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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

135p.

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PHILIPPINES - REAL PROPERTY TAX ADMINISTRATION

AID-DLC/P-2277

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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January 31, 1978

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Philippines - Real Property Tax Administration

Attached for your review is the recommendation for authorization of a loan to the Government of the Philippines in an amount of Ten Million United States Dollars ($10,000,000) to help in financing certain foreign exchange costs of goods and services required for the project.

This loan is scheduled for consideration by the Development Loan Staff Committee on Wednesday, February 8, 1978, at 2:30 p.m., in Room 5951 New State. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review
and Evaluation

Attachment:
Summary and Recommendations
Project Analysis
Annexes I - III

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GLOSSARY OF TERMS iii

GLOSSARY OF TERMS

AR 8-75 - This is the real property tax code as authorized by PD 464 and implemented in "Manual on Real Property Tax Administration in the Philippines Assessment Regulation 8-75"

BL - Bureau of Lands

City - Autonomous, chartered unit not under the control of the province

DAP - Development Academy of the Philippines

DAR - Department of Agrarian Reform (p.8, p. 47 only. Any other reference to DAR pertains to Direct Amount Reimbursement)

DAR - Direct Amount Reimbursement

DLGCD - Department of Local Government and Community Development (cabinet level)

DOF - Department of Finance (cabinet level)

GOP - Government of the Philippines

HSC - Human Settlement Commission

LDP - Local Development Project currently counterparted to PDAP and which piloted RPTA system

Local Government (units) - Refers to Provinces, Cities and/or municipalities

LRC - Land Registration Commission

Manual on Real Property Tax Administration in the Philippines Assessment Regulations 8-75 - See AR 8-75 and PD 144

Municipality - Political division of a province, largely a rural area with small urban core. Roughly similar to county.

MYP - Multi Year Plan: a multi-year forecast of RPTA expenses and anticipated revenue required for entry into the project and for issuance of the seed money.

NEDA - National Economic Development Authority (cabinet level)

PD 464 - Presidential Decree outlining the Real Property Tax Code

PDAP - Provincial Development Assistance Project; counterparted to the Local Development Project.

Project Managers Committee	- Comprised of Project Managers from DOF, DLGCD and USAID and their staff in Manila
Province	- Political unit corresponding to a state
RPTA	- Real Property Tax Administration
RPTA Project	- The integrated AID/GOP project as outlined in the Project Paper
RPTA System	- The administrative and technical system to be implemented by the project
RPTA Task Force	- A committee composed of the Assessor, Treasurer, Auditor, Provincial or City Development Officer, etc., who oversee the implementation of the RPTA system

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A Add / C Change / D Delete

PP

2. DOCUMENT CODE: 3

3. COUNTRY ENTITY: Philippines

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 492-0298

6. BUREAU/OFFICE: A. SYMBOL: ASIA; B. CODE: 04

7. PROJECT TITLE (Maximum 40 characters): Real Property Tax Administration

8. ESTIMATED FY OF PROJECT COMPLETION: FY 81

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 78; B. QUARTER (1 = Oct-Dec, 2, 3, or 4); C. FINAL FY 81

10. SUMMARY COSTS ($000 OR EQUIVALENT $1)

A. FUNDING SOURCE	FIRST FY 78 B. FX	C. L/C	D. TOTAL	LIFE OF PROJECT E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	4,000		4,000	10,000		10,000
GRANT						
LOAN	4,000			10,000		10,000
OTHER U.S. 1						
OTHER U.S. 2						
HOST COUNTRY		3,560	3,560		1,700	5,260
OTHER DONORS						
TOTALS					5,260	15,260

11. PROJECT BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY 78		H. 2ND FY 79		K. 3RD FY 80	
		F. GRANT	G. LOAN	F. GRANT	G. LOAN	F. GRANT	G. LOAN	F. GRANT	G. LOAN
ST	280		890		4,000		2,772		3,228
TOTALS					4,000				

A. APPROPRIATION		N. 4TH FY ___		O. 5TH FY ___		LIFE OF PROJECT		12. IN DEPENDENT VALUATION
		F. GRANT	G. LOAN	F. GRANT	G. LOAN	F. GRANT	G. LOAN	
ST	280						10,000	
								0279
TOTALS								

13. DATA CHANGE INDICATOR. BEFORE CHANGE MADE IN THE PID FACESHEET DATA BLOCKS 12, 14, OR 15 OR IN PHF FACESHEET DATA BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET

2 NO / YES

14. ORIGINATING OFFICE CLEARANCE

NAME: William A. Somers
Assistant Director
for Provincial Development

DATE SIGNED: 08 23 77

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

PROJECT IDENTIFICATION DOCUMENT FACESHEET

To Be Completed By Originating Office

TRANSACTION CODE: A Add; C Change; D Delete

PID

1

1 COUNTRY ENTITY: **Philippines**

4 DOCUMENT REVISION NUMBER: 2

5 PROJECT NUMBER (7 digits): 492-0298

6 BUREAU OFFICE: A Symbol: ASIA; B Code: 04

7 PROJECT TITLE (maximum 40 characters): **Real Property Tax Administration (RPTA)**

8 PROPOSED NEXT DOCUMENT: A 2 PHP; 3 PP

B DATE (MM YY): 10 76

9 ESTIMATED FY OF AUTHORIZATION/OBLIGATION: a INITIAL FY 78; b FINAL FY 79

10 ESTIMATED COSTS ($000 or equivalent, $1 = ₱7.50)

FUNDING SOURCE	
a AID Appropriated	10,000
b OTHER U.S. 1	
b OTHER U.S. 2	
c Host Country	5,260
d Other Donor(s)	
Total	15,260

11 PROPOSED BUDGET AID APPROPRIATED FUNDS ($000)

A APPROPRIATION	B PRIMARY PURPOSE CODE	PRIMARY TECH CODE C Grant	PRIMARY TECH CODE D Loan	E FIRST FY 78 F Grant	E FIRST FY 78 G Loan	LIFE OF PROJECT H Grant	LIFE OF PROJECT I Loan
(1) ST	260		290		4,000		10,000
(2)							
(3)							
(4)							
			TOTAL		4,000		10,000

12 SECONDARY TECHNICAL CODES (maximum six codes of three positions each): 250 246

13 SPECIAL CONCERNS CODES (maximum six codes of four positions each): BR BL

14 SECONDARY PURPOSE CODE

15 PROJECT GOAL (maximum 240 characters)

To provide a strong financial capability to local governments to deliver goods and services to the low income and rural poor families throughout the Philippines.

16 PROJECT PURPOSE (maximum 480 characters)

To generate additional revenue in 576 provincial municipalities (approx 1/3 of total) and in all city districts in RP, excluding the city of Cebu and 4 cities and 13 municipalities comprising Metro Manila.

17 PLANNING RESOURCE REQUIREMENTS (staff/funds)

18 ORIGINATING OFFICE CLEARANCE

Signature: (Sgd.) Thomas L. Rose

Title: Assistant Director for Provincial Development

Date Signed (MM DD YY): 05 28 76

19 Date Document Received in AID/W, or for AID/W Documents, Date of Transaction (MM DD YY)

AID 1330-2 (3-76)

SUMMARY AND RECOMMENDATIONS

RECOMMENDATIONS

Development Loan $10,000,000

Terms: (1) 40 years, 10-year grace, 2% interest rate during grace---3% thereafter

(2) $8,530,000 will be covered by Direct Amount Reimbursement (DAR)

DESCRIPTION OF THE PROJECT

By providing technical expertise, equipment and commodity support and financial incentives, this project contributes to the installation of a Real Property Tax Administration (RPTA) system in 576 municipalities and 56 cities (excluding the City of Cebu and Metro Manila) in the Republic of the Philippines. The installation of the RPTA system consists of four integrated operations: tax-mapping, property assessment, tax records conversion and management, and tax collections. The implementation of the system proposed in the project is a direct out-growth of a pilot project conducted in the 28 Provincial Development Assistance Project (PDAP) provinces. The methodology and techniques piloted were directly incorporated into law by PD 464 and the issuance of the Manual on Real Property Tax Administration in the Philippines Assessment Regulation No. 8-75.[1/] The experience gained and the methodology perfected under the pilot project will be transferred country-wide so that the Real Property tax laws can be administered fairly and equitably.

This project will be the joint responsibility of the Department of Finance (DOF) and the Department of Local Government and Community Development (DLGCD), as both departments have the legal responsibility for local government finances and implementation of local government projects. Specifically the DOF is charged at the local government level with the administration of the two offices vital to the project - the Office of the Assessor and the Office of the Treasurer. On the other hand, the DLGCD has a broad mandate covering the executive office of the governors and mayors and the local government councils such as the Sangguniang Panlalawigan, and the Sangguniang Bayan which oversee local government operations, approve budgets and issue local ordinances and implementing orders. In addition, the DLGCD is mandated to approve, assist and monitor local government development projects. Thus the DOF and the DLGCD have both an interest and a role to perform in this project. Programs and

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1/ This document will be referred to in this paper as AR 8-75.

projects proposed by local executives and local councils, under DLGCD's mandate, must rely on the local treasurer, under the DOF's mandate, to collect the necessary local revenue for local governments to finance such proposals, as well as to approve local government budgets and allocation requests for general operating expenses.

Necessary and germane regulations and implementing orders have been issued by the DOF for the installation of the RPTA system. The local government executive offices and councils will issue orders implementing the RPTA project at the local level as set forth in AR 8-75. While it is the responsibility of the local assessor and treasurer's office to implement the project on day-to-day operations, it is also the responsibility of the local executive and council to monitor the RPTA operation under the auspices of a Real Property Task Force and to insure its timely implementation. As this project in no way changes or alters the existing tax laws and codes, there can be no basis for local governments to procrastinate in installing the RPTA system on the grounds of "legal technicalities."

All inputs - loans, training, commodity support or advisory services - are geared toward providing an effective system with an efficient staff capable of installing and maintaining the entire four-phased RPTA system.

This project calls for inputs from three sources - the USAID, the GOP at the national level, and the GOP at the local level. The USAID will provide a development loan of $10,000,000 of which $8,530,000 is Direct Amount Reimbursement (DAR) as equivalent pre-agreed upon amounts of pesos are expended on project inputs by the GOP. The combined GOP non-reimbursable national and local expenditures will be approximately $5,200,000.

The USAID loan has two components. In the first component, the USAID will authorize a Letter of Commitment to the DLGCD to purchase $1,470,000 worth of field and office equipment which is a pre-requisite to actual implementation of the first phase of the RPTA system. The second component of the loan consists of $8,530,000 under a Direct Amount Reimbursement scheme. The GOP will invest the peso equivalent of $4,075,000 in acquiring excess property office equipment and vehicles and contracting for aerial photographs or other base source data. There will also be a peso equivalent of $4,080,000 available for "incentive" loans (explained below) from the national government to local governments as well as $375,000 "seed money". These investments are offset by the DAR.

Direct GOP inputs not included in the DAR are peso equivalents for (1) GOP personnel-related requirements of $2,039,700 - the bulk of which pays the salaries of the increased staff in the offices of the local assessors and treasurers as required by AR 8-75; (2) $220,200 for general and technical training in the RPTA system, printing training supplies and RPTA technical manuals, etc., and (3) $2,956,500 for operational expenses

of local governments to install the four-phase RPTA system, i.e., ink, office supplies, printing of tax declarations, tax rolls, collection cards, POL, etc.

Direct project inputs to outputs are as follows:

1. National GOP training and technical assistance provide for a trained staff at the local level capable of installing and maintaining the complete RPTA system.

2. USAID and GOP field and office equipment and vehicle support provide the trained staffs the wherewithal to physically undertake tax mapping and property appraisal.

3. Land and property are re-appraised as tax mapping continues with an expected average increase in assessed value of property of 50%.

4. Utilizing the "PDAP one-way collection" approach, local government units who have installed the complete RPTA system should be collecting a minimum of 75% of collectibles. A specific number of local government units will install the complete RPTA system each year during the life of the project, i.e., 576 municipalities (out of an estimated 1450) and all cities (excluding Metro Manila and the City of Cebu). By the end of the project, the yearly increase above the base year of 1974 in real property tax revenue collected country-wide should yield a total of $12,400,000. During the life-time of the project only (including one tax year after the formal end of the project) a cumulative increase in revenue should have reached $22,350,000. By 1984, the cumulative increase in real property tax revenue above the base year of 1974 should reach $97,500,000.

To summarize, the bulk of the financial input of AID is authorized by the DAR after the GOP has expended funds to implement certain portions of the project. For commodity support this amounts to $4,075,000. The remaining $4,455,000 of the DAR is tied directly to GOP grants and loan assistance to municipalities and districts which have been (1) tax mapped and (2) are collecting according to the RPTA system. Thus these AID financial inputs are not authorized until after the output is achieved.

Summary Findings

This project meets all applicable statutory criteria as annotated in Appendix VIII.

The studies and analysis conducted on the Real Property Tax Administration project have not demonstrated any serious deficiencies in the system, nor have there been any indications that the purpose and goals of the project cannot be achieved, given the full backing by the GOP. Financially, the RPTA system will be continuing and self-sustaining long after the USAID assistance has terminated.

The proposed RPTA system has been extensively designed and field tested under the Provincial Development Assistance Project (PDAP). The role that the system has played under PDAP and can continue to play under an expanded program has been manifestly pointed out by a 1976 publication "A World Bank Country Economic Report, the Philippines - Priorities and Prospects for Development". Specifically related to the present RPTA system, the "Report" on page 91 states:

> "The shortage of trained personnel in local and municipal government, their lack of financial resources and their limited expenditure powers have been important constraints to development. One of the more important programs designed to help overcome these difficulties is the Provincial Development Assistance Project (PDAP), which was begun in the late 1960's. The project is supported by the United States Agency for International Development and is now being implemented in cooperation with DLGCD. The program has been focusing on infrastructure (primarily roads and small irrigation systems), development planning, fiscal management and tax administration."

The RPTA project seeks to rectify these adverse conditions and explicitly addresses them in the purpose and goal of the project.

The social analysis indicates that there are certainly influential, but amorphous, groups who will no doubt be opposed to an efficient tax collection system, no matter how or why such systems may be economically desirable. This group, or rather groupings within specific political or geographically areas, could pose problems in the implementation of the RPTA system. However, the social analysis points out that strong, dominant local leadership can force (or persuade) such groupings to comply with all sections of the law. The World Bank cited above further states on page 428 that one of the reasons for low tax collection was due to "..... insufficiently coercive penalties for tax evaders." The collection procedures recommended by this RPTA system gives a strong local leader the means to insure payment of real property taxes.

The social analysis does point out that there are landowners who welcome the efficiency of the RPTA system. These people are both large and small landowners who use the paid tax receipt as collateral in borrowing money from lending institutions. Small landholders frequently told the social researcher that the paid tax receipt also gave them legal title to the land. Although the landowner may have a psychological boost in thinking tax receipt indicates ownership of the property in question, a tax receipt does not presuppose ownership.

The economic and financial analysis of the project indicates that there are no obstacles in implementing and sustaining the project. Calculations on increased assessed value and 75% collection rate were based on past experience, and then projected into the future. Based on total costs and benefits of the project years, the present value discounted at 15% indicated a B/C ratio = 2.92. Assuming that the GOP will continue the project to include the remaining municipalities (excluding the city of Cebu and Metro Manila), completing the project in 1985, the B/C ratio is 4.9. The internal rate exceeds 50% with a B/C ratio of 1.9.

The economic analysis indicates that the beneficiaries of this project are the large percentage of the population in the Philippines whose incomes are so low as to classify them as "poor". This majority spends most of their incomes on food and shelter, leaving little leeway for improving their welfare or living conditions. If this project were not undertaken at this time, the increased assistance that these beneficiaries (low income groups) need would probably not be forthcoming.

PROJECT ISSUES

UNCLASSIFIED STATE 283549 REAL PROPERTY TAX ADMINISTRATION PROJECT PRP posed several questions to be addressed in the Project Paper. Following the format of reftel, the issues are addressed as follows:

Para 1 A is addressed in the Economic Analysis and corresponding annexes

Para 1 B is addressed in the Economic Analysis and the Implementation Arrangements

Para 1 C is explained in the Technical Analysis, Financial Analysis and Implementation Arrangements

Para 2 Log Frame is attached to Project Paper

Para 3 IEE document received

Para 4 Answered UNCLASSIFIED MANILA 19041

Para 5 Appropriation category SD indicated on PP Facesheet

OTHER RPTA-RELATED PROJECTS

There are other GOP agencies--the Department of Agrarian Reform (DAR), the Bureau of Lands (BL) and the Land Registration Commission (LRC)--engaged in programs which are mutually beneficial and complementary with the Real Property Tax Administration Project.

The DAR has been engaged in the surveying and the parcellary sketching of rice and corn lands in the Philippines and have devised a coding system which identifies individual parcels. The coding system of the DAR differs slightly from the Property Index Number assigned to individual parcels by the Department of Finance (DOF). Both of these systems can be interfaced by computer for future use so that the two systems are compatible. It would be advantageous in the future for the DAR and the DOF to agree on a single index numbering code. Cooperation at the local level has proven beneficial to both DAR and local governments in isolated instances. It is hoped that the degree of cooperation and coordination can be increased between the DAR, DLGCD, DOF, and local governments in the furthering of project purposes and goals.

The Bureau of Lands is responsible for cadastres of the public domain. Where possible and available local governments have been advised to use cadastral maps in the tax mapping phase of the RPTA system. Unfortunately only a portion of the Philippines is covered by cadastral maps--the majority were either lost or destroyed during World War II. Coordination has been maintained by local governments with the Bureau of Lands but readily available material is scarce. The proposed RPTA project advocates cooperation and coordination with the Bureau of Lands to the fullest extent possible.

Both the DAR and the Bureau of Lands have available, in addition to parcellary sketches and cadastral maps, inexpensive photos mosaics of selected areas of the Philippines. This Project has budgeted $ 3 million for the acquisition of aerial photos or other base source data. Where feasible, individual local government units will be encouraged to utilize base data from these two agencies as noted above. Furthermore, local governments will be encouraged to coordinate and share data with the DAR and the BL so as to minimize redundancy in the difficult and tedious--but extremely vital--field work necessary to make parcellary sketches and tax maps.

The Land Registration Commission is responsible for the registration of all titles and approval of most cadastral surveys for private lands. Accurate titling of private land is tenuous at present in the Philippines. Accurate ownership records are one problem encountered in the establishing of tax maps and the subsequent installation of the RPTA system. Any input that the LRC can contribute to the furthering of project objectives is welcomed.

As stated below in the "Recipient Section" these agencies have not been included in the implementation scheme of the project. To link the progress of the three programs would probably not be equally advantageous to all as the objectives and goals differ. These agencies--the DAR, BL and LRC are not directly responsible to local government needs as are the DOF and the DLGCD. However, to restate again, the RPTA project endorses cooperation, coordination and the mutual sharing of project outputs with the DAR, the BL and LRC to the fullest extent possible.

PROJECT BACKGROUND AND DETAILED DESCRIPTION

Background

The proposed RPTA project is a direct follow-on of the present Local Development Project (LDP) No. 492-11-995-256, a multi-faceted project providing technical assistance in; 1) comprehensive planning; 2) fiscal resource development; 3) infrastructure planning; 4) engineering and development; and 5) vertical and horizontal communications processes. The GOP counterpart agency to the LDP is the Provincial Development Assistance Project (PDAP). On the implementation side, PDAP seeks to improve the effectiveness of local government administration by; 1) identifying those areas of operation which are most critical to the attainment of national and local objectives and priorities; 2) developing improved systems of management and administration in selected local pilot jurisdictions; 3) preparing model plans, manuals, standardized procedures, training formats and materials; and 4) field-testing the results initially in pilot provinces and then on all PDAP provinces.

It was realized under the present LDP that a major obstacle to local development was a shortage of locally generated funds, and that local budgets were dependent on, or restricted by, direct subsidies from the national government. An analysis of all avenues of locally generated revenue available to local government indicated that the real property tax had not only the most potential in generating additional funds, but was also least likely to cause undue financial burden on the rural or urban poor.

The present national tax structure provides for a partnership with local governments in the joint pursuit of socio-economic development programs, in turn responding to the 1972 statement of the National Tax Research Center that "unless some reforms are introduced, our local units will remain inactive participants in the government program of accelerated social and economic development." The framework for this reform is the Real Property Tax Code under which all revenues are collected, retained and used for financing public service-oriented programs at the local level.

Consistent with the Mission DAP Sector goals, the present LDP and the proposed RPTA project are directed to the local government level to help develop a stronger financial capability to deliver government services to the low income and rural poor families throughout the Philippines. It is the purpose of the RPTA project to generate additional revenue for use by the local governments to increase or expand their development projects or program activities. This project follows the national priorities by institutionalizing the fiscal management capability of local government officials, and expanding the fiscal self-sufficiency of local governments by improving the yield from legislation already "on the books".

The project considers both of these factors in its strategy to increase the fiscal self-sufficiency of the local government units through the optimization of revenue yields from legislation presently available to the local governments. Specifically, the real property tax code is termed "progressive" in one sense since it is one of the few direct taxes on wealth, and as such, can not readily be passed on to the consumer, as in the case with indirect taxes, e.g., taxes on tobacco and alcohol products. The present national tax structure is characterized as "beneficial" in respect to the relationship of the real property tax to the poor. The proposed project does not envision an alteration of this structure in any way. Therefore, in addition to its advantage as a major revenue source for local governments, the real property tax effectively taxes those who have more in life to provide public services and development program to benefit those who have less.

A specific problem addressed by this development loan is that the national government is assigning highest priority to national projects having the greatest immediate visibility; consequently, local government mid-range projects are given lower priority in the competition for additional national resources. Although other tax sources are available to the local governments in the local tax code, it is the real property tax which has been identified as having the greatest immediate potential toward achieving a higher degree of local fiscal self-sufficiency. The reason for this is that all income generated by the real property tax remains at the local level.

In 1976, the GOP reoriented the beginning of its fiscal year from 1 July (1976) to 1 January (1977) thereby creating an interim fiscal period (FY 76A) for six months. Therefore, no formal evaluation of the progress of the provinces participating in the Local Development Project was conducted. There is an on-going evaluation of the LDP being conducted at the present time. However, preliminary studies, field observations and normal provincial reporting do provide some data.

On 1 November 1976, 23 municipalities were completely tax mapped with 30 more ongoing. A sampling of eight municipalities showed an average increase of 96.3% in the assessed value of property. The low and high extremes ranged from a decrease of 16% to an increase of 241%. Totals are shown in the chart below:

(₱000)

	Taxable Assessed Value		Increase	
	Before Tax Mapping	After Tax Mapping	Net Pesos	%
TOTAL ALL MUNICIPALITIES	160,361.1	314,782.4	154,421.3	96.3
TOTAL ADJUSTED SAMPLE (DELETED)*	127,749.6	233,545.4	105,795.5	82.8
AVER. MUN. ADJUSTED SAMPLE*	21,291.6	38,924.2	17,632.6	82.8

*Low and high extreme deleted

Collection data for CY 1976 from the DOF will not be available for several months. However, those municipalities tax-mapped in 1976 will have just begun to collect under the new system, i.e., new assessed value, in CY 1977. The first three phases of the RPTA system, tax mapping, property appraisal and assessment and tax records conversion were stressed in the implementation of the system. CY 1977 and CY 1978 were programmed as the years in which to focus on collections. Although increased collections are the ultimate objectives of the project, the programming decision was made not to stress collections until the records management capability had reached a level that would withstand any legal action which might be initiated by delinquent taxpayers taken to court for collection of taxes or whose land was put up for public auction.

During the formation of the project an attorney and former provincial and city treasurer, on contract to PDAP, wrote a manual titled "PDAP/Manual on Real Property Tax (one-way procedure) Collection System." This manual explains in detail, with required sample forms attached, how to implement Sec. 73 of the "Manual on Real Property Tax Administration in the Philippines (Assessment Regulation No. 8-75)". Section 73 provides that real property may be sold at public auction in order to settle delinquent taxes due on the said land. "Assessment Regulation 8-75" also provides in Section 68 for distraint of personal property and in Section 82 on the collection of taxes through court procedures. Section 82 is frequently used and as a result court cases often drag on interminably with little conclusive gain for the province or city. Section 68 is never invoked. The use of Section 73, sale of real property by public auction, can, however, be conducted by the office of the provincial or city treasurer and requires no court proceedings.

For the past two years the City of Puerto Princesa, located adjacent to the PDAP province of Palawan, has financed its own RPTA project, including tax mapping, property appraisal and records conversion using the procedures advocated by the present project. In April 1976 the author of the manual cited above gave a copy to the Treasurer of Puerto Princesa City who immediately grasped the significance of the procedures outlined in the manual. As a result the City of Puerto Princesa instituted the "one way procedures" for tax collections for three public auctions on 30 June 1976, 18 August 1976 and 10 November 1976. Other cities and provinces are now contemplating public auctions, including Metro Manila, where an auction was held 28 February 1977 to satisfy outstanding delinquent taxes against property located in Metro Manila. The results are on the following page for the Puerto Princesa auction.

While the above examples were not in PDAP provinces, the outcome was the direct result of PDAP procedures and clearly shows that strong local government leadership can institute such tax reforms if properly motivated.

CHART A

SUMMARY OF RESULTS OF AUCTION IN PUERTO PRINCESA CITY

DATE	NO. PARCELS	AMOUNT DELINQUENT TAX DUE P	AMOUNT DELINQUENT TAX COLLECTED P	AMOUNT DELINQUENT TAX BEING PAID BY INSTALLMENT P	AMOUNT DELINQUENT TAX PENDING OTHER LEGAL ACTION	AMOUNT DELINQ. TAX UNPAID PROPERTY UNSOLD
30 June	30	167,844	81,366	63,755	11,366	[illegible]
18 August	43	39,463	39,463	-	-	-
10 November	30	74,342	51,643	16,129	-	[illegible]
TOTAL	103	281,649	172,472	79,884	11,366	[illegible]

DETAILED DESCRIPTION

The Real Property Tax Administration (RPTA) project will provide local government officials with the training, commodity support and technical support needed to increase total property tax revenue. It will be undertaken with the joint cooperation of the Department of Finance (DOF) and the Department of Local Government and Community Development (DLGCD). Under the project improved tax systems will be installed in 576 municipalities and all cities (excluding the City of Cebu and Metro Manila) in the Republic of the Philippines. The actual implementation of the project will be conducted by the offices of the assessors and treasurers of the individual provinces and cities and staff positions will come from the DOF and DLGCD. The DLGCD will, under PD 144, provide discretionary funds which will be the primary source of the required funding.

This project will assist the GOP to effectively and efficiently administer the RPTA system as detailed in PD 464 and implemented in "Manual on Real Property Tax Administration in the Philippines (Assessment Regulations No. 8-75)"[1/]

The system itself is an integrated technical/administrative process using as its base the current market value of land. It is a sequential process which proceeds logically from a tax-mapping phase, through property valuation and tax determination phases, to a final tax collection phase.

Tax Mapping Operation: This operation is the method by which real property is discovered, its owner identified and the parcel subsequently inventoried. Tax mapping utilizes aerial photos, geodetic maps and other engineer controlled survey data to assist in the discovery and identification of real property parcels. These maps show graphically all land subject to assessment with a corresponding real property identification number and accounting system. By utilizing this property index numbering system, each separate land ownership is provided with a unique account number--much like the serial number used in accounting for any other valuable piece of property in a property management system. This number is permanently assigned to a specific parcel of land and office records system (which did not exist in the former system). Additionally, this operation provides land area information which, when recorded, provides an additional control over property records.

