



Technical Report

Municipal Development Fund Office (MDFO) Program Lending Facility (PROLEND) Operations Manual

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Prepared for

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Ms. Helena Habulan, Executive Director
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Department of Finance (DOF)
Republic of the Philippines**

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Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-00-03-00020 Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

Department of Finance (DOF) Undersecretary Roberto B. Tan requested EMERGE, by letter dated June 15, 2005, to assist the DOF Municipal Development Fund Office (MDFO) to develop guidelines, selection criteria, and a menu of options for policy objectives and conditionality for its Local Government Unit (LGU) Program Lending Facility (PROLEND). EMERGE engaged Raymund Fabre, LGU Credit Finance Expert and Team Leader, Erlito Pardo, LGU Policy and Institutional Expert, and Benedicto Rayco, Media Specialist, for this task, who worked closely with Ms. Helena Habulan, Executive Director of MDFO. The results of their extensive process of consultations with the multi-agency MDFO Policy Governing Board, MDFO operations staff, LGU leaders and others have been distilled in this draft MDFO Operations Manual for the PROLEND program. The draft has been accepted by DOF Undersecretary Roberto B. Tan and MDFO Executive Director Habulan, who plan to have a formal launching of the PROLEND program in the near future.

The views expressed and opinions contained in this publication are those of the author and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.

**MUNICIPAL DEVELOPMENT FUND OFFICE
(MDFO)
DEPARTMENT OF FINANCE**

**PROGRAM LENDING FACILITY
(PROLEND)**

**OPERATIONS MANUAL
FINAL VERSION**

31 August 2006

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DEPARTMENT OF FINANCE (DOF)
MUNICIPAL DEVELOPMENT FUND OFFICE (MDFO)
PROGRAM-POLICY LENDING (PROLEND)
OPERATIONS MANUAL

I. Overview:

A. Municipal Development Fund Office (MDFO).

The Municipal Development Fund (MDF) was created in 1984 by Presidential Decree 1914, as a revolving fund for Official Development Assistance (ODA)-supported project to Local Government Units (LGUs). The MDF provided loans to LGUs under projects like the Municipal Development Program (MDP), the Community-Based Resource Management Program (CBRMP) and the Local Government Financial Development Program (LOGOFIND) of the World Bank. Under the MDF, these loans were used to finance revenue generating projects, social infrastructure projects and environmental projects of LGUs. Generally, the loans to LGUs have an interest rate of 14% (formerly 16%) and a repayment period of 15 years with 3 years grace period on the amortization of the principal. The MDF also provided a cashiering function to grant projects for LGUs under such agencies as the Department of Agrarian Reform and even provided a mix of grants and loans under the LOGOFIND project. Up until 1998, the MDF was a disbursement mechanism for ODA loans and grants for LGUs under the Bureau of Local Government Finance. However, this changed on November 20, 1998 with the issuance of Executive Order No. 41 which created the Municipal Development Fund Office as a separate office under the Department of Finance.

B. Program-Policy Lending (PROLEND).

Through the years, the loan repayments made by the LGUs have accumulated into “second generation fund”, the amount of which has become substantial and could be used for various purposes. In 2002, the Policy Governing Board (PGB) of the MDFO has decided to use it for program or policy loans to local governments. The PGB-MDFO defines a “local program or policy loan” as “funds which are lent out for the purposes of assisting the local governments to attain or achieve certain policy targets or reform objectives”. This financial instrument differs from what LGUs are used to in that the loan proceeds can be used for budgetary support and/or the implementation of an activity, e.g., reform in local procurement, the end result of which is improved fiscal performance or other reforms at the local level. Key reform areas include the following: fiscal administration, revenue collection, local budgeting, expenditure management, and overall governance. The approach is to have an agreement between the MDFO and an LGU over the implementation of certain policy or institutional reforms for a certain period of time in exchange for a policy loan. In 2003, the first program-policy loan amounting to 120 million pesos was implemented in the Province of Negros Occidental with accelerated

adoption of electronic government procurement (e-procurement) at the heart of the reform program. In 2005, the Province of Negros Occidental successfully completed its commitments under the program-policy loan and is now in the process of applying for a second program-policy loan. Because of the success of the first LGU program-policy loan, rising interest among LGUs for this new and innovative type of financing has risen.

II. Definition, Objectives, and Rationale of PROLEND.

A. Definitions.

1. What is a Policy Reform?

A policy is defined as a plan or course of action, as of a government, political party, or business, intended to influence and determine decisions, actions and other matters (Source: Dictionary.com). The policy process includes the identification of different alternatives, such as programs, or spending priorities, and choosing among them on the basis of the impact they will have. Policies, in short, can be understood as political, management, financial, and administrative mechanisms arranged to reach explicit goals (Source: Wikipedia). On the other hand, reforms are defined as making improvements by alteration, correction of error, or removal of defects; or to put into a better form or condition. They are also actions aimed at abolishing abuse or malpractice (Source: Dictionary.com). Given this, policy reforms are actions and activities (programs) aimed at improving by alteration, correction of error, removal of defects, or put in a better form or condition political, management, financial, and administrative, mechanisms created to meet societal goals.

2. What is a Program-Policy Loan?

A program-policy loan are funds which lent out to LGUs mainly for financing the capital expenditure of their development projects with the proviso that they will pursue and/or accelerate a policy reform agenda, activity or program with clear and well-defined deliverables and milestones and partially or wholly complete this reform agenda within a time-bound period. Undertaking difficult policy reforms, which may also not have an immediate or even realizable financial payback, can result in temporary social and political negative repercussions. This is why the participating LGU is provided the program loan for development projects as well as budgetary support for greater flexibility in financing their needs which in turn can mitigate the harsher aspects of the policy reform. The local government should therefore be convinced of the benefits of achieving the set of policy or institutional reforms as well as the more flexible financial options vis-à-vis the pain of fulfilling the policy reform-related conditionalities of the covenant within a fixed time frame as well as the cost and terms of the loan.

To some extent the program-policy loan can be likened to a matching grant or cost-sharing program where the national government “matches” the resources a local government will dedicate towards a project or program which supports a policy reform of national and local interest. In short, the national government shares the cost of pursuing

the policy reform at the local level with the grant being an incentive for the LGU to undertake the mutually-beneficial reform agenda. Since the funds provided by MDFO are not grants, a different benefit or incentive must be provided to offset the condition that the LGU will have to pay the MDFO back for the funds it borrowed. Consequently, the program-policy loan package attempts to approximate this benefit by allowing a more flexible financing option vis-à-vis project financing, a fixed reasonable loan rate, a relatively longer term for repayment with a grace period on the amortization of the principal.

B. Objectives.

1. To encourage LGUs to identify, commit, and implement policy reforms in revenue generation, expenditure planning and management, and service delivery.
2. To encourage LGUs to support national policy and program reform objectives.
3. To encourage LGUs to take downstream their reform agenda to other LGUs under their oversight (e.g., Provinces – Municipalities)
4. To provide LGUs with more flexible financing options consistent with their level of fiscal and financial maturity.

C. Rationale – Why Program-Policy Lending?

1. It encourages LGUs to take a serious look at policy reform and provides encouragement to accelerate these activities in their area.
2. It provides the National Government the means to pursue national policy reform agendas at the local level much more efficiently and effectively – by relying on the provincial government to become their agent for reform in the component cities and municipalities. It consequently reduces the pressure on central government agencies to pursue these reform agendas among “more mature” LGUs or those provincial LGUs that qualify for the program-policy loans and set their sights more on other LGUs.
3. It paves the way for more self-reliant provincial LGUs that are not dependent on grants and other transfers from the national government especially with respect to financing social, non-income generating projects.
4. From a broader policy perspective, program-policy loans are supportive of the national policy thrust of devolving greater responsibility to LGUs by entrusting them with greater flexibility in managing their borrowings.

III. Policy Areas for PROLEND:

A. Revenue Generation.

Policy reforms in revenue generation are directed towards increasing revenues mainly through the efficient, effective, and creative establishment, imposition, and collection of local taxes, charges and fees towards significantly reducing the dependence of the LGU on their Internal Revenue Allotment (IRA) as well as national grants. Examples of these types of reforms include updating and revising assessments, updating and establishing a comprehensive Revenue Code, establishing inter-LGU partnerships in revenue generation, investment in Information Technology to improve assessment and collection of real property and other local taxes, and the use of Geographic Information Systems (GIS) for tax mapping and other tax administration purposes.

B. Expenditure Planning and Management.

Policy reforms in expenditure planning and management are directed towards improving efficiency in the allocation and utilization of resources, establishing and institutionalizing clear linkages in planning and budgeting, adoption of results-oriented budgeting process, and encouraging and institutionalizing transparency and accountability in fiscal and financial governance and management. Examples of these types of reforms include establishing Financial Management Information Systems (FMIS) using information technology to systematically record and track income and other expenditures, establishment of Internal Control and Procurement to prevent leakage and ensure efficiency in resource allocation, and systems to provide regular budget and finance information to the general public to promote transparency and accountability in governance.

C. Service Delivery.

Policy reforms in local service delivery are directed towards providing relevant, effective, timely, and operational and cost efficient delivery of critical and basic public goods and services clearly linked to measurable outcomes of customer (community) satisfaction. Examples of these types of reforms include setting up of performance benchmarks to track the quantity and quality of the delivery of critical and basic services and setting up of a mechanism to establish service cost and standards in service delivery.

D. Congruence with National Policy Objectives and Programs.

Reforms which are congruent with national policy objectives and programs are activities which are supportive of and/or implement national policy objectives at the local level and enhance the achievement of national government programs at the province, city and municipality. Examples of these types of reforms include activities aimed at accelerating the adoption and/or enhancement at the local level of E-Procurement, the E-

NGAS (Electronic New Government Accounting System for Local Governments), Statement of Income and Expenditures (SIE) Financial Reporting System, and projects and/or activities on Environment and Health.

IV. Program-Policy Loan (PROLEND) Guidelines:

A. Eligibility Criteria of the Policy Reform for PROLEND.

1. The policy reform program the LGU wishes to pursue for the PROLEND loan must fall within one of the four (4) policies reform areas under the PROLEND program. (*Rationale: For consistency with the objectives of PROLEND*).
2. The LGU borrower must show through the loan proposal that the policy reform agenda will have a substantial economic and social impact on the province and the majority of its component cities and municipalities and that the policy reform program is covered in the annual investment plan. (*Rationale: This is to ensure that the policy reform being pursued will have significant value to the LGU, has the endorsement and support of the entire LGU, and to provide assurance to the MDFO that the funds will be used effectively.*)
3. The policy reform program that the LGU wishes to pursue for the PROLEND loan should have been started but should not have been more than forty percent (40%) completed. (*Rationale: This to ensure that the program loan can still significantly contribute to the achievement of the goals and objectives of the policy reform program.*)

B. Eligibility Criteria for Borrower.

1. The borrower must be a provincial LGU. (*Rationale: Consistent with the overall strategy of making LGUs be responsible for pursuing the reforms among other LGUs, the province is administratively best positioned to fulfill this role.*)
2. The provincial LGU must have a positive borrowing capacity. (*Rationale: The amount that can be borrowed by the LGU should be consistent with the provisions of the Local Government Code of 1991 wherein LGUs can only incur debt as long as their debt service for interest and principal does not exceed twenty percent (20%) of their regular income from all sources.*)
3. Preferably, the provincial LGU must have had a good credit history from either borrowing from the MDFO, Government Financial Institutions, or the issuance of a debt to the private sector such as municipal bonds. However, the lack of a credit history is not grounds for exclusion from PROLEND. The provincial LGU may be considered as eligible for PROLEND based on the MDFO's and the MDFO PGB's assessment and evaluation of the provincial

LGU's proposed policy reform program. *(Rationale: This is prevent the facility from discriminating against provincial LGUs who have well-designed policy reform proposals but do not have previous borrowing experience. In effect, this will allow the facility to be more receptive and responsive to lower income class provincial LGUs (i.e., 3rd and 4th income class provinces.)*

4. The provincial LGU must be willing to pursue the policy reform in majority, if not all, of its municipalities and cities. The number of municipalities and cities to be covered by the reform agenda of the provincial LGU must at least be equal to 50% plus 1. *(Rationale: In order for the reform to be meaningful, the impact of the reform activity emanating from the province must reach a majority of its component cities and municipalities. In view of constraints that may not be addressed by the loan (e.g., LGUs without electricity), a minimum deliverable of half plus one is recommended.)*

C. Loan Amount.

1. Loan amount should not be more than **One Hundred Fifty Million Philippine Pesos (Php 200,000,000.00)** or the current borrowing capacity of the Provincial LGU as certified by the Bureau of Local Government Finance (BLGF) **whichever is lower**. *(Rationale: This is to ensure that LGUs do not exceed the legal limits of the law. The cap of Php 200,000,000.00 was endorsed by the MDFO PGB to ensure that the Second Generation Fund will not be quickly depleted and to make more funds available to potential provincial LGU borrowers.)*
2. The ceiling on the loan amount will be set according to the political and administrative difficulty of the proposed policy reform program of the Provincial LGU as depicted in Annexes A and B. *(Rationale: This is to ensure that the loan amount approved is commensurate to the political and administrative difficulty of pursuing and implementing the policy reform program in the LGU.)*
3. The PROLEND loan will fund the entire amount of the project or does not require an equity component from the LGU borrower (i.e. pure loan project). *(Rationale: This is another benefit of the project which makes it attractive for LGUs to avail and is justifiable in that it will be financing a reform activity.)*
4. The PROLEND loan will not have a grant component. *(Rationale: Since the funds of the PROLEND are corporate funds and not from foreign-assisted projects, the return on the use of the funds will have to be maximized but still subject to the socio-economic objectives of the PROLEND.)*

D. Use and Limitations on the Use of the Loan Proceeds.

1. Amount of loan proceeds used for the policy reform should not be less than ten (10%) of the loan amount. *(Rationale: This is to ensure that a part of the loan is utilized for the reform agenda and is a measure of the seriousness of the LGU in pursuing the reforms.)*
2. Amount of loan proceeds used for **Personal Services (PS)** as budgetary support should not exceed ten percent (10%) of the loan amount and subject to the limitations in the Local Government Code of 1991 on the amount of the regular budget provincial LGUs can spend on personnel services. *(Rationale: This is to enforce fiscal discipline amidst the flexibility provided. This is also to ensure that the funds will not be used to circumvent the provision under the Local Government Code limiting the used of budgetary funds for the payment of personal services (i.e., 45% for 1st to 3rd class LGUs and 55% for 4th or lower class LGUs of total income from regular sources)*
3. Amount of the loan proceeds used for **Maintenance and Other Operating Expenditures (MOOE)** should be limited to their use in the policy reform project and/or the identified economic development project. *(Rationale: This is to ensure that this line item is not abused the LGU borrower due to the availability of new funds.)*
4. The balance of the loan proceeds not used for the policy reform project and for personnel services as budgetary support, if ever, shall be used for **Economic Development** projects including but not limited to projects that encourage and enhance private sector investments (e.g., farm-to-market roads) and social development projects (e.g., provincial hospitals) but not included in the negative list. Examples are provided in Annex C. *(Rationale: This is to ensure that the balance of the loan proceeds is used for projects that will yield the greatest benefit to the community.)*
5. The loan proceeds used for Economic Development projects shall be limited to procurement for projects listed in provincial LGU's annual investment plan and procurement of goods and services not covered by the negative list. *(Rationale: This is to ensure that the loan proceeds are used to projects which have the approval of entire provincial body and not just the chief executive as well as to ensure that funds are not used for such prohibitive items such as munitions.)*
6. The provincial LGU borrower must submit a list of the Economic Development projects, including project costs, that will be funded by amount of the loan proceeds not used for the policy reform project or personnel services as budgetary support, if ever, for the approval of the MDFO Policy Governing Board. *(Rationale: This is to assure the MDFO that the loan proceeds will be earmarked for projects that will promote economic*

development in the LGU and that the LGU borrower is committed to use the funds for these development projects.)

