

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: SEFM

TA No., Country and Name TA 4556-PHI: Local Government Finance and Budget Reform			Amount Approved: \$850,000	
Executing Agency: Bureau of Local Government Finance, Department of Finance			Revised Amount: \$850,000	
Source of Funding ADB TA Funding Program		Amount Undisbursed: \$3.52	Amount Utilized: \$849, 996.48	
TA Approval Date: 23 Dec 2004	TA Signing Date: 13 Jan 2005	Fielding of First Consultants: 14 May 2006	TA Completion Date Original: 30 Sep 2006 Actual: 31 Dec 2007	
			Account Closing Date Original: 30 Sep 2006 Actual: 31 Mar 2008	
Description				
<p>The objective of the TA was to improve the revenue mobilization capabilities of local government units (LGUs) including own-sources and access to credit; and to enhance the capacity of Bureau of Local Government Finance (BLGF) to design and implement local financing and budgeting reforms. TA would enable BLGF to provide LGUs with services to improve their finances and to maintain a performance database to facilitate LGU access to credit markets. The six pilot LGUs would directly benefit from installation of the systems developed under the TA and serve as a model for other LGUs. The factors identified for inadequate financing of LGUs include mismatches between national transfers and expenditure responsibilities, difficulty in raising own revenues due to legal restrictions and inappropriate assignment of tax authority among different government levels, inefficient tax administration and weak LGU financial management and accountability for performance. Lack of information on creditworthiness of LGUs restricts their ability to raise funds from the market. LGUs' statement of income and expenditure, internal controls, project evaluation, accounting standards and debt management systems need to be strengthened to meet legal, government, potential lenders' and private sector requirements.</p>				
Expected Impact, Outcome and Outputs				
<p>The overall goal of the TA was to improve LGU fiscal and financial management by identifying factors in legal and institutional framework that impede LGUs' ability to become financially robust and by strengthening the oversight and technical capacity of BLGF. Performance indicators in relation to the overall goal were to be: (i) more effective BLGF that is capable of providing timely advise to LGUs on amendments to local tax provisions of law, tax collection, information thru a taxpayers' database for businesses, project evaluation, creditworthiness assessments and debt management, revenue and expenditure forecasting, and development of fiscal performance indicators on revenue, expenditure, debt and overall financial health of LGUs; and (ii) more effective LGU ability to raise funds from the market with availability of creditworthiness information, accurate and timely statement of income & expenditure, other financial statements, internal control system, accounting standards and debt management system.</p>				
<p>The outputs of the project were categorized into six groups: (i) legal and analytical studies; (ii) improving BLGF systems and databases; (iii) improving LGU operations; (iv) enhancing LGU creditworthiness; (v) studies on strengthening Municipal Development Fund Office (MDFO); and (vi) fiscal and financial performance measurement. The outputs included: (a) revised LGU classification system; (b) amended local government code-sections pertaining to local taxes; (c) manual on BLGF rulings on past cases (case laws); (d) LGU credit information database; (e) refined and computerized Statement of Receipts and Expenditures (SRE) with a manual; (f) LGU financing modalities manual; (g) LGU debt management manual; (h) BLGF's debt monitoring system; (i) manual on billing and collection system for business taxes and to build a taxpayers' database; (j) minimum presumptive taxes for businesses for cities and municipalities and tax impact assessment; (k) revised local treasury operations manual (l) BLGF financial and economic model for determining local fiscal capacity; (m) creditworthiness assessment of 6 LGUs; (n) new lending products and pricing guidelines for MDFO; (o) development of a fiscal performance indicators with activity based costing; and (p) development of a treasurers' competency assessment and certification system.</p>				
Delivery of Inputs and Conduct of Activities				
<p>Adequacy of Formulation: The initial formulation was not very sound as there were significant overlaps with TA 4778 and the TOR seemed more of a collection of identified tasks rather than a cohesive assistance based on an integrated framework. The TOR and work plans were accordingly revised to remove overlaps and to introduce an integrated framework grouping the 23 tasks covered by the TOR into 6 major activity areas designed to strengthen institutional and oversight framework as well as LGU capacities.</p>				

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

Performance of Consultants: Initial recruitment of consultants was delayed due to the time taken to remove overlaps and to discuss and agree on changes with multiple implementing agencies of the two TAs. A firm was fielded as the consultant; its performance is assessed as satisfactory. Other inputs that were provided for field assessments, workshops, and training courses were used substantially and effectively.