[1/] This manual will be referred to as AR-8-75 in this chapter.

The aerial photos, cadastral maps, etc., are the bases for constructing tax maps, which are simply a graphic inventory of all real property parcels, each with a unique property index number. As the property is identified it is re-appraised with a corresponding re-assessment. Experience has indicated that an average 50% increase in the assessed value is easily attainable.

Tax Assessment Operation: This operation establishes a systematic method of appraising all items of real property at full current market value and implements the uniform application of applicable assessment levels. Once properly mapped and inventoried, real property is appraised at its full market value. Assessment levels based on land use - residential, agricultural or commercial - are then applied which result in the assignment of an assessed value for each particular property ownership. The assessment operation maintains subsidiary records for the purpose of periodically adjusting schedules of value and for general reassessment. This project is particularly timely in the assessment operation as the next general revision in the schedules of value, conducted every 5 years, is due in CY 1978.

Tax Records Management Operation: This operation establishes a method whereby official records such as tax declarations, assessment rolls, index systems, etc., are maintained in such a manner that they reflect the current status of all real property ownership and assessed value. These official tax records, housed in the office of the provincial or city assessor, furnish the data and information necessary to establish the official tax collection records in the office of the provincial or city treasurer. Copies of appropriate records are also furnished to the public and various other local government offices as required. The tax records management operation establishes the all-important control link between tax assessment operation and the tax collection operation.

Tax Collection Operation: This operation strives to collect all of the real property taxes and penalties due and payable to the government through the positive and total enforcement of the tax laws and their penal provisions. This operation consists of collecting, recording, accounting and disposing of real property taxes, both currently collectible and delinquent. In carrying out the tax collection function, the responsible local government officials will utilize the modern collection procedures described in AR-8-75. In addition, emphasis is given to the dissemination of public information pertaining to the purposes and methods of real property taxation, and the methodical application of tax collection enforcement measures as prescribed by law. In particular, this project recommends that Section 73 of AR-8-75 concerning the auction of property for delinquent taxes be utilized exclusively. It is not the intent, in advocating the use of public auction, that the GOP become property owners, nor that large

numbers of parcels will actually be sold at auction. Rather the threat of loss of ownership is the key to strict tax collection in that by failing to settle real property taxes due, the delinquent taxpayer faces the onus of public notices and announcements that he or she is delinquent in the payment of taxes. It is thus expected that taxes will be paid more readily if the delinquent taxpayer knows that swift, legal action will be forthcoming. While not advocating the abolition of Sections 68 and 82, distraint of personal property and collection of delinquent taxes through courts respectively, experience has shown that these sections are neither efficient nor effective in the collection of taxes.

Contributions of Implementing Agencies - GOP and USAID: USAID's development loan has two components. First is the provision of $1,470,000 to finance the foreign exchange costs involved in the purchase of selected field equipment required for the tax mapping phase and selected office equipment for the records conversion and management phase (see Annex II for detailed list). The second component consists of AID's reimbursement to the GOP, from loan funds, for activities and commodities financed by the GOP. Such reimbursements will be issued after the GOP has expanded pre-agreed upon amounts of pesos on pre-agreed activities and/or commodities.

The sector goal is to provide a strong financial capability in local governments so that the local governments entities can better deliver goods and services to the low income and rural poor families throughout the Philippines. The inputs, outputs and project purpose are all geared to provide the financial bases by which the sector goal can be achieved. Thus the purpose of the project is quite clear--to generate additional tax revenue in 576 selected municipalities and all cities (excluding the City of Cebu and of Metro Manila) in the Republic of the Philippines in the years 1979, 1980, 1981. Inputs to outputs to project goal are detailed below.

GOP inputs are (1) personnel, (2) training and related activities, (3) project materials and (4) technical assistance.

AID's inputs are (1) financing the purchase of selected imported field and office equipment (see Annex II); (2) excess property vehicles; (3) typewriters; (4) aerial photos; (5) loans; and (6) seed money. The table on page 34 costs out inputs to outputs.

There are two unique features of the inputs to outputs which should be further explained. One is the $375,000 "seed money" concept and the other is $4,080,000 for loans from the national government to local government. These two amounts, totalling $4,455,000 give a rather misleading concept to the overall project costs. First, the seed money

amounts to P30,000 ($3,750) per province and city and is an outright one-time grant. This feature is included in the project design to give an initial impetus to the local governments as they enter the RPTA system. Experience in other similar activities has shown that projects often suffer from inertia in the beginning due to shortage of funds. The seed money grant overcomes this potential initial delay. Before a province or city can avail itself of the P30,000 grant they must first form a Real Property Task Force and complete a Multi Year Plan (MYP) for the installation of the RPTA system. These requirements are both incorporated in AR-8-75. The regional advisor (see "Implementation and Planning" below for role of regional advisor) will certify that the RPTA Task Force has been organized and will forward copies of the MYP to the Project Managers' Committee in Manila for comments. The MYP must stipulate how the seed money grant will be utilized in initiating the RPTA project. If the MYP is accepted the province or city can then apply to DLGCD for the P30,000 grant. After the grant has been disbursed by the DLGCD or DOF, the GOP can then apply for reimbursement from the USAID under the AID loan.

A second sum of money to be provided under the AID loan, totalling $4,080,000, is intended as incentive loans cum grants. These loans are explained in paragraphs below on page 20 as inputs which occur after outputs for tax mapping and tax collection occur. P30,000 ($3,750) is available as a loan from DLGCD or DOF for each municipality after it has completed the tax mapping and records management operations. An addition P10,000 ($1,250) loan is available after the municipality has begun to collect taxes under the new system. These loans are explained in detail below. Upon certification by the regional advisor and the DOF/DLGCD/USAID Project Managers' Committee that the pre-agreed project commitments have been fulfilled, the loan monies will be released by DLGCD or DOF to the local governments. The GOP can then request reimbursement from the USAID.

Specific inputs to outputs are as follows: the local governments provide a country-wide staff of approximately 1,800. The GOP provides a technical staff of approximately 25 people. The GOP provides approximately $220,000 for the printing of manuals and conducting training sessions to train the 1,800 local government officials and staff. There are three types of training: (a) Photo interpretation training courses will be offered to those local government staff requiring the training by the end of 1979. These personnel will be utilized in the tax mapping phase; (b) Assessment and records management training will be conducted for 800 local government staff. These courses will be conducted regionally for 2 week periods. Composite total time will be six months; (c) Two one-week regional training courses in collection procedures will be held for 800 local government staff from the treasurer's office. Composite total time will be six months. These inputs lead directly to "Output No. 1. Trained staff in all project provinces and cities capable of installing and maintaining RPTA system.

The USAID will make an input of $1.4 million to finance the procurement of selected imported field and office equipment. The USAID will also provide under the loan $975,000 to finance the acquisition of excess property vehicles which are used in all four phases of the RPTA system. An additional $100,000 will finance the purchase of excess property typewriters.

The USAID loan provides for reimbursement to the GOP of local costs up to the equivalent of $3 million for the printing of aerial photos or acquisition of other base source data. The coordination of ordering the photos and monitoring of quality control will be done by the DLGCD. Where possible aerial photos available through other existing GOP agencies will be utilized. Otherwise, the purchase of aerial photos will be between the GOP and any of several qualified contractors, subject to quality, age of photos, area of coverage and costs. There will be a limitation on bidding due to limited private ownership of existing negatives and uneven coverage of the entire country. Where possible cadastral maps will be used so that actual tax mapping can begin before all prints are completed for those provinces and cities utilizing aerial photos. All provinces and cities requiring aerial photos should have acquired them by the end of 1979.

Local governments will make an aggregate input of $2.9 million (₱23.2 million) for office supplies, printing of forms, POL per diem, etc. This outlay will be spread over the 4 year life of the project. These inputs impact on all four project outputs. The POL is needed for the vehicles, noted above, which transport tax mapping teams and their equipment and appraisal personnel to rural areas. Vehicles and POL support are needed in the Treasurer's Office to support personnel involved in the collection and collection campaigns in the provinces and cities. The office supplies provide the staffs in the assessor and treasurer's offices the tools such as ink, paper, stamps, etc., needed to perform the office work in conjunction with the RPTA project. Supplies such as vellum, tracing paper, pencils, etc., are needed by the draftsmen in the construction of tax maps. Expenditures for printing provide the necessary tax declarations, assessment roll cards, collection cards, etc., in both the assessor and treasurer's office. The purchase of supplies and POL, the printing of forms, and the utilization of aerial photos will cover the entire period of the RPTA project as individual municipalities and districts enter, complete and then maintain the RPTA system. The above inputs directly support the final three outputs: Output No. 2. Project municipalities and districts are tax mapped, assessed and systems operational; Output No. 3. Increase in 50% in aggregate real property tax collectibles for participating local government units; and Output No. 4. Participating municipalities and districts reach 75% collection efficiency rate by end of year in which system is fully operational.

The final two inputs come after the desired outputs in tax mapping and records management, and collections have been accomplished. As outlined above, after the tax mapping and records management are completed in a municipality or district, the province or city can request a P30,000 ($3,750) loan from the DLGCD. This loan will be used to finance certain project-related expenses to be agreed upon by the GOP and the USAID. Upon submission of proper documentation evidencing that the DLGCD has made the loans (or a portion thereof) the loan amount disbursed will be eligible for reimbursement. The P30,000 loan will be interest-free and payable in equal yearly installments for 10 years. There is in the project design a second loan of P10,000 ($1,250) for which each municipality or city district may become eligible. The requirement is that it has actually begun to collect real property taxes to the RPTA system as an inducement to achieve high collection rates. The total sum of "loans" to the provinces, cities and municipalities is $4 million (P32 million) and will be dispersed in increments of approximately 198 tax units in CY 1980, 297 units in CY 1981 and 321 units in CY 1982 for a total of 816 taxing units.

It is anticipated that real property tax revenue yields will increase over the base year 1974 by $2.3 million in 1979, $7.3 million in 1980 and $12.2 million in 1981 for a cumulative 3 year total of $21.8 million. When the GOP finishes the RPTA system in the remaining 900 municipalities the annual increase over base year 1977 would be $22.8 million for a cumulative total increase of $97.5 million. The projected cumulative 3-year project total of $21.8 million clearly meets the project purpose of generating additional revenue yields.

The additional revenue, in turn, supports the sector goal in providing local governments with the financial capability to undertake projects or programs which can benefit rural and urban poor as the increased RPTA revenue generated by this project is retained locally in those same local government units in which it is collected. Under PD 464, otherwise known as the Real Property Tax Code, Sections 86 and 87 prescribe how the real property tax revenue is to be alloted. The province and municipalities share 50-50 the real property tax revenue where the taxes are collected. Five percent of each of those shares goes to the barangay from which the revenue is collected. Of the barangay share 30% may be used for salaries of local officials, while 70% shall be utilized for development projects as approved by the DLGCD. In the case of cities, 10% of the total tax collections revert to the barangay in which the tax is collected. The remaining tax revenue of cities and municipalities accrue entirely to their respective general fund. In the provinces, 25% of their share accrues to the roads and bridges fund (infrastructure) and 75% to the general fund.

There is one crucial assumption underlying this project. This assumption is that the GOP will neither radically change nor alter the existing structure of the Real Property Tax Code. Neither, it is assumed, will the GOP change nor alter the disposition of revenue proceeds in such a way that local government units would no longer have control of locally generated revenue.

PROJECT ANALYSES

TECHNICAL ANALYSIS

This project encompasses all regions in the Republic of the Philippines, 72 provinces and 56 cities. It excludes the 4 cities and 13 municipalities in Metro Manila and the City of Cebu, which units, because of the sheer magnitude of their combined size, if included, would require many times over the limited resources of this project. The intent of the project is to standardize country-wide the real property tax administration (RPTA) system which has been designed and field-tested under the present Local Development Project (LDP - No. 492-11-995-256). Fully implemented this system makes it possible for local officials to identify and account for all real property in the country, to assess real property fairly and equitably and to levy and collect taxes on real property promptly and impartially. This project does not propose to alter or change in a legal sense the existing Real Property Tax Code of the Republic of the Philippines. Instead, this Project does provide local officials an efficient administrative system for installing and maintaining an effective real property tax program under existing legislation.

The system itself is an integrated technical/administrative process using as its base the current market value of real property, and is designed to raise revenue for the support of local government operations. It is a sequential process which proceeds logically from a tax-mapping phase, through property valuation and tax determination phases, to a final tax collection phase.

The RPTA system contains four major elements which for the purpose of standardizing terminology have been termed operations. The four operations are:

Tax Mapping Operation

Objective: To prepare, install and maintain a system of tax maps based on frequent visual surveys. These maps will show graphically all land subject to assessment, with a corresponding real property identification and accounting system. The tax mapping operation utilizes aerial photos or cadastral maps, whichever is available, to aid in the identification of property and in parcellary sketching.

Tax mapping is the method by which real property is inventoried. This operation discovers real property parcels and identifies their owners. By utilizing a property index numbering system, each separate land ownership is provided with a unique account number--much like the serial number used in accounting for any other valuable piece of property in a property management system. This number is permanently

assigned to a specific parcel of land and establishes the connection between the physical property and the office records system (which did not exist in the former system). Additionally this operation provides land area information which, when recorded, provides an additional control over property records.

Tax Assessment Operation

Objective: To establish a systematic method of appraising all items of real property at full current market value and to implement the uniform application of applicable assessment levels.

Once it has been properly mapped and inventoried, real property is appraised at its full market value through one of several accepted methods. Assessment levels are then applied which results in the assignment of an assessed value for each particular property ownership. The assessment operation maintains subsidiary records for the purpose of periodically adjusting schedules of value and for general reassessment.

Tax Records Management Operation

Objective: To establish and maintain official ownership records for assessment purposes, including tax declarations, assessment rolls, index systems, etc., that reflect the current status of all real property ownership and assessed value.

This operation consists of the establishment and maintenance of the permanent official records and files of the Office of the Provincial and City Assessor necessary for the purpose of maintaining continued accountability for all separate property ownership. This operation distributes by assessment roll the information necessary to establish tax collection records in the Office of the City or Province Treasurer. Copies of appropriate records are also furnished to the public and various other local government offices as required. The Tax Records Management Operation establishes the all-important control link between tax assessment operations and tax collection operations.

Tax Collection Operation

Objective: To collect all of the real property taxes and penalties due and payable to the government through the positive and total enforcement of the tax laws and their penal provisions.

This operation consists of collecting, recording, accounting and disposing of real property taxes, both currently collectible and delinquent. In carrying out the tax collection function the responsible local government officials will utilize the modern collection procedures described in the RPTA. In addition, emphasis is given to the dissemination of public information pertaining to real property taxes,

to public education of the purposes and methods of real property taxation and the methodical application of tax collection enforcement measures as prescribed by law. In particular, this project recommends that Section 73 of the "Manual on Real Property Tax Administration (Assessment Regulation 8-75)" concerning the auction of property for delinquent taxes be utilized exclusively. While not advocating the abolition of Sections 68 and 82, distraint of personal property and collection of delinquent taxes through courts respectively, experience has shown that Section 73 is the quickest and most efficient means of collecting delinquent taxes.

Prior to local government initiating an RPTA system there are a series of seminars and training programs which local officials should attend. The pre-initiation of an RPTA system follows a logical chronological pattern based on the four operations outlined above. Governors will be thoroughly briefed on the legality, application and benefits of the RPTA system. Provincial and city assessors, treasurers, auditors, provincial development coordinators and selected staff members will attend a series of seminars linked directly to the four operations of the RPTA system. Selected technical provincial staff members as required will be trained in photo interpretation at the Center for Applied Geodesy and Photogrammetry at the University of the Philippines, on the Diliman Campus, Quezon City. In the meantime, appropriate provincial officials will be given instructions in the preparation of an RPTA Multi-Year Plan (MYP). This plan charts a precise course of action and budgeting commitments needed by the respective province or city to implement completely the RPTA system. The MYP also graphically indicates the potential cumulative yearly increase in revenue by the local governments with the RPTA system implementation. The regional training programs will be a cooperative effort conducted jointly by the Department of Local Government and Community Development (DLGCD) and the Department of Finance (DOF).

During actual implementation of the RPTA system in the various local governments, DOF and DLGCD technical staff will conduct field inspection visits to the provinces and cities to insure that the correct technical procedures are being followed and to evaluate project progress.

Actual implementation of the RPTA system begins at the local level with the legal, advisory and moral support of the central government, i.e. DLGCD and DOF. The first three stages of the system are the responsibility of the provincial or city assessor's office in conjunction with individual municipalities or tax districts. The tax collection phase is the sole responsibility of the treasurer, thus it is important that he be cognizant of the entire scope of the RPTA system. He should be thoroughly familiar with not only the technical and legal aspects but he should also understand and support the purpose and goals of this project.

The installation of the RPTA system at the rate anticipated by the Project will add, on the average, eight additional employees to the

staffs of the provincial and city assessors and two additional employees to the staffs of the treasurers. This additional staff will be utilized primarily on the tax mapping and records management operations and in the clerical work in the tax collection operation.

For participation in the project, provinces and cities will be provided aerial photographs other base source data (geodetic maps or similar surveys). The DLGCD technical staff will assist in contract negotiations and quality control for those provinces or cities which need aerial photos. Although each province and city will be granted P30,000 "seed" money (explained in the Detailed Description), the sole responsibility for funding for materials, supplies and personnel support will rest with the respective participating provinces and cities.

The inputs of this project form a direct link to the project purpose which is to generate revenue to its full potential for use by local governments in implementing development projects and programs. The commodities (See Annex II) supplied under the project provide the local governments with the basic material support required to install and maintain an efficient RPTA system. The GOP training programs conducted complementary to the project convey to local government officials and technicians the managerial and technical skills necessary to the successful pursuit of the project and its objectives. The seemingly heavy outlay requirement for the printing of existing aerial photographs is justified on the basis that the cadastral maps are not available for the entire country, thus the use of the aerial photographs represents a major base data source for the construction of tax maps that can be reasonably made available within project time constraints. Aerial photographs have the satellite benefit over cadastral surveys in their use for broad development planning purposes. Acquisition of aerial photos will be through existing GOP agencies whenever possible or by contract with any of several local companies (see the Detailed Description).

The GOP has codified the real property tax system through a series of wide-reaching laws. Unfortunately, the mechanism by which these laws are to be implemented was not institutionalized until the RPTA system was installed in the 28 Provincial Development Assistance Project (PDAP) provinces. As a consequence, the existing real property tax administration has been left to the individual local governments to interpret and implement. The proposed project, utilizing the RPTA system piloted under the PDAP, provides a standard path which would be uniform throughout the country wherein property is identified, property is assessed, records are filed and revenues are collected.

This project is targeted so that all cities and approximately one-third (576) of the provincial municipalities will have completely

FINANCIAL ANALYSIS

The Program:

The installation of the RPTA system countrywide is in two cost stages. The first stage covers the period of the proposed project, from FY 1978 unto early FY 1981 with 576 municipalities and 240 districts participating initially in improving tax collection rates and tax yields. The second cost stage post USAID participation will introduce 216 local tax units annually into the program in the period FY 1981 through FY 1984. The immediate effects on municipalities and on districts of the new tax program is described below:

Current Situation: (1974)	MUNICIPALITY	DISTRICT
Average Assessed Value	₱14,500,000	₱26,700,000
Real Property Rate	x .01	x .01
Collection Level	145,000	267,000
Collection Rate	x .45	x .48
Actual Current Yield	65,000	130,000

Project Target Situation		MUNICIPALITY	DISTRICT
Average Assessed Value	(+50%)	₱21,750,000	₱40,050,000
Real Property Rate		x .01	x .01
Collection Level		217,500	400,000
Collection Rate	(+67%)	x .75	x .75
Projected Yield		163,000	300,000
(Less Current		65,000	130,000
Increase		₱ 98,000	₱ 170,000

The fifty percent increase in average assessed values per municipality and per district is judged reasonably attainable from evidence of considerable under-assessment (exceeding this value) throughout the system. Improvement of the collection effort to the level of 75% of due taxes represents approximately a 67% gain over current collection rates for municipalities and about 57% for districts.

The aggregate total increase in tax collections forecasted for the improved system for the initial 816 local tax units is calculated as follows:

Municipalities:	576 x ₱ 98,000 =	₱56,448,000
Districts:	240 x ₱170,000 =	₱40,800,000
		₱97,248,000

This will not occur all at once. The time-staging of invested costs in the program, beginning in FY 1977--with U.S. reimbursements expected to continue unto FY 1981--will generate higher levels of tax

receipts beginning in FY 1979 at the level of ₱23.3 million, increasing thereafter to the target level of ₱97.3 million by FY 1981.

Capability of GOP to Continue the Project:

Annually, thereafter, it is anticipated that 216 local tax units will enter the RPTA system yearly until 1985 when all municipalities in the Republic of the Philippines will have installed the system. These additional annual tax units will benefit from the experience gained with the first 816 units. The use of aerial photos, cadastral maps or other base source data, as well as previous training, will be a direct continuation of the original project. It is estimated that approximately, $3.3 million will be needed for direct expenses such as project materials and office equipment (typewriters and calculators). There will be a combined total of $2.6 million which is a continuation of local government salaries and thus not an increase. If the GOP should replicate the ₱30,000 and ₱10,000 loan incentives, this would add an additional $4 million. The total of direct costs, continuing costs and loan/grant outputs would be approximately $10 million to complete the country by 1985.

The Forecast:

The forecast which follows shows the time-staging of costs, annual entry of expected numbers of local tax units into the improved tax system, and annual and cumulative tax receipts as they arise during the period FY 1977 through FY 1985. After all units installed by 1985 have shown expected results, (i.e., in 1985 tax receipts) an annual level of ₱182.1 million (U.S. $22,762,500 @8:1) is attained which may be expected to continue thereafter.

It is noted that the forecast, based on 1974 tax data and 1977 cost estimates, is in constant prices. Revenues, on the other hand, are understated in terms of comparability with the adjusted cost figures. Adjustments were not made to revenues, as it is inappropriate to prejudge the future rate of change in property values resulting alone from inflation, as opposed to equally likely substantive change in real values comprising the nation's assets and their composition.

Cumulative tax receipts in the final forecast year FY 1985 will reach the level of ₱780 million or U.S. $97.5 million. At this level, the payback on invested prior year costs is 3.8 times.

The financial payback on current-year cumulative costs rises as follows:

	FY 1979	FY 1982	FY 1985
Annual Payback	26.6%	72.2%	89.4%
Cumulative Payback	26.6%	181.0%	382.8%

This rate of payback results from comparing the Annual and Cumulative Tax Receipts with the Cumulative costs up to the same year:

Receipts/Expenditures = Payback Percentage

The payback indicates that by 1982, about 72% of all funds cumulatively expended up to and including the second stage of the project, will have been returned by tax receipts arising in FY 1982 alone. In that same year, cumulative tax, cumulative tax receipts from 1032 installed tax systems (receipts are obtained in the year following installation), will exceed by 1.8 times the amount of all funds expended up to and including FY 1982. That is, aggregate receipts are 80% greater than aggregate expenditures for the tax system then installed.

FY 1985 has been identified as an end to forecasted "project" cost analysis as all local government will have installed the RPTA system. With all forecasted tax systems installed as foreseen by this project FY 1985 payback of cumulative receipts on cumulative expenditures has risen to over 380%. This identifies the level at which receipts cover, or have returned, more than all combined project costs previously expended.

Operating Costs:

Operating costs are provided within the capital funds listed for the two stages of the project. This results in a somewhat lumpy cost structure not entirely representative of the rates of expenditure expected, but contributes to clarity in stating aggregate costs by year in which committed. Total cost items are therefore more easily traceable.

The cost structure is made unique by the "Reimbursement" item: this represents funds loaned by the central government to local tax units. (₱30,000 is loaned for tax mapping; ₱10,000 is loaned when collections are begun). These annual costs arise as new tax systems are installed and their annual volume reflects the numbers of such systems being introduced in each year.

Such reimbursement items are fully costed in all efinancial payback analysis, so that no cost item is barred from that calculation.

Financial Cash Flows: Present Values and Rate of Return:

Gross Annual Total Costs and Gross Annual Tax Receipts (as incurred) after discount at 15% present value, attain a benefit-cost ratio of 2.53:1, on financial account. If 15% P.V. is indeed the economic rate of time-preference, or opportunity cost of capital in the Philippines, then the P.V. surplus of benefits over costs is very high. This surplus accrues to government taxing units, at this stage, before re-spending on local projects which give rise to end-result economic benefits later to be calculated.

The Internal Rate of Return, on financial account, 49%. This is the rate at which Annual Gross Costs and Annual Gross Receipts, when summed, are equal at 1:1.

For comparative purposes, the forecast included a calculation of annual gross tax receipts at the former level of collections for the nation as a whole (except for Metropolitan Manila and Cebu--the largest cities). This forecast is therefore comparable to the project forecast in excluding those cities, and compares 1680 total local taxing units in the AID tax program with nationwide taxing units of equal number. It may be seen that nationwide taxes on property (1% rate on assessed values) historically produced a gross tax yield of P118,777,000 in 1974. Assuming that the overall yield increases at 3% per year, by FY 1984 such national yields, without the project, would attain the level of P159,626,000. But under the AID project, all taxing units in that year experience an increase in taxes collected P160,900,000 which has the effect of doubling the national yield.

Explanation of Project Inputs:.

Local government inputs for personnel and project materials are "normal" yearly expenditures for the minimum numbers of people needed in the tax mapping, records conversion and collection phases. This conforms with the staffing patters in "The Manual on Real Property Tax Administration in the Philippines (Assessment Regulation 8-75)". National personnel and travel inputs provide for the regional RPTA advisors as well as a small technical staff at the national level.

Training expenses cover food and lodging for all participants and staff involved in the specialized training programs. The cost also includes all training materials, manuals, books, travel expenses, etc. Manuals and related materials will be retained by the participants for use in their respective local governments.

Project materials are the office supplies and POL that the assessors or treasurers' offices would expend for installation of the RPTA system. This is a normal local government expense.

There are essentially three categories of commodities. First, the basic equipment will be granted directly to the local government.

Secondly is the acquisition of excess property vehicles for the tax mapping, appraisal and collection operations. Acquisition costs of these items are reimbursable under the AID loan. The third category is the acquisition of excess property typewriters.

The total costs for acquisition of aerial photos, cadastral maps, or other survey data is also part of the Development Loan. The DOF and DLGCD have money earmarked to be used as loans to individual provinces, cities and municipalities so that the local governments have easily accessible and readily available money in which to implement the RPTA project.

The ten year-interest free reimbursement loans to local governments are available after certain conditions are met. First, ₱30,000 is available after a municipality or district has been tax mapped. Secondly, ₱10,000 are available to municipalities after they begin to collect to the new system.

Finally there is one "seed" grant to all provinces and cities as they initially enter the RPTA project. The lump sum of ₱30,000 per province and city is granted so that initial delays will not be incurred while arranging local budgets or financial arrangement.

The total USAID commitment is $10,000,000 Development Loan. $1,470,000 of the total is a direct input for field and office supplies. The remaining $8,530,000 is directly reimbursable to the GOP. No draw-down on the DAR can be made until the GOP has not only, first made the required inputs, but in the case of the reimbursement loans, definite project outputs have been achieved.

U.S. Participant Training Costs:

The present Local Development Project (LDP) No. 492-11-995-256 is funding a three month training program for 14 participants at the University of Southern California's Institute for Tax Administration. Twelve of the participants are from the DOF and will be the regional technical advisers involved in the proposed RPTA Project. One is a staff member from the National Tax Research Center and one from the NEDA. Total USAID cost of the program is approximately $77,000.

