GUIDELINES ON PROVINCIAL/LOCAL PLANNING AND EXPENDITURE MANAGEMENT

Investment *programming* & revenue generation

Volume 3

Asian Development Bank

National Economic and Development Authority

Volume 3: Investment Programming and Revenue Generation

This is part of the **Guidelines on Provincial/Local Planning and Expenditure Management** produced under the NEDA-ADB Technical Assistance on Strengthening Provincial and Local Planning and Expenditure Management. The Guidelines consist of:

Volume 1: Integrated Framework
Volume 2: Provincial Development and Physical Framework Plan
Volume 3: Investment Programming and Revenue Generation
Volume 4: Tools and Techniques on Budgeting and Public Expenditure Management
Volume 5: Project Evaluation and Development

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VOLUME 3

Investment ***programming*** & revenue generation

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Acronyms

ADB	Asian Development Bank
AIP	Annual Investment Program
BLGF	Bureau of Local Government Finance
BOT	Build-Operate-Transfer
BSP	Bangko Sentral ng Pilipinas
CAR	Cordillera Administrative Region
CIP	Capital Investment Program
CLUP	Comprehensive Land Use Plan
COA	Commission on Audit
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DPWH	Department of Public Works and Highways
DSUD	Decentralized Shelter and Urban Development Project
ECC	Environmental Clearance Certificate
GFI	Government Financing Institutions
GOCC	Government Owned and Controlled Corporation
HLURB	Housing and Land Use Regulatory Board
IRA	Internal Revenue Allotment
LBP	Land Bank of the Philippines
LCE	Local Chief Executive
LDF	Local Development Fund
LDIP	Local Development Investment Program
LFC	Local Finance Committee
LGA	Local Government Academy
LGC	Local Government Code
LGU	Local Government Unit
LGUGC	Local Government Unit Guarantee Corporation
MB	Monetary Board
MDF	Municipal Development Fund
M & E	Monitoring and Evaluation
M/CCLUP	Municipality/City Comprehensive Land Use Plan
M/CDP	Municipality/City Development Plan
M/CDIP	Municipality/City Development Investment Program
MOOE	Maintenance and Other Operating Expenses
MTPDP	Medium-Term Philippine Development Plan
MTPIP	Medium-Term Public Investment Program

NEDA	National Economic and Development Authority
NFPP	National Framework for Physical Planning
NG	National Government
ODA	Official Development Assistance
PDC	Provincial Development Council
PDF	Provincial Development Fund
PDIP	Provincial Development Investment Program
PDPFP	Provincial Development and Physical Framework Plan
PED	Project Evaluation and Development
PFC	Provincial Finance Committee
PLUC	Provincial Land Use Committee
PPAs	Programs, Projects, and Activities
PPDC	Provincial Planning and Development Coordinator
PPFP	Provincial Physical Framework Plan
PS	Personal Services
RDIP	Regional Development Investment Program
RDP	Regional Development Plan
RLUC	Regional Land Use Committee
RPFP	Regional Physical Framework Plan
SEF	Special Education Fund
USAID	United States Agency for International Development
WTP	Willingness to Pay

Executive Summary

NEDA, with assistance from the ADB, formulated the Guidelines on Provincial/ Local Planning and Public Expenditure Management comprising of (1) Integrated Framework, (2) Provincial Development and Physical Framework Plan, (3) Investment Programming and Revenue Generation, (4) Tools and Techniques on Budgeting and Public Expenditure Management, and (5) Project Evaluation and Development.

This volume provides a systematic approach to the preparation of the Provincial Development Investment Program (PDIP).

The PDIP is a six-year planning document that ranks and prioritizes programs, projects, and activities (PPAs) proposed in the Provincial Development and Physical Framework Plan (PDPFP) and matches the prioritized project list with the investment financing capacity of the province. The result is an investment schedule and financing plan in which the investment requirements of the proposed projects balances the funding capability of the province, on an annual basis, during the multi-year period covered by the PDIP.

The current year slice of the PDIP—the Annual Investment Program (AIP)—constitutes the indicative yearly expenditure requirements of the province's PPAs to be integrated into the annual budget.

While this set of guidelines may be applied to derive a PDIP for any number of years, it is specifically designed for a six-year period. Six years is deemed appropriate because it corresponds to two terms of the Provincial Governor and can be synchronized with the similar six-year coverage of national plan documents (Medium-term Philippine Development Plan and Medium-term Public Investment Program).

In some cases, projects may require more detailed financial and economic studies and for this purpose, tools provided in the Project Evaluation and Development (PED) Guidelines may be utilized. The PED guidelines also provide pointers for the packaging of project proposals for PDIP projects to be funded from external sources.

The PDIP preparation process is a combined technical and political process. It combines the technical analyses of provincial planning officials with the political judgments of the Provincial Governor and other elective officials in responding to expressed constituency needs.

Effective PDIP preparation requires the following:

- A coherent and unified methodology including financial management tools.
- A properly constituted and well organized PDIP Committee and working procedures.
- Meaningful and consistent involvement of the citizenry in the PDIP preparation process primarily via the Provincial Development Council.
- Regular and responsive annual review of the PDIP.

The PDIP preparation process, which defines the structure and organization of these Investment Programming and Revenue Generation guidelines, consists of seven major steps:

Step 1. Establish PDIP policies.
Key policy issues are defined. These include, among others, the time frame, methods of financing, and criteria for prioritization.

Step 2. Develop and define the prioritization approach.
Prioritization criteria, against which PPAs identified in the PDPFP are prioritized and ranked, are determined.

Step 3. Formalize and rank the list of development investment projects.
The total investment requirements of the PPAs are estimated and then the PPAs are scored and ranked using the criteria and procedures developed in Step 2.

Step 4: Analyze the development investment financing capacity.
The capability of the province to fund the proposed PPAs is estimated.

Step 5: Iteratively develop the PDIP financing plan and finalize the investment schedule.
The annual investment requirements estimated in Step 3 are matched with the annual funding capability estimated in Step 4. If they match, then the PDIP financing plan and investment schedule are finalized. If not, then the project list is reviewed on the cost side and or additional sources identified on the revenue side.

Step 6: Legally adopt the PDIP.
The final PDIP financing plan and investment schedule are packaged into a draft PDIP for review and endorsement to the Sangguniang Panlalawigan; the Sanggunian deliberates and then legally adopts the PDIP. The current year slice of the PDIP is then submitted for consideration in the annual provincial budget.

Step 7: Update the PDIP.
The PDIP is updated annually to reflect changing field and financing conditions, and to include new project requests arising from changes or adjustments in the PDPFP.

part 1
introduction

introduction

A. OVERVIEW

NEDA, with assistance from the ADB, formulated the Guidelines on Provincial/ Local Planning and Public Expenditure Management comprising of (1) Integrated Framework, (2) Provincial Development and Physical Framework Plan, (3) Investment Programming and Revenue Generation, (4) Tools and Techniques on Budgeting and Public Expenditure Management, and (5) Project Evaluation and Development.

Volume 3 is intended to provide a systematic approach to the preparation of the Provincial Development Investment Program (PDIP). It is designed to be used directly by those involved in the investment programming process, particularly personnel of the Provincial Planning and Development Office (PPDO), the Provincial Treasurers' Office, the Provincial Budget Office and the other line departments of the provincial government. The guidelines focus on practices and techniques for developing a PDIP, and thus deal with the ranking, timing, and financing of provincial investment projects.

The output of the guidelines is a six-year PDIP. A related output of the guidelines is the Annual Investment Program (AIP), which is the current-year slice of the PDIP. The AIP is the primary basis of the annual budget of the province.

Key inputs to the PDIP process include the goals and objectives of the Provincial Development and Physical Framework Plan (PDPFP) and corresponding programs, projects, and activities (PPAs). The goals and objectives form the basis for prioritizing and ranking the PPAs. Other key inputs are historical projections of revenues and expenditures derived from the Tools and Techniques on Budgeting and Public Expenditure Management (BPEM). These projections

PDIP serves as a key vertical influence in linking municipal and component city development investment projects with those of the province and with regional and national PPAs

The PDIP **must ensure** that limited provincial investment resources are allocated properly, **linking** development investment projects with funding sources, service delivery outcomes and ultimately, provincial development

are used to calculate the initial amount of funds available for development investment, which is then matched with the estimated amount required to implement the proposed PPAs during the initial stage of PDIP preparation.

The PDIP also serves as a key vertical influence in linking municipal and component city development investment projects with those of the province and with regional and national PPAs. As part of the province-city/municipal complementation, the province may develop and undertake joint programs or augment the financial resources of its component cities and municipalities in implementing programs and projects that have significant impacts on the province as a whole. Where feasible and consistent with their own plans, the component cities and municipalities may also provide counterpart resources to implement programs and projects initiated by the province.

Other significant characteristics of the PDIP guidelines include the following:

- The PDIP process is a combined technical and political process. It combines the technical analyses of provincial planning officials with the political judgments of the Provincial Governor and the other elective officials in responding to expressed constituency needs.
- Because it prioritizes and thus becomes the basis for determining projects to be implemented, the PDIP is a critical influence on the future state of the local economy. Without the PDIP, provincial officials may not be able to identify and gather the resources necessary to transform the vision of the province into reality.
- Investment funds are scarce resources and new programs and projects give rise to long-term maintenance and operational costs. The PDIP must therefore take a reasonable and long-term financial and service perspective. It must ensure that limited provincial investment resources are allocated properly, linking development investment projects with funding sources, service delivery outcomes and ultimately, provincial development.
- Physical planning efforts need to be backed by enhanced provincial capacity to exercise its powers to generate revenues more fully, not only through a more aggressive utilization of local taxing authorities and improvements in local tax administration, but also through the use of non-traditional sources of local finance like credit finance, grants, and various modalities of private sector participation.

Overall, the PDIP guidelines provide a structured process to assist provincial governments in their development investment programming, and to provide a framework for development project management and financial resource mobilization.

B. GUIDING PRINCIPLE, APPROACH, AND THE SEVEN-STEP PROCESS

The basic guiding principle of the PDIP guidelines is that the use of public money requires obtaining the greatest possible value for each invested peso, thus maximizing economic and social results for the province.

Following this principle, the guidelines utilize an approach with the following characteristics:

1. A coherent and unified methodology including financial management tools.
    a. The PDIP is based on a six-year planning horizon, and the investment programs are scheduled each year, in an order that reflects provincial priorities.
    b. The methodology for setting priorities limits subjectivity through quantitative and qualitative criteria that lead to a more efficient use of provincial financial resources.
2. A properly constituted and well organized PDIP Committee and clear working procedures.
    a. In preparing and implementing the PDIP, specific responsibilities are assigned to members in a formal working group, a common action plan is approved, and resources are allocated to the PDIP Committee.
    b. The action plan is prepared and endorsed by the PDIP Committee and approved by the Provincial Governor.
    c. A successful PDIP process requires the full cooperation of provincial government departments involved. This also helps avoid miscommunication that may occur during the preparation and implementation of the PDIP.
3. Meaningful and consistent involvement of the citizenry in the PDIP process primarily via the PDC.
    a. Organized and meaningful public consultations enhance local support for the PDIP. These consultations also provide valuable insights and understanding of local needs and perceptions.
    b. A well-managed public debate of the investment program via the PDC is a major tool for legitimizing and acknowledging the investment program.
4. Regular and responsive annual review of the PDIP.
    a. An annual review which adjusts and approves the PDIP is needed to make it sustainable.
    b. A multi-year program, provincial fund utilization regulations, and experienced

provincial technical personnel properly trained in the PDIP process, can also help ensure the long-term success of the PDIP process.

The guidelines describe a seven-step process for the preparation of the PDIP. The following is a summary of the seven-steps:

Step 1. Establish PDIP policies.
Key policies that guide the investment programming process are defined. These include, among others, the time frame, methods of financing, and criteria for prioritization.

Step 2. Develop and define the prioritization approach.
Criteria for prioritizing and ranking the PPAs are defined.

Step 3. Formalize and rank the list of development investment projects.
Total investment requirements of the PPAs are estimated. PPAs are then scored and ranked using the criteria and procedures developed in Step 2.

Step 4. Analyze the development investment financing capacity.
The capability of the province to fund the PPAs is estimated.

Step 5. Iteratively develop the PDIP financing plan and finalize the investment schedule.
The annual investment requirement estimated in Step 3 is matched with the initial annual investment capacity (funding capability) estimated in Step 4. If they match, then the PDIP financing plan and investment schedule are finalized. If not, then the project list is reviewed on the cost side and/or additional sources identified on the revenue side.

Step 6. Legally adopt the PDIP.
The final PDIP financing plan and investment schedule are packaged into a draft PDIP for review and endorsement to the Sangguniang Panlalawigan; the Sanggunian deliberates and then legally adopts the PDIP. The current-year slice of the PDIP is then submitted for consideration in the annual provincial budget.

Step 7. Update the PDIP.
The PDIP is updated annually to reflect changing field and financing conditions, and to include new project requests arising from changes/adjustments in the PDPFP.

C. STRUCTURE AND ORGANIZATION OF THE GUIDELINES

The next part of this document (Part II) is an overview of the PDIP. It provides some basic definitions and clarifies key aspects of the investment programming process. It answers frequently asked questions about the PDIP process based on generally accepted definitions and practices on investment programming. It also discusses the vertical relationship of the investment programs at the national, regional, provincial, and city/municipal levels.

Part III constitutes the gist of the guidelines. It describes in detail the seven-step process, which defines the structure and organization of the guidelines. It starts by describing the setup of the PDIP process as well as the PDIP process flow. This is followed by a detailed discussion of the seven-step process, from the establishment of PDIP policies to regular annual updating.

Part IV offers two illustrative cases on investment programming and revenue generation: Calatagan, Batangas and Cagayan Province.

Finally, Annexes A-H provide additional details and pointers on selected tools, techniques, and other components of the PDIP guidelines. They are intended to be used actively as references during the course of preparing the PDIP, and are organized into annexes primarily to preserve the flow of the seven-step process.

part 2
overview of the PDIP

overview of the pdip

A. WHAT IS A DEVELOPMENT INVESTMENT?

Development investments are expensive, do not recur annually, and last a long time (have a multi-year service life).

Public investments include "hard assets" such as roads and bridges, slaughterhouses, community centers and other buildings, water and wastewater treatment plants, major construction equipment, etc., as well as "soft assets" that cover various human resource programs. Collectively, these are called development investments.

Note that the direct costs of a development investment usually exceed the cost of the actual physical investment. They may include financing and engineering costs, preparation costs, land acquisition, and other costs necessary to implement the project. Large development investment projects may take several years to plan, engineer, and construct, meaning that they will affect a number of annual budgets.

Future annual operation and maintenance costs over and above that of the traditional MOOE estimated during the budget process also have to be considered as part of the costs of development investments.

Public investment projects that may be considered for inclusion in the PDIP are listed below:

- New or expanded facilities (such as government offices and facilities, water and wastewater treatment facilities, public works, etc.);
- Large-scale rehabilitation or replacement of facilities (repaved streets, remodeled buildings, etc.);
- Major pieces of equipment (such as fire engines, trucks, backhoes, etc.);
- Costs of land acquisition, engineering and/or architectural work related to new or rehabilitated facilities; and

- Soft capital-type LGU-wide human resource, employment, and business development programs like credit facilities and livelihood programs.

Table 1 presents typical LGU concerns and corresponding "hard" and "soft" development investment projects. Note that in many cases, responses to development concerns combine both types of projects.

Table 1. Sample LGU Development Concerns and Investment Responses

Concern	PPAs	
	"Hard"	"Soft"
Financial Resource Mobilization		Mass assessment of all properties subject to appraisal Conduct of business tax mapping Formulation of a 5-year development plan. Team-based reward system for achievers in income generation
Administrative Support Services	LGU computerization program/e-governance (hardware component) Construction of a covered quadrangle for use of LGU clients	LGU computerization program/e-governance (software and training component) Promotion of a client friendliness program Employee competency assessment program
Public Information and Education	Setting up of information and advisory billboards	Printing and dissemination of LGU brochures Development and continuous upgrading of LGU website Development of interactive information booth
Economic Enterprises	Construction of a public market Construction of a sports complex Construction and setting up of a livelihood training center	Launching of LGU product caravans Participation in product exhibits Printing of LGU postal stamps Launching of regular job fairs
Public Safety and Security	Construction of a Public Safety Center (including acquisition and installation of modern equipment) Development of river flooding watch towers including a public warning system	Promotion of a home safety program Year round training of public safety personnel Community watch program
Health and Environment	Setting up and proper operation and maintenance of a: - Sanitary land fill - Diagnostic / specialty center for specialized medical services - Senior citizens healthy lifestyle center - Public toilets	Comprehensive waste segregation and reduction program Health privilege cards Continuing dog vaccination Anti- smoke belching campaign Continuous rounding-up of stray animals

Concern	PPAs	
	"Hard"	"Soft"
Urban Utilities and Transportation	Construction of new roads and bridges Construction of a river dike Concreting of sidewalks Road traffic signalization including appropriate signages Drainage improvements including the setting up of pumping stations Construction of a transport terminal Construction of artesian wells	Anti-jaywalking campaign Driver education campaign
Citizens' Affairs	Setting up and full operationalization of a Women's Center Construction and leasing of public housing to informal dwellers	Fast tracking of Community Mortgage Program (CMP) projects Updating of homeowners' associations directory

B. WHAT IS A PROVINCIAL DEVELOPMENT INVESTMENT PROGRAM?

The PDIP is a document that formalizes and ranks PPAs identified in the PDPFP, and matches the prioritized project list with the investment financing capacity of the province in an iterative manner. This results in a final investment schedule and financing plan in which the total investment requirements of the proposed PPAs balances the funding capability of the province, on an annual basis, during the period covered by the PDIP.

As mentioned earlier, the PDIP is a six-year investment program. While this set of guidelines may be applied to cover any number of years, a six-year period of coverage was selected because it corresponds to two three-year terms of the Provincial Governor. This is a reasonable expectation with respect to the tenure of the Governor, who is perhaps the single most influential entity on the preparation and implementation of the PDIP (as well as of the PDPFP and other planning and implementation instruments of the province). The six-year period also allows the PDIP to be synchronized with key national/ regional plans such as the Medium-term Philippine Development Plan and the Medium-Term Public

PDIP is a document that **formalizes** and **ranks** PPAs identified in the PDPFP, and **matches** the prioritized project list with the investment financing capacity of the province in an iterative manner.

Investment Program (MTPDP/MTPIP) and the counterpart Regional Development Plans (RDPs) and Regional Development Investment Programs (RDIPs).

The PDIP is a rolling program, because subsequent year projects are moved up with each new program year.

C. WHAT ARE THE BENEFITS OF A PDIP?

1. **Improves the coordination of development investments with the PDPFP.** The PDIP must take into account provincial constituency needs, including anticipated population growth, economic development, and enhancement of quality of life. The PDIP helps to realize the vision of the province set forth in the PDPFP, and discourages uncoordinated, piecemeal approaches to solving development investment needs.

2. **Provides a structured mechanism for development investment decision making at the provincial level.** The basic function of the PDIP is to give provincial policymakers an orderly process for identifying current and future development investment needs, prioritizing these needs, and identifying sources of funding.

The PDIP helps to realize the vision of the province set forth in the PDPFP, and discourages uncoordinated, piecemeal approaches to solving development investment needs

3. **Serves as a key provincial financial management tool.** Through the medium-term perspective of a PDIP, provinces are better able to use a variety of funding opportunities anchored on intensified local revenue mobilization efforts and augmented by resources external to the province, e.g. national government and foreign grants, direct loans, bond flotation, BOT agreements, and other external financing methods. Furthermore, the long-term perspective prevents dramatic tax increases or unplanned borrowings that may be required when a province encounters an unanticipated development investment need.

4. **Improves credit rating.** Well-prepared PDIPs are viewed favorably by the credit markets including government agencies involved in the approval process for LGU borrowing — the Department of Finance's Bureau of Local Government Finance (DOF-BLGF), Local Government Unit Guarantee Corporation (LGUGC), and the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), as such plans demonstrate that the province has carefully planned for its future development investment needs and has thoroughly evaluated available funding alternatives.

5. **Improves provincial administration.** A PDIP aligns the provincial development project portfolio with the delivery of services, maximizes the effectiveness of those services and the efficiency with which they are delivered. Administratively, the PDIP process requires provincial departments to analyze and forecast their future needs in close coordination and cooperation with other local departments.

6. **Promotes intra-provincial cooperation.** A PDIP can help component cities and municipalities plan the location, timing, and financing of improvements in the interest of the provincial community as a whole, and avoid costly duplication of effort.

D. WHAT IS THE ROLE OF THE PDIP IN THE HIERARCHY OF INVESTMENT PROGRAMS?

The 1991 LGC as well as various executive orders provide for the vertical integration of investment programs.

- EO 319 provides that local development investment programs approved by the Sanggunian shall be integrated into the development investment programs of the next higher LDC.

- EO 308, S. of 1987, ensures the consistency of local development investment programs with the RDIP though coordination with the Provincial Development Councils/ Municipal Development Councils (PDCs/MDCs).

- The integration of the development investment programs of provinces, highly urbanized cities, and independent component cities into the RDIP shall be mandatory as per Section 114-b of the LGC.

Vertical integration is achieved by aligning, rationalizing, or reconciling development investments at the regional level with those of the national level on the one hand, and ensuring that provincial, city and municipal development investments take the RDIP into consideration, on the other.

- The MTPIP covers national government (NG) PPAs funded from the national budget, government financing institutions, private sector/LGUs, etc. (e.g., grants).

- The RDIP covers NG-funded PPAs including those of government owned and controlled corporations (GOCC) located in the region, LGU- funded projects with regional impact, and inter-provincial projects.

- The PDIP covers NG-funded and implemented projects located in the province (e.g. airport), provincial-funded and implemented projects (e.g., provincial roads and bridges), and inter-municipal projects funded and implemented by the LGUs concerned or through external assistance. NG-projects may be generated and identified in the PDIP but are to be implemented and incorporated in the corresponding NG agency budget.

Integration covers key aspects as PPA coverage, implementation schedules, financing sources, and inter-LGU cooperation including resource sharing possibilities. These allow better economies of scale, more effective work scheduling, and more responsive funds flow management.

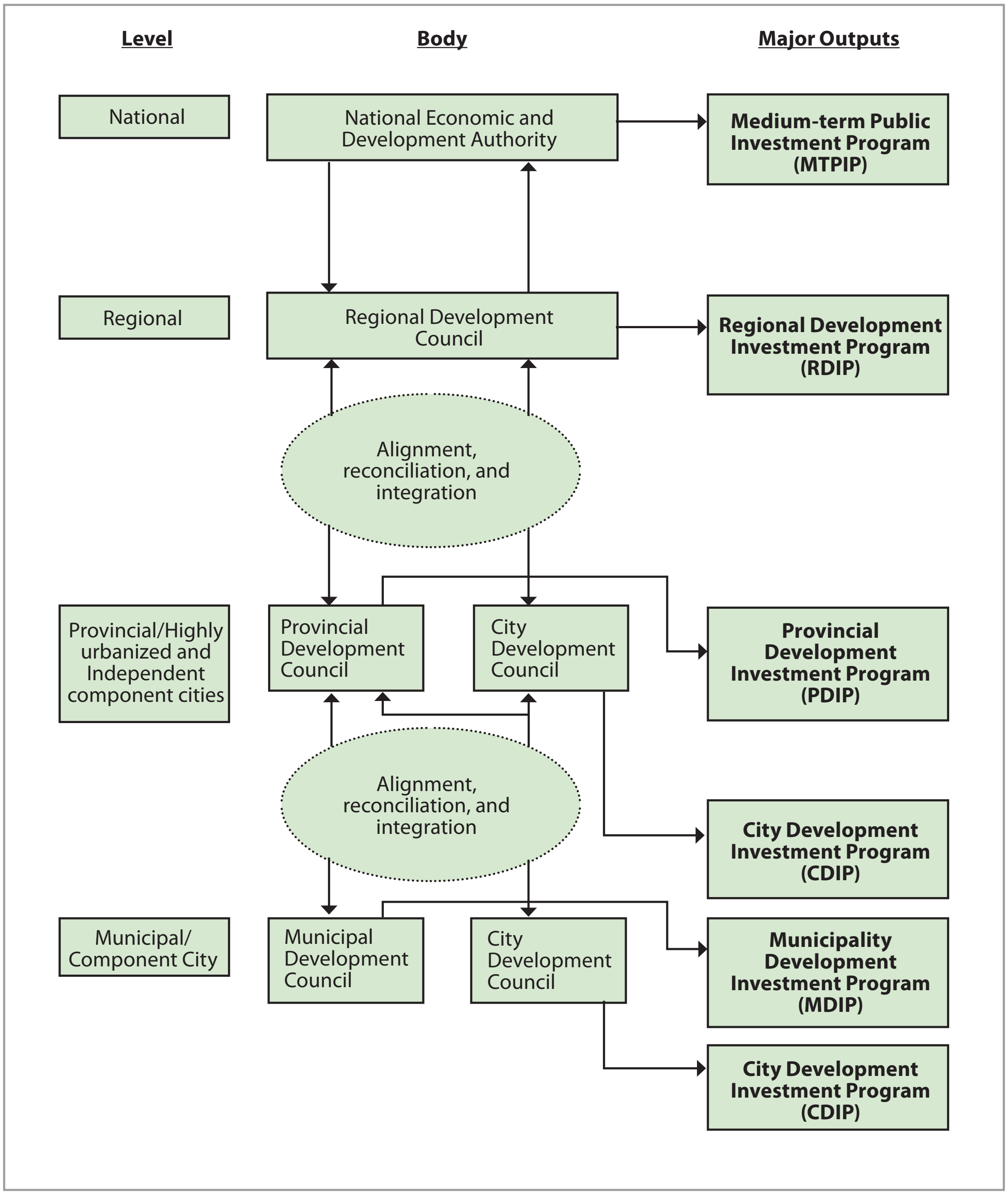
Figure 1 presents the vertical integration of programs. At the national level, NEDA is tasked with the preparation of the MTPIP. NEDA provides the Regional Development Councils (RDCs) with regional targets in the form of the regional investment programs of the NG including that of the GOCCs. Per Executive Order 325 (s.1996), the RDC reviews, prioritizes, and endorses to the national government the annual and multi-year sectoral investment programs of the region for funding and implementation among its other functions.

The RDCs then formulate their respective RDIPs that reconcile and integrate NG and provincial/highly urbanized/independent cities-identified and funded projects with those of RDC-identified projects.

The formulated PDIPs and City Development Investment Programs (CDIPs) of highly urbanized/independent cities include both locally-funded and implemented projects, NG-funded and implemented projects, and inter-municipal projects.

The PDIP serves as the framework for the Municipal Development Investment Program (MDIP) and CDIP of the municipalities and component cities of the province. The component cities and municipalities get to participate in the PDIP process through their representation in the PDIP Committee during the preparation stage, and in the Provincial Development Council (PDC) during the review and endorsement stage.

Figure 1. Vertical Integration of Investment Programs



part 3

the PDIP preparation process

the pdip preparation process

A. SETTING UP

Consistent with the DILG-NEDA-DOF-DBM Joint Memorandum Circular (JMC) No. 1, series of 2007, the preparation period of the PDIP takes off from the completion of the PDPFP, particularly the identification of PPAs, and ends in time for the budget call in July. The preparation process starts with the formation by the Provincial Governor of an organization that will be directly responsible for the preparation of the PDIP. This organization is needed in order to provide a purposive structure to the preparation of the PDIP as well as to ensure a smooth transition from the development planning activities of the PDPFP. The organization is made up of the following:

- A PDIP Committee to lay out policies, directions, and the action plan that will guide the preparation of the PDIP. Working with a technical secretariat, the PDIP Committee will be responsible for the actual preparation of the PDIP.

- A PDIP Technical Secretariat to provide technical and administrative support to the committee; and

- A PDIP Coordinator to coordinate and monitor the PDIP process in behalf of the committee.

PDIP Committee

It is recommended that the PDIP Committee be composed of the following members:

1. The Executive Committee (EXECOM) of the Provincial Development Council (PDC)--empowered to represent the PDC and act as its implementing arm as provided for in the 1991 LGC.

   Based on Sec. 111 of the LGC, the EXECOM shall be composed of the following:

a. The Governor as Chairman;
b. A representative of the component city and municipal mayors, most likely the President of the Provincial League of Mayors;
c. The Chairman of the Committee on Appropriations of the Sangguniang Panlalawigan;
d. The President of the Provincial League of Barangays; and
e. A representative of NGOs that are represented in the Council.

2. The Provincial Finance Committee (PFC) composed of the Provincial Planning and Development Coordinator (PPDC), the Provincial Treasurer, and the Provincial Budget Officer.

3. Other local officials who can provide substantive inputs to the formulation of the PDIP, such as:

   a. The Chairman of the Committee on Infrastructure of the Sangguniang Panlalawigan;
   b. The Provincial Administrator;
   c. The Provincial Engineer;
   d. The Provincial Assessor;
   e. The Provincial Accountant;
   f. The head of the Economic Enterprise Office or its counterpart; and
   g. The Provincial Auditor.

4. Other members of the PDC who can provide substantive inputs to the formulation of the PDIP. These may include:

   a. The congressmen or their representatives; and
   b. Two representatives from the business and banking sectors.

Within the PDIP Committee, it is suggested that a PDIP Finance Subcommittee acting as an expanded PFC be constituted.

The PDIP Finance Subcommittee should be composed of the PFC plus the Chairman of the Committee on Appropriations of the Sangguniang Panlalawigan, the Provincial Assessor, the Provincial Accountant, and the representative from the banking sector. The inclusion of these people in the drawing up of the financial recommendations relevant to the PDIP will give a wider perspective to the PDIP financing plan. As part of the PDIP Committee, the group will be responsible for coming up with multi-year revenue and expenditure forecasts, assessing the development investment financing capacity of the province, and developing appropriate financing strategies for consideration by the PDIP Committee. In preparing the required revenue and expenditure projections as well as in drawing up the PDIP financing plan, the PDIP Finance Subcommittee will make use of the tools and techniques and additional revenue mobilization case studies that can be derived from Volume 4, Tools and Techniques on Budgeting and Public Expenditure Management.

