The Republic of the Philippines
Department of Interior and Local Government (DILG)

THE STUDY ON
THE IMPROVEMENT OF INTERNAL REVENUE ALLOTMENT (IRA) SYSTEM
IN
THE REPUBLIC OF THE PHILIPPINES

FINAL REPORT

(Executive Summary)

January 2009

JAPAN INTERNATIONAL COOPERATION AGENCY

KRI INTERNATIONAL CORP., JAPAN

PREFACE

In response to a request from the Government of the Republic of the Philippines, the Government of Japan decided to carry out a study entitled "Study on the Improvement of Internal Revenue Allotment (IRA) System" and entrusted the study to the Japan International Cooperation Agency (JICA).

JICA sent a study team headed by Mr. Yoseki NAGASE of Koei Research Institute 6 (six) times in total during the period from August 2007 to November 2008.

The team held a series of in-depth discussions with the officials concerned of the Government of the Republic of the Philippines, held workshops and seminars, and conducted field surveys covering many local government units (LGUs). This final report was prepared based on the results of the intensive analyses of the information obtained throughout the study period, and offers a set of policy options for the reform of IRA system.

It is my sincere hope that this report will contribute to the well-balanced development encompassing all the regions in the Republic of the Philippines through further promotion of devolution/decentralization that has been underway in the country since the enactment of Local Government Code in 1991. I also hope that the friendly relationship between the two countries has been renewed and even strengthened by this collaborative study.

Finally, I wish to extend my sincere appreciation to the officials concerned of the Government of the Republic of the Philippines, particularly the management and staff of the Department of the Interior and Local Government (DILG), for their kind support to the study team and also for their active participation in the entire process of the study. On Japanese side, I wish to acknowledge the invaluable support from two members of the Advisory Committee set up by JICA for this particular study, namely Prof. Fumio KANAZAWA of Yokohama National University and Mr. Masayuki TAKAHASHI of Seigakuin University. Various insightful comments and suggestions they provided throughout the study period have significantly contributed to improving the quality of the report, for which I am most grateful.

January, 2009

Izumi ARAI
Vice President
Japan International Cooperation Agency

January 2009

Mr. Izumi Arai
Vice President, Japan International Cooperation Agency (JICA), Tokyo, Japan

Dear Mr. Arai,

Letter of Transmittal

We are pleased to submit to you the Final Report of the Study on the Improvement of Internal Revenue Allotment (IRA) System in the Republic of the Philippines. This deliverable is the fruit of the work implemented by KRI International Corp., Japan under the contract with your Agency between August 2008 and January 2009.

The Study aimed at making policy recommendations on the improvement of the IRA system. Acknowledging the important role of IRA in the local government finance, the Study analyzed the current IRA system and in the end developed the options for new IRA distribution formula in order to address the fiscal imbalances among local government units. That is to say, this report contains the findings from the institutional and statistical analysis, the summary of the stakeholders' perception, the list of alternative formulas, the impact assessment of alternative formulas and the communication strategy in the promotion of the new IRA distribution formula.

The Study took a very cautious approach in order to come up with practical and effective recommendations. The Study conducted local government sample surveys and questionnaire surveys to the well-informed. Meanwhile, we also conducted a series of workshops and seminars, where our findings are openly discussed, and implemented the capacity-building to the counterpart staff.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Department of Interior and Local Government, other national government agencies, local government units and others concerned in the Philippines for the tremendous supports provided to us during the implementation of the Study.

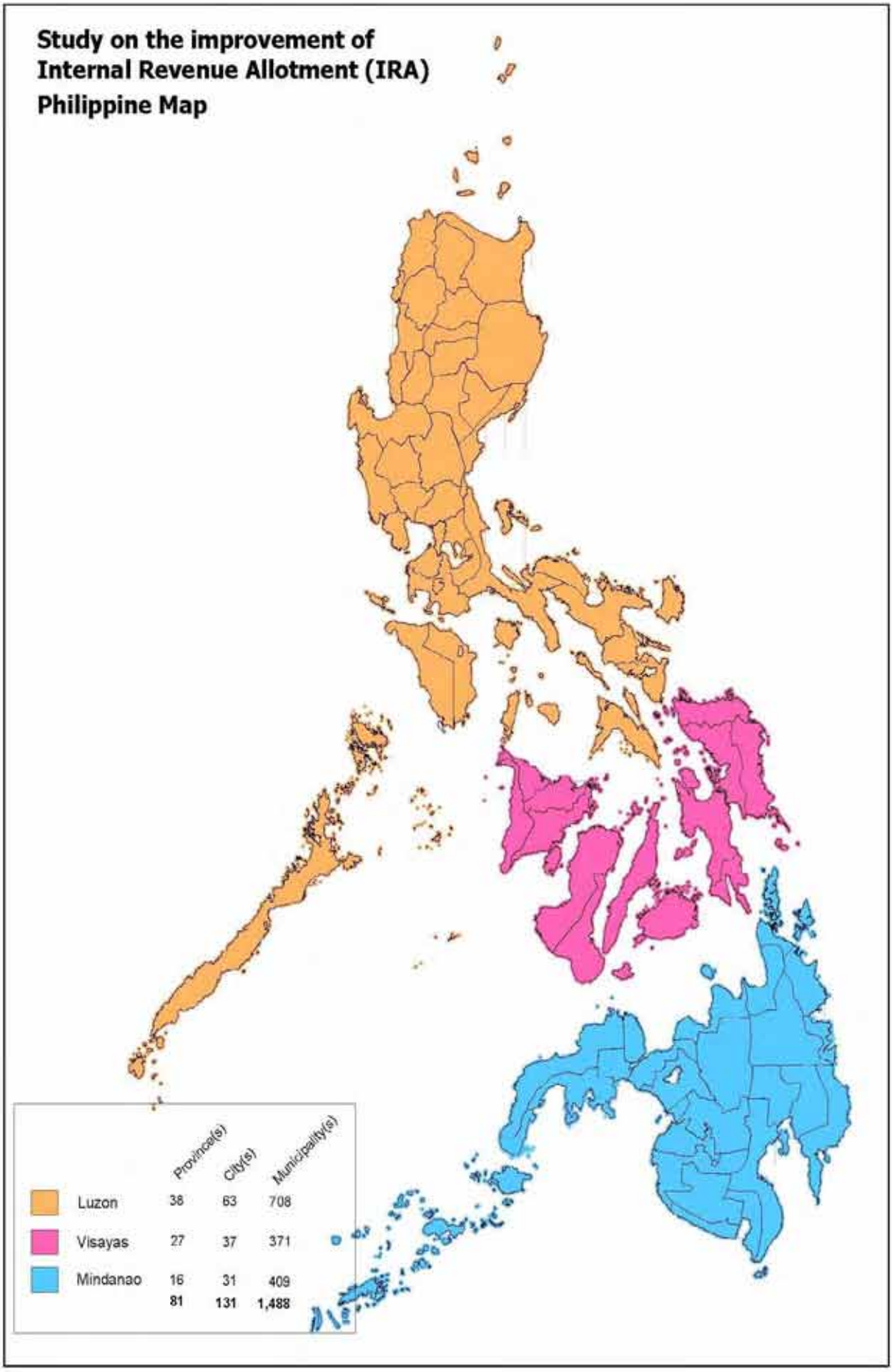
Finally, we sincerely wish that this report will be found useful for the improvement of the IRA system of the Philippines and that it will contribute to the further friendship between Japan and the Philippines.

Sincerely yours,

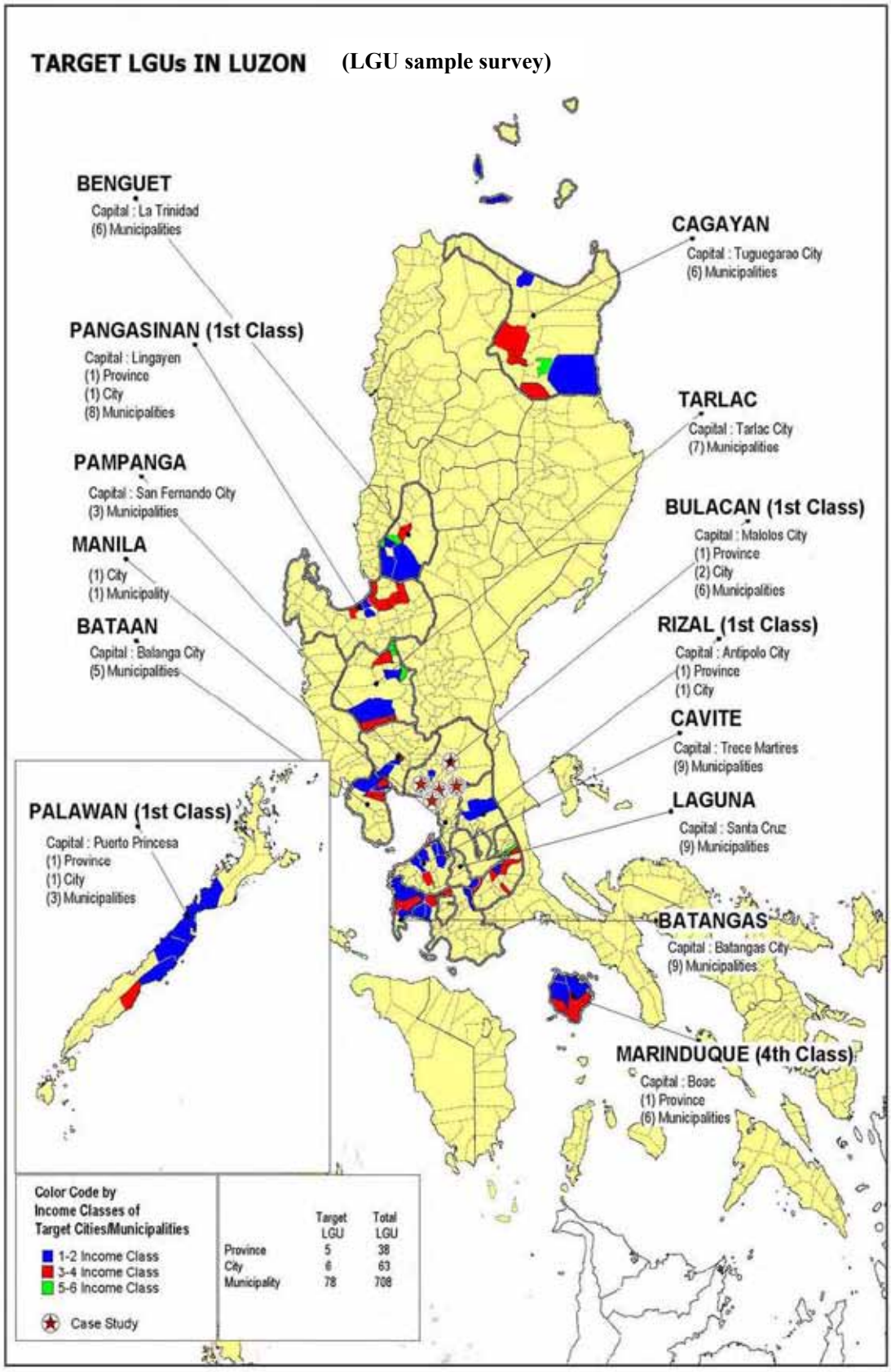
Yoseki Nagase
Team Leader, the Study on the Improvement of IRA System

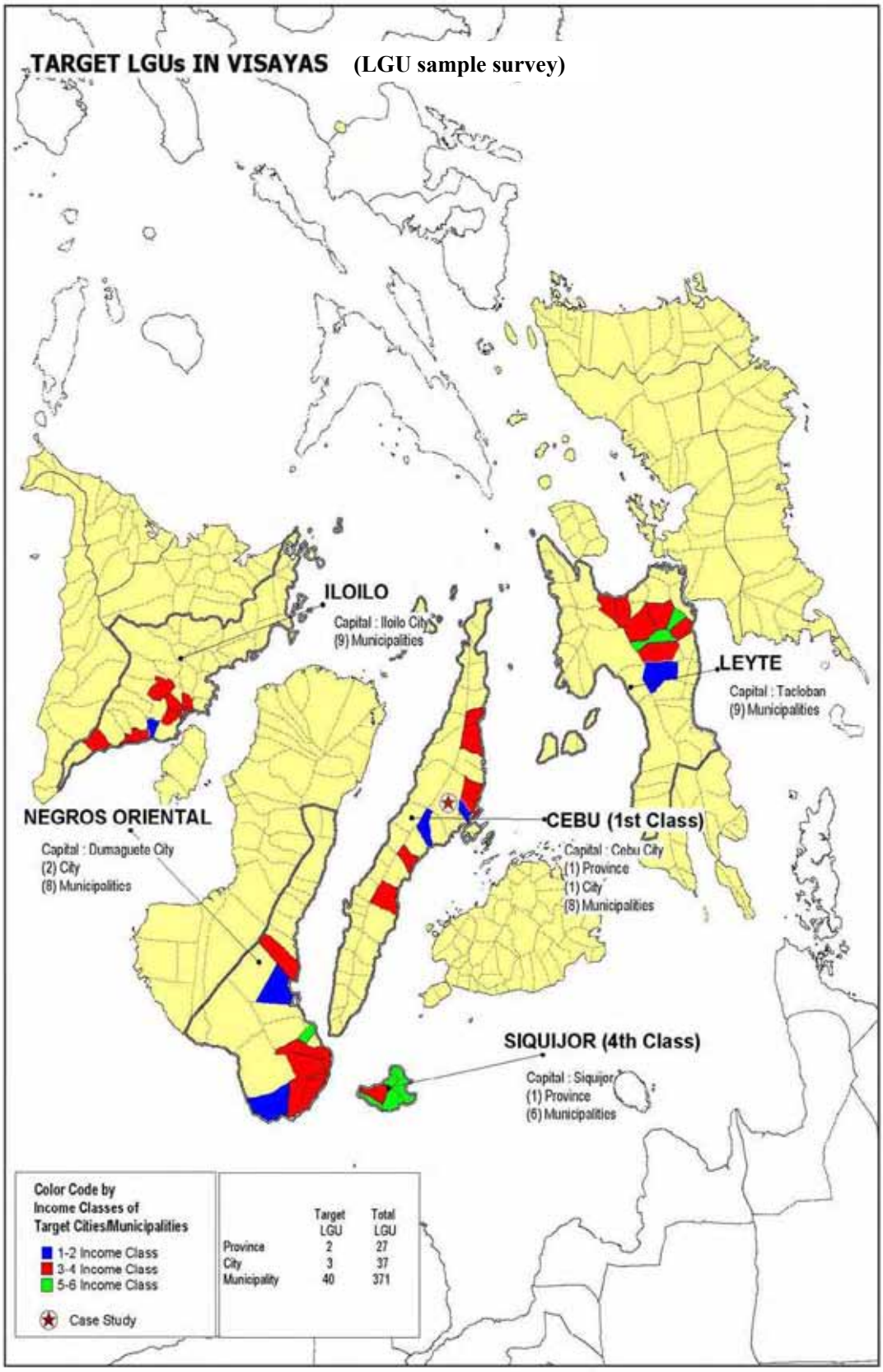
Study on the improvement of Internal Revenue Allotment (IRA)

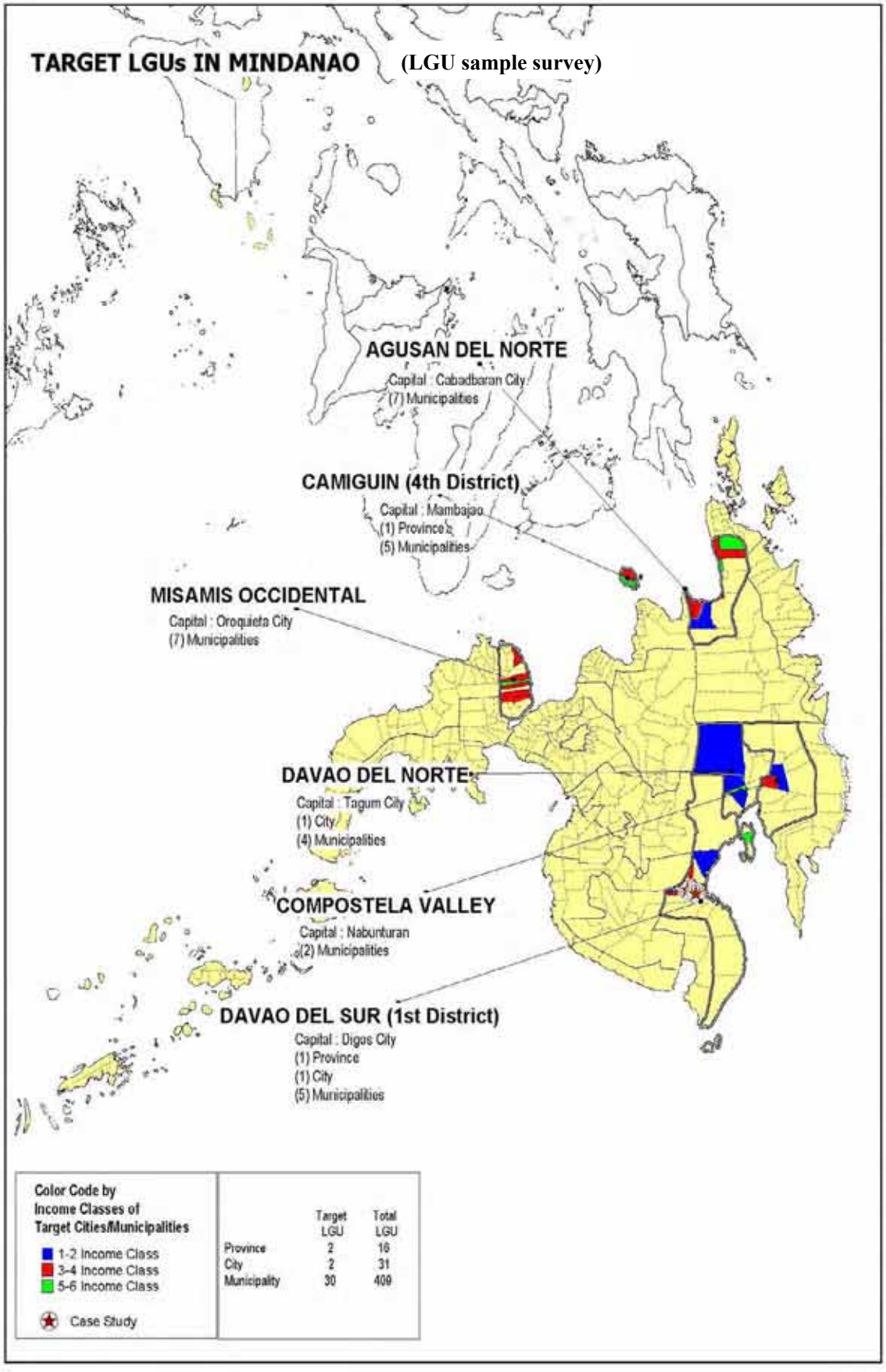
Philippine Map



	Province(s)	City(s)	Municipality(s)
Luzon	38	63	708
Visayas	27	37	371
Mindanao	16	31	409
	81	**131**	**1,488**


TARGET LGUs IN LUZON (LGU sample survey)
BENGUET
Capital : La Trinidad
(6) Municipalities
CAGAYAN
Capital : Tuguegarao City
(6) Municipalities
PANGASINAN (1st Class)
Capital : Lingayen
(1) Province
(1) City
(8) Municipalities
TARLAC
Capital : Tarlac City
(7) Municipalities
PAMPANGA
Capital : San Fernando City
(3) Municipalities
BULACAN (1st Class)
Capital : Malolos City
(1) Province
(2) City
(6) Municipalities
MANILA
(1) City
(1) Municipality
BATAAN
Capital : Balanga City
(5) Municipalities
RIZAL (1st Class)
Capital : Antipolo City
(1) Province
(1) City
CAVITE
Capital : Trece Martires
(9) Municipalities
PALAWAN (1st Class)
Capital : Puerto Princesa
(1) Province
(1) City
(3) Municipalities
LAGUNA
Capital : Santa Cruz
(9) Municipalities
BATANGAS
Capital : Batangas City
(9) Municipalities
MARINDUQUE (4th Class)
Capital : Boac
(1) Province
(6) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 5 38
City 6 63
Municipality 78 708


TARGET LGUs IN VISAYAS (LGU sample survey)
ILOILO
Capital : Iloilo City
(9) Municipalities
LEYTE
Capital : Tacloban
(9) Municipalities
NEGROS ORIENTAL
Capital : Dumaguete City
(2) City
(8) Municipalities
CEBU (1st Class)
Capital : Cebu City
(1) Province
(1) City
(8) Municipalities
SIQUIJOR (4th Class)
Capital : Siquijor
(1) Province
(6) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 2 27
City 3 37
Municipality 40 371


TARGET LGUs IN MINDANAO
(LGU sample survey)
AGUSAN DEL NORTE
Capital : Cabadbaran City
(7) Municipalities
CAMIGUIN (4th District)
Capital : Mambajao
(1) Province
(5) Municipalities
MISAMIS OCCIDENTAL
Capital : Oroquieta City
(7) Municipalities
DAVAO DEL NORTE
Capital : Tagum City
(1) City
(4) Municipalities
COMPOSTELA VALLEY
Capital : Nabunturan
(2) Municipalities
DAVAO DEL SUR (1st District)
Capital : Digos City
(1) Province
(1) City
(5) Municipalities
Color Code by
Income Classes of
Target Cities/Municipalities
1-2 Income Class
3-4 Income Class
5-6 Income Class
Case Study
Target LGU
Total LGU
Province 2 16
City 2 31
Municipality 30 409

Photographs

Workshop in Angeles, Pampanga
July 31-August 1, 2008

Workshop in Angeles, Pampanga
July 31-August 1, 2008

Workshop in Cebu
August 5-6, 2008

Workshop in Cebu
August 5-6, 2008

Workshop in Davao
August 7-8, 2008

Workshop in Davao
August 7-8, 2008

Workshop in Manila
July 29, 2008

Workshop in Manila
July 29, 2008

Seminar in Cebu
October 22, 2008

Seminar in Ortigas, Quezon City
October 28, 2008

Seminar in Davao
October 23, 2008

Steering Committee Meeting
in Ortigas, Quezon City
October 28, 2008

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Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BHN	Basic Human Need
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BLGS	Bureau of Local Government Supervision
BOC	Bureau of Customs
CBMS	Community Based Management System
CCs	Component Cities
CDP	Community Development Plan
CIDA	Canadian International Development Assistance
COA	Commission on Audit
CODEF	Cost of Devolved Functions
CPI	Consumer Prices Index
CSIS	Citizens' Satisfaction Index System
DBM	Department of Budget and Management
DepED	Department of Education
DGF	Dotation Globale de Fonctionnment
DILG	Department of Interior and Local Government
DOF	Department of Finance
DPWH	Department of Public Works and Highways
DevWatch	Local Development Watch
ELA	Executive Legislative Agenda
e-LGAS	electronic local government accounting system
ES	Economic Services
FAPs	Administration of Foreign Assisted Projects
GFIs	Government Financial Institutions
GOP	Government of the Philippines
GPS	General Public Services
HUCs	highly urbanized cities
IACC	Inter-Agency Coordinating Committee
ICC	Investment Coordinating Committee
IRA	Internal Revenue Allotment
LAMP	Land Administration and Management Program 1
LAT	Local Allocation Tax
LCP	League of Cities of the Philippines
LGAII	Local Governance Advocacy and Initiatives Inc.
LGC	Local Government Code

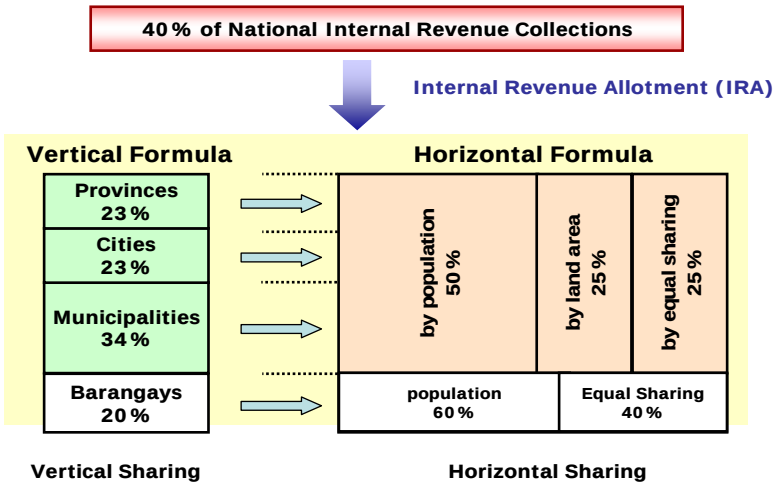
LGFBR	Local Government Financing and Budget Reform Program
LGPMS	Local Government Performance Management System
LGU	Local Government Unit
LOGOFIND	Local Government Finance and Development Project
LPPMS	Local Productivity and Performance Measurement System
MDF	Municipal Development Fund
MDFO	Municipal Development Fund Office
MLG	Ministry of Local Government
MIC	Ministry of Internal Affairs and Communications
MOF	Ministry of Finance
MOOE	Maintenance and Other Operating Expenses
NCR	National Capital Region
NEDA	National Economic Development Authority
NGA	National Government Agency
PBG	Performance-Based Grant system
PDAF	Priority Development Assistance Fund
PDF	Philippine Development Forum
PNP	Philippine National Police
SCALOG	System on Capacity Assessment for Local Governments
SEF	Special Education Fund
SIE	Statement of Income and Expenditure
SLGR	State of Local Government Report
SPA	Special Purpose Appropiration
SRE	Statement of Receipts and Expenditure
SS	Social Services
TLS	Total Local Source
ULAP	Union of Local Authorities of the Philippines
USAID	United States Agency for International Development
WB	World Bank
WGDLG	Working Group of Decentralization and Local Government

CHAPTER 1
INTRODUCTION

1.1. Background

The Local Government Code (LGC) enacted in 1991 significantly increased the responsibilities and resources of the Local Government Units (LGUs). By empowering the local authorities, it aimed at attaining greater efficiency in promoting development and equitable growth at the local level. Seventeen years have passed since the enactment of LGC 1991. However, it remains uncertain whether the expected gains from the devolution are fully realized. Considerable criticisms have been directed against the internal revenue allotment (IRA), which constitutes substantial portion of intergovernmental fund transfers.