FINANCIAL PLAN
($000)

	TOTAL AID		TOTAL HOST COUNTRY		SUM
	FX	LC	FX	LC[1]	TOTAL
Personnel Requirements					
DLGCD (National)				164.2	164.2
Local Governments (DOF)				1,821.1	1,821.1
Travel Expenses				54.0	54.0
Training and Related Expenses					
Training Materials Manuals, Training Overhead, Travel (DLGCD)				220.2	220.2
Project Materials and Supplies					
Paper POL, Transportation (Local Governments)				2,956.5	2,956.5
Commodities					
Basic Equipment	1,379.2			90.0[1]	1,469.2
Inflation Factor	90.8			10.0[1]	100.8
Vehicle Support				975.0[1]	975.0
Aerial Photos				3,000.0	3,000.0
Reimbursement to Local Government				4,080.0 [1]	4,080.0
Seed Money				375.0[1]	375.0
Direct Amount Reimbursement	8,530.0				8,530.0
Sub-total	10,000.00			13,746.0	23,746.0
Delete DAR/Non-adds	-			8,530.0[1]	8,530.0[1]
TOTAL	10,000.00			5,216.0	15,216.0

1/ Combined GOP inputs in those categories total $8,530.0 which is offset by AID issued SLC. The AID Direct Amount Reimbursement.

COSTING OF PROJECT OUTPUT/INPUT

($000)

PROJECT PAPER

Project # 492-0298

x New
Rev. ____

PROJECT INPUTS	PROJECT OUTPUT				TOTAL
	Trained #1	Tax Map/ Record #2	Assess #3	Collect #4	
AID APPROPRIATED COMMODITIES 1/	40.0	835.0	150.0	445.0	1,470.0
DAR					
Vehicles 2/		325.0	325.0	325.0	975.0
Typewriters 3/		50.0		50.0	100.0
Aerial Photos		1,500.0	1,500.0		3,000.0
Loans		3,060.0		1,020.0	4,080.0 4/
Seed Money		125.0	125.0	125.0	375.0 4/
HOST COUNTRY					
Personnel (National)	54.6	54.6	54.6	54.4	218.2
Personnel (Local)		1,443.8	188.7	188.6	1,821.1
Training	220.2				220.2
Project Materials		2,217.4	369.6	369.5	2,956.5
TOTALS	314.8	9,610.8	2,712.9	2,557.5	15,216.0

1/ See Annex II.

2/ See Annex III.

3/ Annex IV.

4/ Expenditures will be for project-related activities and will be covered by appropriate documentation or outlined in the "Detailed Description".

SOCIAL SOUNDNESS ANALYSIS

Summary

The Social Soundness Analysis was undertaken by Dr. Kenneth G. Orr. His abridged field notes are attached as Appendix XIV. Briefly, his topics are methodology, property tax background, an analysis of three locations in the Philippines where the RPTA system is being installed and conclusions. In his location analysis he includes such items as a profile of a taxpayer, motivation, caciquism, the spread effect, etc.

Methodology: Dr. Orr was requested to make a study in three geographical representative locations--the Municipality of Santo Tomas in Pangasinan Province (Luzon), the Municipality of Dulay in Leyte Province (the Visayas) and the isolated City of Puerto Princesa in the island of Palawan. The first two locations have installed the RPTA system under the PDAP Project and the third, the City of Puerto Princesa has installed and implemented project-recommended collection procedures with no outside assistance. Dr. Orr states he formed an hypotheses as to the nature of the real property tax situation in the areas proposed for study and then did his field work. "The hypotheses were" Dr. Orr writes, "to allow an interpretation to be made of the 'raw data'..."

Property Tax Background: Dr. Orr gives a general historical background of the concept of taxes in the Philippines from aboriginal times through the Spanish and American Periods to the present.

Analysis of Santo Tomas, Dulay and Puerto Princesa: Dr. Orr found the attitude of taxpayers differing widely in the three locations. In Santo Tomas, tenants from former landed estates welcomed a new RPTA system whereas in Dulag, the taxpayer tended to avoid taxes if possible and was less enthralled, particularly as most of these people are long-time land owners and not former tenants. The City of Puerto Princesa recently implemented the collection procedures proposed by this RPTA project with outstanding results. Dr. Orr attributes this to the more "frontier" nature of Palawan and the absence of any old, established, and landed class.

Dr. Orr stresses caciquism--the concept of the strong ruler--is prevalent in Philippine local government politics. He ties this concept into the RPTA Project and the implications that it can have on the RPTA system. Thus the consequences for the RPTA system can be beneficial or harmful depending on the local political climate.

In one location, Dr. Orr found that 30% of the taxpayers pay 70% of the income taxes. Thus the poor majority--the 70%--pay only 30% of the total tax revenue. At least 03% of the population pay no taxes of any sort. In this location Dr. Orr stated the "poor" with whom he

spoke, expressed satisfaction with the possibility of a more efficient real property tax system as this would possibly mean more money for public projects.

Conclusions: Dr. Orr points out that the RPTA system could conflict with the local power base as he states "the new tax system by attacking caciquism also attacks the graded system of special privilege." However, he indicates that compliance with the tax codes is rising and with continued support from the central government, the real property tax system can provide a means for social reforms. He views the RPTA system as one which conforms to Philippine existing socio-cultural landscape. Dr. Orr concludes by observing that the poor and the landless, who pay no taxes, will receive the greatest benefits.

BENEFICIARIES

Taxpayers and Apparent Beneficiaries

Approximately one half of all family gross incomes earned in 1973 were earned by 775,521 individuals subject to income tax. The other half was earned by 5,571,479 families not subject to income tax. 2,617,000 very low-income families (below P2,000) failed to earn a taxable income (see Annex XIII Table A).

The upper income groups filed 8.22% of all tax returns, reported 44.5% of all gross income, and represented 6.1% of all Philippine families. For these families paying income taxes, the average gross income reported per family is P82,691 (U.S. $11,327).

Identification of families reporting no taxable income has been made in Annex XIII Table B.

Non-taxpaying families have residual (untaxed) incomes which average out by income class as follows: (upper ranges only are shown for income classes)

	- P2000	4000	6000	8000	10000	15000	20000	20000+
Average	171	2251	3823	5406	7073	8653	8417	-10[illegible]2[1]

[1] The peculiar negative average (and gross) reported in the 20000-plus group results from the excess of reported taxable gross income in this class over the government estimates in 1971 of the amounts of gross income earned by this class. It can mean a sharp rise in earnings of this high income class, or a statistical discrepancy due to the two years difference in compared tables.

The average size of family (weighted by number x percent) is 5.63 persons overall, for all non-taxpaying families. Low income groups below P2,000 are about 39% of non-taxpaying families and families in income class P2,000-4,000 are another 32% of the total; thus about 71% of all non-taxpaying income groups are in the low-income category, with about 5.63 persons per family. This represents 3,952,700 families with 22,451,336 family members living at generally low income level, not subject to income tax.

Income and Expenditures

Government estimates of 1971 household income [illegible] concluded that 329,000 families, [illegible] income is computed at P537, in [illegible] income class earning one-half percent of total national private incomes.

For income classes up to P10,000, the GOP has calculated that average family expenditures actually exceed average family income. (See Annex XIII Table C). That is, 5.9 million families, or 94% of all

Philippine families, earn on average less than their average expenditures. It is clear that this statistic reflects apparent demand rather than effective money demand for goods and services and is based on estimates of average minimum consumption requirements. In another sense, deficits in spendable income, as opposed to needs, furnish a relative index of poverty in scalar form, inverse to income level. These statistics reveal the following relative poverty scale:

Deficit or Surplus in Minimum Requirements Per Family and Gross Shortfall by Income Class

Income Class	Pesos (Avg)	PMill. (Gross)	Income Class	Pesos (Avg)	PMill. (Gross)
500	-1304	-429	5000	-730	-346
1000	-1255	-962	6000	-659	-208
1500	-1208	-934	8000	-531	-214
2000	-1208	-903	10000	-198	-45 - 5937
2500	-1119	-684	15000	+400	+94
3000	-1022	-528	20000	+1260	+8[illegible]
4000	- 861	-684	20000 +	+12831	+1039 + 1222
					- 4715

(Deficits indicated by minus sign; surplus by plus sign)

The Property Tax Impact

If total gross shortfalls are compared with total surpluses, it is seen that no amount of personal income re-distribution would solve the problem of relative poverty, and that the amounts previously estimated in the financial analysis for property tax revenues alone would provide the following alleviation of distress:

Property Tax Receipts (Increase only in P Million

	1978	1979	1980	1981	1982	1983	1984	1985
Annual	0	23.3	58.2	97.3	118.5	139.7	160.9	182.1
Cumulative	0	23.3	81.5	178.8	297.3	437.0	597.9	780.0

From this comparison, it is seen that the target group of 329,000 families earning less than P500 would require P429 million to attain the desired spending level to benefit from welfare spending of property taxes, annual taxes would constitute only 42.4% of their needs by 1985. Cumulative property tax receipts, however, would by 1983 provide more than enough funds to redress the imbalance in their incomes.

It is equally clear that to pinpoint such a specific income group as the under - ₱500 class would largely ignore a vast population suffering less hardships only by degree. Yet, constraints on available tax revenues might argue for such a determination.

Mechanics of Real Property Taxation

In the context of social effects, real property taxes in the Philippines are effectively neutral. They do not by themselves re-distribute wealth, nor do they, at the 1% rate on assessed value (30-40 or 50% of market) impose insuperable obstacles to ownership. The 1% tax is levied on a percentage of appraised market value: Residences 30%, Agriculture 40%, Industry 50% and Commerce 50%. At any level of value for an asset, whether ₱3,000 or ₱3 million assessed value, the relative value of the asset after taxation remains the same as before the tax, for the same categories of market value. They do not fall more heavily upon a rich agriculturist than upon poor one, nor more upon the poor agriculturist than the rich, although their parcels may vary widely in value. After tax shares of agricultural value remain the same; 99% for ₱3000 and 99% for ₱3 million, even though tax payments vary from ₱12 to ₱12,000. The effective tax is 0.4% for both.

It is in the spending of proceeds from the property tax that income re-distribution effects are achieved. Moreover, other economic benefits may be achieved as a direct tax consequence. Income-generating assets affected by a new fixed cost are induced to expand production of more units over which to spread the fixed cost in order to lessen its burden. In this category are agricultural lands, commercial and industrial plant and equipment. (But these may also shift the tax by increasing prices). Idle assets newly taxed are compelled to enter production for the same reason, or to change hands by sale for use by those who can produce profitably under the extra burden. In these ways, the economy may gain from real property taxes.

The property tax on residences is a tax upon ownership of unproductive wealth, and at a constant rate of 1% on 30% of market value, produces the same neutral distributive effects. An exception to these general rules newly exists with respect to residential buildings. Since January 1974, scalar assessment levels have been initiated for buildings with market values between ₱30,000 home and 80% of market for the ₱500,000 home. In effect, a graduated property tax has been created. The language of the tax change suggests that a similar scalar assessment, for farm buildings, machinery and plant, and commercial and industrial buildings, "shall be not less than 50% nor more than 80%." This rule does not give concessional treatment to small properties (assessed levels at 15% of market) as does the residential tax, but graduates the tax for all upper ranges of value.

As these rules are fully or effectively implemented, the property tax will lose its neutrality. New levels of tax receipts will be placed in the hands of tax authorities; but no distribution of tax receipts will have yet occurred by this mechanism alone to favor the low income classes or the unemployed.

Property Ownership as a Source of Wealth

By main source of income in 1971, it is known that 44.3 of all families derived most of their income from wages and salaries. Annex XIII Table D shows agriculture as the next main source of income for 21.5% of families, business enterprise for 15.4%. Lower income classes (P500-P2000) predominated in listing these sources of income. These classes also listed crop shares and gambling more frequently as main sources of income. As expected, 53.8% of all families receiving gifts support or welfare as a main source of income were those earning less than P2000.

It is notable, however, that presumed indices of property as a source of income were ambiguous and inconclusive; of all families listing rents, upper income classes were only 10.1%, middle income 42.6% and the lowest income class as 25.8%. Only 1.7% of income derived from rents in 1971, amounting to P401.6 million compared with P4,668.3 million derived from wages and salaries. Other asset-sources of income derive from interest, dividends and profits, in which the total number of families was so minor as to represent 0.2% nationally. Pension and retirement income was predominantly reported by upper income (38.4% of all those receiving this income).

But inheritances, which may derive from estates, showed a greater participation by income classes in the low-to middle income groups (P2000-10000).

NUMBER OF FAMILIES EARNING MAIN INCOME FROM:

Income Class	No. Families (000)	Rents	As %	Inherit-ance	As %	Pension Retire-ment	As %	Total by Class	Totals As % by Income Class
500-2000	2617	4386	25.8	555	3.7	3900	6.5	8841	0.03
2000-10000	3342	10880	64.0	12330	82.2	33000	55.0	56210	1.58
10000 /	386	1717	10.2	2100	14.0	23040	38.4	26857	6.95
	6345	17000	100.0	15000	100.0	60000	100.0	91908	1.45

The relative percentage of 6.95% of the upper-income group represents, proportionally, property-derived incomes 4.1 times that of middle-income groups, and 231.6 times that of the lower-income groups.

ECONOMIC ANALYSIS

Summary

The economic feasibility of the project must be viewed in the context of the benefits to the society that will result from strengthening local government capabilities to render expanded services to low income families throughout the rural areas of the country. Such services include better roads, better schools, nutrition and health outreach programs to an expanded population, etc. The key question from the economic standpoint is whether these benefits will outweigh the costs of delivering them. Secondly, since taxation involves income transfers from one socio-economic group to another, there is also the question of whether the use of increased tax revenues to raise the welfare status of the poor will yield greater benefits to the society than would result if the funds were retained and used for private purposes by the landowners.

Benefit-Cost Analysis

Benefit-cost calculations for the project are contained in Annex XII. These calculations show a favorable B/C ratio of around 3 or 4 to 1, a range to be expected from a project where the marginal returns to the society are high.

It should be noted in the Annex XII analysis that whereas the costs of the project can be calculated in a relatively straightforward manner, it was necessary to derive the benefits in a somewhat indirect manner in terms of time preferences for money and the perceived demand for improved welfare by income groups. The higher ratio resulting in the latter case is understandable. The lower the income group, the more "deprived" its members feel, the more urgent its demand for improved welfare, and the higher the value it places on increased public services.

Comparative Benefits

The best available and relevant data concerning taxpayers and low-income beneficiaries cover the years 1971 and 1973. These data are set forth in some detail in Annex XIII, and summarized below.

Briefly, the data show that taxpayers in the Philippines represent only so[illegible] per cent of the total number of families in the country. Roug[illegible] 40 per cent of all families fall below the minimum taxable income level. Most of the rest do not file tax returns.

Income Taxpayers in the Philippines, 1971

	No. in Millions	Percent
Total families	6.35	100
Below taxable income level	2.62	41
Did not file returns	2.95	47
Subject to tax	0.78	12

Source of data: Bureau of Internal Revenue

Within income classes, the highest percentage ratio of taxpayers to number of families falls in the highest income class. Even then the ratio is only 29 per cent. The ratio of taxpayers in the lowest income class is roughly double that of the middle-income classes.

Ratio of Taxpayers to Families
1971-73

Income Class (Pesos)	Percentage Ratio Taxpayers to Families
Less than ₱2,000	17
₱2,000 - 10,000	8
₱10,000 - 15,000	12
₱15,000 - 20,000	18
₱20,000 plus	29
Overall	12

Comparative data on individual numbers of real property taxpayers does not readily exist under the present "non-system." One of the integral parts of this proposed project is to upgrade the records management capability of the assessor and treasurer's office. However, in terms of gross revenue, the municipalities which will be in the project had a real property tax revenue potential of

approximately $11 million (₱83 million), but in fact actual collections were closer to $5 million (₱37 million). The cities did no better where potential collections were approximately $8.5 (₱64 million) while actual collections totalled $4.2 million (₱31 million).

The immediate effects on municipalities and on districts of the new tax program is described below:

Current Situation: (1974)	MUNICIPALITY	DISTRICT
Average Assessed Value	₱14,500,000	₱26,700,000
Real Property Rate	x .01	x .01
Collection Level	145,000	267,000
Collection Rate	x .45	x .48
Actual Current Yield	65,000	130,000
Project Target Situation	**MUNICIPALITY**	**DISTRICT**
Average Assessed Value (+50%)	₱21,750,000	₱40,050,000
Real Property Rate	x .01	x .01
Collection Level	217,500	400,000
Collection Rate (+67%)	x .75	x .75
Actual Current Yield	163,000	300,000
(Less current)	- 65,000	- 130,000
Increase	98,000	170,000

The fifty percent increase in average assessed values per municipality and per district is judged reasonably attainable from evidence of considerable underassessment (exceeding this value) throughout the system. Improvement of the collection effort to the level of 75% of due taxes represents approximately a 67% gain over current collection rates for municipalities and about 57% for districts.

The aggregate total increase in tax collections forecasted for the improved system for the initial 816 local tax units is calculated as

Municipalities:	576 x ₱98,000 =	₱56,448,000
Districts:	240 x ₱170,000=	₱40,800,000
		₱97,248,000 ($12,156,000)

This will not occur all at once. The time-staging of invested costs in the program, beginning in FY 1977--with U.S. reimbursements expected to continue into FY 1981--will generate higher levels of tax receipts beginning in FY 1979 at the level of ₱23.3 million, increasing thereafter to the target level of ₱97.3 million by FY 1981. It is anticipated that the potential increase in revenue will be utilized by the local government to increase local development programs and projects. Undersecretary Salvador Socrates of the DLGCD, in a recent speech before Mindanao officials, cited how increased real property tax revenue could support expanded rural health services.

Annually, thereafter, it is anticipated that 216 local tax units will enter the system. These additional annual tax units are expected to arise from a continuation of the program by the GOP and to result from extension of the experience gained with the first 816 units.

From the above tables and annexes XII and XIII, it is clear that there is considerable scope for expanding the income tax base in the Philippines. It is equally clear that potential low-income beneficiaries constitute a large proportion of the total population.

Regarding comparative benefits to the society, the data contained in Annex XIII show that over two-thirds of the household expenditures for low-income families are for food and an additional 10-12 percent for housing and utilities. This leaves little scope for acquiring increased welfare from the balance of available family funds. Hence, the need for expanding publically-financed services.

It would be difficult to quantify the benefits that would accrue to the society if this project were not undertaken and land revenues were retained for private uses instead of being transferred to the public sector through higher taxes. Such analysis would go well beyond the scope of this paper. However, one need only review past and present expenditure patterns to appreciate the high probability that benefits to the rural poor would considerably less if the non-project option were pursued. In fact, the current plight of the rural poor is a manifestation of past expenditure patterns, and underscores the urgency of undertaking this project.

IMPLEMENTATION ARRANGEMENT

RECIPIENT

At the national level there are two organizations - the Department of Finance (DOF) and the Department of Local Government and Community Development (DLGCD) - which will jointly implement the RPTA project. The mandate of each of these departments gives them a direct line of authority to provincial, city, municipal and barangay officials.

Excluding local assessors and treasurers, the DLGCD administrative and executive umbrella covers all local government unit functions and officials including governors, mayors, local councils etc. In addition, the DLGCD has regional, provincial and city representatives who monitor and assist local governments in the implementation of the local government projects, and who have access to discretionary funds which can be used by local government units for development projects. The assessors and treasurers, on the other hand, fall under the aegis of the DOF. Although governors and mayors can exert a limited amount of pressure on the assessors and treasurers at the local level, legally these two officials are answerable to DOF at the national level.

The DLGCD is a relatively new organization created in 1972, while the DOF is an old department with a long tradition in the Philippine bureaucracy. The DOF does have all the implementing authority and the full backing of the tax codes and laws in which to support the RPTA system. It would be naive to say that the Philippine tax codes are perfect, but nevertheless they are generally adequate for the present situation. The real problem as stated in the "World Bank Country Economic Report," June 1976 is " . . . the <u>administration</u> of the real property tax will have to be improved significantly.")p. 447 emphasis added).

The proposed project intends to alleviate this condition by offering an efficient method in which to implement the existing tax laws. Neither the DOF nor the DLGCD, as organizational entities, have the manpower, resources or sole implementing authority to undertake the RPTA project alone. However, this project does propose to meld the respective strengths of both the DOF and the DLGCD into a project with a single purpose to generate additional revenue in the provinces and cities of the Philippines.

At the formation of the existing Local Development Project, it was the PDAP, then under the Executive Secretary in the Office of the President, that responded to the need for improvement in the administration of the real property tax system in the Philippines. It was the PDAP and the USAID, along with individual assessors and treasurers, that designed and field-tested the system that was subsequently adopted by the DOF as the "Manual on Real Property Tax Administration in the Philippines

(Assessment Regulations No. 8-75).[4] In July 1976, the PDAP was shifted from the Office of the President to the DLGCD as had been envisioned when PDAP was organized. Presently the concept of the PDAP is being expanded countrywide. Thus the DLGCD, through PDAP, has had extensive contact with the PDAP and AID programs. The DLGCD has shown that it has the capability and experience to handle the acquisition of excess property and to administer the intra-GOP national to local government loans. Furthermore, the absorption of PDAP into the DLGCD has strengthened both units - PDAP can now draw expanded personnel and administrative support from the DLGCD, while the DLGCD can utilize the expertise that PDAP has acquired.

The DLGCD has also demonstrated a genuine interest in the RPTA project as a potential means of strengthening local government. The detailing of DLGCD personnel to understudy PDAP technicians is one example. Another example is the DLGCD budget submission for pre-project implementation in 1977, and the concurrent interest shown by the Budget Commission. The DLGCD has also provided funds for provinces who are not yet in the RPTA system to hire, as consultants, provincial officials from PDAP provinces to assist in the implementation of the RPTA project. The DLGCD/PDAP are also preparing to increase the printing of the standard manuals and guides used in the RPTA system so that such manuals will be available countrywide.

Actual implementation of the RPTA project will be undertaken by the offices of the assessor and treasurer in the various provinces and cities. In general the office of the assessor is under-staffed and under-trained. One of the priorities of this project is to improve the management capability of the office of the assessor by training a full staff complement in accordance with the "Manual on Real Property Tax Administration in the Philippines (Assessment Regulations 8-75)." In some locations this will mean hiring and training new personnel in tax mapping and records management. In other cases it may mean the training or re-training of present staff members. Personnel in the Treasurer's office will also receive specialized training in records management and collection. Training will be done first on a general basis, by regions. Regional training will be followed up by more intense training in individual provinces and cities.

The training programs will be centered around 12 regional advisors who will undergo a three-month program at the University of Southern California's Institute for Tax Administration and funded under the existing Local Development Project. These advisors have been chosen from various provincial and city offices based on their proven ability and understanding of the RPTA system. Each of these advisors will be responsible for all the provinces and cities within a specific region. They will train, advise and assist the local governments in implementing and installing the RPTA system. They will be backed up by the existing DLGCD/PDAP/DOF technicians and specialists implementing the present PDAP RPTA project.

Two other organizations, the Development Academy of the Philippines (DAP) and the Human Settlements Commission have shown interest in the RPTA system. The DAP, in its seminars for local government personnel, has had courses in the RPTA system. The lack of practical experience of the resource speakers combined with the brevity of the presentation has lessened any real impact on the participants. The Human Settlements Commission (HSC) on the other hand, is an active body under the Office of the President. The HSC is undertaking, at the request of the La Carlota City, the installation of the RPTA system in that city. While their enthusiasm is commendable, it is also unfortunately typical of the vertical structure of the GOP wherein a new section was created in the HSC to undertake the RPTA system instead of crossing departmental lines and integrating the project with existing DOF/DLGCD programs. The Human Settlements Commission has a budget for tax mapping in only one city. Unfortunately, the personnel who will undertake this project have had no practical experience, and in fact have privately contacted PDAP technicians for advice and assistance.

In addition there are two other organizations, the Bureau of Lands and the Department of Agrarian Reform, doing technical work which can be coordinated with the RPTA project. The Bureau of Lands (BL) is responsible for cadastres of the public domain and some private lands. It's goal is to complete surveys and tilling of these lands within the next few years. The Department of Agrarian Reform (DAR) is responsible for surveys and titling of private lands in government resettlements and landed estates. The goal of these agencies is to sketch a total of 2 million hectares in the next few years. Whenever possible, local officials engaged in the RPTA project will be encouraged to coordinate parcellary sketching in the construction of tax maps with both the Bureau of Lands and Department of Agrarian Reform. Utilization of common resources and output is being done on an individual bases in some of the PDAP provinces. Meetings are currently being held at the national level to explore ways in which aerial photos and parcellary sketching can be shared and utilized by all parties concerned. It is also planned to conduct seminars between DAR, DL, DOF and DLGCD on the field techniques used by the individual agencies so as to standardize operations where possible. However, as the objectives and goals of the BL, DAR and the RPTA project differ greatly, it is felt that there should be no direct linkage of the projects in terms of output.

Any input into the RPTA system by other interested GOP agencies is certainly a positive sign. However, none of the four organizations mentioned above are being considered a major implementing agencies as they do not have a direct legal mandate over local government operations as do the DOF and the DLGCD.

Regardless of decrees, regulations, codes, etc., the success of the RPTA program lies with the local government officials - the governors, mayors, councils, assessors and treasurers and their staff. All essential

officials and staff will receive training commensurate with their function within the overall system. The ability and desire of local officials to absorb the training and implement the program will obviously range from the highly motivated, intensely interested individuals down to those who will never understand the system and have no interest in trying. Every attempt will be made to persuade the pertinent authorities to motivate, replace, or remove those individuals in the latter category. The spectre of the national departments looming over local officials will only be effective if the national bodies themselves show firmness and resolve in successfully implementing this system.

IMPLEMENTATION PLAN

Although the RPTA Project is scheduled for implementation in FY 1978, the Mission is anticipating that funds for the project will be available in FY 77. However, to insure timely implementation of the project by local government units in January 1978, there are pre-implementation activities which must be undertaken during CY 77.

The DLGCD has already submitted to the Budget Commission a request for pre-project implementation funds for 1977.

Secretary of Finance, Cesar Virata and Secretary of the Department of Local Government and Community Development, Jose A. Roño, have signed a Memorandum of Agreement pledging the complete and full cooperation of their respective departments in the RPTA project. This agreement had been considered as a condition precedent to final implementation for the project and its signing in March was a welcome sign of intense interest on the part of the GOP. Following this agreement, a central committee of the project managers of DOF, DLGCD and AID was formed at the national level to fully implement the project.

The key to timely implementation of the RPTA Project often lies with the local governor or mayor and the provincial or city assessor and treasurer. In August, local government officials, including those mentioned above, will be given a thorough orientation and briefing on the RPTA project by the DOF, the DLGCD and the USAID. The goal and purpose of the project will be explained. Financial schemes will be explained in detail, including the function of the "seed money" and the P30,000 and P10,000 loans to local governments. The session will also include what expenses the local governments will incur as well as expected project benefits. A brief outline on the training of local personnel will be included. Last but not the least, there will be a briefing on collections procedures, the composition of the RPTA Task Force and its function will be explained as well as a brief introduction to the Multi Year Plan (MYP). The intent of these sessions is orientation. No one is expected to be an expert in the system based on the orientation. However, local government officials will be aware of the scope and relevance of the RPTA project to their respective provinces or cities.

By late 1977 all provinces and cities will receive information and instructions in organizing an RPTA Task Force and in forming a five-year plan for implementation of the RPTA system. This plan should be developed well ahead of the formation of the provincial or city budget submission for FY 78 to insure that adequate funds are available for timely implementation of the project. At this time the provinces and cities must also have firmly chosen those municipalities and districts to be tax mapped and the system installed. Also by this time the Assessor's

Office should be staffed out with the necessary personnel to undertake the RPTA project.