The PDIP committee will prepare the action plan for the preparation of the PDIP with deadlines and responsibilities, in addition to outcomes and milestones. A sample PDIP Action Plan is shown in Table 2.

If a body similar to the PDIP Committee already exists, a province need not constitute a new one, and may use the existing group as long as it can be considered representative. The Committee should essentially build on the existing PDC structure.

Table 2. Sample PDIP Action Plan

Activity	Output	Principal Actors	Duration (example)
1. Establish PDIP policies	Formal provincial development investment policies	PDIP Committee	March to mid-March
2. Develop and define the prioritization approach	Project screening and prioritization criteria	PDIP Committee	Mid-March to Mid-April
3. Formalize and rank the list of development investment project.	Formalized list of prioritized projects based on the consolidated list of identified projects from PDPFP	All department heads PDIP Committee PDIP Secretariat	Mid- April to Mid-May
4. Analyze the investment financing capacity analysis	Initial investment financing capacity analysis	Finance Group of PDIP Committee	Mid-April to Mid-May
5. Develop the PDIP financing plan and finalize the investment schedule	Investment schedule for PDIP	PDIP Committee PDIP Secretariat	Mid-May to end-May
6. Legally adopt the PDIP	Duly enacted PDIP	PDC en-banc Provincial Legislative Council	June
7. Identification of areas for complementation of PPAs between the province its component cities/municipalities	Joint programs and projects	Jointly by the province and its component cities/ municipalities	June to July
7. Update the PDIP	Updated PDIP	PDIP Committee PDIP Secretariat	April to June of the succeeding years

PDIP Technical Secretariat

It is recommended that PPDO staff act as the PDIP technical secretariat.

PDIP Coordinator

It is recommended that the Provincial Planning and Development Coordinator (PPDC) acts as the Coordinator of all PDIP activities.

The PDIP Coordinator will be responsible for keeping all participants informed of the process and ensuring that the various concerned departments carry out the respective tasks assigned to them in accordance with the policies, directions, and technical instructions laid out by the PDIP Committee.

Although coordinating PDIP elements entails more work, the disciplined use of staff time in an organized process probably results in less time spent in the long-term. Additional staff work is necessary during the first year because substantial data are collected. Thereafter, the PDIP process focuses on modifying and adjusting rather than starting over again.

Provinces can cope with this by assigning existing staff from the PPDO and the other offices whose responsibilities link to the PDIP process like the budget, and treasury offices during the initial PDIP preparation work.

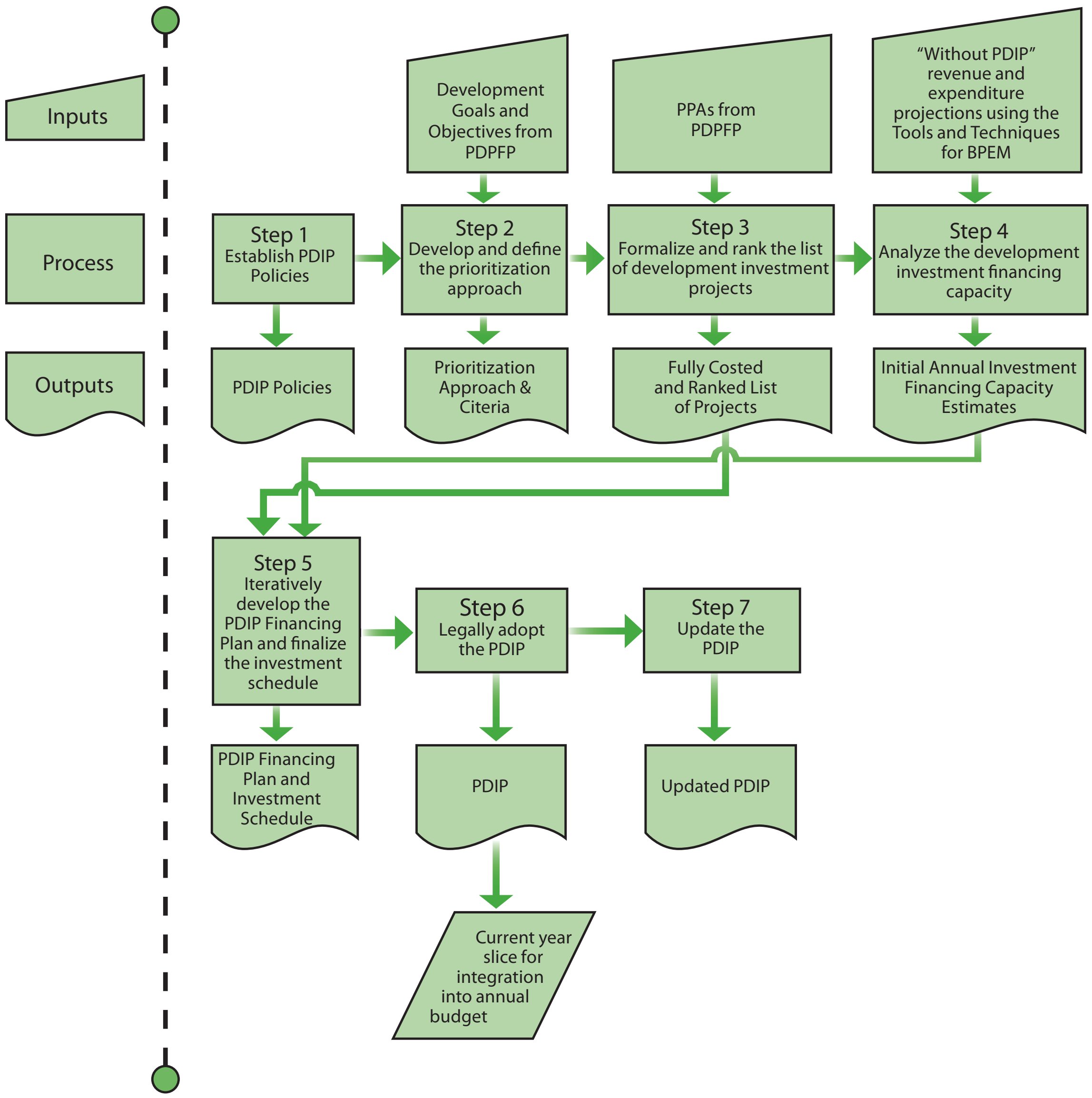
B. THE SEVEN-STEP PROCESS

During the seven-step PDIP preparation process, PPAs identified in the PDPFP are firmed up, prioritized, ranked and iteratively matched with projected financial resources to come up with a financing plan and an investment schedule. These are drafted into a proposed PDIP that is legally adopted and regularly updated. (Figure 2)

Three basic inputs are required by the PDIP process: (1) the development goals and objectives from the PDPFP to serve as input to the prioritization criteria; (2) the PPAs proposed in the PDPFP; and (3) the "without PDIP" revenue and expenditure projections that can be derived from the Tools and Techniques on Budgeting and Expenditure Management (Volume 4).

The seven-step process is straightforward. Each step results in an output that serves as an input to the next step. This section describes each step in detail and provides sample tables and forms (Tables 3-15) to be used during the preparation process. (The numbering of each step corresponds to the numbering adopted in Figure 2.)

Figure 2. PDIP Process Flow Chart



Step 1. Establish PDIP policies

In this initial step, investment policies that will guide the whole PDIP process are established by the PDIP Committee. The key policy issues that must be resolved are the methods of financing and criteria for prioritization.

The policies must be developed within the overall planning, financial, institutional and legal framework governing the operations of LGUs, especially the 1991 LGC. For example, LGUs must continuously operate within the framework of a balanced budget, and that borrowings are not allowed for LGUs with deficits. Thus, an LGU with a deficit or faced with projected deficits in certain years of the PDIP should clearly state in its policies that borrowings will not be resorted to during those years. The 1991 LGC also limits bond flotation to revenue bonds or bonds the repayment for which are tied up to project revenues. Thus, an LGU cannot resort to bond flotation to finance a non-revenue generating social project as a PDIP policy.

Policies must be developed within the overall planning, financial, institutional and legal framework governing the operations of LGUs, especially the 1991 LGC

The following are examples of PDIP policies:

- The prioritization criteria will be limited to the development objectives set out in the PDPFP.
- Approximately 6% of the annual regular revenues of the province will be allocated for PDIP project financing.
- The amount from the annual regular revenues available for PDIP projects will be leveraged via direct loans or bond flotation.
- Alternative PDIP financing tools will be evaluated based on total financing costs including all financial and time-related transaction costs.
- Land-readjustment and special assessment will be major cost recovery tools for urban road and drainage projects.
- There will be full-cost recovery for economic enterprise projects under the PDIP.

Step 2. Develop and define the prioritization approach

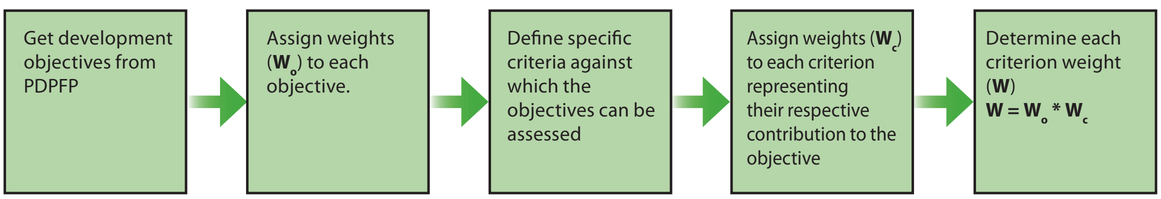
Prioritization criteria are determined after PDIP prioritization policies have been set. Working with the technical secretariat, the PDIP Committee sets out the evaluation process and criteria which, in general, should be consistent with the PDPFP goals and objectives and the PDIP policies established in Step 1.

The approach used to determine the prioritization criteria is a variant of the Goals Achievement Matrix (GAM)[i]. (An alternative approach is the Analytic Hierarchy Process or AHP, a more rigorous but highly computational-intensive method. A summary of the AHP including a sample computation for its use in the PDIP project prioritization process is shown in Annex A.1). The GAM approach requires the identification of a set of development objectives or goals for each project. For this purpose, the development goals and objectives established in the PDPFP, which also served as the basis for identifying the PPAs should be used. This will help ensure a seamless link between the PDPFP and the PDIP.

Figure 3 presents the process for the development of prioritization criteria and weights which will be used to score the proposed PDIP projects.

As mentioned, the development objectives of the PDPFP are the primary basis for prioritizing the PPAs. Weights (Wo) are assigned to each objective, reflecting the importance of each objective to the overall development of the province. The sum of the objective weights should always be the value of one. Weights may be derived through collective discussion, judgment and consensus. (One method for eliciting such judgments is through the use of the Delphi approach, which is presented in Annex A.2.)

Figure 3. Process Flow for the Development of PDIP Ranking Criteria



Specific criteria against which the attainment of each objective can be assessed are then defined. Weights (Wc) reflecting the importance of each criterion to each of the development objectives are assigned to each criterion. The sum of the criteria weights within each objective should always be the value of one.

The chosen criteria should:

- Provide information that is clear both to participants and to users of the process.
- Minimize double-counting of evaluative criteria. If two criteria are highly interrelated and the selection process does not take this fact into consideration, double-counting can result.
- Be practical in terms of cost, time, and personnel available. Late or overly expensive information would, of course, be a major problem for any priority-setting system.

The total weight (W) for each criterion is the product of Wo and Wc. The sum of all the total criteria weight should always be equal to the value of one. An illustrative example is shown in Table 3.

Table 3. Sample Project Evaluation Criteria and Criteria Weights

PDPFP Objective	Weight assigned to objective (Wo)	Criteria against which objective can be assessed (in yy areas)	Weight of Criteria within the objective (Wc)	Criteria Weight (W) $W = W_o * W_c$
Provide employment to xx households in yy areas.	0.30	Increase in employment Increase in household income	0.60 0.40	0.18 0.12
Objective Total	-	-	1.00	0.30
Improve school retention in yy areas	0.25	Decrease in no. of drop-outs	1.00	0.25
Objective Total	-	-	1.00	0.25
Provide affordable housing for xx households in yy areas	0.20	No. of houses built Decrease in number of homeless	0.70 0.30	0.14 0.06
Objective Total	-	-	1.00	0.20
Prevent unnecessary agricultural land conversion in yy areas	0.10	Prime agricultural land area maintained	1.00	0.10
Objective Total	-	-	1.00	0.10
Protect xx households in yy areas from flooding; relocate population in critical areas	0.10	Reduction in number of families affected by flooding	1.00	0.10
Objective Total	-	-	1.00	0.10
Significantly reduce industrial discharge into yy areas	0.05	Reduction in pollution levels Reduction in pollution-related diseases	0.70 0.30	0.035 0.015
Objective Total	-	-	1.00	0.05
Total	1.00	-	-	1.00

Step 3. Formalize and rank the list of development investment projects

In this step, the PPAs proposed in the PDPFP are translated into a formal list of investment requirements by estimating corresponding time-phased cost estimates and identifying sources of funding based on information supplied by project proponents.

As a starting point, all PPAs proposed in the PDPFP for implementation during the proposed period of PDIP coverage may be included in the initial prioritization. Other projects deemed important but were not included in the PDPFP (e.g. sequel of previous project that needs to be completed, projects arising from emergency situations, etc.) may also be included. As much as` possible, these additional projects should at least be consistent with PDPFP objectives. In some cases, the PDIP Committee may decide to review the basis for or the estimated amount of a proposed PPA investment. This may also involve refining estimates through a capital needs assessment analysis. In these cases, some pointers for conducting the review are provided in Annex B (Assessment of New Development Investment Needs).

The individual formalized projects then gets scored and ranked using the criteria and weights developed in Step 2.

Formalization Process

The formalization process proceeds as follows:

a. **Status review.** A status review of previously approved development investment projects is done by the PDIP Committee.

   The status review will help weed out proposed PDIP projects that have already been implemented or scheduled to be implemented prior to the operationalization of the PDIP. It will also help identify new PDIP PPAs which were already submitted but have not yet been scheduled or implemented.

b. **Project information and proposals.** The project proponents, primarily the departments of the provincial government, will be asked to officially confirm the PPAs identified in the PDPFP through the submission of formal project proposals.

   Pertinent project information to be covered by the project proposals include: department, project name, location, description, purpose (new, continuing, or modified project), justification of need, costs, expenditure by year, schedule of planning, engineering, and construction, required operating and maintenance costs, effect on revenue, financing sources recommended by the proponent, and rationale in terms of the development goals of the province.

   A sample PDIP Project Proposal Form is provided in Table 4. (NEDA Board-Investment Coordination Committee [ICC] Project Evaluation Forms 1 to 6 may also be used).

In some cases, a separate form may be used to gather information on major equipment acquisition proposals like asphalt or concrete batching plants, heavy construction equipment, major hospital equipment, etc. Examples of relevant equipment information are name, description, purpose (new, replacement, or repair), proposed use, form of acquisition (purchase, lease), number of units requested, gross and net cost, trade-in value, number of similar units in inventory, useful life, information on equipment to be replaced (make, age, condition, repair costs and recommended disposition: trade-in, salvage, sale, or use by another agency). See Table 5 for a sample Equipment Request Form.

To justify a project request, it is important to furnish accurate, objective and supportable information. A key source of information is the PDPFP and/or department heads that have primary interest in the project. A checklist of information for possible inclusion in project justifications is provided in Table 6. Note that it covers both tangible and intangible benefits and identifies potential sources of support and opposition. Quantifiable information such as number of beneficiaries and maintenance and operating costs implications, may be sourced from Table 3.

Although the PDIP Finance Subcommittee should recommend investment financing alternatives, it is beneficial for those preparing project requests to recommend financing sources based on information that may not be available to the Subcommittee.

c. **Technical review.** The PPDO will then conduct a technical review of the project proposals with inputs from the PDIP Finance Subcommittee and key provincial planning, finance, engineering and architectural staff specialists. In certain cases, field visits and department hearings, especially for major and politically-sensitive projects, are useful components of the proposal review process. The review provides an opportunity to clarify and request additional information.

Project proposals are reviewed for completeness and accuracy. A sample review checklist is shown in Table 7.

Project proposals with incomplete or questionable entries should be referred back to the project proponent for appropriate action.

All project proposals that pass the formalization process are registered as projects for prioritization.

Table 4. Sample PDIP Project Proposal Form

Project Title							
Submitted by							
Date of Submission							
Contact Person							
Department							
1. Total Estimated Project Cost							
2. Project Description							
3. Project History							
4. Project Justification							
5. Beneficiaries							
6. Financing Sources							
Proposed Source	**Amount**	**Out of which**					
		2007	**2008**	**2009**	**2010**	**2011**	**2012**
Local Sources							
IRA							
Borrowings							
Grants							
Total							
7. Projected Revenues		Operating Year					
Annual Revenues		**2007**	**2008**	**2009**	**2010**	**2011**	**2012-onwards**
Capital Revenues (Proceeds of Sale or lease of LGU assets like equipment and buildings)							
Current Revenues (Service Income or sale of products)							
Total Revenues							
8. Project Photo or Location Map		9. Schedule of Project Activities and Capital Costs					

	Activity	From-to Dates	Amount
	Project preparation activities		
	Site Acquisition		
	Detailed engineering design		
	Construction		
	Equipment and Furnishing		
	Other costs		
	Total Capital Costs		
	10. Annual Current (Recurring) Costs		
	Personal Services		
	Maintenance and Other Operating Expenses (MOOE)		
	Minor Capital Outlays		
	Total Annual Current Costs		
11. Please provide a summary to explain how the requested project would move the province toward achieving goals identified in the PDPFP:			

Table 5. Sample Equipment Request Form

Name of Equipment	Technical Description/ Specifications	Useful Life of Eqpt.	No. of Units Requested	No. of Similar Units in Inventory	Purpose (X)			If Replacement, Describe Eqpt. to be replaced*	Manner of Acquisition (X)			If Lease, Describe Terms	Cost			Proposed Use of Equipment
					New	Replacement	Repair		Purchase	Lease	Lease-to-Own		Gross Value	Trade-in Value	Net Value	

Table 6. Checklist of Project Justification Information

1. Need or problem addressed by project
2. Extent to which the project meets the need or solve the problem
3. Number of people or area benefiting (province-wide, municipality, district, barangay, neighborhood)
4. Specific benefits to be derived
5. Volume of work, services or clients to be served
6. Relationship to other projects
7. Savings produced
8. Revenues generated
9. Availability of outside funding
10. Time restrictions on funding availability
11. Extent of economic development stimulated and jobs created
12. Positive and negative environmental consequences
13. Operating and maintenance costs implications
14. Cost recovery opportunities
15. Consistency with LGU plans and capital policies
16. Project planning and construction period
17. Level of public or stakeholder support or opposition
18. Alternatives considered and reasons for rejection
19. Consequences of deferring the project

Table 7. Sample Project Proposal Review Checklist

1. Have all the items in the project proposal form been completed?
2. Is the information complete and accurate?
3. Are all mathematical calculations accurate?
4. Is the project need identified and supported with appropriate data?
5. Are the cost estimates accurate and reasonable?
6. Have all the costs (including MOOE) been identified?
7. Are the cost projections accurate and realistic?
8. Is the cash flow projection for the proposed project sufficient to finance the project?
9. Are the financing recommendations accurate and feasible?

Ranking of Project Proposals

After the proposed PPAs have been formalized, and following the procedure and weights set by the PDIP Committee in Step 2, the PPAs are scored and ranked using the evaluation criteria (illustrated in Table 3), as follows:

a. Discuss each project proposal in relation to each of the selected criteria, and give each project a rating of 1 to 10 based on how effectively it satisfies each criterion. Treat the ratings as the raw scores for each criterion.

   Depending on the extent to which the project under consideration meets the criteria, points could be assigned, for example, as follows:

   - To a great extent — 7 - 10 points
   - To somewhat great extent — 4 - 6 points
   - To a little extent — 1 - 3 points

b. Multiply the project raw score for each criterion by the weight for that criterion to arrive at the net score for the project for each of the criterion. Total the net scores for each of the project.

c. Rank the projects based on total net scores with the highest score getting rank 1, the next highest with rank 2, etc.

   Table 8 presents a sample project scoring table. The results can be summarized using the sample Development Investment Project Summary Form shown in Table 9.

   To facilitate the decision-making process of the PDIP Committee, an initial project scoring and ranking based on the above prioritization approach can be made by the technical staff of the PPDO to serve as a technical recommendation to the PDIP Committee. The PDIP Committee will, however, decide on the final ranking.

   It is important that the process is transparent and based on consensus, and that various perspectives are represented in the scoring and ranking of the PPAs.

Table 8. Sample Project Scoring Table

Criteria / Project	Increase in employment in yy areas	Increase in household income in yy areas	Decrease in no. of dropouts in yy areas	No. of Houses Built	Decrease in no. of homeless in yy areas	Prime agricultural land area maintained	Reduction in no. of families affected by flooding in yy areas	Reduction in pollution levels in yy areas	Reduction in pollution-related diseases in yy areas		
	Criteria Weights										
	0.180	0.120	0.250	0.140	0.060	0.100	0.100	0.035	0.015		
	Raw Scores										
1	7	10	2	1	6	3	10	4	1		
2	5	8	7	4	4	2	3	5	10		
3	3	4	4	7	2	4	8	8	10		
4	2	9	3	8	5	6	9	3	10		
5	1	3	2	10	1	2	10	2	7		
Project	Net Scores-Raw Score*Criteria Weight									**Project Total Net Score (Column Sum)**	**Project Rank (based on Total Net Score)**
1	1.26	1.20	0.50	0.14	0.38	0.30	1.00	0.14	0.02	**4.92**	**4**
2	0.90	0.96	1.75	0.56	0.24	0.20	0.30	0.18	0.15	**5.24**	**2**
3	0.54	0.48	1.00	0.98	0.12	0.40	0.80	0.28	0.15	**4.75**	**3**
4	0.36	1.08	0.75	1.12	0.30	0.50	0.90	0.11	0.15	**5.27**	**1**
5	0.18	0.36	0.50	1.40	0.06	0.20	1.00	0.07	0.11	**3.88**	**5**

Table 9. Sample Development Investment Project Summary Form

Priority Ranking	Project Title	Project Description	Location	Implementation Years	Total Investment	Project Investment Cost, by Funding Source*						Identify Attachments: Tables/Maps/Charts
						2007	2008	2009	2010	2011	2012	
1												
					Total Current	Project Annual Current Operating and Maintenance Cost, by Funding Source*						
					Total Cost	Project Total Cost, by Funding Source*						
2					Total Investment							
					Total Current	Project Annual Current Operating and Maintenance Cost, by Funding Source*						
					Total Cost	Project Total Cost, by Funding Source*						
3					Total Investment							
					Total Cost	Project Total Cost, by Funding Source*						

* Identify funding source beside annual cost. For example, under 2007 column IRA = 2 million + Grant = 3 million

Step 4. Analyze Development Investment Financing Capacity

In this step, the provincial government determines its funding capability—its ability to fund the proposed PDIP projects. This normally comes in the form of financial capacity analysis, which takes into account historical and projected trends in revenues, expenditures and indebtedness. This analysis can be complex or simple, depending upon the needs of the LGU.

A simple procedure for estimating the new development investment financing potential of the province is shown in Table 10. This is based on the "without PDIP" revenue and expenditure projections developed in these guidelines' Volume 4 (Tools and Techniques on Budgeting and Public Expenditure Management).

- Items 1.0 and 2.0 are derived from the revenue and expenditure projections developed using the tools and techniques on budgeting and public expenditure management.
- Item 1.0 (Total Revenues) include all local LGU revenue items such as tax revenues, i.e., real property tax and business tax revenues, fees and charges, revenues from existing economic enterprises, etc., and all external revenue items like the IRA, shares from the national wealth, borrowings, other local and foreign grants, especially those channeled through the official development assistance (ODA) facilities.
- Item 2.0 (Mandatory Expenditures) include personal services, maintenance and other operating expenditures (MOOE), already committed capital outlays outside of the proposed PDIP, obligated existing debt service, and the 5% calamity funds.

- Item 3.0 (New Development Investment Financing Potential) is the difference between the projected total revenues and the projected mandatory expenditures that can be regarded as a must for the LGU concerned.

In the next step (Step 5), the estimates of new development financing potential (line 3.0 of Table 10) will be matched with the investment and MOOE requirements of the proposed PDIP projects to initiate the iterative matching process.

Provinces desiring to conduct a more detailed financial analysis may refer to Annex C. Note that some projects may require more detailed financial and economic studies as required by financing institutions, the NEDA Board-Investment Coordination Committee (ICC), and the process of securing an Environmental Clearance Certificate. For this purpose, the tools provided in Volume 5, Project Evaluation and Development (PED) may be utilized. The PED guidelines also provide pointers for the packaging of project proposals for PDIP projects to be funded from external sources.

Table 10. Projection of LGU New Development Investment Financing Potential

Item		Projection Year					
		2007	2008	2009	2010	2011	2012
1.0	Projected Total Revenues						
	Less:						
2.0	Projected Mandatory Expenditures						
	2.1 Personal Services						
	2.2 MOOE						
	2.3 Committed Capital Outlays						
	2.4 Obligated Debt Service						
	2.5 5% Calamity Fund						
3.0	New Development Investment Financing Potential (3.0 = 1.0 – 2.0)						

Step 5. Develop PDIP Financing Plan and Finalize the Investment Schedule

After the provincial government's ability to fund the proposed PPAs has been determined in Step 4, this is compared with the investment requirements determined in Step 3. Ideally, the two sides will match such that the funding capability equals or is able to cover the investment requirements of the province. More likely, however, this will not happen initially and a matching process, with the objective of balancing funding capability with investment requirements, has to take place.

The matching process is an iterative or repetitive process. Each iteration involves adjustments in the investment requirement side or in the funding capability side or in both.

The iterative process is shown in Figure 4 where, if the initial funding capability estimated in Step 4 fails to match the total investment requirements generated in Step 3, the PDIP Committee will have to:

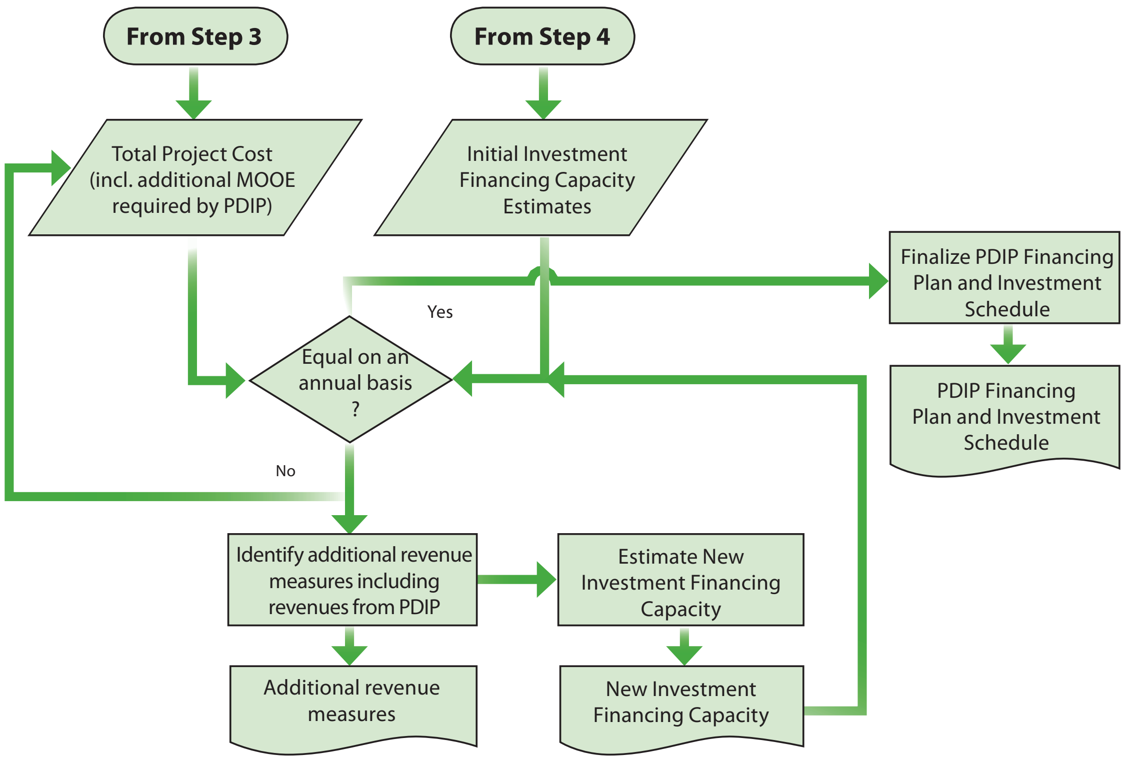
Matching process is an iterative or repetitive process... involves adjustments in the investment requirement side or in the funding capability side **or in both**

- Re-examine the project list generated in Step 3 to consider:
  - o Scaling down,
  - o Phasing, or
  - o Deferring projects, with the objective of reducing project cost for the appropriate year(s) in which the deficit(s) occur; and/or

- Relax the investment budget constraint by:
  - o Raising additional local revenues — taxes, fees and charges,
  - o Borrowing capital funds — Increased access to long-term capital funds through loans from development financing and commercial banks and/or bonds or through joint venture and BOT-type arrangements, or
  - o Re-allocating funds from the operating budget to the investment budget.
    A second round of matching then takes place, and the iterative process goes on until total annual funding requirements match total annual funding capacity.

