



Performance Challenge Fund for Local Government Units

INTRODUCTION

1. The passage of the Local Government Code in 1991 has put the spotlight on Local Government Units (LGUs), particularly on the huge responsibility that was entrusted to them as well as the amount of resources that are now at their disposal to effectively discharge the devolved functions.
2. LGUs' share in national internal revenues called the Internal Revenue Allotment (IRA) has been increasing since 1991. For the period 2001–2008, the IRA accounted for 16.6 % of the total national government budget. For 2010, LGUs stand to receive P265.8 billion which accounts for 20.3% of the total national government budget.
3. Under the LG Code, at least 20% of IRA should be set aside for development projects to be used for specific programs, projects and activities in furtherance of the development agenda of the government. For CY 2010, the 20% local development funds (LDF) of LGUs amounts to P53Billion.
4. Per fiscal performance of LGUs from 2001-2008, the provinces are the most dependent on national government transfers followed by municipalities with 80% and 76, respectively, % of their resources are IRA. For cities, IRA accounts to less than half of cities resources.
5. On February 20, 2009, the Development Budget Coordinating Committee (DBCC) approved the **Performance Based Incentive Policy** (Annex 1) which provides for an incentive framework to rationalize national government intergovernmental transfers to LGU towards improving LGU performance in governance and delivery of basic services. It seeks improvement in LGU performance by linking incentives to the achievement of a set of performance targets.
6. In line with the Performance-Based Incentive Policy, the DILG initiated the Performance Challenge Fund to stimulate local government to put premium on performance in order to avail themselves of financial support to jumpstart and sustain local economic development initiatives for poverty reduction in their localities.

DESCRIPTION/ OBJECTIVES

The Performance Challenge Fund for Local Government Units (PC Fund) is an incentive fund to LGUs in the form of **counterpart funding to high-impact capital investment projects in the Annual Investment Program (AIP) and funded out of the 20% Local Development Fund consistent with national goals and priorities**. It shall seek to rationalize national government intergovernmental transfers to LGUs, and encourage alignment of local development initiatives with national government development agenda and priorities.

Specifically, the PC Fund aims to:

1. Recognize good governance performance particularly in the adoption of “good housekeeping” along the areas of governance and link with incentives and grants;
2. Encourage alignment of local development investments program with national development goals and priorities to achieve the Millennium Development Goals (MDGs), boost local economic development and comply with Philippine Disaster Risk Reduction and Management Act of 2010 and Climate Change Adaptation Act of 2009; and
3. Assist poor LGU in developing and implementing project for local economic development and poverty reduction.

TARGET LGUs

The PC Fund shall be open to all provinces, cities and municipalities awarded with the Seal of Good Housekeeping provided that the LGU shall allocate counterpart fund to implement capital investment projects aligned with the national development agenda and priorities.

LGUs may be targeted based on income class or alternative indicators of fiscal need (e.g., income/IRA per capita, poverty incidence) or level of LGU. Priority consideration to low-income LGUs and those with high poverty incidence

GRANT CONDITIONS AND ELIGIBILITY CRITERIA

In order to qualify for the grant, target LGUs must **comply with the eligibility criteria which is the test of the Seal of Good Housekeeping** focused on:

- Sound Fiscal Management highlighting the **absence of adverse COA Opinion** on LGU financial statements
- Transparent and Accountable Governance putting value on the **Full Disclosure**

TARGET COVERAGE FOR 2011

Target LGUs	Total Number of LGUs	Target Number of Recipients (20%)	Amount of PCF Subsidy
Municipalities	1,512	303	P1M
Cities	122	25	P3M
Provinces	80	16	P 7M
Total		344 LGUs	

NATIONAL GOVERNMENT-LGU COUNTERPARTING SCHEME

LGU Level	Maximum PCF Subsidy	Minimum LGU Counterpart	Minimum Total Project Cost
Province	P 7 Million	P 7 Million	P 14 Million
City	P 3 Million	P 3 Million	P 6 Million
Municipality	P 1 Million	P 1 Million	P 2 Million