7. First and second income class provincial LGUs may not utilize the loan proceeds for new income-generating projects. *(Rationale: This is to ensure that the program-policy loan is consistent with the principles of the LGU Financing Framework as well as the thrusts of such loan projects such as the LOGOFIND).*
8. The loan proceeds over and above the amount that can be spent for personnel services as budgetary support may not be used for to pay for personnel services unless these are for the operations of the reform and development projects being funded by the loan. *(Rationale: The restriction should not include personnel which are used for the operations of the development projects since these are over and above the regular operations of the province.)*
9. Procurement of all goods and services under this loan must be conducted in accordance with the Government Procurement Reform Act (Republic Act 9184) and related laws and issuances. *(Rationale: This is to ensure that the procurement of all goods and services under the loan do not violate existing laws.)*
10. The LGU Borrower may not procure goods and services outside of those specified under the loan agreement. Any procurement outside the goods and services specified under the loan agreement will be considered in violation of the loan agreement and may result in suspension of withdrawals from the loan account. *(Rationale: This is to ensure that the LGU Borrower is held accountable for the improper use of the loan funds.)*

E. Term of the Loan.

1. The term of the loan should not exceed ten (10) years with a grace period of three (3) years on the amortization of the principal. *(Rationale: The grace period has been increased to three (3) years to make this consistent with the maximum period for the completion of the policy conditionalities (i.e., 3 years) and to ensure that the amortization of the principal will not occur until after the entire loan has been disbursed. The ten (10) year repayment period vis-à-vis the fifteen (15) year repayment under the LOGOFIND is recommended to induce greater fiscal discipline to the borrower.)*

F. Interest Rate.

1. The interest rate shall be fixed for the entire term of the loan and shall be priced based on the 2-year Treasury Bill on the day of the loan approval or

nine percent (9%), whichever is lower. *(Rationale: This preferential rate is part of the encouragement provided to borrowers of this facility.)*

2. In the event that the borrower LGU commits forty percent (40%) or more of the loan amount for the policy reform, the interest rate shall be fixed for the entire term of the loan and shall be priced one percent (1%) less than 2-year Treasury Bill on the day of the loan approval or nine percent (9%), whichever is lower. *(Rationale: Since the LGU is willing to commit almost half of the loan as an investment to the policy reform program, the interest rate should be reduced or be more preferential in recognition of the social value of the investment.)*

G. Tranche Conditions.

1. Maximum of four (4) tranches – first tranche upon signing then three (3) tranches with a maximum of one (1) year between each tranche to complete. *(Rationale: The one-year time frame for each tranche should be sufficient to complete the phased reforms and is short enough to again discipline the borrower to complete the reforms quickly.)*
2. The provincial LGU should already have started the policy reform program for their program-policy loan. It must already be currently in place and being implemented. This will be the basis for their first tranche release. *(Rationale: In order to gauge the seriousness of the borrower LGU on undertaking the policy reform, the borrower should already have made investments in pursuing the reform and only requires the program-policy loan to facilitate and encourage the acceleration of the process. The achievements of the borrower prior to loan signing will then be the basis for a first tranche release.)*
3. *The provincial LGU must have completed at least seventy-five percent (75%) of the loan conditionalities as measured by the policy reform activities conducted and LGUs covered by the reform program by the completion of the third tranche. (Rationale: This is to ensure that the LGU borrower is serious about pursuing the policy reform program and not simply forestalling the reform agenda with no intention of substantially completing it.)*
4. At least seventy percent (70%) of the loan should be released by the completion of the third tranche. *(Rationale: This is in keeping with the condition imposed on the LGU borrower that seventy-five (75%) of the loan conditionalities should have been completed by the third tranche.)*

H. Setting of Policy Loan Conditionalities/Milestones.

1. The selection of deliverables for the policy loan should be clearly directed towards the achievement of the policy objectives by the completion of the

tranches. *(Rationale: This is to ensure that the selection of the tranche deliverables will lead to the achievement of the policy objectives.)*

2. The loan document should clearly identify the schedule for the policy deliverables under each tranche. *(Rationale: This is to impose some measure of discipline on the LGU borrower to meet the deadlines on the policy deliverables.)*
3. The loan document should clearly identify the documentary requirements necessary to support compliance to the loan conditionalities. *(Rationale: This is to ensure that there is no misunderstanding on either the lender or borrower as to compliance to the loan conditionalities.)*
4. With respect to the selection of the deliverables, the schedule of completion, and the documentary requirement, the MDFO and the LGU borrower should have conducted substantial consultations prior to the finalization of the loan document. *(Rationale: This is to ensure that all parties are clear on the commitments under the loan program.)*
5. The loan document should also identify the policy reform outcomes that may result from the achievement of the policy reform outputs which constitute the loan conditionalities for the purpose of providing further incentives to the LGU Borrower in the event of early achievement of the policy deliverables. Clear and measurable indicators for these outcomes should also be identified utilizing the Local Government Performance Monitoring System (LGPMS) of the Bureau of Local Government Supervision and the Statement of Income and Expenditure (SIE) financial performance indicators of the Bureau of Local Government Finance. . *(Rationale: This is to provide a basis for additional incentives that will encourage LGU Borrowers to aggressively pursue the achievement of policy outcome after the conditionalities have been met.)*

I. Additional Loan Evaluation Criteria.

1. As part of the process of evaluation, the MDFO may seek the comment of the Bureau of Local Government Finance (BLGF) on the policy reform program proposal of the prospective LGU Borrower in the event that the reform area is on revenue generation and expenditure management. The BLGF will be asked to comment on the fiscal and economic impact of the prospective LGU Borrower's policy reform program on the province and its municipalities and cities. The BLGF should provide the comment in writing to the MDFO within fifteen (15) working days of the BLGF's receipt of the LGU borrower's policy reform proposal and budget from the MDFO. If the MDFO does not receive the BLGF comments after the prescribed period, the MDFO will deem the policy reform program of the prospective LGU Borrower as being commented favorably by the BLGF. A checklist is provided in Annex D. *(Rationale: The*

BLGF will have resources and additional knowledge about the LGU borrower that will complement the MDFO as well as more extensive experience in the area of LGU revenue generation and expenditure management.)

2. As part of the process of evaluation, the MDFO may seek the comment of the Bureau of Local Government Supervision (BLGS) of the Department of Interior and Local Government on the policy reform program proposal of the prospective LGU Borrower in the event that the reform area is on service delivery. The BLGS will be asked to comment on the fiscal and economic impact of the prospective LGU Borrower's policy reform program on the province and its municipalities and cities. The BLGS should provide the comment in writing to the MDFO within fifteen (15) working days of the BLGF's receipt of the LGU borrower's policy reform proposal and budget from the MDFO. If the MDFO does not receive the BLGS comments after the prescribed period, the MDFO will deem the policy reform program of the prospective LGU Borrower as being commented favorably by the BLGS. *(Rationale: The BLGS will have resources and additional knowledge about the LGU borrower that will complement the MDFO as well as more extensive experience in the area of LGU service delivery.)*

J. Mode of Loan Disbursement.

1. For the purpose of loan disbursement, the LGU borrower must open a program trust account (PTA) in any government bank for every PROLEND loan they avail and furnish MDFO with the account number and bank of the trust account. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*
2. The MDFO will remit the amount of the loan based on the completed tranche deliverables to the LGU borrower's trust account via electronic transfer within fifteen (15) working days after the MDFO has determined that all tranche conditionalities for the release has been met. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*

K. Mode of Loan Payment and Remedy for Default.

1. The LGU borrower will remit the payment of the interest and amortization of the principal to the Land Bank of the Philippine trust account number of the MDFO. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*
2. Remedies and penalties for default on the payment of interest and amortization of the principal will follow conditions set forth for all MDFO

loans. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*

L. Financial and Fiscal Disclosure and Reporting by LGU Borrowers.

1. The LGU borrower must allow full financial and fiscal disclosure to MDFO staff during the evaluation of the loan. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*
2. The LGU borrower must present monthly financial reports on the use of the funds for the policy reforms project. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*
3. The LGU borrower must present quarterly financial reports on the use of the balance of the loan proceeds. *(Rationale: This is to ensure that the balance of the loan proceeds are used in manner prescribed above.)*

M. Modifications and Changes in the Policy Reform Program and Economic Development Projects.

1. In the event that the LGU Borrower wishes to modify or change the Policy Reform Program and/or Economic Development projects once the loan program has already begun, the LGU Borrower must submit in writing to the MDFO the nature and justification for the modification or change in the Policy Reform Program and/or Economic Development Projects. *(Rationale: The burden of proof is on the side of the LGU Borrower to justify or present reasons for the requested change.)*
2. The MDFO Policy Governing Board will determine whether the request to modify or change the Policy Reform Program and/or Economic Development projects has merit and issue a board resolution in favor or rejecting the request for modification or change. *(Rationale: A change in the policy reform program and/or economic development projects in mid-stream are serious matters which may significantly compromise the goals of the PROLEND. Changes should be allowed only in very special circumstance wherein the policy reform outcome and/or the economic development projects are superior to the original given changes in the policy environment. Therefore, such decisions should be left to the discretion of the MDFO Policy Governing Board.)*

N. Monitoring and Evaluation of Compliance to Program-Policy Loan Conditionalities and Remedies and Penalties for Non-Compliance.

1. The LGU Borrower must submit the documents agreed upon in the loan covenant as proof of compliance with the tranche conditionalities. *(Rationale: This is to ensure that tranche conditionalities are clearly met.)*
2. The MDFO will have fifteen (15) working days upon receipt to evaluate the documents for compliance but must reply no later seventeen (17) working days to the borrower LGU. *(Rationale: This is to provide some assurance to the LGU borrower that the results of the evaluation will be provided within a given time frame.)*
3. Should there be a delay or any other problem in compliance, the LGU borrower must officially inform the MDFO in writing of the delay, the cause, and the proposed new schedule of delivery within thirty (3) days prior to the deadline for the tranche deliverable. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*
4. In the event of delay, the MDFO and the LGU borrower must jointly agree to a rescheduling of the tranche deliverables and must legally execute this in a joint loan covenant amendment. However, in no way must the delay in the completion of the final tranche conditionalities exceed twelve (12) months. *(Rationale: One year is sufficient additional time to complete all tranche deliverables.)*
5. In the event of cancellation, the MDFO and the LGU borrower must jointly agree to the cancellation and the LGU borrower shall only be liable for the amount of the loan that has been availed. *(Rationale: This is consistent with existing and established MDFO procedures for loan disbursement under projects such as the LOGOFIND and CBRMP).*

O. Early compliance to loan repayment.

1. In the event that the LGU Borrower wishes to retire the loan prior to the loan termination date or early loan repayment in full, the MDFO will not levy a penalty on the LGU Borrower. *(Rationale: This is to provide an incentive to early repayment of the loan.)*

P. Early achievement of policy reform outcomes.

1. In the event that the LGU Borrower has achieved the identified policy reform outcomes based on the determination of the MDFO and approval of the MDFO PGB, the LGU Borrower will be entitled to a maximum of one percent (1%) deduction on its current fixed loan rate applicable to the

remaining balance of the principal. Annex I contains a list of possible indicators which could be used to evaluate the early achievement of policy reform outcomes.

Q. Repeat Borrowers for PROLEND

1. There are no restrictions on LGUs who have borrowed from the PROLEND facility from applying for and availing of another PROLEND loan. The repeat borrower must apply again and their application will again be subject to the same procedures as above. However, the approval of subsequent PROLEND loans to the repeat borrower will be subject to an appraisal of their performance in the use and servicing of previous PROLEND loans, evaluation of the LGU's performance in servicing debt on other borrowings, the MDFO's assessment of the merits of the new proposed policy reform program, and the discretion of the MDFO Policy Governing Board.

V. Functions and Responsibilities

A. Municipal Development Fund Office Policy Governing Board (MDFO-PGB)

1. Review PROLEND applications prepared by the MDFO staff.
2. Provide instructions for changes or revisions to PROLEND loan applications.
3. Approve or disapprove PROLEND loan applications through the issuance of a MDFO-PGB Board Resolution.
4. Review requests for modifications and changes in the policy reform program and economic development project in the course of the loan program have merit and to decide in favor of the modification or change or to reject said request.
5. Review and amend the interest policy rate policy of the PROLEND wherever necessary.
6. Review and/or amend PROLEND guidelines after a prescribed period of operation.

B. Municipal Development Fund Office Policy Governing Board (MDFO-PGB) Chairman

1. Sign the PROLEND loan agreement on behalf of the Department of Finance.

C. Municipal Development Fund Office (MDFO) Executive Director

1. Review or designate the review of the loan proposal documents of the PROLEND LGU Borrower.
2. Provide or designate the provision of comments for clarifications and/or revisions on PROLEND loan proposal documents.
3. Conduct or designate another MDFO officer to conduct consultations with prospective PROLEND LGU Borrower, if necessary.
4. Instruct MDFO staff to make the appropriate revisions to the loan proposal and inform the prospective LGU borrower of the changes.
5. Approve funds for travel and per diems related to the PROLEND loan packaging and negotiation.
6. Instruct MDFO staff to make the loan proposal presentation to the MDFO PGB.
7. In the event of approval or disapproval, inform the prospective LGU borrower officially and in writing of the outcome of their loan proposal.
8. In the event of approval, instruct MDFO staff to check if all documentary requirements are met prior to loan signing.
9. With PGB approval, sign the loan covenant on behalf of the MDFO.
10. Instruct the MDFO staff to monitor all developments on the loan program.
11. Review the tranche compliance certifications from the LGU borrower.
12. Approve or disapprove payment for the tranche.
13. In the event of disapproval of payment, instruct MDFO staff to inform LGU borrower of requirements to be met before payment can be approved.
14. Inform the MDFO PGB of any major changes in the outcome of the loan program and to seek approval for alternative courses of action.

D. MDFO Staff/LOGOFIND Consultants assigned to PROLEND.

D.1 Application Stage.

1. Conduct consultations with prospective LGU borrowers on the PROLEND program.

2. Brief prospective LGU borrower on the PROLEND guidelines.
3. Advise prospective LGU borrowers on other information requirements (e.g., financial information for the computation of the borrowing capacity).

D.2 Appraisal Stage.

4. Conduct appraisal visit, gather information and verify the following:
 - Eligibility of the LGU to avail of the PROLEND facility
 - ✓ Does the LGU have a Policy Reform Program in place?
 - ✓ Is it already being implemented?
 - ✓ What is the status of the implementation of the Policy Reform Program?
 - Total cost of the proposed Policy Reform Program.
 - Benefits/impact and beneficiaries of the Policy Reform Program
5. Guide prospective LGU borrower on the drafting of their expression of interest and identification of the policy.
6. Consult and guide prospective LGU borrowers in the formulation of the letter of development policy, policy reform project proposal and budget, identification of projects to be funded by the balance of the loan proceeds not covering the policy reform project and budget.
7. Provide the Bureau of Local Government Finance with copies of the policy reform project proposal and projects to be funded by the balance of the PROLEND loan accompanied by their budgets.
8. Secure the certificate of debt service ceiling and comments on the prospective LGU borrower's policy reform project proposal and projects to be funded by the balance of the PROLEND loan including budget from the Bureau of Local Government Finance.
9. Prepare appraisal report and recommendations ensuring that the basic guidelines of the PROLEND facility have been met.

