

**Interim evaluation 2008**

**Decentralization Program,  
Philippines**

Brief Report

**gtz**

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### Tabular overview

#### The evaluation mission

Evaluation period	April until September 2008
Evaluating institute / consulting firm	Intercooperation, Bern
Evaluation team	Dieter Zürcher (international expert) and Romulo Miral (local expert)

#### The development measure

Title according to the offer	Decentralization Program Philippines
Number	2004.2229.5
Overall term broken down by phases	10/2005 – 9/2015 Phase 1 10/2005 – 9/2009 (4 years) Phase 2 10/2009 – 9/2013 (4 years) Phase 3 10/2013 – 9/2015 (2 years)
Total costs	€ 6.313 million for Phase 1 € 13 million for the total program
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	The state, economic sector and civil society are enabled to act in a framework beneficial to decentralization (esp. in the regions of Visayas and Mindanao).
Lead executing agency	NEDA (National Economic Development Agency) and DILG (Department of Interior and Local Government)
Implementing organisations (in the partner country)	NEDA and DILG are the core implementing agencies, whereas NEDA has a coordination role at central and down to the provincial level and DILG being responsible at the LGU level. A wide range of other agencies participate in the program: at the <u>national level</u> other agencies that have oversight functions in the decentralization process (e.g. Department of Finance, Department of Budget and Management) or training providers (e.g. League of Municipalities), at <u>regional level</u> (e.g. the regional offices of NEDA, DILG, Department of Trade and Industry Cebu) and at <u>local level</u> the elected officials and authorities of LGU implement program measures (e.g. in Barili, Dumaguete, Valencia and other pilot LGUs), incl. organizations from the private sector (Cebu Chamber of Commerce & Industry) and the civil society (e.g. Genesis Foundation San Carlos City). The program disposes of a network of partners and resource

	persons at all levels.
Other participating development organisations	Cooperation exists with various other GTZ programs active in the Visayas (Environment and Rural Development, and Small Enterprise Development and Sustainable Employment Program), the DED and German Foundations (e.g. Konrad Adenauer Stiftung). All DP activities are closely coordinated with the working program of the Philippine Development Forum (where major donors and national partners regularly meet). A close cooperation exists with the World Bank and CIDA activities in the decentralization domain (e.g. joint development of trainings for newly elected officials)
Target groups as per the offer	The population in the partner Local Governance Units at provincial and municipal level as well as representatives of the participating development organizations.

### The rating

Overall rating <i>On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)</i>	2
Individual rating	Relevance: 2; Effectiveness:2; Impact: 3; Efficiency: 2; Sustainability: 3

**Evaluation mission:** on behalf of GTZ, Mr. Dieter Zürcher (contracted by Intercooperation, Bern) and Mr. Romulo Miral Jr. (local consultant) conducted an interim evaluation of the Decentralization Program (DP) in the Philippines. The team prepared an inception report prior to the field mission analyzing the available documents and using the findings of the e-VAL report (Ellinger 2008). The field mission took place between August 30<sup>th</sup> and September 13<sup>th</sup> 2008. It included interviews with 69 representatives from various stakeholders (central & local governments, civil society, private sector and donors). Field verification work was conducted in the core program area of the Visayas (Central Philippines).

**Program context:** the Philippines have embarked upon an ambitious decentralization reform in 1991 and since then have made remarkable progress in devolving autonomy to Local Government Units (LGUs), which consist of 81 provinces with 136 cities and 1495 municipalities at present. Despite numerous successes, the decentralization process has been marred by the following problems: the democracy is constrained by strong patronage exercised by powerful local elites, the 3-year term of local government officials results in a rather high turnover of officials at all levels, the internal revenue allotment (fiscal transfers mandated by the Philippine Constitution) have made most LGUs highly dependent and susceptible to interventions from national agencies, the disparities between Manila Metropolitan area and the islands have rather increased, and last but not least the decentralization process has not reached a depth required for full local autonomy (e.g. education still remains highly centralized and local treasurer staff are deployed by national agencies). Poverty remains rampant and has increased in recent years despite a remarkable rate of economic growth. LGUs are responsible for establishing plans, investment programs and program implementation as well as monitoring of program implementation in cooperation with other stakeholders. However, the fragmentation of the civil society, weak media and a highly concentrated business sector in the Manila Metropolitan area provide weak mechanisms of checks and balances in many (rural) LGUs.

