Chapter 6

Implementing the Comprehensive Development Plan

6.1 Local Development Investment Programming

The Local Development Investment Program (LDIP) is the principal instrument for implementing the Comprehensive Development Plan (CDP) and to some extent, certain aspects of the Comprehensive Land Use Plan (CLUP). The LDIP links the plan to the budget, thus putting into effect the directive of the Code that "local budgets shall operationalize approved local development plans. Like the CDP, the LDIP should have a time frame of 3 years. But LGUs could have the option of preparing a 6-year program, the second half being an indicative list of priority projects. The 3-year program has three annual components that are implemented with the LGU's annual budget.

6.1.1 Concepts of investment in public and private finance

The concept of investment in public finance has almost the same meaning as in private or household finance. It consists of that portion of income that is retained after satisfying all the expenses necessary for the upkeep of the household or for running the affairs of the organization. In the case of firms, the claims of investors for dividends must be paid as well as taxes, before "savings" can be realized and converted into investments. In the case of the local government, investment is what is left after deducting all expenses necessary to run the government machinery, to satisfy the claims of creditors if public debt has been incurred, and to comply with statutory reserves. Unlike households and firms, however, the LGU is not supposed to realize "savings" without plowing these back to the people in the form of services and/or investments in development projects and activities.

The LDIP therefore is not simply a list of programs and projects that the LGU wants to carry out. It is more a program for using the investible portion of the local budget to finance the implementation of those programs and projects and where local funds are insufficient, to raise additional funds utilizing the LGU's fiscal management powers and authority. Necessarily, two important bodies in the local planning structure are involved in the LDIP preparation, the Local Development Council (LDC) and the Local Finance Committee (LFC).

6.1.2 The investable portion of the local government budget

Most local government officials believe that the development fund is limited to 20% of their Internal Revenue Allotment (IRA) share[1]. This is a misconception because in reality the LGU allocates much more resources on "development" than the 20% of IRA. The development fund, broadly defined, is that portion of the local budget that is "plowed back" to the people in the form of programs, projects and services as opposed to that portion which is consumed by, or used for oiling the local government machinery (salaries and wages and other personnel costs, office maintenance and other operating expenditures, and office capital outlay). In other words, the development fund consists of 20% of IRA plus non-office MOOE and non-office capital outlay, conceptually illustrated in the pie chart below *(Figure 6.1)*.

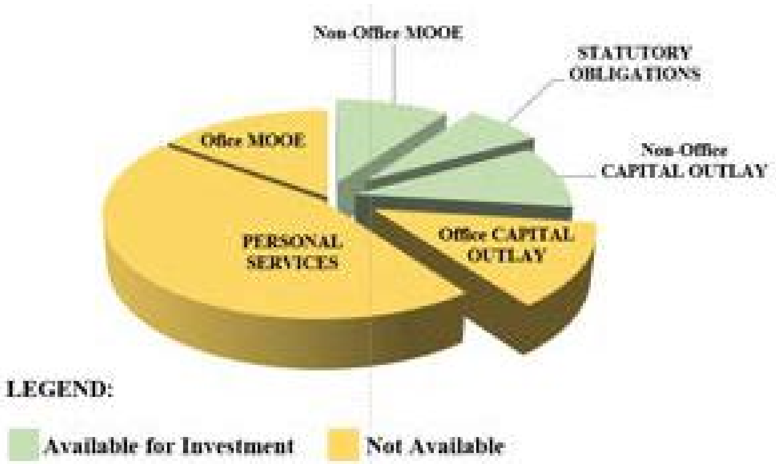

Figure 6.1 **Local Funds for Development Investment**

[1] Sections 284-288, Local Government Code (RA 7160)

For purposes of the LDIP, the total funds available for investment will be taken from the development fund as defined in this section and not from the 20% of IRA only as is the widespread practice. The investible fund is that component of the development fund which will be earmarked for financing the priority programs and projects in the AIP while the remaining part will go into financing the costs of functions and services of the different LGU offices and departments identified in the plan as "non-projects" and "regulatory measures".

6.2 The Local Development Investment Programming Process

The LDIP process is made up of three streams of activities: 1) Producing a ranked list of programs and projects with their individual and cumulative cost estimates; 2) Determining available future funds for investment; and 3) Matching the fund requirements with projected funds available and deciding on financing options should the funds available be insufficient. The process flow is illustrated in the chart below *(Figure 6.2)*.