D.3 Approval Stage.

10. Revise or finalize based on the comments and instructions of the MDFO Executive Director.

11. Upon the instructions of the MDFO Executive Director, present the proposal and results of the appraisal to the MDFO PGB.
12. If approved without conditions, draft the official transmittal informing the prospective LGU borrower of the approval of the program loan for the signature of the MDFO Executive Director.
13. If approved with conditions, draft the official transmittal informing the prospective LGU borrower of the conditions to be satisfied to secure final approval for the signature of the MDFO Executive Director.
14. Set a tentative schedule for the signing of the loan agreement for confirmation by the LGU borrower.

D.4 Loan Agreement Signing Stage

15. Draft Loan Agreement. (Note: See Annex E for draft PROLEND loan agreement and Annex F.1, F.2, and F.3 for Appendices.)
16. Draft a checklist of the loan conditionalities and documentary requirements for verification based on the Loan Agreement.
17. Provide the LGU with a draft of the Loan Agreement and the loan conditionalities checklist for review and comments.
18. If there are not revisions to be made, finalize Loan Agreement and the checklist.
19. If there are revisions, send revised drafts for LGU's final review and concurrence before finalizing.
20. Schedule final date for Loan Agreement signing and inform LGU of the said date.

D.5 Loan Agreement Effectivity Stage

21. Inform LGU borrower of the requirements needed for the effectivity of the Loan Agreement (See below).
22. Secure from LGU borrower the following documents:
 - Sanggunian Panlalawigan Resolution stating the following:
 - ✓ That the Provincial Governor is authorized to enter into a Loan Agreement for and behalf of the Provincial Government with the appropriate government agencies in connection with the

application for a loan with the MDFO-DOF for its Policy Reform Program;

- ✓ That funds for the annual amortization/loan repayments are provided until the loan is fully repaid;
 - ✓ That funds for the cost of the premiums for the required insurance are appropriated;
 - ✓ That the Department of Budget and Management is authorized to debit an amount equivalent to the amortization due from the Internal Revenue Allotment (IRA) of the Province and to credit the said amount to the account of the MDFO to cover the payment due;
 - ✓ That funds in the LGU's annual budget will be appropriated for the required maintenance and operation of the Program;
 - ✓ That an office is provided and local officers and technical staff as may be necessary or required for the implementation of the Program are identified and designated; and
 - ✓ That other spaces, facilities, supplies, and all other support needed for the implementation and operation of the Program is provided.
- Letter from the Provincial Governor designating and appointing a Program Coordinator.
 - A certification from the Provincial Legal Officer stating that he has personally examined the Loan Agreement and its appendices and that all the requirements of law and regulations have been complied with in incurring the loan and executing the Loan Agreement and that the Loan Agreement constitute a valid and legally binding obligation of the Provincial Government.

D.6 Initial Disbursement Stage.

23. Check completeness of the following documents to effect disbursement:

- Signed Loan Agreement
- Bank Certification on the opening of a Program Trust Account (PTA) by the LGU borrower.
- Letter Request from the LGU asking for the release of the funds.
- Certificate of Compliance with the conditionalities/deliverable for the first tranche.

D.7 Succeeding Disbursement Stage

24. Secure certificate of compliance with the conditionalities/deliverables for the tranche.
25. Check compliance with the conditionalities/deliverables required for the tranche.
26. If all conditionalities/deliverables required for the tranche have been met or complied, secure Letter Request from the LGU asking for the release of the funds then recommend to the MDFO Executive Director to approve payment.
27. If all conditionalities/deliverables required for the tranche have not been met or complied, then upon the instructions of the MDFO Executive Director inform the LGU what requirements are needed to effect payment for the tranche.

D.8 Monitoring

28. Conduct supervision mission/s to ensure that the Program is implemented by the LGU-Borrower in accordance with the provisions of the Loan Agreement.
29. Undertake monitoring and evaluation of the performance of the LGU-Borrower to ascertain that the Program is executed properly using generally accepted professional and technical standards.
30. Prepare reports on findings and evaluations for submissions to the MDFO-PGB copies furnished to the Provincial Governor, the Sanggunian Panlalawigan, and the Provincial Treasurer.
31. Establish a reporting linkage with the BLGF and DILG after program completion to monitor and evaluate program accomplishments vis-à-vis agreed upon output/outcome indicators or deliverable using the BLGF's Fiscal Performance Indicators and DILG's LGPMS.

E. LGU Borrower.

E.1 Application Stage

1. Submit an Expression of Interest addressed to the MDFO Executive Director stating interest in availing of a PROLEND Loan, the proposed policy reform area, and inviting the MDFO to send an appraisal mission.
2. Submit a Letter of Development Policy (LDP) addressed to the MDFO Executive Director giving a brief description of the proposed Policy Reform Program, its objectives and its benefits to the Province.

3. Submit the following requirements to the MDFO for the Bureau of Local Government Finance's computation of the Net Borrowing Capacity and Debt Service Capacity:
 - Statement of Actual Income and Expenditures (SIE) for the past three (3) years duly certified and audited by the local accountant and auditor with the following attachments:
 - ✓ Trial Balance
 - ✓ Balance Sheet
 - ✓ Statement of Operations
 - ✓ Report of Revenues and Receipts
 - ✓ Status of Appropriations, Allotments and Actual Obligations Incurred
 - ✓ Statement of Cash Flow
 - Current Year Annual Budget
 - Annual Investment Plan
 - Certification of existing/absence of loan(s) duly certified by the Local Treasurer and/or lending institution with the following details:
 - ✓ Types of Loans and Other Obligations
 - ✓ Purpose of Loans and Other Obligations
 - ✓ Name(s) of the Lending Institution(s)
 - ✓ Date of Approval and Maturity
 - ✓ Terms and Conditions (Interest Rate and Number of years to pay)
 - ✓ Latest Balance of Loans and Other Obligations
 - Current and Arrearages
 - ✓ Annual Amortization Schedule (Principal and Interest segregated)
4. Provide MDFO with any other necessary data or information as may be requested.

E.2 Appraisal Stage

5. Formulate a policy reform project proposal, consistent with the PROLEND guidelines, describing the policy reform project in the LDP, detailing the activities and investment to be made, the time frame for the project deliverables, budgetary requirement that will be provided by the program loan, and estimated social and economic impact of the policy reform program.

6. Formulate an investment plan identifying, listing and budgeting for the economic development projects to be financed by the balance of the PROLEND loan as well as the amount to be used for personnel services, if any, consistent with the PROLEND guidelines,
7. Consult with appraisal team and revise and/or amend the above documents based on their comments, if any.
8. Submit with revisions, if required, the above documents to the MDFO appraisal team.

E.3 Approval Stage

9. Revise above documents based on comments from the MDFO PGB, if necessary and re-submit said documents to MDFO.

E.4 Loan Agreement Signing

10. Review, comment and re-submit draft loan agreement to MDFO.

E. 4 Loan Effectivity Stage

11. Designate and appoint a Program Coordinator.
12. Secure or issue the following documents:
 - Sanggunian Panlalawigan Resolution stating the following:
 - ✓ That the Provincial Governor is authorized to enter into a Loan Agreement for and behalf of the Provincial Government with the appropriate government agencies in connection with the application for a loan with the MDFO-DOF for its Policy Reform Program;
 - ✓ That funds for the annual amortization/loan repayments are provided until the loan is fully repaid;
 - ✓ That funds for the cost of the premiums for the required insurance are appropriated;
 - ✓ That the Department of Budget and Management is authorized to debit an amount equivalent to the amortization due from the Internal Revenue Allotment (IRA) of the Province and to credit the said amount to the account of the MDFO to cover the payment due;
 - ✓ That funds in the LGU's annual budget will be appropriated for the required maintenance and operation of the Program;

- ✓ That an office is provided and local officers and technical staff as may be necessary or required for the implementation of the Program are identified and designated; and
 - ✓ That other spaces, facilities, supplies, and all other support needed for the implementation and operation of the Program is provided.
- Letter from the Provincial Governor designating and appointing a Program Coordinator.
 - A certification from the Provincial Legal Officer stating that he has personally examined the Loan Agreement and its appendices and that all the requirements of law and regulations have been complied with in incurring the loan and executing the Loan Agreement and that the Loan Agreement constitute a valid and legally binding obligation of the Provincial Government.
13. Open a Program Trust Account (PTA) with a government bank.

E.6 Disbursement Stage

14. Sign Loan Agreement and submit one copy to MDFO.
15. Issue a Certificate of Compliance stating compliance with first tranche conditions.
16. Submit a Letter Request addressed to the MDFO Executive Director asking for the release of first tranche funds with the Certificate of Compliance and Bank Certification on the Opening of the Program Trust Account (PTA) attached.

E.7 Succeeding Disbursement Stage

17. Ensure that the tranche conditionalities are complied with and in accordance with the schedule.
18. Inform the MDFO in writing at least thirty (30) prior to the scheduled delivery date of the tranche conditionalities if there will be a delay in the delivery of the tranche conditionalities and the reason for the delay.
19. Issue a Certificate of Compliance stating compliance with tranche conditions for every tranche release.
20. Submit a Letter Request addressed to the MDFO Executive Director asking for the release of fund accompanied by the Certificate of Compliance.

E.8 Monitoring

21. Comply with the procedures and guidelines for monitoring and reporting prescribed by the MDFO
22. Submit a bi-monthly status report on the Policy Reform Program on or before the 15th day of each month as the MDFO may require.
23. Allow the MDFO to conduct audit inspection and review of financial accounting records.

E.9 Debt Service

24. Make payment of interest and amortization of principal to account of the MDFO based on the schedule provided in the Loan Agreement.

VI. Documentary Requirements for PROLEND LGU Borrower. (Note: Annex G contains the documentary checklist for the loan process.)

A. Application Stage

1. Expression of Interest addressed to the MDFO Executive Director stating interest in availing of a PROLEND Loan, the proposed policy reform area, and inviting the MDFO to send an appraisal mission.
2. Letter of Development Policy (LDP) addressed to the MDFO Executive Director giving a brief description of the proposed Policy Reform Program, its objectives and its benefits to the Province.
3. Requirements for the Bureau of Local Government Finance's computation of the Net Borrowing Capacity and Debt Service Capacity:
 - Statement of Actual Income and Expenditures (SIE) for the past three (3) years duly certified and audited by the local accountant and auditor with the following attachments:
 - ✓ Trial Balance
 - ✓ Balance Sheet
 - ✓ Statement of Operations
 - ✓ Report of Revenues and Receipts
 - ✓ Status of Appropriations, Allotments and Actual Obligations Incurred
 - ✓ Statement of Cash Flow

- Current Year Annual Budget
 - Annual Investment Plan
 - Certification of existing/absence of loan(s) duly certified by the Local Treasurer and/or lending institution with the following details:
 - ✓ Types of Loans and Other Obligations
 - ✓ Purpose of Loans and Other Obligations
 - ✓ Name(s) of the Lending Institution(s)
 - ✓ Date of Approval and Maturity
 - ✓ Terms and Conditions (Interest Rate and Number of years to pay)
 - ✓ Latest Balance of Loans and Other Obligations
 - Current and Arrearages
 - ✓ Annual Amortization Schedule (Principal and Interest segregated)
4. Any other information as may be required by the MDFO.

B. Appraisal Stage

5. Policy reform project proposal, consistent with the PROLEND guidelines, describing the policy reform project in the LDP, detailing the activities and investment to be made, the time frame for the project deliverables, budgetary requirement that will be provided by the program loan, and estimated social and economic impact of the policy reform program.
6. Investment plan identifying, listing, and budgeting for the economic development projects to be financed by the balance of the PROLEND loan as well as the amount to be used for personnel services, if any, consistent with the PROLEND guidelines.
7. Revised Policy Reform program proposal and investment plan.

C. Approval Stage

8. Revised policy reform proposal and investment plan, if required by MDFO PGB.

D. Loan Signing Stage

9. Comments to Loan Agreement Draft, if any.

E. Loan Effectivity Stage.

10. Sanggunian Panlalawigan Resolution stating the following:
 - ✓ That the Provincial Governor is authorized to enter into a Loan Agreement for and behalf of the Provincial Government with the appropriate government agencies in connection with the application for a loan with the MDFO-DOF for its Policy Reform Program;
 - ✓ That funds for the annual amortization/loan repayments are provided until the loan is fully repaid;
 - ✓ That funds for the cost of the premiums for the required insurance are appropriated;
 - ✓ That the Department of Budget and Management is authorized to debit an amount equivalent to the amortization due from the Internal Revenue Allotment (IRA) of the Province and to credit the said amount to the account of the MDFO to cover the payment due;
 - ✓ That funds in the LGU's annual budget will be appropriated for the required maintenance and operation of the Program;
 - ✓ That an office is provided and local officers and technical staff as may be necessary or required for the implementation of the Program are identified and designated; and
 - ✓ That other spaces, facilities, supplies, and all other support needed for the implementation and operation of the Program is provided.
11. Letter from the Provincial Governor designating and appointing a Program Coordinator.
12. A certification from the Provincial Legal Officer stating that he has personally examined the Loan Agreement and its appendices and that all the requirements of law and regulations have been complied with in incurring the loan and executing the Loan Agreement and that the Loan Agreement constitute a valid and legally binding obligation of the Provincial Government.

F. Disbursement Stage

13. Signed Loan Agreement.
14. Certificate of Compliance stating compliance with first tranche conditions.
15. Bank Certification on the Opening of the Program Trust Account (PTA).
16. Letter Request addressed to the MDFO Executive Director asking for the release of first tranche funds with the Certificate of Compliance and Bank Certification on the Opening of the Program Trust Account (PTA) attached.

G. Succeeding Disbursement Stage

17. Certificate of Compliance stating compliance with tranche conditions for every tranche release.
18. Letter Request addressed to the MDFO Executive Director asking for the release of fund accompanied by the Certificate of Compliance.

H. Monitoring

19. Bi-monthly status report on the Policy Reform Program on or before the 15th day of each month as the MDFO may require.