On reaching such a balance, the PDIP financing plan and investment schedule is finalized and inputted to the draft PDIP. (Figure 4)

Figure 4. Process Flow for the Iterative Development of the PDIP Financing Plan and Investment Schedule



Developing the PDIP Financing Plan

In financial planning for the PDIP, the PDIP Committee must investigate the financing options and the fiscal feasibility of funding the various project requests. Some of the important considerations toward this objective deal with (a) alternative funding sources, (b) revenue mobilization, (c) the process of formulating the financing plan, (d) resource mobilization tools, and (e) credit financing.

a. Provincial investment funding sources

The following are some funding sources that the province may consider in developing its financing plan:

i. Current regular provincial revenues (local taxes, fees and charges, reserves, surpluses, IRA);
ii. Borrowings (direct loans, lease financing, and bond proceeds);
iii. Foreign and local grants including congressional funds allocated to members of the House of Representatives and the Senate for the funding of development projects;

iv. Capital income from sales or use of provincial assets;
v. Cost recovery elements for individual projects and the potential for the public investment to be revenue generating including user fees and charges, special levies and taxation of future benefits;
vi. Cost sharing with other LGUs or with the national government;
vii. Public-private partnerships; or
viii. Combinations of the above.

b. Revenue mobilization considerations

In approaching revenue mobilization for PDIP spending, provinces should keep in mind the following:

i. The first priority is to collect revenues that are due from the existing tax and service fee structure through:

- Improved local revenue collection and tax administration. This implies improving both the effectiveness and the efficiency of operations of the existing provincial revenue administration. Provinces should consider benchmarking vis-à-vis comparable provinces within the region and even within the country.

  Annex D provides some benchmarking indicators that provinces might find useful.

first priority is to **collect revenues** that are due from the existing tax and service fee structure

- Increasing the local tax base by improved mapping and assessment procedures.

ii. Enactment of enabling laws to tap new sources of local revenue and provide greater flexibility to establish cost-effective tax and fee rates. Under the 1991 LGC, taxing powers of provinces are limited to the following:

- Tax on the transfer of real property ownership;
- Tax on business of printing and publication;
- Franchise tax;
- Tax on sand, gravel, and other quarry resources;
- Professional tax;
- Amusement tax;
- Annual fixed tax for delivery truck; and
- Special levies like the idle land tax, and special assessment on lands within its territorial jurisdiction benefited by provincial public works projects.

While taxing powers of the province may be limited, it can potentially increase its share in the revenue collections of its component cities and municipalities via the review and approval process for the local revenue codes by the Sangguniang Panlalawigan with the technical assistance of the Provincial Finance Committee. Such a review should include the extension of technical assistance by the Provincial Treasurer and Assessor to the treasury and assessment officials of component municipalities and cities, especially those lacking technically capable personnel. Both the Provincial Treasurer and the Provincial Assessor have supervisory authority over the respective treasurers and assessors of component cities and municipalities.

iii. Permit and clearance fee rates should be sufficient to cover the actual cost of the evaluation of permit applications and the issuance of the required permits and clearances. In many provinces, the cost of providing various clearances and permits is higher than the corresponding fees being charged.

iv. Facility user fee levels should be increased and thereafter, properly indexed to cover both inflation and real unit cost changes such that they cover the incremental costs of service delivery.

- Price indexation requires annual adjustments in the user fees to reflect changes in the unit prices of key inputs such as power and fuel, chemicals, labor, and related supplies.
- Upward adjustment for real unit cost changes reflect the impact of diseconomies of scale as demand goes up and environmental and service quality requirements such as lower emission standards or higher quality standards.

For example, price levels for various cost items connected to the operation and maintenance of a deep well-based water supply system are subject to increases over time arising from inflation as well as from increased unit power requirements for pumping as water levels go down because of over-pumping.

v. Through consultation with constituents, the LGU should be given an indication of what and how much investment the community is willing to finance.

c. Formulating the PDIP financing plan

The PDIP financing plan can be formulated via a four-step procedure:

i. First, PDIP project services are categorized into the following to identify cost recovery potential:

- General urban services that cover all LGU general administration/service requirements including police and firefighting services.
- Public utilities and local services, i.e., public markets, slaughterhouses, water supply systems, telecommunication systems, cemeteries, and related LGU-run utilities and services.
- Social services, i.e., health centers, nutrition programs, and anti-poverty programs including livelihood training.

ii. Second, the potential cost recovery sources are identified. Revenue efficiency criteria developed by the World Bank[iii] suggest that:

- General urban services should be financed by local taxes.
- Public utilities and local services should be subject to various forms of user fees and charges sufficient to cover major (if not full) cost recovery options.
- Social services should be partially supported by national government grants.

Some development investments (e.g., public markets, slaughterhouses, commercial centers, fish ports, transport terminals) can be financed from user fees. Most PDIP projects cannot be completely financed from user fees, and therefore have to be financed either by local taxes, or national government grants, if qualified.

Annex E presents a set of cost recovery guidelines that Philippine LGUs may consider in deciding when to give a subsidy to a particular project and how much of a subsidy should be given.

iii. Third, the appropriate financing strategy is identified depending on whether the PDIP project is "hard" or "soft". Two basic financing strategies are open to LGUs:

- The "pay-as-you-use" strategy, which finances improvements from future earnings. Provinces may finance these improvements from loans with a maturity that equals the life span of the facilities. If the maturity of the loan is shorter, the province can roll over the loan costs, and the investment project is paid back by user fees and taxes.
  An example is an LGU borrowing money through a seven-year municipal bond float, and using the excess of future (with project) stall rental revenues over MOOE to retire the bond (pay for the loan) over a seven-year period.
  Annex F summarizes the considerations and modes of accessing the credit market.
- The "pay-as-you-go" strategy. In this case an LGU finances improvement expenditures from current and previous operating surpluses.
  This is the traditional and best known way of financing LGU infrastructure

projects in the Philippines with the excess of LGU revenues over LGU expenses in the current year used to finance infrastructure outlays for the next (and even subsequent) year(s).

The impact of the two strategies can differ to a great extent in terms of accountability, investment (and lending) costs, the impact on the behavior of service providers, and the distribution of the burden between the direct beneficiaries of the service and those who would like to save.

iv. Fourth, depending on the financing strategy selected, the appropriate financing instrument is selected based on the following considerations.

- Legality – For example, LGUs cannot issue general obligation bonds to finance LGU operations as well as non-income generating projects.[iv] They may however, issue revenue bonds to finance income-producing projects. LGUs may contract "loans, credits and other forms of indebtedness with any government or domestic private bank and lending institutions to finance the construction, installation, improvement, expansion, operation or maintenance of public facilities, infrastructure facilities, housing project, the acquisition of real property and the implementation of other capital investment projects subject to such terms and conditions as may be agreed upon by the local government unit and the lender."[v]
- Characteristics of the sources – internal or external to the provincial government, i.e., local revenues vs. borrowings and grants; currency denomination (local vs. foreign); finance cost such as borrowing rate or opportunity cost of internal funds of the provincial government; repayment period including provision of loan rollovers, other loan availment conditions including collateral, "tied-up purchases", and documentation requirements.
- Adequacy of the funds with respect to project capital and MOOE requirements.
- Impact on the province including budgetary impact such as necessary belt tightening measures including the deferment or even cancellation of other projects.
- Political and administrative feasibility, e.g., raising of fee and tax rates to service debt requirements; and ability to prepare elaborate project documentation requirements such as pre-feasibility and feasibility studies.

d. Resource mobilization tool

The 1991 LGC provides LGUs with powerful resource mobilization tools that can be grouped into five distinct classes of potential revenue sources. These are:

i. Land-based tools;
ii. Community activity-based tools;
iii. Infrastructure-based tools;
iv. Debt-based tools; and
v. Revenue sharing tools.

Most of these tools are being effectively used by rapidly growing LGUs in the Philippines, Thailand and Indonesia.

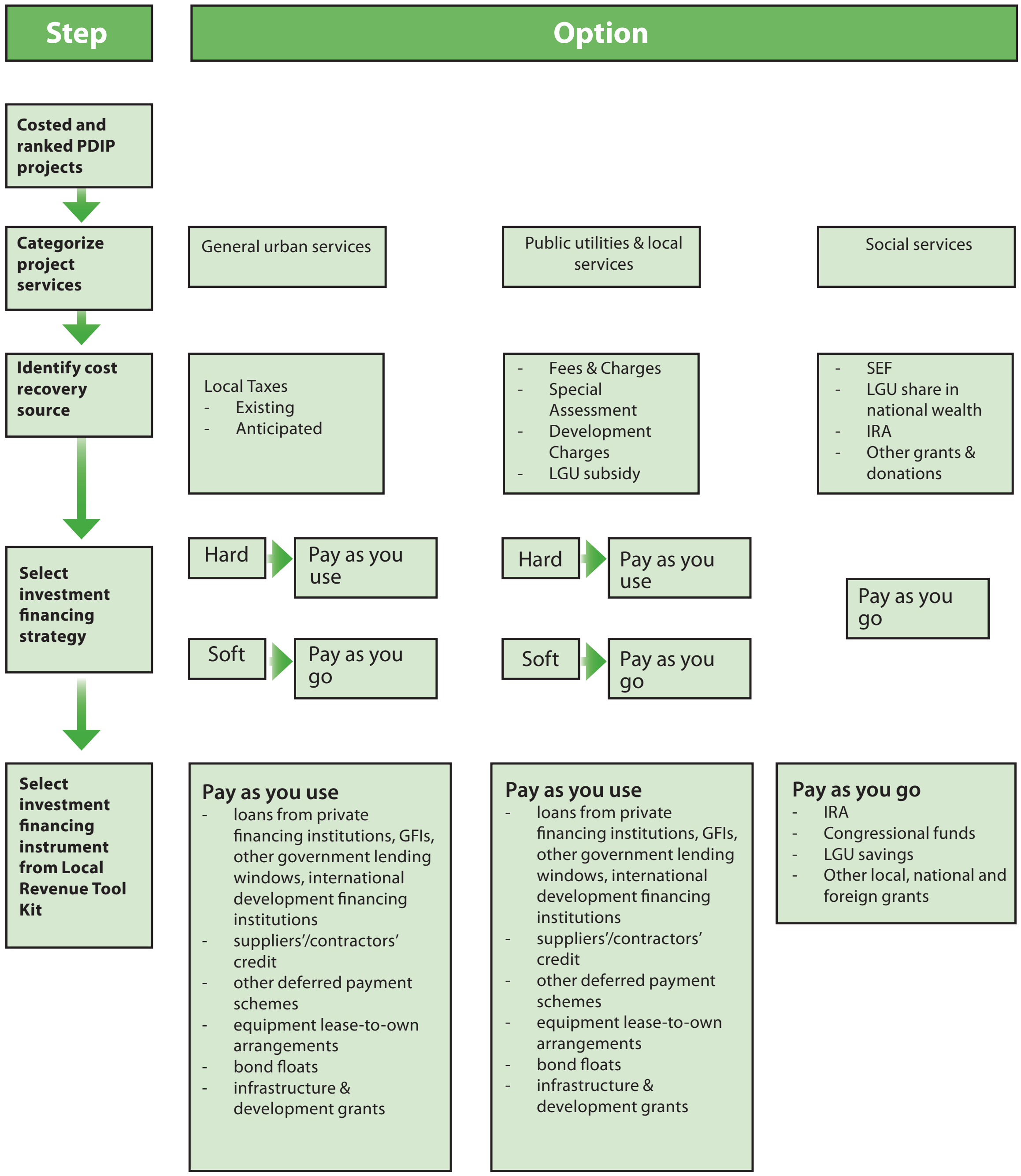
Annex G presents a more detailed presentation of this revenue tool kit for LGUs.

Figure 5 presents the PDIP financing plan formulation process and financing options.

Aside from the two credit market-based case studies in Part IV of this guideline, illustrations of LGU revenue mobilization efforts are in these guidelines' Volume 4 (Tools and Techniques for Budgeting and Public Expenditure Management).

Information about ODA lines are shown in Annex H. Table H.1, in particular presents the form, thrust, and terms of ODA lines available as of July 2005 while Table H.2 enumerates and describes the thrust, time duration, and amount of ODA lines available to LGUs. While the specific terms and conditions of these ODA lines may change over time, they provide a good reference for what might be expected in tapping ODA sources.

Figure 5. PDIP Investment Financing Plan Formulation Process and Financing Options



e. Credit financing

The use of credit financing to finance PDIP projects is expected to grow in importance in the coming years. LGUs may use Table 11 as a guide in selecting the mode of credit financing appropriate for them.

i. A BOT-type of project financing may be considered for PDIP projects where the province:
   - Has no sufficient funds available for the counterpart or equity requirements (usually, 20 to 30% of total project costs).
   - Wants to maximize private sector participation.
   - Wants to avoid political pressures in the setting of rates as well as in the use of the facility to be financed.

ii. A direct loan from private or government financing institutions may be considered for the financing of projects where the province:
   - Intends to use the loan proceeds to finance vital infrastructure or development projects that are not self-liquidating or directly income-generating.
   - Wants full borrowing predictability arising from fixed loan terms in terms of interest rate and regular annual repayment periods.
   - Does not have the capability or the means to engage financial advisors to prepare the required feasibility studies and related project packaging requirements.
   - Is willing to pay higher interest rates and be subjected to less flexible loan terms.
   - Is willing to incur opportunity losses as well as project escalation arising from delayed loan approval periods in the case of special national government-managed lending lines like those of the Municipal Development Fund Office (MDFO).

iii. A municipal bond float may be considered for the financing of projects where the province:
   - Intends to use the bond proceeds to finance self-liquidating and directly income generating projects.
   - Wants to have the option of taking advantage of anticipated downward tends in interest rates.
   - Wants to maximize their discretion in the design of the project as well as the financing terms, especially the repayment period — they may opt for regular equal payments or for a balloon payment at the end.
   - Has the capability or the means to engage financial advisors to prepare the required feasibility studies and related project packaging requirements.
   - Wants to encourage citizen participation as well as increased citizen savings through bond retail sales to its constituency.

Table 11: Comparative Features of BOT, Bond Flotation, and Commercial Bank Loans

Item	BOT and its Variants	Municipal Bond Flotation	Direct Loans
Types of Projects	Revenue-generating projects, usually urban utilities, services, and facilities	Revenue-generating projects, usually urban utilities, services, and facilities	Revenue-generating projects, usually urban utilities, services, and facilities
Who Prepares Project Studies	Private sector proponent so evaluation is usually from the point of view of the investor	LGU	Financing institution so evaluation is from their point of view
Project Viability	BOT Operator normally looks at the Build-Operate period only. Project operability after the Transfer period is not usually considered such that the facility often suffers from major breakdowns and sometimes ceases to be functional after the transfer.	LGU looks at the long-term impacts of the project on the local residents.	Financing looks at the project only within the loan period.
Public Participation in project related financial gains	None	Residents may buy bonds, thus allowing them to invest in the growth of their locality. Residents earn interest while holding the bonds	None
Private Sector Participation in Project	Promotes private sector participation. However, there arises some difficulty in forging a viable working public-private sector relationship due to differences in operating styles.	Limited	Limited
LGU Counterpart	Land	IRA, Land	IRA, Land
Guarantee	No guarantee. Large BOT projects are usually subject to currency fluctuations.	Guaranteed by either LGUGC or a private financial institution	No guarantee
Public Concern and Accountability	Since management of the facility or service resides with the BOT operator, this gives rise to adverse public opinion and suspicion. Public safety implications are sometimes overlooked.	As the LGU is the issuer of the bond and implementor of the project, it is able to take the interests of the residents in the design of the bond.	Although the LGU as implementor of the project is accountable to the public, it is at the mercy of the fixed and usually inflexible financing institution loan terms and conditions.

Item	BOT and its Variants	Municipal Bond Flotation	Direct Loans
Who Determines Interest Rate/ROI	Private sector determines rate of return, which is high – 20 to 22% - to recover proponent's large investment, usually resulting to high user charges.	LGU (with help of financial advisor) designs terms including interest rates and user charges. Normally considers the public interest.	Financing institution officials would like to recover their investment at the shortest possible time & determine interest rate based on their weighted average cost of money. Interest rates usually subject to re-pricing.
Interest Rate	No interest payment. Cost comes in the form of opportunity cost.	Usually lower than commercial bank loan rate and 2 to 2.5% higher than 182 day T-Bill rate.	Usually higher than municipal bond rate.
Who Determines Affordability of Resulting User Fees/ Charges	Private sector proponent	LGU studies usually done thoroughly since constituents are affected.	Financing institution
Principal Payments	None	May be at the end of the period depending on the bond design	Usually with a grace period of up to 2 years.
Length of Process	Needs to go through lengthy application and negotiation process and several government agencies for approval.	Sanggunian Resolution needed. Relatively short period required from evaluating project to floating bonds.	Sanggunian Resolution needed. Relatively short period to get loan approved.
Promotion of Self-Reliance	LGU relies on the initiative and financial capacity of the BOT Operator.	Promotes self-reliance as the LGU determines the terms and conditions for its indebtedness. It allows its residents to save and earn from the interest earnings. The LGU also taps the enormous funds of the capital market.	Project depends on the financing institution's guidelines and implementing rules.

Finalizing the Investment Schedule

The annual balance between PDIP project costs and expected available funds for PDIP financing will generally determine the final investment schedule.
There is, however, some leeway to finetune the investment schedule in terms of timing and staging based on the following considerations:

a. Projects should be phased so as to take maximum advantage of alternative financing opportunities;
b. Certain projects may be coordinated and combined during implementation to

maximize cost savings and minimize inconvenience and disruptions; and

c. Adequate time must be provided for preparing plans and specifications, arranging financing, and the public competitive bidding process.

The two cases presented in the last part of this volume illustrate the vital link between physical planning, investment programming and revenue mobilization. While the connections were largely arrived at in an ad-hoc, zigzagging and trial and error manner, the lessons learned indicate the potential development pay-offs to a properly and systematically prepared investment program. Also, similarly situated LGUs can learn from the cases, and hopefully avoid future costly history-repeating scenarios. Case 1 (Calatagan, Batangas) describes the success story of a fifth class municipality in bond flotation. Case 2 (Province of Cagayan) shows how a province can take advantage of a strategically-located idle property within a component city, and redevelop it to serve as lever in moving the province towards its development vision.

Step 6. Legally Adopt the PDIP

After the final PDIP financing plan and investment schedule have been prepared, they are packaged into a draft PDIP and thereafter legally adopted by the Sangguniang Panlalawigan.

Preparing the draft PDIP

As a written document, the PDIP should include:

a. The message or accompanying letter signed by the Provincial Governor, presenting in narrative form the main trends that influenced the drawing up of the PDIP, including mandates.

b. A summary of the PDIP projects grouped by sector and specifically presenting the following:

    i. Project title;
    ii. Annual estimated costs — investment and current operating and maintenance costs;
    iii. Priority order;
    iv. Implementation period;
    v. Recommended methods of financing; and
    vi. Supplementary charts, tables and/or maps.

    A sample PDIP project summary is shown in Table 12.

c. An investment budget summary providing total investment expenditures by year for road improvements, water system, sewer system, etc., a sample of which is shown in Table 13.

d. A revenue summary, listing revenue sources (including property taxes, user fees, internal revenue allotments, grants, debt financing, etc.) for each year. A form table is shown in Table 14.

e. List of projects that require more detailed studies and project packaging. Some PDIP investment projects, especially those that will require external financing, will have to be subjected to more rigorous financial and economic benefit cost analyses. These analyses will be part of the pre-feasibility and feasibility studies required in project packaging. The guidelines for these types of analyses are covered in the PED Guidelines.

f. Segregated summary AIP based on the appropriate current year slice of the PDIP for consideration in the annual budget. (See Table 15.)

Legally adopting the PDIP

Once the draft PDIP has been prepared, it is presented to the PDC en banc for review and official endorsement to the Sangguniang Panlalawigan. The Sangguniang Panlalawigan then deliberates on the PDIP and legally adopts the six-year PDIP with tentative approval of the project scheduling in the second year and thereafter through an appropriate resolution.

The current year slice or AIP should be endorsed for consideration in the annual provincial budget.

Since adoption of the PDIP by the Sangguniang Panlalawigan is not a binding commitment to fund programs beyond the first year, the succeeding years' slices will be subjected to review and updating during the annual pre-budget period.

Table 12. PDIP Project Summary

A. Infrastructure

Project Title	Priority	Proponent Dept.	Year(s) of Implement-ation	Annual Costs*												Total Project Cost			Source FInancing				
				2007		2008		2009		2010		2011		2012		Subtotal Invest. cost	Subtotal Recurring	Total Amount	Local Sources	IRA	Borrowings	Grant	Total Amont
				Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring								

B. Economic Devt

Project Title	Priority	Proponent Dept.	Year(s) of Implement-ation	Annual Costs*												Total Project Cost			Source FInancing				
				2007		2008		2009		2010		2011		2012		Subtotal Invest. cost	Subtotal Recurring	Total Amount	Local Sources	IRA	Borrowings	Grant	Total Amont
				Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring								

C. Social Devt

Project Title	Priority	Proponent Dept.	Year(s) of Implement-ation	Annual Costs*												Total Project Cost			Source FInancing				
				2007		2008		2009		2010		2011		2012		Subtotal Invest. cost	Subtotal Recurring	Total Amount	Local Sources	IRA	Borrowings	Grant	Total Amont
				Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring								

D. Environmental Mgt.

Project Title	Priority	Proponent Dept.	Year(s) of Implement-ation	Annual Costs*												Total Project Cost			Source FInancing				
				2007		2008		2009		2010		2011		2012		Subtotal Invest. cost	Subtotal Recurring	Total Amount	Local Sources	IRA	Borrowings	Grant	Total Amont
				Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring								

E. Local Aministration & Mgt.

Project Title	Priority	Proponent Dept.	Year(s) of Implement-ation	Annual Costs*												Total Project Cost			Source FInancing				
				2007		2008		2009		2010		2011		2012		Subtotal Invest. cost	Subtotal Recurring	Total Amount	Local Sources	IRA	Borrowings	Grant	Total Amont
				Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring	Investment cost	Recurring								

* Annual Costs are divided into: a) Investment Cost, and b) Recurring Cost.
Investment Costs include: 1) Project preparation – PP, 2) Site Acquisition – SA, 3) Detailed Engineering Design – DE, 4) Construction – C, 5) Equipment furnishings – E/F, Other Costs, OC.
Recurring Costs include: 1) Personal Services – PS, 2) Maintenance and Other Operating Expenses – MOOE, 3 Minor Capital Outlay – MCO.
Indicate Abbreviation of Cost before cost figures, example under Investment Cost column; PP = 2.5 million, etc. and other Recurring Cost Column: PS = 0.5 million, etc

Table 13. PDIP Investment Budget Summary

Project Title		Year(s) of Implementation	Total Project Cost	Annual Financial Requirements					
				2007	2008	2009	2010	2011	2012
A.	**Infrastructure Devt.**								
	Project A								
	Project B								
B.	**Economic Devt.**								
	Project E								
	Project F								
C.	**Social Devt.**								
	Project G								
	Project H								
D.	**Environment Mgt.**								
	Project I								
	Project J								
A.	**Local Admin. & Mgt.**								
	Project K								
	Project L								

Table 14. PDIP Revenue Summary

Revenue Source	2007	2008	2009	2010	2011	2012
Real Property Taxes						
Business Taxes						
Other Taxes						
Income from Economic Enterprises						
Interest Income						
Proceeds from Borrowings						
Total Revenues						

Table 15. AIP Summary Form

CY ______ Annual Investment Program (AIP)
By Program/Project/Activity by Sector
As of ______________________

Province/City/Municipality/Barangay:_____________________________

AIP REFERENCE CODE (1)	PROGRAM/PROJECT/ACTIVITY DESCRIPTION (2)	IMPLEMENTING OFFICE/ DEPARTMENT	SCHEDULE OF IMPLEMENTATION		EXPECTED OUTPUTS (6)	FUNDING SOURCE (7)	AMOUNT (in thousand pesos)			
			STARTING DATE (4)	COMPLETION DATE (5)			Personal Services (PS) (8)	Maintenance and Other Operating Expenses (MOOE) (9)	Capital Outlay (CO) (10)	TOTAL (11)
General Public Services (10)										
Economic Services (80)										
Social Services (30)										

Prepared By:

Local Planning and Development Coordinator
Date: _____________

Local Budget Officer
Date: _______________

Attested by:

Local Chief Executive
Date: _______________

Instructions:

The AIP form shall be prepared by the planning and budget offices of the local government unit based on the approved Local Development Plan of the LGU as approved by the Local Sanggunian. The annual component of the Capital Expenditure (Capex) shall be inputted by the Planning Officer and shall be integrated by the Budget Officer together with the Personal Services (PS), Maintenance and Other Operating Expenses (MOOE) and other Capital Outlay (CO) into the total resource Annual Investment Program as basis for the preparation of the Annual Budget.

Column 1. Indicate the reference code for the sector/sub-sector as per UBOM in order to facilitate consolidation of requirements.

Column 2. Describe briefly the program/project/activity to be implemented and accomplished by the LGU

Column 3. Identify the office/department that will implement the program/project/activity.

Columns 4&5. Specify the targeted starting and completion date.

Column 6. Describe the output or results in quantified terms (e.g. 3 kilometers of concrete road, 200 cavans of palay per hectare,10 hectares of reforested area, 400 pupils functionally literate, 5% reduction in infant mortality rate).

Column 7. Indicate the funding source of the program/project/activity. Specify if sourced locally from the General Fund or grant/loan from outside sourcing or subsidy from the national government.

Column 8. Indicate the estimated amount of the program/project/activity broken down into PS, MOOE and CO.

This form has to be signed by the Local Development and Planning Coordinator and Budget Officer and attested by the Local Chief Executive or his duly authorized representative.

____

Source: Annex A, DILG-NEDA-DBM-DOF Joint Memorandum Circular No.1, series of 2007.

Step 7. Update the PDIP

Rationale for PDIP updates

The PDIP needs to be updated annually because:

a. There is a need to maintain a ready six-year development investment portfolio attuned to the development needs of the LGU;

b. PDIP allocations may change over time because:
   i. Anticipated funding may not materialize;
   ii. Emergencies and unanticipated circumstances may result in allocating financial resources to projects not listed in the PDIP;
   iii. New development investment needs may be identified by the PDPFP.

Sources of PDIP updates

a. AIP projects left out of the current year capital budget during the budget hearings because of reduced budget allocation.

b. Projects included in the current year capital budget that were not implemented during the year because of revenue short-falls or unforeseen delays.

c. Occurrence of emergencies such as calamities, unforeseen circumstances, and unanticipated revenue shortfalls.

d. Projects included in latter years' PDIP implemented in the current year.

e. Projects which have already been subjected to the PDIP evaluation process but were left out of the current six-year PDIP because of lack of funds.

f. New projects or changes in existing PDIP projects arising from adjustments/changes in the PDPFP.

The PDIP will be updated annually to reflect changing field and financing conditions, and to include new project requests arising from **changes/ adjustments** in the PDPFP

Review and updating process

The adoption of the PDIP does not complete the process. Once the province has legally adopted the PDIP, the PDIP enters the implementation phase. The department heads are charged with overseeing that projects are undertaken and completed in the time frame set forth in the PDIP.

It may be useful to have department heads submit regular progress reports concerning the status of PDIP projects to identify any potential for cost overruns, delays, or shifts in the project timeline, problems with the competitive bidding process, etc.

Project financing has to be arranged and implemented. Each year the province should review, revise, and extend the PDIP for another year so that it always encompasses the same period.

The PDIP as a six-year rolling plan is illustrated in Figure 6.

With a Sangguniang Panlalawigan-approved six-year PDIP, the Annual Investment Program AIP), the relevant current year slice of the PDIP becomes the basis for the preparation of the budget. The AIP will be firmed up to take into account new priorities and resource levels.

The firmed-up AIP then becomes the basis for the preparation of the annual provincial budget.

This process gives the provincial investment programming-budgeting process a multi-year perspective and essentially shortens the required pre-budget activities.

The proposed PDIP review and updating process covers the following:

a. The PDIP will be updated annually to reflect changing field and financing conditions, and to include new project requests arising from changes/adjustments in the PDPFP.

b. The PDIP secretariat will come up and furnish the PDIP Committee with quarterly reports tracking the status of project implementation and revenue sources collected for the project.

c. The PDIP secretariat will monitor and conduct an evaluation of project results within six months after completion of a PDIP project.

d. Current year PPAs left out in the capital budget or were not implemented because of revenue shortfalls or because of unforeseen circumstances should be considered next year.

e. Latter years' PDIP projects implemented in the current year will be replaced in the relevant year by the highest priority project(s) of the succeeding year.

f. Scale, cost and timing adjustments for existing PDIP projects will be inputted directly into the PDIP without having to undergo the PDIP process.

