
PROJECT SUMMARY DESCRIPTION

Economic Support Funds are provided the Government of the Philippines to enhance the capability of localities affected by U.S. military bases to mobilize and manage resources for local development. The Ministry of Human Settlements' Management Advisory Committee (MAC) Secretariat will implement the project.

A Municipal Development Fund (MDF) will be established to finance capital and technical assistance for development projects in three cities (Anceles, Olongapo, and Bacuio) and in 17 municipalities in the target area. Ten municipalities which are regional or major urban centers and have the resources and labor to potentially support diversified economies will also be targeted as pilots.

Three types of projects will be financed: (1) institutional development projects such as municipal planning and tax collection for local governments; (2) construction of public infrastructure such as roads, utilities, and water supply and sewerage systems to establish an environment conducive to increased employment and investment; (3) and public enterprise projects such as markets, slaughterhouses, and hospitals to improve public services and strengthen the income base. Institutional and non-revenue-generating infrastructure projects will receive MDF grants. Public enterprise and revenue-generating infrastructure projects will be funded through MDF loans administered by the Philippine Development Bank.

Since municipalities are under provincial authority, Municipal Development Coordinators will identify projects in conjunction with Provincial Development Staffs. Cities, which are independent of the provinces, will act through their City Planning and Development Staffs. The MAC will then chose projects based on technical and economic soundness, the locality's ability to cover operating and maintenance costs, and the extent to which they benefit the poor. Priority will be given projects with short gestation, which generate income or employment, or in which cities will make cash/in-kind contributions.

DESCRIPTORS

MUNICIPAL DEVEL COMMUNITY DEVEL MUNICIPAL ADMIN URBAN ROADS
URBAN SANITATN INSTIT BUILDING HOSPITAL CONSTR ROAD CONSTRUCT
WATER DELIV SYS NATL DEVEL BANK SOCIAL SERVICES PUBLIC INVEST
PUBLIC SERVICES PILOT DEMO SLAUGHTERHOUSE TAX COLLECTION
URBAN PLANNING EMPLOYMENT

PD-AAH-490-A1

492-0361

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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROJECT PAPER

PHILIPPINES

MUNICIPAL DEVELOPMENT FUND

492-0361

JULY 1981

UNCLASSIFIED

PHILIPPINES
MUNICIPAL DEVELOPMENT FUND
PROJECT PAPER

No. 492-0361

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
C = Change
D = Delete

Amendment Number

- 0 -

DOCUMENT CODE

3

2. COUNTRY/ENTITY
Philippines

3. PROJECT NUMBER
492-0361

4. BUREAU/OFFICE
ASIA

5. PROJECT TITLE (maximum 60 characters)
Municipal Development Fund

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
1 | 2 | 3 | 0 | 8 | 8

7. ESTIMATED DATE OF OBLIGATION
(Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 81 B. Quarter 4 C. Final FY 84

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) ESF	(4,000)	(18,000)	(22,000)	(15,000)	(55,000)	(70,000)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						
Other U.S. 2.						
Host Country		5,000	5,000		20,000	20,000
Other Donor(s)						
TOTALS	4,000	23,000	27,000	15,000	75,000	90,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	270	100		0		11,000		35,000	
(2) ESF	720	800		0		11,000		35,000	
(3)									
(4)									
TOTALS				0		22,000		70,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

150 120 110 820 860

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code LAB PART TECH
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to enhance the capabilities of selected municipalities and cities, with emphasis on those most affected by the U.S. military facilities, to manage resources in carrying out development activities responsive to locally established priorities.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
0 | 9 | 8 | 3 | 0 | 1 | 3 | 6 | 0 | 1 | 8 | 9 |

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

N.A.

17. APPROVED BY

Signature Anthony M. Schwarzwald
Title Director
Date Signed MM DD YY 10 | 5 | 29 | 9 | 1

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY 10 | 6 | 01 | 8 | 1

17 JUL 1981

PROJECT AUTHORIZATION

PHILIPPINES

Municipal Development Fund
Project No. 492-0361

Pursuant to Part II, Chapter IV, Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Municipal Development Fund Project for the Philippines (Cooperating Country) involving planned obligations of not to exceed Seventy Million United States Dollars (\$70,000,000) in grant funds over a four (4) year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange costs and local currency costs for the project.

The project consists of support to selected cities and municipalities (primarily in the areas of the U.S. military facilities) in a manner designed to enhance their capacities to finance and manage development activities responsive to locally established priorities.

The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the project shall have their source and origin in the United States or the Cooperating Country except as A.I.D. may otherwise agree in writing.

b. Conditions Precedent to Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish the following in form and substance satisfactory to A.I.D.:

(1) Documentary evidence that the Secretariat of the Management Advisory Committee (MAC Secretariat) has completed and adopted for use in this project policy and procedural guidelines for operations under the project including the project development system, procurement system, the provision of administrative and logistic support, and financial procedures.

(2) A copy of an executed agreement between MAC Secretariat and the Development Bank of the Philippines (DBP) (or other acceptable banking institution) for financial services under the project.

(3) A copy of standard form project agreement(s) that will be used by the MAC Secretariat and cities and municipalities participating in this project.

c. Covenants

Except as A.I.D. may otherwise agree in writing, the Project Agreement shall contain covenants providing in substance as follows:

(1) Changes to the approved financial terms, conditions and procedures for the handling of any loans from the Municipal Development Fund shall be approved by A.I.D.

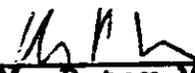
(2) Each joint venture between government entities and private enterprises shall be subject to the written approval of A.I.D. before being eligible for financing under this project.

(3) Repayments of principal and payments of interest on loans made under this project to cities and municipalities shall be made available for use in additional activities meeting the criteria used in this project in the general areas of the U.S. military facilities.

(4) The MAC Secretariat shall maintain a staff sufficient to manage the Municipal Development Fund over the life of the project.

(5) Cities or municipalities shall be permitted to relend funds, or assign borrowing authority, obtained under this project only to cooperatives, publicly-owned utilities or public corporations or such other entities as may be approved in writing by A.I.D. In addition, A.I.D. shall approve the terms of each relending or assignment prior to funds being committed for that purpose.

Clearances:	Date	Initials
Frederick W. Schieck, A/AA/ASIA	<u>7/10/81</u>	<u>FW</u>
John R. Bolton, GC	<u>KCK 7/10/81</u>	<u>KCK</u>
Charles Paolillo, A/AA/PPC	<u>7/13/81</u>	<u>CP</u>

Signature 
M. Peter McPherson
Administrator

Date July 17, 1981

PROJECT PAPER
PHILIPPINES
MUNICIPAL DEVELOPMENT FUND
492-0361

I. Summary and Recommendations

A. Grantee/Executing Agency

The Government of the Philippines will be the Grantee. The Executing Agency will be the ESF Management Advisory Committee Secretariat under the Ministry of Human Settlements or its designee(s). Individual projects financed from the MDF will be implemented under the direction of participating cities and municipalities.

B. Amount of Grant

\$70.0 million of which \$22.0 million will be obligated in FY 81.

C. Purpose of Project (MDF)

To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to enhance the capabilities of selected municipalities and cities, with emphasis on those most affected by the U.S. military facilities, to manage resources in carrying out development activities responsive to locally established priorities.

D. Project Description

The MDF will finance development projects proposed by mayors of participating cities and municipalities. Emphasis will be given to cities and municipalities most affected by the presence of the U.S. military facilities in the Philippines. The MDF will finance both technical and capital assistance. The three major program components are:

- (1) technical assistance for institutional development to improve the municipalities administrative and project management capabilities;
- (2) infrastructure development such as roads and flood control; and
- (3) public enterprises development such as public markets, slaughterhouses, and hospitals. The long-term capacities of the municipalities will be enhanced through the planning, design, implementation and operation of actual development projects funded from the MDF.

E. Beneficiary

Primary beneficiaries will be the people living in cities and municipalities most affected by the U.S. military facilities. To the extent possible, priority will be given to projects which have the greatest impact on the largest number of poor in these areas.

F. Project Costs and Financing Arrangements

The \$70.0 million MDF will be provided from the Grantee to the cities and municipalities on a loan or grant (or combination) basis depending on the nature of the project, i.e., technical assistance, revenue generating or non-revenue generating. Loans will be handled by the Development Bank of the Philippines, an experienced public lending institution. Local government units will be encouraged to provide counterpart funding in cash and/or kind.

G. Summary of Project Analysis

The ESF-MAC Secretariat will manage the MDF. They have a technical staff, appropriate policies and procedures and are considered qualified to manage the program. Feasibility criteria of projects financed under the MDF will be met prior to project approval and commitment of funds. Based on these findings the MDF is judged to meet AID feasibility standards.

H. Recommendation

A grant of \$70.0 million be authorized of which \$22.0 million will be obligated in FY 81.

Project Paper

Municipal Development Fund
492-0361

II. Description of the Project

A. Statement of the Problem

1. Presence of Bases

The U. S. has had military facilities in the Philippines for over 80 years. While Clark Air Base in Pampanga province and Subic Naval Base in Zambales province are by far the largest and most important installations, there are a number of satellite facilities which provide varying types of support. The chartered cities and municipalities^{1/} around these facilities have been affected in various ways by the existence of these bases and the large U. S. military presence. While the bases provide employment and generally have contributed to the economic life of the municipalities, they also have strained marginal and inadequate public services. These services such as roads, public safety, health care, etc. are generally financed, operated and maintained by the national and local government levels.

In general, the national and local governments believe that some form of compensation or assistance from the U. S. Government is justified to help the more affected municipalities improve their social and economic well-being. This feeling is magnified by the sharp contrast one sees between the conditions at the bases and those in the neighboring municipalities. While the U. S. and Philippine Armed Forces have over the years maintained very active civic action programs to help these municipalities, their budgets are inadequate to make anything but a limited contribution to solving these problems.

^{1/} In the Philippines, cities and municipalities have different organizations, powers, relationships, etc. (see Section III and IV and Annex III). In this paper, unless otherwise stated, the term "municipalities" shall refer to both cities and municipalities.

Since the signing of the Bases Agreement Amendment in 1979 and the USG Executive Branch's "best efforts" to provide ESF, both the USG and the GOP have considered assistance from these funds for the affected municipalities to be of a high priority. This has been stated several times by President Marcos and U.S. Ambassador Murphy. Accordingly, the Municipal Development Fund (MDF) has as a major objective, the fulfillment of this priority.

2. Limited Resources for Development

Local Governments, particularly municipalities, now operate with very limited budgets and are almost entirely dependent on allotments from the central government. There are sources for local revenue generation that are not being adequately mobilized e.g., real property tax, business tax, etc. (see Annex IV for Local Government Sources of Funds). Few mayors view themselves as resource managers and the MDF must provide financial training and consultancies to help correct this problem.

3. Limited Capacity and Processes for Implementation (Municipal Level)

A stronger local government structure is needed to organize, plan implement and manage development activities. This broader development problem is considered to be a major constraint in meeting general development objectives. This is a particular problem in smaller municipalities and relates closely to the limited resource base. The MDF will offer a range of management training and provide for technical assistance in those areas that are deficient. Additionally, to participate in the MDF, the MDF will require that municipalities have adequate operating staff on duty.

B. Purpose

The purpose of the MDF is to provide ESF funds, resulting from the Amendment Military Bases Agreement of 1947, to enhance the capabilities of selected municipalities with emphasis on those most affected by the U.S. military facilities, to manage resources in carrying out development activities responsive to locally established priorities. The MDF will primarily address the economic and social needs of municipalities around the U.S. military facilities. In addressing these needs, the MDF will help develop the capacity of the selected municipalities to mobilize and manage resources.

The MDF will provide funding for both technical and capital assistance. Development projects will be responsive to locally established priorities, building on experience of other local government programs and working within the existing local government system. The MDF will provide grants or subsidized loans to affected municipalities. Municipal governments will select specific projects which must meet the

eligibility criteria set by the MAC. They will have the primary responsibility for the use of the MDF resources. Municipalities will be encouraged to apply improved management systems and practices as they utilize MDF proceeds to achieve their development objectives.

In addition to the municipalities directly affected by the bases, a "regional center" (in each of the less developed regions) or "major urban center" (in each of the more developed regions) will be selected to participate in the MDF. Expansion beyond the bases areas, albeit in a small way, will give a national dimension to the program.

Approximately 17 municipalities and 3 cities around the bases and 10 pilot municipalities in other areas of the country will participate in the program. The majority of the \$70.0 million, about \$55.0 million, for the MDF will be utilized in the affected areas around Clark and Subic. This number may be expanded later.

C. Selection of Participating Municipalities

Of the 1,500 or so municipalities in the Philippines, only a few are eligible for MDF assistance. This is because the main objective of the program is to help municipalities around the bases. Preliminary discussions have been held between the governors of the provinces surrounding the bases (Pampanga, Tarlac and Zambales). The Secretariat^{1/} and USAID have explained the MDF and discussed the selection of municipalities to participate in the MDF with the governors and mayors. The criteria arrived at during the project design stage are briefly discussed below. The governors asked that the program be flexible on the selection of municipalities to permit possible expansion of the MDF participants at a later date.

