

PROJECT PAPER  
(PP)

**LOCAL  
RESOURCE  
MANAGEMENT**

(492 - 0358)

USAID/MANILA

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LRM PROJECT PAPER  
No. 492-0358  
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LIST OF ACRONYMS

ADB	Asian Development Bank
AIM	Asian Institute of Management
AUDP	Antique Upland Development Program
BFAR	Bureau of Fisheries and Aquatic Resources
BIR	Bureau of Internal Revenue
BWP	Barangay Water Project
CDAP	City Development Assistance Program
CDSS	Country Development Strategy Statement
CES	Career Executive Service
CESDP	Career Executive Service Development Program
CPA	College of Public Administration
DA	Development Associates, Inc.
DAP	Development Academy of the Philippines
DBCC	Development Budget Coordinating Committee
ESF	Economic Support Fund
ESIA/WID	Economic and Social Impact Analysis/Women in Development
FAR	Fixed Amount Reimbursement
FPHC	Financing of Primary Health Care Projects
FSDC	Farm Systems Development Corporation
GOP	Government of the Philippines
IBRD	International Bank for Reconstruction and Development
IIRR	International Institute for Rural Reconstruction
ILO	International Labor Organization
IRIS	Integrated Regional Information System
IRP	Integrated Reorganization Plan
KKK	<u>Kilusang Kabuhayan at Kaunlaran</u>
LDP	Local Development Project
LGC	Local Government Center
LRM	Local Resource Management
MDF	Municipal Development Fund
MHS	Ministry of Human Settlements
MLG	Ministry of Local Government
MPWH	Ministry of Public Works and Highways
NEDA	National Economic and Development Authority
NIA	National Irrigation Authority
NRO	NEDA Regional Office
OBM	Office of Budget and Management
ORAD	Office of Rural and Agricultural Development
PBSP	Philippine Business for Social Progress
PCRD	Philippine Center for Regional Development
PDAP	Provincial Development Assistance Project
PDIP	Provincial Development Investment Plan
PDP	Provincial Development Project
PDS	Provincial Development Staff
PIDS	Philippine Institute for Development Studies
PRRM	Philippine Rural Reconstruction Movement
PUSH	Panay Unified Services for Health
PVO	Private Voluntary Organization

RDC	Regional Development Council
RDF	Regional Development Fund
RDIP	Regional Development Investment Program
RDMP	Rural Development Management Program
RDP	Regional Development Plan
REDP	Rural Enterprise Development Project
RPMS	Regional Project Monitoring System
RPTA	Real Property Tax Administration
RRD	Rainfed Resources Development Project
RRP	Rural Roads Project
RSC	Rural Service Center Project
RDS	Regional Development Staff
SIP	Special Infrastructure Program
SPREAD	Systematic Programming for Rural Economic Assistance
UNDP	United Nations Development Program
UP	University of the Philippines

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Philippines

3. PROJECT NUMBER

492-0358

4. BUREAU/OFFICE

Asia

04

5. PROJECT TITLE (maximum 40 characters)

Local Resource Management

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
 08 31 89

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 82

B. Quarter 4

C. Final FY 83

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

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( 10 )	( 600 )	( 610 )	( 50 )	( 1,450 )	( 1,500 )
(Loan)	( 300 )	( 800 )	( 1,100 )	( 710 )	( 3,790 )	( 4,500 )
Other U.S.						
1.						
2.						
Host Country		400	400		4,540	4,540
Other Donor(s)						
<b>TOTALS</b>	<b>310</b>	<b>1,800</b>	<b>2,110</b>	<b>760</b>	<b>9,780</b>	<b>10,540</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO. PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) 03	260	240	240	0	0	437	4,500	1,500	4,500
(2)									
(3)									
(4)									
<b>TOTALS</b>				<b>0</b>	<b>0</b>	<b>437</b>	<b>4,500</b>	<b>1,500</b>	<b>4,500</b>

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

220

250

11. SECONDARY PURPOSE CODE

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

A. Code

BR

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To identify replicable, targeted approaches to local development in six provinces which can be extended and institutionalized throughout the CDSS regions in subsequent phases.

14. SCHEDULED EVALUATIONS

Interim

MM YY  
01 84

MM YY

Final

MM YY  
01 85

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000

941

Local

Other (Specify)

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

N. A.

17. APPROVED BY

Signature

Anthony M. Schwarunder

Title

Director

Date Signed

MM DD YY  
06 24 82

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

MM DD YY

## LRM PROJECT PAPER

### PART I: SUMMARY AND RECOMMENDATIONS

#### A. Fiscal Data

Summary fiscal data are provided in the Project Data Sheet on the preceding page. The U.S. share of costs for the three-year Phase I of the project is \$6.0 million. The Project Identification Document (PID) for this proposal was approved June 17, 1981. The AID/W cable approving the PID is included as Annex A.

#### B. Purpose

The purpose of the first phase of the Local Resource Management Project (LRM) is the identification of replicable, targeted approaches<sup>1/</sup> to local development in six provinces of the CDSS regions<sup>2/</sup> which can be extended and institutionalized throughout these regions in subsequent phases. As the project evolves, its later phases will be characterized by the development of working partnerships among provincial and municipal governments, the private sector<sup>3/</sup>, and poverty groups such that the group members are assisted in organizing their efforts, defining their own needs, establishing priorities, and launching initiatives to obtain additional resources to supplement those resources available to them locally. These working partnerships will necessarily develop at differing paces in different localities due to variations in the capacities, willingness, and determination of provincial and municipal government officials, the private sector, and poverty group members.

#### C. Cooperating Country

The Cooperating Country is the Philippines, as represented by the Government of the Philippines (GOP). The lead agency for project

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<sup>1/</sup> The term "targeted" approaches will be used throughout the paper as shorthand for a set of systems and processes which seek to establish productive, self-reliant activities focused on poor households within an identified poverty group (e.g. upland, coconut, and landless farmers; subsistence fishermen, etc.).

<sup>2/</sup> These currently include Regions V (Bicol), VI (Western Visayas), and VIII (Eastern Visayas). Regions I and II will be added during the next few years.

<sup>3/</sup> For purposes of this PP, "private sector" refers to private business concerns and nonprofit civic, religious, and educational organizations, including private voluntary organizations (PVO's). Although part of the private sector, beneficiary households are treated separately in the discussion.

implementation will be the National Economic and Development Authority (NEDA). Within NEDA, the Office of the Deputy Director General for Planning and Policy will be responsible for providing overall leadership and monitoring implementation progress.

#### D. Project Description

This project is Phase I of a 10-year multi-phased program of institutional development.<sup>1/</sup> The project intends to identify replicable, targeted approaches to local development in six provinces. If these innovative approaches prove responsive to local residents' needs and can be absorbed into the existing planning and budgeting systems, they will be replicated and institutionalized within the CDSS regions in subsequent phases. The ultimate (goal) objective of the program is to promote greater self-reliance, productive employment, and real income among disadvantaged residents in rural areas.

The Local Resource Management Project builds on over a decade of government efforts to strengthen provincial and regional capabilities to plan and implement development programs. Recognizing that decentralization alone is no guarantee to more responsive local development, the project has taken on the ambitious task of helping the GOP reform local development policy and programming. It aims to reorient existing provincial capacities toward promoting and supporting the efforts of local people to help themselves. It is hoped that this project will initiate a dialogue on policies dealing with local responsibilities for development. This dialogue will begin in Phase I at modest cost to AID and the GOP. It will make possible initial efforts in this critical area without long-term or expensive a priori commitments to untried innovative or experimental development approaches.

To initiate the process, Phase I will operate along three separate implementation tracks: 1) provincial strategy and local project development, 2) local financial administration, and 3) beneficiary participation.

The first track will absorb the greatest share of project attention and resources. It will work with the participating provinces on developing strategies for assisting defined target groups, based on an understanding of the needs and potentials of their members for self-help development. It will also assist provinces in identifying and developing feasible subprojects to implement approved strategies. It will stress improved subproject monitoring and evaluation along with more flexible budgeting procedures to permit subproject implementation adjustments in response to local conditions and beneficiary inputs.

The second track will center on developing financial monitoring systems to enable provinces and municipalities to increase local revenues

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<sup>1/</sup> Phase I will be evaluated as a three-year initial effort in order to provide the basis for a Phase II funding decision. However, the PACD of the Project shall be initially set at seven years in order to allow for multi-year subprojects to be approved even in year three of Phase I.

through improved administration of local finances and collection of taxes, including real property, business, amusement, slaughterhouse, market, and other taxes.

The third track will test approaches for linking private sector beneficiary organization efforts more closely to municipal and provincial development activities related to a selected target group.

USAID and NEDA will monitor and evaluate the extent to which the three Phase I tracks are mutually supportive and reinforcing. In later phases the three tracks should come together. The pace of integration will depend on local capacities. For example, beneficiary participation in strategy formulation and subproject development should progress relatively quickly in provinces with a history of cooperative development such as in Antique. Integration of these activities in Region VIII provinces, where cooperatives and associations are less developed, may take much longer.

Phase I will require \$6.0 million in technical and financial assistance in support of these activities. These assistance resources are to be provided in a flexible way to meet needs as they are identified during pilot testing and to promote the institutional learning needed for subsequent expansion. For example, a portion of the AID loan funds will be disbursed to the GOP in the form of performance payments for the GOP's testing of planning and budgetary innovations. Performance against which initial disbursements will be made includes the preparation of sound provincial strategies, regional approval of feasible and reasonable subproject proposals, and GOP budget releases directly to the provinces for subproject implementation. Further performance payments related to these provinces will be made only if they are effectively implementing previously approved subprojects. AID will use these payments to leverage development of more autonomous and responsive systems of planning and budgeting.

Authorization for Phase II will be on the basis of Phase I evaluation findings and related recommendations. The expectation is that Phase II authorization will be delegated to the USAID Mission Director and that he will be expected to exercise such authority on the basis of this paper and the Phase I evaluations. This follows the emerging A.I.D. policy favoring simplified approval procedures and greater field authority for incremental funding of long-term programs.

*How will phase II be designed?*

Phase I will be implemented by NEDA working through its regional offices and relying on the Regional Development Councils (RDC's) and the participating provinces for the actual operations. NEDA's role will be as manager and supporter of overall development of local systems and capacities at the provincial level. The project will draw extensively on local resource institutions (private and public) to facilitate and document Phase I implementation. Initial project activities will center on three provinces, one each from Regions V, VI, and VIII, and gradually move to six provinces as experience is gained and the requisite management support systems are developed.

Evaluation is an integral and continuous function of Phase I. It will supply the information needed by project implementors and management staff for problem diagnosis, adaptation, and learning what works, what does not, and why. This information will be the basis for determining which approaches to local development are worth replicating and devising a strategy for replication in Phase II.

E. <u>Project Costs</u>	(\$ Thousand)			
	<u>AID</u>			
	<u>Loan</u>	<u>Grant</u>	<u>GOP</u>	<u>Total</u>
Technical Assistance	2,175	525	-	2,700
Training	-	170	140	310
Commodities	200	-	20	220
Research	-	320	260	580
Evaluations	-	35	-	35
Subprojects	-	-	3,250	3,250
Performance Payments	2,125	-	-	2,125
Community Projects	-	450	-	450
GOP Salaries, Allowances and Operating Expenses	-	-	870	870
<b>Total</b>	<b>4,500</b>	<b>1,500</b>	<b>4,500<sup>1/</sup></b>	<b>10,500<sup>1/</sup></b>

F. Beneficiaries

Primary beneficiaries will be the upland farmers, artisanal fishermen, and landless agricultural workers in the six participating provinces selected for targetted assistance, estimated to number 90,000 families.

G. Summary of Project Analyses

The feasibility analyses contained in Annex E and summarized in Part IV indicate that Phase I is technically, institutionally, economically, socially, and environmentally sound. Moreover, LRM is consistent with the findings worldwide as well as in the Philippines that local development projects which involve significant community participation are better designed and more likely to be sustainable than those which lack such participation.

H. Waivers

No waivers are anticipated under this project.

I. Issues

Since the PID was approved, five policy issues have been raised in connection with LRM which reflect current AID/W concerns:

<sup>1/</sup> Rounded.

1. Resource Transfer The PID proposed a \$30.5 million project over 5 years. This PP proposes a \$6.0 million Phase I, wherein assistance resources are to be used for institutional development purposes. This significant reduction in project cost reflects design considerations and a deliberate effort both to reduce AID funds earmarked for resource transfer and to reduce risk.

2. Strengthening Central Government Through Local Governments: The effect of decentralization is often to simply extend the reach of central government. LRM is concerned with enlarging the provinces' scope of discretion over centrally allocated budget resources and enabling them to increase local resource mobilization. Both Tracks One and Two are designed to assist in these areas. If successful, the effect would be to create the counterweight of an elected governmental unit to offset the strength of central line ministries.

3. Creation of New Bureaucracies: LRM has made a conscious decision to work within the existing provincial and regional administrative structure, staffing, and planning and budgeting systems to ensure project sustainability and institutionalization over time.

4. Lessons from 12 Years of Local Government Investments in the Philippines: The issue here is what does LRM propose that is different from USAID's already substantial investment in local government development. Annex C specifically documents the experience and lessons from PDAP as well as the issues which have been taken into account in the LRM design. LRM is clearly a logical next step along the path to more decentralized and responsive local development.

5. LRM as an Integral Element of the CDSS: This issue was raised during the Administrator's Country Review and the FY 1983 CDSS. The Mission views LRM, with its emphasis on provincial governments, as the horizontal underpinning to the other more vertical USAID assisted programs working through the line agencies. Section E of Part II provides further discussion on this point.

The feasibility issues raised in the PID approval cable have all been addressed in the course of project design and their resolution is reflected in the PP.

#### J. Recommendations

USAID and the GOP have collaborated closely in the design of LRM. This Project Paper, with its problem definition, analyses, and proposed course of action, is the product of that joint design effort. USAID finds the proposed project both feasible and consistent with GOP and AID priorities. USAID recommends, therefore, that \$6.0 million, including \$4.5 million in loan funds and \$1.5 million in grant funds, be made available during FY 82 and FY 83 to support implementation of LRM Phase I over a seven-year period. The GOP's official request for assistance is provided as Annex B.

