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I. Introduction

The Supreme Court (SC) ruling on the Mandanas-Garcia Petition concerning the Internal Revenue Allotment (IRA) follows a long and persistent effort of local government units (LGUs) and stakeholders in demanding greater autonomy and resources from the national government (NG). The Ruling directly increases resources for LGUs as a result of a larger base for the computation of the IRA (now known as the National Tax Allotment or NTA)[2]. Local governments expect to receive an incremental IRA, equivalent to 40% of tax collections which were previously not part of the base. In 2022, on the first year of implementation of the SC ruling, the IRA is seen to substantially increase by P263.5 billion or 37.9% to a total of P959.0 billion.[3] Of the amount, about P193.7 billion can be attributed to the collections from the Bureau of Customs (BOC).

While the SC ruling's effect is straightforward—greater amount of resources for LGUs in implementing devolved functions—there are concomitant and equally important issues that the NG needs to contend with. Foremost of these is the ruling's effect on the NG fiscal situation. Complete devolution of functions related to NG-funded and administered programs, activities, and projects (PAPs) has its challenges and requires time. Executive Order No. 138, series of 2021, providing for guidelines on full devolution of certain functions, recognizes this reality and gives government agencies until FY 2024 to complete the transition. Hence, a gradual devolution of functions between 2022 and 2024 can be expected even as the NG is obliged to provide LGUs their due share in national taxes beginning FY 2022. This can mean additional NG budgetary requirements to support NG PAPs during the transition.

The fiscal impact comes at a time when the country faces the worst economic crisis on record, following the pandemic's toll. Gross Domestic Product (GDP) contracted by 9.6% in 2020, and by 4.2%, year-on-year, during the first quarter of 2021. The slump significantly affected NG revenues, resulting in a 9.0% contraction in 2020—from P3.1 trillion in 2019 to P2.9 trillion. The contraction for tax revenues was even more pronounced at 11.4%—from P2.8 trillion to P2.5 trillion.

In contrast, NG expenditures in 2020 grew by 11.3%—from P3.8 trillion in 2019 to P4.2 trillion. The result is a P1.4 trillion deficit or 7.6% of GDP, which is among the highest on record. With the economy reeling from the pandemic, another round of stringent mobility restrictions imposed

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[1] *The paper benefitted from the inputs of Executive Director Novel V. Bangsal, and from the overall guidance of Director General Romulo E.M. Miral, Jr., Ph.D. A copy of this publication is available at the CPBRD's website: cpbrd.congress.gov.ph.*

[2] *For the purpose of this paper, IRA will be used to refer to LGUs' share prior and after the SC ruling on the Mandanas-Garcia petition.*

[3] *Figures cited in Local Budget Memorandum No. 82 issued 14 June 2021*

on major urban centers early in 2021, and the prevailing uncertainty over possible resurgences, there is reason to believe that the NG will continue to face challenges in revenue generation and remain in a tight fiscal situation for the coming months. Higher expenditures needed in 2021 and subsequent years to combat the health and economic crises are projected to keep the deficit elevated compared to pre-crisis levels.

Aside from fiscal considerations, the transition calls for an examination of PAPs to be devolved. There are concerns on how the intended outcomes can be achieved as NG transfers to LGUs some of the PAPs it continues to perform despite being devolved functions. Transition towards full devolution assumes capacitating LGUs. It is in the interest of the NG to ensure that a system for capacity-building is in place for LGUs to effectively manage the devolved functions. However, there is also the recognition that not all LGUs will be able to deliver a minimum set of services, not just because of capacity issues but because of resource constraints, hence, the need for continuing NG assistance.

The Growth Equity Fund (GEF) provided in EO 138, s. 2021, is a mechanism to bridge this gap, allowing the NG to continue subsidizing LGUs with low fiscal capacities. The GEF, along with the financial needs of NG agencies (NGAs) in gradually turning over devolved functions, are budgetary concerns which are expected to form part of the FY 2022 National Expenditure Program (NEP) and which carry significant implications.

As deliberations on the FY 2022 National Budget commence, Congress is called on to take a close look at the implications of the SC ruling beyond the outright effect of transferring more resources to LGUs. Full devolution of functions, along with the concomitant transition, entails both fiscal and PAP implementation issues which can impact on fiscal sustainability, service delivery, and the achievement of national objectives. In this regard, this paper discusses the implications of the SC ruling as it relates to budgetary and some operational concerns. There are certain information that are not available as of this writing which could limit the analysis, but this paper aims to provide relevant information and discuss prospectively some of the issues that could help Members of Congress in examining the FY 2022 proposed National Budget.

II. THE RULING AND THE ENSUING GOVERNMENT RESPONSE

The SC ruling emanated from two petitions which were subsequently consolidated—the first by former Rep. Hermilando Mandanas of Batangas and the second by former Rep. Enrique Garcia, Jr. of Bataan. Mandanas argued in his 2012 petition for the inclusion of BOC collections—such as excise taxes, value-added taxes, and documentary stamp taxes—in the determination of National Internal Revenue Taxes (NIRT) or the IRA base. The petition also questioned the deduction of revenues earmarked for LGUs, such as those for tobacco-producing provinces, from the computation of the base.

Meanwhile, Garcia, in a 2013 petition, assailed the constitutionality of certain parts of the LGC, particularly Section 284 which limited LGUs' share to national internal revenues taxes (NIRT). Garcia held that the LGC provision ran counter to Section 6 of Article X of the Constitution, which provides that LGUs shall have a just share in national taxes and not just internal revenue taxes. The petition also argued for the inclusion of customs duties as part of national taxes and pointed out the illegal exclusion of certain NIRTs in the determination of the base.

Among NIRTs excluded from the base, as raised by Garcia, were the shares of various LGUs in: *(a)* excise taxes on mineral products; *(b)* excise taxes on locally manufactured Virginia tobacco products; *(c)* incremental revenues from Burley and native tobacco products; *(d)* franchise taxes paid by the Manila Jockey Club, Inc. and the Philippine Racing Club, Inc.; *(e)* the share of the Commission on Audit (COA) in NIRTs; and *(f)* NIRTs collected and distributed among LGUs in the Bangsamoro Region in Muslim Mindanao (BARMM).

In response to the petitions, the Office of the Solicitor General (OSG) argued that Section 284 of the LGC was consistent with the Constitution. It also noted that the determination of the just share of LGUs was within the discretion of Congress, and that the legislature had the authority to exclude certain taxes from the base. Distinction between taxes collected by Bureau of Internal Revenue (BIR) and the BOC was raised, as the OSG argued for the separate treatment of the two.

The SC came out with a decision on the consolidated petitions on 3 July 2018, granting in part the prayers of the petitioners. Insertion of term "internal revenue" in the provisions of the LGC pertaining to the just share of LGUs was declared unconstitutional and was ordered deleted from related sections of the law. Relevant sections of the Implementing Rules and Regulations (IRR) of the LGC were modified accordingly.

The Court ordered the Secretaries of the Department of Finance (DOF) and the Department of Budget and Management (DBM), as well as the Commissioners of the BIR and the BOC, and the National Treasurer, to include all collections of national taxes in determining the base of the just share of LGUs, except those accruing to special purpose funds and special allotments for the utilization and development of the national wealth *(Annex 1 for SC ruling on the IRA base)*. Meanwhile, the SC declared that proceeds from the sale of former military bases converted into alienable lands were excluded from the computation of the base. It also dismissed the request for settlement of claims related to arrears in the just share of LGUs, citing prospective application of the ruling.

The OSG subsequently filed a motion for reconsideration, and Garcia[4] filed a motion for partial reconsideration on the payment of arrears from 1992 in relation to the new computation of the base. Both were dismissed by the SC in its decision issued on 10 April 2019.

Actions of the Executive Branch

To mitigate the fiscal impact of the SC ruling on the Mandanas-Garcia petition, the NG has decided to fully devolve LGC-mandated functions which many NGAs continue to implement at present. This direction is set forth by the NG through the issuance of National Budget

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[4] *The original petitioner, the late Rep. Enrique Garcia, Jr., passed away in 2016 and was substituted by his son, Rep. Jose Enrique Garcia III as petitioner.*

Memorandum (NBM) No. 138 and EO 138, and LBM 82, s. 2021. The Implementing Rules and Regulations (IRR) of EO 138 was subsequently issued last 2 July 2021.

NBM 138 or the National Budget Call for FY 2022. In view of the SC ruling, NG highlighted in Section 1.3 of NBM 138 (issued 6 January 2021) the importance of strengthening the vertical (between regional and national plans) and horizontal (between various national plans affecting a region) linkages to ensure that the national budgeting process works for people across the different regions and provinces. It also underscored the need for agencies to undertake consultations and coordination with LGUs within the Regional Development Council (RDCs) to ensure that national priorities are responsive to regional and local needs.

Meanwhile, Section 1.4 states that with the substantial increase in IRA beginning 2022 due to the SC ruling, LGUs are expected to be responsible for the funding and delivery of the activities which have been devolved to them under Section 17 of the LGC and other subsequent laws. A list of these functions devolved under the LGC was provided in the same Memorandum. The idea of cost-sharing arrangements in implementing devolved projects was brought up in Section 2.6, particularly with the NG shifting from a "rowing" to "steering" role. NG shall focus on the development of policy and service delivery standards, the provision of technical assistance, and the supervision and oversight of LGUs.

Section 2.7 provides that concerned agencies shall adhere to the following in the preparation of their budget proposals: *(a)* refrain from funding devolved local projects for 1st to 4th income class LGUs; *(b)* include funding requirement for capacity building for these LGUs; and, *(c)* limit the subsidies for local projects to LGUs belonging to the 5th and 6th class, Geographically Isolated and Depressed Areas (GIDAs), as well as those ranked in top third highest poverty indices.

Salient Features of E.O. 138. The EO, issued last 1 June 2021, directs the full devolution of certain function to local governments. The transfer of basic services and facilities to the LGUs will enable the NGAs to assume more strategic and steering functions to address persistent development and governance issues. All agencies and instrumentalities of the Executive Branch with devolved functions to LGUs are expected to comply. Only LGUs in BARMM are excluded coverage from the EO. The functions, services, and facilities based on Section 17 of the LGC are expected to be fully devolved not later than FY 2024. Below are the salient features of EO 138.

(a) Preparation of Devolution Transition Plans (DTPs). Concerned NGAs, under Section 5 of the EO, are tasked to prepare full devolution transition plans (DTPs) to be submitted to DBM for evaluation and approval within 120 days from the effectivity of the EO (1 June 2021). The plans should include the expected services to be devolved, as well as the related strategies, standards, affected personnel, and roles and responsibilities. Per the IRR, the DBM shall evaluate and approve the NGA DTPs within 120 days upon receipt of the completed DTP. Meanwhile, LGUs are expected to prepare their respective transition plans upon finalization of the DTPs of NGAs in consultation with DILG, NEDA, DOF, and DAP.

(b) Creation of Committee on Devolution. The EO establishes a committee that will monitor and evaluate the status of the implementation of DTPs and submit report to the Office of the President three years after 2022. This will be headed by the Executive Secretary and composed of the Secretaries of the Department of Budget and Management (DBM), Department of the Interior and Local Government (DILG), National Economic and Development Authority (NEDA), and the Department of Finance (DOF), and the heads of the leagues of local governments.

Section 7 outlines the functions of the ComDev to include the following, but not limited to: *(a)* Evaluate the status and monitor the implementation of the DTPs of NGAs and LGUs; *(b)* Resolve issues that may arise in the implementation of the EO and its IRR; *(c)* Adopt mechanisms to ensure continuous delivery of public services during the transition period to full devolution; *(d)* Develop strong communication plan and strategies to inform the public on the delineation of function between NG and LGUs; and *(e)* Submit to the President an annual report on the implementation of EO 138 and its IRR, including the status of implementation of DTPs and the GEF, and recommendations based on ComDev's annual assessments.

(c) Establishment of Growth Equalization Fund. Under Section 8, the GEF shall be established starting FY 2022 to address the vertical and horizontal fiscal imbalances across LGUs. The amount shall be included by the DBM in the NEP to cover the funding requirements for PAPs of poor and disadvantaged LGUs, and gradually allow them to fully implement devolved functions and services.

