

PUBLIC WEBINAR

ASSESSING NATIONAL GOVERNMENT SUPPORT PROGRAMS FOR LGUs AND LOCAL PROVISION OF WATER SUPPLY

April 22, 2021 | 2:00 PM - 4:30 PM | Cisco Webex

pids | www.pids.gov.ph
f | facebook.com/PIDS.PH
t | twitter.com/PIDS_PH

The banner features a blue and white color scheme with a stylized illustration of a water supply system. It includes a crane, gears, a water tower, a wind turbine, a factory, and a water tap with a drop of water. The background is a light blue gradient with a white wavy line separating the top text area from the illustration.

Outline of Presentation

Two studies:

1. Philippine Local Government Public Expenditure Review: A Survey of National Government-Local Government Support Programs
2. The Philippine Local Government Water Sector

For each, will present:

1. Motivation, research questions and objectives
2. Scope and methodology
3. Results/Findings
4. Recommendations

Philippine Local Government Public Expenditure Review: A Survey of National Government-Local Government Support Programs

JUSTINE D. SICAT, ANGEL FAYE G. CASTILLO, AND RICKIE B. MADDAWIN



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

3

INTRODUCTION AND OBJECTIVES

- This study surveys national government support programs to LGUs, to guide policymakers in strengthened decentralization with the Mandanas Supreme Court ruling implementation in 2022.
- Philippine local governments (LGUs) were given increased spending and revenue-raising responsibilities with the Local Government Code of 1991.
- To finance spending apart from local revenues raised, LGUs:
 - Receive regular intergovernmental fiscal transfers
 - Additional financial support through different programs lodged in the national budget.

RESEARCH QUESTIONS

- What are the national government programs that have provided additional financial support to LGUs in the past decade?
- How much has been allocated to these programs? How were these designed, implemented and, if applicable, improved upon?
- What are the lessons in program implementation that could enhance national government oversight policy?



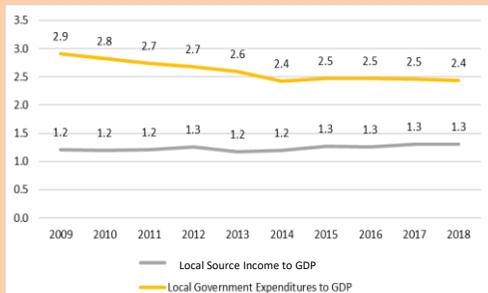
METHODOLOGY, DATA AND SCOPE

- Mixed methods
- A public expenditure review of national government local government support programs
- Limitations difficulty in gathering expenditure data

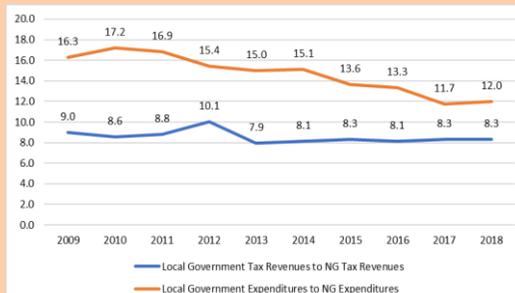


PHILIPPINE LG CONTRIBUTIONS TO THE ECONOMY AND THE PUBLIC SECTOR, 2009-2018

- As percent of GDP,
 - Local source income averaged 1.2%
 - LGU expenditures averaged 2.6%

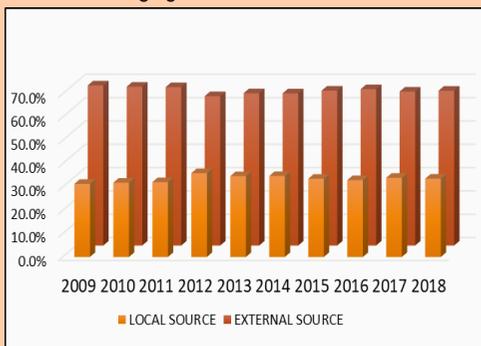


- In terms of the public sector
 - Local source to NG tax revenues averaged 8.5%
 - LGU to NG expenditures averaged 14.7%