The GOP will request 900 excess property typewriters and 300 excess property vehicles. DLGCD, which is familiar with procurement procedures will order the typewriters and vehicles beginning in June 1977. If feasible, or desirable, this request can be made earlier to insure the delivery of a minimum number of vehicles by January 1978.

The timely arrival of the field and office equipment is also critical. Bids for this equipment (see Annex II) should be let immediately upon formal approval for allocation of AID funds. In order that local government units can begin tax mapping and records conversion, this equipment should be in country and distributed to the provinces and cities by early 1978. Since all projections for increased revenue collections are based on specific numbers of local government units installing the RPTA system in a given year, a failure to implement the project in early 1978 due to lack of technical equipment would mean that the potential increase in tax revenue collections would be delayed one year. This would seriously affect the overall project purpose and goal.

Another important operation which should be initiated by the GOP prior to actual project implementation is negotiating the printing of the aerial photos for those provinces and cities requiring them. Where feasible, and practical, aerial photos will be obtained from other GOP agencies. For those photos procured through private sources, DLGCD will assist in coordinating both the needs of the provinces and cities and the actual negotiations. DLGCD technical personnel will also monitor the quality of the aerial photos. For those provinces and cities where aerial photos are not required other sources of base data such as cadastral maps, private surveys, etc., will be assembled and verified by the technical advisors.

Two tax mappers from each of those provinces and cities electing to utilize aerial photos will be trained at the University of the Philippines Training Center for Applied Geodesy and Photogrammetry. Training will be commensurate with the technical level needed for tax mapping. Training for individual provincial or city personnel will coincide with the actual letting of individual contracts. The trainees will be able to utilize photos from their own geographical location. No one will receive training if their respective province or city does not utilize aerial photos. Training programs are conducted at two levels--regional and local--and include training in tax mapping, records management, appraisal/assessment and collections for the respective staffs responsible for each phase. All training programs

follow a pattern consistent with experience gained in the present Local Development Project. The regional training will give the participants the general over-all concepts and techniques for the operation being explained. Following the completion of this training the original core of PDAP specialists and their understudies will be available to offer direct technical advice and assistance to regional representatives who might need assistance in specific provinces or cities. These staffs will also be available to individual provinces and cities to advise and assist them in actual initiation of the RPTA system.

The first regional-type training programs include the tax mapping and records management phases. These two functions are combined, as one of the most common errors in initiating the RPTA system has been the failure by the tax team to link-up individual land parcels with the tax declaration records. These regional sessions will be conducted in late 1977. The one-week regional seminars on mass appraisal methods for approximately 500 appraisers will be conducted during late 1977 and early 1978 at the rate of two regions per month. These seminars will be conducted by a mass appraisal consultant who is already under contract to the present LDP. The staggered and lengthy timeframe for mass appraisal is necessary for two reasons. First, the consultant must allow time during those months to assist PDAP provinces and second, the seminar design utilizes two provincial assessors as lecturers who cannot afford to be absent from their respective provinces for three consecutive months.

The final type of regional training pertains to tax collections. These one-week seminars will be held in February and March. The initial session will stress utilization of Section 73 "The Manual on Real Property Tax Administration in the Philippines (Assessment Regulations 8-75)" in the collection of delinquent taxes. Tax education techniques will also be presented and all local governmentunits will be urged to initiate tax education programs in their respective jurisdictions. Manuals and suggested techniques for dissemination of tax-related information will be provided in these seminars. One-week regional follow-up sessions will be conducted in October and November 1978 to monitor collection progress in the utilization of Section 73.

The primary responsibility for the training of local government officials and monitoring their achievements in the RPTA system will rest with a core of DOF technical personnel assigned to specific regions. (The DLGCD presently maintains regional offices while the DOF is finalizing plans to establish regional offices) These personnel, all of whom are currently assessors, are undergoing a three month-intensive course in real property tax administration at the University of Southern California's Institute for Tax Administration. This course has been designed specifically for the Philippine experience. As an integral component of the training course methodology the trainees will design a training program which they as regional representatives can use in training local government personnel. By incorporating this "training of trainers"

concept into the overall course design, consistency and uniformity are insured in the regional training sessions through the country. This three-month program will be conducted in July, August and September 1977 and will be funded through the existing Local Development Project project agreement.

It is anticipated that except for the PDAP provinces, and one or two cities who have begun to implement the system on their own, actual tax mapping and records conversion will commence early in 1978. It should be noted that PDAP provinces will have had 2-5 years experience in the RPTA system and will require only minimal technical monitoring.

Anticipated revenue generated by this project is calculated on specific numbers of local government units installing the RPTA system at a rate of 198 in 1978, 297 in 1979 and 321 in 1980. Failure to achieve these targets in the respective years means a delay or loss in revenue for local development programs.

Monitoring Plan

The regional representatives will have the responsibility of advising and assisting the provinces and cities within his respective region in the installation and implementation of the RPTA system. During the course of his normal advisory role, the regional representative will monitor the progress of the RPTA project in each province or city within his jurisdiction and will file a quarterly report indicating the status of the RPTA project in his respective provinces and cities. Should the regional representative be confronted with a technical problem beyond his range of expertise he can then request technical assistance from the project managers' committee at the national level. Should the regional representative be faced with recalcitrant local officials, or by obvious stall tactics by local government officials, he should immediately report this to the national committee. The committee will, depending on the circumstances, either dispatch the proper technical personnel to trouble-shoot the situation or the committee, as a team, will visit the local government unit in an attempt to remove whatever roadblock may be delaying the project.

The two intra-GOP loan schemes of P30,000 and P10,000 require certification by a team from DOF/DLGCD/USAID that the tax mapping has been completed and that collections have begun respectively. Should, after the second year of the project, the USAID have no personnel directly involved in the project, the certification will be done by DOF/DLGCD and the information conveyed to the USAID by agreed upon channels. The DLGCD regional offices and DOF regional offices, should they be established, will be jointly responsible for the monitoring and certification of the provinces and municipalities for the respective loans. RPTA national project managers would be called

in to use their influence only on extremely serious problems.

However, prior to the implementation of the RPTA system each province and city will be required to submit a Multi-Year Plan (MYP) to the regional office of the DLGCD or the DOF and to the Project Managers' Committee in Manila. This MYP will be utilized as a monitoring control against formal quarterly reports and informal on-site visits. The MYP will also be the documentation for issuance of the P30,000 seed money. It is expected that the regional offices will be notified whenever specific phases of the RPTA system have been completed in a given municipality or district.

To the extent possible, the project will rely on normal DOF reporting requirements, particularly for tax collections. However, an attempt will be made to improve the timeliness of these reports by working through, and cooperating with, the statistical branch in the DOF.

CONDITIONS AND COVENANT

Necessary and relevant codes, regulations and laws have been issued by the GOP, specifically by the DOF. As the proposed RPTA project provides the GOP with an equitable efficient method of administration, mere acceptance by the DOF of codes already "on the books" is taken for granted. For this the USAID has insisted that the DOF specifically endorse the administrative procedures in the RPTA system, and in particular endorse and emphasize the collection procedures that the project advocates. In March 1977, a Memorandum of Agreement between the DOF and the DLGCD was signed by Secretaries Virata and Roño respectively. As signatories both departments agree to endorse, implement and fully support the RPTA system as generally prescribed in this Project Paper. As legal procedures preclude the USAID from entering into such agreement, the USAID will accept such an agreement between the DOF and the DLGCD as intentions of good faith to pursue the project to its intended goal. (See Annex V)

Prior to disbursement of AID funds or issuances of the Direct Amount Reimbursement, the GOP must provide proof that such inputs and outputs required for the DAR have in fact been met. Initially, for the purchase of the field and office equipment, the DLGCD will, in compliance with AID regulations, place an advertisement in the Consumer, Business Daily. Following standard procedures for commodity procurement, the AID will be furnished such documentation as required as a pre-requisite for issuance of a Letter of Commitment and subsequent payment for the commodities.

Issuance of the DAR in pre-agreed upon increments will be based upon, in the case of the excess property vehicles, official documents stating that (1) the GOP has received such vehicles and (2) signed documents from the individual provinces and cities acknowledging receipt. Likewise, certified receipts for the payment and receipt of acquisition by the provinces and cities are required for the issuance of the DAR for the aerial photographs or other base source data.

Certification for the issuance of the DAR for completion of the tax mapping operation and for the tax collection operation will be conducted by joint DOF/DLGCD/AID teams, i.e., the respective project managers of the three organizations, or their designess. The local government unit will notify the regional office of DLGCD that it has completed the respective operation. The regional representative, if he is satisfied that the operation is indeed correct and completed, will so notify the project managers. They in turn will certify that the respective operation has been completed.

There are no disagreements between DOF, DLGCD or USAID regarding the scope of this project.

EVALUATION PLAN

The RPTA Project will be evaluated in March 1978, 1979, 1980 and 1981. It is anticipated that the loan agreement will be signed by the end of 1977 and implementation of the project will begin immediately. March has been selected as the evaluation month as all outputs of the project are based on the calendar year which also corresponds to the fiscal year in the Philippines. Thus there will be two months after the year's end in which to collect the data necessary for the evaluation in March. The evaluation study will attempt to assess the relative success or failure of the objectives of the project in terms of its appropriateness, adequacy, efficiency, effectiveness and "unintended side effects." Drawing from the intended objectives of the program measures of program appropriateness, adequacy, effectiveness and efficiency will be drawn up. Outcomes that have occurred that were not vital to the objectives of the program will also have to be determined and analyzed.

The evaluation will first be based on two areas of implementation - national and local. The methodology of the initial evaluation in March 1978 will be different from the evaluations in 1979, 1980 and 1981. The 1978 evaluation will first determine if all national and local commitments have in fact been fulfilled. This would include such areas at the national level as distribution of the office and field equipment to the provinces and cities, availability of the excess property vehicles, loan monies available as needed and fully trained and functioning technical staff at the regional level. Province and city commitments include such areas as the Multi-Year Plan formed, a functioning Real Property Tax Administration Task Force, aerial photographs or other base source data received, all technical staff trained and financial commodity support available to the RPTA teams, especially for the tax mapping teams. In addition, the province or city should have begun to tax map their first municipality or district by the beginning of March 1978.

In short the evaluation team will be analyzing the Implementation Schedule. If any national activity has not been completed or fulfilled the team must consult immediately with the Project Managers' Committee in order to determine why the delay has occurred and what consequences, if any, it has on the over-all project implementation and project purpose. Depending upon the seriouness of the situation, the Committee must decide whether to simply "wait out" the delay or devise an alternative which would overcome the delay. If the delay or obstacle is such that it cannot be resolved then an immediate determination must be made as to whether the attainment of the project purpose is jeopardized.

Any delay in local implementation is not as critical as the national level. Local delays or obstacles can be handled by the regional office after first determining whether the delay is due to an implementation failure at the national level or due to local causes.

The evaluation conducted in 1979 will concentrate on two areas. First, any delays or deficiencies noted in the 1978 evaluation will be studied to determine whether or not they have been corrected and how, if at all, they have affected the over-all project implementation. Secondly, the 1979 evaluation will concentrate on the actual technical implementation of the project to determine if any changes should be made. During CY 1978, 198 municipalities and districts should have completed the tax mapping, assessment and records conversion. The 1979 evaluation will determine if this short term objective has been achieved and if not, why not.

The evaluation in March 1980 will cover the first two areas as in 1979. More important, however, is that the 198 taxing units tax mapped in 1978 will have collected taxes to the new system in 1979 and thus the collection procedure can be evaluated. The revenue yield from 1979 will also give an indication of how accurate the revenue increases are that were projected in the Project Paper. Should the yields and tax efficiency rates be low, then more emphasis must be placed on tax collections during CY 1980. An evaluation can be made of the target of 297 more tax units tax mapped, assessed and records converted in CY 1979.

The evaluation in 1981 will cover all the areas that were covered in the evaluation 1980. During CY 1980, 321 municipalities and districts should have been tax mapped and assessed with their records converted.

The final post project evaluation in March 1982 will determine whether the project purpose has been met. As it would be a monumental task to examine the development budgets of all 72 provinces, 1400 municipalities and 56 cities, selected provincial, municipal and city budgets will be examined to determine what increases there are in expenditures for development purposes which would fulfill the sector goal.

The evaluation of the project will be financed by DLGCD and contracted to a private research organization.

ANNEXES

INCOMING
Amembassy, MANILA

TELEGRAM

Annex I

CN: 1939

ACTION:
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INFO:
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POP	✓	
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TO AMEMBASSY MANILA PRIORITY 1384
BT
UNCLAS STATE 283549

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E.O. 11652: N/A

TA :

SUBJECT: REAL PROPERTY TAX ADMINISTRATION PROJECT PRP

1. ASIA PROJECT ADVISORY COMMITTEE (APAC) APPROVES SUBJECT PROJECT AND RECOMMENDS DEVELOPMENT OF PP. HOWEVER, APAC EXPRESSED CONCERN OVER GOP CAPACITY/COMMITMENT TO SUSTAIN PROJECT FINANCING AFTER AID FUNDING TERMINATES AND THEREFORE REPLICABILITY OF PROJECT. SINCE THIS CONCERN IS EQUALLY RELEVANT TO BARANGAY WATER AND RURAL ROADS SI PRP'S, WE ARE SENDING SEPTEL PROVIDING GUIDANCE ON THIS GENERAL ISSUE AND REQUESTING INTERIM RESPONSE BY USAID PRIOR TO SUBMISSION OF PP'S. SINCE THE PP SHOULD EXPAND AND ELABORATE ON SEPTEL ISSUES, ADDITIONAL GUIDANCE IS PROVIDED BY THIS CABLE. APAC REQUESTS THAT THE MISSION ADDRESS THE FOLLOWING ISSUES OR RECOMMENDATIONS IN DEVELOPING THE PROJECT PAPER:
(A) APAC REQUESTS THAT THE MISSION AUGMENT THE SOCIAL AND BENEFICIARY ANALYSES PRESENTED IN PRP TO QUANTIFY BOTH THE TAX CONTRIBUTORS AND THE ULTIMATE BENEFICIARIES OF PROJECTS FINANCED BY THE INCREASED REVENUES. ALSO, AS CLOSELY AS POSSIBLE, PP SHOULD OUTLINE INCOME LEVELS OF TARGET GROUPS TAXED BY RPTA PROJECT AND INCOME LEVELS OF ULTIMATE BENEFICIARIES OF GOODS AND SERVICES PROVIDED BY INCREASED REVENUES GENERATED BY RPTA. SINCE RPTA PROJECT HAS BEEN SUCCESSFULLY IMPLEMENTED AS PART OF PROVINCIAL DEVELOPMENT ASSISTANCE PROGRAM (PDAP) UNDER LOCAL DEVELOPMENT GRANT, REPRESENTATIVE PDAP PROJECT AREAS COULD BE USED TO CONDUCT TAX CONTRIBUTOR AND BENEFICIARY ANALYSES.
(B) IN VIEW OF THE FACT A PILOT REAL PROPERTY TAX PROJECT HAS BEEN DEVELOPED AND IMPLEMENTED THROUGH LOCAL DEVELOPMENT PROJECT GRANT, PP SHOULD ALSO ANALYZE PROSPECTS FOR SELF-GENERATED FUNDING FOR FUTURE PROJECT IMPLEMENTATION, AND PRESENT FINANCIAL AND ADMINISTRATIVE PLANS THAT DEMONSTRATE DELINEATE EFFORT TOWARDS SELF-FUNDING. PP SHOULD ALSO ADDRESS THE REQUIREMENTS FOR CONTINUED U.S. ASSISTANCE AND SET A TIME FOR PHASE-OUT OF U.S. FUNDING

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AND PHASE-IN OF COMPLETE GOP FUNDING OR COMBINATION GOP AND OTHER FUNDING. PP SHOULD ALSO ADDRESS STRATEGY AND DESCRIBE PLAN FOR COORDINATION OF CENTRAL AND LOCAL GOP FUNDS, AID, AND OTHER FINANCIAL ASSISTANCE.
(C) ACCORDING TO PRP, PROJECT WILL GENERATE APPROXIMATELY DOLS 22,350,000 IN REVENUE OVER A THREE-YEAR PERIOD. PRP HAS INDICATED THAT THE LOCAL GOVERNMENTS WILL LIKELY USE THESE FUNDS TO EXPAND OR COMPLEMENT DEVELOPMENT PROJECTS. PP SHOULD PROVIDE ILLUSTRATIVE EXAMPLES OF THE INCREASED LOCAL DEVELOPMENT EXPENDITURES THAT ARE EXPECTED TO RESULT FROM RPTA PROJECT, DRAWING ON EXPERIENCE FROM IMPLEMENTATION OF RPTA ELEMENTS OF LOCAL DEVELOPMENT PROJECT GRANT.

2. PER DISCUSSION WITH T. ROSE, MISSION WILL REVISE LOG FRAME ADDRESSING THE ISSUE OF INSTITUTIONAL CAPABILITY AND SEND TO AID/W PRIOR TO PP SUBMISSION.

3. CONCUR IN INITIAL ENVIRONMENTAL EXAMINATION (IEE) AND RECOMMENDATION FOR NEGATIVE DETERMINATION.

4. APAC DISCUSSED APPROPRIATE TIMING FOR AUTHORIZATION OF THE RPTA PROJECT AND AFTER CONSIDERING THE IMPORTANCE OF THIS PROJECT FOR GENERATING REVENUES FOR THE RURAL ROADS, BARANGAY, AND RURAL SERVICE CENTER PROJECTS, APAC SUGGESTS THAT THE MISSION EVALUATE THE POSSIBILITY OF FUNDING RPTA IN LAST QUARTER FY 1977. ACCORDING TO PRP PROJECT DEVELOPMENT SCHEDULE THE RPTA PP WOULD BE SUBMITTED IN MARCH 1977. AS ALWAYS AUTHORIZATION IN FY 77 WILL BE SUBJECT AVAILABILITY OF FUNDS.

5. APAC HAS REVIEWED PROJECT APPROPRIATION CATEGORY AND REQUESTS THAT CATEGORY BE CHANGED FROM FOOD AND NUTRITION TO 106. KISSINGER
BT

UNCLASSIFIED Annex 1-A

Department of State

OUTGOING TELEGRAM

ORIGIN AID-30

INFO OCT-01 EA-12 EB-08 IGA-02 /053 R

DRAFTED BY ASIA/PD:JSCHNEIDER:FV
APPROVED BY AA/ASIA:JHSULLIVAN
DAA/ASIA:MHBADLER
ASIA/PD:ARLOVE
ASIA/PT:VLELLIOTT (DRAFT)
ASIA/DP:RMEEHAN (DRAFT)
PPC/DPRE:PMATHESON (DRAFT)
ASIA/PD:JRMCCABE (DRAFT)
ASIA/PD:MMPEHL -TR/EHR:RUMHOEFE
GC/ASIA:CSTEPHENSON (DRAFT)
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E.O. 11652: N/A

TAGS:

SUBJECT: REAL PROPERTY TAX ADMINISTRATION PROJECT PAPER

REF: (A) MANILA 14695, (B) STATE 283549

1. SUMMARY: APAC, CHAIRED BY THE AA/ASIA, ON SEPTEMBER 29 REVIEWED THE REAL PROPERTY TAX ADMINISTRATION (RPTA) PP; THE COMMITTEE DECIDED TO WITHHOLD APPROVAL OF PROCEEDING WITH DLSC CONSIDERATION AND LOAN AUTHORIZATION AT THIS TIME. APAC IS COGNIZANT THAT A REAL PROPERTY TAX SYSTEM IS A POTENTIALLY IMPORTANT SOURCE OF REVENUE FOR LOCALLY GENERATED DEVELOPMENT PROJECTS AND IS GENERALLY AN APPROPRIATE AREA FOR AID INSTITUTIONAL DEVELOPMENT/IMPROVEMENT ACTIVITIES. APAC FURTHER RECOGNIZES THAT FROM A LOCAL BUDGETARY PERSPECTIVE IT MAY NOT BE DESIRABLE TO EARMARK TAX REVENUES COLLECTED FOR SPECIFIC ACTIVITIES. HOWEVER, THE PROJECT APPROACH, AS FORMULATED IN THE PP, IS UNDULY PROVISIONAL IN THE RELATIONSHIPS BETWEEN THE EQUITABLE COLLECTION AND EVENTUAL PROGRAMMING AND EXPENDITURE OF TAX REVENUES ON APPROPRIATE LOCAL DEVELOPMENT PROJECTS. ACCORDINGLY, THE COMMITTEE BELIEVED THAT THE PROJECT DID NOT REASONABLY DEMONSTRATE THE DIRECT AND POSITIVE BENEFITS TO LOW-INCOME PEOPLE AS THE AID TARGET GROUP. SINCE THE PRESENT PROJECT IS LARGELY A FOLLOW-ON TO THE PILOT ACTIVITIES CONDUCTED UNDER PDAP, THE COMMITTEE FURTHER FELT IT WOULD BE USEFUL TO EVALUATE THOSE PDAP ACTIVITIES PRIOR TO PROCEEDING WITH WIDE-SCALE IMPLEMENTATION OF RPTA. ALTHOUGH THE CY 1976 PROPERTY TAX DATA FROM PDAP MUNICIPALITIES MAY NOT BE FULLY AVAILABLE, A REPRESENTATIVE SAMPLE SHOULD BE SUFFICIENT TO PROVIDE SOME OF THE NECESSARY INFORMATION ON (A) COLLECTION COSTS, (B) COLLECTION RATES, (C) CAPACITY OF LOCAL GOVERNMENTS TO EFFECTIVELY PROGRAM REVENUES, (D) EXPENDITURES OF FUNDS ON DEVELOPMENT, WELFARE OR OTHER TYPE ACTIVITIES WHICH DIRECTLY BENEFIT THE POOR, AND (E) IMPACT OF TAX ON POOR. WE ARE AWARE OF THE PROGRAMATIC REASONS FOR MAINTAINING A TIMELY IMPLEMENTATION SCHEDULE; WE ARE PREPARED TO RESCHEDULE REVIEW OF THE PROJECT BY NOVEMBER FOLLOWING RECEIPT OF THE ADDITIONAL INFORMATION AND ANALYSIS REQUESTED BELOW. END SUMMARY.

2. THE COMMITTEE AGREED THAT THE FOLLOWING ISSUES/CONCERNS SHOULD BE ADDRESSED BY THE MISSION:

A. CAN WE ASSUME THAT THE GOVERNMENT HAS THE CAPACITY TO ENFORCE REAL PROPERTY TAX LAWS FROM A NATIONAL PERSPECTIVE GIVEN THE APPARENT ABSENCE OF AN EFFECTIVE CENTRAL BUREAUCRATIC ORGANIZATION WITH FINANCIAL CONTROL RESPONSIBILITIES AND THE EXISTENCE OF THE VESTED INTEREST AND TRADITIONAL INFLUENCE OF A LARGE-LANDHOLDING CLASS IN THE PHILIPPINES? IF NOT, TO WHAT EXTENT CAN AND SHOULD A PRIMARY INSPECTION/MONITORING APPARATUS BE STRUCTURED WITHIN THE PROJECT TO OVERSEE THE EQUITABLE COLLECTION AND EVENTUAL PROGRAMMING AND EXPENDITURE OF TAX REVENUES ON APPROPRIATE LOCAL DEVELOPMENT, ETC., PROJECTS? AN EVALUATION OF THE PILOT PDAP ACTIVITIES GENERALLY AND OF THE PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES DEVELOPED UNDER PDAP ACTIVITIES IN PARTICULAR WOULD BE HELPFUL IN THIS REGARD.

B. RE PROJECT BENEFICIARIES:

(1) COMMITTEE EMPHASIZED THAT PROJECT MUST BE BENEFICIARY POSITIVE RATHER THAN BENEFICIARY NEUTRAL AS INDICATED IN THE PP. THE COMMITTEE FURTHER QUESTIONED WHETHER, IN FACT, THE PROJECT MAY PRESENTLY BE BENEFICIARY NEGATIVE. IF THE RESIDENTIAL AND AGRICULTURAL AREAS TAXED ARE PRIMARILY COMPRISED OF RENTAL OR TENANT PROPERTIES, THEN THE POOR MAY BEAR A DISPROPORTIONATELY HIGH PERCENTAGE OF THE TAX BURDEN IN THE FORM OF HIGHER RENTS. THE COST OF TAXES ON COMMERCIAL PROPERTY WOULD PRESUMABLY ALSO BE PASSED ALONG TO CONSUMERS IN THE FORM OF HIGHER PRICES. FURTHER, IF THE POOR ARE GENERALLY NON-SAVERS, THEN PROPERTY TAX CHARGES MAY DIVERT PERSONAL INCOME FROM OTHER NECESSITIES TO TAX PAYMENTS. THE COMMITTEE BELIEVED THAT MISSION/GOP PROJECTIONS OF THE BREAKDOWN OF PROPERTY OWNERSHIP PER VALUE AND INCOME CLASS WOULD BE USEFUL IN ASSESSING THE IMPACT ON THE POOR. THE COMMITTEE ALSO SUGGESTED THE MISSION SEE IF UPDATED MATERIAL IS AVAILABLE PER TABLE E, PP, P. 100.

(2) FURTHER, IF PROPOSED PROPERTY TAX RECEIPTS ARE NOT SPECIFICALLY LINKED TO DISBURSEMENTS BUT RATHER FEED INTO GENERAL OPERATING FUNDS ON THE LOCAL LEVEL, THEN WHAT INDICATION DO WE HAVE THAT THE POOR WILL BENEFIT FROM PROJECT ACTIVITIES AT A LATER DATE? IN PILOT AREAS, IS EXPENDITURE DATA AVAILABLE TO SHOW WHAT PROPORTION OF TOTAL EXPENDITURES GO TO DEVELOPMENT EFFORTS? CAN ESTIMATES BE MADE OF INCREMENT TO DEVELOPMENT EXPENDITURES WHICH MIGHT REASONABLY BE ATTRIBUTED TO RPTA? IF NOT, HOW CAN MEASURE OF GOAL ACHIEVEMENT PROPOSED P. 56 BE ACCOMPLISHED?

C. THE PROJECT PAPER INDICATES THAT THE ANNUAL INCREASED REVENUES PER TAXING UNIT WOULD AVERAGE APPROXIMATELY DOLS. 21,250 FOR DISTRICTS AND DOLS. 12,450 FOR MUNICIPALITIES. SINCE A HIGH PORTION OF THE INCREASED REVENUES ARE AGGREGATED ON A PROVINCIAL LEVEL (PP, P. 20), THE COMMITTEE QUESTIONED WHETHER THE RELATIVELY SMALL INCREMENTS TO LOCAL REVENUE, VIS-A-VIS HIGH PROJECT COSTS AND UNCERTAIN BENEFITS

TO THE POOR, SUFFICIENTLY JUSTIFY PROCEEDING WITH THIS PROJECT.

D. WE SUGGEST THAT THE MISSION UPDATE THE PROJECT ECONOMIC ANALYSIS CONTAINED IN ANNEX XII AND PROVIDE NARRATIVE EXPLANATION OF THE SIGNIFICANCE OF TABLES C, D AND E. MISSION SHOULD NOTE PER TABLE B THAT ACTIVITY COSTS DO NOT END IN FY 1981 AS INDICATED; OPERATING COSTS (INCLUDING EQUIPMENT MAINTENANCE, SALARIES, AND OTHER COLLECTION COSTS) WHICH ARE INCURRED TO MAINTAIN RPTA ACTIVITIES AT THE NEW LEVEL SHOULD BE CONSIDERED AS PROJECT COSTS FOR PURPOSES OF EVALUATING CASH FLOWS IN "ECONOMIC" ANALYSIS. AID/W CALCULATIONS, USING ESTIMATES OF THOSE

COSTS, INDICATES A FINANCIAL COST: BENEFIT RATIO SIGNIFICANTLY LOWER THAN THAT PROVIDED IN THE PP.