## PART II. BACKGROUND AND DETAILED DESCRIPTION OF THE PROJECT

### A. Problem

This project is an outgrowth of the Mission's multi-year CDSS process. Analyses carried out in support of the CDSS have documented the pervasiveness and severity of poverty among rural residents of the CDSS regions (V, VI, and VIII), particularly among landless agricultural workers, small farmers in rainfed, especially upland areas, and traditional fishermen.<sup>1/</sup> The most critical problem these people face is their inability to find productive, full-time employment. This, in turn, is caused by rising population pressure on an eroding resource base and the inability of the country's capital intensive and urban concentrated industry to absorb excess rural labor. As the FY 84 CDSS states, "Expanding the opportunities for more productive employment is the crux of the development problem in the Philippines."<sup>2/</sup>

The Philippine Government recognizes the importance of alleviating poverty in rural areas and, in fact, for the past decade has been investing its resources in programs aimed at achieving broadly based development. Yet, while impressive gains against aggregate economic growth targets have been realized in several sectors, income distribution remains highly skewed, and the level of development of several regions, including the CDSS regions, lags far behind that of Metro Manila and the surrounding area.

### B. Rationale

The case for LRM is based upon three fundamental premises. The first is that the Government of the Philippines has a legitimate, indeed necessary, role to play in stimulating the creation of productive employment and improved welfare among the rural poor. The second is that the GOP can carry out this function effectively only if local government is given sufficient authority and has the capacity and commitment to identify and respond to the priority needs and potentials of its poor constituents. The third is that local government, in responding to these needs and potentials, must learn to act as a catalyst to create the kind of environment at the municipal and barangay levels necessary to encourage the development and expansion of economic activities led by the private sector, including the poor themselves.

Traditionally, the central government has used a markedly top-down approach in planning and implementing development programs. Insufficient attention has been paid in the process either to the wide diversity of local conditions found in a country of 7,000 islands or the need to mobilize local private as well as public resources to sustain development.

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<sup>1/</sup> There are an estimated 630,000 households in the three regions within these major poverty groups. Detailed information on their condition is provided in the USAID Poverty Profiles and CDSS's for FY 82, 83, and 84.

<sup>2/</sup> See page 13, FY 84 CDSS.

In recent years, the GOP has become aware of the need for greater decentralization of development activities. As a result, it has invested substantially in building provincial government capacities and in establishing a regional framework for guiding development. This effort began in 1966 with an AID assisted program to develop provincial capacities to effectively plan and implement infrastructure programs. By 1978 the Provincial Development Assistance Program (PDAP) had succeeded in institutionalizing the role of governor as the key executive for local development supported by a professional development staff. This was the case not only in PDAP provinces but throughout the country. (See Annex C for a full discussion of the PDAP experience and the lessons learned.) In the mid-seventies the World Bank began assisting the Government in developing regional planning frameworks and the supporting organizational structures and capacities. As a consequence of both programs, considerable capacity now exists at the regional and provincial levels to formulate and carry out local infrastructure programs and implement line agency programs. (See Annex E for an analysis of institutional capacities and planning systems.) Furthermore, the GOP is extending the regional planning process to the provincial and municipal levels, and linking it to the budget cycle.

Despite these positive moves toward greater decentralization, additional changes are necessary in order to most effectively address the pressing problem of poverty at the local level. As the PDAP experience suggests, decentralization alone does not permit development actions which are fully responsive to local needs. And while the development of infrastructure is certainly necessary, it too is insufficient to stimulate productive employment and sustainable growth.

The critical missing element in the GOP's decentralization program which this project seeks to add, is the active involvement of local governments,<sup>1/</sup> the private sector, and poverty group members themselves. Local government must engage the creative efforts and resources of people and the market place by assuming the role of development catalyst. This in turn will mean avoiding the tendency to assume that presently unavailable services or resource gaps must be met by government without first considering whether they can be met by private enterprise or private voluntary effort. Such a reorientation will require that local governments develop a greater understanding of existing resources and resource management capabilities within local communities and how they are used and learn to assist these communities in strengthening their capacities to help themselves.

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<sup>1/</sup> As applied to LRM, and unless otherwise noted, "local government" refers to both provincial and municipal governments. However, it should be understood that the principal leadership in any given province, at least initially, will come from the provincial rather than municipal government for reasons explained in the following section of this part of the paper.

LRM is designed expressly to promote such institutional development by testing and identifying more effective approaches to local development. While success in this enterprise is by no means assured, the need is so great that the attempt must be made.

C. The Provincial Focus

Project designers were faced with the basic issue of whether LRM should focus on working directly with municipal governments or with provincial governments. The choice was to work through the provincial government, with the expectation that over time the role of municipal governments in any given province would expand but not supplant that of the provincial government.

While municipal governments would at first glance seem a more logical focus for LRM, given their closer ties to the community and project beneficiaries, most municipalities at present simply do not have the minimum staff, technical competence, or access to resources needed to successfully carry out the responsibilities of local government as foreseen under LRM. In contrast, provinces, after more than a decade of PDAP efforts, are now in a position to use LRM to gain a greater measure of discretion in addressing local priorities. Moreover, the province can serve as the vertical link between the municipality and the regional government, especially by supporting municipal level development efforts and by providing an additional channel for articulating municipal priorities upward in the system. In addition, the province is well placed to improve horizontal links to line agencies, which control the bulk of development resources, and thereby, should, be able to influence these agencies' budgetary allocations. LRM's interest in expanding local government influence over the resource allocation process can best be served at the provincial level, where the governor and his Provincial Development Staff (PDS) carry considerable clout. Finally, from a project administrative viewpoint, provinces represent a more manageable number of units for LRM to work with and provide a means for reaching more municipalities than if the project attempted to work directly with municipalities.

D. Project Description

The Local Resource Management Project is Phase I of a 10-year multi-phased program designed to help local governments become more responsive to the needs of their more disadvantaged constituents. The program entails a long-term institutional development effort aimed at gradually reorienting existing provincial development capacities toward supporting the self-help efforts of specific target groups, e.g. upland and coconut farmers, fishermen, and landless rural workers. Through the development, replication, and institutionalization of innovative approaches to local development, the program will support GOP efforts to reform its policies and institutions to achieve more decentralized and locally responsive development action.

LRM will require provincial governments to move beyond their current top-down, "blueprint" approach to a more open, flexible, and adaptive mode of planning and local project implementation. The program will also promote

greater self-reliance among provincial governments by helping them increase their influence over the allocation of central government financial resources and improve their ability to effectively mobilize local financial and human resources in support of locally identified programs. In the process, provincial governments are expected to assume increasingly the role of catalyst in local development, encouraging greater participation by private business, civic, religious, and educational organizations, municipal governments, and beneficiaries at the municipal and barangay levels.

Phase I of the program initiates the process of identifying new, more responsive approaches that can be replicated and sustained over time and across different localities. It will focus on helping six provinces develop and install locally appropriate approaches to planning, evaluation, budgeting, financial administration, and beneficiary participation. Phase I will emphasize systems development and institutional learning within existing local government structures. It will entail continual experimentation, incremental adjustment, and evaluation of new approaches and processes. To support implementation, the project will rely on local private and public resource institutions to provide a combination of services involving systems development, technical assistance, and training while increasing their own capacities to better serve the country's development needs.

As local governments and other local institutions, both private and public, develop sufficient capacities and reorient their priorities more towards meeting beneficiary group needs, project activities in those provinces can move more fully into the key aspect of the process. This next stage will involve the development of full working partnerships between provincial and municipal government officials, the private sector, and members of targeted beneficiary groups. Through these arrangements, poor groups will be assisted to identify their own needs, organize for self-help action, and develop basic business skills related to negotiation, financial management, legal requirements, and other areas. By maintaining a sustained dialogue with them, provincial and municipal government officials can further assist disadvantaged groups establish priorities acceptable to them, develop appropriate initiatives responsive to these priorities, and gain access to additional resources to help them attain their objective(s).

It is assumed that the process will result in an increased use of locally available human, financial, and physical resources as evidence of local commitment, to be supplemented and complemented with additional resources available from higher levels of government, line agencies, and other organizations, including international donors. Clearly, this evolution toward a strong working partnership will move at different speeds in each province and even among municipalities within provinces. Thus, some provinces and municipalities may reach this stage by the end of financing of Phase I or early in Phase II, while others will not do so until well into Phase II or even later in the LRM program.

Phase I will require \$6.0 million in AID funds (\$4.5 million in loan and \$1.5 million in grant). Based on Phase I success, authorization will be given by the USAID Mission Director for expansion in up to an additional nine

provinces in Phase II (beginning in FY 85) at an indicative cost of \$10 million in AID funds. Funds for Phase II (and any subsequent phase) will be programmed for a suitable authorization period, thus in effect extending the overall Project Assistance Completion Date. We would propose to amend this PP to incorporate Phase II.

The project will be directed at Regions V (Bicol), VI (Western Visayas) and VIII (Eastern Visayas). One province in each of these regions will serve as a pilot province to begin developing workable systems and approaches within the existing local government structure. Selection of the first three provinces will be based in part on their governments' proven capacity and commitment to LRM concepts.<sup>1/</sup> The pilot approach will facilitate the early learning essential to expansion to other less prepared provinces. Three other provinces will be phased in as experience is accumulated, methodologies are field tested, and capacity to provide effective technical and training backstopping is developed. By the end of Phase II, up to 15 provinces in all three regions are expected to be participating fully in LRM.

Phase I assistance resources will be used to carry out activities under three discrete project implementation tracks: (1) provincial strategy and local project development, (2) local financial administration, and (3) beneficiary participation.

#### 1. Provincial Strategy and Local Project Development

This is the central component of the project. It seeks to find a workable balance between bottom-up and top-down planning processes. It proposes a focus on poverty groups as the basis for strategy development. (A poverty group is defined in terms of its size relative to the total population, the incidence of poverty within the group, and its access to land and water resources.) The strategy will be the vehicle for reorienting provincial planning toward helping people help themselves. The concept of a strategy represents an evolution over the current project listing approach. LRM's interest in supporting the formulation of a strategy is to enable provinces to explicitly define broad intervention areas in support of a target group as a framework for project identification and priority resource allocation.

LRM will enhance the capacities of the staffs of selected provinces to (a) define and manage a cost-effective and project-relevant research program to understand the problems and potentials of major target groups found in the province;<sup>2/</sup> (b) develop provincial strategies and subprojects for addressing the specific needs of selected target groups; and (c) encourage

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<sup>1/</sup> The project design team has ascertained that the government of at least one province in the three regions--Antique in Region VI--is already engaged in some of the kinds of activities that are planned under LRM.

<sup>2/</sup> Problem identification will be carried out in collaboration with target group representatives.

private sector involvement in building a healthy economic environment at local levels. IRM will be especially concerned with developing appropriate planning approaches for translating research findings and staff analysis into sensible provincial strategies for assisting selected target groups, given available resources and provincial development priorities. In support of provincial strategies, the project will encourage utilization of research institutions and available statistical and analytical information found within the region.

The capacities of provincial staffs will be expanded to develop feasible and innovative local subprojects on behalf of the province and municipalities in support of approved strategies. These subprojects will be approved against the criteria spelled out in Part V B. Given the present technical capacities at the provincial level, early subprojects are likely to involve small-scale, labor-intensive infrastructure in support of a given target group. As experience is gained, provincial subprojects should increasingly be of an employment and income generating type. Examples of the types of subprojects which IRM will support are:

- minor public works of a labor-intensive character such as wharf rehabilitation, short feeder roads, and upland trails;
- small-scale agro-industrial activities that have a low capital input such as simple food processing, agricultural implement manufacturing, building-materials manufacture, and backyard livestock raising;
- community self-help activities that require technical assistance and seed money.

Provincial staffs will be particularly encouraged to develop and test approaches which will actively involve the private sector in local development. This will include, among other things, taking an inventory of the capabilities and interests of local business concerns and service organizations and seeking ways to maximize their participation in subproject implementation. It is likely, for example, to be less costly and more stimulative to the local economy to contract with local firms for road construction and even maintenance than to have the provincial government carry out these functions. As a means of attracting new private investment to the area, it may also be appropriate to consider incentives such as tax breaks.

Subprojects during Phase I will provide the opportunity for the provincial staffs to pilot test interventions directed at supporting the selected target group. An important objective of early subproject implementation will be to learn which interventions work, which do not, and why, and build this knowledge into the development of subsequent subprojects.<sup>1/</sup> Thus, an informed trial and error approach at the outset will serve as a means

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<sup>1/</sup> The project will rely heavily on monitoring and evaluation to provide this information. Part VI, Evaluation Plan, deals with the subject in detail.

to identify weaknesses and build up provincial staff capacities in those areas through on-the-job, tailored workshops and training sessions. The subprojects will also serve to demonstrate whether the programming processes evolving from LRM result in responsive development activities.

This component will also test more flexible budgeting procedures to support local subproject implementation, in particular the allocation of central government financial resources directly to the provinces for their use in developing increasingly more innovative employment and income generating subprojects. This new GOP procedure will be a major step in devolving real authority to provinces for local development.

## 2. Local Financial Administration

This component will be concerned with developing a broad range of skills and procedures within local governments which they require in order to effectively manage financial resources. These relate to better monitoring of revenues and expenditures, establishing a sound tax base, and otherwise maximizing revenues from existing sources. For example, this component will assist provinces and municipalities in developing relatively simple procedures for forecasting revenues by major source and for comparing such forecasts with actual receipts as a basis for improving fiscal performance. It will also explore various local government credit financing schemes as a means to mobilize additional resources for local development activities. (Local governments may borrow for development needs. However, credit financing is rarely used, mainly because local governments lack information and the capacity to package loan proposals.)

LRM will also support research on local financial policies and procedures. This research will build on extensive studies undertaken by Syracuse University in collaboration with the Philippine Institute for Development Studies, the National Tax Research Center, and the Ministry of Finance.<sup>1/</sup> As policy constraints are identified, they will be documented and raised at regional and central levels of government with a view to policy and regulatory reform.

Other aspects of this component include working with provincial and municipal financial officers to develop approaches and related skills necessary to improve taxpayers' knowledge of their tax related rights and obligations, plan and implement low-cost tax collection campaigns, and effectively expand throughout the province improved systems for real property tax administration, pilot tested under the USAID supported Real Property Tax Administration (RPTA) Project. In addition, the component will deal with broadening the revenue base by improving collection of other important taxes such as those on business, amusement, markets, slaughterhouses, etc. All of these activities should lead to greater mobilization of local financial resources to support local development.

