PERFORMANCE CHALLENGE FUND
An Incentive Program to Enhance Local Governance

FY 2020 1st Quarter Progress Report

Department of the Interior and Local Government
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THE PERFORMANCE CHALLENGE FUND (PCF) PROGRAM OF THE DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT (DILG)

“A strongly determined and highly trusted Department committed to capacitate and nurture local government units, public order and safety institutions to sustain peaceful, progressive, and resilient communities where people live happily.”

…so states the bold vision of the Department of the Interior and Local Government-Central Office. The DILG sustains LGU capabilities in local governance through performance oversight and provision of incentives and award services in coordination with its regional offices and field offices, and in strong collaboration with various stakeholders.

Anchored on the DILG’s battlecry for “Mahusay, Matino at Maaasahang Kagawaran” the Performance Challenge Fund (PCF) supports DILG banner campaign on promoting transparency and accountability, advocating that the incorporation of such principles in the practice of local government operations will evidently lead to improved and efficient service delivery systems, stimulating local economy and development which shall ultimately improve the living conditions of the people in the community.

Established in 2010, the PCF is a performance-based reform program of the DILG that seeks to encourage the convergence of local development initiatives with national development agenda and priorities. It is an incentive fund in the form of financial subsidy which is given to eligible LGUs which passed the Seal of Good Local Governance (SGLG) under the Local Governance Performance Management Program of the Department to finance high-impact local development projects identified as a priority by the LGU and reflected accordingly in their Annual Investment Program (AIP) and/or Local Development Investment Program (LDIP) or Provincial Development Investment Program (PDIP).

The PCF aims to recognize good governance performance particularly in the areas of transparency, accountability, participation and service delivery. It encourages LGUs to put premium on performance in order for them to avail the financial subsidy to jumpstart and sustain projects geared towards the achievement of the Sustainable Development Goals, Maintain Core Road Network to boost tourism and local economic development, comply with the Ecological Solid Waste
Management Act of 2000 and the Philippine Disaster Risk Reduction & Management Act of 2010 and projects that promote Transparency and Accountability.

**LEGAL BASIS AND SCOPE OF THE REPORT**

Submission of the report was started per Republic Act No. 10924, FY 2017 General Appropriations Act (GAA), specifically, Special Provision(s) No. 1 on Performance Challenge Fund which requires the DILG to submit to the Department of Budget and Management (DBM), Speaker of the House of Representatives, the President of the Senate of the Philippines, the House Committee on Appropriations, and the Senate Committee on Finance, either in printed form or by way of electronic document, quarterly reports on financial and physical accomplishments and to ensure that said reports are posted on the DILG website.

Reports were generated taking into consideration the information from the database system of the PCF website for monitoring and evaluation. The PCF website promotes transparency in the implementation of public projects, encourages participation of the citizenry in monitoring and aims to institute a mechanism for online reporting towards a paper-less submission of reports for efficiency.

This report covered the overall status of implementation of the PCF-subsidized projects in all regions of the country, its primary focus is on PCF accomplishments as of March 31, 2020 and/or the 1st quarter of 2020. (January – March 2020).

**PROVISION OF FINANCIAL SUBSIDY TO LGUs FOR FY 2019**

For FY 2019, a total amount of ₱979.8 Million was allotted for the PCF recipient LGUs as subsidy to finance high-impact projects. The said allocation is intended specifically to those LGUs that have been conferred with the 2019 Seal of Good Local Governance (SGLG).

With DILG’s conferment of the 2019 SGLG to the qualified LGUs, all 380 awardees were eligible to access the 2019 PCF incentive in the amount of ₱4.5 Million per Province, ₱3.5 Million per City, and ₱2.3 Million per Municipality to be utilized for priority projects which aims to bring sustainable and inclusive development to the community, pursuant to applicable laws and the operating guidelines of the PCF program.

