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Agency for International Development

Washington, D.C.

DECENTRALIZED SHELTER AND URBAN DEVELOPMENT

PROJECT PAPER

Project No. 492-0388

Housing Guaranty No. 492-HG-001

Manila, Philippines

September 1990

1

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: PHILIPPINES

3. PROJECT NUMBER: 492-0388 492-HG-001

4. BUREAU/OFFICE: Asia and Near East 04

5. PROJECT TITLE (maximum 40 characters): Decentralized Shelter & Urban Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 4 C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,058	325	1,383	3,074	926	4,000
(Grant)	(1,058)	(325)	(1,383)	(3,074)	(926)	(4,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. HG Loan	25,000	-	25,000	50,000		50,000
Other U.S. 2.						
Host Country				-	1,334	1,334
Other Donor(s)						
TOTALS	26,058	325	26,383	53,074	2,260	55,334

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	720	860		-	-	1,383	-	4,000	-
(2) HG	720		860			-	25,000	-	50,000
(3)									
(4)									
TOTALS						1,383	25,000	4,000	50,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase, over an extended time period, the access of low income urban Filipinos to shelter and services needed for healthier and more productive lives.

14. SCHEDULED EVALUATIONS
Interim MM 01 YY 91 MM 01 YY 92 Final MM 06 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [ ] Other (Specify):

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

NOTE: The provisions of the payment verification policy regarding methods of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in these documents.

for. J C Stanford
J.C. Stanford, Controller

17. APPROVED BY
Signature: Richard A. Johnson
Title: Acting Director USAID/Philippines
Date Signed: MM 09 DD 27 YY 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION
HOUSING GUARANTY AUTHORIZATION

Country: Philippines

Project No.: 492-0388 (Grant)
492-HG-001 (Housing Guaranty)

Project Title: Decentralized Shelter and Urban Development

1. Pursuant to the Foreign Assistance Act of 1961, as amended, ("FAA") and the Delegations of Authority issued thereunder, I hereby authorize the Decentralized Shelter and Urban Development (DSUD) Project for the Philippines comprised of two separate components (a) under Section 531 of the FAA, planned obligations of not to exceed $4,000,000 in grant funds (the "Grant") over a four-year period from the date of authorization, subject to the availability of funds in accordance with the A I.D OYB/allotment process, and (b) under Section 222 of the FAA, the issuance to eligible U S investors, acceptable to A I.D , of guaranties not to exceed Fifty Million United States Dollars ($50,000,000) in face amount, of which not to exceed Twenty-Five Million United States Dollars ($25,000,000) may be committed in Fiscal Year 1990, and not exceed Twenty-Five Million United States Dollars ($25,000,000) may be committed in Fiscal Year 1991, subject to the availability of guaranty authority.

No guaranty commitment entered into under this authorization shall cause the total amount of guaranty commitments entered into under Section 222 of the FAA to exceed the limit specified for such commitments in the Appropriations Act for the fiscal year in which the commitment is made. The guaranties shall assure against the loss of One Hundred Percent (100%) of loan investment and interest with respect to loans, including any refinancings thereof, made to the Government of the Philippines ("Borrower").

2. The Project consists of assistance to the Government of the Philippines to foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase the access of low-income urban Filipinos to shelter and services needed for healthier and more productive lives The assistance will be provided through (a) the issuance of loan guarantees upon demonstration of policy reform actions by the Government of the Philippines whereby the Government of the Philippines will certify an equivalent amount of peso expenditures on shelter-related infrastructure specified in an Investment Program, and (b) grant funding for technical assistance, training, monitoring, and operational costs of the Project.

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3. Loan Guaranty Component: The guaranties shall be subject to the following terms and conditions:

a. Term of Guaranty: The loans being guaranteed and any refinancing thereof shall extend for a period not to exceed thirty (30) years from the date of disbursement and may include a grace period of up to ten (10) years on repayment of principal and may include such other terms and conditions as shall be acceptable to A.I.D. The guaranties of the loans shall extend for a period beginning with the first disbursements of the loans and shall continue until such time as the eligible U.S. investor has been paid in full pursuant to the terms of the loans.

b. Interest Rate: The rate or rates of interest payable to the eligible U.S. investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U S capital markets.

c. Government of the Philippines Guaranty Prior to disbursement of any loan amounts pursuant to this guaranty authorization, a written guaranty to indemnify A I D. against all losses arising by virtue of A.I.D.'s guaranties to the eligible U.S. investor or from non-payment of the guaranty fee shall be provided, in a form satisfactory to A.I.D., by the Government of the Philippines or a financial institution authorized by the Government of the Philippines to provide such a guaranty, and approved by A.I.D.

d Guaranty Fee: The Guaranty fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans, plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof to be paid as A.I.D. may determine upon disbursement of the loans.

e. Other terms and conditions: The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary.

The Letters of Advice to the Borrower that will commit the guaranties authorized hereunder may be executed by the Director, or the person acting in that official capacity, of the USAID Mission to the Republic of the Philippines.

4. Grant Component: The Grant Project Agreement(s), which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions as A.I.D. may deem appropriate.

a. Life of Project

The planned life of the Project is four years from the date of obligation of the Grant.

b. Source and Origin of Goods and Services

Commodities financed by A I.D under the Project shall have their source and origin in the Philippines or in the United States, except as A.I.D. may otherwise agree in writing. The suppliers of commodities and services, shall have the Philippines or the United States as their place of nationality, except as A.I.D may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be only on flag vessels of the United States.

c. Conditions Precedent

Prior to any disbursement or to the issuance of any commitment documents under the Project Agreement (other than to finance activities for which commitments have already been made), after January 31, 1991, or such other period as A I.D may agree to in writing, the Grantee shall, except as A I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., an executed Housing Guaranty Implementation Agreement which shall include an acceptable Policy Action Plan.

By: Richard A. Johnson

Richard A. Johnson

Title: Acting Mission Director
United States Agency for
International Development

Date: SEP 27 1990

Clearances:

Name	Initial	Date
DRM:JAPatterson		9/26
OD/PE:PRDeuster	(draft)	
ORAD:KPrussner	(draft)	
PESO:BCornelio	(draft)	
OPHN:EVoulgaropoulos	(draft)	
OFFPVC:BGeorge	(draft)	
CSO:SHeishman	(draft)	
OFM:JCStanford	for	9/26/90
OLA:LChiles	(draft)	
RHUDO:DPainter	(draft)	
GC/PRE:	(draft)	
FM/LMD:	(draft)	

DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROJECT

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14. Gray Amendment Certification
15. Approval Cables
16. Initial Environmental Examination

ABBREVIATIONS AND ACRONYMS

A.I.D.	Agency for International Development
ADB	Asian Development Bank
CC	Chartered City
CIDA	Canadian International Development Agency
CIF	Capital Investment Folio
CIP	Capital Investment Program
CMP	Community Mortgage Program
COA	Commission on Audit
CSO	Contract Services Office
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DLG	Department of Local Government
DOF	Department of Finance
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Highways
DSUD	Decentralized Shelter and Urban Development
DTI	Department of Trade and Industry
ESF	Economic Support Fund
GC/PRE	General Counsel of the Private Enterprise Bureau
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of the Philippines
HG	Housing Guaranty
HIGC	Home Insurance and Guaranty Corporation
HLURB	Housing and Land Use Regulatory Board
HUC	Highly Urbanized City
HUDCC	Housing Urban Development Coordinating Council
IBRD	International Bank for Reconstruction Development
ICMA	International City Management Association
IP	Investment Program
IQC	Indefinite Quantity Contract
IRA	Internal Revenue Allotment
LCM	League of City Mayors
LDAP	Local Development Assistance Program
LGA	Local Government Academy
LGP	Local Government Project
LGU	Local Government Unit
LRM	Local Resources Management Project
LWUA	Local Water and Utilities Administration

MMA	Manila Metropolitan Authority
MMINUTE	Metro Manila Infrastructure Utilities and Engineering
MUA	Mission Urban Advisor
MWSS	Metropolitan Water and Sewerage System
NAPOCOR	National Power Corporation
NEA	National Electrification Administration
NEDA	National Economic and Development Authority
NGO	Non-Governmental Organization
NHA	National Housing Authority
NHMFC	National Home Mortgage Finance Corporation
ODRM	Office of Development Resources Management
OFM	Office of Financial Management
OLA	Office of the Legal Advisor
OPE	Office of the Program Economist
ORAD	Office of Rural and Agricultural Development
PACD	Project Assistance Completion Date
PBSP	Philippine Business for Social Progress
PDAP	Provincial Development Assistance Program
PDP	Provincial Development Project
PIL	Project Implementation Letter
PLDT	Philippine Long Distance Telephone Company
PP	Project Paper
PREMIUMED	Program for Essential Infrastructure Utilities, Maintenance and Energy Department
PRE/H	Office of Housing and Urban Programs
PSC	Personal Service Contract
RCDP	Regional Cities Development Program
RDD	Rural Development Division of ORAD
RIG	Regional Inspector General
RHUDO/Asia	Regional Housing and Urban Development Office for Asia
RPTA	Real Property Tax Assessment
TA	Technical Assistance
TDY	Temporary Duty
USAID	United States Agency for International Development
USG	United States Government

1. SUMMARY AND RECOMMENDATIONS

1.1 PROJECT TITLE AND NUMBER:

Decentralized Shelter and Urban Development
(492-HG-001 and 492-0388)

1.2 BORROWER/GRANTEE:

The Government of the Philippines (GOP).

1.3 IMPLEMENTING AGENCIES:

Department of Finance (DOF) is the lead agency supported by, National Economic and Development Authority (NEDA), Department of Local Government (DLG), Department of Budget and Management (DBM). Also involved in Policy Matrix matters are the National Housing Authority (NHA), Housing and Land Use Regulatory Board (HLURB), the Housing and Urban Development Coordinating Council (HUDCC), and the Department of Environment and Natural Resources (DENR)

1.4 FUNDING LEVEL AND TERMS:

U.S. $50 million in Housing Guaranty (HG) loans plus a U.S. $4 million Economic Support Fund (ESF) grant.

1.5 LIFE OF PROJECT:

September 30, 1990 to September 30, 1994.

1.6 PROJECT PURPOSE:

To foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase, over an extended time period, the access of low income urban Filipinos to shelter and services needed for healthier and more productive lives.

1.7 SUMMARY PROJECT DESCRIPTION:

The project consists of three interrelated components:

A) Policy dialogue on the implementation of GOP decentralization policy in urban local governments. This dialogue will be structured around a Policy Matrix (PM) for the project which specifies agreed policy actions and accomplishment benchmarks designed to: (i) develop a sustainable system of city government finance; (ii) reduce urban and environmental infrastructure constraints on local economic development; and (iii) improve access to the urban shelter delivery system for low income households.

B) $50 million of loans from the U.S. private sector guaranteed by the A.I.D. Housing Guaranty Loan program. These loans are expected to be disbursed in three tranches during the period FY 1991 through FY 1994. These non-appropriated dollar loans will provide foreign exchange which can be used at the discretion of the GOP To qualify for loan tranche disbursements, the GOP will demonstrate accomplishment of policy implementation benchmarks contained in the project's Policy Matrix, and certify adequate peso expenditures on shelter-related infrastructure specified in the project's Investment Program (IP). Certified IP peso expenditures will exceed the equivalent of $50 million by the end of the project

C) $4 million of ESF grants for technical assistance and training; project monitoring and evaluation; and audit. Grant funds will be used primarily to assist the implementation of the GOP's urban decentralization policy agenda by funding: policy analysis; systems development studies; support to key public, private, and NGO groups advancing the policy dialogue; and related training and conferences.

1.8 BORROWER/GRANTEE CONTRIBUTION·

The GOP plans to provide at least $1.334 million of funds in support of urban decentralization actions as a matching contribution to the ESF grant.

1.9 STATUTORY REQUIREMENTS:

All statutory requirements have been met. (See Annex 12.)

1.10 RESOLUTION OF PROJECT DESIGN ISSUES:

All project design issues have been satisfactorily resolved; these are detailed in the Action Memorandum requesting Project Authorization.

1.11 RECOMMENDATIONS:

The Project Committee recommends that the Mission Director approve this project paper which specifies $50 million of Housing Guaranty (HG) loans and $4 million of Economic Support Fund (ESF) grants to fund the Decentralized Shelter and Urban Development project.

The committee further recommends that the Mission Director authorize a total of $50 million for the HG program of which an initial $25 million is to be committed in FY 1990, with the remainder of $25 million to be committed in FY 1991 subject only to the availability of HG authority.

Finally, the committee also recommends that the Mission Director authorize $4 million of ESF grants and obligate $1.383 million in FY 1990. The balance of the grant funds are to be obligated in FY 1991 and FY 1992 as needed, subject to the availability of funds and the mutual agreement of both parties to proceed.