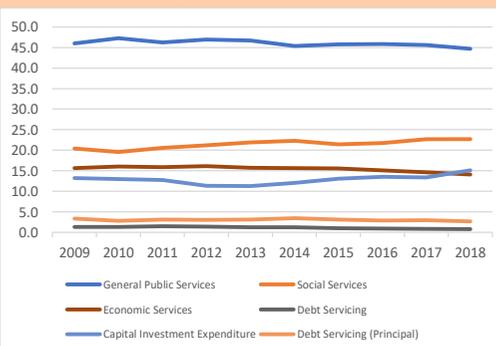


PHILIPPINE LGU FISCAL TRENDS, 2009-2018

- LGUs depend heavily on external sources for income averaging about 67%.



- LGUs spend most on the cost of administration (GPS) followed by social services





Implementing Agency	Program
Department of the Interior and Local Government	Bottom-up Budgeting (BuB)
	Local Government Support Fund - Assistance to Disadvantaged Municipalities (LGSF-ADM)
	Local Government Support Fund - Assistance to Municipalities (LGSF-AM)
	Local Government Support Fund - Assistance to Cities (LGSF-AC)
	Local Government Support Fund – Financial Assistance to LGUs (LGSF-FA)
	Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran (KALSADA)
	Local Government Support Fund - Conditional Matching Grant to Provinces (LGSF-CMGP)
	Sagana at Ligtas na Tubig Para sa Lahat (SALINTUBIG)
	Performance Challenge Fund (PCF)
	Local Infrastructure Program
Department of Public Works and Highways	Tourism Road Infrastructure Project Prioritization Criteria (TRIPPC)
	Farm-to-Market Road Program
Department of Agriculture	Small Scale Irrigation Projects