**FIGURE 1: PCF 2019 Subsidy Distribution by LGU Level (Province, City, and Municipality)**

<table>
<thead>
<tr>
<th>LGU Level</th>
<th>Subsidy Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province</td>
<td>₱4.5 M per Province</td>
<td>7.81%</td>
</tr>
<tr>
<td>City</td>
<td>₱3.5 M per City</td>
<td>20.36%</td>
</tr>
<tr>
<td>Municipality</td>
<td>₱2.3 M per Municipality</td>
<td>71.83%</td>
</tr>
</tbody>
</table>

**TOTAL SUBSIDY AWARDED FOR PCF 2019:** ₱979,800,000.00

**TOTAL PCF 2019 Awardees:** 380 LGUs
**THE PCF SUBSIDY**

As seen in Figure 2, a total of 263 LGUs were conferred with the SGLG 2018 award while 380 LGUs were conferred with the SGLG 2019 award. Given this and the unchanged PCF allocation of 1 Billion since 2015, and the evident increase in SGLG Passers, the foregoing caused a decrease in the overall PCF Incentive package for FY 2019.

**ELIGIBLE PCF PROJECTS**

The PCF aims to recognize good governance performance in transparency and accountability, planning and fiscal management, efficiency in the delivery of services, and responsiveness to the public and link with incentives and grants. Thus, each LGU awarded with PCF subsidy can utilize the fund to finance one project which is implementable within a period of 1 year, which shall support any of the following:

- **Attainment of Sustainable Development Goals:** (e.g. school buildings, rural health units/health centres, birthing or lying-in facilities, water and sanitation, housing and settlements, Rehabilitation Centre, Patrol Cars and Public Safety and Security Command Centre Equipment, etc.)

- **Stimulating Local Economic Development** and **Promotion of Ease of Doing Business** (e.g. core local roads and bridges, access roads, irrigation systems, post-harvest facilities, cold storage facilities, ports and wharves and other economic structures and growth enhancement projects like tourism facilities, market, slaughter house, automation of permits and licenses (hardware/software), etc.)
• **Building Resilient Communities (DRR-CCA)** (e.g. flood control, storm drainage, dikes, seawall and related flood protection measures and slope protection, evacuation centres, rainwater collection facility, early warning system/devices and rescue equipment, etc.)

• **Promoting Environmental Protection** (e.g. purchase of solid waste management equipment, material recovery facilities, sewerage system, etc.)

• **Furthering Transparency and Accountability** (e.g. website development and equipment, etc.)

Consequently, the subsidy **shall not be used** to finance the following:

- Projects exclusively for training or capacity development;
- Financing of micro credits and loans;
- Administrative expenses such as cash gifts, bonuses, food allowance, medical assistance, uniforms, supplies, meetings, communication, water and light, petroleum products and the like;
- Salaries, wages or overtime pay;
- Travelling expenses, whether domestic or foreign;
- Registration or participation fees on training, seminars, conferences or convention;
- Construction, repair or refurbishing of administrative offices;
- Purchase of administrative office furniture, fixtures, equipment or appliances;
- Purchase of Lot; and
- Purchase of Second Hand Vehicles.

The PCF Implementation in 1st Quarter of 2020

Since 2010, the DILG through the PCF, had been constantly implementing a progressive incentive system to deliver public services more efficiently and thus, create a business-friendly and safe environment for every LGU beneficiary. This then allows local economy to achieve evident and sustainable development. Each project creates a ripple effect which caused an impact not only to the PCF awardee itself, but to other neighboring LGUs which share the fruits and impact of the developments and convenience that each PCF project brings forth.

While 2019 paved the way for previously planned strategies, activities and innovations to be introduced accordingly in order to ensure progressive development of the program implementation, year 2020 shall be our setting to venture for other ways to improve the PCF program.

President Rodrigo Roa Duterte declared a State of Calamity throughout the Philippines and imposed an enhanced community quarantine throughout Luzon for a period of six (6) months, by virtue of Proclamation No. 929 dated March 16, 2020. This is to give the National Government, as well as LGUs, ample time to utilize appropriate funds in their disaster preparedness and response efforts to contain the spread of Coronavirus Disease 2019 (COVID-19), and to continue to provide basic services to the affected population.