1. Bases Affected Municipalities

- Geographic Proximity to Bases

Geographic proximity can mean the measure distance of cities or municipalities from the U.S. military facilities. The exact configuration of geographic proximity cannot be strictly enforced due to the diverse geographic characteristics of the areas involved.

^{1/} See Part V for a discussion of the ESF Secretariat.

Thus, this criterion has been employed mainly through the judgement of governors and the Secretariat.

- Impact of bases on cities/municipalities
economic structure

The impact on the economic structure of cities/municipalities would be difficult to quantify. The heavy dependence of the cities'/municipalities' population on the bases for employment and income is one positive example on how U.S. bases affect the economic structure of the municipalities. There are also negative implications. This criterion was used mainly through observations and judgements of the governors, mayors of municipalities and Secretariat and USAID officials.

- Impact of bases on social problems

Primarily because of the relatively large amount of money available around a large U.S. facility, changes in the social structure have developed. These changes take the form of rapid population growth, through immigration, increased crime rates, among others. This criterion relied mostly on the observations made during the project design period of the MDF discussions with mayors and other municipal officials.

- Impact of bases on public services

Impact of bases on public services can be mostly observed at the cities of Angeles and Olongapo and less in surrounding municipalities. These two cities, where U.S. activities are concentrated, experience some strains on public services brought about by the operations of the U.S. facilities, e.g., the use of the roads which the local government maintains under its own budget.

An illustrative list of municipalities meeting these criteria is in Annex 1, together with a map of the major bases area. This list is only illustrative. Other municipalities will probably be added in later years of the program. This list represents the top priority cities and municipalities at this time.

2. Municipalities Outside Bases Influence Area

The municipalities to be selected to participate under this group will be selected from the classification of the Ministry of Human Settlements' and National Economic Development Authority's hierarchy of growth centers. Generally, these pilot municipalities

will have the following characteristics:

- potential growth centers - trading centers and commercial/services centers
- diverse economic base - having at least a manufacturing/processing sector
- population between 80,000 and 200,000
- human and natural resources development potential - labor force and natural resources present (i. e., forests, minerals, etc.)

Priority for participation is being given to the bases affected areas in the first years of the MDF, therefore, participation by these other cities and municipalities will begin in the last year of funding, FY 1984.

D. Selection Criteria for Projects

All projects that are proposed by the participating government entities for financing under the MDF will be subjected to a preliminary screening and approval by the Secretariat, based on the Secretariat's "Project Development System" manual. This manual is similar to AID Handbook 3. USAID approvals will be on a selective basis (see Section V.D.). This system aims to ensure that the projects contribute to the overall objectives of the MDF and are compatible and consistent with the development strategy of the municipality concerned. It also insures conformity with the GOP development plan. The Secretariat's Project Development System is discussed in Section III, Project Analyses. Projects will be accepted for funding only if they meet the following general criteria:

- Projects proposed by cities and municipalities should be consistent and compatible with city/municipal development plans. In the absence of a development plan, consistency should be with the local development investment program (formerly the capital improvement program). Economic and institutional linkages to other municipal activities should be demonstrated by the project.

- The project shall be technically sound.
- The project should demonstrate economically acceptable solution(s) to the problem(s) involved.
- The project should provide for a large proportion of benefits channelled directly to the poor sectors of the target areas(municipalities).
- The project should insure that adequate arrangements are made for the provision of resources to cover operating and maintenance costs.
- The resulting costs of operation, maintenance, debt service, etc. should be within the absorptive capacity of the local government unit or, if appropriate, other operating entity.
- Revenue generating projects, be self-sustaining in terms of operation and maintenance. Such projects should demonstrate a high cost recovery rate, recovering a large proportion of the initial investment as well as all operating costs.

Additionally, priority consideration will be given to projects which are: short gestation, quick disbursing and rapid implementing; contain a contribution by the municipality in cash and/or kind, and have a positive employment and income generating impact.

E. MDF Project Components

The MDF will consider financing technical and capital assistance components of discrete projects which meet the project selection criteria requirements of the Project Development System manual and are identified, selected and prioritized by the municipal and city government entities. The projects will generally fall under three (3) categories:

1. Institutional Development Projects

Under this category are projects which seek to increase the capabilities of local government units to operate effectively and which assist in developing and increasing their capacity to execute, operate and maintain development projects. These projects can be:

- Municipal planning
- Tax collection procedures
- Project development and management training
- Technology transfer
- Technical Assistance on Financial Management training

2. Infrastructure Development Projects

Under this category, projects aim to establish an environment conducive to increased growth of employment and generation of outside investment by reducing physical constraints. This category includes projects like:

- Water supply and sewerage systems
- Drainage and flood control
- Roads and transport development
- Basic services of communities
- Solid waste collection and disposal
- Utilities development

3. Public Enterprises (Social overhead)

Under this category, cities and municipalities are encouraged to develop projects that will create and strengthen their income base to better service their citizens. Public enterprises can include projects like:

- Public markets
- Slaughter houses
- Hospitals

For both infrastructure development and public enterprises projects, appropriate architectural and engineering services will be eligible for financing. Further, in the case of large and/or complex construction projects, engineering supervision services will also be provided for.

III. Project Analysis

A. General

Like an intermediate credit institution project, the MDF has as its purpose to enhance the capabilities of institutions (selected municipalities) to manage resources in carrying out development activities. The Fund will be managed by the Secretariat of the ESF Management Advisory Committee. To enhance capabilities of local governments, resources from the MDF will be provided on a loan or grant (or combination) basis to participating municipalities to execute actual development projects. In so doing required technical assistance will be provided to these entities to upgrade their project management capabilities. Several projects, to be financed by the MDF, have been identified. Design work is under way using local government resources and/or the ESF-financed Project Design Grant (see Annex II for illustrative list of projects). It is not practical or possible to firmly identify all projects at this time. However, projects will meet established criteria for feasibility.

Given the nature of the MDF, feasibility considerations for ESF obligation purposes have been presented in light of the institution building purpose of the program. The following section analyzes the Secretariat's ability to execute the MDF and to insure that appropriate feasibility considerations for municipal projects are adequately addressed prior to commitment of funds. There is also a short discussion of the local government system in the Philippines and general capabilities of these local entities. A short explanation of FAA Section 611 requirements is also presented.

B. MDF Administrative Analysis

It is AID's judgment that appropriate policies, procedures and qualified manpower will exist within the Secretariat for the effective execution of the MDF prior to AID disbursement of funds.

1. MDF/Secretariat

The Management Advisory Committee (MAC), an inter-governmental committee, was created by President Marcos under Letter of Instruction 1030 dated May 27, 1980. The MAC provides policy guidance to the ESF program. It was authorized to establish a Secretariat to handle day-to-day ESF operations. The Secretariat is under the Ministry of Human Settlements. ESF is funding the operations of the Secretariat under the Project Design Grant (Project No. 492-0343). Forty-five positions have been approved and 30 filled as of April 1981. This number will increase

as required. Approximately one-third of the Secretariat staff can be attributed to MDF execution. This includes staff in fields such as engineering, public finance, public auditing, systems design and management, town planning, etc. The staff is complemented by consultants and short-term details from other GOP ministries and consulting firms.

The MDF will utilize the services of the Development Bank of the Philippines (DBP) as the disbursing and collecting agent on the loan portion of the program. DBP is a well established government corporation which handles a broad range of credit programs including several to local government units. The DBP will only serve as a banker. It will not be involved in project evaluation or monitoring. The Secretariat will enter into an agreement with DBP to perform the required banking functions and AID will approve this agreement prior to its execution.

2. MDF Policies and Procedures

The Secretariat is preparing policy and procedural guidelines for its operation. These are closely related to AID's Handbooks on project design, procurement and administrative services. Major documents include:

a. The Project Development System

Similar to Handbook 3, this document has been completed in draft. It establishes the procedure and criteria for project approval. This includes technical, economic, social and environmental considerations.

b. Procurement System

A manual for service contracting has been completed in draft. A manual for materials and equipment and construction contracting is in process. Standard agreements for force account services have also been completed and approved by AID. These documents will be fully consistent with AID regulations for local procurement. Off-shore procurement will be governed by AID Handbook 11 requirements for host country contracting. The Secretariat has two procurement officer positions on its staff.

c. Administrative and Logistic Support

The Secretariat is in the process of establishing its general services function. This unit will be fully operational by the end of the CY 81.

d. MDF Financial Procedures

The Secretariat is preparing a manual on MDF financing policies and procedures.

e. Conclusion

It is AID's judgment that the Secretariat is capable of executing the MDF as presented and that appropriate plans will be in place prior to commitment of funds to ensure its effective execution. AID intends to include a Condition Precedent in the Project Agreement which requires approval of appropriate procedural documents prior to any MDF disbursements. These may include the project development system; the local technical services procurement system; the local equipment and materials procurement system; the local construction services procurement system; financing procedures; and the banking agreement between the Secretariat and DBP or other acceptable banking institutions. These documents are under preparation and some are completed in draft but they have not been finalized for approval by the MAC and AID.

C. Local Government Institutional Analysis

1. General

The local government system in the Philippines is a hierarchy of decentralized organizational units with strong links to the central government. It is organized into 72 provinces, 1,500 municipalities, and 60 cities. Provinces and chartered cities are almost equivalent in administrative stature and level of authorities. Cities operate independent of provincial governments. Municipalities, on the other hand, are controlled by the provincial governors to a major extent. Municipalities and cities are the primary concerns of the MDF. A summary of sections of the Local Government Code which pertain to local government organization, authorities, functions and relationships and finance is included in Annex III.

Most municipalities in the Philippines, excluding those in Metro Manila, have very limited revenue sources. It is not uncommon for them to have budgets of only a few hundred thousand pesos a year and ten to fifteen employees. While cities generally have a larger income base and generate more revenue, they can be quite small. Usually, the greatest number of a city's or municipality's employees is found in the Treasurer's Office. The national allotments, internal revenue and specific tax, constitute the single largest sources of revenue for most cities and municipalities. The national specific tax allotment which is designated for the municipal infrastructure fund is usually the major source of local

government revenue for this fund. In some cases, the MDF assistance could be larger than the entire municipal or city development budget. This must be taken into consideration in the development and design of specific MDF projects. (See Annex IV "Local Government Sources of Funds".)

2. Municipalities

The municipality is under the legal jurisdiction of the provincial government for administrative and financial matters. Municipalities, however, have the authority to plan and implement projects and to use public funds subject to guidelines set by national government agencies and the provincial government.

The municipality has a development coordinator who assists the mayor in designing programs and projects they wish to execute. There are instances where the development coordinator does not have adequately trained and experienced staff. As a result, the mayor and his development coordinator may ask the assistance of the Provincial Development Staff and Provincial Development Coordinator. The MDF will provide municipalities with technical assistance in this area so that local capability can be improved and the major objective of developing self-reliant communities more adequately met.

To avoid overburdening municipalities, project financing packages on loans are being designed according to the repayment capacity of the municipalities. For planning purposes municipalities are being given minimum and maximum MDF allocations. These take into account historical patterns for capital investment and borrowing capacity.

3. Cities

Cities are autonomous units covered by charters which serve in effect as the by-laws of a public corporate entity. The charter sets the city's limits for public and quasi-public transactions involving public and private property. It also establishes revenue generating powers and the extent of expenditure allocations permitted.

Project development including planning and programming of the city's development funds is handled by the City Planning and Development staff. This staff is organizationally attached to the Office of the Mayor. It is responsible for the city's development efforts, including obtaining external financial resources for its projects. Cities participating in the MDF - Angeles, Baguio and Olongapo - are considered capable to execute their responsibilities under the MDF with limited external assistance. Angeles and Olongapo are, likewise, participants under the AID-assisted Rural Service Center Project.

4. The Investment Planning and Programming Systems at the Local Government Level

The local government units perform investment planning and programming functions in line with the decentralization efforts of the national government. National planners rely on this effort to determine the local community's demand for basic infrastructure support and to develop capital programs. The Municipal Development Coordinator, with his staff or with the assistance from the Provincial Development Staff, identify projects down to and including the barangay level. In coordination with barangay officials, basic infrastructure support and small scale projects are identified and incorporated in a five-year municipal capital improvement program. This could include roads, bridges, footpaths, small irrigation systems, drainage projects, markets, health facilities and others. The CIP usually identifies possible sources of funds, e.g., municipal, provincial, national or other external sources.

The CIP's of the local government units form a major portion of the Regional Development Investment Plan. The RDIP is coordinated by the NEDA Regional Office for the Regional Development Council.