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<sup>1/</sup> See Roy Bahl et al. Strengthening the Fiscal Performance of Philippine Local Governments: Analysis and Recommendations. (Maxwell School, Syracuse University, June 1981).

Technical assistance and training will be directed at improving financial management procedures and practices tailored to the particular needs of participating provinces and municipalities. These will also include working with the Provincial Development Staff on subproject costing and other local government activities to help bring about cost savings that can further serve to increase local revenues.

### 3. Beneficiary Participation

This component will link successful private sector<sup>1/</sup> efforts in organizing beneficiaries to municipal level development activities which support provincial target group strategies. The main purpose of this component will be to test the feasibility of integrating bottom-up planning approaches with provincial and regional planning and budgeting systems. Successful approaches can then be incorporated into municipal and provincial subproject planning and implementation systems.

There are many local private sector organizations with substantial experience in community organizing activities throughout the Philippines. One study has identified approximately one thousand such entities, ranging from major national organizations such as Philippine Business for Social Progress (PBSP), sponsored by the country's leading business firms, to small organizations sponsored by local church groups that may have a staff of only two or three volunteer workers. An example of the latter is ANCORES, a diocese sponsored organization which has worked with fishermen in Antique Province (Region VI) to establish credit unions.

An important constraint to the effectiveness of these organizations is that there is no link to the government sector, the private agencies preferring almost universally to work quite independently. Consequently, most private sector efforts have had limited spread effect and only localized impact. Government, for its part, has seldom looked to these organizations as an important development resource, despite its own general lack of capacity in beneficiary organization.

LRM will provide resources to private sector organizations to test approaches for building cost-effective, collaborative linkages for development between local government and beneficiaries. The approaches should have potential for expanded application throughout each province participating in LRM. Building an effective public-private sector partnership in local development action will not be easy given the mutual suspicions involved. This effort must be considered highly experimental and requiring substantial flexibility. It will also involve developing an institutional capacity in the provinces to support extension of the approach to new communities and to other private agencies, and to facilitate transfer of experience and methods.

<sup>1/</sup> The component will rely principally on private voluntary organizations registered with both the GOP and USAID. However, other types of private sector entities such as civic and social organizations may also be involved if project implementation experience suggests the desirability of so doing.

Greater specification of project outputs and the assumptions linking outputs to achievement of the project purpose, as well as the indicators which will signal achievement of the purpose, are found in Part III A and in the Logical Framework at Annex D.

E. Relation to AID Strategy and Other Projects

The Mission's assistance strategy is aimed at generating more productive rural employment in selected regions for target groups such as upland farmers, landless agricultural workers, and artisanal fishermen. Together, these groups represent a majority of rural Filipinos. The magnitude, diversity, and location-specific nature of poverty in the Philippines suggests that local responses are needed to solve local problems.

LRM is a direct outgrowth of the Mission's strategy. It is designed expressly to help local governments in the three core CDSS regions (V, VI, and VIII) better understand and support the livelihood efforts of the identified poverty groups. It seeks to promote greater independence of action on the part of local governments to respond to local priorities at the same time as they support nationally mandated programs.

LRM is integral to the Mission's strategy. It is the horizontal underpinning to other more vertical, regionally-focussed programs that are working through the line agencies, i.e. the Rainfed Resources Development Program (RRD) through the Ministry of Natural Resources and Ministry of Agriculture and the Rural Enterprise Development Project (REDP) through the Ministry of Trade and Industry. LRM proposes to work directly with provinces through Regional NEDA and the Regional Development Councils. Line agency activities are coordinated at provincial levels by the Provincial Development Staff, with the assistance of the provincial MLG representative. Thus, LRM's assistance to provinces will help ensure more responsive programs at the provincial level. Also, as RRD, REDP, and LRM will not be relying on the same government agencies, there is no risk of overburdening regional administrative capacities.

The RRD, now in the PP design stage, is intended to increase agricultural productivity in rainfed and coastal areas through improved natural resources management and diversified technologies adapted to local needs. The site-specific agro-forestry and farming systems activities of this program will be located in the same regions as those where LRM operates. The REDP, scheduled for FY 83 start-up, seeks to develop small and medium-scale, labor-intensive private enterprises in these same regions. Both projects will be working through line agencies, which will be coordinating their efforts with many of the same provincial governments that LRM proposes to assist. Thus, LRM can reinforce RRD and REDP through employment-generating activities in provinces focussing on a common target group, e.g. traditional fishermen. Moreover, provinces carry on general development activities (e.g., provincial roads, potable water systems, minihydros) which can provide supporting infrastructure to these programs if strategically planned to do so. Likewise, RRD and REDP can provide important technical support to the provinces for

small-scale activities relating to community management of natural resources or small-scale industrial development. LRM fully intends to maximize these opportunities for mutual reinforcement.

The Financing of Primary Health Care Project (FPHC), scheduled for initial obligation in FY 83, and LRM have a direct relationship, although there is less geographic overlap. FPHC will strive for increased use of selected primary health care services on a financially viable basis. FPHC will be implemented selectively in CDSS Regions, including I and II as well as V and VI, drawing and building on lessons and experience from the integrated health-nutrition-population projects USAID is supporting in Bicol (Region V) and Panay (Region VI). The fact that both LRM and FPHC are concerned with local financial mobilization suggests opportunities for coordination. Furthermore, both projects will look to the RDC to play an active role in their implementation. Similarly, both projects will work with PVO's. Where the projects are operating in different regions, there is no immediate concern for overburdening administrative capacities. In Region V, with the ongoing Bicol Integrated Health, Nutrition, Population project, there already exists a project organizational structure that relies on the Ministry of Health rather than the Regional NEDA Office as proposed under LRM. Only in Region VI will LRM rely on the same entity as FPHC. Even there, however, the PUSH project has an established project organization and implementing capacity. LRM will have its own small staff within the NEDA Regional Office to handle LRM implementation needs and, therefore, the NEDA Regional Office in Region VI should be able to manage both projects along with the many other donor and national government programs it already effectively administers.

USAID is currently supporting local government development through several projects under both the DA and ESF accounts. These projects are briefly compared in Table 1. Annex C describes the PDAP projects which are nearing completion in more detail. Among those, the project most closely related to LRM is the Rural Service Center Project, which is assisting the governments in sixteen chartered cities to become more responsive to local needs. LRM will be drawing on relevant experiences and lessons from that project, especially with respect to local financial administration and community organization. A major difference between the two projects is that RSC is confined to the chartered cities and has developed approaches tailored to their conditions. As such, the two are complementary rather than duplicative.

Under the ESF Municipal Development Fund (MDF), USAID is assisting in building the capacities of municipal governments mainly in Region III to develop and implement local projects; hence, opportunities for sharing experiences and learning from each other exist between LRM and MDF. The MDF's geographic and municipal level focus virtually precludes duplication of effort or problems of coordination.

The newly proposed ESF Regional Development Fund (RDF) is designed to support regional and provincial development investment plans in Region III. RDF, through capital assistance supplemented with small amounts of

TABLE 1

COMPARISON OF LOCAL GOVERNMENT PROJECTS  
IN CURRENT USAID/PHILIPPINES PORTFOLIO

<u>PROJECT TITLE</u>	<u>LOP COST</u> (\$000)	<u>ACCOUNT</u>	<u>DURATION</u>	<u>FOCUS</u>	<u>GEOGRAPHIC</u> <u>COVERAGE</u>	<u>TYPE OF</u> <u>SUBPROJECT</u>	<u>TARGETTING</u>
<u>Current</u>							
Rural Roads II	35,117	DA	1978-83	province	countrywide	roads	none
Barangay Water I	6,184	DA	1978-82	province	countrywide	potable water	none
Barangay Water II	20,437	DA	1981-85	province	countrywide	potable water	none
Real Property Tax Administration	8,200	DA	1978-83	province	countrywide	tax mapping	none
Rural Service Center	1,600	DA	1978-83	chartered city	22 cities countrywide	small-scale infrastructure & income generating	depressed barangays
Municipal Develop- ment Fund	70,000	ESF	1981-88	municipality	Region III	medium-scale infrastructure	none
<u>Proposed</u>							
Regional Development Fund	45,000	ESF	1982-87	province	Regions I & III	medium-scale infrastructure	none
Local Resources Management (Phase I)	7,000	DA	1982-85	province	Regions V, VI, VIII	small-scale infrastructure & income generating	CDSS poverty groups

technical assistance, will enable provincial governments in the vicinity of U.S. military facilities to accelerate local development based on current planning approaches and project development capacities. RDF and LRM are quite distinct, though both projects adopt a provincial focus. First, they will be implemented in different regions. Second, they have different lead agencies (i.e., NEDA for LRM, MHS for RDF), although both will rely on the RDC. Third, LRM is taking on the more ambitious task of institutional development needs of the province toward more targetted projects directly in support of people's self-help efforts. The two projects stand to benefit from exchange of information and comparison of approaches, but there need be little concern for duplication or problems of coordination.

#### F. Relation to Other Donor Activities

The only major donor project that relates directly to LRM is the UNDP/IBRD Assistance in Regional Planning Project, now in Phase III. The overall objective of the current phase is to assist the Government through the NEDA in strengthening and institutionalizing the activities associated with the regional planning assistance effected in earlier phases. Phase I focussed on the formulation of an interregional development framework and regional development plans. Phase II directed efforts toward the implementation of the regional development plans through the formulation of the regional development investment programs (RDIP's).

Phase III is further strengthening the regional planning and development institutions with emphasis on NEDA, particularly the regional offices which serve as the executive arm of the Regional Development Councils. The planning and implementing capabilities of both the national line agencies and local governments in the regions are being strengthened at the same time.

In addition to institutionalizing the RDIP and its link to the regional budgeting process, Phase III includes three other components that are particularly relevant to LRM: (1) development of a regional project monitoring system (RPMS); (2) establishment of an Integrated Regional Information System (IRIS); (3) Project Development Training.

The RPMS has been pilot tested in three regions including Region VI and is ready to be installed in the other regions. It is designed to monitor the implementation of regional as well as local projects contained in the Regional Development Investment Plan and those developed under the Kilusang Kabuhayan at Kaunlaran, or National Livelihood Movement. As such, it offers a ready system for LRM to adapt to the monitoring needs of local governments for their subprojects.

The IRIS is being pilot tested in three regions including Region VI. Its main purpose is to establish an integrated regional information system throughout the country which will generate and store at the regional

level information on conditions at the local level for purposes of planning, monitoring development activities, and regional policy decision making. LRM plans to link into this information system as part of generating provincial and regional data on poverty groups for provincial strategy formulation and on local government revenues and expenditures.

The Project Development Training has been aimed at the NEDA Regional Office and regional line agency staffs and has prepared them in turn to provide training in project development to local government staffs. LRM implementation stands to benefit directly from this capacity and some of the project development materials.

For further details on Phase III refer to Annex G.

LRM will rely heavily on the regional machinery and capacities developed under the UNDP/IBRD project. LRM will also directly complement the project in two ways: First, by working with provinces in ways that can help better link provincial planning to the RDP/RDIP process. Second, by developing targeted planning approaches to supplement the sectoral and integrated area framework institutionalized under the UNDP/IBRD project. Close coordination between the two projects is assured by the fact that they will be administered by the same Project Executive and Deputy Executive Director within NEDA (see Part V for LRM Organization).

### PART III. INPUTS AND FINANCIAL PLAN

#### A. Budget Summary

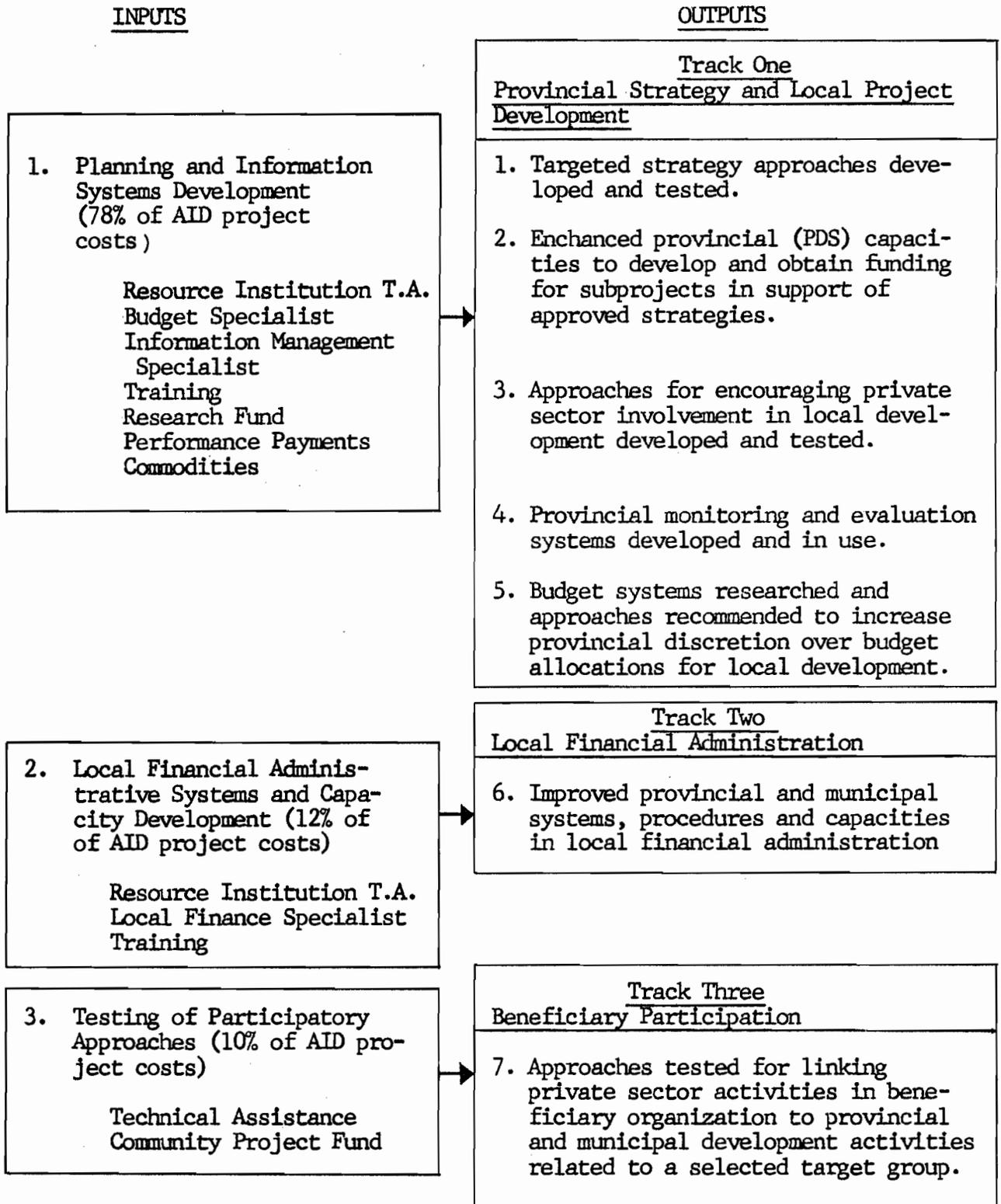
AID funding of \$6.0 million is proposed in support of Phase I of the LRM program. A loan of \$4.5 million will finance technical assistance, commodities, and payments to the GOP for satisfactory performance in the testing of planning and budgetary innovations. A grant of \$1.5 million will finance technical assistance, training, research, evaluations, and community projects. AID's share of the total Phase I project cost of \$10.5 million is 57 percent.