In addition, Section 4 of RA No. 11469 also known as the Bayanihan to Heal as One Act gave the President the power to implement various immediate emergency measures to respond to the pandemic crisis. Under Section 4 (g) thereof, the President is empowered to ensure that all LGUs are acting within the letter and spirit of all the rules, regulations and directives issued by the National Government.

With this, we foresee LGUs requesting the use of the PCF 2019 to programs, projects and activities to address and mitigate the magnitude of the impact of COVID-19. Hence, the DILG will always be ready for new innovations, strategies and activities that shall be put in place for the continuous and efficient implementation of the PCF program.

STATUS OF IMPLEMENTATION AS OF MARCH 31, 2020

FIGURE 3: 2010-2019 PCF Status of Implementation

<table>
<thead>
<tr>
<th>Status</th>
<th>Projects</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Completed</td>
<td>3559</td>
<td>92.68%</td>
</tr>
<tr>
<td>On-Going</td>
<td>131</td>
<td>3.41%</td>
</tr>
<tr>
<td>Not yet started</td>
<td>150</td>
<td>3.91%</td>
</tr>
</tbody>
</table>

TOTAL ENCODED PCF 2010-2019 PROJECTS: 3840

- Completed
- On-Going
- Not yet started
Through the effective coordination between the DILG National and Regional Offices, there has been a visible increase in the completion rate of projects from 2010-2019, reflecting 92.68% (3559 Projects) of all projects as completed while 3.41% (131 Projects) are currently on-going, leaving a minority of 3.93% (150 Projects) which have yet to be implemented.

This brings the PCF program closer to its target: 100% completion rate of all 2010-2019 PCF Projects.

**Figure 4** shows that majority of the approved projects lean towards Local Economic Development (LED), which contribute to a total of 2011 projects (52.37% of 3840 projects). Disaggregation of the other categories are as follows: MDG/SDG with 1105 projects (28.78%); DRRM-CCA with 517 projects (13.46%); ESWM with 198 projects (5%); and T&A with 9 projects (0.23%).
Table 1 shows the implementation status of all PCF projects from 2010-2018 (disaggregated per Region as of March 31, 2020) Based on the data presented in Table 1, a total of 3559 (92.68% of all 2010-2019 PCF Projects) have already been completed, while 131 (3.41%) are still undergoing various stages of development leaving 150 projects (3.93%) under the not-yet-started status. Furthermore, Region 1 still tops as the region with the greatest number of PCF-funded Projects.
Figure 5 shows the total number of completed PCF funded Projects from 2010-2019, disaggregated per project category. Based on the data presented previously, LED still tops with a total of 1881 total projects. This is followed by SDG projects with 1,035 DRRM with 457, ESW with 179 and T&A with 7 completed projects.
Table 2 shows the implementation status of PCF-funded projects for 2019 as of March 31, 2020. Following the schedule SGLG conferment held on the last quarter of 2019, some of the PCF recipient LGUs are still on the later phases of project implementation.

The PCF 2019

Figure 6 presents a graphical representation of the PCF 2019 Implementation Status as encoded from January to March 31, 2020 tallying 131 Projects. PCF 2019 project implementation began early 2020 given the schedule of the release of the PCF 2019 subsidy.
Thus, per data from the PCF website, there are 131 projects that were encoded out of the 380 LGU recipients. One (1) project for 2019 had been recorded as already completed, 5 projects are now on-going and 125 not yet started. 100% encoding for 2019 project data is expected at the end of first semester.