VII. Timeline for Loan Processing: (Note: See Annex H for Loan Process Flow)

ACTIVITY	GROUP	TIME
1. Submission of Expression of Interest	Provincial LGU	N.A.
2. Conduct of Pre-Appraisal Mission – PROLEND Briefing to Provincial LGU	MDFO	3 days
3. Submission of Letter of Development Policy, Draft Policy Reform Program Proposal and List of Economic Development Projects	Provincial LGU	N.A.
4. BLGF Comment	BLGF	15 days
5. Conduct of Appraisal Mission	MDFO	5 days
6. Drafting of Appraisal Report	MDFO	7 days
7. Re-drafting of Policy Reform Program Proposal and Economic Development Project Proposal	Provincial LGU	N.A.
8. MDFO PGB Presentation	MDFO	0.5 days
9. Communication of MDFO PGB Results to Provincial LGU	MDFO	2 days
10. Revision to Policy Reform Program Proposal and Economic Development Project Proposal	Provincial LGU	N.A.
11. MDFO PGB Presentation	MDFO	0.5 days
12. Communication of MDFO PGB Results to Provincial LGU	MDFO	2 days
13. Drafting of Loan Agreement	MDFO	2 days
14. Comment of Loan Agreement by Provincial LGU	Provincial LGU	N.A.
15. Finalization of Loan Agreement	MDFO	3 days
16. Provincial LGU preparation of required documents for Loan Agreement	Provincial LGU	N.A.
17. Final Packaging of Loan Agreement	MDFO	1 day
18. Loan Agreement Signing	MDFO, Provincial LGU	1 day
19. Release of First Tranche	MDFO	8 days

Total Time for MDFO for Loan Packaging and First Tranche Release: 50 days

Total Time for MDFO for Loan Packaging and First Tranche Release
Without BLGF Comment: 35 days

VIII. Duties and Qualifications of the PROLEND Staff:

Position Title: Development Officer IV (2)
Salary Grade 20 (Php17,799.00/month)

Education: Bachelor's Degree in Economics, Business Administration, Public Administration or other related courses

Experience: 3 years of relevant work experience

Training: 16 hours of relevant training

Eligibility: Career Service Professional
Second Level Eligibility

Functional Statements

1. Conduct promotional activities of PROLEND
2. Provide technical assistance to the LGUs in the identification of policy reform projects, preparation of pre-qualification requirements and packaging of policy reform project proposals
3. Ensure/facilitate effective and efficient processing of LGU applications and policy reform project proposals
4. Conduct policy reform appraisal, assess scope and coverage of the proposal
5. Conduct financial assessment and cash flow analysis of the LGU including income projection
6. Identify deliverables of the policy reform project in consultation with the proponent
7. Package the policy reform project for presentation to the PGB
8. Monitor the progress of policy reform project activities of the participating LGUs

9. Conduct regular review of availment procedure and make necessary recommendations
10. Perform other functions as may be directed by the Project Director.

ANNEX A.1

POLICY REFORM AREA DIFFICULTY MATRIX: REVENUE GENERATION

		POLITICAL	
		EASY	HARD
A D M I N I S T R A T I V E	E A S Y	<ul style="list-style-type: none"> • Promulgation of Local Economic Agenda with focus on formation of growth clusters • Agro-Industrial Development Program 	<ul style="list-style-type: none"> • Regular updating of the Revenue Code • Investment Promotion Program • Regular conduct of General Revision of real property assessments (automated system)
	H A R D	<ul style="list-style-type: none"> • Computerization of Real Property Tax Administration (RPTA) System • Use of GIS in tax mapping, tax administration and physical planning • Creation of One-Stop Shop Taxpayers System and Investment Promotion Center • Cooperative Development Program 	<ul style="list-style-type: none"> • Regular conduct of General Revision of real property Assessments (manual system) • Establishment of inter-LGU partnerships in revenue generation and economic promotion

ANNEX A.2

POLICY REFORM AREA DIFFICULTY MATRIX: EXPENDITURE MANAGEMENT

		POLITICAL	
		EASY	HARD
A D M I N I S T R A T I V E	E A S Y	<ul style="list-style-type: none"> • Establishment and institutionalization of Productivity Improvement Circle 	<ul style="list-style-type: none"> • Promotion of Audit Committees to enhance transparency and accountability • Institutionalization of executive-legislative agenda formulation • Establishment of systems to provide regular budget and finance information to the general public to promote transparency and accountability in governance
	H A R D	<ul style="list-style-type: none"> • Computerization of Financial Management Information System (FMIS) • E-procurement, E-governance • One-Stop Shop projects to simplify access to LGU services, e.g. securing permits and licenses • Establishment and institutionalization of Productivity Improvement Circle 	<ul style="list-style-type: none"> • Establishment and institutionalization of service cost and standards in service delivery with customer feedback mechanism • Institutionalization of citizen’s participation and consensus building among stakeholders in development planning and capital investment decision-making

ANNEX A.3

POLICY REFORM AREA DIFFICULTY MATRIX: SERVICE DELIVERY

		POLITICAL	
		EASY	HARD
ADMINISTRATIVE	EASY		
	HARD	<ul style="list-style-type: none"> • Establishment of Community-Based Monitoring and Information System (CBMIS) and Community-Based Surveillance System (CBSS) for service delivery, e.g. health • Creation of One-Stop Shop Licensing System • Establishment and institutionalization of Productivity Improvement Circle 	<ul style="list-style-type: none"> • Establishment and institutionalization of service cost and standards in service delivery with customer feedback mechanism • Establishment of citizen’s charter or service delivery contract • Design and development of Service Management and Delivery Improvement Program • Institutionalization of score card system in service delivery • Institutionalization of the Local Government Performance Monitoring System (LGPMS)

ANNEX A.4

**POLICY REFORM AREA DIFFICULTY MATRIX:
CONGRUENCE WITH NATIONAL POLICY OBJECTIVES AND PROGRAMS**

		POLITICAL	
		EASY	HARD
A D M I N I S T R A T I V E	E A S Y		
	H A R D	<ul style="list-style-type: none"> • Adoption of E-procurement, E-new government accounting system (E-NGAS) and the Statement of Income and Expenditures (SIEs) regular financial reporting system • LGU operation of hospital-based and barangay-based pharmacies to distribute drugs imported by the Philippine Drug Importation (PDI) Program • Establishment of agro-industrial research and development services and facilities 	<ul style="list-style-type: none"> • Inter-LGU Industrial Planning and Investment Program • Inter-LGU partnerships for Natural Resource Management Programs • Watershed Management Program • Integrated Area Development Programs • Environmental and natural resources management with special attention to public health, solid waste management, wastewater management, bio-diversity conservation and coastal resource management

ANNEX B

POLICY REFORM DIFFICULTY MATRIX: RECOMMENDED LOAN AMOUNTS

		POLITICAL	
		EASY	HARD
A D M I N I S T R A T I V E	E A S Y	Maximum of Php 100,000,000.00	Maximum of Php 140,000,000.00
	H A R D	Maximum of Php 120,000,000.00	Maximum of Php 200,000,000.00

ANNEX C

Examples of Economic Development Projects

1. Industrial research and development services facilities.
2. Agricultural extension and on-site research services and facilities which include the prevention and control of plant and animal pests and diseases.
3. Dairy farms, livestock markets, animal breeding stations, artificial insemination centers, and post-harvest facilities.
4. Mini-hydro electric projects.
5. Health services including hospitals and other tertiary health services and facilities.
6. Agro-industrial development projects.
7. Provincial roads and bridges, inter-municipal waterworks, drainage and sewerage, flood control and irrigation systems, and other reclamation projects.
8. Low-cost housing and other mass dwellings.
9. Inter-municipal telecommunications services.
10. Tourism development and promotion projects.
11. Establishment of enterprise incubators as well as investment and livelihood centers.
12. Environmental projects (Green, Blue, or Brown).
13. Other health and environmental health-related projects.
14. Water-supply and delivery and waste-water management projects.
15. Solid waste management projects.

ANNEX D

Form Letter and Evaluation Checklist:

A. Form Letter Requesting BLGF Evaluation of PROLEND Proposal

[Date]

Executive Director
BUREAU OF LOCAL GOVERNMENT FINANCE
DEPARTMENT OF FINANCE
8th Floor, EDPC Building
BSP Complex, Roxas Boulevard

Dear Executive Director _____,

We are forwarding to you Office the Policy Reform Project Proposal of the Province of _____ in line with MDFO's Program Lending Operation.

Cognizant of BLGF's expertise in the field of LGU finance, we would like to request for your assessment and evaluation of the herein proposal based on the attached evaluation list.

Your technical evaluation will serve as input to our credit decisions.

Thank you and best regards.

Sincerely,

Executive Director
Municipal Development Fund Office

B. BLGF Evaluation Checklist

Revenue Generation Policy Reform Projects:

Date of Last Revenue Code Update: _____
 Date of Conduct of Last General Revision of Property Assessments _____

Note: Any policy reform project on revenue generation using the GIS and IT must ideally have updated the Revenue Code and the Schedule of Market Values to optimize revenue enhancement

Revenue Collection (based on previous year collection)
 RPT _____
 Other Taxes _____

Potential Revenue
 RPT _____
 Other Taxes _____

Collection Efficiency
 RPT _____
 Other Taxes _____

Average Annual Growth Rate
 RPT _____
 Other Taxes _____

Cost to Collection Ratio (CCR) ¹
 RPT _____
 Other Taxes _____

Estimated Revenue Impact of the Policy Reform Project (as per proposal)
 RPT _____
 Other Taxes _____

The Policy Reform Project is:
Politically Difficult _____
Politically Easy _____
Administratively Difficult _____
Administratively Easy _____

Stakeholders' Participation:
Consensus Building Workshop _____
Consultation / Focus Group Discussion _____
None _____

Policy Reform Project:
Timetable _____
Implementation Strategy _____
Detailed Costs _____

¹ $CCR = \frac{\text{actual cost or expense of assessment \& collection}}{RPT \text{ collections}}$

Proof of Compliance:

A. Revenue Code Updating

- Organization of Codification Committee
- Compiled Revenue Ordinances
- Conduct of Public Hearing / Consultation
- Copy of Adopted Updated Revenue Code
- Increase in Revenue after 2 quarters

B. Conduct of General Revision of Property Assessments

- Prepared Schedule of Market Values
- Conduct of Public Hearings and Consultations
- Copy of the Approved Updated Schedule of Market Values
- Increase of RPT Revenue after 1 year

C. Computerization of the Tax Administration System and Use of GIS

- Submission of Work Plan
- Conduct of Training of Personnel
- Bidding Documents, Notice to Proceed and Contracts
- COA Certification of Acquisition of Computer Software, Hardware and Peripheral Equipment
- Physical Layout of the Office
- Certification re: Hardware and Software Installation
- Adoption of a Redesigned Process / Transaction Flow
- Number of RPUs and Tax Receipts Encoded and Verified
- Running System
- Reduction in Processing Time
- Revenue Increment after 1 year of operation

D. Intensified Tax Collection Campaign

- Comprehensive Plan for Tax Collection Enforcement
- Conduct of Training
- Conduct of Participatory Workshop or Consultation with Barangay Officials and the Department of Education Officials (e.g. classroom teachers) for Tax Information and Education Campaign
- Tax Ordinance on Compromise Agreement
- Implementation Plan for Inspection of Books of Accounts of Business Establishments
- Implementation Plan for Civil and Administrative Remedies
- Revenue Increment after 1 year

Expenditure Management Policy Reform Projects

A. Expenditure Rate (ER):

$$ER = \frac{\text{actual expenditure}}{\text{budget estimate}} \times 100$$

Benchmark: 80% ≤ ER ≤ 100%

Factor addressed: Management capability

B. Personal Services Expenditure Ratio (PSER):

$$PSER = \frac{\text{actual expenditures for personal services}}{\text{actual expenditure}} \times 100$$

Benchmark: ratio is decreasing; not in excess of 45% or 55% limit

Factor addressed: Sustainability and quality of spending

The Policy Reform Project is:

Politically Difficult

Politically Easy

Administratively Difficult

Administratively Easy

Stakeholders Participation:

Consensus Building Workshop

Consultation, Focus Group Discussion

None

ANNEX E

DRAFT PROLEND LOAN AGREEMENT

KNOW ALL MEN BY PRESENT:

This LOAN AGREEMENT, made and executed, by and between:

The Republic of the Philippines: through the **DEPARTMENT OF FINANCE** and its **MUNICIPAL DEVELOPMENT FUND OFFICE**, with principal office address at the Bangko Sentral ng Pilipinas Complex, Roxas Boulevard, Manila, duly represented herein, by HELENA B. HABULAN, Executive Director, Municipal Development Fund Office, Department of Finance, herein referred to as LENDER,

-and-

The Province of _____, a local government unit created and existed under the laws of the Republic of Philippines, with principal office address at the Provincial Capitol, (state the address) duly represented herein as Governor, the Honorable JUAN DELA CRUZ, herein referred to as the BORROWER,

(collectively referred to herein as the PARTIES)

WITNESSETH:

WHEREAS, the LENDER has made available funds secured from the proceeds of foreign loans, loan amortizations/repayments and other domestically sourced funds to local government units for approved specific programs or programs expanding and upgrading their basic infrastructure, services and facilities and in strengthening their capacities in municipal governance, investment planning, revenue generation and program development and implementation;

WHEREAS, in its 21st meeting, the MDFO-Policy Governing Board, in Resolution NO. 02-05-18-2001 approved in principle the utilization of the Second Generation Fund as a program lending policy-based loans to local government units;

WHEREAS, (Relate this provision with the applied policy based loan)

WHEREAS, in a letter of development policy dated _____ has approved a loan of TWO HUNDRED MILLION (P 200,000.00) PESOS Philippine currency to finance the PROGRAM to be executed by the BORROWER;

NOW, THEREFORE, the Parties have agreed as follows:

ARTICLE 1 DEFINITION

1.01 "Agreement" refers to this LOAN AGREEMENT and its Appendices I to III, which appendices are attached to and form an integral part of this Agreement.

1.02 Unless the context otherwise requires, the following terms used in this Agreement shall have the following meanings;

COA- Commission on Audit

Loan- the loan extended by the LENDER to the BORROWER to finance the Program;

Municipal Development Fund- a revolving fund established under Presidential Decree No. 1914 and reorganized under Executive Order Number 41 capitalized and funded by proceeds of foreign loans, assistance or grants, loan amortizations/repayments and domestically sourced funds that shall be made available to local governments for approved specific sub-programs, programs, or activities, administered by the MDFO by means of Joint Circular No. 6-87 and other related issuances;

Municipal Development Fund Office (MDFO)-the implementing office of LOGOFIND and other programs under the MDF supervision created under Executive Order No. 41 series of 1998;

MDFO-Policy Governing Board (MDFO-PGB) - the inter-agency body created Executive NO. 41, composed of the Department of Finance, as Chair and the Department of Public Works and Highways (DPWH), Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and Department of Interior and Local Government (DILG), to oversee and provide general policies on the lending and program support operations of the MDFO;

Second Generation Fund (SGF) - payments received from local governments for amortization, interests and principal which, under PD 1914, forms part of and accrues to the Municipal Development Fund and is made automatically available for relending.

Program- (define the policy program thrust)

Program Trust Account (PTA) - an account set-up by the BORROWER to accommodate funds received under the Loan.

ARTICLE 2 THE LOAN

- 2.01 The Lender shall make available from the Second Generation Fund of the MDF, financial assistance to the BORROWER in the form of Loan in an amount not to exceed _____ MILLION PESOS (PHP _____,000,000.00), Philippine currency, subject to the terms and conditions of this Agreement.
- 2.02 The Loan shall be allocated in accordance with the provisions of this Agreement and Appendices for expenditures made or not to be made in respect of the Program.
- 2.03 The closing date for the Loan shall be _____.
- 2.04
- (a) The BORROWER shall pay the LENDER an annual interest rate of nine percent (9%) on the total amount of the Loan withdrawn and outstanding from time to time.
 - (b) Loan amortization payments under this Agreement shall take precedence over obligations relating to all other borrowings incurred by the BORROWER subsequent to the signing of this Agreement.
 - (c) Not later than six (6) months following the completion of the PROGRAM, the MDFO shall furnish the BORROWER a Final Amortization Schedule reflecting the actual amounts of the Loan disbursed and used to finance various expenditures in each category.
 - (d) All amounts to be paid by the BORROWER to the LENDER through MDFO, on account of principal and interest,

shall be in Philippine Pesos which shall be remitted/deposited directly and promptly in favor of the MDFO in accordance with the provisions of this Agreement and applicable guidelines that the MDFO may issue from time to time.

