

**NINETEENTH CONGRESS OF THE )**  
**REPUBLIC OF THE PHILIPPINES )**  
*First Regular Session )*



'22 JUL 12 P 6 :33

**SENATE**  
S.B. No. 447

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**INTRODUCED BY SENATOR ROBINHOOD PADILLA**

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**AN ACT**  
**INSTITUTING BUDGET REFORM THAT WILL ENSURE EQUITABLE**  
**DISTRIBUTION OF FUNDS AMONG THE NATIONAL AND LOCAL**  
**GOVERNMENT UNITS FOR THE PURPOSE OF LOCAL DEVELOPMENT,**  
**APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES**

**EXPLANATORY NOTE**

Devolution has been the agenda of the government for many good reasons: it provides public services more efficiently and effectively, supports the development of poor regions, veers away from overly centralized planning, and empowers local authorities. However, the evident concentration of both political and economic power in the nation's capital, as signified by what we know as "*Imperial Manila*", has constrained our pursuit of meaningful devolution and equitable growth.

While the Legislature sought to address this problem through the enactment of the Local Government Code (LGC) of 1991 which mandated decentralization, we have seen that the law needs changes in order to respond to the present context which was not anticipated when the code was crafted.

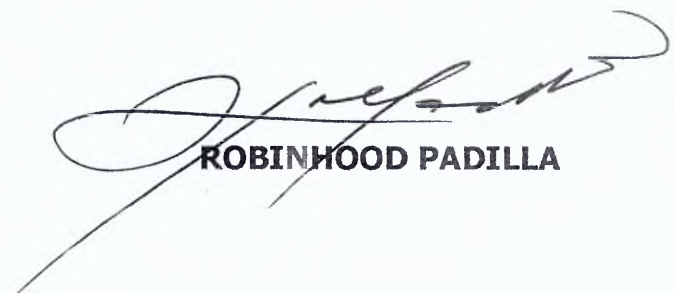
In fact, the poor fiscal state of our local government units (LGUs) persists for decades. Even after 30 years of its implementation, the LGC of 1991 has faced various structural deficiencies. These include (i) inadequate and inequitable transfer mechanisms, (ii) lack of clarity in functional assignments, and (iii) unproductive sources of local revenues making LGUs heavily dependent on Internal Revenue Allotment. All of these factors contribute to the poor fiscal capacity of LGUs to function efficiently and fulfill their mandates for their respective jurisdiction.

LGUs' failure to exercise fiscal autonomy results in inequitable regional growth and development; lacking response to societal welfare; and ineffective local governance. To illustrate, in 2021, around 57% of the country's real gross domestic product (GDP) has been accounted for largely by the National Capital Region, and its neighboring regions, Central Luzon and CALABARZON. In comparison, the Bangsamoro Autonomous Region in Muslim Mindanao accounts for a mere 1.5% of the GDP. High incidence of poverty has also been evident across other regions. In 2018, alone, while NCR only registered 1.4% poverty incidence, ARMM had more than half or 54.2% of its population with insufficient per capita income to meet their basic food and non-food needs.

The National Economic Development Authority (NEDA) has acknowledged two of the significant challenges in the implementation of the LGC: the inability of LGUs to raise local income, the inadequate and inequitable transfers of national to local governments, and the overlap in the performance of functions that compromises accountability.

The cornerstone of this proposed measure is the creation of a Local Development Equitability Fund to support the mandated expenditure assignments imposed upon LGUs. Accordingly, this measure aims to provide an equitable distribution of wealth to LGUs to foster development with the end goal of bridging the gap between the revenue expenditure mandates of the LGC and the General Appropriations Act (GAA).

In view of the foregoing, the passage of this bill is earnestly sought.



**ROBINHOOD PADILLA**

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*Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:*

1           **SECTION 1. *Short Title.*** – This Act shall be known as the "*Local Development*  
2           *Equitability Fund Act*".

3  
4           **SEC. 2. *Declaration of Policy.***

- 5  
6           a. It is a declared policy of the State that territorial and political subdivisions  
7           shall enjoy genuine and meaningful local autonomy to enable them to  
8           attain their fullest development as self-reliant communities and make  
9           them more effective partners in the attainment of national goals;
- 10  
11           b. It is also the policy of the State that meaningful local autonomy can only  
12           be realized through the implementation of locally crafted development  
13           plans that accurately acknowledge and address perceived local needs;
- 14  
15           c. The State acknowledges that there exists a fiscal gap between the  
16           expenditure responsibilities of the Local Government Units (LGUs) and  
17           their fiscal capacity;
- 18  
19           d. It is likewise the policy of the State to ensure that sufficient financial  
20           resources for development are available to LGUs with corresponding  
21           accountability of improving public services;

