportunities, promote employment and economic activities, and strengthen people's participation in the affairs of government. Legislators often argue however, that local governments are neither prepared nor trustworthy to exercise such authorities and responsibilities. At the same time, they recognize that central agencies are unable to provide LGUs with needed basic services or reduce the huge backlog of funds allocated for development activities.

The pressure for change that would place decision-making authority and corresponding resources at the lowest possible level has spread in the bureaucracy and needs immediate and critical resolution, if the gains of decentralization will be a legacy of this administration.

B. Economic Setting

1. Recent Economic Experience

Following the 1984-1985 downturn, the Aquino administration re-initiated economic reforms such as import liberalization, dismantling of agricultural monopolies, privatization, greater role for private sector and small and medium enterprises, among others. These reforms contributed to the reversal of negative growth rates in 1984-1985 to positive growth in real Gross National Product (GNP) of 5.9 percent in 1987 and 6.7 percent in 1988.

The rate of real economic progress has slowed somewhat, with a real GNP growth rate of 5.6 percent in 1989 and 10.6 percent inflation. Government expenditures for salaries and the private sector minimum wage adjustment mainly primed economic activity in 1989. Growth could have been higher or comparable to the 1988 performance if the first semester real growth of nearly 27 percent in private investments had been sustained in the second half of the year. Constrained by high interest rates and escalating wages, investments in real terms grew only by 14.8 percent in 1989.

With an estimated 2.34 percent growth in population, real per capita GNP amounted to ₱1,775 (about $710 in current prices using end-of-year average exchange rate of ₱22.428:$1.00), representing a minimal increase of 3.13 percent over the 1988 level. The 1989 real per capita GNP

has not yet reached the 1981 level, approximating only the per capita income level of 1977-1978. While personal income has improved since the 1984-1985 recession and families living below the poverty line decreased significantly from 59 percent in 1985 to 49.5 percent in 1988, poverty remains widespread, especially in non-metropolitan areas. Rural families living below the poverty line numbered 3.8 million as against 1.9 million in urban areas (1985). While reduced, rural-urban imbalance persists and widening income disparity among regions aggravates rural poverty.

Negative external shocks in the form of higher crude oil prices and the devastation up in Northern Luzon brought about by the recent earthquake are depressing growth prospects for 1990. Government planners have revised their economic projections to show a real GNP growth of 3.8 percent.

Over the next years, mobilizing economic development in non-metropolitan areas will be critical to shaping the rate and pattern of Philippine economic growth. The economy's capacity to expand its narrow rural development base depends on the availability of adequate rural financial resources, infrastructure and basic social services, along with export-oriented, labor-intensive industrialization. In turn, delivery of these rural economic requirements hinges on the extent to which government decision-making power, authority and resources are decentralized to LGUs. Sustained rural development through real local autonomy seems to be key to improvement in living conditions in non-metropolitan areas.

2. Public Sector Budget

a. National Government Budget Deficit

The GOP continues to face severe financial constraints to development. The national government 1989 budget deficit was ₱19.0 billion ($0.9 billion using the exchange rate of ₱22.428:$1.00). The 1989 budget deficit (see Table 1 in Annex D), though lower by 13 percent than the deficit in 1988, remained too huge, exceeding the ₱15.3 billion target by 24 percent, to improve the overall government financial condition significantly. Higher-than-projected government expenditures accounted for the larger-than-programmed budget deficit. Tax revenue generation improved significantly in 1989 (estimated ₱122.4 billion or $5.5 billion), with collections growing by 36 percent compared to 6 percent in 1987-1988.

On the other hand, government expenditures expanded faster than programmed and overshot targets. Total government expenditures reached ₱171.7 billion ($7.6 billion) in 1989, representing an expansion of 26 percent from the 1988 level, and 4 percent over the target. The higher-than-expected growth in government expenditures was largely due to increases in current operating and capital expenditures.

Future prospects for easing budgetary difficulties are dim despite the projected minimal increases of 3 percent in the deficit programmed for 1990 (₱20.7 billion or $0.9 billion using ₱23.00:$1.00) and the projected decline of 4 percent for 1991 (₱19.8 billion or $0.8 billion using ₱23.50:$1.00). Serious government efforts to reduce the overall public sector deficit, if successful, could produce a brighter outcome for

1990 and 1991. The newly launched tax reform package includes higher tax rates on "sin" products like cigarettes and alcoholic drinks and the shift of the tax burden from the poor to the rich through a strong income tax collection drive and increased real property tax on certain types of houses. Other reforms call for partial oil price deregulation to pave the way for the reduction and eventual abolition of oil subsidies as well as accelerate privatization of government-owned corporations and government acquired assets. These measures, however, may be difficult to implement, as they require containing expenditures. Pressures for the budget deficit to increase will come from GOP actions to blunt the negative effects of the oil prices shock and the earthquake disaster. Additional budgetary resources would be required to rehabilitate the infrastructure facilities up in Northern Luzon damaged by the recent earthquake.

The financial difficulties will be more pronounced by 1992 as the deficit is expected to increase by 41 percent or reach a level of ₱27.9 billion or $1.2 billion (using ₱24.00:$1.00), mainly due to the expected high level of spending for national and local elections.

b. Local Government Resources

Meager available resources constrain local government efforts to improve living conditions quickly. In the past decade, local governments spent an average of only 10 percent of total public expenditures, with the national government spending the remaining 90 percent. Local government units receive a limited share of national government funds allocated for infrastructure and basic social services. The national government actually collects far more from local government units (LGUs) than it gives back in allotments or other aid. An April 1989 memorandum from the Cabinet Assistance System group working on decentralization, reported that for the average region, the allotment is only 46.8 percent of collection while the National Capital Region receives barely one percent of its collections, despite having the second largest allotment. The memorandum also showed that the national government directly provided and controlled more than 87 percent of all government provided goods for the average region. Even for Metro Manila, the proportion provided by the national government is more than three fourths that provided by the city governments. Local officials have little control over local revenues. Existing laws and regulations such as the existing Local Government Code, National Internal Revenue Allotment and a Local Tax Code severely limit local government authority over local revenue generation. Local revenues represent less than seven percent of total average regional expenditures.

Additionally, the National Assistance to Local Government Units (NALGU) provided by the national government to local government units is meager. The total appropriated NALGU fund amounted to ₱9.5 ($0.5) billion in 1987, ₱6.8 ($0.3) billion in 1988, ₱11.0 ($0.5) billion in 1989, and ₱15.2 ($0.7) billion in 1990. These figures represent only 12, 7.8, 9.4, and 6.5 percent of the respective 1987, 1988, 1989, and 1990 national budgets. The bulk of NALGU came from national revenue collections and funds for local roads construction, repair and maintenance. Other forms of budgetary assistance to LGUs include funds for budgetary aid, barangay development fund, local government revenue stabilization fund, provincial

health and agricultural program, repair and construction of schoolbuildings and rural health units, local government planning and zoning fund, local communities assistance program, integrated area development, etc.

3. Balance of Payments Situation

A surplus of $451 million was recorded in the country's balance of payments (BOP) in 1989 (Annex D, Table 3). This amount was 31 percent lower than the BOP surplus of $650 million in 1988. Though the sixth consecutive year with a BOP surplus since the 1983 crisis, 1989 signals a deteriorating BOP condition. Without exceptional financing consisting of new money and debt rescheduling, the BOP in 1989 is in deficit of $2,012 million.

Deterioration in external accounts is attributed to the worsening trade imbalance as the current account deficit expanded from $423 million in 1988 to $1,465 million in 1989. Despite positive net receipts from services and net transfers from abroad, the merchandise trade imbalance was greater, leading to a current account deficit. Merchandise exports increased by 10 percent but imports grew much faster at 28 percent. Huge demands of import substituting industries, the oil industry, import dependent sectors as well as an increased demand for consumer goods arising from the import liberalization and brisker economic activity contributed to the surge in import demand. Another contributing factor was the 13 percent decline from $986 million in 1988 to $854 million in 1989 in net foreign investment inflow. Slowdown in debt conversions and higher capital withdrawals from the Philippines, especially after the December coup attempt, offset high portfolio investments and reinvested earnings.

The gross international reserves of the Central Bank amounted to $1.72 billion at the end of January, 1990, an amount sufficient to cover the country's import bill for only 1.5 months. Reserves in January shrunk by $604 million from $2.324 billion at the end of 1989, due to a combination of continuing heavy import demand and a withdrawal of reserves to help finance the January 3 buy back of $1.3 billion in foreign debt. Foreign loans acquired to support the debt buy back had been held as reserves, thus bolstering the year-end figure.

In February, the GOP and its creditor banks finally agreed to a lending accord providing for $715 million in new money for temporary balance of payments relief for the period 1990-91. Last May 15, the first tranche of $482.7 million was released. Recently the second tranche of the new money amounting to $116 million was also obtained by the GOP. This has shored up the CB's gross international reserves and as of August, it stands at $2.1 billion.

Preliminary, revised projections of the BOP by the CB, taking into account the negative impacts of the earthquake disaster and the Middle East crisis, indicate a deficit ranging from $100-$300 million in 1990. The current account is expected to suffer a $2-$3 billion deficit in 1990. Import growth is expected to slow down to 15 percent but merchandise export growth is projected to remain flat, one percent at best. The damage caused by the July earthquake did not spare the garments and semi-conductor firms located and operating in the Baguio Export Processing Zone.

The GOP hopes to draw on the IMF Contingency Fund Facility as a way of bridging the 1990 BOP deficit. The problem, however, is in 1991 and 1992 when the financing gap, based on the preliminary, revised CB projections, may be in the neighborhood of $2 billion. Sources of funding this amount, which is substantially more than what was initially programmed, are still unknown. The GOP also hopes to relieve the pressure from the widening current account gap through its debt reduction program consisting of new money, debt buy backs and debt rescheduling. Effective utilization of official credits and grants from foreign donors are expected to generate additional foreign exchange resources. The GOP is also seriously considering ways and means of attracting more foreign investments through the liberalization of entry rules and of the incentive system by shifting the Board of Investments role from regulation to promotion.

The current BOP situation is deteriorating under the impact of earthquake disaster and Middle East crisis. Both an exchange rate adjustment and additional resources are needed over the next few years to maintain external stability and economic growth.

C. Decentralization Reform

1. Background

Pressures for decentralization and local autonomy have deep roots in Philippine history. The first official recognition of local autonomy came in the Malolos Constitution of 1899, under the First Philippine Republic and at the beginning of American rule. The Constitution proclaimed in Article 57: "The conduct of the interest peculiar to the towns, the provinces, and the state, belongs, respectively to the provincial assemblies and to the general government, with due regard to the laws, and upon the most ample administrative decentralization and autonomy." Despite this proclamation, little local initiative existed during this period and little attention was paid to local authorities by the Central Government. Goals in the Constitution provided at best symbols of local government aspirations. Following this period, the 1935 Constitution provided significant changes in the relationship between the central and local governments by limiting central government power to that of supervision.

In support of the central-local governments relationships, a series of laws in the 1950's and in the early 1960's granted increased authority to local governments. But in the late 1960's, the locus of power began to shift. Central government bureaucracies once again began to reassert authority, presenting barriers to decentralization, a condition that did not improve until the declaration of Martial Law in 1972. The immediate consequence of the declaration of Martial Law was that local governments became directly responsible to then President Marcos rather than to their constituencies. Eventually, the Marcos government, upon lifting Martial Law in 1982, began to restore powers to local governments. President Marcos likely favored local government autonomy to promote the legitimacy and effectiveness of his regime. Central government officials realized that local officials would be more enthusiastic and productive if given more powers, and

that the Marcos government would get credit without threatening its retention of power. But, with the political and economic disasters of the early to mid-1980's, decentralization and local autonomy efforts stagnated until the downfall of President Marcos.

Thus, over the past decades, a general pattern of decentralization has co-existed with, and periodically has been overwhelmed by re- centralization. Hence, institutional development efforts that would have provided the core for sustainable decentralization either did not develop, or, if initiated, did not yield the desired results.

However, a major shift in the quality of political commitment to decentralization is apparent in the Aquino Administration. One of the major indicators of this commitment is the 1987 Constitution whereby local governments are to be granted local autonomy and Congress is mandated to enact a Local Government Code fulfilling that right. Following are the major constitutional provisions on local autonomy:

- Section 25 of Article II and Section 2 of Article X provide for local autonomy generally and for territorial and political subdivisions, respectively.

- Section 5 of Article X addresses local revenue generation: "Each local government unit shall have the power to create its own sources of revenue and to levy taxes, fees, and charges subject to such guidelines and limitations as Congress may provide, consistent with the basic policy of local autonomy. Such taxes, fees and charges shall accrue exclusively to local governments;" and

- Section 14 of Article X provides for regional entities: "The President shall provide for regional development councils (RDCs) or other similar bodies composed of local government officials, regional heads of departments, and other government officers and representatives from non-governmental organizations within the region for the purposes of administrative decentralization to strengthen the autonomy of the units therein and to accelerate the economic and social growth and development of the units in the regions."

Along with the above-mentioned Constitutional provisions, the Executive Branch is sponsoring a bill on local autonomy, whose major provisions include:

- Section 2 of Article I declares that it is the policy of the government to provide for a more responsive and accountable local government structure instituted through a system of decentralization;

- Section 4 of Article II spells out inter-governmental relations including: (a) involvement of local governments by the national government in the various substantive aspects of national projects as well as determination of the operational roles and activities that would be carried out through local government, (b) transfer to local governments of responsibility and authority over front-line services delivery functions, (c) automatic secondment to local governments of all national government personnel assigned to the local government

concerned whose Chief Executive shall exercise supervision or administrative authority, and (d) where national instrumentalities provide funding or financial counterpart assistance to local government units, the implementation of such projects shall devolve upon and be carried out by the local government concerned, subject to qualifications, standards, reporting and audit as may be prescribed by the national government;

- Section 8 of Article III states: "Non-governmental organizations are encouraged to become important partners in the thrust to attain efficient and effective local government autonomy;"

- Sections 19, 21 and 22 of Article VII provide that: (a) Local governments shall have the power to create its own sources of revenues, subject only to the guidelines and limitations as may be provided by Congress, (b) provinces and highly urbanized cities shall have the power to levy taxes, fees and charges, as add-on to national taxes but not to exceed 3% thereof, and (c) poll taxes and fixed taxes on the exercise of a profession, occupation, trade or business shall be devolved to the province or city; and

- Sections 25, 29 and 31 of Article VIII cover the share of local governments in national taxes, automatic release of shares and allotments, and grants-in-aid to local governments.

Another major indicator of the political commitment to decentralization by the Aquino Administration is reflected in the Updated Philippine Development Plan (1988-1992). The national plan supports local autonomy and decentralization, specifically: (a) operationalization of government decentralization policies; (b) regionalization of budgetary allocations; (c) greater participation of local government units and the private sector in the implementation of infrastructure projects particularly in terms of financing, operation and maintenance of facilities; and (d) improved reliance on local units in the identification and implementation of programs and projects in particular, and in development administration, in general.

At the regional level, the thrust is to provide full support to local government units with primary responsibility and authority for coordinating and managing local development project implementation. At the local government level, the direction is to provide for a more responsive and accountable local government system through: (a) broadening the taxing powers of local governments; (b) simplification, consolidation, and rationalization of the present national allotment system; and (c) transfer of appointing power for all positions in local government units to the local chief executives.

While the mandate and policy thrust have already been defined, observation of government actions shows that the central-local government relationship is still more at the stage of deconcentration but making significant headway in the push for decentralization. This observation is based on the government's use of the following terms to define a set of possible relationships between central and local governments:

- Devolution: complete autonomy, where local governments set their own goals, standards and progress.

- Decentralization: moderate autonomy, whereby local governments must meet goals of central government but can set their own standards.

- Deconcentration: whereby local governments are subordinated to central government's determined standards.