NATIONAL GOVERNMENT LOCAL GOVERNMENT ASSISTANCE PROGRAMS

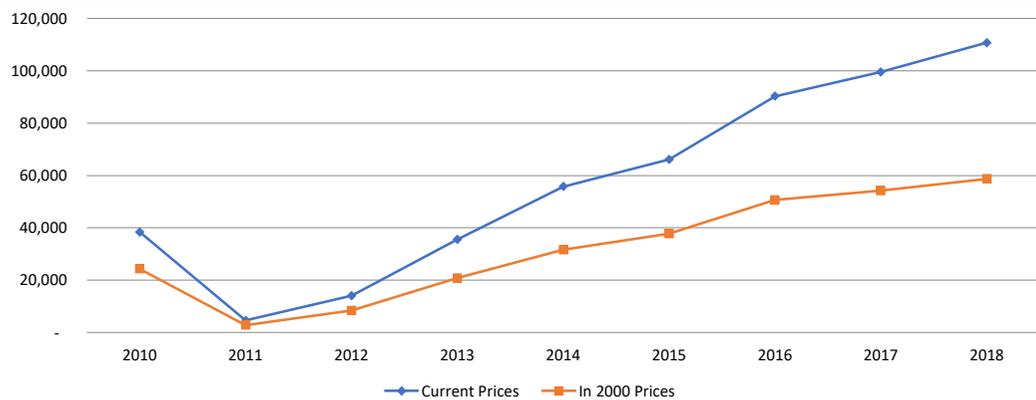


OVERALL TRENDS IN NG-LG SUPPORT PROGRAMS

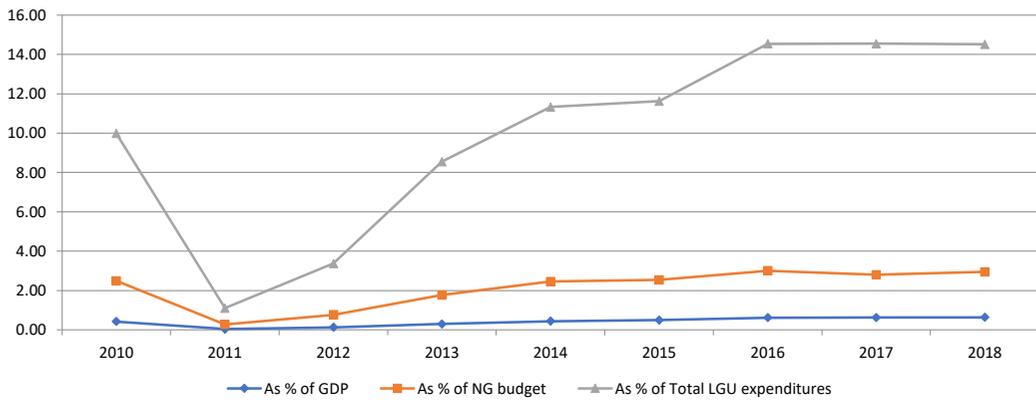
- NG – LG Support programs have been receiving increasing funding since 2011, peaking at PhP 110.7 B in 2018
- In the past decade, these have averaged:
 - 0.4% of GDP
 - 2.1% of NG appropriations
 - 9.9% of LG expenditures
- Of these, the Top 4 in terms of budgetary allocations are:
 - DPWH Local infrastructure programs & Tourism Road Infrastructure
 - DA Farm to Market Road
 - Financial Subsidy to Local Government Units



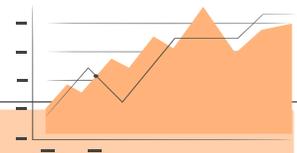
INCREASING NATIONAL GOVERNMENT LGU ASSISTANCE PROGRAM APPROPRIATIONS, 2010 TO 2018 (IN MILLION PHP)



**SHARE OF NATIONAL GOVERNMENT LGU ASSISTANCE PROGRAMS TO GDP,
NATIONAL BUDGET & LGU EXPENDITURES, 2010-2018**



Local Infrastructure Program appropriations (in PHP million), 2010-2018

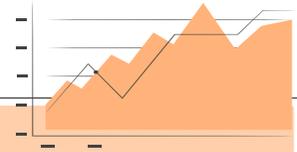


DPWH LOCAL INFRASTRUCTURE PROGRAM

Local Infrastructure Program shall be used for the construction and rehabilitation of different local infrastructures such as local roads and bridges, academic buildings, multi-purpose buildings, water supply systems, and flood control and drainage



Farm to Market Road Program appropriations (in PHP million), 2010-2018

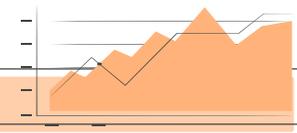
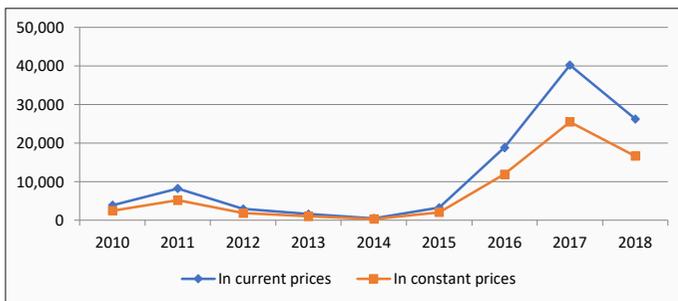


FARM-TO-MARKET ROAD PROJECTS (FMR)

Institutionalized by the Department of Agriculture which aims to help LGUs to provide better service in agriculture.



Expenditure trend for the LGSF programs (in PHP million), 2010-2018



LOCAL GOVERNMENT SUPPORT FUND

The Local Government Support Fund (LGSF) Program, formerly Financial Subsidy to Local Government Units from 2010 to 2012, has given financial assistance to LGUs struggling to deliver devolved basic services. It has evolved from an aggregated program to one that, in recent years, has clearly identified levels of local government and projects that are aligned with both devolved services and national government priorities.