- 2.05 Upon execution of this Agreement and compliance by the Borrower with the Program Loan Conditions for effectiveness provided for Article 8 of this Agreement, the MDFO will release, or cause the release of, the Loan to the Program Trust Account established by the BORROWER in amounts and schedules specified in **Appendix I** of this Agreement.
- 2.06 The principal and interest payments shall be made within ten (10) years by semi-annual payments in January 31st of each year, inclusive of a two-year grace period on principal payments, to end on the day following two (2) years from the first drawdown, as provided for in Appendix II.
- 2.07 After at least twelve (12) months of successfully completing the deliverables of the policy reforms program as provided in Appendix I, the borrower may apply for, at most, a one percent (1%) reduction of its interest rate applicable to its remaining balance for early delivery of its policy outcomes as delineated in Appendix II with approval subject to the evaluation of the MDFO and the MDFO PGB.
- 2.08 The LENDER shall periodically audit, evaluate and monitor the performance of the BORROWER in carrying out its tasks and obligations relative hereto.

ARTICLE 3- PROGRAM ACCOUNTS AND RECORDS

- 3.01 The BORROWER shall:
- a) Upon the execution of this Agreement, establish and maintain in a bank acceptable to the LENDER a Program Trust Account for funds withdrawn from the MDFO Loan to finance the Program.

A subsidiary ledger shall be maintained for the PTA for proper accounting, record keeping and monitoring of transactions and to facilitate preparation of financial accounts.

- b) Maintain records adequate to reflect, in accordance with consistently sound accounting practices, the operations, resources, and expenditures, including the recovery of all costs, for carrying out the Program or any part thereof.
- c) Disburse the funds in accordance with Program activities for which the Loan was provided.
- d) Retain until ten (10) years after the Closing Date, all records pertaining to or mentioned in subsections (a) to (c) hereof, including contracts, orders, invoices, bills, receipts and other documents, evidencing the expenditures and payments on account of the Program, and enable the LENDER and the Bank's representatives to examine such records.
- e) Prepare the accounts referred in the preceding subsection (d) in a form suitable to be audited by COA.
- f) Furnish the LENDER as soon as available, or at such frequency as may be required by the LENDER, an original copy of the reports of the COA audits, of such scope and in such detail the LENDER shall reasonably request, including, without limitations to the foregoing, a separate opinion by the author "as contained in an audit certificate" in respect to the expenditures and records referred to in subparagraph (b) hereof, as to whether the Loan withdrawn have been used for the purposes for which they were provided, and
- g) Furnish the LENDER, such other information concerning the separate accounts, records and expenditures and audit thereof, as the LENDER may reasonably request from time to time.

ARTICLE 4-PROGRAM COST ESTIMATES AND EXECUTION

- 4.01 The total cost of the Program shall not exceed _____ Million Pesos (PHP _____,000,000.00), which shall be released to the BORROWER according to the schedule and limitations set forth in Appendix I and subject to the following: 1) that at least _____ Million Pesos (PHP _____,000,000.00) shall be used for the Policy Reform Project described in Appendix II; and; 2) that at least _____ Million Pesos (PHP _____,000,000.00) shall be used for the Economic Development Projects cited in Appendix III.
- 4.02 The MDFO may take all necessary and appropriate actions to enable the unimpaired completion of the Program in a manner consistent with the goals and objectives of the Program and this Agreement.
- 4.03 The MDFO shall:
- a) Ensure that the Policy Program implemented in accordance with the provisions of this Agreement;
 - b) Monitor, supervise and evaluate the BORROWER in the implementation of the Program and the Borrower's compliance with its obligations under this Agreement; and
 - c) Make sure that the Program is executed properly, using generally accepted professional and technical standards and that the execution thereof is strictly in accordance with the provisions of the Agreement.
- 4.04 The BORROWER shall establish a Program Management Office which shall be staffed by with qualified technical personnel and accordingly and designate/appoint/detail a Program Coordinator, preferably the Provincial Planning and Development Coordinator or the Provincial Administrator, to act as Head of Office.
- 4.05 The BORROWER shall provide the office space, furniture and fixture, supplies, equipment and other facility necessary for the Program.

- 4.06 In the procurement of goods and consultancy services, the BORROWER shall comply with the provisions of Presidential Decree Number 1584 and its implementing rules and regulations, as revised, Presidential issuances on the matter, Executive Order Nos. 301 and 302 and the NEDA Guidelines in the procurement of Consulting Services (CS) for government programs, as applicable.

ARTICLE 5-MONITORING, REPORTING AND EVALUATION

- 5.01 The BORROWER shall comply with the procedures and guidelines for monitoring and reporting prescribed by the MDFO.
- 5.02 The MDFO shall undertake overall monitoring and evaluation of the performance of the BORROWER in carrying out the tasks, responsibilities and obligations set forth in this Agreement.
- 5.03 The LENDER, may, at any time, send supervision missions to the BORROWER to audit, monitor and evaluate the progress and status of the implementation and management of the Program. The findings of the supervision mission/s shall be embodied in the evaluation report/s, which will be forwarded to the MDFO PGB with copies furnished the Provincial Governor, the Sanggunian Panlalawigan and the Provincial Treasurer.
- 5.04 (a) A bi-monthly status report of the Program shall be submitted by the BORROWER to the MDFO on or before the 15th day of each month in such details as the LENDER may reasonable request.
- (b) The BORROWER shall allow the MDFO to conduct audit inspection and review of financial accounting records. In the event the performance of the BORROWER is found short of the agreed objectives, targets or programs, the BORROWER shall, upon receipt of notice, notify the MDFO in writing of the necessary adjustments, modifications or amendments made, or to be made, in accordance with the provisions of this Agreement, without prejudice to the remedies available to the LENDER under Article 7.

ARTICLE 6- OTHER COVENANTS

- 6.01 All National and local taxes, duties, fees, levies and other government impositions on the Program shall be funded from sources other than the proceeds of the Loan.
- 6.02 The BORROWER shall be responsible for bank charges and other expenses associated with remittances to and from the PTA established by the BORROWER pursuant to the provisions of Article 3 of this Agreement.
- 6.03 The MDFO-PGB shall:
- (a) Include and appropriate funds required for the Program as shown in Appendix II of this Agreement and
 - (b) Take necessary actions/measures to expedite fund releases and disbursements relative to the program.
- 6.04 The MDFO shall maintain a monitoring and record system reflecting all fund releases and expenditures made for the execution of the Program.
- 6.05 The BORROWER shall take out and maintain with the Government Service Insurance System, and make sure that the contractor/supplier or other appropriate entities, take out and maintain with responsible insurers, and insurance against risks and in such amounts, as shall be consistent with appropriate government and/or business practices, to cover:
- (a) Authorizing the Governor to enter into contracts for civil works, consultancy, procurement of goods/equipment and other agreements required to put into effect this agreement.
 - (b) Providing funds for the annual amortization for loan repayment until the Loan is fully paid and that in case of default in the amortization payments, authorizing the Department of Budget and Management (DBM) to credit the account of the MDFO, the amount equivalent to the amount due from the Internal Revenue Allotment (IRA) of the Province of _____.
 - (c) Committing resources and logistical support for the maintenance and operations of the Program; and

- (d) To appropriate funds for the cost of premiums for the required insurance.
- 6.06 Promptly after completion of the Program, but in any event not later than six (6) months after the Closing Date as provided in **paragraph 2.03**, or such later date as may be agreed by the PARTIES, the BORROWER shall prepare and furnish the MDFO an report of such scope and in such detail as the MDFO reasonably request, regarding the executing and initial operation of the Program, the costs and benefits derived and to be derived thereof, the performance of the BORROWER relative to this Agreement and the objectives of the Program.
- 6.07 Upon completion of the Program and after the Closing Date, the BORROWER shall operate and maintain, or cause to be operated and maintained properly, the structures, systems and facilities constructed, installed or established for the Program and provide promptly as needed, the funds, facilities, services and other resources required for the purpose.
- 6.08 (a) Any notice or request required or permitted to be given or made in this Agreement, shall be in writing and shall be deemed to have been duly given or made when delivered to the MDFO in the case of the LENDER, or the Office of the **Governor of _____**, in case of the BORROWER, or at such other addresses as the PARTIES may specify in writing.
- (b) Any action required or permitted to be taken, and any document required or permitted to be executed under this Agreement; May be taken as executed:
- (1) By the Secretary of Finance or his authorized representative on behalf of the LENDER
 - (2) By the **Governor of _____** or his authorized representative on behalf of the BORROWER, except those stipulated in this Agreement to be taken by the **Sanggunian Panlalawigan of _____**.
- 6.09 The PARTIES, may, by mutual consent, alter, modify, revise, amend or supplement this Agreement, or any part thereof, for the purpose of effective implementation and management of the Program. All parties concerned shall be duly notified and informed of such changes, revisions, amendments and supplements.

6.10 All disputes or controversies between the PARTIES arising out of or in connection with, this Agreement which is not settled between them, shall be elevated for resolution to the Office of the President, Republic of the Philippines.

ARTICLE 7-REMEDIES

7.01 If program deliverables fall below the targets specified in paragraph 6.01, the LENDER, upon recommendation of the MDFO, reserves the right to suspend the LOAN availment of the BORROWER.

7.02 If the BORROWER fails to comply with its loan amortization obligations under paragraph 2.06 and Appendix II within a month following the due date, the LENDER, through the MDFO, reserves the right to review the future availment of the Loan and/or:

- (a) Require the BORROWER to settle its accounts forthwhile with the addition of a penalty of ten (10%) percent of the overdue account and cause the assignment of the amounts due from the monthly Internal Revenue Allotment (IRA) of the BORROWER as authorized in Sanggunian Panlalawigan Resolution NO. __ dated ____, copy of which is attached as Appendix III hereof.
- (b) Suspend/disapprove subsequent releases of the Loan and any payments to be made out of the Loan;
- (c) Declare the outstanding principal together with accrued interest as immediately due and payable;
- (d) Declare the outstanding loan together with the accrued interest to constitute a superior lien on all receipts or income earned by the BORROWER the Program, including the sale thereof;
- (e) Avail of other remedies provided for by and this Agreement including, but not limited to, recourse to the insurance policy referred to in this Agreement.

7.03 The LENDER upon the recommendation of the MDFO, reserves the right to suspend/withhold/stop withdrawal from the

MDFO Program Trust Account established by the BORROWER, and/or suspend disbursements and payments out of the Program Trust Account out of this following circumstances:

- (a) Unsatisfactory performance of the BORROWER on the implementation and execution of the Program, or
- (b) Non-compliance of the BORROWER with, or violation of, any provision of this Agreement; or
- (c) Upon request of the BORROWER, in case of force majeure,

Provided that upon the recommendation of the MDFO, the LENDER may lift such suspension/remedies and authorize resumption of withdrawal from the LOAN and/or payments and disbursements from the LOAN withdrawn by and remitted to the BORROWER.

ARTICLE 8-EFFECTIVITY

8.01 This Agreement shall become effective upon the signature by the PARTIES and compliance by the BORROWER with the conditions for effectiveness enumerated hereunder:

- (a) Designation/appointment of a Program Coordinator
- (b) **Submission of the Sanggunian Panlalawigan** committing logistical and funding support to the Program, particularly with respect to the continuing appropriations for the operation and maintenance of the completed or installed structure, systems and facilities and that in case of default in the amortization payments, authorizing the Department of Budget and Management (DBM) to credit to the account of the MDFO, the amount equivalent to the amount due from the Internal Revenue Allotment (IRA) of the **Province of _____**.
- (c) Opinion of the Provincial Legal Officer that he has personally examined this Agreement and Appendices thereof; that all the requirements of law and regulations have been complied with in incurring the Loan and executing this Agreement, and that this Agreement constitutes a valid and binding obligation of the **Province Government of _____**.

In witness whereof, the PARTIES have signed this PROGRAM AGREEMENT at Manila on this (date of signing).

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
MUNICIPAL DEVELOPMENT FUND
OFFICE (MDFO)

PROVINCE OF _____

LENDER

BORROWER

HELENA B. HABULAN
MDFO Executive Director

(GOVERNOR'S NAME)

APPROVED:

SECRETARY MARGARITO B. TEVES
SECRETARY OF FINANCE

Signed in the Presence of:

MDFO Deputy Executive Director

Provincial Treasurer

DOF Representative

Provincial Legal Officer

Funds Available:

(Name of MDFO Chief Accountant)
MDFO Chief Accountant

ANNEX F.1

Loan Conditionality Appendix Template and Example

A. Template:

APPENDIX I

CONDITIONALITIES FOR THE RELEASE AND USE OF THE LOAN

The total loan amount will be _____ Million Philippine Pesos (PHP __,000,000.00) which will be released in four (4) tranches in the manner prescribed below:

A. The **first tranche** release of _____ Million Philippine Pesos (PHP __,000,000.00) or _____ Percent (___%) of the loan amount upon the effectivity of the loan agreement and completion of the Borrower of the following:

1. _____;
2. _____;
3. _____;
4. _____;
5. _____; and
6. _____.

B. The **second tranche** release of _____ Million Philippine Pesos (PHP __,000,000.00) or _____ Percent (___%) of the loan amount within ____ (___) months after loan effectivity and completion of the Borrower of the following:

1. _____;
2. _____;
3. _____;
4. _____;
5. _____; and
6. _____.

C. The **third tranche** release of _____ Million Philippine Pesos (PHP _____,000,000.00) or _____ Percent (___%) of the loan amount within _____ (___) months after loan effectivity and completion of the Borrower of the following:

1. _____;
2. _____; and
3. _____.

D. The fourth and final tranche release of _____ Million Philippine Pesos (PHP _____,000,000.00) or _____ Percent (___%) of the loan amount after _____ (___) months after loan effectivity and the completion of the Borrower of the following:

1. _____; and
2. _____.

The Borrower may use the loan proceeds subject to the following conditions:

1. Amount of loan proceeds used for the policy reform should not be less than ten (10%) of the loan amount.
2. Amount of loan proceeds used for personnel services as budgetary support should not exceed ten percent (10%) of the loan amount and subject to the limitations in the Local Government Code of 1991 on the amount of the regular budget provincial LGUs can spend on personnel services.
3. The balance of the loan proceeds not used for the policy reform project and for personnel services as budgetary support, if ever, shall be used for Economic Development projects including but not limited to projects that encourage and enhance private sector investments (e.g., farm-to-market roads) and social development projects (e.g., provincial hospitals) but not included in the negative list.
4. The loan proceeds used for Economic Development projects shall be limited to procurement for projects listed in provincial LGU's annual investment plan and procurement of goods and services not covered by the negative list.
5. The provincial LGU borrower must submit a list of the Economic Development projects, including project costs, that will be funded by amount of the loan proceeds not used for the policy reform project or personnel services as budgetary support, if ever, for the approval of the MDFO Policy Governing Board.

6. First and second income class provincial LGUs may not utilize the loan proceeds for new income-generating projects.
7. The loan proceeds over and above the amount that can be spent for personnel services as budgetary support may not be used for to pay for personnel services unless these are for the operations of the reform and development projects being funded by the loan.
8. Procurement of all goods and services under this loan must be conducted in accordance with the Government Procurement Reform Act (Republic Act 9184) and related laws and issuances.
9. The LGU Borrower may not procure goods and services outside of those specified under the loan agreement as provided in Appendix II. Any procurement outside the goods and services specified under the loan agreement will be considered in violation of the loan agreement and may result in suspension of withdrawals from the loan account.
10. The use of the loan proceeds for Personal Services (PS) will be limited to ten percent (10%) of the loan amount, if ever, and subject to limitations on expenditures for Personal Services as provided in the Local Government Code of 1991 (Republic Act 7160) and its implementing rules and regulations.
11. The use of the loan proceeds for Maintenance and Other Operating Expenditures (MOOE) will be limited to its use for the Policy Reform Project and the identified Economic Development Projects.
12. Additionally, the Loan cannot be used for the following purposes:
 - a. Debt Servicing Requirements.
 - b. Payments of Taxes, Duties and Other Charges.
 - c. Acquisition of Firearms, Explosives, Ammunition, and other Police-type or Military-type Equipment.