The local municipal councils (sangguniang bayan) approve the municipal CIP. The CIP serves as the basis for priority projects to be initiated by the municipality. For projects requiring provincial assistance, the CIP is submitted to the Provincial Engineer's Office for evaluation of technical soundness and basic feasibility. The provincial treasurer is likewise consulted on all projects requiring provincial assistance to determine whether the projects can be financed using provincial funds. Projects requiring national budgetary aid are passed on to national agencies. The CIP will serve as a major planning document in the execution of the MDF.

5. Local Government Conclusion

The presence of development staffs or coordinators is a satisfactory assurance that the local government unit has capacity to be involved in project identification, planning, and monitoring and evaluation. Assistance, however, will probably be needed on detailed technical project design and implementation in most cases. Given the existence of (1) development staffs, (2) the MDF's intention of providing resources to strengthen local institutional capacity through technical assistance, and (3) the guidance provided by the national government agencies, (and provincial government for municipalities) particularly the Capital Investment Program, it is AID's conclusion that adequate institutional capacity of local governments exist to implement the MDF, as presented.

D. FAA Section 611 (a) (1) Consideration

This Project is the prototype example of the kind of Fund project set forth as capable of meeting Section 611 in the paper entitled "Satisfaction of the Requirements of Section 611 (a) (1) under the 'Fund' Concept" which was previously submitted to AID/Washington and a copy of which is attached as Annex V. The Project is in support of similar institutions (cities and municipalities) which are expanding their capacities to develop, implement, monitor, and evaluate a disparate range of sub-activities beneficial to the target-group. It will result in the establishment of systems under which the local institutions can so expand their capacities and will result in additional resources being made available to the target beneficiaries.

This paper explains the operation of the Fund as well as the mechanism and criteria for planning, financing, implementing and evaluating projects. They provide for the establishment of an internal audit and evaluation capability. Further, they explain that the focus of the MDF is on the process of development which results from the Fund activities rather than any particular projects financed by the MDF. Finally, the Paper establishes a firm cost of the Project to the U. S. Government, in the context of ESF assistance to the Philippines.

Accordingly, we conclude that Section 611 (a) (1) has been adequately met.

E. Environmental Considerations

The major purpose of the MDF is to enhance management capabilities of local government units. This will not have a significant environmental impact. Some projects carried out under the MDF will have a significant environmental impact. The PID explained that, where appropriate, projects financed by the funds will be analyzed from an environmental point of view by the Secretariat according to GOP and USG regulations before commitment of funds. Appropriate procedures are in place to do this.

AID environmental requirements will be met as follows.

1. Capital Projects

Capital project \$1.0 million and over, which will be approved in detail by USAID, will be subjected to separate environmental analyses (an Initial Environmental Examination and Environmental Assessment, if necessary) required by Section 216.3 of AID Environmental Procedures. IEEs and EAs for these projects will be reviewed and approved by the appropriate AID Environmental Officer.

Since there will be no USAID approval of capital projects under \$1.0 million, such projects will not be subjected to environmental analyses required by AID environmental procedures. Per regulation 216.2c(ii) of AID Environmental Procedures, IEEs and EAs are not required for projects, such as these, where "AID does not have knowledge of or control over, and the objective of AID in furnishing assistance does not require...knowledge of or control over details of the specific activities that have an effect on the physical and natural environment...". However, environmental analyses required by the Secretariat's "Project Development System" manual will be undertaken for all capital projects under \$1.0 million.

2. Non-Capital Projects

Environmental analyses required by AID Environmental Procedures will be undertaken for all non-capital projects for which USAID approval is required. These analyses will be reviewed and approved by USAID/Manila. All other non-capital projects will be subjected to environmental analyses required by the Secretariat's "Project Development Systems" manual.

IV. Financial Plan and Budget

A. General

The Municipal Development Fund (MDF) is designed to enhance the capabilities of cities and municipalities to manage resources. It will augment the financial resources of recipient municipalities by helping to finance their investment programs. Emphasis in the MDF will be on projects which increase employment and productivity in the locality. Extensive information on the revenue and expenditure systems, including external assistance provided to local governments in the Philippines, is available with the Secretariat. General features are discussed in Annexes III and IV.

The GOP realizes that one approach to economic growth is to provide for the effective partnership between the private and the public sectors, particularly in consideration of the mixed economy nature of the Philippines. In an effort to assure the private sector that their role is not being undermined by the presence of subsidized credit assistance programs, public sector loan interest rates are kept at what the GOP feels is the minimum cost of capital. This has been determined to be 9 percent. This is considered the minimum rate that capital holders are willing to save. It is presently applied to savings accounts in commercial and savings banks. It is also used for subsidized credit assistance programs of the GOP managed by the Central Bank, and other government depository banks designated to participate in these programs. The MDF will uphold these credit policies. Projects to be funded out of the MDF are planned to demonstrate the capability of the local government units to expand and improve their operation while recognizing the cost of new inflow of funds.

B. Terms, Interest Rate, Grace

Not all of the municipalities or projects will be given the same financing packages. Some projects will be grant financed, and on those loan financed terms will vary according to project type and to GOP classification of the city or municipality. The classification of cities and municipalities is based on income (general fund receipts, operating income, income from sale of capital equipments, grants and loan

proceeds). Classifications are established by the Ministry of Finance based on budget operation statements submitted by local government units. This can be a basic determinant in establishing a municipality's debt service capability and absorptive capacity. The classification is reviewed every five years with a new classification due 1982. The system of classification is covered by Presidential Decree 465.

There are five basic classifications for cities and six for municipalities -- the first being larger cities and municipalities with historically more revenue generating capability and the fifth or sixth being smaller with limited revenue generating capability. Cities and municipalities in all classifications are expected to participate in the MDF. The municipal classification primarily will determine the loan terms provided by the MDF on revenue generating projects. Smaller municipalities, historically less capable of generating revenues will receive loans on softer terms than larger ones. Given the municipalities revenue generating and debt service capabilities, there are a variety of questions which should be asked in determining loan terms. Should the municipality be provided with a longer repayment period to spread the amortization payments; should it be provided a longer grace period without repayment on principal during that time; should interest payment start after the grace period with repayment on principal lagging further behind; should part of the project cost be provided as a grant to soften the debt burden. To simplify the process, a uniform interest rate shall be charged, i. e., the GOP minimum of 9% and grace on principal and/or interest, term and grant component shall be varied. The classification will be used as the basis for determining how concessional a loan to a municipality should be.

In applying the classification system to MDF lending, three financial packages are being proposed for revenue generating infrastructure projects and three for public enterprises. Basically, cities and municipalities will be placed in these packages based on their classification as presented below. Flexibility, however, to change financial packaging for a particular project will be maintained. Changes can be justified based on a specific projects revenue generating potential, risk, projected external benefits or costs to the community, etc.

The proposed system for loan packaging according to classification is presented below:

Classification of Cities/Municipalities with Corresponding Financial Package
(Amounts in Million Pesos)

<u>MDF Financial Package</u>	<u>City</u>	<u>Average Annual Revenue</u>	<u>Mun.</u>	<u>Average Annual Revenue</u>
A	Class 1	₱3.0 M-₱7.0 M or more	1	₱1.5 M-₱5.0 M or more
	2	₱1.5 M-₱2.99 M	2	₱1.0 M-₱1.4 M
B	3	₱1.0 M-₱1.49 M	3	₱0.5 M-₱0.9 M
C	4	₱0.5 M-₱0.9 M	4	₱0.3 M-₱0.4 M
	5	less than ₱0.5 M	5	₱0.1 M-₱0.2 M
	6		6	less than ₱0.1 M

Briefly, the four major MDF project categories and their financing packages are presented below:

1. For Institutional Development, Municipal Administration/Management and other Project Related Services

These projects refer to assistance to be provided to local government units to improve their efficiency in managing their fiscal and development resources. Funding assistance for this type of project is anticipated to be grants for technical assistance. Counterpart requirements will vary and be in cash and/or kind to help ensure that the local unit has a stake in the improvements being provided.

Funding under this category will also be for studies in preparation of projects and their supervision, e.g., A & E services for the municipalities. These funds could be used to finance a contractor to assist the Secretariat and/or AID with project monitoring.

There will be no assistance provided to current operating (recurring) expense except where justified as extremely necessary and clearly demonstrated that it cannot be provided as counterpart by the proponent city or municipality. Where financing of operating expenses is done, it will be with a scheduled phaseout and be related to specific MDF Projects proposals.

2. Basic Infrastructure (non-revenue generating)

This will be on a straight grant basis and will not be related to classification. Examples are road, flood control, drainage projects.

3. Infrastructure Projects (revenue generating)

These are projects designed to improve revenue generating infrastructure accorded to the constituents of the locality. They may be city owned and run, cooperatives or public owned utilities but not private. Focus is made on upgrading utilities as water supply, rural electrification and power, trash collection and disposal, and sewerage and other revenue generating community facilities.

Cities and municipalities will be permitted to relend or assign their borrowing authority to cooperatives, publicly owned utilities and public corporations but not to private commercial entities. General terms of such arrangements will be worked out on a case-by-case basis and approved by AID.

The proposed lending structure for revenue generating infrastructure follows:

Revenue Generating Infra-Projects

	<u>Package No. A</u>	<u>Package No. B</u>	<u>Package No. C</u>
Interest Grace Period	C	C	C
Principal Grace Period	C+1 yr.	C+1 yr.	C+2 yrs.
Term ^{1/}	10-15 yrs.	12-17 yrs.	15-20 yrs.
Interest Rate	9%	9%	9%
Frequency of Payment	<u>Annual/Semi- Annual</u>	<u>Annual/Semi- Annual</u>	<u>Annual/Semi- Annual</u>

C = Construction Period

1/ Term is inclusive of grace less estimated construction period.

In all cases, cities and municipalities which exhibit improved financial positions during the life of the loan will not be penalized by restructuring of their amortizations schedule (e. g., prepayment) unless so desired by the local units themselves.

4. Public Enterprise Development Projects

These projects refer to income generating efforts of local government units. They will complement efforts of the local private sector in contributing to the growth of the local economy. Income derived from these projects will be used to further strengthen the delivery of basic services to the local constituents thereby assisting local units become self-reliant. Among the projects which will qualify for financing under this category are public markets, slaughterhouses, artisan markets, industrial estates, and other ventures which will be owned partly or in full by the local government.

The MDF will be open to the possibility of financing the entry of local governments into joint ventures with other local governments or government corporation or possibly even private entities should such ventures present a more effective way to manage an enterprise. This particularly holds true for new ventures which the local government unit may want but where they do not have the technical expertise to enter into the project alone. Operations covering this option shall be contained in subsequent Project Implementation Letters.

Joint ventures refers to equity sharing. If the local government puts in 20% of capital against another entity's 80%, the net income would be divided in the same way as the capitalization, i. e., 20:80. In effect, the local government, through this joint venture, realizes 20 percent of net income (or loss) which it would have not realized if it had not jointed the venture. Presently, there is no single institution which provides this type of assistance. This particular gap could be filled by the MDF on a trial basis, where appropriate, in cooperation with specialized institutions interested in rural development. Any trials in this area will be on a small scale and would have to meet the criteria for MDF assistance.

Following is the proposed loan system for public enterprise projects in the three packages:

<u>Public Enterprises</u>			
	<u>Package No. A</u>	<u>Package No. B</u>	<u>Package No. C</u>
Interest Grace Period	C	C	C+(2 to 3 yrs.)
Principal Grace Period	C+(1/2 to 1 yr.)	C+(1 to 1-1/2 yr.)	C+(5 to 6 yrs.)
^{1/} Term	10 yrs.	10-12 yrs.	12-15 yrs.
Interest Rate	9%	9%	9%
Frequency of Payment	Annual/Semi-Annual	Annual/Semi-Annual	Annual/Semi-Annual

C = Estimated Construction Period

C. Financial Plan, Disbursement Procedure and Cost Estimates

1. General

The first year obligation will be \$22.0 million with cash flow requirements of roughly \$8.0 million for the first year and \$14.0 million for the second year. Of the total available funds, the following are estimated ranges of percent shares per program component:

- Institutional development projects ^{2/}	<u>AID</u> 5-10%
- Infra-development projects	35-50%
- Public enterprise projects	35-50%
- Other projects	5-10%

1/ Term is inclusive of grace less estimated construction period.

2/ These funds may be used to finance A&E or management supervision contracts to assist the Secretariat and/or AID in the monitoring of the MDF.

These allocations per project category are based on estimated demand for capital and historical performance of the recipient municipalities. These project mixes may vary depending on municipality, project priority, absorptive capacity, etc.

Public enterprise has a major allocation because of the intention to enhance the investment program of municipalities and the increased provision for the delivery of basic services through earnings from the public enterprises. Likewise, public enterprises can be an additional source of continuing revenues for local units in addition to taxes, fees and charges and budgetary aid. Infrastructure likewise has a major share of the MDF because of the need for basic infrastructure in the areas around the bases.