The GOP contribution of \$4.5 million will finance training, commodities, research, provincial subprojects, and compensation of government personnel and other operating expenses. Included in this figure is \$0.5 million to be provided by provincial governments.

LRM will rely on a mutually reinforcing set of inputs to deliver the planned outputs. Figure 1 illustrates the relationships between these inputs, grouped by functional category, and the outputs, grouped by project track. Table 2 provides Phase I costs of the functionally grouped inputs by source of funds. Table 3 provides the AID portion of Phase I costs by technical input and FX versus LC financing.

FIGURE 1

INPUT-OUTPUT RELATIONSHIPS



**TABLE 2**  
**PHASE I BUDGET BY SOURCE OF FUNDS<sup>1/</sup>**  
(\$ Thousand)

Functional Category	AID			GOP			Total All Sources
	Loan	Grant	Total	Central Gov't.	Provincial Gov't.	Total	
<u>Planning and Information Systems Development</u>	3,830	865	4,695	3,860	375	4,235	8,930
1. Technical Assistance	(1,505)	(375)	(1,880)	-	-	-	(1,880)
2. Training	-	(135)	(135)	(105)	-	(105)	(240)
3. Commodities	(200)	-	(200)	(20)	-	(20)	(220)
4. Research Fund	-	(320)	(320)	(260)	-	(260)	(580)
5. Subprojects	-	-	-	(3,035)	(215)	(3,250)	(3,250)
* 6. Performance Payments <sup>2/</sup>	(2,125)	-	(2,125)	-	-	-	(2,125)
7. Evaluations	-	(35)	(35)	-	-	-	(35)
8. GOP Salaries, Allowances, and Operating Expenses	-	-	-	(440)	(160)	(600)	(600)
<u>Local Financial Administrative Systems and Capacity Development</u>	670	35	705	145	95	240	945
1. Technical Assistance	(670)	-	(670)	-	-	-	670
2. Training	-	(35)	(35)	(35)	-	(35)	(70)
3. GOP Salaries, Allowances, and Operating Expenses	-	-	-	(110)	(95)	(205)	(205)
<u>Testing of Participatory Approaches</u>	-	600	600	-	65	65	665
1. Technical Assistance	-	(150)	(150)	-	-	-	(150)
2. Community Project Fund	-	(450)	(450)	-	-	-	(450) <sup>3/</sup>
3. GOP Salaries, Allowances, and Operating Expenses	-	-	-	-	(65)	(65)	(65)
<b>TOTAL</b>	4,500	1,500	6,000	4,005	535	4,540 <sup>4/</sup>	10,540
<u>% of Project Cost</u>	43	14	57	38	5	43	100

1/ Includes 10% contingencies and 10% compounded annual inflation factor.

2/ Support for satisfactory performance by central and provincial governments in testing planning and budgetary innovations is based on capitalization by the central government of provincial accounts for subprojects.

3/ At least 25% of the cost of community projects must be contributed from other than U. S. Government sources. This is in addition to the amount shown here.

4/ Made up entirely of GOP appropriated pesos.

TABLE 3  
PHASE I  
AID PORTION OF COSTS  
(\$ Thousand)

Technical Input	Loan			Grant			Total			Percent of Costs
	FX	LC	Total	FX	LC	Total	FX	LC	Total	
Technical Assistance	570	1,605	2,175	-	525	525	570	2,130	2,700	45
Training	-	-	-	40	130	170	40	130	170	3
Commodities <sup>1/</sup>	140	60	200	-	-	-	140	60	200	3
Research Fund	-	-	-	-	320	320	-	320	320	5
Performance Payment	-	2,125	2,125	-	-	-	-	2,125	2,125	35
Evaluations	-	-	-	10	25	35	10	25	35	1
Community Projects	-	-	-	-	450	450	-	450	450	8
Total	710	3,790	4,500	50	1,450	1,500	760	5,240	6,000	100

<sup>1/</sup>The Commodity Procurement Plan, including the commodity list, is provided as Annex I.

B. Allocation of Subproject Funds Among Provinces

The allocation of subproject funds among participating provinces will be on the basis of indicative planning levels established each year by NEDA. The provinces will develop their annual program plans against these levels. The indicative allocations will be based on three criteria: a) need, defined in terms of family income, b) the amount of financial assistance being provided through foreign donor assisted programs and c) the level of effort made by local government to raise tax revenues for local development. Annex H discusses a provincial allocation formula which might be used to incorporate these criteria. During the course of project implementation, other means of building in incentives for provinces will be tested. One possibility would be to award higher indicative planning levels to those provinces submitting especially good poverty group strategy documents to the RDC. Quality would be judged based upon the criteria discussed in Part V, Section B.

The amount of subproject funds from the central government actually released to a given province each year will depend upon its capacity to develop feasible, cost effective, poverty group-focused subproject proposals whose aggregate cost approaches the previous year's NEDA approved indicative planning level (reflected in the GOP annual appropriations act). Any part of the annual planned funding level for which the province does not provide acceptable subprojects will become available for reprogramming into another province's portfolio. The additional funding will be assigned to a different province whenever: a) estimated life of project costs of all subprojects in that province's portfolio exceed the indicative planning level; and b) financial and program related evaluations indicate that subproject implementation in that province is proceeding satisfactorily. The RDC will have the authority to reprogram funds in this manner whenever the "donor" and "recipient" provinces are located in the same region; NEDA central when reprogramming is possible only between provinces in different regions.

Finally, the RDC will review progress in implementation of each ongoing LRM subproject, especially those spanning more than one year. Where implementation is lagging, annual funds release requests may be reduced from planned levels; where it is exceeding planned rates, such requests may be increased.

C. GOP Funds Release Mechanism and Accountability Requirements for Subprojects

GOP funds for subprojects will be released once a year. Each qualifying province will receive an allotment equal to the estimated combined costs of all approved subprojects over the next twelve months.

The trigger mechanism for release of these funds will be a request made by the RDC to the Office of Budget and Management (OBM) which includes a certification that the new subprojects for which funding is requested meet established criteria (discussed in Part V, Section B). The OBM will release pesos through the Bureau of Treasury directly to the province for deposit into

special subproject accounts administered by the provincial treasurer. Through this procedure, which is similar to that used in releasing internal revenue allotments to local government units, the OBM will transfer all control over and responsibility for these funds to the province and will require no further documentation concerning their use. The provincial treasurer, provincial auditor (who is the representative of the GOP's Commission on Audit) and ultimately the governor will be responsible for ensuring that subproject funds, including the province's own contributions, are used efficiently and for the proper purposes. A regular reporting system will keep Regional NEDA informed as to the utilization of subproject funds as a further check on accountability. This will include ensuring that the province meets its own obligations for subproject funding contributions. As lead agency, NEDA will be able to take corrective action through the RDC, its own persuasive powers, and ultimately through control over next year's subproject funding approval process.

D. AID Disbursement Procedure and Accountability Requirements for Testing of Planning and Budgetary Innovations (Performance Payments)

Disbursements of dollars from the "performance payment" budget line item under Planning and Information Systems Development (Table 1) will be keyed to satisfactory performance by the GOP. One element of performance will be the capitalization of a subproject account in the national budget, and dollar disbursements will be based on disbursements of GOP appropriated pesos from this account. During the first year of subproject implementation, what AID "purchases" in effect will be provincial poverty group strategies, annual program plans, and subproject proposals--all consistent with the criteria discussed in Part V, Section B--and the actual release of central government revenues to the provinces for their use in implementing subprojects approved under the new trial system. In addition, AID obtains initial evaluations of the effectiveness of these activities in benefiting targeted poverty groups. Thus, each AID disbursement for this element of the project will be an expenditure and not an advance. After the first year, AID will also disburse against these performance outputs or actions relating to provinces being newly inducted into the project, but will make further disbursements relating to provinces already participating in the project only if the evidence indicates that they are effectively implementing subprojects initiated the previous year. Thus, AID will reserve the right to reduce or stop new disbursements relative to performance of a particular province if it is doing a poor job of managing its ongoing LRM subprojects. On the other hand, AID will not require a financial accounting of subproject costs already incurred since the GOP, not AID, is paying for subprojects.

The type of performance to which AID will tie its disbursements for testing of planning and budgetary innovations does not lend itself to the Fixed Amount Reimbursement (FAR) procedure. While the FAR approach is appropriate for projects through which AID finances "blueprint" outputs such as buildings and roads and where local resources are available for full front end financing, it is not suitable for such projects as LRM where the outputs are less tangible and not definable in advance, where local resources are not

available for full front end financing and, most importantly, where the emphasis is on experimentation, institutional development, and policy change. ?

As for the actual mechanics of dollar disbursements, USAID will disburse annually and on the basis of national/provincial performance relative to each province participating in the project. Prior to the first year's disbursements for performance payments related to a given province (subproject implementation will begin in 1984), AID will require evidence that the GOP's LRM review and approval process for the provincial strategy, annual program plan, and first round of subproject proposals has been completed and that appropriated pesos for approved subprojects have been released by the OBM and duly deposited in the province's special accounts for LRM subprojects. In addition, USAID will review the province's initial strategy to ensure that it is consistent with the approval criteria discussed in Part V, Section B.2. The same general procedure will be followed in the province's second year of subproject implementation with the exception that no further AID review of the strategy will be required. USAID will rely on the project's monitoring and evaluation system and the RDC's review of subproject implementation progress during the past year to determine the level of dollar disbursements for the coming year.

It is estimated that during Phase I, AID will disburse in dollars for performance payment the equivalent of about 70% of the total peso releases by the central government for subprojects. This, in effect, will be the sum of the amount of dollars in all of the annual, province-specific AID performance payment disbursements, since each will equal the equivalent of 70% of the annual peso releases by the OBM to the province. For example, if the OBM releases the peso equivalent of \$250 thousand in 1984 to Antique province for subproject implementation, AID will then disburse about \$175 thousand to the Bureau of the Treasury, assuming that all performance requirements have been met up to that point.

#### E. Sustainability of Recurrent Costs and Post LRM Funding

As LRM activities expand over time, additional financial resources will be required to administer the program and to finance the costs of subprojects. Possible sources of these funds include a) AID or other donors; b) the national GOP (through allocation of additional budgetary resources or reallocations from other local development activities); c) local governments (through increased tax and other local revenues); and d) beneficiary groups (through income generated from subprojects). Additional resources from the latter two sources should, in fact, be a direct outgrowth of the program.

The replicability and sustainability of LRM will depend ultimately upon demonstrating to funding sources, i.e. the GOP and foreign donors, that the targeted, participatory approaches to planning and investment at the local level are less costly and more effective in achieving development objectives than the current non-targeted, largely non-participatory approaches. It is reasonable to expect this to be the case, given the probabilities that a) relatively low cost subprojects will be the general pattern under LRM,

b) low costs per beneficiary will be achieved, c) subprojects will be better designed to take into account local conditions, and d) subprojects will generally involve more beneficiary group participation. It is nonetheless true that the LRM approaches are innovative, untried, and therefore are riskier than conventional approaches. For this reason both AID and the GOP are limiting their firm commitments in terms of resources, geographic coverage, and time until evaluations indicate that the new approaches are better than the old in reaching the most difficult groups to serve through development programs.

#### PART IV. SUMMARY OF FEASIBILITY ANALYSES<sup>1/</sup>

##### A. Technical Consideratons

LRM institutional development efforts build upon prior GOP investments and experience in strengthening provincial and regional capacities for undertaking expanded, targeted development programs. LRM plans to use these capacities and to rely primarily on existing organizations and staff for its implementation. The project does not intend to introduce structural changes or develop new production-oriented technology, but will introduce tested technologies as appropriate. The project proposes to develop and test more responsive approaches to local development requiring a reorientation of current local government planning, new skills in poverty analysis, and new management techniques.

##### 1. Assessment/Description of Regional and Provincial Planning Mechanism

The current regional and provincial planning mechanism dates back to the 1972 Integrated Reorganization Plan (IRP), which provided for (1) establishment of regional field organizations of ministries providing field services, and (2) establishment of Regional Development Councils (RDC's) in each region with responsibility for coordinating regional and local government activities and preparation of annual and long-term plans.

In 1974-75, the NEDA Regional Offices (NRO's) were established as the full-time technical staff of the RDC's. In 1976, the NRO's began to develop the first five-year Regional Development Plans (RDP's). The RDP's are designed to analyze the development problems and potentials of the various regions and provide profiles of resources, economic development, and social conditions. The Regional Development Investment Plans (RDIP's) contain a listing of priority programs and projects to be undertaken to implement the RDP's. To date, the focus of the five-year plans has been on planning of public investments which are primarily of an infrastructure nature and under the direct control of the government ministries.

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<sup>1/</sup> See Annex E for a more detailed discussion.