- 1 e. Therefore, the State recognizes that inclusive and sustainable growth can  
2 be truly achieved only by providing the LGUs with adequate resources and  
3 technical capacities that will promote meaningful development.  
4

5 **SEC. 3. Allotment for Development.** – To achieve the policies declared in  
6 this Act, the National Government shall guarantee an annual fund sufficient to  
7 implement the three-year Comprehensive Development Plan (CDP) of all provinces,  
8 cities, municipalities, and barangays herein referred to as the "Local Development  
9 Equalization Fund" (LDEF), to wit:

- 10  
11 a. Provinces - Five Hundred Million Pesos to One Billion Pesos  
12 (P500,000,000.00 to P1,000,000,000.00) per province per year;  
13  
14 b. Cities - One Hundred Million Pesos to Two Hundred Million Pesos  
15 (P100,000,000.00 to P200,000,000.00) per city per year;  
16  
17 c. Municipalities - Fifty Million Pesos to One Hundred Million Pesos  
18 (P50,000,000.00 to P100,000,000.00) per municipality per year; and  
19  
20 d. Barangays - Three Million Pesos to Five Million Pesos (P3,000,000.00 to  
21 P5,000,000.00) per barangay per year.  
22

23 *Provided,* That the amount of LDEF for each province, city, or municipality shall  
24 be based on the following criteria:

- 25  
26 a. 50% of the prescribed amount for each 1st class LGU;  
27  
28 b. 60% of the prescribed amount for each 2nd class LGU;  
29  
30 c. 70% of the prescribed amount for each 3rd class LGU;  
31  
32 d. 80% of the prescribed amount for each 4th class LGU;  
33  
34 e. 90% of the prescribed amount for each 5th class LGU; and  
35  
36 f. 100% of the prescribed amount for each 6th class LGU;  
37

38 *Provided, further,* That each barangay shall, at all times, receive the full amount  
39 of LDEF prescribed above.  
40

41 In the allotment of the LDEF, fiscal capacity, expenditure responsibilities and  
42 poverty incidence shall be taken into consideration.  
43

44 These funds shall be automatically and directly released to every LGU at the  
45 start of the fiscal year or on a quarterly basis within five (5) days at the start of each  
46 quarter. No lien, holdback, or any other imposition, of whatever nature, may be  
47 imposed by the National Government against the said fund.

1           **SEC. 4. Purpose of Local Development Equalization Fund.** – The fund  
2 shall be used solely by the LGUs to finance their respective development projects,  
3 activities and programs (PAPs) identified in their approved Comprehensive Local  
4 Development Plans (CDPs); *Provided*, That no less than ten percent (10%) of the  
5 LDEF shall be allotted to PAPs geared towards the enhancement and promotion of  
6 technical skills training of the citizens in the concerned LGU. *Provided further*, That  
7 the fund shall not be used by the LGU as collateral or as security for existing or future  
8 obligations.

9  
10           **SEC. 5. Expenditures Not Covered.** – No amount shall be paid out of the  
11 LDEF to items that are not related to or connected with the development of PAPs such  
12 as:

- 13  
14           a. Administrative expenses such as cash gifts, bonuses, food allowance,  
15           medical assistance, uniforms, supplies, meetings, communication, water  
16           and light, petroleum products and the like;  
17  
18           b. Salaries, wages, emoluments, per diems, or overtime pay;  
19  
20           c. Traveling expenses, whether domestic or foreign;  
21  
22           d. Registration or participation fees in training, seminars, conferences and  
23           conventions;  
24  
25           e. Construction, repair, or refinishing of administrative offices;  
26           f. Purchase of administrative office furniture, fixtures, equipment or  
27           appliances;  
28  
29           g. Purchase, maintenance, or repair of motor vehicles or motorcycles.

30  
31           Likewise, the LDEF shall not be used to finance PAPs that may duplicate or  
32 overlap with PAPs that are being implemented or funded by the National Government  
33 Agencies (NGAs). Also, no LDEF shall be utilized as a counterpart fund to support  
34 NGAs' identified PAPs.

35  
36           **SEC. 6. Comprehensive Local Development Plan.** – Consistent with LGC,  
37 every LGU shall formulate a three-year CDP that is reflective of and responsive to the  
38 developmental needs of their respective localities with corresponding periodic  
39 timelines. The approved CDPs shall be funded yearly by the National Government in  
40 accordance with Section 3 hereof. The projects funded shall be identified in the Annual  
41 General Appropriations Act.

42  
43           The Local Development Councils shall conduct an annual review, and if  
44 necessary, update and improve their respective CDPs. The CDPs shall be formulated  
45 and approved in accordance with the provisions of Republic Act 7160.