Section 284 of the LGC indicates that 40% of the central government's gross internal revenue in the third preceding fiscal year be transferred to the LGUs as IRA. Provinces and cities receive 23% each from the total transfer, municipalities 34%, and barangays 20%. The share of each province, city, and municipality is computed using the horizontal distribution formula composed of three determinants namely, population: 50%, land area: 25%, and equal sharing: 25%. This IRA distribution formula (refer to Figure 1-1) is considered too simple to respond to the already existing imbalances in the fiscal capacity among the LGUs. Thus, there is a clamor to revise it to achieve a better fiscal balance at the local level. In other words, the current formula needs to be revised in order that the IRA distribution would be made based on an accurate estimate of the financial needs and revenue potential of local government as well as on the disparity in development situation.



Source: JICA Study Team
Figure 1-1 Current IRA Distribution Scheme

Much has been discussed and investigated with regards to IRA issues, but the struggle for an "ideal" IRA distribution formula has always been challenging. It is in this context that the Government of the Republic of the Philippines requested the Government of Japan to conduct the "Study on the Improvement of Internal Revenue Allotment System" (the Study). Japan International Cooperation Agency (JICA) sent a preparatory study team, and held preliminary discussions with Department of the Interior and Local Government (DILG) as presented in the Minutes of Meetings, signed on March 16, 2007. The implementing arrangement of the Study was signed by JICA and DILG on May 25, 2007.

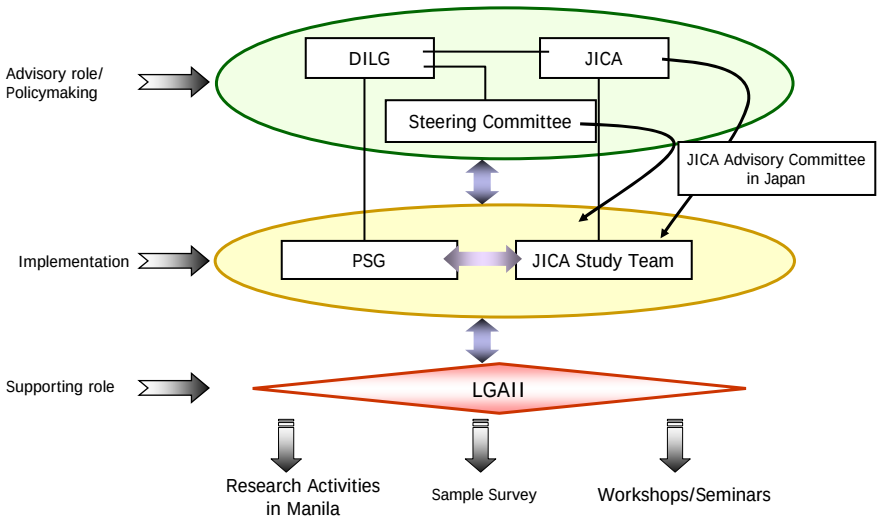
1.2. Objectives of the Study

The objective of the Study is to provide options on changes in the allocation and utilization of IRA with a view to achieving a better fiscal balance among LGUs. The JICA Study Team (JST) is also expected to transfer to the concerned personnel the relevant skills and methodologies required to conduct a sound policy analysis.

1.3. Implementation of the Study

1) Implementation Structure of the Study

The implementation structure of the Study is shown in Figure 1-2. The local counterpart of JST is DILG-Bureau of Local Government Supervision (BLGS). The Study covered the entire country of the Republic of the Philippines.



Source: JICA Study Team

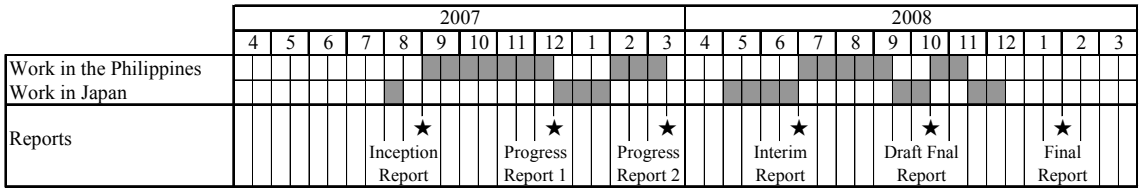
Figure 1-2: Implementation Framework of the Study

JST worked closely with the Policy Study Group (PSG) set up within DILG-BLGS as well as with the subcontractor, the Local Governance Advocacy and Initiatives Inc. (LGAII) for the implementation of the Study. JST also received a series of recommendation and advice in regard to the technical aspect of the implementation of the Study from JICA Advisory Committee in Japan. The Steering Committee dispensed advice as well to JST in terms of the progress of the Study and proposals it had made.

2) Operation Schedule of the Study

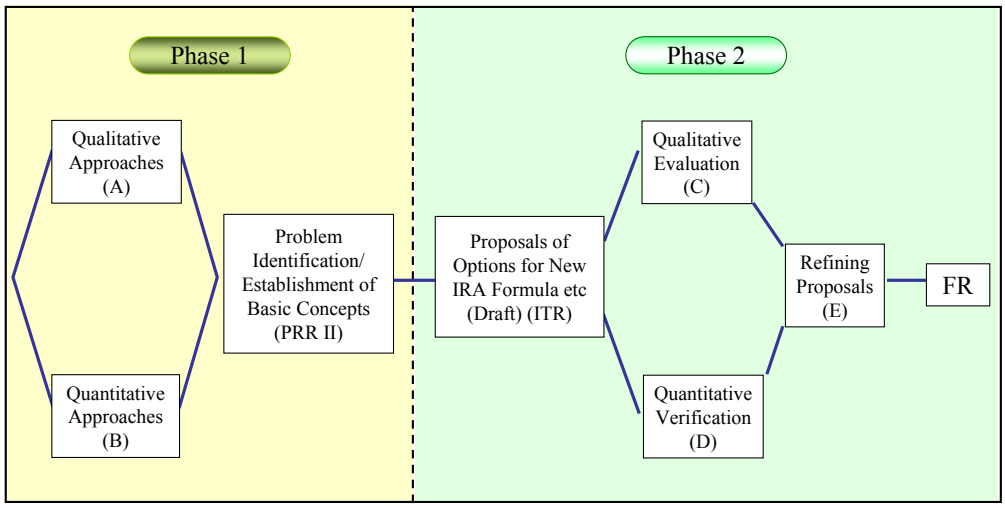
The duration of the Study is from August 2008 to January 2009. Its operation schedule is shown in the Figure 1-3. The Study comprised of two phases.

Phase 1: Fact finding and problem identification
Phase 2: Making recommendations on how to improve the IRA system



Source: JICA Study Team
Figure 1-3: Operation Schedule of the Study

3) Methodology of the Study



Source: JICA Study Team
Figure 1-4: Approach of the Study

The Study conducted qualitative and quantitative analysis in parallel with a view to producing high-quality results for improvement of the IRA distribution formula. The approach of the Study is shown in the figure above (Figure 1-4).

1.4. Accomplishments of the Study

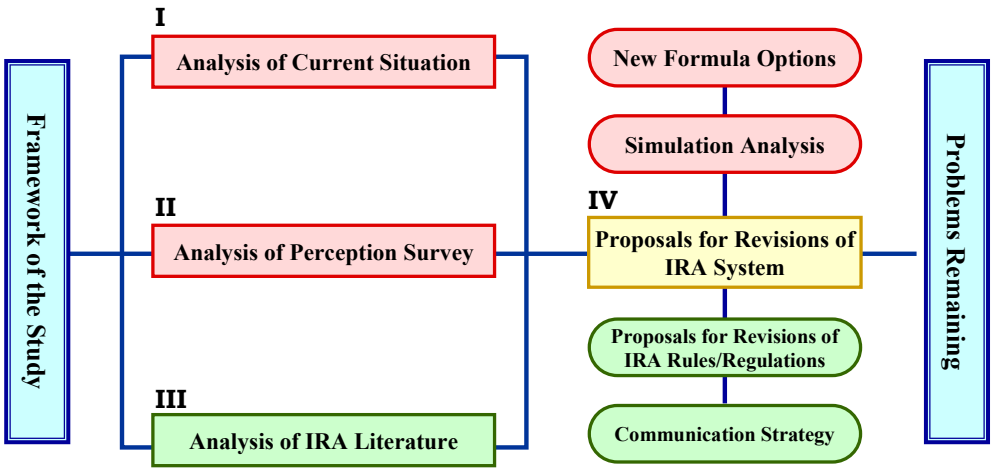
1.4.1. Accomplishments of Phase 1

1) Fact-finding
2) LGU Sample Survey
3) Workshop
4) Steering Committee
5) Capacity-building of the Counterpart

1.4.2. Accomplishments of Phase 2

1) Formulation of Draft Options for New IRA Distribution Formula and Impact Analysis
2) Survey by Questionnaire
3) Workshops
4) Comments from Experts
5) Seminars
6) Steering Committee
7) Capacity-building of the Counterpart

1.5. Logical Structure of the Report



Source: JICA Study Team

Figure 1-5: Four Major Components of DFR

This report is made up of four (4) parts. The first three parts show the analysis of the different aspects of the current IRA system while the fourth part presents the proposals for reforms, including the options for new IRA distribution formula (refer to Figure 1-5).

Additional Statement: Definition of several terms used in the Study

Financial Capacity	Capacity to cover the financial needs from the potential revenue (quantitatively it can be defined "potential revenue/financial needs")
Disparity in Financial Capacity	Disparity that is found among and across LGUs in financial capacity
Financial Gap	"Financial Needs – Revenue" or "Revenue – Financial Needs"
Financial Capacity Gap	"Financial Needs – Potential Revenue" (in this Study alternatively "Financial Needs – Total Local Source" is used.) (Note: In this Study, "Financial Capacity Gap" is substituted by "Financial Gap" as potential revenue is not calculated.)

Part I

Institutional and Statistical Analysis

CHAPTER 2
CURRENT CONDITIONS OF LOCAL GOVERNMENT ADMINISTRATION AND FINANCE

The proposals presenting options that will change the allocation and utilization of IRA should be made based on a full understanding of the current conditions of LGUs. In this chapter, the conditions of LGUs will be considered for two main aspects. The first is related to the mandates, roles and responsibilities of LGUs compared to other sectors such as the national government. The other is the financial aspect, i.e., their revenue and expenditure.

2.1. Mandates, Roles and Responsibilities of Local Government

2.1.1. Overview of Mandates, Roles and Responsibilities of LGU

In the Philippines, LGUs are expected to play a role in areas directly concerned with the lives of the people. The mandates, roles and responsibilities of four major concerned sectors, that is, LGU, national government, government-owned and controlled corporation and private sector, are shown in Table 2-1. For instance, both LGU and the national government are responsible for peace and order, building and maintenance of roads, and environmental management system as prescribed by laws and ordinances. Only LGU is responsible on management of traffic, drainage and sewerage, land utilization, construction control, and other related works. Moreover the private sector including the NGO, as well as LGU and national government provide services and facilities in the fields of health, education, housing and redevelopment in slum areas and fire fighting. In addition, for example, in the education sector, school buildings and other facilities for public primary and secondary schools are constructed under the jurisdiction of municipalities and cities, while salary of the teachers is paid by the Department of Education. In general, LGUs, which work in closer cooperation with the other concerned sectors, are regarded as institutions that fulfill many crucial functions directly related to residents.

Table 2-1: Shared Roles of Major Four Concerned Sectors

Function and Responsibility	LGU	National Government	Government-Owed and Controlled Cooperation	Private Sector including NGO
Peace and Order	○	○	—	—
Buildings and Maintenance of Roads	○	○	—	—
Health	○	○	—	○
Solid Waste Disposal System and Road Cleaning	○	—	—	○
Management of Traffic	○	—	—	—
Drainage and Sewerage	○	—	—	—

Education	○	○	—	○
Social Welfare Services	○	—	—	—
Family Planning	○	—	—	○
Waterworks Services	○	○	○	○
Electric Power Services	—	—	○	○
Market	○	—	—	○
Cemetery	○	—	—	○
Sports, Parks and Recreation	○	—	—	○
Environmental Management System	○	○	—	—
Housing and Redevelopment in Slum	○	○	—	○
Library	○	○	—	—
Fire Fighting	○	○	—	○*
Urban planning	○	—	—	—
Transportation	○	○	○	○
Promotion of Agriculture	○	—	—	—
Slaughterhouses	○	—	—	○
Land Utilization and Construction Control	○	—	—	—
Family Register	○	—**	—	—
Conservation of the Environment	○	○	—	○

Note 1: * Volunteer Group

Note 2: ** National Statistics Office (NSO) only keeps the documents submitted by LGUs regarding birth and marriage of residents.

Source: Compiled by DILG-BLGS, JICA Study Team based on Chihougyousei to Chihoubunken Houkokusho [The report on Local Administration and Decentralization], JICA International Training Center, 2001, p.113

2.1.2. Mandates/Roles/Responsibilities Provided by 1991 LGC

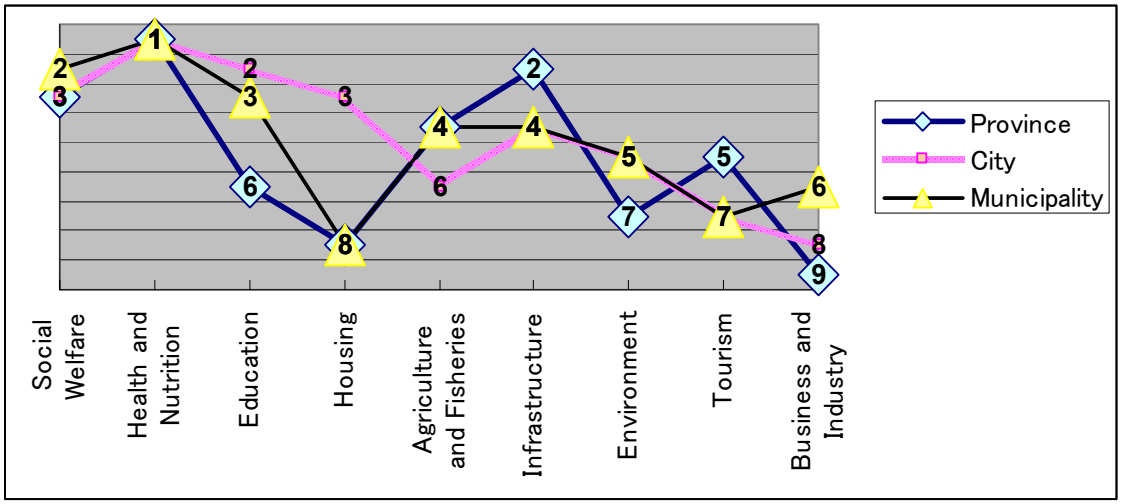
LGC tasks LGUs with a role on service delivery functions, obliging them to be more responsive to the basic needs of their respective constituencies. Section 17 of 1991 LGC defines basic services and facilities of LGUs at respective level, and at the same time, it also states that it does not mean that LGUs cannot perform other matters apart from the prescribed basic services and facilities.

It is to be noted that even before 1991, LGUs played a role in the areas of basic services such as waterworks. After 1991 however, LGUs are expected to be more active and perform crucial functions efficiently to meet the needs of residents in communities.

2.1.3. Perceptions of the LGUs regarding Devolution and Priorities of Appropriating Funds

Devolution stipulated in 1991 LGC has changed public services in local governments. In a sample survey carried out for the Study, actual perceptions of governors, mayors and executives such as administrators regarding the devolution were investigated (refer to Chapter 5).

Respondents were asked regarding which area of service deliveries had been improved after the devolution. Based on obtained replies from interviewees in sample provinces, cities and municipalities, the top three service areas where improvement of devolution was noted are: 1) social welfare; 2) health and nutrition; and 3) agriculture and fisheries (refer to Chart 2-1).



Source: JICA Study Team

Chart 2-1: Ranking of Services in Terms of Priority in Appropriating Funds

2.1.4. Complementary Services and Facilities to LGUs by Other Organizations

Regarding mandates/roles/responsibilities defined by LGC, LGUs receive many kinds of support from other organizations such as national government agencies, members of Congress, donors, etc. Case Study A is conducted to find out the actual service delivery among different levels of LGUs, national government agencies, etc. The result of Case Study A shows that two target sample cities and one target sample municipality have received many supports related to their own tasks from national governments agencies, provinces and other authorities.

2.1.5. Disparity in Services and Facilities Provided by Each LGU

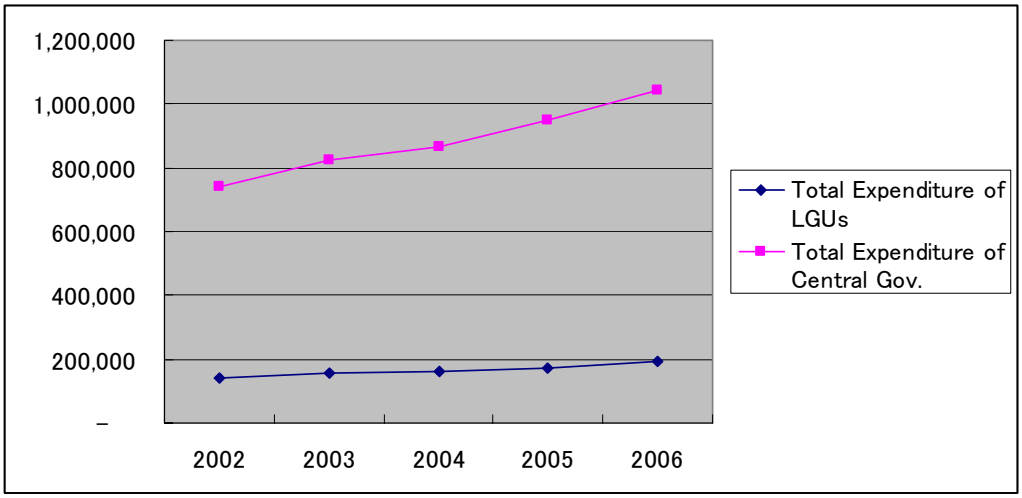
In the Philippines, LGUs at same level do not always provide the same kinds of services and facilities. The reasons why LGUs cannot deliver uniformity services are realized as follows.

First, the own resources of LGUs are marked differently from one another. Secondly, as mentioned in Section 2.1.4, LGUs have been supported considerably by other organizations such as national government agencies. However, kind of supports vary. Thirdly, LGUs at different levels have complemented the services and facilities of other LGUs under them. These assistances provided to other LGUs vary according to the locality. Finally, the current IRA allocation does not fit the fiscal needs of LGUs appropriately. These factors have affected LGUs' levels of services and facilities in quality and quantity.

2.2. Analysis on Central/Local Government Revenue/Expenditure Structure

Features on macro finance of central/local governments in 2002-2006 are as follows.

First of all, an increase of total local expenditure is quite low compared with that of total central expenditure (refer to Chart 2-2).



Source: Compiled by JICA Study Team based on DOF-BLGF SIE, Bureau of Treasury, DOF
Chart 2-2: Trend in total Expenditure of LGUs and Central Government

Secondly, under the said macro financial condition, the expenditure for general public services (GPS) have been increasing, the distribution ratio of which have been maintaining 40% or more in total. Meanwhile the growth of expenditure for Health, Nutrition and Population Control, and Social Security/ Social Services and Welfare is modest, the distribution ratio of which also is decreasing (refer to Table 2-2).

Table 2-2: Expenditure and Distribution Ratio of LGUs by Sector: 2002-2006 (In Mil. Pesos)

Particulars	2002	2003	2004	2005	2006
TOTAL EXPENDITURE	**140,838**	**156,206**	**160,544**	**170,825**	**192,908**
	100%	100%	100%	100%	100%
General Public Services	**58,256**	**63,154**	**64,859**	**67,698**	**77,855**
	41%	40%	40%	40%	40%
Social Services	**36,120**	**35,607**	**35,549**	**37,185**	**40,759**
	26%	23%	22%	22%	21%
Educ. Culture & Sports/Manpower Devt.	9,194	10,708	10,529	11,872	13,225
	7%	7%	7%	7%	7%
Health, Nutrition & Population Control	16,499	16,960	17,426	17,388	18,907
	12%	11%	11%	10%	10%
Labor & Employment	208	172	147	113	135
	0%	0%	0%	0%	0%
Housing & Community Devt	6,228	3,752	3,619	3,721	3,963
	4%	2%	2%	2%	2%
Social Security/Soc. Services & Welfare	3,991	4,015	3,828	4,091	4,529
	3%	3%	2%	2%	2%
Economic Services	**23,538**	**24,665**	**25,440**	**26,904**	**29,011**
	17%	16%	16%	16%	15%
Debt Service	**3,370**	**4,492**	**4,443**	**5,580**	**6,191**
	2%	3%	3%	3%	3%
Other Purposes	**19,554**	**28,288**	**30,253**	**33,458**	**39,092**
	14%	18%	19%	20%	20%

Source: Compiled by JICA Study Team based on DOF-BLGF SIE

Thirdly, on the other hand, LGUs at all levels have strong desire to expend for Health and Nutrition, and Social Welfare (refer to Chart 2-1). These above facts show that LGUs cannot provide basic services in health and social welfare sectors as much as they expected, because they would like to keep expenditure for GPS under the limitation of revenue resources.

Therefore, some issues brought through above features are as follows.

1) The distribution of sources of tax revenue and the intergovernmental fiscal adjustment system should be reconsidered so that LGUs may get more appropriate fiscal distributions at macro level for mandates/roles/responsibilities among LGUs and central government.

2) From a standpoint of fiscal discipline, the expenditure, especially the expenditure for GPS should be inspected in detail, and it should be improved to be implemented efficiently.

3) It is examined how the amount of IRA should be determined and how micro resource distributions should be achieved to provide necessary basic services as much as possible at each LGU level.

2.3. Analysis on the IRA-related Rules and Regulations

The objective of the Study is not only to give options for a new distribution formula of IRA but also to suggest improvement for the utilization of IRA and other related issues. In accordance with Section 287 of LGC1991, every LGU shall appropriate in its annual budget no less than

20% for development projects. Hence, a DILG-DBM joint memorandum circular was issued (No.1s.2006) to provide guidelines on the appropriation and utilization of the 20% of the annual IRA, for development projects.

In the perception survey of the Study, questions regarding utilization of the 20% of the annual IRA for development projects were raised to sampled LGUs. Most respondents answered that Section 287 of the LGC is clear, and agreed with the current joint memorandum circular in terms of utilization (refer to Chapter 5). On the basis of the analysis, JST presents proposals in Chapter 13 regarding improvements to the existing IRA-related systems.

2.4. Analysis on the Monitoring Tools of Local Government

In order to measure the performance and productivity of LGUs, a self-assessment tool called Local Governance Performance Management System (LGPMS) is now widely used in the Philippines. This web-based tool, managed and developed by DILG, helps LGUs not only in determining their capacities and limitations in the delivery of essential public services, but also in improving their management and operations. Therefore, it is not merely a means for monitoring the local government by a national government agency, but also serves as a development and management tool for the local government.

It was first introduced to the LGUs as Local Productivity and Performance Measurement System (LPPMS), which was intended to provide reports on the conditions of their service delivery to the Ministry of Local Government (MLG) Central Office. In 1984, LPPMS was fully implemented, and until 1985, the MLG Central Office was annually provided with local government reports. After the 1986 People Power, the use of LPPMS was discontinued and its implementation was decentralized to the regions.

In 2000, the enhanced version of LPPMS was developed. The Citizens' Satisfaction Index System (CSIS) was created to gauge client views on the quality of government services. A year later, the Local Development Watch (DevWatch) was established to complement with the funding from AusAID. This LPPMS version was designed as a self-assessment system of LGUs.

Input (performance) refers to the underlying capacity of a local government. This capacity is seen in terms of structures, policies, guidelines, administrative systems, managerial and technical competencies, tools, facilities, equipment and financial resources.

Output (productivity) means the availability and quality of basic services delivered by a local government, while outcome (state of development) refers to the socio-economic and environmental conditions in a locality.

CHAPTER 3
STATISTICAL ANALYSIS ON LOCAL GOVERNMENT FINANCE AND IRA

3.1. Database Structure

The data base is comprised of two parts; Official budget data and Sample-survey data.

3.2. Analysis of Budget Data for All LGUs

3.2.1. Number of LGUs and their Total income for the year 2002-2005 (Table 3-2)

- The rate of budget growth has been highest for the cities among the three levels.
- The relative budget of the three levels of LGUs are roughly constant, as provinces, cities and municipalities occupy respectively 23%, 42% and 35% of the total.