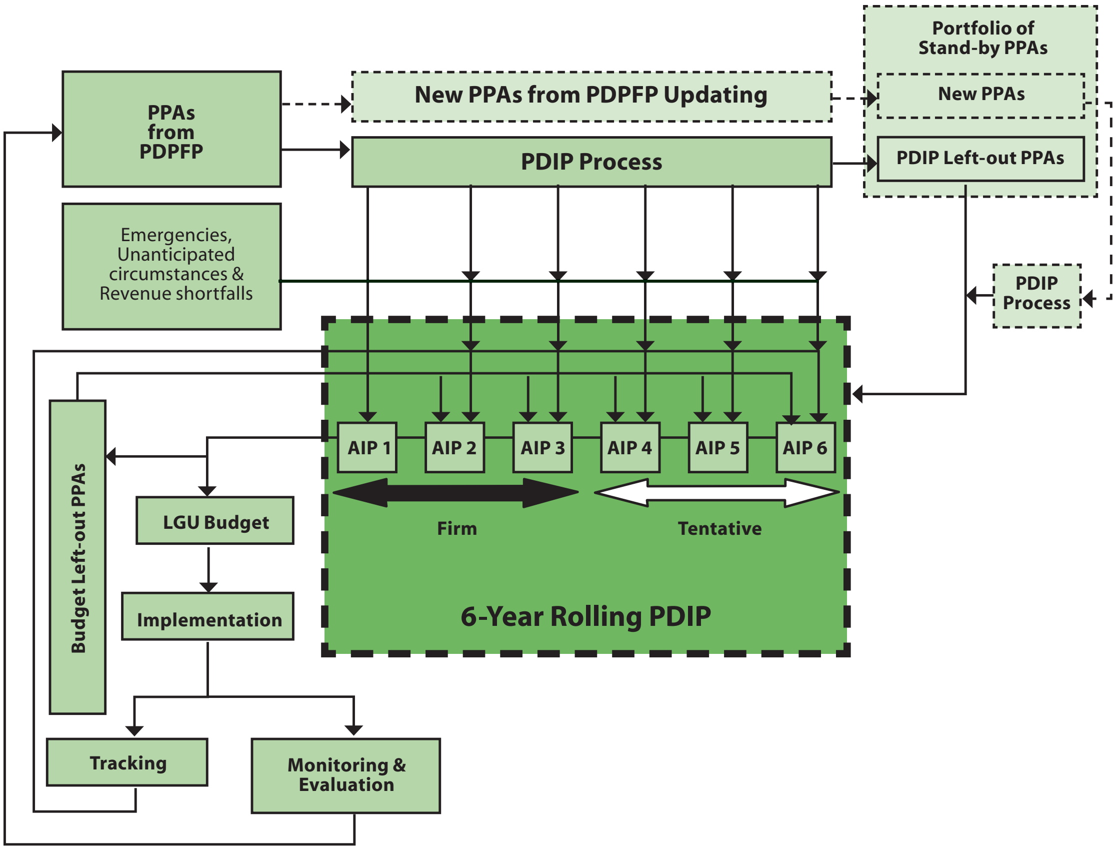
g. Emergency projects such as damage repairs/rehabilitation for existing infrastructure will be inputted directly into the current year AIP without any need to undergo the PDIP process.

h. PPAs already subjected to the PDIP evaluation process but left out of the current 6-year PDIP because of lack of sufficient funding will be put into the portfolio of stand-by project PPAs, and will be included as part of the sixth year PDIP in the updated PDIP of the succeeding year.

i. New PPA proposals generated by changes/adjustments in the PDPFP will go into a portfolio of stand-by projects to be subjected to the PDIP process before inclusion into the PDIP.

j. The entire PDIP will be subjected to a major update every three years based on the three-year review and update of the PDPFP. Consistent with the DILG-NEDA-DOF-DBM Joint Memorandum Circular (JMC) No. 1, series of 2007, the time frame for the major update will have to be done such that the AIP will be available for the budget call of the succeeding year. Assuming that the major update of the PDPFP is started towards the end of Year 3 up to the first quarter of Year 4, the major PDIP update including the required Year 4 AIP should be ready for the Year 4 budget call in July.

Figure 6. The Six-Year Rolling PDIP



ENDNOTES

[i] Developed by M. Hill during the late 1960s for the valuation of alternative plans.

[ii] This is based on the methodology developed by the author and published in the USAID-DSUD CIP Manual (See B.V. Cariño et. al). A similar approach is being used by LGUs in preparing their LDIPs.

[iii] See the World Development Report 1988, p. 159.

[iv] Sec. 299 of the 1991 LGC states that "…provinces, cities, and municipalities are hereby authorized to issue bonds, debentures, securities, collateral, notes and obligations to finance self-liquidating, income producing development or livelihood projects…"

[v] Sec. 297 of the 1991 LGC.

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annexes

Annex A.1. Use Of The Analytic Hierarchy Process (AHP) For PDIP Project Ranking

What Is the Analytic Hierarchy Process (AHP)?

The Analytic Hierarchy Process (AHP) was developed by Dr. Thomas Saaty at the Wharton School of Business and published as a book in 1980.[1] It was designed to reflect the way people actually think and is a powerful and flexible decision-making process to help people set priorities and make the best decision when both qualitative and quantitative aspects of a decision need to be considered. By reducing complex decisions to a series of pairwise comparisons, then synthesizing the results, AHP not only helps decision-makers arrive at the best decision, but also provides a clear rationale for the decision.

AHP allows decision-makers to model a complex problem in a hierarchical structure showing the relationships of the goal, objectives (criteria), and alternatives.

AHP enables decision-makers to derive ratio scale priorities or weights as opposed to arbitrarily assigning them. In so doing, AHP not only supports decision-makers by enabling them to structure complexity and exercise judgment, but allows them to incorporate both objective and subjective considerations in the decision process.[2]

AHP is a compensatory decision methodology because alternatives that are deficient with respect to one or more objectives can compensate by their performance with respect to other objectives. AHP is composed of several previously existing but unassociated concepts and techniques such as hierarchical structuring of complexity, pair-wise comparisons, redundant judgments, an eigenvector method for deriving weights, and consistency considerations.

Principles and Axioms of the Analytic Hierarchy Process [3]

AHP is built on a solid yet simple theoretical foundation. The basic model is a pie chart. If we draw a pie chart, the whole of the chart represents the goal of the decision problem. The pie is organized into wedges, where each wedge represents an objective contributing to the goal. AHP helps determine the relative importance of each wedge of the pie. Each wedge can then be further decomposed into smaller wedges representing sub-objectives. And so on. Finally, wedges corresponding to the lowest level sub-objectives are broken down into alternative wedges, where each alternative wedge represents how much the alternative contributes to that sub-objective. By adding up the priority for the wedges for the alternatives, we determine how much the alternatives contribute to the organization's objectives.

AHP is based on three basic principles: a) *decomposition*; b) *comparative judgments*, and c) *hierarchic composition* or synthesis of *priorities*.[4] The decomposition principle is applied to structure a complex problem into a hierarchy of clusters, sub-clusters, sub-sub clusters and so on. The principle of comparative judgments is applied to construct pairwise comparisons of all combinations of elements in a cluster with respect to the parent of the cluster. These pairwise comparisons are used to derive "local" priorities of the elements in a cluster with respect to their parent. The principle of hierarchic composition or synthesis is applied to multiply the local priorities of elements in a cluster by the "global" priority of the parent element, producing global priorities throughout the hierarchy and then adding the global priorities for the lowest level elements (the alternatives).

All theories are based on axioms. The simpler and fewer the axioms, the more general and applicable is the theory. Originally, AHP was based on three relatively simple axioms. The first axiom, the reciprocal axiom, requires that, if $P_c (E_A,E_B)$ is a paired comparison of elements A and B with respect to their parent, element C, representing how many times more the element A possesses a property than does element B, then $P_c (E_B,E_A) = 1/ P_c (E_A,E_B)$. For example, if A is 15 times larger than B, then B is one fifth as large as A.

The second, or homogeneity, axiom states that the elements being compared should not differ by too much, else there will tend to be larger errors in judgment. When constructing a hierarchy of objectives, one should attempt to arrange elements in a cluster so that they do not differ by more than an order of magnitude.

The third axiom states that judgments about, or the priorities of, the elements in a hierarchy do not depend on lower level elements. This axiom is required for the principle of hierarchic composition to apply. While the first two axioms are always consonant with real world applications, this axiom requires careful examination, as it is easily violated. Thus, while the preference for alternatives is almost always dependent on higher level elements, the objectives, the importance of the objectives might or might not be dependent on lower level elements, the alternatives.

A fourth axiom, introduced later by Saaty, says that individuals who have reasons for their beliefs should make sure that their ideas are adequately represented for the outcome to match these expectations.

Advantages

The Analytic Hierarchy Process overcomes the problems with weights and scores approaches. Problems with weights and scores approaches are overcome by using pairwise relative comparisons and incorporating redundancy, thus reducing errors and providing a measure of the consistency of judgments. Humans are much more capable of making relative rather than absolute judgments. The use of redundancy permits accurate priorities to be derived from verbal judgments even though the words themselves are not very accurate[5].

Words can be used to compare qualitative factors and derive ratio scale priorities that can be combined with quantitative factors.

Weights or priorities are not arbitrarily assigned. By using the AHP pairwise comparison process, weights or priorities are derived from a set of judgments that are expressed either verbally, numerically, or graphically. While it is difficult to justify weights that are arbitrarily assigned, it is relatively easy to justify judgments and the basis (hard data, knowledge, experience) for the judgments. These weights or priorities are ratio level measures, not counts.

The theory of AHP does not demand perfect consistency. AHP allows inconsistency, but provides a measure of the inconsistency in each set of judgments. This measure is an important by-product of the process of deriving priorities based on pairwise comparisons. An inconsistency ratio of about 10% or less is usually considered acceptable, but the particular circumstance may warrant the acceptance of a higher value. It is important that a low inconsistency not become the goal of the decision-making process. A low inconsistency is necessary but not sufficient for a good decision. It is possible to be perfectly consistent but consistently wrong. It is more important to be accurate than consistent.

There are several causes of inconsistency:

- **Clerical error**. The most common cause of inconsistency is clerical error. These errors, however, can easily be detected by a computer program for AHP, such as Expert Choice.

- **Lack of information**. If one has little or no information about the factors being compared, then judgments will appear to be random, and a high inconsistency ratio will result.

- **Lack of concentration during the judgment process**. This can happen if the people making judgments become fatigued, at which point it is time to stop and resume later, or are not really interested in the decision.

- **Actual lack of consistency in whatever is being modeled**. The real world is rarely perfectly consistent and is sometimes fairly inconsistent. Professional sports is a good example. It is not too uncommon for Team A to defeat Team B, after which Team B defeats Team C, after which team C defeats Team A. Inconsistencies such as this may be explained as being due to random fluctuations, or to underlying causes (such as match-ups of personnel), or to a combination. Regardless of the reasons, real world inconsistencies do exist and thus will appear in our judgments.

- **"Inadequate" model structure**. Ideally, one would structure a complex decision in a hierarchical fashion such that factors at any level are comparable, within an order of magnitude or so, of other factors at that level. Practical considerations might preclude such a structuring and it is still possible to get meaningful results. Suppose, for example, we compared several items that differed by as much as two orders of magnitude. One might erroneously conclude that the AHP scale is incapable of capturing the differences since the scale ranges[6] from 1 to 9. However, because the resulting priorities are based on second, third, and higher order dominances, AHP can produce priorities far beyond an order of magnitude, e.g., if A is nine times B, and B is nine times C, then the second order dominance of A over C is 81 times. A higher than usual inconsistency ratio will result because of the extreme judgments necessary. If one recognizes this as the cause, (rather than a clerical error for example), one can accept the inconsistency ratio even though it is greater than 10%.

Compensatory and Non-Compensatory Decisionmaking. AHP is a compensatory decision methodology because alternatives that are deficient with respect to one or more objectives can compensate by their performance with respect to other objectives. Hogarth[7] said that the most straightforward, and in many ways most comprehensive strategy (for choice), is the so-called linear compensatory model. Under a set of not too restrictive assumptions, the linear compensatory model is quite a good choice model from a normative viewpoint. At a descriptive level, the linear model has been shown to be remarkably accurate in predicting individual judgments in both laboratory and applied settings.[8]

Disadvantages

The only disadvantage of the AHP is the need for an expensive computer program like Expert Choice to handle a large number of projects and multiple criteria exceeding 5.

The AHP Rating System

Table A.1 AHP Scoring System

Comparative Importance	Definition	Explanation
1	Equally important	Two decision elements (e.g., indicators) equally influence the parent decision element.
3	Moderately more important	One decision element is moderately more influential than the other.
5	Strongly more important	One decision element has stronger influence than the other.

Comparative Importance	Definition	Explanation
7	Very strongly more important	One decision element has significantly more influence over the other.
9	Extremely more important	The difference between influences of the two decision elements is extremely significant.
2, 4, 6, 8	Intermediate judgment values	Judgment values between equally, moderately, strongly, very strongly, and extremely.
ReciprocalS		If v is the judgment value when i is compared to j, then 1/v is the judgment value when j is compared to i.

Sample Application to the PDIP Prioritization Process

Step 1:
Use the development objectives of the PDPFP as evaluation criteria. In this example, it is assumed that the PDPFP has four development objectives (or evaluation criteria) against which overall provincial development is to be measured.

Evaluation criteria against which projects will be assessed	Development objectives fromPDPFP
1	Improved local revenue generation
2	Improved community facilities/utilities
3	Improved transport infrastructure
4	Better environment

Step 2:
Prepare the A-matrix, which makes a pairwise comparison of the evaluation criteria with the overall goal — the development of the province. The comparisons make use of the scoring system shown in Table A.1. Note that the diagonals are always equal to 1. The comparison of improved community facilities/utilities with improved revenue generation = 0.11111 is just the reciprocal of the comparison of improved revenue generation with improved community facilities/utilities that was rated a 9.0.

Pairwise Comparison of Criteria (Objectives) with the Overall Goal (A-Matrix)				
Evaluation Criteria	Improved local revenue generation	Improved community facilities/utilities	Improved transport infrastructure	Better environment
Improved local revenue generation	1.00000	9.00000	9.00000	5.00000
Improved community facilities/utilities	0.11111	1.00000	1.00000	5.00000
Improved transport infrastructure	0.11111	1.00000	1.00000	1.00000
Better environment	0.20000	0.20000	1.00000	1.00000
Column Total	1.42222	11.20000	12.00000	12.00000

Step 3:
Prepare the normalized criteria matrix. The last column or the w-vector is the row sum divided by the number of criteria, in this case, 4. The elements of the w-vector serve as the priority weights for each of the objective or evaluation criteria.

Normalized Citeria (Objectives) Matrix					Row Sum	Priority Weights for Objectives (w-Vector)
Evaluation Criteria	Improved local revenue generation	Improved community facilities/ utilities	Improved transport infrastructure	Better environment		
Improved local revenue generation	0.70313	0.80357	0.75000	0.41667	2.67336	0.66834
Improved community facilities/utilities	0.07813	0.08929	0.08333	0.41667	0.66741	0.16685
Improved transport infrastructure	0.07813	0.08929	0.08333	0.08333	0.33408	0.08352
Better environment	0.14063	0.01786	0.08333	0.08333	0.32512	0.08129
Column Total	1.00000	1.00000	1.00000	1.00000		1.00000

Step 4:
Do a consistency analysis to check on the consistency of the ratings made. In this case, the results indicate that the ratings that were given are largely consistent.

Consistency Analysis						
A Matrix				w Vector	(A*w) Vector	x Vector= (A*w) /w)
1.00000	9.00000	9.00000	5.00000	0.66834	3.32813	4.98
0.11111	1.00000	1.00000	5.00000	0.16685	0.73107	4.38
0.11111	1.00000	1.00000	1.00000	0.08352	0.40592	4.86
0.20000	0.20000	1.00000	1.00000	0.08129	0.33185	4.08
Results of Consistency Analysis					Consistency Ratio (CI)[1]	0.33
					Threshold value for CI[2]	1.00
					Consistency of Preference	Consistent
[1] Computed as (Largest value in the x vector- -n)/(n-1) & n=no. of criteria						
[2] A consistency ratio =0 indicates perfectly consistent judgements while a value of 1 indicates randomness in the judgement. The larger the value the more inconsistent the judgements.						

Step 5:
Do a pairwise comparison of each project proposed for inclusion in the PDIP with each of the objective or evaluation criteria. This example uses a set of five projects assumed to be identified in the PDPFP. This set of projects shown in the following table and the development objectives were used in the four training runs conducted for these guidelines.

Project	Project	Cost in Million Php
1	New Town Center	Php 225.50
2	Urban Park	Php 55.00
3	Urban Connecting Road Widening	Php 20.00
4	Main Street Improvements	Php 10.50
5	Urban Drainage Upgrading & Expansion	Php 492.50

Pairwise Project Comparison Matrix with respect to Criterion 1					
Criterion 1	**Improved local revenue generation**				
Project	**New Town Center**	**Urban Park**	**Urban Connecting Road Widening**	**Main Street Improvements**	**Urban Drainage Upgrading & Expansion**
New Town Center	1.00	7.00	9.00	9.00	9.00
Urban Park	0.14	1.00	1.00	1.00	1.00
Urban Connecting Road Widening	0.11	1.00	1.00	1.00	1.00
Main Street Improvements	0.11	1.00	1.00	1.00	1.00
Urban Drainage Upgrading & Expansion	0.11	1.00	1.00	1.00	1.00
Column Total	1.48	11.00	13.00	13.00	13.00

Pairwise Project Comparison Matrix with respect to Criterion 2					
Criterion 2	**Improved local revenue generation**				
Project	**New Town Center**	**Urban Park**	**Urban Connecting Road Widening**	**Main Street Improvements**	**Urban Drainage Upgrading & Expansion**
New Town Center	1.00	1.00	3.00	3.00	3.00
Urban Park	1.00	1.00	2.00	2.00	2.00
Urban Connecting Road Widening	0.33	0.33	1.00	1.00	1.00
Main Street Improvements	0.33	0.50	1.00	1.00	1.00
Urban Drainage Upgrading & Expansion	0.33	0.50	1.00	1.00	1.00
Column Total	3.00	3.33	8.00	8.00	8.00

Pairwise Project Comparison Matrix with respect to Criterion 3					
Criterion 3	**Improved local revenue generation**				
Project	**New Town Center**	**Urban Park**	**Urban Connecting Road Widening**	**Main Street Improvements**	**Urban Drainage Upgrading & Expansion**
New Town Center	1.00	3.00	0.11	0.11	0.33
Urban Park	0.33	1.00	0.20	3.00	0.33
Urban Connecting Road Widening	9.00	9.00	1.00	1.00	7.00
Main Street Improvements	9.00	9.00	1.00	1.00	7.00
Urban Drainage Upgrading & Expansion	3.00	3.00	0.14	0.14	1.00
Column Total	22.33	25.00	2.45	5.25	15.67

Pairwise Project Comparison Matrix with respect to Criterion 4					
Criterion 4	**Improved local revenue generation**				
Project	**New Town Center**	**Urban Park**	**Urban Connecting Road Widening**	**Main Street Improvements**	**Urban Drainage Upgrading & Expansion**
New Town Center	1.00	0.20	0.20	0.20	0.20
Urban Park	0.33	5.00	1.00	1.00	1.00
Urban Connecting Road Widening	5.00	0.33	1.00	1.00	0.33
Main Street Improvements	5.00	7.00	5.00	1.00	0.33
Urban Drainage Upgrading & Expansion	5.00	1.00	3.00	3.00	1.00
Column Total	16.33	13.63	10.20	6.20	2.87

Step 6

Do a normalized pair-wise project comparison,

Normalized Pairwise Project Comparison=Normalized Columns						Row Sums of Normalized Columns	Project Priorityw/respect to Criterion-Ave. Project Contibution to Criteria=Row Sums/No. of Projects	Priority Weight for Criteria
Criterion 1	Improved local revenue generation							
Project	New Town Center	Urban Park	Urban Connecting Road Widening	Main Street Improvements	Urban Drainage Upgrading & Expansion			
New Town Center	0.69	0.64	0.69	0.69	0.69	3.39	0.68	0.67
Urban Park	0.10	0.09	0.08	0.08	0.08	0.42	0.08	
Urban Connecting Road Widening	0.08	0.09	0.08	0.08	0.08	0.40	0.08	
Main Street Improvements	0.08	0.09	0.08	0.08	0.08	0.40	0.08	
Urban Drainage Upgrading & Expansion	0.08	0.09	0.08	0.08	0.08	0.40	0.08	
Column Total	1.00	1.00	1.00	1.00	1.00		1.00	

Normalized Pairwise Project Comparison=Normalized Columns						Row Sums of Normalized Columns	Project Priorityw/respect to Criterion-Ave. Project Contibution to Criteria=Row Sums/No. of Projects	Priority Weight for Criteria
Criterion 2	Improved local revenue generation							
Project	New Town Center	Urban Park	Urban Connecting Road widening	Main Street Improvements	Urban Drainage Upgrading & Expansion			
New Town Center	0.33	0.30	0.38	0.38	0.38	1.76	0.35	0.67
Urban Park	0.33	0.30	0.25	0.25	0.25	1.38	0.28	
Urban Connecting Road Widening	0.11	0.10	0.13	0.13	0.13	0.59	0.12	
Main Street Improvements	0.11	0.15	0.13	0.13	0.13	0.64	0.13	
Urban Drainage Upgrading & Expansion	0.11	0.15	0.13	0.13	0.13	0.64	0.13	
Column Total	1.00	1.00	1.00	1.00	1.00		1.00	

Normalized Pairwise Project Comparison=Normalized Columns						Row Sums of Normalized Columns	Project Priorityw/ respect to Criterion-Ave. Project Contibution to Criteria=Row Sums/No. of Projects	Priority Weight for Criteria
Criterion 3	Improved local revenue generation							
Project	New Town Center	Urban Park	Urban Connecting Road Widening	Main Street Improvements	Urban Drainage Upgrading & Expansion			
New Town Center	0.04	0.12	0.05	0.02	0.02	0.25	0.05	0.08
Urban Park	0.01	0.04	0.08	0.57	0.02	0.73	0.15	
Urban Connecting Road Widening	0.40	0.36	0.41	0.19	0.45	1.81	0.36	
Main Street Improvements	0.40	0.36	0.41	0.19	0.45	1.81	0.36	
Urban Drainage Upgrading & Expansion	0.13	0.12	0.06	0.03	0.06	0.40	0.06	
Column Total	1.00	1.00	1.00	1.00	1.00		1.00	

Normalized Pairwise Project Comparison=Normalized Columns						Row Sums of Normalized Columns	Project Priorityw/ respect to Criterion-Ave. Project Contibution to Criteria=Row Sums/No. of Projects	Priority Weight for Criteria
Criterion 4	Improved local revenue generation							
Project	New Town Center	Urban Park	Urban Connecting Road widening	Main Street Improvements	Urban Drainage Upgrading & Expansion			
New Town Center	0.06	0.01	0.02	0.03	0.07	0.20	0.04	0.08
Urban Park	0.02	0.37	0.10	0.16	0.35	1.00	0.20	
Urban Connecting Road Widening	0.31	0.02	0.10	0.16	0.12	0.71	0.14	
Main Street Improvements	0.31	0.52	0.49	0.16	0.12	1.59	0.32	
Urban Drainage Upgrading & Expansion	0.31	0.07	0.29	0.48	0.35	1.51	0.30	
Column Total	1.00	1.00	1.00	1.00	1.00		1.00	

Step 7

Establish the total value of each project with respect to the overall goal. The total value of each project is equal to its total weighted contribution to the overall development of the province. For example, the value of the New Town Center = (0.68*0.67)+(0.35*0.17)+(0.05*0.08)+(0.04*0.08).

Project Priority		
Project	**Project Value=Total Weighted Contribution of Each Project**	**Global Project Priority (Rank)**
New Town Center	0.52	1
Urban Park	0.13	2
Urban Connecting Road Widening	0.11	3
Main Street Improvements	0.13	4
Urban Drainage Upgrading & Expansion	0.11	5
Total	1.00	

The relative project value vis-à-vis the total PDIP can also be compared to the relative cost share of each project to the total cost of the PDIP in a "Pareto" type analysis.

Project	Value	% Contribution to Total PDIP Cost
New Town Center	0.52	0.28
Urban Park	0.13	0.07
Urban Connecting Road Widening	0.11	0.02
Main Street Improvements	0.13	0.01
Urban Drainage Upgrading & Expansion	0.11	0.61
Total	1.00	1.00

Note!

The new town center contributes 52% to the total development of the province while only taking up 28% of the total PDIP investment cost while that of urban drainage upgrading and expansion contributes 11% to the total development of the province while taking up 61% of the total PDIP investment cost.

The results of this type of analysis can be used to further refine the prioritization process. For example, the results could indicate an overestimation of the importance of revenue mobilization as a development objective of the province or it could indicate an underestimation of the effects of urban drainage on revenue mobilization, e.g., disruptions and damage arising from urban flooding could lessen the revenues derivable from the new town center or the derivable benefits from main street improvements, etc. Thus, reviewing this portion of the AHP analysis could lead to questions that will guide the refinement of the scoring and ranking process.

Note!

The volume of the required matrix calculations increases exponentially as the number of criteria and the number of projects increases. Without the use of expensive AHP software like Expert Choice, provincial planners may find it laborious to use the technique for PDIP prioritization purposes for more than 10 projects and more than five criteria.

ENDNOTES

[1] Saaty, T.L., The Analytic Hierarchy Process, New York, N.Y., McGraw Hill, 1980, reprinted by RWS Publications, Pittsburgh, 1996.

[2] Forman, E.H., "The Analytic Hierarchy Process as a Decision Support System," *Proceedings of the IEEE* Computer Society (Fall, 1983).

[3] The discussions in this section up to the section on Advantages is as downloaded from http://www.expertchoice.com/dbo/chapter4.pdf

[4] T.L. Saaty, Fundamentals of Decision Making and Priority Theory with the Analytic Hierarchy Process, RWS Publications, Pittsburgh PA., 1994, p. 337.

[5] Expert Choice also has a numerical mode, which, for numerical aspects of a problem would be even more "accurate." But it is not always appropriate to use numbers in such a direct fashion because priorities derived directly from accurately measured factors do not take into account the decision makers utility.

[6] Actually 9.9 using the Expert Choice numerical mode.

[7] Robin Hogarth, Judgment and Choice, John Wiley & Sons, New York, 1987, p.72.

[8] Ibid, p. 74

Annex A.2. The Delphi Method[1]

Background

The objective of most Delphi applications is to generate suitable information for decision making. The Delphi Method is based on a structured process for collecting knowledge from a group of experts through a series of questionnaires interspersed with controlled opinion feedback. The structure of the technique is intended to capitalize on the positive attributes of interacting groups (knowledge from a variety of sources, creative synthesis, etc.), while pre-empting the negative aspects (attributable to social, personal and political conflicts, etc.).

Brief Description

Four key features are necessary for defining a procedure as a "Delphi." These are:

- Anonymity;
- Iteration;
- Controlled feedback; and
- Statistical aggregation of group response.

Anonymity is achieved through the use of questionnaires. By allowing the individual group members the opportunity to express their opinions and judgments privately, undue social pressures (such as from dominant individuals or from a majority) would be avoided. Ideally, this would allow the individual group members to consider each idea on the basis of merit alone, rather than on the basis of potentially invalid criteria (such as the status of an idea's proponent). Moreover, with the iteration of the questionnaire over a number of rounds, the individuals are given the opportunity to change their opinions and judgments without fear of losing face.

Between each questionnaire iteration, controlled feedback is provided through which the group members are informed of the opinions of their anonymous colleagues. Often feedback is presented as a simple statistical summary of the group response, usually comprising a mean or median value, such as the average group estimate of the date by when an event is forecast to occur. Occasionally, additional information may also be provided, such as arguments from individuals whose judgments fall outside certain pre-specified limits. In this manner, feedback comprises the opinions and judgments of all group members and not just the most vocal. At the end of the polling of participants (i.e., after several rounds of questionnaire iteration), the group judgment is taken as the statistical average (mean/median) of the panelists' estimates on the final round.

The said four characteristics are necessary defining attributes of a Delphi procedure, although there are numerous ways in which they may be applied. The first round of the classical Delphi procedure is unstructured, allowing the individual experts relatively free scope to identify, and elaborate on, those issues they see as important. These individual factors are then consolidated into a single set by the monitor team, who produce a structured questionnaire from which the views, opinions and judgments of the Delphi panelists may be elicited in a quantitative manner on subsequent rounds. After each of these rounds, responses are analyzed and statistically summarized (usually into medians plus upper and lower quartiles), which are then presented to the panelists for further consideration. Hence, from the third round onwards, panelists are given the opportunity to alter prior estimates on the basis of the provided feedback. Furthermore, if panelists' assessments fall outside the upper or lower quartiles, they may be asked to give reasons why they believe their selections are correct against the majority opinion. This procedure continues until certain stability in the panelists' responses is achieved. The forecast or assessment for each item in the questionnaire is typically represented by the median on the final round.

An important point to note here is that variations from the above Delphi ideal exist. Most commonly, round one is structured in order to make the application of the procedure simpler for the monitor team and panelists; the number of rounds is variable, though concern seldom goes beyond one or two iterations (during which time most change in panelists' responses occurs); and often, panelists may be asked for just a single statistic – such as the date when an event has a 50% likelihood of occurring – rather than for multiple figures or dates representing degrees of confidence or likelihood (e.g., the 10% and 90% likelihood dates), or for written justifications of extreme opinions or judgments.

Advantages

In general, the Delphi method is useful in answering one, specific, single-dimension question. Another advantage is that Delphi can be used in judgment and forecasting situations in which pure model-based statistical methods are not practical or possible because of the lack of appropriate historical, economic, and technical data, and thus where some form of human judgmental input is necessary.

The method also allows input from a large number of participants than could feasibly be included in a committee meeting, and from members who are geographically dispersed.

Disadvantages

The following are some major concerns about the Delphi method:

- Discounting the future. Future (and past) happenings are not as important as the current ones; therefore one may have a tendency to discount the future events.

- The simplification urge. There is always the possibility that reactions between forecasted items may not be fully considered. The experts may judge the future of events in isolation from other developments. Thus, the method cannot be used to determine complex forecasts concerning multiple factors. In this case, the use of the cross impact matrix method of forecasting integrated with the Delphi method would be helpful.

- Illusory expertise. Some of the experts may be poor forecasters. The expert tends to be a specialist and thus views the forecast in a setting which is not the most appropriate one.

- Sloppy execution. Execution of the Delphi process may lose the required attention easily.

- Format bias. It should be recognized that the format of the questionnaire may be unsuitable to some participants.

- Manipulation of Delphi. The responses can be altered by the monitors in the hope of moving the next round responses in a desired direction.

Potential Application to the PDIP Process

The technique, while largely used for forecasting purposes, may be used to solicit the opinions of the policymakers as well as experienced provincial government staff members and members of the PDC regarding the weights to be given to the evaluation criteria. However, given the fact that most of the disadvantages of the method can be found in most of the expected PDIP fora, the results using the laborious technique may be no superior to the way the GAM is now administered at the LGU level.

ENDNOTE

[1] All of the materials except for the short commentary on the potential application to the PDIP process are as downloaded from the Illinois Institute of Technology. The Delphi Method, downloaded from http://www.iit.edu/~it/delphi.html and Gene Rowe and George Wright, The Delphi Technique as a Forecasting Tool: Issues and Analysis, International Journal of Forecasting 15 (1999) 353–375, downloaded from http://mktg-sun.wharton.upenn.edu/forecast/paperpdf/delphi%20technique%20Rowe%20Wright.pdf.

Annex B. Assessment of New Development Investment Needs

The provincial government should develop a capital needs assessment that takes into account current capital assets and their condition, as well as an assessment of future needs. The take-off point of this assessment will be the PPAs proposed in the PDPFP. The assessment will simply serve to validate and refine the capital investment need estimates identified in the PDPFP.