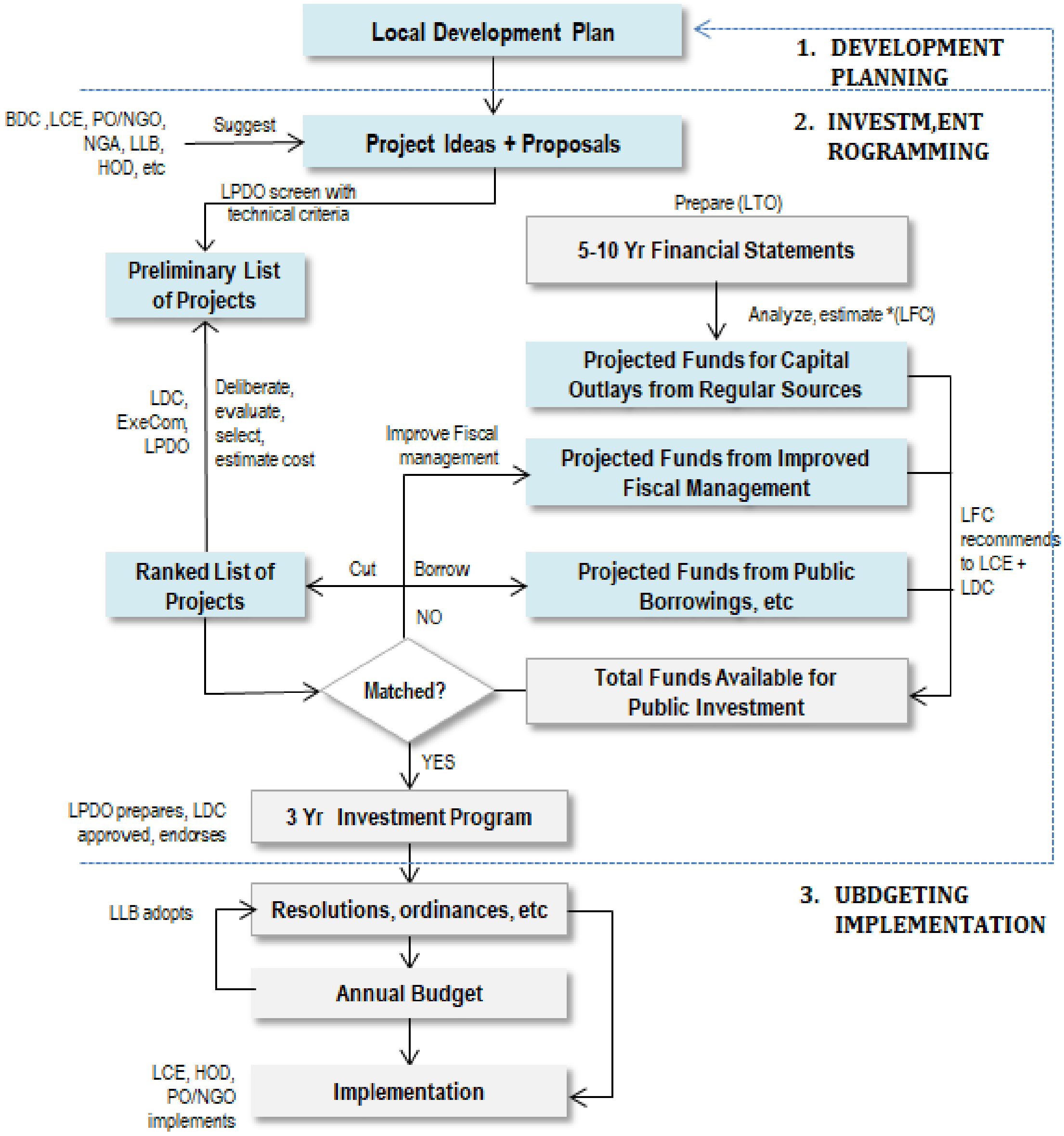

Figure 6.2 **LDIP Process As A Link Between Development Planning And Budgeting**

6.2.1 Preparing the Ranked List of Projects (Stream 1)

The output of this stream is a ranked list and cost estimates of projects to be considered for implementation within the three-year period covered by the LDIP. This list will be matched with the initial estimate of available funds (derived in Stream 2) in the process of determining the final list of projects (Stream 3).

The sectoral committees of the LDC, under the supervision of the Local Planning and Development Coordinator, have the major responsibility for producing the projects to be included in the long list of candidate projects.

There are three major outputs in Stream 1:

a. an initial list of projects derived from the sectoral development plans and other sources;
b. a preliminary list of projects screened on the basis of technical and socio-political criteria; and
c. a ranked list of projects with cost estimates.

Stream 1 consists of six steps:

Step 1: Initiate LDIP process and call for project ideas

Early on during the first year of his/her term the Local Chief Executive (LCE) initiates the LDIP process by issuing an official announcement to public agencies and private sectors and organizations stating that the LPDO will be soliciting and compiling ideas for projects. The LPDO shall require that all project submissions be in the form of a project brief. The form and contents of a project brief are as follows:

a. the name and type of project (generally, "soft" or "hard") and the project proponent or originator of the project idea
b. activity components
c. estimated cost or resource inputs (broken down by activity component)
d. the justification for the project (derived from the CLUP or CDP)
e. the intended beneficiaries (population sectors or geographical areas)
f. target outputs or success indicators
g. possible risks that could hamper or delay project implementation
h. expected private sector response to this particular public investment

Step 2: Solicit and compile project ideas

Immediately after the LCE announces the start of the LDIP process, the LPDO starts soliciting and compiling project ideas from various sources. For this purpose copies of project brief forms are made available. These sources may be classified into three categories that correspond to three simultaneously occurring substeps.

Substep 2A: Compile project ideas based on the CDP

The CDP, if it is properly formulated, should serve as the major source of project ideas. CDP-based projects that have not yet been implemented or funded should be included in the initial list. The sectoral committees should make sure that the projects they submit belong in the list of projects owned by the LGU.

Substep 2B: Compile projects identified by the Sectoral Committees

Under this substep, the LPDO coordinates the sectoral committees to come up with a supplementary list of projects based on their own planning activities. Sectoral committee-initiated project ideas should include projects that were not anticipated by those who formulated the CDP because of new developments in the social, economic, and physical environments of the local community or because of shifts in the development policies of the local or national government.