2. Development Bank of the Philippines

The Development Bank of the Philippines (DBP) will act as the disbursing and collecting agent for the MDF. There will be a charge of 1/2 of 1% for loans which will be charged to the borrower for loans. DBP will likewise be the legal custodian of the MDF loan capital. Administration of the MDF, however, rests with the Management Advisory Committee and the technical Secretariat supporting it. This includes responsibility for project evaluation, approval and monitoring. The Secretariat will enter into agreement with the DBP so that this arrangement is facilitated. A condition precedent to disbursement of any loan funds to be made through the DBP or other appropriate banking institution will be AID concurrence of the banking agreement.

Pursuant to the banking agreement, a trust fund will be set up at DBP to handle the repayments on loans. Repayments will be used to replicate the efforts made in recipient municipalities, although not tied directly to these municipalities. A covenant will be placed in the Project Agreement to the effect that collections be relent in the general area of the bases for similar type projects without causing investment flooding and with due consideration to other growth pole potential cities and municipalities.

3. Audits

The Ministry of Human Settlements will use auditors from the Commission on Audit to continually review project activities. These auditors are located in the Ministry of Human Settlements as well as in the local government units. In addition, plans are to have an annual external audit (private firm), audit the MDF and its operations. It is expected that AID audit requirements will be minimal and will focus mainly on the MDF process.

D. AID Disbursement Procedures

AID will disburse obligated funds for the MDF in the same manner as was used for the ESF financed Elementary Schools Construction Project, i. e. ,

- the GOP places the estimated peso cash requirement for one year operation of the MDF in a separate special peso account in the Treasury of the Philippines and provides AID evidence of the deposit.
- after conditions precedent are met, AID disburses the dollar equivalent of one year peso cash requirement to the Treasury of the Philippines and the dollars are then free foreign exchange. The advance is based on cash requirements for entering into commitments for MDF projects.
- the special account is replenished annually or faster depending on drawdown and cash requirements.
- advanced funds (pesos) will not earn interest.
- foreign exchange requirements are held by the USG for required offshore procurement.
- commitments disbursement and expenditure reports on the special peso account are provided to AID on a quarterly basis.

E. Obligations, Commitments and Expenditures

Detailed schedules for obligations, commitments and expenditures are provided in Annex V. A summary table is presented below. This table indicates that a sizeable pipeline will exist between obligations and expenditures in the early years of the program (these are funds that will be held by AID). The pipeline between commitments and expenditures, i. e. , outstanding advances, is much less. The reason advances will be outstanding over a one year period is because GOP procurement policy requires that funds be in place before contracts are entered into and some contracts will extend over one year. Since the special peso accounts is in the Treasury of the Philippines, GOP laws and regulations governing procurement apply.

MDF-ESF

Summary of Illustrative Obligations, Commitments Expenditures

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>	<u>1st Qtr. FY 88</u>	<u>End of Proj. Total</u>
Obligations ^{1/}	22,000	17,000	15,000	16,000	-0-	-0-	-0-	-0-	70,000
Commitments (Advance to MAC)	3,000	12,000	14,000	14,000	14,000	9,000	4,000	-0-	70,000
Expenditures ^{2/}	-	8,000	14,000	14,000	14,000	10,000	7,000	3,000	70,000
Cummulative Obligation less Commitments	19,000	24,000	25,000	27,000	13,000	10,000	-1-	-0-	-0-
Cummulative Obligation less Expenditures	22,000	31,000	32,000	34,000	20,000	10,000	3,000	-0-	-0-
Cummulative Commitment less Expenditures ^{3/}	3,000	7,000	7,000	7,000	7,000	6,000	3,000	-0-	-0-

1/ Estimated amount of one year cash requirement (advance) less estimated foreign exchange import cost.

2/ Estimated advance liquidation by expenditure to be reported on quarterly basis.

3/ Outstanding advance at end of FY.

V. Implementation Plan

A. Institutional Arrangements

The following implementation system has been developed during the project design period of the MDF. At the national level of government, the Secretariat will manage the MDF in coordination with technical GOP agencies and AID. The Secretariat, working with local government units, is developing procedures for the coordination and execution of the MDF. The general features of these procedures are briefly discussed below.

1. For municipalities the provincial government will be involved in project identification, design and implementation as required. The provinces will also review the soundness of projects presented given the overall development design and strategy for the province. The provincial governor's role in the MDF is to recommend and endorse projects of municipalities after consultation with the leadership of proponent municipalities. Most governors are adequately supported by their technical personnel from the Provincial Development Staff, District Engineering Office, etc. to perform this review function and assist municipalities as needed.

2. The cities which participate in the MDF shall select projects which meet MDF criteria with assistance from its City Planning and Development Staff, City Engineer, etc. There shall be appropriate measures to involve the local population in the identification and selection of projects for MDF financing. The city mayors, operating independently from provincial governments, shall present the project for funding to the Secretariat after appropriate GOP clearances are obtained.

3. The coordination of the MDF with other local government programs shall take two forms:

- For selected municipalities, project identification and planning shall be done by the Municipal Development Staff. In most of the municipalities surveyed, only the municipal development coordinator engages in project planning (i. e., identification and design) supported by one or two staffers. It is therefore necessary that the Provincial Development Staff under the governor's office, work closely with the Municipal Development Staff in the project planning. The Provincial Development Staff will coordinate with regional,

provincial and concerned local government entities. To the extent practical the municipality will have primary responsibility in the design and supervision of MDF funded projects. They will be assisted, as appropriate, by other GOP agencies, the Secretariat and private consultants which could be financed by the MDF.

- For participating cities, the City Planning and Development Staff shall coordinate with appropriate national government agencies and the Secretariat in the planning, design and implementation of projects. Assistance on project design and project management and supervision may be solicited from GOP national and regional agencies, private consultants and from the Secretariat. It is recommended that cities organize a project management team with staff mainly from local offices in the cities and headed by the city mayor. Such organized efforts will improve coordination and operation of project design and execution. A project management team also provides for the coordinated participation of local officials in the city. The cost of operating project management team could be assisted under the MDF.
- 4. The fund management procedures shall be coordinated with local counterparts of Ministry of Finance and Ministry of Budget.
- 5. The cities and municipalities participating in the MDF will be responsible for involving potential target groups in project planning, designing and, to the extent practical, in the implementation of projects.
- 6. The Development Bank of the Philippines will serve as the banking institution for the MDF. Its functions are discussed in Section III.

Before final authorization by the Secretariat, the Regional Office of the National Economic and Development Authority and the Ministry of Local Government and Community Development will be asked to approve the project where appropriate and required under GOP regulations.

The tasks to be carried out by the cities and municipalities constitute a significant increase in both quantity and the nature of their current work program. The cities and municipalities participating in the MDF will build up capabilities gradually giving time to train new staff and absorb and adjust to new procedures.

When a project is authorized by the Secretariat for financing, the local government unit will enter into an agreement with the Secretariat. If the municipality is to relend the funds to a public utility or cooperative, they will enter into a relending agreement with that entity. Where borrowing authority is assigned to another public entity, the Secretariat will enter into an agreement with that entity based on the municipality's written authority to do so. The agreement will govern the execution of the project and include procurement rules, disbursement system, completion dates, audit rights, etc. The agreement, in the case of assigned borrowing rights, will be subject to AID concurrence on a case-by-case basis prior to fund disbursements if the project is over \$300,000.

B. Implementation Schedule

The MDF will last for approximately 7 years with obligations over a 4-year period starting in July/August 1981. Conditions Precedent to disbursement are expected to be met by the end of October. Specific schedule of implementation will depend largely on the nature of projects approved under the MDF. For 1981, the Cities of Olongapo and Angeles being most affected by the bases, will be given priority in the MDF. The rest of the bases affected municipalities and cities will come into the MDF in 1982 or 1983. Project identification exercises have begun and design on many is under way.

C. Monitoring/Reporting

In a multi-component project such as the MDF, efficient monitoring and reporting is crucial if implementation problems are to be discovered early and corrective measures taken. In addition, timely reporting can perform a larger role by providing information on successful and unsuccessful project designs to aid in the design and implementation of similar projects in the future. The Secretariat is currently monitoring project design activities and will monitor implementation when it begins. Monitoring and reporting emphasis will be placed on physical progress and financial expenditures expected. Each quarter they will be measured

against actuals. On a quarterly basis, the proponent city or municipality will report the percentage of project execution completed, accrued expenditures and the percentage of project budget disbursed. AID encourages the use of MDF funds for the Secretariat to contract with a qualified local A&E or management firm to assist with monitoring responsibilities.

D. AID Approvals and Monitoring

AID would like to minimize its involvement in project approval and monitoring and place primary reliance for these functions on the Secretariat. AID approved procedures and systems to execute the MDF will be used by the Secretariat. The following is proposed as a means of reducing AID direct-hire workload in the execution of the MDF:

1. Capital Project Approvals

- Capital projects \$1.0 million and over will be approved in detail by the Secretariat and AID. This will include technical, economic, environmental, financial, etc. feasibility considerations, procurement plans, etc.
- Capital projects under \$1.0 million will not require AID approval prior to authorization by the Secretariat unless they (1) include financing of imported equipment and materials or (2) are not for one of the pre-approved project areas listed below. These may be new construction or improvements. This list shall be reviewed and amended periodically as required and jointly agreed to by the Secretariat and AID:

Roads and Bridges	Sanitation
School Buildings	Solid Waste
Electric Power Facilities	Public Markets
Street Lighting	Slaughterhouses
Water Supply	Ice Plants and
Drainage/Flood Control	Cold Storage
Erosion Control	Hospitals/Health
Reforestation	Stations

- All capital projects requiring foreign procurements (materials and equipment, construction and technical assistance) and procurement of vehicles will be approved by the Secretariat or AID.

2. Non-Capital Project Approvals

- AID reserves the right of review and approval on all non-capital projects (e.g., joint ventures with private entities, municipal businesses, training and social service programs, organizing services, feasibility studies, local government management assistance. AID and the Secretariat will jointly develop criteria for when AID approval would be required and these will be enumerated in implementation letters.

3. Contract Approvals

- The Secretariat and AID will approve all major materials and equipment, construction and technical assistance contracts which are under a capital or technical assistance project that required Secretariat and AID approval.
- The Secretariat and AID approve foreign procurements (materials and equipment, construction and technical assistance) and procurement of vehicles.

4. Monitoring

- AID will rely on the Secretariat and local government units to the maximum extent for project design, implementation approvals and monitoring. AID will monitor progress on a selective basis depending on the size and complexity of the project. For example, AID would monitor a \$3.0 million road quite closely but would do sample monitoring on a project to expand and improve home vegetable gardening which involves 2,000 households. The Secretariat will assume most of AID's usual monitoring responsibilities and report progress and expenditures to AID. In this connection, AID will not monitor reflows from credit-financed projects (see Special Covenant No.3 on page 31 below).

5. Procurement

- Local procurement will be in accordance with AID-approved MDF procurement procedures. Offshore procurement will be in accordance with AID Handbook 11 or other appropriate AID regulations. Excess property will be used to the maximum extent. Each project will include a procurement plan as part of the design effort. Such plan will be approved by the Secretariat and/or AID as appropriate prior to disbursement of project funds.

6. AID Staffing Implications

- The project will obviously have staff implications for the Mission. However, the system described above which relies heavily on the Secretariat will help to minimize AID involvement in the execution of the MDF. It is the Mission's opinion that without staff reductions, the AID staff in

the Philippines is adequate in number and technical skills to carry out its responsibilities under the MDF and other ESF projects. Additionally, AID encourages the use of MDF funds to obtain an architecture and engineering contractor to assist with ESF monitoring.

VI. Evaluation

Two interim evaluations and one final evaluation are scheduled for the MDF. These will be joint GOP/AID evaluation. Costs of the evaluations will be covered by the MDF.

The evaluations will basically review the following areas and questions:

1. Adequacy of Secretariat administrative arrangements, i. e. , procedures, staffing, administrative support, etc.
2. Effectiveness of the Development Bank of the Philippines as the MDF banker.
3. Absorptive capacity of participating cities and municipalities. Is their capacity improving to meet on-going operations and maintenance costs and are they actually doing so.
4. Viability of loan interest rates, and terms of repayment system.
5. Bottleneck to MDF implementation.
6. MDF coordination with other local and national government units.
7. MDF pipeline problems.
8. Debt service problem of participating municipalities.
9. Need to expand the MDF to include additional cities and municipalities.
10. Effectiveness of AID approval mechanism.
11. Profile of projects proposed for financing.
12. Impact of projects on city and municipality operating and maintenance budgets, and on local tax revenues.
13. Degree to which technical, economic, financial, social and environmental feasibility studies conducted for projects where appropriately designed and provided a satisfactory basis for project selection design and approval.
14. Whether projects were effectively implement and are operating as planned.