2. PROJECT BACKGROUND AND RATIONALE

2.1 COUNTRY SETTING

2.1.1 BACKGROUND

Early difficulties in communications between the Philippines' 7,000 islands, as well as widely varying agricultural conditions, led to a strongly localized political economy characterized by powerful local clans and a distrust of centralized authority However, the development of an export-oriented agricultural economy by the Spanish fostered a new orientation towards the capital of Manila and a system of regional cities The subsequent period of American colonialism introduced the additional layers of administrative and bureaucratic centralism which characterize the country today

The trend towards centralized control over the economy and bureaucracy was accelerated during the Marcos era The 1986 EDSA Revolution, to a large extent a reaction to the pernicious effects of such control, provided the impetus for a reorientation towards a system of regional and local autonomy The new Philippine Constitution, approved in 1987, mandates decentralization and greater local authority Implicit in the Constitution, and all subsequent efforts, is the assumption that a system characterized by greater local control over resources and expenditures will better allow the Philippines to remedy present problems and support future economic growth This trend toward greater decentralization continues in the various proposals for revision of the Local Government Code which many expect to be revised in late 1990 (see discussion in Chapter 3).

2.1.2 THE MACRO-ECONOMIC CONTEXT

The past twenty-five years have been characterized by three economic trends: 1) a gradual transformation of the economic base from agriculture to manufacturing, 2) fluctuating economic growth rates; and 3) the differential effects of these developments on various population segments and areas of the country

The Philippines' economy is gradually diversifying from its agricultural roots (primarily export-oriented crops) Gross Domestic Product (GDP) share of industry increased from 28% in 1965 to almost 34% in 1988 Manufactured products as a percentage of total exports grew from 22% in 1976 to 61% in 1986.

High economic growth rates in the 1970's, stimulated by heavy investments in industrialization and extensive foreign borrowing, gave way to slower growth in the early 1980's and actual decline starting in 1984, as rising interest rates and oil prices revealed structural weaknesses in the Philippine economy. These conditions plus the assassination of Benigno Aquino Jr in 1983 led to a financial crisis GDP declined by 6 0% in 1984 and by 4.3% in 1985 before increasing by 1 4% in 1986 The ascent of the Aquino administration in 1986 played a major role in initiating a gradual economic recovery. GDP increased 4.7% in 1987, 6.4% in 1988, and 5 7% in 1989. Median income increased 12% over the 1985-88 period. Inflation, although still a relatively high 13%, is considerably less than the average 36% over the 1984-85 period.

The Philippines has an estimated 1990 population of 61.5 million and a gross density of 203 inhabitants/sq. km. With an estimated annual growth rate of 2.4%, the country is expected to have a population of 78 million in the year 2000, an increase of 27% over its present population.

Recent economic growth has had varying impact on the country. Income remains highly skewed such that the upper 10% of the population recieves 36% of the national wealth and the lower 50% receives 20% Most of the recent economic growth has been concentrated in selected regions and in urban areas. Although the overall incidence of families living below the poverty line (defined as Peso 4000/month for a six-person household) has declined in recent years, several regions still have poverty incidences greater than 60% Despite the 12% increase in real income between 1985 and 1988, families in several rural regions exhibited real increases of only 2-5%

2.2 CITIES AND THE PHILIPPINE ECONOMY

2.2.1 CITIES AND ECONOMIC GROWTH

The country's urban areas have been central to recent economic developments. Cities in the Philippines, as elsewhere, link public investments in infrastructure, exchange facilities and human capital with private sector investments in production As "engines of growth," they play a number of important economic functions.

First, they serve as the setting for, and justify necessary capital investments in, the basic infrastructure necessary for production in an increasingly manufacturing and services-oriented economy Second, by meeting the labor force's basic needs and facilitating a functional labor market, they support the human capital inputs necessary for economic growth Third, by meeting infrastructure requirements for the efficient movement of information and goods, cities play an important market exchange function Finally, cities serve as key links between rural, agricultural production and urban markets and sources of off-farm employment.

2.2.2 PHILIPPINE CITIES

The functional roots of Philippine cities derive from the development during the Spanish era of a hierarchy of cities where Manila served as the focal point for a system of regional cities which collected agricultural goods from a network of smaller centers Developmental policies during the U S colonial period added significant administrative functions and initiated urban manufacturing but retained the essential tripartite functional differences.

In 1980, 17.9 million people, 37 3% of the country's population, lived in urban areas. By 1990, cities were growing at considerably more rapid rates than rural areas, 3.7% per year versus 1 4 % Recent economic growth largely has been stimulated by activity in Metro-Manila (between 1983 and 1987 almost half of the country's GDP was generated in Metro-Manila and adjoining provinces) and, increasingly, in Cebu and several smaller regional cities.

Approximately 60% of the country's urban population live in sixty officially-delineated Chartered Cities and the remainder in smaller municipalities. Twelve of these cities are further classified as Highly Urbanized on the basis of population and income criteria. These Highly Urbanized cities all fulfill significant regional administrative and economic functions and are autonomous entities. This distinguishes them from the remaining 44 Chartered Cities which are subject to control by provincial governments. Metro-Manila is composed of four Chartered Cities (technically not considered Highly Urbanized) and 12 smaller municipalities.

2.3 URBAN DEVELOPMENT

2.3.1 EXISTING URBAN CONDITIONS

Growth in the Philippines has not been without cost. Philippine cities exhibit many of the same problems as other cities in the developing world: high concentrations of poverty, slum and squatter areas, the inability to deliver basic public services, inefficient land use and a host of other problems. These impose a variety of costs on the Philippine economy.

The level and quality of existing urban infrastructure and shelter conditions vary widely from city to city and between areas within each city Older areas and squatter settlements inhabited by poorer residents generally have less access to basic infrastructure systems and contain a higher percentage of substandard structures.

Key aspects of the shelter problem include tenure patterns, control of urban land, access to basic infrastructure, access to finance, and structural problems with the houses themselves. Slum communities, which include both squatters and families with titles to their land, are widespread throughout all Philippine cities. An estimated 20% to 40% of the residents of most Philippine cities (28% in Metro-Manila) live in areas characterized by deteriorated structural conditions and a lack of minimal infrastructure. One GOP official estimates that squatting on urban land reduces its fair-market value by 50% and limits conversion of land to more efficient uses.

Sixty percent of urban families (73% of families living in the National Capitol Region) do not have legal title to the lot on which they live. Access to basic infrastructure remains a major problem for many urban residents. An estimated 50% of the urban population do not have direct access to potable water; 56% have no access to a sanitary waste disposal system; and 29% are without electricity.

Housing conditions for low and moderate-income residents are poor. The estimated 1990 national urban housing demand is 273,000 units, of which 178,000 are required to accommodate growth, with the remainder for replacement of substandard units. An estimated 50% of Metro-Manila's families occupy one-room dwelling units.

Of equal concern are the larger-scale infrastructure systems necessary for overall urban growth and development. Transport is constrained by deteriorated roads, the inability to build new ones, limited amounts of public transport and deficient national and international transport facilities Flooding during the rainy season further affects the transport system and limits use of key parcels of urban land. The national electrical system has been unable to keep up with demand, and many areas are constrained by erratic and costly supplies of electricity. Many areas of several major cities have recently experienced water shortages during the dry season Electricity shortages also constrain the telecommunications system.

2.4 CURRENT URBAN INFRASTRUCTURE ROLES

2.4.1 THE LOCAL GOVERNMENT SYSTEM

Local government in the Philippines consists of 75 provinces, 60 Chartered Cities, 1,531 municipalities, and 40,650 barangays. All political units are governed by popularly-elected executives and councils (Sangguniang Bayan).

The powers and functions of local governments include planning, levying and collecting taxes and fees, budgeting, issuing and enforcing regulations, and administering certain public services The extent to which these powers are exercised and the functions performed vary from place to place Smaller cities and municipalities are often limited to administration of basic city functions and addressing residential needs Larger cities, with more revenues and capabilities, are generally more able to address long-term infrastructure and development concerns.

The number and quality of personnel also vary greatly. Although many city staff are hired directly, several key officials, including treasurers and assessors, are appointed by mayors from lists of three nominees provided by the Department of Finance. This relationship introduces a significant role for the Department in local operations Treasurers occupy particularly critical positions in local government finance, since they must approve revenue projections, which in turn, provide the basis for expenditure budgets.

Local finances are characterized by: 1) heavy dependence on non-local sources for financial resources; 2) reliance on the real property tax as a major source of locally generated income; 3) potential for increased collection efficiencies in the real property tax, 4) a high percentage of central government transfer funds which are earmarked for specific purposes; and 5) little local discretion in establishing tax rates.

2.4.2 CENTRAL OVERSIGHT OF LOCAL GOVERNMENT ACTIVITIES

Several central government agencies are involved in overseeing the activities of LGU's:

- The Department of Local Government (DLG) is involved in questions of jurisdiction and status of LGU's and provides political linkage with the central government;

- The Department of Finance (DOF) oversees the distribution of national government support grants and the financial management and revenue operations of LGU's;

- The national Commission on Audit (COA), constitutionally a separate branch of government, is responsible for auditing financial reports and has a reputation for rigid and unyielding interpretation of financial norms;

- The National Economic and Development Authority (NEDA) plans development projects and coordinates investment policies.

2.4.3 PROVISION OF SHELTER AND INFRASTRUCTURE SERVICES

Governmental responsibility for addressing shelter and urban development problems is distributed across several national agencies and local governmental units. In general, national line agencies, acting through regional and local offices, make key funding and implementation decisions. Units of local government are restricted to a limited degree of project prioritization, implementation monitoring, and some maintenance activities National agencies receive direct budgetary allocations and often additional funds through foreign-assisted programs. Cities, with limited funds and technical capacities (except for a few more sophisticated ones), are rarely in a position to implement costly shelter and infrastructure projects.

Primary responsibility for housing policy and related infrastructure rests with the Housing and Urban Development Coordinating Council (HUDCC) under the Office of the President. HUDCC is a coordinating entity composed of four autonomous bodies: 1) National Housing Agency (NHA); 2) National Home Mortgage Finance Corporation (NHMFC); 3) Home Insurance and Guaranty Corporation (HIGC); and 4) Housing and Land Use Regulatory Board (HLURB).

Each agency is charged with a different responsibility in achieving the broad goals of the country's National Shelter Program· NHA is concerned with direct shelter production for low-income residents, NHMFC in providing long-term mortgage financing for home purchases; HIGC for providing a variety of guarantees and loan insurance; and HLURB for regulating the development process. The Bureau of Lands, within the Department of Justice, is responsible for regulating the land registration and transfer system.

Almost all government departments, agencies and special bodies in the shelter and urban development sector have a large infrastructure component in their respective programs. The Department of Public Works and Highways (DPWH) and several component bodies are responsible for roads, drainage, sanitation and water. In addition to its locally-funded programs, DPWH conducts several foreign-assisted programs which concentrate on improving infrastructure in regional cities.

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Electricity is generated by the National Power Corporation (NAPOCOR), distributed through the national and regional grids by the National Electrification Administration (NEA) and then sold to local electrical utilities for distribution to consumers. Telecommunications is dominated by the Philippine Long Distance Telephone Company (PLDT), a private company responsible for 90% of the telephone network in the Philippines. In addition, there is a network of local companies regulated by the Department of Transportation and Communications (DOTC).

Construction of industrial estates is supervised by the Department of Trade and Industry (DTI), while airports and ports are the responsibility of the Department of Transportation and Communications (DOTC).

Cities themselves are generally responsible, frequently with national financial assistance, for the construction and maintenance of markets, slaughterhouses and smaller-scale transport facilities

2.4.4 THE PRIVATE SECTOR AND NGOs

Tne private sector is involved in the urban shelter and infrastructure sectors in a number of different areas. Generally, private contractors construct government-funded and implemented infrastructure projects. Many local water and/or electrical utilities are quasi-private entities run on a for-profit basis while local facilities, such as markets or bus terminals, are privately managed. Most large-scale land assembly and development projects are initiated by private development firms.

The involvement of the private sector is most pervasive in the middle- and upper-income housing markets. Almost all subdivisions for this market are financed and built by private development firms Infrastructure construction within such subdivisions is similarly the responsibility of private firms. In theory, such privately developed infrastructure is turned over to local government for operation and maintenance once the subdivision is complete. In practice, many local governments refuse or delay acceptance, allowing the infrastructure to deteriorate prematurely.

The informal sector, although generally untouched by government programs, plays an important role in the urban economy. From the operation of jeepneys and smaller vehicles to the sale of drinking water in many slum settlements, small-scale entrepreneurs are essential to the delivery of urban infrastructure services to those with limited access to more formal systems. In addition, many of its functions are essential to the operation of the formal economy and are in turn affected by it Although all of the informal sector is, by definition, at least "extra-legal," some informal activities are damaging to urban neighborhoods (for example, the syndicates that often control slums at great profit to the syndicates), others are illegal only because of unwarranted formal constraints on private initiative or because of the absence of formal sector actors. How this component of the private sector operates in urban slum areas needs to be well understood before any improvement programs can succeed.

NGOs, given their small size and limited skills, are generally involved in localized service delivery such as solid waste collection or road maintenance. A number of larger NGOs have recently begun to develop low-cost housing with assistance from government financing programs. NGOs, and related credit institutions such as cooperatives or credit unions, also play important roles in mobilizing limited amounts of capital from lower-income residents for investment in community-oriented activities. They also offer the potential for promoting community organization in low income neighborhoods, so that those neighborhoods can more effectively make demands on their local governments for services

2.5. PROBLEM STATEMENT AND CONSTRAINTS ANALYSIS

2.5.1 PROBLEM STATEMENT

Previous sections describe the central role played by cities in recent economic growth in the Philippines and discusses existing conditions in such areas. They link deteriorated urban infrastructure systems with high economic and social costs. Through a variety of impacts, these constrain further economic growth and consign many urban residents to a life of poverty.