Substep 2B should be an important source of project ideas for LGUs with no CDP or where the CDP is out-dated.

Substep 2C: Compile projects from other sources

Finally, because not all development concerns can be anticipated, other sources of project ideas need to be tapped. These sources include other government departments and offices, barangay development councils, local community organizations, central and regional offices of government line agencies, non-government organizations, private individuals, etc.

Regular consultations with these sources should be held regarding their current development thrusts, issues, and interests. Cross-sectoral development plans, reports, bulletins, etc. also provide important information that could give an indication of what projects are being planned or considered by other agencies and organizations.

The primary objective in dealing with extra-local government line offices is to acquire information about the latter's projects to identify complementary projects that can be implemented and monitored by the LGU. Only the latter projects, however, should be included in the initial list of projects being compiled by the

LPDO. If a joint or shared project is being contemplated by the LPDO with any agency or organization, then this project, with the local government component defined as clearly as possible, should be included in the initial list of projects.

For each of the projects identified in Step 2, the LPDO should create a file that contains the information in a project brief format.

Step 3: Initial screening of projects

The initial screening of the projects compiled by the LPDO has three objectives:

a. To consolidate repetitive or redundant proposals.

   This is done by going through all the files of the individual projects and checking for identical or similar project descriptions, objectives, intended beneficiaries, location, etc. Projects with identical or near-identical descriptions, objectives, intended beneficiaries, and location should be consolidated and treated as one project. Retain the names of the proponents of all the projects consolidated.

b. To screen out projects that are obviously impractical or undesirable.

   Project proposals that are obviously impractical or undesirable (such as an international airport in a remote and rural part of the country) should be removed from the initial list. As a general rule, if there are reasonable doubts on whether a project idea should be considered "obviously impractical or undesirable," then it should be removed from the list.

c. To screen out projects that are more appropriately implemented by other agencies, organizations, and levels of local governments.

   Proposed projects which are identical to or are in fact projects to be funded by other sources (central or regional offices of government line agencies, for example) are deleted from the list.

It is possible that proposed projects will have conflicting objectives or will be competing for the use of the same site or resource. In these cases, the conflict in question should be identified and then resolved through prioritization in subsequent steps.

The completion of Step 3 results in an initial list of projects.

Step 4: Screening for complementarity, compatibility or conflict

In Step 4, the initial list is screened to remove or reformulate conflicting projects. If the list of proposed projects is a short one, screening for complementarity, compatibility, or conflict may take place simultaneously with the initial screening (Step 3). In this case, Step 4 may be omitted and the project identification stream can proceed to Step 5. If the list is too long, however, Step 4 will be needed to systematically come out with a shorter list.

For this step, a Conflict-Compatibility-Complementarity Matrix is used. This matrix allows the identification of projects that complement, are compatible, or are in conflict with other projects.

At the completion of Step 4 a shorter preliminary list of projects is produced.

Step 5: Project ranking

The ranking of proposed projects included in the preliminary list allows for social and political considerations to be inputted into the project selection process. It also facilitates the trimming down and modification of the project list in subsequent streams of the LDIP process. For this purpose, the Goal-Achievement Matrix (GAM) may utilized. The GAM is essentially a listing of the local government's social and political goals, weighted according to the perceptions, advocacies and agendas of various stakeholders in the community. Then the extent to which proposed projects contribute to the attainment of these goals is calculated.

Each LGU, through its LDC, should formulate its own GAM according to its development goals. As a reference, the LPDO can make use of the "General Welfare Goals" outlined in Sec. 16 of the 1991 Local Government Code as an initial basis for its GAM.

An alternative method of prioritizing projects is to classify projects according to levels of urgency as shown below *(Table 6.1 Criteria for Prioritizing Projects).*

The completion of Step 5 results in a list of projects that are ranked according to LDC priorities and objectives.

Step 6: Estimating project costs

The only remaining task before the list of proposed projects can be matched with the estimate of available funds (derived in Stream 2) is to estimate the cost of each project. For some projects, cost estimates will already be available (as part of the initial information compiled in their files in Step 2). In this case, the LPDO only needs to validate or refine the estimates. A ranked list of the proposed projects with cost estimates and other information are compiled in a table showing individual project coast and cumulative costs.

Table 6.1. **Criteria for Prioritizing Projects**

CATEGORY	GENERAL CRITERIA
1 **URGENT** ***(Agarang Kailangan/ Hindi maaring ipagpaliban)***	• Projects that cannot be reasonably postponed • Projects that would remedy conditions dangerous to public health, safety and welfare • Projects needed to maintain critically needed programs • Projects needed to meet emergency situations
2 **ESSENTIAL** ***(Kinakailangan)***	• Projects required to complete or make usable a major public improvement • Projects required to maintain minimum standards as part of on-going program • Desirable self-liquidating projects • Projects for which external funding is available
3 **NECESSARY** ***(Mahalagang magkaroon)***	• Projects that should be carried out to meet clearly identified and anticipated needs • Projects to replace obsolete or unsatisfactory facilities • Repair or maintenance projects to prolong life of existing facilities
4 **DESIRABLE** ***(Kanais-nais na Magkaron)***	• Projects needed for expansion of current programs • Projects designed to initiate new programs considered appropriate for a progressive community
5 **ACCEPTABLE** ***(Katanggap tanggap pero maaring ipagpaliban)***	• Projects that can be postponed without detriment to present operations if budget cuts are necessary
6 **DEFERRABLE** ***(Kanais-nais na Magkaron)***	• Projects recommended for postponement or elimination from immediate consideration in the current LDIP • Projects that are questionable in terms of over-all needs, adequate planning, or proper timing.