(d) Capacity Development. Three key players will manage this important role. The Local Government Academy (LGA) shall harmonize all needed capacity development interventions while the Development Academy of the Philippines (DAP) shall strengthen capabilities of local chief executives. In addition, the Bureau of Local Government Finance (BLGF) will conduct programs regarding revenue generation and fiscal management. LGUs are tasked to formulate Capacity Development Agendas based on the framework and guidelines to be issued by DILG-LGA.

(e) Strengthening Planning, Investment Programming and Budgeting Linkage, and Monitoring and Evaluation Systems. Section 9 of the EO details the importance of vertical and horizontal linkages across different levels of government in development planning, and investment programming and budgeting. It also advocates for results-based monitoring and evaluation systems.

(f) Affected Personnel. Three options are provided to affected government personnel under Section 12, to wit: (a) Transfer to other units within the agency; (b) Transfer to other agencies within the Executive Branch; or (c) Retire or be separated from the service with the option to apply for vacant positions in LGUs. While transfer within the Executive Branch assures the employee of no reduction in pay, those applying at the LGU will be considered as new entrant to the civil service and will be subject to the compensation system of the LGU concerned.

Local Budget Memorandum 82. Issued last 14 June 2021, LBM 82 reiterates NG's intent under Section 2.7 of EO 138 for agencies to refrain from including in their budget proposals local programs and projects for 1st to 4th class LGUs. It emphasized that these LGUs will primarily be responsible for the funding and implementation of devolved functions and services, while NG continues to provide for capacity building and subsidize the low-income LGUs.

In view of the devolution pursuant to EO 183, the LGUs are instructed to formulate the following: *(a)* LGU Transition Plans which shall be used as guide by the DBM, DILG and NGAs concerned in monitoring and assessing the performance of LGUs; *(b)* LGU Capacity Development (CapDev) Agenda based on the assessment framework and guidelines to be prescribed by the DILG-LGA; and *(c)* LGU Communications Plan and Strategy to effectively inform the public on the delineation of functions and services between the NGAs and LGUs.

The Role of Congress

Congress has a vital role in addressing the issues arising from the SC ruling. These issues are related to Congress' two main functions—*budget authorization* and *budget accountability.* The legislature is imbued with the power to appropriate government funds and to perform oversight on the implementation of laws and the execution of the budget. The House of Representatives, in particular, has exclusive authority to file appropriations bills and take the first step in deliberating the proposed expenditure program.

The President, with the assistance of the Development Budget Coordination Committee (DBCC), submits to Congress every year the proposed NEP, which is the document outlining the NG's priorities and programs to be funded. The FY 2022 NEP will be somewhat different from the previous NEPs since it will be the first to consider the SC ruling on the Mandanas-Garcia petition.

Perhaps the more interesting area for budget examination is the paced implementation of devolution, which means that the NG will continue to fund and implement some of the affected PAPs, either in whole or in part, until these are fully-devolved by 2024. The extent by which the NG will continue to shoulder devolved functions depends on agencies' DTPs. Steering functions will remain with the NG while the LGUs will eventually be responsible and accountable for the implementation of devolved functions.

Also, it is important for Congress to examine how the national budget will seek to address the inequities accompanying the existing distribution of the IRA. The transition and ensuing issues following the IRA formula will result in vertical and horizontal imbalances (Manasan, 2020), owing to at least two reasons. *First*, increasing LGUs' share in national taxes does not assume equitable distribution of funds on the basis of cost of devolved functions. *Second,* some LGUs remain to be fiscally under-capacitated and, thus, will continue to need NG support. Since the GEF is aimed at bridging gaps in funding among LGUs (particularly targeted to support PAPs for poor and lagging

LGUs) to gradually enable them to efficiently implement devolved functions and services—the nature, components, and mechanisms by which the Fund achieves stated objectives deserve careful scrutiny.

Devolving more PAPs which were NG-funded and implemented in prior years can result in service delivery issues, especially if the transition is not managed well. The achievement of national objectives for certain devolved services can suffer due to hasty and poorly planned transitions. Carefully developed DTPs and close coordination between the NG and LGUs are key to prevent poor outcomes. Since agency-proposed budgets are intertwined with DTPs, thorough examination of DTPs is a way forward to ensure that NGA budgets are responsive to sectoral needs and promote sectoral objectives.

Once Congress passes a General Appropriations Act for FY 2022, its role shifts to budget accountability. Its power to serve as checks and balances on the Executive Branch is vital in ensuring that appropriations are used according to purpose, and that the goals of devolution are achieved. Oversight during the transition, particularly for affected PAPs and the utilization of the FY 2022 budget, will be crucial.

In the larger context, the FY 2022 to 2024 transition is but a part of the bigger issue of devolution. It is in the interest of Congress to ensure that the intent of the LGC is carried out effectively. With more resources, there is higher expectation that LGUs will have larger room to pursue local development, and consequently, become an effective partner of the NG in promoting national development. However, this is contingent upon a smooth transition and a well-designed and effectively implemented LGC. On account of its oversight powers, Congress is called on to regularly revisit the LGC to ensure that it remains responsive to the ideals of devolution.

III. An Overview of Devolution in the Philippines

The LGC was passed by the Philippine Congress on 10 October 1991, in response to problems associated with highly centralized governance. Devolution, in the context of the LGC, involved a shift of responsibility for the delivery of basic services from the NG to the LGUs. Services which were devolved include the following: health (field health and hospital services); social services (social welfare services); environment (community-based forestry projects), agriculture (agricultural extension and on-site research); public works (funded by local funds); education (school building program); tourism (facilities, promotion and development); telecommunications services and housing projects (for provinces and cities); and other services such as investment support. The shift of basic services had related transfers of appropriate personnel, assets, equipment, programs, and projects. As many as 70,000 personnel transferred to the local governments (Brillantes, 1998).

Devolution involved only certain aspects of the concerned services, and these are generally the services that were deemed essential and within the capacity of the LGUs to provide. It likewise devolved to local governments the responsibility for the enforcement of certain regulatory powers, such as reclassification of agricultural lands, enforcement of the national building code, operation of tricycles, processing and approval of subdivision plans, and establishment of cockpits and holding of cockfights, among others.

The effective allocation of functions and an efficient operating mechanism for the delivery of services are two principles enshrined in the LGC. The law aligned devolution with these two to enable LGUs to meet the priority requirements of their constituencies. In essence, the transfer of responsibilities with delegation of powers from the NG to LGUs is at the heart of devolution and is key in giving the latter greater room for participation in governance. In addition to the landmark law being a tool to change the highly-centralized government setup[5], devolving certain NG functions was envisioned to allow LGUs to become effective partners of the NG in national development.

The devolution of functions allows LGUs to respond to their constituents' concerns, given that LGUs are assumed to be in the best position to understand and provide for residents' needs. This is the reason behind the efficiency argument favoring decentralization (World Bank, 2013), in which local services are tailored to the needs of a locality. The idea sums up the subsidiarity principle in the literature, suggesting the advantage of local governments in identifying peoples' needs and delivering them (Drew & Grant, 2017).

Efficiency, Capacity, and the Assignment of Functions

Identifying which functions are delegated to each level of subnational government (e.g., province, city, municipality, barangay) is not a straightforward exercise and requires the understanding of local capacities and circumstances. There can be wide variation in LGU capacities to deliver specific services. For instance, the LGC devolved functions such as healthcare delivery and social welfare services to LGUs, including the planning and execution of local public health programs and child development initiatives, which gave rise to challenges in service delivery especially for municipalities.

In the case of health, local chief executives are expected to implement devolved functions guided by local plans that are developed with the help of provincial, city, and municipal health officers to address the varying health needs of residents. The preparation of plans can be a tedious exercise that requires technical know-how on the identification of local health needs and specific programs to address these concerns. Delegated roles must be considered alongside the size of the local bureaucracy, as well as personnel composition and competencies. Assigning functions that local capacities are unable to meet, whether due to inadequate personnel to handle concerns or the need for training on specific responsibilities (e.g., including the development and execution of local health plans), will result in the failure of LGUs to deliver adequate services. This affects both the efficiency of devolution in promoting the welfare of residents and its effectiveness in meeting desired outcomes.

[5] *The LGC implemented then President Corazon Aquino's promise to give LGUs greater autonomy and change the highly-centralized service delivery and setup (Diokno, 2012).*

As for social welfare services, local governments are expected to assist disadvantaged and vulnerable groups, including children. One particular service being offered is early childhood development support through the operation of local day care centers that tend to the needs of children before they enter the formal education system (i.e., K-12 education). Since these centers are partly responsible for the development of children during their crucial years, LGUs play an important role in ensuring the holistic development of children. However, competencies in child development are not readily available to LGUs and need to be developed among personnel.

Spillovers due to positive (negative) externalities or benefits (damages to residents of another LGU) of LGU programs is another consideration when discussing the efficiency of devolution in the Philippines. In the case of positive externalities, LGU programs do not always exclusively benefit the locality's residents since these can also cater to residents of a different LGU. For instance, better-equipped health facilities of relatively well-off LGUs, adjacent to a poor LGU, can attract residents of the poor LGU when availing of health care services. In this case, the well-off LGU is paying for the services of the poor LGU, illustrating the case of positive spillovers and underestimated benefits of the relatively well-off LGU's health program. Addressing the problem requires that the function be delegated to a higher level LGU, such as the province.

Economies of scale, associated with the benefits from large-scale production, is a related issue when discussing the assignment of roles to the different subnational government levels. Some functions are best delegated to a higher-level government to promote efficiency gains, such as through lower costs associated with procuring goods in bigger bulk. Conversely, assigning or delegating every function to the lowest-level of government can result in efficiency losses since smaller LGUs have weaker bargaining power in procurement. As an example, there can be efficiency gains from economies of scale when provinces, instead of municipalities, are assigned to procure drugs and other health equipment since buying in bulk can reduce the price per unit of a good.

Fiscal Capacity

Local fiscal capacity is an encompassing issue that underlies the effectiveness of Philippine devolution. Delegated functions require additional resources for LGUs to effectively perform their duties. Added resources can come in the form of greater taxing powers and/or NG transfers. The principle of "finance follows function" is a core idea in decentralization and is in line with the fact that functional assignments should be supported with adequate fiscal resources.

That Philippine devolution did not fully consider the idea of "finance follows function", given that arrangements on the distribution of fiscal resources through the IRA were determined first before the expenditure assignments, is an underlying weakness of the setup (Capuno, 2017). The IRA is an NG transfer to enable LGUs to perform devolved functions, but it does not fully account for the cost of devolved functions (CODEF).

To illustrate, both provinces and cities get 23% each of the IRA although they account for about 46% and 8% of total CODEF[6] (1992), respectively. The latter also have the combined taxing powers granted to provinces and municipalities. A comparison of the incremental IRAs (as a result of the change in IRA formula under the LGC) and CODEFs of LGUs showed that some inevitably suffered revenue shortfalls. About 43% of the 78 provinces in 1993 were found to have received incremental IRAs that were lower than their CODEF (Capuno, 2017). In the absence of measures to correct the design of the IRA, some LGUs stand to lose from disparities between local fiscal capacities and the CODEF.

The IRA as currently formulated has its inherent inefficiencies. There are two levels of distribution: *first*, by LGU level (provinces, cities, municipalities and barangays), and *second*, by a Codal formula based on population (50%), land area (25%), and equal sharing (25%). The population criterion is the closest proxy to the needs requirement of LGUs, but the formula has not taken into account fiscal capacities that could differentiate LGUs in terms of potential revenues that can be internally generated. Moreover, the equal sharing criterion has unintendedly encouraged the creation of new LGUs—hence, automatically reducing the IRA of other LGUs within the same level (e.g., among municipalities), and the aggregated shares accruing to less fragmented (i.e., less number of LGUs) geographic jurisdictions.

IV. Implications of the Ruling

The implementation of the SC ruling on the Mandanas-Garcia case concerning the IRA have far-reaching implications. From the NG perspective, this effectively reduces resources that can be used to support a bigger national budget. Consequently, agency budgets during the transition period (2022-2024) will have to reflect changes following the devolution of certain programs/services, the shift in NG role from rowing to steering, and the movement and rationalization of personnel.

Although the IRA will significantly increase (on aggregate) beginning 2022, it will not address the inherent inequities brought about by the existing distribution formula. This essentially requires NG to perform its redistributive function to ensure that financially disadvantaged LGUs are assisted and capacitated. The agency Transition Plans are crucial in laying down how devolution will proceed and ensure that devolved services are unhampered, and that local and inter-governmental mechanisms are in place to support the achievement of desired development outcomes.