Sample LGU project proposals duly approved by the DILG Regional Offices and funded by the PCF 2019 as encoded in the PCF website from January to March with a total amount of Php317,392,390.00 were the following:

- Construction of Flood Control projects
- Rehabilitation/Improvement of Local Roads
- Construction Tourism Facility
- Construction of Health Center (Satellite Clinic)
- Installation of CCTV Cameras with wireless AutoMesh Technology
- Installation of Street Lighting System
- Purchase of Motor Vehicle
- Construction of Slaughterhouse
- Construction of Market Stalls
- Concreting of Local Access Road
- Installation of Water Supply System
- Construction of Open Market Building
- Concreting of Farm to Market Road
- Construction of 10 Housing Units for Pabahay Program
- Construction of Multi-Purpose Building
- Construction of Classrooms Buildings
- Construction of manpower development center/training center
- Model Housing with Livelihood Components for Indigenous People
- Construction of MRF Building
- Construction of Drainage System
- Street Lighting Project
- Construction of Tourism Economic Enterprise Building
Figure 7 presents the graphical presentation of the implementation status of PCF projects (2011-2019) as encoded during the 1st quarter of 2020 (January 1, 2020 to March 31, 2020). It shows that there were 99 projects recorded as completed, 8 projects encoded as On-going and 79 Not-Yet Started projects. This only shows that LGUs are now into full implementation of their projects. Projects that upon completion and usage shall impact lives of its constituent beneficiaries.

The draft Annual Operations Plan and Budget (AOPB) for PCF FY 2021 which would be called SGLG Fund per Republic Act (RA) No. 1192 dated April 12, 2019 or the Seal of Good Local Governance Act of 2019 had already been completed and ready for submission to the DBM.

The 1st Stakeholders’ Dialogue/Consultation Meeting was held last March 10, 2020 at the Local Government Academy. It was attended by various personalities from the DILG Central and nearby Regional Offices and experts on local governance from the Academe and CSOs. The Meeting aimed to provide a venue to gather various insights from a plethora of internal and external stakeholders, especially from the academe, with regards to the direction that the PCF Program has to take in the succeeding years given its upcoming transition into the SGLG Incentive Fund and the impending implementation of the SC Ruling on the Mandanas Case.
Noteworthy recommendations for the direction of the PCF and inevitable for the SGLG are as follows:

- Set aside a portion of funding to provide budget to LGUs that are lagging behind to develop them further and capacitate them with what they are lacking. Given the reality that lower income LGUs cannot comply to the criteria due to lack of capacity, they will not be able to pass the SGLG Criteria and will not be able to receive the PCF in order to support development projects which could contribute in passing the subsequent criteria (Double whammy). Thus, with the absence of support, these LGUs will not be able to meet the criteria.
- Review and redesign the program in order to prioritize LGUs that need to receive the incentives.
- Look into the relationship of the PCF with other initiatives of the NG.
- Use the PCF as a vehicle to incentivize and promote Inter Local Cooperation (ILC).
- Link the PCF incentive to the IRA.
- SGLG Criteria should be level based, progressing into succeeding levels as LGUs of lower capacity pass the entry level criteria.
- SGLG should not be political and not influenced by the LCEs since the SGLG is not solely based on LCE performance but more on the LGU’s performance in general (i.e. LCEs under Narcotics list).
- SGLG and PCF should be term based (3 years).
- Develop a new logo for the PCF as the SGLG Incentive Fund.
- Create a profiling database of LCEs from LGUs that did not pass the SGLG and identify non-visionaries for the purpose of providing them the necessary capacity building initiatives re: improved good governance.
- Address the issue of term succession where subsequent change of LCEs might influence the non-sustainability and non-alignment of the PPAs.
- Re-design the PCF program to focus more on its prestige and not only about the cash grant.
- Explore more on partnerships with external stakeholders (i.e. tie-up with bank loans, etc.).
- SGLG and the PCF to institutionalize Citizen Participation.
- Explore the possibility for the PCF incentive to be waived and be provided to/shared with another beneficiary LGU under a partnership.
- SGLG and PCF related capacity building initiatives should be targeted for lower income LGUs or non-passer LGUs.
- SGLG and PCF could take an asymmetric approach in order to be flexible in accommodating and measuring LGU performance.
- The DILG to spearhead a study on the impact of and the status quo of Decentralization in the Philippines and thus trigger movement for codal amendments of the LGC.