3.2.2. 1) Comparisons of income structure

Table 3-1: Percent (%) Share of Income Components by LGU layer, 2005

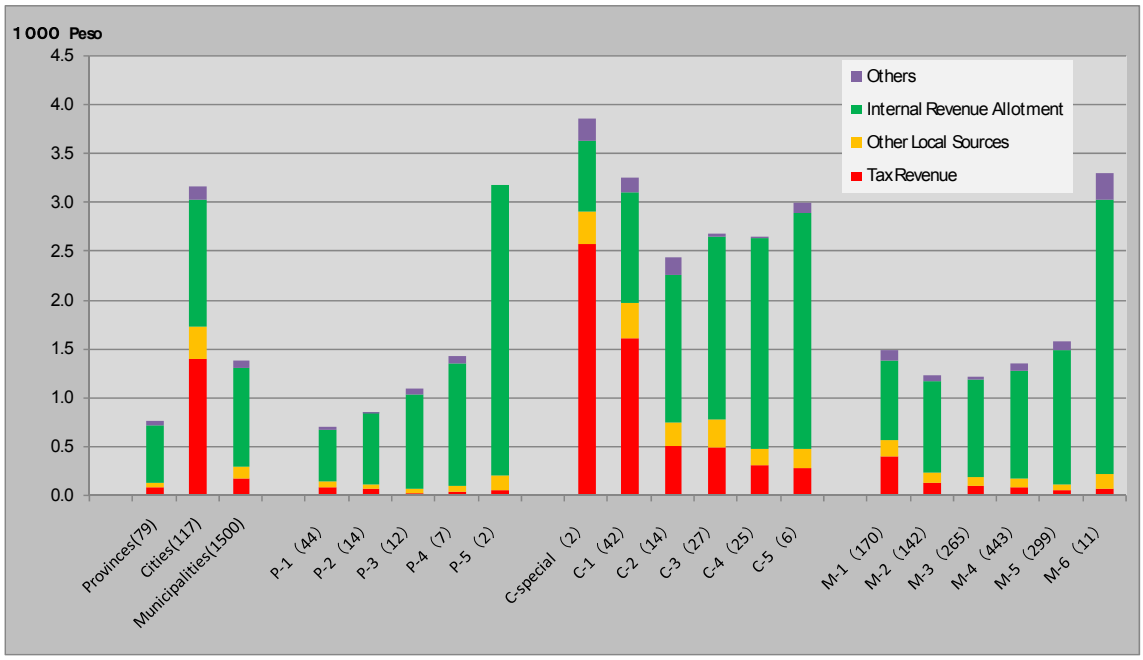
year 2005	Total Income	Local Sources	of which Tax	IRA	Other national sources
Component share					
Province (P)	100.0%	16.3%	9.8%	78.8%	4.9%
City (C)	100.0%	54.7%	44.3%	40.9%	4.4%
Municipality (M)	100.0%	20.5%	12.6%	74.3%	5.2%
Layer share					
Province (P)	23.0%	11.0%	8.9%	29.6%	23.0%
City (C)	42.1%	67.9%	73.8%	28.1%	40.9%
Municipality (M)	34.9%	21.1%	17.3%	42.3%	36.1%
P+C+M	100.0%	100.0%	100.0%	100.0%	100.0%

Source: JICA Study Team based on SIE 2002-2005

- IRA accounts for almost three quarters in provinces and municipalities, and more than 40% in cities where local sources seems more abundant.
- Among total local taxes collected, some 74% were accumulated from the cities.
- The vertical distribution of IRA, the highest for municipalities (42%) and the lowest for cities (28%), contribute to compensating the own-source gap to some extent.

3.2.2. 2) Comparisons of Per-capita Income of LGUs

- Among the three levels of LGUs, per-capita total income is substantially high in the city, which is more than double that of the municipality. While the difference is mainly attributable to "tax", per-capita IRA allocation in the city is also somewhat higher than that of the municipality.
- Total local source, tax revenue in particular, is remarkably high only in the highest two classes of cities and, to a lesser extent, in the first class municipalities.
- With regard to IRA, the picture is similar for all layers; the lower the income class, the higher the per capita IRA receipt. While this feature attributes to the total income imbalance in favor of lower class provinces, IRA seems to be rather successfully allocated to regain the balance in case of cities and municipalities.

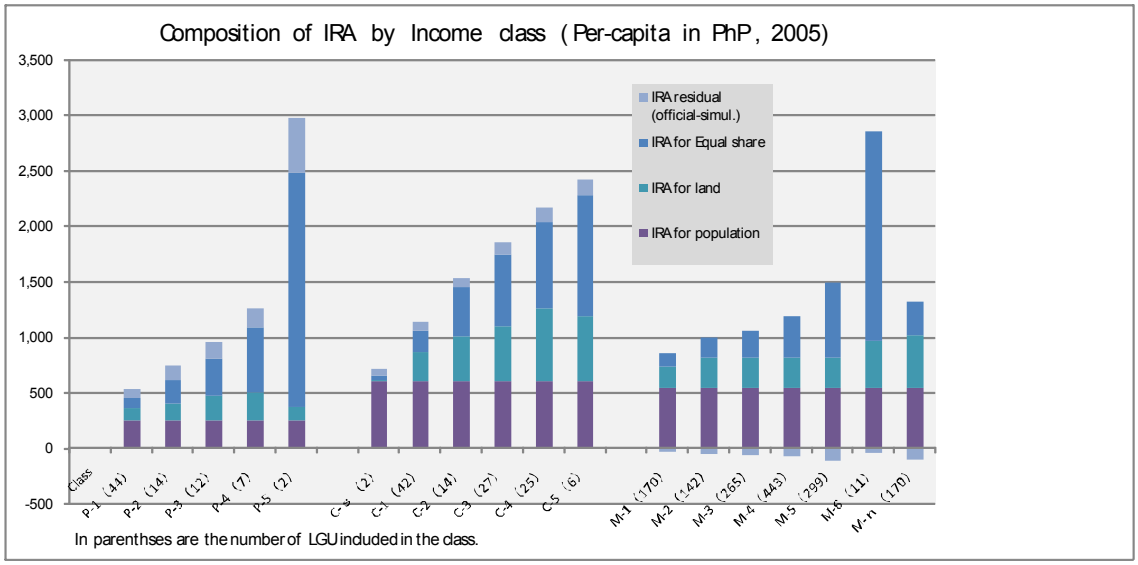


Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Chart 3-1: Per capita LGU Income and its components by income-class (2005)

3.2.2. 3) Formula effects on IRA distribution

Per capita IRA of each layer is on a clear increasing curve across income classes, and almost single reason for it should be the fact that "Equal share" portion increases significantly as income class goes down. (Chart 3-2)



Source: Compiled by JICA Study Team based on DOF-BLGF SIE 2005

Chart 3-2: Comparison of IRA by Income Class

3.2.2. 4) Time-series variation in LGU income components

Total Income grew much faster in cities compared with the other two, spurred by Local Sources.

3.3. Analysis of numerical data collected through the Sample LGU Survey

Numerical data (Secondary data) related to various fields of local life (Education, Health & nutrition, Housing, Mobility, Safety, Economic activity and Tax base) were attained through the Sample Survey (out of 169 target LGUs, 136 responded). Attempts to estimate equations regressing between these data and budget proved to be too ambitious at least depending on the data collected this time.

APPENDED ARTICLE
REGRESSION ANALYSIS BETWEEN POPULATION AND PER CAPITA EXPENDITURE OF LGUS AND ANALYSIS OF FISCAL STRUCTURE OF DEVIANT LGUS

With the purpose of analyzing fiscal structures of LGUs and obtaining implications for IRA allocation, the following additional analysis was conducting using fiscal data of provinces, cities, and municipalities.

i) to analyze a correlation between population size and per capita income of LGUs and verify an existence of correlation between two variables; and

ii) to analyze fiscal structures of LGUs which are largely deviated from an approximated curve, if there exists correlation.

Major findings from the above mentioned analysis are as follows.

There exists a correlation between 2 variables, i.e., population as an explaining variable and per capita total expenditure for provinces, component cities, and municipalities. At each level of LGUs, an approximated curve using an inverse of population has a relatively large correlation efficient. Calculated approximated curves which show a correlation between an inverse of population and a per capita total expenditure are as follows.

Province:	Per capita total expenditure (pesos) = 110,804 x (1/population ('000)) + 550.1
City (Component City):	Per capita total expenditure (pesos) =110,980 x (1/population ('000)) + 1,353.4)
Municipality:	Per capita total expenditure (pesos) = 8,308.5 x (1/population ('000)) + 1,078.8

For each level of LGUs, LGUs which are largely deviated from the approximated curve are chosen and expenditure compositions of these LGUs are analyzed to identify common characteristics of these LGUs. However, there is no clear common characteristic for provinces, component cities, and municipalities.

Due to nonexistence of common patter of expenditure among groups of deviated LGUs and large variation of expenditure pattern, it is necessary to analyze further public service needs of individual LGUs in order to identify how current IRA allocation affects expenditure composition of deviated LGUs and get some implication for IRA allocation from current expenditure compositions of LGUs.

CHAPTER 4
ESTIMATE OF FINANCIAL NEEDS IN A BUILD-UP APPROACH

The Study takes on the challenge of estimating the financial needs of LGUs. It is done through what is called a build-up approach.

4.1. Methodology/Basic Policies/Limitations

The financial requirements are estimated in extensive detail according to sub-sectors and their component expense items and in the end they are all added up. Once the total financial requirements for each sub-sector are figured, the pinpoint of a measurement unit or a set of measurement units automatically leads to the identification of unit costs in respective sub-sectors. The following is the steps taken in the Study.

Step 1 Tabulation of service responsibilities and "Expense Items" for all levels of LGUs
Step 2 Identification of "typical" LGUs at each LGU level
Step 3 Computation of the cost required in each sub-sector
Step 4 Identification of "Measurement Unit" and "Unit Cost" for all sub-sectors

The build-up approach in this Study adopts the following basic policies and assumptions.

- The financial needs of local government are estimated strictly in accordance with the service responsibilities delineated in LGC1991 and other laws.
- The Study takes a prudent approach and sets two categories in the city layer by separating highly urbanized cities (HUCs) and independent component cities (ICCs) from component cities (CCs) since the scope of service responsibilities of these two groups seems vague.
- The Study chooses to include the budget requirements of these public entities within the financial needs of local government.
- The fixed costs are set in the sector of GPS.
- The Study chooses not to include the financial requirements of education at all in the estimate of financial needs of LGUs.
- Financial requirement of provincial level hospitals is figured in as financial needs of provincial governments even though in reality some of them are financed by the central government.
- In the sub-sector of social welfare, the number of poor families is chosen as measurement unit and the Study makes its own estimate on the number of poor families, especially at the municipality level.
- The main expense item for the suc-sector of infrastructure is unargurably the construction/ repair/maintenance of road and bridges. For this reason, the length of road is chosen as the measurement unit for this sub-sector,

- Appropriations such as Special Purpose Appropriation (SPA) and Appropriation for Confidential Expenses are not figured in as financial needs of local government.

The attempt to compute the financial needs of LGUs meets a lot of challenges in the Philippines. Mainly due to the lack of nationally set standards, the Study has to set its own assumptions in the calculation of the needs in many sectors, which makes the estimate less convincing.

- Because of the lack of nationally set service standards in some of the sectors as well as time constraints of the Study, JST has to consult the current budget and actual service delivery situation for estimating the financial needs. For this reason, a typical LGU is selected at each LGU level for reference. Since the attempt in this Study turns out to be more influenced by the current budget than it had been planned, part of the estimate may be distorted by the peculiar situation of the selected LGUs.
- Preferably speaking, a set of the measurement units and their corresponding unit costs should be identified for each major expense item in each sub-sector. However for sake of simplicity and partly due to the unavailability of the data, only one measurement unit is identified in each sub-sector which may be most suitable in the estimation of the financial needs in respective sub-sectors.
- In the sub-sector of agriculture/fishery, the number of families or population engaged in the said sub-sector may be the best option for its measurement unit.
- The estimate of all expense items in the sub-sector of infrastructure takes considerable time as it requires detailed computation in a wide range of expense items. Mainly due to time constraints, the estimate in most of the expense items draws upon the current budget especially at municipal level.
- Due to time constraints of the Study, the detailed programs and activities under for the sub-sectors of Population Development and Employment sub-sectors have not been completed.

4.2. Results of Computation

The measurement units and unit costs for province, HUCs/ICCs, CCs and municipality levels are identified as shown in Table 4-1.

Table 4-1: Measurement Units and Unit Costs at Different LGU Levels

Sectors/Sub-sectors		Mesurement Unit	Unit Cost			
			Province	HUC/ICC	CC	Municipality
General Public Services (GPS)		Ppulation	P154.0 (P43,713,831)	P354.0 (P86,409,780)	P785 (P28,295,482)	P416 (P7,008,698)
Social Services (SC)	[Education]	N/A				
	[Health]	Population	P172.6	P346.9	P287.7	P206.1
	[Social Welfare]	No. of Poor Families	P702.8	P3,002.5	P14,060.8	P6,457.9
	[Low-cost Housing]	Population		P10.2		
	[Sports/Recreation]	Population		P1.9		
	[Population Development]	Population	P6.1	P5.9		
	[Employment]	Population	P4.2	P12.3		
Economic Serivces (ES)	[Agriculture/Fishery]	Population	P24.9	P16.1	P87.9	P45.8
	[Infrastructure]	Length of Road (/km)	P976,992.7	P5,061,107.1	P816,933.6	P545,836.2
	[Environmental Management]	Population	P4.3	P175.7	P67.7	P67.7
	[Transportation/Communication]	Population		P73.8		
	[Tourism]	Population	P4.6	P26.0		
	[Investment/Industrial Dev't]	Population	P3.1	P4.4	P19.0	P66.1
	[Local Enterprises]	Population	P21.4	P6.1	P229.4	P127.2

Note: Figures in parenthesis under GPS are fixed costs.

Source: Compiled by JICA Study Team

4.2.3. Computation of financial shortages and review of vertical formula

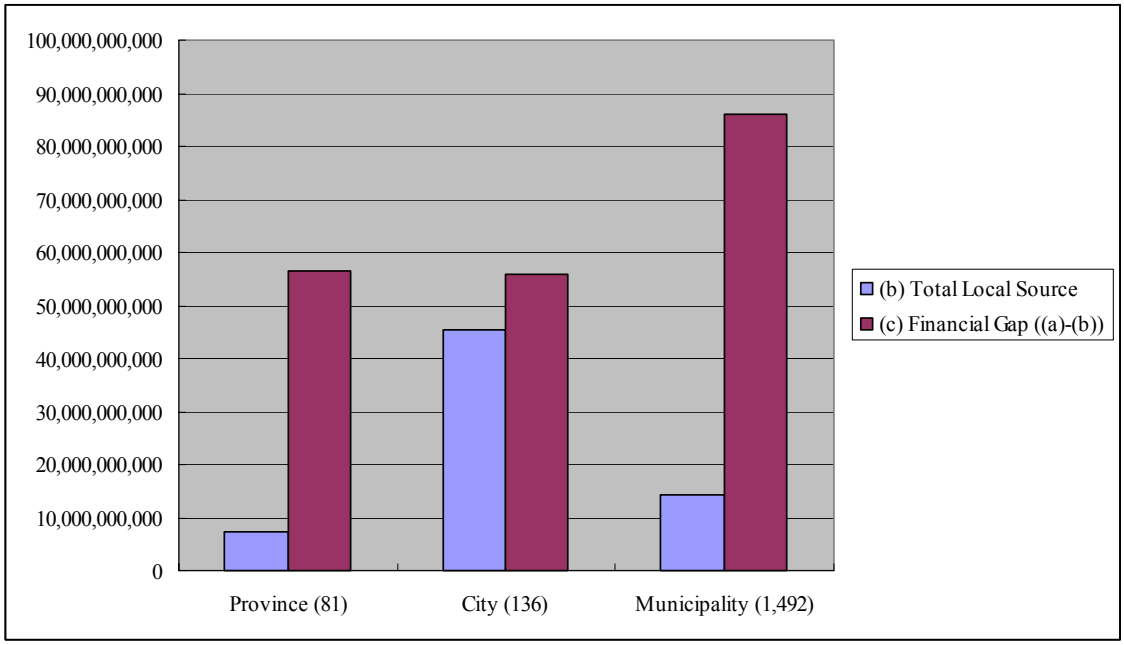
Based on the unit costs identified above, the financial gaps of different levels of LGUs are estimated (refer to Table 4-8). It turns out that the size of the aggregated financial gaps of provincial governments is almost the same as that of the cities.

Table 4-2: Aggregated Financial Shortages of Different Levels of LGUs (pesos)

	Province	HUC/ICC	Component	Municipality
Number of LGUs	81	36	100	1492
(a) Financial Needs	63,836,605,850	64,698,283,019	36,590,843,351	100,062,913,418
		101,289,126,370		
(b) Total Local Source	7,414,128,304	45,518,216,707		14,154,911,330
(c) Financial Gap ((a)-(b))	56,422,477,546	55,770,909,663		85,908,002,088

Source: Compiled by JICA Study Team

The chart below shows the aggregated financial shortages of different levels of LGUs in comparison with the aggregated own source income.



Source: Compiled by JICA Study Team

Chart 4-1: Aggregated Financial Shortages of Different Levels of LGUs in comparison with the aggregated own source income

Based on the aggregate figures of financial shortages of all LGU levels, the sharing scheme of IRA can be adjusted as follows (Table 4-3), provided that the share of barangays remains the same at 20%.

Table 4-3: Vertical Sharing Option

	Province	HUC/ICC	Component	Municipality
Number of LGUs	81	36	100	1492
(a) Financial Needs	63,836,605,850	64,698,283,019	36,590,843,351	100,062,913,418
		101,289,126,370		
(b) Total Local Source	7,414,128,304	45,518,216,707		14,154,911,330
(c) Financial Gap ((a)-(b))	56,422,477,546	55,770,909,663		85,908,002,088
(d) Aggregated Financial Gap (subtotal of (c))	198,101,389,297			
(e) Proportion of finacial gap to Aggregate Financial Gap ((c) /(d))	28.48	28.15		43.37
(f) If 80% scale is applied ((e)x80%)	22.78	22.52		34.69

Source: JICA Study Team

4.3. Computation of Financial Needs and Estimate of Financial Gaps of Individual LGUs at the Provincial Level

4.3.1. Redefined Measurement Unit and Unit Cost

As shown in the above section 4.2., when computing the aggregate financial needs of different LGU levels, three different measurement units are utilized namely, population, number of poor families and road length. Despite the lack of a complete dataset of all LGUs for these measurement units especially at the city and municipality levels, the aggregate figures were estimated by JST. This enabled the Study to provide a figure for the aggregate financial needs of collective LGUs at different LGU levels. However, for computing the financial needs of individual LGUs the complete dataset is vital whatever the measurement units may be.

Complete datasets for some possible measurement units are available at the provincial level. Therefore, JST attempted to compute the financial needs of individual provincial governments with a view on estimating their financial gaps. As the data of the number of families engaged in the agriculture and fishing industries is available at the provincial level, it is utilized to compute the financial needs of agriculture/fishery sub-sector. The measurement units and unit costs used for the computation of the financial needs of individual provincial governments are shown in Table 4-4.

Table 4-4: Measurement Units and Unit Costs for Computation of the Financial Needs of Provincial Governments

Sectors/Sub-sectors		Mesurement Unit	Unit Cost
General Public Services (GPS)		Ppulation	P154.0 (P43,713,831)
Social Services (SC)	[Education]	N/A	
	[Health]	Population	P172.6
	[Social Welfare]	No. of Poor Families	P702.8
	[Low-cost Housing]	Population	
	[Sports/Recreation]	Population	
	[Population Development]	Population	P6.1
	[Employment]	Population	P4.2
Economic Serivces (ES)	[Agriculture/Fishery]	No. of Employed in Agri./Fishery	P351.1
	[Infrastructure]	Length of Road (/km)	P976,992.7
	[Environmental Management]	Population	P4.3
	[Transportation/Communication]	Population	
	[Tourism]	Population	P4.6
	[Investment/Industrial Dev't]	Population	P3.1
	[Local Enterprises]	Population	P21.4

Note: Figures in parenthesis under GPS are fixed costs.

Source: JICA Study Team

4.3.2. Computation of Financial Needs and Financial Gaps of Provincial Governments

By using the measurement units and unit costs of Table 4-4 JST computed the financial needs of all provincial governments. The financial gaps of all provincial governments are also estimated by subtracting the total local source from the financial needs. Table 4-5 shows the results of computation of the financial needs and financial gaps of provincial governments.

