Poverty Reduction Strategy (PRS) in Decentralized Contexts: Comparative Lessons in Local Planning and Fiscal Dimensions

Contents

Abbreviations

AIP	Annual Investment Plans
APBD	Regional Budget
ASEAN	Association of Southeast Asian Nations
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CAR	Cordillera Autonomous Region
CDIP	City Development Investment Program
CDP	City Development Plan
CHD	Center for Health Development
CIDSS	Comprehensive and Integrated Delivery of Social Services
CI	Congressional Initiatives
CLUPs	Comprehensive Land Use Plans
DAK	Special Allocation Fund
DAU	General Allocation Fund
DBM	Department of Budget and Management
DBCC	Development Budget Coordination Committee
DILG	Department of Interior and Local Government
DIP	Central Government Deconcentrated Development Expenditure
DSWD	Department of Social Welfare and Development
FAPs	Foreign Assisted Projects
GAA	General Appropriations Act
GBHN	National Policy Guidelines
HUCs	Highly Urbanized Cities
HPIC	Highly Indebted Poor Countries
ICC	Investment Coordination Committee
INPRES	Presidential Instruction
IPRSP	Interim Poverty Reduction Strategy Paper
IHPS	Integrated Health Planning System
ILHZ	Integrated Local Health Zones
JOSIE	Joint Organization and Systems in the Improvement of Education
JOSIE Barangay	Joint Organization and Systems in the Improvement of the Economy in the *Barangay*
KALAHI	*Kapit-Bisig Laban sa Kahirapan*
KEPPRES	Presidential Decree
KRAs	Key Result Areas
LCE	Local Chief Executive
LDC	Local Development Council
LFC	Local Finance Committee

LFPs	Locally-Funded Projects
LGC	Local Government Code
LGUs	Local Government Units
M&E	Monitoring and Evaluation
MBN	Minimum Basic Needs
MoHa	Ministry of Home Affairs
MPR	Consultative Assembly
MTEF	Medium-Term Expenditure Framework
MTPDP	Medium-Term Philippine Development Plan
MTPIP	Medium-Term Public Investment Program
MUSBANGDES	Village Development Meeting
MUSBANGDUS	Sub-Village Development Meeting
NAPC	National Anti-Poverty Commission
NKCG	National KALAHI Convergence Group
NEDA	National Economic and Development Authority
NGAs	National Government Agencies
NGOs	Non-Governmental Organizations
NPFP	National Physical Framework Plan
NROs	NEDA Regional Offices
ODA	Official Development Assistance
OPIF	Organizational Performance Indicators Framework
PAPs	Programs, Projects and Activities
PCs	Planning Committees
PCLUP	Provincial Comprehensive Land Use Plan
PDP	Provincial Development Plan (or CDP)
PEPFMR	Public Expenditure Procurement and Financial Management Review
PMS	Performance Management System
POLDA	Basic Policies of Regional Development
PPB	Planning, Programming, Budgeting
POs	Private Organizations
PPDO	Provincial Planning Development Office
PDIP	Provincial Development Investment Program (or CDIP)
PPFP	Provincial Physical Framework Plan
PRS	Poverty Reduction Strategies
PROPEDA	Regional Development Program
PROPENAS	National Five-Year Development Program
RAKORBANG	Development Coordination Meeting
RAPDB	Regional Annual Budget Proposal
RBAS	Regional Budget Allocation Scheme
RDCs	Regional Development Councils.
RDIPs	Regional Development Investment Programs
RDPs	Regional Development Plans
RKCG	Regional KALAHI Convergence Group

RENSTRA	Strategic Plan of Central Government Agencies
REPELITA	National Five-Year Development Plan
REPETA	Annual Development Plan
REPETADA	Regional Annual Development Plan
RHUs	Regional Health Units
RMDC	Regional Management Development Conferences
RPFPs	Regional Physical Framework Plans
RPMES	Regional Project Monitoring and Evaluation System
SEER	Sectoral Efficiency and Effectiveness Review
SEF	Special Education Fund
SONA	State of the Nation Address
SPM	Minimum Service Standards
SPPBS	Synchronized Planning and Budgeting System
TARA	Technical Assistance and Resource Augmentation
UDKP	Development Unit at District Level

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Executive Summary

One of the more important public sector reform adopted by many developing countries in recent years is decentralization, which has the potential of improving the delivery of poverty-related services to the community. Decentralization, however, has given rise to changes in planning and budgeting processes at the national and sub-national levels, making it necessary to study how poverty strategies can be better integrated into these processes. This paper examines the planning and budgeting processes in the Philippines and Indonesia, two countries which have recently decentralized, with the objective of drawing lessons on how PRS can be formulated in countries which are contemplating on decentralizing. Specifically, the paper will assess: (1) the linkages in planning processes across levels of government; (2) the relationship between budgeting and planning processes both at the national and local levels; (3) the use of fiscal instruments and policies for aligning national and local development goals; and (4) the monitoring and evaluation practices related to planning and budgeting in the two countries.

Both Indonesia and the Philippines share similarities in their geography, political and socio-economic development and structures. Both countries, however, pursued two different decentralization tracks considering their political and economic situations. Indonesia adopted the "Big Bang" approach to decentralization devolving the services of 11 sectors in contrast to the more gradual approach of the Philippines which devolved selected services. Indonesia is still in the "infancy" stage of implementing decentralization having started only in 2001 in contrast to the Philippines which adopted the policy in 1991. The difference extends as well to the coverage of the policy, the formula used in allocating fiscal transfers among government units as well as the implementation mechanisms adopted by the two countries during the transition stage.

Planning and Budgeting Processes in Indonesia and the Philippines

Both Indonesia and the Philippines have had a long tradition in preparing development plans. Prior to decentralization, both countries had highly centralized governments that necessitated planning processes that combined the top-down and bottom-up approaches. Whereas bottom-up integration of plans was important in a centralized system of government where authorities emanated from the center, the new powers and resources provided to sub-national governments required giving them more independence in planning their activities. Hence, while both countries still follow a top-down approach in planning with broad policies and guidelines set at the central or national government for sub-national governments to use in preparing regional and local plans, lower-level government plans are no longer integrated at the central levels, partly for practical purposes given the number of local governments and the usefulness for policy-making of a highly integrated plan in the context of decentralization.

In both Indonesia and the Philippines, oversight responsibilities over planning are divided between two agencies – the planning agency and the department in charge of internal affairs (e.g.MoHa in Indonesia and DILG in the Philippines), sometimes resulting in inaction on planning problems at the local level. Greater coordination is needed between these agencies particularly with respect to improving planning capabilities at all government levels as well as planning linkages among LGUs and between NG agencies and LGUs.

From the experience of Indonesia and the Philippines, requiring local governments to prepare plans should take into account (a) the objectives of the plan, particularly its use in relation to other public administrative functions (e.g. budgeting, ODA allocation); (b) the capability of the officials who will be required to do the plan; (c) the local conditions. Some of the more important implementation details which are usually left out in relation to these factors include: (a) synchronization of plan preparation with the budgeting cycle; (b) sophisticated requirements of plan preparation which may be too complicated given capabilities of local officials; (c) availability of data or presence of private sector/civil society organizations for monitoring performance.

Capacity building on planning techniques should be approached in a holistic manner where the training program not only stops at preparing a plan, but continues with helping communities/local officials with the identification of projects and funding sources, financial support, and monitoring and evaluation techniques.

In the partial devolution of authorities like in the Philippines, delivery of services in affected sectors becomes the joint responsibility of the national government agencies and the local government units. Coordination between national government agencies and local government officials is important for the following reasons: (1) local government departments are informed of prospective national projects being initiated at the national level for local level implementation even at the conceptual stage and their inputs considered; and (2) national government agency representatives participate in the local sector planning programming deliberations at the relevant local councils. On the project side, closer coordination between national government agencies (NGAs) with LGUs and their local departments is also important to ensure (1) better implementation of nationally-initiated projects at the local levels; and (2) that critical local needs which cannot be locally funded are considered and eventually incorporated in the national government agency budgeted provided these are not completely devolved functions. For very poor communities, closer coordination with NGAs might result in affirmative action even for devolved functions in these areas considering their difficult situations (e.g.Mindanao).

On Mechanisms to Influence Local Government Planning

Unconditional grants like the IRA and DAU should be left to the regional/local governments to allocate with minimal conditions set at the central. For projects which are the nationally designed and funded, the national government may give either matching grants for localities which are financially better off or unconditional grants for very poor areas. Ideally however, devolution encourages the local government to design and fund their own poverty projects. This implies capacitating regional governments to do poverty diagnostics and to look for financing for their projects.

On Monitoring and Evaluation

Monitoring responsibilities in a decentralized context, similar to planning, have to be delineated. Is monitoring being done so that implementation success and failures can be fed into the planning cycle? In this case, the monitoring responsibilities are tied to the planning units. If decision-making planning is devolved as part of decentralization, the monitoring responsibilities should be lodged with the local government units.

Monitoring as part of oversight responsibilities would take on a different mode, which are related to a system of rewards and sanctions for performance. From the point of view of oversight agencies, monitoring perspectives have changed as in planning, consistent with the new role of these agencies as facilitators rather than "controlling", favoring incentives over sanctions in encouraging good performance. Hence, self-assessment performance measures and indicators are being developed alongside greater civil society participation in monitoring.

Implications on PRS Formulation in a Decentralized Context

Since poverty is a multi-dimensional concept and is prone to multiple interpretations, basic to any PRS exercise is the leveling of understanding of what poverty or pro-poor means. It would be advisable if the agreed definition can be filtered down to the lowest government level. In the case of the Philippines, the core set of poverty indicators to be collected and used for analysis and monitoring purposes at the local level were identified. Related to this is the classification of pro-poor projects and the operational meaning of what a pro-poor budget implies should be provided.

In a decentralized context, should poverty plans be prepared at all levels – national, provincial, city, district and villages? This would depend on whether the poverty program is centrally designed and implemented and whether funding will be sourced from the central government. Poverty planning as sub-national levels implies the availability of resources and the capability to design and implement projects at local levels. While donors are concerned with participatory processes in drawing up poverty plans, more important is the need to have a holistic approach where poverty diagnostics are followed by the translation of the poverty analysis into activities, programs and projects, resource generation and monitoring and evaluation.

An equally important question is whether governments should in fact have a national PRS separate from the country's medium-term or long-term plan. In the case of Indonesia, the new Five-Year plan which will probably be formulated after the 2004 elections can be merged or be the PRS. If PRS are to be required at the sub-national level, there is a need to closely study the form of the PRS that would be relevant and practical at each level of government.

For countries in transition from a centralized government to a decentralized government, it might entail less adjustment cost if the PRSP processes can be integrated with the evolving institutional planning and budgeting mechanisms. Creation of new committees or processes at the same time that regional governments are grappling with numerous operational revisions related to decentralization might be too cumbersome. Blending the PRSP in existing or evolving processes may actually lead to a more sustainable process in the future.

There is also a tendency for the bureaucracy to constantly introduce new poverty programs every change in administration, giving the impression of "unending transitions" and wasting scarce resources. As a result, institutional duplications and processes arise, often causing confusion among implementers at the local level. Since the intervention unit is the village, greater coordination with local/regional LGUs is important, especially since some poverty-related services like health have been devolved. The objective is to encourage LGUs to fund more poverty-related programs.

In relation to poverty monitoring, the development of a monitoring system at the local level should into account (1) the use of the information being collected; (2) the availability of poverty-related information available at the community; and (3) capabilities at the local level. Community-based poverty indicator system maybe more relevant. In the Philippines, there is now a move to institutionalize a local poverty monitoring system that makes use of 13 core poverty indicators.

The decentralization experiences of the Philippines and Indonesia confirm its potential for enhancing basic service delivery to the communities. Decentralization, however, involves complex political and administrative changes that will be met with a lot of resistance along the way. There is really no uniform kit to address the challenges of decentralization. Every country with its own political structures and culture will have its unique way of dealing with these challenges. The experience of the Philippines is but one option among many possibilities.

Introduction

The concern for poverty reduction as a worldwide development goal has given rise to various efforts at preparing Poverty Reduction Strategies (PRS). Since many countries follow a multi-level governmental framework, studies have cited the potential advantages of involving sub-national governments in the design as well as implementation of poverty reduction strategies. Bird and Rodriquez (1999), for instance, cited three key areas in which decentralization can influence poverty programs: (1) detailed local information is readily available in decentralized governments for the design of poverty reduction programs at the local levels; (2) as a consequence, more effective targeting of public investment programs for poverty can be undertaken; and (3) transfers to local governments can be used for promoting poverty objectives. However, poverty reduction efforts, to be successful, entails influencing local government officials to use poverty as a framework for their planning and budgeting processes. This can only be done with an in-depth understanding of how planning and budgeting are undertaken at sub-national levels.

This paper is a case study of Indonesia and the Philippines, two countries which have recently decentralized, aimed at documenting their planning and budgeting processes for the purpose of drawing lessons on poverty planning for countries that are contemplating on decentralizing. This paper is divided into five sections. The first part clarifies some of the planning and budgeting issues arising from decentralization. This will be followed by general background information on the political and socio-economic conditions in Indonesia and the Philippines as well as the similarities and differences in the decentralization experience of both countries. The third and fourth parts of the paper will present the planning and budgeting processes in the Philippines and Indonesia highlighting (1) the linkages in planning processes across levels of government; (2) the relationship between budgeting and planning as implemented at all government levels; (3) the use of fiscal instruments and policies for aligning national and local development goals; and (4) monitoring and evaluation practices for planning and budgeting in the two countries. The fifth part summarizes the policy and institutional issues that may have to be addressed in doing poverty planning in decentralized countries.

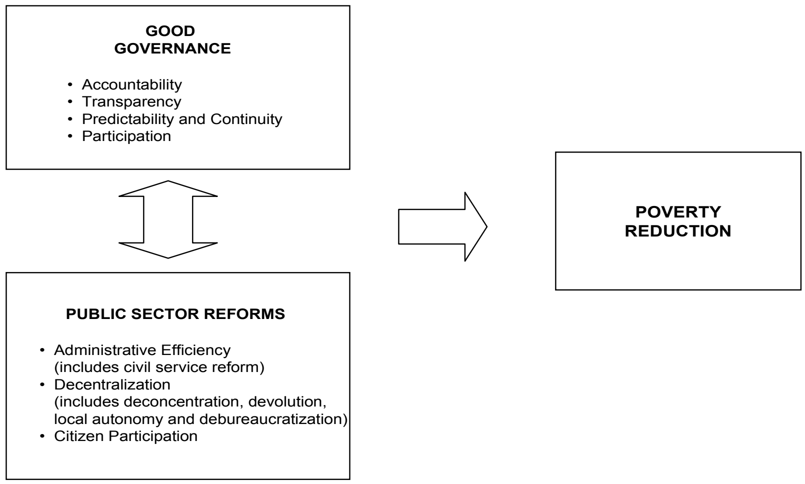
The study was based on planning and budgeting studies undertaken on Indonesia and the Philippines as well as on interviews of local and national government officials, representatives of civil society groups, research institutions and the donor community in both countries (refer to Appendix 1 for the list of persons interviewed).

While national governments issue rules and regulations for undertaking planning and budgeting at sub-national levels, actual planning and budgeting practices may actually differ across local governments. Given the small sample of local government units visited, the paper is not a comprehensive account of the planning and budgeting processes at the different sub-national government levels in Indonesia and the Philippines. Nor is it possible to conclude that the planning and budgeting processes followed in the local government units visited for the paper are the typical practices in both countries. The paper, however, attempts to showcase some good practices that can be replicated in similarly-situated countries. Similar to other case studies, the lessons are drawn with some caution, bearing in mind that specific country circumstances will influence the choice of the appropriate planning and budgeting procedures that will be most effective given different decentralization experiences.

The Analytical Context

The presence of widespread poverty in countries with reasonable rates of economic growth highlights the importance of good governance and public sector reforms in the fight against poverty. Public sector reforms that encourage decentralization, greater citizen participation and administrative efficiency promote good governance principles of accountability, transparency, predictability and continuity and participation (Brillantes and Cuachon 2002). These factors, in turn, are critical in ensuring more effective implementation of poverty reduction programs, particularly those geared towards the poorest communities (Figure 1).

Figure 1: Public Sector Reforms, Good Governance and Poverty Reduction



Source: Brillantes and Cuachon (2002)

Decentralization oftentimes entails new procedures for planning and budgeting at local levels which may be different from those followed at the national level. It is therefore important that poverty reduction strategies be undertaken within the planning and budgeting framework followed at all government levels.

In many countries planning refers to two processes: (1) the formulation of the statement of broad vision, targets, strategies and policies of the ruling political administration; and (2) preparation of an investment plan consisting of programs, projects and activities (PAPs) deemed important in achieving the development targets in the plan. The latter may be formulated at the same time as the national plan or separately on an annual basis as part of the preparatory activities to the budgeting process.[1]

Governments usually aim at vertical and horizontal integration of the plans prepared at the national and sub-national levels. Vertical integration of plans, which refer to the top-to-bottom and the bottom-up planning approaches, is desired to ensure consistency of policies between the national or central governments and those at the sub-national levels. Top-to-bottom planning allows central governments to set broad directions for the preparation of sector and lower-level government plans. Bottom-up vertical planning, on the other hand, is usually interpreted as the

[1] Sometimes, the programming aspect of planning is assumed to be part of the budgeting process since the resulting list of PAPs from the programming exercise is made the basis of the budget.

aggregation of plans from lower to higher government levels to ensure that aspirations/or programs of lower-tier governments are considered in the higher-level development plans. Horizontal plan integration, meanwhile, refers to coordination of complementary activities/services that are undertaken across several local government units or across sectors. Plan integration can apply to both the policy side of planning and the programming of PAPs.

Planning, however, is undertaken not for its own sake but for better budgeting of programs, activities and projects. Coordinated planning and budgeting processes is important in the attainment of a country's development goals. Similar to planning, budget linkages in a decentralized context can also be viewed from the vertical and horizontal perspectives. The degree of fiscal autonomy granted to local governments, the extent of devolution and the hierarchical relationship among local governments will dictate the necessity of vertical budget linkages among government tiers. Local level needs that cannot be funded from financial resources generated at that level may be elevated to the next higher government tier for funding. Horizontal budget linkages involving several LGUs or agencies/departments, on the other hand, are sometimes necessary for projects involving several local government units/departments.

In the context of fiscal decentralization, the role of transfers can be critical in ensuring the provision of efficient public service delivery at the local levels. This, in turn, highlights the issues of vertical and horizontal equalization. As defined by Hofman et. al. (2002), the former measures the extent to which assigned expenditure responsibilities matches the revenues granted to various local government levels while the latter refers to inter-regional balance between fiscal revenues and expenditure needs. It is important to look at the fiscal instruments used to lend support to the implementation of plans and poverty reduction strategies at the local level and identify those which may be appropriate, given diverse country contexts particularly in low income countries.

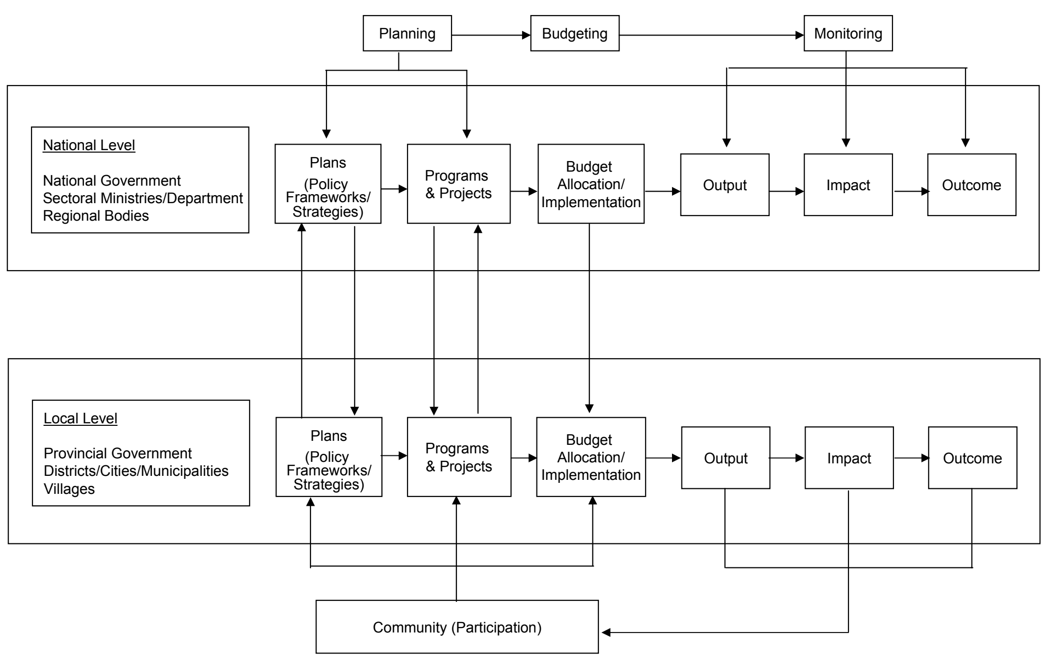
Successful planning is party informed by implementation successes and failures which are usually derived from a good monitoring system. Monitoring responsibilities, however, are usually tied up with planning responsibilities. If planning is devolved as part of decentralization, then local government units may have to put up as well a monitoring system. The necessity of putting in place monitoring systems at the local level, however, will partly depend on the fiscal autonomy provided at the local levels and the extent of devolution granted at LGU levels. Monitoring and performance evaluation systems refer to both planning and budgeting activities, though oftentimes the latter which is undertaken annually, is more developed than the former.

In the context of the Medium-Term Expenditure Framework, monitoring should not only be limited to assessing outputs but should expand to identifying outcomes and impacts.

Monitoring as part of oversight responsibilities, however, are related to a system of rewards and sanctions. As in planning, monitoring perspectives of oversight agencies have changed consistent with their new role as facilitators rather than “controlling”, favoring incentives over sanctions in encouraging good performance. Hence, self-assessment performance measures and indicators are being developed alongside greater civil society participation in monitoring.

The planning, budgeting and monitoring linkages are shown in Figure 2.

Figure 2: Planning, Budgeting and Monitoring in a Decentralized Context



The Decentralization Context

The geography as well as the economic and social developments in Indonesia and the Philippines has many similarities. Poverty in both countries remains to be a serious problem, especially following the 1997 Asian countries. Both countries, however, pursued different decentralization tracks following their unique political and economic circumstances. There are differences in the coverage of the decentralization policy, the fiscal autonomy granted to lower government levels including the formula for intergovernmental transfers as well as the implementation mechanism adopted by both governments.

3.1 General Political and Economic Situation

Indonesia and the Philippines are two of the biggest countries in Southeast Asia, both in terms of land area and in population. Indonesia is the world's largest archipelago with 17,000 islands compared to the Philippines' 7,000 islands. Indonesia's population of 206 million in 2000 is one of the biggest in the world, while the population of the Philippines reached 76.5 million in the same year. The latter, however, has one of the highest population growth rates of 2.32 percent compared to about one percent in Indonesia.

Indonesia and the Philippines are republics, with their Presidents serving as Chief of State and head of government, with a five-year and a six-year term, respectively. Both countries have three branches of government, the Executive, the Legislature and the Judiciary. Indonesia has a unicameral legislature with 500 seats while the Philippines follows a bicameral system with a 24-member Senate and a House of Representatives with 214 seats, all of which are elected by popular vote. Table 1 compares the key features of the Philippines and Indonesia.

Tracing their political past, both countries were once colonies spanning about three centuries, with Indonesia being under Dutch rule and the Philippines under Spain and later the United States. The Philippines gained independence from Spain in 1898 and from the US in 1945 while Indonesia became legally independent from the Netherlands in 1949.

Both countries also suffered from being ruled by a dictator, 21 years in the case of the Philippines under Marcos and 33 years of Soeharto's rule in the case of Indonesia. The Philippines has had two electoral presidential transitions since the ouster of Marcos in 1986 and a "people power" uprising in 2001 which placed the present president into power. Indonesia, on the other hand, had three Presidents since Soeharto was forced to resign in 1998. The democratic transition from dictatorship ushered in significant reforms politically and economically in both countries.

The structure of the local governments in both countries has similarities. Indonesia is divided into (1) autonomous provinces (*propinsi);* (2) districts (*kabupaten*) which are located in rural areas; (3) municipalities/cities (*kota*), which are in urban areas; (4) sub-districts (*kecamatan*) within districts and municipalities; and (5) villages called *desa* in rural areas and *kelurahan* in urban areas. The 30 provinces in Indonesia have a dual status – as autonomous regions and as representatives of the central government in the regions. Similarly, the Philippines is divided into provinces, cities, municipalities and village (*barangay*). Furthermore, to facilitate coordination at the local levels, the reorganization of the Executive branch in 1972 divided the country unto 11 administrative regions, which have since expanded to 17 as of end-2002. The President exercises supervisory authority directly over provinces, highly urbanized cities (HUCs) and independent component cities and indirectly over municipalities and component cities through the provincial government.[2] As of December 2002, the Philippines has a total of 79 provinces, 112 cities, 1,496 municipalities and 41, 944 barangays.

Among the member countries of the Association of Southeast Asian Nations (ASEAN), both Indonesia and the Philippines still suffer from serious poverty problems. Both are not classified as highly indebted poor countries (HPIC) and are therefore not required to prepare PRS. The Indonesian government, however, opted to prepare one and, to date, has finalized an interim Poverty Reduction Strategy Paper (IPRSP).

Prior to the Asian Crisis in 1997, Indonesia has been cited as one of the more successful countries in fighting poverty. Consumption-based poverty incidence impressively went down to just 11.3 percent of the population in 1996 from 40.1 percent in 1976, supported by sustained economic growth which ranged from 6.1 percent to 7.8 percent between 1980 to 1996. The Asian crisis, however, caused Indonesia's real GDP growth to decline to 13.3 percent in 1997, which consequently raised poverty incidence to 24.2 percent. The country has since recovered with poverty incidence declining to 18.4 percent by 2001.

The Philippines, on the other hand, has been less of a model compared to Indonesia with respect to its poverty reduction experience, owing to its more volatile growth pattern. Since 1985, poverty incidence has been reduced to 39.4 percent in 1997 from 49.3 percent of the population in 1985.[3] Using the revised methodology for poverty estimation, poverty incidence has been reduced to 34 percent of the population in 2000 from 33 percent in

[2] Highly urbanized cities are those with a population of 200,000 and an income of P50 million; independent component cities are those with a population of 150,000 and an income of P20 million (Title 3, Sec. 452 of the Code). The latter are component cities whose charters prohibit their voters from voting provincial elective officials (Title 3, Sec.452 of the Code).

[3] Official government poverty incidence data for Indonesia and the Philippines may not be comparable because of differences in methodologies used. For instance, Indonesia uses consumption-based measure while the Philippines uses income as basis for counting the number of poor.

1997.[4] Table 2 contains various social indicators for Indonesia and the Philippines.

3.2 Decentralization Experience

Indonesia and the Philippines have highly centralized governments that recently implemented decentralization policies, albeit following different tracks. The former adopted the more radical "Big Bang" approach devolving the delivery of services in 11 sectors to the regional offices (WB 2002).[5] The Philippines, on the other hand, opted for the more gradual approach that devolved selected services and regulatory responsibilities.[6] This difference in approach has implications in the planning responsibilities between the central agencies and the regions. In the gradual approach adopted by the Philippines, national or central level agencies continue to play a role in the delivery of basic services, which means that planning and budgeting responsibilities for these services have been divided among central agencies and local government units. In the big bang approach of Indonesia, the responsibility of service delivery, through time, will mainly rest with sub-national units, which then will have to bear the financial cost of these services.