SUMMARY OF EXPENDITURE REVIEW

- Though there was an overall increasing trend NG-LG support program expenditures, individual program allocations were generally erratic.
- The DILG LGSF programs were redesigned more often than the DPWH's Local and Tourism Infrastructure and DA's Farm-to-market Roads programs.
- Absorptive capacity was examined for programs with complete data, utilization rates for these averaged 95%, higher than local development fund utilization that averages about 75% across LGUs.



REGIONAL INFRASTRUCTURE GAPS, POVERTY INCIDENCE, AND GOVERNANCE

- If these NG-LG support programs are discontinued and NG decides to have a fiscal equalization grant, should this be designed based on local infrastructure gaps?
- Examined correlations of regional infrastructure gaps, poverty incidence and good governance to see if there are higher infrastructure gaps in regions with higher poverty incidence or lower proportion of municipal Seal of Good Local Governance recipients.



REGIONAL INFRASTRUCTURE GAPS, POVERTY INCIDENCE, AND GOVERNANCE

There is:

- no strong evidence to suggest that regions with larger infrastructure gaps have higher poverty incidence.
- evidence of weak correlation between higher poverty incidence and lower proportion of municipal Seal of Good Local Governance recipients in the region.
- no evidence that regions with larger infrastructure gaps have a lower proportion of municipal Seal of Good Local Governance recipients.



RECOMMENDATIONS

- If the NG decides to discontinue NG-LGU programs there should be policy to ensure compliance with the Local Government Code mandate of 1991 that LGUs must spend at least 20% of received annual intergovernmental fiscal transfers.
- Infrastructure spending, through the LDF, would help jump-start the economy into recovery and reduce poverty given evidence of the high multiplier effect of government infrastructure spending on regional income (Debuque-Gonzales, *forthcoming*).



RECOMMENDATIONS

If the NG decides to discontinue NG-LGU programs but create a fiscal equalization grant:

- This should be aligned with interventions/programs to be implemented under The Seal of Good Local Governance Act of 2019 and the Community-Based Monitoring System Acts to avoid redundant spending.
- The objective, criteria and targeting of LGUs should be clear.
 - The evidence that there is no strong correlation between regional poverty incidence and infrastructure gaps should guide policymakers to be specific in defining the objective of the intervention.
 - The study also provided evidence that there was weak correlation between regional allocations and poverty incidence for programs that claimed to prioritize poorer areas.



The Philippine Local Government Water System

*LAWRENCE G. VELASCO, CHARLOTTE JUSTINE D. SICAT,
ANGEL FAYE G. CASTILLO, AND RIXIE B. MADDAWIN*



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

22

INTRODUCTION

- To fast-track the achievement of Sustainable Development Goal 6 to “ensure availability and sustainable management of water and sanitation for all”, the Philippine Development Plan 2017–2022 has identified water supply and sanitation (WSS) as essential to “accelerate strategic infrastructure development.”
- Water is a complex good (Zetland 2014). The different stages of its provision determines the kind of government intervention needed
 - Source water is a common resource requires regulation in its use;
 - Potable water supply provision is a natural monopoly requires price and quality regulation (Stiglitz and Rosengard 2015).



OBJECTIVE AND RESEARCH QUESTIONS

- To present the landscape of local government water service delivery, identify institutional weaknesses, highlight successes within the current framework and share national government public sector efforts (e.g. SALINTUBIG, LGSF and LWUA).
- How can LGUs provide efficient and sufficient water supply for its current and future population?
 - How do LGUs currently deliver water services? What is the current framework?
 - Who are the actors and what are their mandates? How can the institutional environment be improved?



PUBLIC SECTOR LOCAL WATER SUPPLY INTERVENTIONS



PHS

SAGANA AT LIGTAS NA TUBIG SA LAHAT (SALINTUBIG)

- Aims to “contribute to the attainment of the goal of achieving universal access to potable water supply.” Initially intended for poorer waterless municipalities.

Summary of SALINTUBIG Expenditures, in current and constant prices, 2012 to 2018



PHS

LGSF-ASSISTANCE TO MUNICIPALITIES

BuB's goal was to transform local governments by providing more space for civil society organizations to co-identify projects with the government and to take part in the budgeting process.

