

## Scenario

The Medium Term Philippine Development Plan 2004 -2010 or MTPDP specifies the need to maintain fiscal discipline in government spending. It outlines several measures to ensure that fiscal strength is achieved; among which is the full implementation of the Local Government Code (LGC). It particularly calls for a strengthening of the revenue generation effort of the Local Government Units (LGUs). These include local taxation, credit facilities and financial resources generated through corporate initiatives.

## Description

The Fiscal Decentralization Component's main objective is for the provinces, cities and municipalities to use their financial resources more efficiently, generate additional resources and tap alternative resources.

This component has three indicators:

- The dependency of the cooperating LGUs on national funds is reduced (from 2005 until 2009) by generating additional funds.
- Improved local fiscal systems, especially just taxation for a measurable and transparent improvement of tax revenues.
- The participating institutions (LGUs, selected government departments, etc.) on national, regional and municipal level present coordinated, harmonized and gender sensitive development plans and budgets, properly implemented.

Fiscal decentralization and improved financial management include the qualification of participants in practical areas of financial management, strengthening cooperation on different political levels, promoting exchange of experiences, formulating strategies for an improved integration of the business sector and civil society in social and economic programs.

## Impact

A large part of the operations of the fiscal decentralization focused on the optimization of administrative processes and the standardization of the application of the law for local taxes with the help of information technology (IT) in 11 pilot cities and districts of the province of Negros Oriental. The adoption and implementation of the Integrated Taxation Management System (iTAX), which was designed to improve and enhance tax collection efficiency of LGUs, will lessen their dependency on the Internal Revenue Allotment (IRA).

Diversification of sources of income and the effective use of existing sources are instrumental for LGU development. iTAX as such does not increase revenues but is a tool for efficient and effective tax administration and is therefore essential to achieve the goal of fiscal decentralization. iTAX is not only designed for real property taxes, other taxes and fees can be integrated without any problems. For example, computation and assessment of water utilization and duties were already included into the iTAX for the municipality of Valencia in Negros Oriental.

The International Conference on Local Government Financing in late 2007 stressed the importance of improving local government financing to improve the quality of governance and the delivery of social services. President Gloria Macapagal Arroyo, in her keynote address, acknowledged GTZ's work in the development of local governments and lauded iTAX as a contribution to the ongoing tax administration reform.

iTAX can also be used in the administration of the Business Permit and Licensing Fee. Based on good practices, a process was initiated that aims at a province-wide simplification and harmonization in obtaining business permits. This process will increase revenues and improve the investment climate. By means of reduction of bureaucratic obstacles through a more efficient administration, proceeds from this source could be increased by 30% within the period of 3 years. The Business Permit and Licensing System (BPLS) rollout is being implemented in 2008.

With the iTAX, a reliable planning instrument for the assessment of real property tax revenues for the preparation of budgets is available. This is an important building block for the introduction of the aforementioned harmonized planning, programming and budgeting system in the LGUs.

Only through full fiscal decentralization can the provinces, cities and municipalities able to exercise full autonomy as provided by the law. This component provides venues for stakeholders to discuss concepts, theories and new approaches of fiscal decentralization, the taxing powers of LGUs and their sources of revenues, the expenditure patterns of LGUs and prospects and future trends of fiscal decentralization.

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## Further Information

<http://decentralization.org.ph/>