The Municipal Local Development (Town) Plan is the basic document from which provincial development program plans should be derived. In practice, however, the municipal level plans are generally poorly done for lack of planning staff in the municipalities. In the absence of adequate plans, the Provincial Development Staff (PDS) meets regularly with municipal officials to reach a consensus as to what can and cannot be done with available financial and staff resources. These mostly informal consultations are the basis for the preparation of the Provincial Development Investment Plan (PDIP), which sets forth the long-term planning framework for the province. The PDIP follows the RDIP in structure, analyzing development problems and potentials and proposing projects for funding. The PDIP is submitted to the RDC and forms the basis for the RDIP.

The quality of the regional and provincial plans is a function of the experience and training of the staffs of the Regional NEDA and the PDS's and their success in coordinating or drawing in the assistance and resources of the line agencies. In general, RDIP's and the PDIP's have reflected line agencies' priorities, which may or may not correspond to priorities of the intended beneficiary groups.

Inclusion of LRM strategies, programs, and targeted subprojects in RDIP's and PDIP's will require a planning reorientation, training, and other technical assistance. The LRM project will provide these inputs and will also finance management and planning services through the resource institutions for strengthening provincial planning and its link to the regional planning exercise.

There is abundant evidence from the PDAP and Special Projects (especially RSC) experience to show that local governments, given the proper training, guidance, and financial support, can successfully undertake LRM strategizing, program planning, and subproject development.

## 2. Assessment of Financial Administration and Budgetary Procedures

Many fiscal reforms have been enacted to guarantee and promote autonomy of local governments by giving them the power to create their own sources of revenue and to levy taxes. However, improvements in local governments' financial administration and devolution of budgetary authority have been disappointing. Since the majority of local government expenditures are mandated, there is little incentive for local governments to increase their own taxing efforts. Revenue sources of provinces and municipalities are not being fully tapped and local government officials are not fully aware of the authorities granted to them under the law. Much of the problem stems from the lack of technical know-how, insufficient tax information or, in general, weak financial administration.

Syracuse University studies on Philippine local government finance concluded that three kinds of changes are necessary: The most important is to increase the incentives for local governments to mobilize more resources. A second is to give local governments some additional latitude in their fiscal

decisions, thereby increasing their accountability as well as their autonomy. The third is to increase the flow of resources and technical assistance to the local level. The Syracuse study also recommended reforms in three important areas:

- improvements and changes in the allotment system;
- institution of a credit financing schemes<sup>1/</sup>; and
- less mandating of local government expenditures.

With MOB assistance, LRM plans to work through the existing regional budgetary system. It will explore various alternative procedures such as an annual budget release direct to the province. MOB and MOF agree that this procedure should be tested as an alternative to the current restrictive quarterly release mechanism, which does not allow provinces to work at their own pace.

LRM also plans to address the problems identified above through improvements in local financial administration (capacities and procedures) and by sponsoring analysis of policy issues that constrain local governments' capacity or create disincentives to mobilization of local financial resources. It should be noted that the RSC project has been able to work successfully with city governments in developing better financial procedures for administration. These procedures should also generally apply to provinces and municipalities, and such technical assistance at the local and central levels needs to be continued.

#### B. Institutional Considerations

Traditionally, power and authority have been concentrated in the central government. However, GOP policy and plans give evidence of a genuine attempt to devolve authority and control to the subnational level. Already, regionalization efforts include institutionalizing the Regional Development Councils (RDC's) and involving provinces in the identification of development priorities under the regional development planning process.

Actual devolution of authority has been slow, however, as there are still strong pressures to retain centralized authority over the planning process and use of budgetary resources. Achieving acceptance of such notions as poverty group involvement in development planning will require time and commitment at all levels of government. Moreover, initiators of bottom-up decision-making approaches through LRM or similar programs must guard against instituting systems and processes that can become subject to central control by the implementing agency in Manila or even by the RDC.

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<sup>1/</sup> Systems and processes for local governments to borrow for financing local development activities.

1. NEDA as the Lead Agency for LRM

NEDA is the central agency for national development planning and is responsible for coordination of LRM program implementation. NEDA has gained considerable experience and capacity in planning and in the coordination of local government activities through its regional offices. NEDA's leadership position as the central planning body of the government and, at the regional level, as the executive arm of the RDC makes it a natural lead agency for the implementation, maintenance, and promotion of LRM. NEDA is also in a key position to facilitate and mobilize support and resources from national line agencies.

LRM administration and implementation, including subnational planning, will be carried out through several existing NEDA structures. The proposed LRM organization will not require a major reorganization or much new staffing. It will be necessary to add planning specialists with analytic skills and graduate training in the social sciences at both the national and regional levels, but all other planning areas are now within NEDA's scope and staffing. The NEDA units will be supported by resource institutions which will assist in such areas as poverty group planning and process documentation. An important management tool will be LRM's continuous evaluation (i.e., the monitoring, evaluation, process documentation feedback system) which will keep the pulse of field operations and signal problems that need corrective action. This evaluation and monitoring system will strengthen NEDA's capacity to plan and replicate LRM approaches over the long term.

2. Regional Development Council

Regional Development Councils (RDC's) have been established to coordinate the implementation of policies, programs, and projects in the regions. The RDC structure provides an ideal decentralized mechanism for linking national line agencies, councils, boards, and authorities working at the subnational level with local governments and the beneficiaries at the municipal and barangay levels.

The RDC organizations vary in strength and cohesiveness, owing to (a) the uneven development within the regions, whereby one or two provinces may dominate the regional economy, and (b) personal influence of local officials at national ministerial levels or with the Office of the President, which tends to subvert the process of working through the regional structure. Consequently, LRM will need to deal with each RDC on a case-by-case basis, providing more attention to those with less capacity. Procedures and responsibilities of the RDC under LRM have been carefully spelled out in the implementation plan (Part V), which includes specific criteria for approval of strategies, plans, and subprojects. The discipline, technical assistance, and added authorities provided through LRM (e.g. control of LRM subprojects) should strengthen the RDC's over the long term.

Concern has been expressed by the project designers with respect to the RDC's ability to secure cooperation and coordinate national line agencies which operate with a separate budget not under RDC control.

However, the Ministry of Budget's decision to have line agency budgets reviewed by the RDC at the regional level promises to give the RDC an opportunity to increase its stature and influence. The presence of the office of the NEDA Regional Director as the principal executive arm of the RDC with direct linkage to the influential National NEDA should also serve to secure cooperation by line agencies. There will be need for national and regional LRM management and technical staff to carefully orient and continually consult with line agencies on LRM concepts and proposals so as to insure understanding and to avoid conflicts, but most importantly, to secure the line agencies' technical and financial support for provincial strategy implementation.

### 3. The Provincial Government

The role of the provincial government in LRM will be crucial since the province will have primary responsibility for planning, implementing, monitoring, and evaluating all local activities under the project. Moreover, the province will act as the principal communications link between the RDC and the municipalities.

Two factors are key to a province's success in carrying out its responsibilities under the project. The first is the commitment of the provincial governor to the underlying LRM philosophy. The second factor is the quality, commitment, and experience of the Provincial Development Staff (PDS) responsible for most subproject implementation. The governors and their staffs interviewed during the design of LRM were very receptive and enthusiastic about the project, since their provinces stand to benefit in terms of having more financial resources available to support locally identified development activities. LRM also gives governors the opportunity to strengthen their political base and staff capacities.

There is ample evidence that many but not all provinces have the basic competence to participate successfully in LRM. PDAP provinces, for example, appear generally to have the requisite capacity. Provinces such as these, with strong PDS's, should have little difficulty in expanding their coverage to LRM activities. Other provinces, whose capacities range from good to poor, will require strengthening through LRM technical assistance and training before they will be ready to undertake the kinds of activities planned under LRM.

### 4. The Municipality

Under Part II B, Rationale, it was noted that most municipalities presently do not have the capacity to carry out major planning and implementation responsibilities under LRM. Therefore, LRM will not work directly with the municipalities; rather, LRM will work with municipalities through the province. The project designers recognize, however, that municipal (rather than provincial) officials must be primarily responsible for establishing an environment conducive to local development, given that all development activities take place at the municipal level and that the linkage to the beneficiaries of government programs is through the municipality. Accordingly, the mayor, municipal development council, municipal development

staff, and barangay officials of selected LRM municipalities (having large concentrations of the target group), working with the PDS and local private sector organizations such as PVO's, will be encouraged and trained to act as facilitators and ombudsmen for their poverty groups. During the project course, the project will seek to strengthen the municipalities to take on a more direct role in managing their own development.

### C. Economic Analysis

The ILO study in 1974<sup>1/</sup> laid the analytical basis for subsequent development planning in this country and emphasized the overriding importance of rural mobilization and employment generation. The first World Bank "Basic Report" on the Philippines,<sup>2/</sup> noted, in turn, that "the shortage of trained personnel in local and municipal governments, their lack of financial resources, and their limited expenditure powers have been important constraints to development".

The FY 82, 83 and 84 CDSS's describe an assistance strategy that will support the generation of more productive employment for poor groups in rural areas as the key to poverty alleviation. This requires the creation of more jobs, the promotion of higher productivity in existing jobs, and the long-run reduction in the rate of growth of the labor force to reduce the competition for jobs. USAID is currently working actively with the GOP to design projects against this poverty strategy.

A considerable amount of public and private investment and improvement of public services in rural areas will be required before these poverty oriented activities can successfully attain their goals. Without initial public investments and improvements in local government capacity to plan and manage basic infrastructure and public service facilities, the efficiency of all other economic activities will remain low and private sector investors will go elsewhere (or stay in Manila). Such locally specified infrastructure and service delivery capacity needs to be further developed through LRM and other development programs.

LRM's development of better local government planning, administration, and financial management should have a significant impact on all other public and private sector activities. For example, LRM's capacity building approach will include provision for training and technical assistance in the analysis and consideration of economic and financial, as well as social and

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<sup>1/</sup> International Labor Office (ILO), Sharing in Development, A Programme of Employment, Equity and Growth for the Philippines, ILO and NEDA, Geneva and Manila, 1974.

<sup>2/</sup> World Bank, The Philippines, Priorities and Prospects for Development, Washington, D.C., 1976.

environmental and other feasibility issues. In addition, its institution building thrust and improved planning and analysis activities represent a cost-effective approach to support and encourage more efficient investments also stimulating more productive employment for specific poverty groups. This improved efficiency will also impact on other USAID related investments, e.g. Rural Private Enterprise Development and Rainfed Resources Development, which also offer potential for enhanced income and employment .

Each LRM subproject will have to be justified on either economic cost-benefit or cost effectiveness grounds, and this justification will be carefully reviewed prior to subproject approval by the RDC. Such economic feasibility analysis will also be used to screen alternative subproject proposals for priority funding selection.

The USAID-funded Economic and Social Impact Analysis/Women in Development (ESIA/WID) Project has provided experience and laid the groundwork for better analysis. The ESIA/WID project has worked in Region VI, developing suitable methodologies for impact assessment and testing the administrative feasibility of using them at the regional and local levels. This experience will be utilized and expanded to other regions.

#### D. Social Soundness Analysis

##### 1. Beneficiaries

Potential direct beneficiaries of this program are the more than 630,000 poor families living in Regions V (Bicol), VI (Western Visayas) and VIII (Eastern Visayas). In Phase I beneficiaries will be residents of six provinces, representing an estimated 90,000 families (more or less depending on the provinces and target groups selected). Direct beneficiaries can be divided into four major poverty groups: landless laborers, upland farmers, subsistence fishermen, and coconut farmers.

LRM aims to improve the living conditions of these direct beneficiaries by (1) improving their access to and effective utilization of their respective resource bases; (2) expanding their employment opportunities, both primary and supplemental; and (3) increasing their access to certain basic social services (e.g., water, sanitation, education).

In addition, the project has several hundred indirect beneficiaries. These are primarily the numerous provincial and municipal officials who will receive training under the project to (1) undertake poverty-group focused socio-economic research; (2) identify and understand existing constraints to increasing income, employment, and well-being; and (3) plan, design, and implement local development projects which benefit the target group.

In terms of addressing rural poverty in the Philippines, a project like LRM is long overdue. Evidence from several sources shows clearly that disparities in rural income distribution are increasing despite fairly

intensive efforts in the countryside. LRM is expected to have significant impact on the development policy and performance of local government and over time should improve the conditions of the rural poor.

## 2. Socio-Cultural Feasibility

All LRM subprojects will be subjected to the usual social soundness analysis during subproject development to ensure their feasibility within the local socio-cultural context. For subprojects developed at the community level using a participatory development approach, tests for social soundness will be minimal because the beneficiaries themselves, with the assistance of PVO's and other change agents, will have identified and planned the projects that will benefit them. Experience from the USAID-assisted Rural Service Center (RSC) project shows that when target beneficiaries are involved in the development process, projects are generally sociologically sound.

Social soundness criteria for projects identified and designed by provincial officials will, by necessity, be more stringent. These subprojects will have to be in accordance with the province's poverty group strategy, insure that benefits reach appropriate poverty groups, and be compatible with the local social and cultural system.

Although provinces have not had much exposure to social feasibility studies, experience with the RSC project leads us to expect that with training, guidance, and experience, the PDS will be able to undertake necessary social feasibility studies. NEDA management and technical staffs, as well as the various resource institutions, will be available to assist the PDS in these social soundness analyses.

Participation--especially in the design and planning stage of the project--will foster a sense of ownership, vested interest, and responsibility in the beneficiaries. People will tend to view a particular project as their own and will feel they have a personal stake in its success or failure. This attitude should ultimately result in successful and sustainable development projects.

LRM's focus for subproject activities is the household. Thus, although women will not be singled out for special attention, they will participate as members of the household. Their role in LRM subprojects should be significant since Philippine culture allows for and to some extent requires their active involvement in economic life. For example, when men are in the field, women are often sent as the household's representatives to village assemblies. In addition, women contribute their labor in income generating activities and often manage the household's finances. As such, women can also be expected to carry out such important functions in LRM subprojects.

There should be a spread effect from one locality to another. As rural people view the successes of the participatory development process in neighboring villages, they, too, will want to join in the program. Also, as provincial and municipal development staff personnel learn from training and

experience, thereby gaining greater confidence in their skills and abilities, it is expected that their attitudes will change toward bottom-up, participatory development. This should also become manifest in other, non-LRM types of development activities.