E. A RECENT IBRD PUBLICATION, PHILIPPINES-RECENT ECONOMIC DEVELOPMENTS, AUGUST 1977, INDICATES THAT CURRENT GOP ACTIVITIES HAVE SUCCEEDED IN INCREASING LOCAL PROPERTY TAX REVENUES (INCLUDING MANILA AND CEBU) BY 69 PER CENT FROM 362 MILLION PESOS IN 1975 TO AN ESTIMATED PESOS 646 IN 1977. THIS SEEMS TO INDICATE THAT THE PHILIPPINES IS MOVING AHEAD SUCCESSFULLY WITHOUT AID INTERVENTION AND THAT THE RPTA COLLECTION SYSTEM IS APPARENTLY MORE EFFICIENT THAN THE PP ASSERTS; THEREFORE, THE COMMITTEE QUESTIONED WHETHER AID INVOLVEMENT AT THIS TIME IS ANWS NECESSARY ON AS WIDE A SCALE AS PROPOSED.

F. CAN IT BE DETERMINED THAT SUFFICIENT LOCAL CURRENCY GENERATED BY INCREASED PROPERTY TAX, AND FUNNELLED THROUGH THE PROVINCES, WILL BE AVAILABLE, AT THE RIGHT TIMES, TO SUPPORT THE EXPENDITURES, REQUIRED UNDER THE RURAL SERVICE CENTERS, BARANGUAY WATER AND RURAL ROADS II PROJECTS? WHAT ALTERNATIVE ARRANGEMENTS CAN BE MADE IF THE RPTA PROJECT IS EITHER NOT APPROVED OR DELAYED? IN ADDITION, IF PROJECT DOES PROCEED, AN INTERIM REPORT (PP, P. 87) INDICATED THE MISSION'S INTENTION TO ASSURE FUNDS FROM RPTA WOULD BE AVAILABLE TO OTHER AID PROJECTS BY OBTAINING SOME KIND OF GOP COMMITMENT. WHAT ARE CURRENT PLANS IN THIS REGARD?

G. THE COMMITTEE FURTHER EXPRESSED CONCERN OVER THE SIZE AND OPERATION OF THE SERIES OF GRANT AND LOAN PAYMENTS TO THE LOCAL TAXING UNITS (PP, PP. 17-18, 28) WHICH REPRESENT 45 PER CENT OF TOTAL PROJECT COSTS. THESE PAYMENTS INCLUDE THE "SEED MONEY" GRANT AND TWO POSSIBLE SUBSEQUENT LOANS - THE FIRST LOAN IS LINKED TO SUCCESSFUL TAX MAPPING, RECORDS MANAGEMENT AND COLLECTIONS, AND THE SECOND AS AN INDUCEMENT TO ACHIEVE HIGH COLLECTION RATES. THE COMMITTEE SPECIFICALLY QUESTIONED:

(1) ON WHAT BASIS DID MISSION CALCULATE THE AMOUNTS FOR THESE REIMBURSEMENT AND INCENTIVE PAYMENTS WHICH ARE SEEMINGLY HIGH VIS-A-VIS ANTICIPATED PER-ANNUM INCREMENTS TO LOCAL REVENUE AND WHICH, APPARENTLY, ARE NOT TIED TO ANY CLEARLY SPECIFIED ACTIVITIES OR USE? WHAT SPECIFIC ACTIVITIES WOULD THE MISSION EXPECT THE LOAN AND GRANT FUNDS TO BE USED FOR?

(2) WHAT IS THE JUSTIFICATION FOR PROVIDING INCENTIVE PAYMENTS WHEN THE INCREASED REVENUE ALONE WOULD SEEMINGLY PROVIDE LOCAL TAXING UNITS SUFFICIENT INDUCEMENTS TO IMPLEMENT THE RPTA SYSTEM AND ACHIEVE HIGHER COLLECTION RATES?

(3) WHAT IS THE CORRELATION BETWEEN THE AMOUNT OF AID FUNDS FLOWING TO THE LOCAL TAXING UNIT, THE EXPENDITURES BY THE UNIT, AND THE SIZE OF THE UNIT?

(4) TO WHAT EXTENT MIGHT THE DIRECT AMOUNT REIMBURSEMENT FINANCING OFFSET HOST COUNTRY CONTRIBUTIONS AND WHAT ARE THE INTERNAL PROJECT CONTROLS TO PREVENT POSSIBLE DOUBLE FINANCING OF COSTS EXPECTED TO BE COVERED BY THE GOP?

(5) TO WHAT EXTENT WOULD ESTABLISHED AID RULES GOVERNING FINANCING OF GOODS AND SERVICES BE APPLIED (E.G., SOURCE RULES AND AUDITS)?

3. USAID MAY BE ABLE TO STRENGTHEN BENEFICIARY IMPACT BY PROVIDING A NARRATIVE AND POSSIBLY STATISTICAL SECTION ON ANTICIPATED EFFECT OF THIS PROPOSED PROJECT ON REVENUES REALIZED FROM THE SCHOOL TAX 3/4 PER CENT ADD-ON AND THEIR USE FOR DEVELOPMENT PROJECTS IN LOCAL EDUCATION WHICH DIRECTLY BENEFIT THE POOR. VANCE

I. THE TAX AND ITS USE

The real property tax as set out in various Philippine laws and regulation is divided into two categories: the basic property tax and the special education fund tax. In the first part, we will treat first the basic property tax as a revenue source to provinces, municipalities, and cities passing then to an examination of the expenditure side of the local budget showing how the money is spent with emphasis on the provincial scene. This will be followed by an explanation of the special education fund, its revenue source and expenditure object.

A. The Basic Tax

The province can levy a property tax up to one percent of the total assessed valuation of the province. The return from this "basic" levy as tax is then distributed among the province, municipality and barangay as follows:

a)	Province	47.5%
b)	Municipality	47.5%
c)	Barangay	5.0%

Cities, who are independent in operation from the province, can levy a property tax up to two percent of the total assessed valuation of the city and the return in collections is distributed as follows:

a)	City	90%
b)	Barangay	10%

The general disposition of the property tax return is also governed by law, although considerable flexibility is allowed in specifics. The province, for example, must put at least twenty five percent of property tax revenue in its infrastructure fund, i.e. road, bridge, waterworks, drainage, sewers, structures, etc. No more than seventy five percent can be used for general fund expenditures such as health, general administration, agriculture, school administration, etc. In the municipality all of the returns go into the general fund which supports the basic services of health, social welfare, economic development and general administration. Finally, at the barangay level, where the budget is smaller and simpler, the restrictions are more direct: no more than thirty percent of the property tax return can be spent for salaries, the rest must go to development projects.

In the cities and the barangays within the cities, the above restrictions don't apply with all returns being allocated to the general fund.

The Philippine local revenue and income picture in general reflects trends apparent in many countries. About 60% of the revenues of local governments in the Philippines come from central government grants, fund allocations and distributions of centrally collected taxes while the remaining 40% comes from local levies or income, i.e. property tax; fees, fines, local government business operations such as markets and slaughterhouses, licenses. In most local governments, the property tax forms the largest share, actively or potentially, of locally raised revenues. While not as severe as the Philippines, U.S. local governments gets well over 40% of their income from State and Federal sources, relying almost exclusively on the property tax for own-source revenue.

B. Expenditures and their Object

Turning to the expenditure side of the ledger, the analysis of a number of provincial budgets indicates the following spending pattern by service object:

Object	As Percent of Total Budget
a) General Administration	19
b) Administration of Justice	7
c) Social and Human Service	15
d) Economic Development	10
e) Infrastructure	44
f) Aid or Redistribution to Municipalities, Barangays	5
	100%

An analysis of a sampling of city expenditures by service object gives a somewhat different lineup explained largely in the varied service role of the city as contrasted to the province.

Object	As Percent of Total Budget
a) General Administration	27
b) Administration of Justice	7
c) Social and Human Service	32
d) Economic Development	8
e) Infrastructure	17
f) Public Safety	9
	100%

Many cities operate public markets, slaughterhouses and water utilities; however, these were not included since the variations between cities serves to distort the results. Moreover, these are operated much as a public utility with operations being supported by income with excess or deficit financed through the general fund.

Municipal expenditures are difficult to categorize in this way because of the wide variation, the large number (over 1500) and the lack of consistent data and budget documentation. In general, however, municipalities as contrasted with the province spend considerably less (taken as a percentage) on general administration and much less on infrastructure. The municipalities do contribute a portion of the public safety costs and spend more on direct human services like health and social welfare. The larger municipalities with more urban concentrations exhibit an expenditure pattern not unlike the cities. Barangays are smaller, semi-corporate units with very small budgets devoted largely to rudimentary health service, social welfare, community development and limited infrastructure. They are dependent on the municipalities and provinces in the rural areas and on the cities in the urban, semi-rural areas.

Both the general pattern of expenditures, as discussed above particularly in the provinces and cities, and the legal requirements for the distribution of the property tax point to the latter's use on activities that are the current concern of AID programs: human services, social welfare and infrastructure serving economic needs. Increases in property tax revenues, following the pattern indicated, would accrue to increases for these expenditure objects. Moreover, in the municipalities, for example, potential increases would be relatively greater. This is true because the municipalities, while sharing equally with the province in the distribution of property tax returns, have smaller overhead costs and would thus have more funds available (in the aggregate) for human service and infrastructure projects.

Of course, there is presently no complete formula that would make mandatory the use of property tax returns for human service, economic and infrastructure objects. The laws do require certain minimum distribution for development

and for infrastructure. But patterns of expenditure have as well their own inner necessities brought on by the political expectations created in previous budgets. Thus, for example, provinces and cities contributing to local hospitals will be subjected to immense clientele pressure to keep-and-increase- these expenditure as they will for social welfare, schools and roads. Each local budget - province, city, municipality, barangay - is passed by a representative deliberative body which, while appointed, reflects a variety of pressures, social classes and political needs. Increases that become available through the property tax program cannot be hidden nor siphoned off against the wishes of these local bodies.

Local officials have in the last year been subjected to an active program of information, training and administrative pressure regarding the proposed property tax program. This has been necessary since the coordination of this program had, as a basic ingredient of its planning, to begin well in advance of the projected loan: procedure, training programs, system of records management and re-drafting of collection procedures, to name a few. Consequently, the projected increases and their use in local budgets are, in a sense, common currency among local officials. This is well stated as a matter of policy in a recent letter from the Undersecretary of the Department of Local Government and Community Development, which is attached to this report.

Many of the PDAP provinces have adapted long range comprehensive plans; all PDAP units will have plans by the end of CY 1979. And, together with the NEDA regional plans, efforts are being made to bring the non-PDAP provinces and most of the chartered cities into the planning orbit. Since the plans project spending activities, they can have a positive effect on channeling property tax increases. For example, Misamis Oriental, a large Mindanao province, has scheduled the following priority health activities for 1976-1985:

1976 - 1985

1st Priority	37	Activities covering vital statistics, maternal and child care, population and family planning; malnutrition, etc.
2nd Priority	36	
3rd Priority	25	
4th Priority	30	

Second and third priority activities can be realized only if increases in the property tax become available after 1979. The plan will enable provincial officials, and the human service constituencies to underline objects for property tax revenue increases. Thus the plan serves as a provincial commitment on the use of these funds.

Nor do the intentions as exampled in Misamis Oriental's plan stop at the province level. A recent Mission analysis of the GOP's preliminary Five-Year Development Plan, 1978-1982 anticipates that the planned ratio of local government to total expenditures for economic and social development, which had been pegged at around nine percent during 1974-1977, will increase to twenty one percent by 1982. The GOP expectation, as expressed in plans for central government expenditures, centers on local government to finance a greater share of social development costs over the next five years. While local governments can expect increases in existing local tax returns and certain central government redistribution, the real property tax project - and its projected increases - must make a significant contribution as well. The national plan, in its own context, expresses policy pressure on the local governments to channel local revenues into the social development, human service expenditure area.

Another element in the commitment to use projected property tax increases for human service, economic development and related infrastructure activities comes through USAID-GOP project focus on local government. The Population Outreach Project, for example, expects local governments to eventually finance a good portion of the outreach costs while a health project slated for the four provinces of Panay (PUSH) contains commitments for increasing reliance on local funding. This is true, as well, of Barangay Water, Rural Roads II and the Rural Service Center/Market Town project: all have built in a specific reliance upon local funding for a growing share of project involvement.

C. Special Education Fund (SEF)

Of special note in assessing the human service benefits of the property tax project is its effect upon the Special Education Fund which should more precisely be called the Special Fund for Education. The SEF was, perhaps erroneously not touched on in great detail in the PRP or PP.

Over and above the one and two percent maximum levies discussed previously, Philippine law imposes an additional one percent levy for the province and the city to be used solely for education. Income from this levy is divided as follows:

Province	Cities
50% - Municipality	60% - City
20% - Province	40% - Equalization
30% - Equalization	

The "Equalization" portion is re-distributed through the central government to poorer provinces, cities and municipalities to equalize or at least stabilize local school financing. The SEF funds can be used for barangay schools, teacher salary adjustments, textbooks, school building repair and scholarships for poverty-bound students. The total SEF collections in 1975 (most recent records available) was ₱221 million. When the whole country is covered by the RPTA program, this figure could increase to nearly ₱450 million. And the direct beneficiaries in all cases would be the public schools and public school children where the needs are the greatest.

II. IMPACT ON THE POOR

But even if we are on firm ground in expecting the results of the RPTA to strengthen the human service part of the local government expenditure pattern, there remains the question on the impact of the tax on the poor. A few points should be made at the beginning.

The RPTA does not envisage that the presently applicable levies be changed. All estimates on increased revenues are fixed on the present maximum rates of 1% for the provinces, 2% for cities and 1% for the Special Fund for Education. Even these rates are not always used to the maximum, i.e. some provinces levy below 1% while a number of cities levy between one and two percent. Nor does the RPTA envisage any change in legally sanctioned methods of mapping, assessments or collection. What the RPTA does emphasize is a full, effective and uniform use of the system now available and authorized. Because the present system is applied haphazardly with under assessed and unassessed properties plus discriminatory collections, a startling inequity has grown up which hurts the small taxpayer who can't dodge payments and alienates his poorer bretheren who lose the social benefits of public expenditures because the tax brings in a relative pittance against its demonstrated potential. A pilot municipality in Albay for example reported that its mapping survey picked up 167 parcels which had been omitted from the tax rolls since before independence. Consistently the pilot municipalities have reported increases in their assessment rolls of from 30 to 40%. And parcels found have not been the parcels of small or marginal taxpayers. Collections exhibit the same characteristics where low ratios of collections to collectibles plus the rise in delinquencies through non-enforcement increase, in effect, the burden--and thus the inequity--for the taxpayer who does pay. Periodic changes in assessment, prescribed by law, falls effectively on the man whose property is on the rolls and who pays his tax. On the positive side, a small, very poor city in a southern province, by instituting a trial simplified collection system which applied largely to delinquencies, in one year achieved an increase of 239%, going from ₱156,000 to ₱370,000.

The very poor do not usually pay taxes; they often live as squatters on public land. Others who live in boarded or thatched huts on private land may pay small rentals to the owners. But many of these drift from place to place, from poblacion to poblacion and rent collection is sporadic. Another group who own small houses on small pieces of land are either exempt from taxes by law or pay only a minimal amount.

Another group who own small houses on small pieces of land are either exempt from taxes by law or pay only a minimal amount.

In any event the tax itself, when fully applied consistent with allowable exceptions, is not burdensome. The attached chart lists four variations under the law, using current market values and shows the expected tax plus its expression as a percent of current values. In none of these examples does the tax paid exceed 1% of market value and in the B) range (₱6667-40,007) where the poor might venture, the tax is but $\frac{7}{100}$ of 1% the current market values!

Clearly, in all possibilities, the tax is neither burdensome to the poor nor, in fact, onerous to any taxpayer. Yet effectively administered it could provide substantial inputs into local government budgets and be channeled into human service activities.

If we generally relate current market value to relative income, the tax is not regressive but is, in the strict sense, neutral. (See for example Property Tax Reform by G.F. Peterson pp. 4-7 and Theory of Public Finance, R.A. Musgrave, pp. 140-142). It was in this limited but proper economic sense that the PP spoke of the tax as "neutral". That this valid characterization made as the result of a careful analysis by a reputable economist sent from AID/W to do the prescribed economic study required by the Manual on PP, should be misunderstood and perjoratively characterized by the APAC pundits does, indeed, boggle the imagination. The tax cannot be characterized as "progressive" primarily because its relative value (tax as a percent of market value--or capitalized income) is negligible. And its "neutrality" affords the opportunity to discuss the "positive" aspects, i.e. the use of the increased returns to pay for human service activities. If the tax were "regressive", the distribution of the resulting increase for human service activity serving the poor or low income people would amount to taking money from the poor (regressivity) and giving it back to them in human service projects (positive benefits). In terms of project design, therefore, a finding that the tax itself (and thus its more efficient application) is "neutral" was the sine qua nom upon which the project could go forward.

III. SUMMARY

We believe a reasonable conclusion can be drawn from the foregoing discussion that--

A. The Projected increase in property tax revenues accruing to local governments under the RPTA will be used in great part for the human service objects of local expenditures because--

1. Existing law and regulations prescribe that definite portions of the returns, particularly in the province and the barangay, must be spent on infrastructure and development.

2. Existing law sets aside a part of the property tax exclusively for the support of education in the public schools, affecting the provinces, cities and municipalities.

3. The established pattern of expenditures in all units of local government concentrates significant attention on human services, social services, economic development and infrastructure. Clientele pressure on representative governing bodies will re-enforce these patterns.

4. Provincial plans have identified human service activities for the next decade that will provide added commitment by the province to use revenue increases to fulfill these plans.

5. The National Five Year, and the concommitant budgetary pressures growing from it, will force local governments to fund human service activity from local revenues.

B. The poor will not suffer because of the Property Tax Program because--

1. Large groups of the poor either do not pay taxes because they are squatters or will be exempt from payment because of small values of land and improvements which they may own.

2. The tax, when fully operational, is not burdensome to anyone since its actual assessment ratio is low and its effective rate is similarly low.

3. The RPTA project will eliminate many inequities in under and unassessed properties and in low collection rates which presently work a hardship on the complying taxpayer; it will in this way relieve the burden of the small taxpayer who cannot as easily evade payments as can the usually more affluent or more influential delinquent.

A FINAL NOTE

A year ago when the APAC approved the PRP we were asked to plan for possible FY 77 implementation. The preparation of the PP required long discussions with the GOP. It was imperative, for example, to negotiate an operational agreement between the Department of Finance (DOF), which controls provincial treasurers and assessors, and the Department of Local Government and Community Development (DLGCD). The final product between hitherto "warring" factions we considered a singular accomplishment. Project encouragement then evident in AID/W, the necessity for extensive pre-project preparations and the signing of the Memorandum of Agreement spurred the GOP into increased activity: Introductory training programs were developed and recently carried out during the last four months; participants were trained at the University of California's Institute of Tax Administration to serve as RPTA Regional Coordinators; a new collection system was devised, approved and is presently being pilot tested in the provinces with results to be incorporated in the RPTA project; both DLGCD and DOF have recruited additional staffs at their central offices for the RPTA and appointed project managers to work with USAID's project manager. Secretary Virata and Secretary Roño of DOF and DLGCD respectively have publicly hailed the project as an important element in local government development with emphatic speeches at the March, 1977 PDAP Evaluation Conference. We have, moreover, at AID/W's urging linked the RPTA with the Rural Roads, Barangay Water and Rural Service Center/market projects. (See State 291155, To AID A25)

A mountain of effort has gone into the planning and preparation of the RPTA by both GOP and USAID. The project is well thought of and consistently backed by DOF and DLGCD; the Mission believes the project is soundly conceived and, given the nature of development efforts in a complex, dynamic backdrop of changes, affords an excellent opportunity for success.

Annex 1-A

EXAMPLE OF ACTUAL PROPERTY TAX LEVY AND COMPARISON OF TAX TO CURRENT MARKET VALUE (INCOME)

(1) Current Market Value[1]	(2) Actual Tax	(3) Tax as Ratio To Current Market Value: 2÷1[2]
I. Improvements Only[3]		
a) up to 6,667	No tax	-
b) 6668 to 40,007	₱ 5 - 30	.00075
c) 40,008 to 60,007	60 - 90	.0015
d) 60,008 to 100,007	120 - 200	.0020
II. Land value is ₱1000 while improvements are as listed		
a) up to ₱4,667	No tax	-
b) 4,668 to 38,007	₱ 5 - 30	.0011 - .0008
c) 38,008 to 60,007	60 - 93	.0016 - .0015
d) 60,008 to 100,007	123 - 203	.0021 - .0020
III. Land value is ₱2000 while improvement are as listed		
a) up to 2,667	No tax	-
b) 2,668 to 38,007	₱ 5 - 30	.0019 - .0008
c) 36,008 to 60,007	60 - 96	.0017 - .0016
d) 60,008 to 100,007	126 - 206	.0021
IV. Land value is ₱20,000		
a) up to 60,000	up to 150	.0025
b) 60,000 to 100,000	180 - 260	.0030 - .0026
c) 100,000 to 150,000	310 - 435	.0031 - .0029
d) 150,000 to 200,000	585 - 760	.0039 - .0038
e) 200,000 to 300,000	960 -1410	.0048 - .0047
f) 300,000 to 500,000	1710 -2810	.0057 - .0056
g) 500,000 to 700,000	3310 -4610	.0066
h) 700,000 to 1,000,000	5310 -7560	.0076
i) 1,000,000 and up	8060 plus 0.8% of additions	.0081

1. These values are based on the optimistic assumption that assessors' market values are understated by at least 50%. Land assessment is uniform at 30% while residential levels are scheduled for improvements only. Moreover the statutory schedule of market value levels causes abrupt step increases when passing from one level to the next, e.g. from 36,007 to 36,008 increases tax from 30 to 60 pesos. Thus the percentages, at the breakpoints, reflect minor discrepancies.

2. This column shows the tax as a percent of current market value. The resultant figure is stated as tenths or hundreths of one percent. In no case does the tax reach 1% of CMV. The latter can be thought of as bearing a proportionate relation to income capitalized in the market value. Thus column 3 becomes an indication of the bearing of the tax on individual or household income.

3. In many rural areas the house or improvement is built on land owned by someone else; the tax is thus levied only against the improvement. Presumably the owner of the house pays rental for the land in cash or kind, although many examples have been unearthed to show that little if any rent is paid at a "A" level of CMV.

Noted, too, is the fact that line "A" in each of I,II & III shows no tax--a result of built-in exemptions in the Assessment Law.

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITY DEVELOPMENT
Quezon City

13 October 1977

Mr. Peter M. Cody
Director, U.S Agency for
International Development
Ramon Magsaysay Center
1680 Roxas Boulevard, Manila

Dear Mr. Cody:

This is in response to our recent discussions on the Real Property Tax Administration Project (RPTA) and its expected results. In all our joint planning of this project we have had in mind the time when increases in the yield of the real property tax will be used directly by local governments to service the needs of their citizens. Our Department is definitely and completely committed to see that increases in local government tax resources coming from the RPTA will be used to benefit those of our people who need it most. This will come in the form of increased expenditures for schools, health services, nutrition, human services for the young and the aged as well as for infrastructure projects which open economic opportunities to rural peoples.

Thus, for example, the special education fund, administered by the Provinces, and financed through the real property tax, would be a direct beneficary of the increases in the property tax. We estimate that by 1985, with the full effect of the property tax increase being felt, this fund alone would double from its present total of ₱220 million. And the result would be felt in terms of better educational opportunities in the provinces and municipalities of our country.

But this is not the only area of potential benefit. Many of our joint USAID-GOP projects in population, health and infrastructure development will be eventually taken over by local governments and will receive increased funds from the real property tax program. Projects within our own Department like Barangay Water, Rural Service Centers and Rural Roads will also feel the impact of the RPTA project.

In short, the RPTA is a vital link in making local governments fiscally capable to deliver a variety of human service programs and projects to our people in areas where the need is greatest. Be assured that the Department of Local Government and Community Development as well as the provinces, cities and municipalities involved have a solid commitment to return the financial benefits of the property tax program to the people in the form of projects that will better their lives and raise their dignity as human beings.

Sincerely,

SALVADOR P. SOCRATES

ANNEX II

OFFICE AND FIELD COMMODITY REQUIREMENTS FOR RPTA PROJECT

ITEM DESCRIPTION	UNITS REQUIRED					TOTAL UNITS	TOTAL COST PER UNIT	TOTAL COSTS ALL UNITS
	REGIONAL ADMIN. SUPPORT	PROV/CITY ASSESSOR	PROV/CITY TREASURER	MUNICIPAL DEP. ASSESS	MUNICIPAL TREASURER			
1. Typewriter, 13" manual	50	384	256	676	-	1366	$180	$245,880
2. Typewriter, 24" manual	50	256	256	676	676	1914	320	612,480
3. Typewriter, manual portable		128	-	-	-	128	120	15,360
4. Calculator, Electronic desk	15	128	128	-	-	271	516	139,836
5. Calculator, Electronic hand		384	-	676	676	1736	52	90,272
6. Drafting table		200	-	-	-	200	194	38,800
7. Tracing table		100	-	-	-	100	215	21,500
8. Drafting equipment (set)		200	-	-	-	200	60	12,000
9. Lettering set (Leroy)		200	-	-	-	200	117	23,400
10. Drafting machine		100	-	-	-	100	196	19,600
11. Precision Pantograph		100	-	-	-	100	457	45,700
12. Planimeter		200	-	-	-	200	83	16,600
13. Height finder		100	-	-	-	100	81	8,100
14. Stereoscope		200	-	-	-	200	50	10,000
15. Map Cabinet		200	-	-	-	200	215	43,000
16. Steel Tape		400	-	-	-	400	15	6,000
17. Compass, Magnetic		100	-	-	-	100	80	8,000
18. Mimeograph, Electric	15		-	-	-	15	1508	22,620

TOTAL ------ $1,379,148

ANNEX III

BASIC VEHICLE SUPPORT FOR REAL PROPERTY TAX ADMINISTRATION PROGRAM FOR EACH PROVINCE AND CITY

ITEM DESCRIPTION	Units Required Per Province/City				
	Prov/City Assessor	Prov. City Treasurer	Total Units Req'd	Unit Cost $	Total Cost $
Utility Vehicle	2	1	3	3000	9000

TOTAL VEHICLE COST FOR 100 CITIES AND PROVINCES (300 x $3000)		$900,000
		$900,000
SPARE PARTS KIT		75,000
	TOTAL	$975,000

ANNEX IV

COST ESTIMATE OF AERIAL PHOTO REQUIREMENTS

Land Area - Total Country		30,000,000 Ha.
Land Area Having Photo Coverage		25,000,000 Ha.
Less (1) Metro Manila and Cebu		670,000 Ha
(2) Photography known to have been acquired		4,330,000 Ha.
	BALANCE	20,000,000 Ha.