In terms of coverage, decentralization in Indonesia focused on the district and municipality levels, generally excluding the provinces (Figure 3). The Philippines, however, reorganized the whole local government bureaucracy affecting the provinces, cities, municipalities down to the village or barangay levels.

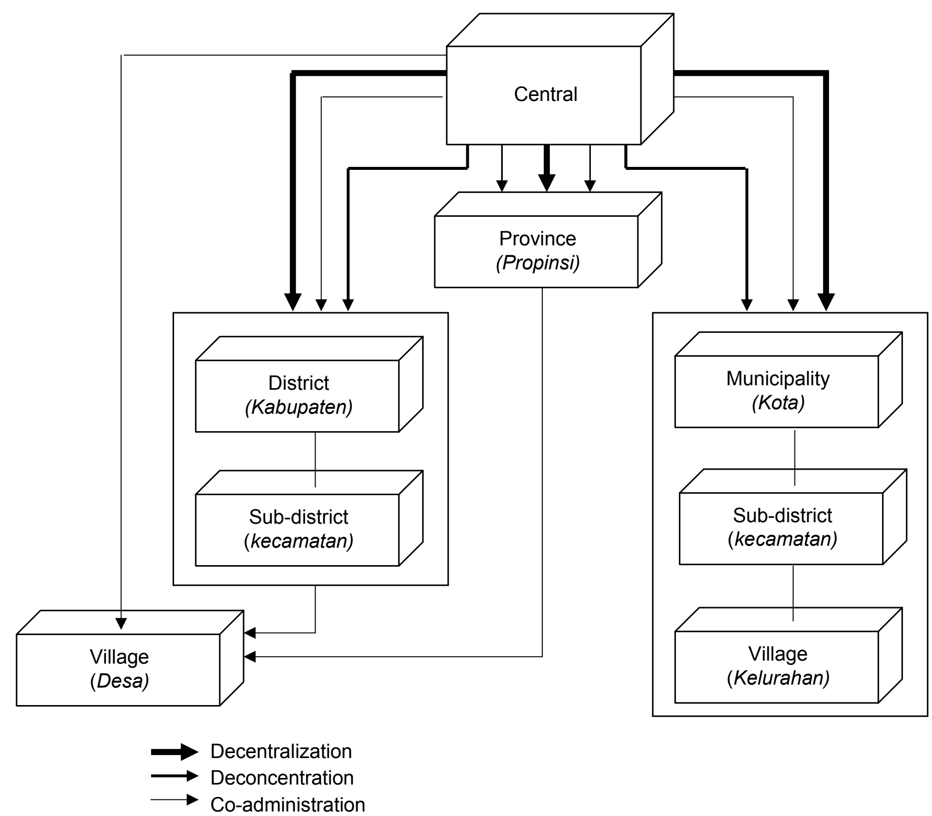
The framework for inter-governmental transfers as well as the revenue-generating powers granted to local government units was specified in the laws decentralizing the two countries, covering revenue sharing arrangements and general and specific purpose grants. The Philippines followed a much simpler formula for the sharing of the internal revenue allotment among LGUs, with the share of each province, city and municipality being based on three variables - population (50%), land area (25%) and equal sharing (25%). In Indonesia's case, the formula is based on the difference between the local governments' fiscal capacity and fiscal needs, with the latter being determined by a formula based on population, poverty rate, land area and the construction price index.

[4] The 1997 and 2000 poverty data are both based on the revised methodology recently adopted by the Philippine government.

[5] Regions broadly refer to sub-national entities such as provinces, municipalities and barangays in the Philippines and provinces, city, regencies, districts, villages and sub-villages in Indonesia.

[6] The Philippines devolved ten services formerly being delivered by eight departments and eight regulatory powers.

Figure 3: Framework of Government in Indonesia According to Law No. 22, 1999



Source: Brillantes (1999)

The transition period was also handled differently by both countries. Indonesia created an Advisory Board to the President, consisting of representatives from the associations of the heads of regencies, cities and provinces and the ministers of Home Affairs, Finance and State Administrative Reforms, whose tasks were to (1) recommend whether a region can hand back a function to the province; (2) advise the President on the formula for the distribution of the grant; and (3) approve requests for new regions which are to be established by law (WB 2003).[7] In the case of the Philippines, an Oversight Committee was organized to formulate and issue the appropriate rules and regulations necessary for the implementation of the Local Government Code within two months. The membership of the Committee, which was chaired by the President's

[7] According to interviews, however, the Advisory Body was not really convened, resulting in weak coordination among agencies during the transition period.

Executive Secretary, was drawn from the legislature (6), the Cabinet (3) and the different regional leagues (4).[8] A devolution master plan was approved by the President after extensive consultation with stakeholders which identified three major phases of devolution: (1) a changeover phase (from 1992-1993) that involved the transfer of devolved functions, with the corresponding assets and personnel; (2) a transition phase (1994-1996) wherein national government agencies and the LGUs institutionalized their adjustments to the decentralized schemes; and (3) a stabilization phase (1997 onwards) where adequate capacities would be built at the local level with the national government agencies providing support and technical assistance.

The implementation of decentralization in Indonesia is fairly in its "infancy" stage having started only in 2001 compared to the Philippines which has been implementing the policy since 1991. Government institutions in Indonesian, both in the central and regional levels, are therefore in a transition stage where implementing mechanisms, including those for planning and budgeting are still being worked out. It is likely that present processes will be changed in the next two years, especially after the Presidential elections in 2004, making it difficult to pinpoint planning and budgeting responsibilities among agencies at this time. On the positive side, being in the transition may be seen as an opportunity to introduce planning and budgeting reforms at all levels of government though too many changes might lead to confusion and reform-fatigue, making adjustments more painful and longer to institutionalize.

[8] The main authors of the Code were made members of the Committee, ensuring that the intent of the Code was carried forward even at the implementation stage.

Planning and Budgeting Processes in the Philippines

The division of responsibility for service delivery between the national/central and the local government units (LGUs) following the adoption of decentralization in 1991 paved the way for revising the planning and budgeting processes followed at different government levels.[9] The degree of decision-making autonomy provided to decentralized levels of government, the extent of fiscal decentralization and the hierarchical relationship among different government levels partly influenced the changes in planning, budgeting and monitoring processes after decentralization.

The partial devolution of service delivery accompanied by fiscal autonomy as a result of decentralization was accompanied by greater authority granted to LGUs to undertake their own planning and budgeting activities independent of the national government. Operationally, this implied less need for bottom-up integration of plans and budgets from the local to the national government. Similar to planning, monitoring responsibilities follow planning and budgeting responsibilities granted to LGUs. Monitoring systems are important for informed decision-making at the planning stage of LGUs but oversight agencies at the national level are also required to set-up their own monitoring systems for assessing LGU performance.

4.1 Planning Processes

The Philippines has a long tradition of preparing development plans, though mostly at the national government levels. Plans are usually prepared at the national, regional and local levels, i.e., provincial, city, municipal and village (*baranggay)* levels (Figure 4). The passage of the Local Government Code of 1991 (henceforth referred to as the Code) affirmed the importance of preparing local level plans as part of the process of decentralization.

[9] Local government units (LGUs) in the case of the Philippines refer to provinces, cities, municipalities and village (*baranggay*) levels

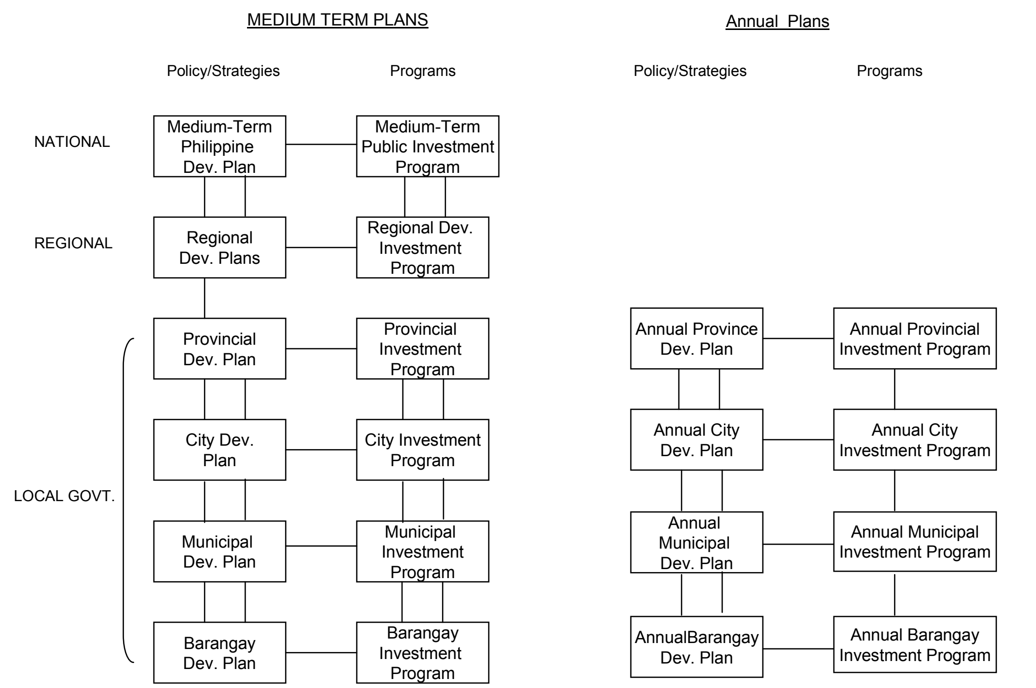


Figure 4: Plan Documents in the Philippines

Development plans in the Philippines usually have two components, policies and strategies section and the programs and projects. The latter is the "programming" side of planning which supports the policies and strategies of the plan and is deemed necessary to attain the objectives of the plan.[10]

Institutionally, oversight planning responsibilities are lodged in two agencies – the National Economic and Development Authority (NEDA) and the Department of Interior and Local Government (DILG). Since 1972, the responsibility of coordinating the preparation of national and regional plans is lodged with the NEDA while oversight responsibility for local government planning rests with the DILG as stipulated in the Code. This diffused institutional arrangement has made the coordination of planning activities between the national/regional levels and the local levels as well as the checking of plan consistency difficult.

[10] There is sometimes confusion as to whether the programming side is part of the planning activity or part of budgeting.

4.1.1 Planning at the National Level

The major plan documents prepared at the national level are the Medium-Term Philippine Development Plan (MTPDP), which coincides with the President's term and the Medium-Term Public Investment Program (MTPIP), which contains priority PAPs for implementation with the MTPDP. Appendix 2 describes the detailed planning processes followed in the preparation of the MTPDP and the MTPIP. Though not required, sector plans are also prepared, often with funding assistance by the donor community.

The Medium-Term Philippine Development Plan

The MTPDP contains the broad development vision/goals and targets of the government as well as the policies and strategies which must be put in place to attain these goals. Based on the last three planning cycles starting 1992 that coincided with the political administrations during the period 1992-2004, the MTPDP process essentially followed a top-down approach wherein the national plan provided the strategic framework for the preparation of medium-term plans by other government instrumentalities. The national plan was intentionally formulated to be a direction-setting document rather than a detailed compilation or aggregation of sector, regional and local government plans.[11]

The MTPDP in the last two decades had been sector-focused, providing a comprehensive coverage and analysis of the major sectors in the economy. Each sector chapter contained a discussion of past sector performances and challenges, the sector's medium-term development goals and targets, policies and strategies, legislative agenda and broad listing of programs and projects. However, the Plan process usually stopped short of prioritizing sector policies and strategies. The preparation of annual implementation plans for the different sectors which could be tied up with the budgeting process were also not required.

The MTPDP has a regional chapter which provides the spatial perspective in the plan. In recent years, this chapter provided the regional development framework which can be used in the formulation of regional development plans (RDPs), many of which has become strategic rather than comprehensive.[12] Admittedly however, the MTPDP is not able to capture the local government

[11] The tight schedule for national plan preparation usually prevented the aggregation of the different plans into the national plan. At the time of plan preparation, sector, regional and local plans would still not be available in most instances. Plan aggregation was last done in 1986 which took about nine months to finish.

[12] The strategic approach calls for focusing the plan only on areas which would have the greatest impact on regional development. The comprehensive plan, which is the mirror image of the national plan, discusses the sector developments in the region.

perspective as well as sector chapters are able to articulate sector concerns. Timing, institutional and logistical problems prevented the bottom-up integration of regional or local plans and the holding of consultations with local governments. On the practical side, even if local plans were available, the sheer number of provincial plans to review and aggregate will make the exercise unwieldy.[13] On the institutional side, since DILG has oversight responsibility over local plan formulation, NEDA has deferred to DILG all matters pertaining to local planning, including the gathering of inputs for national planning, for which no mechanism has yet been set-up by the DILG. NEDA, therefore, is able to get the views of Local Chief Executives (LCEs) only through the representation of the different local government leagues in the Plan committees.

Through the years, the Plan preparation process had been participatory, with most sectors of society being represented in the various plan committees. Spearheading the preparation of the sector chapters were usually the newly-designated Department secretaries or their representatives who sit as Chair of the Plan Sector Committees, with the Chairs of the relevant Congressional sector committees being designated as Co-Chairs together with representatives from non-governmental organizations (NGOs) . All plan subcommittees had civil society representation. In addition, broad regional and sector consultations were organized before finalization of the plan document. The highly consultative nature of the plan process in the past facilitated the broad acceptance of the MTPDP by different sector leaders and major civil society groups in the country.

The Medium-Term Public Investment Program

The MTPIP was originally intended to be a companion document to the MTPDP, containing the listing of local and foreign projects, for implementation in the next six-years.[14] First formulated in 1989, the PAPs in the MTPIP were usually generated by line departments and consisted of both ongoing and proposed programs and projects with corresponding cost estimates (NEDA 1986). While originally formulated as a monitoring device for projects funded from Official Development Assistance (ODA), the government realized in 1992 that the MTPIP can be an important input to the annual budgeting process. However, its format at that time was not too useful for this purpose since the project listing, then in the form of priority sub-sector activities, was too broad and the list was too long without any sense of which PAPs should be given priority.

[13] As of December 2002, there are 79 provinces in the Philippines which would have to prepare provincial plans per the Code.

[14] Since the MTPIP process sequentially followed the MTPDP process, it was always released after the printing of the MTPDP.

Since then, there had been conscious efforts on the part of NEDA and the DBM to make the MTPIP more relevant to the budgeting process, particularly integrating the MTPIP process as part of the Medium-Term Expenditure Framework (MTEF) being promoted by the DBM.

Major changes in the MTPIP process have been proposed not only to conform with the requirements of the MTEF but also to strengthen the linkage between the MTPDP and the MTPIP. These procedural reforms, which are better known as the Sector Effectiveness and Efficiency Review (SEER) process under the MTEF, consist of the following activities: (1) the linking of sector outputs of government departments/agencies with agreed-upon desired sector objectives which can be translated to societal outcomes; and (2) reviewing and prioritizing all ongoing and proposed projects using the output-outcome framework in (1); and (3) reconciling the annual budget requirements of priority programs and projects with sector expenditure ceilings and department baseline ceilings. However, the limited budget since 2001 prevented the full implementation of the SEER and the formulation of an MTPIP to accompany the current MTPDP.[15]

However, making the MTPIP more useful for budgetary purposes would also entail addressing institutional issues related to: (1) the delineation of responsibilities between the NEDA and the DBM in the evaluation and approval of public investment projects, particularly with respect to providing budgetary cover for projects approved by the NEDA through the Investment Coordination Committee; (2) the training of agencies in identifying societal outcomes and linking these with final outputs and performance indicators; and (3) enhancing the capability of NEDA to evaluate even locally funded projects outside the category of major national projects. Equally important to the process are the studies that would establish the technical links between final sector outputs with outcomes which the sector departments and oversight agencies can use.

Sector Plans

Though not legally required, plans have been prepared for the major sectors of the economy such as infrastructure, energy and health, among others. Table 3 contains the listing of sector plans in the Philippines. Some agencies prepare sector plans oftentimes with funding support from donors, especially in areas consistent with donor priorities. For instance, almost all sub-sector plans in infrastructure, except for the Philippine Energy Plan, were formulated with donor assistance including follow-through measures. Majority of sub-sector plans were prepared outside the time period of the MTPDP, sometimes even offering a perspective period of 10-25 years. Sub-sector plans whose timeframe is consistent with the national plan were

[15] Officially, no MTPIP was released as part of the present MTPDP.

those formulated with local funding while those with donor assistance often were prepared after the MTPDP formulation.

While the SEER process as earlier described is an initiative that aims to strengthen the MTPDP-MTPIP link, another option which can achieve the same objective is to require departments to prepare annual sector plans together with an annual investment program, which can be the annual translation of the MTPDP, the rationale being that the MTPDP is intended to be a framework plan rather than a detailed plan for budget purposes. The proposed sector and investment plans can serve as the basis for the annual budget submission of the agencies.

4.1.2 Planning at the Regional and Local Levels

Planning at the sub-national levels is done at the regional and local government levels, i.e. at the provincial, city, municipality and the village or *barangay* levels. The Regional Development Council (RDC) in each region, which is backstopped by the NEDA Regional Offices (NROs), takes responsibility over the preparation of the regional plans. At the local level, this function has been given to the Local Development Councils which is chaired by the Local Chief Executives, namely the provincial governors, municipal and city mayors and *barangay* captains. Oversight responsibility over regional planning implicitly lies with the NEDA which supervises all NROs while this function rests with the DILG for local planning per the Code. The more detailed regional and local planning processes are described in Appendix 2.

Regional Plan Formulation

As earlier explained, the regional perspective in the MTPDP is usually provided in the regional development chapter, which in the past, had been drawn from the RDPs. In the 80s, the RDPs, which are comprehensive plans, were the mirror-image of the MTPDP, having the same chapters and essentially following similar planning processes and timetables. There is clearly a strong connection between the MTPDP and the RDPs in this case.

Following the RDC mandate, the RDPs, as originally conceived, were intended to be an integration of the provincial plans as well as the different development plans of government corporations and special development bodies in the region.[16] Even with decentralization, bottom-up vertical integration of planning is being promoted as the following guidelines issued by the NEDA for the formulation of RDPs for the 1993-1998 planning exercise would show:

> *"The Planning process should be consistent with the policy of decentralization and should ensure that the intent of the Local Government Code is*

[16] This is very clear in the mandate of the RDC which is detailed in Appendix 2.

implemented to give substance to the spirit of bottom-up planning (i.e. the preparation of the plan will indeed start at the municipal and provincial levels) and participatory planning" (NEDA 1992).

Bottom-up vertical planning from the provinces to the regions, however, is not done in practice due to the absence of provincial plans during RDP formulation, in turn is due to the unsynchronized schedules for provincial and regional plan preparation.[17] The latter may be attributed to the following factors: (1) provinces are generally free to determine their own timetable and processes for plan formulation after decentralization, independent of the national government or regional planning schedules; (2) even the DILG, which exercises oversight responsibility for local planning, does not coordinate the local schedules for plan preparation nor does it regularly issue guidelines for the medium-term or annual local plan preparation;[18] and (3) since election of all elective officials is done at the same time, a bottom-up approach implies having to wait for lower level plans before the higher level plans can be finalized, which might take some time given different local level planning capabilities. Even setting aside the timing problem, there is no motivation for local governments to submit their plans to the RDC since local chief executives are aware that RDPs are prepared even without local plans.[19] Furthermore, the sheer volume of LGU plans also makes it impractical to be checking consistency between local plans and national/regional plans.[20] The absence of provincial plans, however, does not mean that RDPs are not able to capture the concerns of the province and its component cities/municipalities since Provincial Development Officers and the various local Chief Executives as well as civil society members based at the local communities sit in the standing committees of the RDCs, which usually prepare the RDPs.

Despite the promotion of bottom-up planning in the Code, RDPs starting 1999 are slowly becoming more strategic rather than comprehensive, implying new perspectives on the role of RDPs, that of providing a strategic framework for the provinces within the jurisdiction of the region. This probably stems from a similar change in the relationship between RDCs and LGUs, with the former realizing the importance of being facilitative rather

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[17] Furthermore, a truly bottom-up approach implies that provincial plans should also be based on city, municipal and *baranggay* plans, which might be impossible to do given the volume of local level plans to be integrated.

[18] The DILG issued planning guidelines only in 1994 during the early implementation of the Local Government Code. .

[19] Based on interviews, provincial and city development plans are not automatically submitted to RDCs in practice but have to be "requested."

[20] At the regional level, it is more practical to aggregate provincial plans and not the lower level plans.

than controlling in their dealings with LGUs. These changes may have also been an offshoot of practical considerations, e.g. the difficulty of synchronizing regional and the LGU planning activities and the sheer volume of LGU plans. Furthermore, comprehensive regional plans have lost their usefulness since the RDCs lack the budget to implement programs and projects anyway. Studies have also indicated that the more comprehensive RDPs of the past were not really considered in the preparation of LGU plans (Manasan 2003).[21] These changes may well be in the right direction of strengthening decentralization since LGUs can be left on their own to do their plans based on local conditions and needs.

Similar to national planning, regional planning has a programming component. The Regional Development Investment Program (RDIP) consists of three sets of projects: (1) the projects of regional offices of national government agencies; (2) the projects submitted by the provinces for national government funding; (3) devolved activities/ projects which are jointly funded by the province and the national government. The RDIP formulation necessarily follows a "limited" bottom-up approach from (1) the provincial governments which needs funding support from the national government; and (2) the regional projects of national agencies. The process is "limited" since there is no formal mechanism for ensuring that the project listing of the provinces for the RDIPs followed a process of integration from the village level. Funding for the RDIP would, in most instances, depend on the national government agencies and eventually the Department of the Budget and Management. There is, however, little incentive for provinces and highly urbanized cities (HUCs) to submit local plans "upwards" to the RDCs since the latter has limited financial resources and budget support from the national government has become more difficult to obtain after decentralization was fully implemented except for inter-LGU initiatives that are high-impact and area-wide such as the development of the CALABARZON[22] and the special attention to Mindanao, among others. Since the RDCs do not directly implement projects, the RDIP remains to be an organized list of projects which can be referred to when the RDC is called upon to endorse projects for ICC clearance.

[21] It is only when the NEDA, which acts as the secretariat to the RDC, is requested to provide technical assistance in the preparation of provincial plans, as in the case of Bulacan, when consistency between the regional and provincial plans is assured. At present, there is really no formal mechanism for checking the consistency of the LGU plans with the regional or national plan. The DILG, which has oversight responsibility over LGUS, monitors the presence of local plans but not the substance of the plans.

[22] CALABARZON is the acronym taken from the specific syllables of five provinces in Region IV, namely Cavite, Laguna, Batangas, Rizal and Quezon.

Unlike the close linkage between the MTPDP and the RDP in the past, the RDIP and MTPIP link is weak. Since the project/program listing in the RDIP is essentially national government agency projects located in the region, there is a possibility that these have already been submitted by the line departments for inclusion in the MTPIP. However, because the MTPIP process implicitly puts a premium to department endorsement of projects, regional projects, even if part of the RDIP, will have difficulty being considered in the MTPIP without national government departments' endorsement. In the 2001 MTPIP formulation, there were attempts to consider regional priorities when each region was asked to submit the top five priority projects per region to the NEDA. However, the extent to which regional projects were eventually included could not be confirmed since no MTPIP was finalized in the current administration due to budgetary problems.

With regards its future role in a decentralized context, RDCs have the potential of strengthening the planning link between the national and the local government levels through a two-way process of (1) bringing to the provinces and its component local governments the national vision and targets as stated in the MTPDP; (2) coordinating the formulation of the regional framework for the provinces under its jurisdiction; and (3) coordinating area-wide development concerns/projects with spillover effects that could not be confined within the territorial boundaries of certain LGUs, necessitating inter-provincial linkages. The composition of the RDCs which includes the regional offices of national government agencies and the local chief executives of the region makes the RDC the "natural" body that can fulfill these functions.

With respect to area-wide concerns or inter-LGU collaboration, the Philippine President has recently signed Executive Order No. 239 which groups together three regions in northern Philippines, Regions 1, 2 and the Cordillera Autonomous Regions (CAR) into a North Luzon Growth Quadrangle Area to facilitate the integrated development of the area. This move is expected to be followed by other regions geographically close to each other and which would have integrated projects.

RDCs nationwide have also organized into a federation for better coordination. The most recent attempt to ensure consistency of policies between the national and regional levels is the authorization given to the President of the Federation of Regional Development Councils to attend the NEDA Board and one of its more powerful committees, the Investment Coordinating Committee (ICC).[23] Since the NEDA Board coordinates economic policies, the presence of RDC representatives in the Board is an initial step towards making the RDCs

[23] This was implemented through Memorandum Order No.114 issued on August 29, 2003 by the Office of the President.

aware of significant national policies and a chance for their positions to be heard in important economic policy deliberations. Its presence in the ICC will also be important in assessing the regional impact of major national projects, though admittedly the success of the arrangement will hinge on the networking skills of the Federation's secretariat.

Local Plan Formulation

Local governments prepare two major plans – the development plans mandated by the Code and Provincial, City and Municipal Land Use Plans as required by Letter of Instructions No. 1350, which covers a 10-30 year period. The LGUs usually give priority to preparing the latter, which are needed for the issuance of zonal ordinances for building permits and tax valuations. LGUs also prepare sector plans, e.g. for children, women, environment, mostly with funding from donors.[24]

At the local level, the Local Development Council (LDC) of the province, city, municipality and *barangay*, similar to the RDC, is tasked with formulating long-term, medium-term and annual socio-economic development plans and policies as well as the medium-term annual public investment programs and projects as required in the Code (Title 6, sec. 109 of the Code). The LDC is composed of the head of the LGU (the governor, the mayor or *barangay* head), members of the local legislature, a representative of the congressman and NGO representatives, with the latter constituting no less than 25 percent of the members of the fully organized council. The local plans, however, are to be approved by the local legislature (the *Sanggunian)* through a resolution. Assisting the LDC and the *Sanggunian* is the Local Development Office, which serves as the secretariat of the LDC. The planning process followed at the local levels is described in Appendix 2.

Much of the planning at the local level is, however, done at the provincial and municipal/city levels, both of which have made considerable progress in setting long-term directions and preparing development plans, though planning proficiencies vary across LGUs (Abad 2002). It is at the *barangay* level where strategic, comprehensive and area-based planning is not usually implemented, which is unfortunate because poverty interventions are targeted at the *barangay* level. Based on the LGUs interviewed, what is submitted as the *barangay* development plan is just a listing of projects. If funding is available, consultants from the academe are usually hired to do local plans.

Despite progress in local planning after decentralization, there are still LGUs without local plans, primarily due to the following reasons: (1) not all Local Development Councils have been organized;[25] (2) lack of technical

[24] Some of those interviewed indicate that more than 30 sector and spatial plans are being prepared by LGUs.