2. GOP Objectives/Strategy

Based on discussions with various officials and review of documents, the major objectives of Philippine decentralization are as follows:

a. Greater Share of Resources -- There is an utmost concern about the fair distribution of fiscal resources among regions, cities, provinces and among municipalities within a province. There are arguments that for decentralization to be successful, more resources should be channeled to less financially stable local government units and away from the National Capital Region. This concern is reflected in the allocation formula for the infrastructure budget by the Department of Public Works and Highways (DPWH). The formula is based on a combined need and poverty index.

b. Revenue Mobilization -- Executive Branch proposals indicate that the objective of decentralization is to increase the revenues generated by the local government units, as exemplified in the proposed Local Government Code which would allow local governments to increase tax rates. Also, proposed legislation on revenue sharing between the central and local governments provides incentives for local tax effort.

c. Local Participation for Improved Services -- The Philippine Government supports decentralization as an effective means to improve basic services through local participation. If people are given decision-making authority over the package of local services, they will more likely be responsible for paying for such services in the form of taxes or user charges. Locally elected officials are also more likely to be accountable to their constituents. Hence, the proposed local tax code would allow local governments more freedom to determine tax rates for local services. A proposal also exists to deconcentrate the central budget process to give local representatives more authority over the allocation of local government funds. Also, DPWH is targeting the devolution of functions/responsibilities to provinces under the pilot provincial decentralization effort.

3. Rationale for Decentralization Reform

a. Economic Rationale

Countryside or local development constitutes one of the major Philippine effort toward sustained economic recovery and long-term growth. However, local development is severely constrained by the lack of local autonomy, which contributes to inefficiency in the use of financial, physical, human and time resources available locally. Such inefficiency also contributes to inadequate, ineffective and inefficient delivery of public services and limits local economic growth and, hence, results in smaller economic gains for local communities.

Economic efficiency may be defined in broad terms as maximizing the net present value of output from a given level of inputs, where both outputs and inputs are valued to reflect their true economic opportunity costs. Efficiency is also defined in terms of minimizing costs. Government efficiency improvements can ultimately benefit less fortunate members of the community as better public services allow the beneficiaries to be themselves more efficient in their own undertakings.

The absence of local autonomy adversely affects the efficiency of local government service by increasing input costs. Lack of decentralization means fewer financial resources are available to LGUs for important development projects such as infrastructure and basic social services, resulting in a diminished level of public services for the local community. Without more authority and efficient use of resources to deliver basic services, there is a strong tendency for local governments to ration public services.

Without decentralization, local government does not have decision-making authority over the use of available financial resources. It is increasingly recognized and accepted that local governments are in a better position than the national government to determine and provide both the level and mix of public services which most closely meet the needs of the local community. With decentralization, economic efficiency is thus promoted as a closer match is attained between public services and the multiplicity of individual preferences and needs.

With more control over financial resources, LGUs are expected to economize on the use of funds to provide the needed local infrastructure such as roads, bridges, ports and basic social services such as garbage collection, public health and sanitation, and water supply at reduced unit costs. Therefore, cost savings may also be realized. With decision-making more closely reflecting the needs of beneficiaries, there is a better chance that the more appropriate amount and types of public services and infrastructure will be provided in a timely fashion. Without decentralization, the amount may be too low to clear the market such that public services get rationed. In the opposite case, the amount provided may be too high, resulting in wastage of scarce resources. Decentralization can promote greater accountability by

clearly linking the benefits of services with their costs. Without decentralization, the national government is less accountable to the local community for the delivery of services in part because of the physical distance between the two entities and of the lower degree of political obligation by the national government to the local citizenry.

The lack or absence of devolved power held by local governments over licensing and regulatory functions of the national government reduces potential efficiency gains. Efficiency gains from decentralization coming as spillover effects (costs to the local community in particular) are better internalized. For instance, in the regulation of local public transport operations, LGUs are in a better position to determine local needs and take into account the attendant congestion costs.

Local control over funds and the regularity of their flow brought about by decentralization will also improve the timing of local public sector activities by minimizing implementation delays. With more resources at their disposal plus genuine authority to make its own policies, LGUs will most probably respond faster to provide the needed local infrastructure and basic social services.

Changes in input mix for local public sector activities are also likely to be realized with decentralization, as local decision-making takes better account of relative factor price differences at the local level. Cheaper indigenous inputs such as labor and materials will thus be favored and, as a result, multiplier effects on local employment and income could be more pronounced.

b. Democratic Pluralism Rationale

Decentralization through the transfer of resources, responsibility and authority to local governments is the political equivalent of open markets. It helps promote and preserve the requisites necessary for an open society. It is a logical precondition to broad-based economic development.

Decentralization strengthens local government administration. By encouraging increased authority for local government, there results increased citizens' voice and choice, financial discipline, and political responsibility. It gives the opportunity to the national government to concentrate on broader policy and national requirements.

A decentralized resource allocation system emanating from a decentralized system of government is a basic requirement for developing and maintaining infrastructure and for effective delivery of basic social services. The lack of infrastructure and basic social services seriously hampers local development in the Philippines. Private sector representatives unanimously cite inadequate infrastructure as a key constraint to increased private sector investments in the country. Government has failed to address the problem of inadequate infrastructure in areas outside the National Capital Region because it has not provided

the required resources and instituted effective planning and implementation for infrastructure development. Basically, these inadequacies also arise from the lack of devolution of decision-making power to the people through their local governments and the low level of internal resource mobilization by the local economy.

Decentralization is critical to local development whereby citizens have a greater voice in resource allocation. Increased responsibility and accountability at the local level is necessary for opening the economy and encouraging social responsibility. Decentralization is important for delivering effective basic infrastructure and social services to support open markets, which, in turn are crucial to expanded private sector activity. Linkages between the metropolis, secondary cities, market towns and production areas are essential to stimulate economic growth, create jobs and spread growth benefits. Adequate infrastructure, including secondary and tertiary roads, air and waterway linkages and telecommunications, is necessary to facilitate the development of open markets. Open markets are also essential to enable the private sector to play a stronger role in the economy and to strengthen the private sector's voice and promote greater choice through diversification and increased business opportunities. Efficient provision of adequate access to essential social services, including basic health, nutrition, potable water, housing, sanitation and education is basic to promoting economic development and political stability as people with access to essential basic services are better able to participate and exercise meaningful choice for improving their living conditions.

Improved infrastructure also have a significant impact on agricultural production and productivity, nonfarm income and employment, and rural welfare in general. While the immediate, measurable effect is the reduction in transport costs, the efficiency gains that such developments afford are associated with the faster diffusion of agricultural technology, the flourishing of more competitive and open markets and the increased mobility and voice of labor. These conditions make way for the sustenance of an open society.

4. Key Constraints

While the policy thrusts have already been defined, much needs to be done to address existing constraints to achieve the objectives of decentralization. The major constraints can be categorized into local authority and capacity, as discussed below:

a. Local Authority

1) Financial Resources and Budgeting

The authority of local governments to raise resources is governed by Presidential Decree No. 231 (Local Tax Code) enacted during the Marcos administration. The decree specified all revenue sources at the local level and the limitations giving local governments little leeway. While the local governments, under the code, are free to

keep business taxes low in order to attract business in their area, they are prohibited from raising taxes over a certain level. Hence, local governments have to rely heavily on subsidies from the national government. An average of 40 percent of total local government revenues comes from transfers from the national government in the form of allotment shares from internal revenue and grants-in-aid. The Local Tax Code, therefore, needs revision to allow local flexibility and authority. The revision of the code is incorporated in the proposed Local Government Code presently being discussed in Congress.

Transfers from the national government undermine the concept of local autonomy and are usually used as measures to control activities of local governments. About 73 percent of the local budget is constrained by the national government through legal mandatory provisions, leaving local government executives little decision-making discretion. In the local budget process, representatives of the central government are always there to ensure that local authorities observe the laws, regulations, and policies of the national government. Central government authorities bewail that local officials are not yet prepared to effectively allocate scarce local resources without central government supervision and control.

Regarding local revenue generation, real property taxes are the most important source of revenue collections which are retained by the local governments. Both provinces and municipalities collect property taxes which are reconciled monthly for sharing (45 percent to provinces, 45 percent to municipalities and 10 percent to barangays). Cities also collect property taxes wherein 90 percent goes to the city government and 10 percent to its constituent barangays. Property tax collection, however, is constrained by undervalued and outdated property value assessments including poor records system. The current property tax is based on the 1985 valuation that will soon be re-evaluated.

Additional local source revenues come from business taxes and non-tax revenue, primarily licenses and fees. Cities and municipalities have greater authority than provinces over business activities and thus collect and retain for their own use significant income from business taxes.

2) Project Approval and Implementation

Local governments participate in development planning up to the regional level. However, local approval authority over development projects is very limited especially in cases of projects funded under the NALGU. For instance, projects under the 20% development fund provided under the local government share from the national internal revenue need approval by the central DLG. There are clamors to remove central government approval authority. However, pending legislative amendments, the central DLG is now relatively lenient in approving projects and hastening the approval process.

For infrastructure projects, currently, only those projects below ₱200,000 are under the jurisdiction of provinces, although the four pilot decentralization provinces have limits of ₱500,000. Along this line, the Department of Public Works and Highways (DPWH) has a program to ultimately devolve to local governments the construction of national infrastructures within the boundary of their locality costing not more than ₱50 million each.

3) Personnel

Currently, central government personnel serving in local governments are not under the jurisdiction of the respective local chief executives. Local governments have essentially no control over local police and limited control over treasurers, assessors and budget officers. The DOF appoints and technically supervises treasurers and assessors while local units pay their salaries and provide administrative supervision. Local budget officers are appointed and under the technical supervision by the DBM. Salaries of budget officers are, however, paid by the national government. Personnel provided to local governments by the technical departments, such as the Department of Agriculture (DA) and the Department of Health (DOH), are paid by the National governments and are under the technical supervision of their respective agency.

Coordination and supervisory control of personnel from other central agencies is very limited or none at all, especially in implementing centrally-funded projects at the local level. Most national departments charged with line responsibilities maintain staff at the provincial level except the DPWH which uses a district system. Tenure and promotion decisions for national government staff assigned to local governments remain under national agency jurisdiction, preventing local leadership from effectively exerting control over staff. Provincial and municipal governments maintain their own engineering department but have neither the equipment nor the human resources of the corresponding DPWH district officer.

For better coordination and supervisory control of central agency personnel by the local chief executives, secondment of some central agency personnel is now being tested in the pilot decentralization provinces. Likewise, the proposed Local Government Code includes secondment of central agency staff to the local executives.

b. Local Capacity

The success of decentralization and local autonomy will depend heavily on the capacity and capability of local governments to administer and manage the delivery of basic services and implementation of development projects. In the past, it was argued that local governments lacked the capacity to prioritize, administer and manage local development activities, hence, the need for central government intervention. Currently, local executives feel strongly that they are capable to run the affairs of the local government without much supervision and guidance by the central authorities. However, their perception still remains to be tested.

Some areas that need strengthening in selected LGUs include: planning; tax mapping capabilities; management and technical skills for supervising infrastructure design and construction for other than very small structures; property management and facility maintenance; equipment procurement, operation and maintenance skills; inventory control; environmental management; and financial management capabilities. Related policy adjustments also need to be addressed in some areas. For example, LGUs do not have equipment replacement policies nor do equipment and infrastructure maintenance receive adequate priority. In the latter case, financial and technical resource limitations as well as limited priority for maintenance over the years have resulted in deterioration of existing structures and equipment.

To upgrade local capacity or to ensure capabilities of local governments, the Local Government Academy (LGA) was established on July 25, 1987. The LGA is an autonomous unit within the DLG mandated to address the training needs of local governments and coordinate all local government related training activities. Through collaborative agreements with established private training institutions, such as the Asian Institute for Management, the LGA has launched the Executive Management Program involving about 43,700 local officials to familiarize them with local government operations and management.

The major program of the LGA is as follows:

1) Orient about 43,700 local chief executives (governors, municipal and city mayors, and barangay captains) on local government management;

2) Educate some 258,000 provincial, city, municipal and barangay "Sanggunian" or local legislative council members in the proper forms and conduct of legislation;

3) Train about 10,200 local government career employees on various technical subjects supportive of local government executive functions; and

4) Train officials and staff from national agencies, local government, semi-government and non-government organizations involved in local government work.

D. Relationship to USAID Program

1. Relationship to USAID Strategy

LDAP will contribute directly to the Mission's overall goal of promoting broad-based, sustainable economic growth through the active partnership of the public and private sectors in fostering open and efficient markets and an open society. Decentralization, being one of the three cross-cutting themes of the Mission's assistance strategy in the Philippines, is a logical precondition to economic growth and to the sustenance of an open society. Decentralization means placing resources, responsibility and authority at the local levels so that citizens have a greater voice in governmental decision-making and resource allocation.

Decentralization of government functions is an important dimension of the democratic pluralism initiative and supports the requisites necessary for an open society. Decentralization is important for broad-based economic development. Local development in the Philippine countryside is severely constrained by the lack of local autonomy of LGUs, which contributes to inefficiency in the use of resources. Decentralization permits decisions on the delivery of services and basic infrastructure to be made more quickly and with greater responsiveness to local needs and conditions. With decision-making more closely reflecting the needs of beneficiaries, there is a better chance that the more appropriate amount and types of public services and infrastructure will be provided in a timely fashion.

Decentralization is expected to help bring about the necessary requisites for rural development -- namely, the development and maintenance of infrastructure and the effective delivery of basic social services. Infrastructure has a profound effect on agricultural productivity, non-farm income and employment, and integration of rural with urban sectors. On the other hand, the availability of basic social services such as potable water supply systems, health services centers, and electrification has an important effect on the quality of life/total development of individual members of the rural economy and, therefore, has an indirect positive effect on production, income and employment, consumption, savings and investments.

The effects of infrastructure on agricultural production combines with its effects on consumption patterns, incomes, and the supply of consumer goods in rural areas to produce growth in employment and the economy as a whole. Growth in employment involves a shift from low-paying, self-employment activities to high-productivity, wage-based employment. Markets become more competitive and mobility of labor increases. These, in turn, transform the predominantly subsistence rural sector to a more commercialized and specialized production sector.

The provision of basic social services in general has a fundamental effect on the quality of life of individual members of the rural community and an indirect influence on how effectively members contribute to the rural economy. More effective individual participation in the rural economy should contribute to increased rural stability and constituents will be less vulnerable to pressures of anti-government forces.

Further, by encouraging the appropriate policy framework to empower LGUs and increase their discretionary resources, LDAP will also complement and likely increase the effectiveness of ongoing USAID- and other donor-assisted efforts to strengthen LGU capacity building in areas outside Metro Manila.

2. Relationship to Past and Present USAID Assistance

For more than 20 years, USAID has provided assistance to local governments in the Philippines through a variety of projects beginning with Operation SPREAD (Systematic Programming for Rural Economic Assistance Development) in 1966. Operation SPREAD assisted two provinces directly for two years on a pilot basis to develop provincial management and project implementation capacity. The project identified concepts, systems and inputs crucial to the local development process at the provincial level.

In 1968, based on lessons learned from Operation SPREAD, the GOP initiated the Provincial Development Assistance Program (PDAP) to strengthen local government capacity by providing advisors, commodity support and training assistance to selected provinces. PDAP was implemented in 28 provinces and 10 cities from 1968 to 1980 and followed a highly structured approach to planning and management capacity development, including: (a) the establishment of fully staffed provincial planning development offices; (b) the initiation of development performance budgeting; and (c) the preparation of annual design and work plans. Additionally, PDAP helped to expand the Provincial Engineer's Office from a maintenance-oriented to an implementing and supervisory office. USAID provided support to PDAP through the Provincial Development Project (PDP) and the Local Government Project (LGP). PDP financed advisors, commodities and training for selected provinces from 1968 to 1973 to develop sector programs in infrastructure and tax administration. LGP provided assistance to PDAP from 1974 to 1978 to develop mechanisms to reduce transportation costs, expand public investment, promote equitable taxation policies, and improve market access.

Other USAID projects developed under the PDAP umbrella included: (a) Rural Roads Projects I and II; (b) Barangay Water Projects I and II; (c) Rural Service Center Project; and (d) Real Property Tax Administration Project.

Rural Roads Projects I and II were implemented from 1976 to 1983 in 74 provinces and 10 cities and developed an administrative and organizational structure for selected provinces to plan, manage and implement rural road projects following PDAP-identified systems. More than 1,000 kilometers of roads and 10,000 linear meters of bridges were constructed. The GOP continued to provide funding under this program through 1988.

Barangay Water Projects (BWP) I and II (1978 to 1986) developed the capability of 128 LGUs to design, install and maintain barangay cooperative water systems. Evaluations of these projects found that site selection, monitoring techniques, training and technical skills and profile of the target population were the most important elements for ensuring project success. The need to identify qualified staff (trainers and rural water and sanitation association officers) also hampered project implementation. Most importantly, the BWP evaluation concluded that institution building efforts should establish skills in permanent agencies for sustaining functions once USAID funding terminated.