**The program concept:** the Decentralization Program (DP) was based on several earlier project experiences in the sector, which started in the mid 1990ies. In October 2005 the DP was conceived in order to contribute to economic growth, reduced migration from rural to urban areas and reduced poverty (program impact) by improving the cooperation of the state, the economic sector, and civil society towards a setting that is beneficial to decentralization (program outcome). The program comprises of three components: (1)

political decentralization and good governance (2) fiscal decentralization and improved financial management and (3) institutional decentralization and improved delivery of services for which specific outputs and their use was defined such as improved revenue collection (component 2) and the application of improved planning processes at provincial and LGU level (component 3),. It implemented or is implementing a broad range of 37 program measures (which are smaller or bigger projects, such as iTAX) in the three components. They are selected by the DP in Manila on the basis of criteria: effectiveness, relevance, sustainability, impact, efficiency, the strategic contribution to the decentralization reform and their potential to show tangible results. The program has a 10 year time horizon in three phases.

**Technical Implementation:** the DP applies a holistic approach as it addresses needs at national, regional and local level. The various program measures have horizontal and/or vertical linkages offering synergies across the components. The program is steered through quarterly meetings with the two main partners, the National Economic Development Agency (NEDA) and the Department for Interior and Local Government (DILG). The coordination with other Philippine oversight agencies (e.g. the Ministry of Finance) and the other donors takes place in the monthly meetings of the Philippine Development Forum (PDF). The program signs Memorandum of Agreements for the implementation of program measures and establishes logical frameworks for the bigger ones. The support is provided in the form of technical assistance for studies, training (e.g. mayors, LGU staff, etc.) and workshops. This is complemented by the implementation of strategic program measures such as introducing an integrated tax software or streamlining and easing the business permit and licensing process. The focus on fiscal decentralization and the vertical and horizontal linkages of the program components is a strong point of the technical implementation.

**Partner Capacities:** the DP has noticeably contributed to the improvement of the partner capacities at various levels. At national level, it has brought together the six oversight agencies<sup>1</sup> which have come forward with concrete measures to harmonize the planning and budgeting procedures at the regional and local levels. Instead of more than 30 plans the LGUs now will only have to develop a Comprehensive Land Use Plan (30-year horizon) and a Comprehensive Development Plan (3-6 years). Together with other measures, such as using “champion” mayors in educating newly elected officials and streamlining the renewal of business permits (Business Permit Licensing System - BPLS) the DP has increased the

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<sup>1</sup> DILG, NEDA, Department of Budget and Management (DBM), Department of Finance (DoF) and recently the following two agencies were added: The Commission on Audit (CoA) and the Housing and Land Use Regulatory Board (HLURB).

institutional capacity of several dozens of LGUs. The introduction of an integrated taxing software (iTAX) has strengthened revenue collection and promoted transparency at LGUs.

This independent evaluation assessed the program's achievements according to the five DAC evaluation criteria:

**Relevance:** the DP is highly relevant. It addresses the core problems as outlined in the Medium-Term Philippine Development Plan (2004-2010) of integrating all stakeholders in the decentralization reform. The plan outlines decentralized development as one out of ten basic tasks of the Government. The DP follows the strategic orientations of the BMZ and GTZ guidelines (multi-level approach; integrating political, fiscal and institutional decentralization; subsidiarity and strengthening of good governance). It addresses strategic needs of partner organizations and uses flexible support mechanisms mainly in the policy and capacity building areas. It was able to identify pragmatic entry points for innovative program measures. DP has played an instrumental role in setting up and maintaining the donor coordination mechanism in the decentralization domain and is aligning its program to the priorities of this PDF working group. A better rating was prevented by the rather unilateral approach applied to develop an own tax collection software since there appear to exist already other packages with similar specifications and consultation with partners was rather limited. **The rating for relevance is good (level 2).**