[25] Section 287 of the LGC.

expertise of LGU officials and staffs to prepare development plans; (3) planning requirements specified at the national government levels are sometimes "incongruous and largely unrelated to local processes and area-based priorities" (ARD 1996); and (4) "…wrong set of planning skills have been imparted to LGUs", often as a result of donor support, which could not be applied in local planning (ARD 1996).[26] Part of the problem could also be traced to the institutional "divide" over the oversight planning responsibilities at the LGU level, with the Provincial Development Plans (PDPs) and the City Development Plans (CDPs) being submitted to RDCs while development plans of lower LGUs are given to the DILG, whose role is not explicitly stated in the Code, i.e. DILG neither provides review processes as part of its oversight function over LGUs nor does it refer the local development plans to the appropriate national government agencies as inputs in the formulation of national priorities with local significance.[27]

The promotion of bottom-up planning processes is implicit in the provisions of the Code, the objective of which is to widen the scope for local planning to influence development directions at the regional and national levels.[28] The Code requires the PDPs and the CDPs to contain the aggregate priorities of lower level LGUs filtered from the bottom upwards. In reality, however, bottom-up plan integration, especially on the policy side, has been difficult for the following reasons: (1) lack of capability to undertake the technical integration of plans; (2) the sheer number of lower level plans to be integrated; and (3) lack of plans in lower-level local governments. As a consequence, plans of higher-level local governments are formulated without genuine consultations with lower-level LGUs, which are perceived as lacking in knowledge and competence to do planning, according the 10th Rapid Field Appraisal of Decentralization (AGS 2002). Higher level LGUs take on the responsibility of designing programs and projects for the lower level LGUs based on their perception of the barangay needs, confirming the weak vertical

[26] According to Manasan (2003), about 30-50 percent of LGUs have organized their Local Development Councils while only a third of LGUs have plans that drew inputs from NGOs/POs.

[27] The DILG functions only as the final repository of LDPs.

[28] The specific provisions in the LGC where this requirement is apparent include: (1) Rule XIII, Art. 182 of the IRR;(2) Section 305-h of the LGC which requires that national planning be based on local planning;(3) Rule XXIII, Art. 182-j (2) of the IRR which mandates the integration of *Sanggunian*-approved local development plans with the development plans of the next higher Local Development Council; and (4) Rule XXIII, Art. 182-j (3) of the IRR which requires the integration of approved local development plans or provinces, highly urbanized cities and independent component cities into regional development plans.

integration of plans even at the local level.

Bottom-up vertical integration of programs and projects is important if financial assistance is needed from higher government tiers for public investment programs that cannot be funded from locally-generated resources. Integration and close coordination among LGU levels becomes critical to avoid situations where (1) different levels of government plan similar activities; or (2) some important needs will not be considered in any planning level (Smoke 1999). Plan coordination also becomes crucial where capacity is lacking since coordination may increase the chances of activities being undertaken at higher levels of government. Bottom-up plan integration, however, entails various types of oversight and negotiation mechanisms (Smoke 1999). The presence of clear-cut and transparent prioritization criteria can actually minimize negotiation problems at every level of government.

In the Philippine context, bottom-up planning can therefore be meaningful from the *barangay* to the municipalities or cities, up to the provinces only. This is partly attributed to the hierarchical relationship among the provinces down to the *barangays* and partly to the practical observation that much of planning is done for the resources that are made available in particular local government units.

On the programming aspect of planning, the Code requires the annual preparation of the Annual Investment Program (AIP), together with the annual development plan. LGUs, however, prepare AIPs mainly for compliance purposes only since these are reportorial requirements of DBM for endorsement of the LGU annual budget. Programming is basically driven by the Local Chief Executives (i.e. Mayor or Governor), who usually dictate the process of project selection and prioritization. There are, however, exceptional cases like in Bulacan where the process can be transparent and the AIP formulation follows a bottom-up process.

Local governments, however, tend to limit their investment planning on programs and projects that could be funded out of the 20% development fund mandated to be allocated for development projects out of the IRA (ARD 1996). The difficulty of raising their own-funds and prudent budgeting practices therefore constrains them from identifying in a more comprehensive manner the PAPs needed by the community.

4.1.3 National Government Agencies-Local Government Linkages in Planning

The decentralization mode adopted by the Philippines resulted in a two-track delivery system, where both national government agencies (NGAs) and LGUs implement devolved activities. Because many central government agencies whose functions have been devolved are still made accountable for the overall outcome in their respective areas/sectors, they tend to make full use of the Code provision on augmentation to be able to direct LGU behavior in support of national objectives (Loehr and Manasan 1999).[29]

It is logical therefore that, even after twelve years of decentralization, national government agencies maintain some coordinative relationship with LGUs to ensure that (1) national priorities are given importance at the local levels; (2) nation-wide programs which are initiated by the national government are properly implemented at the local level; and (3) programs which have inter-LGU implication and consistent with national priorities which cannot be funded at the LGU level are considered by national sector agencies.

In the case of the Department of Social Welfare and Development (DSWD), a Technical Assistance and Resource Augmentation (TARA) Plan is being implemented where every region is assigned officers whose main responsibility is to assess (1) capabilities/vulnerabilities of LGUs; and (2) the assistance LGUs would need from the national government in case of crisis. To ensure that the DSWD regional officials seriously link up with local officials, the former are required to sign a performance contract with the DSWD Secretary, with assistance to LGUs as part of the performance criteria. The Welfare Officers under the Provincial Government are also invited to attend the Regional Management Development Conferences (RMDC) of the DSWD and are requested to submit their social welfare plan to the DSWD.

In the case of the agriculture where extension services have been devolved, the Department of Agriculture (DA), with assistance from the World Bank, initially provided funding for institutional capability building to selected pilot LGUs for policy formulation, evaluation and monitoring. The project has since been expanded to include assistance in linking/synchronizing planning and budgeting at the local levels with national budgeting process, particularly the DA budget cycle/process to ensure that local level projects are considered by the DA before its annual budget submission to the DBM.

It is in the area of health planning where significant measures are being made for the functional merger of the annual priority health programs and projects of the national with those of the local governments carried out at the provinces with their component cities and municipalities and the highly urbanized cities (Box 1). To correct the fragmentation of the health service system as a result of decentralization, the Department of Health issued Executive Order 205 in January 2000 creating the National Health Planning Committee to oversee the implementation of an Integrated Health Planning System (IHPS) in the

[29] For instance, DOH is accountable for the overall health status of the country in the same way that the DENR is accountable for overall environmental and natural resource management results.

country. The IHPS was designed to strengthen the partnership of the health department and the LGUs for devolution and the efficient re-integration of health services nationwide. The objective is to establish a decentralized but unified management system where integrated local health zones (ILHZ) are linked with the provincial and municipal Health Boards.

Integration is implemented through the following: (1) adoption of a unifying vision at the district, provincial or city level and the identification of services and facilities that will contribute to this vision; (2) adoption of the facility or service level mission statement that translates into action the determinants of the vision; (3) consistency in the analysis of the external and internal environment that affects the planning areas; (4) clear definition of roles of each level of service/facility, including other stakeholders; and (5) consolidation of data/plans whenever possible at the next higher level of government. The latter is clearly an effort to pursue bottom-up vertical planning. On its fourth year of implementation, the system needs to be assessed in terms of its effectiveness in improving the delivery of services to the community.

4.1.4 Poverty Planning

Poverty reduction has been the centerpiece of the past administrations' program of government during the last two decades. This goal has been clearly articulated in the various MTPDPs formulated by every political administration. Many of the poverty programs since the 1990s have been initiated at the national government level, with nation-wide coverage up to the village (*baranggay*) level. Lately however, the national government is strengthening its "localization" efforts aimed at enjoining LGUs to do poverty planning similar to the formulation of a PRS at the local level. Even before this, however, there are LGUs with their own initiated poverty programs (e.g. Bulacan).

Poverty Planning at the National Level

The different MTPDPs in the last two decades adopted poverty reduction as a major development goal (Table 4). The plan of the Aquino administration in 1986 included poverty reduction targets for the first time, with the concept of poverty mainly based on income deprivation. Subsequently, the plan of the Ramos administration for the period 1993-98 placed poverty within the human development context, a strategy followed in the MTPDP formulated during the term of then President Estrada, who won on a poverty reduction platform. President Arroyo, based on various speeches, treated the MTPDP formulated under her administration as the government's poverty plan which, for the first time, recognized that certain groups in society are vulnerable to falling in and out of poverty due to natural or economic crises.

Box 1. Integrated Health Planning System in the Philippines

The Integrated Health Planning System (IHPS) of the DOH was developed to facilitate the health planning activities of the LGUs. It is intended for the use of health workers and LGU planning staffs at all levels (*barangay*, municipal, district and provincial) and encourages the actual participation of NGOs, private organizations (Pos) and other concerned sectors involved in health services development.

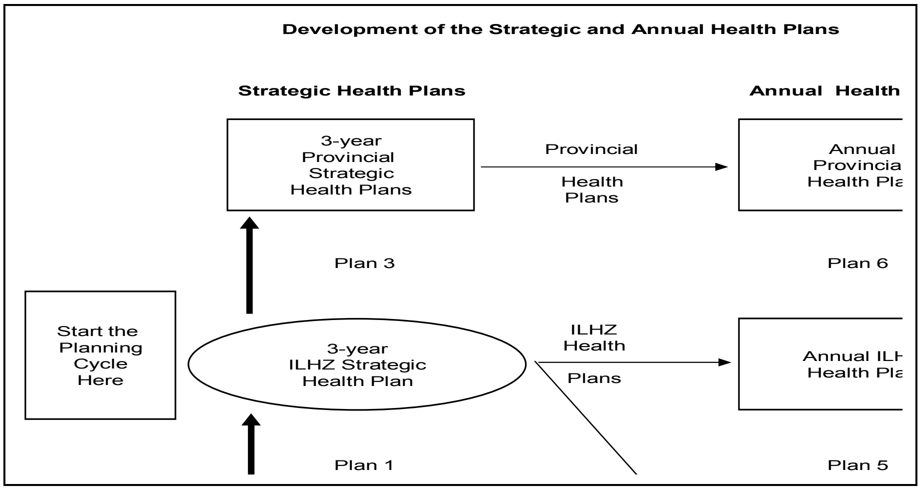
The IHPS advocates for a three-year strategic planning at the district/integrated local health zone (ILHZ) level, and at the provincial level, especially in cases where districts have not yet been formed. It involves annual planning at three levels of health service (municipal, district/ILHZ, and provincial levels). It also offers an approach to health planning at the *barangay* level. Individual facilities, i.e., Rural Health Units (RHUs) and hospitals, may also formulate their own strategic plans.

The final output is an Integrated Annual Health Plan. The public health and hospital services are integrated into a district health planning process wherein the regional health units (RHUs) that comprise the health district/ILHZ jointly plan with the district hospital. The identified health district vision, mission and goals are adopted as a common basis for the individual annual plan for each hospital and RHU in the ILHZ. The integrated work and financial health plan would also be the basis for disbursing funds of the ILHZ budget either from regular funds, grants, common fund and other sources.

The Provincial Health Office reviews the plan and consolidates it with other plans of the ILHZ including those of the Provincial Hospital and the Provincial Health Office. This will now become the Integrated Provincial Health Plan. Copies of these will be submitted to the Centers for Health Development (CHDs) and most especially to the Provincial Planning and Development Office for its integration to the Provincial Development Plan of the province.

Process and Health Services Delivery Levels Involved in the Development of the Integrated Health Plans

Health Services Delivery Level	Process	Output
Provincial Health Office	- Strategic Planning - Annual Planning - Integration	- Integrated Provincial Strategic Health Plan - Integrated Provincial Annual Health Plan
Integrated Local Health Zone	- Strategic Planning - Annual Planning - Integration	- Integrated ILHZ/ District Strategic Health Plan - Integrated ILHZ/ District Annual Health Plan
Rural Health Unit/Hospital	- Strategic Planning (optional) - Annual Planning - Integration	- Municipal Strategic Health Plan (optional) - Integrated Municipal Annual Health Plan



MTPDP, the last three political administrations prepared separate Anti-Poverty Strategies or Plans at the national level (Table 4).[30] The clamor for a separate poverty plan was pushed by the bodies created to specifically coordinate poverty matters (i.e. the Social Reform Council in 1993 and later the National Anti-Poverty Commission (NAPC)).

The "poverty plans" of the different administrations included specific poverty programs for the poor. The Ramos administration initiated the Social Reform Agenda which laid out poverty goals in addition to putting in place the Social Reform Council, composed of different basic sector groups and government representatives.[31] This is the first time that civil society was given a role to play in charting the policy environment for poverty alleviation. The Social Reform Agenda adopted a convergence approach to poverty reduction by mandating that government services be organized around the poorest 20 provinces. A similar program was initiated by the DSWD called the Comprehensive and Integrated Delivery of Social Services (CIDSS) to address the minimum basic needs of families in poor areas. The Estrada administration, on the other hand, adopted a variant of these programs, this time looking at the poorest 100 families in each municipality. Not to be left behind, the Arroyo administration introduced a new poverty program dubbed as KALAHI or "*Kapit-Bisig Laban sa Kahirapan*" which promoted five major strategies: (1) asset reform; (2) human development services; (3) employment and livelihood opportunities; (4) participation in governance; and (5) and social protection and security from violence. At present, there are five modes of *KALAHI* Special Projects which serve as the government's vehicle to reach out the poor:

1. *KALAHI* Rural Projects serving 90 priority rural *barangays*

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30 In the Philippines, other plans may be formulated outside the MTPDP. These are usually sub-sector or common concern plans, such as, the Medium-Term Agriculture Development Plan and the Anti-Poverty Strategy, respectively. These plans may be considered Agency Plans as they were formulated by concerned NGAs usually following a Presidential directive and with the assistance of NEDA.

31 This Council later became the National Anti-Poverty Commission through RA 8425, otherwise known as the Social Reform ad Poverty Alleviation Act of 1997.

which will be provided with potable water systems, farm-to-market roads, multi-purpose or day-care centers and micro-enterprises and livelihood activities. Funding came for the President's Social Fund amounting to P40 million.

2. *KALAHI* Urban Projects located in 8 cities and urban centers offering human development services as well as housing and land for poor urban families. About P20 million has been allocated for the project from the President's Social Fund.

3. *KALAHI* Social Initiative Projects, consisting of 13 projects costing P4 million for 2003 spread in 6 provinces, 7 municipalities and 25 *barangays*. The projects include animal dispersal, abaca plantation, water system installation, core shelter construction and farm-to-market roads.

4. *KALAHI* Resettlement Areas which serve 5,000 households in six underdeveloped resettlement sites in 3 regions. About 50 million has been allotted to the project from the President's Contingency Fund.

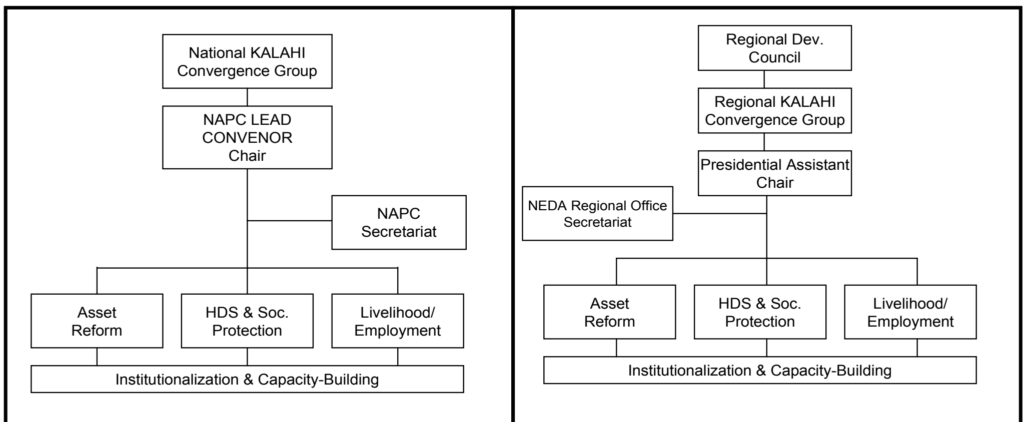
5. *KALAHI* in Conflict Areas, implemented in 100 communities ravaged by armed conflicts and violence, has a fund of P40 million.

The experience during the last three administrations highlights the bureaucratic tendency to introduce new poverty programs with every change in administration rather than built on the successes of poverty programs of previous administrations. At the department level, every change of leadership mid-way in the term of a President also leads to refocusing of programs "creating a feeling of unending transitions rather than stability and institutionalization" (Abad 2003). As a result, programs are changed even before they can be fully implemented and their effectiveness assessed.

Since program intervention for poverty is increasingly being focused at the community level, there is a conscious effort to "localize" poverty programs, with the ultimate objective of ensuring the convergence of services to the poor at the local level. The NAPC, which is coordinating the President's poverty program, is adopting a two–pronged approach in its localization efforts: (1) improving coordination among national agencies in implementing poverty-related programs through the National KALAHI Convergence Groups (NKCG); and (2) strengthening poverty planning at the LGU level. On the first approach, the NKCG organized a regional counterpart called the Regional KALAHI

Convergence Groups (RKCG) which has been tasked to coordinate the implementation of specific poverty programs of national government agencies at the local government levels. The institutional structure of the RKCG is similar to the NKCG, having four sub-committees conforming to the program focus of the administration: (1) asset reform; (2) human development and social protection; (3) livelihood and employment; (4) institutionalization and capacity building (Figure 5).

Figure 5: KALAHI Convergence Committees at the National & Regional Levels



Composition:	Focal Persons of Agencies, Executive Director/Focal Persons of LGU Leagues, NAPC Sectoral Representatives	**Composition:**	CORD Rep, RDs/Focal Persons of Regional Agencies, ED/Focal Persons of LGU Leagues, Provincial Local Poverty Reduction Action Officers, NAPC Sectoral Council Members
Asset Reform Cluster:	Urban – HUDCC, NHMFC, NHA, MMDA Rural – DAR, DA, DENR, NCIP, NIA	**Asset Reform Cluster:**	Urban – HUDCC, NHMFC, NHA, MMDA Rural – DAR, DA, DENR, NCIP, NIA
HDS & Social Protection:	DOH, PhilHealth, DSWD, DepEd, HUDCC, DA-NFA, PCSO, DPWH, DOE, LWUA, DOJ-PAO DILG, AFP, PNP	**HDS & Social Protection:**	DOH, PhilHealth, DSWD, DepEd, HUDCC, DA-NFA, PCSO, DPWH, DOE, LWUA, DOJ-PAO DILG, AFP, PNP
Livelihood & Employment:	DTI, TLRC, TESDA, DOLE, PESO, DILG, PCFC, DA, BFAR, NIA, DOST	**Livelihood & Employment:**	DTI, TLRC, TESDA, DOLE, PESO, DILG, PCFC, DA, BFAR, NIA, DOST

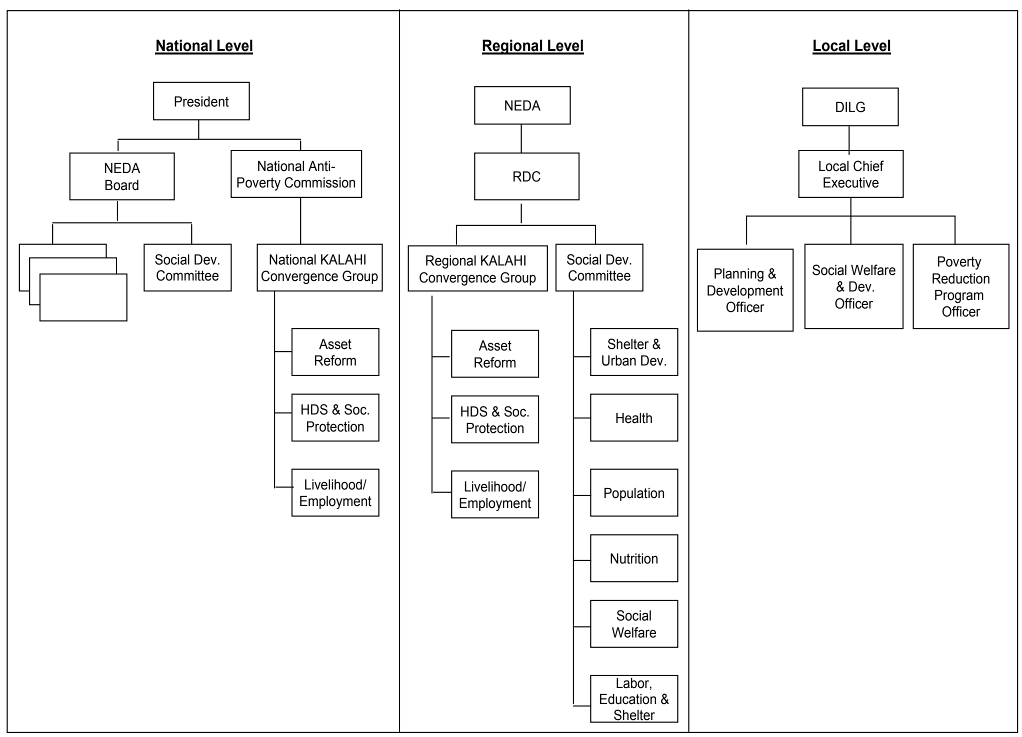
Source: NAPC (2003)

The creation of the RKCG, however, has been view as an unnecessary move given the existence of a Social Development Committee (SDC) under the Regional Development Council (RDC) which has similar membership as the RKCG and can take on its functions (Figure 6). The major difference in the two committees was the designation of (1) a Presidential Assistant appointed by the President as Chair of the RKCG; and (2) NAPC sector representatives. The former ensures the direct link of the committee with the Office of the President but implies a highly centralized structure even when the intention was to implement poverty programs at the local level. Indeed, the choice of target poverty areas including the criteria used was determined at the national level with little or no consultation with local officials.[32] Furthermore, the creation of

[32] This is in contrast to the procedure followed by the Estrada administration during which local officials identified the.

a new committee required additional funding from the national government at a time of budget difficulties, which could have been avoided if the existing SDC was just expanded to include additional members from civil society and the NAPC sector representatives. There is also the possibility of an institutional dilemma since the head of the RKCG, who is a Presidential assistant, would be under the RDC, which is chaired by a local chief executive, usually a provincial governor.

Figure 6: Institutional Structure for Poverty Reduction in the Philippines



Furthermore, since the target beneficiaries of the national poverty programs are the villages (*barangays*) which is under the jurisdiction of the local chief executives with which departments have already established links especially for devolved services, coordinating directly with the local chief executives might have been a better option than going through the RDC route. Since LGUs have their own sources of funding (e.g. internal revenue allotment (IRA)) which can be used for poverty programs, a partnership with LGUs could possibly expand the limited national government funding for poverty programs.

Local Poverty Planning Initiatives

The importance of enjoining LGUs to be more active in pursuing poverty programs at the local level led to more aggressive efforts at pursuing local level poverty planning. The DILG, which has oversight responsibility over the Local Government Executives and which sits as NAPC member, has recently issued several directives aimed at assisting LGUs to plan, formulate and monitor local poverty programs (Box 2). These initiatives, however, are still in its early stages of implementation and therefore could not be assessed on its effectiveness in changing LGU planning behavior.

Box 2. Local Poverty Alleviation Efforts

The National Anti-Poverty Commission (NAPC) in coordination with the Department of Interior and Local Government (DILG) has recently issued several circulars to guide Local Government Units (LGUs) in undertaking poverty reduction programs. The approach being suggested involves four areas: (1) the designation of Local Poverty Reduction Action Officers who shall oversee poverty programs at the LGU level; (2) the formulation of a Poverty Reduction Action Plan; (3) the organization of Poverty Reduction Action Teams; (4) the adoption of 13 core local poverty indicators to be collected at the LGU level; (5) convergence of services to the poor through the government's *Kapit-Bisig Laban sa Kahirapan* (KALAHI) program; (6) the institutionalization of local poverty monitoring systems.

The formulation of Local Poverty Reduction Action Programs will use as basis thirteen core local poverty indicators which are presented below.

Survival

- Health – proportion of children aged 0-5 years old who died to the sum of children aged 0-5 years old
- Nutrition – malnutrition prevalence/proportion of children aged0-5 years old who are malnourished to the total number of children 0-5 years old
- Access to Basic Amenities
    - proportion of households without access to safe water
    - proportion of households without access to sanitary toilet facilities

Security

- Shelter
    - proportion of households who are squatting
    - proportion of households in makeshift housing
- Peace and Order – proportion of household with members victimized by crimes

Enabling

- Income
    - proportion of households with income less than the poverty threshold
    - proportion of households with income less than the food threshold
    - proportion of households who eat less than 3 meals a day
- Employment – unemployment rate
- Education - elementary and secondary participation rates

The analysis of these core indicators follows a prescribed participative approach with focused group discussions being organized at all LGU levels and requires the preparation of poverty maps. Poverty data from these indicators are proposed to be aggregated up to the provincial level. After the poverty diagnostic, each LGU will be conducting Poverty Diagnosis and Planning Workshops requiring the participation of Local Poverty Reduction Teams or similar groups at the *barangay*, municipal and provincial levels as part of the process of formulating the Local Poverty Reduction Action Plan. Detailed monitoring responsibilities of the LGUs up to national level have also been identified.

Judging from the circulars, there are implementation issues which should be addressed to ensure compliance with the directives by the LGUs. For one, the creation of new structures, procedures and plans at lower government levels entail additional costs which LGUs might not be willing to shoulder. Hence, at best, the LGUs will be assigning the new functions to existing LGU committees. Second, the relationship between the poverty reduction action plan, the annual development plan and the annual investment plan has not been defined in the circulars, giving the impression that the poverty plan is in addition to the plans required under the Local Government Code. As such, the process of integrating the poverty reduction plan with the annual investment plan will have to be clarified to ensure that poverty projects are funded as part of the annual budget of the LGU. Third, with the costs involved, it is not clear whether LGUs will be complying with the directive without any incentive other than their own accountability to their constituents during election time. Fourth, given budgetary constraints at the national level, NAPC and DILG might face difficulties in setting up the necessary monitoring system to assess the progress of LGUs in preparing poverty plans.

As shown by the example of Bulacan, however, LGUs can actually initiate their local poverty projects and provide funding for them without national government assistance. The province of Bulacan initiated its own poverty reduction program known as JOSIE, the acronym for Joint Organization and Systems to Improve the Economy in the Barangays. The six barangay beneficiaries were chosen following the minimum basic needs (MBN) surveys, the results of which showed the inability of these barangays to meet MBN indicators, such as, health, nutrition and water and sanitation for survival needs; income, shelter and peace and order for security needs; and basic education and political participation for empowerment needs.

Unfortunately, there is not data available on the other poverty-related initiatives in other LGUs. However, given the resurgence of young and dynamic LCEs as a result of decentralization, it would not be surprising to find similar programs in other LGUS.