THIS PROJECT REQUIREMENTS:

Printing Unit Cost P1.20/Ha.	x P1.20
	P24,000,000
Total Printing Cost	$ 3,000,000

ANNEX V

MEMORANDUM OF AGREEMENT

This Memorandum of Agreement made and entered into in the City of Quezon, Philippines, by and among -

The DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITY DEVELOPMENT, a duly organized and existing instrumentality of the Government of the Republic of the Philippines, with main offices at the New City Hall, Diliman, Quezon City, represented herein by its Secretary, Hon. Jose A. Roño, and hereinafter referred to as the DLGCD and

The DEPARTMENT OF FINANCE, likewise a duly organized and existing instrumentality of the Government of the Republic of the Philippines, with main offices at the Finance Building, Manila, represented herein by its Secretary, Hon. Cesar Virata, and hereinafter referred to as the DOF.

WITNESSETH THAT:

WHEREAS, the Government of the Republic of the Philippines, through its instrumentalities, particularly the DLGCD and the DOF is currently undertaking massive training and direct technical assistance programs aimed at transforming local government units throughout the country into viable and self-reliant communities;

WHEREAS, the DLGCD, the DOF, are satisfied with the results of the implementation of the Real Property Tax Administration (RPTA) system, as piloted in the 28 PDAP provinces;

WHEREAS, the DLGCD and the DOF have proposed, with USAID assistance, a project designed to expand the RPTA system to include, in addition to the 25 PDAP provinces, all 72 provinces and all chartered cities, except those in the Metro Manila Area and the City of Cebu, contingent, of course, on the project support proposed to USAID which is to be incorporated in various project and loan agreements once the project itself has received appropriate approvals within the U.S. Government.

WHEREAS, the DLGCD and the DOF have individually and collectively reviewed, and by this Agreement are agreeable to, the project as described in Annex "A" which is incorporated as an integral part hereof;

NOW THEREFORE, the parties have agreed to undertake the aforementioned project, with the following as their areas of responsibilities to wit:

National Level

AREA	ACTIVITY	AGENCY
RPTA Systems as proposed in documental already reviewed by DLGCD and DOF	Acceptance and endorsement - 100%	DOF, DLGCD
RPTA System	Implementing Orders, Guidelines and Policies (Definition, Formulation and Issuance)	DOF
RPTA System	Organization of Central Committee composed of Project Managers at the national level for consultation, implementation and evaluation	DOF, DLGCD
RPTA System	Organization and training of regional technical pool to assist and train provincial personnel	DOF, DLGCD

AREA	ACTIVITY	AGENCY
Local Government Level		
RPTA System	Implementing Orders	Provincial/City - Governor/Mayor
RPTA System	Organization of RPTA Task Force	Provincial/City Council (Sangguniang Bayan) Assessor, Treasurer, Auditor, PDC & PDO/CDC & CDO
RPTA System	Inventory of available data (aerial photographs and/or controlled survey maps)	Assessor (Tax Mapping) Divisions
RPTA System (Tax Mapping)	Selection of Pilot Municipality/District	Governor, RPTA Task Force, Mayor
RPTA System	Selection of Personnel	Assessor, Treasurer
RPTA System	Training of Personnel	DOF, DLGCD
RPTA System (Tax Mapping)	Implementation	Assessor's Office (Tax Mapping Division)
RPTA System (Assessment)	Re-Appraisal of Property	Assessor's Office (Appraisal Division)
RPTA (Records conversion and Management)	Conversion of records before and after tax mapping using assigned Property Index Numbers (PIN)	Assessor's Office (Records Management Division)
RPTA (Tax Collection)	Actual Collection of Taxes using the "One-way tax Collection Approach"	Treasurer

IN WITNESS WHEREOF, we hereunto affix our signatures this _____* day of February, Quezon City, Philippines, in the year of our Lord nineteen hundred and seventy-seven.

JOSE A. ROÑO
Secretary, DLGCD

CESAR VIRATA
Secretary, DOF

*Signed on 9 March 1977

ANNEX VI

Appendix I

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Republic of the Philippines

Project Title: Real Property Tax Administration (RPTA)

Funding (Fiscal Year and Amount): FY-78 $9.8 million

Life of the Project: Three years following the signing of the Development Loan Agreement

IEE Prepared by: Robert K. Rogers, Project Manager

Date: September 15, 1976

Environmental Action Recommended: Negative Determination
See page 3 of the Appendix

Concurrence: Date: 9/24/76

Garnett A. Zimmerly, Director

Assistant Administrator's Decision: Date:

Donald D. Cohen
A-DAA/ASIA 11/17/76

Approval of Environmental Action Recommended

Disapproval of Environmental Action Recommended

Contents of Initial Environmental Examination

I. Examination of Nature, Scope and Magnitude of Environmental Impacts

A. Description of Project

The project is an institutional development loan project which is designed to improve the capability of local governments to administer the Real Property Tax Code. The purpose of the project is to generate revenues to provide additional funds for socio-economic development projects and programs of the local governments. Specific activities include: identification of real property and ownership through tax mapping; appraisal and assessment of real property; records management; and improved collection methods.

B. Identification and Evaluation of Environmental Impacts

1. General

This project will have no direct effect upon the human environment, since the funds from this proposed loan will be used to strengthen and institutionalize the administrative capability of local governments, manifested in improved real property tax income. Although there is no assurance that projects and programs resulting from real property tax income generated by this project will not be detrimental to the human environment; this is outside the specific authority of this project.

This development loan falls within the general class of activities not normally requiring the filing of an Environmental Impact Statement or the preparation of an Environmental Assessment as defined in Paragraph 216.2 (a) of AID Handbook 3, App 5C.

II. Recommendation for Environmental Action

A. Recommendation for Threshold Decision

This project will have no significant effect on the environment, and therefore a Negative Determination is appropriate.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas 1/	Impact Identification and Evaluation 2/
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	N
b. Extracting natural resources	N
c. Land clearing	N
d. Changing soil character	N
2. Altering natural defenses	N
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors	
None	N
B. WATER QUALITY	
1. Physical state of water	N
2. Chemical and biological states	N
3. Ecological balance	N
4. Other factors	
None	N

1/ See Explanatory Notes for this form.

2/ Use the following symbols: N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM 2

C. ATMOSPHERIC

1. Air [illegible] ---------- N

2. Air pollution ---------- N

3. Noise pollution ---------- N

4. Other factors

None ---------- N

D. NATURAL RESOURCES

1. Diversion, altered use of water ---------- N

2. Irreversible, inefficient commitments ---------- N

3. Other factors

None ---------- N

E. CULTURAL

1. Altering physical symbols ---------- N

2. Dilution of cultural traditions ---------- N

3. Other factors

None ---------- N

F. SOCIO-ECONOMIC

1. Changes in economic/employment patterns ---------- N

2. Changes in population ---------- N

3. Changes in cultural patterns ---------- N

4. Other factors

None ---------- N

Appendix: I

IMPACT IDENTIFICATION AND EVALUATION FORM 3

G. HEALTH

1. Changing a natural environment ---------- N

2. Eliminating an ecosystem element ---------- N

3. Other factors

None ---------- N

H. GENERAL

1. International impacts ---------- N

2. Controversial impacts ---------- N

3. Larger program impacts ---------- N

4. Other factors

None ---------- N

I. OTHER POSSIBLE IMPACTS (not listed above)

None ---------- N

See attached Discussion of Impacts.

ANNEX VII

PROAG DESCRIPTION

REAL PROPERTY TAX ADMINISTRATION

The purpose of this project is to generate additional revenue in 56 municipalities and in all city districts (excluding the city of Cebu and Metro Manila). The project purpose of increasing tax revenue leads directly to the project goal of strengthening the fiscal capacity of local governments to plan and finance local development projects.

Technically the project consists of four operations - tax mapping, property appraisal/assessment, tax records management and tax collection. The project will be a coordinated effort between the Department of Finance (DOF), the Department of Local Government and Community Development (DLGCD) and the USAID.

This proposed project is a continuation of pilot project conducted in the 28 Provincial Development Assistance Provinces. The techniques and methods to be utilized by this project have all undergone extensive testing under "field conditions" and have proven to be suitable and appropriate to the present conditions. This project, based on such previous experience, offers an efficient system in which to effectively and equitably administer the Real Property Tax Code as promulgated in PD 464 and codified in the "Manual on Real Property Tax Administration in the Philippines (Assessment Regulations No. 8-75)".

The project will be financed by a Development Loan of $10,000,000. Of this amount $8,530,000 will be in the form of Direct Amount Reimbursement. In addition, the GOP will provide additional funding of the peso equivalent of approximately $5,216,000 which is not a part of the DAR. This is the sum total of national and local government inputs for training, travel, personal expenses and supplies, and materials for project implementation.

ANNEX VIII

STATUTORY CHECKLIST

COUNTRY CHECKLIST

Please see "Pest Control" Project Number 492-02888 for information herein required.

A. General Criteria for Project

1. App. Unnumbered: FAA Sec. 653(b)	(a) Committees on Appropriations of Senate and House have been notified via the Congressional Presentation submitted by USAID.
(a) Describe how Committees on Appropriations 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 plus 10%)?	(b) Yes.
2. FAA Sec. 611 (a)(1). Prior to obligation in excess of $100,000, 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.
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); App. Sec 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol. 38, No. 174, Part III, Sept. 10, 1973)?	N.A.
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 the	N.A.

country's capability effectively to maintain and utilize the project?

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate? N.A.

7. FAA Sec. 601(a); and Sec. 201 (f) for development loans. 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. N.A.

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). N.A.

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.	All local contractual and other services will be paid out of local currencies contributed by either the GOP or the U.S.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?	No.

B. Funding Criteria for Project

1. Development Assistance Project Criteria.

a. FAA Sec. 102(c); Sec. 111; Sec. 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, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life and otherwise encourage democratic private and local governmental institutions?

a) The increased tax revenues realized from this project will allow greater governmental sponsored development works to be accomplished by local government thus improving the investment climate and thereby the local economy.

b) N.A.

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

(4) (106) for technical assistance, energy, research, reconstruction and selected development problems; if so, extent activity is:

(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure etc., assistance;

106 funding for special development problem and to enable property utilization of earlier U.S. infrastructure, etc., assistance.

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of

The GOP will contribute 43% of the cost of the project. In the long run, though, since this is a loan project it will bear the entire cost of the project.

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)?	
d. 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?	N.A.
e. FAA Sec. 207; Sec. 113. Extent to which assitance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of training worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry, free labor unions, cooperatives, and Voluntary Agencies; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.	The ability of local government to finance itself in an adequate manner is crucial to its existence. Therefore the emphasis this project places on proper assessment and collection of property tax (the primary local source of funding for local government) reflects appropriate emphasis: 1) on encouraging development of democratic economic, political and social institutions; 2) other areas of economic, political and social development.
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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	Tax revenues are crucial to the effective running of government. Just taxation is a basic form of civic responsibility. Thus the project supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

g. FAA Sec. 201(b)(2)-(4) and-(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). 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; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?	Yes. The project will contribute to the on-going effort to improve the quality of local government and the services they deliver. The Project Paper will provide information and conclusions on the economic and technical soundness of the project.
h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusions on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assitance are furnished in a manner consistent with improving or safeguarding the U.S. balance of payments position.	N.A.

2. Development Assistance Project Criteria (loans only)

a. FAA Sec. 201(b)(6). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.	No financing from other free-world sources is forthcoming at this point in time, this is not to exclude the possibility of such funding at some future date.
b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.	(1) GOP is fully capable of repaying loan, repayment prospects are very reasonable. (2) Lending and relending terms of loan very reasonable and pose no problem under either US or Philippine law.

c. FAA Sec. 201(e). If loan is not made pursuant to a multi-lateral plan, and the amount of the loan exceeds $100,000, has country has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?	Yes.
d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?	Yes.
e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?	(1) $1.240 million will finance field and office equipment from U.S. sources. (2) $1.675 million will finance the printing of existing aerial photos
f. FAA Sec . 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, 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?	N.A.
3. Project Criteria Solely for Security Supporting Assistance.	
FAA Sec. 531. How will this assistance support promote economic or political stability?	N.A.

ANNEX IX

Project Authorization and Request for Allotment of Funds

Philippines

Real Property Tax Administration
No. of Project: 492-0298

Pursuant to Part I, Chapter I, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a loan to the Government of the Philippines (GOP) of not to exceed ten million United States Dollars ($10,000,000) to help in financing certain foreign exchange costs of goods and services required for the project as described in the following paragraph, and to reimburse the Government of the Philippines by Direct Amount Reimbursement for a portion of local currency costs. The project consists of the installation of a Real Property Tax Administration (RPTA) system in 576 municipalities and 56 cities. The project will provide an efficient system to administer the real property tax laws in the Philippines. The methods to be used consist of four integrated operations: (1) tax mapping, (2) property appraisal/assessment, (3) records conversion and management and (4) tax collections.

Of the Authorized Amount, 1.47 million dollars ("Loan") will be loaned to the Cooperating Country to assist in financing certain Foreign Exchange costs of goods and services required for the Project and 8.53 million dollars will be used to reimburse the GOP for local currency costs. The entire amount of the A.I.D. financing herein authorized for the project will be obligated when the Project Agreement is executed.

I approve the total level of A.I.D. appropriated funding planned for this project of not to exceed $10,000,000 United States Dollars authorized above, during the period FY 1977. I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority 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. Interest Rate and Terms of Repayment

The cooperating country shall repay the Loan to A.I.D. in United States Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the project shall have their source and origin countries included in A.I.D.

Geographic Code 941 except as A.I.D. may otherwise agree in writing.

c. Prior to the date of execution of the Project Agreement, borrower shall furnish in form and substance satisfactory to A.I.D. that a Memorandum of Agreement has been signed by both the Department of Finance and the Department of Local Government and Community Development (DLGCD) stating that they will fully implement and pursue the RPTA project as proposed in the Project Paper.

d. Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, borrower shall furnish in form and substance satisfactory to A.I.D., (1) fulfillment of the standard conditions precedent pertaining to the opinion of the Secretary of Justice and statement of names of the borrower's representative.

e. Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance the Real Property Tax Administration Project, Borrower shall furnish in form and substance satisfactory to A.I.D., (1) documentation is in order showing receipt of excess vehicles received and receipt of acceptance by the province or city;(2) receipts for payment and possession of the aerial photographies or other base source data; (3) documentation by provinces and cities showing receipt of the "seed" money; (4) proper documentation signed and certified that tax mapping has been completed; (5) proper documentation signed and certified that tax collections are being made to the RPTA system.

Signature _____

_____
Typed Name of Authorizing Officer

_____
Office Symbol

COUNTRY	PROJECT NO.	PROJECT TITLE	DATE	ORIGINAL / REVISION #	APPROVED
Philippines	492-0298	Real Property Tax Administration	2/17/77	[X] ORIGINAL [ ] REVISION # ____	

PROJECT PURPOSE (FROM PRP FACESHEET)

To generate additional revenue in 576 provincial municipalities (approximately 1/3 of total) and in all city districts in the RP (excluding the City of Cebu and Metro Manila).

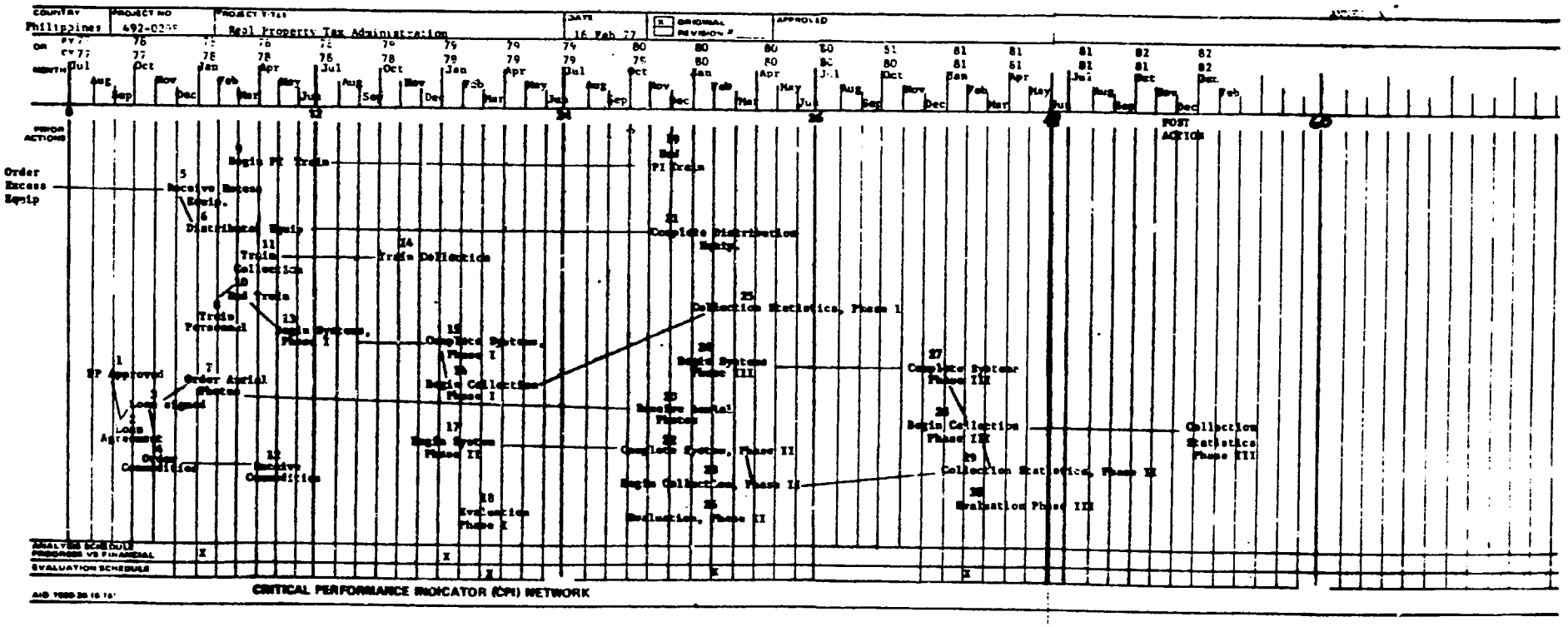
Project Actions

1. 9/15/77 Washington approves PP (AID/W)
2. 9/30/77 Washington approves Loan Agreement (AID/W)
3. 10/30/77 Loan signed by GOP (GOP)
4. 11/01/77 DLGCD places order basic field/office commodities (GOP)
5. 12/01/77 DLGCD begins receive excess property equipment (GOP)
6. 1/02/78 DLGCD begins distribution equipment (GOP)
7. 1/02/78 DLGCD Order Aerial Photos (GOP)
8. 1/10/78 Begin regional training local personnel Assessor's Office (GOP)
9. 2/28/78 Begin Training Photo Interpreters (PIs) at UP (GOP)
10. 3/01/78 End regional training local personnel Assessor's Office (GOP)
11. 4/15/78 Begin training collections Treasurer's Personnel
12. 4/30/78 Commodities arrive Philippines
13. 5/01/78 Provinces and cities begin tax mapping, appraisal/assessment, records Phase I 198 units - Begin Systems I (GOP)
14. 11/15/78 Regional follow-up seminars tax collections (GOP)
15. 12/31/78 Tax mapping, appraisal/assessment, records completed Phase I 198 units (GOP)
16. 1/02/79 Begin tax collections Phase I 198 units (GOP)
17. 1/10/79 Provinces and cities begin tax mapping, appraisal/assessment records Phase II 297 units (GOP)
18. Evaluation Phase I completed (GOP-AID)
19. 12/31/79 End training PI's at UP (GOP)
20. 12/31/79 All provinces and cities have aerial photos or other source data completed (GOP)
21. 12/31/79 All excess property received (GOP)
22. 12/31/79 Tax mapping, appraisal/assessment and records completed Phase II 297 units (GOP)
23. 1/02/80 Begin tax collections Phase II (GOP)
24. 1/10/80 Provinces and cities begin tax mapping, appraisal/assessment, records Phase III (GOP)
25. 2/15/80 Collection statistics Phase I indicates 75% CER (GOP)
26. Evaluation Phase II completed (GOP-AID
27. 12/31/80 Tax mapping, appraisal/assessment, records completed Phase III 321 units (GOP)
28. 1/02/81 Began tax collection Phase III (GOP)
29. 2/15/81 Collection statistics Phase II indicate 75% CER (GOP)
30. Evaluation Phase III completed (GOP-AID)

Post Action

1. 2/15/82 Collection statistics Phase III indicate 75% CER (GOP)

AID 1020-36 (6-76) CRITICAL PERFORMANCE INDICATOR (CPI) DESCRIPTION



CRITICAL PERFORMANCE INDICATOR (CPI) NETWORK

AIRGRAM

DEPARTMENT OF STATE

AD/PD-3 OC
CDM CD
PO C&R
ECON

UNCLASSIFIED
CLASSIFICATION

Annex XI

PROJ# 291
" 297
298

For each address check one ACTION | INFO

DATE REC'D.

DISTRIBUTION
ACTION
INFO.

TO - AID/Washington TOAID A 25 X

DATE SENT
FEB. 7,1977

FROM - MANILA

SUBJECT - Replicability and Long-Term Financial Viability of RR II, Barangay Water and Real Property Tax Administration Projects

REFERENCE - STATE 291155

1. Para 1 reftel expresses general concern on replicability and long term financial viability common to all three projects, i.e. Real Property Tax Administration (RPTA), Rural Roads II (RRP II) and Barangay Water (BW). While these concerns are dealt with more specifically in Para 2, 3 and 4 below, response has been made to these general concerns by way of introduction.

a) Desire to define appropriate end point for AID financing of these provincial/local activities.

The specific end points for each of the three projects are indicated in the PRPs, to wit:

1. Rural Roads Project II: 1981
2. Real Property Tax Administration: 1980
3. Barangay Water: 1980

Technical assistance, provided either through the loans or as residual activities under the Rural Service Center (RSC) project, would end in FY 81. Present estimates are that RRP II will be the last request for AID financing in this project area since Department of Local Government and Community Development (DLGCD) will be fully capable of extending program to other than Provincial Development Assistance Project (PDAP) provinces. Both ADB and World Bank have already expressed interest in taking up where RRP II leaves off. Septel will discuss ADB and World Bank potential interest in Rural Roads continuance. RPTA will not need further AID efforts

PAGE 1 OF PAGES 7

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY
WASommers:ppc	AD/PD	432	2-2-77	ODM: Peter M. Cody, Director

A I D AND OTHER CLEARANCES
PO AD/CD: ODM/PE:
ODM:CCChristian:

AID 5-30 (10-71)

PRINTED 12-71

CAUTION-Remove protector sheet before typing--replace when typed

after the proposed loan expires since the project will be sufficiently demonstrated as to potential while provinces and cities will have gained ample experience for extension to remaining municipalities and districts. Moreover, GOP will be able to use Special Letter of Credit (SLC) from the three loans to finance additional services or commodities necessary to expand these programs in accordance with DLGCD policy approved by President (see Para 3 below).

Initial response to BW, however, indicates pent up demand and a desire by provinces to commit increased resources. Should actual program sustain initial momentum USAID may propose extension. But this will hinge directly on the successful completion of the loan and, especially, on ability of DLGCD and provinces to field local organizations of water users capable of managing these systems.

b) Long-term strategy of GOP in sustaining project activities after AID-financing terminates

This strategy, evidenced by documents, actions and policy statements is based on:

1. DLGCD's demonstrated efforts to extend PDAP experience to other provinces.
2. Use of Presidential Decree 144 (PD 144) discretionary funds as a continuous basis for financing programs for local development.
3. Use of SLC resulting from the three loans to establish a revolving fund to carry on reimbursable funding of local infrastructure through sale of SLC-purchased commodities to local governments.
4. Use of expanded provincial tax base to fund development in concert with 1, 2 and 3 above.

Strategy envisages GOP's continued use of PD 144 discretionary funds on a program basis, funneling through the DLGCD in support of local government programs i.e. rural roads, barangay water, etc. Provinces will be able to increase their participation as tax revenues increase, matching the latter with funds made available through DLGCD. Provinces which already have participated in PDAP and loan-supported programs, having increased revenues and needing equipment for the maintenance of infrastructure, can purchase new equipment offered through the loan-generated SLC. Purchase monies, in turn, will be available to finance additional provincial infrastructure and will compliment the PD 144 discretionary funds.

2. Replying to issues raised in para 2(A) of reftel, we point out that construction is financed by the provinces and reimbursed by the central government agency, DLGCD, out of appropriated PD 144 funds. While the province initially funds the construction out of its own resources, especially in rural roads, 15% of of the project cost is grant from the central government. The province is then reimbursed up to 75% of the project cost through the DLGCD. But the Department

does not receive a direct reimbursement through the loan. Therefore, insofar as the DLGCD is concerned, its participation in loan projects represents a direct expenditures from its available, appropriated resources. But the loan, through the SLC, supports and strengthens the program by making it possible to purchase needed commodities to be sold to the provinces, the receipts from which will support a revolving fund to be used for additional infrastructure projects. (See Section 3 below and Attachment A).

Turning to the question asked at the end of para 2(A) reftel, when the province appropriates funds from own sources, it is actually using some funds allocated to it from the central government as well as from local sources for the province financial picture is a kaleidoscope of centrally distributed general and categorical grants, shared-taxes, redistributed collections and locally raised revenues. An analysis of selected budgets shows that 64% of provincial revenue comes from the central government while 36% is raised from local sources, i.e. property tax, fees and fines, receipts from local enterprises or operations, etc. Thus the "provincial share" includes a portion of central government funds. However, this is not a paper transaction since the revenues are given according to an overall formula without appreciable restraint on their use. Consequently, the central government, though contributing considerably to the provincial budget, does it, in the same manner as general revenue sharing in the United States, to encourage local choice and to strengthen the capacity of local governments to determine their own objectives. In fact, then, significant progress has been accomplished to develop and encourage a routine of GOP budgeting and funding for provincial development activities and USAID/PDAP have made substantial contributions in this area.

3. Para 2(B) of reftel breaks down into three questions which we shall deal with separately.

a) <u>What assurances do we have that the fund, once activated, will remain an effective channel of central government support after the AID loan terminates?</u>

The assurances we have are based on the present view of the Budget Commission (BC) and the policy guidelines enunciated by DLGCD. The BC, which plays a major role in the allocation of discretionary money, has endorsed the four proposed projects submitted by DLGCD/PDAP, i.e. RRP II, BW, RPTA and RSC, and has allocated twenty million pesos to the DLGCD for FY 77 to fund non-reimbursable "start-up" costs, e.g. training, survey and planning, seed monies for RSC projects, while continuing support for the reimbursable and grant portions of Rural Roads I. Further, the BC has endorsed the "program" oriented approach of the DLGCD/PDAP/USAID proposals against the scattered "project" application that has been heretofore used in allocation of this discretionary fund.

The President has approved DLGCD's proposal to use the SLC under the RRP I loan to create a revolving fund for local infrastructure development. Using the SLC, DLGCD would purchase construction equipment in the United States, sell the equipment to eligible provinces at cost and deposit the funds received to a special account reserved for the future financing of rural infrastructure projects. We will be working toward establishment of the same principle in the RRP II, BW and RPTA loans as well. These actions represent substantial commitments by the GOP to continue the impetus gained under AID supported projects and give concrete assurance in the form of policy decisions of the intent to use available funding, including the discretionary portion of PD 144, in support of provincial development activities. Copies of the BC allocation document and DLGCD's policy paper on the use of SLC with the Presidential Endorsement are being pouched with this airgram. (Attachment B)

A further evidence of the commitment, or at the least DLGCD's effort to obtain commitment from the BC is shown as Attachment C. This chart shows DLGCD needs for PD 144 funds to support the proposed USAID/DLGCD projects, i.e. RRP II, RPTA/RSC and BW for FY 1977-1982. The chart was submitted to BC by DLGCD as part of their budget submission and, as noted, BC granted the 1977 portion.

b) Should we seek a GOP commitment or addition of special language to the Decree that governs use of the funds?