6.2.2 Determining Investible Funds (Stream 2)

A Local Development Investment Program and the resulting budget is only as good as the financial plan for the proposed projects. The number of projects that an LGU can finance depends on: (1) the revenue level of the LGU; (2) the level of recurring local government operating expenditures; (3) the outstanding public debt (4) the statutory reserves; and (5) potential sources of additional revenue available for investment project financing.

Financial policy development for LDIP purposes in Philippine cities have to be guided by:

- Historically observed trends and structural relationships applicable to existing revenue sources, and expenditure requirements.
- The provisions of the 1991 Local Government Code (LGC) with respect to (1) additional responsibilities that entail increased expenditure levels; and (2) more importantly, expanded revenue sources.
- The financing preferences of local constituents as reflected in the local legislative body's overall financial policy.

Financial policy development for LDIP purposes entails the following general steps:

1) Data collection on key financial variables;
2) Trend and structural relationship analyses including the impact of policy, legislative, and system / procedural changes;
3) Projection of key financial variables;
4) Determination of new investment financing potential; and
5) Setting up of the appropriate financing plan.
6) The process must be done in a transparent manner with all the assumptions and considerations clearly set out.

The process must be done in a transparent manner with all the assumptions and considerations clearly set out.

The Local Finance Committee (LFC) composed of the Local Planning and Development Coordinator, the Budget Officer, and the Treasurer is charged under the 1991 LGC with the setting of the "level of the annual expenditures and the ceilings of spending for economic, social, and general services based on the approved local development plans" (Sec. 316, c). As such, they should undertake the required financial plan development in close coordination with the Local Development Council (LDC) for consideration and approval of the Sanggunian. The LFC could be expanded to include the Sanggunian appropriations committee chair, the Assessor, the LGU accountant and a private sector representative (preferably an investment banker), and a representative from civil society.

Step 1: Collect appropriate revenue data and determine the historical trends.

Revenue is defined as any inflow of funds to the LGU regardless of whether the source is repayable or not. Data on revenue and expenditures for the past 3 to 5 years must be collected and the historical trends in terms of the average annual rate of growth analyzed.

Specifically, historical analyses need to be done on the following revenue items:

a. Real Property Taxes historical growth trend analyses
b. Business Fees and Licenses historical growth trend analyses
c. Other Taxes
d. Service and Operations Income
e. Internal Revenue Allotment
f. All Others

The analyses of current revenue levels must distinguish between (1) recurring revenue sources (revenue source a to e) and (2) non-recurring ones (f) such as grants-in-aid from local and foreign sources, special appropriations or transfers from Congress or other units of government; inter-fund and inter-local government transfers. Thus, what is relevant for investment planning purposes are projections of recurring revenue sources.

The IRA used to be highly unpredictable in terms of amount and timing of disbursement. Under the 1991 LGC, however, the amount due each local government can easily be computed and the national government is committed to disburse the amount on a regular basis.

The analyses must distinguish between the impact on revenue volume of (1) changes in the tax base such as increases in the number of taxable structures or businesses; and (2) changes in tax rates

The historical trend analyses must take into consideration the occurrence of an unusually large increase in a particular revenue source for a particular year which may be attributed to a rate change, new system of billing and collection, or other procedural and system improvements. Such an increase cannot be expected to continue into the future. Similarly, the impact of one-time procedural and system changes such as the granting of tax amnesties and enactment of new tax laws and ordinances on revenue growth must, therefore, be segregated in the analyses.

Step 2: Collect appropriate operating expenditure data including existing debt service and determine the historical trends.

Operating expenditures include personnel services (including social charges) and maintenance and other operating expenses (MOOE) such as office supplies and expenses, utilities (power, water, telecommunications), office equipment and miscellaneous expenses.

Correspondingly, LGU expenditure patterns must be analyzed using available historical data. The period of analyses for the expenditure side will have to match the number of years used in the revenue analyses.

Historical analyses need to be done on the following operating expenditure items:

a. General Public Services
b. Social Services
c. Economic Services
d. All Others

The amount of debt service payments for existing and other anticipated LGU obligations must be established, and compared to the relevant (if any) statutory debt service ceilings.

In the case of expenditures, election years usually result in abnormally high expenditure levels. Such "abnormal years" need to be taken out of the projection exercise.

Step 3: Establish structural relationships of revenue and expenditure items to population and economic development.

The assessment of such relationships will aid historical trend analyses and the preparation of the required revenue and expenditure projections. Among the key factors that must be considered are (1) the overall national and regional economic picture including development trends; (2) demographic shifts; and (3) changes in the local market, particularly in the local labor market.

The qualitative and quantitative response of each revenue source and expenditure item to demographic and economic changes must be established for each major revenue source and expenditure item to come up with a comprehensive analysis of the LGU's fiscal patterns.