The Rural Service Center Project (1978 to 1984) provided assistance to increase participation by the poor in the planning and implementation of local projects in six selected cities. The project developed infrastructure capability, including motor pool operation and radio communication, and conducted management training, revenue and income analysis, and socioeconomic surveys.

Building on initial studies under LGP (1974-1978) to improve the collection, assessment and records management, the Real Property Tax Administration I (RPTA I) Project undertook tax mapping and related management and collection activities from 1978 to 1984 as a basis for increased local revenue generation. RPTA I was pilot tested to plan, administer, replicate, and implement RPTA systems in 72 provinces covering 571 municipalities and cities.

A number of ongoing USAID projects provide assistance to strengthen local capacity, including: (a) Local Resource Management (LRM) Project; (b) Rainfed Resources Development (RRD) Project; (c) projects administered under the ESF Secretariat (Markets, Municipal Development Fund and the Regional Development Fund); (d) Enterprise in Community Development (ECD) Project; (e) Private Voluntary Organization (PVO) Co-Financing Project II and III; and (f) Accelerated Agricultural Production (AAP) Project.

The LRM Project supports GOP decentralization policy by assisting local groups to plan and implement development projects at the local level. LRM also provides assistance for tax mapping and management systems for improving revenue generation in selected provinces. LRM has strengthened provincial and municipal capability to increase local revenue through real property taxes and other local taxes. LRM has also utilized NGOs to organize and assist poverty groups to mobilize and manage resources for local development.

The Upland Access Component of the RRD Project is strengthening the capability of selected LGUs to plan and undertake construction of minor roads, foottrails, footbridges, river crossings and rehabilitation of provincial roads using labor-intensive technology. The evaluation of this component in 1989 concluded that the provision of technical supervision, the strengthening of provincial engineering office capabilities, and the development of maintenance programs for infrastructure are important to ensure sustained benefits. The evaluation also recommended that roads should be reclassified to permit DPWH to retain responsibility for maintaining national networks, with the provincial engineering office and municipalities having responsibility for periodic maintenance responsible for other levels. The Natural Resources Component of the RRD Project uses NGOs to undertake institutional strengthening tasks for agroforestry and reforestation activities at the community and provincial levels.

The Municipal Development and Regional Development Fund Projects of the ESF Program provide assistance to municipalities and provinces, respectively, to implement and manage small-scale, locally

prioritized infrastructure project development. The Markets Project assisted LGUs to manage market rehabilitation in selected market towns. Major lessons learned from the ESF projects include: (a) Infrastructure development requires effective subproject design and design review systems; (b) enforcement mechanisms are needed to hold engineering/construction firms accountable; (c) resident engineers need systematic monitoring/evaluation to develop skills; and (d) the improvement of municipal government capability to implement construction activities is dependent upon the provision of needed technical support.

Under the PVO Co-Financing II (1984-1992), PVO Co-Financing III (1989-1994), and ECD (1986-1993) Projects, USAID supports U.S. and indigenous PVOs and other private local organizations, to encourage the wider participation of rural residents in local development activities. USAID has found that PVOs and NGOs may be more effective than government units in delivering basic social services in certain areas in the Philippines. PVO Co-Financing II and III has funded 97 subprojects for a total obligation of over $20 million focusing on cooperatives, small scale development subprojects for the rural poor and ethnic groups, and the formation of closer working relationships between PVOs and LGUs in the areas of agriculture, primary health care and small/micro enterprise development. The ECD Project is directed at the improvement of community project design and implementation capacity under private sector sponsorship.

In April 1990, the Technical Resources Project sponsored a Cabinet-level Change and Enpowerment Seminar which focused on developing common perspectives on power and empowerment among provincial governors, congressmen and department secretaries. The seminar evolved a draft National Vision Statement on Decentralization which will be submitted for the President's consideration and official pronouncement.

USAID is also supporting Department of Agriculture efforts to improve capacity for decentralized operations through the ongoing AAP Project. The Child Survival Program likewise supports improvements in decentralized Department of Health operations.

PDAP activities and other completed and ongoing projects have been successful in increasing LGU participation in planning and implementation but have contributed little to the decentralization of authority and financial control of local governments. LDAP will complement earlier and ongoing project efforts by emphasizing key GOP policy adjustments to place decision-making and financial control at the lowest possible level. The program will also encourage GOP expansion of capacity building activities in selected provinces to enable LGUs to undertake increased responsibilities effectively.

E. Relationship to Other Donor Programs

The United Nations Development Programme (UNDP), the Canadian Development Agency (CIDA), the Australian International Development Assistance Bureau (AIDAB), the International Bank for Reconstruction and

Development (IBRD), the Asian Development Bank (ADB), the United Nations International Children's Emergency Fund (UNICEF), and the Konrad Adenauer Foundation of Germany are also providing assistance for local government development projects in the Philippines. LDAP support for policy reform will complement the ongoing assistance of other donors on capacity building of LGUs and LGU delivery of public services.

In July 1990, UNDP will implement on a pilot basis a District Development Management Systems project in Region V and VI that will support capability building in district planning and implementation from the barangay, municipal and provincial levels with DLG. UNDP also supported the recently completed third phase of the Regional Project Development Training Program of NEDA which has strengthened regional capacity to design and implement projects.

CIDA has recently established a Regional Development Fund to support GOP's decentralization efforts in three priority regions--Regions VI, IX and XI. About $6 million will be provided in FY 1990-92 to build the capacity of selected LGUs in these regions for project development and to fund a number of municipal projects which will result from these activities. CIDA is also planning to build a decentralization fund from the proceeds of their commodity assistance program, which will be used to do more capacity-building activities at the local levels.

The Australian government, through AIDAB, has been extending assistance to the Department of Agriculture to support their decentralization efforts. In FY 1990-91, AIDAB will focus on four pilot provinces--Albay, Bukidnon, Camarines Sur, and Misamis Oriental--to strengthen to provision of extension services at the local levels. Other related programs of AIDAB involve the development of linkages between government and non-government organizations in Northern Samar to develop and implement local development projects.

Over $50 million has been provided by IBRD as loan funds to DLG for the Municipal Development Project (PREMIUMED). Of this amount, $3 million were used to fund the Municipal Training Program (MTP) for local executives. The Program, which started in 1985 and will end in 1991, has targetted 45 municipalities for executive training for mayors and is testing a program to strengthen LGU administrative, technical and managerial capabilities. Under MTP's phase two, the Local Government Academy (LGA) of DLG is currently working on a grant proposal for IBRD to fund the training activities for fifth and sixth class municipalities.

IBRD is currently conducting a study on decentralization to lay-out the general framework that will assist the GOP in developing its decentralization strategy and to understand the impact of the proposed decentralization measures on the Bank's future assistance to the Philippines. The results of this study will provide important benchmarks in tracking the implementation progress of the LDAP policy agenda.

Other donors are working in technical areas to support decentralization efforts. For example, UNICEF has provided assistance directly to seven provinces to improve child survival programs through

the development of local capacity and commitment. The Konrad Adenauer Foundation of Germany has recently extended assistance to the province of Bulacan to improve local postal services. The ADB has recently extended technical assistance to NEDA for a study on mechanisms to imnprove tracking of projects under the public investment program. A computer system to monitor projects will increase the GOP's capacity to manage and formulate policies to improve local development.

III. PROGRAM DESCRIPTION

A. Objectives

1. Goal and Purpose

The purpose of the Local Development Assistance Program (LDAP) is to support the GOP decentralization reform, most notably increased autonomy for local government units (LGUs). An LGU is defined as a political unit of government below the regional level -- i.e., province, city, municipality and barangay. "Decentralization" is defined as the transfer of power, responsibility and resources from the national to local government level for the performance of specified public functions contributing to local development. LDAP includes key policy reforms that will move the GOP toward the goal of real local autonomy.

The ultimate goal of decentralization is not only democratization, in terms of providing an environment which allows and encourages greater participation of the people at the lower levels in the decison-making processes and procedures that affect them, but also in the broader context of social justice, specifically in the equitable distribution of power, resources and services which can now be rationally deployed to neglected communities.

The core of the program is focused on a policy reform agenda for LGUs in four areas - increased levels of discretionary resources, increased administrative authority, increased capacity-building and increased private sector role in local development.
The specific policy objectives, implementation actions, and performance indicators are discussed in Section IV.

2. End of Program Status

Within the three year program period, LDAP is expected to bring about policy reform that will lead to the actual transfer of greater authority and responsibility to local levels as against the mere extension of central government functions to local government levels. With a decentralized resource allocation system, local governments will have more power and responsibility to mobilize resources, to determine their use, and to demand a reasonable share of the country's financial and human resources.

Beyond the LDAP time frame, with policy reforms in place, it is expected that local governments, with more resources plus genuine decision-making authority, in general will be more responsive to constituents' needs. Thus, the delivery of basic services and the development and maintenance of infrastructure, among other results, will be accelerated. These results are expected only to begin to occur within the three-year time frame of LDAP and to extend for a longer time horizon made feasible by the policy reform that LDAP will encourage. These positive expectations are anticipated not only because of the current policy pronouncements of the national government and proposed

congressional legislation but, more importantly, because of the LDAP approach that will provide monetary incentives for the GOP to adopt policy reforms rapidly.

3. Sustainability

Local autonomy is explicitly espoused as a state policy with one entire article of the 1987 Philippine Constitution devoted to the subject of local governance. Under the Aquino Administration, the commitment to foster the mandate envisioned by the 1987 Constitution is affirmed as a policy priority. The executive branch has taken a number of actions to promote decentralization and has presented several bills to Congress, such as House Bill 22131, Senate Bill 808 and 967 which seeks to increase the resources and authorities of LGUs. But the cornerstone of the Aquino Administration's decentralization program is embodied in the local government code, which is under review in Congress. The LDAP policy agenda was designed without counting on the code getting passed during the life of this program. If the code that is passed is close to the administration's draft, it will go well beyond LDAP in terms of increased resources and authority of LGUs. The passage will greatly further the objective of real local autonomy and the results will be counted against the LDAP policy agenda. If the code is not passed, LDAP's policy agenda will tie the GOP, prior to any tranche releases, to the accomplishment of the policy reforms which are expected to generate additional funds to LGUs estimated at $216.2 million in 1990, $246.2 million in 1991 and $324.5 million in 1992. LDAP, therefore, provides a mechanism to use the momentum towards real local autonomy to achieve reforms which once undertaken are unlikely to be undone because of strong political support for them. .

4. Expected Benefits and Costs

LDAP is expected to bring about policy reforms which will help pave the way for a decentralized system of government in the Philippines. With decentralization and local autonomy, LGUs will have more financial resources and greater discretionary power in identifying and delivering basic social services and infrastructure which foster local economic development and growth. The provision of basic social services has a fundamental effect on the quality of life of individual members of the local development and an indirect effect on the individual member contribution to local economic output and growth. Improvements in infrastructure have a profound developmental impact on agricultural production and productivity, non-farm income and employment, and rural welfare in general.

Beyond increased delivery of public services which LDAP's policy agenda is expected to provide, the more valuable benefits of policy reforms are related to increased efficiency in the resource use. As the infrastructure budget is regionalized, decision-making with respect to projects of a certain maximum size will be left to the LGUs which is expected to generate savings in construction costs and reduced implementation delays. The latter could improve the timing of local public sector activities, with fewer delays in implementation and faster

response to the local needs. Increased discretionary resources for LGUs are expected to generate new financial resources for regions, from which the LGUs can expand as well as economize their operations to provide basic public services and improved infrastructure. Thus, cost savings may be realized when compared to the same level of services provided under a "without decentralization reform" situation. The devolution of some functions of national government agency to the LGUs will lead to better targeting of beneficiaries. With decision-making more closely in touch with beneficiary needs, the "correct" amount of resources will more likely be provided, thus avoiding rationing of public services or wastage of resources. Accordingly, economic efficiency is achieved with the realization of a closer match between public services and the varied individual preferences in the community.

While benefits will be derived from LDAP decentralization policy reforms, attendant economic costs will also be realized. The direct costs will include incremental outlays for capability building at the local government level in such aspects as general government administration, financial management and project development and implementation. Increased expenses could also occur due to allocation for overhead expenses for overseeing the early phase of program implementation. The indirect costs, which are likely to be higher than the direct costs, include possible efficiency loss in those cases where the local government is not sufficiently prepared for the responsibilities that come with local autonomy. Some amount of friction may be expected at the start, arising from heightened competition among local government politicians vying for visibility and credit. There is also the risk of the local political and economic elite conniving to usurp powers attendant to local autonomy to further their own self-interests. Finally, incompatibilities and conflicts between national and local objectives may arise with decentralization.

In order to get a handle on the magnitude of economic benefits accruing from decentralization, benefits were estimated using highly conservative assumptions with regard to the flow of funds to LGUs emanating from regionalization of the national infrastructure budget, increased national internal revenue allocations arising from the approval of a specific Congressional bill, and the devolution of national agency powers to LGUs. Alonzo's study (1990) showed that the monetized valuation of economic efficiency gains could range from ₱814.51 million ($35.4 million at P23.00) to ₱1,228.73 million ($53.4 million) for the first year. These gains could easily increase with the inclusion of private sector gains arising from increased efficiency in the local government's conduct of regular administrative and regulatory functions that would be devolved to LGUs. Such benefits likely are to be sustained and grow over time, as LGUs gain more experience in project development and general administration and as the national government releases more and more control over national programs.

The attendant direct cost estimates of the direct costs of the program are dwarfed relative to anticipated benefits. Suppose that the capacity building of LGUs involves training costs of ₱20,000 ($870) per participant (including the opportunity cost of time spent in

training), if the 1,665 local government units (provinces, municipalities and cities) should send 10 participants each, the costs under these generous assumptions totals only ₱333 million ($14.5 million), or 41 percent of the low estimate of first year expected program benefits. Taking into account the expected risks as well as the countervailing forces present in any democracy to reduce risks in decentralization reform, the "drag" is not likely to erode the efficiency gains significantly. Even if the efficiency gains were to be reduced by 20 percent because of indirect costs, the implementation of the policy reform measures will realize benefits for the economy.

Viewing LDAP as "buying" a policy reform package, we can judge its economic merits by an indication of the required minimum level of benefits needed for the program to "break even." Assuming that the $50 million economic assistance from LDAP is disbursed in two tranches of equal amounts, at a shadow exchange rate of 1.2 times the official exchange rate of ₱22.50:$1.00, and a 15-percent social opportunity cost of capital, the flow of benefits needed over a five-year "operating life" of the program will be ₱327.36 million ($14.2 million), while the equivalent annual flow of the local costs of program support (for local-level training and expenses for overseeing implementation at initial stage) will total ₱89.59 million ($3.9 million) at a 15 percent discount rate. Under this scenario, LDAP, therefore, must generate gross benefits of ₱416.95 million ($18.1 million) annually to "break even" or to earn a 15 percent economic internal rate of return.

The required minimum benefits look achievable based on the results of the economic cost-benefit analysis undertaken and which indicates that the first-year returns alone may amount to ₱814.51 million ($35.4 million) and that these benefits are not only sustainable but expected to increase over time. Finally, even if no new money arises from national internal revenue allotments, the benefits are projected to amount to ₱579 million ($25.2 million), which would be higher than the required minimum benefits of ₱416.95 million ($18.1 million).

5. Beneficiaries

The ultimate beneficiaries of this program are the more than 80 percent Filipinos who live outside the National Capital Region who have been denied effective and efficient basic public services and local initiatives for development programs due to lack of and delayed provision of resources and authorities from the central level to the LGUs.

Direct beneficiaries are the LGUs which will have a larger share of internal revenue collections and improved tax collection efficiency which will enable them to make decisions and use more funds for the efficient delivery of public services and projects. The program will make local officials administratively responsible over field offices and personnel of national agencies and in the delivery of vital services to their communities.

The private sector will also benefit from the program as decentralization transfers administrative and regulatory functions from the national to the local government level, helping save on certain resource costs and time delays, e.g. getting government approval on business registration.