ELIGIBLE PROJECTS

Project aligned to the achievement of the following national government thrust and priorities:

- Attainment of MDGs (e.g. school buildings, rural health units and health centers, birthing facilities, water and sanitation system, farm-to-market roads, housing and settlements)
- Local Economic Development (e.g. local roads and bridges, tourism facilities, irrigation systems, post harvest facilities, cold storage facilities, ports and wharves and other economic infrastructures and growth enhancing projects such as market, slaughterhouses, and water supply system)
- Adaptation to Climate Change and Preparedness for Disasters (e.g. flood control, reforestation, solid waste management facilities, storm drainage, dikes and related flood protection measures, slope protection, evacuation centers, rain water collector, early warning and devices and rescue equipment).

UTILIZATION OF PCF GRANT

The grant shall be utilized for implementation of priority projects of the national Government in order to achieve the Millennium Development Goals, boost local economic development and comply with the Philippines Disaster Risk Reduction and Management Act of 2010 and Ecological Solid Waste Management Act of 2001, which include among others:

1. **Improving Social Services** (e.g. school buildings, hospital and health centers, housing and settlements),
2. **Providing Public Infrastructure** (e.g. local roads and bridges, railways, ports and wharves),
3. **Enhancing Economic Services** (e.g. tourism facilities, irrigation systems, post harvest facilities, cold storage facilities, and other economic infrastructures and growth enhancing projects such as market, slaughterhouses, and water supply system)
4. **Adapting to Climate Change and Preparing for Disaster** (e.g. flood control, reforestation, solid waste management facilities, evacuation centers, early warning and devices and rescue equipment)
5. **Promoting Good Governance** (Anti-Red Tape/ Anti-Corruption Systems)

In financing projects, the PC Fund may be used for the following:

1. as counterpart funds for foreign-assisted projects of the LGUs,
2. as co-financing for joint projects with other LGUs, and
3. as counterpart for projects of the LGUs with the private sector in the context of public partnership in establishing more economic activities.

However, FC Fund can not be used to finance the following:

1. Tax payment,
2. Salaries and recurrent cost, and
3. Micro credits and loans.

PROCEDURES FOR ACCESSING PC FUND

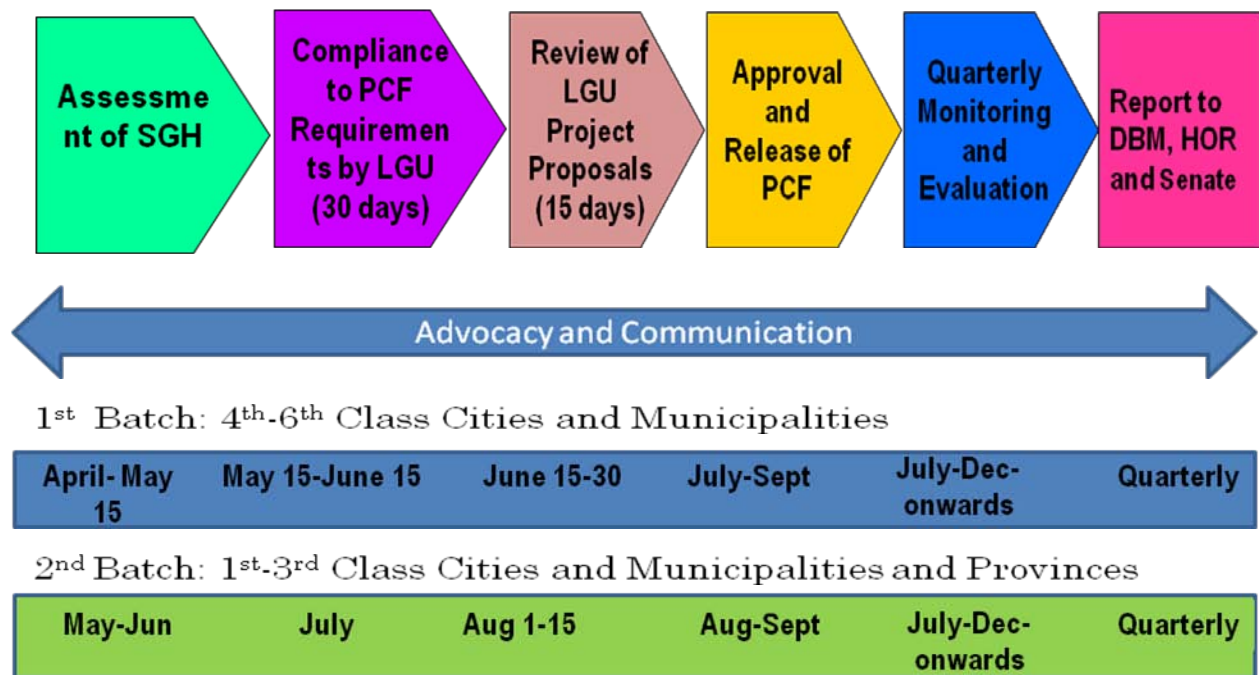
1. **Assessment of LGU compliance to Seal of Good Housekeeping**
 - a. Assessment on good housekeeping
 - b. Conferment of Seal of Good Housekeeping (eligible LGUs)
2. **Grant Application and Compliance to Requirements**
 - a. Project Design
 - b. Sanggunian Resolution