B. Example: Negros Occidental PROLEND Pilot:

APPENDIX I

CONDITIONALITIES FOR THE RELEASE AND USE OF THE LOAN

The total loan amount will be One Hundred and Twenty Million Philippine Pesos (PHP 120,000,000.00) which will be released in four (4) tranches in the manner prescribed below:

E. The **first tranche** release of Forty Million Philippine Pesos (PHP 40,000,000.00) or Thirty Three Percent (33%) of the loan amount upon the effectivity of the loan agreement and completion of the Borrower of the following:

1. Revising and implementing the procurement procedures of the Provincial government along with the Data Tracking System (DTS) and Electronic Procurement System (EPS);
2. Signing of a Memorandum of Agreement with the Department of Budget and Management Procurement Service for the provision of technical assistance for the training in E-Procurement for all the municipalities and component cities of the province;
- 3.. Signing of a Memorandum of Agreement with the Department of Budget and Management Procurement Service for the identification of no less than 250 square meter building to be used as a Depot for the procurement service;
4. Procurement and installation of a computer server for the development and uploading of a provincial website on the Internet;
5. Procurement of the provincial government of common supplies through the Government Electronic Procurement Service (G-EPS); and
6. Secondment of selected provincial staff for procurement training by the DBM Procurement Service.

F. The **second tranche** release of Thirty Million Philippine Pesos (PHP 30,000,000.00) or Twenty-five Percent (25%) of the loan amount within six (6) months after loan effectivity and completion of the Borrower of the following:

1. Completion of E-Procurement training for all the personnel of the Province, municipalities and component cities of Negros Occidental involved in procurement activities;

2. Completion of the expansion of the Provincial computer server to cover the e-procurement-related requirements of all the municipalities and cities of the province which would include uploading of all procurement information to the G-EPS through the Internet and to the provincial website in the Internet;
3. Electronic link-up of at least four (4) cities and three (3) municipalities to the provincial server and e-procurement of common supplies to the G-EPS by the four (4) cities and three (3) municipalities;
4. Electronic posting of requirements, bidding information, and results of awards to the G-EPS by the Provincial Government;
5. Electronic posting of requirements, bidding information, and results of awards to the G-EPS by the two (2) cities and two (2) municipalities; and
6. Operationalization of the DBM Procurement Service depot in Negros Occidental.

G. The **third tranche** release of Twenty Million Philippine Pesos (PHP 20,000,000.00) or Seventeen Percent (17%) of the loan amount within twelve (12) months after loan effectivity and completion of the Borrower of the following:

4. Electronic link-up of at least five (5) cities and seven (7) municipalities to the provincial server and e-procurement of common supplies to the G-EPS by the five (5) cities and seven (7) municipalities;
5. Electronic posting of requirements, bidding information, and results of awards to the G-EPS by the five (5) cities and seven (7) municipalities; and
6. Completion of procurement training by provincial staff.

H. The fourth and final tranche release of Thirty Million Philippine Pesos (PHP 30,000,000.00) or Twenty-five Percent (25%) of the loan amount after eighteen (18) months after loan effectivity and the completion of the Borrower of the following:

3. Electronic link-up of at least eight (8) cities and twelve (12) municipalities to the provincial server and e-procurement of common supplies to the G-EPS by the eight (8) cities and twelve (12) municipalities; and
4. Electronic posting of requirements, bidding information, and results of awards to the G-EPS by the eight (8) cities and twelve (12) municipalities.

Any balance in the Loan remaining after the completion of the Program may be used by the BORROWER for Projects/Programs agreed with the LENDER.

The Loan cannot be used for the following purposes:

1. Expenses for Administration, Operating, and Maintenance.
2. Salaries and Wages.
3. Travel Expenses.
4. Debt Servicing Requirements.
5. Payments of Taxes, Duties and Other Charges.
6. Acquisition of Property, Real or Personal
7. Acquisition of Firearms, Explosives, Ammunition, and other Police-type or Military-type Equipment.

ANNEX F.2

Policy Reform Project Appendix Template

- A. Background and Rationale:**
- B. Objectives:**
- C. Description of Project:**
- D. Activities, Outputs and Proposed Schedule:**
- E. Expected Policy Outcome and Timeframe:**
- F. Budget:**

ANNEX F.3

ECONOMIC DEVELOPMENT PROJECT APPENDIX TEMPLATE

APPENDIX III

LIST OF ECONOMIC DEVELOPMENT PROJECTS
TO BE FUNDED BY LOAN PROCEEDS

A. Project Name and Description:

1. _____.
2. _____.
3. _____.
4. _____.
5. _____.
6. _____.
7. _____.

B. Budgets:

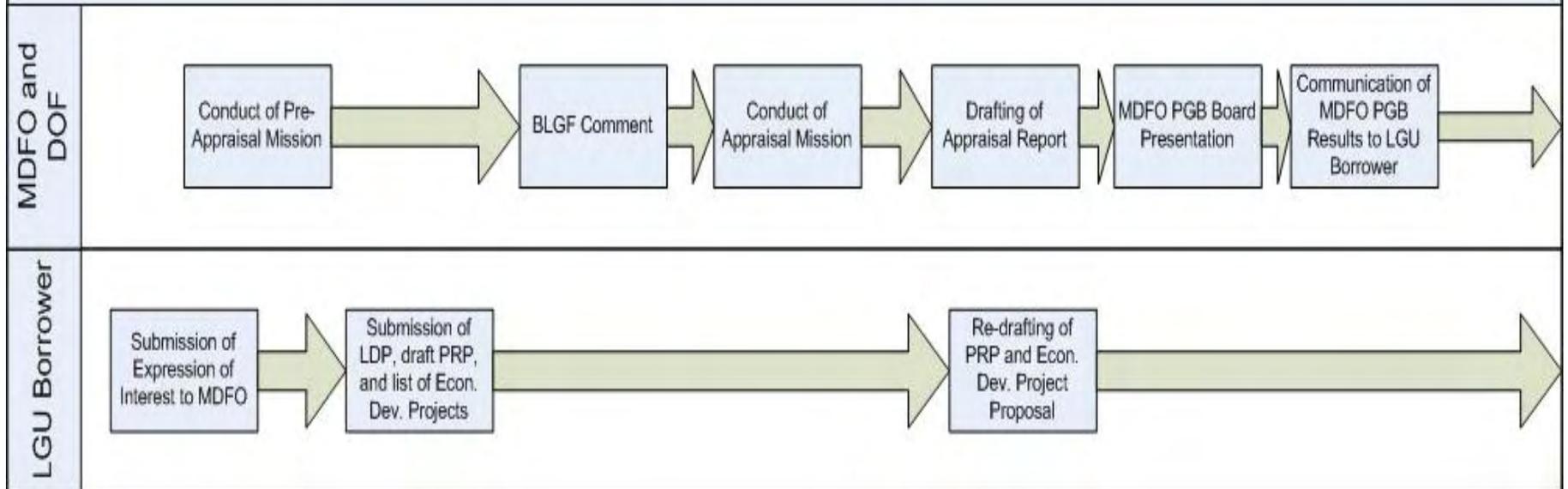
ANNEX G

Documentary Checklist for PROLEND Borrowers

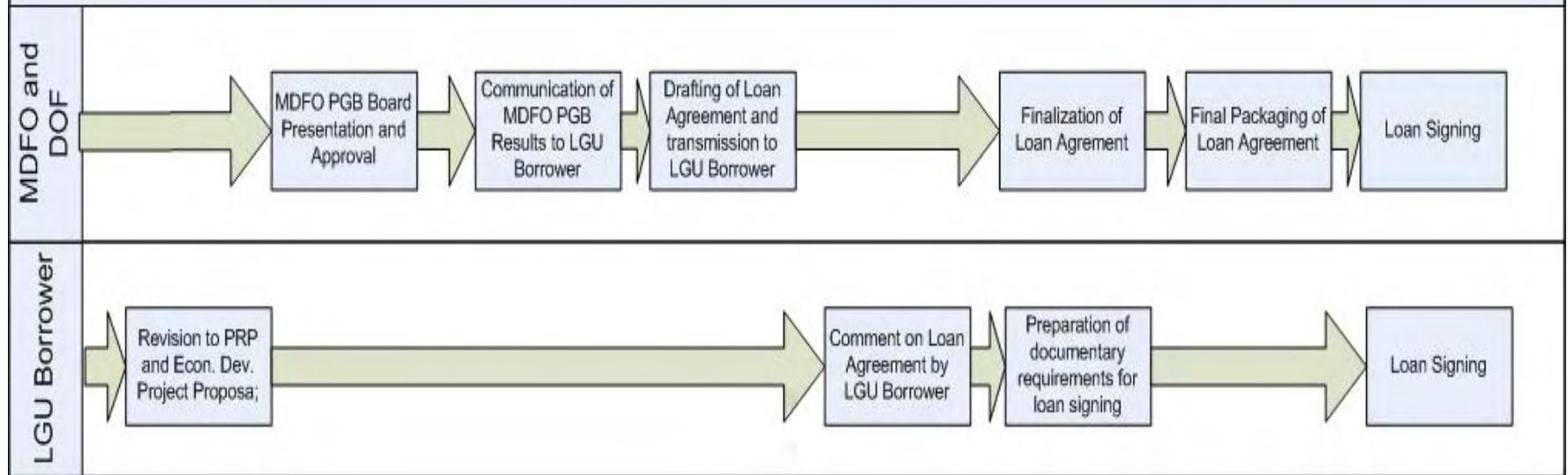
Document		Yes	No
A. Application Stage			
1.	Expression of Interest addressed to the MDFO Executive Director stating interest in availing of a PROLEND Loan, the proposed policy reform area, and inviting the MDFO to send an appraisal mission.		
2.	Letter of Development Policy (LDP) addressed to the MDFO Executive Director giving a brief description of the proposed Policy Reform Program, its objectives and its benefits to the Province.		
3.	<p>Requirements for the Bureau of Local Government Finance's computation of the Net Borrowing Capacity and Debt Service Capacity:</p> <ul style="list-style-type: none"> • Statement of Actual Income and Expenditures (SIE) for the past three (3) years duly certified and audited by the local accountant and auditor with the following attachments: <ul style="list-style-type: none"> ✓ Trial Balance ✓ Balance Sheet ✓ Statement of Operations ✓ Report of Revenues and Receipts ✓ Status of Appropriations, Allotments and Actual Obligations Incurred ✓ Statement of Cash Flow • Current Year Annual Budget • Annual Investment Plan • Certification of existing/absence of loan(s) duly certified by the Local Treasurer and/or lending institution with the following details: <ul style="list-style-type: none"> ✓ Types of Loans and Other Obligations ✓ Purpose of Loans and Other Obligations ✓ Name(s) of the Lending Institution(s) ✓ Date of Approval and Maturity ✓ Terms and Conditions (Interest Rate and Number of years to pay) ✓ Latest Balance of Loans and Other Obligations • Current and Arrearages <ul style="list-style-type: none"> ✓ Annual Amortization Schedule (Principal and Interest segregated) 		
4.	Additional information as may be required by the MDFO.		
B. Appraisal Stage			
1.	Policy reform project proposal, consistent with the PROLEND guidelines, describing the policy reform project in the LDP, detailing the activities and investment to be made, the time frame for the project deliverables, budgetary requirement that will be provided by the program loan, and estimated social and economic impact of the policy reform program.		
2.	Investment plan identifying, listing, and budgeting for the economic development projects to be financed by the balance of the PROLEND loan as well as the amount to be used for personnel services, if any, consistent with the PROLEND guidelines.		

3.	Revised Policy Reform program proposal and investment plan.		
C. Approval Stage			
1.	Revised policy reform proposal and investment plan, if required by MDFO PGB.		
D. Loan Signing Stage			
1.	Comments to Loan Agreement Draft, if any.		
E. Loan Effectivity Stage.			
1.	Sanggunian Panlalawigan Resolution stating the following: <ul style="list-style-type: none"> ✓ That the Provincial Governor is authorized to enter into a Loan Agreement for and behalf of the Provincial Government with the appropriate government agencies in connection with the application for a loan with the MDFO-DOF for its Policy Reform Program; ✓ That funds for the annual amortization/loan repayments are provided until the loan is fully repaid; ✓ That funds for the cost of the premiums for the required insurance are appropriated; ✓ That the Department of Budget and Management is authorized to debit an amount equivalent to the amortization due from the Internal Revenue Allotment (IRA) of the Province and to credit the said amount to the account of the MDFO to cover the payment due; ✓ That funds in the LGU's annual budget will be appropriated for the required maintenance and operation of the Program; ✓ That an office is provided and local officers and technical staff as may be necessary or required for the implementation of the Program are identified and designated; and ✓ That other spaces, facilities, supplies, and all other support needed for the implementation and operation of the Program is provided. 		
2.	Letter from the Provincial Governor designating and appointing a Program Coordinator.		
3.	A certification from the Provincial Legal Officer stating that he has personally examined the Loan Agreement and its appendices and that all the requirements of law and regulations have been complied with in incurring the loan and executing the Loan Agreement and that the Loan Agreement constitute a valid and legally binding obligation of the Provincial Government.		
B. Disbursement Stage			
1.	Signed Loan Agreement.		
2.	Certificate of Compliance stating compliance with first tranche conditions.		
3.	Bank Certification on the Opening of the Program Trust Account (PTA).		
4.	Letter Request addressed to the MDFO Executive Director asking for the release of first tranche funds with the Certificate of Compliance and Bank Certification on the Opening of the Program Trust Account (PTA) attached.		
C. Succeeding Disbursement Stage			
1.	Certificate of Compliance stating compliance with tranche conditions for every tranche release.		
2.	Letter Request addressed to the MDFO Executive Director asking for the release of fund accompanied by the Certificate of Compliance.		
D. Monitoring			
1.	Bi-monthly status report on the Policy Reform Program on or before the 15 th day of each month as the MDFO may require.		

Annex H: Municipal Development Fund Office Program Lending (MDFO-PROLEND) Loan Processing Process Flow (1)



Annex H: Municipal Development Fund Office Program Lending (MDFO-PROLEND) Loan Processing Process Flow (2)



ANNEX I

List of Possible Policy Outcome Indicators and Performance Measures

Note: The following recommended policy outcome indicators are by no means exhaustive and exclusive. These indicators suggested not only because they are good measures of policy outcome but also because they are found and/or derived from information regularly collected and readily available from the Bureau of Local Government Finance of the Department of Finance and the Bureau of Local Government Supervision of the Department of Interior and Local Government.