VII. Conditions, Covenants and Negotiating Status

A. Conditions Precedent to Initial Disbursement of Funds

The Standard condition precedent to disbursement regarding the statement of names of the representatives of the Grantee (including the Secretariat) and evidence of their authority will be included in the Agreement. In addition to this standard condition, the following conditions precedent to disbursement are intended for inclusion by AID:

1. Evidence that the Secretariat has in place financial and review system capable of processing (including monitoring and evaluating) the proposals that it receives from the various cities and municipalities being financed out of the Fund;
2. An executed Service Agreement between the Secretariat and the Development Bank of the Philippines (or other acceptable banking institution) for the financial handling of any funds which are lent rather than granted to the municipalities; and
3. A standardized project agreement to be used between the Secretariat and the cities or municipalities financed by the Fund.

B. Special Covenants

AID intends to include the following special covenants in the Project Agreement:

1. The Parties shall agree that any changes to the approved financial terms, conditions and procedures for the handling of any loans from the Municipal Development Fund shall be approved by both Parties.
2. The Parties shall agree that any joint ventures entered into between government entities and private enterprises shall have the written approval of AID before being executed.
3. The Parties shall agree that proceeds from loans to cities and municipalities shall be made available for use in projects similar to those meeting the MDF criteria in the general areas of the U. S. military facilities unless AID otherwise agrees in writing.

4. The Grantee shall covenant that adequate staff will be maintained at the MAC Secretariat sufficient to manage the MDF project over the life of the project.
5. The Parties shall agree that cities or municipalities shall be permitted to relend or assign borrowing authority only to cooperatives, publicly-owned utilities or public corporations or such other entities as they may approve in writing, and agree that AID shall approve such relending or assignment prior to funds being committed for this purpose.

C. Negotiating Status

All of the above conditions and covenants have been discussed with appropriate GOP personnel and USAID anticipates no problem in including them in the Project Agreement.

ANNEXES

- I. A. Illustrative List of Participating Cities
and Municipalities around the Bases
- I. B. Map of Bases Areas
- II. Sample List of MDF Projects
- III. Summary of Local Government Organization
- IV. Local Government Sources of Funds
- V. Satisfaction of the Requirement of Section 611
(a) (1) under the "Fund Concept"
- VI. Illustrative Obligation, Commitments and
Expenditures under the MDF
- VII. Logical Framework
- VIII. Statutory Checklist
- IX. Section 611(e) Certification

Illustrative List of Bases
Affected Cities and Municipalities

PAMPANGA

Angeles City
Mabalacat
Porac
Magalang
San Fernando
Floridablanca

ZAMBALES

Olongapo City
Subic
San Antonio
San Narciso
San Marcelino
Castillejos

LA UNION

San Fernando

TARLAC

Bamban
Capas
Concepcion

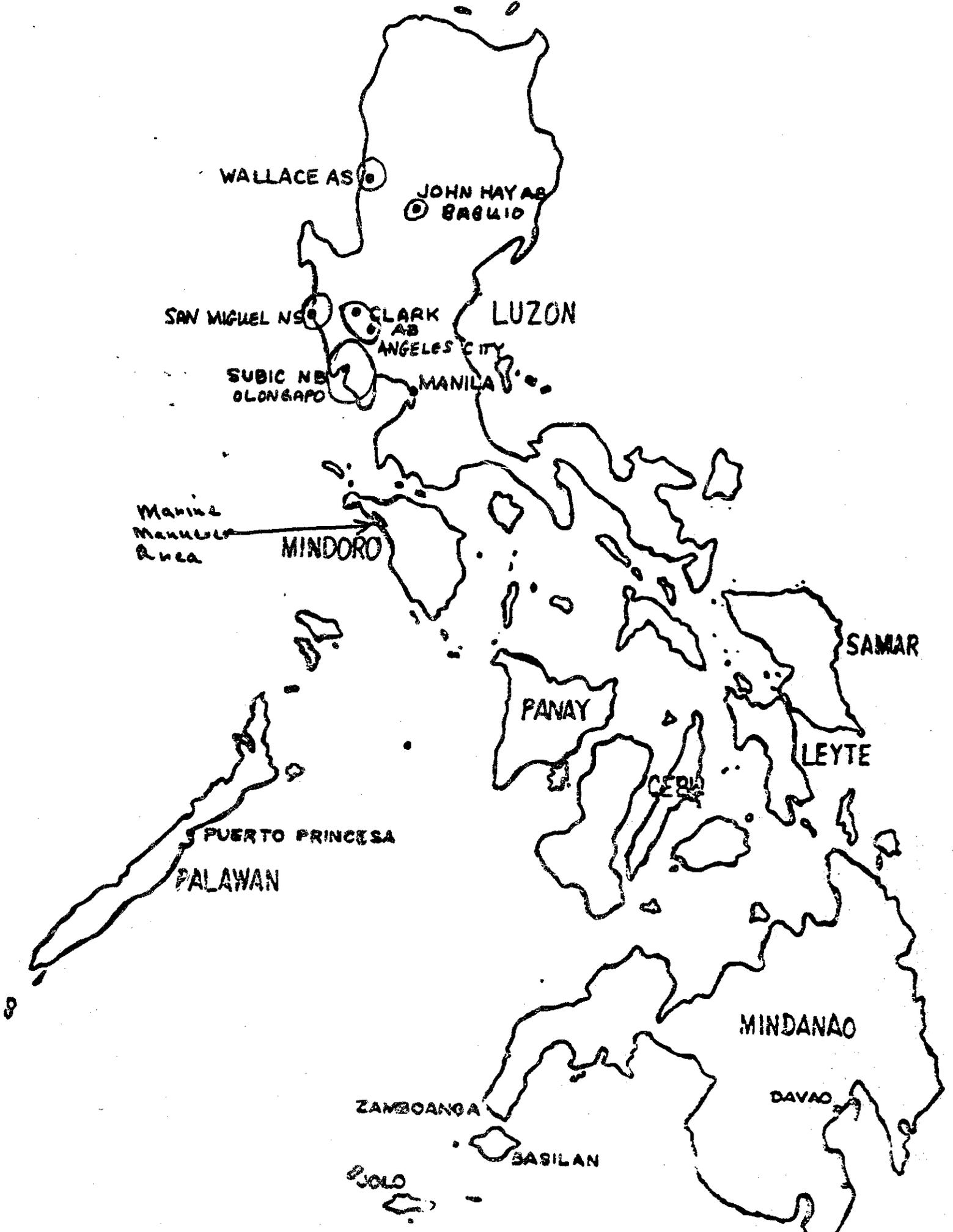
MINDORO
OCCIDENTAL

(Navy/Marine
Maneuver Area)

BENGUET

Baguio City
La Trinidad

Map showing U.S. Military Facilities



WALLACE AB

JOHN HAY AB
BAGUIO

SAN MIGUEL NS

CLARK AB

LUZON

ANGELES CITY

SUBIC NB
OLONGAPO

MANILA

Manila
Manuel A.
Area

MINDORO

SAMAR

PANAY

LEYTE

CEBU

PUERTO PRINCESSA

PALAWAN

MINDANAO

ZAMBOANGA

DAVAO

BASILAN

JOLO

LIST OF ILLUSTRATIVE PROJECT

Project identification is well underway in most cities and municipalities affected by the U. S. military facilities. An illustrative list of several projects under consideration and a short description is presented below. It is anticipated that most MDF projects will fall under one of these general project types although size and site specific conditions will vary.

1. Angeles Public Market (\$3.2 million):

The public market of Angeles is over crowded and generally run down. The city has acquired land for a new market and has assigned it as a top priority for MDF loan financing. Consideration is being given to making the market a city owned public corporation. The detailed design is almost complete.

2. Angeles Slaughterhouse (\$1.0 million):

The current slaughterhouse at Angeles is about 8 years old. It is too small for this large city and sanitary condition poor. There is no cold storage. The city has acquired land for a new facility just outside the city along the circumferential road. It plans to construct a more modern slaughterhouses using an MDF loan. Detailed design is almost complete.

3. Angeles City Hospital (\$1.0 million):

The existing city hospital is in poor condition and is located next to a dump site. It has a 50 bed capacity including beds in the hallways. Its equipment is outdated. The city has land for a new hospital, 75-100 bed capacity, and has assigned this a top priority. A market survey is underway to determine exactly how large the hospital should be and what level of treatment should be available there. Administrators from the Region Hospital Center at Clark are assisting the city with design, equipment specifications, etc.

4. Angeles Circumferential Road (\$4.0 million):

Angeles has grown so fast that the road system has not been able to keep pace. City streets are crowded and during the rainy season unpassable in places. AID, through the Rural Service Center Project, helped

the city develop a Master Road Network Plan. The circumferential road is a top priority to alleviate the traffic congestion problem. Economic studies and surveys have been completed and detailed design started. The road will include about 15.6 Kms. of road improvement and 9.6 Kms. of new construction. Most right-of-way has been acquired and negotiations are underway for remaining segments. Construction is planned to begin in January, 1982.

5. Olongapo Solid Waste Management (\$2.0 million):

Olongapo suffers from a terrible solid waste disposal problem. The current dump site is totally inadequate for the size of the city and proposed new sites are significantly outside the city proper on hillsides or at the base of small watersheds. Squatters have, likewise, encroached on the dump site and are living under deplorable sanitary condition. The site is on an inland canal, and much refuse is washed into Subic Bay. The city would like to modernize its solid waste and collection system and investigate alternative methods for disposal. Negotiations are underway with the Secretariat to perform a comprehensive study of this problem. MDF would finance required improvements.

6. Olongapo Power System (\$3.0 million):

The power systems in Olongapo is operated by the city. It is over P30.0 million in debt to the National Power Corporation. It has suffered from poor management in the past and the hardware is in such bad condition that line losses of 30% and more are common. The city has requested MDF assistance to improve the management and operations of the power system and rehabilitate/replace the old and worn-out hardware.

7. Olongapo By-Pass Road (\$2.0 million):

Traffic in Olongapo is congested. As with Angeles, Olongapo road system has not kept pace with its growth. Additionally, the World Bank is financing a major highway from Olongapo north which will further exacerbate the traffic problem in Olongapo. The mayor has asked that consideration be given to a by-pass road which would permit through traffic to go around congested downtown streets. The road would be 3-4 Kms. long and would pass just north of the main Olongapo population center.

8. Olongapo Drainage and Flood Control (\$5.0 million):

During the rainy season many areas of Olongapo suffer greatly from poor drainage and flooding. The deforestation in the Olongapo watershed is a primary cause of this. The project would finance a reforestation effort and required drainage and flood control structures.

9. Capas/O'Donnel Electric Coop (\$300,000):

O'Donnel is a barangay in the western sector of Capas municipality. It is located on the Clark reverted lands some 10 Kms. from the major Capas population center just north of the Crow Valley Bombing Range. It is a permanent community and is on private lands. In Capas, electricity is provided by a private franchise. Because of the isolation of O'Donnel, it has not been connected to the power system. This project, proposed by the mayor of Capas, would permit O'Donnel to connect to the Tarlac Province Rural Electric Coop. The project would primarily finance a transmission line and required hardware through the Tarlac Coop.

10. Mabalacat Squatter Assistance (\$1.0 million):

Mabalacat municipality borders the eastern portion of Clark Air Base. There are numerous squatter communities along this perimeter, some more permanent than others. It is generally agreed that the MDF should be used to help these people. If they stay on the perimeter, the MDF could be used to improve their access to basic services, i. e., water, roads, power, etc. If the decision is made to relocate them, the MDF could be used to establish resettlement areas and generally assist in the transition.

11. Bamban Spillway (\$500,000):

Bamban municipality lies east of the Clark reverted lands along the Sacobia River. It experiences severe flooding during the rainy season. The mayor has proposed a spillway along the Sacobia River to reduce damage from flooding and enhance year round grain and vegetable production.

12. Subic Water Supply (\$3.0 million):

Subic municipality is immediately north of Olongapo and Subic Base. Most residence do not have adequate water supply. Subic is under the Local Water Utilities Administration program. The project would enlarge the water source for Subic and assist with the expansion of the system working with the Local Water District.

13. A number of smaller projects have also been proposed. Some meet MDF criteria and others are definitely questionable. These include:

- School building construction
- Livestock auction markets
- Bridges
- Drainage systems
- Secondary farm to market roads
- Sports centers*
- Municipal equipment and tool pools for rental*
- Plant breeding farms*
- Tourism development*
- Municipal ice plants and cold storage facilities
- Reforestation of public lands
- Garbage truck procurement
- Social halls*
- Land reclamation
- Village sanitation (toilets)
- Sites and service for municipal/city industrial estate areas
- Municipal farms*
- City halls*

*Types projects which are questionable in terms of MDF criteria or may have serious feasibility issues.

SUMMARY OF LOCAL GOVERNMENT ORGANIZATION

I. Organization, Powers, and Functions

The new Philippine Constitution defines the territorial and political subdivisions of the country as the province, the city, the municipality, and the barangay (barrio).