The LGSF-AM program aims to equitably assist all municipalities in the proper implementation of their priority programs and projects as well as build their capacity towards genuine fiscal autonomy



Summary of LGSF-AM Expenditures, 2013 to 2018



LWUA budgetary support to government corporation (in thousand PhP), 2010-2018



LOCAL WATER UTILITIES ADMINISTRATION

Has the primary mandate of giving affordable loans to local water districts. Its' sources of funds for lending comes from internally generated funds, budgetary support from the national government via the General Appropriations Act (GAA) and foreign funding from loans with development and multi-lateral agencies.



Water Sector Landscape

- According to NEDA's Philippine Water Supply and Sanitation Master Plan 2019-2030, the PH Water Supply and Sanitation sector is characterized by
 - the **absence of a lead agency for the sector**,
 - the **lack of a cohesive policy framework**,
 - **insufficient public financing**,
 - **inadequate sector data** to inform policy and investment decisions, and
 - a severely **fragmented and poorly enforced regulatory regime** (NEDA, 2019).
- The sector has numerous implementing agencies and numerous regulatory agencies which make investments in the sector difficult and uncoordinated. According to the 2015 FIES, 87.7% of households have access to water.
- However, only 44% have access to piped household connections.
-

Fragmentation of Implementation Entities

Management Type	Type	TOTAL NO. OF WSPS		LEVEL OF SERVICE		
		No.	%	Level 1	Level 2	Level 3
BWSA	Community Based	7,719	28%	3,914	2,582	1,219
RWSA	Community Based	1,487	5%	65	637	785
Cooperative	Community Based	408	2%	46	89	273
Unnamed WSP	Private	8,651	32%	7,945	497	202
LGU-Run Utility	Government	4,326	16%	1,190	1,665	1,470
Water District	Government	695	3%	19	5	670
Home Owners' Association	Community Based	380	1%	168	75	137
Real Estate Developer	Private	111	0%	8	8	95
Industrial Locator	Private	45	0%	3	3	39
Peddler	Private	275	1%	148	104	23
Ship Chandler	Private	4	0%	1	2	1
Other Private Operatore	Private	1,914	7%	728	267	919
Refilling Stations	Private	1,177	4%	1,123	35	18
Grand Total		27,192	100%	15,358	5,969	5,853

Source: Listahang Tubig as of September 2020

Levels of Water Systems in the Philippines:

- **Level 1** – Stand-alone water points (e.g. handpumps, shallow wells, rainwater collectors) serving an average of 15 households within a 250-meter distance
- **Level 2** – Piped water with a communal water point (e.g. borewell, spring system) serving an average of 4–6 households within a 25-meter distance
- **Level 3** – Piped water supply with a private water point (e.g. house connection) based on daily water demand of more than 100 liters per person

Water-Specific Agencies in Detail



Agency	Local Water Utility Administration, a GOCC formed under PD 198
Oversight	Water Districts (PD 198), Rural Waterworks and Sanitation Associations (EO 128, 1987)*
Powers	<ul style="list-style-type: none"> • General Corporate Powers • Borrowing money and allow to pledge receivables • Make loans to Water Districts / RWSAs • Establish Technical standards and review rates • Provide Technical Assistance and Training Programs • Control and supervision over national government releases for the account of water districts
Technical Standards	<ul style="list-style-type: none"> • Key Performance Indicators outlined in LWUA Memorandum Circular 011-2018.
Water Rate-Setting Principle	<ul style="list-style-type: none"> • 10-year Business Plan, main check: ensuring there's appropriate cash balance over the 10-year period

*While Key Informant Interviews acknowledged that LWUA, as the successor agency of the Rural Waterworks Development Corporation, they mentioned that LWUA has no specific technical or economic regulations with respect to RWSAs, LWUA reiterated to RWSAs its mandate via MC 008-118 requiring all RWSAs to submit constitutive documents.