The program is expected to have a significant impact upon the role of women in development through its support of improved delivery of public services by the LGUs and the GOP's implementation of the LGU capacity building program. Women participate in all sectors of Philippine society, including local public administration in their various capacities as local officials at the provincial, municipal and barangay levels, as local government personnel, and as leaders and key officers of private voluntary organizations in their communities. Their representation in the labor force is nearly equal to that of men. In most rural households, women are responsible for family financial management; in the uplands and coastal fishing communities, women actively contribute to family support. In education, women are well represented and are beginning to outpace their male counterparts accomplishments. It is possible that the majority of the immediate beneficiaries under the program will be female. An appropriate monitoring system that can provide sex-disaggregated data will be designed under this program to measure the impact of the project on women.

B. Program Components

1. Program Support

The cash transfer mode will be used to support this important policy reform activity. Of the planned $50 million assistance in Economic Support Funds to be disbursed over GOP FY 90 - FY 92, approximately $45 million will be disbursed in three tranches for GOP performance on the specified performance indicators contained in the policy matrix. The remaining amount will finance support grants to non-government organizations supporting decentralization efforts and technical assistance for financial and reform performance monitoring, policy studies, audit and evaluation. U.S. dollar budget support will be provided for the payment of selected Philippine multilateral debt.

2. Technical Services

In addition to the cash transfer of $45 million for program support, the program provides about $2.2 million for a competitively procured AID-direct technical services package. This package of services will consist of separate contractual arrangements for 1) developing and implementing a policy performance monitoring system to track the implementation of reforms by the appropriate GOP departments to meet the required benchmarks for disbursements, operational research to monitor the effects of LDAP reforms at the LGU level, policy studies, and impact evaluation, 2) financial monitoring for the small support grants, and 3) independent audit services.

While these will be AID-direct contracts, to the extent possible, the GOP will be involved in developing scopes of work and collaborating with USAID in the review of proposals and final selection of contractors. The technical services team for monitoring of policy performance may include both local and U.S. expat advisors.

The policy performance monitoring services will include both U.S. and local policy advisors who will provide detailed periodic informationn on GOP decentralization reform actions. Their reports, together with those provided by the GOP, will form the basis for joint GOP-USAID consultations to determine whether tranche indicators have been satisfied prior to the target disbursement dates. Technical expertise in this area will include senior-level public policy and public finance analysts. These analysts will also be required to undertake (or subcontract if appropriate) specific policy studies as may be required to prepare for the joint USAID-GOP consultations. Short-term technical assistance will be included to support the policy studies which may include specific areas that will be helpful to decision-makers and implementors in formulating guidelines and implementing strategies that will contribute to answer questions such as:

- How does one balance the costs and benefits and chose the right mix of decentralization and centralization?
- What alternative instruments of decentralization should be used and how does each fit into the overall program?
- What is the overall fiscal impact of the program?
- Have the instruments of decentralization been properly designed?
- What other LGU capability weaknesses must be addressed?
- What is the economic impact of the program?

Furthermore, the studies may include assessment of the on-going initiatives such as those in the pilot decentralization provinces; identification of a package of services that may be devolved to LGUs; design and pilot testing of information, education and communication campaigns.

The financial monitoring services may be provided by a local accounting firm to review the small support grants among other financial services. Technical expertise in this area will include accounting and financial management.

3. Local Support Grants

Considering probable socio-political impediments, there are still a number of areas which should be resolved or identified to hasten LDAP implementation in support of the overall program for decentralization and local autonomy. Hence, the role of support grants is premised on the tremendous potential that exists for local groups to suggest and test actions that advance and foster the decentralization process in the Philippines. Local support grants will be made available to various implementing entities, NGOs and the League of Leagues to be able to immediately respond to related problems and opportunities that may emerge during program implementation.

The support grants will promote activities, programs and initiatives illustrated by the following range of possible areas:

a. Observation and Information Exchange Programs - This is to provide the various program actors exposure to the experiences of other areas (in-country and third country) and exchange of innovative ideas and information through observational tours, conferences and symposia or other short-term study programs.

b. Data Banking - This will pertain especially to LGUs for gathering critical data and information supportive of their operations towards better management of the decentralization progress, goals and costs. This may include a local government finance information system from the LGU up to the central level.

c. Support for the League of Leagues - This may include activities that promote transparency, accountability and efficiency in the delivery of basic services at the local level, and support the League's efforts to more effectively act as change agents to make local governments more efficient and more responsive to the needs of the local population.

d. NGO Monitoring of LGUs - This will involve the use of non-government organizations and private sector advocacy groups in i) monitoring LGU activities, including increased resources and authorities of local government and improved capacities of local officials in at least three pilot provinces, and ii) determining how people's voice determines resource allocation decisions.

IV. DECENTRALIZATION REFORM AGENDA

A. Policy reforms

Decentralization of government functions is the political equivalent of open markets and supports the ANE Bureau's open societies strategy. Decentralization is important for broad-based economic development in that it permits decisions on the delivery of services and basic infrastructure to be made more quickly and with greater responsiveness to local needs and conditions. Decentralization also provides a greater incentive for local governments to generate and use resources more efficiently at the local level. Further, fostering local government development increases citizen participation, financial discipline and political responsibility. It frees up the national government from the myriad of details of local maintenance and implementation, allowing it to concentrate on broader policy issues and national basic infrastructure requirements.

1. Framework

LDAP will support decentralization through policy changes in the following four strategic areas:

(a) Increasing discretionary resources for LGUs from national sources, improving local taxing authority and revenue generation, and removing mandatory restrictions/appropriations over local funds and budgets;

(b) Increasing LGU administrative authority by transfering major national agency activities, personnel, funds for the delivery of basic services, and local control over project development and implementation;

(c) Improving LGU capacity to manage increased resources and authority through training programs and human resource development; and

(d) Increasing the private sector role in local development and the delivery of basic services.

2. Progress to date

In a country where 50 percent of the passenger volume of the national airline reportedly consists of local government officials and regional representatives of national agencies following up papers in Manila pertaining to local governance, decentralization inevitably emerges as a focus for public policy reform. The concentration of political authority and economic activity in Manila has spawned an anomalous situation where resources, as well as discretion over their use, are concentrated in the National Capital Region. Such distribution of resources has naturally bred economic deprivation for most of the

countryside, where two-thirds of the population lives. The lack of local autonomy effectively contributes to an overall inefficiency in the use of financial, physical, human and time resources available to the local community and the delivery of public services. Such inefficiency and ineffectiveness contribute to lower economic growth and, hence, smaller economic benefits for the community.

The 1987 Constitution, however, signified a new turn in the progress of decentralization. Local autonomy is explicitly espoused as a state policy with one article devoted to the subject of local governance. Under the Aquino administration, the commitment to foster the mandate envisioned by the 1987 Constitution is affirmed as a policy priority. The Executive Branch has taken a number of actions to promote decentralization and to increase the resources and authority of LGUs.

The cornerstone of the Aquino administration's decentralization program is embodied in the Local Government Code, which is under review in Congress. President Aquino certified the proposed Local Government Code as urgent when she presented it to Congress nearly two years ago. But Congress did not act expeditiously on the Code and many speculated that Congressmen were reluctant to reduce their own influence while increasing that of the governors. Because of Congressional inaction, the League of Governors vowed to use a constitutional provision and seek a people's initiative and referendum to obtain local autonomy.

The organic acts for Mindanao and the Cordilleras were considered bold steps by the Aquino administration. The organic acts granted powers to the regional governments that were previously held in tight rein by the central government. Expanded share and automatic retention of taxes collected, significant leeway in development planning, primacy in services delivery, and a significant role in natural resources utilization and management are among the devolved powers.

The Aquino government has also certified to Congress various bills which seek to increase funds transferred to LGUs through rationalization of national aid and increased share of LGUs in internal revenue collections. The proposed bills aim to increase the local share of national revenue collections, release LGUs from selected mandatory legal provisions from local budgets, and encourage LGUs through incentives to increase local revenue generation, particularly in real property and local business tax collection.

In 1988, the GOP launched a pilot decentralization project, initially in 5 provinces. The first 4 provinces were provided a block-grant of ₱120 million ($5.45 million), which was a windfall once the cumbersome financial and audit procedures were figured out. (The fifth province received ₱5 million). However, other than the block grant, little else occurred to promote decentralization. In 1990, the GOP, through the RDCs, is selecting 14 additional pilot provinces, one in each region of the country. The purpose of the pilot program is to accelerate and test aspects of decentralization during the interim period

until the Local Government Code is passed. Due to budget constraints and some opposition, the GOP will not continue the large block grants provided to the early pilot provinces. Instead, the emphasis will be on transferring national department functions, activities and budgets to LGUs.

For 1990, DPWH decentralized the regional infrastructure budgeting process. Infrastructure funds are apportioned on a lumpsum basis to each region based on a 20-30-50 formula. This means 20 percent for equal sharing, 30 percent based on population and 50 percent for scarcity of infrastructure. In the block allocation system, the use of the funds are subject to the following guidelines: a) the regional development council allocates lumpsum budgets for each of the provinces following the same formula and approves projects with a cost of over ₱500,000.00 up to ₱1.0 million; b) the provincial development council allocates lumpsum budgets for each of the municipalities and approves projects with a cost of ₱100,000 to ₱500,000; and c) the municipal development council allocates lumpsum budgets for each barangay and approves projects with a cost of less than ₱100,000. Based on these guidelines, it is estimated that the RDCs will control about 27 percent of the 1990 infrastructure funds. Provincial and municipal councils will have approving authority of 23 percent and 10 percent respectively of local infrastructure funds.

Elected local officials have organized themselves into several leagues (League of Provinces, City Mayors, etc.) and they have become a strong lobbying force for decentralization. In October, 1989, the League of Leagues (umbrella organization) held a National Congress to promote local autonomy. The Leagues agreed to pursue a national referendum on local autonomy if Congress fails to act on pending legislation. The Leagues have started a campaign to get the 2.7 million signatures needed to force an election on the local autonomy issue. The League recently declared that they plan to go ahead with the referendum if Congress has not passed the Local Government Code by August 31, 1990.

As evidence of her commitment to move toward decentralization quickly, President Aquino on March 16, 1990 signed Memorandum Circular No. 111 creating the Cabinet Decentralization Implementing Team (CDIT). The CDIT was created in order to accelerate the GOP decentralization program and to better manage and monitor the process. The CDIT is composed of the following:

The Secretary of Local Government	-	Chairman
The Secretary of Budget and Management	-	Co-Chairman
The Presidential Coordinating Assistant for Human Resources and Public Welfare	-	Co-Chairman
The Secretary of Finance	-	Member
The Director-General, National Economic and Development Authority	-	Member
The Cabinet Secretary	-	Member
The Head, Presidential Management Staff	-	Member

The Development Academy of the Philippines and the Department of Local Government shall provide technical and management assistance and serve as the Secretariat for the Team.

The CDIT will have the following objectives:

a. Accelerate government decentralization in at least ten additional pilot provinces in support of poverty alleviation and economic recovery.

b. Develop and adopt a framework for managing decentralization from central line departments to regional and provincial offices and local government units, between now and end of 1991.

c. Monitor and evaluate the progress of decentralization projects and activities, and recommend appropriate measures to the President.

d. Submit a quarterly report to the President and the Cabinet.

B. Policy Agenda and Benchmarks

The proposed LDAP policy agenda emphasizes increasing discretionary resources and decision-making authority of LGUs as critical to achieving decentralization reform. Recent discussions with GOP officials indicate their commitment to implement a number of policy changes that will have a significant impact on these resources and authorities for LGUs. Through the LDAP Policy Implementation Agenda, USAID and the GOP have agreed on four basic strategies: (1) support for improved levels of discretionary resources for LGUs; (2) support greater administrative authority for LGUs; (3) support for increased capacity building for LGUs; and (4) support for increased private sector role in local development.

The major policy reforms and performance benchmarks for each strategy are briefly discussed below. Other policy objectives and performance benchmarks are presented in the policy agenda.

Strategy 1: Support improved levels of discretionary resources for LGUs.

Studies show that the central government controls about 90 percent of government expenditures, leaving only about 10 percent for LGUs. LGUs have always been handicapped by uncertainty in their Internal Revenue Allotments (IRA). Even on nominal terms alone, IRA share of LGUs have been far below statutory provisions. From 1979 to 1988, LGUs received only 11.8 percent of total internal revenue collections. About 40 percent of general fund revenues are pre-empted by statutory requirements such as the statutory reserve, infrastructure fund transfer, election reserve, etc. Twenty percent of the Bureau of Internal Revenue (BIR) allotment to the general fund is earmarked for programs mandated by the national government. The national government actually collects far more from LGUs than it gives back in allotments or other aid. For the average region, the allotment is only 46.8 percent of collection. The national government directly provided and controlled more than 87 percent of all government provided goods for the average region.

Existing laws and regulations such as the existing Local Government Code, National Internal Revenue Allotment and Local Tax Code severely limit local government authority over local revenue generation. Local revenues represent less than 7 percent of total average regional expenditures.

An important objective of decentralization reform is to increase the discretionary resources available to LGUs. LGUs have two major sources of revenue: a share of Internal Revenue collections from the National government and locally generated revenue (i.e. property taxes, business taxes). The agenda addresses these two sources for policy reform.

1. Increased discretionary resources for LGUs from national sources.

The GOP provides IRAs to LGUs using a formula based on land area, population and equal-sharing. Under current legislation, the IRA share for LGUs can be up to 20 percent of the Internal Revenue collection from the third prior year. However, in recent years, the IRA discretionary share for LGUs has not approached the full 20 percent. Instead under the NALGU portion of the budget, several discrete activities have been funded which are under the control of national departments or Congress. If passed, the proposed Local Government Code would provide for LGUs to automatically retain a portion (25-35%) of internal revenue collections, which would greatly increase their discretionary resources. If not passed, GOP will provide a minimum of 25 percent annual increase in IRA share for LGUs in 1991 and 1992, under LDAP. Please refer to the table below.

LGU Share from Internal Revenues	($ Million)			
	1989	1990	1991	1992
Previous years:				
IRA share	246.4			
IRA (40% increase)		341.1.		
Under LDAP:				
a.Proposed full 20% share 1988 or			560.9	
b.Minimum 25% over 1990			426.4	
a.Proposed 25% share over 1990 or				840.9
b.Minimum 25% over 1991				532.9

The first implementation action is to increase IRAs for LGUs by a minimum of 100 percent over the 1989 level by 1992. In the 1990 budget, the GOP increased the IRA by 40 percent over 1989. For the 1991 budget, the GOP will request the full 20 percent IRA share for LGUs, which is consistent with current legislation. For the 1992 budget, the GOP will propose a 25 percent IRA share for LGUs using the 2nd prior year (1990) as the base. However, there are serious questions whether these levels can be achieved, given the anticipated budget deficit and Congressional foot-dragging on decentralization. In addition, legislation also limits the annual increase to 25 percent, although

that limit was exceeded in 1990. Therefore, a two-tier benchmark has been developed, so if the higher level is not achieved, the GOP will provide at least a 25 percent annual increase in IRA share for LGUs in 1991 and 1992.

The second implementation action is to increase the discretionary use of resources available to LGUs by removing restrictions. In the past, the GOP assessed mandatory contributions from the LGUs to support the national police (18%) and hospitals (7%), which were deducted for each LGU's IRA share. In the 1990 budget, the GOP removed these mandatory contributions, increasing discretionary resources for LGUs by about $85.3 million. In the 1991 and 1992 budgets, the GOP will again remove the mandatory 25 percent LGU contribution for the national police and hospitals amounting to approximately $106.6 million and $133.2 million respectively.

The third implementation action is to release the full IRA appropriations and other allotments promptly to the LGUs. In 1990 and 1991, the GOP will release a minimum of 95 percent of the IRA appropriations to LGUs, excluding amounts intended for special allotments of newly created LGUs.

The third implementation action is also to increase the number of pilot decentralization provinces and provide each with a discretionary support grant for development projects. In late 1988, the GOP selected four pilot decentralization provinces and provided each with a grant of ₱120 million ($5.45 million). A fifth province was added in 1989 with a ₱5 million ($0.23 million) grant. In 1990, the GOP through the RDCs is selecting 14 additional pilot provinces, one in each region of the country. The purpose of the pilot program is to accelerate and test aspects of decentralization during an interim period until the Local Government Code is passed.

However, due to budget constraints and some opposition, the GOP may not continue to provide support grants to pilot provinces. The emphasis in the pilot provinces will be on transferring national department functions, activities and budgets to LGUs. In addition, some new activities will be pilot-tested, such as private sector delivery of local services. Some argue that since new activities will be tested in the pilot provinces, they should receive an additional fund. DLG proposes an incentive fund for the pilot LGUs that is disbursed according to progress on agreed activity targets and reforms. Since the issue is not resolved, the policy agenda calls for the GOP to provide a support grant of at least ₱20 million ($0.91 million) to each of the pilot provinces in 1991 and 1992.