First, the lack of basic urban infrastructure, and its inefficient operation, inhibits the creation of new industrial and service sector firms and adversely effects existing firms.

Second, problems in providing basic urban services such as potable water and sanitation and shelter to residential areas result in declines in labor productivity and a variety of other social costs.

Third, an inefficient urban land market, often the cause of squatting and slum areas which in turn inhibit the functioning of land markets, limits urban growth and imposes considerable costs on urban residents.

Fourth, problems in providing minimal shelter for residents impose social burdens on residents and result in declines in productivity.

Finally, insufficient and inefficient infrastructure systems often create significant environmental problems.

In sum, deficient water and waste disposal systems have negative impacts on health and labor force productivity, use of prime urban land for slums constrains the ability of business and commercial activities near and within such areas to expand and generate additional economic activity; and overburdened water, waste disposal, electrical and other systems reduce the ability of the environment to support or attract increased investment.

2.5.2 CONSTRAINTS ANALYSIS

The present political system, in which responsibilities and resources are heavily concentrated in the central government and its attendant agencies, is poorly designed to deal effectively with problems of shelter-related urban infrastructure and services. Indeed, the high level of centralization in the political system is an important obstacle to providing the cities with acceptable infrastructure and services.

Excessive centralization of the political system constrains the development of urban infrastructure and services in the following ways.

- Locally elected city officials, who have the greatest familiarity with problems of urban infrastructure and services, lack decision-making authority over projects and activities within their jurisdictions.

- Central government institutions define the limits within which city governments can raise revenues and their right to retain revenues generated. This power has been frequently exercised in the direction of minimizing local control. Often such controls are exercised indirectly through national departments' employees, such as the local Treasurer, where the law would seem to otherwise give control to local governments.

- Local government officials, who know best the shelter- related infrastructure and public service needs of the cities, have only meager resource allotments from central authority with which to act on those needs.

- Severe restrictions have been placed on the authority of city officials to mobilize long-term resources from public and private financial markets and, in general, on the ability of locally-elected leaders to mobilize the resources of the entire community through cooperation among city governments, NGO's, and the private sector in support of improved urban infrastructure and services.

3. PROJECT STRATEGY

Chapter 2 of this Project Paper argues strongly that: 1) the ability of cities in the Philippines to contribute to sustained economic growth is endangered by widespread substandard urban infrastructure and services; and 2) that the urban poor have extremely limited access to basic shelter, infrastructure, and services needed for more healthy and productive lives It concludes that the present heavy concentration of functions and resources in the central government is a major constraint on the ability of cities to improve urban shelter, infrastructure and services.

Therefore, the DSUD strategy is to support a systematic and reasoned decentralization of responsibility and resources related to shelter and urban development to locally-elected governments in the 60 Chartered Cities, with an initial focus on the 12 Highly Urbanized Cities.

There is a growing perception in the Philippines that the Centralization Model is inappropriate for the challenges of social and economic development during the 1990's and beyond. There is an emerging consensus that centralization of revenues and functions in the central government and its institutions must now yield to a process of strengthening local authority and resources to deal with many of the public sector services. The DSUD project will support the direction the GOP is taking in decentralization by strengthening policy commitment through policy dialogue, providing budget support through a Housing Guaranty (HG) loan for which Peso equivalent expenditures on shelter-related services to the urban poor can be maintained, and technical assistance and training support to help the GOP implement its decentralization policy agenda with regard to the cities

3.1 PERCEIVED BENEFITS OF DECENTRALIZATION

There is little unanimity among those who support decentralization in the Philippines regarding the specific content of reform In general, however, they hope that decentralization will more efficiently mobilize and utilize resources for development through some combination of the following effects:

a. Programs and projects at the local level offer an opportunity to involve the citizenry more directly in the process of development in the Philippines, thus giving them a personal stake in successful planning and implementation. Local officials may more readily be held accountable for their actions to their citizenry, who in turn can more readily influence actions that affect the efficiency of public resources used in the development process.

b. Because of the general ineffectiveness and inadequacy of local taxes in the Philippines, financial resources may be available for development purposes at the local level which heretofore have not been utilized. That is, improved local revenue generation may increase the size of the budgetary pie available. Citizens may be more willing to contribute financially to projects that are planned and implemented at the local level, where results are more

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readily identifiable, than to be taxed by the central government for programs only dimly understood and implemented far from their localities, with little or no visible value to them.

c. Capable local institutions can identify and resolve many issues locally, reducing the demands made on already overtaxed central agencies.

d. Corruption may be reduced as citizens can more effectively perform a watchdog function at the local rather than central level.

e. The resources of the community - - including the private sector and NGO's - may be more effectively mobilized at the local level.

3.2 OVERALL PROJECT GOAL, PURPOSE, AND STRATEGY

The goal of the Decentralized Shelter and Urban Development project is to contribute to sustainable economic growth and development of democratic institutions by supporting the processes of decentralizing authority and resources for shelter and urban development affecting low income Filipinos. This goal will be pursued through the active promotion of more open markets for shelter and related services, as well as a more open society with key governmental responsibilities devolved to city governments where the voices and choices of the people can be more influential.

The purpose of the DSUD project is to foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase, over an extended time period, the access of low-income urban Filipinos to shelter and services needed for healthier and more productive lives.

The project strategy is to assist, through policy dialogue and technical assistance and training, in increasing the role of city governments and the private sector in the provision of critical urban infrastructure and services on the grounds that they can do it more effectively than central government. Improved provision of infrastructure, in turn, attacks a set of constraints to sustained economic growth in the cities.

The project's policy agenda will be formalized in a Policy Matrix (PM) that consists of a set of actions the GOP will take to enable city governments to undertake additional responsibilities, improve the financial capacity of city governments, reduce centralized constraints on urban economic development, and improve provision of shelter-related services to the urban poor. The PM includes objectives to develop a sustainable system of city government finance, reduce urban and environmental infrastructure constraints on local economic development, and improve access to the urban shelter delivery system for low income households.

These policy actions address some of the constraints identified in chapter 2 by creating enabling conditions in which urban infrastructure investment decisions will be made more efficiently. Such conditions include: those in

which tax resources and other public sector revenues are allocated more efficiently to needed capital investments; and those in which transaction costs and other constraints on effective private development and affordable services to low income households can be reduced.

The HG loan, which is predicated on the policy actions, will provide unrestricted dollar support for the GOP. An equivalent amount in local currency will be attributed to GOP Peso expenditures on shelter-related services for below median income urban households The PM is also directed at reducing some of the transaction costs associated with land transfers, land development and development of residential subdivisions by the private sector, making basic urban services more affordable to low income households.

The technical assistance and training component targets strategic areas which will help central and local governments to achieve the intended results of the GOP decentralization program Policy studies will develop information necessary to better implement decentralization policy. For example, while both the micro and macroeconomic literature provide evidence that infrastructure investments enable additional private sector investment, and research for this project paper has found evidence of significant lack of urban infrastructure, city governments will not necessarily know how to target investment decisions to those infrastructure deficiencies that are constraining private sector expansion DSUD-assisted policy studies will gather information from the private and public sectors in selected cities (working with local counterparts and appropriate GOP institutions) to develop procedures that city governments can use to target their capital investment decisions.

Systems development activities under the DSUD technical assistance and training component will work with counterpart private and public sector institutions to develop systems, procedures or processes in selected cities that then can be implemented through appropriate institutions such as the League of City Mayors and universities in other cities. An example is the development of a capital investment planning process that cities can use to increase the efficiency of their capital investments A capital investment folio (CIF) process seemed to work well in past years in the Metropolitan Manila Commission, but has not yet been reinstated by the Metropolitan Manila Authority (MMA), nor extended to any other cities. DSUD will explore the possibilities of working with the League of City Mayors, the Local Government Academy (LGA) and selected cities to adapt successful features of planning systems that have worked well in cities in the Philippines and in other countries Any developed system could then be extended to other cities in the Philippines by institutions participating in the project's systems development activity.

Direct technical assistance and training activities targeted to central institutions such as the League of City Mayors, private firms that provide training to city officials on a contract basis, and university-based groups will further strengthen the Philippine capability to improve city management at the local level. For example, project funded training-of-trainers workshops will develop capacity to subsequently train city officials in the

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development and use of performance measures to evaluate and improve basic urban services.

Other TA and training resources will be directed through local intermediaries at NGOs having programs in urban slums. The purpose of such support will be to encourage their work in community organization so that low income urban neighborhoods can make their demands on local governments more effectively and can organize to implement slum improvement projects as resources are available.

The policy matrix, the HG loans, and the technical assistance and training components of the project forms an integrated strategy focussed on key constraints to economic and democratic development They will also build permanent capacity in both the public and private sectors to support city governments in their emerging larger role in shelter and urban development.

3.3 RELATIONSHIP TO ONGOING ACTIVITIES

3.3.1 USAID PHILIPPINE ASSISTANCE STRATEGY

The USAID Philippine Assistance Strategy (FY 1991-1995) espouses the overall goal of promoting ". broad-based, sustainable economic growth through the active partnership of the public and private sectors in fostering open and efficient markets and open society " Within that general goal, five specific objectives are cited. "1 a policy and institutional framework stimulating market-based private sector growth, 2. open and competitive markets; 3. infrastructure that facilitates expanded private sector activity; 4. more efficient delivery of essential services, 5 effective and sustainable management of natural resources " Finally, three cross-cutting themes are discussed. policy reform, the private sector and decentralization For all of these, urban centers outside of Metro-Manila will be the primary focus.

The DSUD's goal of contributing to sustainable economic growth in the Philippines by improving shelter conditions directly parallels the Mission's overall goal. Furthermore, DSUD's approach to addressing this goal -- the use of policy reforms to foster decentralized delivery of shelter and infrastructure services, and to support a greater role in that process by the private sector -- encompasses the Strategy's three cross-cutting themes. Recognizing that significant constraints to efficient delivery of infrastructure exist within existing GOP executive branch agencies, DSUD will concentrate on identifying those key policy constraints amenable to change and on actively supporting their reform Implicit in the DSUD approach is the belief that placing greater resources and responsibility at the local rather than national level, and increasing the role of the private sector, will best achieve the Program's overall objectives, including improvement in the living conditions of the urban poor.

Although the DSUD will necessarily touch on all of the Mission's objectives, objectives no. 3 and 4 will be most directly addressed by the Program. Thus, a key assumption of DSUD is that urban economic growth in the Philippines is

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significantly constrained by the highly centralized delivery of shelter and infrastructure services. The decentralization focus of the Program will therefore foster a more efficient delivery system Further, DSUD assumes that urban economic growth in the Philippines will be driven by the private sector. In supporting decentralization, DSUD will facilitate the greater responsiveness to private sector needs and opportunities on the part of those locally responsible for service delivery, as compared with central bureaucratic structures which often have a strong anti-private sector bias.

However, the project also has as its aim the improvement of living conditions in urban slums, a result which does not necessarily follow from either private sector activities or decentralization of authorities to local governments. To bring about such a result, therefore, policy changes must also be accompanied by activities at the local level which will enable poor communities to take advantage of the new opportunities to share in increased local resources. This aspect of the project directly contributes to the Mission's open society theme.

3.3.2 RELATED PREVIOUS AND ON-GOING USAID ASSISTANCE

For more than 20 years USAID has provided assistance to local governments in the Philippines through a variety of projects, both infrastructure-oriented and more general planning assistance USAID provided support to GOP's Provincial Development Assistance Program (PDAP), a long-standing effort at enhancing local capacity (especially at the provincial level) through the Provincial Development Project (PDP) and the Local Government Project (LGP). Under PDP, advisors, commodities and training for selected provinces were funded to develop sector programs in infrastructure and tax administration. Under LGP, USAID attempted to help the GOP develop mechanisms to reduce transportation costs, expand public investment, promote equitable taxation policies and improve market access These goals are similar to those under DSUD and LDAP, and the lessons learned can be built upon as the efforts are extended.

Other relevant USAID projects implemented during the period of PDAP (1968-1980) and under its strategic umbrella were the Barangay Water Projects, the Rural Service Center Project and the Real Property Tax Administration Project. Barangay Water Projects I and II focused on the design, installation and maintenance of barangay cooperative water systems Lessons learned indicated that a fairly high level of supervisory input was necessary to achieve objectives. DSUD's focus on the Highly Urbanized Cities (at least initially) will incorporate these lessons in confronting the interface between barangay and city responsibilities for this type of infrastructure

The Rural Service Center Project focused on incorporation of greater inputs from poor residents in the design of service center infrastructure, another area in which DSUD can build on the output of previous projects. Finally, the Real Property Tax Administration I Project undertook tax mapping and related management and collection activities, with the objective of increasing local

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revenue generation. Successes from RPTA have been recorded and assessed. DSUD builds directly on these successes and moves the issue into the area of policy dialogue with GOP, in order to institutionalize the gains made while pushing for their extension.