LRM should generally have a positive impact on low household income, unemployment and under-employment, and disparities in income distribution since LRM demands an explicit identification of the largest or most important groups of poor, plus a thorough understanding of the problems facing these groups, and forces provincial governments to direct a share of their development efforts and resources toward assisting the rural poor in their area.

There is sufficient evidence both worldwide and in the Philippines<sup>1/</sup> to show that a bottom-up, targeted approach to local development is not only feasible but is generally more successful in terms of appropriateness and sustainability. Analyses of the reasons for project success reveal that community participation in the form of implementation decision making and commitment of labor and cash to the project is a critical factor.<sup>2/</sup> Evidence concerning the success of the bottom-up, targeted approach in the Philippines is provided in Annex C.

#### E. Environmental Analysis and Review Procedures

##### 1. Environmental Impact of the Project

In general, the project and its subproject activities are unlikely to have significant direct environmental impacts. Subproject activities will be modest in size, usually well under \$100,000.

The project, however, does have potential for significant but indirect positive environmental effects. The project will be able to tap the resources of national line agencies and companion AID projects, such as the Rainfed Resources Development Project (RRD). Under RRD, environmental management expertise will be available to the regions. LRM also will make available resources for specialized technical assistance and can provide local level training in environmental management.

<sup>1/</sup> See Gelia T. Castillo, Beyond Manila, Philippine Rural Problems in Perspective, International Development Research Center, Ottawa, 1979.

<sup>2/</sup> Elliot Morss et al., Strategies for Small Farmer Development: An Empirical Study of Rural Development Projects, prepared for U.S. Agency for International Development (Washington, D.C.: 12975); Norman T. Uphoff and Milton J. Esman, Local Organization for Rural Development: Analysis of Asian Experience (Ithaca, N.Y.: Cornell University Press, 1974).

## 2. Environmental Analysis Procedure

Environmental soundness will be a part of subproject feasibility assessment, monitoring, and evaluation. The proposed procedure is simple, since elaborate environmental analysis and review procedures would be inappropriate to the small subproject and few, if any, of the small subproject activities are likely to merit extensive review. Nevertheless, a check system for environmental safeguarding should be maintained.

Each subproject proposal will thus be subject to the following procedure:

a. The RDC, in consultation with NEDA technical staff, will determine whether or not the proposed subproject would have a potentially significant adverse environmental impact.

b. If a significant potential environmental impact is determined, USAID will be notified, along with the appropriate GOP agencies.

c. The NEDA technical staff, in consultation with the USAID Environmental Officer, will decide what, if any, additional environmental evaluation efforts are necessary, such as the preparation of a full Environmental Assessment. The Project Officer then would notify the Regional Environmental Officer of this decision.

Use of these last two steps is not anticipated under the LRM Project. However, the pre-establishment of the procedure, and its inclusion in the project agreement, should preclude any problems later on.

## 3. Monitoring and Evaluation

Environmental impact will also be included as one of the criteria in all official reviews of the project. In addition, the Project Officer will invite the Regional Environmental Officer to examine the project within approximately one year of its initiation to review progress and possible revision of procedures.

## PART V - SUMMARY OF IMPLEMENTATION PLAN<sup>1/</sup>

### A. Institutional Arrangements for Implementation

LRM implementation procedures emphasize:

1. Working through existing organizational structures for planning and implementation.
2. Working in consonance with GOP regionalization policy.
3. Reliance on existing provincial capacities.

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<sup>1/</sup> See Annex F for a more detailed discussion.

4. Local mobilization of private and public sector resources.
5. Continuous self-evaluation based on intensive monitoring.

Assessments indicate that there is considerable capacity at the regional and provincial level to implement and manage LRM activities. However, working with targeted approaches differs fundamentally from employing the traditional non-targeted approaches, and most provinces will be called upon to perform distinctive and often unfamiliar roles in planning and implementation efforts. The new skills and orientation required to put the new approaches into effect will be products of formal training, the experience gained from project implementation, and technical assistance.

Pre-implementation activities will be scheduled for each province selected for participation. These will include orientation of local officials to their roles, tasks and responsibilities, preparation of work plans, mobilization of staff, etc.

The following summarizes the functional responsibilities of key implementing and support entities<sup>1/</sup> and technical assistance requirements.

1. The Lead Agency (NEDA Central and Region)

The Director for the Project will be assisted by LRM project staff drawn mostly from existing NEDA offices who will serve as the central management and technical staff unit for LRM administration and coordination of all activities across the three participating regions. NEDA regional staffs will function in much the same manner as the central management unit but will operate across provinces. NEDA will coordinate field activities, including those related to technical assistance, research, training, monitoring and evaluation, and replication of tested approaches. (See Figure 2 for the LRM Organizational Diagram.)

A key function of NEDA as it works with the RDC's will be to assist provinces to coordinate actions of national agencies and local government institutions which cut horizontally and vertically. Another will be to establish institutional arrangements, systems, and processes for encouraging private sector involvement in development activities.

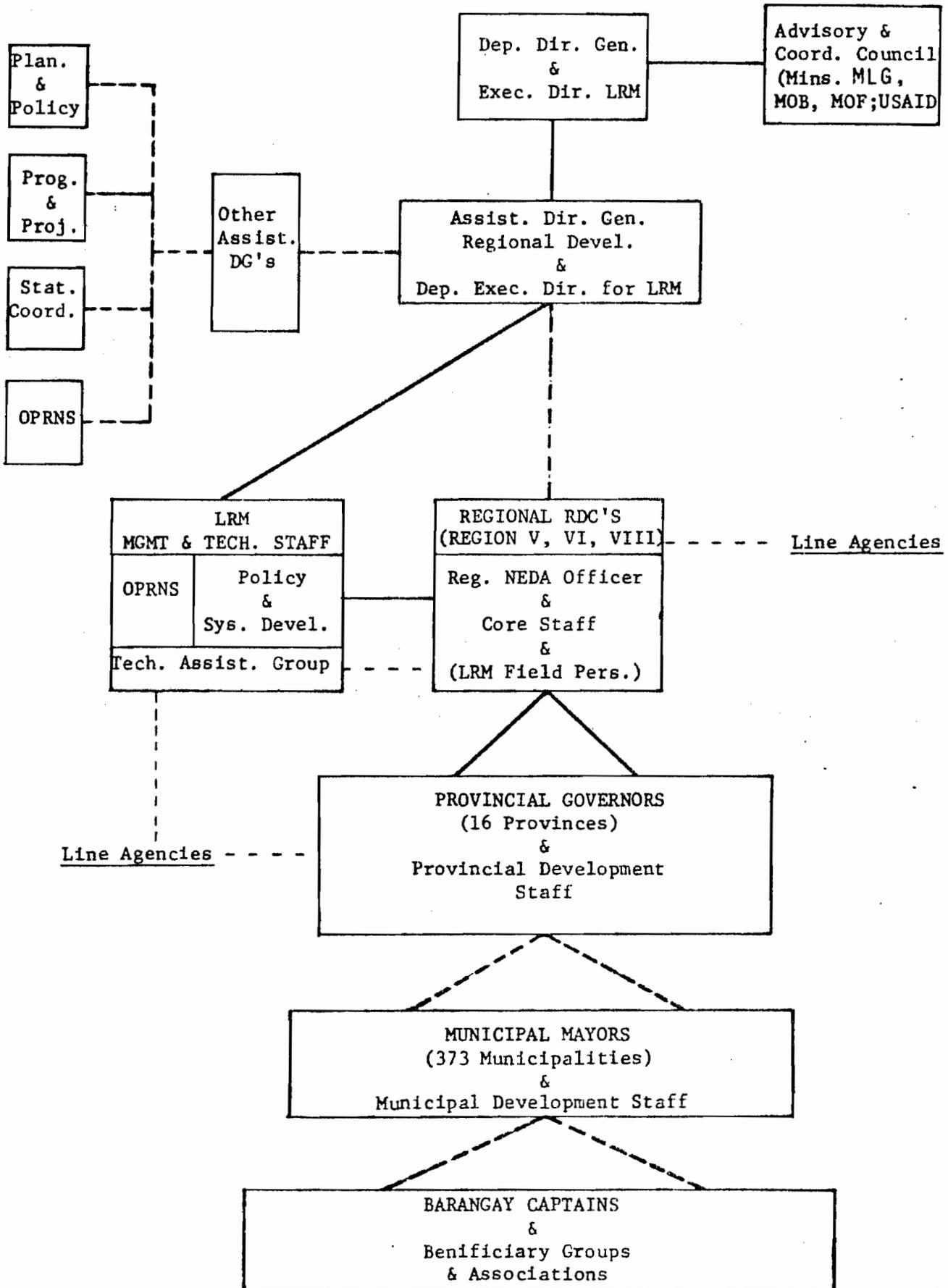
2. USAID

The LRM project officer will be assisted in the administration of the project by one U.S. direct hire and two experienced Filipino program specialists.

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<sup>1/</sup> The order of discussion is not intended to indicate a top-down approach. Under LRM, the province is the beginning point for most planning and implementation activities. Over time, the focal point should shift to the municipality.

LRM ORGANIZATION



### 3. National Line Agencies

Some 23 national line agencies are represented in the Regional Development Council. Many of these agencies also have representatives at the provincial levels. Line agency technical committees will provide the province and RDC advice on strategy formulation, annual program planning, and on the feasibility, design and implementation of subprojects.

The Office of Budget and Management (CBM) in Manila and in the region will be the backstop agency for subproject funding and budgetary procedures. The Ministry of Finance (MOF) and its local treasurers will administer funds release, accounting, and reporting of use of GOP funds. Directives will be issued by OBM and MOF spelling out procedures, which will be outlined in the Loan/Grant Agreement.

The regional and provincial offices of the Ministry of Local Government (MLG) will be intimately involved in LRM activities since the MLG retains significant supervisory control over local government actions. The regional, provincial, and municipal MLG representatives will participate in subproject planning, review, and approval, and in monitoring and evaluation. The local MLG representatives will assist in coordinating line agency support and will also provide support for improvements in financial administration and reporting.

### 4. Subnational Government (Regional, Provincial, Municipal)

Functions, responsibilities, and authorities of subnational government units are outlined under the Local Government Code. The main role of the Regional Development Council (RDC) is to coordinate local government activities. Under LRM, the key role of local governments (provinces and municipalities<sup>1/</sup>) will be that of resource manager--linking local needs to local and external public and private resources. LRM will develop or strengthen local government for identifying priority target groups, introducing mechanisms by which target group members can contribute to the process of identifying their own needs and opportunities, and facilitating the acquisition of local and external technical and financial resources.

#### a. The Regional Development Council (RDC)

The RDC is the designated supervising and coordinating agency of subnational government activities. Under LRM, the RDC will select provinces to participate in LRM, review and approve provincial strategies, annual program plans and subprojects, and coordinate regional line agency activities in support of LRM field operations.

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<sup>1/</sup> Chartered cities are autonomous but will be treated as municipalities of a province for both planning and administrative purposes. Provincial-City memos of agreement will set forth terms and conditions for the cities participating in the LRM provincial program.

A key role of the RDC will be in the LRM funding process: It will approve annual budget levels based on approved strategies, request release of funds by the OBM based on favorable review of provincial subproject proposals, and insure accountability, i.e. proper and effective use of funds based on monitoring and evaluation reporting.

b. The Province

The province is the focal point for most LRM planning, implementation, monitoring and evaluation activities. The Provincial Development Staff (PDS), working with municipal officials, will undertake poverty studies and analyses leading to provincial strategy and annual program formulation. The PDS will be assisted by NEDA management and technical staffs, resource institution personnel, and line agency representatives assigned to the province.

c. The Municipality

Although most implementation actions will take place at the municipal level, the provincial government will initially assume most implementation and management responsibility at this level, given the general lack of capacity and staff in the municipalities.

The contributions of the selected municipalities will be key to the success of LRM since the primary government linkage to the beneficiaries is through the municipality. Establishing and maintaining this link will require reorienting and training of municipal officials to actively work with the intended beneficiaries to help them identify their needs, evaluate alternatives for meeting those needs, and decide upon a course of action. To the extent that municipal development staff are available and capable, the municipality will be directly involved in subproject design and implementation.

Under Track 3, (Beneficiary Participation), selected municipalities will work with provincially based private sector organizations (e.g. PVO's) in developing beneficiary organization models and integrating lessons derived from testing these models into future provincial planning. LRM-financed resource institutions will also collaborate with municipal officials to assist the beneficiary groups in design and implementation of the separately funded subprojects. The municipality is responsible for the approval of the design of these beneficiary group subprojects, and their continual monitoring and evaluation.

B. Project Implementation

1. Scope of Phase I

Over the Phase I period, six provinces in the three regions will participate. Three provinces will be inducted into the program beginning in late CY 82, followed by an additional three in mid-CY 1983.

Basic requirements for provincial participation include commitment to LRM concepts, a fully staffed PDS, and executed agreements with the RDC which commit provincial administrative machinery to LRM implementation and procedures.

## 2. Implementation Tracks

The three implementation tracks are mutually supportive and interrelated, but each can be implemented at its own pace. Over time, the three components will converge. The pace of convergence will vary according to local capacities.

### a. Strategy and Local Project Development (Track One)

The provincial planning process is phased and iterative. It begins with formulation of a multi-year strategy. This is followed by preparation of an annual program plan in support of the strategy. The process is completed with the presentation of a set of fully packaged local development project proposals based upon the annual plan which meet LRM criteria. The RDC will review and approve each of these documents to ensure their consistency with LRM guidelines. Satisfactory completion of requirements will trigger release of central government funds for subprojects directly to the province.

Each subsequent round of planning and new province induction will take advantage of past experience and new information flows from research, monitoring and evaluation, and process documentation systems.

The following provides additional discussion of the major activities listed above.

#### (1) Provincial Strategy Formulation

The strategy is formulated by the PDS in collaboration with municipal officials and with the assistance of NEDA, line agencies, and resource institutions such as AIM. Criteria for RDC approval include, among others: adequacy of the poverty group analysis; extent to which the focus is on improving the livelihood of target group members; evidence of consultation with municipalities, barangays, and beneficiaries; extent to which the strategy provides for private sector initiatives in its implementation; and extent of local mobilization of financial and nonfinancial resources.