I. Local Government Fiscal/Financial Performance Indicators – Bureau of Local Government Finance

A. Summary List of Indicators:

a. Revenue Indicators:

1. Revenue Target Accomplishment Rate (RTAR)
2. Real Property Tax Accomplishment Rate (RPTAR)
3. Cost to Collection Ratio (CCR)
4. Revenue Per Capita (RC)

• Expenditure Indicators:

5. Expenditure Rate (ER)
6. Social Expenditure Ratio (SER)
7. Economic Expenditure Rate (EER)
8. Personal Services Expenditure Rate (PSER)
9. Internal Financing Ratio (IFR)
10. Expenditure Per Capita (EC)

• Debt Indicator

11. Debt Servicing Ratio (DSR)

• Overall Financial Indicators

12. Cash Target Accomplishment Rate (CTAR)
13. Savings Rate (SR)
14. Dissavings Rate (DSR)
15. Enterprise Profitability Rate (EPR)

B. Details of Revenue Indicators:

1. Revenue Target Accomplishment Rate (RTAR)

- Use: Indicator of efficiency of overall revenue mobilization.
- Formula: $RTAR (\%) = (\text{Actual Revenue Collection} / \text{Estimated Revenues or Collectibles}) \times 100$
- Benchmark: Actual \geq Estimate

2. Real Property Tax Accomplishment Rate (RPTAR)

- Use: Indicator of the efficiency of real property tax collections.
- Formula: $RPTAR (\%) = (\text{Actual Collection from Real Property Taxes} / \text{Estimated Collection from Real Property Taxes}) \times 100$
- Benchmark: Actual \geq Estimate

3. Cost to Collection Rate (CCR)

- Use: Indicator of Management Capability
- Formula: $RC (\text{ratio}) = \text{Actual Cost or Expenditure of Assessment and Collection} / \text{Actual Internally-Generated Revenues}$
- Benchmark: Ratio is decreasing over time

4. Revenue Per Capita (RC)

- Use: Indicator of sustainability of Revenue Collection
- Formula: $RC (\text{Peso}) = \text{Actual Revenue Collection} / \text{Population of LGU}$
- Benchmark: Per Capita Revenue Collection is increasing over time.

B. Details of Expenditure Indicators

5. Expenditure Rate (ER)

- Use: Indicator of Management Capability
- Formula: $ER (\%) = (\text{Actual Expenditure} / \text{Budget Estimate}) \times 100$
- Benchmark: $80\% \leq ER \leq 100\%$

6. Social Expenditure Ration (SER)

- Use: Indicator of Spending Efficiency

- Formula: $SER (\%) = \frac{\text{Actual Expenditure for Social Services}}{\text{Actual Expenditure}} \times 100$
- Benchmark: Ratio is increasing over time

7. Economic Expenditure Rate (EER)

- Use: Indicator of Spending Efficiency
- Formula: $EER (\%) = \frac{\text{Actual Expenditure for Economic Services}}{\text{Actual Expenditure}} \times 100$
- Benchmark: Ratio is increasing over time

8. Personal Services Expenditure Rate (PSER)

- Use: Indicator of Sustainability and Quality of Spending
- Formula: $PSER (\%) = \frac{\text{Actual Expenditure for Personal Services}}{\text{Actual Expenditure}} \times 100$
- Benchmark: Ratio is decreasing over time but not in excess of the 45% or 55% limit.

9. Internal Financing Ratio (IFR)

- Use: Indicator of the sustainability of expenditure and management capability.
- Formula: $IFR (\text{ratio}) = \frac{\text{Actual Internally-Generated Income}}{\text{Actual Expenditure}}$
- Benchmark: Ratio is increasing over time.

10. Expenditure Per Capita (EC)

- Use: Indicator of the sustainability of expenditure
- Formula: $EC (\text{peso}) = \frac{\text{Actual Expenditure}}{\text{Population of LGU}}$
- Benchmark: Per capita is increasing over time

C. Details of Debt Indicator

11. Debt Servicing Ratio (DSR)

- Use: Indicator of Management Capability and Sustainability.
- Formula: $DSR (\text{ratio}) = \frac{\text{Actual Debt Service Payment}}{\text{Actual Regular Income}}$

- Benchmark: Ratio is decreasing over time and is less than or equal to twenty percent (20%) of regular income.

D. Details of Overall Financial Indicators:

12. Cash Target Accomplishment Rate (CTAR)

- Use: Indicator of Efficiency, Management Capability, and Sustainability.
- Formula: $CTAR \text{ (Peso)} = \text{Actual Cash Position} / \text{Budgeted Cash Position}$
- Benchmark: $\text{Actual} \geq \text{Budget}$

13. Savings Rate (SR)

- Use: Indicator of Efficiency, Management Capability, and Sustainability.
- Formula: $SR \text{ (\%)} = (\text{Excess of Income Over Expenditure} / \text{Actual Income}) \times 100$
- Benchmark: Ratio is increasing over time.

14. Dissavings Rate (DSR)

- Use: Indicator of Efficiency, Management Capability, and Sustainability.
- Formula: $DSR \text{ (\%)} = (\text{Excess of Expenditure Over Income} / \text{Actual Expenditure}) \times 100$
- Benchmark: Ratio is decreasing over time.

15. Enterprise Profitability Rate (EPR)

- Use: Indicator of Efficiency, Management Capability, and Sustainability.
- Formula: $EPR \text{ (\%)} = (\text{Actual Income or Loss on Economic Enterprises} / \text{Actual Gross Income of Economic Enterprises}) \times 100$
- Benchmark: Profit rate is increasing over time and loss rate is decreasing over time.

II. Local Governance Performance Management System (LGPMS) Indicators – Department of Interior and Local Government

A. Summary of Indicators:

PERFORMANCE AREA	SERVICE AREA	INPUT INDICATORS	OUTPUT INDICATORS	OUTCOME INDICATORS
Governance	Financial Accountability	3	4	0
	Transparency	2	2	0
	Citizen Participation	2	3	0
	Equity	3	2	0
	Local Legislation	2	1	0
Administration	Development Planning	3	2	0
	Resource Generation	3	4	0
	Resource Allocation and Utilization	2	3	0
	Human Resource Management and Development	3	3	0
	Customer Service	1	2	0
Social Services	Health and Nutrition	3	2	4
	Education	3	3	2
	Housing and Basic Utilities	2	3	3
	Peace, Security and Disaster Preparedness	4	4	1
Economic Development	Agriculture and Fisheries Development	3	4	4
	Business, Enterprise and Industrial Promotion	3	3	3
Environmental Management	Natural Resources Management	2	3	5
	Waste Management and Pollution Control	2	3	3
Total Number of Indicators		46	51	25

B. Details of Governance Indicators:

1. Financial Accountability

Factor Observed and/or Measured by Input Indicators: Effective Guidelines, Systems and Structures for Accounting, Internal Control and Procurement

- a. Quality of internal control system
- b. Effectiveness of financial management system

- c. Effectiveness of pre-qualification bids and awards committee

Factor Observed and/or Measured by Output Indicators: Financial Transactions are Made and Recorded in Accordance with Prescribed Accounting and Auditing Rules and Regulations

- d. Percentage of disbursements disallowed in immediately preceding fiscal year
- e. Number of un-liquidated cash advances beyond one-month in immediately preceding fiscal year
- f. Presence of certified financial statements for the immediately preceding fiscal year
- g. Percentage of contracts awarded in compliance with procurement and contracting

2. Transparency

Factor Observed and/or Measured by Input Indicators: Effective Systems and Mechanisms for Making Information Available to Citizens

- a. Presence of performance billboard
- b. Presence of public information office or desk

Factor Observed and/or Measured by Output Indicators: Information about LGU Operations is readily available to Citizens

- c. Accessibility of records of government transactions, contracts and other public documents
- d. Accessibility of information on LGU plans, programs and special events

3. Participation

Factor Observed and/or Measured by Input Indicators: Effective Consultation Mechanisms and Systems for Constituent Participation

- a. Presence of CSO desk or other mechanism to support the development of local NGOs and POs
- b. Effective process to conduct independent surveys of citizen satisfaction

Factor Observed and/or Measured by Output Indicators: Active and Results-Oriented Citizen Participation in Local Governance

- c. Number of accredited NGOs and POs per 10,000 population
- d. Number of LGU projects implemented in partnership with local NGOs and POs
- e. Number of policies, programs, projects or activities modified in response to citizen surveys

4. Equity

Factor Observed and/or Measured by Input Indicators: Effective Policies, Plans and Resources to Promote Equity

- a. Presence of an ordinance to mainstream the population-in-need, cultural minorities and marginalized communities in public decision-making processes, policies, programs or projects
- b. Quality of local poverty reduction action plan
- c. Quality of gender and development plan

Factor Observed and/or Measured by Output Indicators: Equitable Provision of Services with Emphasis on Population-In-Need

- d. Percentage of total budget allocated to programs or projects targeting the population-in-need
- e. Percentage of 20% development fund allocated to social or human development services for the population-in-need

5. Local Legislation

Factor Observed and/or Measured by Input Indicators: Effective Legislative Mechanisms, Systems and Procedures

- a. Presence of legislative agenda that is consistent with the Executive Agenda
- b. Effectiveness of legislative tracking system

Factor Observed and/or Measured by Output Indicators: Relevant Legislation

- c. Percentage of ordinances passed in the immediately preceding year in support of social, economic development and environment management

C. Details of Administration Indicators:

1. Development Planning

Factor Observed and/or Measured by Input Indicators: Effective Structures, Consultative Mechanisms, and Tools to Support Development and Land Use Planning

- a. Effectiveness of local development council
- b. Number of public consultations held in the immediately preceding year as part of the development planning and review process
- c. Adequacy of database to support local development planning

Factor Observed and/or Measured by Output Indicators: Comprehensive and Effective Development Plans

- d. Quality of comprehensive development plan
- e. Quality of comprehensive land use plan or physical framework plan

2. Revenue Generation

Factor Observed and/or Measured by Input Indicators: Viable Plans, Tools and Systems for Increasing LGU Revenues

- a. Presence of comprehensive revenue generation plan
- b. Efficiency of system of real property tax assessment and collection
- c. Presence of updated local revenue code

Factor Observed and/or Measured by Output Indicators: Sufficient Revenues to Maximize Local Development

- d. Percentage of planned annual income realized
- e. Real property tax collection efficiency rate
- f. Percentage of IRA to total annual income
- g. Public enterprise annual profitability rate

3. Revenue Allocation and Utilization

Factor Observed and/or Measured by Input Indicators: Effective Budgeting and Accounting Systems

- a. Presence of Executive Budget approved within the budget calendar
- b. Percentage of departments maintaining a record of appropriations and expenditures

Factor Observed and/or Measured by Output Indicators: Effective Allocation and Optimum Utilization of Resources

- c. Ratio of total expenditures to total income
- d. Percentage of total budget expended on personal services
- e. Percentage of total budget expended on development programs and projects

4. Human Resource Management and Development

Factor Observed and/or Measured by Input Indicators: Effective Structures, Systems and Programs for Managing and Developing Human Resources

- a. Effectiveness of Human Resource Management and Development Office
- b. Quality of HRMD policies, plans and supporting materials
- c. Effectiveness of HR selection, appraisal and promotion system

Factor Observed and/or Measured by Output Indicator: Competent and Effective Professional Local Government Personnel

- d. Percentage of plantilla positions filled in accordance with selection procedures
- e. Percentage of plantilla staff participating in staff development activities in immediately preceding year

- f. Percentage of plantilla staff recognized or awarded for good performance in immediately preceding year

5. Customer Service

Factor Observed and/or Measured by Input Indicator: Customer-Oriented Administrative Systems

- a. Streamlined civil application systems

Factor Observed and/or Measured by Output Indicator: Efficient Customer Service

- b. Processing time in the issuance of business permits
- c. Processing time in the issuance of real property documents

D. Details on Social Services Indicators:

1. Health and Nutrition

Factor Observed and/or Measured by Input Indicators: Appropriate Structures, Human Resources and Facilities to Provide Health and Nutrition Services

- a. Effectiveness of Local Health Board
- b. Percentage of barangays with functioning Barangay Health Centers
- c. Ratio of public health workers to population

Factor Observed and/or Measured by Output Indicators: Effective Provision of Health and Nutrition Services

- d. Percentage of pregnant women provided with pre-natal care
- e. Percentage of children immunized

Factor Observed and/or Measured by Outcome Indicators: Healthy Citizens

- f. Percentage of malnourished children
- g. Infant mortality rate
- h. Mortality rate
- i. Morbidity rate

2. Education

Factor Observed and/or Measured by Input Indicators: Appropriate Structures, Human Resources and Facilities to Provide Education Services

- a. Effectiveness of Local School Board
- b. Percentage of barangays with functioning daycare or pre-school centers
- c. Ratio of elementary school teachers to pupils

Factor Observed and/or Measured by Output Indicators: Equitable Access to Education

- d. Elementary school enrolment rate
- e. Secondary school enrolment rate
- f. Adult participation rate in non-formal and extension courses

Factor Observed and/or Measured by Outcome Indicators: Literate and Educated Citizens

- g. Secondary graduation rate
- h. Tertiary or vocational graduation rate

3. Housing and Basic Utilities

Factor Observed and/or Measured by Input Indicators: Effective Structures and Programs to Provide Socialized Housing and Basic Utilities

- a. Effectiveness of Local Housing Board
- b. Quality of socialized housing program

Factor Observed and/or Measured by Output Indicators: Enhanced Access to Adequate Shelter and Basic Utilities

- c. Percentage of planned houses of dwelling units built
- d. Percentage of households with potable water supply
- e. Percentage of households with electricity

Factor Observed and/or Measured by Outcome Indicators: Citizens Living in Decent Housing Serviced with Basic Utilities

- f. Proportion of non-owner with electricity
- g. Percentage of households with sanitary toilets
- h. Percentage of households living in informal settlements or makeshift houses

4. Peace, Security and Disaster Preparedness

Factor Observed and/or Measured by Input Indicators: Effective Structures and Plans for Peace and Order, Fire Prevention and Disaster Preparedness Services

- a. Effectiveness of Local Disaster Coordinating Council
- b. Effectiveness of Local Peace and order Council
- c. Effectiveness of Women's and Children's Desk
- d. Quality of Integrated Area Community Public Safety Plan

Factor Observed and/or Measured by Output Indicators: Effective Police, Fire Prevention and Disaster Preparedness and Response Service

- e. Presence of an LGU emergency calling system

- f. Percentage of barangays with organized barangay tanods or other civilian volunteer organizations
- g. Number of inter-personal disputes resolved through Lupong Tagapamayapa
- h. Percentage of disaster victims receiving relief and rehabilitation assistance

Factor Observed and/or Measured by Outcome Indicators: Communities Prepared for and Protected from Fire and Other Disasters

- i. Incidence of crime

E. Details on Economic Development Indicators:

1. Agriculture and Fisheries Development

Factor Observed and/or Measured by Input Indicators: Relevant Policies, Strategies, Programs, Facilities and Resources to Support Improvements in Farming and Fishing Practices

- a. Percentage of farmers and fisher folk accessing extension and development activities that provided technical training and quality inputs to enhance their productivity
- b. Percentage of farmers and fisher folk accessing extension and development activities that assisted them in marketing, post-harvest processing or accessing micro-finance
- c. Quality of LGU research and development facilities to support farmers and fisher folk to test and adopt new products, practices and technologies

Factor Observed and/or Measured by Output Indicators: Effective Agricultural and Fisheries Extension and Development Services

- d. Percentage of fisher folk and farmers who are members of cooperatives or other collective organizations
- e. Percentage of farming households benefiting from agricultural development programs
- f. Percentage of fishing households benefiting from fishery development programs
- g. Percentage of barangays connected to town or city center by farm-to-market roads

Factor Observed and/or Measured by Outcome Indicators: Farmers and Fisher Folk with Adequate Livelihood and Enhanced Food Security

- h. Percentage of prime lands over total agricultural land
- i. Crop yield
- j. River classification
- k. Fish catch in coastal fishing grounds

2. Enterprise, Business and Industry Promotion

Factor Observed and/or Measured by Input Indicators: Effective Policies, Structures and Resources to Promote Private Sector Investment