Local officials should focus on development investment needs and problems rather than specific projects. Some basic questions to ask include: the nature of the need or problem; the causes; parties affected; alternative ways of resolving the problem and the consequences of doing nothing. A number of sources can be used to answer these questions including:

- Capital inventory and condition assessment information;
- The PDPFP and related planning studies that can serve as the basis for the assessment of future capital requirements to sustain future growth and development -- linking the PDPFP and performance accountability to capital investment needs;
- Service standards information appropriate to the LGU; and
- Citizen surveys, especially the barangay-level consultations done by cities and municipalities.

Capital Inventory and Condition Assessment Information

1. The capital inventory is a comprehensive list of all facilities and equipment and their: a) age; b) condition; c) cost of replacement; and d) repair and replacement schedule.

2. Capital asset inventory information consists of a description of the asset (road, park, and fire engine), location, age, physical dimensions, construction method and type of materials, condition, repair history and costs, proposed date for replacement, replacement costs, operating cost, and type and extent of use.

3. Inventory information can be obtained from engineering, architectural, insurance, and property records. Other methods are visual inspection and interviewing knowledgeable employees.

4. The condition of capital assets is affected by age, climate, soil conditions, use, construction methods and materials, and maintenance practices. Assessing the condition of capital assets is critical when determining a course of action whether it be replacement, improvement, or disposal of the asset.
5. Methods of assessing the condition include visual inspection, engineering analysis,

repair analysis, and complaint and service interruption analysis.

Development Investment Needs Assessment

1. The most important foundation of the PDIP is an assessment of future needs -- the infrastructure, equipment and soft capital projects necessary to sustain future growth and development.

2. "Growth" may mean population growth, in the conventional sense -- natural growth and migration causing increased demand for public services. But "growth" may occur even if an LGU's population is holding steady or declining. Agriculturally-based LGUs transitioning into the industry or tourist economy requires investment in infrastructure to handle increased traffic, water and wastewater treatment, etc.

3. An understanding of how growth will affect the LGU is fundamental to developing the PDIP; it is far more cost-effective to plan facilities and equipment for excess capacity to meet future demand than to pay for costly upgrades to increase capacity down the road. Key sources of information on future capital needs include:

   a. PDPFP-related Planning Studies
   - Physical development, economic development, redevelopment, strategic, transportation, pavement management, water, sewer, solid waste, and parks and recreation plans are a rich source of information on future capital needs.
   - These plans include demographic, land use, traffic, condition, housing, economic, development, demand and other information critical to identifying capital needs.

   b. Service Standards Information
   - National, industry, professional associations and other standards are another useful source of information for determining capital needs.
   - Examples of such standards are those given in the Housing and Land Use Regulatory Board (HLURB) planning guidelines.

   c. Citizen Surveys
   - Citizen surveys are effective in measuring citizen expectations relating to capital needs and methods of paying for them. For example, a survey may reveal that citizens place a higher priority on sidewalk repairs than street repairs and prefer to pay for capital projects through benefit assessments. Surveys are a means of identifying the level of support and opposition to different projects.
   - A good starting point could be the barangay-level consultations conducted by

cities and municipalities.

4. These information sources singly or in combination can help answer the following capital needs assessment-related questions:

    a. How will new development impact future demand for infrastructure? For example: Major road improvement projects could stimulate the growth of new commercial activities along the road alignment, creating future demand pressures on water supply, power, telecommunications, and drainage.

    b. Is there enough capacity (in quantity and quality) in the existing infrastructure systems to serve new development? For example: Does the water source produce enough water? Can the wastewater treatment plant handle the load? Can streets and roads accommodate the increased traffic? Will existing storm water systems be overwhelmed by runoff created by new development?

    c. What improvements need to be made to accommodate new development? For example: Is there a need for another water source or to increase the size of the reservoir? Does the wastewater treatment plant need another treatment stage? Will storm water retention ponds be needed?

    d. Will the improvements benefit existing users at all? For example: Will the improvements finally solve the demand issues? Will installing secondary treatment help the plant meet the needs of existing users? Will the improvements reduce vehicle traffic in another part of town? Will the improvements protect downhill properties from storm water runoff?

    e. How much will the improvements cost? For example: Who will pay for the improvements? Will new residents, current residents and/or businesses pay?

5. Capital needs assessment is a team activity and must involve all the departments of the provincial government.

Annex C. Simplified PDIP Financial Planning Model for Philippine LGUs

A simplified financial planning model for PDIP capacity analysis[i] is shown in Table C.1. Key features of the model are as follows:

1. The model separates the LGU budget into four parts:

    a. Operating (Current) Revenues;

    b. Operating (Current) Expenditures;

    c. Capital Revenues; and

    d. Capital Expenditures.

2. The difference between operating revenues and expenditures is the operating balance.

3. The difference between capital revenues and expenditures is the capital investment balance (also called the capital deficit or surplus).

4. The distinction between the operating and the investment balance gives the LGU a comprehensive picture of its fiscal condition to meet its development investment requirements since it enables the LGU to:

    a. Determine what resources are available for development investment purposes after calculating all operating expenditures (Line 11 of Table C.1).

    b. See whether the LGU finances its operating costs by exhausting its assets (If Net operating balance [Line 5] is negative).

5. The operating and investment balances together give the resource deficit or surplus (by considering the residual balance as well).

6. Care should be taken in separating revenues into operating and capital investment:

    a. Operating revenues include regular or current revenues, as opposed to investment resources.

b. Capital investment expenditures are composed of asset management and transaction-related revenues, interest, profit share, grants received for a proposal, or resources received by the LGU for a specific development project.

c. Items that are difficult to categorize according to these rules require individual consideration, or they may be classified under "other revenues" or "other expenditures."

7. Interest repayment and capital amortization are included in the operating balance (Line 2 of Table C.1.)

8. Borrowings reduce the resource deficit (Line 12 of Table C.1.)

9. Any resource deficit after borrowings will mean that either some of the proposed projects will have to be "cut" or "deferred" or the revenue projections "revisited" to come up with other potential sources.

10. The aggregated items, especially revenues, can be broken down further, if needed.

11. Input data of the model:

    a. Projected current revenues based on historical trends: Tools and Techniques for Budgeting and Public Expenditure Management (Volume 4 of these Guidelines).

    b. Projected capital revenues based on historical trends: Tools and Techniques for Budgeting and Public Expenditure Management.

    c. Projected other revenues based on historical trends: Tools and Techniques for Budgeting and Public Expenditure Management.

    d. Projected current expenditures including minor capital outlays based on historical trends: Tools and Techniques for Budgeting and Public Expenditure Management.

    e. Projected revenues (classified whether capital or current) arising from the PDIP: Estimated by department proponent and put in as Item 6 of the PDIP Proposal Form (Table 4 of this volume).

    f. Projected capital expenditures arising from the PDIP: Estimated by department proponent and put in as Item 9 of PDIP Proposal Form (Table 4 of this volume).

    g. Projected current expenditures arising from the PDIP: Estimated by department proponent and put in as Item 10 of PDIP Proposal Form (Table 4 of this volume).

Table C.1. Simplified Financial Planning Model for PDIP Capacity Analysis

	ITEM	Formula	2007	2008	2009	2010	2011	2012
1.	Total current revenues	1.1 + 1.2						
1.1.	Own current revenues							
1.2.	Current revenues from IRA							
2.	Total current expenditures							
3.	Operating balance	1 – 2						
4.	Debt service							
5.	Net operating balance	3 – 4						
6.	Total capital revenues	6.1 + 6.2						
6.1.	Own capital revenues (sales or lease of assets)							
6.2.	Capital revenues from central government funds (20% development funds, congressional funds, other grants) and all other grants							
7.	Capital investment expenditures	From PDIP proposals						
8.	Capital Investment fund deficit or surplus	6 – 7						
9.	Other revenues							
10.	Other expenditures							
11.	OVERALL DEFICIT or SURPLUS	5 + 8 + (9 -10)						
12.	Borrowing							
13.	Residual balance from previous year							
14.	CLOSING BALANCE	11 + 12 + 13						

ENDNOTE

[i] The format was adopted from the Budgetary and Creditworthiness Analysis Model (BCAM) for Hungarian local governments developed by the Urban Institute and the Metropolitan Research Institute of Budapest.

Annex D. Benchmarking Indicators for Effective and Efficient Operations of the Existing LGU Revenue Administration

Indicators of Effectiveness

1. Collection Efficiency for Real Property and Franchise Taxes:
   a. Total Revenue Collected/ Annual Revenue Collection Target;
   b. Total Revenue Collected/Potentially Collectible;
   c. Amount of Additional Taxes Collected/ Additional Taxes Assessed; and
   d. Amount of Tax Arrears Recovered/ Total Amount of Tax Arrears at the Beginning of a Year.
2. Capacity utilization rates of LGU-operated utilities and enterprises like commercial centers, convention facilities, water supply, sports centers, etc.
3. Annual growth rate in per capita revenues relative to the inflation rate.
   a. Per Capita Total Revenues; and
   b. Per Capita Local Revenues.
4. Annual growth rate in unit fees and charges relative to the inflation rate.
5. Average rental or user fees for LGU-owned facilities/Average commercial rental or user fees of comparable facilities in the vicinity.

Indicators of Efficiency

1. Number of Taxpayers/ Number of Employees;
2. Administrative Costs/ Total Revenue Collected for Taxes; and
3. Total Cost of Operations and Maintenance/Total Revenue for So-Called Economic Enterprises.

Annex E. LGU Project Cost Recovery Guidelines

1. A key policy issue that local government units (LGUs) must resolve, especially in development project planning, is whether to price a local government service so that it recovers all or only a portion of the cost of the service.
2. In most developing countries, it is common practice to recover only part of the cost through service charges or user fees, with the remainder subsidized by general (tax) revenues. Table E.1 lists the basic characteristics of user fees vs. taxes as cost recovery tools.

Table E.1. Characteristics of User Fees vs. Taxes as Cost Recovery Tools

User Fees	Taxes
1. Service can be supplied to an individual.	1. Service must be supplied on a group basis.
2. Benefits accrue to an individual.	2. Benefits accrue to the community at large.
3. Service can be withheld from individuals who refuse to pay.	3. Service cannot be withheld from individuals who refuse to pay.
4. Costs can be passed on to ultimate beneficiaries.	4. The service is a merit good—to be provided to all regardless of ability to pay (e.g., public education).
5. Amount of use can be measured.	5. Amount of use is difficult or impossible to measure.
6. Competition would result in improved efficiency.	6. Government is not competing with the private sector.
7. Fees can result in rationing or balancing usage patterns.	7. Government unable to affect usage patterns.

3. Under most circumstances, LGU enterprise services should be priced at full cost, which includes both direct (production and distribution) and indirect costs associated with service provision. In certain cases like city-owned utilities, a reasonable return on investment is legally and administratively justifiable.
4. For social goods and services, a partial subsidy is usually warranted.

5. In the critical cost recovery aspect of the PDIP, there are two issues that LGUs must resolve:

a. **When should a subsidy be provided?**

For social services, partial cost pricing is justified when any of the following conditions exists:

i. **Some of the benefits from the service accrue to the whole community**. For example, public library services, parks, recreational facilities, inoculations, sanitary landfills.

ii. **The LGU wants to stimulate demand for the service**. For example, if the LGU wants to encourage the use of a park ground or recreational area, it can do so by fully subsidizing its operations from general taxes or possibly by charging a token fee for users.

iii. **Enforcement of the charge at full cost would result in widespread evasion**. For example, full cost charging for the required HIV tests among commercial sex workers may provide additional incentive for these workers to evade such tests. Partial cost pricing may be justified under such circumstances.

iv. **The service is used primarily by low-income households**. For example, the construction of public faucets or public artesian wells in low-income communities should be subsidized by LGUs. The payment for actual water consumption from such public taps or the operations and maintenance costs of such public wells should, however, be borne by the communities. In other words, for such services to low-income communities, access should be subsidized, but the cost of use should be fully recovered.

b. **How much of a subsidy should be provided?**

The second challenge for LGUs is deciding how much of a subsidy is economically justified for services with spill-over benefits to the community. Table E.2 presents a scoring method for setting the proportion of the full cost of a public service that is appropriately recovered from project beneficiaries or users.

Table E.2. Scoring Method for Determining the Proportion of the Full Cost of a Public Service that is Appropriately Recovered from Project Beneficiaries or Users

Question	Weight
1. Does use of the service generate minimal spill-over effects on other members of the community?	25
2. Is it possible to identify a specific beneficiary for this service?	20
3. Is the imposition of a beneficiary charge for this service statutorily and administratively feasible?	15
4. Would the imposition of beneficiary charges for the service evoke negligible political opposition?	15
5. Would beneficiary charges for this service not affect access by the low-income groups?	15
6. Would the imposition of beneficiary charges for the service lead to substantial revenues to the LGU?	5
7. Would benefit-based funding of this service result in enhanced efficiency?	5
Total	**100**

Following Table E.2, the scoring method proceeds as follows:

i. Evaluate each service according to the seven questions. Each "Yes" answer is assigned the full weight (weight multiplied by 1) from the Weight Column. Each "No" answer counts as zero. Thus, the score per question is either the full weight or zero.

ii. Get the sum of all the scores. The total score indicates the percentage of the full cost of the service that should be borne by service charges to be paid by beneficiaries or users.
- A total score of 100 indicates that there should be full-cost recovery from beneficiaries or users.
- A total score that is less than 100 indicates that a certain amount of LGU subsidy is appropriate for the project.
- The proportion of the appropriate subsidy is equal to 100 less the total score.

iii. Each LGU may change the weights or even some of the questions based on the preferences and values of its constituents. The total of the weights must, however, always be 100.

An illustration of the scoring method is shown in Table E.3. In this example, 80% of the cost of Project E would have to be recovered through user fees and charges, and the remaining 20% would have to be subsidized by the LGU. Project B, meanwhile, would have a 40% cost recovery and 60% subsidy mix.

Table E.3. Illustrative Use of Scoring Method for Determining the Proportion of Cost Recovery of a Public Service

Question	Possible Weight Score					
	Full	Proj. A	Proj. B	Proj. C	Proj. D	Proj. E
1. Does use of the service generate minimal spill-over effects on other members of the community?	25	25	25	25	25	25
2. Is it possible to identify a specific beneficiary for this service?	20	20	0	0	0	20
3. Is the imposition of a beneficiary charge for this service statutorily and administratively feasible?	15	15	15	15	15	15
4. Would the imposition of beneficiary charges for the service evoke negligible political opposition?	15	0	0	15	15	15
5. Would beneficiary charges for this service not affect access by the low-income groups?	15	0	0	0	0	0
6. Would the imposition of beneficiary charges for the service lead to substantial revenues to the LGU?	5	0	0	0	5	0
7. Would benefit-based funding of this service result in enhanced efficiency?	5	0	0	0	5	5
Proportion (Percent) of Cost to Be Recovered through User Fees and Charges	100	60	40	55	65	80

Project A. STD Testing for Commercial Sex Workers
Project B. Mobile Clinic and Laboratory Services
Project C. Construction of Municipal Park
Project D. Construction of Municipal Fish Port
Project E. Construction of Shallow Tube wells for Domestic Water in 10 Barangays

Annex F. Key Financial Considerations in LGU Borrowing and Modes of Accessing the Credit Market

1. **Key financial issues to consider in deciding whether or not to borrow**

   Borrowed money is costly and has a long-term impact on the LGU's budget. Before deciding to go ahead with a loan, an LGU should:

   a. Explore the use of less financially expensive means of financing investments such as LGU savings, beneficiary contributions like land sharing and labor contributions, congressional grants and other local and foreign grants.

   b. Determine which of the proposed projects can generate future revenues to repay all or part of the loan. Economic enterprises such as markets, commercial centers, and slaughterhouses generate future revenues.

   c. Analyze the LGU's ability to repay borrowed money in future years from its own budget. Determination of the ability to pay must consider statutory debt ceilings imposed by the 1991 LGC.

   d. Know and understand all the terms of the loan like loan disbursement schedule, interest rate, repayment period and schedule including a so-called grace period on principal and interest, and their potential impact on the LGU's budget.

2. **Debt service ceiling computation for LGUs**

   a. Debt service ceiling is computed in accordance with Sec. 325b of the 1991 LGC, which is 20% of Annual Regular Income for the current year.

   b. Annual Regular Income for the current year = Average of Locally Sourced Income for the past four years + Current Year IRA as estimated by the Department of Budget and Management (DBM)

   c. Debt Service Ceiling for the current year = 0.20 x Annual Regular Income for the current year.

   d. Net Debt Service Ceiling for the current year = Debt Service Ceiling for the current year – Debt Service for Existing Loan(s).

e. To be acceptable for borrowing purposes, the debt service ceiling of an LGU has to be certified by the Department of Finance's Bureau of Local Government Finance (DOF-BLGF).

3. Modes of accessing the credit market

LGUs may responsibly access the credit market to finance vital development investment projects, especially so-called income generating and revenue-anticipating projects.

Credit market options include variants of the Build-Operate-Transfer (BOT) scheme, municipal bond flotation, and direct borrowings from private and government financing institutions (GFI) like commercial banks, specialized GFIs like the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) and from government-managed specialized lending lines like the Municipal Development Fund (MDF).

LGUs must compare the features of each mode of credit financing vis-à-vis the nature of the project to be financed and their financial circumstances.

a. Variants of the Build-Operate-Transfer (BOT Scheme):

BOT variants offer an alternative to LGUs whose financial resources cannot meet their fast-growing economies' capital investment needs.

They also encourage private sector investments and the inflow of technology and expertise in the operation and maintenance of major capital-intensive infrastructure projects.

i. Build-Operate-Transfer (BOT)
- Project proponent finances, constructs, operates, and maintains an infrastructure facility.
- Proponent operates facility over fixed term, charging user/toll fees, rentals, and charges to enable proponent to recover investment, earn, and cover operating and maintenance expenses.
- Ownership of facility is transferred to the LGU at the end of a fixed term (say 25 to 50 years).

ii. Build-Transfer (BT)
- Proponent finances and constructs an infrastructure facility.
- After completion, LGU either (1) pays proponent of its total investment plus reasonable rate of return; or (2) starts payment according to agreed payment schedule.

iii. Build-Lease-Transfer (BLT)
- Proponent finances and constructs an infrastructure facility.
- Upon completion, proponent leases facility to LGU for a fixed period.
- Ownership of facility is transferred to the LGU at the end of the lease period.

iv. Build-Own-Operate (BOO)
- Proponent finances, constructs, own, operates and maintains an infrastructure facility.
- Proponent charges toll fees, rentals, charges from facility.
- Ownership remains with proponent.
- Proponent may assign operation and maintenance to a facility operator.

b. Characteristics of BOT Projects

i. Common characteristics of BOT projects used to finance LGU projects
- Strict government specifications apply.
- Most BOT projects are highly leveraged (high debt/equity ratio).
- Security package that ensures that potential risks that may affect the project's cash flow are covered by limited guarantees from project participants.

ii. Eligibility criteria for BOT projects
- Project must be profitable – project's rate of return should exceed cost of capital needed to finance project.
- Project must have dependable and continuous revenue streams.
- There must be established market for the products or services.
- Minimum revenue stream should exceed operating costs and debt service.

iii. Key success factors in BOT projects
- Structure a competitive project. Project should generate attractive returns to investors.
- Maintain a transparent and competitive selection process.
- Select a financially and technically competent proponent.
- Develop an environment of low political risk.

iv. Requirements for BOT projects
- Feasibility study of project.
- Prequalification and public bidding documents including technical and financial proposals.
- National government approvals.
- Other requirements (environmental clearances, etc.).

v. Examples of projects considered for BOT financing
- Highways, roads, bridges
- Railways and other mass transit facilities
- Airports and ports
- Power generation, transmission, and distribution
- Telecommunications and satellite facilities
- Water supply, sewerage, and drainage
- Education and health infrastructure
- Industrial and tourism estates including related infrastructure facilities
- Government buildings and housing projects
- Markets, slaughterhouses, warehouses, and related facilities
- Public fish ports and fishponds, including storage and processing facilities
- Environmental and solid waste management and related facilities

c. Municipal Bond Flotation

i. Bonds - defined as a written promise to pay:
- A specified amount, called principal amount or maturity value, at a future date
- In equal payments at a specified interest rate, at equal intervals until the redemption date.

ii. Characteristics of municipal bond floats used to finance LGU projects
- Municipal bonds are issued by LGUs to fund priority revenue-generating or revenue-anticipating projects.
- Taps funds of the capital market.
- LGU determines to a large extent the terms and conditions of its indebtedness.

iii. Elements of bond design
- Type of bond
- Issue date
- Maturity period
- Maturity date
- Interest payment period

- Denomination
- Form of holding - registered or unregistered
- Security of bond and sources of repayment -- real estate mortgage, portion of regular funds from national government, sinking fund
- Manner of sale -- at par or above par
- Medium of sale -- private offering, public offering
- Trustee bank

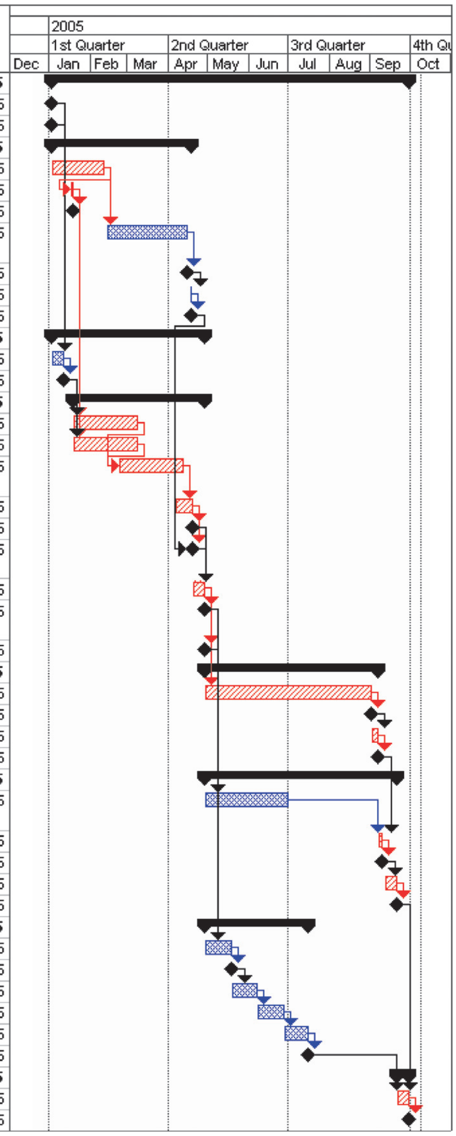
iv. Entities involved in municipal bond flotation
- LGU - issuer of bonds
- Financial Advisor of LGU - advises Issuer on details of bond flotation; designs features of bond
- Underwriter - seller of bonds (wholesale)
- Trustee Bank - fund custodian, fund manager, paying agent
- Bond Holders or Investors

v. Requirements for municipal bond flotation (See Figure F.1 for a CPM Chart of a "fast track" LGU bond flotation)
- Feasibility study of project
- Projected financial statements - cash flow, income statements
- Legal basis of bond flotation at local level
- National government approvals (ministerial)
- Trust agreement between Issuer and Trustee Bank
- Underwriting agreement between Issuer and Underwriter
- Deed of assignment of real estate mortgage, portion of local government's share of national wealth
- Prospectus for investors

vi. Examples of projects considered for Municipal Bond Flotation
- Ports and airports
- Transportation terminal
- Commercial complex
- Slaughterhouse
- Public market
- Housing
- Food processing plants
- Industrial and tourism estates
- Water supply system
- Waste disposal system
- Mass transport system

Figure F.1. Fast Track Bond Flotation Process

ID	Task Name	Start	Duration	Finish
1	**Bond Float Process**	**Mon 01/03/05**	**194 days?**	**Thu 09/29/05**
2	Financial Advisor Receives Notice to Proceed	Mon 01/03/05	0 days	Mon 01/03/05
3	Annual Investment Program	Mon 01/03/05	0 days	Mon 01/03/05
4	**STAGE 1: Analysis of LGU Finances**	**Mon 01/03/05**	**76 days?**	**Mon 04/18/05**
5	Collection of LGU Financial Documents	Mon 01/03/05	30 days?	Fri 02/11/05
6	Prepare Initial Bond Capacity	Mon 01/17/05	2 days	Tue 01/18/05
7	Initial LGU Bond Float Capacity Estimate	Tue 01/18/05	0 days	Tue 01/18/05
8	BLGF Processing of LGU Borrowing Capacity	Mon 02/14/05	45 days?	Fri 04/15/05
9	LGU Borrowing Capacity Certificate	Fri 04/15/05	0 days	Fri 04/15/05
10	Prepare Final Bond Float Capacity	Mon 04/18/05	1 day?	Mon 04/18/05
11	Final LGU Bond Float Capacity Estimate	Mon 04/18/05	0 days	Mon 04/18/05
12	**STAGE 2: Project Design**	**Mon 01/03/05**	**84 days?**	**Thu 04/28/05**
13	Conduct Rapid Projects Screening	Mon 01/03/05	7 days?	Tue 01/11/05
14	Project Identified	Tue 01/11/05	0 days	Tue 01/11/05
15	**Prepare Feasibility Study**	**Wed 01/19/05**	**72 days?**	**Thu 04/28/05**
16	Conduct Market Survey	Wed 01/19/05	35 days?	Tue 03/08/05
17	Conduct Physical Survey	Wed 01/19/05	35 days?	Tue 03/08/05
18	Matching of Market and Physical Survey and LGU Finances	Wed 02/23/05	35 days?	Tue 04/12/05
19	Feasibility Write-up	Wed 04/06/05	10 days?	Tue 04/19/05
20	Feasibility Study	Tue 04/19/05	0 days	Tue 04/19/05
21	Draft Bond Ordinance and Other Required Resolution	Tue 04/19/05	0 days	Tue 04/19/05
22	Presentation to Sanggunian	Wed 04/20/05	7 days?	Thu 04/28/05
23	Resolution Approving Feasibility Study and Other Required Resolutions	Thu 04/28/05	0 days	Thu 04/28/05
24	Ordinance Approving Bond Float	Thu 04/28/05	0 days	Thu 04/28/05
25	**STAGE 3: LGU Project Bidding Process**	**Fri 04/29/05**	**93 days?**	**Tue 09/06/05**
26	Bidding	Fri 04/29/05	90 days?	Thu 09/01/05
27	Notice of Award	Thu 09/01/05	0 days	Thu 09/01/05
28	Contract Preparation	Fri 09/02/05	3 days?	Tue 09/06/05
29	Contract Signed	Tue 09/06/05	0 days	Tue 09/06/05
30	**STAGE 4: Final Sanggunian Ratification**	**Fri 04/29/05**	**103 days?**	**Tue 09/20/05**
31	Documentation Meetings and Preparation of Bond Agreement	Fri 04/29/05	45 days	Thu 06/30/05
32	Finalize Bond Agreement	Wed 09/07/05	3 days?	Fri 09/09/05
33	Signing of Bond Agreement	Fri 09/09/05	0 days	Fri 09/09/05
34	Sanggunian Ratification Process	Mon 09/12/05	7 days?	Tue 09/20/05
35	Resolution Ratifying Bond Agreements	Tue 09/20/05	0 days	Tue 09/20/05
36	**STAGE 5: Processing for Monetary Board O**	**Fri 04/29/05**	**56 days**	**Fri 07/15/05**
37	BLGF Endorsement Transmittal to BSP	Fri 04/29/05	14 days	Wed 05/18/05
38	BLGF Endorsement to BSP	Wed 05/18/05	0 days	Wed 05/18/05
39	BSP Economic Research Review	Thu 05/19/05	14 days	Tue 06/07/05
40	Monetary Board Discussion	Wed 06/08/05	14 days	Mon 06/27/05
41	BSP Processing for Release of Opinion	Tue 06/28/05	14 days	Fri 07/15/05
42	Monetary Board Opinion	Fri 07/15/05	0 days	Fri 07/15/05
43	**STAGE 6: BOND ISSUANCE**	**Wed 09/21/05**	**7 days?**	**Thu 09/29/05**
44	Submission of All Document to Trustee	Wed 09/21/05	7 days?	Thu 09/29/05
45	Bond Issue Date	Thu 09/29/05	0 days	Thu 09/29/05



d. Commercial Bank Loans or Loans from Government Financing Institutions or Specialized Government-Managed Lending Lines

i. Characteristics of direct loans used to finance LGU projects

- Allows LGU to tap private and government capital invested in private banks and government financing institutions to finance priority capital projects.
- Used to finance establishment, development or expansion of income generating projects.

ii. Usual terms of direct loans
- Prime interest rates subject to periodic adjustment in interest rates.
- In the case of government financing institutions and specialized lending lines, rates may be lower than prime rates for LGUs, especially for projects that have special lending windows. In addition, there may be grant components for such items as project preparation and consultancy costs.
- Requires mortgage of real estate or equipment.
- Amount of loan is equivalent to amount required by the project and based on value of collateral.
- Specified maximum number of years with grace period and subject to debt restructuring.

iii. Requirements for a direct loan
- Feasibility study of project
- Projected cash flows and income statements of the project
- Application letter
- Resolution authorizing local chief executive to negotiate a loan in behalf of the LGU
- Audited financial statements, past five years
- Budget for current year
- Projected financial statements (balance sheet and income statement) for current year
- Statement of statutory and contractual obligations
- Certification that the proposed sources of repayment are not restricted by law or its other obligations

iv. Examples of projects considered for direct loans
- Public market
- Water system
- Telephone system
- Commercial center
- Post-harvest facilities
- Slaughterhouse
- Heavy equipment

ANNEX G. A LOCAL REVENUE TOOL KIT FOR PHILIPPINE LGUS

The 1991 Local Government Code provides LGUs with powerful resource mobilization tools that can be grouped into five distinct classes of potential revenue sources. These are:

- Land-based tools;
- Community activity-based tools;
- Infrastructure-based tools;
- Debt-based tools; and
- Revenue sharing tools.

Most of these tools are being effectively used by rapidly growing LGUs in the Philippines, Thailand, and Indonesia.