Table 4-5: Financial Needs and Financial Gaps of Provincial Governments

	Data Collected				GPS	Economic Services												
Serial No.	Population (2007)	Number of poor families (2006)	Length of road (kms) (Sep 2006)	No. of employed in Agri/Fishery (Apr 2003)	(P154.0 plus 43,713,831)	Health (P 172.6)	Social Welfare (P 702.6)	Population Devt (P 6.1)	Employment (P4.2)	Agriculture (P 351.06)	Infrastructure (P976, 992.7)	Enviromental Management (P 4.3)	Tourism (P 4.6)	Investment/Industrial Dev't. (P 3.1)	Local Enterprises (P21.4)	Total Financial Needs	TLS	FG
					Population	Population	Number of poor families	Population	Population	Population	Length of road (kms)	Population	Population	No. of employed in Agri/Fishery	Population			
1	2,439,005	184,207	898.07	288,000	419,320,601	420,972,263	129,423,838	14,877,931	10,243,821	101,105,280	877,407,834	10,487,722	11,219,423	7,560,916	52,194,707	2,054,814,335	283,537,481	1,771,276,854
2	1,230,110	92,354	1,239.68	165,000	233,150,771	212,316,986	64,887,920	7,503,671	5,166,462	57,924,900	1,211,161,241	5,289,473	5,658,506	3,813,341	26,324,354	1,833,197,626	73,475,698	1,759,721,927
3	2,645,395	151,660	702.13	269,000	451,104,661	456,595,177	106,556,316	16,136,910	11,110,659	94,435,140	685,975,884	11,375,199	12,168,817	8,200,725	56,611,453	1,910,270,940	262,579,428	1,647,691,512
4	682,152	74,770	1,177.52	148,000	148,765,239	117,739,435	52,533,402	4,161,127	2,865,038	51,956,880	1,150,428,444	2,933,254	3,137,899	2,114,671	14,598,053	1,551,233,443	22,490,299	1,528,743,143
5	1,693,821	134,599	637.57	380,000	304,562,265	292,353,503	94,569,257	10,332,308	7,114,048	133,402,800	622,898,305	7,283,430	7,791,577	5,250,845	36,247,769	1,521,806,109	46,684,000	1,475,122,109
6	2,370,269	190,455	369.15	531,000	408,735,257	409,108,429	133,813,683	14,458,641	9,955,130	186,412,860	360,656,855	10,192,157	10,903,237	7,347,834	50,723,757	1,602,307,840	205,533,860	1,396,773,980
7	1,722,036	147,900	543.08	334,000	308,907,375	297,223,414	103,914,540	10,504,420	7,232,551	117,254,040	530,585,196	7,404,755	7,921,366	5,338,312	36,851,570	1,433,137,537	97,366,207	1,335,771,331
8	1,691,878	100,759	688.68	224,000	304,263,043	292,018,143	70,793,273	10,320,456	7,105,888	78,637,440	672,835,333	7,275,075	7,782,639	5,244,822	36,206,189	1,492,482,300	183,790,700	1,308,691,600
9	1,853,855	121,010	699.57	302,000	329,207,193	319,975,028	85,021,626	11,308,503	7,786,183	106,020,120	683,474,783	7,971,568	8,527,724	5,746,944	39,672,454	1,604,712,126	305,486,000	1,299,226,126
10	847,440	101,644	836.01	305,000	174,219,591	146,268,140	71,415,074	5,169,384	3,559,248	107,073,300	816,775,667	3,643,992	3,898,224	2,627,064	18,135,216	1,352,784,905	91,032,319	1,261,752,585
11	2,245,869	108,782	569.51	192,000	389,577,657	387,636,989	76,430,233	13,699,801	9,432,650	67,403,520	556,407,113	9,657,237	10,330,997	6,962,194	48,061,597	1,575,599,987	314,431,967	1,261,168,021
12	1,401,495	69,434	599.64	283,000	259,544,061	241,898,037	48,784,328	8,549,120	5,886,279	99,349,980	585,843,903	6,026,429	6,446,877	4,344,635	29,991,993	1,296,665,641	70,057,000	1,226,608,641
13	735,769	74,307	778.46	181,000	157,022,257	126,993,729	52,208,098	4,488,191	3,090,230	63,541,860	760,549,737	3,163,807	3,384,537	2,280,884	15,745,457	1,192,468,787	43,551,108	1,148,917,679
14	1,243,449	53,338	679.22	163,000	235,204,977	214,619,297	37,475,279	7,585,039	5,222,486	57,222,780	663,590,051	5,346,831	5,719,865	3,854,692	26,609,809	1,262,451,105	114,431,222	1,148,019,883
15	547,284	20,362	320.49	116,000	127,995,567	94,461,218	14,306,341	3,338,432	2,298,593	40,722,960	313,117,367	2,353,321	2,517,506	601,227,627	11,711,878	1,214,050,812	75,696,278	1,138,354,533
16	907,238	115,560	804.18	162,000	183,428,483	156,589,279	81,192,456	5,534,152	3,810,400	56,871,720	785,677,989	3,901,123	4,173,295	2,812,438	19,414,893	1,303,406,228	241,083,479	1,062,322,749
17	767,254	82,129	665.87	194,000	161,870,947	132,428,040	57,703,835	4,680,249	3,222,467	68,105,640	650,549,152	3,299,192	3,529,368	2,378,487	16,419,236	1,104,186,615	71,493,158	1,032,693,457
18	637,360	62,669	778.48		141,868,195	110,099,372	44,031,239	3,887,933	2,676,937	0	760,569,277	2,740,674	2,931,884	1,975,835	13,639,632	1,084,330,977	56,660,201	1,027,670,776
19	2,856,765	42,077	358.09	64,000	483,655,641	493,077,639	29,563,300	17,426,267	11,998,413	22,467,840	349,854,247	12,284,090	13,141,119	8,855,972	61,134,771	1,503,459,298	476,448,574	1,027,010,724
20	1,231,900	110,724	494.58	206,000	233,427,047	212,626,630	77,794,682	7,514,614	5,173,997	72,318,360	483,199,096	5,297,187	5,666,758	3,818,902	26,362,746	1,133,200,020	115,373,529	1,017,826,491
21	1,072,571	41,175	498.43	330,000	208,889,765	185,125,753	28,929,553	6,542,683	4,504,798	115,849,800	486,961,494	4,612,055	4,933,827	3,324,970	22,953,019	1,072,627,722	79,585,000	993,042,722
22	1,190,284	68,973	635.03	384,000	227,017,567	205,443,013	48,460,430	7,260,732	4,999,193	134,807,040	620,419,674	5,118,221	5,475,306	3,689,880	25,472,078	1,288,163,140	298,224,650	989,938,491
23	914,278	91,618	444.81	379,000	184,512,643	157,804,383	64,367,996	5,577,096	3,839,968	133,051,740	434,576,123	3,931,395	4,205,679	2,834,262	19,565,549	1,014,266,834	33,942,620	980,324,214
24	1,911,951	34,405	290.44	85,000	338,154,285	330,002,743	24,172,953	11,662,901	8,030,194	29,840,100	283,757,760	8,221,389	8,794,975	5,927,048	40,915,751	1,089,480,099	118,907,377	970,572,722
25	1,190,823	88,676	422.59	128,000	227,100,573	205,536,050	62,303,758	7,264,020	5,001,457	44,935,680	412,867,345	5,120,539	5,477,786	3,691,551	25,483,612	1,004,782,371	49,514,842	955,267,529
26	822,406	39,088	532.54	261,000	170,364,355	141,947,276	27,463,229	5,016,677	3,454,105	91,626,660	520,285,738	3,536,346	3,783,068	2,549,459	17,599,488	987,626,400	37,849,797	949,776,603
27	1,138,544	70,544	416.62	118,000	219,049,607	196,512,694	49,564,214	6,945,118	4,781,885	41,425,080	407,036,653	4,895,739	5,237,302	3,529,486	24,364,842	963,342,621	24,433,250	938,909,372
28	1,646,510	146,188	348.40	256,000	297,276,371	284,187,626	102,711,689	10,043,711	6,915,342	89,871,360	340,382,303	7,079,993	7,573,946	5,104,181	35,235,314	1,186,381,835	250,049,236	936,332,600
29	1,121,974	59,940	447.86	277,000	216,497,827	193,652,712	42,113,844	6,844,041	4,712,291	97,243,620	437,552,043	4,824,488	5,161,080	3,478,119	24,010,244	1,036,090,310	109,432,004	926,658,306
30	675,644	53,776	546.85	135,000	147,763,007	116,616,154	37,783,018	4,121,428	2,837,705	47,393,100	534,268,458	2,905,269	3,107,962	2,094,496	14,458,782	913,349,380	19,215,513	894,133,867
31	748,885	82,730	562.49	102,000	159,042,121	129,257,551	58,126,098	4,568,199	3,145,317	35,808,120	549,544,716	3,220,206	3,444,871	2,321,544	16,026,139	964,504,880	80,330,155	884,174,725
32	710,829	107,074	386.20	235,000	153,181,497	122,689,085	75,230,192	4,336,057	2,985,482	82,499,100	377,311,650	3,056,565	3,269,813	2,203,570	15,211,741	841,974,752	1,367,910	840,606,842
33	2,826,926	56,008	338.22	125,000	479,060,435	487,927,428	39,351,221	17,244,249	11,873,089	43,882,500	330,438,471	12,155,782	13,003,860	8,763,471	60,496,216	1,504,196,721	667,945,000	836,251,721
34	486,104	54,153	548.84	111,000	118,573,847	83,901,550	38,047,898	2,965,234	2,041,637	38,967,660	536,213,650	2,090,247	2,236,078	1,506,922	10,402,626	836,947,350	44,985,352	791,961,998
35	2,473,530	50,689	252.25	119,000	424,637,451	426,931,278	35,614,091	15,088,533	10,388,826	41,776,140	246,446,409	10,636,179	11,378,238	7,667,943	52,933,542	1,283,498,630	502,220,532	781,278,098
36	701,668	34,988	387.97	160,000	151,770,087	121,107,206	24,581,164	4,280,150	2,946,989	56,169,600	379,041,904	3,017,155	3,227,654	2,175,158	15,015,610	763,332,678	53,257,590	710,075,088
37	390,847	57,510	467.45	150,000	103,904,269	67,460,192	40,406,522	2,384,167	1,641,557	52,659,000	456,695,230	1,680,642	1,797,896	1,211,620	8,364,126	738,205,239	30,300,536	707,904,703
38	849,678	50,701	217.32	126,000	174,563,011	146,653,042	35,622,523	5,182,987	3,568,614	44,233,560	212,367,926	3,653,581	3,908,482	2,633,977	18,182,938	650,570,641	703,219	649,867,422
39	230,953	22,484	477.27	58,000	79,280,593	39,862,488	15,797,528	1,408,813	970,003	20,361,480	466,777,802	993,098	1,062,384	715,954	5,942,394	632,172,268	24,719,201	607,452,877
40	632,255	35,729	267.51	183,000	141,081,101	109,127,213	25,138,325	3,856,756	2,655,471	64,243,980	261,358,248	2,718,697	2,908,373	1,959,991	13,530,257	628,578,411	27,495,650	601,082,762
41	609,447	58,161	312.58	193,000	137,568,669	105,190,552	40,863,919	3,717,627	2,559,677	67,754,580	305,388,378	2,620,622	2,803,456	1,889,286	13,042,166	683,398,932	83,669,402	599,729,530
42	720,972	40,641	271.90	140,000	154,743,519	124,439,767	28,554,367	4,397,929	3,028,082	49,148,400	265,648,223	3,100,180	3,316,471	2,235,013	15,428,801	654,040,752	58,050,626	595,990,127
43	538,283	72,484	283.02	155,000	126,609,413	92,907,646	50,927,258	3,283,526	2,260,789	54,414,300	276,507,497	2,314,617	2,476,102	1,668,677	11,519,256	624,889,081	41,566,264	583,322,817
44	768,939	80,512	159.15	143,000	162,130,437	132,718,871	56,567,731	4,690,528	3,229,544	50,201,580	155,488,388	3,306,438	3,537,119	2,383,711	16,455,295	590,709,642	12,145,342	578,564,300
45	709,673	62,071	216.94	108,000	153,003,473	122,489,560	43,611,085	4,329,005	2,980,627	37,914,480	211,948,796	3,051,594	3,264,496	2,199,986	15,187,002	599,980,104	25,687,718	574,292,385
46	2,284,046	27,217	61.34	32,000	395,456,915	394,226,340	19,122,664	13,932,681	9,592,993	11,233,920	59,927,755	9,821,398	10,506,612	7,080,543	48,878,584	979,780,404	410,280,036	569,500,368
47	409,468	55,510	314.25	112,000	106,771,903	70,674,177	39,001,326	2,497,755	1,719,766	39,318,720	307,016,048	1,760,712	1,883,553	1,269,351	8,762,615	580,675,925	20,566,803	560,109,122
48	541,347	47,591	280.48	104,000	127,081,269	93,436,492	33,437,437	3,302,217	2,273,657	36,510,240	274,026,912	2,327,792	2,490,196	1,678,176	11,584,826	588,149,214	28,149,868	559,999,346
49	475,514	43,750	307.19	108,000	116,942,987	82,073,716	30,738,750	2,900,635	1,997,159	37,914,480	300,123,365	2,044,710	2,187,364	1,474,093	10,176,000	588,573,260	36,669,441	551,903,819
50	495,122	42,271	330.33	53,000	119,962,619	85,458,057	29,699,605	3,020,244	2,079,512	18,606,180	322,729,999	2,129,025	2,277,561	1,534,878	10,595,611	598,093,291	53,159,630	544,933,661
51	405,114	35,403	290.01	139,000	106,101,387	69,922,676	24,874,148	2,471,195	1,701,479	48,797,340	283,334,722	1,741,990	1,863,524	1,255,853	8,669,440	550,733,755	18,338,999	532,394,756
52	546,186	36,868	267.26		127,826,475	94,271,704	25,903,457	3,331,735	2,293,981	0	261,114,977	2,348,600	2,512,456	1,693,177	11,688,380	532,984,941	16,318,157	516,666,784
53	450,348	49,425	213.68	90,000	113,067,115	77,729,720	34,724,600	2,747,111	1,891,453	31,595,400	208,763,800	1,936,488	2,071,592	1,396,072	9,637,404	485,560,755	13,000	485,547,755
54	408,520	17,473	263.30	63,000	106,625,911	70,510,552	12,279,340	2,491,972	1,715,784	22,116,780	257,242,178	1,756,636	1,879,192	1,266,412	8,742,328	486,627,085	2,851,933	483,775,152
55	397,837	10,704	391.98	108,000	104,980,729	68,666,666	7,520,630	2,426,806	1,670,915	37,914,480	382,961,599	1,710,699	1,830,050	1,233,295	8,513,712	619,429,581	155,788,000	463,641,581
56	148,661	14,255	351.66	65,000	66,607,625	25,658,888	10,014,860	906,832	624,376	22,818,900	343,569,253	639,242	683,841	460,849	3,181,345	475,166,013	23,882,612	451,283,401
57	372,533	10,990	309.68	82,000	101,083,913	64,299,196	7,721,574	2,272,451	1,564,639	28,786,920	302,555,099	1,601,892	1,713,652	1,154,852	7,972,206	520,726,394	72,676,775	448,049,620
58	493,085	33,841	225.85	43,000	119,648,921	85,106,471	23,776,687	3,007,819	2,070,957	15,095,580	220,653,801	2,120,266	2,268,191	1,528,564	10,552,019	485,829,274	40,675,987	445,153,288
59	549,759	56,901	119.43	124,000	128,376,717	94,888,403	39,978,643	3,353,530	2,308,988	43,531,440	116,682,238	2,363,964	2,528,891	1,704,253	11,764,843	447,481,909	20,112,315	427,369,594
60	314,027	40,668	258.64	89,000	92,073,989	54,201,060	28,573,337	1,915,565	1,318,913	31,244,340	252,686,461	1,350,316	1,444,524	973,484	6,720,178	472,502,167	47,553,393	424,948,774
61	531,680	54,247	157.27	122,000	125,592,551	91,767,968	38,113,942	3,243,248	2,233,056	42,829,320	153,651,642	2,286,224	2,445,728	1,648,208	11,377,952	475,189,839	57,184,425	418,005,414
62	695,149	23,634	90.15	61,000	150,766,777	119,982,717	16,605,248	4,240,409	2,919,626	21,414,660	88,075,892	2,989,141	3,197,685	2,154,962	14,876,189	427,223,306	9,927,879	417,295,427
63	421,952	42,660	187.27	81,000	108,694,439	72,828,915	29,972,916	2,573,907	1,772,198	28,435,860	182,965,331	1,814,394	1,940,979	1,308,051	9,029,773	441,336,763	27,531,933	413,804,831
64	279,774	26,165	238.36	47,000	86,799,027	48,288,992	18,383,529	1,706,621	1,175,051	16,499,820	232,871,095	1,203,028	1,286,960	867,299	5,987,164	415,068,587	14,542,426	400,526,162
65	513,785	39,421	146.59	83,000	122,836,721	88,679,293	27,697,195	3,134,089	2,157,897	29,137,980	143,217,360	2,209,276	2,363,411	1,592,734	10,994,999	434,020,951	39,906,339	394,114,612
66	515,265	46,005	137.53	80,000	123,064,641	88,934,739	32,323,113	3,143,117	2,164,113	28,084,800	134,365,806	2,215,640	2,370,219	1,597,322	11,026,671	429,290,180	41,767,510	387,522,670
67	180,711	11,082	228.24	50,000	71,543,325	31,190,719	7,786,213	1,102,337	758,986	17,553,000	222,988,814	777,057	831,271	560,204	3,867,215	358,959,141	18,248,811	340,710,330
68	662,153	8,675	306.86	47,000	145,685,393	114,287,600	6,097,865	4,039,133	2,781,043	16,499,820	299,799,980	2,847,258	3,045,904	2,052,674	14,170,074	611,306,752	273,482,315	337,824,437
69	229,638	20,585	203.92	38,000	79,077,775	39,635,174	14,464,424	1,400,780	964,471	13,340,280	199,225,420	987,435	1,056,326	711,872	4,914,210	355,778,168	22,202,364	333,575,808
70	232,757	16,999	151.63	45,000	79,558,409	40,173,858	11,943,497	1,419,818	977,579	15,797,700	148,141,403	1,000,855	1,070,682	721,547	4,981,000	305,786,349	10,040,503	295,745,844
71	163,610	5,416	178.04	40,000	68,909,771	28,239,086	3,803,876	998,021	687,162	14,042,400	173,943,780	703,523	752,606	507,191	3,501,254.00	296,088,671	19,968,000	276,120,671
72	87,695	4,196	189.78	16,000	57,218,861	15,136,157	2,950,217	534,940	368,319	5,616,960	185,413,675	377,089	403,397	271,855	1,876,673	270,168,142	14,130,765	256,037,377
73	103,633	12,128	154.97	35,000	59,673,313	17,887,056	8,521,133	632,161	435,259	12,287,100	151,404,559	445,622	476,712	321,262	2,217,746	254,301,922	2,662,634	251,639,289
74	182,326	16,113	109.52	49,000	71,792,035	31,469,468	11,320,994	1,112,189	765,769	17,201,940	106,999,264	784,002	838,700	565,211	3,901,776	246,751,346	16,975,663	229,775,683
75	151,238	11,097	130.31	27,000	67,004,483	26,103,679	7,796,752	922,552	635,200	9,478,620	127,311,919	650,323	695,695	468,838	3,236,493	244,304,553	19,539,400	224,765,153
76	187,802	12,826	107.41		72,635,339	32,414,625	9,011,548	1,145,592	788,768	0	104,938,786	807,549	863,889	582,186	4,018,962	227,207,245	18,034,437	209,172,808
77	81,293	6,619	104.52	21,000	56,232,953	14,031,172	4,650,509	495,887	341,431	7,372,260	102,115,277	349,560	373,948	252,008	1,739,670	187,954,675	9,769,508	178,185,167
78	150,031	10,077	56.66	43,000	66,818,605	25,895,351	7,080,100	915,189	630,130	15,095,580	55,352,498	645,133	690,143	465,096	3,210,663	176,798,489	16,217,965	160,580,524
79	15,974		54.37	5,000	46,173,827	2,757,112	0	97,441	67,091	1,755,300	53,120,070	68,688	73,480	49,519	341,844	104,504,373	8,157,000	96,347,373

TLS: Total Local Source
FG: Financial Gaps

Source: JICA Study Team

4.3.3. Financial Gaps and IRA Distribution at the Provincial Level

Table 4-6 shows the financial gaps of all provincial governments and the current IRA shares. It also shows an ideal IRA sharing pattern if it is defined as proportionate to the financial gaps. Table 4-7 lists up ten provincial governments with most financial gaps, as well as the ten with least financial gaps.

Table 4-6: Financial Gaps and IRA Distribution

Province (79)	Financial Gap	Ideal IRA Distribution	Current IRA Distribution (2003)
Cebu	1,771,276,854	1,079,266,268	370,881,980
Bohol	1,759,721,927	1,072,225,674	387,158,270
Pangasinan	1,647,691,512	1,003,963,816	389,748,509
Palawan	1,528,743,143	931,486,743	633,150,327
Camarines Sur	1,475,122,109	898,814,621	249,920,095
Negros Occidental	1,396,773,980	851,075,899	251,616,486
Leyte	1,335,771,331	813,906,045	539,612,000
Iloilo	1,308,691,600	797,405,949	398,881,360
Nueva Ecija	1,299,226,126	791,638,489	288,570,690
Davao Del Norte	1,261,752,585	768,805,284	341,248,000
Batangas	1,261,168,021	768,449,100	425,795,966
Isabela	1,226,608,641	747,391,537	454,846,191
Oriental Mindoro	1,148,917,679	700,053,237	351,692,125
Tarlac	1,148,019,883	699,506,196	761,302,281
Ilocos Norte	1,138,354,533	693,616,950	504,046,676
Zamb. Del Norte	1,062,322,749	647,289,613	403,182,239
South Cotabato	1,032,693,457	629,236,029	124,941,000
Compostela Valley	1,027,670,776	626,175,632	656,707,023
Cavite	1,027,010,724	625,773,452	256,721,000
Negros Oriental	1,017,826,491	620,177,358	808,245,000
Cagayan	993,042,722	605,076,225	763,420,141
Bukidnon	989,938,491	603,184,769	351,364,948
Zamb. Del Sur	980,324,214	597,326,642	976,273,940
Pampanga	970,572,722	591,384,908	284,516,074
Albay	955,267,529	582,059,218	395,348,511
Davao Del Sur	949,776,603	578,713,513	812,878,452
Lanao Del Sur	938,909,372	572,091,941	352,454,755
Quezon	936,332,600	570,521,875	280,500,000
North Cotabato	926,658,306	564,627,178	695,779,000
Sultan Kudarat	894,133,867	544,809,537	279,238,678
Misamis Oriental	884,174,725	538,741,278	361,825,332
Maguindanao	840,606,842	512,194,696	486,574,535
Bulacan	836,251,721	509,541,053	328,183,246
Davao Oriental	791,961,998	482,554,643	208,815,917
Laguna	781,278,098	476,044,778	323,038,898
Capiz	710,075,088	432,659,687	575,365,987
Southern Leyte	707,904,703	431,337,239	153,731,771
Sulu	649,867,422	395,974,230	442,961,781
Abra	607,452,877	370,130,394	387,358,826
Ilocos Sur	601,082,762	366,248,984	284,881,962
Agusan Del Sur	599,729,530	365,424,439	738,652,160
La Union	595,990,127	363,145,964	473,760,311
Lanao Del Norte	583,322,817	355,427,577	309,540,650
Masbate	578,564,300	352,528,139	340,717,720
Sorsogon	574,292,385	349,925,196	631,658,900
Rizal	569,500,368	347,005,346	368,279,662
Surigao Del Norte	560,109,122	341,283,115	741,186,386
Surigao Del Sur	559,999,346	341,216,227	387,336,055
Sarangani	551,903,819	336,283,497	294,879,371
Aklan	544,933,661	332,036,473	243,980,202
Eastern Samar	532,394,756	324,396,325	145,828,294
Zamboanga Sibugay	516,666,784	314,813,029	304,325,546
Tawi-Tawi	485,547,755	295,851,725	321,488,857
Basilan	483,775,152	294,771,651	268,720,676
Nueva Vizcaya	463,641,581	282,503,956	472,231,555
Mt. Province	451,283,401	274,973,927	661,757,000
Benguet	448,049,620	273,003,534	984,529,017
Zambales	445,153,288	271,238,755	380,612,286
Northern Samar	427,369,594	260,402,876	617,245,036
Agusan Del Norte	424,948,774	258,927,833	691,198,812
Misamis Occidental	418,005,414	254,697,137	965,838,890
Samar	417,295,427	254,264,531	357,465,802
Occidental Mindoro	413,804,831	252,137,657	166,943,670
Romblon	400,526,162	244,046,759	509,085,531
Camarines Norte	394,114,612	240,140,104	433,040,715
Antique	387,522,670	236,123,531	623,134,418
Ifugao	340,710,330	207,600,052	766,696,559
Bataan	337,824,437	205,841,633	869,087,000
Marinduque	333,575,808	203,252,878	222,349,668
Catanduanes	295,745,844	180,202,498	246,911,199
Quirino	276,120,671	168,244,577	583,152,900
Siquijor	256,037,377	156,007,517	409,551,286
Apayao	251,639,289	153,327,694	159,248,904
Kalinga	229,775,683	140,005,863	508,068,914
Guimaras	224,765,153	136,952,870	818,598,466
Aurora	209,172,808	127,452,214	379,102,567
Camiguin	178,185,167	108,570,967	321,721,287
Biliran	160,580,524	97,844,186	541,164,744
Batanes	96,347,373	58,705,938	250,187,882

Source: JICA Study Team

Table 4-7: LGUs with Most Financial Gaps

1	Cebu
2	Bohol
3	Pangasinan
4	Palawan
5	Camarines Sur
6	Negros Occidental
7	Leyte
8	Iloilo
9	Nueva Ecija
10	Davao del Norte

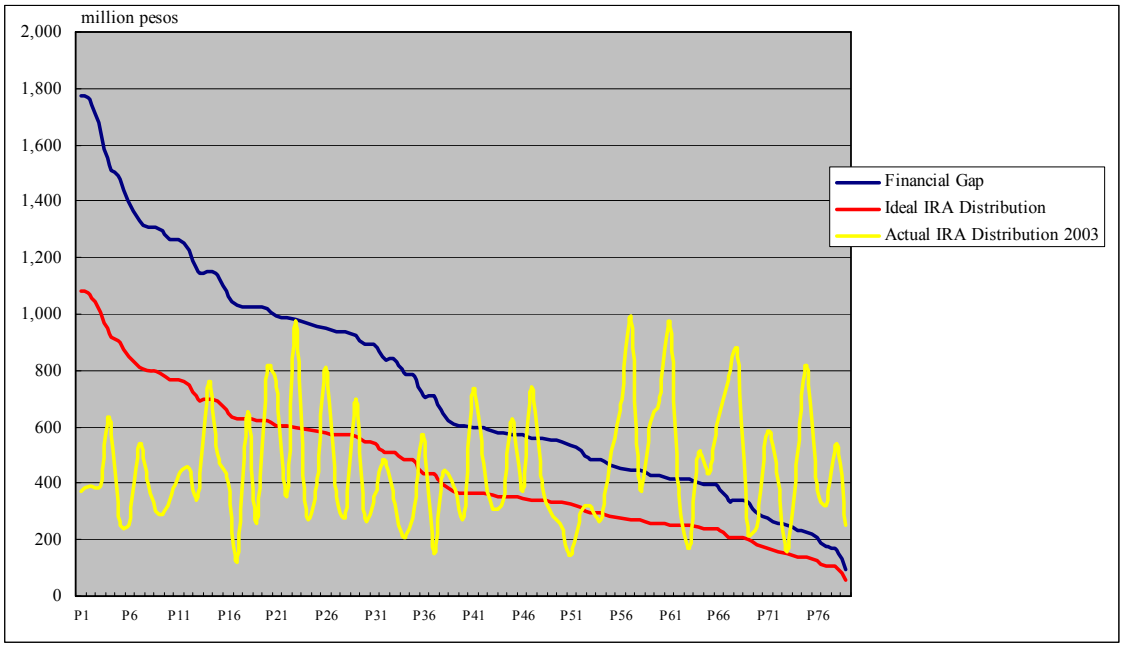
LGUs with Least Financial Gaps

70	Catanduanes
71	Quirino
72	Siquijor
73	Apayao
74	Kalinga
75	Guimaras
76	Aurora
77	Camigin
78	Birilan
79	Batanes

Source: JICA Study Team

Figure 4-1 illustrates the current IRA distribution pattern in relation to the financial gaps at the provincial level. It indicates that the IRA is distributed regardless of the financial gaps of provincial governments. The limitations that the Study faced can not be further reduced. With this in mind, JST also ventures to show an ideal IRA distribution pattern (shown in red curve).

Once the financial gaps of LGUs are estimated, the IRA distribution can be evaluated in terms of its effect on the disparity adjustment in the financial capacity of LGUs. If the overall precision of the computation of the financial needs and potential revenue is improved, the financial gaps may be used not only for the verification of the IRA distribution determined by formulas but also for other related purposes, if necessary.



Source: JICA Study Team

Figure 4-1: Financial Gaps and IRA Distribution at the Provincial Level

Part II

Perceptional Analysis

CHAPTER 5
ANALYSIS ON LGU PERCEPTION SURVEY

The perception of stakeholders in IRA issues is substantial for considering the options on new IRA distribution formula. Especially, LGUs views would be essential in the proposals for the options.

Therefore, as part of LGUs sample surveys conducted in this study, Perception Survey intended for governors, mayors and executives of LGU was carried out by JST. It included a total of 166 out of the 168 target sample LGUs. These consist of six provinces, 10 cities and 150 municipalities, further sorted according to different income classes. The other two target provinces failed to participate in the survey.

By size of population and land area, target sample LGUs were sorted into four types, i.e. forty-five LGUs (27%) have big population and land area (BB); 67 (40%) have big population with small land area (BS); 44 (27%) have small population with small land area (SS); and 10 (6%) have small population but with big land area (SB)[1].

5.1. Perception on Allocation of IRA

5.1.1. On Vertical Distribution Ratio

Out of the 166 sample LGUs, 131 respondents (79%) do not agree with the present vertical sharing formula among different levels of LGUs. After classifying survey results by LGU level, it was realized that all six respondents in the provinces and 120 out of the 150 respondents (80%) in the municipalities disagree with the present sharing formula. Finally, among the ten respondents in the cities, five expressed disagreement with the present formula.