4.1.5 Participatory Planning

One of the major reform process associated with PRS is the introduction of participatory poverty planning. While the Philippines is not preparing a PRS, it can be considered a model in espousing participatory planning starting 1986 after the popular “people power” revolt, which ushered in a drastically different perspective in

government’s role in society, encouraging a more open, transparent

and participatory form of governance. One of the public sector

Box 3. JOSIE Barangay: Bulacan's Anti-Poverty Program

The Joint Organization and Systems to Improve the Economy in the Barangays (JOSIE Barangay) is part of the continuing efforts of the Provincial Government of Bulacan to eradicate poverty. The main objective of the Program is to uplift the living conditions of every family in the six poorest barangays of the province. The specific objectives are:

- To strengthen the capability of households to help themselves
- To develop a model to be replicated in other barangays in the province
- To strengthen the coordination of the barangays with various institutions

The Provincial Government links with NGOs and barangay governments in the provision of integrated services to the communities. Among the projects for JOSIE Barangay are:

- Medicare sa Masa (PhilHealth Insurance)
- KAPANALIG Seminar (Anti-Drugs Campaign)
- Scholarship grants
- Women Livelihood Support Fund
- Environmental health services
- Enterprise development
- Rolling stores for low-cost basic commodities
- Livelihood training
- Negoskwela (developing the entrepreneurial skills for the out-of-school youth)
- Capability building for barangay officials

responsibilities affected by this change is the planning process which saw the beginnings of participatory planning in the preparation of the MTPDP 1987-1992. For the first time, the Plan Steering Committee included members from the business sector and academe, though the technical committees remained in the hands of the Executive. Subsequent plan preparations (i.e. in 1992, 1997 and 2001) saw not only a more expanded non-government involvement at all planning committees but also the designation of non-government Co-chairs and/or Vice-Chairs to these committees resulting in their more active involvement. Aside from the business sector and the academe, other non-government groups and civil society including labor groups and private organizations were invited in the committees.[33]

The institutionalization of non-government involvement in the planning process has enriched the substance of the plan. For instance, allowing the representation of the National Commission on the Role of Filipino Women in the planning committees ensured that gender concerns are clearly articulated in plan statements. The environment sector also benefited from the strong lobby of environmental NGOs for the inclusion of sustainable development as a major plan objective.[34] This arrangement also

[33] In the Philippines, the labor sector representation is usually separate from civil society representation.

[34] In the MTPDP 2001-2004 prepared during the Estrada administration, the

enabled the government to confirm the macroeconomic framework of the plan with the academic institutions as well as private research groups.

At the regional and local levels, the practice of participatory planning has been institutionalized with the permanent inclusion of private sector/civil society representation in the various committees at both the RDC and the LGUs. The Code, for instance, requires that at least 25 percent of the full membership of the LGU committees (e.g. Local Development Council) be composed of non-government organizations. Considering that many civil society groups work closely with local communities, their membership in LGU committees is an opportunity to initiate projects that would benefit the communities. Related to this requirement is the authority given to the local legislature to accredit NGOs, a safeguard measure to ensure that only legitimate NGOs will be chosen. Some 16,000 NGOs and private sector organizations (Pos) have been accredited as members of local special bodies while sector representatives have been selected by the local legislature (Brillantes 2003). The accreditation process has empowered NGOs, who were forced to organize and to elect from among themselves representatives to the various LGU committees. Not all LGUs, however, have been able to name the civil society representatives in the different LGU committees. There were also reports on the lack of genuine participation from LGUs in these committees (Manasan 2003).

The adoption of a more participatory planning process, however, has not been easy. The different non-government representatives, business, civil society and private organizations, carry with them sector agendas which are not always consistent with government positions. Compounding the problem at the start has been the adversarial relationship between the government and civil society with the latter always suspicious of government and uncompromising in their positions. Through years of consultation, however, the relationship between the government and civil society has improved partly because of the more open stance adopted by both sides. Proof of this has been the endorsement of the MTPDP prepared during the Ramos and Estrada administrations by civil society.

4.2 Planning and Budgeting Linkages

As a result of decentralization, some degree of fiscal autonomy has been granted to LGUs which allowed them to undertake budgeting activities quite separate from national government processes and with minimal supervision by central/national government agencies. The national and sub-national governments follow similar budgeting phases but different processes and schedules which are not integrated.

development vision was "sustainable development and growth with social equity."

The perceived disconnect between planning and budgeting in the Philippines has been a long standing issue since the late 80s. Then, timing was the main problem since the preparation of the plan was not synchronized with the budgeting calendar. This was resolved through the installation of the synchronized planning, programming and budgeting system (SPPBS), which led to changes in the timetable and processes for preparing the plan and the annual budget starting the late 80s. However, the weak link is perceived to exist even today though the problem is less on the logistical side but more on the substantive side of planning and budgeting activities.

4.2.1 Planning and Budgeting Linkages at the National Level

The budgeting process at the national level in the Philippines is coordinated mainly by the Department of Budget and Management with the Development Budget Coordination Committee (DBCC), a NEDA Board Committee, setting the budget parameters and levels for Cabinet approval and eventual endorsement to the Philippine Congress. The detailed budgeting process, which technically follows a six-phase process, is described in Appendix 3.

Recognizing the importance of planning as a preparatory activity to the budgeting process, the planning and preparation phases in the budgeting process are theoretically inter-linked with the formulation of the national development plans and programs. Assessing whether planning and budgeting are indeed connected actually involves examining the extent to which the broad vision, development targets, the strategies and policies are translated into programs, projects and activities (PAPs), on the one hand, and whether the PAPs find their way in the annual budget. Operationally, the process involves the following three steps: (1) examining the relationship between investment programs through the MTPIP and the broad plan (i.e. the MTPDP); (2) comparing the sector/agency plans and the agency budget submissions for the expenditure program; and (3) comparing the MTPIP at the national level and the expenditure program.[35]

On the MTPIP and MTPDP linkage, the translation of the broad policies in MTPDP into specific PAPs which can be useful for annual budgeting purposes can definitely be improved. The Public Expenditure, Procurement and Financial Management Review (PEPFMR), prepared jointly by the Philippine government, the World Bank and the Asian Development Bank, noted the disconnect between planning and budgeting and cited the following reasons for this: (1) the lack of cost estimates for the policies and strategies in the MTPDP; (2) no sense of prioritization among the policies and strategies in the MTPDP; and (3) the lack of indicative resource

[35] Since agencies are not required to prepare medium-term or annual sector plans, the second step cannot be done in the Philippine case.

constraints in drawing up the MTPIP listing which at first glance appears like a wish list of projects (WB 2003). The proposed solution in the PEPFMR is to improve the MTPDP through (1) a more substantive discussion of the composition of expenditures in the medium-term; and (2) clear linkages between expenditures and the strategies and targets in the sector chapters of the MTPDP (WB 2003).

Rather than changing the substance of the MTPDP, which by its nature is intended to be directional and broad, the following two options may also be considered in improving the planning-budgeting link: (1) mandating the preparation of medium-term sector plans which contain more operational details than the sector chapters of MTPDP; or (2) requiring agencies to prepare annual sector plans which can be the basis for the agencies' annual budget submission to the DBM. The latter is consistent with the long-run proposal of the PEPFMR to have annual policy and budget statements. In both options, the focus of attention is the sector departments, which are tasked with doing the annual agency budgets and probably hold the key to improving the linkage between planning and budgeting.

The proposal to have annual policy and budget statements is similar to today's practice of having the President deliver a State of the Nation Address (SONA), which is in essence the policy framework of the annual budget and should actually be the annual policy translation of the MTPDP. However, in practice, the executive departments do not use the SONA as a framework for the annual budget. Like any speech of the President, inputs are gathered for the SONA about 1-3 months before delivery, during which agencies have already submitted their proposed budgets to the DBM. The SONA is also not discussed at the DBCC which recommends the final budget allocation to the Cabinet. The SONA is a major budget policy speech of the President, yet the budgetary process falls short of enabling the agencies to operationally link their budget submission to the SONA.

The second major reason for the weak planning and budgeting links at the national level relates to the nature of the MTPIP, which ideally should be the connection between the MTPDP and the expenditure program. First, the coverage of the MTPIP is limited to major national projects, which account for only a part of the annual expenditure program. To be useful to the annual budgeting process, the MTPIP should also include the smaller investment projects of the line agencies, which at present are reviewed separately by the DBM.[36] Second, since the MTPIP projects presumably have undergone processing at the ICC level and, once approved by the NEDA Board, are considered priority projects of the government, their annual resource

[36] Institutionally, the NEDA, which coordinates the MTPIP preparation, is not mandated to evaluate the investment projects of the agencies which do not fall under the ICC coverage.

requirements should logically be included in the annual budget. In reality however, budget cover for the MTPIP are dependent on the budget situation, with the choice of which major projects to fund dependent on the DBM. Since plan formulation and monitoring is done by NEDA, it would be difficult for DBM to check consistency of the investment program with the MTPDP unless some sharing of responsibilities is initiated. Third, the difficulty of agencies to do medium-term forecasting is the reason for the lack of quantitative estimates for implementing the MTPDP policies and strategies.[37] Fourth, implementation delays as well as budgetary problems usually cause the discrepancy between the MTPDP, the MTPIP and the expenditure program after the first year of plan formulation. The shortfalls in revenue forecasts, which force the government to impose budget reserves, make it difficult for agencies to meet plan targets including those in the MTPIP.

The limited participation of Congress in the planning process may also be a factor in the disconnect between planning and budgeting in the Philippines. Because of the lack of "ownership" of the MTPDP by Congress, one cannot expect genuine support to the Plan objectives and the programs except from the few legislators who actively participated in plan formulation. Since the plan is the framework of development in the country, it may well be that Congress' involvement at the formulation and approval stage of the MTPDP may make them more retrospective in pushing for pet projects during the annual budgeting season.

The desire to close the gap between planning and budgeting gave rise to the public expenditure reform program presently being implemented by the DBM, which focuses on the medium-term expenditure framework (MTEF). The MTEF introduces the concept of multi-year budgeting in accordance with the development framework of the MTPDP and the priority investments in the MTPIP. The MTEF has two important components: (1) the sectoral efficiency and effectiveness review (SEER) which categorizes PAPs according to priority as a way of identifying projects to be protected in the annual budget; and (2) the organizational performance indicators framework (OPIF) which introduces performance accountability in government. As part of the OPIF, expenditure and performance reviews will be undertaken semi-annually, on the basis of which incentives will be provided to well-performing agencies (e.g. flexibility clauses and/or full budget releases) while corrective measures will be imposed on agencies performing below expectations. Both SEER and OPIF mutually reinforce each other and provide scope for functional and process complementation between NEDA, which is leading the SEER process and

[37] Note that the medium-term expenditure forecasts in the MTPDP, which are formulated at the start of the planning cycle, are usually done independently of the proposed sector policies, strategies and programs submitted by the departments.

DBM, which is tasked with the OPIF implementation. The aim of the MTEF is to ultimately make the budget a powerful tool for driving government agencies to perform according to set standards and indicators.

However, to this day, the MTEF faces operational challenges attributed to transition adjustments in NEDA and DBM, which are still in the preliminary stages of operationalizing the SEER and OPIF processes. Among the challenges facing the SEER prioritization exercise are (1) methodological constraints in determining intra- and inter-sectoral investment priorities; (2) financial constraints in funding newly-proposed and even continuing high priority programs and projects in view of the government's austerity program to contain the budget deficit; and (3) integrity of SEER priorities arising from the combined effects of financial and methodological constraints. Similarly, OPIF implementation is facing operational bottlenecks: (1) methodological difficulties attributing outcomes fully controllable by national government agencies and other instrumentalities; (2) technical capacity of NGAs to measure outcomes; (3) organizational resources for DBM to monitor agency performance on top of its regular expenditure reviews; and (4) integrity of agency performance reports due to information asymmetry between NGAs and DBM.

4.2.2 Planning and Budgeting Linkages at the Local Level

At the local level, the responsibility for budget preparation is given to the Local Finance Committee (LFC), which assists the Local Chief Executive (LCE) and the *Sanggunian* in preparing the annual budget at the municipal, city and provincial levels.[38] The LFC, which is composed of the local planning and development officer, the local budget officer and the local treasurer, ensures the functional synergy among planning, programming and budgeting (PPB) processes. The functions of the LFC are also indicative of the horizontal linkages of PPB activities at each LGU. Among the functions of the LFC are:

[38] Section 316 of the LGC. The process of preparing the *barangay* budget is treated separately in the LGC (see Sections 329-334 of the Code).

Revenue generation	▪ To determine the income reasonably projected as collectible for the ensuing fiscal year ▪ To recommend tax and other measures or borrowings which may be appropriate to support the budget
Investment programming	▪ To recommend to the LCE concerned (1) the level of annual expenditures and the ceilings of spending for economic, social and general services based on the approved local development plans; (2) the proper allocation of expenditures for each development activity between current operating expenditures and capital outlays; and (3) the amount to be allocated for capital outlay under each development activity or infrastructure project
Monitoring and Evaluation	▪ To conduct semi-annual review and general examination of cost and accomplishments against performance standards applied in undertaking development projects

On paper and following the local budget process described in Appendix 3, it is clear that the preparation of the annual expenditure program is to be based on local developments plans. In practice, the link between planning and budgeting at the local level has been weak. First, planning proficiencies differ across LGUs, because of which some LGUs do not have development plans to start with. Second, many LGUs find it difficult to translate the plan into operational terms (Abad 2003). Third, while the prescribed budgeting process may be followed by the LGUs, the local chief executive is still able to exert the most influence in setting budget expenditures, considering that local department heads are his appointees. Local plans are therefore not used as the framework for the AIPS and the annual budget at the local level.

Congressional allocation for projects, a practice since the early 90s, has also distorted planning and budgeting at both the national and local levels. Known this year as "Congressional Initiatives (CIs)", it is a practice where each Congressman and Senator receives an amount of money for projects, using agencies as conduits. The projects may or may not be part of the sector or LGU plans. In past years, the money is directly given to members of Congress, who can spend them on projects of their choice. In an attempt to channel the funds to more developmental projects, selected investment areas were pre-identified and the budget was channeled to relevant agencies, who will implement the projects identified by the members of Congress. Though the new scheme has its merits, it actually sets a bad precedent where accountability for the funds, which is used by members of Congressmen, is passed on to the Executive Departments. To ensure transparency in budget allocation, the public works department where most of the CIs were budgeted devised an allocation formula per legislative district which is a function of (1) population; (2) scarcity of infrastructure; and (3) equal sharing. Scarcity of infrastructure in turn is dependent on the district's (1) road density; (2) length of unpaved national roads; (3) length of temporary national bridges; (4) land area; (5) amount of rainfall; (6) family income and (7) implementation difficulty. While providing additional funds at the local level, the CIs of Congress may fund projects which may not necessarily be consistent with the needs of the localities as indicated in their annual investment plans.

There are initiatives on the part of the more progressive LGUs to improve the linkage between planning and budgeting. A model would be the province of Bulacan, which even without any assistance from the national government, embarked on its own Medium-Term Expenditure Framework (MTEF) initiatives[39] by (1) doing strategic planning and investment programming with lower level LGUs; (2) pilot-testing a prioritization methodology for public investment priorities as an input to budgeting, and (3) establishing a performance monitoring system containing output and outcome indicators for each of the key result areas and targets in the Strategic Plan of the province.

The implementation of the MTEF at the local level therefore may not be as problematic as shown by the experience of the province of Bulacan, which has its own version of the planning, programming and budgeting integration closely linked with the province's performance accountability, i.e., the performance management system. The best practices of the province of Bulacan in the areas of PPB and PMS may be attributed to the following factors: (1)

[39] The province of Bulacan does not call the package of reforms linking planning, programming, budgeting and monitoring and evaluation as MTEF, but the initiatives in the province are consistent with the MTEF reforms at the national level. The experience of Bulacan in implementing these reforms is instructive to other LGUs and to the national government as well.

given the size of the LGU, compared to that of the national government, it is less complex for LGUs to manage the requirements of MTEF; (2) because of the size of the LGU, it is easier to mobilize acceptance and support by offices and employees on the PPB and M&E initiatives; (3) strong commitment on the part of the LCE (i.e., Governor of Bulacan) to pursue PPB and M&E reforms and the initiative of the Provincial Development Officer to strengthen PPB processes (e.g, preparation of prioritization criteria, etc.) demonstrate the convergence of political will and technical capability; (4) 'demonstration effect' of strong commitment by the LCE on the MTEF translates into wide acceptance by offices and personnel of PPB and PMS reforms at the provincial level.

Box 4. Planning and Budgeting Linkages in Bulacan

In the case of the Province of Bulacan, local expenditure planning is operationalized by systematically linking planning, programming, budgeting processes, including performance accountability through its Performance Management System (PMS). The strategic interventions generated from the priorities of *barangays* and municipalities were included in the Bulacan Strategic Development Plan, which were systematically evaluated using the province's prioritization criteria. This practice, while new and evolving, is a clear attempt to strengthen the linkages between strategic planning and investment programming. The incentive for lower LGUs to make their "strategic interventions" worthy to be included in the province's priority list of programs and projects is the budget support extended by the province. There is therefore conscious effort on the part of lower LGUs to undertake judicious program and project identification through their strategic planning exercise in an attempt to beat other inputs from other LGUs in the province's priority list. The priority list is an important input to the provincial budgeting process, which usually gets protected from budget cuts or displacement.

The linkage between planning and investment programming in the province of Bulacan is strengthened by the synchronized preparation of annual investment plans (AIP) by the barangays, city/municipalities and the province. Executive Order No. 2002-15 issued by Governor Josefina M. Dela Cruz provides a common planning/budgeting calendar, as follows:

- Preparation of Barangay AIP - January
- Submission/consolidation of Barangay AIP and Municipal AIP - February
- Municipal Sectoral Committee Workshops/Municipal AIP Preparation - February
- Approval by the Municipal Development Council - March 15
- Submission to the *Sangguniang Bayan* - 1st week of April
- Approval by the *Sangguniang Bayan* - last week of April
- Submission of SB-approved Municipal AIP to the Province - 1st week of May
- Consolidation of Municipal AIP and Provincial AIP - 1st week of May
- Provincial Sectoral Committee Workshops/Provincial AIP Preparation - 3rd week of May
- Approval by the Provincial Development Council - 3rd week of May to 1st week of June
- Approval by the Sangguniang Panlalawigan - July 15

The provincial or independent city government is the most logical tier where MTEF could be implemented among LGUs. As discussed in the previous section, the province or city is the natural aggregator of local priorities from below, inasmuch as the province or city is the highest LGU to which local development plans, policies and programs of lower LGUs are submitted for consideration in the formulation of PDPs or CDPs.

4.3 Fiscal Instruments and Policies for Alignment

The devolution of basic services on a selective basis was accompanied by an increase in financial resources available to LGUs through
(1) broadening of their taxing powers;
(2) providing them with a share in the national wealth exploited in their area;
(3) increasing their share from the national taxes;
(4) granting them powers to collect fees and charges; and
(5) broadening their options for credit financing.
With increased resources, two issues are worth examining: (1) the extent to which the devolved responsibilities can be financed from the additional resources of the LGUs; and (2) the appropriate instruments to use in influencing LGUs to support central government-initiated projects.

4.3.1 Fiscal Instruments in Support of Decentralization

Decentralization significantly raised the financial resources of LGUs, with the internal revenue allotment (IRA) constituting the bulk of total revenues. Brillantes (2003) reported that for some barangays, budgets rose from P5,000 per year to P180,000 per year while for some municipalities, the budget increased from P1.5 million to P9 million. This same trend was observed even for the provinces.

As expected, the share of IRA of LGUs as a percentage of the national budget has been on the rise since the implementation of the Code. Prior to 1991, the share of IRA in the national budget was less than 3 percent, which doubled in 1992 during the first year of policy implementation, reaching 17 percent by 2003 (Table 5).

From an IRA share of 30 percent in 1991, LGUs have been receiving 40 percent of IRA after the third year of implementation. The allocation across LGUs is based on the following sharing arrangement: 23% each for provinces and cities, 34% for municipalities and 20% for barangays. For each province, city and municipality, the sharing follows a formula based on population (50%), land area (25%) and equal share (25%). Each barangay with a population of not less than 100 is granted a minimum of P80 thousand chargeable against their 20% share and the balance is distributed according to the following formula: 60% for population and 40% equal sharing.

In addition to the IRA, LGUs also receive shares in the national wealth, particularly as a proportion of the gross collection by national government agencies from mining taxes, royalties, and forestry and fishery charges, among other fees.[40] The Code also specifies that proceeds from the share of LGUs in the national wealth be allocated for development and livelihood projects.[41] While the IRA has been the major source of financing local government priorities, there are also other instruments supportive of the requirements of effective decentralization, one of which is the additional levy on real property for the Special Educational Fund (SEF).[42] Both IRA and SEF are important sources for the LGU's development initiatives. In addition, LGUs are allowed to avail credit financing in the form of loans, credits and other forms of indebtedness.

With increased budgets, the LGUs expanded their expenditure programs. Manasan (2003) noted that LGU spending accounted for 3.6 percent of GNP during the period 1992-2001 from 1.6 percent in 1985-1991. The share of social services in total LGU expenditure rose from 15.4 percent in 1991 to 26.6 percent in 2001, while the share of general public services and economic services posted declines (Manasan 2003). This increase in social services was allocated to health, education, housing/community development and social welfare, partly reflecting the the cost of devolved personnel which was absorbed by LGUs. However, Manasan (2003) noted that the increased allocation for health and housing/community possibly reflected the higher priority accorded to these sectors by the LGUs.

While the national government complains about increasing IRA share, it is also important to assess whether the fiscal transfers have been commensurate to the responsibilities devolved to the LGUs. According to Brillantes (2003), the IRA was unable to cover the costs of devolution in many local governments particularly at the provincial and the municipality levels. Unfunded mandates such as the salary upgrading of health workers contributed to the financial difficulties of LGUs. Unfortunately, the two-track system of service delivery has partly led to increasing budgets of devolved national government agencies, despite devolution. IRA, however, constitutes only 14 percent of the total budget, despite the increase in the IRA share relative to the total budget with the rest going to the national government departments,.

The IRA is indeed an important financial instrument for LGUs for two reasons. First, in best of conditions, the level of IRA is usually predictable, which should aid LGUs in their forward-looking exercises, particularly in strengthening planning, programming and budgeting linkages at the local level. Note though that the fiscal problems of the Philippines, in recent years which resulted in low revenue intake affected the amounts as well timing of IRA releases. Second, the Code provides for the automatic

[40] Section 290 of the LGC.
[41] Section 294 of the LGC.
[42] Section 235 of the LGC.

quarterly release of IRA[43] as confirmed by the Supreme Court, making it readily available for developmental activities. In fact, the Code provides that a minimum of 20 percent of the annual IRA be earmarked for local development projects.[44]

The challenge, however, is in weaning LGUs from IRA-dependence. The Code provides a menu of opportunities for local revenue generation. The Province of Bulacan, for example, has set a performance commitment widening the scope of non-IRA revenue sources. In the medium–term, Bulacan has set a target containing IRA from 66 percent of the total revenue in 2002 to 60 percent in 2007.

4.3.2. Fiscal Instruments for Poverty and other National Priorities

The design of IRA is close to the "federalist" approach where the lump sum transfer is almost unconditional except for the 20 percent allocation for development projects (Bird and Rodriguez 1999). From the point of view of LGUs, IRA allocation should be left to the discretion of the LGU, even resisting the attempt of the DILG to influence the activities for which the 20% development fund could be spent.

Hence, influencing the LGUs to undertake nationally-initiated programs would entail the use of grants. Using the KALAHI Special Projects as example, the government has been using a combination of unconditional and matching grants for poverty projects. The projects funded out the President's various funds are unconditional grants considering that the beneficiaries are either very poor or are located in conflict areas, and focused or targeted. The grants are therefore designed to cover for the inability of the village/community to provide for the services. Note that these poverty programs are highly centralized despite the beneficiaries being at the local level. All of above projects are nationally-initiated and is being implemented through the Regional KALAHI Convergence Groups, the members of which are the regional branches of national agencies (refer to Figure 5). The choice of beneficiaries for the programs was centrally determined, with little or no consultation with local chief executives. In these cases, the national government appears to be merely deconcentrating the implementation of the projects to their regional offices. By tapping the RDC for coordinating its various KALAHI programs, the government continues to rely on the line departments' regional offices for the KALAHI program implementation.

The recent requirement to prepare poverty reduction action plans is really intended to encourage local governments to design and implement their own poverty projects, in the spirit of decentralization. This brings up the issue of whether local government officials, given their 3-year term, have the incentive to do poverty planning

[43] Section 286 of the LGC.

[44] Section 287 of the LGC.

and administer their own poverty reduction measures, consistent with the broad anti-poverty framework of the national government. At best, LGUs plan for and fund a set of social services for community-based provision, including some infrastructure development projects that are highly visible, oftentimes referred to as "legacy projects", that would be remembered during the next elections compared to poverty reduction over which officials have no full control, or whose effects are long-term.

4.4 Monitoring and Evaluation

Planning, programming and budgeting processes would not be complete without effective monitoring and evaluation (M&E) systems in place. Monitoring responsibilities, however, would flow from the planning and budgeting responsibilities at each government level. If the objective of monitoring is to improve future planning and project implementation, then monitoring responsibilities are tied to the planning units. Monitoring is also undertaken by oversight agencies or higher level LGUs to evaluate LGU performance.

4.4.1 Plan and Project Monitoring

M&E outputs feed into the national and local planning, programming and budgeting processes as inputs. The challenge, however, is in making M&E responsive to determining quality of performance or in measuring outcomes. Investing human, organizational and financial resources, among others, into priority programs and projects would require assessment of how these will contribute to desired outcomes, e.g., in reducing poverty. M&E outputs are not only important inputs to the formulation stages of PPB process, but also to implementation. Implementation feedback is important in making adjustments in order to optimize program and project outputs and outcomes.

In general, plan and project monitoring are done separately, following different set of procedures both at the national and local levels. With the MTEF, monitoring systems at the national level, which is fairly well established, is in the process of being reviewed and improved as part of the OPIF. At the LGU level, project and budget monitoring is generally in place due to the need to prepare annual budgets but the importance of monitoring the plan is generally not well appreciated.

Plan Monitoring

At the national level, the MTPDP contains development targets which are monitored by the NEDA regularly, with the frequency depending on the availability of statistics. For instance, accomplishments vis-à-vis macroeconomic targets are monitored quarterly while those for social sector are done annually. NEDA releases a Socio-Economic Report which serves as the monitoring report of the Plan since accomplishments are usually benchmarked against the targets for the year. The report is based on sector submissions. There is, however, a tendency to highlight accomplishments and explain shortfalls against targets, but detailed action program to remedy shortfalls are not usually given. Targets for succeeding years may be adjusted depending on the extent of accomplishment in a given year.

At the local level, M&E is lodged at the office of the local chief executive for political accountability purposes, assisted by the Provincial Planning Development Office (PPDO) as the technical arm for M&E. The PPDO is the logical organization to undertake M&E at the local level as assessment and review exercises could not be de-linked from the planning, programming and budgeting functions of the Office. Consistent with the intent of decentralization and local autonomy, LGUs are responsible for their own M&E. The national government only exercises general supervisory powers to LGUs, including in M&E.[45]

The only provision in the IRR of the Local Government Code approximating M&E in local governments is the submission by Local Chief Executives of annual reports and the access of the public to such reports.[46] However, among the duties of the Planning and Development Officer is to monitor and evaluate the implementation of the different development programs, projects and activities in the LGU concerned in accordance with the approved development plan.[47]

In general, capacity constraints hamper LGUs in institutionalizing their own M&E processes at the local level. Local M&E is usually associated with on-site inspection, reportorial listing of accomplishments and/or cash flow and expenditure reports, de-linked from the local objectives and targets indicated in the LDPs. There is little appreciation by LGUs linking PPB processes with M&E outputs.

After the passage of the Code, the DILG has not really been consistently monitoring compliance with the preparation of the Plan by the LGUs nor are there sanctions for non-compliance. Hence, there had been reports that many LGUs have no development plans as required in the Code.