Affected Agencies and Programs

The transfer of more resources to LGUs will lead to the defunding of devolved services that NGAs continue to provide as a way of augmenting or filling the gap in local service delivery. Per the Budget Call (NBM 138), functions and services outlined in Section 17 of the LGC shall be fully

[6] *CODEF for provinces, cities and municipalities based on the current operating cost of devolved national functions and city-funded hospitals in 1992 (excluding capital outlays)*

devolved. NGAs should refrain from funding local development projects (except for poorer LGUs deserving financial assistance).

Some NGAs can have substantially restructured Operations budget if their PAPs have devolved components. The restructuring or changes may be observed in the proposed budgets of the Department of Social Welfare and Development (DSWD), Department of Health (DOH), Department of Agriculture (DA), Department of the Environment and Natural Resources (DENR), and the Department of Public Works and Highways (DPWH), among others. PAPs identified for full devolution can be gradually or totally phased out and delisted from NGAs' operations starting 2022.

Annex 2 presents an initial list from the DBM of PAPs that will be devolved to LGUs no later than 2024. It is in the interest of Congress that the 2022 National Budget shall be reviewed to understand how this devolution would change allocations across departments and programs within agencies, or even across activities within agency programs. Change in allocations would greatly depend on the DTPs of NGAs, which should be able to clarify the unbundling of programs and the extent to which devolution will be undertaken and phased within the prescribed transition period (2022-2024). The shift from "rowing" to "steering" role of NG (i.e., to set national policy, development strategy, and service standard, and to assist and oversee LGUs) should be clearly reflected in their respective DTPs and subsequent agency budgets.

It may be noted that the submission of the DTPs per EO 138 is set for end of September 2021. The approval is likely to be at the end of the year (with DBM given 120 days from receipt of completed DTPs to complete its evaluation). However, the proposed NEP for 2022 would be under deliberation in Congress starting August. The absence of final details of the DTPs prevents a more concrete assessment as to how the 2022 budget would reflect changes due to the devolution. Instead, this paper seeks to provide relevant information and discuss prospectively some issues and challenges that can guide the review of agency budgets for 2022.

Table 1 lists the affected agencies/Fund, the number of affected programs[7], and the corresponding appropriations for the affected programs based on the 2021 GAA. Presenting the 2021 appropriations level for affected programs does not imply the total defunding of the program. Any budgetary adjustments in the 2022 will have to depend on the agency DTPs and how the agency proceeds with phasing the devolution until 2024. The 2021 appropriations level only indicates the relative size of the programs and the potential maximum amount that may be affected during the devolution period *(Annex 2 for specific programs under each department).*

Among the departments/agencies that will be affected by devolution, the DPWH posted the highest with P280.6 billion worth of funds initially allocated for the Local Infrastructure Program (LIP). This is followed by the DSWD which reports eight (8) affected programs amounting to a total of P57.5 billion. Others with relatively bigger aggregate amounts corresponding to their devolved programs are the DOH (P45.4 billion), DA (P32.0 billion), DepEd (P11.1 billion), and

[7] *List of programs was shared by the DBM in a forum entitled "Devolution Ready: Gearing Up for Full Devolution" organized by the DAP via Zoom last 8 July 2021. The list was updated after consultation with some agencies.*

TABLE 1
AGENCIES/FUNDS WITH PROGRAMS FOR DEVOLUTION AND THE CORRESPONDING 2021 APPROPRIATIONS (AMOUNTS IN MILLION PESOS)

Agency/Fund	Number of Programs	PS	MOOE	FINEX	CO	Total
DPWH	1	-	-	-	280,623.8	280,623.8
DSWD	8	340.4	57,200.5	-	-	57,540.9
DOH	6	15,741.3	21,914.1	-	7,757.3	45,412.7
DA	10	702.2	15,154.9	-	16,149.1	32,006.2
DepEd	1	-	1,833.5	-	9,313.0	11,146.5
DENR	7	3,252.8	2,096.6	-	2,978.1	8,327.5
GOCC-NIA	8	-	5,945.2	-	-	5,945.2
GOCC-NHA	2	-	4,456.0	-	-	4,456.0
DOST	3	24.7	2,334.0	-	-	2,358.7
DTI	4	764.4	22.4	73.0	545.0	1,404.8
DOLE	3	-	1,058.2	-	-	1,058.2
DOT	3	622.8	234.5	0.1	17.0	874.4
LGSF	2	-	700.0	-	-	700.0
DOTr	1	-	-	-	397.0	397.0
DILG	1	-	37.3	-	-	37.3
TOTAL	**60**	**21,448.5**	**112,987.2**	**73.1**	**317,780.3**	**452,289.2**

Note: Totals may not add up due to rounding off.
Source of data: DBM, FY 2021 GAA, and Agencies' Financial Management Service

DENR (P8.3 billion). A total of 60 programs with appropriations (2021) amounting to P452.3 billion are either for phasing out, scaling down, or discontinuance within 2022-2024.

The top 10 programs listed in Table 2, amounting to a total of P410.2 billion, represent 90.7% of the total appropriations of P452.3 billion for all 60 affected programs. Programs identified are based on Section 17 of the 1991 LGC which enumerates functions that were supposed to be devolved to LGUs as intended by law. These functions are also summarized under NBM 138[1]. To cite a few, the DPWH was directed to fully devolve its local infrastructure services which cover provincial, municipal, and barangay roads and bridges, inter-municipal waterworks, drainage and sewerages, flood control, and reclamation projects. Meanwhile, DSWD identified for devolution the social welfare services for several vulnerable groups such as rebel returnees, child and youth, women, elderly, and persons with disabilities, beggars, street children, and juvenile delinquents.

The LIP of DPWH ranked as the top affected program, as it represents more than half or 62% of all affected programs. Based on its 2021 GAA allocation of P280.6 billion, the LIP represents 42.5% of DPWH's total 2021 operations budget of P660.4 billion. This program refers to the construction, repair, rehabilitation, or improvement of various local infrastructure projects. Appropriations for the DPWH-LIP are entirely for Capital Outlay (CO).

[8] *NBM Attachment I: Annex A: Expenditure Assignment Based on the Local Government Code of 1991*

TABLE 2
TOP 10 PROGRAMS FOR DEVOLUTION AND THE CORRESPONDING 2021 APPROPRIATIONS (AMOUNTS IN MILLION PESOS)

Agency/ Fund	PROGRAMS/ ACTIVITIES/ PROJECTS	PS	MOOE	FINEX	CO	Total	% Share
DPWH	Local Infrastructure Program (LIP)	-	-	-	280,623.8	280,623.8	62.0
DSWD	Social Welfare for Senior Citizens Sub-Program	29.6	23,564.5	-	-	23,594.1	5.2
DSWD	Assistance to Individuals in Crisis Situation (AICS)	47.8	23,513.1	-	-	23,560.9	5.2
DOH	Human Resources for Health Deployment	15,741.3	841.7	-	-	16,582.9	3.7
DA	Production Support Services (PSS) Sub-Program	356.0	13,767.9	-	492.3	14,616.2	3.2
DOH	Family Health, Immunization, Nutrition and Responsible Parenting	-	12,205.0	-	-	12,205.0	2.7
DA	Farm-to-Market Road (FMR) Sub-Program	-	99.3	-	11,719.0	11,818.3	2.6
DEPED	Basic Education Facilities	-	1,833.5	-	9,313.0	11,146.5	2.5
DOH	Prevention and Control of Communicable Diseases	-	8,221.0	-	-	8,221.0	1.8
DOH	Health Facilities Enhancement Program	-	82.0	-	7,757.3	7,839.3	1.7
Sub-total	**Top-10 PAPs**	**16,174.6**	**84,128.0**	**-**	**309,905.4**	**410,208.1**	**90.7**
Others		5,273.9	28,859.2	73.1	7,874.9	42,081.1	9.3
Grand Total		**21,448.5**	**112,987.2**	**73.1**	**317,780.3**	**452,289.2**	**100.0**

Note: Totals may not add up due to rounding off.
Source of data: DBM, FY 2021 GAA, and Agencies' Financial Management Service

The other nine (9) top-ranking affected programs represent 28.7% of the total affected programs. DSWD's Social Welfare for Senior Citizens (P23.6 billion) and Assistance to Individuals in Crisis Situations or AICS (P23.6 billion) together makeup 10.4% of the total amount. The combined appropriations (P47.2 billion) for both programs in 2021 also represent 27.4% of the total DSWD operations budget of P172.2 billion.

Four (4) of six (6) affected DOH programs are included in the top 10 list. These include the following: Human Resources for Health Deployment (P16.6 billion), Family Health, Immunization, Nutrition and Responsible Parenting (P12.2 billion), Prevention and Control of Communicable Diseases (P8.2 billion), and Health Facilities Enhancement Program (P7.8 billion). All four programs represent 36% of the total DOH Operations budget for 2021, amounting to P124.5 billion. Other programs included in the list are DA's Production Support Services (PSS) Program (P14.6 billion) and Farm-to-Market Road (FMR) Program (P11.8 billion), and DepEd's Basic Education Facilities (P11.1 billion).

By expense class, CO accounts for the biggest portion of the estimated cost of devolution at P317.8 billion or 70.3%. This is mainly driven by the structure of the DPWH budget with LIP having purely CO allocations. Other CO can be traced to DA for FMRs, DepEd for Basic Education Facilities, and to DOH for Health Facilities Enhancement. MOOE is at P113.0 billion or 25.0%, with DSWD having the highest allocation. Personal Services (PS) amounts to P21.4 billion or 4.7%, which is largely due to the DOH's HRH Deployment Program. Financial Expense (FINEX) accounts for the smallest portion at 73.1 million—allocations of which can be traced to DTI and DOT.

To date, NGAs have started preparing their DTPs, and agencies such as DSWD and DOH have already presented initial DTPs during Inception Workshops conducted with DBM, DILG, Leagues, and other stakeholders. More details on DSWD's transition plans were presented during DAP's Capability Building on Innovative Leadership for Legislative Staff (CBILLS) Thursday Talks held last 8 July 2021.

DSWD Devolution Transition Plan. DSWD enumerated eight (8) services for devolution with total appropriations amounting to P57.5 billion based on 2021 GAA (*see Table 3).* The department clarified that it will only devolve services and functions (and not necessarily the entire program), as it will start to adopt the limited role of setting policy and delivery standards, assisting and providing technical assistance to LGUs, and monitoring implementation during the devolution.

On the other hand, LGUs are expected to continue the provision of basic social welfare services (SWS) enshrined in Section 17 of the LGC, and in accordance with prescribed policy and service delivery standards. All SWS devolved to LGUs shall be managed by the Local Social Welfare and Development Officers (LSWDOs). Although the department plans to devolve eight (8) services, only seven (7) (excluding KALAHI-CIDSS) are targeted for devolution in FY 2022.

TABLE 3
LIST OF DSWD PAPS FOR DEVOLUTION TO LGUS
(AMOUNTS IN MILLION PESOS)

PAPs	2021 GAA			FY 2022 Proposed Amount
	PS	MOOE	Total	
PROMOTIVE SOCIAL WELFARE PROGRAM	-	-	-	-
Sustainable Livelihood Program (SLP)	263.0	4,016.2	4,279.2	4,269.0
KALAHI-CIDSS	-	2,205.3	2,205.3	11,484.7
PROTECTIVE SOCIAL WELFARE PROGRAM	-	-	-	-
Supplementary Feeding Sub-Program	-	-	-	-
Supplementary Feeding Program (SFP)	-	3,830.4	3,830.4	3,725.5
Social Welfare for Senior Citizens Sub-Program (SWSC)	**29.6**	**23,564.5**	**23,594.1**	**24,112.5**
Social Pension for Indigent Senior Citizens	29.6	23,428.7	23,458.3	-
Implementation of the Centenarians Act of 2016	-	135.9	135.9	-
Protective Program for Individuals and Families in Especially Difficult Circumstance Sub-Program				
Protective services for individuals and families in difficult circumstances (AICS)	47.8	23,513.1	23,560.9	15,480.3
Assistance to Persons with Disability (PWD) and Older Persons	-	11.2	11.2	8.6
Comprehensive Project for Street Children, Street Families, and IPs-Especially Badjaus (CPSC)	-	34.9	34.9	35.6
Social Welfare for Distressed Overseas Filipinos and Trafficked Persons Sub-Program	-	-	-	-
Recovery and Reintegration Program for Trafficked Persons (RRPTP)	-	24.8	24.8	34.6
TOTAL	**340.4**	**57,200.5**	**57,540.9**	**59,150.7**

Note: Amounts were subject to review by DBM and may not reflect the same in the 2022 NEP.
Source: DSWD Technical Working Group (TWG) Secretariat on Devolution

Among all DSWD programs and sub-programs slated for devolution, the Social Welfare for Senior Citizens Sub-Program has the highest allocation for 2021 (P23.6 billion) and 2022 as proposed (P24.1 billion). This sub-program covers the social pension for indigent senior citizens and the implementation of the Republic Act No. 10868 or the Centenarian Act of 2016. The sub-program will eventually be transferred to the National Commission of Senior Citizens (NCSC) once it is set up after the issuance of the IRR. It is not clear how devolution will proceed with the transfer to a newly established Commission.