2. Increased locally generated discretionary revenue.

The primary source of locally generated revenue is from real property tax collections. Nationwide collection efficiency is only about 60 percent and when Metro Manila is excluded only about 38 percent. Property tax collections are constrained by under-valuation of properties, incomplete tax mapping, outdated/poorly maintained records and weak collection efforts. There is general agreement that the LGUs cannot depend solely on the national government for revenue, but must improve their local revenue generation also.

The implementation action is to improve collection efficiency for real property tax by at least 95 percent over the 1988 level. In 1989, the DOF mounted a nationwide program to improve property tax collections, which resulted in a 37 percent increase in collections. The intensified collection campaign will continue in 1990, and property tax collections are projected to increase by at least 15 percent, reaching at least a 55 percent increase over the 1988 level. In 1991, property tax collections are projected to increase by 25 percent, or a 95 percent increase over the 1988 level. In addition, DOF will issue a Circular in 1990 providing Provincial/ City and Municipal Assessors with guidelines to conduct a revaluation of property values. Property assessments have not been updated since 1985, so in many cases properties are undervalued by 100 percent or more. Assuming implementation of the revised assessments is completed in 1991 and the revaluation is effective January 1, 1992, assessed property values are estimated to increase by about 50 percent, which would also increase collections in 1992. With these actions, it is expected that property tax collections would increase annually by $23.9 million in 1990, $45.7 million in 1991, and $114 million in 1992.

In order to increase property tax revenue and more equitably share the tax burden, the DOF will make a major commitment to expand a successful pilot real property tax project, which includes completing tax mapping, records verification/improvement and an intensified collection effort. The pilot project, supported by USAID through August 1991, is being implemented in Regions V and VI. While it admittedly had a slow start, it has successfully developed a framework and methodology that can be expanded throughout the country. In Region VI, as a result of the pilot project, nearly a 50 percent increase in the number of properties recorded has been realized. In 1989, Region VI led all regions with more than a 100% increase in property tax collections, primarily as a result of implementation of the property tax project.

In 1991, the DOF would provide funds to continue the implementation of property tax improvement activities in 60 uncompleted LGUs in Region V (USAID-funded project has insufficient funds) and in 2 new regions. In 1992, the DOF would provide funds to expand the property tax activities to two additional regions.

Strategy 2: Support greater administrative authority for LGUs.

Centralized planning and implementation in the 1970s and early '80s has bred a huge centralized bureaucracy assuming all if not most of the primary responsibility for the delivery of frontline public services. The budgets of national departments fund activities in LGUs. However, even though these activities are local, they are usually selected, designed and implemented by the field offices of the national department without LGU involvement. Prior to Congressional action on the Local Government Code, the Executive Branch is taking steps to transfer some national department functions and authorities to LGUs through the issuance of circulars and executive directives, and the preparation of Memoranda of Agreement (MOA) among the central agencies and pilot LGUs. The LDAP policy agenda builds on this initiative in the pilot provinces.

The first implementation action is to devolve national department functions, personnel, funds and corresponding authorities not requiring legislative action to LGUs. Earlier this year, national departments began negotiating and signing MOAs with the five pilot decentralization provinces. The MOAs provide the LGU with decision-making authority over the use of the national funds, responsibility for implementa- tion and administrative supervision of personnel. It now appears that the GOP will go beyond the MOA concept, which is a very labor-intensive process, and the President will issue circulars directing national departments to devolve functions, budget ceilings, personnel and authority for local activities to pilot provinces. For the second tranche, there will be circulars/MOAs between 5 national departments and 14 new pilot decentralization provinces. For the third tranche, there will be circulars/MOAs between 6 national departments and at least 6 additional pilot provinces.

The second implementation action focuses on improving the environmental planning and monitoring at the LGU level. The DENR is primarily responsible for environmental matters and has only recently begun to develop the capability within its regional offices. Very little capability exists at the LGU level however, which is where this item is directed. The objective is to improve the capacity of LGUs to incorporate environmental management in their local development plans; review Environmental Impact Statements; and participate in environmental monitoring. Since DENR capability is limited, the initial focus will be on 3 pilot provinces to train planning officers, prepare the environmental management components of their development plans, perform local level environmental monitoring and explore the possibility of involving the private sector in these activities. This will expand to 6 provinces by the third tranche and conduct actual Environmental Impact Assessments (EIA) in 3 provinces.

Strategy 3: Support increased capacity building for LGUs.

This policy objective is to increase the capacity of LGUs to use effectively and efficiently increased authority and to manage increased financial resources with strengthened fiscal integrity. The capacity building program is expected to strengthen the fiscal integrity of local officials through the professionalization of assessors/treasurers and training of LGU officials in financial management and local development planning. To develop the capacity of LGUs, the DLG will strengthen and expand training provided by the LGA, which also acts as a broker in matching training requirements with available courses offered by private training institutions. In 1990, the DLG budget included ₱7.0 million ($0.32 million) for LGA activities, but an additional ₱75 million ($3.41 million) is provided from the Congressional-administered Countryside Development Fund. In 1991, the GOP will provide at least ₱90 million ($4.1 million) for LGU capacity building administered by LGA. In 1992, the GOP will provide at least ₱100 million ($4.5 million) for LGU capacity building.

The LGA is preparing a training plan, training modules, budget and implementation schedule which responds to the needs of LGUs. Training modules are being designed to improve the capability of:

- Provincial/municipal development councils,
- Provincial/municipal legislative councils,
- Provincial/municipal planning officers,
- Provincial/municipal treasurers and assessors,
- Provincial officials responsible for contracting, bidding and awards.

Local Development Councils (LDCs) in the provinces and municipalities are responsible for development planning and prioritizing development activities. As LGU resources and authority increase, the LDCs must be better trained to plan programs and projects and budget financial resources. LGA will develop and administer training for LDC Executive Committee members.

The provincial and municipal legislative councils are composed of elected local officials and their responsibility is to appropriate LGU funds. As the resources and authority of LGUs increase, it is their responsibility to provide the check and balance for the governor and mayor. LGA will provide needed training in the areas of planning, law/procedures and financial management.

Financial integrity is a concern as decentralization reform puts more funds under the control of local officials. Under LDAP, capacity building will be provided to upgrade the skills of local treasurers and assessors. LGA will provide training to strengthen the capability of provincial and municipal planning officers. Capacity building will also be provided to increase the number of provincial/city personnel trained in contract bidding, awards, negotiation and management. These skills are especially important as DPWH transfers responsibility for local infrastructure construction and maintenance to LGUs.

Strategy 4: Support increased private sector role in local development.

This implementation action is to encourage greater involvement of the private sector in the delivery of basic services, where appropriate. The GOP will issue policy and implementation guidelines for testing private sector delivery of basic services in the pilot decentralization provinces. Emphasis will be initially on the original five pilot provinces and the types of services may include administration of public markets, garbage collection, contract maintenance of roads and possibly some health services. As details are worked out and experience is gained, this activity will be expanded to other pilot decentralization provinces.

C. Estimates of Additional Resources to LGUs

As a result of the program, summarized below is the estimated additional funds to LGUs, excluding the value of national department activities and funds that will be transferred to the local levels:

	($ Million)		
	1990	1991	1992
1. Increase IRA (minimum for 1991-92)	94.7	85.3	106.6
2. Removal of contributions to national police and hospitals	85.3	105.6	133.2
3. Block grants to pilot provinces	-	12.7	18.2
4. Increase property tax collection	23.8	45.7	114.0
5. Funds for expansion of property tax improvement activities	1.6	9.1	4.6
6. Funds for capacity building	3.6	4.1	4.5
Total	209.0	263.5	381.1

The LDAP Policy Agenda was designed as if a Local Government Code would not be enacted into law during the life of this program. The administration's draft Local Government Code, if it were to become law, could provide more authorities and resources for LGUs than are called for in the policy agenda, or provide these at an accelerated rate. AID will agree that if a Local Government Code is passed, AID will take into consideration the impact of the Code on furthering the objectives of local autonomy. It should be noted that the Code under consideration does not address all the policy objectives contained in the policy agenda, and there will be issues related to the implementation of increased authorities and resources that will have to be taken into consideration as well. AID and the GOP should be prepared, if a Code is enacted into law, to adjust the policy matrix as appropriate and, depending on the breadth of such a Code, to consider similarly adjusting the level or timing of the remaining tranches.

If the Code is not passed, LDAP's policy agenda will tie the GOP, prior to any tranche releases, to the accomplishment of the policy performance indicators which are expected to generate the above estimated resources to LGUs.

LOCAL DEVELOPMENT ASSISTANCE PROGRAM
Policy Implementation Matrix

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE: FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
I. STRATEGY: SUPPORT IMPROVED LEVELS OF DISCRETIONARY RESOURCES FOR LOCAL GOVERNMENT UNITS					
1. Increased discretionary resources for LGUs from national sources	a) Increase IRA appropriations by a minimum of 100% over the 1989 level at the end of the Program. IRA to include STA and LGRSF throughout the entire Policy Implementation Matrix	Increased level of IRA appropriations and timely release to LGUs	Increase 1990 IRA appropriation by 40% for LGUs over 1989 appropriation.	DLG/DBM proposes full 20% IRA share to LGUs in 1991 GAA, using 3rd prior year (1988) as basis, provided that GAA allows greater than 25% increase over the previous year. However, the minimum increase shall be at least 25% over the previous year.	DLG/DBM proposes 25% IRA share to LGUs in 1992 GAA, using 2nd prior year (1990) as basis, provided that the GAA allows greater than 25% increase over the previous year. Provide minimum 25% increase over previous year.
	b) Increase discretionary use of resources available to LGUs by removing restrictions.	Increased discretionary resources available to LGUs by removing contributions to PC/INP and hospitals.	Remove LGU mandatory contributions to PC/INP and hospitals in 1990 GAA.	DLG/DBM proposes removal of contributions to PC/INP and hospitals in 1991 GAA.	DLG/DBM proposes removal of contributions to PC/INP and hospitals in 1992 GAA.
	c) Release full IRA appropriations and other allotments promptly.	Achievement of uniformity between IRA appropriations and actual releases.	Release minimum of 95% of 1989 IRA appropriations to LGUs.	Release minimum of 95% of 1990 IRA appropriations to LGUs excluding amounts intended for special allotments of newly created LGUs.	Release minimum of 95% of 1991 IRA appropriations to LGUs excluding amounts intended for special allotments of newly created LGUs.

LGU - Local Government Unit; IRA - Internal Revenue Allotment; GAA - General Appropriations Act; DLG - Dept. Local Government; DOF - Dept. of Finance; PC/INP = Philippine Constabulary/Integrated National Police; NALGU - National Assistance to Local Govt. Units; MOA - Memorandum of Agreement; LDC - Local Development Council; RDC - Regional Development Council; LGA - Local Government Academy; GOP - Government of the Philippines; LGRSF - Local Government Revenue Stabilization Fund; STA - Specific Tax Allotment; EIA - Environmental Impact Assessment; DENR/EMB - Department of Environment & Natural Resources/Environmental Management Bureau; RPFP - Regional Physical Framework Plan; NEDA-NLUC - National Economic & Dev. Authority/National Land Use Committee.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
	d) Continue pilot decentralization program	Increased number of provinces participating in the pilot program.	Increase level by 14 new pilot decentralization provinces, bringing the total to 19.	Increase level by 6 new pilot provinces, bringing total to 25 provinces.	Increase level by 6 additional pilot provinces, bringing total to 31 provinces
2. Increased locally-generated discretionary revenue.	a) Increase collection performance for real property tax by at least 95% over the 1988 level at the end of the program.	Improvement in tax collection efficiency of LGUs.	Increase the national real property tax collections by at least 37% in 1989 over 1988 RPT collections.	Increase the national real property tax collections by at least 50% in 1990 over 1988 RPT collections.	Increase the national real property tax collections by at least 90% in 1991 over 1988 RPT collections.
		Implementation of a revaluation of property assessments.		Issue DOF Circular providing Provincial/City and Municipal Assessors with guidelines for revaluation of property assessments.	
		Expansion of real property tax mapping and records improvement activities to at least 4 new regions.	DOF to request a ₱35M supplemental budget for 1990 to finance the real property tax improvement activities in the remaining 60 municipalities of Region V.	GOP provides funds in 1991 and initiates real property tax improvement activities in 2 new regions, plus 60 LGUs in Region V.	GOP provides funds in 1992 and initiates real property tax improvement activities in 2 new regions.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
II. STRATEGY: SUPPORT GREATER ADMINISTRATIVE AUTHORITY FOR LGUs					
1. Increased LGU decision-making authority	a) Delegate national department functions, personnel, budgets and corresponding authorities not needing legislative action to LGUs.	Issuance of policies and implementing guidelines to delegate those national department functions, budgets and corresponding authorities, that do not require legislative actions, to the pilot provinces, including secondment of personnel.	Execute MOAs between/ issue memo circulars to 5 national departments and 5 pilot decentralization provinces to delegate functions, responsibilities, and corresponding authorities, that do not require legislative action.	Continue delegation process to cover additional 14 provinces, bringing total number of provinces to 19.	Continue delegation process to cover additional 6 provinces, bringing total number of provinces to 25.
2. Improve capacity of LGUs to incorporate environmental management in their local development plans; review Environmental Impact Statements and participate in environmental monitoring.	Train local planning officers in environ planning, monitoring and basic EIA process.	Local planning officers are trained on environmental planning/monitoring and land use planning.	DENR prepares Action Plan and training framework.	DENR formulates detailed training design.	Conduct training and actual EIA in at least 3 provinces by the PPDO. Document process for replication purposes.
	Update guidelines on land use planning.				
		Selected LGUs able to prepare environmental management plans, perform environmental monitoring and conduct Environmental Impact Assessments.		NEDA-NLUC prepare the basic guidelines for land-use planning based on RPFP.	At least three (3) LGUs prepare the environmental management components of their local development plans as well as revise their land use plans with the process documented for replication.
				DENR/EMB to formulate guidelines and to identify parameters for local level environmental monitoring.	Completion of pilot testing and fine tuning of methodoloty in one (1) LGU.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE: FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
III. STRATEGY: SUPPORT INCREASED CAPACITY BUILDING FOR LGUs					
1. Increase capacity of LGUs to manage increased financial resources effectively.	a) Implement LGU capacity building program.	Provision of funds for LGU capacity building. Establishment of capacity building program to strengthen financial management, internal control systems and improve capacity of local councils and LGU officials.	Provide ₱75 M in 1990 for capacity building program of LGA.	Continue funding capacity building program coordinated or administered by the LGA by providing additional funds to achieve training targets.	Continue funding capacity building program coordinated or administered by the LGA by providing additional funds to achieve training targets.
IV. STRATEGY: SUPPORT INCREASED PRIVATE SECTOR ROLE IN LOCAL DEVELOPMENT					
1. Increase private sector delivery of basic services.	Encourage private sector involvement in the delivery of basic services.	Adoption of plan to improve private sector delivery of basic services.	DLG issues policy and implementation guidelines for testing private sector delivery of basic services such as health services, public markets, and contract maintenance for roads in the pilot decentralization provinces.	Conduct pilot testing of private sector delivery of some basic services in 5 municipalities of the pilot decentralization provinces.	Implement private sector delivery of some basic services in 19 municipalities of the pilot decentralization provinces.

V. FINANCIAL PLAN

A. Funding

Over a three-year period, the program will provide a total of $50.0 million in ESF grant funds, $45.0 million of which will be for program support and $5.0 million for project-like assistance. An FY 1990 obligation of $45.022 million is anticipated. Of the $45.0 million in program support funds, an initial tranche of about $10 million will be disbursed in FY 1990. The second and third tranches of about $17.5 million each will be disbursed in early FY 1991 and FY 1992, respectively. The release of tranches will be based on GOP performance progress on the policy agenda and meeting required conditions precedent.

The expected allocation of program funds over the program life as shown in Table 1 is: program support, 90 percent; small support grants and policy studies, 5.0 percent; technical services for policy and financial monitoring, evaluation and audit, 4.4 percent; and contingency 0.6 percent.