Project Monitoring

On the project level, the NEDA conducts an annual review of the status of all ODA projects, including identifying causes of project delays, reasons for bottlenecks, cost overruns and continued viability, which are reported to Congress. Starting 1993, a Regional Project Monitoring and Evaluation System (RPMES) had been set up to monitor development projects of national government agencies, LGUs, state colleges and government corporations. The objective is to formulate project implementation and devolve project

[45] Rule XI, Article 53 of the IRR of the LGC.

[46] Rule XXIV, Articles 190 and 191 of the IRR of the LGC.

[47] Section 476-b(4) of the LGC.

facilitation, problem solving monitoring and evaluation to the region, province/city and municipal levels.

Linking the M&E systems at the national and local levels is the RPMES of the RDCs. The RPMES is intended to track the implementation progress of national programs and projects with significant regional or local component and to feedback milestones and gaps as inputs to responsive decision-making at the national (NEDA Board) or regional (RDC) levels.

4.4.2 Financial and Overall Performance Monitoring

The President has overall oversight responsibilities over the provinces and highly urbanized cities, though in practice, the DILG has been exercising this responsibility. On the financial side, three other agencies monitor LGU performance: (1) the Department of Budget and Management; (2) the Department of Finance through the Bureau of Local Government Finance; (3) the Commission on Audit.

The DILG has been promoting the Local Productivity and Performance Measurement System, a self-assessment system for LGUs using a service delivery performance scoring system. The objective is to introduce a comprehensive approach in evaluating local government capabilities in the delivery of essential public services. The system sets performance and productivity indicators and standards against which provinces, cities and municipalities can compare their performance. In relation to planning, the system identified the following as part of process indicators: (1) presence of planning policies and guidelines; (2) presence of an updated annual investment program; (3) presence of an annual plan; (4) presence of a comprehensive land use plan; (5) presence of data bank system.

Separate from the DILG initiative, the Bureau of Local Government Finance is presently developing fiscal performance indicators and benchmarks as an aid in strategic planning and forecasting as well as an early warning system to spot problematic cases, among others. The indicator system will cover revenues, expenditures and debt, which will be used in assessing: (1) the quality and efficiency of resource mobilization; (2) the quality and sustainability of spending and (3) the capability to manage expenditure and the debt burden. The system started in 2001 and 2002 and will be expanded to cover more cities in 3 years. As an incentive to LGUs, those complying with the reportorial requirements of system will be assured of immediate release of request for certification for their loans, among others.

As part of its oversight responsibility, the DBM reviews the LGUs' compliance with the requirement to prepare annual plans and investment programs. In many instances, the DBM does not really perform a detailed review of the LGU budget but only makes sure that LGUs prepare annual development and investment plans that accompany the budget.

4.4.3 An LGU Monitoring and Evaluation System: The Bulacan case

The province of Bulacan embarked on its own outcome-based M&E. It established a Performance Management System (PMS), the objectives of which are: (1) to introduce service delivery principles of efficiency, effectiveness, adequacy and equity; (2) to provide performance indicators and program-based service standards; and (3) to improve performance as this influences the lives and well-being of constituents (PPDO-Bulacan 2002).

The PMS of Bulacan highlights the important components of the outcome-based M&E, as follows: (1) performance planning, (2) performance communication, (3) data-gathering, observation and documentation, (4) performance appraisal meetings, and (5) performance diagnosis and coaching.

The PMS was operationally linked with the internal processes of the provincial government, such as, strategic planning, budgeting, human resource development, compensation systems and quality improvement programs. There is therefore a deliberate appreciation of the synergies of performance management with the internal operations of the various offices of the provincial government. The PMS identified how it would "fit into the big picture" (PPDO-Bulacan, 2002) by influencing the following: (1) strategic plans of the organization; (2) operational plans of the organization; (3) strategic and operational plans of the department, division or work unit; (4) employee job description, goals/objectives; and (5) internal alignment/adjustment through performance planning.

The PMS of Bulacan provides a 6-year timeframe (i.e., 2002-2007) including the annual progression of performance indicators and targets as well as the baseline data required to measure performance annually. It is organized sectorally, i.e., social development, economic development, development administration and infrastructure support, with each sector further organized according to key result areas (KRAs). Under each KRA is a list of performance indicators. Performance indicators are usually in the form of quality and timeliness indicators, benchmarking, customer satisfaction, propriety of interventions, and quantity levels, among others.

4.4.4 Poverty Monitoring

As earlier described, the DILG has identified a set of core poverty indicators which all LGUs should be monitoring. This set of indicators is a step towards developing a uniform system of monitoring performance across LGUs and implicitly prescribes the type of services which are consistent with poverty reduction. The monitoring responsibilities at all government levels have also been identified including the system of aggregating the output at each higher LGU level. If implemented properly, this system offers a rich set of information which can feed into planning and program intervention. Since the system is still in its early stages of implementation, there is not enough data to assess compliance with the order.

4.5 Lessons from the Philippine Experience

While the preparation of development plans have been useful for ensuring the most efficient use of resources, the requirement to prepare plans at certain government levels should be based on (a) the objectives of the plan, data or presence of private sector/civil society organizations for monitoring performance.

A fully integrated vertical planning process at the national level following both top-down and bottom-up approaches is only possible if the planning timetable will be extended to allow lower level government units to finish their plans which can be incorporated into the national plan. However, whether a better plan will be produced by a vertically integrated process is not assured given: (1) the different plan proficiency levels at LGUs; (2) the sheer volume of plans to be aggregated. Furthermore, the usefulness of a fully integrated plan at the national level is also not very clear in a decentralized context, where LGUs already have the autonomy to provide services and manage resources. The tedious process of aggregating plans may not be commensurate to the potential advantages it seeks to bring.

particularly its use in relation to other public administrative functions (e.g. budgeting, ODA allocation); (b) the capability of the officials who will be required to do the plan; (c) the local conditions. Some of the more important implementation details which are left out in relation to these factors include: (a) synchronization of plan preparation with the budgeting cycle; (b) sophisticated requirements of plan preparation which may be too complicated given capabilities of local officials; and (c) availability of

The national plan provides the overall direction in the economy, which becomes the basis or framework for the plans of all the government instrumentalities. In a decentralized environment, vertical bottom-up integration of plans would be relevant up to provincial level (from the village or barangay level) but not up to the national level.

Realistically, it is more useful to work towards a strategic MTPDP following a participatory planning process similar to what is already being done at present. The more strategic planning approach adopted at the regional level may also be the more practical approach compared to the traditional bottom-up planning originally promoted. Hence, both the national and regional plans will provide the strategic framework which can be adopted by lower level government units.

Since the different agencies play an important role in the budgeting process, the link between planning and budgeting can be improved by requiring agencies to prepare medium-term and annual sector plans, which can be the basis of the sector investment and expenditure programs.

However, considering different planning proficiencies across LGUs with the provincial and city governments' more advanced planning capabilities, mechanisms for strengthening inter-LGU relations is important to ensure that higher plans consider the village or barangay requirements. The role of the RDC in the light of decentralization may have to be reviewed, with greater emphasis on (1) coordinating inter-provincial concerns both on the policy as well as on the programs and projects side; (2) checking consistency of provincial and city plans with national plans without aggregating them; and (3) providing technical assistance on planning to provincial governments.

In the partial devolution of authorities like in the Philippines, delivery of services in affected sectors becomes the joint responsibility of the national government agencies and the local government units. Since convergence of services in poor areas has been announced as a policy objective, this can only be implemented if coordination between national government agencies and local government officials can be improved. Coordination is needed for the following reasons: (1) local government departments are informed of prospective national projects being initiated at the national level for local level implementation even at the conceptual stage and their inputs considered; or (2) national government agency representatives participate in the local sector planning programming deliberations at the relevant local councils. On the project side, closer coordination between national government agencies (NGAs) with LGUs and their local departments is also important to ensure (1) better implementation of nationally-initiated projects at the local levels; and (2) that critical local needs which cannot be locally funded are considered and eventually incorporated in the national government agency budgeted provided these are not completely devolved functions. But for very poor communities, closer coordination with NGAs might result in affirmative action even for devolved functions in these areas considering their difficult situations (e.g.Mindanao).

There is division of planning responsibilities between DILG and NEDA which can sometimes lead to inaction on some planning problems at the local level. In this situation, greater coordination is needed between these agencies particularly with respect to improving planning capabilities at all government levels as well as planning linkages between among LGUs and between NG agencies and LGUs.

The process of generating inputs for the budget should be aligned with the preparation of the President's SONA which sets the policy priorities of the government.

The budgeting process at the LGU level, in general, is highly influenced by the Local Executive, especially for those without development plans. Hence, more training should be given at the LGU level. Furthermore, in order that LGU projects are considered at the national level, planning and budgeting schedules at both levels should be synchronized, similar to the efforts initiated for the agriculture sector.

The Medium-Term Expenditure Framework is a major reform that has the potential of improving the link between planning and budgeting. However, there are important implementation problems which should be addressed especially those dealing with the translation of outputs to outcomes, setting inter-sector local level. Since the intervention unit is the village, greater coordination with LGUs is important, especially since some poverty-related services priorities and setting of medium-term fiscal forecasts. These issues need to be addressed before full implementation. The scheme should also be pilot-tested at selected LGUs with progressive Local Chief Executives.

The concern for more poverty focused policies and programs have led to the preparation of poverty plans separate from existing national and local plans. There is also a tendency for the bureaucracy to constantly introduce new poverty programs every change in administration, giving the impression of "unending transitions" and wasting scarce resources. As s result, institutional duplications and processes arise, often causing confusion among implementers at the like health have been devolved. The objective is to encourage LGUs to fund more poverty-related programs.

Planning and Budgeting Processes in Indonesia[48]

Indonesia is presently in a transition stage where planning and budgeting processes are being aligned with the objectives of decentralization. Two important laws – Law No. 22 /1999 on Regional Governance and Law No. 25/1999 on Financial Balance between the Central and Regional Governments - embody the changes in the planning and budgeting processes at the central and regional government levels. Similar to the Philippines, planning in the Indonesia broadly refers to the processes that would generate the following two components of a plan: (1) the statement of broad objectives, strategies and policies; and (2) the

[48] This section is based on the planning and budgeting processes followed in the Bandung district and city as well as past studies on Lombok Tengah.

listing of projects, activities and programs (PAPs).49 At the local level, Indonesia follows a more complicated process of generating PAPs which are incorporated as part of the budgeting process.

5.1 Planning Processes in Indonesia

Indonesia started formulating development plans as early as the 1950s and has since been doing annual, medium-term and long-term plans at both national and sub-national levels of government. Planning processes and structures are well established and highly centralized, making the change process arising from decentralization more challenging. Understandably therefore, the transition to a decentralized system has been gradual with the old planning guidelines still largely dominating the process. Appendix 4 describes the planning processes in Indonesia both prior to and after decentralization.

5.1.1 Vertical Integration of Planning at the National Level

At the national level, the responsibility of coordinating plan preparation in Indonesia is lodged with the National Development Planning Board or BAPPENAS (Badan Perancanaan Pembangunan Nasional). Until 1999, the BAPPENAS, which is directly under the supervision of the President, was also tasked with the preparation of the development part of the annual budget, which makes it one of the more powerful agencies of the government.

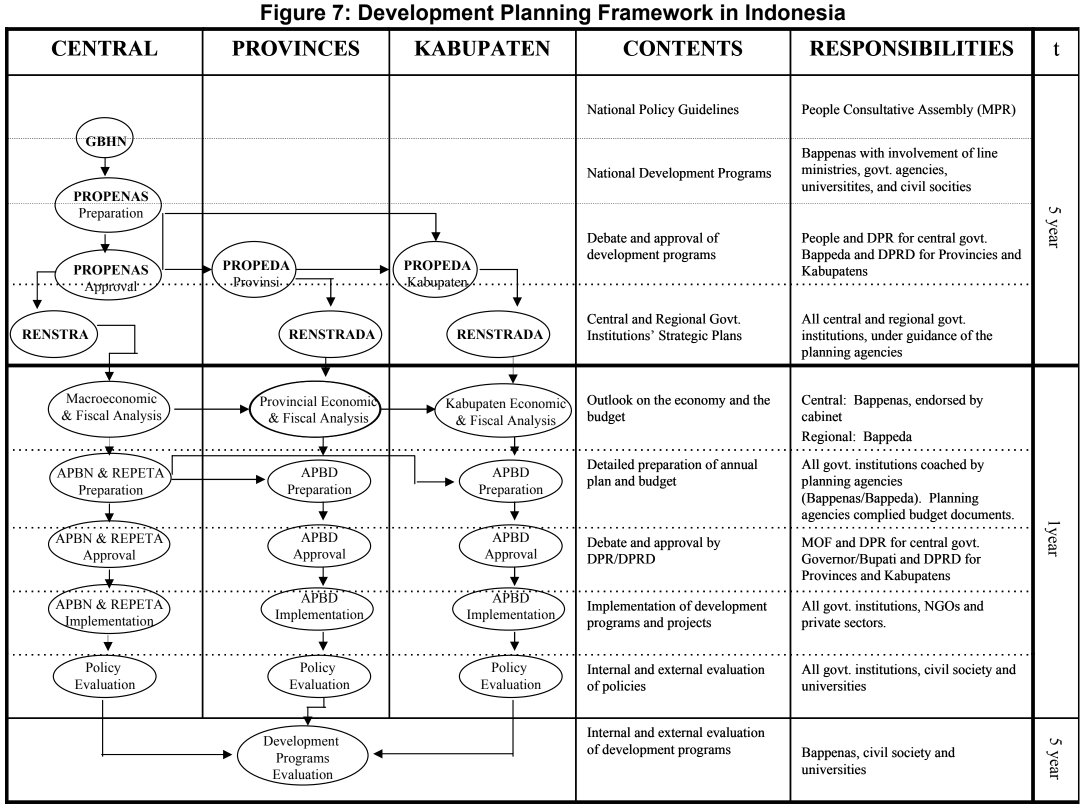
There are, at present, four important plan documents produced at the central level: (1) the National Guidelines (GBHS: Garis Besar Haluan Negara), which are broad d guidelines issued by the People's Consultative Assembly (MPR), Indonesia's highest constitutional body, to the President during her election; (2) Five-year National Development Plan (Propenas: Program Pembangunan Nasional) containing cross-sectoral and priority policies consistent with the GBHS and which serves as the guide for the ministries and regions in the preparation of their own plans; (3) Strategic Plans of central government agencies (Renstra: Rencana Strategis), the preparation of which were required by ministerial decrees or INPRES 7/1999; and (4) the Annual Development Plan (Repeta: Rencana Pembangunan) (Figure 7).

[49] In the Philippines, the identification of programs, activities and projects are usually referred to as "programming." In Indonesia, this aspect is part of the whole "planning" process and the term "programming" is not usually used in planning documents.

At the national level, the planning process starts with the issuance of the GBHN by the People's Consultative Assembly, which triggers the preparation of the Propenas by BAPPENAS, containing the priority areas of the government (Figure 8).[50] The BAPPENAS then organizes the Development Coordination Meeting, which is attended by sector ministries and provincial and local planning agencies to reconcile central government and regional issues. The finalized Propenas is then submitted to the MPR for approval.

[50] For 2000-2004, the *Propenas* identified five priority areas: (1) developing a democratic political system; (2) realizing the supremacy of law and good governance; (3) accelerating economic recovery; (4) developing social welfare, increasing the quality of religious life; (5) increasing regional development.

Figure 7: Development Planning Framework in Indonesia



Source: Bandung Kota Government

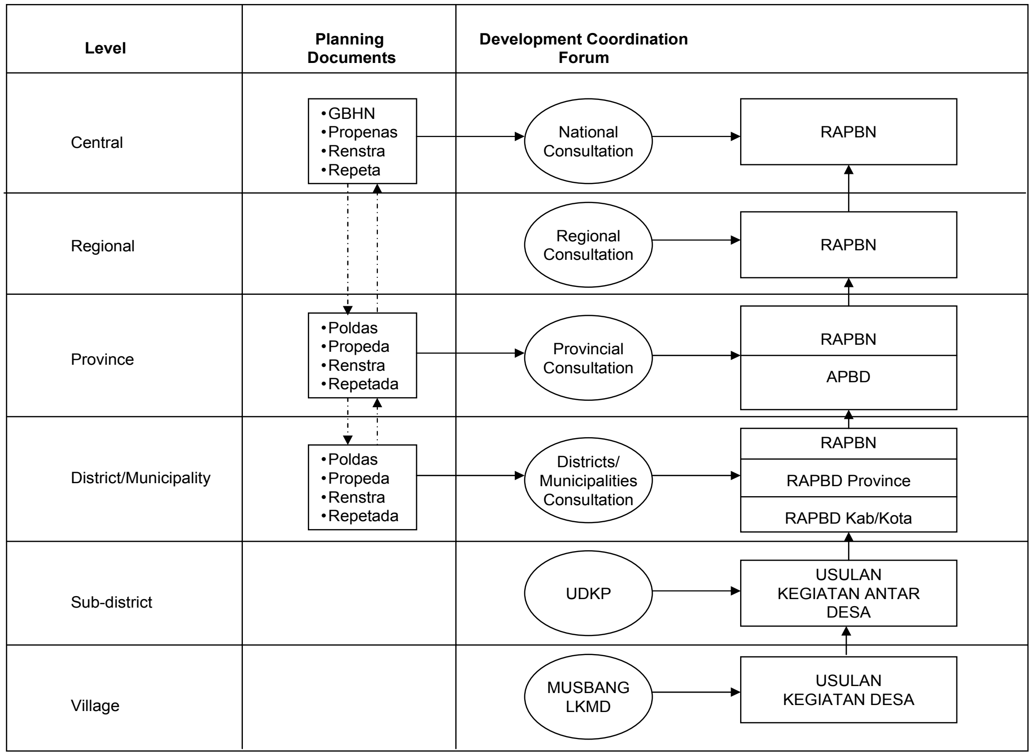
The top-down planning process is evident in the Indonesian case where the national and regional five-year plans, which embodies the broad set of objectives in the GBHN, are made the basis of the lower level plans. The agency and the annual plans are in essence "implementation" plans intended to translate the five-year programs (i.e. *Propenas*) by agency and by projects which will be annually implemented.

Ideally, the *repeta* should be based on the *renstra*, both of which are prepared by the sectoral ministries. In practice, however, not all agencies prepare the *renstra*, nor is there a mechanism for enforcing its preparation. While the *renstra* and the *repeta*, theoretically, are closely linked documents, in practice the *repeta* is formulated independently of any agency plan.

There is no attempt to integrate the agency plans and local plans at the national level.

There is no review mechanism at present to ensure the bottom-up integration of plans (i.e. from regions to the national plan). This may be the more practical approach given the intended broadness of five-year plans. Furthermore, with decentralization, the use of an "integrated" plan at the national level is not clear.

Figure 8: Planning Process at Different Government Levels in Indonesia



Source: Bandung Kota Government

The annual planning exercises, where project proposals are generated, provide more opportunity for closer integration or coordination, depending on the funding responsibilities given at each level of government. For instance, for deconcentrated functions, central ministries, with their DIPS, will necessarily have to coordinate with the regional ministries in the delivery of services at the regions which they continue to fund.[51] If regional governments would like to tap the DAK, they would have to coordinate with the Ministry of Finance.[52] The formulation of the annual plans at the central level would require more coordination with the regional governments to ensure clearer delineation of responsibilities for funding and delivery of services.

5.1.2 Vertical Integration of Regional Plans

The Ministry of Home Affairs (MoHa) exercises oversight responsibilities over the regional governments and usually issues planning guidelines for implementation at the local levels. However, coordination of the planning activities at the regional levels is done by regional development planning agencies (*Bappeda*) which were created

[51] DIP refer to central government deconcentrated development expenditure.
[52] DAK refer to special allocation fund.

at the provincial, *kabupaten* and *kota* levels in 1974 and 1980 to coordinate the preparation of the "basic development plan."[53] At the village level, the Village Security Council, LKMD, is responsible for assessing project proposals while the UDKP has this responsibility at the *kecamatan* level.

At the local level, regional governments - the province, the districts (*kabupatens*) and the cities (*Kotas*) - are mandated by MoHa to prepare the *Propedas*, the local version of the *Propenas* under the supervision of the *Bappeda*. Like their national counterpart, the *Propedas* are broad statements of priorities of the regional governments. Based on the *Propedas*, the local government bureaus are required to prepare three-year strategic plans (the *renstra*), which actually serves as accountability tool for the regional and bureau heads (WB 2003).

At both the national and regional levels, the most important planning document is the annual plan, understandably because of its potential linkage with the budgeting process. The preparation of the annual plan goes through an elaborate process of consultation, as described in Appendix 4, culminating in the Development Coordination Meetings at the provincial and national levels (*Rakorbangpus* and *Rakorbang*). The annual plan is eventually approved by the Legislature.

A bottom-up planning process is followed in the formulation of proposals for the annual budget, which is based on the 1982 regulation of the Ministry of Home Affairs (MoHa). The formulation process for the *repetada* involves getting aspirations of the people through meetings organized at the different levels of government (i.e. sub-village, village, district/city) on the one hand, and the activities identified by the regional sectoral ministries. Here, the *repetada* is theoretically drawn from the desired activities/projects at geographic and sector levels but sifted along the way through a system of prioritization done by the *Bappeda*, which can differ across local governments.

The preparation of the *Propeda, Renstrada* and the *Repetada* is supposed to be based on the *Propenas* and the *Poldas*, which contains the broad objectives of the nation and the region, respectively. Based on the *Bandung Renstrada* and *Repetada*, the listing of projects in the *Repetada* were drawn from the *renstrada* which implies that, on paper, there seems to be a linkage between regional agency programs and the listing of projects submitted for budgetary purposes. In practice, consultants from the universities are hired to prepare the medium-tem plan which is considered a "political" rather than an operational document with no clear tangible output.

[53]The *Bappedas* are under the supervision of the autonomous regional government (i.e. under the Governor in the case of the province). They also participate in the preparation of the regional budgets.

Furthermore, Usui and Alisjahbana (2003) identified other reasons for the weak vertical integration of plans. First, the preparation of the different plans is not complied with as some regions produce one without the other, though as designed, the plan preparations should be sequential (i.e. the *polda* is the basis of the *renstra* and the *renstrada*). Second, the project coverage of the *renstrada* is limited to those funded by the local budget while the *propeda* includes all projects irrespective of the funding source.

Interviews with local officials and NGOs indicate that the old planning process has the following defects: (1) the process is center-focused where the district was only an executor, which is inconsistent with the spirit of decentralization which gives authority to regional governments to plan their operations; (2) the planning processes are not horizontally (with other districts) nor vertically (with bigger districts) integrated; and (3) the process does not involve the stakeholders and the public, because of which there is no genuine consideration of the people's aspirations.[54] The planning process itself is (1) input-oriented; (2) not based on the needs and potential of the district; and (3) did not consider the environment. It was also observed that local development plans reflected "centrally-inspired" projects rather than those proposed locally (Sugiyanto and Usui 2003)

With decentralization, the new procedures for planning and budgeting are still being worked out. In general, Indonesia still follows the top-down and bottom-up planning processes described earlier.[55] Based on the Bandung Kabupaten and Kota experience, however, the regional governments are undergoing paradigm shifts that stress a more strategic and participatory approach to planning and which calls for a modification of existing planning process in line with new guidelines (SE Mendagri No. 650/989/IV/Bangda). With assistance from donors, the emerging new approach which Bandung Kabupaten is contemplating on involves: (1) shift from sector-focused planning to tackling more strategic and intermediate-term planning; (2) more stakeholder involvement in the process; (3) shift from the top-down relationship with the central government to one of partnership; (5) central planning is viewed as a "blueprint or a manual, from which district planning will be based; and (6) providing more concern for the environment in the plan.

In the case of Bandung Kabupaten, the new processes attempt to link the planning and budgeting processes by providing lower level governments with high and low budget estimates and by setting targets based on the Human Development Index for the country. There is also a greater

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[54] Based on materials from and interviews with officials of Bandung Kota.

[55] Based on the interview with the officials from the *Bappeda* of Bandung Kabupaten, they still follow the 1982 MoHa Circular letter for the preparation of the annual proposals for the budget.

emphasis being placed on participatory planning where community representatives sit at every level of discussion and are able to genuinely participate in the prioritization of projects, even at higher level coordination meetings. One of the issues to be considered in the process is the extent to which community-initiated projects, which tend to be the hard infrastructure projects, are finally considered vis-à-vis local department projects which are usually the "soft" projects. The process of prioritizing projects, however, remains to be a big challenge for the district/city.

Using the Lombok Tengah experience, Sugiyanto and Usui (2003) similarly observed the following changes in the planning process after decentralization. First, the development coordination meeting has been refocused such that it is increasingly becoming a venue to gather aspirations of those outside of government, consistent with the participatory approach promoted by government. Second, the choice of programs is based on real needs rather than the local chiefs/executives. Third, the participatory process has empowered the local village representatives to monitor the decisions of the village chief.

Being in a transition period, this is a good opportunity for Indonesia to institute changes in its planning processes at the local level, particularly in the light of the government's present focus on poverty. Some of the areas which may be considered are the following: (1) improving the capability of sub-national level officials to prepare the Five-Year Development Plan using a participatory approach even at the lowest unit of government; (2) adopting a holistic approach to planning that not only stops at visioning and preparing mission statements but should include resource generation, monitoring and evaluation; (3) simplifying the planning parameters and processes at each level of government and making this the basis for a uniform set of training modules for the LGUs; (4) incorporating poverty planning in the present or future planning processes to be adopted by the government; and (5) instituting mechanisms to improve the coordination between central level ministries and the local government units esp. the heads of local government bureaus, both of which are responsible for preparing annual budgets.

In the absence of new guidelines for integrating the planning processes across government levels, the regional governments have been experimenting with different participatory planning approaches, depending on the donors providing the technical assistance to the region. There is therefore a tendency for the different regions to adopt different planning techniques, though generally following the principles of participatory planning. There is clearly a need to coordinate donor efforts in planning and budgeting to ensure that planning techniques are standardized across the region.

5.1.3 Poverty Planning in Indonesia

The Indonesian government has been pursuing an extensive reform program (*reformasi*) contained in the Broad Guidelines of State Policy covering the economic, social and political sectors. Poverty reduction has been at the center of the reform process as shown by several initiatives undertaken by the government: (1) presentation of the Poverty Reduction Strategy for Indonesia (PRSP) during Consultative Group Meeting in 2000; (2) organization of a committee in 2001 to implement a participatory approach for developing a strategy at the same time that poverty reduction secretariat was formed to liaise with civil society and local governments; (3) formation of a Cabinet-level Poverty Reduction Committee after the assumption of Megawati Sukarnoputri as President, with BAPPENAS providing the analytical support.

By early 2003, an interim PRSP was finalized by the government containing four principal measures for reducing poverty: (1) creating opportunity; (2) community empowerment; (3) capacity building; and (4) social protection. The preparation of the full blown PRSP is being coordinated by the Poverty Reduction Committee at the national level where a *Team Inti,* composed of core ministries was organized to oversee the process. Four tasks forces were also created under the committee to cover the four substantive themes in the IPRSP.

It has been recognized by the government through MoHa that the wide authorities given to the regions provides it with the potential to participate more effectively in the government's poverty reduction efforts. Indeed, local governments have been organizing local poverty reduction committees, at the instruction of the Ministry of Home Affairs (MoHa). Some of these have started developing local poverty strategies using participatory poverty assessments.