Based on the proposed 2022 budget submitted by DSWD to DBM, half of the listed DSWD programs for devolution will receive budget cuts, with AICS and Assistance to PWDs significantly decreasing by P8.1 billion and P2.6 billion, respectively. However, these amounts are still subject to DBM review and are still pending revisions based on the finalization of the DTPs. DSWD plans to maintain crisis intervention only for vulnerable and distressed interregional clients, and handle the management of financial assistance provision in established *Malasakit* Centers per Republic Act No. 11463.

Both Sustainable Livelihood Program (SLP) and Supplemental Feeding Program (SFP) have minimal reductions in 2022 (as proposed). For the SFP, DSWD plans to provide technical assistance (TA) to 1st to 6th class municipalities, and both TA and resource augmentation (RA) for 5th to 6th class municipalities. Despite the devolution, the department will retain roles such as policy and standard development, technical assistance, capacity building, M&E, program audit, and resources augmentation, among others (*Annex 2: Summary of DSWD Retained and Devolved Functions*).

Meanwhile, it may be noted that even among the identified programs with devolved services, the DSWD has proposed a higher budget for 2022 to the following: *(a)* Social Pension for Indigent Senior Citizens, *(b)* Comprehensive Project for Street Children/Families and IPs, and *(c)* the Recover and Reintegration Program for Trafficked Persons. Notably, the KALAHI-CIDSS which is partly foreign-funded and which is still slated for devolution by 2023 is expected to significantly increase by about P9.3 billion in 2022.

Equity Considerations

The SC Ruling entails a significant reconfiguration of NG PAPs to be re-devolved. Many of these PAPs will likely see their MOOE and CO allocations decline, owing to the transfer of responsibilities from the NG to LGUs, particularly for service delivery. However, steering functions remain with the NG, hence, PAPs may be retained by NG agencies, albeit with reduced allocations and limited responsibilities.

The re-devolution of functions, with its concomitant transfer of resources, does not necessarily equate to better or more effective service delivery. One main reason is the nature of some re-devolved PAPs, in which services are targeted based on specific needs. A cursory view of Table 2 or the top programs for phasing out, scaling down, or discontinuance will show that some PAPs are geared more towards a specific set of LGUs.

For instance, the Assistance to Individuals in Crisis Situations (AICS) prioritizes individuals identified by the National Household Targeting System for Poverty Reduction (NHTS-PR) and vulnerable groups. The program includes direct financial assistance in the form of cash and guarantee letters for medical, transportation, burial, food, education, and other needs. Since LGUs with a higher number of NHTS-PR households and vulnerable groups require more funds compared to those with relatively well-off residents, the AICS needs to consider poverty and other local conditions to appropriately determine the relative sizes of funds to be transferred.

The Farm-to-Market Road (FMR) Sub-Program of the DA caters to areas with relatively larger populations of farmers and fisherfolks, and considers the amount, kind, and importance of agricultural and fisheries products in the area[9]. It prioritizes the concreting of unpaved roads and those that link production sites to markets, and excludes national, provincial, city and municipal roads for funding. In this sense, targeting is on the basis of particular occupations of residents and main source of livelihood.

The DOH's Human Resources for Health (HRH) Deployment Program provides for the hiring and placement of medical professionals to unserved and underserved areas. Doctors, nurses, midwives, dentists, medical technologists, and nutritionist-dietitians are assigned in low-income municipalities, LGU hospitals, barangay health stations, and rural health centers. The Doctors to the Barrios (DTTB), which is one of the components, caters to 4^{th} to 6^{th} class municipalities that have not had a doctor for two years[10] . In this case, determination of beneficiaries is based on income class and difficulty of attracting a medical professional. These may refer to geographically isolated and disadvantaged areas (GIDAs), which are hard-to-reach areas, making them unattractive to health workers.

Clearly, there are specific identification criteria for some of the biggest programs to be re-devolved. These criteria may not easily be addressed using the IRA formula that considers only LGUs' population, land area, and an equal sharing component. In line with the LGC, the distribution of the incremental amount attributed to the SC Ruling will only consider these three things. However, for re-devolved programs to achieve their objectives, distribution needs to consider poverty incidence, the predominance of farmer and fisherfolk families, LGU income, and location (as in the case of GIDAs).

In the case of programs geared towards populations with higher poverty incidence, adherence to the IRA formula can be disadvantageous to LGUs that neither have a relatively large population nor land area. Conversely, populous LGUs and those with vast tracts of land will unevenly gain from the setup. In fact, some of the regions and provinces with the highest populations have the lowest poverty incidence.

[9] *Department of Agriculture Administrative Order No. 16, series of 2020*

[10] *Department of Health. (2020). What are the Deployment Programs. DOH [online]. Available at: https://doh.gov.ph/faqs/What-are-the-deployment-programs*

For instance, the provinces of Cavite, Laguna, and Rizal which have populations of 4.3 million, 3.4 million, and 3.3 million[11], respectively, have a poverty incidence of 5.3%, 3.9%, and 4.5%[12] . Meanwhile, relatively smaller provinces like Agusan del Sur (741,035), Surigao del Norte (537,394), and Eastern Samar (511,290) with given populations have a poverty incidence of 37.9%, 34.4%, and 49.5%, respectively. The number of poor individuals in the three provinces with relatively higher poverty incidence, (Agusan del Sur – 280,785), (Surigao del Norte – 184,712), and (Eastern Samar - 253,089), are all higher than the other three more populous provinces. The situation illustrates just one of the issues underlying the inequitable distribution of revenues using the IRA formula, and its implications on the achievement of re-devolved PAPs' objectives.

Allocating the incremental revenues using the IRA formula has negative implications on agricultural LGUs. Since all LGUs, regardless of the predominant livelihood type (e.g., agriculture, manufacturing, services) stand to receive a portion of the incremental revenues, a significant amount of funds originally intended for FMRs will go to non-agricultural LGUs. Even highly-urbanized cities (HUCs) which may not qualify for FMRs, and which may not have received any funds for FMRs in previous years, will, in effect, now receive a portion of the funds. Furthermore, HUCs and urban centers, which are typically the most populous types of LGUs, get to receive a significant share of the transfers while rural and less populated LGUs receive less.

The inequitable distribution of funds with respect to re-devolved PAPs, following the IRA formula, extends to LGUs that are underserved and unserved by medical professionals. Low income and less populous LGUs, including GIDAs, tend to receive a smaller share of the IRA. This raises the question on whether or not these low-income and isolated LGUs have the capacity to hire medical professionals, such as doctors and nurses, even with the additional transfers. If HRH deployment will be fully re-devolved, with the NG leaving the responsibility of hiring health workers entirely to LGUs, then certain localities will be at a disadvantage and stand to lose their health workers if the transfers cannot support the needed compensation. On the other hand, populous and relatively well-off LGUs can get more funds to hire additional medical professionals.

The issue of inequities arising from the disconnect between re-devolved functions and IRA transfers, especially for low income and marginalized LGUs, calls for proactive measures on the part of the NG. For this reason, EO 138, s. 2021 provides that a Growth Equity Fund (GEF) shall be proposed to Congress with the purpose of addressing marginalization, high poverty, and disparities in fiscal capacities, among others. The EO proposes for the GEF's inclusion as part of the NEP, beginning FY 2022, to cover the funding needs of poor and marginalized LGUs. Guidelines on its release and use shall be issued by the DBCC, in line with an equitable, performance-based, and time-bound allocation of funds.

Per initial pronouncements[13], the GEF will have two major considerations: IRA per capita and the poverty incidence. Median values for these two and LGU income class shall serve as qualifiers to guide the NG in identifying those eligible for funding support. Given that many of the details of

[11] *Based on PSA Mid-year Population Projections for July 2021 based on the 2015 Census of Population*

[12] *Based on the 2018 PSA Estimates*

[13] *Based on DBM Usec. Laura Pascua's statements in a DAP webinar on the SC Ruling held on 8 July 2021*

the GEF have yet to be disclosed, it remains to be seen how the fund can adequately address the issues concerning relatively poorer and disadvantaged LGUs. Members of Congress are called on to closely scrutinize the details of the GEF proposal once the FY 2022 NEP becomes available to ensure that the amount being allocated and guidelines on its use adequately address the disparities arising from the inequitable distribution of funds.

One common criterion to avail of financial support from NG is the Seal of Good Local Governance (SGLG). While this incentivizes LGUs to comply with good governance practices, an all-in requirement (meaning that all criteria should be complied to qualify for funding) can also marginalize the poor LGUs that may have weaker institutional processes and capacities. Proper allocation of such Fund would also require good baseline data that could provide an objective profile of the financial capacity and development status of each LGU for proper targeting. Periodic assessment of LGU's economic and development profile must be undertaken to recalibrate NG financial assistance (whether cash or in-kind)—the goal being that LGUs will be brought to a minimum level of basic services.

Fiscal Implications

The SC ruling has significant fiscal implications that deserve attention when examining the national budget. The outright effect of the Ruling, which is increase in the IRA, will be seen as a bump in automatic appropriations. This essentially reduces the allocable portion of the NG budget that can be used to support national priority PAPs and NG-retained services. The transition between 2022 and 2024 entails a gradual phasing out or scaling down of programs, which means the NG will continue to shoulder significant PAP funding requirements in the interim. All these have fiscal implications that legislators need to examine during budget deliberations.

The inequities arising from the disconnect between re-devolved functions and LGU shares, following the IRA formula, highlights the fact that the Ruling is not simply a transfer of additional resources from the NG to LGUs. The NG has several considerations in re-devolving PAPs, including the retention of NG personnel and the need to properly steer government PAPs to achieve their objectives, even when these are implemented by LGUs. Many LGUs, particularly low income and disadvantaged ones, will require additional support. LGUs with relatively smaller IRA shares but with significantly more responsibilities should stand to greatly benefit from the GEF.

LGUs are generally free to allocate their IRA to whichever purpose they deem fit[14]. This means that the NG will no longer have the same hold on program implementation as before the SC Ruling's effectivity. Hence, there is the issue of the need for a mechanism that will allow the NG to promote LGU cooperation—one way is through financial incentives and counterpart funding of key programs.

On the issue of retained NG agencies' personnel alone, appropriations for the 60 affected PAPs, based on 2021 values, amounts to P21.4 billion. This is 4.7% of the P452.3 billion amount for all

[14] *The only exceptions are the rules in the LGC and relevant laws that earmark local funds for certain purposes, such as for Gender and Development, and development projects.*

the affected PAPs. Personnel of NG agencies can opt to stay within the office, transfer to another unit of the NG, or avail of early retirement. For the first two options, the NG will continue to provide funding for the PS of these personnel. For the last option, however, the NG will provide for the separation and related compensation, such that an increase in the Pension and Gratuity Fund (PGF) may be observed.

The gradual phasing-out or scaling-down of PAPs due to the transition from 2022 to 2024 means that while certain items have been identified for devolution, they may still appear in the budgets of NG agencies and continue to require significant funding. This is another area that legislators need to look into. How agencies determine the proposed funding will depend largely on their DTPs, which should clearly be reflected in the proposed budgets (e.g., allocations for MOOE to be gradually phased out by NG agencies as functions are expected to be taken up by LGUs in later years). It remains to be seen how the PS, MOOE and CO components of devolved PAPs are restructured, and how overall agency budgets are affected. It may be easier for NGAs to reduce MOOE in anticipation of LGU-takeover of devolved functions than to slash PS, since personnel have the option to remain within the agency, based on EO 138, s. 2021.