TABLE 1
Estimated Allocation of Program Funds

Component	Amount ($000)	
Program Support		$45,000
Small Support Grants		2,500
Technical Services for:		
Monitoring	2,000	
Evaluation	165	
Audit	35	2,200
Contingency		300
Total		$50,000

TABLE 2
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
($000)

PROJECT ELEMENT	U S A I D FX	G O P LC	TOTAL
Program Support	$45,000	$16,700	$61,700
Small Support Grants	2,500		2,500
Monitor/Eval./Audit			
Monitoring	2,000		2,000
Evaluation	165		165
Audit	35		35
Contingency	300		300
TOTAL LDAP	$50,000	$16,700	$66,700

TABLE 3
PROJECTIONS OF EXPENDITURES OF GRANT FUNDS
BY FISCAL YEAR AND BY PROJECT ELEMENT
($000)

PROJECT ELEMENT	FY 90	FY 91	FY 92	FY 93	FY 94	TOTALS
Program Support	$10,000	$17,500	$17,500	0		$45,000
Small Support Grants	0	500	1,000	1,000		2,500
Monitor/Eval./ Audit -						
Monitoring	0	800	800	400		2,000
Evaluation	0	80	0		85	165
Audit	0	0	0	35		35
Contingency	0	100	100	100		300
TOTAL LDAP	$10,000	$18,980	$19,400	$1,535	$ 85	$50,000

B. Dollar Uses

The $45.0 million component of LDAP will be provided as balance of payment support and budget support. A special dollar bank account will be established for the dollars. The dollars will be used to pay GOP official debt to multilateral development institutions such as the International Monetary Fund (IMF), ADB, and IBRD. Other uses of the dollars may be agreed to. A.I.D. approval of payment schedules is a Condition Precedent to each tranche. This approval requirement will enable A.I.D. to ensure that the dollars will be used as quickly as possible and meet A.I.D. regulations in making eligible loan payments. Special arrangements will be undertaken to comply with the statutory provisions and regulations on the tracking of dollar uses. These arrangements will ensure that each dollar disbursement by the Central Bank of the Philippines is made directly to the payee and trackable to the payee.

Restrictions. The dollars will be used exclusively for official debt service payments. Funds provided or made available as a result of LDAP will not be used for (a) military, paramilitary or police purposes, (b) equity transfers or subsidies to government owned or controlled corporations (GOCCs), or (c) consumer subsidy budget expenditures.

Section 531(e) of the Foreign Assistance Act of 1961, as amended, prohibits the use of ESF for military and paramilitary purposes. The exclusion of dollar uses for servicing debt obligation incurred for government corporations and budget support to finance government corporation equity or subsidy, including government-owned financial institutions, is in keeping with A.I.D. dialogue with the previous and present GOP administrations on the the need to reduce financial transfers to these entities. Consumer subsidies have caused distortions in the economy and have contributed to the current economic crisis.

3. Any interest earned from the Dollar Special Account will be programmed as though it were principal and for the same agreed-upon purposes. Other dollar uses may also be agreed to.

C. Program Support Disbursement Plan

Upon GOP's satisfaction of legal and administrative Conditions Precedent to initial disbursement of dollars, A.I.D. will disburse dollars for the program support, through the electronic funds transfer system, for deposit in a separate Dollar Special Account with a GOP-designated bank. In accordance with mutually agreed-upon implementation plans, GOP multilateral debt payments will be made directly from the Dollar Special Account.

Prior to all subsequent dollar disbursements: (a) AID will have determined that performance criteria is satisfactory for a specific period under consideration; (b) the GOP will have provided evidence that the debt service payments agreed upon are being or have been made; (c) the GOP will be in substantial compliance with all terms and conditions

of the grant agreement; (d) the GOP will have furnished to AID appropriate bank information where disbursed dollars will be deposited and the amount of dollars to be deposited in each account; and (e) the GOP will have provided AID a GOP payment schedule implementation plan for use of the Dollar Special Account. The grant agreement will provide for appropriate audit and re-deposit provisions.

D. Methods of Financing for the Other LDAP Components

As previously indicated, $5.0 million will be used to finance small support grants and technical services for monitoring, evaluation and audit. It is envisioned that for small support grants, the method of financing could either be by direct reimbursement, cash advance or AID-direct payment. For technical services, the recommended method is by AID-direct payment.

Any unused funds for these two project components will be re-allocated for program support.

METHODS OF IMPLEMENTATION AND FINANCING
($000)

Implementation Activity/Component	Method of Implementation	Method of Financing	Estimated Amount
Program Support	Sector Support	Dollar Tranche Release	$ 45,000
Small Support Grants	Grants or Host Country or AID Direct	Direct Reimbursement Cash advance/Liquidation AID-Direct Payment	2,500
Technical Services for:			
Monitoring	AID-Direct	AID-Direct Payment	2,000
Evaluation	AID-Direct	AID-Direct Payment	165
Audit	AID-Direct	AID Direct Payment	35
Contingency	Depends on the above components		300
TOTAL			$ 50,000

E. Audit

Responsibility for the audit of USAID funded programs/projects lies with the Regional Inspector General for Audit (RIG/A). AID will have independent audit rights under the Grant Agreement. It is expected that RIG/A will perform routine audits related to this grant. A total budget of $35,000 is set aside to finance non-federal audits which may be required for funding under this grant.

F. GOP Financing

During the life of the program, the GOP will continue to provide funds to the local government units, through its regular cycle of budgetary appropriations, at the levels consistent with the high priority given to decentralization. Since AID disbursements are performance-based relative to changes which will increase the ability of LGU's to generate more resources locally, the GOP will not be required to put up an equivalent amount of pesos into special account. However, the GOP must provide specific funding for specific budget categories aimed at decentralization of LGUs to meet the required performance indicators for LDAP. Examples of such specific contributions include: incentive fund grants to be provided to the priority provinces (approximately ₱400 million, and capacity building funds to be administered by the LGA (approximately ₱225 million). It is estimated that over $600 million of GOP funds will be used to support decentralization actions and policy decisions over the three year life of the program. This amount far exceeds the required GOP contribution of $16.67 million (i.e., 25 percent of total life-of-program costs).

VI. IMPLEMENTATION ARRANGEMENTS

A. Implementing Entities

1. GOP

a. Department of Finance (DOF)

As to implementation arrangements, the Department of Finance (DOF) will take the lead on the aspect of fund disbursement. DOF will be responsible, in coordination with the Central Bank of the Philippines (CB), Bureau of Treasury (BTr), Commission on Audit (COA), and other involved entities for the preparation and submission to A.I.D. of implementation plans for the disbursement of dollars from the LDAP Dollar Special Account, prior to such disbursement. In addition to the DOF, several GOP entities will be involved directly in implementing LDAP.

b. National Economic and Development Authority (NEDA)

Together with DOF, the National Economic and Development Authority (NEDA), through its Public Investment and National Planning and Policy Staffs, will represent the GOP in dealing with A.I.D. in regard to LDAP. It will also coordinate with DOF, BTr, CB, the Department of Budget and Management (DBM), and other entities, as necessary, in preparing the performance reports and conducting joint reviews with A.I.D. on the satisfaction of performance indicators described in Section IV. NEDA will have primary responsibility for meeting and monitoring the GOP's commitments to provide the counterpart contribution to the Program.

NEDA will also be responsible for advising on appropriate areas for policy studies in support of LDAP and cooperating with the performance monitors in providing (or coordinating the provision of) information necessary to carry out their work.

c. Department of Local Government (DLG)

The DLG will provide funding and implementation support for the increased capacity building program as specified in the policy agenda through its Local Government Academy.

Jointly with DBM, the DLG will work for the passage of legislatively-based indicators in the agenda and ensure that the corresponding resources and authorities are provided to LGUs.

The DLG will assist the DOF in monitoring the progress of decentralization reforms at the LGUs, and participate as appropriate in the conduct of policy studies in support of LDAP.

Through a cooperative grant agreement with an experienced non-government organization, DLG will have a key advisory role in identifying areas for local support grants. The Mission will coordinate with DLG in developing scopes of work and in the selection of the grantee institutions.

d. Central Bank of the Philippines (CB)

The CB through its Treasury, the Management of External Debt Department and the Department of Economic Research will:

i) With the agreement of USAID and in coordination with BTr, establish a LDAP dollar special account or accounts with the designated bank or banks into which dollars disbursed by USAID will be deposited,

ii) In coordination with BTr, prepare and submit to USAID prior to dollar disbursements, statements of names, branches and U.S. Federal Reserve branch numbers of the bank or banks with which the dollars disbursed will be deposited together with the statements of amounts of dollars to be deposited in separate accounts with those banks.

iii) Disburse dollars from the LDAP Dollar Special Account to be paid directly to the specified creditors.

iv) Prepare and submit to DOF evidence that the agreed upon payments have been made from the Dollar Special Account, prior to disbursement by USAID of the second and third tranche of dollars and before the end of the program.

e. Department of Budget and Management (DBM)

The DBM through its Budget Planning Bureau and National Government Accounting and Finance Bureau will prepare and submit to DOF reports on the timely satisfaction of policy reforms identified in the policy matrix.

f) Bureau of Treasury (BTr)

The Bureau of Treasury will:

i) Provide the DOF and CB required information on

official debt obligation to be paid.

ii) Provide information, as necessary, to DBM, CB and the PMO for the required financial reports.

iii) Cooperate with contractors in providing information necessary to carry out their scopes of work.

g. Other GOP Departments

The DENR and the DPWH will:

i) Prepare and submit reports to DOF on the timely satisfaction of the policy reforms and activities specified with each department in the policy matrix.

ii) Cooperate with contractors in providing necessary information to carry out their scopes of work.

2. USAID

1. Office of Rural and Agricultural Development (ORAD) - Within USAID, program implementation will be the prime responsibility of the Rural Development Division, Office of Rural and Agricultural Development (RDD/ORAD). RDD/ORAD will provide management activities to address various activities in support of the program, monitoring of program implementation including adherence to the policy matrix, and monitoring of the technical assistance, progress reviews, and evaluation.

USAID's monitoring on the policy reform matrix will focus on the accomplishments of the various GOP entities, resolving unanticipated implementation problem and maximizing small support grants and policy studies as well as the technical assistance.

RDD/ORAD has two direct hire U.S. officers and three Filipino professionals who will be assigned to the Program. Each of the FSNs will provide discrete assistance in monitoring accomplishment in improving levels of discretionary resources to LGUs, increased administrative authority of LGUs, and increased capability building of LGUs and greater private sector role in local development. Additional technical expertise and management can be provided by other mission staff or through the technical assistance component.

2. Office of Financial Management (OFM)

The OFM will provide support services for the program's financial transactions.

3. Other USAID offices

The Office of Development Resources Management (ODRM), Office of the Program Economist (OD/PE), the Contract Services Office (CSO) and the Office of Legal Affairs (OLA) are expected to provide additional technical, legal and professional expertise in the various activities of the program.

B. Implementation of Program Support

1. Disbursement of Tranches

Upon satisfaction of the legal, administrative and other non-reform performance Conditions Precedent to initial disbursement of dollars to the GOP (see Section VIII for details on Conditions Precedent and Covenants), A.I.D. will disburse on behalf of the GOP the first tranche of $10.0 million for deposit in the special account with the bank specified by the GOP. Disbursements will be effected through the electronic funds transfer system.

Upon satisfaction of the Conditions Precedent to disbursement of the second tranche, A.I.D. will disburse on behalf of the GOP $17.5 million for deposit in the Dollar Special Account.

Upon satisfaction of the Conditions Precedent to disbursement of the third tranche, A.I.D. will disburse on behalf of the GOP the other $17.5 million for deposit in the Dollar Special Account.

2. LDAP Dollar Special Account

The special account into which disbursed dollars are deposited will be referred to as the "LDAP Dollar Special Account." Funds deposited in this Account will be credited for any interest earned from funds deposited in this Account and any GOP refunds for unacceptable disbursements from the Account. The Account will be used for the payment of official debt obligations in accordance with mutually agreed upon implementation plans for LDAP or such other purposes as A.I.D. may agree to in writing. The GOP will disburse dollars in the LDAP Dollar Special account in accordance with the Dollar Implementation Plan. All other disbursements will be drawn directly from the Account and paid directly to the payees specified in the implementation plan for the amounts specified on the due dates specified.

C. Implementation Schedule

	Implementation Action	Actors	Date
FY 90	Program Agreement signed	USAID, NEDA	Aug.1990
	PIO/T for Program TA signed	USAID	Aug.1990
	RFP for Policy Monitoring System Development issued	USAID	Aug.1990
	PIL No.1 issued	USAID	Sept.1990
FY 91	First tranche deposited with Treasury	USAID	Oct.1990
	Evaluate proposals; Contracts signed	USAID	Dec.90
	First program review of 1990-91 accomplishments	USAID, DOF	Jan.-Mar.91
	Second tranche deposited with Treasury	USAID	Apr.1991
FY 92	Second Program Review	USAID, DOF	Oct.-Dec.91
	Third tranche deposited with Treasury	USAID	Mar. 1992
	Impact evaluation	Contractors	Sept.1992
	Close-out procedures initiated	USAID,NEDA	Oct.-Dec.92
FY 93	PACD		Dec. 1993

D. Procurement Plan

The authorized source/origin for procurement under the program is U.S. and the Philippines. Procurement will follow the relevant AID Handbooks and regulations, including Handbook 1B, Procurement Policies for all procurement; Handbook 13, Grants, for the small support grants; Handbook 14, Procurement Regulations, for AID-direct contracting. No major commodity procurement is included in the program.

Technical services for policy and financial monitoring will be AID-direct procurement. The contractor will provide short term U.S. technical expatriate and long-term local technical services. Procurement will begin shortly after the signing of the Program Agreement, including refinement of the scope of work, preparation of separate Project Implementation Order/Technical Services (PIO/T) for policy and financial monitoring, advertising in the Commerce Business Daily, evaluation and ranking of proposals, and selection of the contractor(s).

USAID may also contract directly with an individual under a Personal Services Contract to provide monitoring services in tracking the policy implementation progress of the LDAP policy agenda.

USAID may acquire services through an Indefinite Quantity Contractor or contract directly with an 8(a) or Philippine firm for evaluation, financial monitoring and auditing services.

Under the small support grants, USAID will implement a cooperative grant agreement with an experienced Philippine non-government organization which can serve as an intermediary institution that will provide subgrants for policy studies and LDAP-related proposals to local organizations, following regular grant procedures.

E. Gray Amendment Contracting

USAID had fully considered the potential involvement in this project of small and/or economically and socially disadvantaged U.S. enterprises, and has determined that the U.S. technical assistance required for policy implementation, monitoring and evaluation services is best provided through open competition. Special consideration will be given to firms submitting proposals that will utilize the resources of small and/or disadvantaged U.S. firms.

F. Environment Consideration

The purpose of the program is to support the Government of the Philippines (GOP) decentralization reform and provide increased autonomy for local government units. One of LDAP's policy objectives is to improve the capacity of these units to incorporate environmental management in their local development plans, review Environmental Impact Statements and participate in environmental planning. Because the principal objective of the program is policy reform, a categorical exclusion from further environmental review is recommended at this time. The Initial Environmental Examination, to be signed by the Environmental Officer of the Bureau for Europe and the Near East, is included as Annex F of this PAAD.

VII. MONITORING AND EVALUATION PLANS

A. Monitoring Plan

1. Monitoring of Program Support

LDAP implementation will be monitored through GOP quarterly reports, as may be amended, which will be due 45 days after the close of the quarter and will contain at least the following information:

- Each disbursement from the LDAP Dollar Special Account with a specification for each disbursement of the payee and the amount and date of payment, together with a certification that the GOP has obtained and is maintaining documentation for each disbursement.

- The GOP will provide the required first semester (for each year) and annual reports of disbursements beginning with the period commencing January 1, 1990 on the use of dollars disbursed from the LDAP Dollar Special Account. The report for the first semester of each year will be due by year-end and the annual report for each year will be due by September 30 of the following year. The GOP will also furnish accompanying certifications for all reports (1) that all funds disbursed from the LDAP Dollar Special Account have been used in accordance with the terms of the LDAP Grant Agreement, and (2) the appropriate GOP representative's certification that will be provided for purposes of preparing the LDAP GOP disbursement reports.