Currently, several USAID efforts are pursuing complementary objectives to those proposed in DSUD. These include the Local Resources Management Project (LRM), which has assisted regional planning both through increased local resource mobilization efforts (tax management) and incorporation of beneficiaries, including NGOs and poor communities in project identification and design In addition, the Municipal Development Fund Project (MDFP) of the ESF Program provides assistance to municipalities to implement and manage small-scale, locally prioritized infrastructure project development. Lessons learned from these efforts underline further the need to ensure adequate technical assistance DSUD's focus on the highly urbanized cities is predicated on the assumption that technical capacity in the project design and implementation areas is already considerable and will not be a constraint, and that the technical assistance component of the Project will thus be aimed at national agencies and organizations in a systems design mode, rather than individual local governments, as in some of these previous and on-going efforts.

3.3.3 LOCAL DEVELOPMENT ASSISTANCE PROGRAM

USAID's proposed Local Development Assistance Program (LDAP) will directly complement the activities of DSUD Both programs will concentrate on contributing to sustainable economic growth by supporting decentralization reform. Through the increase of local governmental units' access to resources, support of administrative authority at the local level and an increase in the role of the private sector Fund releases from the Economic Support Fund in LDAP and from HG loans for DSUD will be subject to the GOP's achieving certain performance indicators developed as part of Policy Matrices for each program. Technical assistance and training will complement the policy dialogues central to the two programs.

Although LDAP will affect all local governmental units, its prime focus will be on the province and smaller municipalities It will, therefore, directly address those units of government not addressed by the focus of DSUD on larger chartered cities. DSUD will focus more on the particular issues in the delivery of shelter and urban development services while LDAP will address broader administrative and fiscal issues. Finally, LDAP technical assistance will include capacity-building at the local level; DSUD will focus its technical assistance and training efforts on strengthening institutions, interest groups, and NGO's which operate at the national level to assist city governments, community groups and the private sector to undertake decentralized economic and shelter development activities

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3.3.4 OTHER DONOR EFFORTS

A number of other international donor projects are currently underway which complement DSUD. The World Bank's Housing Sector Loan provides a variety of support to the Government's housing sector agencies, including the National Housing Authority and the National Home Mortgage Finance Corporation. The loan is designed to improve the effectiveness and efficiency of these agencies.

The on-going World Bank Urban Sector Program provides support for several DPWH programs such as the Metro-Manila Infrastructure Utilities and Engineering (MMINUTE), the Regional Cities Development Program (RCDP) and the Program for Essential Infrastructure Utilities, Maintenance and Engineering Department (PREMIUMED). All of these are designed to improve infrastructure delivery systems at the local level. However, a major focus of Bank activity has been Metro-Manila, and shelter activities, while DSUD will focus on the network of secondary cities outside Manila (HUCs) which must serve as the first line of defense for protection of metro-Manila's revenue base, and hence the ultimate sustainability of these Bank efforts.

Over $50 million has been provided by the Bank as loan funds to DLG for the Municipal Development Project (PREMIUMED), of which $3 million was used to fund the Municipal Training Program (MTP) for local executives The Program, which started in 1985 and will end in 1991, will provide training for mayors in management skills for 45 municipalities Under MTP's phase two, the Local Government Academy of DLG is finalizing a project proposal for IBRD to fund training activities for the less urbanized chartered cities, i e , class five and six municipalities DSUD will have significant interaction with the LGA in the technical assistance component of the Project, drawing on the lessons learned from these previous and on-going training efforts but focusing more directly on "training of trainers" activities to institutionalize existing local capacity which has now been created by these and other efforts

The Asian Development Bank is currently designing an Urban Development Project (PDUP), whose purpose is "to support GOP's decentralization program by strengthening the capabilities of selected LGUs to plan, implement and manage urban development projects." (from Philippines Urban Development Project Preliminary Briefing Paper, ADB) The project will select approximately 15 LGUs from outside the National Capital Region; of these, 5 to 7 will receive financial assistance to address priority development needs All 15 will get assistance in institutional strengthening DLG will also receive assistance in decentralization and devolution of powers to LGUs It appears that at least some of the 15 cities will be Highly Urbanized, meaning that they will be targets under both the ADB and USAID projects, but the approaches of the two projects are very different the ADB will be providing direct assistance to the cities, while USAID will focus on policy changes at the central level that will affect the cities in positive ways. Coordination between the two efforts is already taking place during design, and that coordination will continue during implementation to ensure that the projects complement each other to the extent possible

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A number of other donor efforts involve decentralization components or related assistance. CIDA has established a regional development fund to support GOP's decentralization efforts in three regions -- Regions VI, IX and XI. IBRD is currently conduction a study on decentralization to help GOP with the general framework.

3.3.5 GOVERNMENT OF THE PHILIPPINES ACTIVITIES

The Government of the Philippines National Shelter Program, adopted in 1987, is designed to address the country's shelter needs and to refocus attention on the particular needs of the lowest income groups. Its specific objectives are:

1) increase accessibility of homeownership to lower income groups;

2) ensure affordable long-term mortgage financing for housing;

3) mobilize the private sector in shelter;

4) ensure an equitable geographic distribution of housing benefits;

5) demonstrate the viability of low-income home mortgages;

6) improve institutional capabilities through decentralization and regionalization and reduction in standards;

7) mobilize the informal sector's involvement in housing;

8) mobilize additional capital for housing through provident funds and voluntary savings schemes.

Although some of the programmatic results of these objectives, particularly with respect to direct GOP construction and financing of housing units, are directions that A.I.D. worldwide housing policy would discourage, the objectives themselves are very much in line with current sector thinking and with DSUD. In particular, the program stresses the need to decentralize the activities of the various shelter agencies. Efforts have begun in this area although it is too early to assess their impact.

The GOP Shelter Program also focuses on enhancing the role of the private sector and NGOs in the provision of housing. As such, the DSUD will directly support the GOP's efforts in this area

3.3.6 PROPOSED NEW LOCAL GOVERNMENT CODE

The GOP has expressed its intention to revise the Local Government Code in order to grant significantly increased responsibility and financial autonomy to local governments. The House version of the proposed new Code (HB 310246), recently reported out of the House Committee on Local Government, combines 192 previously submitted bills (with 185 authors) into an omnibus, compromise bill that seems likely to be passed at some point in the current session (1990).

As a compromise bill it also takes fairly moderate positions on a number of important issues, and must further be reconciled with the Senate version, currently SB 155, which contains broadly similar provisions but some critical differences of detail which may take time to reconcile.

Issues that will affect project implementation and that derive from the passage or interpretation of a new Code include (but are not limited to) the following (see Annex 8 for detailed discussion):

a. Tax rate minima. In the case of business licenses, these are floors and thus not a constraint; the problem will be to get cities to set them at realistically higher levels. In the case of property taxes, maximum ceilings are set on assessed vs. market value, while floors are set on the tax rates to be applied to the assessed value. In addition, while the draft bill is quite clear in inviting the use of private sector resources to accomplish public purposes, tax appraisal, assessments and collections are expressly prohibited for private sector participation

b. A large functional portfolio is transferred to LGUs. Theoretically, the attendant resources previously used by the central agencies providing the services are also transferred The procedure for defining and allocating these resources to the LGUs is left to the agency concerned in its 6-month-hence plan and 18-month-hence implementation after passage of the code, initiated and overseen by the executive Social welfare functions and resource needs, if not carefully scheduled in this transfer, could easily overwhelm the LGUs, especially in the initial phase This would have serious implications for infrastructure spending.

c. Internal Revenue Allotments (IRA) from central funds are mandated at 25%, based on the actual collections for the second year preceding the fiscal year in question, and allocated 20% to provinces, 25% to cities, 40% to municipalities, 15% to barangays Within these categories, the distribution is 60% population, 20% land area and 20% equal shares in the house version The Senate version increases the share to cities and decreases that to provinces, these are likely to be lengthy negotiating issues. Funds are to be released on a monthly basis The importance of this is that in general the ability of the LGUs to predict revenue, including that from central transfers, must increase in order for competent budgeting and capital planning to be done. The complexity of these allotment algorithms does not augur well for planning needs.

d. Development councils and capital plans are mandated Development councils will comprise both elected officials and technical heads of department at all levels in the system, and will formulate the capital plan. This is both an intervention point for technical assistance and a way of introducing technical criteria into the project identification and appraisal process locally, rather than political criteria completely controlling these

e. On environmental impact: all LGUs are mandated to "maintain environmental balance" within their jurisdictions. National or regional projects (and local

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private sector activities) that will have environmental impact must be discussed with the relevant LGU.

f. Some central agency staffs will be transferred to the city payrolls and mayoral appointment; others, the traditionally "conservative" agencies, will continue to forward lists to the mayor for choice. Civil service rules and regs will be applied to large numbers of local government staff, but it is not clear at what level this ceases (ie , where strictly subordinate staff start).

In general, the draft Code indicates a firm intention to increase local autonomy. More scope for the actual exercise of this is likely to come from the increased local revenue sources and responsibilities than from the rather murky and half-hearted provisions relating to the transfer of staff and resource from central agencies. This is in accord with the project's assumptions and thrusts.

3.4 Gender-related Concerns

There is a dearth of gender-disaggregated data in urban areas. Mucn of the information currently available on this topic is focused on the rural sectors of Philippine society For these reasons, this section will concentrate on raising potential issues, which will be addressed as the program is implemented. Highlighted are the issues relevant to the impact of improving housing and related infrastructure on women belonging to the lower socio-economic classes of Philippine society.

Potential Areas of Inquiry/Research·

1. Available literature and statistics show that there are more women than men in urban areas. This is especially true in the National Capital Region, where there are 100 women for every 93 men. Whether these trends prevail among all social classes and in all geographical areas within the urban centers is not known. What explains this phenomenon is not fully understood, although we can posit some explanations.

What appears to be clear, however, is that these trends increase the potential impact of the shelter program on women inasmuch as they consist of the majority of residents in urban centers. A better understanding of female distribution by social classes and physical location, and in addition, of seasonality in these trends would further enhance the program's potential impact on women.

2. Traditional cultural values view women to be more suited for home-based activities. Division of labor in agricultural societies clearly show this distinction. Labor statistics also exhibit similar patterns.

Are these values and trends changing? In which classes are they still most pronounced? If there is a gradual loosening of such values, what accounts for the change? What is the impact of a program for shelter and related activities on women who are culture-bound to their homes?

3. Economic survival of poor households demands that more household members, besides the traditional breadwinner, be engaged in gainful activities These demands have gradually pushed more women to seek employment outside of the home to supplement the husband's income. Other women have engaged in income generating activities which are home-based, e g , small-scale food processing or contract garment production

Will the program improve the access of women to more income generating activities? Will it give them more time to do so? What are the implications of employment on the workload of women? Is it true, as some social scientists observe, that outside employment is increasingly overloading women inasmuch as their workload outside does not automatically decrease the demands on their time devoted to household responsibilities?

4. Another issue which affects women pertains to the GOP's shelter programs. Relocation and resettlement are usually both desired and desirable, and success of such a program can lead to decongesting of slum areas. To the extent that resettlement occurs, residents may lose some of the social insurance very poor communities provide members. This is most likely when the slum community acts as a protective environment for the poor rural migrant moving into cities. The slum community functions as a zone of transition facilitating the migrant's absorption into the city

Resettlement diminishes this role. Households resettled in new areas temporarily or permanently lose the social protection of their old communities. In these instances, women are probably more affected than men because their daily activities revolve around the home.

These and similar issues will be looked at by the Housing and Urban Development IQCs as the program is implemented.

4. PROJECT DESCRIPTION

The project will combine capital assistance funded through Housing Guaranty program loans with grant-funded technical assistance and training to support a GOP policy agenda that seeks to: (1) devolve greater authority and responsibility to city governments; (2) develop a system for financing the cities which is communsurate with their greater responsibilities, and (3) enhance the cooperation between city governments, NGOs, and the for-profit private sector in fulfilling these new responsibilities

The largest component of the project is the $50 million of loan guaranties provided through the HG Program As a prerequisite to the HG loans, the GOP will present a Policy Matrix which A I.D. can endorse by incorporating it into the HG Program Implementation Agreement for DSUD. The Policy Matrix will define the steps which the GOP will take to implement their decentralization policy agenda in the Chartered Cities The Policy Matrix would be supported by the HG authorization totalling $50 million in loan guaranties The disbursements of these resources will be controlled by the HG Program Implementation Agreement Tranches will be released based on GOP progress in achieving their Policy Matrix benchmarks and their generation of budget expenditures eligible for HG loan support

Coupled with the policy agenda are GOP expenditures under an agreed-upon Investment Plan, which also focuses on the Chartered Cities. The local currency equivalent of the HG loan disbursements will be attributed to budgetary items which contribute to the improvement in shelter and shelter-related conditions for below median income households. A review of 1990-91 budget items indicates that expenditures well in excess of the Peso equivalent of $50 million can be attributed to eligible activities. See Chapter 5 for details of the IP.

Technical assistance and training grant funds will be used to support development and implementation of the policy action plan, monitor expenditures under the investment plan, conduct evaluations of all project components, and fund day-to-day project management.

4.1 PROJECT INPUTS

Project inputs are a Housing Guaranty Loan of $50 million; technical assistance and training of $4 million; and policy dialogue between USAID/Manila (with support from RHUDO/Asia) and the GOP. Two PSC hires based in USAID/Manila will monitor the GOP expenditures attributable to the HG loan, coordinate the technical assistance and training contract(s), and assist in the policy dialogue process.