- a. Effectiveness of Small and Medium Enterprise Development Council
- b. Presence of basic infrastructure and utilities in areas zoned for business and industry
- c. Processing time in the issuance of business permits (*also used in customer service*)
- d. Quality of Local Investment Incentive Code

Factor Observed and/or Measured by Output Indicators: Conducive Private Sector Investment Climate

- e. Number of marketing events, industry fairs or trade missions supported by LGU
- f. Number of new jobs created in the immediately preceding year
- g. Number of new SMEs registered in the immediately preceding year

Factor Observed and/or Measured by Outcome Indicators: Vibrant Local Economic Enterprises, Local Employment Opportunities, Local Revenues and Improved Quality of Life

- h. Income per capita
- i. Poverty incidence
- j. Unemployment rate

F. Details on Environmental Management Indicators:

1. Natural resources management

Factor Observed and/or Measured by Input Indicators: Effective Policies and Programs to Protect, Conserve and Rehabilitate Natural Resources

- a. Quality of Environment Code
- b. Percentage of barangays reached by IECs to reduce illegal harvesting of animal and plant life in restricted areas and to conserve natural resources

Factor Observed and/or Measured by Output Indicators: Effective and Participative Natural Resource Management

- c. Quality of LGU-NGO partnerships in the management of their natural resources
- d. Number of natural resource rehabilitation projects implemented or supported by the LGU
- e. Number of reported violations of ordinances pertaining to the protection of forests, waterways, coastal and marine resources

Factor Observed and/or Measured by Outcome Indicators: Sustainable Natural Resource Management

- f. Percentage of forest cover in the forest land
- g. Ratio of reforestation to deforestation
- h. Rate of protected areas cleared into other uses
- i. Percentage of mangroves remaining
- j. Percentage of live coral reef remaining

2. Waste management and pollution control

Factor Observed and/or Measured by Input Indicators: Effective Structures and Programs to Manage Waste and Pollution

- a. Effectiveness of Solid Waste Management Board
- b. Presence of solid waste management program

Factor Observed and/or Measured by Output Indicators: Effective Prevention of Pollution and Management of Waste

- c. Percentage of households and commercial establishments covered by solid waste collection service
- d. Percentage of solid waste collected that is properly disposed percentage of industries with pollution control facilities

Factor Observed and/or Measured by Outcome Indicators: Improved Air Quality, Reduced Pollution and Air Pollution-Related Diseases

- e. Presence of smog, dust, odor and noise
- f. Presence of solid waste heaps
- g. Marine squatter household on coastline

ANNEX J

Negros Occidental's Policy Reform and Experience in Program Lending: PROLEND Pilot Program

Introduction

The Procurement Service of Negros Occidental counts the national government agencies, local government units (LGUs), state colleges and universities, government-owned and controlled corporations, and barangays as among its clients.

The Province has since been cited by the Department of Interior and Local Government as one that has adopted improved procedures and developed good practices with respect to procurement.

The unique experience of the Province is planned to be used as showcase as part of the Philippine Country Procurement Assessment Review which the national government is jointly undertaking with the World Bank and the Asian Development Bank in its resolve to further enhance transparency and uphold the integrity of procurement processes at the national and local levels.

The Policy Reform

The establishment of the Procurement Service was started in July 2001 with the creation of a Management Study Group tasked to review and evaluate the procurement system of the Province.

The Group, headed by then Provincial Administrator Roy I. Balicas, was composed of representatives from the 12 different Provincial Government offices, namely Accounting, General Services, Provincial Engineers, Provincial Health, Planning and Development, Provincial Agriculturist, Treasurer's Office, Budget, Human Resource, and Electronic and Data Processing.

The Group conducted a series of discussion after completing their studies in each Provincial Government Office with regards their procurement system. The Group then decided to adopt a computerized procurement system backed up by the Data Tracking System.

They started with the preparation of the Annual Procurement Program up to the preparation of the Purchase Order. They subsequently undertook presentations, briefings and feedback sessions.

An orientation and hands-on training of personnel was conducted in the months of August and September 2001 and a dry-run in the following month, October. The Provincial Engineer's Office was the department that pilot-tested the implementation of the program. The creation of the Technical Inspection Team under the Governor's Office, the Suppliers Accreditation Committee and the Price Monitoring Committee then followed.

With the operations of the Procurement Service in full-swing, the Province was able to secure from the Municipal Development Fund Office (MDFO) of the Department of Finance a P120 million program loan at an interest of 9% fixed for 10 years with 2 years grace period. The concessional loan was granted with a view that the Province would pursue reforms on procurement through the implementation of Electronic Procurement System. This was the pilot test of MDFO's program loan which was envisioned to promote and accelerate policy reforms and at the same time provide financing for provincial development projects.

The Program Loan Accelerating the Policy Reform

The Province of Negros Occidental desired to further pursue reforms on procurement through Electronic Procurement System which allows computerization of procurement from the preparation of Annual Procurement Plan to the issuance of the Purchase Order, as well as the automation of the bidding process.

The policy objectives of the procurement program of the Province which involved its cities and municipalities were as follows: (a) to institutionalize the investment and budget planning of the Province; (b) to improve the financial position not only of the Province but all the participating municipalities; (c) to encourage competitiveness by extending equal opportunity to enable private contracting parties who are eligible and qualified to participate in public bidding; (d) to streamline procurement process that will uniformly apply to all transactions; and (e) to foster transparency and good governance in the procurement process and in the implementation of procurement contracts.

The Province undertook electronic procurement system specifically for eight cities and twelve municipalities. Two appraisal missions were sent to Bacolod City to discuss the same with the local government officials.

One of the benefits of the Electronic Procurement System was deriving some savings from transport and warehousing operations for common supplies for the Province. The Provincial Government of Negros Occidental purchased a computer server as part of the loan. Some municipalities in Negros Occidental have no electricity, thus, these municipalities were not included among the LGU recipients. The tranches are calibrated so the Province can purchase its own server. Capacity building was undertaken by the Department of Budget and Management (DBM) through the conduct of training courses in Electronic Procurement System for concerned officials.

The Province of Negros Occidental was attracted to the Program Loan because of the following perceived advantages:

- Flexibility as to loan utilization
- Lower interest rate at 9% fixed rate for 10 years
- Reasonable documentary requirements
- Conditionalities for release of loan are based on existing policy reform program which are not impossible to comply with
- Provides another avenue for more participation by component LGUs in provincial government's programs

The Program Loan negotiation entailed less than 3 months and with MDFO preparing the pro-forma of the Sanggunian Panlalawigan Resolution, the process was

further accelerated. The Memorandum of Agreement (MOA) was crafted and finalized with relative ease, with the following disbursement schedule:

1st Release	Deliverables/Conditions for Release
P40 million (33%)	Revising and implementing the procurement procedures of the Provincial Government along with the Data Tracking System (DTS) and Electronic Procurement System
	Signing of a Memorandum of Agreement with the DBM Procurement Service for the provision of technical assistance for e-procurement training for all the municipalities and component cities, and the identification of no less than 250 square meter building to be used as a Depot for the procurement service
	Procurement and installation of a computer server for the development and uploading of a provincial website on the internet
	Secondment of selected provincial staff for procurement training conducted by the DBM Procurement Service
2nd Release	Conditions
P30 million (25%)	Completion of e-procurement training for all personnel of the Province, municipalities and component cities of the Province involved in procurement activities
	Completion of the expansion of the Provincial computer server to cover the e-procurement requirements of all municipalities and cities of the Province
	Electronic link-up of at least two cities and two municipalities to the provincial server and procurement of common supplies to the GEPS of two cities and municipalities
	Electronic posting of requirements, bidding information, and results of awards to the GEPS by the Provincial Government
	Operationalization of the DBM Procurement Service depot in Negros Occidental
3rd Release	Conditions
P20 million (17%)	Electronic link-up of at least five cities and seven municipalities to the provincial server and e-procurement of common supplies to the GEPS by the five cities and seven municipalities
	Electronic posting of requirements, bidding information and results of awards to the GEPS by the five cities and seven municipalities
	Completion of e-procurement training by provincial staff
4th Release	Conditions
P30 million (25%)	Electronic link-up of at least 8 cities and 12 municipalities to the provincial server
	E-procurement of common supplies to the GEPS by the 8 cities and 12 municipalities

The loan proceeds were immediately released to the Government of Negros Occidental in less than 2 weeks after the signing of the MOA, thus providing impetus to the policy reform and program implementation.

The Province did not encounter any problem with the recording/accounting of the Program Loan utilization because the Provincial Auditor was properly briefed about the Program Loan, its nature and its purpose at the start of the project.

Program Loan Utilization

Twenty five percent (25%) or P30 million, of the Program Loan was utilized for the project on e-procurement. The remaining 75%, or P90 million of the Loan, was utilized for the 7-point priority thrusts of the Provincial Government of Negros Occidental. The priority thrusts are:

1. food security and agricultural productivity
2. health education, housing and basic social services
3. infrastructure facilities
4. environment conservation, rehabilitation and protection
5. tourism development
6. investment and trade promotions
7. development administration

Policy Reform Milestones

This policy reform paved the way for the operationalization of the Procurement Service Depot of DBM which opened at the Provincial Administration Center in March 2004. DBM provided the Depot its initial stocks of commonly used supplies, with Bayawan City in Negros Oriental as its first client. Clearly, the operation of the province-managed depot is gearing towards expansion to accommodate future LGU and National Government Office clients from its nearby provinces.

Today, the Depot has at least 230 items of common electrical supplies, common computer supplies, office and janitorial supplies, office devices and equipment. Its clients include the provinces of Iloilo and Aklan. The Depot registered a total collection of over P50 million from April 2004 up to December 2005. Income from the **PC ng Bayan** program which was launched in April 2005 was placed at over P13 million and over P38 million for commonly used supplies.

The top 15 clients of the Depot are the following:

1. Province of Negros Occidental
2. Bago City
3. Bacolod City
4. Sagay City
5. Bayawan City
6. Silay City
7. San Carlos City
8. Pag-Ibig Fund
9. La Carlota City
10. Philippine Health Insurance Corporation

11. West Visayas State University
12. Sipalay City
13. Municipality of Murcia
14. Carlos Hilado Memorial State College
15. Department of Environment and Natural Resources in Iloilo

Only in its fifth year of operation, the Procurement Service of the Provincial Government of Negros Occidental continues to rise as a major income earner for the Province and is now the top service provider of commonly used government supplies for Negros Island and the rest of Western Visayas.

Actual Performance vis-à-vis the Conditionalities

Deliverables/Conditions for Release	Accomplishments
Revising and implementing the procurement procedures of the Provincial Government along with the Data Tracking System (DTS) and Electronic Procurement System	<ul style="list-style-type: none"> - Consultative meeting held to determine issues; hands-on training conducted for liaison officers - Procedures drafted and finalized; test-run of procurement procedures undertaken on October 12, 2001
Signing of a Memorandum of Agreement with the DBM Procurement Service for the provision of technical assistance for e-procurement training for all the municipalities and component cities, and the identification of no less than 250 square meter building to be used as a Depot for the procurement service	MOA executed by both parties; DBM ensures technical assistance, set up a depot and provide for common good supply. DBM and the Province will share 50-50 from profits.
Procurement and installation of a computer server for the development and uploading of a provincial website on the internet	Server installed duly certified by the Information Technology Office of the Province
Secondment of selected provincial staff for procurement training conducted by the DBM Procurement Service	Three provincial personnel were selected and designated as representative

Conditions	Accomplishments
Completion of e-procurement training for all personnel of the Province, municipalities and component cities of the Province involved in procurement activities	Trainings were given to 146 personnel from 9 cities and 16 municipalities and 138 personnel from the Province
Completion of the expansion of the Provincial computer server to cover the e-procurement requirements of all municipalities and cities of the Province	Province has bought necessary equipment (desktop computers) as part of its expansion
Electronic link-up of at least two cities and two municipalities to the provincial server and procurement of common supplies to the GEPS of two cities and municipalities	Total of 9 cities and 16 municipalities have undergone training and are automatically linked with the provincial server - exceeded expected target
Electronic posting of requirements, bidding	Four cities and four municipalities have

information and results of awards to the GEPS by the Provincial Government	posted their bidding information
Operationalization of the DBM Procurement Service depot in Negros Occidental	Formal opening and operationalization of the depot on March 29, 2004
Conditions	Accomplishments
Electronic link-up of at least five cities and seven municipalities to the provincial server and e-procurement of common goods supplies to the GEPS by the five cities and seven municipalities	Eleven cities and 16 municipalities are linked to the GEPS. Seven cities and seven municipalities have started procuring common goods supplies from the depot. A public terminal has been provided for.
Electronic posting of requirements, bidding information and results of awards to the GEPS by the five cities and seven municipalities	Proof of posting of requirements, bidding information and results of awards to the GEPS of five cities and seven municipalities
Completion of e-procurement training by the provincial staff	Training have been conducted by the provincial staff to procurement officers of Bago City, La Carlota City, Sipalay City, Himamaylan City and the municipalities of Binalbagan and Ilog.
Conditions	Accomplishments
Electronic link-up of at least 8 cities and 12 municipalities to the provincial server	Eleven cities and 16 municipalities have been linked to the provincial server
E-procurement of common supplies to the GEPS by the 8 cities and 12 municipalities	Ten cities and 12 municipalities have successfully procured common supplies

It could be gleaned from the matrix above that, in a number of instances, the actual accomplishments of the Province of Negros Occidental exceeded the deliverables or conditionalities for loan releases. Further, the Province set up the Procurement Depot even if it were the responsibility of DBM-PS, per their MOA, so as not to slacken the momentum of the policy reform. This simply underscores the commitment of the Province to the reform.

The Program Loan has provided the Province with additional resources in accelerating the e-governance reform and also provided funding for other priority development projects as shown in the table below.

Project Funding

	Programs/Projects	Funds Available
1st Release P40 million (33%)	- purchase of heavy equipment	13,800,000.00
	- purchase of hospital equipment	10,000,000.00
	- repair and renovation of hospitals	6,200,000.00
	- roads improvements	10,000,000.00
		40,000,000.00
2nd Release P30 million (25%)	- hospital improvement (construction, renovation, equipment and others)	30,000,000.00
		30,000,000.00
3rd Release P20 million (17%)	- hospital improvement (construction, renovation, equipment and others)	20,000,000.00
		20,000,000.00
4th Release P30 million (25%)	- support to LGUs for Electronic Procurement Program	1,550,000.00
	- Information Technology Office and other Equipment	3,450,000.00
	- hospital improvement (construction, renovation, repair, equipment and others)	25,000,000.00
		30,000,000.00
	GRAND TOTAL	P120,000,000.00

Lessons Learned

The Province of Negros Occidental learned a number of lessons from the Program Loan:

- There is an incentive for policy reform
- Easy access to funds
- Flexible utilization of program loan funds as compared to project loans
- The benefits of borrowing is immediately realized, i.e., the fruits of development, as LGU priority projects are immediately implemented through the program loan
- Inner confidence of the LGU in fiscal management is developed and fiscal discipline enhanced

The MDFO, on the other hand, realized the need for the following:

- Financial accomplishments should be well-defined in the conditionalities to facilitate monitoring of disbursements

- A Program Implementation Plan should be part of the LGU proposal with clearly defined program work output and timeline of activities to ensure proper monitoring of accomplishments and compliance to conditionalities

Next Steps

The following are suggestions offered by the Provincial Government to further improve future program loans:

- Identification of “fundable” projects – policy/program menu, or identification of projects that deserve funding through program loan
- Development of a manual for program loans
- Marketing – need for graphics/brochures, or marketing and information campaign of program loans through graphical brochures