The province represents the largest administrative subdivision, with the city and the municipality following in size. The barangay (barrio) represents the smallest unit of local government.

a. The province is defined as a "political body corporate, endowed with powers to be exercised by and through its respective provincial government in conformity with law".

b. Most city charters define a city as a "political body corporate, and as such, is endowed with the attribute of perpetual succession and possessed of the powers which pertain to a municipal corporation to be exercised in conformity with the charter provisions".

Cities are autonomous units which act independent of provincial governments. Cities generally have the same powers and functions as provincial governments and act as a municipality/province combined in the execution of their functions.

c. Municipalities are defined as "political bodies corporate, and as such, are endowed with the faculties of municipal corporations, to be exercised by and through their respective municipal governments in conformity with law."

d. Barangays (barrios) are units of municipalities and cities in which they are situated. "They are quasi-municipal corporations endowed with such powers for the performance of particular government functions, to be exercised by and through their respective barangay governments in conformity with law."

A. Classification of Cities and Municipalities

Cities and municipalities are classified by the Ministry of Finance to ascertain the salary rates of local officials, the number of councilors (now called "sangguniang bayan" members), the tax ceilings, etc.

Municipalities are divided into six classes and cities five according to their average annual revenues as follows:

City	Average Annual Revenue	Mun.	Average Annual Revenue
Class 1	₱3.0 M-₱7.0 M or more	1	₱1.5 M-₱5.0 M or more
2	₱1.5 M-₱2.99 M	2	₱1.0 M-₱1.4 M
3	₱1.0 M-₱1.49 M	3	₱0.5 M-₱0.9 M
4	₱0.5 M-₱0.9 M	4	₱0.3 M-₱0.4 M
5	less than ₱0.5 M	5	₱0.1 M-₱0.2 M
		6	less than ₱0.1 M

B. Intergovernmental Relations

The President, through the Ministry of Local Government and Community Development, exercises general supervision over provincial, city and municipal governments. The Ministry's Bureau of Local Government plus Regional, provincial and municipal officers provide the means for general supervision on behalf of the President over the local governments.

C. Provincial Municipal Relations

The provincial governor exercises general supervision over the governments of the municipalities. (Cities are independent of provinces.) In legislative matters, the provincial council (sangguniang bayan) passes upon the legality of municipal proceedings. Any municipal ordinance, resolution, or executive order of the mayor may be declared invalid by the provincial council when such ordinance, resolution, or executive order is beyond the powers conferred by law upon the municipal council or mayor.

In most instances, municipal development projects like the construction or renovation of public markets, the development of ports, and the

building of high schools need the prior approval of the provincial council or "sangguniang bayan".

The municipal budget is, likewise, subject to review by the provincial treasurer. The provincial treasurer reviews the budget to determine whether total appropriations do not exceed the total estimated income certified collectible by him and to determine compliance with the provisions of existing salary laws, executive orders, statutory and/or contractual obligations. (The city treasurer performs this function for cities.)

D. City-Barangay and Municipal-Barangay Relations

Presidential decree declares that all existing barrio or barrios may be created as "barangays" and all references to the barrio in any existing law shall be understood as referring to the barangay.

Under the Barangay Charter, the mayor exercises general supervision over the government of the barangay. Under his supervisory powers, the mayor receives (and investigates) complaints made under oath against barangay officials for neglect of duty, oppression, corruption, or other forms of misconduct in office, and conviction, by final judgment, of any crime involving moral turpitude. The city or municipal council reviews barangay ordinances, excluding tax ordinances, to determine consistency with law or any ordinance.

The barangay budget is reviewed by the city or municipal treasurer to determine compliance with legal requirements.

General Ordinance Power: The council has the power to enact ordinances and issue such regulations in accordance with law, as may be necessary to carry into effect and discharge the responsibilities conferred upon it by law, and those that are necessary and proper to provide for the health, safety, comfort and convenience, maintain peace and order, improve public morale, and promote the prosperity and general welfare of the city or municipality and its inhabitants.

E. Proprietary Powers

City and municipal councils (sangguniang bayans) have the authority:

1. To acquire, construct, and maintain a waterworks system for the purpose of supplying the inhabitants of the municipality with water; to regulate the supply and use of water therefrom; and, to fix and collect charges therefor; and,
2. To acquire or establish municipal ferries, wharves, markets, slaughterhouses, pounds, and cemeteries. Public utilities thus owned may be operated by the municipality or may be let to private parties for a stipulated consideration.

F. Power of Eminent Domain

Subject to the approval of the provincial council for municipalities, the city or municipal councils have the power to exercise the right of eminent domain and to authorize the institution of condemnation proceedings for any of the following purposes: the construction or extension of roads, streets, sidewalks, bridges, ferries, levees, wharves, or piers; the construction of public buildings, including schoolhouses, and the making of improvements in connection therewith; the establishment of parks, playgrounds, plazas, marketplaces, artesian wells, or systems for the supply of water and the establishment of cemeteries, creamtories, drainage systems, cesspools, or sewage systems.

G. Election and Appointment of City and Municipal Officials

The management and operation of city and municipal affairs are handled by: (a) the political officials who are elected by the municipal residents; and (b) the appointed officials and employees who constitute the local bureaucracy. The elected officials of the city or municipality are the mayor and the members of the council.

The Mayor: Powers and Functions. The mayor is the chief executive officer of the city or municipal government. He exercises general supervision over local administrative affairs and enforces the execution of the laws, city or municipal ordinances, as well as other rules and regulations. Besides being the chief executive, the mayor may also be considered the chief legislator in his capacity as the

presiding officer of the council. Under certain circumstances, the mayor also exercises direct police and judicial powers. The concentration of these powers in one office makes the mayor the most important official at the city/municipal level. Specifically his powers, functions, and responsibilities are set forth by law.

II. City/Municipal Administration

A. City/Municipal Officers

While departments and offices found in the different cities and municipalities vary according to local conditions and needs, the following offices appear in most cities and municipalities:

	<u>City</u>	<u>Municipality</u>
Office of the Mayor	/	/
Office of the Secretary	/	/
Office of the Administrator	/	/
Office of the Treasurer	/	*
Office of the Assessor	/	*
Office of the Health Officer	/	/
Office of the Engineer	/	*
Social Welfare Office	/	/
Police, Jail, and Fire Departments	/	/
Barangay Secretariat	/	/
Office of the Auditor	/	*

* Branch office of province or personnel assigned by Provincial office as needed.

III. City and Municipal Fiscal Operations

The city and municipal governments maintain two local funds: the general fund and the infrastructure fund.

A. Special accounts are maintained under the General Fund for the following:

1. Public utilities and other economic enterprises;
2. A Barangay Development Fund to be constituted from the annual contribution from each province, city, and municipality, and spent solely for community

development projects which meet the requirements set by the Ministry of Local Government and Community Development;

The provincial or city treasurer, as custodian of this fund, maintains in his books a special account for this purpose. The provincial treasurer makes releases from this fund through the city or municipal treasurer, who is made responsible for its proper disbursement and accounting.

3. Loans, interests, bond issues, and other contributions for specific purposes.

B. The infrastructure fund consists of monies and resources raised or earmarked by law, including those which, under existing laws, accrue to the road and bridge fund, and transfers from the general fund and are used exclusively for the following purposes:

1. The repair, maintenance, improvement, and construction of roads, bridges, and highways. Construction of roads and bridges includes preliminary investigation and surveys besides actual construction;
2. For the subsidy or acquisition, operation, and maintenance of water transportation as well as for the establishment and operation of telephone systems;
3. For the construction, improvement, maintenance, and repair of wharves, piers, and docks, plazas, parks, monuments, and playgrounds; street lighting; artesian wells; irrigation systems; flood control systems, sewerage and drainage systems; and other permanent public improvements; and
4. For the acquisition of lands and buildings for public use.

Subject to the approval of the Ministry of Finance, the city or municipal council may, upon proper justification, transfer any unappropriated balance of this fund to cover exceptionally urgent needs of the city or municipality.

C. The Special Education Fund is a separate fund which consists of the respective shares of provinces, cities, and municipalities in the proceeds of the additional one percent (1%) real property tax levied and appropriated for educational purposes.

City treasurers deposit their funds with a duly designated bank(s). Municipal treasurers deposit their funds with the provincial treasurer who, in turn, deposit them with the duly designated bank(s). They may also directly deposit excess local funds under time deposit accounts with duly designated bank(s) upon resolution of the city or municipal council and upon approval by the provincial or city treasurer and auditor. Earnings of such deposits shall accrue to the general fund.

A discussion of funding sources for local governments is in Annex V.

IV. City and Municipal Development Planning

The City and Municipal Development Plan sets out the municipality's development goals and objectives. The Municipal Development Plan must be consistent with the guidelines set forth by the appropriate Regional Development Council (RDC) and integrates the Barangay Development Plans submitted to the councils.

The City and Municipal Plan contains among others, the following: (1) a comprehensive study of factors relevant to the social, economic, and physical development of the city or municipality including regional and provincial influences affecting the locality; (2) major problems and opportunities of the area; and (3) specific proposals for major programs and projects for development.

The responsibility for preparation of the Plan is with the City/Municipal Development Council, City/Municipal Planning and Development Office and as necessary committees and Task Groups. Major steps in the process include: (1) assessment of performance; (2) formulation of objectives; (3) setting of targets and formulation of strategies; (4) identification of programs and projects; (5) estimation of resource requirements; (6) public hearings and plan revision; (7) approval and adoption; and (8) submission to the Provincial Development Council for integration into the Provincial Development Plan.

REVENUE SOURCES
OF LOCAL GOVERNMENTS

Current and regular revenues of local governments are not usually relied upon for capital financing purposes since they are principally intended to underwrite ordinary governmental operations. As a rule, only projects involving small overhead costs or having short term financing requirements are funded from local sources. National Ministries generally take responsibility for large projects requiring long-term financing. Nevertheless, with improved efficiency and economy, particularly in the administrative expenses for salaries and wages and local tax collections, current revenues could become a meaningful source of funds for local development projects.

There are other sources of funds for development such as those provided for by PD 144, PD 752, PD 436, R. A. 917, and others as discussed below.

Revenue sources of local governments are classified as follows: locally generated, annual internal revenue allotments; special aids/grants; domestic loans, credits and other forms of indebtedness; deferred-payment financing; bonds and other long term securities; inter-local government loans; loans from funds secured by national government from foreign sources; and financing contracts with private persons.

I. Locally Generated Funds

A. Real Property Tax Under PD 464

Provinces, cities and municipalities shall levy, assess and collect an annual ad valorem tax on real property, such as land, buildings, machinery and other improvements affixed or attached to real property. /Section 38, PD 464/. For this purpose, the provincial, city or municipal council shall fix a uniform rate of real property tax applicable to their respective localities as follows:

1. In the case of a province, the tax shall be fixed by the provincial councils at the rate of not less than one-fourth of one percent but not more than one-half of one percent of the assessed value of real property;
2. In the case of a city, the tax shall be fixed by ordinance of the city council at the rate of not less than one-half of one percent but not more than two percent of the assessed value of real property; and

3. In the case of a municipality, the tax shall be fixed by ordinance of the municipal council subject to the approval of the provincial council at the rate of not less than one-fourth of one percent but not more than one-half of one percent of the assessed value of real property.

B. Business Taxes Under the Local Tax Code, as Amended

The Local Tax Code, as amended, delineates the taxing and other revenue-raising powers of local governments conformably with the provision of Section 5, Article XI of the Constitution which provides that "each local government unit shall have the power to create its own sources of revenue and levy taxes, subject to such limitations as may be provided by law." The Local Tax Code likewise prescribes tax schedules, brackets and rates thereby enabling local government units to approximate the nearest reasonable rates for their respective localities. The net effect of this Code increased the income of most local governments.

To avoid imposition of excessive, unjust, confiscatory and discriminatory taxes, ordinances are reviewed by higher authorities pursuant to Section 44 of the Local Tax Code. This power of review also precludes the implementation of ordinances which are against the declared national policy of the State.

C. Receipts from Operation of Public Enterprises and Utilities

Local governments operating public utilities such as, public markets, telephone, electric and water systems, ice plants, etc., realize substantial income from such operations. Under Section 32 of the Local Tax Code, as amended, however, with exception of public markets, "the maximum annual net profit that may be derived therefrom shall not be in excess of ten percent of the capital invested in the public utility."

II. Grants/Aids from the National Government

A. Annual Internal Revenue Allotment

Twenty percent of the collections from national internal revenue taxes not otherwise accruing to special funds and special accounts in the general fund shall accrue to local governments to be computed on the basis of the collections of the third fiscal year preceding the current fiscal year. This allotment shall be distributed as follows:

Twenty-five percent (25%) to provinces

Forty-five percent (45%) to municipalities

Twenty-five percent (25%) to cities

Ten percent (10%) to barangays (barrios)

The share to each province, city, and municipality is determined on the basis of the following formula:

Seventy percent (70%) - population

Twenty percent (20%) - land area

Ten percent (10%) - equal sharing

B. Highway Special Fund Aid

This is statutory aid under and by virtue of Republic Act No. 917, as amended by P. D. 320. This grant is available only for road and bridge maintenance purposes, and may not be utilized for other local development projects.