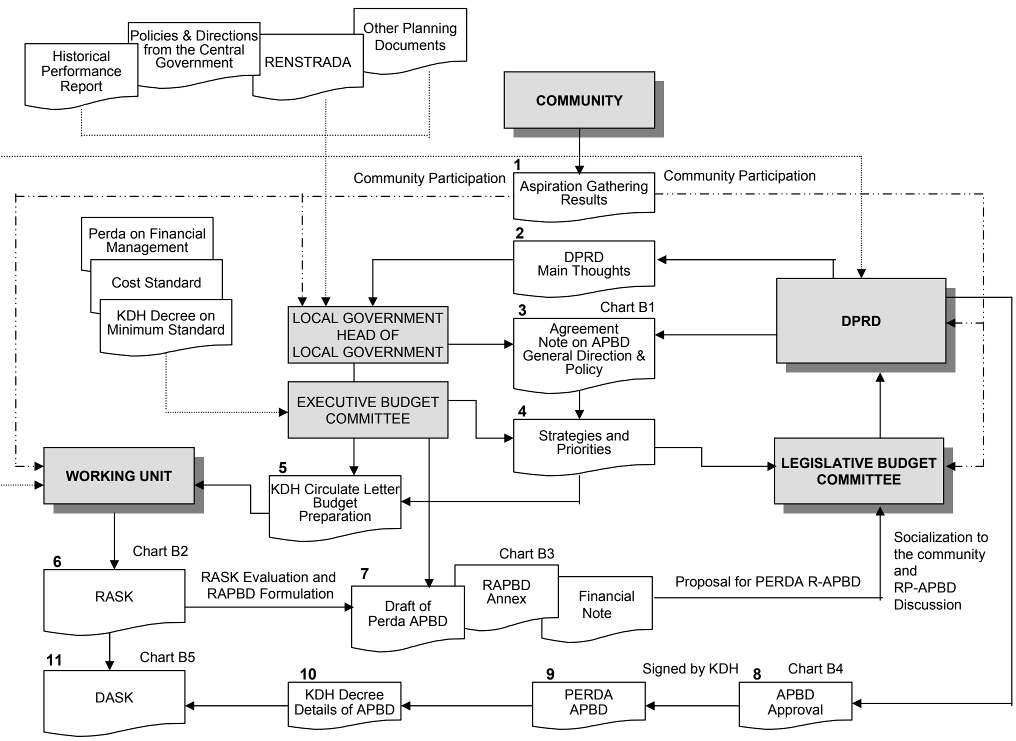
However, Esden noted that poverty reduction programs in Indonesia continue to centrally-conceptualized and managed, with regional governments being called upon only at the implementation stage. Problems arose from this arrangement, such as lack of transparency and control over implementation and ineffective programs.

5.2 Planning and Budgeting Linkages

Much like the planning process, the budgeting process in Indonesia is still undergoing refinements as a result of decentralization. Institutionally, the Ministry of Finance has been given the responsibility of setting standards for financial management in the public sector but the MoHa issues the budgeting guidelines to the LGUs. The obvious casualty in the process is BAPPENAS, which has lost its function in the budget administration of the development part of the budget. Similar to Bappenas, Bappeda is also experiencing a similar predicament at the regional levels.

The budgeting process of Indonesia is still highly centralized with guidelines for local budgeting still being set at the central level through the MoHa (Figure 9). Whether this is just part of the adjustment to decentralization is not clear, since it has been only two years since decentralization was first implemented.

Figure 9: General Framework for Budget Preparation Process



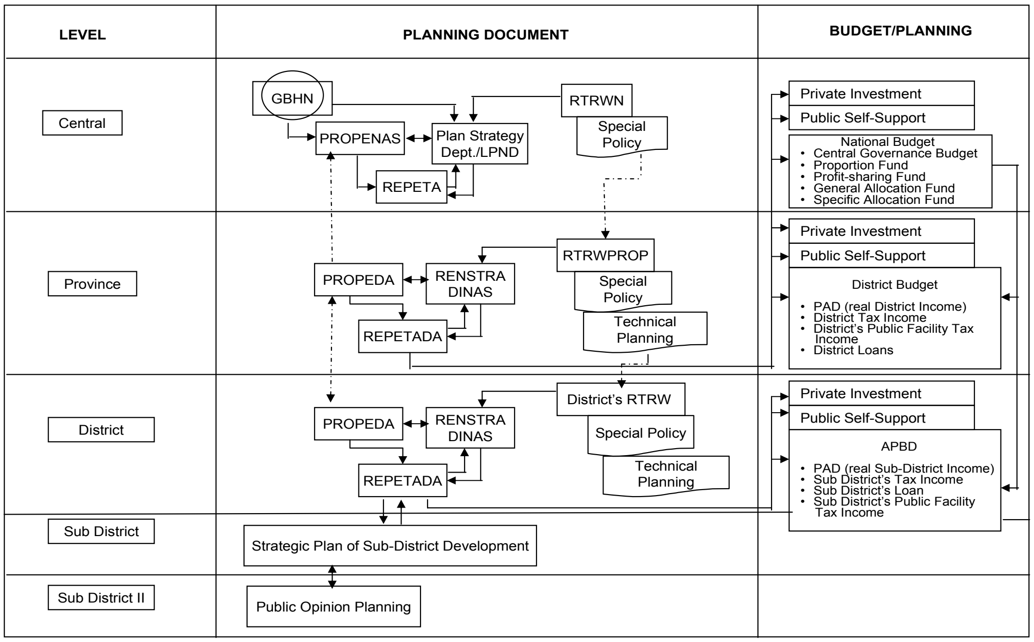
Source: Mila Gregorio

As shown in Appendix 4, budgeting activities at both the national and regional levels are the responsibilities of budget committees which, at the national level does not include the development planning agency. Institutionally, therefore, the linkage between planning and budgeting has somewhat weakened with this set-up compared to past years. Furthermore, while the preparation of the *repetada* at the national and sub-national appears to be seriously undertaken, its importance in the budgeting exercise is not clear. In the State Financing Law which is the operative law guiding budgetary activities, the *repetada* is not explicitly required in the budgeting process and is only being prepared at present in compliance with MoHa requirements.

Theoretically, the inputs for the *repetada* and the budget partly come from local departments or *dinases* (Figure 10). Hence, one would expect that there would be consistency in their submissions, and therefore there would be common development projects to be found in the *repetada* and the budget document.[56] The link between planning and budgeting at both the national and local levels are the sector ministries and the *dinases* at the local level, who are responsible for submitting policies and project proposals to the BAPPENAS for the planning activities and to the Budget Committee for budget considerations. Ideally, the *Renstra* or the strategic plan for central government agencies, is the implementation plan which would translate the Propenas into more doable sector-specific programs and projects. According to interviews, however, the *Renstra* is not usually prepared and is not used in the preparation of the *repeta*. At the local level, the local bureaus (dinases), like the sector ministries at the central also play a key role in both the planning and budgeting processes.

[56] An attempt was made to make this comparison using the Bandung Kabupaten but the lack of details in the budget document made the comparison difficult.

Figure 10: Proposed Planning and Budgeting Processes in Indonesia



Source: SE Mendagri No. 650/989/IV/Bangda, 5/06/2000 from Bandung Kota Government

Given this condition, there is no assurance that the projects that are budgeted are consistent with either the national or regional goals. There is a need for more transparency in the allocation of budgetary resources in both the national and regional levels, particularly in the prioritization process used for allocating budgetary resources (Figure 11).

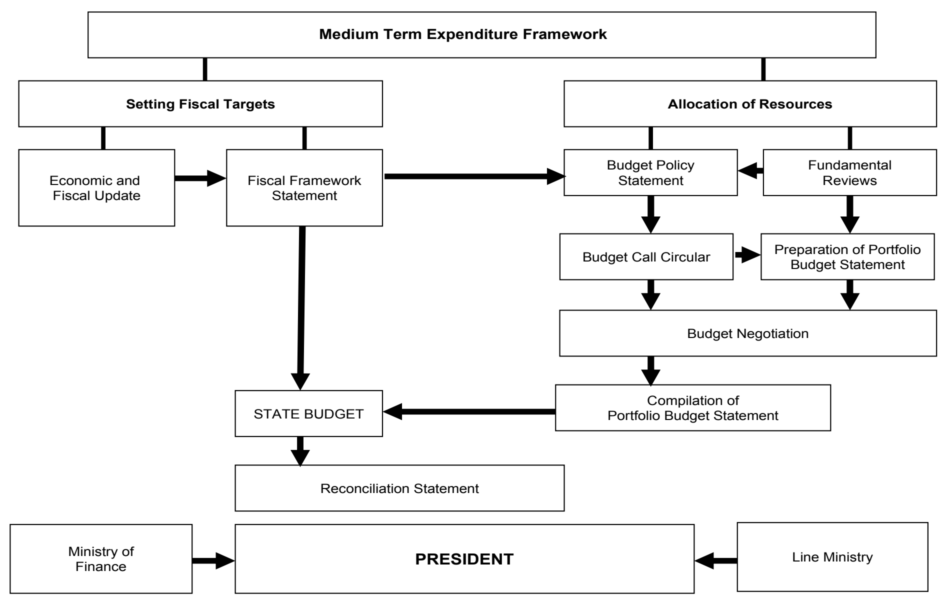
Figure 11: Issues in Planning and Budgeting Process

	Mar-Apr	*Apr-May*	*May-Jul*	*Aug-Dec*	*Jan-Feb*	*Mar/Apr - Dec*
Renstra	**Musbangdes**	**Musbang UDKP**	**Rakorbang**	**Budget Formulation**	**Budget Approval**	**Budget Execution**
‣ Lack of public participation in formulation ‣ Too high level to be referred in annual planning	‣ Lack of community participation (no enthusiasm based on past experience) ‣ Lack of budgeting power	‣ Lack of community representa-tives ‣ Lack of budgeting power	‣ Lack of community representa-tives ‣ Lack of "buy-in" from DPRD ‣ No budget estimate	‣ "Black box" – no public consultation ‣ New proposals are inserted to the list	‣ No public consultation on the draft	‣ Limited monitoring and evaluation ‣ Bawasda's audit is limited to financial aspect

Source: CLGI (2003)

In the case of Indonesia, Medium-Term Expenditure Framework (MTEF) has not been implemented yet, though the State Financing Law referred to the matter. Since government to adjust to the new system might be a good option. Pilot testing the MTEF would be advisable before full implementation. A proposed process for the MTEF in the Indonesia is provided below (WB) (Figure 12).

Figure 12: Budget Preparation and Medium Term Expenditure Framework for Indonesia



Source: World Bank (2003)

5.3 Fiscal Instruments and Policies for Alignment

Indonesia's "Big Bang" approach to decentralization was accompanied by a massive transfer of financial resources to regional governments. With the authorities devolved to regional governments, fiscal decentralization was intended to provide LGUs with the resources to effectively and efficiently deliver services to the people. With this scenario, the challenge facing the central government is the extent to which regional governments can be motivated to support and undertake centrally-initiated programs.

5.3.1 Fiscal Instruments in Support of Decentralization

Prior to the 2001, the central government provided support to the regional government through several block grants: (1) subsidy for autonomous regions (*subsidi daerah otonom)* which covers most of the civil service and recurrent expenditures of the region; (2) the INPRES (*instruksi* *presiden*) which are geared towards development spending in the regions; (3) deconcentrated development expenditure (DIK) which are funding for development projects from the central government for the deconcentrated offices.

Decentralization overhauled the system of inter-governmental transfers which now consists of (1) a general grant (*dana alokasi umum – DAU*) based on an allocation formula for the province and for the local governments: (2) a special allocation grant (DAK) which today is channeled to five sectors – forestry, education, health, rural roads and irrigation; (3) shared taxes; and (4) natural resources revenue sharing. As defined by Law 25/99, at least 25 percent of national revenues will comprise the DAU. The transfers account for more than 90 percent of the resources of regional governments (Table 6).

As implemented in 2001 and 2002, the DAU allocation to the regional government has not been a straight formula-based distribution but took into account "transition" factors such as (1) the "base amount" to take into account the mismatch between devolved functions and revenues, maintaining at least the previous year's DAU allocation: and (2) the historical allocation for Inpres and SDO (Hofman, et al 2002). For 2002, the allocation was based on two components: (1) a minimum or basic allocation consisting of a lump sum where each region receives an equal amount and a proportional wage bill allocation; and (2) a fiscal gap formula which compares expenditure needs with fiscal capacity. The former takes into account regional population, area, poverty gap, and cost index) while fiscal capacity is determined by looking at expected own tax revenues, shared taxes and natural resources revenues (Hofman et.al. 2002).

In 2001, regional governments in general received more than enough transfers to finance the devolved activities during the year (World Bank 2002). The allocation for development spending also increased after decentralization. However, the system is not horizontally equalizing with continued large variation in resources across regions even after the transfers (World Bank 2002).

While regions have been given more resources to undertake programs, they remain to be highly dependent on these transfers and, given the short time, have not shown increased capability to raise their own fiscal resources.

5.3.2 Fiscal Instruments for Poverty and other National Priorities

Usui and Alisjahbana (2003) acknowledged the importance of the following three instruments in linking planning and budgeting at the central with the local levels: (1) the coordination meetings where the allocation of the central to the regions are determined; (2) development budgets of central line ministries; and (3) the specific purpose grant or the DAK.

In the absence of a legal basis, the DAU cannot be tapped as a fiscal instrument for poverty programs from the center. It is worth noting that the minimum standards (SPM) set by Government regulation 25/2000 is one way of influencing the utilization of the DAU. Since poverty, interpreted broadly, actually includes the provision of health and education services, then setting the standards in such a manner that will expand the services to the poor will result in a pro-poor bias in the regional government's expenditure program. There is, however, a need to better coordinate the preparation of these standards and its eventual implementation to prevent unnecessary waste of resources esp. at the regional level.

The DAK, on the other hand, has the greater potential for being used as a conduit for poverty-related activities since even now, it is being utilized for specific purposes identified at the central government level (Usui and Alisjahbana 2003) Since it has been observed that the huge amount of DIPS held by agencies are not justified given that some of the projects under DIPS have been devolved, there are proposals to transform the DIPS into the DAK. The DAK as presently designed is a conditional grant, which may be appropriate for relatively well-off regions. However, for poorer regions, the unconditional transfers might be more appropriate.

5.4 Monitoring and Evaluation

There are a number of monitoring tools at the local level. The Accountability Reports of the regional head which theoretically should be based on the renstrada is submitted to the regional legislature. The Five-Year Plan, according to interviews, is not monitored since they lack targets but budget expenditures are monitored on a quarterly basis. Law 25/99 also requires the regions to regularly report financial information to the center (WB 2003).

Unlike in the Philippines where civil society groups are fairly well-established, those engaged in advocacy for planning and budgeting improvements in Indonesia have only been recently established. There is definitely a potentially strong role for civil society in ensuring genuine participatory planning and budgeting at the local level up to the national level through the various Development Coordination Meetings, where community aspirations are gathered.

However, civil society's role in monitoring and evaluation has not been well established since there is no existing mechanism in the present monitoring procedure of government at any level where civil society can participate in or can express their views on progress of programs and projects of the government. The experience of countries with strong civil society groups indicate that they can play a major role in monitoring corruption done in project implementation as well as in assisting government in the evaluation of existing projects for future planning.

5.5 Lessons from the Indonesian Experience

1. In the transition from a highly centralized to a decentralized system, the delineation of responsibilities across government ministries and government levels should be clearly identified. In cases when planning and budgeting responsibilities are divided between two agencies, the functions of the concerned agencies should be clear and closer coordination should be encouraged.

2. Decentralization will necessarily bring changes in planning and budgeting procedures. The guidelines to be issued should be based on planning principles consistent with the essence of decentralization. There might a need to review the bottom-up planning process followed in identifying projects for budgeting purposes in relation to their consistency with decentralization. Given the financial autonomy granted to regional governments together with devolved authorities for service delivery, bottom-up planning and budgeting processes may no longer be necessary. GTZ/Clean Urban Project (2000) recommended, for instance, a more genuine local level planning process administered by the regions.

3. The planning and budgeting linkages are clearer in Indonesia than in the Philippines as projects for the budget are identified using the coordination meetings, which have the potential of being a venue for genuine participatory planning. Some of the areas which need to be looked at include: (1) the process of prioritization at each level; (2) implementation of performance based budgeting which has been started; and (3) the forthcoming implementation of the medium-expenditure framework. The fiscal reforms are indeed overwhelming, which may prove to be difficult for the implementers at the regional level.

4. In the transition, some hand-holding by ministries may be necessary to ensure a smooth transition in implementing devolved functions by the regional governments. The planning-budgeting linkages might also be improved with closer oversight given to ministries in their planning at budgeting activities.

5. The imposition of minimum basic standards fro obligatory functions may be one way of influencing the utilization of DAU at the local level. Setting of standards, however, may have to be closely coordinated and responsibilities for monitoring compliance identified before implementation.

Lessons and Suggested Policy and Institutional Responses

6.1 On Planning

1. In the transition from a centralized to a decentralized system during which procedures and systems at lower level governments are being revised/transformed, there is a tendency to replicate the activities/procedures followed at the national/central levels to the local levels. However, capabilities, resources and political realities at the local level differ from those found at the national, often times requiring more innovative procedures. In the area of planning for instance, the format of national plans and the planning processes at the local level are in most instances mirror-image of national plans and processes, where perhaps a simpler and a more doable document will be more appropriate. In the case of poverty planning, the set of indicators for assessing performance at the national level may be different from one which will be used at the local level. The PRSP Sourcebook materials on poverty diagnostic, for example, may be relevant for national governments in doing the national PRSs but another set of guidelines may have to be prepared for poverty assessment at the local level taking into account the availability of data/information, among others.

2. The institutional roles/responsibilities in development planning for the country at different government levels from the national to the local government levels should be clearly defined in decentralized governments. Whereas bottom-up integration of plans may be important in a centralized system of government where authorities emanate from the center. But the new authorities and resources provided at the local level would require giving LGUs more independence in planning their activities. But the inertia of tradition may not be

3. In a decentralized context, the bottom-up integration of development plans may be relevant only up to the level of the government tier that exercises supervision over lower level tiers. In the case of Indonesia, integration of development plans, including development projects, may be necessary up to the district/city levels. At the province level, the more meaningful exercise would be to coordinate inter-city or inter-district projects rather than the integration of district/city plans, unless the province has the financial capability to fund projects.

4. At lower government tiers, i.e. village, district, city, it is important that their projects which they cannot fund themselves can be raised to upper level tiers for possible inclusion in the budget. This can only be done if the planning and budgeting schedules are synchronized at all levels.

5. The medium-term plans in some instances have been prepared by consultants and not by the government officials, without consultation with the community. To partly address this, required planning documents, which are often designed at the central/national governments need to be simplified taking into account the capabilities and needs of lower level government tiers. In the case of the Philippines, the "Executive Agenda" prepared by the CIDA-funded Local Government Support Program is an example of a simplified process of preparing a plan at the local level.

6. Capacity building on planning techniques should be approached in a holistic manner where the training program not only stops at preparing a plan, but continues with helping communities/local officials with the identification of projects and funding sources, financial support, and monitoring and evaluation techniques.

7. The participatory approach to planning should start with the setting of development vision and not just in the identification of projects.

6.2 On Planning-Budget Linkages

1. Part of the disconnect between planning and budgeting is due to institutional factors that can be addressed by better coordination. For instance, BAPPENAS can probably be invited to sit in the Budget Committee. In the Philippines, the NEDA can be invited to participate in budget hearings. The ideal case is to have one agency handle both planning and budgeting.

2. For the most part however, there is a need to make the planning document more attune to the budgeting exercise. Note that the Medium-term plans, by their very nature, are really meant to be broad statements of policy. There should be greater attention being made to (1) agency/ministry plans to ensure that their plans are consistent with the broad development objectives of the country; and (2) the listing of programs and projects proposed for inclusion in the expenditure program. On the latter, oftentimes, the problem relates to the difficulty of prioritizing expenditures across sectors and in setting budgetary ceilings, both of which are the responsibilities of the budget committee/agency.

3. The weak linkage between planning and budgeting can also be traced to the difficulty of forecasting revenues which during times of shortfalls against targets, can lead to cutbacks in expenditures. This, in turn, leads to missed plan targets, which are always blamed on poor planning.

4. At the local level, the problem at times is less of the weak linkage but more of the lack of plans to start with, partly due to the difficulty of preparing one. Therefore, the annual listing of projects submitted for budgeting purposes is not connected to an overall framework.

5. The role of the legislature at all levels of government in distorting the plan-budget linkage has sometimes been ignored or swept under the rug. On the positive side, greater coordination with the legislature is needed to solicit support for the projects that are consistent with the development plan. Furthermore, there should be a better mechanism for channeling the resources from pork barrel funds towards developmental projects.

6. The introduction of fiscal reforms should consider the implications on the planning side. The introduction of the Medium-term Expenditure Framework, for instance, does not only entail producing five-year forecasts of revenues and expenditures but also reforming the mindset of agencies to be more efficient, effective and performance based.

6.3 On Inter-Governmental Transfers

Unconditional grants like the IRA and DAU should be left to the regional/local governments to allocate with minimal conditions set at the central. For projects which are the nationally designed and funded, the national government may give either matching grants for areas which are better off or unconditional grants for very poor areas. Ideally however, devolution encourages the local government to design and fund their own poverty projects. This implies capacitating regional governments to do poverty diagnostics and to look for financing for their projects.

6.4 On Monitoring and Evaluation

1. Monitoring systems are important for informed planning and budgeting. However, monitoring responsibilities in a decentralized context, similar to planning has to be delineated. For instance, in cases where poverty indicators have been required, up to what government level should aggregation of data be done.

2. At the national level, monitoring responsibilities of oversight agencies should differentiate between “controlling” vs. “facilitating” approaches. Part of monitoring

is the institution of incentive systems to ensure compliance and sanctions for problematic cases.

3. At the local level, the importance of monitoring may not be well appreciated except for budget matters. Hence the challenge is to pursue performance monitoring with extensive participation from civil society. Governments however should pave the way for greater civil society participation by ensuring that processes will allow their genuine participation (e.g. requiring minimum number of civil society representatives in committees, setting up of NGO accreditation system).

Implications on PRS Formulation in a Decentralized Context

1. Since poverty is multi-dimensional concept and is prone to multiple interpretations, basic to any PRS exercise is the leveling of understanding of what poverty or pro-poor means. It would be advisable if the agreed definition can be filtered down to the lowest government level. In the case of the Philippines, the core set of poverty indicators to be collected and used for analysis and monitoring purposes at the local level were identified. Related to this is the classification of pro-poor projects, which should also be defined.

2. In a decentralized context, should poverty plans be prepared at all levels – national, provincial, city, district and villages? While donors are concerned with participatory processes in drawing up poverty plans, more important is the need to have a holistic approach where poverty diagnostics are followed by the translation of the poverty analysis into activities, programs and projects, resource generation and monitoring and evaluation.

3. An equally important question is whether governments should in fact have a national PRS separate from the country's medium-term plan. In the case of Indonesia, the new Five-Year plan which will probably be formulated after the 2004 elections can be merged or be the PRS. If PRS are to be required at the sub-national level, there is a need to closely study the form of the PRS that would be relevant and practical at each level of government.

4. For countries in transition from a centralized government to a decentralized government, it might entail less adjustment cost if the PRSP processes can be integrated with the evolving institutional planning and budgeting mechanisms. Creation of new committees or processes at the same time that regional governments are grappling with numerous operational revisions related to decentralization might

be too cumbersome. Blending the PRSP in existing or evolving processes may actually lead to a more sustainable process in the future.

5. Since regional/local governments have sources of funding, efforts should be made at the highest level to enjoin them to adopt pro-poor policies and implement pro-poor projects. Ensuring funding for poverty related activities imply that (1) the regional ministries have adopted poverty as part of their mission; (2) they have been able to translate this mission into relevant programs and projects; (3) the system of project prioritization includes poverty reduction as a criteria, if not the major one; (4) that the project prioritization exercise is in fact considered in the budgeting process both at the Executive and the Legislative branches.

6. There is also a tendency for the bureaucracy to constantly introduce new poverty programs every change in administration, giving the impression of "unending transitions" and wasting scarce resources. As a result, institutional duplications and processes arise, often causing confusion among implementers at the local level. Since the intervention unit is the village, greater coordination with local/regional LGUs is important, especially since some poverty-related services like health have been devolved. The objective is to encourage LGUs to fund more poverty-related programs.

7. Greater linkages between planning and budgeting for the poor can be achieved if there are mechanisms for greater coordination between national/central line agencies with local level officials particularly those involved in service delivery.

8. Greater donor coordination is needed to prevent duplication of efforts and more consistency in approach in refining planning and budgeting processes.