**Effectiveness:** the overall program outcome is highly appreciated by all stakeholders in further promoting the decentralization process in the Philippines. The DP builds on local resources and strong ownership of the partners (own contributions). The program has enabled partners (central authorities, LGUs, civil society actors and the private sector) to work in environment beneficial to decentralization. 30 % of performance indicators are on track, 50 % of indicators are partly on track and 20 % of indicators are not on track (because activities have not yet started or data is missing). The objectives and indicators of the program are formulated rather ambitiously and lack yardsticks. Therefore, any rating requires an alternative benchmark. This benchmark is provided by the relatively small investment (3 million €) and the fact that the program has established and up-scaled several innovative approaches (e.g. BPLS, training of newly elected officials), which bear significant potential to achieve the program objective in future. The objective to increase revenue collection as a result of the introduction of the iTAX software and streamlining BPLS is less obvious based on revenue data of LGUs. **The rating for effectiveness is good (level 2).**

**Impact:** the rating of the overall impact is difficult. First, the latest official government data for context indicators such as poverty, MDGs and LGU income are generally available for 2006.

This covers only the first year of the program. Second, most activities are small scale and spread over a huge geographic area. The core program area in the Visayas (Central Philippines) has a population of 15 million and more than 450 LGUs and cities. Third, many activities have only started in 2007 or even 2008 and it is too early to relate effects to the program. This report offers rather a baseline for future impact assessments. Poverty has increased in the Philippines, the Visayas included, despite economic growth in recent years. MDG progress has been mixed, with good progress in health but no improvement in education. Although the overall program objective includes poverty reduction, there are no plausible indications that the program directly translates to changes in poverty levels. On the contrary, and especially at local level, program effects are more directly traceable. For example, significant reduction in transaction costs for taxpayers and business owners has made taxpaying easier for several ten thousand property owners in the Province of Negros Oriental and several thousand business owners in the Province of Cebu. In turn, these have plausibly contributed to better services and a business friendly environment. However, most activities are still in its early piloting stage and the scope to achieve broader impact remains intact for important program measures. **The rating for impact is satisfactory (level 3).**

**Efficiency:** By far most of the program resources consisted of technical assistance. Around 90 person months of long term international expertise and a total of 150 short term consultants worked on the program for periods of a few days or weeks. The iTAX software package alone absorbs around one third of the total program costs. DP employs a team of 12 local staff. This is adequate, although geographic dispersion with too many field offices could become a management challenge. Procurements in form of computers are small and only provided if the partner shows strong ownership in form of own contributions (staff, office space, etc). DP has mobilized substantial local resources for its activities. DP has played an instrumental role in donor coordination and all activities (except iTAX) are complementary to the support by other donors. The coordination with other German Foundations, other GTZ projects and the other donors is highly efficient. Yet, interfaces with other GTZ projects are not always clear for the partners. The management and staff structure of the program are adequate and the team is highly skilled and motivated. The program has made best use of slack periods (e.g. during the election periods) by working on its lessons learnt and releasing excellent publications. **The rating for efficiency is good (level 2).**

**Sustainability:** DP uses strong cost-sharing arrangements for all program measures and the lead is with the partner organization. This ownership guarantees a certain continuation of the initiated efforts. However, except iTAX and BPLS most other program measures were conducted as one time pilot activities (studies, training, workshops) with little follow-up so far.

iTAX has an impressive potential to improve transparency and revenue generation, but implementation experience is less than one year. The sustainability of many program measures (e.g. the use of LGU performance management systems and the implementation of local codes) appears to be rather critical if no follow-up is made. Changes in key staff due to elections (e.g. governors and mayors in 2010) pose the risk that many innovative approaches might not be continued. **The rating for sustainability is satisfactory (level 3).**