C. Specific Tax Allotment

This refers to shares of local governments from specific taxes on petroleum products. This is distributed under the following formula:

20% of total shares - to provinces

30% of total shares - to municipalities

50% of total shares - to cities

The sharing basis is determined as follows:

70% - population

20% - land area

10% - equal sharing

III. Special Aids and Grants

A. Barangay (Barrio) Development Fund

Under PD 144, a barrio development fund was constituted out of the 10% share of barrios in realty tax collections and from the annual contributions of provinces, cities and municipalities in amounts not exceeding ₱500.00 per barrio. This fund may only be spent for community development projects, such as those enumerated in MLGCD Memorandum Circular No. 73-16 as follows:

1. projects that will provide increased production and income;
2. projects that are of small scale public works type such as footbridges, barrio roads, irrigations, and others;
3. projects that will promote better public health and sanitation;
4. and other projects based on local priorities as determined by the city or municipality.

B. Budgetary Aids/Financial Assistance

Five percent (5%) of the collections from national internal revenue taxes not otherwise accruing to special funds and special accounts in the general fund shall accrue to a local government fund which shall be released by the President as financial aid to local governments or to projects. (Section 7, P.D. 144). This is being implemented by Ministry of Finance Memorandum Circular No. 32-72. It may be availed of by local governments for "budgetary aid" purposes to avert financial dislocation due to severe losses of expected revenues. It may also be extended by way of "financial assistance for development projects" to defray the costs of a development project that cannot be financed wholly from local funds. In applying for this financial assistance, the development project is required to be embodied in a council resolution, duly endorsed by the governor or mayor and properly supported with project documentations such as the program of work and bills of materials.

C. Special Education Fund Aid

Proceeds from the one percent additional realty tax imposed under R. A. 5447 on properties assessed at ₱3,000.00 and over partly compose the special education stabilization fund. The additional real property taxes collected accrue as follows: 50% to municipalities; 20% to provinces; and 30% to the national government. In the case of cities, their share shall be 60% of the taxes collected. This fund shall be used exclusively

for the operation and maintenance of public schools.

D. Police Subsidy

R. A. 6141 establishes a progressive salary scale for local police officers, 50% of which is subsidized by the national government. However, with the integration of police and fire departments, local governments are now required to allocate at least 18% of its annual gross income as contribution for the maintenance of the Integrated National Police.

IV. Domestic Loans, Credits and Other Forms of Indebtedness

A. Provincial, city, and municipal governments may, upon recommendation of the Minister of Finance, contract loans, credits, and other forms of indebtedness with the Philippine National Bank, Development Bank of the Philippines, the Government Service Insurance System and/or any other national lending institution to finance the construction, installation, improvement, expansion, operation, or maintenance of electric light and power plants, public markets and slaughterhouses, waterworks and irrigation systems, telephone and radio communication systems, government housing projects, the purchase of rural and urban estates and other capital investment projects, subject to such terms and conditions as may be prescribed by law and the provisions of the respective charters of the aforesaid banks and lending institutions.

B. Provincial, city and municipal governments may likewise secure from the Land Bank of the Philippines short, medium and long term loans and advances against security of real estate and/or other acceptable assets for the establishment, development or expansion of agricultural, industrial, home building or house financing projects and other productive enterprises.

V. Deferred-Payment Financing Scheme

Provincial, city and municipal governments may likewise acquire heavy equipment, plant machinery and such necessary accessories under a supplier's credit or deferred-payment plan, subject to the law on purchasing and such other rules and regulations that the Minister of Finance may promulgate with the concurrence of the Chairman, Commission on Audit.

VI. Bonds and other Long Term Securities

A. Provinces and cities are authorized to issue bonds, debentures, securities, collaterals, notes and other obligations to finance self-liquidating and/or income-producing development projects pursuant to

the priorities established in the development program as certified to by the National Economic and Development Authority, but in no case to exceed at any one time an aggregate amount equivalent to one-half of the one percent of the total assessed value of taxable real property within the territorial jurisdiction of the local government unit. Whenever any province or city deems it necessary to issue such bonds, debentures, securities, collaterals, notes and other obligations, the Provincial Council or Municipal/City Council shall, by resolution, so declare and state the terms and conditions of the bonds and the purpose for which the proposed indebtedness is to be incurred. For such resolution to be valid, it shall be passed by the affirmative vote of majority of all the Members of the Local Council and approved by the President of the Philippines, upon recommendation of the Ministry of Finance after consultation with the Monetary Board of the Central Bank of the Philippines and the National Economic and Development Authority.

B. Local government bonds can be issued under the following conditions:

1. They shall be in registered form and transferable at the Central Bank of the Philippines;
2. They shall not be sold at less than face value;
3. They shall be redeemable ten years or more from the date of issue as may be determined by the Minister of Finance before their issuance, but may be redeemed earlier by the local government upon approval by a majority of all the members of the local council;
4. Before issuance of the bonds, the Minister of Finance, upon consultation with the Monetary Board of the Central Bank of the Philippines, shall fix the annual rate of interest payable on the bonds, as well as the mode of payment of the interest accruals thereon; and
5. Both the principal and interest on the bonds shall be payable in legal tender of the Republic of the Philippines.

VII. Inter-Local Government Loans

Provinces, cities and municipalities may extend loans to other provinces, cities and municipalities for such public purposes as the repair and rehabilitation of government property damaged by typhoons, floods, fire, or other natural calamity; the purchase of relief goods, foodstuff and medicine during emergencies; and the beautification of parks, plazas,

monuments and shrines in amounts not exceeding, in their aggregate, five percent of the general fund income from regular sources of the lending entity actually realized during the next preceding fiscal year, as certified to by the local treasurer and attested by the auditor concerned, under such terms and conditions as may be agreed upon by the parties, payable within a period of not exceeding twenty-four months from the date of release of the full amount and at an interest rate of not exceeding twelve percent per annum.

VIII. Loans from Funds Secured by National Government from Foreign Sources.

The President of the Philippines, or his duly authorized representative, may negotiate and contract loans with foreign financial institutions or other international organizations belonging to countries with which the Philippines has diplomatic or trade relations, or from foreign governments which are members of the United Nations and, subject to such conditions as he may impose, extend therefrom, upon recommendation of the Minister of Finance and the National Economic and Development Authority, one or several loans to any provincial or city government through the Development Bank of the Philippines or the Land Bank of the Philippines for the purpose of financing the acquisition, construction, installation, improvement and expansion of capital improvement projects, such as electric power plants, waterworks and irrigation systems, flood control systems, sewerage systems, composting plants, and telephone and radio communications system.

IX. Financing Contracts with Private Persons

Any provincial, city or municipal government may enter into, and bind itself by, contract with any private person, natural or juridical, for financing such self-liquidating or income-producing projects as the construction of toll roads and bridges, the installation of telephone systems, the acquisition of land and water transport systems, as well as the operation and maintenance of such projects, subject to the approval of the National Economic and Development Authority, upon recommendation of the Minister of Finance: Provided, that the aggregate amounts of financing contracts that a local government may enter into by virtue of this Section shall not exceed the legal borrowing capacity of said local government as certified to by the Commission on Audit.

SATISFACTION OF THE REQUIREMENTS
OF SECTION 611 (a) (1) UNDER
THE "FUND" CONCEPT

I. Background:

USAID/Manila has developed a strategy for addressing assistance needs in the Philippines that, in large part, utilizes a system of "Funds" as the mechanism for providing assistance. Each Fund project is intended to support selected grant or loan-making institutions that will finance a range of sub-activities targeted at (and responsive to) specific beneficiaries. Since similar forms of assistance have, in the past, raised questions as to the adequacy of the planning necessary to carry out such projects, USAID/Manila has prepared this paper to assure concurrence on the viability of the Fund concept as a method of project assistance.

II. Legislative Requirement:

Section 611 (a) (1) of the Foreign Assistance Act of 1961, as amended (the FAA), requires that adequate planning and a reasonably firm estimate of the cost of the proposed assistance be completed prior to entering into an agreement which obligates FAA funds. The section states (in applicable part):

"No agreement or grant which constitutes an obligation of the United States Government in excess of \$100,000... shall be made for any assistance authorized under Chapter I of Part I, Title II of Chapter 2 of Part I, or Chapter 4 of Part II -- (1) if such agreement or grant requires substantive technical or financial planning until engineering, financial and other plans necessary to carry out such assistance, and a reasonably firm estimate of the cost to the United States Government of providing such assistance, have been completed..."

This provision is applicable both to Development Assistance (DA) ("Chapter I of Part I") and the Economic Support Funds (ESF) ("Chapter 4 of Part II").

The provision can be considered in two parts, both of which have to be met prior to obligating any monies. First is the requirement that plans necessary to carry out the assistance be prepared (hereinafter termed as "adequate planning"), and, second, is the requirement for a reasonably firm cost estimate. The "Fund" concept will first be described and then it will be examined to see how it can satisfy these two requirements.

III. The "Fund" Concept:

In the Philippines, USAID works primarily with two organizations at the national planning level in programming our assistance. Regarding E\$F, we work with the Management Advisory Committee (MAC) of the Ministry of Human Settlements and its Secretariat. For DA funds, we work with the National Economic Development Authority (NEDA). With both organizations we have mutually developed the Fund idea as the most effective method (in most cases) of providing large portions of our assistance to the Philippines.

These Funds are intended to be the financial as well as technical assistance mechanisms for an institutionalization of program, budgetary and financial management processes which satisfy a minimum set of Government of the Philippines (GOP) and AID accountability requirements, provide maximum flexibility in funds use, and at the same time ensure that outputs are achieved and the benefits reach the target groups. Funds will most likely vary from project to project in order to meet the differing circumstances relevant to each particular project, and, each Fund will be fully described in the Project Paper proposing it. Basically, though, the Fund projects will establish resource flow systems under which the assisted institutions will be able to plan, organize, finance, implement, evaluate and maintain sub-projects or activities they (generally in association with the intended target-groups) have chosen. They will permit increased flexibility for responding in the short term to locally (sub-national) identified priorities as they arise, while at the same time reducing the lead time between funds commitment by AID (project agreement) and actual resource flows (disbursements). The Fund projects will primarily focus on improving the capacities of Philippine institutions and on ensuring that the resource flow system thus established results in the target-groups in fact benefiting from the assistance.

IV. Satisfaction of 611 (a) (1):

We believe projects utilizing this "Fund" concept can satisfy both parts of 611 (a) (1). First let us look at how the requirement for adequate planning can be satisfied.

As noted above, Funds will vary from project to project. They are conceived, though, as a mechanism for grouping a disparate range of Philippine-initiated projects into a process which can be handled at the national and local government levels and which can be handled by this Mission as a fundable unit without having to process as projects a range of separate activities which are too numerous to be manageable by Mission staff. The common link for grouping these sub-activities into a Fund project is normally going to be the existence of an institution or similar institutions (e.g. municipalities) which can be improved via AID assistance and which are important conduits in transferring resources to the targeted beneficiaries.

This type of "Fund" project has two principal objectives: (1) to establish systems under which local institutions will be able to plan, organize, finance, implement, evaluate, and maintain locally chosen projects and thereby increase their capacities to do so; and (2) to ensure that such systems result in additional resources being made available to the target beneficiaries. Focusing on the first point, a "Fund" Project can satisfy the adequate planning requirement in the same way that any other intermediary grant-or-loan-giving institution Project satisfies 611 (a) (1). It is the planning required to institutionalize that is necessary rather than the planning of the small grants or loans provided by the institution. The first test of the achievement of the purposes of this type of USAID's "Fund" projects will be whether there is established an ongoing system capable of administering sub-grants (or loans). In this regard, the Project Paper will examine the need for the Fund, the administrative structure that will be used, the cost of the administrative arrangement, the mechanism and criteria for review and approval of specific sub-grants or loans, and the establishment of an internal evaluation and audit capability.

This is not to say that the establishment of a system in and of itself is enough. The real test of the system (and the second objective of the Fund) is to see that additional resources reach the intended beneficiaries. The assistance is for the purpose of establishing systems which result in benefits reaching the target group. The planning necessary

prior to establishing such systems is that which is sufficient for the planners to be reasonably confident that the sub-projects will be designed in the manner intended by the Project and will be based on the criteria established by the Project so that the purpose of the assistance will be carried out. This means that in this case it is not necessary in advance of obligation to identify the particular sub-projects themselves are not the desired end product. Rather, the planning required of the Project Paper is that the sub-projects (whatever form they may take) will be beneficial to the target group and will be planned, executed, monitored and evaluated in accordance with agreed-upon criteria.