2. Monitoring Policy Implementation Progress

Monitoring policy performance will be the responsibility of NEDA who will, as necessary, coordinate with representatives from GOP Departments participating in the program and A.I.D. NEDA will review program progress toward reform objectives and disbursement benchmarks. Two formal meetings will be scheduled - an interim review mid-way between planned disbursements and a pre-disbursement review to determine whether sufficient progress has been made toward the program benchmarks (see LDAP Policy Matrix) to justify disbursement of funds. An important function of NEDA will be to help expedite implementation of policy reform actions should delays arise.

If progress falls short of the benchmark, NEDA, jointly with DOF, will assess the reasons for this. This might include changes in GOP fiscal conditions beyond the control of the government agencies involved with the reforms, unrealistic expectations about the pace at which changes could be made or simply poor performance on the part of the implementing agency.

To assure flexibility in the design and implementation of LDAP, NEDA and DOF will be able to propose modifications to benchmarks that prove to be unrealistic or unattainable within the original time frame. Technical assistance services will be contracted to undertake

detailed policy performance and financial monitoring. The outputs of these technical assistance services will validate the GOP reports to USAID for the release of program funds. Funds will be available to contract for highly focused, short-term studies of policy and administrative issues that arise during the course of LDAP. These studies will be used to identify options for overcoming implementation problems or modifying proposed policy changes to expedite implementation. Any modification to LDAP benchmarks recommended by NEDA and DOF will require approval by USAID/Philippines and the GOP.

B. Evaluation Plan

In standard projects, interim evaluations are a regular management function. In the case of program assistance, such as LDAP, monitoring and periodic evaluation are a core function of program management. Assessing program performance on a regular basis is inherent in the basic idea of tranching funding against progress toward policy benchmarks and indicators. An interim evaluation will be conducted only if serious implementation delays occur and an objective assessment of the problems is needed. In effect, A.I.D. and the representatives from the GOP participating agencies will perform internal evaluations during the course of LDAP using the information generated by the monitoring contractor(s) and NEDA.

An impact evaluation near the end of year three will be undertaken.

VIII. CONDITIONS AND COVENANTS

A. CONDITIONS PRECEDENT TO DISBURSEMENT

1. Initial Tranche:

a. A written opinion of counsel acceptable to AID that the Grant Agreement has been duly authorized and/or ratified by, and executed on behalf of the GOP, and that it constitutes a valid and legally binding obligation of the GOP in accordance with all of its terms.

b. A written statement setting forth the names and titles of persons holding or acting in the Office of the GOP and of any additional representatives, and representing that the named person or persons have the authority to act as the representative or representatives of the GOP, together with a specimen signature of each such person certified as to its authenticity.

c. Agreement in writing to PIO/Ts for technical assistance in the development of policy performance monitoring system.

d. An implementation plan specifying: (1) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of U.S. dollar funds; (2) a schedule of payments, identifying payees, amounts and due dates of the loans, proposed to be made by the GOP using U.S. dollars provided in the tranche releases and any interest earned thereon; and (3) the type of documentation to be obtained and maintained by or on behalf of the GOP evidencing the use of U.S. dollars disbursed from funds provided through the Program.

e. A statement of the name, branch and U.S. Federal Reserve Bank branch number of each bank with which the U.S. dollars to be disbursed will be deposited, with the respective amount of U.S. dollars to be deposited in each account; and

f. Evidence that conditions precedent prior to the release of the First Tranche in the agreed-to policy agenda in Section IV above have been met.

2. Second and Third Tranches:

a. Written evidence of performance in meeting the performance benchmarks for the Second and Third Tranche releases, respectively as agreed upon with AID.

b. A written agreement on the policy objectives and performance benchmarks for the ensuing year.

c. A supplement to the previously submitted implementation plan as specified under Section VIII.A.1(d) above.

d. A statement as specified under Section VIII.A.1(e) above.

e. Written evidence that the payments specified pursuant to paragraph (c) above in connection with any prior disbursement of U.S. dollars have been made in accordance with the appropriate section of the Grant Agreement.

B. SPECIAL COVENANTS

1. U.S. Dollar Account

U.S. dollars being held in the account identified by the GOP shall not be commingled with funds from any other source, provided however that the account shall include interest, if any, earned on funds held in the account. The GOP shall promptly furnish to AID in form and substance satisfactory to AID: (a) documentation evidencing deposits into the account and (b) periodic statements of balances held in the account, including interest, if any, earned on funds held therein.

2. Disbursements from U.S. Dollar Account

U.S. dollars held in the account referred to above shall be disbursed by the Central Bank of the Philippines in accordance with the implementation plan specified in Sections VIII.A.1(e) and VIII.A.2(c) to pay debt service obligations of the GOP (other than obligations incurred for public corporations) and of the Central Bank of the Philippines to the International Monetary Fund, the IBRD, the International Development Association, or the Asian Development Bank, in accordance with the schedules of payments provided pursuant to the appropriate section of the Grant Agreement (terminal date for submission for requests for disbursement). Funds held in the account shall be used solely for the foregoing purpose, or for such other purposes as AID and the GOP may mutually agree upon, until all funds held in said account from time to time have been disbursed for such purpose.

3. Review of Policy Reforms, Objectives and Benchmarks

The GOP agrees to conduct program reviews in cooperation with AID and the program/policy monitoring contractor and the financial monitoring contractor of progress being made toward policy reforms to be implemented by the GOP, as set forth in the Program Description (Annex 1 to the Grant Agreement), along with the actions undertaken in support of the policy objectives and benchmarks agreed upon the previous year, and to agree with AID on the policy objectives and performance benchmarks for the ensuing year.

4. Program Evaluation

AID and the GOP agree to conduct an impact evaluation as part of the program. Except as AID and the GOP otherwise agree in writing, the evaluation will include the elements of the evaluation component as set forth in the Program Description (Annex 1 to the Grant Agreement).

3312b
9/05/90

ANNEX A

GOVERNMENT REQUEST FOR ASSISTANCE

REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue, Pasig, Metro Manila

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 673-50-31 to 50

RECEIVED
USAID/C&R
90 JUL 31 AM 8:03

Mr. Richard A. Johnson
Acting Mission Director
USAID Manila
Ramon Magsaysay Center Bldg.
Roxas Blvd., Manila

JUL 2 1990

DIV	ACT	INF
OD		✓
PE		
OLA		
PESO		✓
CSO	✓	
ORM	✓	
EXO		
A/EXO		
PROC		
PER		
C&R		
DMD		
CMD		
GSO		
TRV		
OFM		✓
OCP		✓
OPAD		✓
OPEN		
OFFPVC		
RIG/A		
RIG/I		
DUE DATE		
8-10-90		

Dear Acting Director Johnson:

We wish to convey the request of the Government of the Philippines (GOP) for $50 million grant assistance to finance the proposed Local Development Assistance Program (LDAP). The proposed Program will support GOP decentralization reform by providing mainly program support and financing for studies, policy analysis, monitoring, evaluation and auditing.

The GOP is working closely with USAID on the formulation of the Policy Implementation Matrix (PIM) required for the performance-based program component of the LDAP and is presently awaiting USAID's submission of the Program Assistance Approval Document (PAAD) for GOP review. Final negotiations on the LDAP will be carried out as soon as the required GOP clearances on the said documents are obtained.

As to implementation arrangements, the Department of Finance (DOF) will take the lead on the aspect of fund disbursement while the National Economic and Development Authority (NEDA) will take the lead in the monitoring of GOP performance against the benchmarks in the agreed upon PIM.

In view of the importance of GOP decentralization efforts to the improvement of the delivery of basic services and provision of basic infrastructure to the rural areas, the GOP will appreciate USAID's favorable consideration of this request for assistance.

Thank you and best regards.

Very truly yours,

CAYETANO W. PADERANGA, JR.
Director-General

ACTION TAKEN
MAN ____ Other WILL BE attached to PAAD
Type ____ No. ____
Date 8/2/90 Initials ____

cc: Secretary Luis Santos, DLG
Undersecretary Cesar Sarino, DLG

Received by PIM 8/1
Clearance by Ins Dec
Document No. 220
Assigned to DA

ANNEX B

AID/WASHINGTON GUIDANCE/APPROVAL CABLES

BC UNCLASSIFIED STATE 685

ACTION: AID-6 INFO: AMB DCM AA ECON/10

VZCZCML0962
PP RUEHML
DE RUEHC #4685 1362005
ZNR UUUUU ZZH
P 162005Z MAY 89
FM SECSTATE WASHDC
TO AMEMBASSY MANILA PRIORITY 3580
BT
UNCLAS STATE 154685

17-MAY-89

TOR: 20:07
CN: 50193
CHRG: AID
DIST: AID
ADD:

ACTION COPY

Action Taken: Noted
No action necessary:
Date: 5/16/89 Inits:

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: LOCAL DEVELOPMENT ASSISTANCE PROGRAM (492-0436) - PAAD DEVELOPMENT AND AUTHORIZATION

REF: A) MANILA 13504

RECEIVED MAY 17 11 49 AM '89 USAID/C&R

1. BASED ON PRC REVIEW CHAIRED BY ANE/PD DIRECTOR VENEZIA ON 5/4/89 OF PAIP AND SUPPLEMENTAL INFORMATION PROVIDED IN REFTEL, A/AA/ANE APPROVES PAIP AND MISSION'S REQUEST TO DEVELOP SUBJECT PAAD. A/AA/ANE ALSO DELEGATES USAID MANILA MISSION DIRECTOR AUTHORITY TO APPROVE THE PAAD FOR DOLS 50 MILLION. (WE UNDERSTAND PAAD WILL NOW BE AUTHORIZED IN FY-90.) HOWEVER, REQUEST MISSION KEEP US CLOSELY INFORMED OF POLICY REFORM AGENDA AND BENCHMARKS TO BE DEVELOPED AND NEGOTIATED AS WE WISH TO SHARE AGENDA AND BENCHMARKS PRIOR TO AUTHORIZATION. FOLLOWING PARAGRAPHS PROVIDE ANE CONCLUSIONS AS TO "MODE" ISSUE AS WELL AS BUREAU CONCERNS WHICH MISSION IS REQUESTED TO ADDRESS AS YOU DEVELOP THE PAAD.

DIV.	ACT	INF
OD		✓
PE		✓
RLA		✓
PRO		✓
TDI		
SO		
PER		
CSD		
LOG		
DMD		
GSO		
TRV		
C&R		
CO		✓
OCD	✓	
ORAD		✓
OPHN		
OFFFVCI		
RIG/A		
RIG/II		
AR		
DUE DATE		
5-19-89		

2. ASSISTANCE MODE. THE PRC ANALYZED WHETHER TO CONSIDER LDAP A CASH TRANSFER OR PROGRAM SECTOR ASSISTANCE. THE POLICY REFORM OBJECTIVE CAN BE SERVED BY EITHER MODE. WE FOUND THE KEY DISTINCTION BETWEEN THE TWO MODES TO BE THAT THE ACTIVITY IS EXECUTED BY DISBURSING FUNDS AS POLICY REFORM OCCURS WITH THE DOLLARS TRACKED TO END USES AND THE LOCAL CURRENCY TRACKED ONLY TO THE BUDGET. THIS METHOD OF EXECUTION FITS ONLY CASH TRANSFER GUIDANCE. WE CONCLUDE THAT ONLY BY DESIGNATING THE ACTIVITY A CASH TRANSFER WILL THERE BE NO QUESTION THAT LDAP DESIGN IS CONSISTENT WITH CURRENT GUIDANCE ON ASSISTANCE MODES. FM AND PPC CONCUR WITH THIS CONCLUSION.

3. POLICY AGENDA. BUREAU SUPPORTS MISSION DESIRE TO NEGOTIATE A STRONG POLICY AGENDA IN SUPPORT OF LOCAL GOVERNMENT STRENGTHENING AND DISBURSEMENTS GAUGED AGAINST PERFORMANCE. MISSION IS URGED TO INCLUDE THREE SPECIFIC ELEMENTS WITHIN THE AGENDA/BENCHMARKS: A) A COMMITMENT BY THE GOP TO PROVIDE THOSE RESOURCES DEEMED NECESSARY TO ACCOMPLISH THE NEEDS OF THE PROGRAM (UNRELATED TO THE AMOUNT OF THE A.I.D. DISBURSEMENT), B) CREATION OF CONDITIONS AND/OR EXPLORATION OF WAYS TO

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BC UNCLASSIFIED

INCREASE PRIVATE SECTOR OPPORTUNITIES TO SHARE IN THE PROVISION OF GOODS AND SERVICES TO RURAL COMMUNITIES (I.E., WHAT SERVICES NOW BEING PROVIDED OR PLANNED FOR TRANSFER TO LGUS COULD BE PROVIDED BY THE PRIVATE SECTOR?) AND; C) AN ELEMENT OF STRENGTHENING OF FISCAL INTEGRITY AND ENVIRONMENTAL SOUNDNESS IN PLANNING (SEE BELOW). WITH RESPECT TO INCREASED PROVISION OF PRIVATE SECTOR SERVICES, MISSION IS ENCOURAGED TO REVIEW D. RONDINELLI ARTICLE ON DECENTRALIZATION. ARTICLE SENT TO MISSION (ATTN: IMHOFF) SEVERAL WEEKS AGO.

4. ECONOMIC RATIONALE FOR DECENTRALIZATION. PRC CONCURED THAT LACK OF INFRASTRUCTURE PERPETUATES UNDERDEVELOPMENT IN THE RURAL SECTOR. HOWEVER, PRC ALSO CONCLUDED THAT ECONOMIC RATIONALE FOR PROGRAM MUST BE SEEN IN LIGHT OF IMPROVED ECONOMIC EFFICIENCIES. SPECIFICALLY, MISSION IS URGED TO SHOW IN PAAD HOW DECENTRALIZATION WILL IMPROVE ECONOMIC EFFICIENCY OF RESOURCES ALLOCATION AT THE LOCAL LEVEL.

5. BENCHMARKS AND DISBURSEMENTS. ANE/DP/E (C. HERMANN) RECONFIRMS READINESS TO ASSIST MISSION AS IT ENDEAVORS TO DESIGN AN APPROPRIATE MONITORING AND EVALUATION PLAN AND ESTABLISH DISBURSEMENT BENCHMARKS. PLEASE ADVISE IF AND WHEN SERVICES ARE DESIRED.

6. FINANCIAL INTEGRITY: APPRECIATE YOUR CANDOR ON THIS ISSUE, HOWEVER, BUREAU REMAINS CONCERNED THAT CHANGE NOTED IN PARA. 5 REFTEL MAY NOT BE SUFFICIENT TO ASSURE EFFICIENCY OF USE OF RESOURCES WE SEEK TO ACHIEVE. THEREFORE, WE RECOMMEND THAT THE POLICY AGENDA INCLUDE AN ELEMENT OF STRENGTHENING OF LOCAL LEVEL FISCAL INTEGRITY.

7. IEE. ANE BUREAU ENVIRONMENTAL COORDINATOR CONCURS WITH CATEGORICAL EXCLUSION APPROVED IN THE INITIAL ENVIRONMENTAL EXAMINATION. THIS CONCURRENCE WAS BASED ON JUSTIFICATION CONTAINED IN MISSION IEE, MISSION WILLINGNESS TO ADDRESS ENVIRONMENTAL SOUNDNESS AS A POLICY AGENDA ITEM, AND MISSION'S PLANS TO EXPLORE SUPPORT FOR DECENTRALIZATION OF ENVIRONMENTAL ANALYSIS THROUGH OTHER PROJECTS AND PROGRAMS AND INSTITUTIONAL DEVELOPMENT IN THIS AREA. SIGNED COPY OF IEE WILL BE FORWARDED TO MISSION.

8. MISSION IS REQUESTED TO CONFIRM THAT LDAP NOW CONSIDERED FOR FY90 OBLIGATION AND ADVISE HOW FUNDS SCHEDULED FOR FY89 OBLIGATION UNDER LDAP WILL BE REPROGRAMMED WITHIN YOUR OYB. BAKER
BT
#4685

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ANNEX C

STATUTORY CHECKLIST

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1.	FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	U.S. small businesses will be encouraged to participate in monitoring and evaluation activities
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	N/A
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A
4.	FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) — N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — N/A

7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — 1) Yes 2) N/A

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

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10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	N/A
11. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	1) N/A 2) N/A
12. FAA Secs. 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A
13. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	N/A
14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

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4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535.
(1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?