Review Missions: ADB staff monitored the TA closely thru regular participation in meetings with the consulting team and EA. ADB staff also participated in the final tripartite TA closing meeting in December 2007. Inputs of the EA were mainly in kind in the form of office space, furniture, office equipment and communications lines. The EA also bore the transport cost of the consultants for training and exposure sessions. Recipient inputs are assessed as being satisfactory.

Changes Made During Implementation: As set out above changes to objectives, outputs and structure of the TA were made during the inception phase to make it complementary to TA 4778 objectives and scope.

Evaluation of Outputs and Achievement of Outcome

Excluding recurring reports, over 10 highly important substantive manuals were produced including Local Treasury Operations Manual, Competency Assessment System for local treasurers, LGU classification system, financial performance indicators, Financing Modalities Manual, Debt Management Manual, Credit Analysis and Borrower Assessment Manual, BLGF position paper on appointment and functions of treasurers, and MDFO product lines and pricing guidelines. In addition, the project installed computerized systems in BLGF for managing SRE of all LGUs, structured software for project evaluation, creditworthiness assessment and debt management, forecasting of tax impact and revenues and expenditures, business taxpayer's database and computerized incorporation of financial and fiscal indicators in the Local Government Performance Measurement System (LGPMs).

Institutional building was ensured thru provision of regular training to EA and LGU officials in the use and application of the above systems. TA outputs that required advocacy like appointment of treasurers and proposed amendments to local taxation laws were socialized and discussed with the Philippine Association of Local Treasurers and Assessors and the Philippine Development Forum; where representatives of LGU leagues and national government agencies were also present. In addition, the consensus building and coordination meetings were held with stakeholders in Metro-Manila, Visayas, Mindanao, and Luzon. A province-wide simulation test of the SRE involving all LGUs of the province of Rizal was also done.

In terms of effectiveness and quality of outputs and government satisfaction, the project was very successful. A highly relevant software package was developed using the contingency funds (that was not originally envisaged) constituting: (i) SRE module-linking 1,700 LGUs with BLGF on quarterly basis showing balance sheet and cash flow statements; (ii) Debt Management, Creditworthiness and Project Evaluation modules containing requirements before LGUs can raise debt, methods for social and revenue-generating projects, determination of maximum borrowing capacity and net present value, ensuring that total cash flows for each year are more than debt service requirement of 20% of annual revenue before BLGF can issue Debt Service Certificate; loan amortization schedule and cash flow management; and creditworthiness assessment for each LGU; (iii) Financial Service Providers' (FSP) database containing FSP financial statements; FSP track record; and collection of fee from FSPs for accessing database on LGU creditworthiness; and (iv) Knowledge database – with access to all databases and manuals.

The TA made substantial contributions to enhancing fiscal management capacity of BLGF and laying down systems that are useful in improving LGU access to financing. On the occasion of its 20th anniversary in 2007, BLGF presented its three most important achievements to date as: (i) updating of 60 year old treasury manual; (ii) automation of SRE; and (iii) development of LGU creditworthiness system with regular revenue forecasting. ADB was presented a plaque of appreciation for its fundamental role in developing all three thru this TA.

Overall Assessment and Rating

The TA is rated as successful. It effectively achieved its objectives of laying a firm foundation for fiscal management tools and systems to be used by BLGF and LGUs.

Major Lessons

Major lessons are: (i) start-up delays were experienced due largely to design issues and in removing duplications with TA 4778; (ii) government ownership and involvement throughout the project is critical to ensure success; and (iii) there is need for continuation of efforts thru new TAs with regard to future reforms in local government finance.

Recommendations and Follow-Up Actions

A sustained level of support needs to be provided over the medium term to significantly increase access to financing of LGUs in the Philippines. More resources are needed in the short to medium term for BLGF to refine and roll out systems designed under this TA like SRE, competency certification system, business tax billing and collection system, and creditworthiness and fiscal capacity system. In the long run hardware will be needed for over 1500 LGUs so that they can easily access BLGF systems.

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