Under the 1991 Local Government Code, the province, as a political and corporate unit of government serves as a dynamic mechanism for the "effective governance" and development of component cities and municipalities within its territorial jurisdiction.

1. **Land-Based Tools**

   These are potential revenue sources that rely on the real property (land and improvements) resources of LGUs.

   a. Basic Real Property Tax (Sec. 232). This is a yearly ad valorem tax on real property such as land, building, machinery, and other improvements. The maximum tax is 2% of the assessed value which is a percentage of the fair market value of real property. The LGC prescribes the graduated schedule of assessment for agricultural, residential, and other real property classification. LGUs are required to prepare and update every three years a schedule of fair market values for all classes of real property.

   b. Special Education Fund – SEF Real Property Tax (Sec. 235). This is an additional yearly ad valorem tax on real property. The amount of tax is 1% of the assessed value of real property and is collected together with the basic real property tax.

   c. Land Transfer Tax (Sec. 135). This tax is imposed on any mode of transferring title of ownership of real property from one person to another, such as through sale, barter or donation. The amount of tax is 75% of 1% of the total consideration or fair market value, whichever is higher, and is payable within 60 days from the execution of the deed. Sale or transfer under the Comprehensive Agrarian Reform Program is exempt from this tax. (Applicable only to cities and provinces.)

d. Idle Land Tax (Sec. 236). This is a yearly ad valorem tax on idle land and is in addition to the basic real property tax and SEF. The maximum amount of tax is 5% of the assessed value of property. Idle lands include agricultural lands more than one hectare in area, one half of which remains uncultivated or unimproved; non-agricultural lands more than 1,000 square meters in area, one-half of which remain unutilized or unimproved; and residential lots in subdivision, regardless of area. (Applicable only to cities, provinces, and Metro Manila municipalities.)

e. Public Land Use Tax (Sec. 235a). An LGU may collect real property tax on government lands which are used for the private benefit of individuals or corporations. For example, concessionaires or business establishments within government properties such as the lands of the Air Transportation Office may be levied real property taxes on government lands they occupy.

f. Land Sale of Foreclosed Real Properties (Sec. 257, 258 and 260). Local taxes, fees, and charges constitute a lien on real properties owned by a taxpayer. An LGU may foreclose on the properties of delinquent taxpayers and sell these properties through public auction. In the absence of bidders, or if the bids are not enough to pay the tax obligation, including interests and penalties, the LGU treasurer will purchase the property for the LGU.

g. Land Investment. An LGU may acquire and develop land using its ordinary corporate powers (Sec. 18), though purchase of foreclosed real properties (Sec. 263) or through joint ventures (Sec. 302) with the private sector, or through build-operate-transfer (BOT) scheme. Such investment in land development provides direct revenues to the LGU in terms of profits upon disposition and also in terms of enhanced property value and higher property tax base.

h. Land Reclassification (Sec. 20). An LGU may reclassify 15% (for highly urbanized and independent component cities), 10% for component cities and first- to third-class municipalities, 5% for fourth- to sixth-class municipalities of existing agricultural lands for other uses which are deemed to have greater economic value.

i. Land Development Permit Fee (557 and 558). The regulation of land development and subdivisions is one of the devolved functions to LGUs. In the exercise of the functions, LGUs may impose development permit fees, to cover the cost service in the process of issuance of a permit. Alternatively, LGUs may base the development permit fee on the financial impact or economic benefits to be derived from such a permit.

j. Tax on Sand, Gravel, and other Quarry Resources (Sec. 138). This is an ad valorem tax on ordinary stones, sand, gravel, earth and other quarry resources extracted from public lands or from beds of seas, lakes, rivers, streams, creeks, and other public waters within an LGU's territorial jurisdiction. The tax should be no more than 10% of the fair market value per cubic meter in the locality. (Applicable only to cities and provinces.)

In addition to the land-based tools provided by the 1991 LGC, Section 43 of RA 7279 also known as the Urban Development and Housing Act (UDHA) allows all LGUs to levy a 0.5% socialized housing tax on the assessed value of all lands in urban areas in excess of Php50,000. The funds can be used to finance social housing projects of the LGU.

2. **Community Activity-Based Tools**

These are potential revenue sources that rely on the flow of economic activity within the territorial jurisdiction of an LGU.

a. Business Tax (Sec. 143). This is a tax imposed on various categories of business operations (manufacturer, retailer, exporter, service, etc.). The tax follows a graduated schedule based on sales or receipts of the preceding year. The LGC prescribes the graduated schedule of tax rates for the categories of business. (Applicable only to cities and municipalities.)

b. Community Tax (Sec. 156). This is a yearly tax on individuals and juridical persons. An individual who is at least 18 years old and is gainfully employed or is engaged in business or occupation or owns real property with assessed value of at least Php1,000, pays the community tax to the LGU where he resides. The amount of tax is Php5 plus Php1 for every Php1,000 of income from all sources, but not exceeding Php5,000. In the case of husband and wife, the additional tax is based on their total combined properties and gross income. (Applicable only to cities and municipalities.)

c. Franchise Tax (Sec. 137). This is a yearly tax imposed on a business enjoying a franchise within the territorial jurisdiction of the LGU. The amount of tax is 75% of 1% of gross receipts realized within the territorial jurisdiction of the LGU during the preceding calendar year, payable within the first 20 days of

January and quarterly thereafter. For a newly started business, the amount of tax is 1/20 of 1% of capital investment. (Applicable only to cities and provinces.)

d. Tax on Business of Printing and Publication (Sec. 136). This is a yearly tax on the business of persons engaged in the printing and/or publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and others of similar nature. The amount of tax is 50% of 1% of the gross annual receipts of the preceding calendar year. For a newly started business, the amount of tax is 1/20 of 1% of capital investment. (Applicable only to cities and provinces.)

e. Professional Tax (Sec. 139). This tax is imposed on the practice of a profession requiring government examination. The tax is for every profession practiced, i.e., a CPA-lawyer who practices both professions must pay for two professions. Professionals working exclusively for the government are exempt. The amount of tax is Php300 per year and may be paid to the LGU where the professional resides. (Applicable only to cities and provinces.)

f. Amusement Tax (Sec. 140). This is a percentage tax on gross receipts from admissions of amusement places such as movie houses, clubs and other places of entertainment. The amount of tax should not exceed 30% of gross receipts. The time, manner, terms and conditions for payment are to be prescribed by ordinance. (Applicable only to cities and provinces.)

g. Annual Fixed Tax on Delivery Trucks or Vans (Sec. 141). This is an annual fixed tax for every truck, van or any vehicle used by manufacturers, producers, wholesalers, dealers or retailers in the delivery or distribution of products as may be determined by the local legislative council to sales outlets or consumers whether directly or indirectly within the LGU's jurisdiction in an amount not exceeding Php500. (Applicable only to cities and provinces.)

h. Fees and Charges (Sec. 147). Municipalities and cities may impose such reasonable fees and charges on business and occupation except those reserved to the province under Sec. 139 commensurate with the cost of regulation, inspection and licensing.

i. Fees for Sealing and Licensing of Weights and Measures (Sec. 148). The local legislative council may levy reasonable fees for the sealing and licensing of weights and measures. (Applicable only to cities and municipalities.)

j. Fishery Rentals, Fees and Charges (Sec. 149). The local legislative council may grant fishery privileges within its territorial waters and impose rentals, fees or charges. (Applicable only to cities and municipalities.)

k. Service Fees and Charges (Sec. 153). LGUs may impose and collect such reasonable fees and charges for services rendered.

3. Infrastructure-Based Tools

These are potential revenue sources that are based on the "user" or "beneficiary"-pay principle, i.e. that people or entities like corporations should pay for the use of or benefits derivable from public infrastructure.

These tools are primarily cost recovery mechanisms for infrastructure projects. However, they can be converted to loan equivalents for purposes of raising credit finance for infrastructure projects.

a. Special Levy (Sec 250). This is a tax imposed on lands specially benefited by public works projects which are funded by the local government. Public works projects which provide benefits to adjacent lands are roads, drainage, power transmission lines, water distribution lines, telecommunication lines. Benefits include appreciation in value, increased economic/commercial activities, reduced maintenance costs of property improvements, etc. The maximum amount of tax to be generated from a special levy is 60% of the actual project costs, which include cost of land and other real properties acquired in connection with the project. The tax liability is allocated among the real properties affected by the project in proportion to the benefits to be derived. The tax may be paid in yearly installment over at least 5 years but not more than 10 years.

b. Toll Fees or Charges (Sec. 155). The local legislative body may prescribe the terms and conditions and fix the rate of toll fees or charges for the use of any public road, pier, waterway, bridge, or ferry, including telecommunication systems funded and constructed by the local government unit. Toll fees should be commensurate with the economic benefits derived by users of the facilities.

c. Public Utility Charges (Sec. 155). LGUs may fix the rates for the operation of public utilities owned, operated, and maintained by them within their jurisdiction.

4. Debt-Based Tools

These are tools that allow LGUs to secure debt finance for so-called "income-generating projects" and to make investments in financial debt instruments like securities – Treasury bills, commercial papers, and shares of stock.

a. Debt Financing (Sec. 297-302). LGUs may borrow money directly from the financial/banking system- commercial or government - or other sources or through the flotation of bonds in the financial markets to fund development projects. An LGU may use its real property as collateral for such loans. In addition to loans, credits, deferred payment schemes, bond and security issues, and other forms of indebtedness, cities are now allowed to enter into BOT agreements with the private sector.

b. Financial Investment (Sec 18). LGUs may invest in public or private financial instruments. Excess or idle funds may generate additional revenues through bank time deposits.

5. Revenue Sharing-Based Tools

These are tools based on national government revenues shared with LGUs as provided for in the 1991 LGC.

a. Share in Mining, Fishery, and Forestry Taxes (Sec. 290). In addition to its IRA, LGUs shall have a 50% share in the gross collection derived by the national government from the preceding fiscal year from mining taxes, royalties, forestry and fishery charges, and such other taxes, fees, or charges plus any share that may accrue to it in any co-production, joint venture, or production sharing agreement in the utilization and development of the national wealth within their territorial jurisdiction.

b. Share in the Gross Sales or Taxes of Government-Owned and Controlled Corporations (Sec. 291). LGUs may share in the gross sales or taxes of a government-owned and controlled corporation (GOCC), if it is engaged in the development and exploitation of natural resources located in an LGU.

   - Eighty percent, however, of the proceeds derived from the development and utilization of hydropower, geothermal, and other sources of energy shall be applied solely to lower the cost of electricity in the LGU where such energy sources are located.

- The share of the LGU is 1% of the gross sales of the preceding year or 50% of the mining taxes, royalties, forestry and fishery charges, and such other taxes, fees and charges, including related surcharges, interests, or fines the government agency or GOCC would have paid if it were not exempt.

c. Congressional Funds. Members of the House of Representatives as well as members of the Senate are allocated funds that they may allocate for development projects within their respective districts or in the case of the Senators, in any location within the country that they may so choose. Congressional funds have both "hard" and "soft" components. The infrastructure funds are for identified hard capital projects such as roads, bridges, schools, hospitals, etc. while the Priority Development Assistance Funds (PDAF) are for soft type projects such as medical expenses of indigent patients or for scholarships.

Table G.1. Probable Infrastructure Financing Options for Philippine LGUs

Over the Next 3 Years	Next 6 Years	Over 6 Years
Regular Tax Sources (Property and Business Taxes)	Concessions	Additional National Revenue Sharing
Conveyance of Development Rights	Special Assessments	Other Special Taxes and Charges like congestion charges, higher vehicle ownership fees
Debt Instruments including Bonds	Development Impact Fees	
Tax Incentives and Government Guarantees	Land Readjustment	
User Fees and Charges		

Annex H. Relevant Information on ODA Facilities For LGUs

Table H.1. ODA Terms and Conditions of Loans/Grant Assistance (As of July 2005

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
I. Loans					
A. Multilateral					
1. World Bank – International Bank for Reconstruction and Development					
Investment and Program Loans (Specific Investment Loans; Sector Investment and Maintenance Loan; Adaptable Program Loan; Learning and Innovation Loan; Technical Assistance Loan)	The Bank Group's objective for (FY 2006-2008) is to assist the Philippine Government improve public institutions and services to deliver on its social contract with its citizens and thus help the country achieve a virtuous cycle of more effective public institutions, growth and poverty reduction. The CAS has two main goals: economic growth and social inclusion. It also identifies two important levers for pursuing these goals: achieving fiscal stability and improving governance. The CAS will implement the strategy at three levels – national, local and private sector --and will focus on a single unifying approach: working towards examples of recognized and replicable success in delivering public services and improving public institutions	IBRD offers two loan products for new loan commitments to eligible borrowers: fixed-spread loans (FSLs) and variable-spread single-currency loans (VSLs). The choice of financial products gives borrowers the flexibility to select terms compatible with their debt management strategy and suited to their debt servicing capability. **Fixed-spread loans** are offered in selected currencies: U.S. dollars, Japanese yen, euros, pounds sterling, Swiss francs, and other currencies in which the IBRD can fund itself efficiently. The loans are committed and repayable in a single currency or in tranches of several currencies, as requested by the borrowers. The variable lending rate consists of the six-month LIBOR and a spread that is fixed over the life of the loan. The borrower may, during the life of the loan, change the loan currency on disbursed and undisbursed amounts; or may fix, unfix, re-fix, cap or collar the interest rate on disbursed amounts. During project preparation but before loan signing, the borrower may also customize FSL repayment terms (grace period, repayment period, and amortization structure) within existing financial policy limits; once repayment terms are agreed upon, they cannot be changed.	Borrowers have flexibility to tailor repayment terms to meet their debt management needs. FSL is governed by policy limit of 25 years based on average repayment maturity. For the Philippines, maturity is usually up to 20 years for both FSL and VSL FSL and VSLare both governed by Standard Country Terms	5 or 8	a) Commitment fee-0.85% for the first four years and 0.75% thereafter b) Front End fee 0.5%

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
	Variable-spread single-currency loans are offered in selected currencies: U.S. dollars, Japanese yen, euros, pounds sterling, Swiss francs, and other currencies in which the IBRD can fund itself efficiently. The loans are committed and repayable in a single currency or group of currencies, as requested by the borrower. The variable lending rate is tied to the sixth-month LIBOR in each loan currency and is reset semiannually. The rate is a direct pass-through to borrowers of the Bank's cost of funding for these loans.			5	a) commitment fee 0.75% b) Front End 0.50%
2. **Asian Development Bank**					
Project Loans	a) Infrastructure Development (rural and urban infrastructure: water supply, housing, power and rural electrification; rural roads and railways restructuring with the aim to promote private sector participation; b) Agriculture and Natural Resources (irrigation, agrarian reform, fisheries, microfinance and localized community development) c) Basic Social Services (health, education and social welfare) d) Environmental Management (solid waste management and air quality) e) Good Governance (judicial reforms, financial sector reforms, auditing and accounting reforms and decentralization) f) Regional Development (initiatives for Mindanao and BIMP-EAGA)	ADB offers its public and private sector borrowers LIBOR loan based loan (LBL) carrying a floating rate that consists of a six-month LIBOR and a spread fixed over the life of the loan. LBL consists of a cost base rate, which is LIBOR, and a spread fixed over the life of the loan. For public sector borrowers: lending spread of 0.40% per annum for the period 1 July 2004-30 June 2006 and thereafter to be further determined, should be added to the 6-month LIBOR Rate. For private sector borrowers: the spread will depend on the credit and project risks of the loan. Special features: a) choice of currency (US dollars, euro and Japanese yen) and interest rate basis b) options to link repayment schedules to actual disbursements for financial intermediary borrowers c) change the original loan terms anytime during the life of the loan d) option to cap or collar the floating lending rate at anytime during the life of the loan		Flexible (4-5 years grace period depending on length of implement-ation)	0.75% annual commitment fee charged on progressive amounts of undisbursed loan balances (15% of total undisbursed amount for first year, 45% for 2nd year, 85% (for 3rd year) 1.0% (of the loan amount) front end fee, as applicable

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
Program loans or policy- based loans	Policy and institutional reforms, budgetary and BOP support(i.e., capital market sector), sector loans (power and governance)				0.75% annual commitment fee charged on the total undisbursed portion of the loan
3. International Fund for Agricultural Development(IFAD)					
Project Loans a. highly concessional loans b. intermediate loans c. ordinary loans	IFAD's thrust is enshrined in its objective to "enable the rural poor to overcome their poverty." Assistance to the Philippines has been primarily in the following spheres: -Strengthening the capacity of the rural poor and their organizations -Improving equitable access to productive natural resources and technology -Increasing access to financial services and markets	a. 0% (for highly concessional loans) per annum b. variable reference interest rate equivalent to 50% of that charged on WB (loans for intermediate loans) c. per annum variable reference interest rate equivalent to 100% of that charged on WB loans (for ordinary loans)	a. 40 b. 20 c. 15 to 18	a. 10 b. 5 c. 3	a. 0.75% service charge per annum
4. **OPEC Fund for International Development (OFID)**					
Project Loans, Program Loans, BOP Support Loans	Agriculture and agro-industry, energy, transportation, education	1-2.75% per annum (per 15th Lending Program for 2002-2004)	20	5	1% on amounts withdrawn and outstanding
5. **European Investment Bank**					
Project Loans(usually finances lower than50% of the total project cost)	Public and private sector projects in infrastructure, industry, agro-industry, mining and services and improvement and protection of the environment, transportation, telecommunications, energy production, urban development(e. g. social housing and development of swamp and urban regeneration), touris m, health (e.g. private clinic/ health centers)	Usually gives fixed rates but also has formulae for variable or revisable convertible rates	12 to 15	1/4 or 1/3 of loan life	appraisal fees charged against the borrower(euro 40,000), requires security

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS/ CHARGES**
B. Bilateral					
1. Denmark – Danida Mixed- Credit Facility					
Project loans(65% export credit, 35% grant)	Water supply and treatment, health and hospital, upgrading, waste water treatment and renewable energy, agri-industry	0%	8 to 15	6 months after commissioning	0.375% management fee 0.25% commitment fee p.a. on undisbursed loan amount
2. Japan Bank for International Cooperation (JBIC) – a) Yen Loan Package (YLP)					
Project Loans	a. Strengthening of the economic structure for sustainable growth; b. Mitigation of disparities (poverty alleviation and mitigation of regional disparities) c. Environmental conservation and disaster management; and d. Human resource development and institution building	0.5% -1.5%	15 to 40	5 to 10	None
b) Special Term for Economic Partnership (STEP)					
Project Loans	a. Public info system/broadcasting/ communications; b. Power stations/transmission and distribution lines; c. Trunk roads; d. dams; e. Environmental projects; f. Ports; g. Urban mass transit system; h. Urban flood control projects; and at the same time, for which Japanese technologies and equipment are substantially utilized	0.40%	40	12	none
3. **Belgium** (will not provide any new loans; only until completion of BIARSP)					
Project loans: a) state to state loan; and b) export credit facility	Rural development through agrarian reform, transportation (LRT)	a) 0 % fixed rate prevailing under the OECD rules upon signature of the Credit Agreement	13	24 months after take over	Insurance premium determined by OND Commitment fee of 0.375% per annum on undrawn balance Management fee = 0.50% flat

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
4. Federal Republic of Germany – Kreditanstalt fur Wiederaufbau (KfW)					
b) Soft Loan Mixed credit Facility c) 50% soft loan -50% commercial loan	Health and family planning, economic reform and development of market system (i.e. SME promotion, financial system, vocational training, urban environment), environment (sanitation /waste management)	0.75% (soft loan) about 6%-7% for HERMES covered market funds	40	10	0.25% commitment fee for an undisbursed amount
5. Italy					
a) Project Soft Loan b) Service Assicurativi peril Commercio Estero (SAGE) s.p.a. covered loan	Agriculture, education, energy, environment, health and infrastructure development and telecommunications. Transportation (state-of-the art radar equipment)	1.00% SAGE-covered loan: 85% of the central value would have commercial Interest Reference Rate (CIRR) of 4.69%	17 8 (up to 16 consecutive semi annual installment commencing 6 months after availability period)	5 2	none Premium/ Expensive Fee: 7.6 % of the total loan amount; Management fee: 0.5% of the loan amount upon signing of loan agreement (L/A)
b) (ii) Commercial Loan	Commercial loan: 15% of the central value would have 180-day London Interbank offered Rate, (LIBOR) of 1.93 % + 5.5% p.a. margin (floating rate) payable at the end of each semi annual interest period in arrears.	10	5 (up to 20 consecutive semi annual installment commencing 5 years after drawdown)		Arrangement fee: 0.2% of loan amount upon signing Agency fee: US$5,000 p.a. payable in advance from first drawdown up to final maturity 4,000 p.a. payable in advance with the first payable from the first drawdown and until the final maturity; Final fee: 1.5% flat of the facility amount.
6. France					
Mixed credit composed of: a) Soft loan – 60% b) Commercial loan –40%	Health, social security, environment, public and urban city administration, power, telecommunications, land and water transport, hospital upgrading and energy (for both types of loan)	Mixed credit carries interest rate of: a) 1.5% for soft loan component b) for commercial loan component, interest based on the Commercial Interest Reference Rate (CIRR) for the French Franc prevailing during signing of contract	10		

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
7. Spain					
Mixed credit : 60% loan 40% grant	Water and soil waste management, renewable energy, mass transport, air and maritime safety, airport and seaport maintenance & improvement, irrigation, education	1% -2.5% (soft loan under FAD scheme) 6% -8% (commercial credit under the prevailing OECD consensus rate)	30 10		
8. Sweden Swedish International Development Cooperation Agency					
Soft Loan	Infrastructure projects in energy, telecommunications and transport sectors, projects on health and medical care, as well as basic socio-economic infrastructure in rural low-income areas; technical assistance Concessionary Credit (at 35% grant element)	Priority has been given to infrastructure projects in sectors such as energy, transportation and telecommunications, environmental protection and energy conservation	10 to 15 (depending on estimated economic life of the investment being financed) 10 or 12.5	9 0 to 2	Management and Agency Fees Commitment fee: 0.25% on undisbursed Management fee Admin fee
9. Switzerland					
Mixed credit composed of: a) Soft loan -50% b) Comm'l loan -60%	Energy (power and electrification), transport and water supply. However, the Philippines is not among the priority countries identified to receive Swiss ODA on a regular basis.	Swiss Export Base Rate of 3.75% and a 1.375% spread	10	2.5	None
10. Korea – E conomic Development Cooperation Fund (EDCF)					
Project Loans	Irrigation, agricultural development, water supply & sewerage, power, SME development, communication, infrastructure, transportation, education, health, environment 2.5%		30	10	0.1% service charge on total disbursement

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
11. Canada					
Project Loan – Export Credit (Parallel Line of Credit)	Telecommunications, infrastructure, transportation OECD consensus rate		10	3	One-time administration fee of 0.75% of full loan amount Commitment fee of 0.375% p.a.
2. United Kingdom – a) United Kingdom Aid and Trade Provision (ATP) facility					
Mixed credit 65% export credits Export Credit Guarantee 35% grant	Transportation (construction of bridges), water supply, maritime, others based on bilateral consultations. Grant normally covers-up to 35% of the value of the UK goods and services procured for the project.	OECD consensus rate	12.5	2.5	None
b) British Government's Export Credit Guarantee Department (ECGD)					
100% ECGD	Transportation (construction of bridges, flyovers)	2.05%	14	2.5	None
Mixed Credit Grants and loans	Technical assistance, industry, power, transport and storage agriculture and irrigation	Depending on the economic conditions of the recipient country and the specific circumstances of each operation			1/2 of 1 % service fee on outstanding balance of amounts disbursed under the loans. No commitment fee charged on Fund Loan.
14. Saudi Arabia – Saudi Fund for Development					
Project Loans	Health, education, transportation development and rural sectors	3-5%	20	5	None

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	GRACE PERIOD (Yrs.)	OTHER TERMS/ CHARGES
15. Finland					
Concessional loan	Social, environment, and health sector projects (e.g. water and sewage disposal and management, water supply management, upgrading of hospitals, and forestation projects)	0% or clearly below market rates	10	2.5	Guarantee 6% one time added to loan; Arrangement fee: 0.5% one time added to loan Commitment fee 0.5% p.a. on undrawn amount added to the loan
16. Austria					
Export Credit Agency Facility (ECA)	Health, infrastructure, transportation and water supply, energy (hydropower plant, solar infra) Commercial Facility (CF)	Prevailing OECD consensus rate: ECA: Tranche A 10% would have 3.8% p.a. + 15% p.a. Tranche B 90% would have fixed volte of 4.19% p.a. 3 months or 6 months EULIBOR +0.85%	Up to 20 equal consecutive semi annual installment beginning 6 months, after provisional acceptance certificate (PAC) final delivery Up to 20 consecutive semi annual installment beginning 6 months after PAC/ final delivery		Commitment fee of 0.5% p.a. Management fee of 0.5%. Commitment fee of 0.75% p.a. and arrangement fee of 0.75%
17. Norway					
Mixed credit	Support to petroleum exploration, maritime sector and airport shipping projects	Based on Commercial Interest Reference Rate, interest during drawdown will be capitalized since the grant component will be used to subsidize 30% of the interest due on the facility.	10	6 months from end of disbursement period	forex cover and other DBP loan charges
18. China					
Mixed Credit – China National Construction and Agricultural Machinery Import and Export Corp. (CAMC) Export-Import Bank of China	Agriculture	3% p.a.	10	2	10% of contract price serves as down payment
Preferential Buyer's Credit	Transportation (rail sector)	3% p.a.	20	5	Commitment fee of 0.3% p.a. of loan amount undisbursed Management fee of 0.3% upfront

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
II. Grants					
A. Multilateral					
1. Asian Development Bank (ADB)					
Project Preparatory Technical Assistance (PPTA) -(if PPTA leads to a capital investment, the amount in excess of US$250,000 will eventually be charged against the loan) Advisory Technical Assistance (ADTA) Regional Technical Assistance (RETA) Japan Fund for Poverty Reduction (JFPR)	Project preparation for subsequent investment financing Institution building, policy/sector studies, national development plan formulation (purely grant) Finance studies, training courses, seminars and workshops relevant to the development of the Asia Pacific region Support innovative poverty reduction and related social development activities that can add substantive value to ADB-financed projects (program, sector & project loans)				
2. **European Community (EC) –**					
a) Small Project Facility					
Grants for capital projects Grants for conferences/ seminars/ workshops	Poverty alleviation, development, health, rural governance, trade and investment To support the on-going reforms and modernization of the Philippine's economy and systems of corporate governance, by facilitating enhanced interaction of European and civil society including the private sector, the networking of its policy makers and opinion formers, and linkages of Philippines and EU operators in Business, the media and the think tanks. To provide a flexible and responsive tool to link policy objectives and EU's economic cooperation activities in Philippines in order to support small, innovative and visible projects in areas of strategic importance for Philippines and the EU. Eligibility conditions: Applicants must be: -Non-profit making legal persons; (Governmental Organizations, NGOs, local authorities, business associations, universities, think tanks, etc.) -Based in the Philippines -Directly responsible for the preparation and management of the action, not acting as an intermediary.				Maximum rate of community financing: 75% of the total eligible costs for the action. Schedule of calls for proposals(local calls) Call for Proposal Launch: 9 March 2005 First deadline: 9 June 2005 Second Deadline: 12 September 2005. Indicative Amount for Calls for Proposals: EUR1,600,000.