The proposed GEF is a major addition to the 2022 NEP that deserves careful examination. Given the Fund's vital role in ensuring the provision of services to disadvantaged LGUs, the GEF holds much potential to correct the inequities that may arise as a result of issues with the IRA formula. One key concern is the amount of the GEF which can be expected to be sizable, given the Fund's role and the size of PAPs to be devolved. Meanwhile, it is important to be able to differentiate the mechanism through which LGUs can be beneficiaries of the financial assistance through the GEF from the projects that agencies may still continue to provide to poorer or low-income LGUs. Per EO 18, agencies may include in their budget proposals funding for programs/projects of 5th to 6th class LGUs, while programs for higher income LGUs would now involve more technical assistance and capacity building.

Finally, the mechanisms which the NG places later on to promote inter-governmental cooperation is crucial in ensuring that national goals are met amid the increased role of LGUs in service delivery. This is true in the case of health and social welfare programs for which national objectives are set, such as those on maternal mortality and child malnutrition. In the absence of any direct hand over service delivery and program implementation on the ground, the NG may consider financial incentives to promote LGU cooperation.

Other Transition Issues

There are two important aspects that both NG and LGUs have to deal with in the process of devolution: (1) personnel-related issues, and (2) capacity building to ensure that devolved services will continue to be provided and that the people stand to benefit under a decentralized setup.

Affected NGA Personnel. Under Sec. 12 (c) of EO 138, all affected personnel hired on a permanent basis will have the option to transfer to other units within the agency or within the Executive Branch without reduction in pay. Alternatively, they can avail of retirement and separation benefits and apply to vacant positions in LGUs but which shall be considered as a new entry to the civil service. This means that they will also be subject to compensation standards of the LGUs. Meanwhile, there is limited consideration for employees who are under Memorandum of Agreement (MOA) or Contract of Service (COS).

The National Government has yet to release the total number of affected employees, as agencies have yet to finalize their DTPs. However, DSWD has released a preliminary number of its affected positions—and a total of 3,684 or 96.2% of the 3,830 affected personnel are temporary hires who are under MOA, COS, or Job Order. Table 4 shows the total DSWD positions that will be affected by the devolution, disaggregated by program and status of employment.

TABLE 4
AFFECTED DSWD POSITIONS DUE TO DEVOLUTION

Employment Status	RRTP	SFP	CPSC	SLP	SWSC	AICS	PWDs	Total
Permanent	**-**	**20**	**-**	**95**	**-**	**-**	**-**	**115**
Co-term	**-**	**0**	**-**	**1**	**-**	**-**	**-**	**1**
Temporary	**24**	**156**	**18**	**2042**	**17**	**1457**	**0**	**3,714**
Contractual	-	1	-	463	-	11	-	475
MOA	24	147	18	1,529	17	1,416	-	3,151
Job Order	-	8	-	50	-	30	-	88
TOTAL	**24**	**176**	**18**	**2,138**	**17**	**1,457**	**-**	**3,830**

Source: DSWD Technical Working Group (TWG) Secretariat on Devolution

Unlike EO 503[15], s. 1992 that mandated the absorption of NGA personnel whose functions were devolved to LGUs, EO 138 provides LGUs the discretion to hire and the flexibility to determine its personnel complement. It may be recalled that the 1992 devolution experience brought about apprehensions among LGUs at that time due to the lack of clarity on how personnel issues will be resolved. The imposition of the PS cap (per CSC Memorandum Circular No. 19) was widely perceived to be contradictory to the required absorption by LGUs of all mandatory devolved positions (per EO 503 and DILG Memorandum Circular No. 92-42).[16]

While there is no mandatory devolution of positions to LGUs, it is important to pay close attention to the supply of skilled personnel at the local level and the quickness that LGUs can reorganize and recruit personnel with appropriate expertise to perform increased service delivery responsibilities. NGAs can arrange with LGUs for the possible employment of affected personnel who can no longer be absorbed by the NG.

[15] *EO 503 provides for the rules and regulations implementing the transfer of personnel and assets, liabilities and records of NGAs whose functions are to be devolved to the LGUs.*
[16] *Drawn from the Findings of the Rapid Field Appraisal of the Status of Decentralization: Local Perspective (dated 10 August 1992) under the Local Development Assistance Program assisted by the USAID*

According to the DBM[17], a system is being set up to help match MOA and COS personnel to LGUs who are willing to absorb or hire them. LGUs may stand to benefit from the experience and technical expertise of these personnel, but their employment will be subject to the discretion and priorities of the local authorities. In addition, the DBM also intends to include under the General Provisions of the GAA that all positions hired due to the devolution will be excluded from the computation of the LGU's PS Cap.

Capacity Building Three decades of devolution experience by the Philippines since the passage of the 1991 LGC has brought mixed results of successes and challenges. The *Galing Pook* Awards Program of government has highlighted the innovations and outstanding management capabilities of LGUs, but somehow these best practices remain largely confined to a few localities. Levels and quality of service delivery across LGUs could vary greatly especially on account of fiscal disparities and lack of capacity (both institutional and for human resources). Note that this horizonal fiscal imbalance will persist even as the IRA substantially increases (on aggregate) because the distribution will be subject to the same inefficiencies of the existing formula.

An effective capacity development plan for this transition is needed to lessen the disruption in the delivery of devolved basic services. This entails not only capacity building in terms of additional personnel and making sure that they have the technical know-how and expertise to manage and deliver various devolved PAPs in their respective localities. Capacitating the LGUs also involves improving local systems and processes that can greatly affect program implementation.

With the substantial increase in IRA by 2022, there is great concern on the absorptive capacity of LGUs. A recent study by the World Bank[18] (2021) reports that LGUs have lower budget execution rates as the budget share of capital outlays increases. Calculations by WB using COA LGU Financial Statements reveal that capital outlay has significantly lower budget execution rates than PS or MOOE, and that a larger share of capital outlay results in overall lower budget execution rates. Average execution rates for CO by LGU level (provinces, cities, and municipalities) during the period 2015-2018 was between 47%-55%. This practically drives the overall average execution rates of LGUs to be low at 69%-78%, with cities at the low-end.

According to the WB report, this low execution rate for CO is not surprising given the complexity of capital spending, nor is this outcome unique to local governments, as certain NGAs have similar execution rates for CO. However, this clearly signals the need to build local government capacities in project preparation, procurement, and managing local public works. It also raises the importance of strengthening medium-term planning, investment programming, budgeting, and M&E to help balance the relationship between expenditure management and local development.

Under Section 9 of EO 138, the DILG, through the Local Government Academy (LGA), shall oversee the provision of capacity development interventions and shall develop mechanisms to ensure efficient utilization of resources. The LGA shall also harmonize all capacity development

[17] *Based on statements of Director John Aries Macaspac (DBM-Local Government and Regional Coordination Bureau) during the DAP's CBILLS Thursday Talks entitled "Devolution Ready: Realizing Meaningful Autonomy" held last 29 July 2021*
[18] *Philippine Economic Update (June 2021 Edition) with special focus on the fiscal impact of the Mandanas Ruling in Part III*

interventions by DBM, NEDA, DOF, and other NGAs, DAP, and third-party service providers. In addition, it shall optimize the potential of the national and regional Local Governance Resource Centers (LGRRCs) as the convergence platform for capacity development. The Seal of Good Local Governance (SGLG) will also be utilized to facilitate institutionalization of performance standards and develop performance incentive mechanisms.

This is a daunting task that needs the cooperation and collaboration between NGAs and LGUs to build an effective and lasting change. Capacity building interventions by NG should take into account the Capacity Development (CapDev) Agenda and Transition Plans that the LGUs themselves are supposed to prepare as required under LBM 82. This essentially means that LGUs need to assess their own training requirements and priorities. Meanwhile, NG's ability to monitor performance of LGUs must also be strengthened so that, subsequently, it can develop responsive interventions through policy or various forms of assistance.

V. Proposals to Amend IRA Provisions

There are several pending bills in the House of Representatives and the Senate seeking to amend the IRA provisions of the Local Government Code of 1991. The proposals can be categorized pertaining to—(1) the amount and size of the IRA, and (2) its distribution and utilization. Annex 4 provides the salient features of the different bills filed during the 18^{th} Congress.

On the Amount and Size. There are generally two ways through which the IRA can be increased—i.e, broadening the revenue base for determining the overall LGU share, and increasing the LGU share from the current 40%. When the Supreme Court ruled that the phrase "internal revenue" appearing in Section 284 of RA 7160 is unconstitutional, and that the just share of LGUs is based on national taxes (and not limited to internal revenue taxes), it effectively broadened the revenue base for the computation of the IRA. House Bills 7430, 1247, and 2619, and Senate Bill 223 seek to amend the LGC by defining national taxes as the revenue base for the IRA [which was also proposed to be renamed by HB 2619 and SB 223 as the National Tax Allotment (NaTA)].

It may be noted that both HB 2619 and SB 223 more comprehensively tackle the IRA by further proposing that the NaTA shall not be subject to any kind of deductions imposed either by legislation through the General Appropriations Act (GAA) or by executive and administrative fiats. In particular, the bills state that the amount earmarked as auditing fee of the Commission on Audit (COA) shall not be deducted prior to the computation of the LGUs' share in the national taxes. This, in effect, also increases the base for the computation of the IRA. Both bills also propose that the IRA shall be computed based on total national tax collections of the 2^{nd} fiscal year (instead of 3^{rd} FY) preceding the current fiscal year.

Meanwhile, there are several bills filed in both Houses of Congress that seek to further increase the share of LGUs from 40% to either 50% or 60% of total national taxes. In particular, HB 2619 SB 223 seeks to gradually increase the IRA to 60% based on the following schedule: 40% on the 1^{st} year following the effectivity of the Act, 45% on the 2^{nd} year, 50% on the 3^{rd} to 6^{th} year, and 60% on the 7^{th} year thereafter. Furthermore, in case of unmanageable deficit, the IRA shall in no case be less than 40% of the total collections from national taxes on the second FY preceding the current FY.

On the Distribution and Utilization. Local Sanggunian have the power to create barangays which by existing policy do not qualify to receive a separate IRA. Section 285 of RA 7160 provides that the financial requirements of barangays created by LGUs after the effectivity of the LGC is the responsibility of the LGU concerned. These LGU-created barangays are supposed to be funded by their host LGUs, and should not claim from the 20% that is shared among all barangays nationwide. HB 9028 proposes for a just share of the IRA for LGU-created barangays. HB 2619 and SB 223 more specifically provide that LGUs will only be responsible for the financial requirements of the created barangay on its initial year of operation, but which will be considered by the DBM in the computation of the IRA in the succeeding years.

There are proposals to increase the share of each barangay[19] to at least P160,000 from the current P80,000 (HB 2619 and SB 223). On the other hand, there are bills (HB 413 and SB 1897) seeking to remove the IRA of the Metropolitan Manila Development Authority (MMDA), arguing that the Constitution only provides for the just share of LGUs—and that the MMDA is not considered an LGU but an administrative agency. It may be noted that the entitlement to MMDA is mandated under Section 10 of RA 7924 which states that the MMDA shall continue to receive the IRA that was allocated to then Metropolitan Manila Authority (MMA). At present, the MMDA continues to receive its share in the IRA as a province. Since Pateros is the only remaining integrated LGU that is not yet converted into an Independent City, the DBM uses the land area and population count of Pateros to compute the IRA share of the MMDA.

Moreover, there are bills proposing to earmark portions of the IRA to ensure funding for certain programs and services at the local level. In particular, earmarking of the IRA is proposed for the following purposes and/or sectors: (1) Mandatory Feeding Program for school children *(HB 187)* or the mandatory "Free Soup Kitchen" *(HB 5564)*; (2) programs and projects for senior citizens *(HB 1704)*; (3) health services *(HB 9204)*, acquisition and distribution of medicines to indigents *(HB 3761)*; (4) welfare and development of Indigenous Peoples (IPs) cultural communities *(HB 6999)*; and (5) local aquaculture and fisheries development *(SB 1138)*.