5.1.2. On Factors in Determining Horizontal Allocation

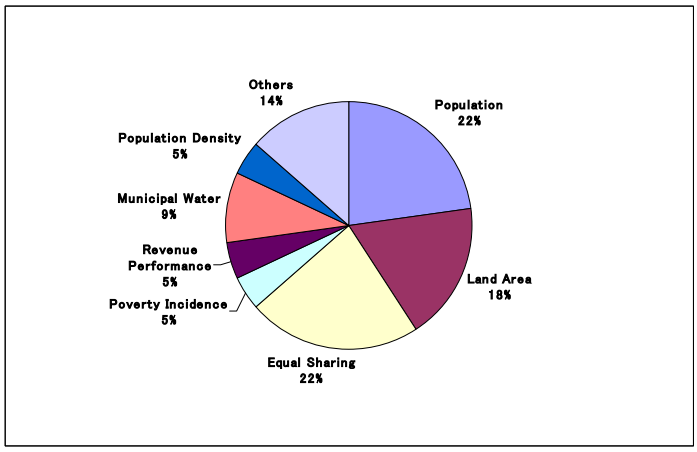
Among the 166 sample LGUs, two-thirds (108 respondents) disagree with population, land area and equal sharing as the factors for determining horizontal allocation for each LGU. It is observed that the largest percentage of respondents who disagreed (76% based on 32 out of 42 respondents) were from the SS group. It should also be noted that even the respondents from BB LGUs, 60% do not agree with the present factors while only 36% agreed.

[1] An LGU is considered to have a big population if the number is above national average (median), otherwise, population is considered small. Similarly, an LGU has big land area if its size is above national average (median) and small if otherwise. BB, BS, SB,SS stand for big population & big land area, big population & small land area, small population & big land area and small population & small land area respectively.

By level of LGU, only one out of the six provincial respondents agrees with the present factors. It is also realized that even the respondents from BB provinces who are already benefiting, still disagrees with the present factors.

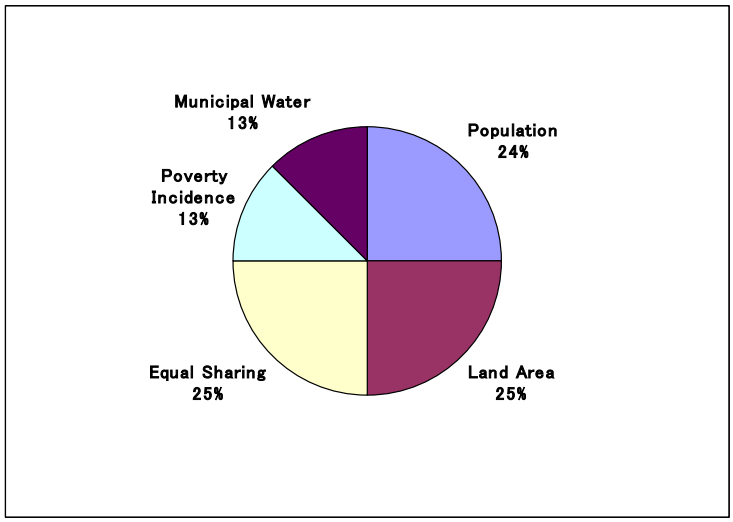
The reasons cited by respondents who agree with population, land area and equal sharing as the factors are the following: a) Present factors are easy to understand according to 27 respondents (52%); b) IRA amount is easily computed for each LGU as quoted from 19 respondents (37%); and c) IRA amount is equitably allocated to each LGU as cited by 12 respondents (23%).

Suggested Factors in Determining Allocation for sample LGUs are shown in Chapter 5-1, 5-2, 5-3.



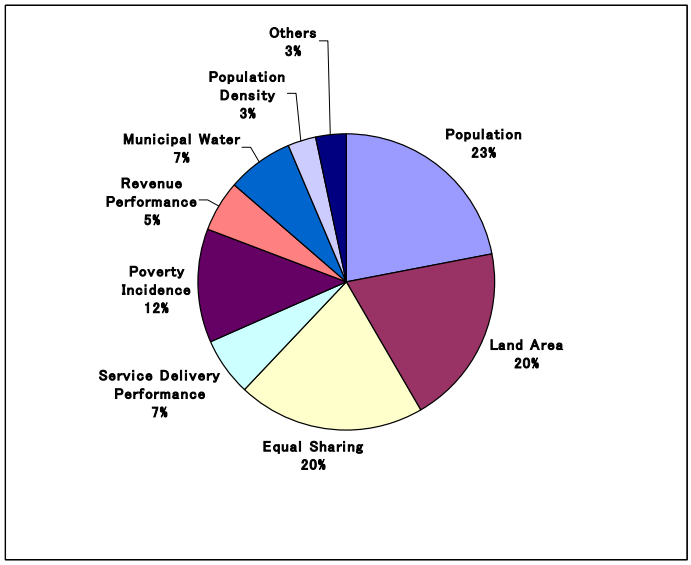
Source: JICA Study Team

Chart 5-1: Factors in Determining Horizontal Allocation Suggested from Sample Provinces



Source: JICA Study Team

Chart 5-2: Factors in Determining Horizontal Allocation Suggested from Sample Cities



Source: JICA Study Team

Chart 5-3: Factors in Determining Horizontal Allocation Suggested from Sample Municipalities

5.2. Perception on Utilization of IRA

Out of the 166 respondents, 132 respondents (80%) stated that Sec 287 of the LGC clearly provides guidance on the utilization of no less than 20% of IRA on development projects, while 31 respondents mentioned that it remains unclear.

When the respondents were asked if the 20% component of IRA should be solely utilized for investment and capital expenditure, 100 respondents (60%) concurred; 62 respondents (38%) disputed; and 4 respondents (2%) did not reply.

5.3. Perception on Other Issues on IRA

Among the 166 respondents, 154 (93%) stated that their current IRA amount is not sufficient to cover the cost of providing basic services. Adding local sources and grants to IRA, 142 (86%) replied that these amounts are still insufficient. Those who stated that the combined IRA and other sources are sufficient belong to the high income levels.

When asked if they favor a performance-based grant (in addition to IRA), 159 respondents (96%) agreed, while five disagreed.

The suggested criteria for the grant should include service delivery performance as suggested by 129 respondents (78%) and revenue performance as mentioned by 97 respondents (58%).

When asked if IRA is one of the factors causing fragmentation of LGUs, 124 (75%) responded affirmatively; 36 respondents disagreed.

In the perception survey, other issues/recommendations on IRA were given by the respondents. These vary, and some are out of the scope of the Sudy. However, most of them e.g. opinions regarding “Factors in Determining Allocation” and “Monitoring on Utilization of IRA” would be useful when the proposals and IRA-related policy are made.

CHAPTER 6
ANALYSIS OF SURVEY BY QUESIONNAIRE TO KNOWLEDGEABLE PERSONS

6.1. Objective and Methodology

The objective of the questionnaire survey is to obtain opinions of knowledgeable persons in the local finance on (1) what is a strategic objective of IRA and (2) what is an ideal allocation of IRA.

The survey was conducted adopting the Delphi method. Interviewers visited the same respondents twice and asked them to answer the same questionnaire. At the second round, the respondents were provided the results of the first round survey before they answered the questionnaire. They were asked to revise their answers at the first round survey. The survey aimed to identify the consensus among knowledgeable persons about IRA allocation as well as their opinions.

The first round of survey was conducted during the period from July 21 until August 8, 2008. The second round of survey was conducted during the last two weeks of September, 2008. The number of respondents is 40 for the first-round survey and 18 for the second-round survey.

6.2. Results of the Survey

6.2.1. Strategic Objectives of IRA

At the first round survey, as an objective of IRA, 75% of respondents (30 persons) pointed out "to provide LGUs with funds to deliver services which are devolved to LGUs." This fact shows that most knowledgeable persons tend to look upon IRA as being closely related to local autonomy and functions devolved from the central government to LGUs. Forty percents of respondents (16 persons) consider that IRA must undertake a role of adjusting financial inequity among LGUs. In addition, 10 respondents answered that IRA must supplement insufficient own-sourced revenue of LGUs. These answers show that a certain number of knowledgeable persons are concerned about insufficiency of own-sourced revenue suffered by most LGUs and a disparity of financial capability among LGUs.

At the second round survey, half of the respondents consider that IRA should serve as a financial equalizing mechanism to realize the more equitable share between central government and local government and address the financial gap between poor LGUs and rich LGUs. Three respondents have an opinion that IRA should finance the basic services within LGUs' mandate. Two respondents consider that a strategic objective of IRA is to encourage income generation by

LGUs. Other answers were supported by one respondent.

6.2.2. Critical Factors of IRA allocation

At the first round survey, the factors which gained higher score are “population”, “revenue performance/tax collection effort”, “land area”, “fiscal management performance”, “equal sharing” and “service delivery performance.” The next group consists of “human development index”, “poverty incidence”, “state of development”, “income per capita”, and “handicapping factors”. These factors favor LGUs which are suffering from underdevelopment and poverty.

At the second round survey, half of the respondents pointed out “population” as a factor for horizontal allocation. Among them, one respondent suggested both “population” and “migration.” At the second-round survey, “cost of devolved services” was supported by 44% (7 persons) of the respondents, much higher than 6% at the first round. Similarly, “poverty incidence” was pointed out by 31% (5 persons) of the respondents, which is higher than the first round. Other major factors such as “land area” and “fiscal management performance” received a similar level of support compared with the first round. Such factors as “equal sharing,” “revenue performance/tax collection effort,” and “service delivery performance” slightly decreased a share and “human development index” was much less popular at the second round.

6.2.3. IRA vertical allocation with weights

At the first-round survey, among 40 respondents, 6 respondents showed concrete percentage figure of IRA allocation to each level of LGU. At the second-round survey, only three respondents among 18 respondents showed concrete percentage figure of IRA allocation to each level of LGU. Because of limited samples, it is difficult to get any conclusion for this question. It may be noted that 4 of 6 respondents at the first-round survey consider that the current share of 20% to barangays is appropriate and 5 respondents suggest that the share to cities be decreased.

6.2.4. IRA horizontal allocation with weights

At the first-round survey, the answers were obtained from 11 respondents out of 40 respondents. All the respondents suggested additional factors. Income-related factors are popular. They are “income class,” “tax collection performance,” “taxable capacity,” “own -source income gap,” “income of LGUs,” and “revenue generation performance.” Three respondents suggested “poverty incidence.”

At the second-round survey, 6 respondents answered the question of a desirable horizontal allocation at each LGU level. Among 11 respondents who had answered this question, two

respondents, Dir. Paisal Q. Abutazil and Dir. John M. Castaneda, answered this question again. Their answers were not changed despite of the results of the first round. In addition, four respondents newly answered this question.

Broadly speaking, there is no significant common tendency among answers. However, it can be said that the addition of income-related factor(s) and/or “poverty incidence/income class” may receive a certain level of support by the knowledgeable persons in the area of local finance.

CHAPTER 7
ANALYSIS OF RESULTS OF DISCUSSIONS AT THE WORKSHOPS

7.1. Outline of Workshops

In the second phase of the Study, JST held a series of workshops at both central and local level in collaboration with DILG. The objective of the workshops was to present the options for a new IRA formula which the study team proposes to the stakeholders and to hear their opinions and/or suggestions on the improvement of IRA allocation.

Four workshops were held during the period from July until August 2008. Over 150 persons participated in these workshops, as follows:

Date	Place
July 29, 2008	Sulo Hotel, Quezon City (NCR)
July 31, 2008 - August 1, 2008	Oasis Hotel, Angeles City
August 5 - 6, 2008	Rajah Park Hotel, Cebu City
August 7 - 8, 2008	Grand Regal Hotel, Davao City

Each workshop was a one-day workshop[2].

After the opening program, the Study Team and the DILG Policy Study Group made presentations on the results of the Study and proposals of options for IRA allocation. After the presentations, the participants were divided into groups for discussion (as shown below) according to their character, i.e., i) local chief executives (LCEs), ii) LGU functionaries (administrators, treasurers, budget and planning officers), iii) national government agencies (NGA) officials, and iv) representatives from LGU Leagues and donor agencies (only at the workshop in NCR).

NCR	Group 1:	NGA officials, LGU Leagues and donor agencies
	Group 2:	LGU Functionaries
Angeles	Group 1:	LGU Functionaries
	Group 2:	LCEs and NGA officials
Cebu	Group 1:	LGU Functionaries
	Group 2:	NGA officials
	Group 3:	LCEs
Davao	Group 1:	LGU Functionaries

[2] The workshops at Angeles, Cebu and Davao were a one-day workshop which consisted of half-day session of the first day afternoon and half-day session of the second day morning.

Group 2: NGA officials

All the groups were given the same questions as follow and same discussion schedule.

i) What should be the strategic objective of the IRA?
ii) Based on the strategic objective, what should be the vertical allocation formula of the IRA?
iii) Based on the strategic objective, what should be the horizontal allocation formula of the IRA?

7.2. Results of Group Discussions

1) Strategic Objective of IRA

Out of 9 groups, 7 groups pointed out “to finance basic service” as a strategic objective of IRA. “To finance cost of devolution” and “to use as supplement fund for LGUs” were supported by 4 groups, “to use as supplement fund to LGUs” by 4 groups, and “to serve as equalizing fund” by 3 groups.

In addition, there were 2 groups which proposed “to finance LGU projects” as a strategic objective of IRA. Other objectives in the table were proposed by one group.

2) Vertical Allocation of IRA

Out of 9 proposals, 6 proposals considered that the share of provinces should be decreased while one proposal suggested an increase in the share of provinces to total IRA. As for cities, 4 proposals demanded a decrease in the share of IRA and one proposal claimed an increase in the share. Regarding municipalities, 6 proposals were to increase their share against one proposal for a decrease. As for barangays, 6 proposals admitted the current share. Two proposals demanded an increase in the share of barangays because they considered barangays are a frontline of basic public service provision.

Table 7-1: Tendency of Proposed Vertical Allocation

	No. of Proposals Which Proposed to Increase	No. of Proposals Which Proposed No Change	No. of Proposals Which Proposed to Decrease	Total
Provinces	1	2	6	9
Cities	1	3	4	8*
Municipalities	6	1	1	8*
Barangays	2	6	1	9

Note: *One proposal proposed an integration of two layers of LGUs, cities and municipalities. This is not included in total.

Source: JICA Study Team

3) Horizontal Allocation of IRA

At 4 workshops, 8 discussion groups presented 12 proposals for the horizontal allocation of IRA. Table 7-2 shows how many discussion groups and proposals supported each determinant to calculate the horizontal allocation of IRA.

Most groups considered in their proposals that the existing three determinants, i.e., "population", "land area" and "equal sharing", are the basic determinants for the calculation of horizontal allocation. Other major determinants pointed out by discussion groups were "revenue/fiscal management performance," "coastline, city/municipality waters," and "poverty index."

Table 7-2: Determinants Proposed by Discussion Groups

	No. of Proposal among 12 Proposals				No. of Proposals among 8 Groups			
	Province	City	Municipality	Barangay	Province	City	Municipality	Barangay
Population	11	11	11	11	7	7	7	7
Land Area	11	11	11	11	7	7	7	7
Equal Sharing	11	11	11	11	7	7	7	7
Fiscal Management Performance/revenue performance	5	6	6	5	4	5	5	4
Coastline, City/Municipality Waters	5	5	5	4	3	3	3	2
Poverty Index	3	3	4	3	3	3	4	3
Income class	1	1	2	2	1	1	2	2
Population Density	1	1	1	1	1	1	1	1
HDI	1	1	1	1	1	1	1	1
Service delivery performance	1	1	1	1	1	1	1	1
Performance	1	1	1	0	1	1	1	0
Development Needs	1	1	1	0	1	1	1	0

Source: JICA Study Team

4) Other Issues

During discussions at four workshops, several participants proposed an increase of IRA share among the distribution of Internal Revenue Tax between National Government and LGUs. They considered the 50 - 50 sharing (50% for LGUs and 50% for National Government) or the 60 - 40 sharing is desirable.

There were several opinions how to allocate the increment of 10% or 20% of Internal Revenue Tax to LGUs. Some considered that the total amount of IRA should be allocated with a common IRA allocation formula if the share of IRA among Internal Revenue Tax is increased. Some advocated the increment should be distributed with specific purpose, for example, as a specific allocation to the frontline of basic service provision.

5) Remarks

It must be noted that there may be a possibility of bias in the results of workshops from such factors as i) home LGUs of participants, ii) attribute of participants, and iii) process of discussion.

Part III

Empirical Reviews

CHAPTER 8
PREVIOUS STUDIES AND RECOMMENDATIONS ON THE IMPROVEMENTS OF IRA SYSTEM

This chapter presents a summary of the review of the related literature on IRA issues (8.1.) and the state of development assistance in the area of local government finance (8.2.).

8.1. Review of Related Literature Concerning IRA

Literary documents regarding IRA issues have been extensively reviewed and analyzed. Here is the summary of proposals found in the literature.

1) Review of 60%-40% central-local government share

IRA is not sufficient to finance the financial needs of LGUs. The LGUs' prevailing share in national taxes is deficient to cover the cost of essential services.

2) Breaking a counter-equalizing factor in the distribution formula

Researchers refer to the statistics which indicate that LGUs which have potentials in raising more income are favored with IRA distribution. Apparently the current distribution is determined regardless of LGUs expenditure needs and potential resources. As a result, there are LGUs with weak tax base which are unable to provide public services in accordance with minimum standards. This leads to a recommendation that IRA should perform more explicitly the role of equalizing the disparities in the resource capacities of LGUs.

3) Providing incentives for resource mobilization

The LGUs which have not been motivated in their tax collection duties can only rely on grants and subsidies that are shared with them. In fact, there are no provisions in the current public finance system which obliges LGUs to raise their revenue efforts. A recent strategy to solve this concern is to introduce an awarding program for the LGUs and local officials who have achieved outstanding performance levels. However, this alone has limited effect to motivate LGUs in optimizing their tasks in raising revenues. It is for these reasons that some experts suggest the inclusion of a performance-based indicator in IRA distribution formula.

4) Redesigning of inter-governmental fiscal transfer system

Considering all the proposals above, many researchers imply the need to review and redesign the inter-governmental fiscal transfer system in its entirety. It was suggested that greater tax

decentralization, paired with a well designed intergovernmental transfer system that includes elements of fiscal equalization, should enhance the gains of the decentralization process.

5) Clarifying the rules of the classification of LGUs

The tendency for the number of LGUs to increase progressively, in order to take advantage of IRA formula, is another critical problem of the local government finance. It is necessary to review the rules for the fragmentation and upgrading of LGUs, and make the granting procedures more transparent and credible.

8.2. Development Assistance in Local Government Finance

After the enactment of the LGC, the Government of the Philippines (GOP) has implemented some of the key policy reforms, which address the fiscal and financial problems of LGUs. Along with these policy reforms, the donor community has been examining how their development assistance could be rendered more useful. Presently spearheaded by the Philippine Development Forum (PDF) - Working Group on Decentralization and Local Government (WGDLG), the donors coordinate with one another to help build the momentum for the key reforms in local government finance, and promote the principles of good governance.

PDF-WGDLG identifies the critical reform measures to hasten revenue collection and improve expenditure management of the LGUs. Several prominent donors, such as WB, ADB, USAID, and AusAID lead in assisting in these policy targets.

i) ADB has conducted several technical assistance (TA) projects to support the GOP's fiscal consolidation and poverty reduction agenda, by improving resource mobilization, expenditure management, and public service delivery in the LGUs. The noted activities are found in ADB TA4556 and TA4778, related to supporting the GOP's reform efforts.
ii) Planning of a program loan by ADB is on-going (Local Government Financing and Budget Reform Program or LGFBR). The above two TAs are drafted in such a way that they contribute to this program loan.
iii) ADB and other donor agencies have provided technical assistance to DILG, DBM, DOF, the Municipal Development Fund Office (MDFO), and NEDA.
iv) The GOP now considers the introduction of a performance-based grant system, as an additional element of the intergovernmental fiscal system in the Philippines. This initiative is funded by WB Japan Fund for Human Resource Development.
v) The bilateral donors, such as LAMP, EPRA, LGSP and others, have implemented some of the noted programs which contributed to the LGUs in improving their service delivery efficiency.

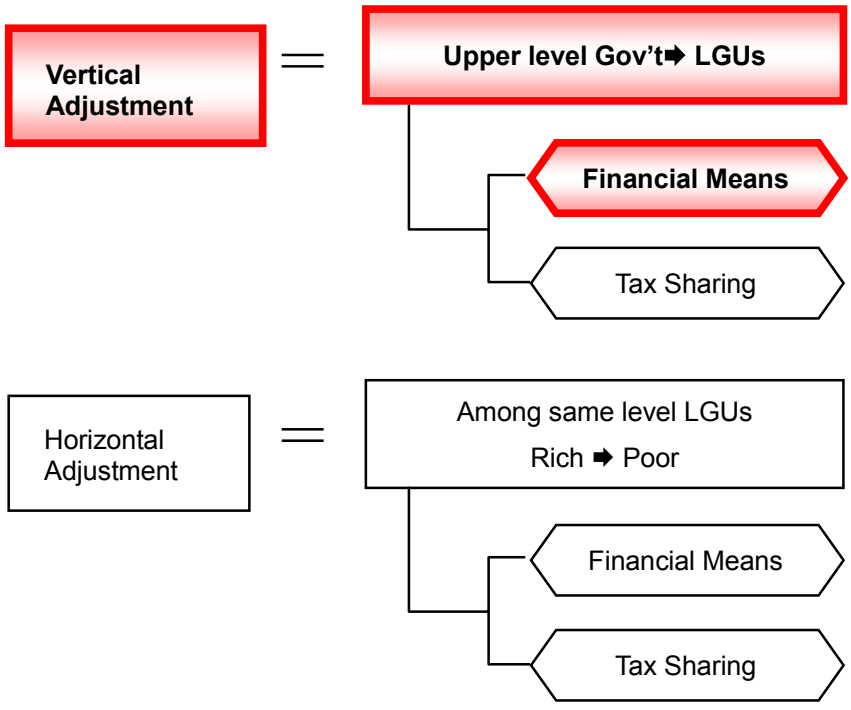
CHAPTER 9
PRINCIPLES AND TYPOLOGIES OF INTERGOVERNMENTAL FINANCIAL ADJUSTMENT SYSTEMS AND OTHER COUNTRIES' EXPERIENCES

9.1. Principles and Typologies of Intergovernmental Financial Adjustment Systems

The intergovernmental financial adjustment system is one of the main LGU revenue sources for both the developed and still developing countries. Said systems vary from country to country and the experiences of other countries should be full of suggestions.

An intergovernmental financial adjustment system may be expressed in the following formula:

Intergovernmental Financial Adjustment = Guarantee of Adequate Financial Resources for LGUs + Financial Equalization among (poorer and richer) LGUs.



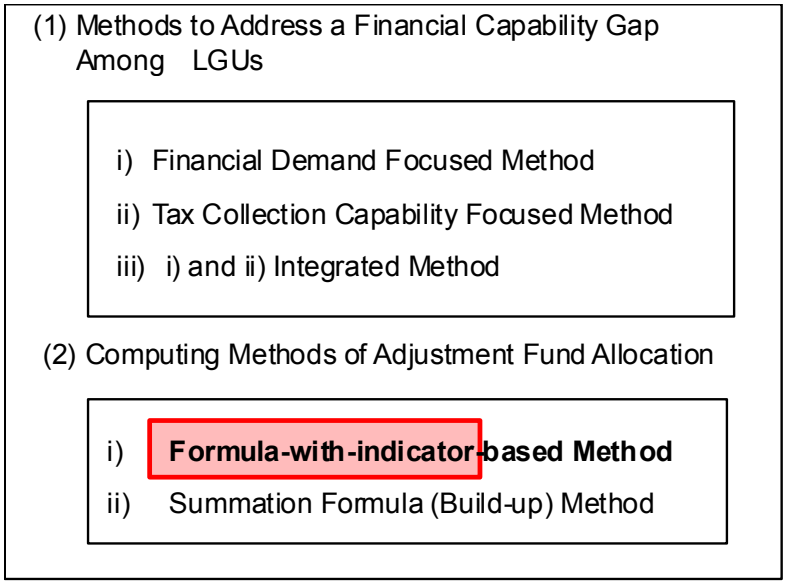
Source: JICA Study Team

Figure 9-1: Typologies of Intergovernmental Financial Adjustment System

Methods of intergovernmental transfers may be classified into two types: vertical adjustment and/or horizontal adjustment. There are also two types in terms of the means of transfer: financial (budgetary) means and tax sharing.

In terms of the intergovernmental financial adjustment, systems can be distinguished from one

another with three types of methods to address a financial capability gap among LGUs. Furthermore, in regard to computing method, intergovernmental financial adjustment system can be divided into two major forms: Formula-with-indicators-based method and Summation formula (build-up) method.



Source: JICA Study Team

Figure 9-2: Structure of the Intergovernmental Financial Adjustment

9.2. Formula-with-indicator-based Method in the Selected Countries and the IRA system

The General Donation for Current Account in France

The share of each region, department and commune is computed by the distribution formula composed of several determinants such as population, fiscal power (potential local tax revenue), tax collection efforts (the actual result of tax collection/expected local tax revenue), road length, number of schoolchildren and so forth.