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
b) Asia Invest Programme 2					
	The Asia-Invest II Programme is an initiative by the European Commission to promote and support business co-operation between the EU and Asia. The Programme provides assistance to intermediary business organizations to facilitate mutually beneficial partnerships between companies, in particular small and medium-sized enterprises (SMEs), in the EU and South and South-East Asia and China; as well as to strengthen the business environment to increase trade and investment flows between the two regions. Promoting integration of Asian countries into the Information Society is now one of the objectives under Asia-Invest II. Promoting the involvement of organizations from less developed countries. Asia-Invest II supports projects across all sectors and areas and regions is an ongoing priority of industry, as long as the proposed activities clearly address the needs of the target groups (i.e. SMEs, business organizations, and the EU-Asia network). Components: 1. Asia Venture (matchmaking) 2. Asia Enterprise (matchmaking) 3. Asia Invest Technical Assistance (Asian Private Sector Development) 4. 4. Asia Alliance (Institutional Reinforcement)				Eligible Applicants: (non-profit making entity) 1. Chambers of Commerce 2. Government agencies 3. Sector-specific trade, industrial and professional associations 4. Employers' Federation 5. Local government units 6. NGOs 7. Universities Such entities would have to form partnership with a minimum of two (2) European organizations in order to avail of the grants under the four (4) components
3. United Nations System – International Fund for Agricultural Development					
Japan Special Fund (JSF) – full grant for technical assistance	Project preparation, development and institutional agricultural training, research				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	**DONOR THRUSTS/AREAS OF ASSISTANCE**	**INTEREST RATE%**	**TERMS OF ASSISTANCE**		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
United Nations Development Programme (UNDP)					
Grants for Technical Assistance	Under the GOP UNDP Country Programme Action Plan (CPAP) for 2005-2009 the following are the practice areas of UNDP in the country: -Achieving the Millennium Development Goals (MDGs) and Reducing Human Poverty -Fostering Democratic Governance -Managing Energy and Environment for Sustainable Development -Supporting Crisis Prevention and Recovery				
UN Children's Fund (UNICEF)					
	-Social Services (children): -Health and nutrition -Education -Children in Need of Protection Special -Child-Friendly Governance -Communication -HIV/AIDS				
Food and Agriculture Organization (FAO)					
Technical Cooperation Programme (Grants)	a. Biodiversity b. Biosecurity c. Biotechnology d. Climate change e. Emergency Operations f. Ethics g. Gender h. Global studies i. Information management j. Organic agriculture k. Sustainable livelihoods				
UN Industrial Development Organization (UNIDO)					
	Under the UNIDO Country Service Framework (CSF) 2004-2008, they aim to contribute to poverty reduction through sustainable SME development. There are two (2) components: 1. Enhancing Productivity and Competitiveness/ Market Access of SMEs 2. Supporting Energy Efficiency and Environmentally Sustainable Industrial Development				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
UN Population Fund					
Technical Assistance	-Ensure universal access to reproductive health, including family planning and sexual health, to all couples and individuals on or before year 2015 -Support population and development strategies that enable capacity-building in population programming -Promote awareness of population and development issues and to advocate for the mobilization of resources and political will				
International Atomic Energy Agency (IAEA)					
Technical assistance that provide advisors equipment and training	Three (3) areas of work: -Safety and security -Science and Technology -Safeguards and verification				
International Labor Organization (ILO)					
	Employment/labor, skills development, social security and other sectoral activities (e.g. cooperative development)				
Perez Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries					
Objective is to provide seed money for 1) financing pre-investment; feasibility studies reports prepared by professional consultancy organizations in developing countries; and 2) facilitating the implementation of projects within the framework of the Caracas Programme of Action on ECDC.	Project proposals submitted for funding from PGTF should address the sectoral priorities contained in the Caracas Programme of Action that is Trade, Technology, Food and Agriculture, Energy and Raw Materials, Finance, Industrialization and Technical Cooperation among Developing Countries as well as in the Havana Programme of Action in the areas of South-South Cooperation. Any project, in order to be considered for PGTF assistance must necessarily have an ECDC or TCDC component (I.e. any activity which involves deliberate and voluntary sharing, pooling or exchange of economic or technical resources, knowledge, experience, skills and capabilities between three or more developing countries for their individual or mutual development. See http://tcdc.undp.org/coopsouth/1995_Oct/seed.asp for more info on the trust fund and http://www.g77.org7pgtf/guide.htm				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
Global Environment Facility (GEF) (as implemented by UNDP)					
Grants for Technical Assistance	Medium-sized projects (MSP) grants (for which $1,000,000 is requested from the GEF) are awarded in accordance with GEF guidelines as well as the relevant convention. The GEF focus areas include conservation of Philippine biodiversity protection of international waters, prevention of land degradation, elimination of persistent organic pollutants, and climate change mitigation.				
4. World Bank – Institutional Development Fund					
Grants for capacity building activities	The IDF focus areas include results-based monitoring and evaluation, public expenditure and financial accountability				
Policy and Human Resources Development (PHRD) Fund					
Grants for technical assistance and capacity building	PHRD grants, extended by the Japanese Government through the World Bank, primarily support the development of the lending program and the preparation of specific projects. It also provides funds for technical assistance and capacity building for project implementation and climate change initiatives.				
Asia Europe Meeting's (ASEM) Asian Financial Crisis Response Fund					
Grants for technical assistance and capacity building	The ASEM has been used to fund technical assistance and capacity building for the prevention of future financial crises through social protection and sustainable financial and corporate governance. The ASEM facility was expected to close in December 2005.				
Japan Social Development Fund					
Grants for direct assistance	JSDF extends direct assistance to poorer communities, usually as a form of co-financing to World Bank projects.				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	**DONOR THRUSTS/AREAS OF ASSISTANCE**	**INTEREST RATE%**	**TERMS OF ASSISTANCE**		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
Global Environment Facility (GEF) – Medium-sized Projects					
Grants for technical assistance	GEF supports project preparation, the execution of full-and medium-sized projects and enabling activities related to climate change, biological diversity, international waters and ozone layer depletion. Proposals evaluated four times a year. Processing of full-sized GEF projects follow WB project cycle for loan-funded operations. For availment procedures & eligibilities, contact the Operations Officer of WB Manila, Tel. 917-3023.				
5. OPEC Fund for International Development					
Grants; Technical Assistance to Food Aid; Humanitarian and Emergency Operations	Agriculture and agro-industry, energy, transportation, education				
B. Bilateral					
1. United States					
Grants: Technical Assistance Projects	SO2: Performance of Selected Government Institutions Improved, which aims at addressing corruption to achieve greater transparency in governance, commerce, and the judiciary that deters investments, to achieve the following results: (i) improved judicial efficiency; (ii) improved govt policy/ admin; and (iii) promoted innovations in trade/ investment programs. SO3: Desired Family Size and Improved Health Sustainably Achieved, which aims to reduce fertility, improve health/nutrition of mothers and children, reduce burden of TB & other infectious diseases, prevent HIV/AIDS leading to: (i) LGU provision & management of FP/MCH/ TB/ HIV-AIDS services strengthened; (ii) provision of quality services by private and commercial providers expanded; (iii) greater social acceptance of family planning achieved; and (iv) policy environment and financing for provision of services improved. SO4: Management of Productive, Life-Sustaining Natural Resources Strengthened, which aims to address four key challenges in the environment and energy sectors: competitiveness, corruption, conflict and conservation to achieve the following results: (i) improving energy sector performance; (ii) improving environmental governance; and (iii) improving urban environmental management.				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
US PL 480 Title II (Commodity Assistance Act of 1949)	SO 11: Increased Access to Quality Education and Livelihood Skills in Selected Areas-targeted education program in the country, especially for ARMM, with selected policy reform components at the national and regional levels. Key results include the following: (1) local-level learning opportunities increased and/or improved in school-less communities and selected other disadvantaged communities, particularly conflict-affected areas (CAAs); (ii) programs and facilities for reintegrating out-of-school youths in the CAAs of Mindanao are established and operating; (iii) strengthened capacity for teaching Math, Science, and English; and (iv) improved education sector policies and strengthened capacity for implementing. SO12: Conflict Reduced in Mindanao and Other Areas Vulnerable to Violence, which aims to deliver a program of activities that will help reduce conflict and alleviate its aftermath in Mindanao, while also selectively introducing new elements to enhance the impact of US foreign assistance to achieve the following results: (i) economic opportunities expanded in conflict-affected areas (CAAs); (ii) strengthened local governance in CAAs; (iii) improved support systems and programs for former combatants and their communities. Support for AFMA related activities				
2. Japan International Cooperation Agency (JICA)					
a. Capital Assistance (provision of equipment and materials necessary for the construction of hospitals, schools, water supply and other major equipment (e.g. medical)) **b. Commodity Assistance** (provision of fertilizers, pesticides/ insecticides, agricultural machinery) **c. Technical Assistance** (conduct of FS/MP, provision of training, dispatch of experts and limited provision of equipment.	-Strengthening of the economic structure for sustainable growth -Mitigation of disparities (poverty alleviation and mitigation of regional disparities) -Environmental conservation and disaster management; and -Human resource development and institution building.				
3. Federal Republic of Germany (GTZ)					

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
Grants for Technical Assistance	Expert assignments, limited technical equipment, training, scholarships, pre-investment studies, promotion of small and medium-scale industries, vocational/ technical training, health/family planning, environmental and resource protection				
4. Czech Republic					
Grants	Environment (water/waste treatment facilities), agriculture (grains terminal), health (hospital buildings, supply of sophisticated equipment), industry (canning plant, ports construction, support to SME's and power sector (diesel generators for small power plants, power generation/ transmission/distribution rural electrification; sustainable drinking water supply.				
5. Canada – Canadian International Cooperation Agency					
Grants for Technical Assistance	Governance and private sector development, with gender and environment integrated in planning and management of all CIDA programs (cross-cutting themes)				
Building Unity & Integrating Local Efforts Towards Democratic (BUILD) Project Development					
Grants	Initiatives that promote: 1. Democratic institutions & practices 2. Enhance civil society's policy role 3. Strengthen political will of governments				Duration is 2 years (January2005 to March2007).
6. France – French Private Sector Study Fund					
Grants for FS and detailed designs for projects priority areas	Transport, water and environment, energy, financial and agribusiness sector				
7. Korea					
1. Project Aid 2. Development Study 3. Dispatch of Experts 4. Invitation of Trainees 5. Dispatch of Korean Volunteers	Infrastructure support in the areas of transportation irrigation, water resources and telecommunications, pre-investment studies in the areas of public working irrigation, agricultural development, water supply and sewerage.				
8. United Kingdom					
Technical Assistance	Support to capability building programs for LGUs.				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
United Kingdom -British Embassy /British Council (BC)					
British Embassy Global Opportunities Reduction Fund; Application for funding may be forwarded and considered directly by the Embassy (BC)	Social Reform Agenda and Agrarian Reform Communities; strengthening the rule of law & providing good governance.				
9. Spain					
Technical Assistance	Rural livelihood, cultural activities, research, welfare, equipment aid, lecture on Spanish language, scholarships, health, empowerment eco-tourism, and water supply				
10. Norway					
Technical Assistance	Maritime development, petroleum exploration, shipping				
Norway -Norwegian Agency for Development Cooperation (NORAD)					
NORAD's program for Institution & capacity Building for Non Priority Geographical Areas w/c does not fall under the regular w/c means this can be tapped on a case to case basis and as limited funds become available	Shipping, aquaculture development, mitigate flooding problem				
11. Australia –					
Australian Agency for International Development (AusAID)					
Grants: 1. Project Type 2. Facility Type	-Governance and policy reform -Sustainable rural development -Conflict prevention and peace building				
12. New Zealand (General)					
Grants 1.Project-type 2.Scholarship & training 3.Direct Support to NGOs	-Governance -Resource management -Indigenous peoples -Development activities				
New Zealand -Small Projects Scheme (SPS)					

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)

FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
	The principal objective of the SPS is to contribute to the efforts of the Government of the Philippines (GOP) and the Filipino people to achieve poverty elimination through equitable and sustainable social and economic development. Programmes and projects should have direct relevance to NZAID's country programme thematic objectives as follows: a) natural resource management; b) activities concerning indigenous peoples including Muslim minority; and c) activities which seek to enhance the quality and sustainability of governance. The priority areas of SPS are the Cordillera Autonomous Region (CAR) in Luzon, Region VII specifically Bohol Province and Region VIII in Visayas, and Regions X, XII, ARMM and CARAGA in Mindanao. Applications should be submitted using the SPS form. Where the form is not used, applicants will be expected to address all questions covered in the form to qualify for further processing. Upon approval, a funding agreement will be signed between the NZAID and the Recipient stipulating the conditions set for the utilization of the SPS grant.				Eligible Philippine agencies are community-based organizations, other community groups, NGOs, people's organizations, local government units (LGUs), provincial and national government agencies, religious organizations, business and sector associations and trade unions. Also eligible are the Philippine offices/affiliates of multilateral agencies or international NGOs.
13. Singapore					
Scholarship and training	Industrial park development, investment, promotion, port infrastructure and management, franchising, tourism, productivity and skills training, corporate & financial				
14. Israel					
Technical Assistance Training	Agriculture, cooperation and labor studies, community development, rural development, medicine and public health, management, science and technology and education				

FUNDING SOURCE (ODA Terms and Conditions as of 20 July 2005)					
FORMS OF ASSISTANCE	DONOR THRUSTS/AREAS OF ASSISTANCE	INTEREST RATE%	TERMS OF ASSISTANCE		
			MATURITY PERIOD (Yrs.)	**GRACE PERIOD** (Yrs.)	**OTHER TERMS** and/or **CHARGES**
15. Sweden -Contract-Financed Technical Cooperation					
Grant -(usually excludes equipment & operation costs)	Human rights & democracy, governance, environmental protection				
NON-TRADITIONAL DONORS					
1. Dubai Islamic Bank (DIB)					
Grants loans only to qualified applicants adhering to Islamic banking concepts No interest charges but DIB shares in the profits or losses of the projects that it financed 2-3.7% per annum with maturity period of 17 years with 5 years grace period	Privately owned, and operates like a private bank. Principal objective: to make profits for its shareholders Governed by UAE Central Bank rules and regulations like other financial institutions in the UAE Operates under the Islamic Economic System of banking wherein no interests are paid on the deposits or loans management				

Source: Public Investment Staff, National Economic and Development Authority

Table H.2. ODA Facilities for Local Government Units (As of 21 July 2005)

PROJECT TITLE	IMP. AGENCY/ DONOR	BRIEF DESCRIPTION	TARGET REGIONS/ LGUs	DURATION	COST (PhPM)
Local Governance Support Program in ARMM	CIDA, DILG	The program provides technical assistance (TA) to specific local governments to build their capacity to carry out the devolved functions of government and to plan, implement and evaluate development projects in their jurisdictions. The TA supports local government management, service delivery, resource generation and management and participatory governance. The program works to build alliances and LGUs, local resource providers, civil society organizations, and the private sector, and to ensure that the concerns of gender equality, environmental soundness, poverty reduction and peace and unity are addressed by local governments.	ARMM	2005-2010	908.48
Community-based Resource Management Program	DOF, LGUs/WB	The project aims to reduce rural poverty and environmental degradation through support for locally generated and implemented natural resource management projects. The project has the following components: (1) sub-loans for LGU sub-projects; (2) MDF rural window initiative and project management; (3) planning and implementation support for LGUs; and (4) environmental technology transfer and policy support.	Regions 5, 7, 8, 13	1998-2004 (extended until June 2006)	1,900.00
Water Districts Development Project	LBP/ WB	The project aims to provide financing to LGUs for trunk and feeder investments in local sewerage and sanitation projects. Eligible borrowers include first to third-class LGUs outside of Metro Manila (provinces, cities and municipalities).		1999-2004 (extended until Dec. 31, 2005)	U$36.3M (orig) U$25.902M (inclusive of canceling)
LGU Finance and Development Project (LOGOFIND)	DOF-MDFO/WB	The project aims to provide financing for LGU urban projects through the establishment of urban loan window/facility within the MDF. Also provides TA and institutional support to LGU borrowers and strengthening of MDFO. *Facility to Improve Tax Administration of LGUs* This facility is under the resource mobilization component of LOGOFIND. This facility aims to help LGUs solve their problem on poor collection of taxes. Funds to be lent to LGUs will be used to improve their tax administration, specifically in the collection of real property taxes, through computerization of their recording system. This loan window is one way of helping to strengthen the financial capacity of LGUs to become more capable of raising their own funds	Nationwide	1999-2006	US$60 M or 3,000.00
LGU Support Credit Program	LBP/Japan	The support under the project is proposed as loan funds to be made available over a five-year period to selected cities and municipalities to construct approved urban sector infrastructure components such as water supply, drainage, flood control, sewerage and solid waste systems, forestry, and other environmental projects aims to augment sources of development funds for LGUs through credit assistance. Eligible activities are: mass housing, solid waste disposal systems, public hospitals/health centers and medical equipment, water distribution system, and environment program.		1999-2005	1,520.00

PROJECT TITLE	IMP. AGENCY/ DONOR	BRIEF DESCRIPTION	TARGET REGIONS/ LGUs	DURATION	COST (PhPM)
Secondary Education Development and Improvement Project (SEDIP)	DepEd Japan/ADB	This is a follow-up project to the 6-year Secondary Education Development Project which was concluded in 1994. The project aims to address the gaps which SEDP was not able to address. It's a complementary sequel project to TEEP.	2,3,5,6,7 8,9,12 Caraga, IV-B, ARMM, CAR	May 1999 -December Jun-05	6,805.60
Mindanao Basic Urban Services Sector Project	DILG/LGUs LBP/ ADB	The project will establish a facility that will support urban development and upgrading of basic urban infrastructure and municipal services cities and municipalities throughout the island of Mindanao, based on an assessment of existing facilities and the demand of the urban population. Physical infrastructure investment includes water supply, roads, traffic management, drainage, solid waste management, markets, bus terminals sewerage, and sanitation. Institutional development for LGUs will focus on financial management, infrastructure development, and urban planning.	IX, ARMM, Mindanao LGUs	September 2002 -June 2008	3,807.00
Infrastructure for Rural Productivity Enhancement Sector Project (INFRES)	DA/ADB	The long-term goal of the project is to increase rural incomes in areas with high agricultural potential. The immediate objectives of the project are to remove the constraints to the improvement of agricultural productivity caused by the lack of rural infrastructure and to reduce poverty by increasing agricultural productivity and profitability. The project will have three components: improved rural infrastructure, capacity building for devolved project implementation and management, and project management and coordination.	5, 8-12, Caraga IV-B, ARMM	February 2002 -June 2008	6,849.00
Community Initiatives and Resource Management Project	DAR/IFAD	This project aims to raise in a sustainable manner the standard of living of farm and fishing households in selected areas in Northern Mindanao and CARAGA.	10, Caraga	April 2003 - April 2008	1,130.00
Grant Assistance for Grassroots Human Security Project (GGP)	JICA	GGP aims to aid self-supporting socio-economic development activities to benefit sectors at the grassroots level. Particular emphasis is placed on poverty alleviation and livelihood improvement.			
Solid Waste Management Project	DBP/KfW	The project is a special lending facility aimed at implementing an improved and comprehensive SWM services by providing financing to eligible borrowers who shall employ modern management methods, equipment and facilities with the end in view of achieving cost effectivity and technical efficiency while increasing the responsiveness of service providers and operators	Nationwide	March 2004 - December 2007	US$ 16.65 million
Environmental Infrastructure Support Credit Program (EISCP 2)	DBP	The program's intended beneficiaries include large industries and SMEs (industry, mining and service sectors) and LGUs (for solid waste projects only)		March 2000 to March 2006	JPY 20,529 million

PROJECT TITLE	IMP. AGENCY/ DONOR	BRIEF DESCRIPTION	TARGET REGIONS/ LGUs	DURATION	COST (PhPM)
Credit Line for Micro, SMEs and LGUs	DBP/KfW	The project involves the provision of sub-loans to finance SMEs and micro-enterprises' procurement of imported and local capital/ intermediate goods and, spare parts in wholesale and retail schemes. Working capital will likewise be provided to micro-enterprises. The facility is also available to LGUs to finance their development projects.	Nationwide	March 2004 - December 2005	Euro 30.677 million
Small Projects Facility	Delegation of European Commission to the Philippines	This project intends to support on-going reforms and modernization of Philippine's economy and systems of corporate governance by facilitating enhanced interaction of European and Filipino civil society including the private sector, the networking of its policy-makers and opinion formers and linkages of Philippine and EU operators in business, the media and think tanks. **Eligible Activities**: This facility is expected to support and facilitate the effective implementation of about nine (9) projects per year. Priority areas will be defined for each call for proposal. Project funded may take the form of: (1) conferences, seminars and workshops; (2) training, education and capacity-building activities; (3) research and studies; (4) media events, media products and advocacy activities; and (5) other activities that promote the image of the European Union as a model or example of best or unique practice	Nationwide	2003-2005	Euro 3 million
EIB-DBP Global Loan Facility	DBP	The facility is intended to increase DBP's capability to meet the financing requirements of qualified borrowers. This facility will be relent to local government units, small and medium enterprises and large enterprise in order to support projects in the following areas: (1)agro-industry; (2) infrastructure; (3) environment; (4) tourism; (5) telecommunications; (6) power generation; (7) health; (8) urban development; and (9) housing. Other sectors may be covered subject to EIB's prior clearance. The loan under the facility can be used by the end-borrowers for capital asset acquisition, working capital and the conduct of feasibility studies/technical assistance. Terms and Conditions: (1) Funds can be relent either in euro, yen, USD and PhP; (2) interest rate would be market-based accounting (a) the EIB's cost of funds; (b) guarantee fee, (c) DBP spread and (d) foreign exchange risk cover fee; (3) Loan range would be between Euro 400,000 --10 Million	Nationwide	2004-2014	Euro 25 Million

PROJECT TITLE	IMP. AGENCY/ DONOR	BRIEF DESCRIPTION	TARGET REGIONS/ LGUs	DURATION	COST (PhPM)
Credit Facility for the Environmental Management Project	DBP	The proposed facility will support on-going initiatives of government that promote environmental consciousness as well as the implementation of environmental protection and management programs. It will basically fund the following environmental undertakings: (a) establishment of environmental management systems; (b) acquisition of cleaner production technologies; (c) self-monitoring program; (d) energy savings program; and (e) environmental protection and rehabilitation. Terms and Conditions: (1) Pass-on interest rate will be 6-6.5 % per annum exclusive of the gross receipt tax; (2) Commitment fee of 0.25% on undisbursed amount of approved sub-loan; (3) one-time Swedish Export Credits Guarantee Board Premium fee of 6.0% (max) on approved sub-loan; (4) one-time management fee of 0.35% (max) on approved sub-loan; (5) administration fee of 0.2% (max) per annum	Nationwide	3 years	US$10 Million
Philippines-Australia Community Assistance Program (PACAP)	Australian Agency for International Cooperation (AusAid)	The program aims to support community-initiated sustainable poverty alleviation programs and activities; and to assist capability-building initiatives of the non-profit sector (primarily NGO's and POs) as well as the LGUs to provide services that meet community-initiated needs.	Agusan del Sur, Bohol, Misamis Occidental,, Northern Samar, and Surigao del Norte	2004-2009	A$ 28.24 M
Small Projects Scheme (SPS)	New Zealand Agency for International Development	SPS projects should have direct relevance to NZAID's country programme thematic objectives as follows: a) natural resource management; b.) activities concerning indigenous peoples including Muslim minority; and c.) activities which seek to enhance the quality and sustainability of governance. Eligible Philippines agencies are CBOs and other community groups, NGOs, POs, LGUs provincial and national government agencies, religious and trade unions. Also eligible are the Philippine offices/affiliates of multilateral agencies or international NGOs.	CAR, Region VII specifically Bohol Province and Region VIII in Visayas, and Region X, XII, ARMM and Caraga in Mindanao.	Started in 2004	NZ$ 300,000 per FY

PROJECT TITLE	IMP. AGENCY/ DONOR	BRIEF DESCRIPTION	TARGET REGIONS/ LGUs	DURATION	COST (PhPM)
EC's Asia Invest Programme 2	Delegation of European Commission to the Philippines	The Asia-Invest II Programme is an initiative by the European Commission to promote and support business cooperation between the EU and Asia. The Programme provides assistance to intermediary business organizations to facilitate mutually beneficial partnerships between companies, in particular small and medium-sized enterprises (SMEs), in the EU and South and South-East Asia and China; as well as to strengthen the business environment to increase trade and investment flows between the two regions. Promoting integration of Asian countries into the Information Society is now one of the objectives under Asia-Invest II. Promoting the involvement of organizations from less developed countries and regions is an ongoing priority. Asia-Invest II supports projects across all sectors and areas of industry, as long as the proposed activities clearly address the needs of the target groups (i.e. SMEs, business organizations, the EU-Asia network). Components: 1. Asia Venture (matchmaking) 2. Asia Enterprise (matchmaking) 3. Asia Invest Technical Assistance (Asian Private Sector Development) 4. Asia Alliance (Institutional Reinforcement)	Eligible applicants: (non-profit making entity) 1. Chambers of Commerce 2. Government agencies 3. Sector- specific trade, industrial and professional associations 4. Employers' Federation 5. LGUs 6. NGOs 7. universities Such entities would have to form partnership with a minimum of 2 European organizations to avail of the grants under the 4 components	2005-2007	
Japan Fund for Poverty Reduction (JFPR)	ADB	Supports small investment projects aimed directly at poverty reduction with a conceptual link to ADB financed loan projects. The JFPR gives priority to innovative activities that demonstrate ADB's effort in fighting poverty. Main areas of assistance are: -Basic economic and social services, such as community-level water supply and sanitation, small clinics, local product market facilities, skills training centers, and microfinance. -Social development fund activities -NGO activities for poverty reduction and social development -Capacity building and community development activities for sustainable and direct poverty reduction.	1) All developing member countries are eligible for JFPR funding 2) Recipients are central and local governments or NGOs implementing poverty reduction activities		

Notes:

1) Visit www.neda.gov.ph/opm for an on-line listing of ongoing projects/facilities.
2) LGUS who are considering to avail or take part in the project are advised to coordinate directly with the concerned implementing agency, contact numbers of which are indicated above.

Source: PIS, NEDA

case studies

CALATAGAN, BATANGAS

Floating Bonds to Finance a New Public Market[1]

Case Study 1

This case illustrates how what used to be fifth-class municipality can dream big, plan realistically, and cooperatively work together to realize in a step-by-step manner their grand dream, and be recognized by the credit market as good market risk.

A Dream for So Long

The construction of a new public market in Calatagan, Batangas had long been the desire of its residents. Since the early 1990s, people had clamored for a new public market, but the local government of Calatagan was in no financial position to support the project. As a fifth-class municipality then, it was largely dependent on its Internal Revenue Allotment (IRA) and such a major project could not easily be funded without compromising other basic services of the local government.

The old public market then stood on a 1,508-square meter lot located along the poblacion road. It had only one entrance and that was on the side fronting the church. This side also served as the parking and terminal area for tricycles and other vehicles. The parish priest frequently complained about the noise coming from the public market especially during market days as it disturbed the masses held in the church. During market days the whole length of the street fronting the market was closed to traffic to accommodate ambulant *tiangge* vendors.

The old public market lacked good drainage. The stalls were mostly dilapidated with only two aisles as passageways. Many residents did not enter the dirty market, preferring to buy from the ambulant vendors located at the market entrance. This resulted in more vendors taking up places at the entrance to get first access to the customers, blocking the entrance to the market stalls entirely. Subsequently, the market stalls were left unoccupied while the entrance was filled with vendors and customers alike with tricycles adding up to the congestion.

The Rugged Road to Project Realization

The construction of a new public market was also a dream of Mayor Peter Oliver Palacio who, during his first year of tenure in 1998, contemplated of ways to finance the project. He knew that a good public market would promote intensified economic activities and increased local income on the part of the residents as well as local government. He was however faced with financial and legal constraints. Calatagan had a budget of only around Php26 million.

His initial plan was to improve the old public market by constructing a two-storey facility to decongest the area. However, it was later found that the site was still legally owned by Zobel clan; the property had not yet been donated to the municipal government. The municipality initiated to process the Deed of Donation but the Zobel family wanted to donate the property on the condition that it would not be used for commercial purposes. This represented a conflict in the land use of the property.

This did not stop the young Mayor Palacio. He gathered the local legislative council, Sangguniang Bayan, and all the municipal employees. He appealed to them to help him tighten their budget in order to save funds required to buy a lot for the proposed new public market.

Before the year ended, the municipality had acquired about 1.5 hectares of land in a swampy area amounting to Php1.5 million. The lot was originally priced at Php1,500 per square meter but Mayor Palacio convinced the lot owner to sell it at Php100/sq.m. The owner was convinced that his adjoining land parcels would benefit from increased market values when the new market was established.

After land acquisition, next on Mayor Palacio's agenda for action was the preparation of the market site through filling and compaction. However, the municipality still did not have enough money to pay for the filling materials. The mayor then ordered the Engineering Department to quarry his own land and dump it on the market site free of charge. It took three years to prepare the project site to allow for sufficient time for the fill materials to consolidate and harden.

Eeny Meeny Miny Mo: Which Funding Way to Go?

While the acquired lot was being prepared, the mayor started to look for financing windows to support the construction of the new public market. He knew that given their meager income, sourcing from their local funds was nearly impossible. He explored various modes of financing available at that time.

One option was drawing on their congressman's Countrywide Development Fund (CDF). However, the pledged amount from the CDF was insufficient for the proposed project. Congressmen generally preferred to distribute large amounts of their CDF to several municipalities rather than allocate large funds to only one municipal stakeholder.

Another option of the municipal government was to venture into a Bond-Operate-Transfer (BOT) scheme. However, Mayor Palacio did not deem it beneficial to the municipal government as it would have to wait 25 years to take over the market structure and operations. After this time, the market structure would have deteriorated and with it would follow dwindling revenues.

Three commercial banks offered loans for the construction of the public market. Offers came from the Land Bank of the Philippines, the Development Bank of the Philippines, and the Philippine National Bank. However, the interest rates offered by these banks were relatively high for the municipality's financing capacity not to mention other bank fees and charges.

One financing window that attracted the municipal government was the grant offering of LOGOFIND. Under this scheme, at least 20% equity was charged to the local government with the balance considered a grant. However, even before the local government had the chance to seriously pursue this option, it lost access to LOGOFIND, not knowing whom to contact and how to access the funding window.

At this point, Mayor Palacio felt the municipality was left with no other options, and the new public market would remain a dream. Fortunately, a bank employee brought up the concept of bond flotation as a way of mobilizing financial resources. Heartened, the mayor proceeded to learn more about bond flotation.

In 2001, Mayor Palacio met with the Local Finance Committee and the Sangguniang Bayan and discussed with them the potential funding of the construction of the proposed public market through bond flotation.

They agreed that bond flotation offered more advantages compared to other lending modes. As the municipal government is the issuer of the bonds, it can set the terms and conditions which are acceptable to it as issuer/debtor as well as to investors or buyers of the bonds. The interest rate for the bonds can be set lower than the rates offered by the commercial banks and yet attractive enough for the buyers of the bonds. It can also set other terms and conditions, such as maturity period and mode of paying interest and principal, as well as other terms and conditions of the bonds with the help of a financial advisor.

Finally, the dream was now about to become a reality.

Transforming the Dream into an Investment program

The construction of the new public market had earlier gone through a project prioritization process conducted annually by the Municipal Development Council (MDC) and the Local Finance Committee (LFC).

The project prioritization process normally starts with the preparation of a "shopping list" of projects submitted by every Sangguniang Barangay and key department heads of the municipal government every first month of the year.

During that period, the LFC submits a financial status report to the MDC and the mayor while they it goes through the shopping list.

The MDC next prepares an initial list of eligible identified projects after eliminating non-rational projects from the shopping list.

The MDC and the LFC then meet to conduct the prioritization process with the mayor acting as the chairman. This process usually occurs at the middle of the year and before the annual budget preparation starts.

The next table shows the activities, outputs, personnel and departments involved, and schedule of the investment programming process.