The analyses can take the form of per capita shares. For example, the trend in per capita real property tax (RPT) yield or the movement of business tax yield per registered business establishment can be examined. After factoring in the effects of anticipated developments within the LGU, the adjusted per capita figures can then be applied to available demographic and economic forecasts to come up with the required revenue and expenditure projections.

Step 4: Project future recurring LGU revenue and operating expenditure levels.

Future recurring revenue levels can be projected based on a careful assessment of all the probable factors that affect each revenue source.

The assessment of the factors can be built into the growth areas that will be used to project each revenue source either through (1) a conscious upward or downward adjustment of the computed historical growth rates or (2) through the assumed per capita income growth rates to which the appropriate revenue elasticity is to be applied. It is important that the pertinent provisions of the 1991 LGC, particularly those that refer to new tax bases or to increased rates, should be considered in the projections.

Because of its large contribution to LGU revenue sources and because real properties will be the main beneficiary of LGU investments in terms of increased values, the real property tax should be projected separately.

Revenue items b, c, d and f can be projected using either the historical growth rates (with or without adjustments) or using computed elasticities and assumed per capita income growth rates.

The IRA projections (Revenue Item e) should already consider the increases provided for in the 1991 LGC.

Future normal recurring expenses can be projected using either (1) the historical 3 to 5-year average annual expenditure increase or (2) the historical average expenditure per unit of output in the case of LGU business enterprises. See Form 8.12 for the sample projection table and the detailed instructions.

In using either of the two techniques, judgment as to the effects of political and organizational developments within the local government on the future growth of various departments should be factored into the projections.

In setting the appropriate future growth rate for each revenue and expenditure item, each LGU must determine from its historical trend analyses and assessment of the overall operating environment prospects (demographic, economic, political, legal, etc.) which growth rate assumption or combination of assumptions is most appropriate for the locality.

Four alternative future growth rate scenarios can be used by LGUs in coming up with the required financial projections.

a. No change

This particular method assumes that the present level of the financial variable will continue on to the foreseeable future. Thus, a constant absolute amount based on a recent year or on the average over a certain number of years is used in the projection.

This method may be used in two instances: (1) if the historical trend analysis indicates little or no change and if there is no reason to expect a change in this pattern; and (2) to provide a conservative estimate of an uncertain revenue source such as grants and aids from the central government or from foreign sources.

b. Change by constant amounts

The technique assumes yearly changes based on a constant amount.

The technique usually applied to assessed value forecasting, makes use of the average yearly change over the historical period of analyses as the amount to be added to the current year's value to obtain next year's value.

In utilizing the calculated yearly amount of increase for projection purposes, allowances should be made for (1) *recent shifts in the yearly increase over the years; (2) anticipated changes in conditions, policies and resources that are not reflected in the historical data; and (3) different estimates for different portions of the projection period such as during an expected period of either high or low inflation.*

c. Change at a constant rate

The technique assumes *annual changes at a constant rate based on the historical annual average percentage change estimate.*

The percentage change estimate is multiplied by the current year value to derive the amount that should be added to the current year value to arrive at next year's value.

The same considerations as discussed in b apply in choosing the appropriate percentage change estimate to be used in the projections.

d. Correlation with demographic or economic variable

This method assumes a constant relationship between the financial variable and a demographic or economic variable.

As discussed in Step 1, either the results of a per capita analyses or an elasticity analysis adjusted to reflect anticipated special developments in the LGU's socio-economic and political environment can be used for projection purposes.

The same considerations as discussed in b apply in choosing the appropriate per capita or elasticity estimates to be used in the projections.

Step 5: Compute the financial surplus available for the financing of new investments

After the future revenue inflows and corresponding expenditure outflows are established, the new investment financing capacity of an LGU can be established based on the following computational procedure:

PROJECTED REVENUES

(LESS) : PROJECTED OPERATING EXPENSES

(LESS) : EXISTING DEBT SERVICE REQUIRE MENTS & STATUTORY RESERVES

(EQUALS) : AMOUNT AVAILABLE FOR NEW INVESTMENT FINANCING

6.2.3 Matching and Iteration (Stream 3)

After the ranked list of projects has been completed along with the corresponding individual and aggregate project cost estimates (Stream 1), and the projection of funds available for investment from recurring sources firmed up (Stream 2) the matching exercises can now proceed. A 3-year planning horizon shall be adopted to coincide with the term of local officials.

Step 1: First-round matching

The purpose of this matching is to determine how many of the approved projects can be funded from regular sources for the 3-year period, and how many have to be financed from other sources. The procedure in undertaking this exercise is as follows:

a. Using the ranked list of projects scan the cumulative total of the project costs from the top of the list downwards. Stop at the project that gives the cumulative total equal to or nearly equal to the estimated available funds for the next 3 years.
b. Take the total cost of the remaining projects that cannot be funded out of recurring sources. This amount should be transmitted to the Local Finance Committee for the latter to search for other fund sources.

Step 2: LDC approves the ranked list of projects.

The LDC through a vote or resolution approves the ranked list of projects with their corresponding individual and aggregate cost estimates.

Step 3: The LDC deliberates on and decides what financing approach to take.

Three financing approaches are available to local governments. These include:

Option 1: *Conservative approach. Under this approach, only projects that can be funded from regular sources will be implemented.*

Option 2: *Developmental approach. Here, the short list of projects is taken as final and irreducible. The LGU will then tap all sources possible to raise the needed funds to implement the project package.*

Option 3: *Pragmatic approach. This is a combination of the two options above.*

The relevant steps to be taken under each of the three options are presented below.