The Clark Area Development Fund under ESF, will probably be a different type of Fund project. As of now, it is uncertain whether there will be sufficient institutional focus to meet Section 611 under the above rationale (although this question is still under discussion). In the absence of greater institutional focus, 611 will be met by incrementally obligating against the specific activities (or comparable groups of activities) carried out under the Fund. For example, the Clark Area Development Fund Project could still be approved as a fund-type of project with several potential activities and incrementally-funded. However, the incremental funds would be obligated against only those activities which are sufficiently advanced in planning to meet Section 611 (a) (1) requirements.

The Fund concept also satisfies the requirement for a reasonably firm cost estimate. It does this by the limitation of the resources available-- there are not enough monies to meet the demand, thus the "cost" of the project is not determined by the amount of goods and services to be procured, but by the budgetary limitation of the levels of assistance that can be provided the Philippines. While the Fund concept will be the mechanism for project assistance which will be directed to a target group, it should be remembered that it is not a project in the same sense that building a sawmill is a project. In terms of establishing a reasonable estimate of the costs of a Fund, different bases for estimation must be used. In fact, "estimating the costs" is not the process that can be followed in Fund projects such as those proposed for the Philippines. Rather, it is a process of optimally allocating the available budget among the activities being supported. The question to be considered is whether the money programmed for the Funds is sufficient to achieve the project purposes. In each project which uses the Fund concept, estimating the costs of the project will occur in the following fashion. First, a target group will be identified. Then, the principal constraints to the improved socio-economic well-being of the target group will be identified. Next, the institution or institutions which can best manage activities that will support alleviation of those constraints will be identified. In consultation

with such institution or institutions, the process and the criteria for the process of providing assistance to the target group will be established. Then the funding requirement necessary to develop, test and implement the process described above in an amount adequate to cause the desired resources to be transferred to the target groups will be budgeted. It is the Project Papers that will establish the amount to be budget to accomplish the desired result of local institutions implementing an agreed upon process that, in an evolving (hopefully improving) fashion benefits the intended recipients. This will be the firm cost estimate for the project.

In describing the need for the legislation which has become Section 611 (a), the House Foreign Affairs Committee stated:

"It should in the future prevent (the foreign assistance agency) from requesting appropriation of funds or from obligating funds until our own officials and the recipient country have reached a firm decision as to what is contemplated jointly to be done; when, where, and at what cost."

It can be categorically stated that this will be known at the time of the "Fund" Project submissions. At the same time, it can be seen that this description of the provision does not require that each sub-project be planned in advance. "What", "when" and "where" are requirements that vary in the amount of detail necessary depending upon the type and specificity of the assistance being provided. We believe that the "Fund" form of assistance is not precluded by this provision.

TABLE 1

ESTIMATED AID-ESF OBLIGATION SCHEDULE FOR MDF (\$000)

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>TOTAL</u>
Institutional Development	1,000	1,000	1,000	1,000	4,000
Infrastructure	10,000	7,500	6,500	7,000	31,000
Public Enterprises	10,000	7,500	6,500	7,000	31,000
Other	1,000	1,000	1,000	1,000	4,000
TOTAL	<u>22,000</u>	<u>17,000</u>	<u>15,000</u>	<u>16,000</u>	<u>70,000</u>

TABLE 2

ILLUSTRATIVE COMMITMENTS FOR MDF ACTIVITIES^{1/} (\$000)

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u> ^{2/}	<u>TOTAL</u>
Institutional Development	-0-	750	1,000	1,000	500	500	250	-0-	4,000
Infrastructure	1,500	5,250	6,000	6,000	6,500	4,000	1,750	-0-	31,000
Public Enterprises	1,500	5,250	6,000	6,000	6,500	4,000	1,750	-0-	31,000
Other	-0-	750	1,000	1,000	500	500	250	-0-	4,000
TOTAL	<u>3,000</u>	<u>12,000</u>	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>9,000</u>	<u>4,000</u>	<u>-0-</u>	<u>70,000</u>

1/ Commitment occur when a GOP entity enters into a binding agreement or contract using MDF resources.

2/ No new commitments will be made in FY 88.

TABLE 3

ILLUSTRATIVE EXPENDITURES FOR MDF ACTIVITIES (\$'000)

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>TOTAL</u>
ESF									
Institutional Development	-0-	500	1,000	1,000	500	500	250	250	4,000
Infrastructure	-0-	3,500	6,000	6,000	6,500	4,500	3,000	1,500	31,000
Public Enterprises	-0-	3,500	6,000	6,000	6,500	4,500	3,250	1,250	31,000
Other	-0-	500	1,000	1,000	500	500	500	-0-	4,000
Sub-Total	-0-	8,000	14,000	14,000	14,000	10,000	7,000	3,000	70,000
Local Gov. Counterpart									
Institutional Development	-0-	250	250	250	250	250	250	100	1,600
Infrastructure	-0-	750	1,250	1,750	1,750	1,250	1,250	450	8,450
Public Enterprise	-0-	750	1,250	1,750	1,750	1,250	1,250	450	8,450
Other	-0-	250	250	250	250	250	250	-0-	1,500
Sub-Total	-0-	2,000	3,000	4,000	4,000	3,000	3,000	1,000	20,000
TOTAL									<u>\$ 90,000</u>

PROJECT DESIGN SUMMARY LOGICAL FRAMEWORK

Life of Project:
From FY 81 to FY 88
Total U. S. Funding \$70.0 Million
Date Prepared: 19 May 1981

Project Title & Number: MUNICIPAL DEVELOPMENT FUND - Project No. 492-0361

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS										
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>To improve the social and economic conditions in Philippine cities and municipalities with emphasis on those areas around the U.S. military facilities.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>Social and economic indicators show a marked increase in conditions of cities and municipalities participating in the MDF.</p>	<p>(A-3)</p> <p>National Government Statistics including National Economic and Development Authority, Ministry of Finance, Ministry of Local Government and Ministry of Human Settlements.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <ul style="list-style-type: none"> - GOP permits decentralization of decision-making authority - Other sources of financing municipal projects are available and used 										
<p>Project Purpose: (B-1)</p> <p>To provide ESF funds resulting from the Amended Military Base Agreement of 1967 to enhance the capabilities of selected municipalities and cities, with emphasis in those most affected by the U.S. military facilities, to manage resources in carrying out development activities responsive to locally established priorities.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <ul style="list-style-type: none"> - Increased city and municipal revenues - Improved tax collection - Broadened economic base - Cities and municipalities using other sources of project financing - Broad range of city and municipal projects being effectively identified, designed and implemented - Better community services being provided - Improved condition for poorer populations 	<p>(B-3)</p> <p>(MDF Evaluations)</p> <ul style="list-style-type: none"> - Fix records - Revenue records - NEDA reports on social and economic situation - Survey local governments - Completion Reports on Projects - NEDA, M LGCD and local government statistics - Evaluations of Projects 	<p>Assumptions for achieving purpose: (B-4)</p> <ul style="list-style-type: none"> - Municipalities and cities absorptive capacity can be improved - Municipal and city staffs do not change too frequently - Central government policies remain open to decentralize decision-making 										
<p>Project Outputs: (C-1)</p> <ul style="list-style-type: none"> - Completed Institutional Development Projects - Completed Public Infrastructure Projects - Completed Public Enterprise Projects. 	<p>Magnitude of Outputs: (C-2)</p> <p>The magnitude of outputs can not be determined at this time since most projects have not been identified.</p>	<p>(C-3)</p> <ul style="list-style-type: none"> - Completed projects - Evaluations 	<p>Assumptions for achieving outputs: (C-4)</p> <ul style="list-style-type: none"> - MAC Secretariat can effectively administer MDF. - Interest rate structure of loans is not beyond the reach of the cities and municipalities. - Cities and municipalities are willing to participate in the MDF. - Inter-governmental coordination is maintained. 										
<p>Project Inputs: (D-1)</p> <ul style="list-style-type: none"> - Consultant services - Training - Equipment - Construction services 	<p>Implementation Target (Type and Quantity) (D-2)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>P/M</th> <th>(\$000)</th> </tr> </thead> <tbody> <tr> <td>3,000</td> <td>6,000</td> </tr> <tr> <td>500</td> <td>1,000</td> </tr> <tr> <td>-</td> <td>2,000</td> </tr> <tr> <td>-</td> <td>61,000</td> </tr> </tbody> </table>	P/M	(\$000)	3,000	6,000	500	1,000	-	2,000	-	61,000	<p>(D-3)</p> <ul style="list-style-type: none"> - Agreements and contracts signed - Project progress reports - Project completion reports 	<p>Assumptions for providing inputs: (D-4)</p> <ul style="list-style-type: none"> - Policies and procedures for the execution of the MDF are in place and operating in a timely manner.
P/M	(\$000)												
3,000	6,000												
500	1,000												
-	2,000												
-	61,000												

PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with a sub-category for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN
REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 80 App. Act Unnumbered; FAA Sec. 634A; Sec. 653(b). (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?
 - a. Congressional Notification
 - b. Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
 - a. Yes.
 - b. Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N.A.

4. FAA Sec. 611(b); FY 80 App. Act Sec. (501).

If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

Where water or water-related land resource construction is concerned such principles and standards will be met.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Yes.

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs?

No. Project is not intended to encourage regional development.

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

- a. Project will not encourage international trade.
- b. Project may marginally foster private initiatives.
- c. Project will not encourage cooperative institutions.
- d. Project will not discourage monopolistic practices.
- e. Project will benefit industry agriculture and commerce.
- f. Project will not encourage free labor union.

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

Project is not designed to have this effect.

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services. Where appropriate the GOP will contribute local currencies. The Philippines is not an excess currency country.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.
12. FY 80 App. Act Sec. (521). If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? The project will not produce such commodities.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.
- a. FAA Sec. 102(b); 111; 113; 281a.
Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and
- a. A major objective of the project is employment generation and increased income for the poor. Investments to achieve this will be made in cities and small rural towns. U.S. institution will play a marginal role.
- b. The purpose of the project is to improve the operations of local government units in helping the rural and urban poor.

urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

- b. FAA Sec. 103, 103A, 104, 105, 106, 107.
Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source).

(1) (103) for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the

- c. The project encourages self-help at the local government level.
- d. The project will indirectly improve the role of women in development.
- e. The project is not designed to encourage regional cooperation.

Assistance is being provided as ESF as a result of the RP/US Military Bases Agreement Amendment.

poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution?

c. FAA Sec. 107. Is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor).

Yes.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least developed" country)?

Probably not. This is not required under ESF projects.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The local government units participating in the program will identify subprojects and participate fully in their design and implementation. The purpose of the project is directly related to institutional development.

- g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes, it will contribute to all of these.

2. Development Assistance Project Criteria (Loans Only).

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

STANDARD ITEM CHECKLIST

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

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

A. Procurement.

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

Where offshore procurement is required, it will be from the U.S. in accordance with AID regulations.

Most procurement is expected to be from host country sources.

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.? Yes.
4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? N.A.
5. FAA Sec. 608(a). Will U.S. Government excess property be utilized wherever practicable in lieu of the procurement of new items. Yes.
6. FAA Sec. 603. Compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. This requirement will be followed.
7. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? We anticipate the sizeable portion of the T.A. requirements will be met through GOP inter-government agreement. Private contracts will also be used.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes.

9. FY 80 App. Act Sec. (505). Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

International contracts will so specify and appropriate termination provision will be placed in local contracts.

B. Construction.

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

It is expected that the majority of construction services will be by local contractors.

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

Yes.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million?

Yes.

C. Other Restrictions.

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

N.A.

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

N.A.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. FAA Sec. 636(1). Is financing not permitted to be used, without waiver, for purchase, sale, long-term lease, exchange or guaranty of motor vehicles manufactured outside the U.S.? Yes.
5. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization? Yes.
 - b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
 - c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
 - d. FAA Sec. 662. For CIA activities? Yes.
 - e. FY 80 App. Act Sec. (504). To pay pensions, etc., for military personnel? Yes.
 - f. FY 80 App. Act Sec. (506). To pay U.N. assessments? Yes.
 - g. FY 80 App. Act Sec. (507). To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes.

- h. FY 80 App. Act Sec. (511). To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes.
- i. FY 80 App. Act Sec. (515). To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Anthony M. Schwarzwald, the principal officer of the Agency for International Development in the Philippines, having taken into account, among other things, the maintenance and utilization of projects in the Philippines previously financed or assisted by the United States, do hereby certify that, in my judgement, the Philippines has both the financial capability and the human resources capability to effectively implement, utilize and maintain the proposed Municipal Development Fund Project.

This judgement is based upon the project analysis as detailed in the Municipal Development Fund Project Paper and is subject to the conditions imposed therein.

Anthony M. Schwarzwald
Anthony M. Schwarzwald
Director
USAID/Philippines

29 May '81
Date