The HG loan provides the GOP with unrestricted dollars. An equivalent $50 million in Pesos will be expended by the GOP on shelter-related urban infrastructure to benefit below median income households. The Peso expenditures are national budget components that are not additional beyond funds normally budgeted.

The HG loans will be disbursed in three tranches of $15 million, $15 million, and $20 million. Each disbursement will be preceded by an Implementation Review where the GOP and A.I.D jointly assess progress against the benchmarks contained in the Policy Matrix and the execution of the Investment Plan. The first two of these reviews will also be used to reach agreement on any needed modification of the Policy Matrix and/or Investment Plan which are to be applied to subsequent disbursement tranches. The first HG loan tranche is expected to be disbursed in calendar year 1991, and subsequent tranches are expected in approximately yearly intervals depending on the progress of implementation Should either the policy benchmark progress be deemed not sufficient or the peso expenditures for eligible purposes not be fully made, the disbursement tranches would be delayed until such was achieved.

Short-term technical assistance consists of 24 person-months of expatriate consultants and 60 person-montns of Filipino consultants. An estimated 24 persons will receive U S.-based training. Some funds are also provided for in-country and third-country training activities.

Policy dialogue focuses on a Policy Matrix to be negotiated between USAID and the GOP consisting of mutually agreed-upon policy actions and performance benchmarks against which to measure policy progress.

4.2 PROJECT OUTPUTS

Peso expenditures equivalent to the $50 million HG loan will finance shelter-related urba, infrastructure over three years. This amount represents approximately 36% of the GOP's three-year, $141 million expenditure on shelter-related infrastructure benefitting low-income urban households.

Training and technical assistance and policy actions will result in:

- Substantial increases in Chartered Cities' local revenue collections (75% increase) by Year 3.

- Capital budgeting improvements in at least 12 Chartered Cities.

- Improved management of commercial-like services (e.g., solid waste collection, markets, etc.) and cost recovery policies in at least three Highly Urbanized Cities.

- Decreased central government regulations and approval/review procedures for land development, construction of shelter and urban infrastructure, and local taxes and fees.

- Expanded private sector delivery of some basic services in at least six HUC's.

Detailed descriptions of the three project components are in separate, following chapters:

Chapter 5: The Investment Plan

Chapter 6: Policy Matrix

Chapter 7: Technical Assistance and Training

5 THE INVESTMENT PLAN

5.1 HG INVESTMENT OBJECTIVES

Under the bilateral HG Implementation Agreement, USAID and the GOP will jointly agree upon an investment program for urban shelter-related infrastructure in an amount equal to, or greater than, the peso equivalent of $50 million guaranteed under the HG program. The agreed upon investment program will be a list of eligible expenditures which can be attributed against the HG loans.

The investment plan financed through the HG-supported loan program has as its objective the targeting of resources toward investments that will improve the shelter conditions of the urban poor, as required by statute.

5.2 SELECTION OF HG ELIGIBLE PROGRAMS

The HG authorizing legislation specifies that expenditures financed by the peso equivalent of the dollars lent under the HG program be for shelter and/or shelter related infrastructure directed at the below median income population. These criteria limit the types of infrastructure that can be included in the HG investment program to expenditure items for shelter such as sites and services, slum upgrading, and community mortgage programs; for shelter supportive infrastructure such as water supply, drainage and flood control, and for access roads and foothpaths and solid waste management Such expenditures are considered eligible under the HG program only to the extent that they are suitable for below median income households

For purposes of identifying expenditure items for inclusion in the Investment Plan, the GOP budgeted amounts for shelter and shelter related infrastructure for 1990, 1991, and 1992 were taken from the General Appropriations Act of 1990 and the proposed program budgets of the respective agencies for 1991 and 1992 (whenever program estimates were available).

Individual projects for highly urbanized cities and chartered cities were sieved from the total agency programs and their respective annual budgets determined. These annual budgets were further broken down into their component parts based on funding sources Loan components, both foreign and local including equity contributions of the private sector as in the case of the NHA joint venture programs, were determined and deducted from the total annual budget of the individual or specific shelter and shelter related infrastructure projects. The difference, then, represents the GOP contribution for the specific project.

These expenditure items are sieved further to take into consideration the beneficiary criterion which requires that the projects be suitable for the below median income population. Through this additional refinement process, the expenditures for attribution against the HG loan were identified.

Expenditures on identified projects which are non-shelter related such as small water impounding dams, shore and river protection, pumping stations, major roads and highway, markets and slaughterhouse, maintenance equipment and similar expenditure items have been excluded from the computation of HG attributable expenditures.

GOP budgetary allocations for projects which specifically cater to shelter and shelter-related needs of the below median income population, such as NHA site and services and slum upgrading projects, are thus proposed for attribution to the HG loan. However, other projects are city-wide in coverage and thus would be difficult to attribute solely to below median income population (i.e., access roads - Level III water supply, drainage and flood control, PREMIUMED, RCDP and solid waste management) For these projects, 50% of the GOP budgetary allocations has been used for attribution purposes, on the grounds that income data have established that at least 60% of residents of chartered cities are below the national median income level Nevertheless, it is difficult within the limitations of the design to differentiate and define the below median income population for each city under study A conservative estimate is therefore used to ensure that such expenditure are in fact attributable to the HG target population

There is the further co[illegible]eration that most of these city-wide projects have considerable donor [illegible] (see Annexes for details of fund sourcing) It can be argued that the [illegible] donor loan components represent that portion of the specific project e[illegible]itures which can be apportioned for the "above median income population" (if the loan components represent approximately 30% to 50% of the project costs) while the rest of the project expenditures can be allocated for the below median income population. Again, project expenditures would have to be correlated with actual computations of the population-income profiles for each city.

Lastly, although the four municipalities within Metropolitan Manila or the National Capital Region are not included in the GOP's formal designation of Highly Urbanized Cities, they are included for purposes of HG attribution under the project because they form an integral part of the most highly urbanized area in the country Moreover, municipalities are not included under the related LDAP activity and, therefore, including them in this project is appropriate

The following have been identified for inclusion as HG eligible expenditures:

TABLE I

	1990	1991	1992
NHA shelter programs	386.554	90.115	n.a.
DPWH level 1 water supply	186.28	204.39	155.38
LWUA level 2 & 3 water supply	35.40	79.777	n.a.
MWSS water supply	467.15	500.38	253.32
DPWH drainage and flood control	36.804	26 816	22.586
DPWH access roads and foot paths	131 342	154 52	237.42
DPWH solid waste management	50.000	80.00	121.72
DPWH urban development projects	1.57	3 67	3.41
TOTAL - HG ELIGIBLE EXPENDITURES	1,294.10	1,139.70	793.83
TOTAL in U.S. $	56 m	50 m	35 m

Source: (various - see Project Design Files)

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5.3 DESCRIPTIONS OF HG-ELIGIBLE PROGRAMS

5.3.1 NHA Shelter programs

The total NHA program cost for 1990 amounts to P 1,079 73 million; out of which P 482 million is funded out of the GAA (P 167.215 million of which is alloted for land assembly and the rest for project implementation) while P 313.075 million is funded by corporate revenues and carry-over obligations. Foreign loans account for P 69.608 million or 6 4% of the total 1990 program while local loans account for P 217.52 million or 20 15% of total project cost. Of the total NHA program cost, P 649 251 million or 60 13% is allocated for various shelter programs in chartered cities or highly urbanized cities, P 386.6 million of which can be attributed to the HG loan For 1991, the projected amount for attribution is P 90.115 million.

NHA Shelter programs include

a) Sites and Services - This refers to the acquisition and development of raw lands for low cost housing. The objective is the provision of serviced lots for low income families as catchment areas for in-migration and population growth . Homelots are allocated to the benefeciaries where housing units can be constructed on a self-help basis or through affordable housing finance. This program is implemented directly by the NHA or in joint venture with other agencies For 1990, the Sites and Services projects of NHA cover 20 cities with 37 sites costing P 380 956 million. The 1991 budget covers 12 cities and costs P 367.164 million.

b) Slum Improvement Program - This program entails the acquisition of land and the on-site improvement of occupied land through the introduction of basic infrastructure and services The land tenure issue is resolved through the sale of homelots to bonafide occupants. The concept is to provide an alternative to slum clearance and resettlement and to resolve the issue of squatting and slum conditions The basic strategy is reblocking and improvement of dwelling units through self-help The viability of this program depends on effective community participation, provision of affordable basic services, availability of funds for land acquisition or workable tenurial arrangement between the landowners and the occupants This program is being undertaken directly by NHA, by local governments, or through joint venture arrangements among parties concerned such as landowners, government agencies and NGO's.

The 1990 program includes 64 slum upgrading projects in 13 cities with a total cost of P 204.005 million.

c) Community Mortgage Program - The CMP is a home financing program to facilitate the regularization of land tenure for squatters through a loan from the National Home Mortgage Finance Corporation. CMP enables urban poor squatter communities to purchase the land they occupy or land where they can resettle. Basic conditions under the program are: the community must be

organized to avail of communal financing and the land-owners must be willing to sell their property at a negotiated price. The community can later avail of a second NHMFC loan for land development; and individual beneficiaries, after securing land titles, may get to avail of a third loan for home improvement/construction. The total financing package for 1990 is P 18.369 million spread over 8 sites in 6 cities.

5.3.2 DPWH SHELTER-RELATED PROGRAMS

The DPWH accounts for 9.40% of the 1990 national budget, of which P 1,375.52 million can be considered as urban infrastructure. Of this amount P 405.99 million can be attributed to the HG loan.

a) Level I Water Supply - Level I water supply pertains to the provision of artesian wells and development of springs at the barangay level. While this is largely a rural-oriented project, it has a substantial urban component aimed at providing safe and potable water to low-income communities not being reached by Level II and Level III water supply projects Level I projects are preconditioned on the formation of potential water users in a Barangay Water Works and Sanitation Association (BWSA), which shall own, operate and maintain the constructed water supply facilities The BWSA must have been duly approved and registered by the respective city councils, while the members are required to undergo the training and orientation provided by DPWH The DPWH is allowed to release the funds to LGU's which have the capacity for the water supply project construction For this purpose, funds allocated for the project may be used for the purchase of drilling and maintenance equipment to be used by the LGU's. For 1990, the nationwide Level I water supply program amounts to P 1.263B of which P 186 28M have been allocated to cover 55 cities. For the same year, P 186 22 million is attributable to the HG loan. The 1991 budget projections for water supply projects of chartered cities amount to P 204 39 million.

b) Drainage and Flood Control - Included in this category are street drains which are either open canals, covered canals or reinforced concrete pipe culverts which collect surface water run-off and household effluents Excluded from these are such flood control projects as shore protection, river protection and dams, pumping stations, collector drains and laterals along major national roads and highways not directly servicing residential areas. The 1990 budget appropriated P 192.68 million for urban drainage and flood control projects. Excluding major river control projects such as shore protection and mini-dam, the HG attributable cost is P 36 804 million. The projected urban budget for 1991 amounts to P 140.015 million

c) Access Roads - Appropriations for access roads are included under the 1990 GAA Chapter XXXI " National Assistance to LGU's" and are categorized as barangay roads Though largely a rural-oriented project consisting of new all-weather unpaved roads or regraveling, paving or asphalting of existing roads with emphasis on providing farm-to-market access, this project also includes urban access roads servicing below median income residential communities. For 1990, P 1.53 billion has been appropriated for barangay

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roads nationwide, out of which P 262.684 million is allocated for urban access roads in 56 cities. The HG eligible expenditure amounts to P 131.342 million.

d) PREMIUMED - The Program for Essential, Municipal Infrastructure, Utilities, Maintenance and Engineering Development addresses the basic and often times critical needs for urban infrastructure and services in 45 urban areas throughout the country. It is funded out of an IBRD loan of $40 million, administered by the Department of Finance through the Municipal Development Fund The Program consists of four major components.

- Basic Infrastructure and Public Services such as sanitation, water distribution systems, drainage and flood control systems and solid waste management, markets, slaughterhouses, transportation terminals and traffic engineering.

- Infrastructure and Equipment maintenance including maintenance equipment and maintenance depots.

- Real Property Tax Administration Project including tax mapping, records conversion and management and real property tax collection improvement measures.

- Municipal Training Program which is aimed at improving the capability of local government staff in the following areas: municipal finance and revenue administration, municipal enterprise management; municipal budgeting project management; contract management and municipal engineering and maintenance.

The Program was started in 1985 and is expected to be completed by 1991. The budget allocations for 1990 and 1991 are P 38.83 million and P 142 million.

e) Regional Cities Development Project - RCDP is a project directed towards spurring economic development in four major regional centers (Davao, Cagayan de Oro, Bacolod and Iloilo) in order to enhance their capability to serve as alternate growth centers to Metro-Manila and provide the needed infrastructure services to hasten development in their respective rural hinterlands and regional catchment areas It is funded by an IBRD loan amounting to $47 million (originally $67 million but $20 million was cancelled in 1986) The Project was started in 1984 and is expected to be completed in 1990

The Project includes urban transportation, sanitation and drainage, municipal enterprise, shelter, livelihood, equipment procurement and technical assistance The 1990 budget appropriated P 28 million for RCDP.