OPTION 1: LDC chooses the conservative approach.
This means that when the projected total cost of the projects exceeds the funds available the number of projects will have to be trimmed down.

Step 1: The LDC further trims the project list.
The trimming process starts with the grouping of projects following the ranked list and taking a running total of the cost. When the total cost equals or nearly equals the available funds for the first year, the corresponding group of projects comprises the first year capital investment program. The same procedure is repeated for the second and the third year investment programs.

In case more projects are needed to make up the list for the second and third year programs, projects which were screened out earlier during the project identification process may be reconsidered.

Step 2: LDC approves the final list of projects.
The LDC shall approve the final project list when a proper match is attained between project cost and

available funds on a year-by-year basis through a vote or by consensus. The final project list is to be formally adopted by the Sanggunian through an appropriate resolution.

Step 3: LPDO prepares the 3-year investment program on a standard format.
The LPDO prepares the investment program and submits this to the LCE who then endorses it to the Sanggunian for deliberation and final adoption.

OPTION 2: LDC chooses the development approach.

This means that the ranked list of projects is taken as the final package of projects to be implemented but the projected funds are not sufficient, then the LGU will secure the needed funds from all sources possible.

When the amount to be raised from other sources is known, the LCE directs the local finance committee to make further studies. The LFC should first look into the possibility of raising the needed amount by adopting certain fiscal measures to realize savings from normal operations. The following strategies may be investigated to determine their impact on net income for the next two or three years:

Strategy 1: Improved fiscal management

a. Increasing the collection efficiency by so many percent for certain taxes such as the real property tax, business taxes, or receipts from municipal enterprises.
b. Curbing some expenditures which are not absolutely necessary such as a freeze on hiring of new personnel, stopping the allocation of district funds for Sanggunian members, or reducing the number of official travels.
c. Imposing the betterment levy as per Sections 240-245 of the 1991 Local Government Code.
d. Imposing a tax on idle lands (Sections 236-239).

It must be noted that a one- to two-year lead time is needed before the proceeds from any of these measures can accrue to the general fund of the LGU.

Strategy 2: Incurring public debt or credit financing

If the decision is to incur public debt the following modalities allowed by the Local Government Code could be considered:

a. Contracting for loans, credits and other forms of indebtedness with any government or domestic private bank and similar lending institutions (Sec. 297).
b. Deferred payment and similar financial schemes for land acquisition, among other things (Sec. 298).
c. Issuance of bonds, debentures, securities, collaterals, notes and other obligations, subject to rules and regulations by the Central Bank and the Securities and Exchange Commission (Sec. 299).
d. Contracting for loans, credits and other obligations with other local government units (Sec. 300).
e. Borrowing from the national government through its relending institutions using funds secured from foreign sources (Sec. 301).
f. Pre-financing by the private sector through the build-operate-transfer (BOT) scheme (Sec. 302 and RA 6957).

After assessing the amount of project financing that could be generated from each of the above modes, the LFC recommends one or two to the LCE who then endorses it to the Sanggunian for appropriate action. The Sanggunian, by resolution, authorizes the office of the LCE to contract for loans, credits and other forms of indebtedness.

Step 1: LPDO prepares the 3-year investment program.
The LPDO now prepares the 3-year investment program. It is probable that the first year projects will have to be funded out of available funds from regular sources. This is due to the lead time necessary before the proceeds of the different fund-raising measures begin to accrue to the local coffers. The succeeding years' investment funds will become a combination of those coming from recurring sources and those expected to accrue from other sources.

The LPDO then submits the draft LDIP to the LCE who in turn endorses it to the Sanggunian for adoption.

Step 2: Sanggunian adopts LDIP.
After receiving the draft LDIP from the LPDO through the LCE, the Sanggunian deliberates on and through a resolution, adopts the 3-year investment program.

OPTION 3: LDC chooses the pragmatic approach.

This is a combination of the first two approaches. The points of difference and similarity cannot be specified. But in general, the approach entails being conservative during the initial years and eventually becoming developmental as the status of local finances improves and more fund sources become available. The procedural steps therefore can freely shift from the conservative to the developmental approach as the situation demands.

6.3 The Annual Investment Program and the Budget

6.3.1 The New AIP

Once there is an approved LDIP, the new AIP constitutes the annual slice indicating the yearly fund requirements of priority programs, projects and activities (PPAs) to be integrated in the annual budget. The AIP comprises the total resource requirements for the budget year, including the detailed allocation for each PPA and the regular operational budget items broken down into Personal Services (PS), Maintenance and Other Operating Expenditures (MOOE), and Capital Outlay (CO). By sectoral groupings, expenditures can also be classified under the following headings:

a. Economic services – covering all activities directed to the promotion, enhancement, and attainment of the desired economic growth.
b. Social services – embrace expenditures for education, health, social security, labor and employment, housing and community development, and other social services.
c. General services – include executive and legislative services, overall fiscal and financial services, planning, general research, public order and safety, and centralized government services.
d. Others – a catch-all sector for PPAs which cannot be classified under any of the first three.

6.3.2 Timetable for AIP Preparation

The AIP for the current year is prepared with the first six months (January-June) of the current year to catch up with the Budget Call (which starts the budget preparation process) by the end of June of the current year.