46  
47           The approved CDPs of each LGU shall be the basis for the allocation of the  
48 Local Development Fund. In the event that the CDP is updated and funding has been

1 re-adjusted, the affected development project should first be approved before it may  
2 be funded and implemented.

3  
4 Consultations with all stakeholders shall be done at all stages of the  
5 formulation, review, updating, or improvement of the CDP.

6  
7 **SEC. 7. Performance-based Evaluation.** – A performance-based evaluation  
8 shall be conducted by the Oversight Evaluation Committee (OEC) chaired by the  
9 Undersecretary for Local Government of the Department of Interior and Local  
10 Government (DILG). Before the end of the fourth quarter of the year, the committee  
11 shall conduct an annual performance review of the LGUs' implementation of their  
12 development PAPs based on the indicators identified in their CDPs. The results shall  
13 be published before the end of the first quarter of the following year.

14  
15 Unsatisfactory performance of an LGU shall result in the reduction of its LDEF  
16 by fifty percent (50%) in the following year after the evaluation; *Provided, That*, when  
17 the LGU obtained satisfactory performance in the next year's evaluation period, its full  
18 funding shall be restored; *Provided further, That*, LDEF shall be terminated in case of  
19 two (2) consecutive unsatisfactory performance; and *Provided finally, That*, LGUs,  
20 whose LDEF has been terminated, may reapply for funding of their CDPs a year  
21 following its termination.

22  
23 **SEC. 8. Web-based Monitoring System.** – In the spirit of transparency and  
24 accountability, the OEC shall adopt a web-based application to facilitate the monitoring  
25 and evaluation of all PAPs funded by the LDEF. The system shall allow tracking of  
26 expenditures and the status of implementation of the PAPs. The status of the PAPs  
27 shall be updated monthly by the LGUs or as frequently as may be necessary. The  
28 system shall be accessible to the general public and all information, including but not  
29 limited to funding/cost, location, contractor, progress status, number of beneficiaries,  
30 date of completion, and responsible government official, of the PAPs shall be disclosed.

31  
32 **SEC. 9. Responsibilities of the Chief Executive.** – It is the responsibility  
33 of the Chief Executive of the LGU to make sure that the reportorial requirements are  
34 complied with. In case of non-reporting or failure to comply with the reportorial  
35 requirements, the OEC shall advise the Department of Budget and Management (DBM)  
36 to suspend the release of funding to the delinquent LGU until such time that it complies  
37 with the requirements.

38  
39 **SEC. 10. Role of the Strategic Action and Response (STAR) and the**  
40 **Office of Participatory Governance.** – To enhance the monitoring of PAPs, the  
41 Strategic Action and Response (STAR) and the Office of Participatory Governance,  
42 both under the Office of the Cabinet Secretary, shall promote active citizenship,  
43 inclusiveness, transparency, and accountability, and conduct public awareness  
44 campaigns on reform for the Governments' development PAPs in the localities.

45  
46 **SEC. 11. Oversight Evaluation Committee (OEC).** – There is hereby  
47 created an Oversight Evaluation Committee in charge of the monitoring and evaluation

1 of the implementation of development PAPs under the LDEF based on the indicators  
2 provided under the CDPs which shall be composed of the following:

- 3
- 4 1. The Undersecretary for Local Government of the DILG, as Chairman;
- 5 2. An Undersecretary from the Office of the Cabinet Secretary;
- 6 3. The Undersecretary for Regional of the National Economic and  
7 Development Authority (NEDA);
- 8 4. The Undersecretary for Local Government and Regional Operations Group  
9 of the DBM;
- 10 5. The Executive Director of the Bureau of Local Government Finance (BLGF)  
11 of the Department of Finance (DOF);
- 12 6. A representative from each of the various leagues of the different LGUs  
13 concerned;
- 14 7. The Chairperson of the National Commission on Indigenous Cultural  
15 Communities/Indigenous Peoples (NCIP), if applicable; and,
- 16 8. Four representatives from accredited civil society groups and/or non-  
17 government organizations in the locality where the CDP is to be  
18 implemented.
- 19

20 The representatives from the accredited civil society groups or non-government  
21 organizations shall be selected based on the criteria and mechanisms to be determined  
22 for this purpose by the OEC. In no case shall the said representative be accredited  
23 when any of its members is related within the sixth degree of consanguinity or affinity  
24 to any elected officials in the locality.

25  
26 **SEC. 12. Secretariat of the OEC.** – The various Regional Project Monitoring  
27 Committees (RPMC) shall assist the OEC in its task of monitoring and evaluation and  
28 shall act as the secretariat of the OEC with respect to their region. The OEC may create  
29 a Technical and Support Unit under its direct control and supervision but within the  
30 administrative structure of the DILG.