The General Allotment Fund in Indonesia

Financial need was computed considering four determinants: population, land area, land price and poverty index. On the other hand, potential economic power was computed considering three determinants: industrial index, natural resources index and manpower index. Then, one subtracts potential financial capacity from financial needs, and thus calculates the financial gap. Lastly, the allotment share was calculated by multiplying financial gap and constant weight, then transferred to LGUs (before Law revised in 2004).

Distribution formula and the IRA in the Philippines

From the above viewpoints, the IRA system in the Philippines is characterized as follows:
i) The IRA shear is computed by formula-with-indicators-based method.
ii) Taxing power-related determinant is not included in the IRA distribution formula.
iii) The IRA distribution formula responds to financial needs to a certain degree, but still seems to be insufficient.

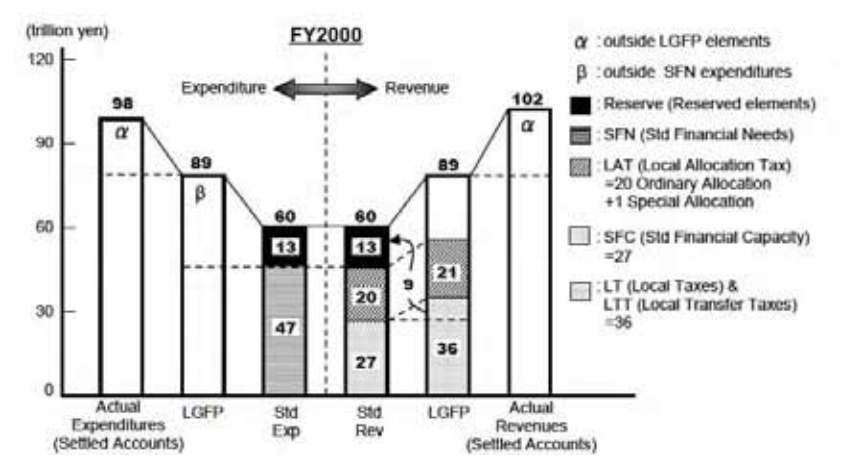
The Study team had proposed alternatives of IRA allocation formula to seek suggestions through analysis based on the above points.

9.3. Mechanism and Applicability of Local Allocation Tax System in Japan

9.3.1. Overview on Mechanism of LAT System

"Local Allocation Tax" (LAT) system in Japan is based on the principle of "Adequate Financial Resources" and "Equalization". Local Government Act §232, para.2 gives legal framework for the principle.

In Japan, there are three stage processes for ensuring adequate financial resources and equalization. In the first Stage, LG revenue and expenditure are aggregated by LGFP (LG Finance Programme) at the macro level.



Source: JICA Study Team
Figure 9-3: Relation among ActualRev/Exp.s, LGFP Rev/Exp.s and Standard Rev/Exp.s

In the second Stage, relevant expenditures of LGUs for each service item is aggregated at the

macro level. It ensures "aggregate" adequate financial resources for every field of administrative service carried out by LGUs at the macro level.

In the third Stage, the LATs are allocated to each LGU at the micro level. It ensures adequate financial resources for each LGU at the micro level. It also means financial equalization among different localities.

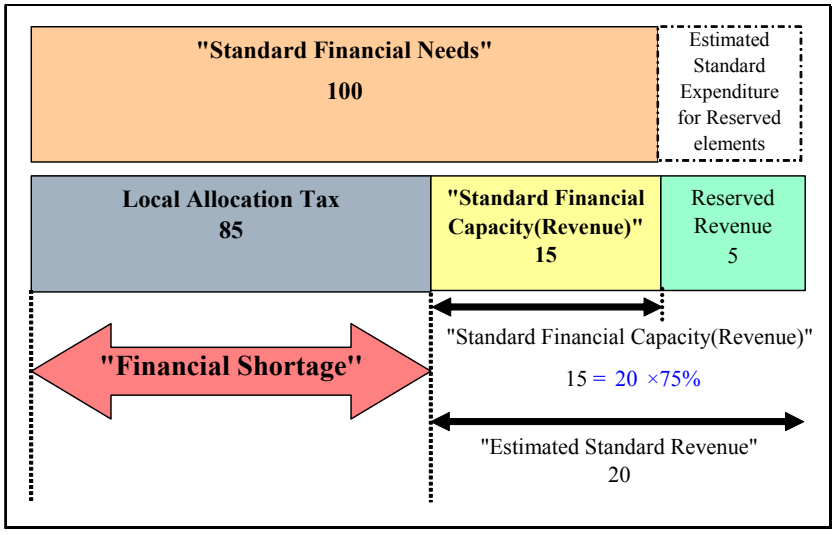
The total amount of the LAT in the law is linked to the following percentages: income tax×32% + liquor tax×32% + corporation tax×34% + consumption tax×29.5% + cigarette tax× 25%.

9.3.2. On the calculation of LAT in each LGU

In this section, the method of calculating the amount of the LAT which each LGU receives annually (third stage above) is explained in detail.

Firstly, there are two types of LAT. One is the "ordinary allocation", wherein 94% of the total amount of LAT is distributed to level off the differences in the fiscal capacity of each LGU. The other is "extraordinary allocation", wherein the remaining 6% of the total amount of LAT is set aside for extraordinary cases such as natural disasters.

Secondly, "ordinary allocation" for each LGU is the difference between "Standard Financial Needs" (Std FN) and "Std. Financial Capacity (Revenue)" (Std FC), as determined by a fixed formula. The structure is as follows: (refer to Figure 9-4)



Source: JICA Study Team

Figure 9-4: Structure of Calculation of LAT in each LGU

9.3.4. Applicability of the LAT system for Local Administration in the Philippines

In this study, JST will show how the LAT system in Japan could apply to conditions of local administration in the Philippines using a trial calculation.

"Standard financial needs" are "unit cost" times "measurement unit" and "modification coefficient". To calculate all the "measurement units" and "unit costs" for "financial needs" needs a good deal of time and effort. Hence, the process of calculation for "unit cost" will be shown only in maternal and child's health. The concrete tasks for making a standard "unit cost" involve three steps.

1) Step 1: Investigation on laws and ordinances related with maternal and child health
2) Step2: Investigation on actual jobs in municipalities and cities to grasp proper human resources and budget conditions
3) Step3: Making a standard model for financial need in maternal and child health

Using collected data and information, "Cost" of maternal and child care in a city with 100,000 populations is shown in Table 9-1. So "Unit Cost" is 5,970,000 divided by 100,000. That is 60. "Measurement Unit" is set as "population".

Table 9-1: Cost of Maternal & Child Health as a model

Item	Cost	Contents of Accumulation
Salary	5,720,000	Health Office -Staff 20 Rural Health Unit 2 - Doctor 4 - Nurse 4 - Midwife 12 Health Station -Midwife 15
Equipment, Maintenance, Medicine, etc.	250,000	Pre-natal Care-100,000 Deliveries- 50,000 Under Five Clinic 100,000
Total	5,970,000	

Source: JICA Study Team

Referring the three steps above, it is possible that all "unit costs" of expenditure in LGUs in the Philippines can be calculated, and that the "measurement unit" can be decided on depending on the availability of statistical data.

Furthermore, it is indispensable that “modification coefficients” should be set in response to conditions of the Philippines. For example, in Japan, “modification coefficients” for cities of 500,000 or more, which are granted special rights by government ordinance, are set higher than those for ordinary cities because they have different mandates and have more responsibilities.

At the same time, it is essential that “standard financial capacity (revenue)” of LGUs should be calculated in a way that is suitable to the actual situation in the Philippines.

Under present circumstances, to introduce “IRA” based on Japanese LAT system into the Philippines immediately does not reflect reality because the national governmental agencies do not have enough standards and data to calculate “unit costs” and the departments in charge and the LGUs would be heavily burdened to calculate such costs by themselves. However, this methodology has the advantage of calculating the IRA accurately in response to the standard fiscal needs of LGUs. Therefore, further investigation and research regarding its possible application to Philippine conditions is expected by referring to the description and the trial calculation in this section.

Part IV

Proposals and Recommendations

CHAPTER 10
PRINCIPLES OF IRA REFORM

10.1. Issues and Reform concerning Local Government Administration and Finance

10.1.1. Reexamination of IRA sharing

In spite of the widened tax base under the LGC, few LGUs have managed to raise the level of own-source revenue to meet their budget requirements. The reality is that many LGUs, especially those at the provincial and municipality levels, are heavily dependent on IRA. Therefore, as already described in Chapter 8, most stakeholders point out that the expenditure required for the devolved services is disproportionately large for IRA. In other words, many indicate that the current IRA share to the local government, that is, 40% of internal revenue collections does not cover the cost of services it is to perform. So-called unfunded mandates such as the Salary Standardization Law and additional personnel benefits under the Magna Carta for Health Workers may aggravate the financial situation of LGUs.

IRA occupies a considerable portion in the allocation of central government expenditure. The ratio of IRA to total central government expenditure increased from 3.8% in 1991 to 15.8% in 2006. Any increase of IRA would lead to budget cuts for the central government. The shares of national revenue between central and local government are the two sides of the same coin. Therefore, any revision of IRA should be based on the fair scrutiny of role-sharing between central government and local government. Although there is no substantiative evidence, considering LGUs' current situation in general the Study proposes an increase of IRA for the benefit of LGUs.

10.1.2. Reexamination of tax base of local government

If the local government is to deliver appropriate services, reexamination of the shares of national internal revenue may not be sufficient. In the long term, it may be necessary to readjust the allocation of tax sources between central and local government.

If the local government is expected to perform in line with the spirits of decentralization, LGUs should be provided with sufficient funds. This can be achieved through primarily the collection of local taxes. Readjustment of the allocation of tax sources can be only fair when both the expenditure needs of central government and all different levels of LGUs and the total local source of all LGUs are computed squarely. Ideally speaking, the outcome of the said computation should be the basis of the revision of tax sources of local government and the local tax system in general.

Again striking the right balance in the allocation of tax sources should be based on the said computation and cautious analysis. However, the local tax raised in 2006 is equivalent of only 6% of the national tax collected. The tax source of local government in the Philippines is extremely limited in comparison with other countries.

10.1.3. Consideration of a fund transfer system among LGUs within a same LGU level

Even though the local tax system is reexamined, there may be some LGUs which would find it still difficult to raise the local revenue as they wish. One of the measures to support these LGUs in their finance is a system of horizontal fund transfers from LGUs with larger own revenue to LGUs with less own revenue.

IRA balances the national internal revenue between central and local government. But it is also expected to balance the financial capacities of LGUs. Although the Study challenges to contribute to the latter, the options for new IRA distribution formula presented in Chapter 11 do not represent the following critical reform approaches. These approaches should be examined carefully in the future.

The first approach is the creation of non-recipients. It signifies that LGUs which can raise substantial local revenue may be excluded from the IRA recipients..

Second approach is an introduction of a fund transfer system among LGUs within a same LGU level. It suggests a fund transfer system from rich local government units to disadvantaged units without the central government mediation.

10.1.4. Autonomy and efficiency of local government administration

A function of local government finance is to collect and disburse funds which are necessary to implement its policies and relevant public service of promoting economic development and the improved standard of living. For that purpose, the first and foremost the local autonomy should be well respected and each LGU should establish the efficient and effective public administration system which enables it to deliver the services appropriate to the needs of the local communities.

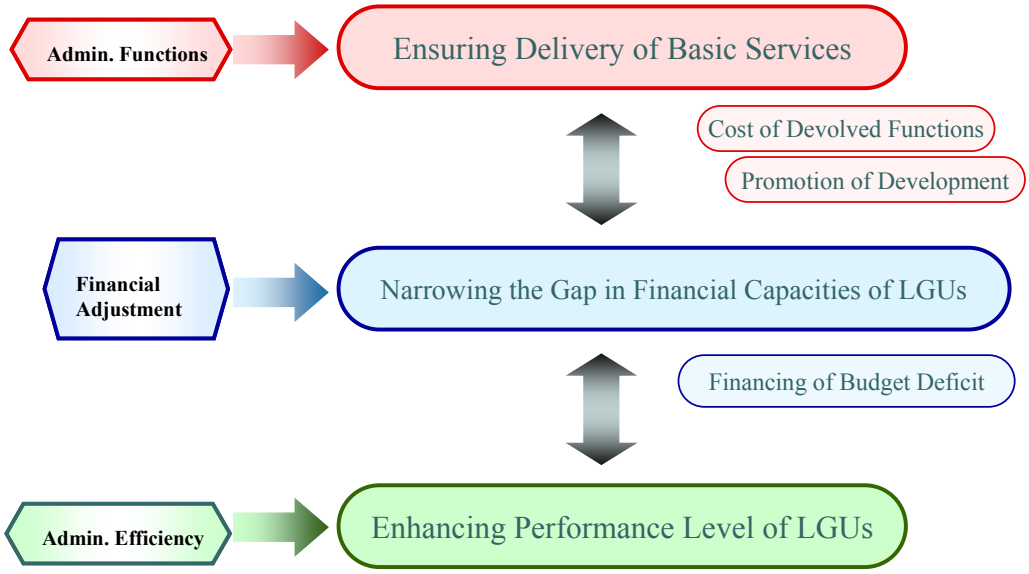
More specifically, local finance must be managed with a strong fiscal discipline. As stipulated in the LGC, each LGU is obliged to formulate a sound financial plan, and its local budget must be based on functions, activities, and projects in terms of expected results. It is noted that a financial plan must be formed based on efficient public administration and optimized utilization of resources.

Moreover, IRA, a block grant from the central government, must be managed with efficiency and discipline as a part of local finance administration. In other words, a use of IRA can be also optimized with an efficient and disciplined local finance administration.

10.2. Basic Policies of Improvements of IRA system

10.2.1. Strategic Objective of Improving IRA System

JST conducted a Survey by Questionnaire and a series of workshops and through these activities it sought to define the strategic objectives of IRA and to help build a consensus among stakeholders in the said definition. The figure below shows the summary of the outputs from these activities (Figure 10-1).



Source: JICA Study Team

Figure 10-1: Perception of Stakeholders on Strategic Objective of IRA

Many respondents of the Survey by Questionnaire and participants of workshops contend that, from the administrative perspective, the role of IRA is to ensure the delivery of basic public services. They also share the same views on the role of IRA from the point of view of the financial adjustment administrative efficiency. They point out that IRA should serve to equalizing the financial capacities of LGUs and that IRA should promote the enhancement of performance level of LGUs.

What is expressed by the stakeholders here turns out to unite with the principles of intergovernmental financial adjustment mentioned in Chapter 9; that is to say, the desirable financial adjustment system would contain the factors of i) ensuring financially basic local

administration and ii) balancing financial capacities among LGUs. In sum, these two factors should be vested in each other in defining the role of IRA. Therefore, this Study officially defines the role of IRA as equalizing the financial capacities of LGUs with a view to enabling LGUs to perform standard basic public services.

10.2.2. Basic Policies regarding IRA Distribution

JST proposes to set the three basic principles as preconditions for the formulation of the options.

1) Firstly, the Study maintains the current procedure of intergovernmental fund transfer, in which the central government acts as go-between for adjusting the financial capacities of LGUs.
2) Secondly, the Study continues to characterize IRA as a block grant. The Study considers it inappropriate to shift IRA from a block grant to an earmarked grant.
3) Thirdly, the Study maintains the formula method of determining the distribution of IRA. The build up method can be a validate option in the future since it, along with an estimate of standard revenue of LGUs, can give a tailor-made estimate of financial gap of individual LGU, thereby making it possible to determine the share of IRA to each LGU based on the financial gap.

10.2.3. Issues and Challenges of IRA distribution formula

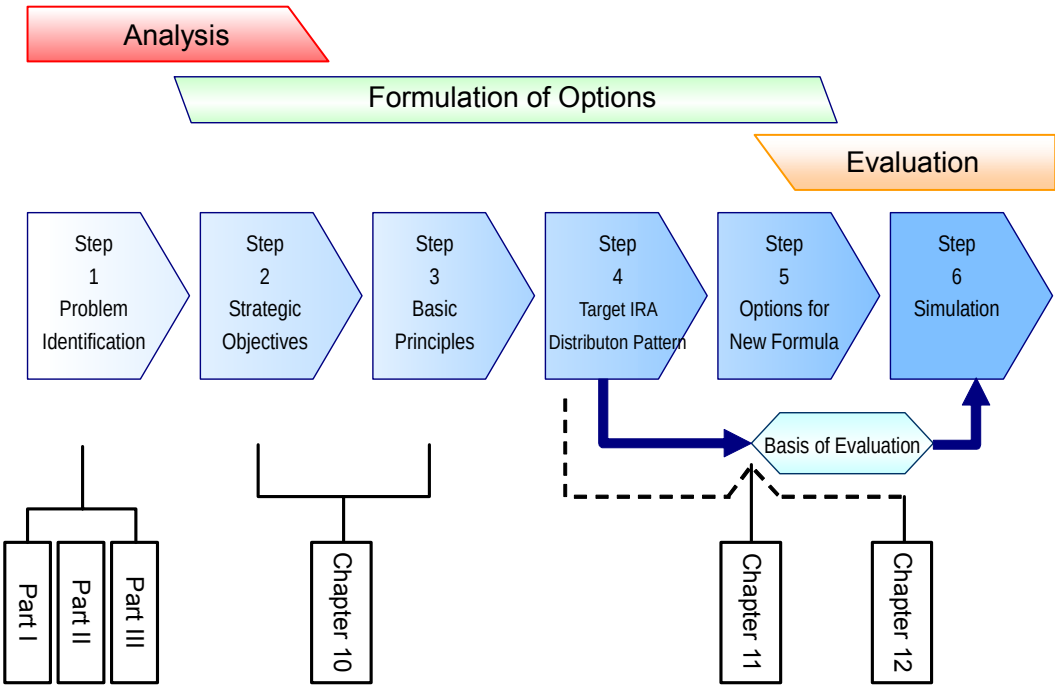
The scope of this Study includes not only providing recommendations on options of new distribution formula but also giving suggestions on improvements in the use of IRA and other related issues. As for revenue and expenditure of LGUs, there are several regulations and rules which should be reconsidered in conjunction with the reformation of IRA. Major issues related to IRA are as follows:

1) Use of 20% of received IRA for development projects
2) Increase of personnel expenses
3) Data management and numerical targets
4) Allocation of the Cost of Devolved Function (CODEF)
5) Calculation of IRA amount based on the national internal revenue of the preceding third fiscal year

CHAPTER 11
OPTIONS FOR NEW IRA DISTRIBUTION FORMULA

11.1. Operation Procedure in Formulation of Options

The options for new IRA distribution formula are derived from the findings of the baseline analysis of the current situation of local government administration and finance (Step 1). Part I through Part III of this report corresponds to this. Particularly, the quantitative analysis (Chapter 3 and 4) and the perception analysis (Chapters 5, 6, and 7) are the very basis of the formulation of the options. As described in Chapter 10 and based on the analysis of the current situation, the strategic objectives of IRA and the principles for IRA reform are established (Step 2 and Step 3).



Source: JICA Study Team
Figure 11-1: Operation Procedure in Formulation of Options

Then JST attempted to identify an ideal IRA distribution pattern in accordance with the strategic objectives of IRA established in Step 3 (Step 4). However, the attempts to set an ideal IRA distribution pattern eventually met a lot of difficulties. In Chapter 12, the procedures undertaken on these attempts and the limitations in setting an ideal IRA distribution pattern are all laid out.

This chapter represents Step 5 and introduces the options for new IRA distribution formula as well as the details of their formulation. At the end, the Study conducts the simulation and impact analysis of these option formulas (Step 6). In Chapter 12, it is shown how each option formula

can bring about changes vis-à-vis the current IRA distribution pattern.

11.2. Preconditions for Formulation of Options

11.2.1. Prerequisites for new formulas

From the viewpoint of administrative efficiency, JST considers that legitimate formulas should share the following prerequisites: 1) simplicity/clarity, 2) objectivity, and 3) transparency.

11.2.2. Precedence of vertical formula to horizontal formula

The service responsibilities assigned are the same for all LGUs in each LGU level. The disparities in the fiscal shortages of LGUs among different LGU levels may vary from one region to another. However, it is estimated that the disparities in the fiscal capacities of LGUs in each LGU level are greater than those of LGUs between different LGU levels. Therefore, the study employs the current practice of giving priority to the computation of vertical sharing for the different LGU levels before computing the share of each LGU in each level.

11.2.3. Unchanged shares for barangays

The Study attempted to investigate the service responsibilities of different levels of LGUs including those of barangays. However, the investigation into the administrative and financial situation of barangays has not been sufficiently conducted.

11.3. Concepts of Designing the Options

11.3.1. Design of vertical formulas

1) Frame of reference for designing options

The Study looked into the aggregate financial shortage of LGUs with respect to each LGU level and find out if there is a better sharing pattern of IRA across different LGU levels.

2) Foundation for designing options

The vertical options are grounded in the following three findings of the Study.
i) Results of quantitative analysis
ii) Results of perception survey (qualitative survey)
iii) Estimate of financial needs of LGUs through build-up approach

3) Types of vertical formula

i) Type I: Review of vertical sharing of IRA based on the computation of financial needs in the build-up approach

As mentioned before, the build-up method of computing the financial needs of LGUs makes possible the computation of financial shortage of each LGU or aggregate financial shortage at each LGU level. With this, the vertical sharing may be adjusted so as to narrow the gaps in the financial shortages of different LGU levels.

ii) Type II: Review of vertical sharing of IRA in consideration of own-source income

Type II options take a choice of reducing the sharing of IRA to cities due to the results of local government financial structure and the perception survey described above. The Study proposes also an option which groups up cities and municipalities into one layer, making it three layers overall.

11.3.2. Design of horizontal formulas

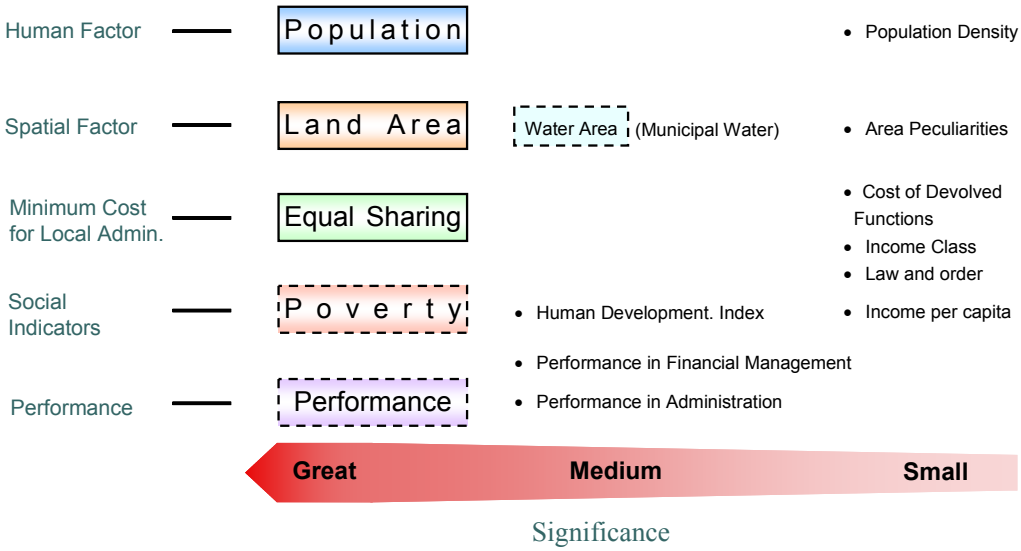
1) Frame of reference for designing options

The equalization effect of the current horizontal formula on the fiscal capacities of LGUs within each level is not sufficient. With this in mind, JST proposes the options taking into account the issues such as more realistically calculated financial needs, incorporation of potential own source revenue, the financial shortage, and different sharing mechanism for the increment from the current IRA amount. In addition, it is important to explain the expected effect of each option in terms of equalization of the financial capacities of LGUs and it remains as an action assignment in the future.

2) Foundation for designing options

The options for new IRA horizontal formula derive from the analytical work and the results of the perception survey. As of today it is difficult to review IRA distribution formula base on the financial shortages of LGUs

Figure 11-2 shows the perception of stakeholders on the factors (/determinants) within formulas.



Source: JICA Study Team

Figure 11-2: Perception of Stakeholders on the Determinants within Formula

The results of the perception survey and analysis have given JST an important insight for the formulation of the options for new formula.

3) Concepts of options for new IRA horizontal distribution formula and their types

JST developed three types of horizontal formula and one additional type for reference. Despite different nature, all the types aim to narrow the gaps in financial capacity among LGUs. The improved horizontal formula should contribute to further strengthening the fund transfer mechanism from the financially advantaged LGUs to those which experience larger financial shortages.

i) Type I: Changing only weights and maintaining the current determinants

Type I bundles the options which maintain the determinants within the formula but by changing the weights given to these conventional determinants aim to provide more resources to the LGUs in less populated areas.

ii) Type II: Options representing different policy concepts

The options under Type II are those which include new determinants, with each new determinant showing a clear vision for IRA reform.

Meanwhile, it is important to note that some new determinants, such as “poverty” and “potential revenue”, should not evoke any malicious intention by LGUs to make a pretense of being in

need more than they actually are. If these new determinants are to be added, there is a need to adopt a necessary measure not to let it happen.