The "Urban Infrastructure" projects in Table V of Annex 3 refers to the program of RCDP and PREMIUMED. Out of the combined budget for 1990 of P 66.83 million, projects costing P 37.63 million are located in the chartered cities. However, only P 1.57 million is attributable to the HG loan.

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5.3.3 LWUA URBAN PROJECTS

The Local Water Utilities Administration (LWUA) is primarily responsible for the development of water supply systems outside of Metro Manila The provision of water supply is the responsibility of local organizations, particularly water districts and local government units The LWUA, on the other hand, provides technical advisory services and financing There are three levels of water supply service Level I pertains to point sources such as rain collectors, wells and springs. Level II refers to communal faucet systems, generally for areas where houses are clustered densely enough to justify piped distribution systems with a faucet provided for a number of households Level III involves individual house connections. At present, Level I is being implemented by the DPWH, while Levels II and III are being provided by the LWUA (for areas outside Metro Manila) and by the MWSS (for Metro Manila and adjoining municipalities) The LWUA 1990 program, covering 19 cities, will cost P 340 9 million, while the 1991 program will cost P 552.47 million The LWUA urban project accounts for 30 1% of the total agency budget of P 1,133 9 million for 1990 Of this, only P 35 4 million will be attributed to the HG loan The disparity can be accounted for by the fact that the major expenditure items are sub-regional in coverage, such as those for Metro Iloilo and Metro Cebu, which would include non-urban areas. Allocations for such areas have been deducted from the total project cost for purposes of attribution.

5.3.4 MWSS PROJECTS

The Metropolitan Waterworks and Sewerage System (MWSS) has a total budget of P 3,582.73 million for 1990 and 1991 appropriated for various water supply and sewerage projects in Metropolitan Manila and immediate environs as follows:

TABLE II

BUDGET
(P MILLION)

	1990	1991
Groundwater Development Project	12.0	12.0
Manila South Water Supply Project Phase I	22.68	593.65
Manila Water Supply Project II	7.79	
Manila Water Supply Project III		12.52
Metro Manila Sewerage and Sanitation Project I (METROS I)	62.80	
Manila Water Supply Rehabilitation Proj. I	520.51	261.72
Manila Water Supply Rehabilitation Proj. II	388.61	621.74
Metro Manila Water Distribution Project	330.95	480.76
Locally-funded projects	165.00	90.00
TOTAL =	1,510.34	2,072.39

Source: MWSS Investment Program 1990-1991 Corporate Planning Division

The total expenditures attributable to the HG loan amount to P967.53 million for 1990 and 1991 with an additional P253.32 million estimated for 1992.

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6. POLICY MATRIX

The DSUD Policy Matrix (PM) guides GOP and USAID policy dialogue to support the GOP's decentralization program. DSUD's decentralization support emphasizes the increased role of city government and the private sector in the provision of urban infrastructure and shelter-related services. As with the other two DSUD project components, the PM reinforces USAID/Manila's program of support for decentralization policy incorporated in the Local Development Assistance Program (LDAP) and numerous predecessor projects. DSUD's PM focuses attention on the Chartered Cities (CCs), especially the twelve Highly Urbanized Cities (HUCs).

In conjunction with a $50 million Housing Guaranty loan, to be disbursed in three tranches based on progress in implementing the policy agenda, the PM promotes decentralization of both financing and management of urban services and further promotes increased roles for the for-profit private sector and not-for-profit non-governmental organizations In conjunction with technical assistance and training activities, the PM promotes improved performance at the city level in planning, financing and implementing urban development services and in working jointly with the for-profit and not-for-profit private sector to promote expansion of employment generating economic development

The policy agenda promotes decentralization as a means to increased urban economic development benefitting both the economy in general and lower income urban households The PM has three objectives:

1) Develop a self-sustaining system of financing for chartered cities to enable them to mobilize the resources necessary to fulfill their functions under a decentralized system,

2) Reduce urban and environmental infrastructure constraints on economic development in order to stimulate increased private sector activity, such as investment in production capacity and employment generation.

3) Improve the access of low income urban households to a sustainable shelter delivery system through increased private sector/NGO involvement, regulatory reform and mobilization of developable public lands.

To meet these three objectives, the GOP will implement specific policies to increase the revenue-generating capacity of local governments, reduce requirements and procedures which act as restraints on local economic development and adopt other specific policies which enable increased local responsibility for planning, financing and implementing urban services.

These policy actions will have long-run effects on economic and shelter sector performance that cannot be measured during the life-of-project due to the small-scale of the intervention measured against the total economy The intended long-run effects are increases in urban employment and decreases in urban underemployment, increases in the number of new starts among small

businesses (caused by informal sector economic activity increasing in scale to participate in the formal sector), and overall increases in gross production In addition, there should be decreases in the number of urban residents living in un- or underserviced, spatially disorganized squatter settlements and increases in the total amount of land serviced by infrastructure adequate to private shelter and commercial activities. The short-run effects are spelled out as benchmarks in the PM

6.1 OBJECTIVE 1: Develop a Self-Sustaining Finance System for Chartered Cities

As with most local governments in the Philippines, chartered cities presently do not have the financial resources to assume responsibility for a broad range of urban services. Most of the planning, financing and implementing of urban infrastructure and other services is carried out by central government departments As discussed in Chapter 2, this results in inefficient and insufficient provision of urban services, with negative consequences for the ability of the private sector to expand its economic activities and for the living conditions of the urban poor The GOP has already embarked on several initiatives to increase the revenue-generating capacity of local governments and to improve the efficiency of the central government's role in resource transfer and direct implementation of urban infrastructure projects Some of these initiatives form part of the LDAP policy agenda. The DSUD policy matrix will expand upon and extend these initiatives to the chartered cities

The specific policy actions to be taken by GOP to meet this objective are:

6.1.1 Chartered cities to improve overall collection efficiency of locally generated revenues.

Benchmarks for release of HG tranches will be percentage increases in local tax collections

6.1.2 Extension of the Real Property Tax Assessment (RPTA) program to all HUCs and additional CCs.

Benchmarks for release of HG tranches will be RPTA implementation in HUCs and CCs.

6.1.3 Delegate to local governments the authority to set property tax, business tax, licenses and permits, charges for services and other rates and charges without review by central government departments.

Benchmarks will be phased extension of DOF review waivers to HUCs and CCs or adoption of a Revised Local Government Code which legislates this delegation of authority.

6.1.4 Establish a program for CCs to obtain credit financing for urban infrastructure investments from private sources.

Benchmarks will be review and revision of DOF guidelines for CC debt limits and credit-worthiness standards and the preparation and offering for sale of city debt instruments.

6.2 OBJECTIVE 2: Reduce Urban and Environmental Infrastructure Constraints

The lack of sufficient quantity and quality of urban infrastructure is one of the serious impediments to private economic development identified in the analyses leading to this Project Paper. As a result of policy actions undertaken in support of DSUD PM Objective 1, supported in some cases by technical assistance activities, city governments will have increased capital from existing revenue sources to invest in increased quantity and quality of infrastructure. Other policy actions under USAID's LDAP to improve the delivery by central government to local government of such shared resources as the Internal Revenue Allotment (IRA) also will cause financial resources to increase for all local governments Policy actions in support of DSUD PM Objective 2 will assist urban governments in making economically more productive investment decisions due to improved planning and management procedures associated with the PM as well as the decreased role of central planning and control Further, there will be increases in the efficiency of infrastructure and other urban services provision due to decreased direct public sector provision and increased involvement of private sector firms in functions presently carried out by public sector institutions Urban and environmental infrastructure and other services also will become more economically efficient as a result of reductions in implicit and explicit subsidy levels in commercial-like public services such as solid waste collection, water services and others that have identifiable mechanisms through which cost recovery can be associated directly with beneficiaries.

The specific policy actions contributing to this process are as follows:

6.2.1 Guidelines will be developed by DOF/DLG and implemented by CCs to establish commercially oriented, financially viable operations of various publicly provided services.

Benchmarks will be development of guidelines to be implemented for selected services in selected HUCs.

6.2.2 Encouragement of private sector involvement in the delivery of basic services in HUCs.

Benchmarks will be issuance by DOF/DLG of policy and implementation guidelines for private provision of traditionally public services and pilot testing for selected services in at least 3 HUCs.

6.2.3 Improvement in capital investment programming in city governments through development by DOF/DLG and implementation by CCs of multi-year, rolling capital investment programs (CIPs).

Benchmarks will be review of the Metro Manila Commission Capital Investment Folio project undertaken in the early 1980s and of CIPs from other cities/countries, adaptation of an appropriate CIP model for CCs, and training and installation of the CIP in at least 12 CCs.

6.2.4 Devolution of central government funding and design/implementation responsibilities to CCs for smaller scale public works within CC jurisdictions

Benchmarks will be execution of Memoranda of Agreement between DPWH and selected CCs and subsequent devolution of funding and responsibilities to CCs for works with project costs not exceeding P10 million.

6.2.5 Extension of GOP's pilot decentralization program, currently limited to provinces, to include HUCs and selected CCs.

Benchmarks will be phased inclusion of all 12 HUCs and selected CCs in the program.

6.3 OBJECTIVE 3. Improve Access of Low Income Urban Households to Shelter Delivery Systems

Significant impediments in both public and private sectors exist which make improvement of low-income urban shelter conditions difficult. Beyond infrastructure deficiencies addressed above, the functioning of urban land markets is one of the key impediments The central government holds more land than is necessary to meet important national objectives such as national security, environmental protection, preservation of national heritage and preservation of natural resources This land could be made available initially to urban governments for subsequent private commercial development and provision of urban infrastructure Further, there are significant transaction costs to low income individuals and to private developers in securing land tenure and developing land for shelter and commercial purposes. For low income urban residents, private and public partnership activities to break through barriers to improved shelter conditions are impeded by existing policies and regulations and by lack of locally available technical assistance.

Specific policy actions which will address these impediments are:

6.3.1 The Department of Environment and Natural Resources (DENR) to carry out public land inventories in CCs to identify devlopable land not required to protect national interests, and transfer ownership of same to CCs.

Benchmarks will be inventory, classification and transfer of title to land in selected CCs.

6.3.2 Encourage private sector participation in provision of affordable housing in CCs.

Benchmarks will be implementation by NHA of at least 12 joint venture projects with private housing developers in CCs.

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6.3.3 Devolution of land use and subdivision regulatory authority, as appropriate, to LGUs in CCs.

Benchmarks will be review and delineation of national and local regulatory responsibilities by HLURB, and subsequent phased devolution of appropriate authority to at least 15 CCs.

6.3.4 Encourage NGOs in CCs to assist low-income residents of informal settlements to acquire and improve their homelots.

Benchmarks will be expansion by HUDCC of its existing program to include additional land acquisition projects in CCs and to encourage NGO-assisted design and implementation of appropriate infrastructure improvements in at least 15 project communities.

6.4 POLICY ACTION MATRIX

The following matrix illustrates the policy objectives, implementation actions and benchmarks that will be associated with the three projected HG tranches. Final actual wording will depend upon the outcome of negotiations with the GOP

DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROJECT

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E TRANCHE 1	TRANCHE 2	TRANCHE 3
1. Develop self-sustaining system of financing for Chartered Cities	a) Chartered cities to mobilize additional revenues.	Improvement in tax collection efficiency of chartered cities.	Chartered cities (as a group) equal or exceed target of 20% increase in local tax collections in 1989 over 1988.	Chartered cities (as a group) equal or exceed target of 45% increase in local tax collections in 1990 over 1988.	Chartered cities (as a group) equal or exceed target of 75% increase in local tax collections in 1991 over 1988.
	b) Complete the RPTA program in selected Highly Urbanized Cities and additional chartered cities.	Number of Highly Urbanized Cities (HUCs) and Chartered Cities (CCs) completing the RPTA program.	RPTA program initiated in at least 35 HUCs and CCs.	RPTA program completed in at least 15 HUCs and CCs.	RPTA program completed in at least 30 HUCs and CCs.
	c) Chartered cities empowered to establish all local tax rates, fees and charges, within existing legislative limits without review or approval by central government.	DOF waiver of review requirement and chartered cities to set and adopt local tax rates, fees, and charges.	DOF tax rate approval waiver provided to 12 Highly Urbanized Cities.	DOF tax rate approval waiver provided to 30 chartered cities.	DOF tax rate approval waiver provided to all chartered cities.