- i. Authorizing the LCE to enter into a Memorandum of Agreement (MOA) for the PCF grant
- ii. Approving allocation of LGU funds as counterpart to the PCF grant
- iii. Certifying that the project is included in the 2011 Annual Investment Program
- c. Certification from Municipal Treasurer that the project has a budget allocation from 20% Development Fund to at least 20% of the total project cost.

3. Processing for Release of Grant

- a. After satisfactory compliance to the PCF grant requirements and upon signing of MOA, DILG Regional Offices shall release the PCF grant to LGU grantee.
- b. Amount of grant is equivalent to the project cost less the contribution of municipality, a maximum of 50% of project cost or P1M, whichever is lower.

PCF IMPLEMENTATION FRAMEWORK AND TIMELINES



PC FUND MANAGEMENT AND MONITORING

DILG shall administer the PC Fund subject to policy and implementation guidelines which shall be formulated by the PCF Steering Committee.

The DILG shall submit to the DBM, the House of Appropriations and the Senate Committee on Finance quarterly reports on the financial and physical accomplishment of the Performance-Based Challenge Fund or post on its website, at least on a quarterly basis,

- 1. List of LGU beneficiaries with the corresponding financial subsidy and projects undertaken by the LGU beneficiaries.
- 2. Utilization of funds, and
- 3. Program evaluation and/or assessment reports.

The DILG Regional Offices shall submit to the Finance and Management Service (FMS) and Bureau of Local Government Development (BLGD) of the DILG Central Office quarterly reports

on the financial and physical accomplishments of the projects undertaken by LGUs every 5th day of the month following each quarter.

Our VISION

○ Scale-up performance incentive system

- Bundle programs and projects to capacitate LGUs to achieve development agenda and put together a mechanism and systems of incentives to encourage LGUs improve performance and converge with national goals and priorities

○ SGH/PCF as platform for convergence

- platform for convergence of other incentive systems to LGUs through the adoption of the “Seal of Good Housekeeping” eventually a “Seal of Good Governance” as a basic criteria for other incentives to LGUs
- focus of convergence of NGAs, LGUs, CSOs, and development partners in improving local governance and performance

PARTNERSHIPS

○ NGAs

- work together to bundle programs and projects that will capacitate LGUs to achieve their development agenda
- put together a mechanism and system of incentives that will encourage LGUs to improve performance

○ CSOs/POs

- partner with LGUs in upgrading LGU capacity that will improve service delivery
- encourage LGUs to be transparent and accountable to their constituents

○ Development partners

- enhance capacity of CSOs and support development of systems on performance management