Activity	Output	Responsible Persons	Period
1. Submission of List of Proposed Projects	"Shopping list" of all proposed projects	All department heads, and all Sangguniang Barangays	January to June
2. Review of last year's fiscal status	Fiscal Status Report stating budget surplus/deficit	Budget Officer, Treasurer, Accountant	January
3. Project identification	List of identified projects	Mayor, MPDC, Administrator	June to July
4. Project prioritization	List of priority projects	Local Development Council: - Mayor - All department heads - Sangguniang Bayan Member, Chair, Committee on Appropriation - All Barangay Chairmen - NGO representatives - Congressional representative	August
5. Preparation of Annual Investment program	Draft Annual Investment program	MDC Secretariat: - MPDC, Administrator	August

6. Approval of Annual Investment program and endorsement to Sangguniang Bayan for Approval	a) Approved Annual Investment program b) Resolution endorsing the approved Annual Investment program for ratification by Sangguniang Bayan	Local Development Council: - Mayor - All department heads - Sangguniang Bayan Member, Chair, Committee on Appropriation - All Barangay Chairmen - NGO representatives - Congressional representative	September
7. Ratification of Annual Investment program	Resolution approving/ ratifying the Annual Investment program	Sangguniang Bayan	September
8. Preparation of Annual Budget	Draft Annual Budget	Local Finance Committee	September
9. Approval of Annual Budget	a) Approved Annual Budge b) Resolution adopting the Approved Annual Budget	- Local Finance Committee - Sangguniang Bayan	October

Projects are prioritized based on the following criteria set by the LFC and MDC:

- Number of beneficiaries -- includes the direct and indirect beneficiaries of the project in terms of household beneficiaries and number of barangays.

- Eminent danger posed if the project would not be implemented -- refers to crucial projects identified for the protection of the constituents and the environment (e.g., flood control).
- Issuances from the National Government -- covers special proclamations and declaration of the National Government such as the poverty alleviation program.

The improvement of the old public market had been included in the 1996 Annual Investment Program and allocated Php1.5 million. However, as the problem with lot donation arose, the previously identified improvement of public market project was changed to the construction of a new market public project with a budget of Php30 million.

Thus, as the municipal government searched for funds to finance the public market project, the Construction of New Calatagan Public Market Project appeared in its Annual Investment program every year from 1996 until its eventual funding in 2003.

Why did it become the priority project? Mayor Palacio replied, "It was simply the priority need of our municipality. The public market is the economic soul[b] of a municipality, particularly a small town like ours. Economic and trading activities radiate from the public market. Moreover, it is the responsibility of the local government to provide its constituents a good quality public market."

Marshalling Political Will

In October 2001, the municipal government hired a financial advisor who assisted them in coming up with all of the requirements for bond flotation. These requirements included the following steps:

- The Sangguniang Bayan passed a resolution approving the construction of public market as a priority project to be financed through bond flotation (October 8, 2001).

- The Sangguniang Bayan passed an ordinance authorizing the bond flotation of the municipal government of Calatagan in an amount not exceeding Php40 million to fund the construction and development of the New Calatagan Public Market (February 4, 2002).

- The Local Public Bidding and Awards Committee (PBAC) conducted the Pre-Qualification to Bid; three contractors were qualified (May 2002). The Terms of Reference (TOR) were issued on August 19-21, 2002, followed by a pre-bid conference and submission of bids.

- The municipal government of Calatagan through the PBAC awarded the project to Gulf Builders and Development Corporation (October 28, 2002).

- The Sangguniang Bayan passed a resolution confirming the approval of the final feasibility study of the New Calatagan Public Market to be funded under the bond flotation program of the Municipality of Calatagan (January 21, 2003).

It was already 2003 and the municipal government was still waiting for the opinion of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). Section 123 Article III of RA 7653 (BSP Charter) states that "the Government or any of its political subdivisions or instrumentalities, contemplates borrowing within the Philippines, the prior opinion of the Monetary Board shall be requested in order that the Board may render an opinion on the probable effects of the proposed operation on monetary aggregates, the price level, and the balance of payments."

Mayor Palacio knew he had to do something. It was already his second term in office and he had already pledged to his constituents that the new public market project would soon be implemented.

It was later found out that the Monetary Board questioned the parliamentary procedures of the Municipal Council of Calatagan, specifically the format of approved resolutions. According to the Board, the signatures of the councilors should have been affixed to the approved resolutions and not only the signatures of the mayor, the vice-mayor (the presiding officer) and the Sangguniang Bayan secretary.

This prompted Mayor Palacio to seek a meeting with the Monetary Board. He pointed out during the meeting that the local government followed a legislative process mandated by the Local Government Code. He then asked the Board to focus on what they were supposed to do: evaluate the probable effects of the proposed Calatagan Municipal Bonds on the monetary aggregates, the price level, and the balance of payments and not to question the parliamentary procedures existing under the law.

The Monetary Board's opinion was finally released in April 2003. Soon, other ordinances and resolutions effecting the bond flotation followed:

- A resolution confirming and ratifying the agreement for the planning, design, construction and development of the New Calatagan Public Market project located along Poblacion IV, Municipality of Calatagan, Province of Batangas (July 2, 2003).

- A resolution confirming and ratifying the Terms and Conditions of the Trust Indenture, Deed of Assignment of Deposit of Internal Revenue Allotment (IRA) and Underwriting Agreement executed by the municipal mayor to implement projects to be financed through bond flotation (July 2, 2003).

- A resolution authorizing the transfer of Internal Revenue Allotment (IRA) of the Municipal Government of Calatagan from the Land Bank of the Philippines to the Philippine Veterans Bank (July 2, 2003).

- An ordinance mandating strict compliance with the Terms and Conditions of the Bonds, Trust Agreement, and other pertinent documents (July 2, 2003).

An End to the Long Wait

On July 24, 2003, the Php30 Million Calatagan Municipal Bonds were finally issued by the Municipal Government of Calatagan to finance the design, construction and site development of the New Calatagan Public Market Project. The terms and conditions of the Calatagan Municipal Bonds are shown in the next table.

Name of Bonds	Calatagan Municipal Bonds
Amount of Bond Flotation	Php30,000,000
Offering Price	100% of the face value
Term/Period	Seven (7) years
Denomination	Php1,000,000
Medium of Sale	Private placement
Interest Rate	Prevailing weighted average 182-day T-Bill rate plus spread of 3% per annum
Schedule of Interest Payment	Payable semi-annually in arrears on January 24 and July 24 in each year commencing on January 24, 2004 and ending on July 24, 2010
Schedule of Principal Payment	Payable semi-annually in amortization January 24 and July 24 in each year commencing on July 24, 2005 and ending on July 24, 2010
Name of Trustee Bank	Philippine Veterans Bank – Trust and Investments Division
Name of Underwriter	United Coconut Planters Bank
Name of Guarantor	Philippine Veterans Bank
Financial Advisor	Preferred Ventures Corporation
Trustee Fee	Php12,500 per month
Guarantee Fee, Underwriting Fee, and Financial Advisory Fee	One time fee of Php900,000
Collateral Guarantee	Project revenue, project improvement and facilities and assignment of deposit of IRA
Name of Winning Contractor	Gulf Builders and Development Corporation
Total Contract Price	Php30,000,000

The bonds have a two-year grace period on principal payment and the following amortization schedule:

Date of Amortization of Principal Payment	Amount (Php)
July 24, 2005	1,000,000
January 24, 2006	1,000,000
July 24, 2006	2,000,000
January 24, 2007	2,500,000
July 24, 2007	2,500,000
January 24, 2008	3,000,000

July 24, 2008	3,000,000
January 24, 2009	3,000,000
July 24, 2009	4,000,000
January 24, 2010	4,000,000
July 24, 2010	4,000,000
Total Principal Payment	**30,000,000**

The ordinance which sets out the terms of the bonds stated that the Calatagan Municipal Bonds would be sold through public offering, private placements, and direct payment to suppliers, contractors or project developers/proponents of the new public market. However, the bonds were already fully subscribed through private placement when the Philippine Veterans Bank-Trust and Investment Department bought the thirty shares of Php1-million denominated bonds, or a total of Php30 million.

The underwriting, guarantee, and financial advisory fees were paid as a package amounting to Php900,000 while the trustee fee amounted to Php12,500 monthly. Collateral included the proceeds from the revenues of the public market, project improvement and facilities, and the assignment of deposit of Internal Revenue Allotment.

The contractor was paid in cash in the amount of Php30 million, paid according to accomplishment milestones, to cover the following activities: geotechnical investigation, soil boring, survey works, planning and design, and construction in accordance with the Terms of Reference of the project.

Mayor Palacio cut into half the stall rental rates proposed in the feasibility study of the new public market even if he knew that the stallholders were capable of paying the proposed new monthly rental rates. Aside from stall rents, revenues would also come from the lease rights and parking fees from van and bus terminals.

He felt that for a small municipality like Calatagan, it was the local government's duty to support the operations of the public market. The municipal government would subsidize the initial principal and interest payments of the bonds, with project revenues going straight to the trust fund to pay for subsequent principal and interest payments.

The existing rates for market stall rent and lease rights are shown below:

Type of Stall	Rent/Sq.M. (Php/Sq.M.)	Area (Sq.M.)	Monthly Rental Fee (Php)	Lease Rights (Php)
Food Stall	150	10	1,500	60,000
Dry Stall	150	7.5	1,125	45,000
Wet Stall	150	3	450	18,000

Since its operation in 2004, revenues from the operations of the new market increased substantially as shown below:

Year	Income (Php)
2000	300,113.38
2001	298,954.79
2002	334,539.44
2003	307,891.00
2004	5,910,073.00
2005 (as of August)	800,000.00

The revenues as of August 2005 already amounted to Php800,000 as compared to the2003 revenue figure of Php307,891. The large income of Php5.9 million realized in 2004 was due to the payment of lease rights of market stalls.

The Calatagan Municipal Government prepared itself financially for the bond flotation. The LFC appropriated part of the local funds for principal and interest payments, amounting to Php4.5 million annually for the period 2005 to 2007 and Php5.5 million annually from 2008 to 2010.

Fiscal measures were implemented to raise the annual amount of Php4.5 million from 2005 to 2007. The Php2 million appropriation was sourced from Barangay Priority Development Projects of the 20% Economic Development Fund. The Sangguniang Barangay pledged its support to the program by allocating part of its funds for the new public market. The balance of Php2.5 million was taken from the General Fund.

Mayor Palacio also asked municipal employees to sacrifice a little to support their public market. Only important travels were allowed and only a few personnel were sent to participate in trainings and seminars. The local government also reduced its budget for capital outlays. Cost-saving measures were implemented such as a reduction in electricity consumption (air-conditioning was to be turned on and off at specific times) and the recycling of office supplies. There was no filling-up of vacant positions; existing personnel became multi-service-oriented.

Before the construction, Mayor Palacio did some modifications on the structure design. He reduced the number of fish and meat stalls into half and added in their place grocery stalls and eateries. The construction proceeded with Mayor Palacio overseeing the progress almost everyday. A day before the turnover and inauguration of the project, he did a final check of every detail of the construction from building structure and finishing to stall tiles, electric wiring, water supply, and comfort room facilities.

The "Economic Soul" Rises

On June 28, 2004, the New Calatagan Public Market was inaugurated by the entire municipal government and the people of Calatagan. On that same day, all tenants from the old public market immediately transferred and occupied the new stalls. The old public market was ceremonially demolished by the mayor and the tenants on the same day. The new market has since become a source of pride for Mayor Palacio and the Calatagan residents.

New Calatagan Public Market

The New Calatagan Public Market is situated in an approximately 1.5-hectare lot near a village and a private school. The market is composed of two building structures that accommodate the following: fish section, meat section, fruits and vegetable section, food and groceries section, eateries, dry goods section, toilets, and administrative office. All sections/stalls inside the building are accessible from the entrance by major passageways. Mayor Palacio ensured that all tenants are accessible by customers through all major entrances to avoid the crowding up of stall owners in front of the building. Ample parking spaces are available around the building, which includes a parking terminal for vans and buses plying the Calatagan-Manila route.

The market complex also provides the following facilities: parking spaces, loading and unloading area, pedestrian and cargo, garbage disposal area, overhead water tank, pump

Port area of Calatagan, which is currently being developed as a Ro-Ro Port

room, and electrical room. A Tourism and Police Information Center is on the left of the entrance of the complex. An open space in the middle of the complex is used as a trading area for ambulant vendors during Mondays, which are the designated market days.
New developments are already visible in lots adjacent to the new public market. There are ongoing constructions of residential buildings as well as a gasoline station. Adjacent lots are now being sold at Php3,500 per square meter.

The municipal government created the Economic Enterprise Office under the Office of the Mayor, transferring market administration and management functions from the Treasurer's Office. The new market is run by three personnel: the current Market Supervisor used to be a Revenue Collection Officer while the two Market Collectors were previously Market Collectors from the Treasurer's Office. They hold office at the administrative section of the new public market.

Mayor Palacio also organized a Market Vendors' Association and helped it become a Market Vendors' Cooperative. The municipal government gave them an initial financial support of Php100,000 as capital assistance.

As the town's "economic soul", the new public market was an important contribution to the revitalization of Calatagan's economy.

Anchor projects that help **transform** LGUs generally start from a "shared vision" of the constituents and the LGU leadership

As to September 2005, there were 149 stalls occupying 80% of the total wet and dry sections of the new public market, where about half are new stall holders. The remaining stall holders had already paid for lease rights but had not started business as they were waiting for the completion of the new roll on-roll off (Ro-Ro) port which was expected before end-2005. The emergence of new stall holders emphasizes the upbeat mood in the new public market in anticipation of increased trading revenues from the opening of the new Calatagan port.

Mayor Palacio requested the Philippine Ports Authority (PPA) for possible funding and construction of the Ro-Ro port. Prior to the construction of the new public market, the mayor was already considering the complementation between the port and the public market in terms of trading and other economic opportunities. The port would serve as the transshipment point of products coming from Lubang Island and Mindoro Occidental. The Calatagan Port would also be the entry point for passengers coming from these islands en route to Metro Manila.

The provision of infrastructure support to the new public market was next on Mayor Palacio's agenda. One of the disadvantages cited by stall holders was the decrease in the number of customers compared to their old market which was located right in the center of poblacion. The site of the new public market was far from their urban core. Consumers had to take a special tricycle trip (which costs more than the regular trip) since the market site was not included in the common route of tricycles.

The municipal government subsequently constructed a diversion road that connected the new public market to other major streets in the poblacion including a medical hospital and private high school. The construction of the diversion road was financed by the municipal local funds amounting to Php2.8 million. An ordinance diverted traffic flow to the new market, making it more accessible to the consumers.

A plan was put in place to develop the open area in the market currently occupied by ambulant vendors during market days for an integrated transport terminal for all type of vehicles plying different routes within and from Calatagan.

Another proposed project that was expected to increase market trading is the expansion of Calatagan Municipal High School planned for 2006.

"Hard" projects should be supported by "soft" development programs/ projects

Mayor Palacio negotiated with a telecommunications company for the installation of a land line system in Calatagan before end-2005. A commercial bank confirmed their commitment to open a branch in Calatagan as soon as the landline system would be installed. Their offices were most likely to be located near the new public market.

Moving On

As of September 2005, the Municipality of Calatagan had already made four interest payments with the actual prevailing rates of 9.356% during their first payment, 10.832%, 12.25% and 12.3308% for their second, third and fourth payments, respectively. These were based on the prevailing average of 182-day T-Bill rates plus a spread of 3%. It also made its first principal payment amounting to Php1-million.

The Calatagan Municipal Bonds have a remaining life of five years. The municipal government plans to stick to the set payment schedule until it deems it beneficial to retire the bonds earlier. Currently, the revenues of the new public market are insufficient to pay the remaining debts of the municipality and the total operational budget will suffer if it utilizes local funds to retire the bonds earlier.

Lessons Learned

Well-planned LGU development project packages attract financing sources.

Some of these lessons were learned by the LGU in hindsight, and not in a deliberate, well-planned manner. However, it is worthwhile looking at the positive aspects of what they achieved even in a "zigzagging" trial and error manner. Such lessons could be worth the consideration of other LGUs to help avoid future costly "history-repeating-itself" patterns.

- Anchor projects that help transform LGUs generally start from a "shared vision" of the constituents and the LGU leadership.
- Visions have, however, to be transformed to concrete project proposals via a procedurally proper and transparent investment programming process. A transparent set of project planning procedures ensure social and political support, particularly for such sensitive issues as LGU borrowings and partial subsidies for projects.
- Projects have to be planned as part of an overall package, in this case, a public market combined with:
    - Infrastructure support like a diversion road and related connecting roads; and
    - Complementary development projects to increase market patronage like a Ro-Ro transshipment port, an integrated transport terminal located in the market area,

the planned expansion of the Municipal High School to accommodate students who cannot be accommodated in the existing facility of the school; the annex building will be built beside the new market.

- "Hard" projects should be supported by "soft" development programs/projects and measures like an ordinance rerouting traffic, an ordinance controlling ambulant vendor activity, and business development campaigns to attract investors to the municipality.

- Well-planned LGU development project packages attract financing sources.
    - It is easier for an LGU Chief Executive to ask LGU officials for "belt tightening" measures to help put up an anchor project for the LGU.
    - Projects that help promote economic development can be partly financed through land readjustment (sharing). In this particular case, the private landowner of the project site agreed to be paid at less than 10% of his asking price (Php100 per sq.m. as against his asking commercial price of Php1,500) because he calculated that the potential increase in the value of his remaining adjoining property to be brought about by the project -- the road infrastructure and the heightened economic activity to be induced by the new market -- would be more than enough to compensate his opportunity losses in selling the project site to the LGU at a vastly reduced price.
    - A small LGU can leverage its meager internal resources and responsibly access the credit market and even freely and properly choose the appropriate project financing instrument -- in this case, municipal bonds -- with a well-planned project.
    - National government funding support in the form of Philippine Ports Authority (PPA) funding commitment for the Ro-Ro was easier to secure when they saw that it was part of a planned development project package that the LGU was willing to bet on.
    - Private sector business commitments like the setting up of a telephone landline by the end of 2005 and location of a bank branch in the public market were attracted primarily by the LGU's well-planned development moves.

ENDNOTES

[1] This case was written by Norman R. Ramos with the research assistance of Fresita Araneta and Leilani Bautista. This material was prepared for the Strengthening Provincial and Local Planning and Expenditure Management Project implemented by the National Economic and Development Authority (NEDA) with funding assistance by the Asian Development Bank (ADB).

[2] The term is a translation of a Tagalog phrase used by the Mayor to describe the key role of the market in the socio-economic life of Calatagan.

CAGAYAN TOWN CENTER

Economic Enterprise as a Lever for Moving the Province[1]

Case Study 2

This case illustrates how a province can take advantage of a strategically-located idle property within a component city, and commercially redevelop it, making it a lever to help move the province.

Capitalizing on Strategic Advantages: Location, Location, Location

The province of Cagayan is considered the seat of government in Region 2 with most of the regional offices of national government departments located in the province. Taking this into account, the province has a great potential to lead the region in terms of development particularly in commerce, education, and various services. According to the Department of Trade and Industry, Cagayan has the highest number of registered establishments for retail, wholesale, manufacturing, processing, and services within the region.

The City of Tuguegarao is the provincial capital and the regional administrative center for Region 2. Being the regional center, almost all national government agencies established their regional offices in Tuguegarao, bringing to Tuguegarao varied government services and facilities. It officially became a city on January 18, 2000.

Tuguegarao City is the main economic activity center for the province.

- The overall business density ratio of Tuguegarao City is nearly 2.43 times that of the provincial average and 1.53 times that of the next most important center -- Aparri.
- In terms of wholesale and retail trade, the business density ratio of Tuguegarao City is 3.35 times that of the provincial average and 1.40 times that of Aparri.

- In terms of services, the business density ratio of Tuguegarao City is 3.45 times that of the provincial average and 1.65 times that of Aparri.

The Cagayan Town Center had already been explored as a project as early as the late 1980s when discussions arose on the possible uses of this provincial property. The provincial government observed that there was a high demand for a commercial complex in Tuguegarao. It saw an opportunity to capture the expenditure leakages of the residents, who travel to as far south as Ilagan and Santiago (both in Isabela) for goods and services, through the establishment of its own commercial complex.

Investment Programming Process: Choosing What and When

The dream town center project started to materialize when it was formally included as a priority project in the 1999-2005 Capital Investment Program since it was proposed in the province's Provincial Development Plan (PDP). The project was eventually proposed in the Annual Investment program for 2000. The project underwent a process of project screening conducted by the Local Finance Committee (LFC).

The LFC composed of the Provincial Planning and Development Coordinator (PPDC), the Provincial Treasurer, the Provincial Budget Officer, and the Provincial Accountant, meets quarterly to draw up the CIP. All projects to be funded have to be recommended by the LFC for it to be forwarded to the Sangguniang Panlalawigan for funding consideration. This policy was imposed by the incumbent Governor Edgar Ramones Lara to ensure that each project was being carefully studied by the LFC. The LFC was also assigned to defend the projects before the Council.

Governor Lara's administration gave priority to infrastructure projects for the province, such as the construction of provincial roads and other infrastructure utilities which would improve access of rural areas to urban services as well as commercial center which would provide a venue for the promotion and marketing of Cagayan's major industry sector.

Other projects included in the provincial development plan were social service-related programs which included those that supported the major development agenda of the national government such as poverty alleviation programs.

The Proposed New Cagayan Town Center: A Candle Waiting to Be Lit

The New Cagayan Town Center aimed to capitalize on Tuguegarao's strategic advantages.

A government-owned property which housed the old and unused provincial hospital building located in the heart of Tuguegarao City's Central Business District (CBD) became the site of the proposed new civic center and commercial complex. The site was centrally located within the CBD just fronting St. Peter's Cathedral, and within walking distance from most of the schools and offices.

The New Cagayan Town Center Project was envisioned to have a trade hall which would serve as the venue for the promotion and marketing of the province's agro-industrial sectors. The agro-industrial sector had developed various industries, i.e., wood furniture, gifts, toys and housewares, ceramics and dried flowers, food processing, metal works, and bamboo crafts.

The project would also complement the Kabuhayan 2000 Program of the province which focused on production of rattan products, fossilized flower products, and processed food products (dried mango and mango juice).

Finally, the town center would also cater to the space needs of the growing number of business establishments in the province and at the same time generate additional revenue for the Province.

Financing Options: Cop Out by Waiting for Manna from Congress and Blame an Unsupportive BOT Bureaucracy, or Be Creative and Actively Seek Sources

The province considered several options in financing the town center project: a) commercial bank loan; b) build-operate-transfer (BOT); c) congressional funds; and d) bond flotation.

The province dismissed the idea of bank loan since it had already contracted a construction equipment loan of Php138 million from the Philippine Postal Savings Bank in 2002. The loan had a maturity period of seven years, with full repayment of the loan in expected in 2009.

The province also did not consider the BOT mode which it felt was a bureaucratic, time-consuming process with numerous requirements.

Congressional funds meanwhile had already been pledged to other projects.

Bond flotation, it felt, offered another source of financing that allowed the government a relatively cheaper source of financing and at the same time allowed the province to encourage more private investors to participate in the project.

Leveraging the IRA through an LGU Bond Float: Using a Long Lever to Move the Project Along

As of 2002, Cagayan Province had total annual revenues amounting to Php825.8 million. However, only 7.24% came from locally sourced funds, 88.05% was contributed by the IRA, and only 4.71% came from other income sources of the province. For locally sourced funds, 37.7% came from economic enterprises and 37.03 % from real property taxes.

The Bureau of Local Government Finance (BLGF) certified that Cagayan had a Php500 million debt capacity.

Given the strategic and revenue value of the proposed project, the provincial government decided to leverage its IRA-dependent income by floating a 7-year Php205 million bond to finance the New Cagayan Town Center Project.

The final project finance mix is as follows:

Total project cost	: Php213.8 Million
Bond float proceeds	: Php205.0 Million
Provincial government equity	: Php8.8 Million

The provincial bond float was legally backed by the following provincial resolutions:

- November 5, 2001: A resolution authorizing the Provincial Governor to engage the services of a Financial Advisor.

- February 15, 2002: A resolution authorizing Gov. Edgar Ramones Lara to negotiate, sign and enter into contracts and agreements pertinent to the flotation of bonds of the Provincial Government of Cagayan in an amount not to exceed Php500 million for the construction and improvement of priority projects, subject to the approval or prior assent of the Sangguniang Panlalawigan.

- May 20, 2002: An ordinance authorizing the bond flotation of the Provincial Government of Cagayan in an amount not to exceed Php500 million to fund the construction and development of a town center and other priority projects.

- October 20, 2003: A resolution ratifying the Cagayan Provincial bond agreements, including construction agreements for the planning, design, construction and site development of the proposed Cagayan Town Center.

Project Realization: Lighted Candle in the Tunnel of Underdevelopment

On October 30, 2003, the Php 205 Million Cagayan Provincial Bonds were finally issued by the Provincial Government of Cagayan to finance the planning, design, construction and site development of the Cagayan Town Center Project.

The terms and conditions of the Cagayan Provincial Bonds are shown in the next table.

Name of Bonds	Cagayan Provincial Bonds
Amount of Bond Flotation	Php205,000,000
Offering Price	100% of the face value
Term/Period	Seven years
Denomination	Php1,000,000
Medium of Sale	Private placement
Interest Rate	Prevailing weighted average 182-day T-Bill rate plus spread of 3% per annum
Schedule of Interest Payment	Payable semi-annually in arrears on October 30 and April 30 in each year commencing on October 30, 2003 and ending on October 30, 2010
Schedule of Principal Payment	Payable semi-annually in amortization on April 30 and October 30 in each year commencing on October 30, 2005 and ending on October 30, 2010
Name of Trustee Bank	Rizal Commercial Banking Corporation (RCBC) - Trust and Investments Division
Name of Underwriter	RCBC Capital Corporation
Name of Guarantor	Malayan Insurance Company, Inc.
Financial Advisor	Preferred Ventures Corporation
Underwriting Fee	One time fee of 1.5% of the gross underwritten amount plus 10% VAT (Php3,382,500)
Guarantee Fee	One time fee of Php7,350,000
Financial Advisory Fee	One time fee of 3% of the amount of bonds floated (Php6,150,000)
Collateral Guarantee	Internal Revenue Allotment, proceeds from the project's revenues and the project itself
Name of Winning Contractor	Asset Builders Corporation
Total Contract Price	Php213,800,000
Equity of the Provincial Government	Php8,800,000

The bonds have a two-year grace period on principal payment and the following amortization schedule:

Date of Amortization of Principal Payment	Amount (Php)
October 30, 2005	15,000,000
April 30, 2006	15,000,000
October 30, 2006	15,000,000
April 30, 2007	20,000,000
October 30, 2007	20,000,000

Date of Amortization of Principal Payment	Amount (Php)
April 30, 2008	20,000,000
October 30, 2008	20,000,000
April 30, 2009	20,000,000
October 30, 2009	20,000,000
April 30, 2010	20,000,000
October 30, 2010	20,000,000
Total Principal Payment	205,000,000

Asset Builders Corporation, the winning bidder, mobilized for work in September 2003. Despite the delays incurred in securing the required environmental clearance certificate, the structure was almost complete as of September 2005, ahead of the target schedule.

Its ground floor was being readied for a soft opening before the end of 2005 in time for the Christmas season and the entire building for full- blast operations by January 2006.

Both residents and visitors now admire the Cagayan Town Center, a dream turned into reality.

The New Cagayan Town Center

Preparations for Project Operations: Keeping the Candle Alight

To operate and manage the new Cagayan Town Center along with the other provincial economic enterprises, an Economic Enterprise Office was created by the provincial government.

The newly created Economic Enterprise Office manages the operation of the following provincial income-generating projects:

- Fingerlings production
- Heavy equipment rental
- New Cagayan Town Center

The office hired a private marketing arm for the promotion of the town center. This marketing arm also handles the screening of interested lessees of the town center's commercial spaces which includes banks (ATM machines), groceries, and boutique owners.

The provincial government will contract out the maintenance of the building including janitorial and security services.

Future Directions: Moving from Candle to Incandescent Bulb

Given the potential income from the project, the provincial government is considering the option of retiring the bonds earlier than 2010. This is to finance a convention center project through bond flotation again. Sixty hectares of land had been donated to the provincial government and 1.5 hectares of this was allocated for the proposed project.

Another option now being considered by the provincial government is the construction of a government complex with a convention center. Being the institutional center of the region, Cagayan is home to all regional offices of various national agencies. However, these agencies are renting office spaces for as much as Php150,000 per month.

The Department of Public Works and Highways (DPWH) Regional Director suggested that the provincial government develop a government center since the province has the capacity to finance this development compared to all other national agencies. The DPWH offered to prepare a development plan for

LGUs should not waste their "IRA boon", but instead leverage their IRA to finance strategic income-generating and revenue-anticipating capital investment projects

Investment programming should be a rolling and future-oriented process

the 60-hectare property which would include a regional government complex with a convention center component.

Other regional offices proposed that the provincial government consider contracting out the complex's buildings to them in rent-to-own terms. The regional offices would then use their monthly rental allocation to pay for their amortization payments to the Cagayan provincial government.

Lessons Learned

Some of these lessons were learned by the LGU in hindsight, and not in a deliberate, well-planned manner. However, it is worthwhile looking at the positive aspects of what they achieved even in a "zigzagging" trial and error manner. Such lessons could be worth the consideration of other LGUs to help avoid future costly "history-repeating-itself" patterns.

- Commercially-oriented projects are best identified via a strategic assessment of the market. Project planning should always be market- or demand-oriented to ensure that what is financed and built will be of a scale and quality that potential users will be able and willing to pay for.

- LGUs should not waste their "IRA boon", but instead leverage their IRA to finance strategic income-generating and revenue-anticipating capital investment projects. Through such a leveraging process, they could eventually wean themselves away from their current IRA dependence, and move towards a higher degree of self-reliance and more efficient modes of revenue mobilization.

- Separate economic enterprise offices with separate books of accounts are necessary for LGUs to properly manage their growing portfolio of so-called economic enterprises. This will allow for greater accountability and transparency in the way economic enterprises are being run.

- Even with well-functioning economic enterprise offices, LGUs should consider the use of the private sector to supply certain services like marketing, security, janitorial, and maintenance services where the private sector has comparative advantages in terms of efficiency and cost.

- Investment programming should be a rolling and future-oriented process.

- Well-planned LGU development project packages do not need government guarantees. In the case of the Cagayan Town Center, the guarantee was provided by a private insurance company, the Malayan Insurance Company.

ENDNOTES

[1] This case was written by Norman R. Ramos with the research assistance of Fresita Araneta and Leilani Bautista. This material was prepared for the Strengthening Provincial and Local Planning and Expenditure Management Project implemented by the National Economic and Development Authority (NEDA) with funding assistance from the Asian Development Bank (ADB).

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