**Overall rating:** The program operates in a complex environment with many interfaces to oversight agencies, line agencies, civil society, private sector and other donors. Thanks to excellent networking and open attitude the program addresses crucial and strategic issues in the Philippine decentralization reform. It effectively addresses the different decentralization components and levels to maximize policy dialogue. **The overall rating of the program is good (level 2).**

**Conclusions and recommendations:** the program has developed the capacity of partners in strategic areas, such as fiscal decentralization and inter-communal cooperation with alliances, and has used acquired experiences to guide policy formulation (e.g. the harmonization effort in LGU planning, budgeting and reporting with the Joint Memorandum Circular, JMC). The program has integrated the various government levels and other stakeholders (businesses and civil society) offering “eye openers” with insights into policy issues and practical problems of the decentralization reform. The program measures appear fragmented overall and make an aggregation of the various effects difficult. This approach bears the risk of limited sustainability. The gender issues are not seen as critical. There is evidence that DP staff and partners are gender sensitive in their programmatic work (especially planning at local level) but gender orientation does not appear as a specific concern in important program measures, such as the JMC for example. The program does not address poverty issues conceptually and systematically, neither at national, regional nor local level. A lot depends on the willingness of LGUs to target activities for marginal groups. There is scope for a more prominent poverty approach at the local level by selecting and following-up corresponding program measures.

**The main recommendations are the following:** The iTAX program has substantial potential beyond revenue generation. However, it does not improve revenue collection by its own and complementary measures must get due attention (local ordinances to update valuation of real properties, awareness of users and information of taxpayers). The integration of too many software components (e.g. water billing) and the roll out to other provinces outside the Visayas pose risks. The iTAX program measure should be reviewed to

secure its comparative advantage compared to other software introduced in other LGUs by other donors.

There should be realistic and time-bound indicators for the monitoring of the program as a whole as well as the various program measures. The selection process of the specific program measures should be made more transparent and communicated to all key partners at LGU level.

The selection of program measures should not only be based on existing criteria (such as effectiveness, synergy potential of activities, actual demands of LGUs, absorptive capacity etc.) but more explicitly consider the potential to address poverty, equity issues as well as gender issues. This could be achieved through a pro-active technical assistance support by the DP during the proposal formulation process.

The local tax system requires reforms that go beyond the streamlining of processes as pursued by the program (iTAX, BPLS). The several hundred tax tariffs for local businesses hinder an efficient tax collection, which affects mainly the revenue potential of cities. Furthermore, the business tax is regressive, putting a relative higher tax burden to small and medium enterprises. The feasibility of introducing flat rate taxes should be explored.

The program cooperates with the relevant partners, and working with private sector (e.g. chamber of commerce) and civil society organizations at LGU level is not always easy (particular interests or fragmented civil society). The program could possibly strengthen the cooperation with the LGU leagues (training) and universities (studies).

GTZ should honor its long term commitments for the DP (3 phases until September 2015) and continue with this vital support to the Philippine Decentralization process. Despite being in its 18th year of decentralization reform further support for innovative approaches is still needed and relevant in many areas, especially at local level.

The aid delivery mode should be revalidated in the context of the proposal of establishing a Decentralization Trust Fund jointly funded by the members of the donor community. Presently, the GTZ program supports only technical assistance (TA). All funds are administered directly by GTZ. In view of handing over program ownership it should be evaluated whether the TA component could be supplemented by financial assistance to LGUs (e.g. either through the DP itself or through complementary financing KfW).

With the recent crumbling of the peace talks between the Philippine Government and the Moro Islamic Liberation Front the prospect to continue or upscale program measures in Mindanao looks gloomy and the donor presence in Mindanao seems to be already substantial. In order to focus the geographically dispersed program measures of the DP it is

recommended to address needs in the Visayas and to not expand to Mindanao in a Phase 2 of the DP.