VI. Moving Forward

The SC ruling on the Mandanas-Garcia IRA petition provides the opportunity to deepen decentralization in the country with more resources flowing into local coffers. However, more than just the transfer of funds to LGUs, there are practical challenges that both NGAs and LGUs have to face to ensure that service delivery of devolved services/programs is not disrupted, that both levels of government are able to retool given their new and additional roles, and that accountability systems are in place and strengthened to ensure wise use of public funds.

[19] *With population of not less than one hundred (100) inhabitants*

- ***Local Capacities and LPFM.*** As more financial resources are made available to LGUs, it is important to strengthen local public financial management (PFM) processes and capacities. This essentially entails effective budgeting practice that especially pursues allocative efficiency *(spending on the right things)* and operational efficiency *(doing things right)*. Local governments should be able to invest resources to finance new devolved programs/services or to expand existing ones to compensate for those that NGAs will no longer provide. While there are proposals to earmark the IRA for particular development purposes, it can reduce the flexibility of LGUs to direct funds where they are needed given unique contexts of each locality.

  It is also imperative upon LGUs to develop strong internal control and accountability systems that will ensure the proper and economical use of government resources, and to improve procurement processes that can ensure high absorptive capacity of LGUs. Issues contributing to low budget utilization rates of LGUs have to be urgently addressed as unspent IRA during the year implies delay or foregone services for local constituents.

  LGUs themselves must identify the capability building training that they needed in consideration of new devolved programs and functions. It is important that NGA training and technical assistance programs are reoriented and redesigned to suit the needs of LGUs with emphasis on "hands-on" and "on-site" assistance.[20] The participation of the Leagues of LGUs in the Committee on Devolution should allow for faster and regular exchange of capacity needs, content and design of training, modes of assistance, and timelines.

- ***Transition and Budgetary Implications***. In the review of the proposed National Budget, it is important for Congress to pay close attention to the programs that will be devolved and defunded. Agencies should be able to differentiate budget cuts in the 2022 NEP owing to devolution from those simply due to downscaling of nationally retained programs.

  The increase in IRA (resulting in reduced NG resources) will take effect in January 2022, but Transition Plans are still being developed and will likely be approved later in the year. To ensure seamless transfer that will not disrupt service delivery, this essentially means that NG will likely continue to finance "programs for devolution" until they are actually re-devolved, even as resources are already transferred to LGUs.

  Since the full devolution under EO 138 is expected to be completed by 2024, NGAs should be able to lay down in their Devolution Transition Plans the timelines and phasing of the devolution. This should provide clear guidance that would allow Congress to see the shifts in budget allocations from "rowing-type" programs (involving service delivery of devolved services) to "steering-type" programs (involving standards setting, technical assistance, capacity building, and oversight/evaluation).

  Meanwhile, the DBM should be able to consolidate the changes in personnel complement resulting from reorganizations and rationalizing of positions following the devolution of

[20] *Insight drawn from the 4th Rapid Field Appraisal of Decentralization (The Local Perspective) dated 10 June 1994 under the Local Development Assistance Program assisted by the USAID.*

functions/services in each agency. NG should be able to clearly present how movements of personnel (and early retirement options) will eventually affect the annual wage bill leading to the full devolution by 2024 (or years shortly following the full devolution).

- ***Equity Through the GEF.*** Disparities across LGUs are seen to persist, given issues in the design of the IRA which favors more populous LGUs and those with relatively larger land areas. The formula does not consider other criteria (e.g., poverty incidence and fiscal capacity) that could help make LGU PAPs more responsive to local needs. Ensuring effective local service delivery, especially for re-devolved functions, calls for additional NG transfers that are targeted to specific needs and constituencies. Legislators are called on to closely examine the proposed GEF and how it addresses disparities that will persist amid the SC ruling. Other than providing a mechanism to address disparities, the GEF can also serve as a means for the NG to incentivize LGUs that align their priorities with those of the NG.

  Congress also needs to act on pending legislative proposals concerning the Income Classification of LGUs. Outdated income classes would practically put most LGUs (even those not financially well-off) to higher level income class—hence, potentially disqualifying them to avail of equity transfers or "bridging" assistance from the national government.

- ***Lower NTA in 2023***. NG revenues fell by P281.5 billion or by 9.0%, year-on-year, from P3.1 trillion in 2019 to P2.9 billion in 2020, as a result of weak economic activity and lower collections. Both the NG and LGUs should be mindful of its implications on the IRA amounts in 2023 and probably, in subsequent years, since revenues are not expected to easily recover. Government must account for this fact when planning for PAPs, especially during the transition.

- ***Monitoring and Evaluation.*** NG should build on its M&E capacity to be able to periodically assess program delivery and good local practices. With objective M&E results, NG could develop appropriate interventions through policy guidelines or incentives that would influence local decisions to align their programs and projects to country's development priorities. Mechanisms should be set up at both NG and LGU levels to collect (on regular basis) comparable data and information that would allow for timely and evidence-based performance assessments.

  Congress needs to look into proposals seeking to institutionalize a National Evaluation Policy (NEP). This is one way Congress can influence and improve the delivery of result of government agencies including local government. A more systematic approach to the setting up of result-based M&E systems should help ensure that NGAs are effectively and efficiently performing their steering functions as a result of the full devolution effort, consistent with their approved DTPs.

- ***IRA Reformulation***. While there are existing proposals to align IRA-related provisions of the LGC to the SC ruling on the Mandanas-Garcia petition, the formula for the IRA distribution is likely to be left untouched. The Ruling only corrected the base for the computation of LGUs' just share in national taxes (and removes any reference to "internal revenues")—hence, assuring LGUs of a substantial increase beginning 2022.

However, it is high time to seriously rethink the IRA formula to address inherent inefficiencies that encourage fragmentation and perpetuate fiscal imbalances among LGUs. A more equitable IRA should be able to differentiate LGUs based on expenditure needs (considering assigned functions) and fiscal capacities that can determine revenue potential. Decisions to amend the IRA should also consider finally settling the issue of renationalization of some devolved services (e.g., hospitals and agriculture services) for a clearer expenditure assignment and adoption of the "finance follows function" principle.

- ***RDCs and Inter-governmental Coordination.*** With the NG not having a direct hand on how the LGUs spend the additional transfers, the Regional Development Councils (RDCs) stand as a channel to coordinate and synchronize NG and LGU efforts. The re-devolution of certain functions means that the NG delegates several more service-delivery responsibilities and funding. However, re-devolving these functions does not guarantee that LGUs will implement the same set of PAPs in exactly the same way that the NG will implement them, given the former's local autonomy and varying local capacities. Strengthening the role of RDCs will help ensure that national objectives are met amid greater LGU roles. Moreover, the participation not only of the National Economic and Development Authority (NEDA) and local chief executives, but also of the regional offices of NGAs, can help ensure that LGUs address a wide range of concerns that involve national objectives.

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Annex I
SC Ruling on the Tax Base of LGU Share

2. **ORDERS** the **SECRETARY OF THE DEPARTMENT OF FINANCE**; the **SECRETARY OF THE DEPARTMENT OF BUDGET AND MANAGEMENT;** the **COMMISSIONER OF INTERNAL REVENUE**; the **COMMISSIONER OF CUSTOMS**; and the **NATIONAL TREASURER** to include **ALL COLLECTIONS OF NATIONAL TAXES** in the computation of the base of the just share of the local government units according to the ratio provided in the now-modified section 284 of RA no. 7160 *(Local government code)* except those accruing to special purpose funds and special allotments for the utilization and development of the national wealth.

For this purpose, the collections of national taxes for inclusion in the base of the just share the local government units shall include, but shall not be limited to, the following:

(a) the national internal revenue taxes enumerated in section 21 of the *national internal revenue code,* as amended, collected by the bureau of internal revenue and the bureau of customs;

(b) tariff and customs duties collected by the bureau of customs;

(c) 50% of the value-added taxes collected in the autonomous region in muslim mindanao, and 30% of all other national tax collected in the autonomous region in muslim mindanao.

The remaining 50% of the collections of value-added taxes and 70% of the collections of the other national taxes in the autonomous region in muslim mindanao shall be the exclusive share of the autonomous region in muslim mindanao pursuant to section 9 and section 15 of RA No. 9054.

(d) 60% of the national taxes collected from the exploitation and development of the national wealth.

The remaining 40% of the national taxes collected from the exploitation and development of the national wealth shall exclusively accrue to the host local government units pursuant to section 290 of RA No. 7160 *(Local government code)*.

(e) 85% of the excise taxes collected from locally manufactured virginia and other tobacco products.

The remaining 15% shall accrue to the special purpose funds created by RA No. 7171 And RA No. 7227;

(F) the entire 50% of the national taxes collected under sections 106, 108 and 116 of the nirc as provided under section 283 of the NIRC; and

(G) 5% of the 25% franchise taxes given to the national government under section 6 of RA No. 6631 And section 8 of RA No. 6632.

Source: Supreme Court Resolution promulgated on 10 April 2019 on cases on G.R. Nos. 199802 and 208488

Annex 2
Initial List of PAPs for Phasing Out, Scaling Down or Discontinuance in 2022, with 2021 Appropriations per GAA
(Amounts in Million Php)

Department/ Agency	PROGRAMS/PROJECTS/ACTIVITIES	PS	MOOE	FINEX	CO	Total
	Department of Agriculture	**702.2**	**15,154.9**	**-**	**16,149.1**	**32,006.2**
DA-OSEC	Production Support Services (PSS) Sub-Program	356.0	13,767.9	-	492.3	14,616.2
DA-OSEC	Agricultural Machinery, Equipment, and Facilities Support Services Sub-Program	-	288.9	-	2,264.7	2,553.6
DA-OSEC	Irrigation Network Services (INS) Sub-Program	18.0	46.0	-	956.8	1,020.7
DA-OSEC	Farm-to-Market Road (FMR) Sub-Program	-	99.3	-	11,719.0	11,818.3
DA-OSEC	Operational Plan for Rabies Elimination	-	13.4	-	-	13.4
DA-BFAR	Aquaculture Subprogram	119.4	512.5	-	710.0	1,342.0
DA-BFAR	Post-Harvest Equipment and Facilities	12.5	24.8	-	6.2	43.5
DA-BFAR	Coastal and Inland Fisheries Resource Management	151.8	332.1	-		483.9
DA-FPA	Quality and Control Inspection	44.5	16.8	-	-	61.3
DA-NMIS	Meat Establishment and Meat Inspection Assistance to LGUs Services	-	53.2	-	-	53.2
	Department of Environment and Natural Resources	**3,252.8**	**2,096.6**	**-**	**2,978.1**	**8,327.5**
DENR-OSEC	Management of Coastal and Marine Resources/Areas	-	248.3	-	-	248.3
DENR-OSEC	Forest Development, Rehabilitation, Maintenance and Protection	1,582.0	770.0	-	2,388.1	4,740.1
DENR-OSEC	Soil Conservation and Watershed Management including River Basin Management and Development	-	64.7	-	185.3	250.0
DENR-OSEC	Land Survey, Disposition and Records Management	1,230.0	393.2	-	-	1,623.2
DENR-EMB	Implementation of Clean Water Regulations	112.5	315.5	-	84.7	512.7
DENR-EMB	Implementation of Ecological Solid Waste Management Regulations	56.5	256.5	-	320.0	632.9
DENR-MGB	Mineral Regulation Services	271.8	48.4	-	-	320.3
	Department of Education	**-**	**1,833.5**	**-**	**9,313.0**	**11,146.5**
DEPED-OSEC	Basic Education Facilities	-	1,833.5	-	9,313.0	11,146.5
	Department of Health	**15,741.3**	**21,914.1**	**-**	**7,757.3**	**45,412.7**
DOH-OSEC	Health Facilities Enhancement Program	-	82.0		7,757.3	7,839.3
DOH-OSEC	Human Resources for Health Deployment	15,741.3	841.7		-	16,582.9
DOH-OSEC	Environmental and Occupational Health	-	2.1		-	2.1
DOH-OSEC	Family Health, Immunization, Nutrition and Responsible Parenting (formerly Family Health, Nutrition, and Responsible Parenting)	-	12,205.0		-	12,205.0
DOH-OSEC	Elimination of Disease, such as Malaria, Schistosomiasis, Leprosy, and Filariasis	-	-	-	-	-
DOH-OSEC	Prevention and Control of Communicable Diseases (formerly Prevention & Control of Other Infectious Diseases)	-	8,221.0		-	8,221.0
DOH-OSEC	Prevention and Control of Other Non-communicable Diseases	-	562.4		-	562.4