1) Yes
2) Yes
3) Yes
4) Yes

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

e. FAA Sec. 662. For CIA activities? Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

i. FY 1990 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? — Yes

j. FY 1990 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? — Yes

k. FY 1990 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes

l. FY 1990 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — Yes

5. FY 1990 Appropriations Act Sec. 574. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? — N/A

6. FY 1990 Appropriations Act Sec. 582. Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? — No

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3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?	Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1.	FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.	Congressional notification submitted on July 2, 1990 for $50,000,000.00.
2.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	N/A
3.	FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	N/A

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

a) N/A
b) One of the Program's policy objectives is increased private sector role in local development.
c) N/A
d) The Program directly supports open societie and democratic pluralism initiatives of AID
e) The Program will improve local government unit's capacity and authority to manag increased resources, thereby improving the technical efficiency of industry, agriculture and commerce.
f) N/A

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

5. N/A

6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

6. N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

a) Yes
Yes

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

b) No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? — a) Yes

(b) Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? — b) Yes

(c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? — c) Yes

(d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? — d) Yes, through the CN.

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ANNEX D

TABLES

Table 1. Government Cash Budget Operations, 1986-89
(In Billion Pesos)

	1986	1987	1988	1989
REVENUES	79.4	101.2	112.8	152.7
1. Tax Revenues	65.6	85.4	90.3	122.4
Taxes on Net Income & Profits	18.2	21.2	27.4	37.1
Taxes on Domestic Goods & Services	25.6	34.7	31.4	40.5
Sales Tax & Licenses	9.2	12.1	11.8	15.6
Excise Taxes	16.4	22.6	19.6	24.9
Taxes on International Trade and Transactions	17.5	25.7	25.0	38.3
Import Duties & Taxes	16.9	25.7	25.0	38.3
Export Taxes	0.6	neglible	neglible	0.0
Other Domestic Taxes	4.3	3.8	6.5	6.5
2. Non-Tax Revenues	13.8	15.8	22.5	30.3
Collection from Other offices	7.3	6.6	9.1	12.4
Foreign Grants	0.2	1.4	1.6	1.2
ESF Proceeds	6.2	3.1	0.2	4.3
Others	0.1	4.7	11.6	12.4
EXPENDITURES	110.4	121.3	136.1	171.7
1. Current Operating Expenditures	66.9	95.1	113.6	145.2
Personal Services	25.0	32.5	40.8	52.2
Maintenance & Other Operating Expenses	15.0	18.9	19.6	26.6
Subsidy (Transfer to Corporations)	1.3	1.9	2.0	5.6

Tax Expenditures	0.4	0.5	1.0	0.8
Allotment to Local Government Units	3.6	4.3	4.3	5.4
Interest Payments	21.6	37.0	45.9	54.6
Petroleum Price Subsidy Fund	0.0	0.0	0.0	0.0
2. Capital Outlays	28.4	19.1	17.1	22.8
Infrastructure	7.8	7.3	8.4	11.9
Other Capital Outlays	3.9	7.4	6.9	8.7
Capitalization/Equity	12.3	4.4	1.8	2.2
Capital Transfers to PNB/DBP	4.4	0.0	0.0	0.0
3. Net Lending	15.1	7.1	5.4	3.7
SURPLUS (+)/DEFICIT (-)	-31.0	-20.1	-23.3	-19.0

SOURCES: Department of Budget and Management
National Economic and Development Authority

Table 2. Projected Government Cash Budget Operations, 1990-92 (*)
(In Billion Pesos)

	1990	1991	1992
TOTAL REVENUES AND GRANTS	193.3	221.8	243.9
1. Tax Revenues	160.9	189.1	211.6
2. Non-Tax Revenues (including ESF)	32.4	32.7	32.3
TOTAL EXPENDITURES AND NET LENDING	214.0	241.6	271.8
1. Current Operating Expenditures	173.2	181.9	193.3
2. Capital Expenditures and Net Lending	40.8	59.7	78.5
SURPLUS (+)/DEFICIT (-)	-20.7	-19.8	-27.9
GNP (in Billion Pesos)	1,076.7	1,230.3	1,402.5
Budget Deficit as % of GNP	1.9	1.6	2.0

SOURCE: Department of Budget and Management

* Projections prior to the July earthquake and August oil price shocks.

Table 3. Balance of Payments, 1988-92 (*)
(In Million US $)

I T E M	1988r/	1989r/	1990	1991	1992
Trade Balance	-1085	-2598	-2885	-2845	-2835
Exports FOB	7074	7821	8785	10160	11765
Imports	8159	10419	11670	13005	14600
Services (net)	-113	303	355	334	165
Receipts	3592	4586	4778	5120	5410
Interest Income	297	348	409	471	533
Other Services	3295	4238	4370	4649	4876
Payments	3705	4283	4424	4786	5244
Interest of which:	2192	2420	2330	2401	2548
Interest savings from debt buyback	0	0	-129	-129	-129
Other Services	1513	1863	2093	2386	2696
Transfers (net)	775	830	904	955	932
Receipts	778	832	906	960	937
Payments	3	2	2	5	5
Current Account	-423	-1465	-1626	-1556	-1728
% of GNP	-1.0	-3.3	-3.4	-3.0	-2.9
Foreign Investments (net) of which:	986	854	603	797	815
Debt Conversions	806	306	371	443	310
Medium & Long-Term Loans (net)	-2656	-2084	-3704	-2943	-2494
Inflow	275	348	324	78	237
Outflow of which:	2931	2432	4028	3021	2731

Prepayment arising from debt buyback			1340		
Short-Term Capital (net)	-303	-91	26	112	152
of which Trade Facility	-153	61	103	164	0
Export Advances, DA/OA & Other Trade	168	312	204	243	478
Others	-318	-464	-281	-295	-326
Errors and Omissions	479	385	0	0	0
Capital Account	-1494	-936	-3075	-2034	-1527
Monetization of Gold	314	288	315	350	385
Revaluation 1/	83	101	936	350	294
of which: Arising From Cir. 1111		23	65	163	163
From debt conversions	73	200	202	187	131
From debt buyback/ reserve replenish		0	669	0	0
Overall BOP Position Before Rescheduling & New Money	-1520	-2012	-3451	-2890	2586
New Money	713	1077	2495	2953	2942
of which: New MLT loans to finance buyback		107	264	0	0
New MLT loans for reserve replenishment		0	0	86	43
Rescheduling of Nonmonetary Debt	1424	1386	1514	1445	1068
Paris Club	625	617	566	515	252
Commercial Banks	799	769	948	930	816

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Suppliers Credit					
Interest Rebate	33				
Overall BOP Position After Rescheduling & New Money	650	451	558	1508	1424
Memo item:					
CB Gross Int'l Reserves	2059	2324	2540	3707	4961
KBS Assets	3214	3499	3604	3748	3898

1/ Refers to the revaluation of third currency assets and monetary liabilities of the Central Bank arising from debt conversion/reduction schemes.

r/ Revised as of March 1990.

SOURCE: Central Bank of the Philippines

* - projections prior to the July earthquake and August oil price shocks.

ANNEX E

LIST OF STUDIES

LIST OF STUDIES FOR LDAP ANALYSES

ANALYSES	CONDUCTED BY	DATE
1. Policy Analysis	Center for Research & Communication	December 1989
2. Local Fiscal Integrity Analysis	Associates in Rural Development, Inc.	August 1989
3. Economic Cost-Benefit Analysis	U.P. Social Action and Research for Development Foundation	January 1990
4. Social Soundness Analysis	U.P. Social Action and Research for Development Foundation	December 1989
5. Administrative/ Institutional Analysis		
a) Local Government Improvement Project	John C. Dalton/ William C. Larson	August 1988
b) Local Government/ National Agency Study	John C. Dalton/ Bruno Navera/ Jaime Vergara	March 1989

Other Background Documents:

1. "Report on Assessment of Region VI RPTA Implementation," EVSA Corporation, April 1989.

2. "Decentralization Support Program," NEDA, December 1988.

3. "Evaluating the Administrative Capability of Local Governments Towards the Greater Enhancement of Decentralization and Local Autonomy, "Local Government Center, UP College of Public Administration, 1988.

4. "Local Government Computerization Needs Assessment," Research Triangle Institute, September 1988.

5. "National Congress on Local Autonomy," League of Leagues, October 1989.

6. "Implementing Decentralization and Local Autonomy," Office of the Cabinet Secretary, April 1989.

7. "Decentralization and Shelter Policy Reform Study," Consultants for Comprehensive Environmental Planning, inc., May 1990.

8. "The Philippine Agenda for Sustained Growth and Development; Program for the Multilateral Assistance Initiative (MAI)/Philippine Assistance Program (PAP) Republic of the Philippines, May 1989.

9. "Decentralization in Developing Countries: A Review of Recent Experience," The World Bank, 1984.

10. "AID Assistance to Local Government: Experience and Issues." AID Program Evaluation Discussion Paper # 17, November 1983.

11. "Local Government Trends and Performance: Assessment of AID's Involvement in Latin America." AID Evaluation Special Study # 17, November 1983.

12. "Building from Below: Local Initiatives for Decentralized Development in Asia and Pacific," Vol. 1-3, Asian and Pacific Development Center and Konrad Adenauer Stiftung, 1988.

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ANNEX F

INITIAL ENVIRONMENTAL EXAMINATION

SUPPLEMENT TO LOCAL DEVELOPMENT ASSISTANCE PROGRAM PAIP

INITIAL ENVIRONMENTAL EXAMINATION

(A) PROGRAM COUNTRY: Philippines

(B) ACTIVITY: Local Development Assistance Program (492-0436)

(C) FUNDING: $50 MILLION

(D) PERIOD OF FUNDING: FY 1990 - FY 1992

(E) STATEMENT PREPARED BY: Jean du Rette, OCD/PDID, USAID/Philippines

(F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion under A.I.D. Regulation 16, Section 216.2(c)(1)(ii)

(G) ENVIRONMENTAL OFFICER CLEARANCE: Kenneth A. Prussner, ORAD, USAID/Philippines

(H) DECISION OF USAID/PHILIPPINES DIRECTOR

APPROVED: _____

DISAPPROVED: _____

DATE: 4/27/89

(I) DECISION OF ANE ENVIRONMENTAL OFFICER

APPROVED: _____

DISAPPROVED: _____

DATE: 6-16-89

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

A. DESCRIPTION OF THE PROGRAM:

The proposed program will support decentralization policy reform by providing budget support to the Government of Philippines (GOP). A small amount of technical assistance will also be provided for small support grants and analysis, monitoring, evaluation and auditing services. The budget support will offset in part national government expenditures and/or losses of revenues resulting from the implementation of decentralization reforms and will be programmed for support of selected national-level budget items important for strengthening basic services and technology development. AID will not be directly involved in how the budget support funds are spent, other than confirming that broad budget categories receive agreed-upon levels of GOP funding during the 1990 and 1991 GOP fiscal years. Nor will A.I.D. have knowledge or control of specific activities within these budget categories.

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B. RECOMMENDED ENVIRONMENTAL ACTION:

Considering the above-outlined program approach, a categorical exclusion from A.I.D.'s Initial Environmental Examination, Environmental assessment and Environmental Impact Summary requirements is proposed. This proposal is in accordance with A.I.D. Regulation 16, Section 216.2(c)(1)(ii) which provides for a categorical exclusion in situations where the purpose of the program does not require A.I.D. to have "knowledge of or control over, the details of the specific activities that have an effect on the environment for which financing is provided by A.I.D."

ANE Bureau Environmental Coordinator concurs with categorical exclusion approved in the Initial Environmental examination. This concurrence was based on justification contained in the Mission IEE,Mission willingness to address environmental soundness as a policy agenda item, and Mission's plans to explore support for decentralization of environemental analysis through other projects and programs and institutional development in this area.

ANNEX G

GRAY AMENDMENT CERTIFICATION

ANNEX G. CERTIFICATION PURSUANT TO THE UTILIZATION OF GRAY AMENDMENT ORGANIZATIONS

I, MALCOLM BUTLER, Director of the Agency for International Development in the Philippines, having taken into account the potential involvement of small and/or economically and socially disadvantaged enterprises, do hereby certify that in my judgment the technical assistance required under this program can best be procured through open competition. However, all other factors being equal, preference will be given to firms that submit joint proposals with Gray Amendment-satisfying firms. Furthermore, for the scheduled progress reviews and external evaluations, joint efforts involving both local expertise and Gray Amendment-satisfying organizations are anticipated. My judgment is based on the recommendations of the Program and Mission Review Committees.

MALCOLM BUTLER
Director, USAID/Philippines

SEP 24 1990
DATE

ANNEX H

LOGICAL FRAMEWORK

AID 1020-28 (1-73)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1990 to FY 1993
Total U. S. Funding $ 50 Million
Date Prepared: July 23, 1990

Project Title & Number: LOCAL DEVELOPMENT ASSISTANCE PROGRAM (492-0436) (LDAP)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) To support the GOP decentralization policy reforms, provide increased autonomy and resources and improve capacity of local government units, especially provinces and municipalities.	**Measures of Goal Achievement: (A-2)** Accomplishment of policy reforms on increased resources, local autonomy and improved capacity of LGUs as defined in the Policy Agenda.	**(A-3)** - GOP statistics on decentralization actions - Monitoring information on LDAP Performance indicators.	**Assumptions for achieving goal targets: (A-4)** 1. Present administration continues to espouse decentralization as a priority state policy. 2. Strong political support for decentralization at the executive and legislative branches and local government officials. 3. GOP will continue the efforts after LDAP has ended.
Project Purpose: (B-1) LDAP will support decentralization through policy changes in the following strategic areas: 1. Increased discretionary resources for LGUs from national sources. 2. Increased LGU administrative authority. 3. Improved LGU capacity to manage increased resources and authority. 4. Increased private sector role in local development and delivery of basic services.	**Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)** 1. GOP generates additional funds to LGUs estimated at $216.2 million in 1990, $246.2 million in 1991 and $324.5 million in 1992. 2. Issuance of policies/guidelines, including secondment of personnel, to devolve functions, budgets and authorities to LGUs. 3. Availability of training funds and implementation of training programs for LGUs. 4. Testing of private sector delivery of some basic services in pilot provinces.	**(B-3)** - Internal evaluation by AID and the coordinating committee for LDAP. - Mid-program and Final Evaluation. - Impact evaluation - GOP reports/records - Contractor's reports - Field visits	**Assumptions for achieving purpose: (B-4)** 1. GOP will provide the additional funds to LGUs. 2. LGUs have the capacity to absorb additional resources. 3. Concerned GOP agencies will implement needed policy changes.
Project Outputs: (C-1) 1. Implementation of decentralization policy reforms to foster increased IRA appropriations, removal of mandatory contributions to national police and hospitals, and improved local taxing authority and national department. 2. Implementation of reforms that devolve national department functions, personnel, budgets and authorities not needing legislative action to LGUs. 3. Implementation of LGU capacity building program. 4. Adoption of plan to improve private sector delivery of basic services.	**Magnitude of outputs: (C-2)** 1. Performance indicators as shown in Policy Agenda on percent increase of IRA appropriations and timely releases to LGUs, removal of contributions, increase in the number of pilot provinces, percentage increase in property tax collections and general revaluation of property assessments. 2. Performance indicators on issuance of policies, circulars, MOA and implementing guidelines for national departments and pilot provinces. 3. Performance indicators on provision of funds for LGU capacity building. 4. Performance indicators on issuance of policy and implementation guidelines for testing private sector delivery of basic services.	**(C-3)** - Reports of Coordinating Committee for LDAP - Reports of independent contractors for policy performance and financial monitoring, policy studies, evaluation and audit. - USAID documentation of meetings.	**Assumptions for achieving outputs: (C-4)** 1. Legislative actions in Policy Agenda proposed by GOP implementing agencies. 2. Executive circulars/issuances/MOAs in place. 3. Continuing momentum on decentralization accelerates during life of program.
Project Inputs: (D-1) AID Inputs 1. Program Support 2. Small Support Grants 3. Technical Services for - Policy and Financial Monitoring - Evaluation and Audit AID TOTAL GOP Inputs Estimated GOP funds in support of decentralization actions and policy decisions over the three-year life of the program.	**Implementation Target (Type and Quantity) (D-2)** AID Grant ($000) $ 45,000 2,000 2,800 200 $ 50,000 $620,000	**(D-3)** - Reports of TA Contractors - GOP Reports of Fund Utilization	**Assumptions for providing inputs: (D-4)** - Availability of ESF funding over life of program - Availability of GOP funds to implement policy reforms