LGU - Local Government Unit; DLG - Dept. of Local Government; DOF - Dept. of Finance; MOA - Memorandum of Agreement; GOP - Government of the Philippines; RPTA - Real Property Tax Assessment, HUC - Highly Urbanized City, CC - Chartered City, CIP - Capital Investment Program; DPWH - Department of Public Works and Highways; DENR - Dept. of Environment and Natural Resources, LMB - Land Management Bureau of DENR; NHA - National Housing Authority, HLURB - Housing and Land Use Regulatory Board, HUDCC - Housing and Urban Development Coordinating Committee.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE TRANCHE 1	TRANCHE 2	TRANCHE 3
	d) Establish a program for chartered cities to obtain credit financing for urban infrastructure investments.	DOF establishes credit-worthiness/ borrowing standards. Chartered cities issue bonds or credit instruments.	Review of present guidelines and promulgation of maximum debt limit and credit-worthiness standards for chartered cities by DOF.	At least 2 chartered cities initiate the process (e.g. prepare "prospectus") for infrastructure finance from the private sector.	At least 2 chartered cities offering for sale instruments of city debt to finance infrastructure projects.
2. Reduce urban and environmental infrastructure constraints on local economic development	a) DLG/DOF to encourage cities to adopt more commercial approach to recovering costs of urban and environtal services.	DLG/DOF develops guidelines for cities to use in planning and operating financially viable service delivery and in identifying any necessary subsidies.	Guidelines developed for one service (e.g. solid waste collection)	Guidelines developed for two more services (e.g. transport terminals, markets and slaughterhouses), guidelines from Tranche 1 implemented in 3 HUCs.	Guidelines from Tranche implemented in 3 HUCs.
	b) DLG/DOF encourage private sector involvement in the delivery of basic services in Highly Urbanized Cities.	DLG to adopt plan to improve private sector delivery of basic services in HUCs.	DLG to issue policy and implementation guidelines for testing private sector delivery of basic services such as solid waste collection, markets, and contract maintenance for roads in the HUCs.	Conduct pilot testing of private sector delivery of some basic services in 3 HUCs.	Expand private sector delivery of some basic services to 6 HUCs.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE TRANCHE 1	TRANCHE 2	TRANCHE 3
	c) DLG/DOF assist establishment of multi-year, rolling capital investment programs (CIPs) in chartered cities.	Initiation of test program, development of model framework for extension to cities beyond test program.	Review Capital Investment Folio project from old Metro Manila Commission and CIPs in other cities/ countries.	Adapt model CIP to at least 6 chartered cities, train staff and develop CIP process in those chartered cities.	Train staff and adapt and develop model in a total of at least 12 chartered cities.
	d) Devolve funding and implementation responsibilities for appropriate urban and environmental public works projects to chartered cities.	DPWH to design and implement a national program to assign design/implementation responsibilities and funding for public works projects of less than ₱10 million value to chartered cities.	DPWH to sign Memorandum of Agreement with at least 2 chartered cities.	DPWH to transfer authority and funding to 2 pilot cities and have MOAs signed with at least 7 cities.	DPWH to transfer authority and funding to second group of 5 cities and have MOAs signed with at least 17 cities.
	e) Expand the GOP pilot decentralization program to incorporate cities.	Number of HUCs and CCs to participate in the pilot decentralization pprogram.	Select and prepare first 6 HUCs to participate in the pilot decentralization program.	At least 6 HUCs are participating in the program, and 6 more are being prepared.	12 HUCs are participating in the program, and at least 10 CCs are being prepared to participate.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	TIMETABLE TRANCHE 1	TRANCHE 2	TRANCHE 3
3. Improve access to sustainable urban shelter delivery system for low income households	a) DENR to undertake inventory of public lands in chartered cities, identify those areas which can be ~~titled via~~ Presidential Proclamations and turned over to LGUs.	1) Inventory of public land in urban areas 2) ~~Transfer title~~ for developable areas to local governments.	LMB to prepare action plan for public land inventory.	1) LMB to have initiated inventory in at least 3 chartered cities. 2) DENR to determine policy on reclassification of land which need not remain public in the national interest.	1) LMB to have initiated inventory in at least 9 chartered cities. 2) Based on DENR policy, LMB to prepare Presidential proclamations to turn over to the original 3 chartered cities reclassified land identified as suitable for development.
	b) Encourage participation of private sector in provision of affordable housing.	NHA to determine and implement a program of housing construction in joint ventures with private developers in chartered cities.	NHA to be implementing at least 6 joint venture projects in chartered cities.	NHA to be implementing at least 8 joint venture projects in chartered cities.	NHA to be implementing at least 12 joint venture projects in chartered cities.
	c) Devolve land use and subdivision regulatory activities to chartered cities as appropriate.	HLURB to develop policy clearly outlining national and local regulatory responsibilities	HLURB to define appropriate national and local planning regulatory jurisdictions.	HLURB to devolve identified functions in at least 5 chartered cities.	HLURB to devolve identified functions in at least 10 additional chartered cities.
	d) Encourage NGO and chartered cities to assist low income urban communities to acquire and improve their homelots and houses.	HUDCC to expand implementation of its program to encourage NGO/city assistance to associations of informal settlers in acquiring homesites, introducing services, and improving housing.	HUDCC implementing at least 8 NGO-assisted community land acquisition projects.	HUDCC implementing at least 20 land acquisition projects and design/implement with NGO technical assistance infrastructure improvements in at least 5 of the landed projects.	HUDCC implementing at least 35 land acquisition projects and infrastructure improvements in at least 10 landed projects.

7. TECHNICAL ASSISTANCE AND TRAINING

7.1 OBJECTIVES

The technical assistance and training component of this project has several objectives:

- to advance the GOP's ongoing decentralization efforts with policy studies, systems development packages, and information exchange and training workshops;

- to direct the opportunities offered by decentralization (both that which already exists and that which is being promoted in this and related projects) towards increased economic development and private sector activity in urban areas, especially low-income neighborhoods;

- to provide management, monitoring, and evaluation services for all components of the project;

- to provide technical support and training to NGO and private sector groups to enable them to mobilize human and other resources to promote increased investment, both public and private, in urban low-income neighborhoods;

- to provide local and U S consulting services to public and private agencies in order to advance the agreed-upon policy matrix;

- to use procedures in the development of the elements noted above that will foster the development of a local technical assistance and training support system for the decentralization effort.

7.2 RECOMMENDED ACTIVITIES

Several types of training and technical assistance interventions are planned:

A) Policy studies that will 1) identify the critical urban infrastructure and service needs that constrain sustainable economic growth and shelter development in the cities and analyze policy changes needed to permit improved infrastructure provision; 2) develop strategies to mobilize the resources of the community to meet those needs once the policy environment becomes more favorable; (3) refine and extend the policy agenda in response to studies; and (4) provide input to policy implementation as needed

Some examples of the topics which might be treated under the policy studies component are:

- Case studies to analyze the infrastructure needs for private sector development and the policy constraints to its provision and maintenance;

- Analysis of constraints to city governments' mobilization of private capital on the financial market;

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- Examination of the opportunities for private sector provision of urban shelter and services in the chartered cities and how city governments can encourage such undertakings.

- Urban land policy study to analyze constraints to efficient operation of the urban land market, particularly with regard to supply of serviced land for private development.

- Study of land development standards as set by various levels of government and of their impact on shelter and other development costs.

- Study of inputs--land, finance, infrastructure--to low cost urban shelter development and identification of barriers to private sector activity in this area

- "Co-financing" of LDAP decentralization policy studies to extend or apply them to chartered cities' situations.

- Analysis of role for NGOs in urban community organization for development; adaptation of successful models of NGO/city government urban development efforts in low-income areas.

- Study of policy environment for private sector participation in urban development: identification of needed policy changes and identification of activities that can take place under varying policy scenarios, including "no change "

- Gender-related research including essential family data, women's access to public and private services employment and income considerations, rural-urban migration, etc.

B) Systems development activities that will: 1) identify successful local experiments in the Philippines that have used innovative approaches to the provision of urban services essential to sustained economic growth and private sector activity; 2) identify the variables that led to the local successes; 3) develop strategies that will allow those successful experiences to be adapted to the needs of other urban centers, 4) assist in the implementation of those strategies in two or three cities to field test their validity; and 5) build a local capability to continue in the implementation of the strategies in other appropriate cities.

Some examples of technical assistance and training topics in systems development are:

- Develop or adapt multi-year, rolling capital investment planning process for all highly urbanized areas. This process would incorporate economic, budgetary, and spatial planning efforts to replace current project-by-project approaches.

- Develop a simplified, performance-based recurrent budget model to measure unit costs of various recurring work activities, develop budgets for each, and account for costs according to those activities performed. This approach greatly strengthens operation and maintenance. It would be applied to pilot cities first and then extended.

- Develop an urban services performance measurement system and apply it in the 12 Highly Urbanized areas: e.g., tons of solid waste collected per 1000 inhabitants, kilometers of paved streets per 1000 inhabitants, revenue collections and collections efficiency ratios.

- Develop environmental planning systems that can easily be used by city governments to assess environmental impacts of proposed investments, mitigate potential damage to the urban environment, and undertake projects and programs that will result in improvements to the urban environment.

C) Support to associations of public officials, private sector organizations, women, NGO groups, and other community leaders (1) to improve their ability to influence decentralization policy implementation as well as how and where public investments are made, (2) to organize communities to become involved in shelter and economic development activities as policy changes allow, and (3) to share successful experiences, and establish an information dissemination system

D) Training to locally elected and appointed city officials to sensitize them to the role of city governments in fostering local economic and shelter development and to the benefits of an equitable distribution of such development within their cities, including service delivery to women and women-headed households Emphasis will be placed on city governments as coordinators and facilitators of development led by private sector activity.

E) Training and orientation to central government agencies in support of changes that form a part of the urban decentralization policy agenda

F) Participation by GOP, city officials, representatives of private sector organizations and NGOs in national, Asia regional, and international networks concerned with decentralization and urban development in order to maximize flows of ideas and information within the country and among other countries with similar goals.

In addition to these short-term activities, two locally-contracted Personal Services Contractors will provide USAID with project management and monitoring services on a day-to-day basis over the four-year life of the project. Scopes of work for these two positions are contained in Annex 10.

7.3 TECHNICAL ASSISTANCE AND TRAINING STRATEGY

The required technical assistance and training will be provided in several different ways:

Long-term project monitoring will be handled by two locally-hired Personal Services Contractors funded by the project's grant. The Mission Urban Adviser will need to be an experienced professional and the second individual will also need solid technical and analytical skills. Scopes of Work for these two positions are presented in Annex 10.

Short-term TA and training will be provided by a combination of U S and local suppliers. The extremely decentralized governmental structure of the United States, while clearly not directly transferable to the Philippines, does offer a variety of models of decentralization which could be useful as the GOP takes their first steps to decentralize The A.I D buy-in contract with the International City Management Association (ICMA) offers a particularly relevant resource for the DSUD project ICMA is a U S professional association of city administrators which can provide the access to hands-on expertise needed by city government officials in the Philippines By linking ICMA with the Philippine League of City Mayors, this aspect of the technical assistance package can move beyond the past "capacity building" exercises which seem to have had so few positive results at the local level and establish an on-going collegial linkage relationship between U S and Filipino urban managers to meet the practical demands of operationalizing decentralization Such an arrangement can also improve the ability of the League of City Mayors to advocate policy changes at the central level. The ICMA has the capacity to arrange for and manage training programs for local officials, including study tours and custom designed courses where necessary, as well as to provide technical assistance

ICMA can be accessed via a buy in to an existing contract with A I D 's Office of Housing and Urban Programs, reducing the Mission management burdens and delays often accompanying a new procurement

A second aspect of the technical assistance and training program is a flexible source of funding for other studies and training activities needed at the central level to advance the policy agenda A variety of local firms and Housing and Urban Development IQCs will be used for studies and other consultancies; the contracting will be managed by the Mission Urban Adviser.

The strategy for providing locally-based technical assistance and training combines long term institutional relationships with short term consulting. Two institutions in particular offer effective ways of reaching various project client groups· government officials at both the central and local level, community based NGOs, and private sector actors with the potential for becoming involved in urban development activities being promoted by the project.

One institution is the Local Government Academy (LGA), part of the Department of Local Government LGA has recently been created to act as a coordinator for providers of technical assistance and training to LGUs. With World Bank support, the LGA will build a network of professionals from a wide variety of institutions whose skills can be brought to local development support activities on a case-by-case basis. It is also developing and adapting technical assistance and training technologies appropriate to the various Philippine local settings The LGA could be used as an umbrella mechanism for providing local training to officials and local professional expertise in support of decentralization.

The second local institution identified for possible participation in the local TA and training component is Philippine Business for Social Progress (PBSP) The PBSP is a private, non-profit organization founded by a group of business people in 1970 to encourage the business sector to undertake various social and economic development projects This organization offers the unusual combination of an umbrella NGO institution and for-profit private sector expertise The group has already done some work to promote projects with the urban poor, either directly or through support to other NGOs at the local level. They are interested in undertaking more work in housing and urban development. Their mandate, experience, and existing regional network make them a potentially effective means of providing local TA and training, either as discrete activities or in conjunction with expatriate assistance.