Poverty	A formula with poverty incidence is expected to give more resources to poverty stricken areas, thereby, addressing more effectively the nation's goal of poverty reduction.
Geographic peculiarities (coastal area)	A formula with coastal area is expected to address the financial requirements peculiar to the coastal LGUs, which should not be neglected in island countries like the Philippines.
Potential revenue (own source revenue)	A formula factoring in own source income should be able to make IRA distribution pattern more favorable to LGUs with less own source income.
Performance in financial management	A formula with performance factor is expected to promote the enhancement of LGUs' performance in financial management, although JST proposes setting another mechanism outside IRA system for the promotion of LGU performance.

iii) Type III: Special sharing scheme for the increment from the current total IRA

With a view in the end of better balancing the sharing scheme of national revenue between central and local government, the bill which proposes to raise the share of local government from 40% to 50% may pass the Congress. If it passes, the Study proposes to distribute the increment (10%) as priority fund allocation to financially disadvantaged LGUs. The new concept here can be the priority fund allocation to those financially disadvantaged LGUs.

iv) Type IV (Addition): Filling in the financial shortages identified based the computation of the financial needs through a build-up approach

The Study proposes to establish a mechanism in the allocation IRA in relation to the financial shortage of each LGU described in Chapter 4. This option may not be feasible at this time, but it can be implemented with the assistance of NGAs and other relevant government offices. The operation procedure for this type is drafted by JST and presented in Section 11.6.

11.4. Options for New IRA Distribution Formula

11.4.1. Options for vertical formula

1) Option V1: Current formula

[Province]23%+[City]23%+[Municipality]34%+[Barangay]20%	
Characteristics:	- Formula already in place and rooted in the system.

Type I

2) Option V2: New sharing based on the computation of financial needs through build-up approach

[Province]23%+[City]22%+[Municipality]35%+[Barangay]20% (a little decrease at the [City] level and a little increase at the [Municipality] level)	
Characteristics:	- The sharing is determined based on the aggregate figures of financial gaps of different LGU levels. - The details of the calculation are presented in Chapter 4 although there are some limitations due to insufficiency of data.

Type II

3) Option V3: Share of IRA to Municipalities increased

[Province]23%+[City]18%+[Municipality]39%+[Barangay]20% (decrease at the [City] level and increase at the [Municipality] level)	
Characteristics:	- With a decrease in the share of cities and increase in the share municipalities, it is expected that the share of lower income municipalities will be increased and, consequently, the overall disparity in financial capability among LGUs will be narrowed. - The impact analysis of this option is presented in Chapter 12, Table 12-1, Simulation #1.

4) Option V4: Shares of IRA to Provinces and Municipalities increased

[Province]26%+[City]17%+[Municipality]37%+[Barangay]20% (increase at the [Province] and [Municipality] levels)	
Characteristics:	- This option represents an increase of shares for provinces and municipalities. - The impact analysis of this option is presented in Chapter 12, Table 12-1, Simulation #2.

5) Option V5: Cities and Municipalities combined into one layer

[Province]23%+([City]+[Municipality])57%+[Barangay]20%	
Characteristics:	- This option aims to minimize chaotic situation which arises due to municipalities' search for cityhood. - The impact analysis of this option is presented in Chapter 12, Table 12-1, Simulation #3.

11.4.2. Options for horizontal formula

1) Option H1: Current formula

[Population]50%+[Land Area]25%+[Equal Sharing]25%	
Characteristics:	- Formula already in place and rooted in the system.

Type I

2) Option H2: Less populated areas favored

a) [Population]45%+[Land Area]30%+[Equal Sharing]25% b) [Population]45%+[Land Area]25%+[Equal Sharing]30%	
Characteristics:	- With the reduction of weight given to [population], the option aims to favor less populated areas and reduce imbalances in financial capacity among LGUs. - The impact analysis of this option is presented in Chapter 12, Table 12-2, Simulation #4 and #5.

Type II

3) Option H3: Areas with high poverty incidence favored

([Population]50%+[Land Area]25%+[Equal Sharing]25%)x(100%-Certain Percentage) (e.g. 90%)+ [Poverty Index]) x Certain Percentage (e.g. 10%)	
Characteristics:	- With the addition of [poverty index] within formula, the option aims to favor poverty-stricken areas and address effectively the poverty reduction. - The issues concerning the data of poverty incidence are explained in

	Chapter 12, Section 12.2.2.

4) Option H4: Financial needs pertaining to municipal water addressed

[Population]50%+([Land Area]+[Municipal Water])25%+[Equal Sharing]25%	
Characteristics:	- With the introduction of [municipal water], the option aims to address the financial needs which arise from coastal resources preservation and development. - The data of municipal water should all be obtained. The issues concerning the data of poverty incidence are explained in Chapter 12, 12.2.2., "Addition of new indicator".

5) Option H5: Level of own-source revenue considered

([Population]50%+[Land Area]25%+[Equal Sharing]25%) x (100%-Certain Percentage) (e.g. 90%) + ([Own source Revenue]) x Certain Percentage (e.g. 10%)	
Characteristics:	- With the use of the inverse of size of own source revenue in the formula, the option aims to reduce IRA allocation of LGUs with more own source revenue and increase IRA of LGUs with less own source revenue. - The impact analysis of this option is presented in Chapter 12, Table 12-3, Simulation #6, #7 and #8 and explained in Section 12.2.2.

6) Option H6: Level of financial management performance considered

([Population]50%+[Land Area]25%+[Equal Sharing]25%) x (100%-Certain Percentage) (e.g. 90%) + ([Performance Index]) x Certain Percentage (e.g. 10%)	
Characteristics:	- With inclusion of performance-related indicators in the formula, it is expected that the option will have a positive effect on revenue generation, expenditure management or financial discipline. - The impact analysis of this option is presented in Chapter 12, Section 12.2.2., and in Figures 12-1 and 12-2.

Type III

7) Option H7: Distribution of the increment from the current 40% of IR to 50% through a new formula

40% of IR is distributed by the current formulas: [Province]23%+[City]23%+[Municipality]34%+[Barangay]20% [Population]50%+[Land Area]25%+[Equal Sharing]25% Percentage increment from 40% to 50% This increment is distributed by a new formula giving priorities to LGUs with larger financial gaps.	
Characteristics:	- This option allows all LGUs to retain the existing IRA allocation computed based on the current distribution formula. - At the same time, the increment can be distributed, based on strong policy decision, to poverty reduction and/or to performance stimulation.

8) Option H8: Distribution of the increment from the specified year through a new formula

Actual IRA in the specified year: This is to maintain the actual IRA amount distributed to LGUs in the specified year. Percentage increment from 40% to 50% and any increment of IRA from the specified year The increment all in all is distributed by a new formula giving priorities to LGUs with larger financial gaps.	
Characteristics:	- This option allows all LGUs to retain at least the current IRA allocation and no LGUs are subject to reduction of amount. - At the same time, the increment can be distributed based on strong policy decisions.

Type IV (Addition)

9) Option 9: Balancing of financial gaps among LGUs

i) Calculation of fiscal needs Estimates of the fiscal needs of LGUs based on a build-up approach ii) Identification of Own-source revenue sizes of LGUs iii) Calculation of fiscal shortage of LGUs through calculating the gap between estimates of i) and estimates of ii)	
Characteristics:	- This option may be more effective than the other options in reducing the disparity in financial capacity among LGUs since it addresses the financial gaps of LGUs. - As explained previously, the financial gaps can be estimated through the computation of financial needs and potential revenue. At present, computation of the gap cannot be performed due to insufficient data. - A draft operation procedure is presented in Section 11.6.

11.5. Narrowing down the Options

A bill which proposes new IRA distribution formula should find a suitable combination of vertical formula and horizontal formula. It is expected that the Philippine government will find a most suitable combination by interlocking the vertical and horizontal options proposed in this Study.

Here JST would like to point out some concerns and issues with respect to the procedure of narrowing down the options.

1) Financial Gaps and IRA

The Study managed to give an indication of the macro financial gaps between LGUs at different LGU levels. The aggregate financial gaps, estimated through the computation of financial needs in the build up approach, are about 1.6 times as much as the total IRA. The computation of financial needs through sample LGUs in Chapter 12 shows that the standard expenditure requires three times as much as the current IRA. Therefore, even if the computation of financial needs in the build up approach is conducted more accurately in the future, there still remains the problem of IRA not being able to cover the financial gaps of all LGUs.

2) Suggestions with respect to vertical sharing

JST considers reasonable the combination of Type I (option V2) for vertical formula and any formula from the horizontal options among the options presented in 11.4.

In this regard, the disparity in the size of own source revenue across different LGU levels may become a point of controversy, especially between city level and municipality level. Own source revenue of cities (127 units) is 3.2 times larger than that of municipalities (1,501 units). On the other hand, the vertical sharing derived from the aggregate financial needs of different LGU levels through the build-up approach has not much difference from the current sharing.

3) Measures to be taken for financial needs and potential revenue

The current horizontal formula doesn't reflect at all the aspect of potential revenue of LGUs. Neither does it sufficiently take into consideration the financial needs of LGUs. When narrowing down the options for new IRA distribution formula, one needs to be aware of the necessity to kick around the issues of financial needs and potential revenue.

There are two methods of incorporating the said issues into the IRA distribution formulas. The first method is to include them all in one IRA distribution formula like in the current IRA distribution system. The second method is to set two formulas; one for financial needs and the other for potential revenue and then to estimate the financial gaps. For the second method to be legitimate, the computation of potential revenue should be established. However, the data of proxy indicators, which can be used for the computation of the potential revenue, i.e. "per capita income," "the number of population engaged in different industries," etc., are not completely available at all LGU levels. At present it is difficult to go for the second method.

Because of all this, JST considers it realistic to choose the first method for the time being. If the single formula method is to be applied, this formula should reflect appropriately the values of both financial needs and potential revenue. The determinants, or indicators, of such formula should be also readily available. For the financial needs, the indicators such as "population" and "land area" may be still legitimate for new formula. In addition, "poverty incidence" may be also legitimate though the dataset of poverty incidence is not complete at all LGU levels (Option H3). On the other hand, the Study could only apply to "own source revenue" for the computation of potential revenue (Option H5).

4) Effect of "equal sharing" in the balancing of financial capacities

The Study revealed the critical role of "equal sharing" within the horizontal formula (see

Chapter 3 and Chapter 12 for details). The impacts of the parameters, or weights given to "equal sharing" proved to be very critical in addressing the imbalances in financial capacity among LGUs. It basically serves to lavish IRA distribution on the less populated areas. Consequently, the use of "equal sharing" may give greater impacts on the disparity in financial capacity among LGUs than other determinants.

5) Consideration for financial performance

Any IRA reform should go hand in hand with the promotion of financial discipline on the side of LGUs. How to handle the "performance" indicator is another point at issue. The inclusion of the "performance" indicator in the formula may trigger efforts to avoid reduction of IRA by LGUs and bring about the improved overall financial discipline of local government. However, it is possible to have a significant adverse effect for the LGUs with limited local revenue. For this reason, JST finds it appropriate that the IRA system should be separated from the promotion of financial performance by LGUs but rather a separate fund transfer system like the performance-based grant system the World Bank advocates may be the one to take that role.

6) Advantages and disadvantages of the option of applying new formula only to the increment

Among the horizontal options JST presents there are two options under Type III, which deal with the application of new formula only to the increment from the current IRA amount. One of them is associated with the increment of IRA from the current level (e.g. 10%) (Option H7). The other deals with any increment from the IRA amount calculated in the specified year (Option H8).

If any of these two options is chosen, it allows all LGUs to retain at least the current IRA amount and thereby enabling the central government to bring in any policy priority in the distribution of the increment. It is also important to keep in mind the upward trend of national internal revenue collections and reexamine after a while the advantages and disadvantages of this option.

11.6. Operation Procedure for Fundamental IRA Reform

If the Government of the Philippines chooses to adopt a similar system to Japan's LAT system in addressing the financial gaps of LGUs, JST would propose the operation procedure shown in Table 11-1. The operation flow for this procedure along with timeframe is also drafted and presented in Figure 11-3.

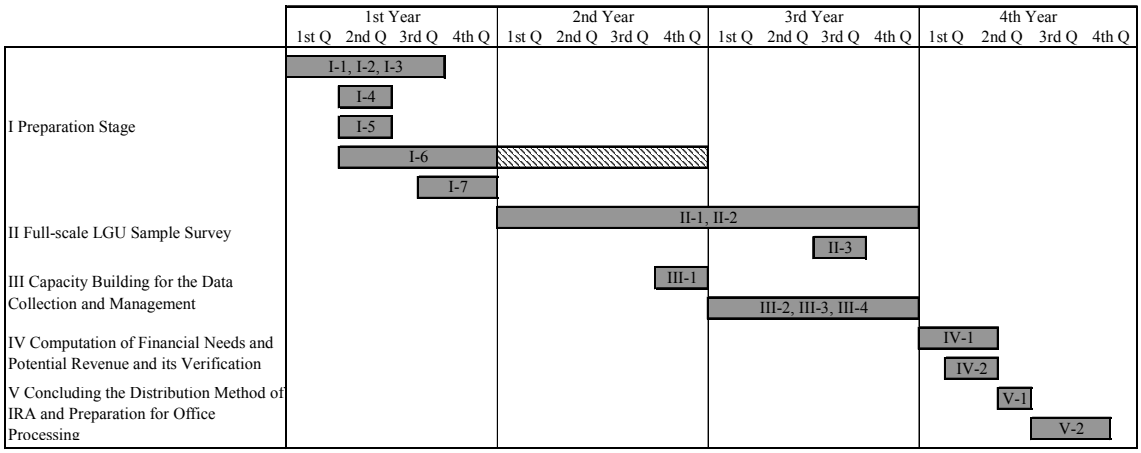
If the computation of the financial needs of LGUs is to be upgraded, there is a need to thoroughly investigate the present state of service delivery of LGUs and to find a transparent

way to compute them through the collaboration with the concerned NGAs. Therefore, prior to the conduct of LGU sample survey there should be a solid preparation stage for the operation procedure. It is also important to allot ample time for the verification process on the outcomes of the operation. If all of these are taken into account, the timeframe needed for the entire operation may go between four to five years in total.

Table 11-1: Operation Procedure for Fundamental IRA Reform

I	Preparation Stage	
	I-1	Identification of service responsibilities of each LGU level based on the hearings from the relevant national government agencies (All expense items of service delivery of each LGU level will be laid down through collaboration with the relevant national government agencies and institutions.)
	I-2	Conduct of quick LGU sample survey for the analysis of the present state of the LGUs' service delivery (The expense items listed in the I-1 will be verified through quick sample survey and it will be done through collaboration the relevant national government agencies and institutions.)
	I-3	Preparation of the list of candidate measurement units for the computation of financial needs (Candidate measurement units will be for all expense items so that multiple measurement units will be set under each sub-sector.)
	I-4	Establishment of computation methodology of potential revenue (Practical methodology for the computation of potential revenue will be established and the list of the data needed will be prepared.)
	I-5	Selection of samples for full-scale LGU sample survey (Sample LGUs will be selected with due consideration to the region, income class, and peculiar circumstances (for modification coefficients).)
	I-6	Conduct of the study on the financial adjustment system and other fund transfer systems in the Philippines (Baseline survey will be conducted in order to come up with findings relevant to the establishment of the methodology in IRA distribution.)
	I-7	Establishment of hypothetical methodology for the reduction of disparity in financial capacity (financial gaps) among LGUs (Hypothetical methodology for filling the financial gaps of LGUs by IRA will be set)
II	Full-scale LGU Sample Survey	
	II-1	Verification of the results of I-1 and I-2 through sample survey
	II-2	Identification of measurement units and unit costs through sample survey (Measurement units will be identified and unit costs will be calculated as shown in Chapter 4.)
	II-3	Identification of Modification Coefficients (The present state of service delivery in LGUs with peculiar circumstances and modification coefficients will be identified.)
III	Capacity Building for the Data Collection and Management	
	III-1	Preparation of data capture forms (The data capture forms for the computation of financial needs and potential revenue will be prepared.)
	III-2	Implementation of capacity building for LGUs' data collection (The capacity building targeting the DILG staff positioned in regional offices and local government will be conducted.)
	III-3	Implementation of capacity building for DILG central office's data management
	III-4	Establishment of data management system (The possibility of utilization of LGPMS will be analyzed and the data management system will be conducted.)
IV	Computation of Financial Needs and Potential Revenue and its Verification	
	IV-1	Computation of financial needs and potential revenue of all LGUs
	IV-2	Conduct of workshop for the verification of all the work above (The workshop intended for the collection of feedbacks from LGUs and stakeholders in terms of the work above.)
V	Concluding the Distribution Method of IRA and Preparation for Office Processing	
	V-1	Concluding of distribution method of IRA (The method of filling the financial gaps of LGUs by IRA

	will be decided.)
V-2	Preparation of office processing of the computation of IRA amount for each LGU (Through collaboration with DBM the preparation necessary for the office processing will be made.)



Source: JICA Study Team

Figure 11-3: Operation Flow for Fundamental IRA Reform

CHAPTER 12
IMPACT ASSESSMENTS OF DRAFT OPTIONS FOR NEW IRA DISTRIBUTION FORMULA

12.1. Overview of Simulation Methodology

The IRA values annually received by each LGU are calculated every year by the DBM following the well-known formula. In order to trace this process, an Excel-based system which automatically calculate the IRA share for all individual LGUs (but for Barangays), given an amount of total IRA funds (theoretically 40% of national internal tax revenue). Parameters in the formula (distribution share) are set as variables in the system.

Using the system, simulations can be made based on various set of assumptions, i.e. combination of parameters (factor weights) both vertical and horizontal. In all the result summary tables, a change in IRA values (total and per-capita) is expressed as a difference between the "theoretical value"(simulated result on present formula) and the value calculated based on a new formula.

12.2. Simulations for Option Formula

1) Options with changes in vertical formula

i) A reshuffle of vertical parameters

imulation 1 in Table 12-1 indicates one example of a change in the vertical parameters where the share of municipalities is to be increased by 5% at the expense of cities.This change leads, as a matter of simple arithmetic, to a 22% reduction in IRA for cities and a 15% increase in IRA for municipalities in terms of total IRA allocated. On per capita PhP basis, municipalities gain PhP151, while cities lose PhP286. Across the regions, NCR suffers most reflecting the existence of big cities in this region.

Simulation 2 shows the case where the share reduced from cities (6%) is to be added equally to provinces and municipalities. Changes in the layer total IRA are plus 13% for provinces, minus 26% for cities and plus 9% for municipalities. In terms of per capita value, provinces and municipalities receive PhP80~90 more, while cities lose substantially by PhP345. Impact by region is not much different from the previous case, except that the reduction for NCR gets greater.

Table 12-1: Result summary of Optional Simulation (1)

Simulation #		0		1		2		3	
Option Type		Present Formula		A change in vertical parameters		A change in vertical parameters		City and Municipality in a same basket	
Assumptions	Vertical	V1		V3		V4		V5	
	Provinces (P)	23%		0%		3%		0%	
	Cities (C)	23%		-5%		-6%		result:C	→ −11%
	Municipalities (M)	34%		5%		3%		result:M	→ +11%
	Horizontal	H1		H1		H1		H1	
	population (P)	50%		0%		0%		0%	
	land (L)	25%		0%		0%		0%	
	eaqual (E)	25%		0%		0%		0%	
	Others	none		none		none		none	
Variable		IRA total	IRA p.c.	IRA total	IRA p.c.	IRA total	IRA p.c.	IRA total	IRA p.c.
form expressed in (s:simulated value, b:base value)		b,mil.PhP	b,PhP	(s-b)/b	s-b, PhP	(s-b)/b	s-b, PhP	(s-b)/b	s-b, PhP
By LGU	(Average Income size in Million PhP)								
Provinces	576	34,857	580	0.0%	0	13.0%	76	0.0%	0
P-1	778	25,369	519	0.0%	0	13.0%	68	0.0%	0
P-2	401	4,620	701	0.0%	0	13.0%	91	0.0%	0
P-3	314	3,178	922	0.0%	0	13.0%	120	0.0%	0
P-4	233	1,431	1,255	0.0%	0	13.0%	164	0.0%	0
P-5	144	259	2,856	0.0%	0	13.0%	373	0.0%	0
Cities	712	34,857	1,322	-21.6%	-286	-25.9%	-343	-46.9%	-620
C-special	7,248	2,684	715	-21.7%	-155	-26.1%	-186	-19.5%	-140
C-1	1,161	17,368	1,161	-21.7%	-252	-26.1%	-303	-42.2%	-490
C-2	372	3,402	1,596	-21.7%	-347	-26.1%	-416	-52.6%	-839
C-3	281	5,412	1,911	-21.7%	-415	-25.2%	-482	-57.1%	-1,092
C-4	232	4,875	2,238	-21.7%	-487	-26.1%	-584	-60.3%	-1,350
C-5	186	928	2,506	-21.7%	-545	-26.1%	-654	-62.8%	-1,575
Municipalities	46.0	51,528	1,028	14.7%	151	8.8%	91	31.7%	326
M-1	117.7	10,855	806	14.7%	119	8.8%	71	25.5%	206
M-2	60.2	6,538	943	14.7%	139	8.8%	83	29.6%	279
M-3	45.3	9,839	1,000	14.7%	147	8.8%	88	31.1%	311
M-4	32.6	12,113	1,128	14.7%	166	8.8%	100	33.8%	382
M-5	21.2	5,688	1,412	14.7%	208	8.8%	125	38.2%	539
M-6	15.8	143	2,703	14.7%	398	8.8%	239	46.3%	1,251
M-nonclasified	24.2	6,309	1,251	14.7%	184	8.8%	110	35.4%	329
By Region (Relative per capita GDP)									
Re. 13 (1.00)	National Capital Region	7719	779	-20.6%	-161	-25.0%	-195	-24.1%	-187
Re. 07 (0.60)	Central Visayas	8774	1498	-1.7%	-26	-1.7%	-26	-5.1%	-76
Re. 11 (0.50)	Davao Region	6199	1672	-3.4%	-57	-3.7%	-62	-8.2%	-138
Re. 14 (0.50)	Cordillera Admin. Region	3794	2779	6.4%	179	8.1%	226	19.6%	544
Re. 10 (0.41)	Northern Mindanao	6881	2010	-2.7%	-55	-3.0%	-60	-8.3%	-166
Re. 04 (0.40)	Calabarzon	11606	1276	1.9%	24	2.3%	29	1.0%	13
Re. 06 (0.38)	Western Visayas	10516	1642	-2.7%	-45	-3.1%	-50	-9.8%	-161
Re. 17 (0.36)	Mimaropa	5778	2642	3.0%	80	4.0%	106	5.7%	150
Re. 03 (0.31)	Central Luzon	11228	1399	1.2%	17	1.7%	24	0.0%	0
Re. 09 (0.22)	Zamboanga Peninsula	5241	1849	-1.3%	-23	-1.7%	-31	-4.3%	-79
Re. 01 (0.22)	Ilocos Region	6657	1553	3.1%	48	3.2%	49	4.1%	64
Re. 02 (0.22)	Cagayan Valley	6328	2244	4.5%	102	5.2%	117	9.9%	222
Re. 16 (0.19)	Caraga	4765	2175	3.0%	65	3.4%	74	7.1%	154
Re. 08 (0.17)	Eastern Visayas	7129	1954	4.0%	78	4.4%	86	8.3%	162
Re. 12 (0.16)	Soccsksargen	5613	1742	1.2%	21	1.7%	30	1.7%	30
Re. 05 (0.14)	Bicol Region	7315	1581	3.9%	61	4.6%	73	5.7%	90
Re. 15 (n.a.)	Auton. Re.in Mus. Mindanao	5698	1984	8.1%	160	9.3%	184	19.5%	386
Coefficient of variation (s-b)	Provinces	-	0.000	-	0.000	-	0.000	-	0.000
	Cities	-	0.000	-	0.000	-	-0.002	-	-0.230
	Municipalities	-	0.000	-	0.000	-	0.000	-	0.211

Note: Figures in parenthesis in the column "By region" indicate per capita regional GDP in 2006, as expressed in relative value with NCR=1. Regions in this table are placed in the descending order of these figures.