6.3.3 Accomplishing the AIP Form

The AIP form should be accomplished as prescribed in JMC No. 1 s. 2007 (NEDA, DILG, DBM and DOF). The form is available at the local Budget Office and is accomplished jointly by the CPDD and the City Budget Office. The annual component of the Capital Expenditure (Capex) shall be inputted by the CPDD and integrated by the Budget Officer together with the expenditures for PS, MOOE, and CO. The completed AIP form is attested to by the LCE and approved by both the CDC and the *Sangguniang Panglunsod (SP) through a resolution.*

6.3.4 Translating the AIP into the Budget

The completed AIP is submitted by the LCE to the LFC for appropriate action. The LFC shall then:

a. Conduct a review of the projected revenue or proposed income proposed during the budget year.
b. Recommend appropriate tax and other revenues or borrowings to support the budget.
c. Recommend resource allocation and spending ceilings for the economic, social and general services.

Once the spending ceiling by sector or office is finalized, the LFC shall conduct a budget workshop with all stakeholders concerned to give the latter a sense of ownership of the policy decisions.

6.4 Processing and Farming Out of Non-Project Services

It may well be that the needed intervention can be included among the regular functions of a given office to be performed by the regular staff of that office using its existing facilities and budget. Such intervention falls under the category of services or a "non-project." Services or non-projects need not be included in the LDIP but are carried out through the regular functions of relevant departments or offices and the logistical requirements are taken from the maintenance and other operating expenditures (MOOE) of the offices or departments concerned. To identify the offices or departments responsible for integrating the needed services in their regular functions, process the non-projects using the template in *Table 6.2* below.

Table 6.2 **Farming Out Non-Projects to Responsible Offices**

Proposed Services	Activity/Task Components	Dept./Office Responsible	Current Capacity of Responsible Office	Capacity Gaps of Responsible Office	Recommended Action

To accomplish the above template, perform the following steps:

a. Collect all non-projects and check if these can be upgraded into projects. The rationale for this is that projects have greater chances of being implemented with assured funding from the Local Development Fund while services depend on increases in the office maintenance and other operating expenditures (MOOE) which are uncertain. A non-project can be upgraded to a project if the following criteria are present:

   i. There is a definite output to be produced.

   ii. There is a sense of urgency to produce the desired output.

   iii. The process is not likely to be repeated in the next three years.

   Upgraded non-projects will be added to the list of projects for inclusion in the LDIP.

b. If upgrade is not possible, retain the activity as non-project and perform the following:

   i. Break down the non-project into task components and identify the offices responsible for each task.

   ii. Match the added tasks to the existing capacity of the responsible office and determine the capacity gaps.

   iii. Recommend needed action to fill the gaps.

6.5 Priority legislations needed to implement the proposed policy Interventions

Regulatory measures should be seen in both their negative and positive dimensions. Negative regulation entails prohibiting and penalizing some acts deemed inimical to the public interest. Positive regulation, on the other hand, involves giving encouragement and rewards for acts that are socially desirable and which help promote the general welfare. Private investment incentives fall under the category of positive regulation. Taxation may have positive and negative connotations, negative to those on whom the assessment falls due but positive to the general populace to whom the benefits of improved services accrue.

In generating regulatory measures, check whether a new legislation is really needed and whether the intended legislation is within the limits of the prescribed powers of the LGU. Although all legislative acts of component cities and municipalities are subject to review by the provincial