#### (2) The Provincial Annual Program Plan

Annual program planning is an established government practice which LRM will also observe. The program plan, developed by the PDS, is tied to the regional budget cycle and provides a general description and estimated cost of local subprojects proposed for funding. The Provincial Development Council approves the plan and budget estimates for submission to the RDC. Once approved by the RDC, the plan is incorporated in the Regional

Development Investment Plan, which is reviewed by OBM. The approved RDIP serves as the basis for establishing a budget figure and an appropriation level in the national budget.

(3) Subproject Development and Implementation

Under LRM, the PDS will be ultimately responsible for development of subproject documentation, including the required feasibility studies, for submission to the RDC. Technical personnel from the national line agencies and LRM financed resource institutions will assist in these efforts. Subproject development will involve interaction between public officials, line agency personnel, associations or representatives of poverty groups, and private sector voluntary, civic, and social organizations. To facilitate the process, LRM will organize seminars, workshops and local brainstorming sessions to elicit ideas and knowledge for better subproject design and implementation.

It is expected that local PVO's and other private sector organizations will play an increasing role in assisting municipalities and intended groups to identify, in project identification, project design, and implement subprojects. Priority will be given to subprojects which promise to strengthen municipal capacities to organize and serve poor groups and which promote local private sector involvement in local development.

Proposals submitted to the RDC will be reviewed for conformity with the basic LRM eligibility criteria, which include, among others: consistency with an approved poverty group strategy; sound design as indicated by adequate feasibility analysis; potential for significant economic and spread effect; adequacy of counterpart funding; evidence of beneficiary, barangay, and municipality involvement/consultation in project selection and design; and adequacy of the evaluation plan.

Following approval of subproject proposals by the RDC, funds will be released by the OBM to the province for one year's subproject implementation requirements.<sup>1/</sup> Project costs will be of a local cost nature. Labor for subproject implementation will be provided by the community or provided through a cost-share arrangement involving LRM funding.

(4) Research Administration and Utilization

LRM will support the development of capacity in the RDC's, provincial governments, and local research organizations to understand local poverty dynamics, thereby making possible improved provincial planning. A research fund administered by NEDA central will finance studies proposed by both provinces and regions. The proposals will be evaluated for relevance to

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<sup>1/</sup> The amount of funds released for ongoing multi-year subprojects will depend upon the progress in implementing them up to that point.

provincial strategy formulation, annual program planning, and subproject identification and design; soundness of methodology; and appropriateness of scope.

Use of rapid reconnaissance methods will be encouraged in poverty-related research, particularly initial efforts directed at selection and characterization of beneficiary groups which represent sizeable populations and have a high incidence of poverty. More specifically, such methods will be utilized to determine poverty groups' geographic concentration and how their distribution over space relates to physical resources, topography, and administrative boundaries.

More focused studies will be carried out at the local level to increase understanding of the problems faced by typical households regarding such topics as their access to resources, means of livelihood, constraints to increasing household productivity and well-being, and potentials of the group for self-reliant development.

At the regional level, research will be aimed at understanding the dynamics of poverty regionwide and providing other information need to facilitate the phase-in of additional provinces and replication of improved systems developed during Phase I.

b. Local Financial Administration (Track Two)

This track will strengthen local governments' financial position through development of cost-effective and systems and procedures of local revenue administration, including revenue mobilization and financial management. Systems development will follow closely pilot efforts undertaken in the RSC project, whereby decision makers are trained to understand and more fully tap the revenue generating capacity of the province and municipalities. Local government financial management teams will be created to bring together key decision makers and to analyze financial reports generated by an improved monitoring system. This will help staff develop a clearer understanding of problems and resources needed to meet local development goals and to develop realistic revenue and expenditure budgets for planning and development activities.

c. Beneficiary Participation (Track Three)

NEDA technical and management staff will work closely with both the province and the municipalities to seek ways to initiate and expand beneficiary participation in the provincial strategy formulation and subproject generation process. The objective will be to increase the responsiveness of local government development efforts to locally identified needs. For purposes of administrative efficiency, it is planned that one or more private sector organizations will be engaged to take on the task of developing processes/models for linking private sector efforts in beneficiary organization to municipal governments' development activities. The national organization(s), in turn, will engage local organizations to assist in the day-to-day oversight of the community projects and other beneficiary group related activities.

As appropriate, some subproject ideas generated as a result of local organizations' work with beneficiaries might be proposed for inclusion in the regular provincial annual program plan for LRM subproject funding, subject to the usual RDC review/approval process. A separate, more flexible "community project" fund will also be established to finance the smaller local activities which result from local organizations' work and which will be managed and implemented by the beneficiaries themselves. The community project fund will be administered for NEDA by the national organization(s) and will finance subprojects with costs of up to ₱120,000 (\$15,000). In either case, a proposal must have the approval of the municipal government in order to be considered. It is anticipated that the initial subproject proposals generated will be predominantly for small-scale infrastructure but that as experience is gained, proposals will increasingly deal with income and employment generating subprojects.

Experience under this track will be carefully documented to facilitate later replication of beneficiary organizing approaches which are responsive to the needs of the poor.

### 3. Technical Assistance Requirements

Technical assistance requirements for the project have received special attention during project design since LRM efforts will extend beyond more traditional approaches to planning, budgeting, and resource mobilization. The following provides a brief background statement and summary of the terms of reference for technical assistance:

#### a. Technical Assistance Requirements for Strategy and Local Project Development (Track One)

(1) The technical assistance requirements for this track are rather specialized. Since the concepts underlying the targeted approach to planning are not widely known, understood, or proven feasible, prototypes of the desired process need to be tested, methodologies refined, and the existing planning systems and procedures modified to utilize targeted approaches which prove successful.

Requirements: A local resource institution able to provide personnel with a good understanding of existing local government structures and operations, an understanding of and commitment to LRM concepts, and a demonstrated ability to help the implementing units evolve new planning approaches and management systems.

The Asian Institute of Management (AIM) has been identified as one institution which can provide the necessary support services. It has been involved in developing new management concepts and methodologies such as those on which LRM is based, has worked on targeted approaches to regional agricultural planning much as LRM proposes, and has developed an applied institutional learning approach in communal irrigation work under the Philippine National Irrigation Administration.

(2) The success of LRM is highly dependent on the reliable flow of GOP resources to the local government. Local budgetary and financial revenue generation policy concerns and recommendations discussed in the Feasibility Analysis also need to be addressed.

Requirements: An individual with experience and training in the area of government budgeting and a good understanding of Philippine government budgetary systems; capacity to review and analyze current budgetary systems, procedures, and policies and prepare policy recommendations related to the efficient flow of resources to local government; and the ability to develop improved budgetary systems and procedures which support the implementation of government development programs.

A U.S. consultant has been identified who can provide the necessary support. Having worked with OBM and MOF, he is familiar with the GOP's existing budgetary systems and procedures.

(3) A low-cost information management system to facilitate a continual flow of information to various GOP agencies and local government units is basic to LRM's institutional learning process.

Requirements: An experienced U.S. or Filipino information management consultant(s) with demonstrated ability to help the implementing agency design and test a low-cost information management system and provide training to national, regional, and provincial staff in its use.

(4) Other Technical Assistance Requirements for Track One

(a) Research: Philippine and U.S. consultants will be contracted as needed to assist Regional NEDA Project Staffs in building provincial staff capacity to manage research effectively, conduct feasibility analysis training (e.g. social analysis, environmental assessment), develop skills to identify planning information needs, devise research strategies to meet those needs, review research proposals, and to actually utilize research findings. Consultants will also assist local educational and research institutions develop their capacity to respond effectively to research requests initiated by the provinces and regions.

(b) Planning: Another important source of technical assistance will be the experienced Provincial Development Staff who will provide advice and guidance to their counterparts in other less prepared provinces through short-term TDY's arranged through LRM.

b. Technical Assistance Requirements for Local Financial Administration (Track Two)

The experience of PDAP, the Rural Service Center project, and other USAID-supported projects points to the serious need to improve local government financial administrative practices and procedures. Of particular concern is the issue of recurrent local government costs and revenue generation to maintain or expand local development programs. Although the RPTA

Project is now developing systems for improved real property tax administration, the deficiencies go beyond just tax collection.

Requirements: A local resource institution with a good understanding of the existing government structures and operations; an understanding of local government finance; a capacity to help local governments evolve new financial administrative approaches and management systems (approaches developed by RSC will provide a foundation for further development of these systems); and the capacity to provide on-the-job training to local government officials in the utilization of such systems.

The Local Government Center (LGC) of the University of the Philippines has been identified as one institution which can provide the necessary support services. It has participated in the studies of local revenue administration coordinated by PIDS and has extensive experience in working with local governments. The LGC administers various career development courses for senior local government officials and has an established relationship with most of the local government units.

In addition, a U.S. financial management specialist has been identified to backstop this effort. He is familiar with the RSC approach and Philippine fiscal systems and has experience in broad local government planning and administration. He will insure that financial systems are integrated and linked to the broader LRM targeted planning effort.

c. Technical Assistance Requirements for Beneficiary Participation (Track Three)

Under this track, LRM seeks to link the expertise of private sector agencies experienced in beneficiary organization to municipal level development activities supporting provincial strategies. PVO's and other private sector civic and social organizations will be engaged to assist local governments and poverty groups in organization, planning, and self-development. Through this process models related to beneficiary participation will be developed.

Requirements: One or more Philippine organizations with the capacity to administer the experimental model development. The assisting organization(s) must have an understanding of and commitment to LRM concepts, experience in working with local governments, and a good understanding of the local community generally. As the national entity or entities will be dealing with local organizations, it (they) must have a proven capacity to manage and monitor local organizations which will be engaged to organize local community activities and develop capacities within beneficiary communities to plan and implement barangay level activities.

Examples of national organizations which could undertake this activity are Philippine Business for Social Progress (PBSP) and the International Institute for Rural Reconstruction (IIRR):

PBSP is a PVO sponsored by 123 members of the Philippine business community. PBSP provides funding and technical assistance to some 100 local private voluntary development groups working at the barangay level throughout the Philippines. It backstops these activities with a strong monitoring and evaluation program. It has a full-time core staff of some 30 professionals.

IIRR is an international PVO based in Cavite Province. It provides technical, financial, and training support to affiliated national rural reconstruction movements in Thailand, Colombia, Guatemala and the Philippines. It has carried out its own community level development activities in Cavite Province, where it has worked closely with municipal governments in Cavite. One attractive and effective IIRR concept is the People's School, which offers training to community selected leaders in basic technologies which are then shared with other community members. IIRR is presently assisting Antique Province and is supporting efforts by World Vision in Mindoro and other parts of the Philippines.

C. Illustration of How Planning, Research, and Project Identification Might Unfold Under LRM (Round 1)

Let us assume that Antique will be one of the three initial provinces selected for LRM and illustrate the process using it as the example. (Note: Antique has already identified fishermen for priority attention and prepared an "action plan" for organizing available resources for helping fishermen. This group has been selected in view of the significant constituency they represent in that province (i.e. 15,000 households or 35 percent of rural households)<sup>1/</sup> and the Governor's personal concern for their plight).

The first step in the strategy formulation process will be to map the location by municipality of the greatest concentration of fishermen. The province will then pick the priority municipalities for local projects based on such factors as concentration of fishermen within the municipality, degree of economic depression, etc. Then the province will undertake some quick reconnaissance and group interviews with fishermen in some of the selected municipalities to determine the major constraints to improving their livelihoods. These data will be compared with any other information available from research conducted on fishermen similar to those in Antique and will serve as the basis for initial strategy formulation and definition of a research agenda. Using financial survey techniques piloted under RSC, a profile of the financial condition of the province and some of the selected municipalities will be developed to assess what commitments can be made from local revenue

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<sup>1/</sup> Region VI has enough data from the PCARR/SEARCA 1975 surveys to identify the major resource groups with a high incidence of poverty, including their relative importance by province. These data are reflected in the Poverty Profile of Western Visayas, Region VI, (USAID: January 1981) Table 3, p. 8.

resources. A survey of local private voluntary, civic, and social organizations will be conducted to determine the extent to which they can provide additional resources.

Following analysis of available data, and with assistance from LRM management and technical staff and resource institutions, a multi-year provincial strategy will be formulated which will outline the problems, available resources, and initial key intervention points for improving fishermen's livelihood. The strategy will also provide rough budget estimates for the next 3-5 years. The strategy will be then submitted to the RDC for approval. NEDA will then provide Antique with an indicative planning figure for the following budget year.

The next step will be for the province (either as part of the strategy submission or after approval) to prepare an annual program identifying, say, two or three subprojects proposed to the RDC for LRM funding and perhaps a couple of subprojects for financing by line agencies such as the Bureau of Fisheries and Aquatic Resources (BFAR). The subproject identification would grow out of surveys, research, and discussions with mayors, barangay officials and local leaders, and the fishermen themselves (or their representatives). LRM technical staff and line agencies along with resource institutions will help provincial staff through this planning process.

With approval of the plan and subproject ideas by the RDC, the PDS will then develop, in collaboration with municipal officials, detailed plans including feasibility analyses for the subprojects, again assisted by LRM technical staff and line agencies. The feasible proposals will then be reviewed against established criteria and approved by the RDC for implementation, following which the RDC will request the release of funds for approved subprojects.

At the municipal level, local organizations such as PVO's, assisted by a NEDA contracted national institution such as IIRR and collaborating with municipal officials, will work to organize beneficiaries and design two or three small subprojects. These can be financed from the "Community Project Fund" and will be implemented and managed by the poverty groups themselves. The process will be carefully documented and analyzed to allow for better participatory planning in future rounds, and results will be provided to other local governments entering the LRM program.

Meanwhile, the province will refine the initial strategy by pursuing more in-depth research on fishermen as identified in the research agenda and incorporating lessons from the ongoing beneficiary participation efforts. In the first instance, the province will be looking at existing data available through line agencies and the Regional Data Bank (which Region VI is now developing). Any data gaps remaining can be filled through surveys or special studies conducted by local research institutions.

Simultaneously, the region will be pursuing a broader research agenda on fishermen aimed at strengthening Antique's program and developing

additional information relevant to other provincial strategies and focusing on fishermen.