Water-Specific Agencies in Detail



Agency	National Water Resources Board
Oversight	Category A – Private Utilities; Category B – Government Owned (optional); Category C – Community Based Utilities (including RWSA)
Powers	<ul style="list-style-type: none"> • Policy formulation and coordination within the framework of Integrated Water Resources Management (IWRM); • Water resource regulation through the issuance of Water Permit (WP) and resolution of water use conflict; and • Regulation of water service providers through the issuance of Certificate of Public Convenience (CPC)/Certificate of Public Convenience and Necessity and setting of water tariffs.
Technical Standard	Based on the Memorandum Circular No. 2019-001, Series of 2019
Water Rate-Setting Principle	<p>Category A and B – Ten-year project cash flows are reviewed, and the rate is set so that water utility reaches its allowable rate of return.</p> <p>Category C – Rates are computed so that its total revenues will be enough to recover its OPEX, contingencies, depreciation and debt service.</p>

Key Finding #1: Overlap in Regulation

IMPLEMENTOR	INVESTMENT COORDINATION	RESOURCE REG	TECHNICAL REG	ECONOMIC REG
LGU-Run Utilities	NEDA RO / ICC	NWRB	LGU / Optional NWRB (Category B)	
Water Districts	LWUA	NWRB	LWUA / Optional NWRB (Category B)	
BWSA	None	NWRB	NWRB	
RWSA	None	NWRB	LWUA (EO 124) / NWRB (Category C)	
HOA, Other Private Utilities	None	NWRB	NWRB (Category A / C)	
Private Partners in PPP Projects	None	NWRB	PPP Partner (LGU or Water District, etc.)	
Economic Zones	None	NWRB	PEZA / TIEZA / BCDA / SBMA	

- NWRB's (Category B) and LWUA/Local Legislative Council in direct regulatory conflict. The option to subject WDs and LGU-run utilities is vague and does not sort out other supervisory powers of LWUA or the LGU.
- LWUA is a lender and regulator – conflict in interest may arise in rate setting.



34

Key Finding #2: Misaligned Technical Operating Standards

TECHNICAL STANDARD	LWUA	NWRB (Category A)
Non-Revenue Water	Less than or equal to 30%	Less than or equal to 25%
Collection Efficiency	Must be greater than 90%	N/A
Market Growth / Service Coverage	Number of service connections generated	Gradually increase per plan
Capital Expenditure	Actual implementation of Scheduled CAPEX	N/A
Reserves	Actual amount of reserves compared to approved CO Budget	N/A
Water Quality	PNSDW Compliant	PNSDW Compliant
Current Ratio	Current Assets / Current Liabilities; at least 1.50:1	N/A
Net Income	Positive Net Income for the past twelve months	N/A
Staff Productivity Index	Ratio of Water District employees to Active Connections	N/A
24/7 Water Service	Percent of Households enjoying 24/7 Water Service	Greater than or equal to 12 hours per day
Sanitation Facilities	Percent of Households enjoying sanitation facilities	N/A
Operating Ratio	N/A	Less than or equal to 80%
Customer Feedback	N/A	Satisfied customers greater than 80%
Water Pressure	N/A	Gradually increase per plan

35

Key Finding #2: Misaligned Technical Operating Standards

- **Monitoring operational efficiency and spending prudence is critical** since operational costs are the primary determinant for water rates charged to the public. Inefficiency and wastage may be priced-in and passed on to consumers without a clear technical benchmark.
- Ensuring **uniform standards will facilitate the allocation of funding support** to the appropriate capital expenditure programs. With a common yardstick and common developmental objective, we can easily spot performing and non-performing water utilities. Thus, resources may be deployed to areas where it is needed.