We do not advise either of these proposed actions. We believe that commitment by BC and the presidential endorsement of the SLC discussed above augur well for the future and would prefer to strengthen these actions through contacts and exchanges-of-understanding as the projects proceed.

The decree which sets up the discretionary fund, PD 144, is mainly concerned with the formula by which central funds are distributed as general grants to all local governments; it was signed only after a long process of discussions and trade-offs between various factions. An amendment of the kind proposed by AID/W would reopen old wounds, and retrace the bargaining on internal issues which, in the end, could be detrimental to the process incorporated in the present decree.

However, we will seek a definite commitment in the loan agreement by which results from the RPTA are tied directly to continuance of the RRP II, BW and RSC. The GOP, and particularly the Department of Finance (DOF), should commit itself to an operating policy of increasing local tax collections within agreed upon goals. Thus, for example, if actual collections from the property tax are not within acceptable levels, then the loans and grants affecting Rural Roads II, Barangay Water and the Rural Service Center would be reduced, or eliminated, accordingly.

This requirement may be difficult to include in the loan document and would probably emerge couched in more general language. Nevertheless, we feel it important to use a stipulation of this nature to elicit a definite commitment on the part of the GOP, particularly the Department of Finance, that generation of local taxes is an integral part of all three of these projects.

c) Can we reasonably expect provincial demand for central government funding to be an effective means of sustaining this resource flow?

Yes. Given the BC's commitment referred to previously and the presidential endorsement of DLGCD's policy statement, provincial demand, in this context, will be a most effective means of sustaining the flow of resources. This is particularly true if requestsare made and projects presented on a program basis. And the whole approach of USAID, PDAP and the DLGCD is geared to that end.

4. Para 2(C) in refte) has raised questions on the use of the discretionary fund and its relation to the absence or presence of local administrative capacity. We preface our response with some background on the discretionary fund.

PD 144 was passed in 1973. The decree sets up a formula by which internal revenue collections are redistributed to the local governments in much the same way as our own General Revenue Sharing Act operates. The formula in PD 144 is a revision of previous methods used for the apportionment of monies to the local governments and, as noted, was the result of arduous negotiations. However, a new feature of the apportionment, contained in Section 7, is the reservation of 9% of these collections from national internal revenue taxes for use, at discretion of the President, as financial aid to local governments. This "discretionary fund" was not invoked until the following year, i.e. FY 74 and thus has a very short history of operations. At the same time, the BC went through its own reorganization and only in the latter half of 1976 did a reconstituted BC come to the fore. Under its new look, the BC created a Bureau of Local Government which has since became the Presidential guide in allocating these discretionary funds. RRP I was one of the first programs to receive fund allocations through DLGCD, providing "seed money" and reimbursable funds to participating provinces. In allocating additional funds the BC has struggled with establishment of criteria to judge what projects should be funded. It was during this period that DLGCD and PDAP made their representation to BC for support of the four projects. Presented as complete programs, these requests harmonized with the BC's desire to eliminate individual allocations based on hundreds of small projects submitted helter-skelter by individual provinces, cities and municipalities.

The restricted use of the discretionary fund [illegible] largely to its fledgling character, the reorganization of the [illegible] and the difficulty of establishing suitable

criteria to sift through individual project applications and the reluctance of the BC to grant funds in an uncoordinated, unprogrammed manner. But the BC responded favorably when DLGCD/PDAP presented their program approach to service the developmental needs of local governments, demonstrating that local governments have the administrative capacity to carry out individual projects if they were tied together under an interlocking, well conceived program bolstered by a system of coordination and local capacity building.

We conclude, therefore, that the issues raised in para 2 (C) have already been successfully addressed in practical terms directly with BC and DLGCD/PDAP.

5. AID/W question regarding demonstration of real and substantial additional resources made available by AID loan is, we believe, answered in the PRPs for the three projects which have gone into detail on these resources respecting, technical assistance, vehicles, equipment, tax map improvement, training, organizational development, operating manuals, etc. If there are more specific areas that AID/W wants covered, we would be glad to respond. Respecting resources to be made available by GOP, these have been translated into funding requirements as projection for the years 1977 to 1981 and are shown on Attachment D. This data, too, is based on the PRP submissions. Included as well is funding for the reimbursable portion of each of the three loans based on the justification as real expenditures included in Para 2 above. However, the projected increases in property tax revenues, contained in the PRP for RPTA, are not included as such. We expect that in the latter years of the projects much of this will be used in funding the provincial costs shown while the province payments for SLC equipment may also be furthered by property tax revenues and are thus, in theory, contained in the projects for SLC revolving fund deposits.

We expect that between now and the conclusion of the PPs and negotiations for inclusion of these details into the loan agreements the figures submitted may change. We shall, at that time, make the necessary revisions in our estimates.

6. We appreciate the concern our AID/W colleagues have shown in these projects. We are also mindful of AID/W assistance in giving us PDS contractors to assist in developing the PRPs and the PPs. However, we hope that AID/W will also consider the cumbersome nature of the new programming process which has taken the combined time of nearly all the assigned technicians and program managers in Provincial Development, since last spring when this involved and complicated process was started. During this time we have been intermittently involved in the actual work of development, in servicing ongoing projects and laying operational foundations for the new projects. We tremble to face the cascade of paper work, guidance, questions and tracking system maintenance that will unfold when the PPs are submitted and

fear for the result when we place our real work once more in limbo as we treat with the totality of documentation.

While we understand the demands that management has placed on the program process, the need for better project design with more detail and quantifiable data, the process has been so expanded that it is a burden, not a help. In short, the "front lines" of development are being strewn with obstacles of our making. Can't we simplify the procedure so we can get on with the work at hand?

Attachments: a/s

Cody
SULLIVAN

ANNEX XII

ECONOMIC ANALYSIS

TABLE A, BENEFIT COST: FOR AGGREGATE TAX UNITS

Total taxing units in the nation number 1680 (excluding the major cities of Metro Manila and Cebu). For the 816 units in the initial project, their present level of tax receipts, without the project to improve tax revenues, is forecasted as follows, along with estimated operating costs and typical capital invested in social service projects. A comparison is made of the with-project case.

ESTIMATED CAPITAL AND OPERATING BUDGETS OF TAX UNITS

INITIAL PROJECT PERIOD (Without Project)	1977	1978	1979	1980	1981
1. Number tax units 1/	816	816	816	816	816
2. Normal tax receipts (P000)	63039	64930	66878	68885	70951
3. Average tax receipts (P) 2/	77253	79571	81958	84418	86950
4. Operating costs of projects (%)	65	65	65	65	65
5. Aver. Oper. costs/unit 2/	50214	51721	53272	54871	56517
6. Capital balance in projects (P)	27039	27850	28686	29547	30433
7. Annual increase in capital (P)	-	811	836	861	886
8. Cumulative increase capital (P)	-	811	1647	2508	3394
(With Project)					
Number tax units 3/	816	816	816	816	816
Added tax receipts/unit (P)	0	0	28553	71323	119240
Cumul. increase/unit (P) 4/	0	0	28553	99876	219116
New total capital/unit (P)	0	0	57239	100870	149673
% increase in capital (%)	0	0	99.5	241.4	391.8

1/ 48.57% of 1680 total tax units. Receipts rise at 3% annually through 10-year period.

2/ Rural Service Centers, Rural Village Water Supply, Rural Roads, etc. (oper. costs include administrative, professional staffs, supplies, other non-capital expenses).

3/ Spread over 816 units on average. Time-stage in financial analysis is for 198 in 1978, 495 in 1979, 816 in 1980. Added receipts shown above are those generated by only these numbers as shown in financial analysis.

4/ Added tax receipts and those normal (without the project) available to the capital budget (line 6).

Annex XII

TABLE B

($000)	1977	1978	1979	1980	1981	TOTAL
Aerial Photos	1,500.0	1,500.0				3,000.0
Reimbursements		742.5	1,361.25	1,575.0	401.25	4,080.0
Basic Equipment	735.0	735.0				1,470.0
Training	110.1	110.1				220.2
Typewriters	50.0	50.0				100.0
Personnel	254.9	594.7	594.7	595.0		2,039.3
Materials	739.2	739.2	739.1	739.0		2,956.5
Seed Money	375.0					375.0
Vehicles	487.5	487.5				975.0
TOTAL	4,251.7	4,959.0	2,695.05	2,909.0	401.25	15,216.0

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Benefits (₱000)	0	0	23,300	58,200	97,300	97,300	97,300	97,300	97,300	97,300

Present Value at 15% Discount (000)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Totals
Costs US$	4,251.7	4,312.3	2,037.7	1,912.7	229.4	-	-	-	-	-	$12,743.8 ₱101,950.
Benefits Pesos	0	0	17,614.8	38,295.6	55,655.6	48,358	42,034	36,585	31,817	27,633	₱297,993

B/C ratio: 2.92 Internal Rate exceeds 50%

Date Prepared: 10 June 1977

TABLE C, BENEFITS DISTRIBUTION BY BENEFICIARY

Number of families in the poverty class, nationally, may be ranked by degree of poverty, and according to proportionate numbers in the jurisdiction of the 816 tax units of the initial project:

816 TAX UNITS: POVERTY POPULATION (PROPORTIONAL TO NATION)

INCOME CLASS (P)	NUMBER FAMILIES 1/	NUMBER PERSONS (000) 2/	INCOME SHORTFALL BELOW MINIMUM FAMILY (P)	INCOME SHORTFALL BELOW MINIMUM PERSON (P)	% OF WELFARE POSSIBLE (%) 3/	EQUIVAL. COST OF WELFARE (P) 4/	TOTAL COST OF WELFARE (P000) 5/
- 500	151495	860	1304	229	10.54	24.14	20772
- 1000	352518	2002	1255	221	12.13	26.81	53682
- 1500	355432	2019	1208	212	12.72	26.97	54448
- 2000	343778	1953	1208	212	13.71	29.06	56744
- 2500	279684	1589	1119	197	14.36	28.29	44942
- 3000	235983	1340	1022	178	15.00	26.70	35788
- 4000	364172	2068	861	152	16.07	24.42	88931
- 5000	218503	1241	730	128	17.14	21.94	27230
- 6000	145669	827	659	116	18.38	21.32	17640
- 8000	186456	1059	531	93	19.76	18.38	19466
-10000	104881	596	198	35	21.73	7.60	4527
TOTAL	2738571	15555					
As % =	94%						

ANNUAL TAX RECEIPTS ADDED TO CAPITAL BUDGETS OF 816 TAX UNITS 6/

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Pesos 000	0	0	23300	58200	97300	97300	973000	97300	97300	97300
As % Demand-500			112	280	468	468	468	468	468	468
-500 to 2000			12	31	52	52	52	52	52	52
TOTAL DEMAND			5	14	23	23	23	23	23	23

1/ National: 6347000, minus Manila and Cebu families = 348694 (Popu. 1980582/ 5.68 per family).

2/ Families x average 5.68 persons per family.

3/ From table E-3, items: Utilities (water, amitation, lights), transportation (Rural Roads), medical (medical and dental services) = estimated 3/7 of item categories other than food beverage, tobacco. This proportion = 42.86% of sum of 3-column categories in Table E-3. Calculation of above column is 42.86% x 3-column sum in each income class = % of local welfare possible out of tax re-spending on expected projects. Rising level of welfare by income class reflects rising proportionate latent demand in categories other than food (see Table E-3), as income rises.

4/ Percentage x income shortfall per person, from E-3 Avg. expenditures minus average income.

5/ Prior column costs x 5.68 persons per family x number families

6/ As given in financial forecast.

TABLE D. LIKELY SPENDING DISTRIBUTION OF TAX FUNDS ON WELFARE PROBABILITY BY INCOME CLASS:[1/]

Year	Funds Spent	(f)=(19.15) -500	(21.15) 1000	(18.90) 1500	(16.90) 2000	(23.90/4 Equal Allotment) 2500	3000	4000	5000
		(P000)		(P000)					
1979	23300	4462	4928	4404	3938	1392	1392	1392	1392
1980	58200	11145	12309	11000	9836	3477	3477	3477	3477
1981	97300	18633	20579	18390	16444	5814	5814	5814	5814
1982	97300	"	"	"	"	"	"	"	"
1983	97300	"	"	"	"	"	"	"	"
1984	97300	"	"	"	"	"	"	"	"
1985	97300	"	"	"	"	"	"	"	"
1986	97300	"	"	"	"	"	"	"	"
TOTAL	665300	127405	140711	125744	112438	39751	39751	39751	39751
%	100	19.15	21.15	18.90	16.90	5.97	5.97	5.97	5.97

1/(f) = Relative demand levels, using person populations and I totals stated in %:

	-500	1000	1500	2000	2500-5000	TOTAL
Popul. Number	860491	2002302	2018854	1952656	6238582	13072885
Popul. %	6.6	15.3	15.4	14.9	47.8	100.0

+ Relative Urgency of Active Demand (Aggregate Index I as relative %):

%	31.7	27.0	22.4	18.9	0	100.0
SUM: %	38.3	42.3	37.8	33.8	47.8	-
Divided by 2: (i.e., Average)	19.15	21.15	18.90	16.90	23.9	100.0

The income class 2500-5000 is 47.8% of population demand, but declines to 23.9% after calculation of Item I effect: aggregate relative index of urgency. This index for lower income levels adds greater weight to degree of influence (%) of low income groups. Re-ranking after incorporating "urgency" factor (i.e., dividing all groups by 2) produces new lower level demands by 2500-5000 group, for which groups amounts expended by tax units are shared equally.

This means more urgent demands by lower income groups (which are equal to relative shortfalls in minimum needs for expenditure) prompts these groups to more aggressive pursuit of welfare. Their frequency of appearance at/for welfare services is modified by their population numbers in each income class.

Presumption of total spending of tax proceeds newly available derives from coverage by normal tax receipts of all operating costs, and rising surplus capital in the "without" case. In such a case, no dilution is experienced, and all new funds are directly available for new capital projects or expansion of existing ones.

TABLE E. DISTRIBUTED BENEFIT-COST TABLE
DISTRIBUTION OF BENEFITS RECEIVED BY TARGET POVERTY GROUPS AND VALUATION OF BENEFITS BY GROUPS RECEIVING BENEFITS BY INCOME CLASS[1]

(P000)

YEAR	COSTS	500	1000	1500	2000	2500-5000	TOTAL BENEFITS
1977	16280	0	0	0	0	0	0
1978	24959	0	0	0	0	0	0
1979	23030	5979	6357	5461	4883	5568	28248
1980	24633	14934	15878	13640	12197	13908	70557
1981	3009	24968	26547	22803	20390	23256	117964
1982	0	"	"	"	"	"	117964
1983	0	"	"	"	"	"	117964
1984	0	"	"	"	"	"	117964
1985	0	"	"	"	"	"	117964
1986	0	"	"	"	"	"	117964
Total Value:		170721	181517	155919	139420	159012	806598
% Distribution:		21.16	22.50	19.34	17.28	19.72	100.0

DISCOUNTED COSTS AND BENEFITS AT 15%:

(P000)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
COSTS	16280	21714	17411	16208	1721					
BENEFITS	0	0	21355	46426	67475	58628	50960	44354	38574	33502

TOTAL COSTS 73334

TOTAL BENEFITS 361274

B/C RATIO = 4.9 INTERNAL RATE EXCEEDS 50%, with B/C RATIO 1.9

1. FROM ITEM II TOTAL AGGREGATE INDEX OF TIME PREFERENCE (INCL. RELATIVE URGENCY):

	CLASS	500	1000	1500	2000	2500-5000
1.	INDEX	10.28	8.77	7.26	6.11	(Valued as received)
2.	VALUE OF INDEX AT MIDPOINT OF TOTAL SHOWN (P2500 LEVEL):					
3.	NO. OF TIMES	1.34	1.29	1.24	1.24	1.00 (As received)

The spending distribution of preceding table is multiplied by value of Item II index at midpoint (no. of times the actual amount spent) as valued by group receiving benefit. Costs shown are estimated costs of the initial project, and benefits flow is the same annual rate as shown in preceding table, for ten years, to each income class. But different values to each group reflect individual group valuations, including general time preference higher than the cost outlay to tax units.

The internal rate of return exceeds 50%, and the distributional benefits are seen to be in accord with relative need and relative numbers.

ANNEX XIII

TABLE A. COMPARATIVE ANALYSIS: NUMBERS OF FAMILIES BY INCOME CLASS (1971) AND NUMBER OF TAX RETURNS BY INCOME CLASS (1973)

INCOME CLASS (Pesos)	NUMBER FAMILIES (000)	%	GROSS INCOME (Pmillion)	%	INDIVIDUAL TAX RETURNS (No.)	%	GROSS INCOME (Pmillion)	%	% TAXPAYERS TO FAMILIES %
-2000	2617	41.7	2959.4	12.5	445300	57.42	2587	21.91	17.02
2000-4000	1922	30.3	5528.1	23.3	140994	18.18	1519	12.87	7.33
4000-6000	791	12.5	3836.3	16.2	67859	8.75	1072	9.08	8.58
6000-8000	403	6.3	2769.2	11.7	36459	4.70	788	6.67	9.05
8000-10000	226	3.6	2017.5	8.5	21166	2.73	569	4.82	9.36
10000-15000	234	3.7	2811.2	11.8	26978	3.48	1020	8.64	11.53
15000-20000	71	1.1	1220.2	5.1	12996	1.68	732	6.20	18.30
20000 /	81	1.3	2572.2	10.8	23769	3.06	3519	29.81	29.34
T O T A L	6347		23714.3		775521	100	11806	100	12.22

NOTE: Tax return data above excludes aliens.

SOURCE: FAMILY INCOME AND EXPENDITURES: 1971, Series 34, BCS Survey of Households Bulletin: 1973 Income Tax Report.

TABLE B. NUMBER OF FAMILIES NOT PAYING INCOME TAX BY SIZE OF FAMILY AND BY INCOME CLASS (1971-1973 DATA)

(IDENTIFICATION OF FAMILIES HAVING NO TAXABLE INCOME)

BY INCOME CLASS: NUMBER OF FAMILIES (000)

Persons	%	Families (000)	-2000	2000 -4000	4000 -6000	6000 -8000	8000 -10000	10000 -15000	15000 -20000V	20000 +
1	1.81	100.9	69	21	4	2	1	2	0	2
2	6.92	385.4	228	97	30	13	8	5	2	2
3	11.61	646.9	337	189	59	24	15	11	5	5
4	14.89	829.5	367	273	79	41	25	25	7	10
5	14.63	815.5	346	250	90	52	29	32	8	8
6	13.47	750.5	308	221	97	54	25	29	7	7
7	11.58	645.2	236	197	96	45	26	31	8	7
8	11.01	613.6	213	202	91	40	25	23	7	10
9	5.56	309.9	98	84	58	26	17	17	5	3
10+	8.49	473.1	93	149	88	55	28	30	12	16
TOTAL: A (000)		5494.0	2295	1683	629	352	199	205	61	70
TOTAL: B		5571.5	2171.3	1781.0	723.1	366.5	204.8	207.0	58.0	57.2
GROSS INCOME (Million)		11908.3	372.4	4009.1	2764.3	1981.2	1448.5	1791.2	488.2	-946.8

Method: Total families not paying taxes in each income class derived by subtraction of tax returns from total families (assumes 1 return per family among those paying).

1. From tables, the % distribution of no. of persons per family by income class was used to derive actual numbers above.
2. Due to non-rounded percentages used in column 2, and rounded percentages used Col. 4-10, two slightly variant column totals result, as shown.

   The "A" column totals are additive - after distribution
   The "B" column totals are derived from prior tables as the original base for the matrix distribution. Both are approximate.
3. Gross income shown is the residual income remaining to non-taxpaying families after subtraction of taxpayers' gross income from total.

TABLE C. TOTAL NUMBER OF FAMILIES, AVERAGE INCOME AND EXPENDITURES BY INCOME CLASS - 1971

INCOME CLASS (P)	NUMBER FAMILIES (000)	(%)	% IN CASH	INCOME AVERAGE (PESOS)	% of TOTAL INCOME	AVERAGE * (PESOS)	FOOD BEV. TOB	HOUSE UTILITIES FURN.	CLOTH. TRANSP. MEDICAL	OTHER
Under 500	329	5.2	35.9	337	0.5	1641	75.4	12.4	7.6	4.6
500-999	767	12.1	47.4	754	2.4	2009	71.7	14	9.2	5.1
1000-1499	773	12.2	56.9	1250	4.1	2458	70.3	14.2	10	5.5
1500-1999	748	11.8	62.9	1743	5.5	2951	68	14.6	10.7	6.7
2000-2499	611	9.6	68.1	2245	5.8	3364	66.5	15.2	11.4	6.9
2500-2999	517	8.1	72.3	2744	6.0	3766	65	15.6	11.7	7.7
3000-3999	794	12.5	76.2	3446	11.5	4351	62.5	16	12.3	9.2
4000-4999	475	7.5	77.0	4452	8.9	5182	60	16.4	12.8	10.8
5000-5999	316	5.0	79.7	5455	7.3	6114	57.1	17.3	13	12.6
6000-7999	403	6.4	84.1	6866	11.7	7397	53.9	18.1	14.3	13.7
8000-9999	226	3.6	82.0	8909	8.5	9107	49.3	21.5	14.5	14.7
10000-14999	234	3.7	84.6	11994	11.8	11954	47.4	22.6	14.7	15.3
15000-19999	71	1.1	84.7	17092	5.1	15832	43.2	24.3	15.1	17.4
20000 /	81	1.3	84.1	31746	10.8	18915	37.1	26.7	15.4	20.8
	6347		77.1	3736		4479	58.7	17.7	12.5	11.0

Pesos (mill.)	23,714.3
Median	2454

*Expenditures alleged to exceed income in classes under 500 through 9999: Method assumes "apparent" demand rather than effective demand, due to estimated minimum average needs from household survey.

Sources: FAMILY INCOME AND EXPENDITURES: 1971, The BCS SURVEY OF HOUSEHOLDS BULLETIN SERIES NO. 34; SHARING IN DEVELOPMENT, INT'L LABOR OFFICE, GENEVA, 1974.

TABLE D. FAMILIES BY INCOME CLASS, BY MAIN SOURCE OF INCOME, AS PERCENT (%)

INCOME CLASS	WAGES SALARIES	NON-AGRIC. BUSINESS	AGRICULTURE	CROP SHARES	RENTS	INTEREST DIVIDENDS PROFITS	PENSION RETIREMENT	GIFTS SUPPORT WELFARE	INHERITANCE	GAMB-LING
500-2000	24.4	34.0	62.0	53.9	25.8	0	6.5	53.8	3.7	46.2
2000-5000	46.0	38.1	30.[illegible]	28.5	21.4	0	29.9	23.7	56.4	41.3
5000-10000	21.4	18.0	6.3	11.8	42.6	0	25.1	14.2	25.8	7.4
10000 ¢	8.2	9.9	1.4	5.8	10.1	0	38.4	8.3	14.0	5.2
NUMBER (000)	2727	780	2455	107	17	2	60	160	15	17
(TOTAL 6347)										
NATIONAL %	44.3	15.4	21.5	2.5	1.7	.2	2.1	3.6	.3	.5

Sources: FAMILY INCOME AND EXPENDITURES: 1971, THE BCS SURVEY OF HOUSEHOLDS BULLETIN SERIES NO. 34; SHARING IN DEVELOPMENT, INT'L LABOR OFFICE, GENEVA, 1974

TABLE E. FAMILY TAX BURDEN AS A PERCENT OF INCOME
BY INCOME CLASS - 1960

INCOME CLASS (P)	NUMBER FAMILY HOUSEHOLDS (000)	TOTAL INCOME (P000)	TOTAL TAX BURDEN (%)	TAX ON SALES, PRODUCTION (%)	TAX ON INCOME, PROPERTY (%)	OF WHICH: PROPERTY TAX (%)	PROPERTY TAX AS % TOTAL TAXES (%)
Under 500	1206	422100	23.03	21.25	1.77	0	0
500-999	1471	1082656	18.74	16.72	2.02	.67	3.57
1000-1499	770	939400	17.00	14.10	3.90	.62	3.65
1500-1999	502	855910	17.31	14.38	2.93	.67	3.87
2000-2999	372	878292	18.56	15.48	3.07	.79	4.26
3000-3999	153	516069	18.20	15.02	3.18	.97	5.32
4000-4999	98	433522	16.89	13.87	3.02	.85	5.03
5000-5999	47	255163	15.68	12.82	2.86	.82	5.22
6000-6999	34	216444	13.15	10.45	2.69	.98	7.45
7000-7999	20	140120	14.20	11.42	2.79	.90	6.34
8000-8999	15	127980	15.71	10.71	5.00	.79	5.03
9000-9999	10	92420	17.90	12.72	5.19	.82	4.58
10000 /	53	1043941	33.50	12.22	21.28	.54	1.61
	4751	7004047	20.17	14.62	5.55	.67	3.32

Note: Tax percentages may not add due to rounding.

Source: A STUDY OF TAX BURDEN BY INCOME CLASS IN THE PHILIPPINES, JOINT LEGISLATIVE-EXECUTIVE TAX COMMISSION, 1964.

Annex XIV

SOCIAL SOUNDNESS ANALYSIS - Edited Field Notes

Dr. Kenneth G. Orr

METHODOLOGY

Three areas which had already applied the new tax system in the pilot projects were chosen for study: (1) The City of Puerto Princesa, Palawan, where one of the key elements of the RPTA system, tax collections (public auction of property with delinquent taxes) had been tried with apparent success, (2) Santo Tomas, Pangasinan, where, in spite of efforts to push the new tax system, the project has been less than an unqualified success, and (3) Dulag, Leyte, since this was one of the first pilot municipalities to be tax-mapped, and because of its unique socio-political setting.

The researcher realized in talking with knowledgeable interviewees in Manila that the subject of real property tax could be extremely sensitive in some areas due to a long tradition of irregular practices on the part of property owners and tax assessors. It was advisable therefore to form some hypotheses as to the nature of the real property tax situation in the areas under study prior to taking to the field. The hypotheses were to allow an interpretation to be made of the "raw data" which, as it turned out, seemed as often designed to confuse the issues as to elucidate them. Such data are often common understandings which may not necessarily be true, although they may be widely accepted and acted on as if true. They may also be deliberate distortion of fact designed to protect a sensitive area and to mislead or to mollify in so doing. Officials several times turned over the problem of talking with me to their assistant.

The main technique in these interviews was to emphasize the positive and find out what the tax assessors were proud of about the new tax system, if anything, the problems they wanted to talk about, and some deplorable behavior that would surface in the course of the conversations. The reader should not, therefore, look at the stated "facts" in the interview but rather as I have try to get behind the facade.

Background of the Real Property Tax Administration in the Philippines

One of the early accounts of the Filipinos' aboriginal tax system is given here because it is important to try to understand cultural concepts regarding "tax" which appear to be deeply rooted. Plasencia writing in the 16th century reported:

> "These chiefs ruled over few people. Sometimes as many as 100 houses, sometimes even less than 30. This tribal gathering is called in Tagalog a barangay . . . . In addition to chiefs who correspond to our knights, there were 3 castes,

nobles, commoners and slaves. The nobles were free from whom they call maharlika. They did not pay tax or tribute to the datu, but must accompany him in war at their own expense. The chief offered them beforehanded a feast, and afterwards they divided the spoils . . . . . if he built a house they helped him . . . the lands which they inhabited were divided among the whole barangay, especially the irrigated portion and thus each one knew his own".[1]

No real property tax system existed until the American period. During the Spanish regime, the main source of revenue accruing to the Intendencia General came from taxes levied on persons rather than property. The first law governing property tax was Act No. 82 of the Philippine Commission (Jan. 31, 1901). The proceeds were to accrue to the municipality entirely and a municipal treasurer and board of assessors were set up. Later, the rate was lowered with the proceeds of the tax accruing entirely to the provinces. A provincial treasurer was appointed and an assessment board was set up.