Table 1: Background Information on Indonesia and the Philippines

Category	Indonesia	Philippines
<u>Geography</u>	- World's largest archipelagoof more than 17,000 island (6,000 inhabited) - Total area: 1,919440 sq. km	- Archipelago w/ 7,100 island
<u>Government</u>		
Government Type	- Republic	- Republic
Administrative Division	- 27 provinces, 2 special regions & 1 special capitalcity district	- 73 provinces & 61 chartered cities
Executive Branch	- President is both Chief of State & head of government - Cabinet appointed by the President - President & Vice President elected separately by the People's Consultative Assembly or MPR for five years terms - In the next election (July 2004) the President & Vice President will be elected by direct vote of the people	- President is both Chief of State & head of government - Cabinet appointed by the President w/ the consent of the Commission for Appointment (Congress) - President & Vice President elected or separate tickets by population vote for six years terms - Next election on May 16, 2004
Legislative Branch	- Unicameral Congress with House of Representatives having 1,500 seats - 462 elected by popular votes, 28 are appointed military representatives until 2004 election where military seats expire, members serve 5-years terms - Supreme Court (Justices appointed by the President from a list of candidate approved by the legislative) - Supreme Court is preparing to assume administrative responsibility by the lower count system, currently run by the Executive	- Bicameral Congress - Senate (24 seats w/ 1/2 elected every three years; elected members by popular vote to serve six years terms) and the House of Representatives 1,214 seats; members elected by popular vote to serve three years terms - Supreme Court (Justice are appointed by the President on the recommendation of the Judicial & Bar Council & serve until 70 years of age)
<u>Economy</u>		
Structure (Share to GDP)	- Agriculture : 17% Industry : 41% Service : 42% (as of 2001)	- Agriculture : 15% Industry : 31% Service : 54% (as of 2001)
Population below poverty line	- 27% (1999)	- 28.4 (2000)
Household income/ consumption by share	- lowest 10% - 1.5% highest 11% - 39.3% (as of 1998)	- lowest 10% - 4% highest 10% - 26.7%
Gini Index	- 31.7 (1999)	- 46.2 (1997)
Labor Force	- 99 million (1999)	- 337 million (2002)

Table 2: Selected Social Indicators for Indonesia and the Philippines, 1996-2001

	Indonesia	Philippines
Population hiring on Less than $2 per day (%)		
1996	50.5	46.50
1999	66.1	47.40 (1998)
2001	60.5	43.90
National Poverty Lines		
1976	40.1	49.1 (1985)
1996	11.3	40.6 (1994)
1998	24.2	(1997)
2001	18.4	39.4 (2000)
Global Ranking Human Development Index		
1995	96	67
1997	105	77
2000	110	77
Infant Mortality Rate (per 1000 live births)		
1996	44	37
1998	48	35
2000	44	33
Adult Literacy Rate (% of those 15 yrs. & older)		
Male		
1995	87.0	95.0
1997	89.6	94.8
2000	91.8	95.3 (2001)
Female		
1995	72.7	94.3
1997	77.6	94.3
2000	81.9	95.0 (2001)
Population with Access to Sanitation Facilities (%)		
1995	47	-
1998	54	87
2000	66	83

Sources: UNDP, Human Development Report, several issues
WB, World Development Report, 2001
NSO, Family Income & Expenditure Survey

Table 3. List of Sector Plans in the Philippines

Name of Sub-Sector Plan	Period	Source of Funding
Infrastructure Sector		
Philippine Transport Strategy Study	Open, continuing	ADB-funded
Transport Infrastructure and Capacity Development Study	Open, continuing	ADB-funded
Metro Manila Urban Transport Integrated Study	Open, continuing	JICA-funded
Solid Waste Management Master Plan	Open, continuing	JICA-funded
Philippine Energy Plan	2003-2012	Locally-funded
Water Resources Development for Metro Manila	Open, continuing	JICA-funded
Social Sector		
Science, Technology and Education Plan	2001-2005	Locally-funded (from budget of lead agency)
MTPDP for Culture and Arts	2001-2004	Locally-funded (from budget of lead agency)
Master Plan for Basic Education	2001-2004	Locally-funded (from budget of lead agency)
Medium-Term Higher Education and Investment Plan	2001-2004	Locally-funded (from budget of lead agency)
Medium-Term Youth Development Plan	2001-2004	Locally-funded
Philippine Plan for Gender-Responsive Development	1995-2025	Locally-funded, with assistance from CIDA
Philippine Plan of Action for Older Persons	1999-2004	Locally-funded
Philippine National Strategy Framework for Planned Development for Children	2000-2025	Locally-funded
National Objectives for Health	1999-2004	Locally-funded, with assistance from USAID
Health Sector Reform Agenda	Open, continuing	Counterparting between DOH and donor institutions (GTZ-KFR, ADB, WB, among others)
Medium-Term Plan of Action for Nutrition	1999-2004	Locally-funded
Medium-Term Philippine Plan for Accelerating the Philippine Response to HIV/AIDS	2000-2004	Foreign assisted (UNAIDS)
Philippine Population Management Program	2001-2004	Foreign assisted (UNFPA)
Agriculture, Environment, Natural Resources, Agrarian Reform Sector		
Agriculture and Fisheries Modernization Plan	2001-2004	Locally-funded
GMA Rice Program	1998-2004	Locally-funded
GMA Corn Program	1998-2004	Locally-funded
GMA Sugarcane Program	1998-2004	
GMA High Value Commercial Crops Program	1998-2004	Locally-funded
MT Plan for the Environment and Natural Resources Sector	2001-2004	Locally-funded
CARP Annual Indicative Target/Budget	2001-2004	Locally-funded
Agrarian Reform under the Macapagal-Arroyo Administration (Sustaining the Momentum of AR in the Philippines)	2001-2004	Locally-funded

Table 4: Summary of Poverty Program By Administration

President	National Plan	Poverty Targets in the Plan	Poverty Program	Funding Provided
Aquino Administration (1986-1992)	Philippine Development Plan, 1987-1992 emphasized Aquino Government (1986-1992) emphasized poverty alleviation, productive employment and social equity - Government removed bias against agriculture and rural sector - Emphasis on labor-intensive, agricultural-based exports - Comprehensive Agrarian Reform Program as centerpiece - Other poverty reduction programs: Community Employment Development Program (short-term employment), Self-Employment Assistance Program (interest-free livelihood loans) Updates of the Philippine Development Plan 1990-1992	- Reduction in poverty incidence from 59% in 1985 to 45% in 1992 - from 63% in 1985 to 48% in 1992 for the rural sector - from 44% to 40% for NCR - from 56% to 49% for urban areas outside NCR - Reduced poverty target in 1992 from 45% to a range of 46.1 - 49.3%	No separate program for poverty	

President	National Plan	Poverty Targets in the Plan	Poverty Program	Funding Provided
Ramos Administration (1992-1998)	Medium Term Philippine Development Plan (MTPDP) 1993-1998 Ramos administration: Philippines 2000'; 1992-1998 MTPDP identified key areas for focusing on accelerating economic growth through: - enhancing international competitiveness of domestic industries; - undertaking reforms in commercial banking, transportation and telecommunications industries - investments in basic infrastructure - but also focused on the Social Reform Agenda to achieve human development targets Attention of statistical agencies also turned to measurement of socio-economic correlates through Annual Poverty Indicators Survey, starting in 1998	- Reduction in poverty from 39.2% in 1991 to about 31% by 1998	Social Reform Agenda Nine flagship projects: 1. agricultural development; 2. fisheries & aquatic resources management; 3. ancestral domains; 4. socialized housing; 5. comprehensive & integrated delivery of social services; 6. worker's welfare & protection; 7. livelihood; 8. credit; and 9. institution-building & effective participation in government Target Areas and Programs: - Twenty priority provinces; chosen for poverty incidence and capacity for development - Convergence' (focus resources, services and interventions on specific target families, communities) programs:	Poverty Alleviation Fund as tool for program implementation: - PAF 1 (1996): P4 billion for school teachers, nurses, desks, scholarship, assistance to farmers and fisherfolk, communal irrigation, assistance to overseas contract workers and distressed groups, family health and nutrition - PAF 2 (1997): P2 billion for basic ed, livelihood, potable water, environment, basic child care, health, MBN-CBIS, resettlement, housing - PAF 3 (1998); P1 billion agricultural projects, poverty alleviation for indigenous peoples, resettlement programs - Local Government Empowerment Fund

President	National Plan	Poverty Targets in the Plan	Poverty Program	Funding Provided
			- agrarian reform communities - fisherfolk in priority bays and lakes - ancestral domain titles - programs for urban poor and workers - programs for victims of disasters in resettlement areas - Comprehensive and Integrated Delivery of Social Services - Minimum Basic Needs approach to improve quality of life, and multi-level, multi-sectoral, inter-agency coordination	(1996): P100 million for priority provinces and 5th and 6th class municipalities
Estrada Administration (1998-2000)	MTPDP, 1999-2004 1998-2004 MTPDP identified main elements of development strategies: - aggressive delivery of basic social services - removal of policy and regulatory distortions - sustained development of rural infrastructure - improvement in governance - macroeconomic stability	- Reduction in poverty incidence from 32% in 1997 to 25-28% by 2004. Regional targets were also set	*Lingap Para sa Mahirap* (Caring for the Poor) Program for the 100 poorest families each province and city Lingap Program as a Flagship Program: - identification of 100 poorest families in each province and city - provision of package of assistance including: - Livelihood assistance - Price support for staple foods - Medical assistance - Socialized Housing - Rural waterworks program	*Lingap Para sa Mahirap* (2000) - P2.5 billion

President	National Plan	Poverty Targets in the Plan	Poverty Program	Funding Provided
Arroyo Administration (2001-2004)	MTPDP, 2001-2004 Poverty reductions strategy focus of the Medium Term Philippine Development Plan: - Part I: Macroeconomic Stability and Equitable Growth based on Free Enterprise - Part II: Agricultural and Fisheries Modernization with Social Equity - Part III: Comprehensive Human Development and Protecting the Vulnerable *(Social Bias for the Poor)* - Part IV: Good and Effective Governance	- No target in the Plan but Presidential pronouncements refer to elimination of poverty in 10 years	Kapit Bisig Laban sa Kahirapan (KALAHI) which has five strategies: 1. asset reform 2. human development services 3. employment & livelihood 4. participation in governance of basic sector 5. social protection & security against violence	No special budget allocation; Most of the Fund come from the President's Social Fund or Contingency Fund. Agencies are encouraged to realign their budget toward poverty-related projects

Table 5: IRA Shares of Local Governments vs. the National Budget (in million pesos)

Year	Total Budget*	IRA Share	IRA as % of Total Budget
1991	293,161	9,841	3.4
1992	286,603	20,305	7.1
1993	313,749	36,724	11.7
1994	327,768	46,815	14.3
1995	372,081	52,042	14.0
1996	416,139	56,594	13.6
1997	491,783	71,049	14.4
1998	537,433	76,941	14.3
1999	580,385	95,291	16.4
2000	682,460	114,278	16.7
2001	707,093	115,828	16.4
2002a	770,767	134,422	17.4
2003b	804,200	141,576	17.6

* Actual Obligation

Notes: a-allotment release; b-proposed budget

Source: Department of Budget and Management (DBM)

Table 6: Allocation of Total Revenues of Regional Government, FY 2001
(In Rp trillion; percent)

	FY 2001 (budget)	FY 2001 (outcome)	FY 2002 (budget)	FY 2003 (submitted)	Percent of total (2003)
DAU	60.5	60.5	69.1	75.4	64.1
Contingency/Balancing Funds	6.0	0.0	2.0	8.1	4.1
Shared Revenues	20.3	21.2	24.6	25.9	22.4
Special Autonomy Grants	0.0	0.0	1.3	1.5	0.9
Special Allocation Fund (DAK)	0.9	0.7	0.8	2.3	1.2
Total Regional Transfers	87.7	85.4	97.8	113.2	92.6
Regional Own Revenues (PAD)	7.0	7.0	7.6	9.0	7.4
Total Revenues	94.6	92.4	105.4	122.2	100

Source: World Bank Regional Public Expenditure Review Overview Report, Table 3.1, pp. 26.

Appendix 1: List Of Persons Interviewed

I. Case Study on Indonesia

The case study on Indonesia was based on interviews with key officials of the Government of Indonesia in the Ministry of Finance, Ministry of Home Affairs, and Bappenas as well as NGO representatives and donors currently active in the decentralization of Indonesia, i.e. ADB, CIDA, GTZ, USAID, UNICEF, UNDP and GTZ, in addition to the World Bank. A two-day field visit was conducted in Bandung village (*Kabupaten)* and city (*kota)* where interviews were made with the representatives of local development planning office (*Bappeda)* and the local NGO representatives involved in governance and budgeting issues. A detailed list of people met in Indonesia is provided below.

Central Government:

1. Machfud Sidik
   Director Gen. For Central & Local Financial Balance
   Ministry of Finance
   Gedung D, 16th Fl.
   Jl. Lap. Banteng Timur No. 2-4

2. Ms. Sugiarti
   Director for Planning of Regional Estimate
   Ministry of Home Affairs
   Jl. Medan Merdeka Utara No. 7

3. I Made Suwandi
   Director of Monitoring/Evaluation Policy Facilitation & Evaluation of Regional Autonomy
   Ministry of Home Affairs and Regional Autonomy
   Jl. Medan Merdeka Utara No. 7

4. Mr. Bambang Widianto
   Development Coordinator of REPETA 2004
   Bappenas c/o Director of Manpower
   Gedung Madiun, 6th Fl.
   Jl. Madiun No. 2-4

5. Mr. Ramses Hutagalung
   Kasubdit SPM

Ministry of Home Affairs and Regional Autonomy
Jl Medan Merdeka Utara No. 7

6. Ms. Soedarti
Head of BPS
Jl. Dr. Sutomo No. 6-8

Local Government:

1. Mr. Nanang Sumarna
Head Bappeda

2. Mr. Bambang Subagio
Kabid Litbang

3. Ms. Teti Murti Wendani
Kabid Sosbud

4. Mr. Tatang R.W.
Kabid Fispra
Bappeda Kabupaten Bandung

5. Mr. H. Udaya Tawira
Head of BAPPEDA
Bandung
Jl. Taman Sari No. 6

Civil Society/NGOs:

1. Pokja AKP Member
Jl.

2. Mr. Nana Sukarna
Sawarung
Jl. Salam No. 9

3. Mr. Tubagus Furgon
IPGI
Jl. Kebon Waru Utara No. 7

4. Mr. Dedi Haryadi

BIGS
Jl. Anggrek No. 17

5. Mr. Alit Merthayasa
Local Government Management Specialist
Center for Local Government Innovation
Jl. Sumatera No. 4 Menleng
Jakarta 10350

6. Mr. LeRoy Hollenbeck
Executive Director
Center for Local Government Innovation
Jl. Sumatera No. 4 Menleng
Jakarta 10350

7. Dr. John S. TGAbor
Director of Technical Services
Center for Local Government Innovation
Jl. Sumatera No. 4 Menleng
Jakarta 10350

Donors:

1. Jehan Arulpragasam
World Bank, Indonesia

2. Kathy MacPherson
World Bank, Indonesia

3. Blane Lewis
USAID Advisor
Ministry of Finance
Gedung D, 19th Fl.
Jl. Dr. Wahidin No. 1

4. Bert Hofman
Lead Economist
World Bank Office, Jakarta

5. Kai Keiser
Economist
World Bank Office, Jakarta

6. Ms. Yin Yin Nwe
Senior Plan./Resources Mobilization Officer
Wisma Metropolitan II, 10-11th Fl.
Jl. Jend. Sudirman Kav. 31

7. Ms. Barbara Brouwer
UNDP
UN Building, 4th Fl.
JI. M.H. Thamrin

8. Mr. Syahroni
GTZ – SFDM
Ministry of Home Affairs
Sasana Bakti Praja Building, 1st Fl.
Jl. Medan Merdeka

9. Shiladitya Chatterjee
Principal Country Officer
Gedung BRI II, 7th Fl.
Jl. Jend. Sudirman Kav. 44-46

10. Mr. LeRoy Hollenbeck
Executive Director-YIPD/CLGI
Jl. Sumatera No. 4, Menteng

II. Case Study on the Philippines

Similarly for the Philippines, interviews were conducted with the officials from the oversight agencies, i.e. Departments of Budget and Management (DBM), Interior and Local Government (DILG), Finance (DOF) and the National and Economic and Development Authority (NEDA), the National Anti-Poverty Commission (NAPC) as well as the agencies whose functions have been devolved like the Departments of Public Works and Highways, Agriculture, Health, Education, and Social Welfare and Development. Field visits were also conducted in the provinces of Cavite, Bulacan and Pampanga and the City of Valenzuela. A meeting with representatives of four NEDA regional offices (Regions III, IVA, IVB, XI, VI and VIII) was also held in Manila. Other persons visited included those from the academe and donors involved in local government projects such as CIDA and USAID. The list of persons interviewed is given below.

<u>National Government:</u>

1. Hon. Laura B. Pascua
   Undersecretary
   Department of Budget and Management

2. Hon. Cynthia G. Castel
   Undersecretary (Retired)
   Department of Budget and Management

3. Hon. Teodoro T. Encarnacion
   Presidential Adviser on Infrastructure
   Office of the President

4. Hon. Dante B. Canlas
   Director for the Philippines & former Secretary of Socio-Economic Planning
   Asian Development Bank

5. Hon. Austere A. Panadero
   Assistant Secretary
   Department of the Interior and Local Government

6. Mr. Randy David
   Director
   National Anti-Poverty Commission

7. Mr. Jay De Quiros
   National Anti-Poverty Commission

8. Ms. Fe Cabral
   National Anti-Poverty Commission

9. Hon. Rolando G. Tungpalan
   Assistant Director-General
   National Economic and Development Authority

10. Hon. Raphael P.M. Lotilla

Deputy Director-General
National Economic and Development Authority

11. Hon. Nestor R. Mijares
Assistant Director General, Regional Development Office
National Economic and Development Athority

12. Mr. Victor S. Dato
Director, Project Monitoring Staff
National Economic and Development Authority

13. Mr. Felizardo K. Virtucio
Director, Agriculture Staff
National Economic and Development Authority

14. Mr. John L. Uy
Acting Director, Public Investment Staff
National Economic and Development Authority

15. Ms. Marcelina E. Bacani
Director, Regional Development and Coordination Staff
National Economic and Development Authority

16. Ms. Susan Rachel Jose
Assistant Director, Regional Development and Coordination Staff
National Economic and Development Authority

17. Mr. Clifford Burton
Former Undersecretary
DSWD

19. Ms. Daphne Purnell
Local International Operation Officer
Local Government Academy
Department of Interior and Local Government

20. Dr. Criselda Abesamis
Director
Department of Health

21. Ms. Vilma Cabrera
Director IV
Department of Social Welfare and Development

22. Mr. Norberto G. Malvar
Director, PMS
Bureau of Local Government Finance
Department of Finance

Regional Officials/ Local Government:

1. Ms. Eden Austria
Provincial Development Office
Office of Cavite Mayor

2. Ms. Ruth Santiago
City Development Office
Office of Valenzuela City Mayor

3. Atty. Fred Nicolas
City Administrator
Valenzuela City

4. Ms. Arlene Pascual
Provincial Development Officer
Province of Bulacan

5. Ms. Lynette Bautista
Assistant Regional Director
NEDA Region III

6. Ms. Virginia Mabute
Chief, Social Economic Division
NEDA Region VIII

7. Ms. Isabel Blancia
Senior Economic Development Specialist
NEDA Region VI

8. Mr. Donald James Gawe
Supervising Economic Development Specialist
NEDA Region IV-A

9. Mr. Oskar D. BAlbastro
Director
NEDA Region IV-B

10. Mr. Severino Santos
    Director
    NEDA Region IV-A

10. Mr. Bong Mangahas
    Former NEDA Region II Staff
    Governance Monitoring Expert
    UNDP

Research Institutions:

1. Dr. Alex Brillantes
   Director
   Center for Local & Regional Governance
   National College of Public Administration and Governance
   University of the Philippines

2. Atty. Joaquin San Diego
   Chief Consultant
   Federation of Regional Development Council

3. Mr. Raymundo C. Fabre
   Associate
   C. Virata & Associate

4. Dr. Chat Manasan
   Philippine Institute Development Studies

5. Dr. Henedina Abad
   Director
   Ateneo School of Government

Donors:

1. Ms. Marion Maceda Villanueva
   Canada Field Program Manager
   Philippine-Canada Local Govt. Support Program
   Unit 1507 Jollibee Plaza
   Ortigas Center, Pasig

2. Ms. Carol Geron
   World Bank, Philippines

Appendix 2: National, Regional and Local Planning Processes in the Philippines

Formal planning in the Philippines started in1935, with the creation of the National Economic Council under the Commonwealth Act No.2 (Alburo et al., 1995). The Philippines, which was then in a transition to political independence from the United States, needed a plan that would for the country's reduced dependence on the US economy. Since then, planning bodies (e.g. Presidential Management Staff, the Central Bank) and processes have evolved within government. A major planning reform was, however, instituted by government in 1972 when the responsibility for coordinating the preparation of national plans was lodged with one institution – the National Economic and Development Authority (NEDA) - which today remains to be the central planning agency tasked with the oversight responsibility for plan preparation at the national level. The Local Government Code which mandated the preparation of local plans from the provinces to the village (*Baranggay*) level, however, assigned the Department of Interior and Local Government (DILG) with the task of overseeing the preparation of local plans.

Development plans are usually done at three levels – at the national, regional and the various local government units (e.g. provincial, city and municipal levels.[57] The Philippine government prepares the following major plans: (1) a national plan more popularly know as the Medium-term Philippine Development Plan (MTPDP) covering the six-year term of the President; (2) regional plans; (3) sector plans which are not mandated by law; and (4) the local plans. Described below are the processes followed in preparing the national, regional and local plans.[58]

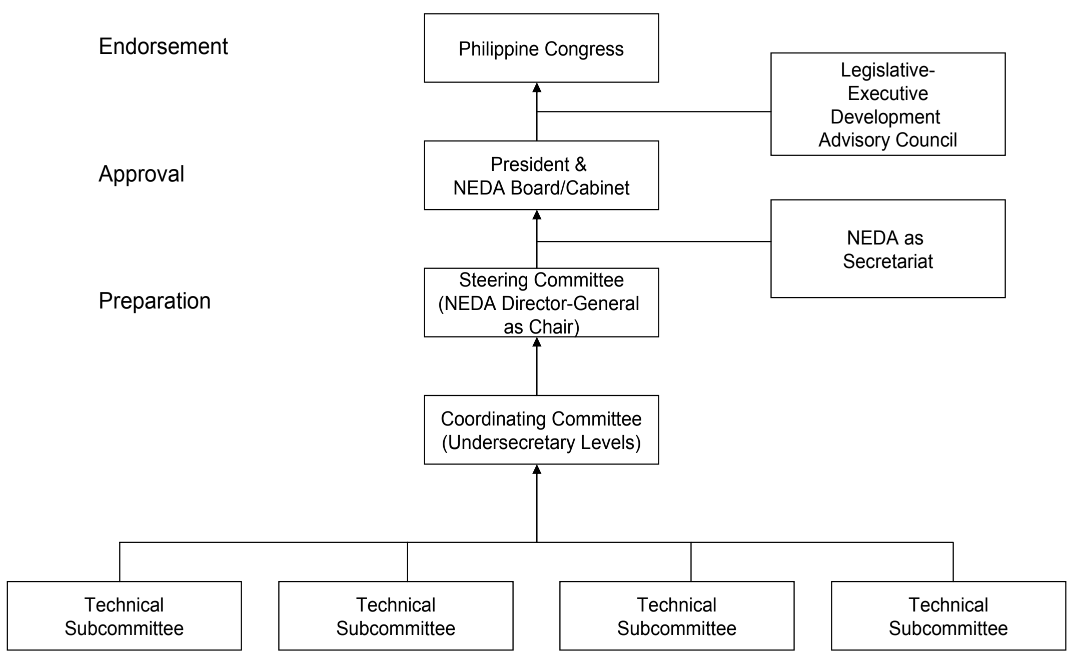
I. National Planning Process

The planning structure and processes for the preparation of Medium-term Philippine Development Plans (MTPDP) has been evolving through the years. A typical planning structure which has been followed since 1986 is given in Figure 2.1. The planning exercise starts with the issuance by the President of a Memorandum Circular directing all government departments, offices and instrumentalities, including local government units (LGUs) to formulate their respective medium-term plans and public investment programs covering six years. The NEDA Board then issues the planning guidelines, which contain the broad vision, contents of the plan,

[57] While the Local government Code requires the preparation of development plans at the village (*baranggay* levels, studies have indicated that very few villages prepare a full blown development plan. What is common is the preparation of a list of projects which form part of the Annual Investment Plan, a required document for budgeting purposes.
[58] There is no prescribed process for preparing sector plans; hence the paper did not include any discussion on sector plan preparation process.

the planning structure and process and the timetable of activities.[59] Based on the guidelines, the NEDA secretariat organizes the different planning committees (PCs), the number of which usually corresponds to the chapters of the plan.[60] The PCs are usually chaired by the concerned Cabinet Secretaries and co-chaired by either the relevant House/Senate Committee Chairs, while private sector representatives are designated as Vice-Chairpersons.

Figure 2.1: Typical Plan Institutional Set-up Process



The MTPDP chapters may be considered mini sector plans, with the following as the most common sectors included in the MTPDPs prepared in the last two decades: human and social development, agriculture and natural resources, industrial development, infrastructure development, the macroeconomy and development financing, and public administration. However, additional chapters may be added depending on their importance to the administration. For instance, the current MTPDP includes a chapter on peace and development in Mindanao, which was not included in past plans. The public administration chapter has also been transformed

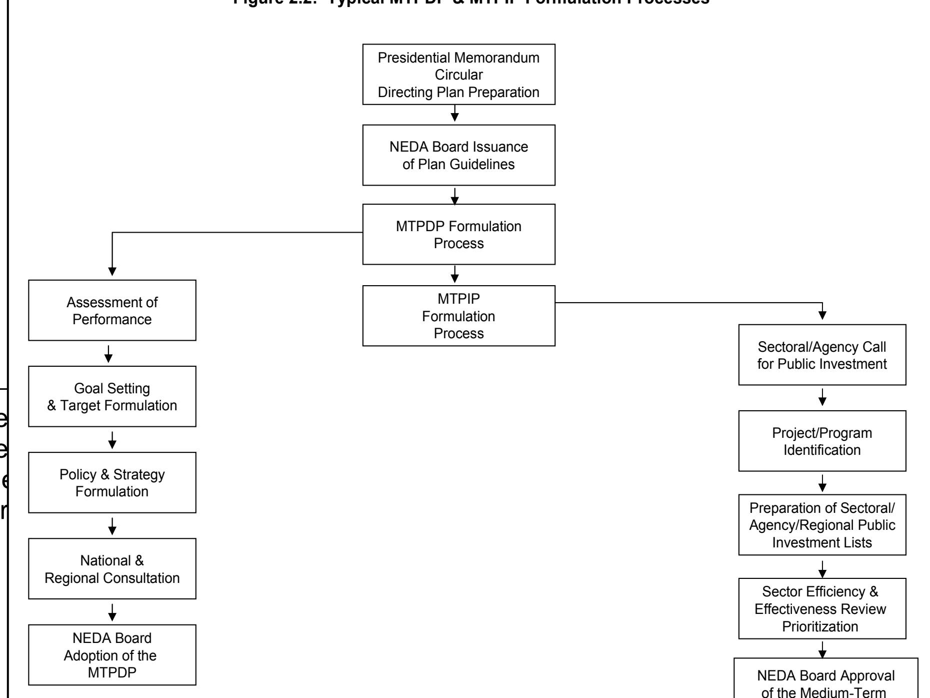
[59] The NEDA Board, which is chaired by the President, is a socio-economic policy-making body of the government similar to the Cabinet.
[60] No committee is usually organized for the regional chapter of the MTPDP, which is usually prepared by the Regional Development Coordination Staff of NEDA together with the NEDA Regional Offices.

into governance and institutions development chapter. Each of the sector chapters usually contains the following information: (1) assessment of past sector performance which usually compares actual accomplishments against plan targets; (2) sector goals, objectives and targets for the medium-term; (3) sector policies and strategies; and (5) key programs and projects.

The MTPDP has a regional chapter which provides the geographic perspective of development in the country. While this chapter was initially intended as a summary of regional development plans (RDPs), there has been a shift in approach in which the chapter on regional development was transformed into a regional development framework which can be used in the formulation of RDPs. This major change in approach was an offshoot of the Code passage and was also followed in the preparation of regional plans starting the Estrada administration in 1998, where the NEDA Regional Offices (NROs) were given the flexibility to adopt a planning approach suited to their requirements. A number of Regional Development Councils (RDCs) opted to prepare a strategic rather than a comprehensive plan similar to the MTPDP.[61] The strategic approach calls for focusing the plan only on areas which would have the greatest impact on regional development.

As the secretariat to the different planning committees, the NEDA secretariat usually prepares the first draft of the Plan document which serves as the starting point for discussion at the planning committees. Consultation meetings and workshops are also organized by sector and by region to elicit comments on the drat plan before these are finalized and to ensure broad participation in the process.[62] A Coordinating Committee, sometimes called the Harmonization Committee, which is composed of the Chairs of the different Plan Subcommittees, reviews the outputs of the Plan subcommittees for consistency before these are forwarded to the Steering Committee, which then endorses the Plan to the NEDA Board (Figure 2.2).[63]

Figure 2.2: Typical MTPDP & MTPIP Formulation Processes



[61] The ... 4.
[62] The
[63] The ... Philippine
Gover... s.

Plan preparation has generally been limited to six months because of the urgency of presenting to the people the administration's program of government. The approval of the MTPDP oftentimes triggers the planning processes at the lower government levels.

The MTPIP Process

A companion document to the MTPDP is the Medium-Term Public Investment Program (MTPIP). The preparation of a separate MTPIP is a fairly new development which started in 1989. In the MTPDP 1987-1992, the document contained a detailed listing of ongoing and proposed programs and projects by line departments, with cost estimates (NEDA 1986). In the succeeding planning cycle, i.e. in 1992 and 1998, a broader sector listing, known as priority subsector activities, was included in the MTPDP, with the more detailed project listing provided in the MTPIP. Since the MTPIP was a companion document to the MTPDP, it had a six-year time frame and had to include projects at various stages of preparation, including those which are still in the conceptual stage.