31  
32 **SEC. 13. Capacity-Building.** – The Local Government Academy (LGA), in  
33 partnership with academic institutions of higher learning or state university with  
34 distinguished competencies in public governance programs, shall establish a  
35 continuing capacity-building program for all LGUs. Training or programs conducted by  
36 such academic institutions of higher learning or state university may be considered for  
37 academic credits.

38  
39 **SEC. 14. LGA Certification.** – The LGA shall provide options or lists of  
40 development PAPs to guide the LGUs. No Local Development Fund shall be released  
41 without a certification from the LGA that the LGU is capacitated to plan and implement  
42 its CDP.

43  
44 **SEC. 15. Procurement.** – Procurement for the purpose of implementing the  
45 CDPs must be consistent with the provisions of Republic Act No. 9184, otherwise  
46 known as the "Government Procurement Reform Act".

1           **SEC. 16. Penal Provision.**  
2

- 3           1. It shall be unlawful for any person to withhold the release of the LDEF to  
4           the LGUs within the period specified in Section 3 hereof. Any person  
5           violating any of the provisions of this law shall suffer the penalty of  
6           imprisonment ranging from one (1) year and one (1) day to six (6) years,  
7           and a fine of five hundred thousand pesos (P500,000.00), and permanent  
8           disqualification from holding any public office or employment in the  
9           government, including any Government-Owned or Controlled  
10          Corporations (GOCCs), and their subsidiaries.  
11
- 12          2. The Local Chief Executive shall be administratively liable, without  
13          prejudice to any civil or criminal liabilities he or she may have incurred  
14          under existing laws for failure to report the status of their development  
15          PAPs as required under Section 9 of this Act.  
16
- 17          3. Any government official or employee who shall prevent the reporting or  
18          disclosure of any information or data pertaining to a funded development  
19          PAP as mandated by Section 8 of this Act, shall be held administratively  
20          liable without prejudice to any civil or criminal liability he may have  
21          incurred under existing laws.  
22
- 23          4. Any person who uses the fund contrary to the stated purpose under  
24          Section 4 of this Act shall be liable for technical malversation as defined  
25          and penalized under Article 220 of Act No. 3815, otherwise known as the  
26          "*Revised Penal Code*".  
27

28           **SEC. 17. Appropriations.** – The amount of One Hundred Million Pesos  
29           (P100,000,000.00) is hereby appropriated to fund the establishment of a web-based  
30           monitoring system.  
31

32           The LGA is mandated to ensure, within one (1) year after the effectivity of this  
33           Act, that all territorial and political subdivisions are capacitated to effectively plan and  
34           implement the development projects in their respective CDPs. For this purpose, the  
35           amount of One Billion Pesos (P1,000,000,000.00) is hereby appropriated for the  
36           capacity building of all LGUs.  
37

38           **SEC. 18. Oversight Committee.** – There is hereby created a Congressional  
39           Oversight Committee to monitor and oversee the implementation of the provisions of  
40           this Act. The Committee shall be composed of five (5) members from the Senate and  
41           five (5) members from the House of Representatives to be chaired by the Chairpersons  
42           of the Committee on Local Government from both the Senate and House of  
43           Representatives.  
44

45           **SEC. 19. Sunset Review.** – Five (5) years following the effectivity of this Act,  
46           or as the need arises; Congress shall conduct a sunset review. For purposes of this  
47           Act, the term "sunset review" shall mean a systematic evaluation by Congress of the



1 accomplishments and impact of this Act, as well as the performance of LGUs, for  
2 purposes of determining remedial legislation.

3  
4 **SEC. 20. *Implementing Rules and Regulations.*** – For the effective  
5 implementation of this Act, the Secretary of the DILG, with the Secretaries of the DOF  
6 and the DBM and in consultation with the various leagues of the different LGUs, shall  
7 issue the necessary Implementing Rules and Regulations.

8  
9 **SEC. 21. *Suppletory Application of Existing Laws.*** – The LGC and other  
10 laws consistent with this Act shall have a suppletory effect.

11  
12 **SEC. 22. *Repealing Clause.*** – All laws, presidential decrees, executive  
13 orders, presidential proclamations, rules, and regulations, or parts thereof contrary to  
14 or inconsistent with this Act are hereby repealed, superseded, or modified accordingly.

15  
16 **SEC. 23 *Separability Clause.*** – Any portion or provision of this Act that may  
17 be declared unconstitutional or invalid shall not have the effect of nullifying other  
18 portions or provisions hereof, as long as such remaining portions or provisions can still  
19 subsist and be given effect in their entirety.

20  
21 **SEC. 24. *Effectivity.*** – This Act shall take effect fifteen (15) days after its  
22 complete publication in the Official Gazette or in at least two newspapers of general  
23 circulation.

*Approved,*