Subsequent laws set up a system of recording and filing the real property which was taxable. An early and persistent problem involved how much land might be escaping taxation. Other irregularities such as phony assessments became rampant. Castillo discusses the history of real property tax to 1956 by which time a firm pattern of ineffectiveness had been established and reform was called for.[2]

Gleeck records that the American administrators in the Philippines early attempted to introduce the philosophy that key to individual welfare and national advancement was political democracy and a share-the-wealth philosophy. This was seen by the Filipino upper class as radically egolitarian and they battled it every step of the way with a contempt for the underprivileged that a wealthy patrician like Governor General Forbes found shocking:

> "The American authorities instinctively shifted the tax burden from the necessities of life to luxuries and exempted the trades and occupations of the very poor. This was not only a complete reversal of the Spanish tax system, it struck as the economic basis of the wealth of the Filipino elite, and they fought back . . . Forbes wrote: 'the liquor and tobacco industries were partially controlled in the islands by some of the most prominent and influential Filipino families . . . ".

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[1] Plasencia J.S.F., Juan de, "Customs of the Tagalog" (in Blair and Robertson VII, pp. 173-185, in Jocano, F. Land (ed.). The Philippines at the Spnish Contact, MCS Enterprise, Inc., Manila, 1975, p. 108.

[2] Castillo, J.G., Property Tax Administration in the Philippines 1956, Special Tax Revision Commission, Bureau of Printing, Manila, 1957, pp. 1-4.

"An even greater departure from Spanish practice than the liquor tax was a tax on real estate, or "land tax" as it was known: (Forbes wirtes) "The land tax was an innovation and naturally unpopular among property owners, who were the most influential and included or controlled most of the vocal elements of the population . . . In some districts opponents of the tax had recourse to passive resistance by failure to pay the tax . . . (resulting) in the sale of the land at public auction."

"It was not all rejection, however . . . by 1907, all but two of the provinces had indicated that they would resume collecting the land tax . . . in just six years following its introduction, therefore, the land tax had been accepted by the Filipinos . . . both the large proprietor and the small landowners benefited directly from the land tax, which went to support the public schools and maintain roads and bridges. The hacendero was dependent on these latter facilities to open up his estates for cultivation and bring his products to distribution centers."[1]

The present effort of Real Property tax reform began in 1970 when an evaluation team of USAID and PDAP initiated procedures for setting up a "Fiscal Improvement Program in Mapping and Assessment of Real Property" with the Assessor of the Province of Palawan. The Dulag project was begun in August 1971 and completed in 1974, and the Santo Tomas project was started in 1974 and finished in 1976.[2]

Socio-Cultural Feasibility

A. Definitions of Society and Culture

The socio-cultural feasibility of a development program is concerned with the relationship of the program to the society and culture it is designed to serve, in this case the cultures of the Philippines. Following standard anthropological usage the term "culture" refers to "what is done," and the term "society" to "who does it." "Culture" is also used to designate the totality of behavioral patterns and material culture items practiced by a given ethnic group.

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1 Gleeck, Lewis E., Jr., American Institutions in the Philippines (1898-1941). Historical Conservation Society XXVII. Manila, 1976, pp. 241-242.

2 Files 13 (Pangasinan), 44 (Leyte), 66 (Palawan) of the Real Property Tax Administration Project, a section of the Local Capacity Division of the Provincial Development Office, USAID/Philippines, Manila

A Profile of the Average Taxpayer in the Social Landscape of Santo Tomas, Puerto Princesa, and Dulag

1. The Municipality of Santo Tomas, Pangasinan Province

The great families who founded the municipality are still all-powerful at Santo Tomas as they are throughout the province. The average taxpayer still has his age-old feudal ties to support him and the convenient patronage to fall back on in case of need. His relationship with the government therefore is not that of superordinate entirely. He can bargain where his land tax is concerned and does so confident in the thought that his protector will apply pressure when needed in case there is an unreasonable demand in regard to his taxes. This is as it has always been, and was meant to be.

The new tax administration with tax mapping, carefully kept records and accountable assessing are uncomfortable innovations. It is no longer possible to hide land from taxes and records are no longer jumbled to the advantage of the property owner. Former tenants are pleased with the new system since it seems to give needed assurance of ownership of recently acquired land (he can borrow money, just as if he had an actual land title on the strength of his tax receipts for tax mapped property).

It is best however to discourage this new system which promises to be so efficient as to make evasions difficult and embarrasing to achieve. It cuts down on the give-and-take of ordinary human interactions and reduce life to a regimented rule of law - which is neither "natural" nor Filipino.

2. The City of Puerto Princesa, Palawan

The taxpayer on Palawan, like many others, is new to the island. Everyone is more or less equal in this new frontier environment. There are no old families, no old ties and also no old, feudal relationships to fall back on in regard to ones' taxes. The mayor is the boss and since the tax money will be coming back through public works programs which are badly needed to develop the properties which are being taxed, the idea makes a lot of sense. Also, it's good business to pay your taxes, since this is necessary anyway to get loans from the banks to develop your land.

The efficiency of the new tax system is highly desirable also. It guarantees fair taxing and assurances that your neighbor isn't getting away with anything. Since everyone on Palawan is enthusiastic for the development of the island, and since there is enough for all, the only serious problem is getting a free hand to develop the island for the people of Palawan. This means greater freedom from the dictates of Manila.

3. The Municipality of Dulag, Province of Leyte

The Waray-Waray people of Leyte have always been an independent-minded people, but they have also stood firmly in support of their rulers. At the moment, these are the family of the First Lady of the Philippines, and her brother, the Governor. Taxes, however, have always been a family affair where one is rewarded for the right behavior and political support with light tax obligations and special consideration in the traditional Filipino way.

The taxpayer is not unmindful of his obligations to help the government by paying his taxes. He will, however, take advantage of any loopholes possible. Most of the poor people have very small taxes or none at all and so are not bothered with this problem. It is becoming increasingly difficult to protect your property from unreasonable taxes due to the new tax administration system on the one hand and the President's decrees insisting on tax payment on the other hand. However, the taxes will be paid if the President says so. His wishes are virtually sacred due to the connection with the First Lady's Leyte family.

The new tax administration works poorly since the taxpayer can relax back to his usual hanky-panky or bargaining with the backing of powerful leaders on the island when the presidential heat is off. Even so, it is not easy to play the lucrative tricks of double declaration of value which used to be known as the "sickness of the island." However, much of the revenue is independent of the new tax administration, especially the western area where large family corporations regularly pay their taxes on sugarland since this is needed to get bank loans. Others say that the poor are getting poorer since their property holdings decrease every year, from acquisition by sugar interests, or splitting due to inheritance. Such advocates think the poor should be taught trades and industries (handicraft and fishing).

4. Allocation of Time

It is conceivable that by FY 80 the goals of the program may be well on the road to being realized. The raising of the tax collecting efficiency rate from around 40% to 75% or better seems feasible provided the reform measures continue to enjoy support from the leadership in the national government. Tax mapping as such is a slow procedure, but the tax assessors consulted felt that it could be done in 1980. The attitude of the taxpayers conditioned by their relationship with the tax collectors is the basic factor. This involves the specific social landscape of the particular province in question. As we have seen in the case of Palawan, Leyte, and Pangasinan the prognosis differs.

5. Motivation

The motivations behind the behavior of the Filipino taxpayer involve a complex inter-relationships between socio-psychological

attitudes and current events. One can be sure that at this point in history, the Filipino will ordinarily not be motivated by respect for law, social consciousness, or a devotion to the plight of the poor. He is motivated by desires for economic and political security for himself and his family.

6. Caciquism

Caciquism (from the Carib word "chief"), the expression of political realities in the provinces, has long stood in the way of the rule of law. The history of Filipino and Americans in the Philippines seems to pivot around the one trying to follow his age-old dictates of his culture in regard to socio-political behavior, and the other trying to "reform" and "convert" to the American Way. Furnivall broadens the perspective of the problem to include the Orient:

> "In the Philippines, and elsewhere in the Orient, there is an acient feeling that one of the prime functions of the political chieftain is to see to it that justice is done among his people. The cult of constitutionalism, that is, the worship of lawyers' law interpreted by lawyers regardless of whether substantial justice has been done or the political purposes of the state are served, is not indigenous to the Orient and has not prospered there."[1]

Many of the tax assessors I spoke with were aware of the culture conflict situation involved in the new tax administration program. Most seemed willing to go along with the RPTA system while blaming the bulk of the people for having the "wrong" attitude toward taxes (i.e. the traditional attitude).

During the survey, I was impressed by the use of caciquism to achieve efficiency in tax collecting through provincial and city leaders support (Palawan) and Presidential decreeds (Leyte). A slower but inevitable trend is also taking place in the social psychology of the nation. When the subject of desired motivation was dicussed with the tax assessors they invariably mentioned the efforts being made in the elementary school curriculums to educate the children in the better attitudes towards taxes. Public relations programs, discussed below, are important in this effort.

7. Minimum Participants Profile

All in the Barangay are participants in the benefits of the Real Property Tax Administration Project. The population of the Philippines is largely composed of very young people. Its median age has been characterized by steady decrease from 20.2 in 1903 to 17.1 in 1970.[2]

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[1] Gleeck, Op cit., 1976, p. 158 et seq. and Furnival, J.C., Colonial Policy and Practice. New York, 1956, p. 75 in Gleeck, p. 160.

[2] Republic of the Philippines, Philippine Yearbook, 1975. National Economic and Development Authority, National Census and Statistical Office, Manila, p. 92.

8. Matching Participants and Project

There are no groups that will be adversely affected by the Real Property Tax Administration Project although the wealthier property owners, especially those forced to pay back taxes, will complain bitterly that this is the case. The poorest group is not involved in tax payments, but are recipients of its benefits. Such groups pay other taxes such as for fish vendor licenses (₱24 a year) and the ₱1 residence tax.

9. Obstacles

The political obstacles of Moslem territory being off limits at the present time may be mitigated in the near future. The relationship of these areas to the eventual use of the Real Property Tax Administration system is not known. Conversely, the application of the system in pagan tribal areas would present special problems necessitating special expertise in resolving them.

The traditional anti-property tax attitudes and obstacle attitudes which are part of the socio-cultural pattern of the Lowland Filipino communities has been discussed above. While these obstacles are very real at the present time, there is also a positive side of the situation (the use of caciquism to support the new system for example), and many forces are working to mitigate the effect of these culture-lag manifestations.

10. Communication Strategies

The tax assessors interviewed all indicated that they had public relations programs to acquaint the public with the advantages of the new tax program. These strategies include barangay meetings, sign boards, a "bankbook-like" recording system for the taxpayer, lectures to civic groups, curriculum courses and lectures in elementary schools, and the like.

The Spread Effect: The Diffusion of Innovation

A. The City of Puerto Princesa

When the Province of Palawan began training for the new Real Property Tax Administration tax mapping system, the assessors of the City of Puerto Princesa although not connected with the PDAP program took part in the training. Shortly after, they set up their own system within the poblacion (town section) of the city with remarkable results. The future of this program now seems assured with authority to utilize tax revenue to allow a continuation of the program in the barangays of the city.

B. The Problems of Spread Effect in Pangasinan and Leyte Provinces

The "foot-dragging" noted in Pangasinan and Leyte Provinces shows a marked lack of spread effect. The factors involved in the reticence shown are tied to basic attitudes and values inherent in the socio-cultural system. The term caciquism has been applied to this complex of inter-personal relations between the members of the Lowland Filipino society. This behavior applies especially to the wealthier landowners who are trying to reduce their tax obligations by means which are increasingly being apprehended by the efficiency of the new tax system. On the other hand, the small farmers, who did not present a problem in regard to tax collection ordinarily, are increasing in number. They seem well disposed to the new system which promises them a more egolitarian position in identifying their newly occupied land and allowing them to borrow bank money on it, thus be increasingly independent of the former landlords.

C. Leadership/Authority

It must be pointed out that those Filipino with whom the research has had contact, appear on the basis of this study, to be luke-warm about the benefits of the tax program and uncertain if not hostile, hence the "foot-dragging" mentioned above. The notable exception to this rule is in the case of the City of Puerto Princesa which appears to have the unusual factor of a frontier community, essentially free from the encumberances of multiple caciques which allow the pressure game to be played in tax collecting.

D. Pattern of Mobility

The mobility of the ordinary farmer, who will become increasingly important as a source of revenue for the nation as his standard of living increases, is important as indicating the routes of word-of-mouth contact regarding the tax program.

E. Maximum Information and Resource Distances

The pace of the tax program's spread would greatly increase with an adequate public relations program emanating from the President's Office and supported by the provincial leaders. Such a promotional program would include total information on the uses of taxes and be organized with slogans, songs and ballyhoo such as accompanied other major development drives of the President's.

The normal, slow accretion of interest and confidence in the tax system will be considerable, although this influence will be working against the inertia of the wealthy leaders.

Social Consequences and Benefit Incidence

A. Santo Tomas, Pangasinan Province

The efficiency of the tax project itself did not seem high. There was the usual 60% tax assessment increase, but little mention of collectibles. The nearly two years spent tax-mapping the small, 9 barrio municipality seemed "foot-dragging" indeed. However, this was all pioneer work with the usual problems. During this time, 7 teams were trained, and the tax assessor felt confident he could map the entire province in the next 5 years. Others including the Governof, mentioned a strong interest in contracting out the tax mapping problem.

The wealthier families comprise an estimated 30% of the taxpayers but pay 70% of the taxes. The poorer families comprising 70% of the taxpayers pay 30% of the taxes. There are up to 3% of very poor squatters who pay only the residence certificate tax (₱1 per year). Actually, 60% of the taxes are paid by the very rich 10% who usually live in Manila and don't personally derive benefits from the public works paid for by the taxes in the municipality. Thus the poor who pay least get the lion's share of benefits. Fourty percent of the very rich are in arrears for back taxes. Most owe 10 years back taxes which often means a bill of upwards of ₱10,000. This is where the "foot-dragging" pressure comes in; they very much resent the tax program.

The poor (70%), on the other hand, liked the tax program. Their taxes are light (₱20 for one hectare of riceland). I talked with several who were very pleased at this "fine and beautiful project." The reason they gave was that they had an accurate map of their recently acquired property with which a tax receipt gave them a "tax declaration title" on which they can borrow money from the bank. Formerly tenants, the tax mapping system seemed to give them an assurance that they were finally landowners (short of having a land title, which they would get after paying off the amount owed in about 15 years).

B. The City of Puerto Princesa

The success of the program is reflected in the tax receipts which in 1975 were 31% of the total collectible and after the use of the new tax system in 1976 were 85%. The financial benefit of the program was recognized by the Department of Finance which increased the support of the project thus insuring its future. The most important benefit of the project to the city, according to the tax officials was the official identification of property which allowed banks to lend money needed for development. It also made it impossible to hide taxable land. The reason the tax collection system worked is that the delinquent taxpayers were unable to bring pressure to bear when they were threatened with public auction. As a result of the interest in tax, training in tax consciousness was being planned for the school.

It is felt that the efficiency of the system of tax mapping, recording and collecting will benefit the public as a whole since development is a prime interest and concern of all on Palawan.

C. The Municipality of Dulag, Leyte Province

Before the new tax program the tax collection rate was reported to be 27%. At present, it is 57% and still rising. Most of this rise took place in 1975 and 1976. It is widely recognized, however, that the tax program provided an efficient tax system whereby it was impossible to resort to "tricks" to avoid payment. One of the more serious tax loopholes closed by the new system was duplication of tax declaration, a "sickness" widespread in the province. Other benefits such as "tax declaration title" and "official identification of property" important elsewhere are not so here. The reason is that most farmers have long had their own land and clear titles.

The bulk of the farmers are poor and pay little tax or no tax at all. Those with some property appreciate the new system for its efficiency. The wealthier landowners in the western part of the island belong to family sugar corporations and regularly pay their taxes in order to assure bank loans.

D. Access to Resources and Opportunities

A most important aspect of the new tax system is that it is egalitarian and assures all an equal opportunity to pay their taxes according to their abilities. Interpreted correctly this places each person in an equal role as financial "partner" of the state. This interpretation is not generally accepted at the present time, but the concept of "tax consciousness" and the need for education on this subject is gaining popularity.

More readily understood at the present is the "fairness of the tax system in making each taxpayer give his share without favoritism. This attacks the core of cacique system of political leaders which has been the heritage of the Filipino. Current favorites of political leaders stand to lose by this new system. They are fighting it as the special interests in the Philippines have always fought egalitarian practices.

While the new tax system assures all equal right to taxation, equal access to the benefits of the taxation system is not written into the system. In general, it is understood that the poor who comprise the overwhelming majority of inhabitants pay the least proportion of tax and get the lion's share of the benefits in the form of public works. There is an exception to this rule in the situation of Palawan, where the wealthy land development group need the public works programs, particularly rural roads, to open up their enterprises. The situation is similar to that which occurred in the early history of the "land tax" when the hacienderos supported the tax because this was the way to open up their own lands. A similar philosophy is developing among the middle class and

upper class who are beginning to think of Real Property tax as a means of developing an area and their particular commercial interests.

E. Employment

The tax system as such will not provide much additional employment although this can become a sizeable force if all offices acquire the full staff complement as required in the Real Property Tax Code. The efficiency of the tax system, however, under appropriate conditions (e.g. Puerto Princesa) can result in wide-spread employment in the public works programs that result from the tax receipts.

F. Changes in Power and Participation

The fact that the poor as taxpayers are on an equal footing under the law with the rich indicates a shift in power and participation at least in theory. The new tax system by attacking caciquism also attacks the graded system of special privilege. At present, however, it is still operating within the system of caciques ("chiefs" or malaka, "strong men" political leaders). The new tax system owes its current success to presidential support (Dulag especially and elsewhere) and/or strong advantage for the growing entrepreneur class. In Santo Tomas, the stale mate noted is an indication of the displeasure of the upper classes generally and an indication that pressure may still be applied for favoritism in taxes through multiple political leaders in the province.

G Necessary Reforms which run Counter to Convention and Tradition

The devices used in the new tax system are in themselves familiar reforms. The "innovation" of the new system is that these well-known devices are organized into a tight system which provides a uniform method to administer the real property tax laws. For example, public auction of tax delinquent property, a "key" devised in the present program was used by Governor-General Forbes in the early 20th century. The degree of compliance with the real property tax law is the issue. Compliance is rising sharply as a result of the new system in conjunction with strong presidential support. The basic reforms needed to assure a continuation of this trend are in the process of being made especially as a result of the present administration efforts.

Conclusions

The pattern of the Real Property Tax Administration Project appears to fit the contours of the existing socio-cultural landscape. It is seen as a necessary and timely step in the development of the fiscal base of the nation. The tax project is an inter-related set of well organized and efficient devices for mapping taxable property, recording it, assessing and appraising and assuring tax payment.

It seems to carry out these functions to a greater or lesser degree depending on the particular situation of a given province. Therefore, while the project may be considered "socially feasible and sound" for the above mentioned reasons, the real problem is why does this fine machine work poorly in Pangasinan Province, medium well in Leyte Province and very well indeed in Puerto Princesa City.

Our study of a sample of the Real Property Tax Administration Project in each of these provinces suggest the following hypotheses:

1 In Santo Tomas, Pangasinan Province, the tax system is "foot-dragging" because most of the taxable property is owned by the upper class who owe large sums in back taxes. There are also many malakas (strong man) political leaders in the province who can be appealed to for "justice" and arrangements made in regard to the taxes. The province is following the traditional pattern of the cacique system of protecting followers from the impartial law.

2. In Dulag, Leyte Province, tax collecting shows an impressive jump from before to after the tax program was installed. While the devices of the tax system are important in exposing hidden taxable property, preventing double market value declarations and otherwise making a delinquent taxpayer obvious, the real reason for the upsweep in the rate of collectibles was due to presidential decrees making this necessary. The reason why the people of Leyte are especially sensitive to President Marcos' wishes is that the First Lady's brother is the governor of the province - a true cacique in the traditional sense.

3. In the case of the City of Puerto Princesa, Palawan, the strong man, the mayor, feels that the tax must be paid. In this case, the device of public auction was used with brillian results. Nearly everyone paid up. They had to but also they wanted to. Most of the taxpayers owned development property (farmland, mines, lumber, etc.) and tax receipts were necessary to get required bank loans for development. Also there was the knowledge that the tax money would be used for public works like rural roads to open up their property for development.

The Filipino tries to bargain for his taxes, like everything else, to get the best price. If he has a strong enough backer in political power, he tries to forget the tax. But when the power-that-is says "pay" he complies. He is encouraged to pay by the fact that he can't get out of it, or might lose his land in public auction. If he has sufficient backing these devices are ineffective. Another supportive factor in some situations is the fact that bank loans require tax certification and loans can be had on the strength of tax certification without title (for land that former tenants are purchasing). Other self-interest factors include public works for development areas (wealthier class) or schools, etc. (poorer class).

It seems probable that provinces with developmental potential plus paucity of feudal type leaders and single-mindedness in regard to paying the tax (like Palawan) will show excellent results of the new tax system. It also seems unhappily probable that old-line provinces with many feudal families and caciques will continue to make a poor showing (like Pangasinan). Those provinces with close ties to the main source of power, the President, will follow his bidding at least as long as Martial Law remains. (Like Leyte.)

Meanwhile, the poor people who pay least taxes but get most benefits like the new tax system because of its egalitarian feature and the added use for the tax certifcates in borrowing money on land. The middle class are also getting benefits from the new tax receipts for developing land. One municipal tax treasurer on Leyte thought the most important assistance for the new tax system would be to help the poor to earn more money (through small industries). The larger entrepreneurs with their various development project are currently good taxpayers. With such backing in the offing the future of the Real Property Tax Administration project seems promising - provided the tax system continues to enjoy the support of the top leaders, good public relations and a niche in the educational system to endocrinate the youth.

AID 1020-20 (1-73)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 78 to FY 81
Total U.S. Funding $10,000,000
Date Prepared: 5/6/77 Rev. 86

Project Title & Number: REAL PROPERTY TAX ADMINISTRATION

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) To provide a strong financial capability to local governments to deliver goods and services to the low income and rural poor families throughout the Philippines	**Measures of Goal Achievement: (A-2)** Magnitude of locally c[illegible]ucted development projects increased - s[illegible]ifically in rural roads, barangay water systems [illegible]nd the rural service centers.	**(A-3)** 1. Review o[illegible] Local Annual Capital Improvement Programs (CIP) and Performance Budgets. 2. Government accounting and auditing reports.	**Assumptions for achieving goal targets: (A-4)** National/local government relationships will [illegible] at the present level of autonomy and fiscal support arrangements.
Project Purpose: (B-1) To generate additional revenue in 576 provincial municipalities (approx 1/3 of total) and in all city districts in RP, excluding the City of Cebu and 4 cities and 13 municipalities comprising Metro Manila*.	**Conditions that will indicate pu[illegible] has been achieved: End-of-Project status. (B-2)** 1. Assessed value of real property within targeted local government unit increase in the average by 50% 2. Collections reach 75% of new collectibles based on #1 above. 3. In 1981, cumulative collections in targeted local government units reach $22,000,000 over base year of 1974.	**B-3)** 1. DOF quarterly and yearly statistical abstracts. 2. Verification of installation and collection by DOF/DLGCD teams. 3. Reports and on-the-spot monitoring. 4. Results of yearly evaluations.	**Assumptions for achieving purpose: (B-4)** Real property tax laws will not be [illegible] by law or fiat, thus rendering the project [illegible].
Project Outputs: (C-1) 1. Trained staff in all project provinces and cities (Train) capable of installing and maintaining RPTA system. 2. Project municipalities and districts tax mapped, assessed and systems operatioc (System). 3. Increase of 50% in aggregate real property tax collectibles for participating local government units (Assess). 4. Participating municipalities/districts reach 75% collection efficiency rate by end of year in which system is fully operational (Collect)	**Magnitude of Outputs: (C-2)** 1. Approximately 10 personnel from provincial/city assessors/treasurer's office trained in RPTA system. 2. CUMULATIVE UNITS (MUN. & DISTRICTS) ACTIVITY — FY 78** 79 80 81 Tax Mapping & Assessing — 198 495 816 - Completed Systems fully Operational — - 198 495 816 3. INCREASE IN COLLECTIBLES ($Million) FY 78 — 79 — 80 — 81 - — 3.9 — 9.7 — 10.2 4. Per collections. Increases (Cumulative — 0 — 2.9 — 10.2 — 22.4	**(C-3)** 1. DLGCD and DOF training and personnel reports and records. 2. DLGCD and DOF field inspection reports. 3. DLGCD/DOF quarterly and annual financial reports.	**Assumptions for achieving outputs: (C-4)** 1. Massive shifting of local government personnel will not occur which might disrupt continuity of program. 2. Widespread realignment of provincial, city and municipal boundaries will not occur
Project Inputs: (D-1) USAID - Development Loan 1 Commodity Support 2 Direct Amount Reimbursement (a) Excess property vehicles and typewriters (b) Aerial Photos (c) Loans and Seed Money GOP 1 Personnel Training and related activities Project Materials Technical assistance	**Implementation Target (Type and Quantity) (D-2)** USAID FUNDING $10,000,000 — $(000) 78 — 79 — 80 — Total 1. Commodities — 1,470 — - — - — 1,470 2. DAR (excess property, aerial photos, loans) — 2,530 — 2,750 — 3,250 — 8,530 Annual Requirements — 4,000 — 2,750 — 3,250 — 10,000 GOP FUNDING $5,216 — $(000) 1. Personnel — 680 — 680 — 680 — 2,040 2. Training — 220 — — — 220 3. Project Material — 985 — 985 — 986 — 2,956 Annual Requirements — 1,885 — 1,665 — 1,666 — 5,216	**(D-3)** 1. Loan documents and agreements signed by GOP and USAID. 2. Commodity receipts, shipping documents, etc., on file that commodities have been received. 3. Receipts from provinces that commodities have been received. 4. Project documentation that local governments have received grants and loans. 5. Specific multi-year plans of local governments on file for RPTA system.	**Assumptions for providing inputs: (D-4)** GENERAL NOTES: *Project does not include the City of Cebu or Metro Manila area which are so large in size as to require specially designed systems and handling in each case. A city distr[illegible] for purposes of this project is an area selected by the [illegible] with definite and certain boundaries containing no fewer than 4,000 taxable parcels of record, except in the case o[illegible] an entire city having less in total, which city shall be treated as one district. **All figures are calculated from the base year FY 74. ***Reimbursement to Local Governments, basis of issuance of B[illegible]

ANNEX XVI

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

August 22, 1977

Mr. Peter M. Cody
Director, USAID Mission
M a n i l a

Dear Mr. Cody,

I wish to refer to USAID letter presenting the Project Paper on the Real Property Tax Administration (RPTA) project.

I endorse the project and hereby request a development loan of $10.0 million. I take exception, however, to the provisions of the project paper relating to condonation of loans to local Governments; all references, therefore, to condonation of loans to municipalities should be deleted.

It is my understanding that the cost figures indicated in the project paper are planning figures and that these will be subject to refinements when a more detailed calculation of requirements for each activity shall have been made.

Sincerely yours,

GERARDO P. SICAT
Secretary of Economic Planning
(Director-General)

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USAID