Republic of the Philippines
**HOUSE OF REPRESENTATIVES**
Quezon City, Metro Manila



NINETEENTH CONGRESS
First Regular Session

House Bill No. **6414**

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**Introduced by Representative Richard I. Gomez**

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**EXPLANATORY NOTE**

In 2019, the Supreme Court ruled in favor of the Mandanas-Garcia petitions, granting substantial, additional and proportional increases in the National Tax Allotment (NTA) formerly known as Internal Revenue Allotment (IRA). This prompted the issuance of Executive Order No. 138: "Full Devolution of Certain Functions of the Executive Branch to Local Governments, Creation of a Committee on Devolution, and For Other Purposes." With this executive order, along with National Budget Memorandum No. 138, national government agencies (NGAs) were ordered to cease funding assistance for devolved programs in all local government units in the 1st to 4th income brackets, beginning fiscal year 2022.

However, the question remains: "Is the result of the Supreme Court's ruling on the Mandanas-Garcia petitions sufficient enough for the efficient, effective and just execution of full devolution of certain functions, pursuant to Section 17 of the Local Government Code of 1991?"

This representation maintains that we have not yet attained the optimal conditions for full devolution. Much as it seems that additional, yet proportional NTAs for each LGU would solve the budget gaps in each LGU, it is not as simple as that. At the onset of the full devolution process, various issues have arisen, that signal a fiscal crisis among LGUs, especially in the next two years.

Most glaring of these issues is the fact there is simply no peso for peso correspondence between the added NTA and the added funds required to finance full devolution, pursuant to RA 7160. In many cases, the added funds required to finance fully devolved programs is more than the additional NTA.

This misalignment in sources and uses of funds at the LGU level, emanates from a systemic issue that can be traced from how NTAs are derived per LGU, as mandated in RA 7160. In the Local Government Code, the factors used to calculated NTAs are largely not related to the factors that determine the funds needed for devolved programs. With this systemic issue, there is bound to be fiscal misalignment at the LGU level.

To exacerbate this, the NTAs are also calculated using a three-year lagged national income as base. This is especially significant, as years 2020 and 2021, were particularly challenging years in terms of national growth and national income. This means that the NTAs in years 2023 and 2024 would be substantially lower than in 2022, which was still based on pre-pandemic national income.

To address these issues in the immediate term, this bill proposes the creation of a fund that would provide gap financing for LGUs incurring deficits in the periods leading to full devolution of programs pursuant to RA 7160. This fund, to be called, "Local Government Units Full Devolution Gap Financing Fund," would service all LGUs regardless of income brackets, as long as they comply with the criteria, to be laid out in the Act's Implementing Rules and Regulations.

This bill also calls for the conversion of the Growth Equity Fund (GEF), created by virtue of Executive Order 138, as initial component to the Local Government Units Full Devolution Gap Financing Fund. The Fund would also allow LGUs with budget surpluses to invest in the Fund, as capital for soft loans to LGUs in deficits. This way, LGUs are given an opportunity to help one another, at the same time, the scheme eases the additional burden on the national budget.

With the enactment of this bill, this representation hopes that all LGUs will be able to achieve full devolution with ample funding. In view of the foregoing, the approval of this bill is earnestly sought.

**RICHARD I. GOMEZ, DPA**

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**AN ACT EXTENDING THE COVERAGE OF AND CONVERTING THE GROWTH EQUITY FUND INTO THE LOCAL GOVERNMENT UNITS FULL DEVOLUTION GAP FINANCING FUND AND APPROPRIATING FUNDS THEREFOR**

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

SECTION. 1. *Title.* — This Act shall be known as the "LGU Full Devolution Gap Financing Fund Act."

SEC. 2. *Local Government Units Full Devolution Gap Financing Fund.*— The Growth Equity Fund (GEF) created by virtue of Section 8 of Executive Order 138, is hereby converted to constitute the establishment of the "Local Government Units Full Devolution Gap Financing Fund," as a special fund in the National Treasury for the provision of gap financing to local government units (LGUs) during the period of transition to full devolution of certain functions, pursuant to Section 17 of Republic Act No. 7160, otherwise known as the "Local Government Code of 1991."

SEC. 3. *Objectives.* — The Local Government Units Full Devolution Gap Financing Fund (LGU-FDGFF) aims to attain the following objectives:

(A) Ensure that public services in all local government units (LGUs) are not compromised due to lack of funding during the transition period to full devolution of certain functions pursuant to Section 17 of Republic Act No. 7160;
(B) Provide additional funds to LGUs that incur budget deficits during the transition period to full devolution of certain functions pursuant to Section 17 of Republic Act No. 7160;

(C) Provide gap financing to aforementioned LGUs by way of: (a) augmentation of National Tax Allotment (NTA) and/or (b) short- to medium-term soft loans; and
(D) Provide a venue for LGUs with budget surpluses to 'invest' excess funds through the LGU-FDGFF, as capital for soft loans.

SEC. 4. *Mechanics of the Fund.*— The Local Government Units Full Devolution Gap Financing Fund (LGU-FDGFF) shall have the following (but not limited to) features:

(A) Extend gap financing assistance to LGUs of all income brackets that comply with the LGU-FDGFF's implementation criteria;
(B) The Fund shall limit financing to budget gaps in transitioning to full devolution of functions, pursuant tot Section 17 of the Local Government Code of 1991;
(C) The Fund shall provide both NTA augmentation and soft loans as methods of providing gap financing to LGUs with budget deficits; and
(D) Use of financial facilities of the Fund are subject to compliance with the Implementing Rules and Regulations of this Act.

SEC. 5. *Implementing Rules and Regulations.* — Within ninety (90) days after the effectivity of this Act, the Committee on Devolution, Department of Budget and Management (DBM) and the Department of the Interior and Local Government (DILG) shall promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 6. *Appropriations.* — The appropriations for the Growth Equity Fund shall constitute as part of the initial funds of the LGU-FDGFF. The amount of Five billion pesos shall be appropriated in the General Appropriations Act of 2024.

SEC. 7. *Separability Clause*. — If any provision of this Act is held invalid or unconstitutional, the other provisions not so declared shall remain in force and in effect.

SEC. 8. *Repealing Clause*. — Any other law, issuance or part thereof inconsistent with this Act are hereby repealed or modified accordingly.

SEC. 9. *Effectivity Clause*. — This Act shall take fifteen (15) days after its publication in the *Official Gazette* or in two (2) newspapers of general circulation.