36

Key Finding #3: Differences in Water Rate Setting Principles

	LWUA	NWRB (Category A and B)	NWRB (Category B)	NWRB (Category C)
Frequency of Rate Review	When an increase is requested by a Water District	Every five years		
Business Plan Review	Review of 10-year business plan	Review of 10-year business plan		Review one-year business plan
Tariff Calculation	Determine the required tariff that will allow sustainable cash balances during the ten-year business plan	Plot cash flows over the 10-year business plan and compute tariff that will yield a project return equal to the AROR.		Compute required rate so that revenue is enough to cover OPEX
Allowable Return	Not Applicable	As set by the NWRB	Zero	Not applicable
Tariff inflation	No automatic escalation	With automatic tariff escalation due to inflation		
CAPEX Recovery	Implied by ensuring positive cash balances in the ten-year forecast	Explicit as the formula ensures recovery of CAPEX over its useful life		
Tariff Design	Progressive based on consumption blocks			
Tariff Limit	Cost of first 10 cubic meters must be less than 5% of a income of Low Income Households			



37

Key Finding #4: Lack of Investment Coordination

- While there are numerous agencies involved in water resource protection and planning – **no single agency has responsibility and accountability on water supply access, quality, availability.**
- Due to non-coordination, multiple water supply utilities operate in the same areas. Multiple supply utilities may result in inefficient use of funding and may duplicate investment,
- An example is in Taytay, Palawan, where there is a Water District and an LGU-run Water Utility (Taytay, Palawan Water System Management Operating Office). In this case, there are overlaps in the coverage area and, therefore, duplication in investments.

Municipality	Water District	LGU-run	Others
Urbiztondo, Pangasinan	Urbiztondo Water District	Malayo Urbiztondo Water Utility	None
Alcala, Cagayan	None	Alcala Municipal Water System	Pinopoc, Alcala (BWSA)
Baler, Aurora	Baler Water District	None	Multiple Barangay Water Systems
Liliw, Laguna	None	Liliw Waterworks System	Laguna AAWater Company (Private, Province-wide), Multiple BWSAs



Source: Listahang Tubig as of November 2020

38

Key Finding #5: Funding must match the state of Water Districts

- Small water districts have minimal funding options. **Some may be too small to service loans.** Thus, the **presence of coordinated funding or grants from the LGU or the National Government, through LWUA, that will help start-up or struggling water districts with critical infrastructure** with no need for any repayment.
- Key Informant Interviews emphasized that the fact that the subsequent funding of WDs came into the form of loans **disciplined management into ensuring that investments funded will yield enough billings that would allow them to repay the loan.**
- Such management discipline aligns the objective of LWUA/Lenders and Water Districts. Therefore, availability of loan financing is a critical determinant of success for water districts.



39

SUMMARY OF FINDINGS

- Obstinate fragmentation in the local water sector is primarily due to ambiguous or overlapping institutional mandates.
- Identified weaknesses in institutional mandates both cause and exacerbate the absence of consistently and regularly reported data which poses challenges in monitoring and evaluating the water service providers as basis for sector reforms.
 - No single water-related planning agency keeps track of progress and investment



SUMMARY OF FINDINGS

- The inability to effectively assess the impact or success of water service provision results in fragmented policy/programs/interventions.
- Though there was almost 100% utilization of the NG LGU water programs, there was weak evidence that their prioritization criteria of poverty incidence and proportion of waterless households accounts for variations in program expenditures.



RECOMMENDATIONS

- Streamline and align various rules and regulations relating to the sector
 - Provide a definitive streamlining of economic regulation for the sector
 - Align the formulation of technical regulation and operating standards
- Enhance investment coordination within the sector
 - Empower a Central Coordinating Body to keep track of targets, investments, and funding needs regardless of water supply implementation entity.
 - Systematic planning and funding support for water utilities.
 - If any national government support programs for local water services will be pursued post-Mandanas, these must also be integrated in the central coordinating body.



43



PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES
SURILAN SA TIGA PAG-ARAL PANGKAUNLARAN NG PILIPINAS

Service through
policy research

Thank you!

WEBSITE: www.pids.gov.ph

FACEBOOK: facebook.com/PIDS.PH

TWITTER: twitter.com/PIDS_PH

EMAIL: csicat@mail.pids.gov.ph