D. Implementation Schedule

The following lists major project activities for the first 18 months of operation and several pre-project actions that need to be taken before actual implementation begins. An updated and more detailed implementation plan for each succeeding year will be prepared following annual reviews to reflect new information and experience. USAID, of course, understands that there may be no disbursements of AID funds, nor even approval of documentation pursuant to which disbursements will be made, prior to the GOP meeting appropriate CPs. All actions indicated as being undertaken prior to CPs being met will either not require any disbursement of AID funds, will be undertaken by the GOP, or will be a preliminary action with commitment and disbursement only after the CPs are met.

PROJECT PLAN OF ACTION

Project Tasks/Activities	Action	1983 Project Months																		1984	
		J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J
	Pre Project	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18		
<b>I PROJECT DOCUMENTATION</b>																					
A. LRM Project Paper Approved:																					
1. USAID	X																				
2. GOP	X																				
3. AID/W		X																			
B. Authorization of Funds	AID/W		X																		
C. Project Agreement	USAID/GOP			X																	
D. Initial Conditions Precedent Met	GOP						X														
<b>II PROJECT MOBILIZATION</b>																					
A. RDC and Province Project Orientation and Consultation - Seminars/Workshops*	NEDA/USAID		X	X	X	- (and continuing) -															
B. Provincial Selection:	RDC																				
Group I				X																	
Group II								X													
C. NEDA Central/Regional Offices Estab.; Management & Technical Staff Assigned				X	X																
D. Local Resource Inst. Agmt./Cont:																					
1. Preparation of Scope of Work for Technical Assistance	NEDA/USAID		X	X																	
2. Request for Technical Proposal Issued	NEDA			X																	
3. Proposal Received/Reviewed	NEDA					X															
4. Grants and Contracts Awarded							X														
E. Commodity Procurement: (Vehicles, data processing equipment, etc.)																					
1. Plans and Specs	NEDA/USAID			X	X																
2. PIO/C's Issued	NEDA/USAID				X																

\*NEDA Organized/Financed Inputs for Pre-Project Activities.

PROJECT PLAN OF ACTION

Project Tasks/Activities	Action	1983 Project Months																		1984									
		J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F							
III PROJECT IMPLEMENTATION	Pre Project	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18										
A. Planning and Information Systems Development:																													
1. Strategy Formulation -	Province																												
(a) Group I* - RDC Approval			X	X	X																								
(b) Group II - RDC Approval												X	X	X															
2. Annual Program Planning																													
(a) Group I Plan/Budget CY 84 (Round 1)# CY 85 (Round 2)				X	X	X																							
RDC Review/Approval						X								X	X	X				X									
(b) Group II Plan/Budget CY 85 (Round 1)														X	X	X													
RDC Review/Approval																			X										
3. MOB Regional Budget Review						X	X													X	X								
4. Sub-Project Development -	Province																												
(a) Group I (Round 1) - RDC Approval - Budget Release - Implementation	OBM						X	-(and continuing)-																					
(b) Group II (Round 1)																	X				X	X							

\*Initial financing of inputs for pre-project activities from GOP

#Provincial Budgets should be submitted to RNO by November. For CY 84, NEDA will process supplemental o/a January 1983.

**PROJECT PLAN OF ACTION**

Project Tasks/Activities	Action	1983 Project Months												1984							
		J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J
	Pre Project	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18		
5. Research/Studies																					
(a) Baseline/Impact Surveys	NEDA/Res. Institutions																				
-Group I provinces	"		X	X	-	(and continuing)	-														
-Group II provinces	"								X	X	-	(and continuing)	-								
(b) Other Surveys/Studies/ Feasibility Studies																					
-Group I provinces	"						X	X	-	(and continuing)	-										
-Group II provinces	"										X	X	-	(and continuing)	-						
B. Financial Administrative Systems and Capacity Development	NEDA/Res. Institutions																				
Training; Seminars/Workshops											X	X	-	(and continuing)	-						
C. Testing of Participatory Approaches	NEDA/Prov./Mun./Res. Institutions								X	X	-	(and continuing)	-								
D. Monitoring and Evaluation for Replanning:																					
1. Information-Management System (IMS) Development	NEDA/Consultant								X	X	-	(and continuing)	-								
2. Implementation/Status Reports	Province										X			X					X		
3. Process Documentation	Res. Inst.								X	X	-	(and continuing)	-								
4. Research Reports	Res. Inst.																				
5. Evaluation/Assessment	NEDA/USAID																				X
6. Reports Issued from IMS	NEDA											X			X				X		

## PART VI. EVALUATION PLAN

Continuous, intensive monitoring, self-evaluation, and redesign is a critical feature of LRM. LRM evaluation systems will enable local officials to assess for themselves project performance in promoting greater self-reliance, productive employment, and real incomes among the rural poor. Strategy and program formulation and refinement will depend on information provided through research, monitoring, and evaluation. Subproject design and implementation will also require timely monitoring and evaluation information. Project technical and management staff will work with provincial and regional officials on ways to make effective use of the data generated by these systems. In this way they can identify and act on problems and steer project implementation toward achievement of project goals.

### A. The Self-Evaluation Process

The technical assistance and research resources being provided under LRM are intended to support institutional learning within NEDA, other participating agencies, and local governments. This will be achieved through intensive evaluation of systems and modes of working relative to the requirements of targeted development.

To facilitate this self-assessment process, periodic workshops will be held at regional and national levels. These workshops will be chaired by NEDA and involve implementing entities at each level and supporting resource institutions. A resource institution such as AIM will assist in workshop planning, organization, and information dissemination. These workshops will be the focal point for the continuous, intensive project evaluation process. Held either monthly or bi-monthly, they will provide a forum for carrying out regular assessments of progress, identifying problems, commissioning special studies, planning training activities, identifying needed action on policy issues, coordinating activities of the various resource institutions and government agencies, and assigning responsibilities for follow-up actions.

Primary sources of data for these workshops will include the following:

1. Monthly Process Documentation Reports on the Strategy and Local Project Development Component (Track One)

Provincial/Regional Organization and Management Advisors from the supporting resource institution will prepare monthly reports documenting key events in the development of planning systems and the implementation of subprojects within their respective regions. These reports will describe provincial experience in developing strategies, annual program plans, and subprojects, and in getting these approved, funded, and implemented. They will illuminate how key decisions are made, the nature of relationships between municipal, provincial and regional levels in the planning, funds release, and project implementation processes, and any barriers to application

of IRM concepts posed by existing procedures and policies. Each quarter a summary will be prepared based on the monthly process documentation reports which will summarize Track One lessons, issues, and matters needing priority attention.

2. Quarterly Process Documentation Reports on Local Financial Administration Component (Track Two)

The resource institution will prepare a quarterly report dealing with the process of working with local government officials on approaches to improving local financial administration. This report will highlight what is being learned about the nature of local financial management problems, the organization and functioning of the local financial management teams, policy and management systems issues, progress being made in development of improved financial planning methods and training modules, critical problems, and priorities for the coming quarter. The supporting resource institution will also assist in forming a small advisory group comprised of members of NEDA's technical and management staff, local government officials, and external advisors to serve as a focal point for continuous evaluation of Track Two activities.

3. Quarterly Process Documentation Reports on Beneficiary Participation Component (Track Three)

The supporting national organization (e.g. PBSP/IIRR) will prepare a quarterly report on the process of working with local private sector organizations (such as PVO's) and the development of approaches to supporting private sector organizations organizing activities which are complementary to the provincial strategy. It will highlight the methods being used, the nature of relationships between the various institutional actors, the barriers being encountered to building collaborative working relationships between private sector organizations and local governments, and the lessons being learned about how to overcome these barriers. It will also record progress, major issues, and priorities for the following quarter. The national organization will also assist in forming a small advisory group, including senior members of its own staff, to serve as a focal point for continuous evaluation and redirection of work being carried out under this track.

4. Special Policy and Management Studies

The resource institutions will produce a continuing flow of special studies involving in-depth analysis of particular policies, procedures, and management systems, and experimental work on the development and testing of management system innovations. Additional special studies may be contracted by NEDA as needs are identified.

5. Field Process Documentation

The documentation outputs described above will be centered primarily on program and project management processes within and between the agencies concerned. By year two, as field level activities get fully

underway, provision will be made for a different type of documentation focused specifically on the interaction between government and private sector organizations' field workers and local beneficiaries. This will be used to help LRM managers better understand the nature of the community level interactions involved and the requirements placed on their agencies if they are to be truly responsive to locally defined needs. This type of process documentation requires intensive attention by specially trained personnel. As specific requirements are identified for such documentation, provision will be made to contract for the necessary services.

A primary responsibility for project management will be to establish procedures through which information generated from the foregoing activities can be used most effectively for self-evaluation and selfcorrection in national and regional workshops.

#### B. AID and GOP Project Monitoring and Evaluation Requirements

In addition to the ongoing evaluation and redesign process which is integral to the project itself, there are AID and GOP evaluation and monitoring requirements related to meeting public accountability and policy review.

One such requirement is the need for regular financial reporting. Provinces will be reporting quarterly on the drawdown and use of subproject funds to the RDC and Regional NEDA. Regional NEDA will transmit this information to NEDA/Manila along with its report on research grant and training fund utilization. NEDA/Manila will monitor grants to, or contracts with resource institutions, contractors, and private sector organizations. NEDA/Manila will provide periodic financial reports to OBM and USAID.

Two special external evaluations will be conducted during Phase I by persons not directly involved in project implementation. These are intended to: (1) satisfy AID and GOP needs to verify that the self-evaluation process is functioning as intended, that critical issues are not being neglected by responsible parties, and that EOPS indicators are being achieved; (2) provide an independent assessment of readiness for expansion and justification for Phase II funding; (3) provide an outside group from the GOP and AID an opportunity to become familiar with the LRM experience; and (4) allow policy-level GOP and AID officials to assess the broader policy relevance of that experience for their respective agencies.

- The first external evaluation at 15-18 months into the project will focus on review of project implementation experience at the input/output level, including the functioning of the processes which link the inputs and outputs, and will recommend any needed adjustment in the use of project resources.
- The second external evaluation at 27-30 months into the project will assess accomplishments in terms of institutional development and target group responsiveness to determine whether to proceed to the next phase of the program. This evaluation will look specifically at:

1. whether LRM developed systems and approaches have proven worth replicating on an expanded scale. Issues to be addressed through the evaluation will include, among others, the following:
  - Is the Track One provincial strategy approach resulting in identification of subprojects which show clear potential for responding to target group needs?; is it appropriate to PDS needs/capacities and does it fit within the existing regional planning and budget systems?; is it encouraging private sector participation in local development?; and is it reshaping the thinking of PDS toward helping specific target groups help themselves?;
  - Are Track 2 financial monitoring systems proving suitable to provincial/municipal needs, appropriate to provincial/municipal financial staff capabilities, and useful in identifying actions leading to increased local revenues?
  - Are Track 3 activities proving that closer cooperation between local private sector organizations and municipal governments can lead to greater beneficiary participation in local development activities?
  
2. whether lessons have been sufficiently documented and management support mechanisms adequately developed to permit replication of selected approaches and systems, as measured by:
  - training modules incorporating LRM concepts and methods developed and in use, and
  - provinces, NEDA and local resource institutions working effectively as a support network for LRM expansion.

This evaluation will serve as a basis for recommendations for Phase II funding requirements.

Each of these external evaluations will be designed and carried out jointly by the GOP and USAID using project funds. The members of the evaluation teams will be drawn from participating GOP agencies, USAID, and AID/W. External resource persons may also be included. It would be highly desirable to maintain continuity of personnel for both evaluations. Each evaluation will be reviewed by the LRM Advisory and Coordinating Council and will be used as an input to planned national and regional workshops on LRM.

PART VII - CONDITIONS PRECEDENT TO DISBURSEMENT AND NEGOTIATING STATUS

A. Conditions Precedent

1. First Disbursement

Prior to the first disbursement under the Assistance, or the issuance by AID of documentation pursuant to which disbursement will be made, the Cooperating Country will furnish to AID in form and substance satisfactory to AID:

a. An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

b. A statement of the name of the person principally representing the Cooperating Country for purposes of this Project and of any additional representatives, together with a specimen signature of each person specified in such statement;

c. Formal designation of the project director, a statement of specific responsibilities and authorities for day-to-day management of LRM, and an indication of the types of expertise to be provided for the Project by the coordinating agency responsible for the Project.

2. AID Approval of Contracts or Grants for Technical Assistance

Prior to any disbursement for AID-funded Grants or Contracts, the Cooperating Country will furnish to AID upon preparation an executed grant agreement or technical assistance contract acceptable to AID with an institution acceptable to AID.

3. Performance Payment/Disbursement

Prior to the first annual disbursement for performance payment the Cooperating Country will furnish to AID:

a. A copy of the executed protocols between NEDA and OBM, and NEDA and MOF establishing agreed procedures to channel the flow of GOP resources to the selected provinces for local subprojects.

b. A copy of the executed directive by the appropriate agencies establishing accounting procedures for local subprojects which ensure that appropriate reserved accounts for approved subprojects are established and that those accounts are not to be available for any other purpose.

c. Evidence that the GOP's LRM review and approval process for the provincial strategy, annual program plan, and first round of subproject

proposals has been completed and is consistent with LRM criteria, and that pesos for approved subprojects have been released by the GOP and deposited in the province's account(s) for the LRM subprojects.

B. Negotiating Status

LRM has been designed collaboratively with the principal agencies which will be responsible for its implementation, to wit: NEDA/Manila, NEDA Regional Offices, OBM, MLG, selected governors, and provincial development staffs. Potential resource institutions, i.e. AIM, LGC, DAP, and IIRR also participated in this process. This PP design represents the culmination of a joint effort and is based upon on a full consensus.

In addition, considerable pre-implementation work has taken place within the regions to orient local officials to LRM concepts and implementation requirements.

Region VI has already tentatively identified Antique as the first pilot province for LRM. In anticipation of project activities, Antique has identified fishermen as the local target group and made a first attempt to formulate a strategy for helping fishermen improve their livelihood. A two-day workshop was conducted in Region V to diagnose poverty and identify major poverty groups in the region leading to identification of a target group for LRM interventions. Additional pre-implementation activities are anticipated during the next two months.

NEDA/Manila in its capacity as lead agency has already designated project executive and deputy executive coordinators to manage LRM.

Given the collaborative design of LRM and ongoing pre-implementation activities being undertaken by the GOP, we anticipate no difficulties in concluding a project agreement as soon as LRM is authorized.