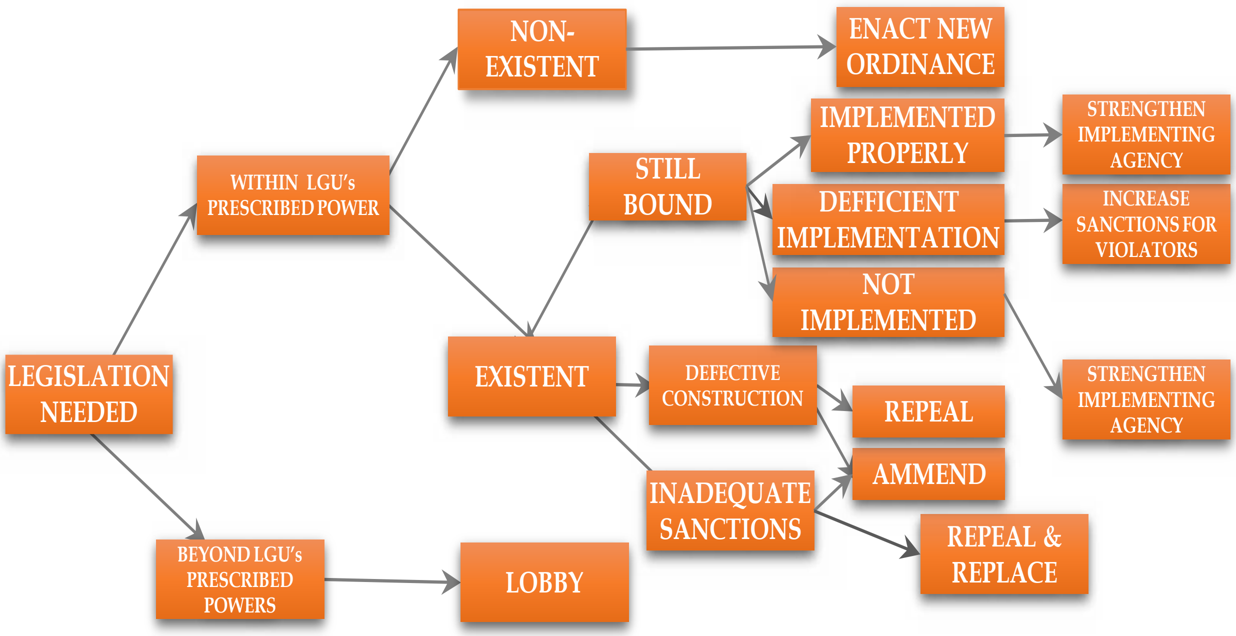

Figure 6.3 **Scheme for Processing Needed Legislation**

Sanggunian, it is better to involve the city/municipal attorney whenever new legislations are identified and proposed in the sectoral plans.

To determine the appropriate action to take regarding local legislations the fishbone analysis as shown in Figure 6.3 below may be helpful. Regulatory measures may take the form of resolutions and ordinances enacted by the Sanggunian or executive and administrative orders issued by the local chief executive. If the needed regulatory measure is found to be beyond the prescribed powers of the LGU, this could be brought to the attention of higher jurisdictions through various channels including lobbying. If the attention of the national legislature is necessary, the Congressman, who sits as a regular member of the Local Development Council, should serve as the conduit

Table 6.3 **Template for Presenting Identified Needed Legislation**

Ordinance Needed	STATUS			Subject Classification	SP Committee Responsible	Possible Sponsor
	New	Amendment	Replacement			

Summarize the result in the template in Table 6.3 below and forward it to the Secretary of the Sanggunian for possible inclusion in the latter's legislative agenda.

6.6 Private Investment Incentives

One of the main objectives of public investment programs is to attract or leverage private investments in the area in order to achieve synergy and enhance total capital build up. The local government has its own funds for development investment. But public funds invested by the local government alone cannot match the aggregate value of capital in the hands of the private sector. It would be most desirable if funds from other sources, particularly from the private sector are brought in to augment the resources of the government. In fact, as a matter of strategy public investment the leveraged private investments must amount to a multiple rather than a mere fraction of the value of public investments.

The most readily available and accessible source of information about private investment prospects is the project brief that every project proponent is required to accomplish before submission for inclusion in the LDIP. Note that the last item in the project brief is an indication of the "desired private sector response" to benefit from, or to build on the proposed public investment. When all project briefs have been collected, the CDC through the CPDC shall consolidate these ideas into a package of "priority private investment areas", devise an investment incentives scheme, and forward this to the SP for enactment into an ordinance. After all, the formulation of a private investment incentives scheme is one of the main functions of the CDC as mandated by the Local Government Code.

6.7 Capacity Building for Effective Plan Implementation

6.7.1 Capacity defined

The Canadian-funded Local Government Support Program[2] defines capacity as the "abilities, skills, understandings, attitudes, values, relationships, behaviors, motivations, resources and conditions that enable individuals, organizations, networks, sectors and broader social systems to carry out functions and achieve their development objectives over time". The definition covers three levels or aspects of capacity development: personal or individual capacity, institutional or organizational capacity, and capacity of systems and procedures. Capacity building or development refers to the approaches, strategies and methodologies used to improve performance at the individual, organizational and system levels. In this section, the focus of attention is the capacity of the local government bureaucracy to implement the PPAs derived from the development plans.

[2] A Manual on the Local Planning Process, LGSP, 2009

1) Capacity needed to implement projects and services

This applies to the officers and staff of departments and offices (other than those of the CPDC) who will implement the projects, services and activities approved for implementation in the AIP/Annual Budget. The usual practice in most local governments is to implement projects by administration. This is understandable because most projects are simple, low-cost and are completed within the fiscal year. Hence, no rigorous detailed project development is required. What is needed is the capacity to prepare a Program of Work and the Work and Financial Plan. Since the project activities are converted into services by the office staff, what is critical is whether the staff assigned to the project have the requisite qualifications. This matter is presumed to have been addressed upon recruitment. So no major capacity gaps are expected in this regard.

2) Capacity needed to administer contracts

This applies in cases where the LGU desires to embark on complex multi-year big ticket projects that have to be implemented by contract. The capacity required of the department or office responsible for such type of projects is the ability to administer contracts. This involves writing the Terms of Reference, procuring and evaluating proposals, awarding and administering contracts, among other competencies. This capacity is not common in most local government offices and departments.

3) Capacity to do monitoring and evaluation

Project monitoring and evaluation as a function of project implementation is currently in practice. However, the task is often performed by the staff of the CPDC. This capacity to monitor project input and output flows should be lodged with the implementing office to track backlogs and slippages. Monitoring and evaluation of outcomes and impacts should be a capacity reserved for the staff of the CPDC. The latter type of M & E is a function of plan revision or cyclical planning. Sadly, such division of labor has not yet been institutionalized in local governments.

6.7.2 Suggested steps in formulating a capacity building plan

a. Establish the organizational and individual competencies needed to implement the CDP.
b. Examine existing capacity vis-à-vis desired competencies.
c. Identify capacity gaps.
d. Identify priority strategies and actions that need to be taken to improve capacities.
e. Prepare a capacity development plan and budget.
f. Assign roles and responsibilities to achieve the goals and capacity objectives.
g. Monitor the plan and make adjustments as required.