When first formulated in 1989, the MTPIP was a wish list of projects, composed of foreign-assisted projects, with no budget ceilings provided. The 1992 MTPIP introduced a number of changes in the process: (1) the coverage was expanded to include locally-funded major projects; (2) indicative budget ceilings were introduced; (3) from a fixed five-year plan, the MTPIP became a rolling five-year investment program. Despite these changes, the MTPIP could not be used for budgetary purposes because of the very broad project listing of sector activities. Since then, reforms were further introduced jointly between NEDA and the Department of Budget and Management to make the MTPIP operationally more useful for budgeting activities.

Since 1998, the preparation of the MTPIP by NEDA has largely been influenced by the on-going efforts of the DBM to adopt a Medium-Term Expenditure Framework as part of its budgetary reform program. The MTPIP which is conceptually a rolling list of priority public investment that translates plan priorities and objectives into programs and projects logically should be tied with the budget processes in order to ensure the attainment of the country's development objectives. Major changes in the MTPIP process were proposed to be undertaken to conform to the requirements of the MTEF (NEDA 2001). Specifically, the emerging MTPIP formulation process and methodology which now forms part of the Sector Effectiveness and Efficiency Review (SEER) involves the following: (1) defining final outputs required to achieve measurable societal outcomes; (2) review of the final outputs of ongoing, pipeline and proposed projects and identifying their contribution to the achievement of sector/societal outcomes as well as assessing their efficiency using units cost estimates where available; (3) estimating the annual and medium-term requirements of the priority list of programs and projects that would emerge from the review undertaken in (2); and (4) reconciling the annual and medium-term budget requirements of priority program and projects with the sector expenditure ceilings and the department baseline ceilings to be provided by the DBM. Unfortunately, this process was not operationalized during preparation of the current MTPDP due to the government budgetary problem. Hence no MTPIP was officially released in the present administration. The DBM and the NEDA are however working with the different departments to generate the information needed for the implementation of the SEER and the MTEF.

II. Regional Planning Process

A region is a geographical subdivision of the country initially "composed of a group of small contiguous political and administrative geographical units" (Santos, 1995). The earliest form of regionalization in the Philippines was in 1961 with the creation of development authorities covering groups of provinces which took charge of initiating self-sustaining projects to hasten the development of the areas. The establishment of development authorities was the means used by legislators to channel resources to their areas of concern. It was in 1970 when the administrative delineation of the country into regions for purposes of planning was discussed but the plan was implemented only two years after, with the signing of Letter of Implementation No. 22 on the 1972 Integrated Reorganization Plan (IRP). From the original list of 11 regions created in 1972, the number of regions has grown to 17 by December 2002.

In relation to this, the IRP also called for the organization of the Regional Development Councils (RDCs), which was later recognized in the 1987 Constitution, viz.:[64]

[64] The RDC is the highest socio-economic policy-making body at the regional level. It is the counterpart of the NEDA Board in the region.

"The President shall provide for regional development councils, or other similar bodies composed of local government officials, regional heads of departments and other offices, and representatives from non-government organizations within the region for purposes of administrative decentralization to strengthen the autonomy of units therein and to accelerate the economic and social development of the units in the region." (Article X, Section 14 of the 1987 Constitution)

This constitutional provision was carried out through Executive Order No. 308 signed in 1987 reorganizing the RDC, which, at present, is composed of three major sectors: (1) LGU representatives – the provincial governors, all the city mayors, mayors of municipalities designated as provincial capitals, presidents of the provincial leagues of mayors of the region and the mayor of the municipality designated as the regional center; (2) government agencies – regional directors of agencies represented in the NEDA Board and the regional directors of the Departments of Education, Social Welfare and Tourism; and (3) the private sector and NGOs based in the region who shall comprise one fourth of the membership of the fully constituted Council.[65] Based on Executive Order No. 325 signed in 1996, the RDC has the following functions:

(1) Coordinate the preparation, implementation, monitoring and evaluation of short-term and long-term regional development plans, investment programs, regional physical framework plan and special development plans;
(2) Integrate approved development plans of provinces and cities, line agencies, state universities and colleges, government-owned and controlled regional development plan;
(3) Review, prioritize ad endorse to the national government the annual and multi-year sector investment programs of the region for funding and implementation;
(4) Review and endorse to the national government the annual budgets of agency regional offices, state colleges and universities and special development authorities;
(5) As required by the Investment Coordination Committee review and endorse projects of the national government agencies that have an impact on the region and projects of LGUs in the region; and
(6) Coordinate the monitoring and evaluation of development projects by government agencies and LGUs in the region, among others (NEDA 1999).

The major plan document at the region is the Regional Development Plan (RDP), which like in the national planning process, has the regional development investment program (RDIP) as accompanying document. In the earlier years, even the chapters of the RDPs, which are also called comprehensive plans, cover the same major economic

[65] Note that members of Congress are not included in the RDC but are invited, on a voluntary basis, to be members of the Advisory Council under the RDC.

sectors as the chapters in the MTPDP. In the planning cycles of 1986 and 1992, the RDPs were approved by the NEDA Board together with the MTPDP submission.

The planning process for the preparation of the RDPs is similar to the national process. The timing usually coincides with the formulation of the MTPDP. Following the President's and NEDA Board's directives, the Regional Development Council (RDC) issues planning guidelines consistent with the broad development framework of the MTPDP, but which are focused on regional and area-based development and on region-specific concerns such as peace and development, as well as urban and rural development. But unlike the national process, the plan chapters of the RDPs, which is usually drafted by the NROs, are reviewed and endorsed by the standing committees of the RDCs and not by ad hoc planning committees organized for the purpose of the plan formulation. As stated above, one-fourth of the membership of the sectoral committees of RDCs belong to the private sector including civil society, which can bring the concerns of the people to the committees. Targets, strategies and policies under the Regional Development Plans (RDPs) are those within the mandates and responsibilities of regional offices of NGAs to implement, and to some extent, those that define cooperative undertakings among local government units (LGUs)[66] to address common challenges beyond the territorial jurisdiction of each LGU and those that delineate national-local collaboration for area-wide development concerns.

Furthermore, the NEDA Secretariat in 1997 encouraged a refocusing of the RDPs for the period 1999-2004 which gave the RDCs through the NROs the flexibility to adopt a planning approach deemed most responsive to the requirements of the region (NEDA, 1997 and 2001). RDCs may opt to formulate a comprehensive RDP containing regional sectoral targets, policies and priorities consistent with the MTPDP, or a strategic RDP highlighting action-oriented interventions.[67] NEDA (1997) defines "strategic" as referring to "…reasonably feasible move or action that will make a difference from the regional standpoint. It [is] action-oriented, and responsive to the needs of the region. It is an intervention where the whole or a large segment of the region can benefit from." Regional strategy formulation is done following the approach prescribed by NEDA (1997):

In addition to RDPs, RDCs also prepare the regional physical framework plan (RPFP), as mandated by Letter of Instruction 1350 which seeks to synchronize efforts towards more optimum utilization of land resources. The preparation of RPFP is also an answer to the criticism that the national and regional development plans lacks spatial and physical dimension (NEDA, 1995). A National Land Use Committee at the national level and a regional counterpart committee have been organized to

[66] Section 33 of the Local Government Code of 1991.
[67] The more strategic approach was encouraged partly because the RDP inputs will be used in the formulation of the long term perspective plan up to 2010, which requires a more strategic approach to regional development. This approach, however, continues to be adopted even today.

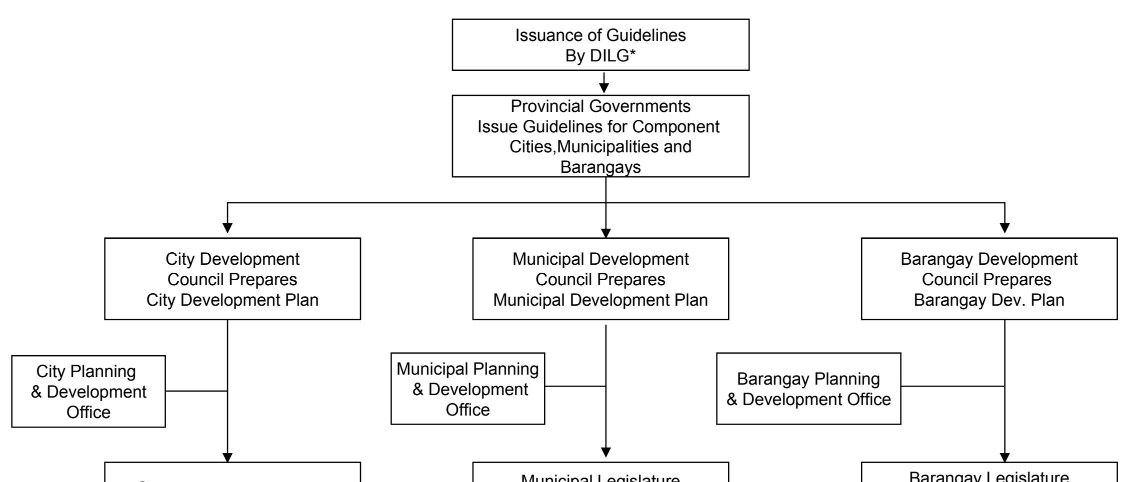
approve the National and Regional Physical Framework Plans, respectively. The intention eventually is to incorporate land use and physical plan components in the RDPs and Provincial Plans. The objective of the RPFP is to ensure the effective utilization, development, management of the region's land and natural resources.

III. Local Planning Process

To assist the LGUs in the formulation of the local medium-term development plan, the DILG together with NEDA drafted local planning guidebooks and advisories for use by the LGUs in the preparation of their development plans. These advisories were circulated in 1994, but has since not been revised. The provincial government, with or without planning guidelines from the Department of Interior and Local Government (DILG),[68] spearhead the planning processes at the local level by issuing planning guidelines for component cities, municipalities and barangays (Figure 2.3).[69] Formally the planning process involves the following steps: (1) *Barangays* submit their development plans (BDPs) usually in the form of a list of priority programs and projects to the municipalities; (2) municipal governments, in turn, consider the barangay plans in the formulation of their Municipal Development Plans (MDPs); (3) after the *Sanggunian*[70] approves the MDPs, these are submitted to the provincial government for consideration in the preparation of the Provincial Development Plans (PDPs). PDPs and City Development Plans (CDPs) of highly urbanized cities (HUCs) are submitted to the RDC for consideration in the formulation of the RDPs.[71]

From the Comprehensive Medium-Term Plans mandated by the Code, which usually coincides with the three-year term of the local chief executive (LCE), local governments are also required to prepare the Annual Socio-Economic Development Plan (ADP) and the Annual Investment Programs and Projects (AIP). The preparation of the AIPs is usually taken seriously by the LGUs since it is a requirement for budget approval/endorsement by the Department of Budget and Management (DBM). The preparation of AIPs is based on the submission of programs and projects to be undertaken by the local executive departments and the offices, which are reviewed, prioritized and endorsed by the Local Development Councils, following the same procedure for the preparation of the comprehensive plan as described above.

Figure 2.3: Local Planning Process in the Philippines



Appendix 3: National and Local Budgeting Processes in the Philippines

National Budgeting in the Philippines

Budgeting at the national level covers distinct phases, which include planning, preparation, authorization, review, execution and accountability.

Budget planning and preparation cover processes that are interlinked with the formulation of the national development plans and programs. The national budget is formulated in accordance with the priorities in the MTPDP and the parameters governing the medium-term economic and fiscal program. Among the major budget planning activities are:

- Formulating fiscal policies and plans, and reviewing and updating the macroeconomic targets
- Determining the annual national government deficit levels
- Formulating the revenue, expenditure and financing programs to determine the cash budget level
- Formulating the obligation budget program, including the allocation into major expense items and debt servicing, and for recipient units
- Approving the budget levels by the Development Budget Coordination Committee, after which the same are approved by the Cabinet and the President
- Issuing the budget call

With the issuance of the budget call, all departments of the national government prepare their budget proposals. On this basis, each agency observes its own internal budget call, generating from all units and regional offices the priority programs, projects and activities that are to be proposed in the agency budget. Capital projects, usually involving infrastructure development, are submitted to the Investment Coordination Committee (ICC) and, in the case of regional projects, to the RDC prior to ICC, for review and endorsement.

Agency budget proposals are usually reviewed during Technical Budget Hearings (TBH) convened by DBM, with other oversight agencies such as the NEDA, National Commission on the Role of Filipino Women (NCRFW), and NAPC, among others. The TBH is a mechanism to ensure that agency budget proposals are reviewed for consistency with the MTPDP, MTPIP, Gender and Development Plan, and Anti-Poverty Plan, among other plans of the national government. After the budget is reviewed at the technical level, the DBM then submits the budget the levels to the DBCC, after which these are forwarded to the Cabinet for final approval.

At the budget authorization phase, the consolidated budget of the Executive, called the President's Budget, is then submitted to Philippine Congress, specifically to the House of Representatives for budget review phase. After the proposed budget is approved by the House of Representatives, the same is submitted to the Philippine Senate for approval. After the approval by both Houses of Congress, the President signs the General Appropriations Act (GAA) into law. The GAA becomes the basis for the programmed releases of DBM (i.e. budget execution phase) to all departments and instrumentalities of the national government, including the subsidies to government corporations and financial institutions where applicable, transfers to local government units and debt servicing.

The budget accountability phase is coordinated by the Commission in Audit in cooperation with the agencies concerned, during which agency budget execution and performance are assessed.

The national budgeting process follows the calendar below:

Activity	Indicative Schedule
Budget Assessment and Planning	First semester
Issuance of Budget Call	May
Budget Forum and Consultation Meetings with Stakeholders and Implementing Agencies	May
Submission of Agency Budgets and DBM Budget Review	May-June
DBCC Deliberation	June
Presentation to the Cabinet	June
Submission of Budget Documents to the President	July
Submission of the President's Budget to Congress	July
Budget Deliberations/Authorization in Congress	Starting July

Local Budgeting in the Philippines

Joint Circular No. 93-2 of the DBM and the Commission on Audit provides the guidelines for budget operations in LGUs. The following local government budgeting phases are similar to those followed at the national level, as described above:

- Budget preparation, involving the estimation of incomes and expenditures and the preparation of a financial plan to implement the local development plan.

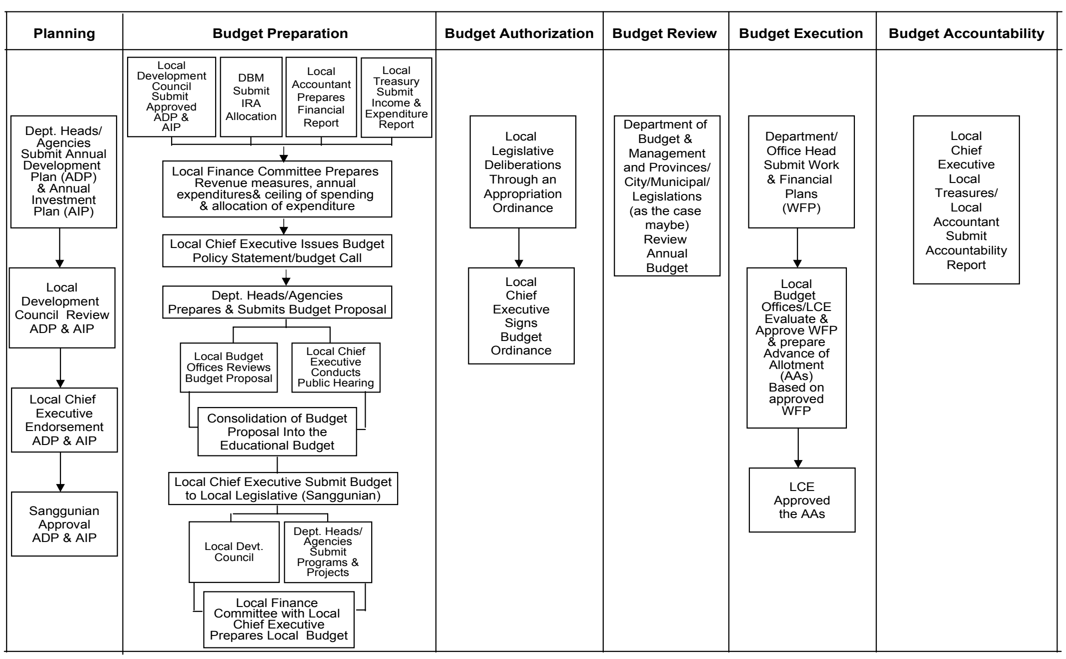
- Budget authorization, during which period the executive budget is prepared and submitted by the local chief executive to the local *Sanggunian* Council for authorization.

- Budget review, involving compliance of the executive budget to requirements, general limitations and other provisions of law.

- Budget execution, involving the implementation of the budget in terms of fund releases so that key functions, programs, projects and activities are accomplished in accordance with local development priorities.

- Budget accountability, involving the accurate recording and reporting of incomes, expenditures and performance.

Figure 3.1: Annual Planning & Budgeting Processes at the Local Government Units Level



Source: DBM

The calendar of activities pertaining to the budget preparation and review phases are presented below:

Office/Unit Responsible	*Activity*	*Duration/Deadline*
Local Development Council/Sanggunian	Preparation updating, approval and submission to the Local Finance Committee (LFC) of the local development plan/ annual investment program.	Prior to budget preparation preferably within the first month of the year.
A. Budget Preparation		
DBM/Other NGAs/GOCCs Concerned	Dissemination to LGUs of information and share of LGUs from the utilization and development of national wealth.	On or before June 15
Local Accountant	Preparation and submission to the LCE through the LFC of necessary financial data.	On or before June 15
Local Treasurer	Submission to the LCE of a certified statement of income and expenditures for the preceding fiscal year, the actual income and expenditures of the first two (2) quarters of the current year and the estimated income and expenditures for the last two(2) quarters.	On or before June 15
Local Finance Committee	Determination and submission to the LCE of the estimated income and	On or before June 15

	budgetary ceilings for the ensuing fiscal year. Submission to the LCE of recommendation on the following: a) appropriate tax and other revenue measures or borrowings necessary to support the budget; b) level of annual expenditures and ceilings of spending for economic, social and general services; and c) proper allocation of expenditures for each development activity between current operating expenditures and capital outlays.	
Local Chief Executive	Issuance of Budget policy statement/ budget call.	On or before June 15
Heads of Offices/ Departments	Preparation and submission of budget proposals to the LCE through the LCF.	On or before June 15
Local Budget Officer (LBO)	Review and evaluation of budget proposal of offices/ departments.	
Local Chief Executive/ Department Heads/ and other concerned	Conduct of budget hearings.	As the Local Chief Executive may set.
Local Budget Officers	Examination/Consolidation of Budget proposals into an executive budget.	Before October 16

Local Chief Executive	Submission of executive budget to the Sanggunian for authorization.	On or before October 16
Local Chief Executive	Submission to the Sanggunian of supplemental budgets for changes in the annual budget.	As necessary and authorized
B. Budget Authorization		
Sanggunian Panlalawigan/ Panlungsod/Bayan	Deliberation of the executive budget and approval thereof through enactment of an appropriation ordinance. Return to the LCE for signature.	On or before the end of the current fiscal year.

Appendix 4: National and Regional Planning and Budgeting Processes in Indonesia

<u>Planning Institutions/Structures.</u> At the national level, the responsibility of coordinating plan preparation in Indonesia is lodged with the National Development Planning Board or BAPPENAS (*Badan Perancanaan Pembangunan Nasional*). Until 1999, the BAPPENAS, which is directly under the supervision of the President, had four very powerful functions; (1) preparation of the national development plans; (2) the harmonization of sector and regional plans with the national plan; and (3) preparation of the draft annual budget. With this set-up where planning and budgeting responsibilities are lodged with one agency, the planning and budgeting processes can easily be harmonized. However, this same power has

There are different institutions in charged of planning at the sub-national levels. Regional development planning agencies (*Bappeda*) were created in 1974 and 1980 with the following functions: (1) coordinate the planning process at the provincial, *kabupaten* and *kota* levels for the preparation of the "basic development plan" ; (2) to formulate the regional development plan and the annual implementation schedules; (3) coordinate with other regional and national government agencies; and (4) participation in the preparation of the regional budgets (GOI --). The *bappedas* are under the supervision of the autonomous regional government; under the Governor in the case of the province. At the village level, the Village Security Council, LKMD, is responsible for assessing project proposals while at the *kecamatan* level, the UDKP has been given this responsibility.

<u>Planning Processes.</u> Prior to decentralization, Indonesia has followed a highly centralized planning process, where guidelines emanate from the central government agencies. Understandably therefore, the transition to a decentralized system has been gradual with the old planning guidelines largely dominating the process.

<u>The Planning Documents.</u> There are, at present, four important plan documents produced at the central level: (1) National Guidelines (*GBHS: Garis Besar Haluan Negara*): which are broad d guidelines issued by the People's Consultative Assembly (MPR), Indonesia's highest constitutional body, to the President during her election; (2) Five-year national development plan (*Propenas: Program Pembangunan Nasional*) containing cross-sectoral and priority policies consistent with the GBHS and serves as the guide for the ministries and regions in the preparation of their own plans; (3) Strategic Plans of Central Government Agencies (*Renstra: Rencana Strategis*), the preparation of which was required by ministerial decrees or INPRES 7/1999; and (4) the Annual Development Plan (*Repeta: Rencana Pembangunan*) (see Figure 11) This document defines priorities for the development budget, which is part of the annual budget.

The Five-year plan embodies the overarching goals and strategies of the government, which is the basis of all other plans. At the national level, the agency plans and the annual plans are in essence "implementation" plans intended to translate the five-year programs (i.e. *Propenas*) by agency and by projects which will be annually implemented. Ideally, the *repeta* should be based on the *renstra*, both of which are prepared by the sectoral ministries. In practice, however, not all agencies prepare the *renstra*, nor is there a mechanism for enforcing its preparation. While the *renstra* and the *repeta*, theoretically, are closely linked documents, in practice the *repeta* is formulated independently of any agency plan.

At the regional level, the preparation of the *Propeda, Renstrada* and the *Repetada* is inspired by the *Propenas* and the *Poldas*, which contains the broad objectives of the nation and the region, respectively. Based on the *Bandung Renstrada* and *Repetada*, the listing of projects in the *Repetada* were drawn from the *renstrada* which implies that, on paper, there seems to be a linkage between regional agency programs and the listing of projects submitted for budgetary purposes. In practice, consultants from the universities are hired to prepare the medium-tem plan which is considered a "political" rather than an operational document with no clear tangible output.

<u>National Planning Processes Before Decentralization.</u> Development planning in Indonesia started in the 50s with the issuance of first Five-Year Development Plan in 1955 and an Eight-Year Development Plan in 1958. Prior to decentralization, the *Repelita,* a Five-year Development Plan, was the main plan document of the government which was formulated at the start of every administration based on guidelines embodied in the GBHN (---). An indicative plan, the *Repelita* had three major sections – the macroeconomic framework, the sectoral plans and the plans for the development of the regions. Information on the latter was gathered through the *Repelitada*, the local version of the *Repelita* which was prepared by the autonomous regional governments.

The national planning process under the *Repelita* was said to be a combination of the top-down and bottom-up process. The process was top-down mainly because the plan is basically prepared at the central government level – "at the top" – and brought down to the lower levels. At the regions, the *repelitada* was said to be "regional breakdowns of national parameters."

At the national level, the planning process starts with the issuance of the GBHN by the People's Consultative Assembly, which triggers the preparation of the *propenas by* BAPPENAS, containing the priority areas of the government.[72] The BAPPENAS then organizes the Development Coordination Meeting, which is attended by sector

[72] For 2000-2004, the *Propenas* identified five priority areas: (1) developing a democratic political system; (2) realizing the supremacy of law and good governance; (3) accelerating economic recovery; (4)developing social welfare, increasing the quality of religious life; (5) increasing regional development.

ministries and provincial and local planning agencies to reconcile central government and regional issues. The finalized *propenas* is then submitted to the MPR for approval.

The bottom-up process refers to the formulation of proposals for the annual budget, which is based on the 1982 regulation of the Ministry of Home Affairs (MoHa). The process starts at the village level, the "bottom", with the organization of the village development meetings (musbang) where proposals for development projects are discussed and decided on. The UDKP (*Unit Daerah Kerja Pembangunana*) reviews the coordinates the proposals from the *desa* and *kelurahan*, which are the raised at the *Kecamatan* development meetings supervised by the *Bappeda*, which is the local version of BAPPENAS. The process continues with the convening of the development coordination meeting (*Rakorbang II*) led by the *Bappeda* head at the district (*kabupaten*) or city (*kota*) levels and attended by all *camat* and heads of the local technical offices. Another development coordinating meeting (*Rakorbang I)*is organized at the provincial level involving all lower level *bappeda*, the provincial *bappeda* and representatives of MoHa and BAPPENAS. At this meeting, major decisions are made on the funding sources for the projects, i.e. regional budget, national budget, foreign aid, which are then submitted to the regional parliament and by tehg MoHa. The cycle ends with the National Development Coordination Meeting (*Rakornas*) which prepares the budget for the following year.

With decentralization, the new procedures for planning and budgeting are still being worked out. Hence, Indonesia still follows the top-down and bottom-up planning processes described earlier.[73] At both the national and regional levels, the most important planning document is the annual plan, understandably because of its potential linkage with the budgeting process. The preparation of the annual plan at both levels goes through an elaborate process of consultation, as described above, culminating to the coordination meetings (*Rakorbangpus* and *Rakorbang*). The annual plan is eventually approved by the Legislature. At the regional level, the formulation process for the *repetada* involves getting aspirations of the people through meetings organized at the different levels of government (i.e. sub-village, village, district/city) on the one hand, and the activities identified by the regional sectoral ministries. Here, the *repetada* is theoretically drawn from the desired activities/projects at geographic and sector levels but sifted along the way through a At the national level, the planning process starts with the issuance of the GBHN by the People's Consultative Assembly, which triggers the preparation of the *propenas by* BAPPENAS, containing the priority areas of the government.[74] The BAPPENAS then organizes the Development Coordination Meeting, which is attended by sector ministries and

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[73] Based on the interview with the officials from the *Bappeda* of Bandung Kabupaten, they still follow the 1982 MoHa Circular letter for the preparation of the annual proposals for the budget.
[74] For 2000-2004, the *Propenas* identified five priority areas: (1) developing a democratic political system; (2) realizing the supremacy of law and good governance; (3) accelerating economic recovery; (4)developing social welfare, increasing the quality of religious life; (5) increasing regional development.

provincial and local planning agencies to reconcile central government and regional issues. The finalized *propenas* is then submitted to the MPR for approval.
system of prioritization done by the *Bappeda*, which can differ across local governments.

At the local level, regional governments - the province, the districts (*kabupatens*) and the cities (*Kotas*) - is mandated by MoHa to prepare the *propedas*, the local version of the *propenas* under the supervision of the *bappeda*. Like their nation al counterpart, the *propedas* are road statements of priorities of the regional governments. Based on the Propedas, the local government bureaus are required to prepare three-year strategic plans (the *renstra*), which actually serves as accountability tool for the regional and bureau heads (WB 2003).

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