Source: Compiled by JICA Study Team based on data from the DOF and DBM

Table 12-2: Result summary of Optional Simulation (2)

Simulation #		0		4		5	
Option Type		Present Formula		A change in horizontal parameters			
Assumptions	Vertical	V1		V1		V1	
	Provinces (P)	23%		0%		0%	
	Cities (C)	23%		0%		0%	
	Municipalities (M)	34%		0%		0%	
	Horizontal	H1		H2-a		H2-b	
	population (P)	50%		-5%		-5%	
	land (L)	25%		5%		0%	
	eaqual (E)	25%		0%		5%	
	Others	none		none		none	
Variable		IRA total	IRA p.c.	IRA total	IRA p.c.	IRA total	IRA p.c.
form expressed in (s: simulated value, b: base value)		b,mil.PhP	b,PhP	(s-b)/b	s-b, PhP	(s-b)/b	s-b, PhP
By LGU	(Average Income size in Million PhP)						
Provinces	576	34,857	580	0.0%	0	0.0%	0
P-1	778	25,369	519	-0.6%	-3	-1.8%	-9
P-2	401	4,620	701	0.9%	6	2.6%	18
P-3	314	3,178	922	2.2%	21	5.2%	48
P-4	233	1,431	1,255	2.3%	29	8.5%	106
P-5	144	259	2,856	-0.1%	-2	16.0%	457
Cities	712	34,857	1,322	0.0%	0	0.0%	0
C-special	7,248	2,684	715	-8.8%	-63	-8.1%	-58
C-1	1,161	17,368	1,161	-0.7%	-8	-2.1%	-24
C-2	372	3,402	1,596	1.4%	23	2.0%	32
C-3	281	5,412	1,911	2.3%	45	3.9%	74
C-4	232	4,875	2,238	3.5%	78	4.7%	105
C-5	186	928	2,506	2.5%	62	7.0%	175
Municipalities	46.0	51,528	1,028	0.0%	0	0.0%	0
M-1	117.7	10,855	806	-1.8%	-15	-3.7%	-30
M-2	60.2	6,538	943	-0.1%	-1	-1.7%	-16
M-3	45.3	9,839	1,000	0.0%	0	-0.5%	-5
M-4	32.6	12,113	1,128	0.0%	0	1.7%	19
M-5	21.2	5,688	1,412	0.0%	1	5.4%	76
M-6	15.8	143	2,703	1.1%	28	11.3%	306
M-nonclasified	24.2	6,309	1,251	3.0%	38	0.5%	6
By Region (Relative per capita GDP)							
Re. 13 (1.00)	National Capital Region	7719	779	-8.0%	-62	0.8%	13
Re. 07 (0.60)	Central Visayas	8774	1498	-1.6%	-23	1.3%	29
Re. 11 (0.50)	Davao Region	6199	1672	2.2%	37	-1.2%	-16
Re. 14 (0.50)	Cordillera Admin. Region	3794	2779	4.3%	119	-2.3%	-29
Re. 10 (0.41)	Northern Mindanao	6881	2010	2.5%	51	0.4%	6
Re. 04 (0.40)	Calabarzon	11606	1276	-4.0%	-51	0.5%	8
Re. 06 (0.38)	Western Visayas	10516	1642	-0.2%	-4	0.1%	2
Re. 17 (0.36)	Mimaropa	5778	2642	6.0%	158	1.9%	37
Re. 03 (0.31)	Central Luzon	11228	1399	-2.6%	-36	0.6%	12
Re. 09 (0.22)	Zamboanga Peninsula	5241	1849	2.4%	44	1.5%	29
Re. 01 (0.22)	Ilocos Region	6657	1553	-2.1%	-32	-0.8%	-14
Re. 02 (0.22)	Cagayan Valley	6328	2244	4.3%	96	-0.3%	-5
Re. 16 (0.19)	Caraga	4765	2175	3.8%	83	-5.6%	-44
Re. 08 (0.17)	Eastern Visayas	7129	1954	1.5%	29	4.5%	126
Re. 12 (0.16)	Soccsksargen	5613	1742	2.1%	36	1.1%	22
Re. 05 (0.14)	Bicol Region	7315	1581	-1.1%	-17	1.7%	37
Re. 15 (n.a.)	Auton. Re.in Mus. Mindanao	5698	1984	2.5%	50	1.4%	36
Coefficient of variation (s-b)	Provinces	-	0.000	-	0.004	-	0.122
	Cities	-	0.000	-	0.046	-	0.019
	Municipalities	-	0.000	-	0.178	-	0.090

Note: Figures in parenthesis in the column "By region" indicate per capita regional GDP in 2006, as expressed in relative value with NCR=1. Regions in this table are placed in the descending order of these figures.

Source: Compiled by JICA Study Team based on data from the DOF and DBM

Table 12-3: Result summary of Optional Simulation (3)

Simulation #		0		6		7		8	
Option Type		Present Formula		A new factor(Total Local Source) addede					
Assumptions	Vertical	V1		V1		V1		V1	
	Provinces (P)	23%		0%		0%		0%	
	Cities (C)	23%		0%		0%		0%	
	Municipalities (M)	34%		0%		0%		0%	
	Horizontal	H1		H5		H5'(reference)		H5"(reference)	
	population (P)	50%		-5.0%		-10.0%		-50.0%	
	land (L)	25%		-2.5%		0%		0%	
	eaqual (E)	25%		-2.5%		0%		0%	
	Others	none		10%(TLS)		10%(TLS)		50%(TLS)	
Variable		IRA total	IRA p.c.	IRA total	IRA p.c.	IRA total	IRA p.c.	IRA total	IRA p.c.
form expressed in (s:simulated value, b:base value)		b,mil.PhP	b,PhP	(s-b)/b	s-b, PhP	(s-b)/b	s-b, PhP	(s-b)/b	s-b, PhP
By LGU	(Average Income size in Million PhP)								
Provinces	576	34,857	580	0.0%	0	0.0%	0	0.0%	0
P-1	778	25,369	519	0.9%	5	-0.2%	-1	-1.2%	-6
P-2	401	4,620	701	-1.2%	-9	0.5%	3	2.4%	17
P-3	314	3,178	922	-2.7%	-25	1.0%	9	5.0%	46
P-4	233	1,431	1,255	-4.9%	-62	0.5%	6	2.3%	29
P-5	144	259	2,856	-8.4%	-239	-0.4%	-12	-2.0%	-58
Cities	712	34,857	1,322	0.0%	0	0.0%	0	0.0%	0
C-special	7,248	2,684	715	9.0%	64	0.5%	3	2.3%	16
C-1	1,161	17,368	1,161	-1.1%	-13	-2.5%	-29	-12.6%	-147
C-2	372	3,402	1,596	2.4%	38	4.1%	66	20.6%	329
C-3	281	5,412	1,911	1.0%	18	4.0%	77	20.2%	385
C-4	232	4,875	2,238	-2.9%	-64	1.2%	28	6.2%	138
C-5	186	928	2,506	-3.6%	-90	1.1%	29	5.7%	144
Municipalities	46.0	51,528	1,028	0.0%	0	0.0%	0	0.0%	0
M-1	117.7	10,855	806	2.1%	17	-0.6%	-5	-3.2%	-26
M-2	60.2	6,538	943	1.0%	10	0.1%	1	0.6%	6
M-3	45.3	9,839	1,000	0.4%	4	0.2%	2	0.9%	9
M-4	32.6	12,113	1,128	-0.7%	-8	0.2%	2	1.0%	12
M-5	21.2	5,688	1,412	-2.5%	-35	0.2%	3	1.1%	16
M-6	15.8	143	2,703	-6.1%	-166	0.0%	1	0.2%	6
M-nonclasifiec	24.2	6,309	1,251	-1.7%	-101	0.1%	3	0.4%	15
By Region (Relative per capita GDP)									
Re. 13 (1.00)	National Capital Region	7719	779	7.0%	55	0.2%	2	1.1%	8
Re. 07 (0.60)	Central Visayas	8774	1498	0.6%	9	-0.1%	-2	-0.6%	-9
Re. 11 (0.50)	Davao Region	6199	1672	-0.3%	-6	0.3%	6	1.7%	29
Re. 14 (0.50)	Cordillera Admin. Region	3794	2779	-4.5%	-124	-0.1%	-2	-0.4%	-10
Re. 10 (0.41)	Northern Mindanao	6881	2010	-2.3%	-46	-0.3%	-6	-1.4%	-28
Re. 04 (0.40)	Calabarzon	11606	1276	1.6%	21	-1.5%	-19	-7.5%	-96
Re. 06 (0.38)	Western Visayas	10516	1642	-0.3%	-5	0.1%	2	0.5%	9
Re. 17 (0.36)	Mimaropa	5778	2642	-3.2%	-85	0.5%	12	2.3%	60
Re. 03 (0.31)	Central Luzon	11228	1399	1.0%	14	-0.9%	-12	-4.4%	-62
Re. 09 (0.22)	Zamboanga Peninsula	5241	1849	-1.4%	-27	0.1%	1	0.3%	5
Re. 01 (0.22)	Ilocos Region	6657	1553	0.8%	12	0.2%	3	0.9%	14
Re. 02 (0.22)	Cagayan Valley	6328	2244	-2.4%	-50	0.0%	0	0.1%	2
Re. 16 (0.19)	Caraga	4765	2175	-2.5%	-55	0.2%	5	1.2%	26
Re. 08 (0.17)	Eastern Visayas	7129	1954	-1.1%	-21	0.6%	13	3.2%	63
Re. 12 (0.16)	Soccsksargen	5613	1742	-0.5%	-9	0.4%	7	1.9%	34
Re. 05 (0.14)	Bicol Region	7315	1581	1.1%	18	0.8%	13	3.9%	64
Re. 15 (n.a.)	Auton. Re.in Mus. Mindanao	5698	1984	-0.7%	-14	1.1%	22	5.6%	111
Coefficient of variation (s-b)	Provinces	-	0.000	-	-0.076	-	-0.008	-	-0.036
	Cities	-	0.000	-	-0.034	-	0.000	-	0.000
	Municipalities	-	0.000	-	-0.142	-	-0.001	-	-0.005

Note: Figures in parenthesis in the column "By region" indicate per capita regional GDP in 2006, as expressed in relative value with NCR=1. Regions in this table are placed in the descending order of these figures.

Source: Compiled by JICA Study Team based on data from the DOF and DBM

ii) Cities and Municipalities to be treated in a single layer

Simulation 3 in Table 12-1 examines the option where Cities and Municipalities are treated in a single layer. In this case, the most significant change stems from an operation in which the Equal share portions of Cities and Municipalities are put into the same basket to be divided evenly by the total number of these LGUs (although both the Population and Land share are also subject to the same operation, magnitude of their impact is much smaller compared with that of Equal share). As a result, 11% of IRA total funds is sifted from Cities to Municipalities.

On account of the above operation, percent changes by income class are different even in the same layer (Cities or Municipalities). In both the layers, the greater is the impact, the smaller the income size, although the direction of the change is opposite to each other. Regional impacts are greater in magnitude but of the same pattern as the previous two cases.

2) Options with changes in Horizontal formula

i) A reshuffle of horizontal parameters

Simulations 4 & 5 (Table 12-2) deal with the cases where a 5 % portion in the “Population share” is to be shifted to the “land share” or to the “Equal share”. As the vertical shares are fixed, the distribution share among Layers Total does not change.

An important implication is derived from a comparison between the Simulations 4 & 5. A reduction in the “Population share” results in only limited changes with few exceptions when coupled with an augmentation in the “land share”. But when the former is combined with a reduction of the “Equal share”, then LGUs in lower income classes enjoy fairly big positive impacts.

ii) An addition of the fourth factor

In Chapter 11, some options were proposed with an additional factor which serves different policy concepts such as “imbalance in local own source”, “poverty level”, “municipal water”, “administrative performance” and so on. If and when any of these “fourth factors” is to be built into the horizontal formula based on well-defined policy implications, it will be indispensable to work out an approach that takes into consideration such practical and concrete issues as following.

a) Use of a relevant converter: The variable range (max-min diversion) of the new indicator has to be optimized using a converter equation.
b) Selection of the “weight”: Should the “fourth factors” be adjusted by any weight or not? If so,

through what (for example, population, budget size, etc.)?
c) Choice of "adjustment fund": Where can one find a resource fund for the "fourth factor adjustment"? Putting aside the case for a net increase in the total IRA, the fund will have to be generated by reducing any one, or all across-the-board of the current three factors (population, land and equal share).
d) Choice of the data time point: Will available data at the latest year be used? Alternatively, should an average of plural time-points be used? In addition, the timing of the updates will have to be planned in advance.

Impact Assessment on Addition of the "Local Own Sources" factor

As one example of an addition of the fourth factor to the horizontal formula, Simulation 6~8 (Table 12-3) shows the effects of taking into account the present differences in "Total Local Source" (or TLS).

In the Simulation 6, the "fund for adjustment" is assumed to be generated by reducing each of the other 3 shares (population, land area and equal share) by 10%. The simulated results indicated the unexpected, i.e., negative effects for the smaller LGUs. This is borne by the fact that the contribution of "equal share" is much more outstanding for these LGUs.

In view of this mechanism, Simulation 7 assumes the fund for the TLS factor to come entirely from the "population" share. As a result, 1st class municipalities (M-1) turn out to be the single victim with very limited changes elsewhere. Simulation 8 shows, for reference, a case where the entire "population" share is devoted for the "TLS adjustment", the result of which could be seen as a homothetic enlargement of Simulation 7.

A Consideration on Addition of the "Performance" factor

What procedure should be taken when the "LGPMS Performance Indicator" is to be incorporated to reflect the administrative performance of LGU budgets? The LGPMS performance indicator fluctuates within a very narrow range. In fact, the performance indicator is an average of 5-point evaluation in three fields (Revenue Generation, Resource Allocation & Utilization, and Fiscal Assessment) and most observations lie between 2 and 4. Thus, it will be necessary in this case to translate the original value to a relevant index.

An adjustment equation such as below-described may have to be used to give a relevant differentiation: $Y=\alpha X+\beta$ where Y: per-capita bonus point and X: original LGPMS value.

A Consideration on Addition of the "Municipal Water" factor

"Municipal water" is defined, in the so-called Philippine Fisheries Code of 1998, as marine waters within 15 km (a half of the distance between two coastlines when another municipality is situated on opposite shores less than 30 km away) from the coastline of the municipality, in addition to streams, lakes and so on within the municipality. There have been many arguments that administrative needs stemming from the "municipal water" should be taken into account for the distribution of IRA. However, the availability of data on the "municipal water" issue is very limited, as far as the Study team has learned.

A Consideration on Addition of the "Poverty" factor

"Poverty" is another candidate for the fourth factor discussed in the previous chapter, representing a view that IRA should be distributed more in favor of LGUs with a high degree of poverty incidence. In practice however, "Poverty Incidence" as published by the NSCB, the only data available that may be used at present for this purpose are those solely for the entire nation, the regions and the provinces.

CHAPTER 13
PROPOSALS ON IMPROVEMENTS IN THE EXISTING IRA-RELATED SYSTEMS

The objectives of the study were, not only to present options for the new IRA distribution formula, but also to recommend reforms in the other IRA-related systems.

13.1. Earmarking of a Component of IRA to a Specific Expenditure Category

In the perception survey conducted last November 2007 in the course of the study, questions regarding appropriation and utilization of the 20% of the annual IRA for development projects were asked to 166 respondents of the sample LGUs (refer to Chapter 5 4.2.).

JST supposes that the important thing to consider for the fair and compliant implementation of an LGU's "development project" is to strengthen DILG's monitoring capacity on LGU expenditures and to establish mechanisms to institute fiscal discipline among LGUs. In other words, external supervision and audits by organizations such as DILG and internal audits by LGUs themselves on their expenditures should be strengthened.

Furthermore, if there are some unclear words for LGUs in the joint memorandum circular, JST recommends that DILG should discuss these with DBM and amend it as needed. In addition, JST recommends the preparation of a list of frequently asked questions (FAQs) on the utilization of IRA.

13.2. Proposals of the Improvement for the Other IRA-Related Aspects

13.2.1. Enhancement of Fiscal Discipline

The reason for improving the current formula in this study was to balance locally owned source revenue among LGUs and to adjust to basic fiscal needs of LGUs through the IRA system. Although the amount of IRA given to LGUs with poor revenue capacities increased by changing the formula, it would not be successful when the increase in IRA amount is not linked to the improvement of delivery services. Therefore, it required the LGUs to keep and maintain fiscal discipline so that the increase in IRA amount on the revenue side would be tied to expenditures for service delivery. Thus, the effective and efficient use of the IRA should be closely linked with effective and efficient public administration and finance in all LGUs.

13.2.2. Five Suggestions Related to Fiscal Discipline

At the moment, JST will make the five following suggestions to strengthen fiscal discipline of

LGUs.

1) Establishment of Well-Disciplined Public Finance Rules and Mechanisms in Personnel Expenditure

It must be avoided that an increase in IRA amount which LGUs receive is simply associated with an unnecessary increase in expense just for human resources. Therefore, a standard model of the suitable number of human resources and their corresponding salary levels for each LGU should be developed, based on the scale of development of LGUs and types of services being rendered. Establishing these rules and mechanisms regarding the costs of human resources are useful for the improvement of fiscal discipline in LGUs.

2) Setting of Numeric Targets on BHN

By setting the numeric standards on basic human needs (BHN), e.g. the number of elementary schools and teachers, as a guideline in accordance with capacity and area characteristics, the expenditure goals of each LGU can be clearly spelled out. This would easily ensure that any increase in IRA in each LGU is linked with the expenses for basic human needs.

3) Sharing of Basic Data Set of LGUs

The sample survey of LGUs conducted in November 2007 in the course of this study had made it clear that essential statistical data in LGUs that could lead to a better understanding of the conditions of their public administration were not enough both in quality and in quantity. The function of LGPMS should be enhanced more particularly in the systematic collection of the basic statistical data sets of LGUs.

4) Transparency and Objectivity in IRA Calculation

For transparency in IRA calculation, it is important for each LGU to verify the amount of IRA by itself. Easy computation by LGUs would make the IRA system more transparent, objective and predictable.

5) Capacity Development in Public Finance in LGUs

One of the means to develop financial capacity in LGUs is making a public finance manual (guidelines). This manual shall cover every stage of public finance: budgeting, implementation of internal and external audit. The preparation of a mid-term (3-5 years) financial plan is also recommended.

CHAPTER 14
PROPOSED COMMUNICATIONS STRATEGY

The Proposed Communications Strategy (hereinafter referred to the "Strategy") was prepared under the Study and sets out a communication framework proposed to DILG in communicating a key message and its associated information on key issues and strategic directions of an improvement policy of the IRA system as well as in facilitating awareness, understanding and support of stakeholders to gain a certain level of consensus from stakeholders on an improvement policy of IRA system. In this regard, the Strategy is expected to ensure that all stakeholders are provided with accurate and consistent information on as well as opportunities to participate in communication activities and feedback opinions, views and suggestions on an improvement policy of IRA system, provided through an institutionalized two-way communication of the Strategy.

The overview of the Strategy is summarized and presented in the following tables.

Table 14-1: Summarized Overview of the Strategy (1/2)

Components	Summarized Contents
Need of the Strategy	• Provide certain opportunities for stakeholders for understanding and sharing key issues and possible strategic directions on an improvement of IRA system.
Purpose of the Strategy	• Provide a proposed communication framework to assist DILG in communicating a key message of the Strategy and facilitating awareness, understanding and support of stakeholders on an improvement policy of IRA system.
Outline of the Strategy	• The Strategy is composed of: (a) introduction, (b) framework, (c) characteristics, (d) recommended arrangements for implementation and (e) operations framework.
Basic Strategies	• Institutionalize a two-way flow of communication, • Ensure information dissemination and sharing, • Ensure that communication is provided in simple, appropriate and understandable formats suiting target audiences, and • Facilitate participation.
Guiding Principles	• Government commitment, • Consultation and feedback, • Transparency and accountability, • Consistency, and • Evaluation.
Communication Objectives	• Increase awareness and understanding on key issues and an improvement policy of IRA system among stakeholders, • Build consensus on possible strategic directions on an improvement policy of IRA system among stakeholders, • Provide the necessary information for stakeholders, • Facilitate encouragement of stakeholders to feedback their views, opinions and suggestions, and • Monitor and evaluate activities and results of the Strategy for improvement of the Strategy and assessment of feedbacks of stakeholders.
Target Audiences	• National governments, such as national administrative and legislative bodies, • Local Governments, such as local administrative and legislative bodies and LGU related associations, • Academic and research institutes, and • International donors.

Source: JICA Study Team

Table 14-2: Summarized Overview of the Strategy (2/2)

Components	Summarized Contents
Tentative Key Message	• The Strategy tentatively applies the strategic objective of an improvement policy of IRA system defined by the Study and is stated as the role of IRA as equalizing financial capacities of LGUs with a view to enabling LGUs to perform standard basic public services.
Communication Channels	• Internal channels, such as an organizational system of and an intergovernmental network of DILG, and • External channels, such as a network of LGU leagues, Philippine Development Forum, website of DILG/BLGS and mass media.
Communication Materials and Methods	• Printed and visual materials, such as a newsletter, a brochure, a fact sheet and a presentation material, and • Learning and consultation methods, such as learning and consultation meeting and seminar. • It is noted that some communication materials to be used by DILG for promoting understanding of target audiences are prepared under the Study.
Time Frame and Resources	• The Strategy shall be utilized by DILG in promoting the consultation process with target audiences for getting support on the forthcoming process of transforming the final proposal adopted by DILG on an improvement policy of IRA system into an amendment bill of LGC. It is, therefore, necessary that the time frame required and necessary funds to implement the Strategy shall be examined and prepared by DILG, according to the schedule to be made for the above promotion activities.
Communication Unit	• National level - establish in the Office of Public Affairs (OPA) at the national head office of DILG, whose member staff shall be composed of Communication Officers from OPA responsible for overall communication planning, supervision and monitoring of the Strategy and Policy Officers from BLGS responsible for overall technical assistance on an improvement policy of IRA system and coordination of the Strategy, and • Local level - DILG Regional Office Staff shall be assigned as Regional Supervision Officers responsible for overall supervision of all communication activities of the Strategy within its regional jurisdiction and Provincial, City and Municipal Office Staff shall be assigned as Provincial, City or Municipal Operations Officers responsible for undertaking operations of the Strategy within respective jurisdiction.
Local Information Center	• Utilize DILG local offices at provincial, city and municipal levels located at respective LGUs as Local Information Center to increase its capacity of providing all basic information on an improvement policy of IRA system to be made available for local target audiences, which shall ensure that accurate and consistent information is provided to target audiences nationwide.
Media Relations Scheme	• Establish and maintain good working relations with media such as newspapers, televisions and radios to generate accurate and consistent reporting of media on information of the Strategy through determining the interests and needs of media, such as (1) monitoring of media reports on newspapers, televisions and radios and (2) collection and analysis of press clippings, and • Help media to identify newsworthy topics, obtain access to sources and prepare interesting articles, benefiting both DILG and media by generating more accurate reporting of information of the Strategy through preparing newsworthy information for media, such as (1) news releases, (2) fact sheets, (3) feature stories, (4) opinion pieces, (5) newsletter and (6) a list of resource persons and experts on IRA and its related field in local government administration and finance.
Monitoring and Evaluation Framework	• Gathering of feedback - feedbacks gathered through all communication channels of the Strategy shall be analyzed and summarized into responsiveness summaries with explanations and comments prepared by DILG. The responsiveness summaries shall be provided to target audiences through communication channels of the Strategy, and • Importance of feedback - feedbacks gathered shall be utilized by DILG to improve effectiveness, consistency and accuracy of communication activities of the Strategy as well as to analyze and evaluate awareness and understanding of target audiences on an improvement policy of IRA system through generalizing opinions and views of target audiences.

Source: JICA Study Team

CHAPTER 15
CONCLUSION

This chapter presents a brief note on the accomplishments and constraints of the Study.

15.1. Accomplishments of the Study

A number of studies and researches have focused on the IRA issue and its reform. This Study may differ from the rest of the studies of the past in the following aspects.

Firstly, the Study draws its proposals from the extensive baseline survey and analysis. As mentioned in Chapter 1, the proposals in this Study are based on the analysis of the current conditions from institutional and quantitative perspectives (Part I), the results of an extensive perception survey (Part II), and the review of the existing theories and studies about IRA (Part III).

Secondly, based on the available data, the Study reveals statistically the details of the financial structure of the local government, excluding barangays, as well as the current IRA distribution pattern, and clarifies the whole picture. Such analytical work and the data obtained in this Study should be useful for any attempts in the future to contemplate a reform in the local government administration and finance.

Thirdly, the Study provides a system by which simulation of any new IRA distribution formulas can be made.

Fourthly, the Study examines in detail how the financial needs of local government are computed in a build-up approach. In addition, the Study shows how Japan's LAT system can be applied in the context of the Philippines by demonstrating an example in the health sector.

15.2. Constraints of the Study

Despite the accomplishments, some constraints are inevitable in the Study. Hereafter listed are some of them.

First and foremost, the dearth and defectiveness of data should be mentioned. The baseline statistics of central and local government finance and socioeconomic situation is not made available satisfactorily. The data collection from the LGU Sample Survey didn't produce the expected results and some data collected was of doubtful value.

Another major constraint of the Study is that it has not been able to calculate as meticulously as

it desired the financial needs and potential revenue-raising capacities of the target LGUs under the sample survey.

The unavailability of the barangay data gives another restraint to the Study. JST attempted to collect the necessary data in Case Study B, but the data was not available. This leaves the Study no other option but to exclude barangay level when reviewing IRA distribution formula.

Lastly, the Study finds it difficult to depict a target IRA distribution pattern. Following the JICA Advisory Committee's suggestion, JST tried many different methods to search a target IRA distribution pattern, but in no vain.

15.3. Action Assignment for the Future

Finally, JST would like to point out the following action assignments for the future.

First, it is the task of selecting the best formulas from vertical options and horizontal options. In the months ahead, DILG is expected to find the best combination of new formulas for the preparation of the amendment bill. In doing so, DILG may utilize the communication strategy introduced in Chapter 14 in order to gain popular understanding for the selected formulas among stakeholders.

Secondly, it is the active utilization of the simulation system introduced by this Study. It should help the people concerned a great deal in not only pinpointing the best option within the vertical and horizontal option groups but also promoting consensus building among stakeholders.

Thirdly, it is expected that the build-up method in the computation of the financial needs of local governments introduced by the Study should be further developed and may be put into practical use in the future. With reference to Japan's LAT system, the Government of the Philippines needs to upgrade the work conducted in this Study in regard to the computation of the financial needs of LGUs and to the management of the data required for it. In this light, the concerned government offices must coordinate to tackle the challenges of computing the financial needs and the potential revenues of LGUs as proposed by JST in Chapter 11, 11.6.

Finally, somewhat related to the above issue, it is the development of data collection and management system. It is hoped that data are gathered sufficiently and properly at the local level and managed systematically at the national level. As barangays are basic units of local governments, collecting the barangay data systematically should be an idea worth considering.

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