Annex 2
Initial List of PAPs for Phasing Out, Scaling Down or Discontinuance in 2022, with 2021 Appropriations per GAA
(Amounts in Million Php) [Continued]

Department/ Agency	PROGRAMS/PROJECTS/ACTIVITIES	PS	MOOE	FINEX	CO	Total
	Department of Interior and Local Government	**-**	**37.3**	**-**	**-**	**37.3**
DILG-OSEC	Capacitating LGUs on Resettlement Governance	-	37.3	-	-	37.3
	Department of Labor and Employment	**-**	**1,058.2**	**-**	**-**	**1,058.2**
DOLE-OSEC	Jobstart Philippines Program: Life Skills Training (LST), Technical Skills Training (TST), and Apprenticeship/Internship */	-	41.5	-	-	41.5
DOLE-OSEC	Job Search Assistance: Public Employment Service */	-	107.2	-	-	107.2
DOLE-OSEC	Livelihood Program/ DOLE Integrated Livelihood Program (DILP) */	-	909.5	-	-	909.5
	Department of Science and Technology	**24.7**	**2,334.0**	**-**	**-**	**2,358.7**
DOST-OSEC	Diffusion and Transfer of Knowledge and Technologies and Other Related Projects and Activities	-	1,916.4	-	-	1,916.4
DOST-OSEC	Community Empowerment thru Science and Technology */	-	415.7	-	-	415.7
DOST-ITDI	Locally Funded Project: Industrial Technology Research and Development Program	24.7	2.0			26.7
	Department of Tourism	**622.8**	**234.5**	**0.1**	**17.0**	**874.4**
DOT-OSEC	Tourism Planning	108.9	158.4	0.1	-	267.4
DOT-OSEC	Tourism Standards Development, Regulation and Accreditation, Monitoring and Enforcement	45.3	75.1	0.0	17.0	137.5
DOT-OSEC	Locally Funded Project: Branding Campaign program	468.6	1.0	-	-	469.6
DOT-NPDC	Rehabilitation of Water & Sprinkler System, Dredging and Waterproofing of Lagoon	-	-	-	-	-
DOT-NPDC	Landscaping and Park Redevelopment of Light and Sound Complex	-	-	-	-	-
DOT-NPDC	Pest Control of NPDC Offices & Park Building Facilities	-	-	-	-	-
	Department of Transportation	**-**	**-**	**-**	**397.0**	**397.0**
DOTr-OSEC	Locally Funded Projects: Maritime Infrastructure Program (Social Ports)	-	-	-	397.0	397.0
	Department of Public Works and Highways	**-**	**-**	**-**	**280,623.8**	**280,623.8**
DPWH	Local Infrastructure Program (LIP)	-	-	-	280,623.8	280,623.8
	Department of Social Welfare and Development	**340.4**	**57,200.5**	**-**	**-**	**57,540.9**
DSWD-OSEC	Supplementary Feeding Program	-	3,830.4	-	-	3,830.4
DSWD-OSEC	Sustainable Livelihood Program	263.0	4,016.2	-	-	4,279.2
DSWD-OSEC	Protective Services for Individuals and Families in Especially Difficult Circumstances (Assistance to Individuals in Crisis Situation [AICS])	47.8	23,513.1	-	-	23,560.9
DSWD-OSEC	Recovery and Reintegration for Trafficked Person	-	24.8	-	-	24.8
DSWD-OSEC	Comprehensive Project for Street Children	-	34.9	-	-	34.9
DSWD	KALAHI-CIDDS (Ongoing project funded through World Bank loan. To be phased out in 3 years.)	-	2,205.3	-	-	2,205.3
DSWD-OSEC	Social Welfare for Senior Citizens Sub-Program	29.6	23,564.5	-	-	23,594.1
DSWD-OSEC	Assistance to Persons with Disability and Older Persons	-	11.2	-	-	11.2

Annex 2
Initial List of PAPs for Phasing Out, Scaling Down or Discontinuance in 2022, with 2021 Appropriations per GAA
(Amounts in Million Php) [Continued]

Department/ Agency	PROGRAMS/PROJECTS/ACTIVITIES	PS	MOOE	FINEX	CO	Total
	Department of Trade and Industry	**764.4**	**22.4**	**73.0**	**545.0**	**1,404.8**
DTI-OSEC	Establishment of Negosyo Centers	558.1	-	69.7	-	627.8
DTI-OSEC	Shared Service Facilities (SSF) Project	78.1	-	-	545.0	623.1
DTI-OSEC	Conduct of National and Regional Trade Fairs */	-	22.4	-	-	22.4
DTI-OSEC	One Town, One Product (OTOP): Next Generation	128.2	-	3.3	-	131.5
	Government Owned and Controlled Corporations	**-**	**10,401.2**	**-**	**-**	**10,401.2**
GOCC-NHA	Comprehensive and Integrated Housing Program	-	3,456.0	-	-	3,456.0
GOCC-NHA	Housing Program for Calamity Victims-Permanent Housing	-	1,000.0	-	-	1,000.0
GOCC-NIA	Establishment of Groundwater Pump Irrigation Systems Project (EGPIP)	-	890.0	-	-	890.0
GOCC-NIA	Communal Irrigation System (CIS) Sub-program	-	15.7	-	-	15.7
GOCC-NIA	Extension/Expansion of Existing Irrigation System (CIS)	-	370.7	-	-	370.7
GOCC-NIA	Repair of Groundwater Pump Irrigation Systems	-	189.9	-	-	189.9
GOCC-NIA	Feasibility Study and Detailed Engineering (FSDE) and Pre-engineering Activities of Various Projects - CIP and CIS	-	776.9	-	-	776.9
GOCC-NIA	Irrigation Management Transfer Support Services	-	141.0	-	-	141.0
GOCC-NIA	Balikatan Sagip Patubig Program	-	72.0			72.0
GOCC-NIA	Small Irrigation Project (SIP)	-	3,489.0	-	-	3,489.0
	Local Government Support Fund	**-**	**700.0**	**-**	**-**	**700.0**
LGSF	Assistance to Municipalities	-	-	-	-	-
LGSF	Assistance to Cities	-	350.0	-	-	350.0
LGSF	Conditional Matching Grant to Provinces (CMGP) for Road Repair, Rehabilitation and Improvement	-	350.0	-	-	350.0
LGSF	Provision for Potable Water Supply (SALINTUBIG)	-	-	-	-	-
TOTAL		**21,448.5**	**112,987.2**	**73.1**	**317,780.3**	**452,289.2**

**/ Do not appear as line Items in the FY 2021 GAA*
Note: List excludes the Services for Residential and Center-based Clients that was initially identified by DBM but not included in the DSWD list of PAPs for devolution.
Sources: FY 2021 GAA and Financial Management Service of various agencies

Annex 3
Summary of DSWD Retained and Devolved Functions

Description of Programs, Activities and Projects (PAPs)	Retained Functions	Devolved Functions (Province, Municipality, City, Barangay)	Target Beneficiaries	FY 2022 Proposed Amount (PhP)
Assistance to Persons with Disabilities • Auxiliary Social Services as defined in RA 7277 are the supportive activities in the delivery of social services to the marginalized sector of the society. • Includes provision of services or assistance for physical restoration, self and social enhancement, after care and follow up, day care, family care, substitute family care, and job care service	1. Participate on National Working Committee (NWC) for disability concerns 2. Orient the LGUs on the provision of Auxiliary Social Services to Persons with Disabilities 3. Conduct Capacity Building Programs 4. Monitor, conduct program audit and provide technical assistance (TA) for the implementation of Persons with Disabilities Welfare Program	1. Establishment of PDAO (P, M, C, B) 2. Provision of assistive device and other support—proposed allocation of at least 5% for assistive device and financial assistance in the LDP (P, M, C) 3. Capacitate the focal persons for person with disabilities (P, M, C, B) 4. Provision of the programs and services for persons with disabilities (P, M, C, B)	2,140 beneficiaries	8,618,000
Supplementary Feeding Program • It is the provision of food, in addition to the regular meals, to children currently enrolled in Child Development Centers (CDCs) and Supervised Neighborhood Play (SNP), as part of DSWD's contribution to the Early Childhood Care and Development program of the government • The target beneficiaries of the SFP are children aged 2-4 years in SNP, 3-4 years in DCCs, and 5 year-old children not enrolled in DepEd pre-schools but are enrolled in DCCs.	1. Provision of technical assistance to Field Offices and LGUs 2. Participation in various inter-agency initiatives and programs involving nutrition 3. Analysis of data results from Operation Timbang (OPT) (Nutritional Status) 4. Crafting and/or enhancement of policies and guidelines for the SFP Implementation 5. Development of Cycle Menus 6. The 1st to 4th class municipalities will be provided with Technical Assistance (TA) 7. The 5th to 6th class municipalities will be provided with Resource Augmentation (RA) and Technical Assistance (TA) 8. The DSWD will implement SFP in the 32 priority areas based on the Philippine Plan of Action for Nutrition (PPAN) 2017-2022	1. Provision of technical assistance (P) 2. Provision of hot meals (M, C, B) 3. Milk supplementation (M, C) 4. Gathering and monitoring of monthly anthropometric data (B) 5. Establishment of a referral system for undernourished children beneficiary who needs further medical attention to RHUs (P, M C, B) 6. Establish/improve and maintain wash facilities in CDCs to ensure proper hand washing and tooth brushing are practiced by children (P, M, C, B) 7. Analysis of data results from LGU height and weight assessment (P, M, C, B) 8. Capacity building of service provider (P, M, C)	1,895,352 children	3,725,482,000

Annex 3
Summary of DSWD Retained and Devolved Functions (Continued)

Description of Programs, Activities and Projects (PAPs)	Retained Functions	Devolved Functions (Province, Municipality, City, Barangay)	Target Beneficiaries	FY 2022 Proposed Amount (PhP)
		9. Conduct of parent effectiveness service (P, M, C, B) 10. Develop cycle menu (P, M, C)		
Recovery and Reintegration Program for Trafficked Person (RRPTP) • A comprehensive package of programs and services that ensure adequate recovery and reintegration services of trafficked person. It is implemented through the DSWD Field Offices in coordination with other concerned agencies such as the Department of Justice.	1. Capacity enhancement for service providers 2. Case management reintegration 3. Case management recovery 4. Residential care setting on DSWD 5. Provision of temporary shelters (as needed) 6. Intensive advocacy activities 7. Provision of technical assistance and monitoring and evaluation 8. National referral system for the recovery and reintegration of trafficked persons	1. Capacity enhancement for service providers (P, M, C) 2. Case management reintegration (P, M, C) 3. Community based setting (P, M, C) 4. Direct services to trafficked persons (P, M, C) 5. Provision of temporary shelters (as needed) (P, M, C) 6. Intensive advocacy activities (P, M, C) 7. Provision of technical assistance and monitoring and evaluation (P) 8. National referral system for the recovery and reintegration of trafficked persons (P, M, C)	2,000 individuals	34,583,100
Assistance to Individuals in Crisis Situation (AICS) • This program serves as a social safety net or a stop-gap mechanism to support the recovery of individuals and families from unexpected crisis such as illness or death of a family member, natural and man-made disasters, and other crisis situations.	1. Provision of cash and non-cash assistance to individual in crisis management of Crisis Intervention Monitoring Systems (CriMS) 2. Provision of psychosocial support/ referral services/ non-medical financial assistance in *Malasakit* Centers	1. Provision of cash and non-cash assistance to individual in crisis management of Crisis Intervention Monitoring Systems (CriMS) (P, M, C) 2. Provision of psychosocial support/ referral services/ non-medical financial assistance in *Malasakit* Centers (P, M, C)	911,002 beneficiaries	15,480,310,000
Comprehensive Program for Street Children • It is an integrated approach in responding to the needs of children and their families, with an ultimate goal of contributing to the		1. Social preparation stage (M, C, B) 2. Organization and strengthening of task forces and parent leaders (P, M, C)	2,815 children; 1,210 families	35,552,000

Description of Programs, Activities and Projects (PAPs)	Retained Functions	Devolved Functions (Province, Municipality, City, Barangay)	Target Beneficiaries	FY 2022 Proposed Amount (PhP)
• reduction of vulnerabilities of children, families and indigenous people at-risk on the streets to live productively in a safe environment. • Will start with 24 pilot areas: NCR (7), FO III (1), FO IV-A (7), FO V (1), FO VI (4), FO VII (2), FO IX (1), FO XI (1)		3. Rapid appraisal/ profiling of beneficiaries (P, M, C, B) 4. mobilization and deployment of street facilitators (M, C) 5. Reach out operation (M, C, B) 6. Operationalization of activity centers (M, C) 7. Case management of beneficiaries (M, C) 8. Policy development (P) 9. Capacity building (P) 10. Monitoring and evaluation (P)	2,815 children; 1,210 families	35,552,000
Sustainable Livelihood Program • A community-based capacity building program that seeks to improve participants' socio-economic status • Modalities: Technical-Vocational Skills Training Pre-Employment Assistance Cash for Building Livelihood Assistance Seed Capital Fund	1. National-level planning 2. Process monitoring 3. Preparation of National Livelihood Assets and Market Map (LAMM) 4. Provision of Technical Assistance 5. Development of Program Standards 6. Name-Matching in the Pantawid and Listahanan Database 7. Conduct of Performance Assessment	1. Beneficiary level planning (M, C, B) 2. Livelihood Assets and Market Map (LAMM) (M, C, B) 3. Review of Pantawid Household's Profile (P, M, C, B) 4. Prioritization of Project Barangay (P, M, C, B) 5. Data and information gathering (M, C, B) 6. SLP Assembly 7. Capability-building activities (P, M, C, B) 8. Organization building (P, M, C, B) 9. Project proposal preparation (P, M, C, B) 10. Monitoring/supervision of the project (M, C) 11. Grievance management process (P, M, C, B)	132,964 households	4,269,000,000 (Proposed Tiers 1 and 2)

Annex 3
Summary of DSWD Retained and Devolved Functions (Continued)

Description of Programs, Activities and Projects (PAPs)	Retained Functions	Devolved Functions (Province, Municipality, City, Barangay)	Target Beneficiaries	FY 2022 Proposed Amount (PhP)
Program for Older Persons • Social Pension is a monthly stipend amounting to five hundred pesos (500,00) that aims to augment the daily subsistence and other medical needs of indigent senior citizens • Centenarians Act of 2016 or RA 10868 • Centers for Older Persons	1. Provision of technical assistance to the Field Offices and to the LGUs 2. Provision of the centenarian incentive 3. Attendance to inter-agency meetings in relation to the improvement of the centenarian implementation 4. Establishment of a uniformed database of Filipino citizens as reference for budget preparation	1. Provision of social pension for indigent senior citizen (P, M, C) 2. Community based program for older person such as support the FSCAP, NAPC-SCSC, RCMB/RIASC/ and Elderly Filipino Week celebration (P, M, C) 3. Identification of senior citizens in coordination with OSCA (B) 4. Conduct of validation assessment using the social pension beneficiary update form (M, C) 5. Provision of technical assistance to the Field Offices and to the LGUs (P) 6. Provision of the centenarian incentive (P, M, C, B) 7. Establishment of a uniformed database of Filipino citizens as reference for budget preparation (P, M, C, B)	3,835,066 individuals	24,112,495,000
KALAHI-CIDSS • Employs the Community-Driven Development (CDD) as a national strategy for Community Development • Communities in targeted municipalities are empowered to achieve improved access to services and to participate in more inclusive local planning, budgeting, implementation and disaster risk reduction and management.	-	-	-	11,484,703,000

Source: DSWD Office of the Assistant Secretary for Policy and Plans

Annex 4-A
IRA-Related House Bills Filed During the 18th Congress

House Bill (Author)	Salient Features
HB No. 187 (Romero, Michael L.) Filed: 01 July 2019	Proposes for a mandatory feeding program for school children by allocating P18 minimum budget per meal (NOTE: Earmarking of 3% of IRA only appears in the Title of HB.) Feeding program to be implemented by city/municipal LGUs in coordination with DSWD and DepEd in terms of determining student beneficiaries, frequency of feeding, and monitoring of nutritional status, among others
HB No. 413 (Romualdo, Xavier Jesus D.) Filed: 01 July 2019	Seeks to remove the IRA of the Metropolitan Manila Development Authority (MMDA) by amending RA 7924 (an Act that created MMDA), citing that MMDA is not a local government unit but an administrative agency
HB No. 1247 (Villafuerte, Luis Raymund F. Jr.) Filed: 03 July 2019	Amends Sections 284 and 286 of RA 7160 to include the following: (a) increase the IRA from 40% to 60%, (b) include all forms of national taxes in the IRA computation, and (c) authorize LGUs to automatically retain their IRA
HB No. 1704 (Villafuerte, Luis Raymund F. Jr.) Filed: 09 July 2019	Mandates that 5% of the total IRA allocated to barangays shall be used for the implementation of programs, activities, projects and services (including financial assistance) for the senior citizens
HB No. 2023 (Rep. Alfred Vargas D.) Filed: 11 July 2019	Earmarks 1% of IRA for programs/projects for senior citizens, and another 1% for persons with disabilities (PWDs)
HB No. 2619 (Albano, Antonio T.) Filed: 24 July 2019	Seeks to clearly define the national taxes revenue base for the accurate computation of the LGUs' just share of national taxes, and renames IRA to National Tax Allotment (NaTA) Mandates that the amount earmarked as auditing fee of the Commission on Audit (COA) shall not be deducted prior to the computation of the share of LGUs in the national taxes Amends Section 284 of RA 7160—i.e., the national revenue base shall be based on the total collections actually realized by NG from the second fiscal year (instead of third FY) preceding the current FY Seeks to increase the NaTA from 40% to 60% based on the following schedule: 1st year following the effectivity of the Act (40%), 2nd year (45%), 3rd to 6th year (50%), and 7th year thereafter (60%) Proposes that in case of unmanageable public sector deficit, necessary adjustments in the NaTA shall be in consultation with the presiding officers of both House of Congress and the presidents of the different Leagues of LGUs; and that the NaTA shall in no case be less than 40% of the total collections from national taxes based on the second FY preceding the current FY Proposes that the share of each barangay shall not be less than P160,000 (instead of P80,000) chargeable against the 20% NaTA of barangays; and that the financial requirements of barangays created by the LGUs after the

Annex 4-A
IRA-Related House Bills Filed During the 18th Congress (Continued)

HB No. 2619 (Albano, Antonio T.) Filed: 24 July 2019	effectivity of the Act shall be the responsibility of the LGU concerned during its initial year of operation, but thereafter shall be included by the DBM in the determination of the NaTA Proposes the automatic release of the NaTA to the LGU treasurers on monthly basis (instead of quarterly), and shall not be subject to any kind of deductions or delay Proposes a certain process in determining the total revenues and the just share of LGUs (NaTA) for purposes of consistency, transparency and accuracy *[Section 286 (c)]*
HB No. 3447 (Santos-Rector, Vilma) Filed: 05 August 2019	Amends Section 284 of RA 7160 by increasing the LGU share in the national internal revenue taxes from forty percent (40%) to fifty percent (50%)
HB No. 3761 (Rodriguez, Rufus B.) Filed: 08 August 2019	Mandates LGUs to earmark a portion of their IRA for free medicines that will be distributed to the public hospitals, dispensaries, clinics, and other outlets to indigent patients in their localities
HB No. 7430 (Rodriguez, Rufus B.) Filed: 19 August 2020	Amends RA 7160 to reflect the Supreme Court ruling on the Mandanas-Garcia petition that the LGUs' just share is based on "national" taxes"—hence, removing all reference to "internal revenue" in Sections 284, 285, 287 and 290
HB No. 4794 (Abueg-Zaldivar, Cyrille "Beng" F.) Filed: 23 September 2019	Mandates the LGUs to earmark a portion of their IRA for the purchase and distribution of free medicines to indigent patients in their jurisdictions
HB No. 5564 (Bagatsing, Cristal L.) Filed: 20 November 2019	Seeks to institutionalize a mandatory "Free Soup Kitchen" (Feeding Program) by allocating 3% of the IRA to fund the program for impoverished barangays in the city or municipality, and allotting P25 minimum budget per meal The City/Municipality in coordination with the DSWD shall determine the impoverished barangay and the frequency of giving free meals to qualified beneficiaries.
HB No. 6999 (Sangcopan, Amihilda J.) Filed: 15 June 2020	Mandates LGUs with indigenous peoples (IPs) to appropriate one percent (1%) of their IRA for the development of indigenous cultural communities and welfare of IPs (to address lack of basic services)
HB No. 9028 (Bañas-Nograles, Shirlyn) Filed: 16 March 2021	Mandates that barangays created by LGUs shall have a just share of the IRA, thereby amending Section 285 of RA 7160 which provides that the financial requirements of barangays created by LGUs after the effectivity of the 1991 LGC is the responsibility of the LGU concerned
HB No. 9204 (Tan, Angeline "Helen" DL., MD) Filed: 15 April 2021	Amends Section 287 of RA7160 to include the annual appropriation of no less than 15% of the IRA for health services (aside from the 20% for development projects), and that local health programs shall be approved by the Local Health Board and furnished to the DILG and DOH

Source: Online at https://www.congress.gov.ph (as of 22 June 2021)

Annex 4-B
IRA-Related Senate Bills Filed During the 18th Congress

Senate Bill (Author)	Salient Features
SB No. 223 (Marcos, Imee R.) Filed: 03 July 2019	Renames the IRA to "National Tax Allotment" (NaTA), referring to the just share of LGUs from all national taxes or revenues actually realized or collected by NG, including those by the BIR, BOC and other agencies or instrumentalities of government Mandates that the amount earmarked as auditing fee of the Commission on Audit (COA) shall not be deducted prior to the computation of the share of LGUs in the national taxes Amends Section 284 of RA 7160—i.e., the national revenue base shall be based on the total collections actually realized by NG from the second fiscal year (instead of third FY) preceding the current FY Seeks to increase the NaTA from 40% to 60% based on the following schedule: 1st year following the effectivity of the Act (40%), 2nd year (45%), 3rd to 6th year (50%), and 7th year thereafter (60%) Proposes that in case of unmanageable public sector deficit, necessary adjustments in the NaTA shall be in consultation with the presiding officers of both House of Congress and the presidents of the different Leagues of LGUs; and that the NaTA shall in no case be less than 40% of the total collections from national taxes based on the second FY preceding the current FY Proposes that the share of each barangay shall not be less than P160,000 (instead of P80,000) chargeable against the 20% NaTA of barangays; and that the financial requirements of barangays created by the LGUs after the effectivity of the Act shall be the responsibility of the LGU concerned during its initial year of operation, but thereafter shall be included by the DBM in the determination of the NaTA Proposes the automatic release of the NaTA to the LGU treasurers on monthly basis (instead of quarterly), and shall not be subject to any kind of deductions or delays Proposes a certain process in determining the total revenues and the just share of LGUs (NaTA) for purposes of consistency, transparency and accuracy *[Section 286 (c)]*
SB No. 269 (Recto, Ralph G.) Filed: 08 July 2019	Amends Section 284 of RA 7160 by increasing the LGU share in the national internal revenue taxes from forty percent (40%) to fifty percent (50%)
SB No. 607 (Villanueva, Joel) Filed: 18 July 2019	Amends Section 284 of RA 7160 by proposing for a gradual increase of LGU share in national taxes based on collection of the third FY preceding the current FY—i.e., 1st year of effectivity of the Act (30%), 2nd year (35%), and 3rd year thereafter (50%)
SB No. 1138 (Villar, Cynthia A) Filed: 04 November 2019	Amends Section 287 of RA 7160 by specifying that ten percent (10%) of the amount corresponding to the 20% Development Fund shall be allocated for the implementation of projects, programs and activities for agriculture and/or fisheries development
SB No. 1897 (De Lima, Leila M.) Filed: 05 November 2020	Seeks to remove the IRA share of the Metropolitan Manila Development Authority (MMDA) by amending Section 10 of RA 7924 (MMDA Charter), citing that Section 284 of RA 7160 clearly speaks only of IRA to LGUs

Source: Online at http://www.legacy.senate.gov.ph (as of 26 June 2021)

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