DSUD TECHNICAL ASSISTANCE & TRAINING GRANT BUDGET
($000)

PROJECT ELEMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
Technical Assistance:					
Mission Urban Advisor	70	74	77	13	234
Asst Urban Adv.	14	16	18	7	55
Admin Asst.	5	6	7	3	21
Short-Term TA	280	400	440	40	1,160
ICMA Buy-In	250	300	330	130	1,010
Monitoring:					
Financial Monitoring		28	28	14	70
Perf. Monitoring	50	50	50	60	210
Audit				25	25
Training:	75	82	91	47	295
NGO/Private Sector Support:	200	250	300	100	850
Contingency (2%):	17	21	24	8	70
TOTAL	961	1,227	1,365	447	4,000

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8. FINANCIAL PLAN

8.1. COST ESTIMATES AND FINANCIAL PLAN

The Decentralized Shelter and Urban Development (DSUD) Project will have a $50 million Housing Guaranty (HG) Loan component. These loans will be provided by U.S. investors and guaranteed by the U.S government through A I.D 's Housing Guaranty Program. It is anticipated that a total of $50 million will be authorized with Letters of Advice issued in FY 90 and 91 ($25 million per year), and released through three annual loan disbursements (estimated releases for FY '91 $15M, FY '92 $15M, and FY '93 $20 M) However, before the annual Housing Guaranty Loans are disbursed, the GOP must achieve the agreed-upon policy agenda and expend the equivalent amount of pesos for eligible budget line items plus an agreed-upon buffer amount

To complement the Housing Guaranty, ESF grant project funds amounting to $4.0 million will be used to provide technical assistance, training, monitoring, evaluation and audit The technical assistance and training costs are budgeted at $2 775 million and $ 850 million for NGO/Private Support which will fund efforts to enhance and streamline the roles and responsibilities of the local government in infrastructure and shelter related development efforts, problem identification in program monitoring, analysis of current policies, and system development activities The financial monitoring, evaluation, audit and contingency components are anticipated to amount to $.375 million The Government of the Philippines' counterpart contribution is expected to amount to $1 3 million

Table 1 reflects the planned yearly authorization of $50 million for Housing Guaranty loans and grant obligations of $4 million for the life of DSUD. The illustrative project budget is presented in Table 2 as the Summary of Cost Estimates and Financial Plan Table 3 shows projections of expenditures by fiscal year for the Housing Guaranty loans and grant funds. Also, Table 4 shows projections of expenditures by fiscal year and project elements for only USAID funds ($4 million) Inflation factors have been calculated into the line item budgets for technical assistance, training, PVO/private sector support and evaluation. Contingency has been estimated yearly as 2% of all expenditures.

TABLE 1
AUTHORIZATION OF THE HOUSING GUARANTEE LOANS
& PLANNED YEARLY OBLIGATIONS
($000)

FY	HG	AID GRANT	AID TOTAL
90	25,000	1,383	26,383
91	25,000	800	25,800
92		1,817	1,817
93			
TOTAL	50,000	4,000	54,000

TABLE 2
SUMMARY COST ESTIMATE & FINANCIAL PLAN
($000)

PROJECT ELEMENT	HOUSING GUARANTY		AID GRANT		TOTAL		GOP COUNTERPART		GRAND TOTAL
	FX	LC	FX	LC	FX	LC	FX	LC	
1. Housing Guaranty Loans	50,000	-	-	-	50,000	-	-	-	50,000
2. Technical Assistance	-	-	2,404	76	2,404	76	-	-	2,480
3. Training	-	-	295		295		-	-	295
4. NGO/Private Support	-	-	-	850	-	850	-	-	850
5. Financial Monitoring, Perf. Mont. & Audit	-	-	305		305		-	-	305
6. Contingency	-	-	70		70		-	-	70
7. Support Srvs./ Urban Dev. Activities	-	-	-	-	-	-	-	1,334	1,334
TOTAL	50,000	-	3,074	926	53,074	926	-	1,334	55,334

TABLE 3
PROJECT EXPENDITURES BY FISCAL YEAR
($000)

FY	HG	AID GRANT	AID TOTAL
91	15,000	961	15,961
92	15,000	1,227	16,227
93	20,000	1,365	21,365
94		447	447
TOTAL	50,000	4,000	54,000

TABLE 4
PROJECTION OF EXPENDITURES OF GRANT FUNDS ONLY
BY FISCAL YEAR & BY PROJECT ELEMENT
($000)

PROJECT ELEMENT	FY '91	FY '92	FY '93	FY '94	TOTAL
TECHNICAL ASSISTANCE:					
Resident TA:					
Mission Urban Advisor	70	74	77	13	234
Asst Urban Advisor	14	16	18	7	55
Administrative Asst	5	6	7	3	21
Short-Term TA:	280	400	440	40	1,160
ICMA:	250	300	330	130	1,010
Total Technical Assistance	619	796	872	193	2,480
TRAINING:					
Total Training	75	82	91	47	295
NGO/PRIVATE SECTOR SUPPORT:	200	250	300	100	850
MONITORING/EVALUATION/ AUDIT:					
Financial Monitoring		28	28	14	70
Perf. Monitoring	50	50	50	60	210
Audit				25	25
Total Monitoring/ Evaluation & Audit	50	78	78	99	305
Subtotal Expenditures	944	1,206	1,341	439	3,930
Contingency (2%)	17	21	24	8	70
TOTAL EXPENDITURES	961	1,227	1,365	447	4,000

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8.2 FINANCIAL MANAGEMENT OF THE HOUSING GUARANTY LOAN

Under the HG Loan component, a maximum of $50 million of commercial loans will be made by U S. lenders to the GOP. The loan's typical repayment period is 30 years with a 10 year grace period on principal repayment. Interest rates are usually marginally higher than the 30 year U S Treasury bond rates Under the HG Program, the U. S. Government provides a 100% guaranty on the timely repayment of both principal and interest to the U.S lenders USAID charges a 1% loan origination fee at the time of disbursement, and a guaranty fee of 0 5% of the outstanding principal each year to the borrower (GOP)

The Loan Management Division of the A I.D Office of Financial Management in Washington, D C. will be responsible for the financial management aspects of the HG loan guaranties The A.I D. Office of Housing and Urban Programs, acting through the Regional Housing and Urban Development Office for Asia (RHUDO) will be responsible for the overall administration of the HG component of the project, including approval of borrowings by the GOP (in conjunction with USAID/Philippines) and the recording of GOP peso expenditures against the project's Investment Program.

8.3 METHODS OF IMPLEMENTATION AND FINANCING ($000)

PROJECT ELEMENTS/ METHOD OF IMPLEMENTATION	METHOD OF FINANCING	AID TOTAL
1. Housing Guaranty Loan/ Implementation Agreement 3 Loan Agreements	Guaranty	$ 50,000
2. Technical Assistance, Training/AID Direct Contracts Host Country Contracts	Direct Payment Direct Payment/ Reimbursement and Advance-Liquidation	2,480
AID Direct Payment by OIT	Direct Payment	295
3. NGO/Private Support Grant Host Country Contract AID Direct Grant	Direct Payment/ Advance-Liquidation/ Reimbursement	850
4. Financial Monitoring Evaluation & Audit/ AID Direct Contracts	Direct Payment	305
5. Contingency	Depending on inputs shown above	70
	TOTAL	$ 54,000

8.4 HOUSING GUARANTY FUNDS USAGE

A maximum of $50 million of non-appropriated funds will be loaned by U.S. investors. USAID will provide loan guarantees to the U.S. investors, but will not release appropriated funds to the GOP under this component. Also, pesos will not be generated by the GOP as a result of this transaction. The only financial requirement for the GOP is to show that sufficient pesos are attributed or expended to satisfy the requirement of the HG program which specifies that the GOP submit financial reports.

8.4.1 DOLLAR USES

Since most of the activities supported by the Housing Guaranty financing do not actually use U. S. dollars but are implemented with local currency, the use of the U. S. dollars borrowed under the Housing Guaranty program is unrestricted. Dollars could be used for any purpose, including balance of payments relief or investment in other sectors needing foreign exchange Therefore, there is no need for a Housing Guaranty Dollar Special Account

8.4.2 PESO USES

Under the Housing Guaranty Loan Program, the borrower does not need to convert dollars into local currency. There is no explicit requirement for a Housing Guaranty Peso Special Account.

However, a prerequisite to A I D.'s loan guaranty is for the GOP to expend an amount in local currency at least equivalent to the dollar disbursement Local currency disbursements should be made against eligible budget categories agreed upon in the Housing Guaranty Investment Program as described in Chapter 5.

8.4.3 REPORTS

On a quarterly basis, the Government of the Philippines (GOP) through the Department of Budget and Management (DBM) will submit disbursement reports on the eligible budget categories for all implementing agencies. The aggregate disbursement reported for the eligible budget categories should be more than the local currency equivalent of loan dollars disbursed. The actual amount of the buffer will be agreed upon by the GOP and USAID during negotiations of the HG Implementation Agreement which will include an adequate amount for disallowances and suspension.

Also, on a yearly basis, the Government of the Philippines will have to issue a certification that amounts reported as having been disbursed have not been reported against other foreign assistance made availabe to the National Government of the Philippines for the period covered by the report.

8.5 ESF PROJECTIZED COMPONENT

Approximately $1.383 million of the $4.0 million grant portion is expected to be fully obligated in U. S. Fiscal Year 1990. This will be sourced from funds deobligated in US Fiscal Year 1990. The balance is expected to be obligated in Fiscal Years 1991 and 1992 under the regular appropriation process of ESF Grant Funds.

A bilateral grant agreement will be executed to obligate funds for the project. Earmarking, commitment and disbursement will follow, depending on the project's pace of activity. Flow of USAID funds will be subject to standard rules and regulations. All foreign exchange costs under AID direct contracts or Host Country Contracts will be paid directly by USAID. At its option, USAID may make direct payments for local currency costs to suppliers/contractors under host country contracting upon submission of the request to USAID by the implementing agencies.

8.6 MONITORING

This component represents cost allocation for both project and financial monitoring. Activities should be monitored to ascertain that progress on the Policy Matrix and the Investment Program occurs and that financial reports on the Investment Program activities are substantially consistent with physical progress. Project and financial activities will be monitored jointly by an AID direct contractor, USAID technical managers and concerned GOP department or agencies Periodic progress reviews will be conducted to assess the status and rate of project implementation.

In addition, the Mission Urban Adviser normally conducts periodic random inspections of activities funded by the HG loan. Likewise, verification of financial records is undertaken. (For details of the Monitoring and Evaluation component, see Chapter 10.)

8.7 EVALUATION

A detailed performance review plan will be drafted to assist management in identifying constraints to project implementation and assessing project impact. This plan will include three performance reviews preceding the three HG disbursements during the course of the project as well as a final impact assessment of the project as a whole prior to the project's completion.

8.8 AUDITS

Primary responsibility for audits of the USAID-funded project component lies with the Regional Inspector General's Office (RIG). However, in the event that the RIG is unable to carry out the audit activities, an external auditing firm will be contracted for the purpose. If RIG undertakes the audit of projectized activities, funds allocated for audit will be used for other authorized project activities.

8.9 GOP FINANCING

During the life of the project, the GOP will continue to provide funds to locally elected governments in the 60 chartered cities, through its regular cycle of budgeting appropriations, at the level consistent with the priority given to decentralization of urban infrastructure and services Housing Guarantee Loans are nonappropriated funds, therefore GOP counterpart contribution is not required However, the GOP through policy reforms will provide funding for specific budget categories to decentralize funding to locally-elected governments in the 60 Chartered Cities The GOP, by signing the HG Agreement, shall agree to disburse no less than the peso equivalent of the $50 million HG fund for shelter-related infrastructure benefitting low income households.

9. IMPLEMENTATION PLAN

9.1 IMPLEMENTING ORGANIZATIONS

9.1.1 GOVERNMENT OF THE PHILIPPINES

A) Department of Finance (DOF)

The DOF will be the lead implementing agency for DSUD, and will chair interagency meetings as needed on DSUD with representatives from various implementing agencies involved in the project. The DOF and USAID-RHUDO will closely coordinate with each other in the conduct of joint project implementation reviews concerning achievement of policy benchmarks contained in the policy matrix and expenditure of pesos according to the investment program.

In addition, the DOF will:

i) In coordination with the Department of Budget and Management (DBM), prepare and certify reports to USAID-RHUDO covering GOP peso expenditures on shelter-related infrastructure contained in the project investment program.

ii) As specified in the policy matrix, DOF will be responsible for the timely achievement of policy benchmarks identified with the agency as well as for preparing and submitting to USAID-RHUDO reports covering overall GOP policy performance.

iii) Cooperate with project funded contractors by providing necessary information and guidance to carry out their scopes of work.

B) National Economic and Development Authority (NEDA)

NEDA will assist the DOF in coordinating with the various implementing agencies under the project, particularly with regard to encouraging the achievement of policy implementation benchmarks. Toward this end, NEDA will take the lead role in coordinating the conduct of policy studies in support of DSUD in cooperation with the League of City Mayors and various GOP implementing agencies NEDA will also cooperate with project funded contractors by providing necessary information and guidance to carry out their scopes of work.

C) Department of Local Government (DLG)

DLG (and its Local Government Academy) will take the lead role in coordinating the conduct of system development studies and related training provided under DSUD funding to GOP central government agencies and selected city governments. As specified in the policy matrix, DLG will be responsible for timely achievement of policy benchmarks identified with the agency. DLG will also cooperate with project funded contractors by providing necessary information and guidance to carry out their scopes of work.

D) Department of Budget and Management (DBM)

In coordination with DOF, the DBM will prepare and certify reports to USAID-RHUDO covering GOP peso expenditures on shelter-related infrastructure contained in the project investment program. DBM will be responsible for facilitating the achievement of policy benchmarks to the extent that other implementing agencies require their review, approval, or funding. DBM will also cooperate with project funded contractors by providing necessary information and guidance to carry out their scopes of work.

E) Other GOP Departments and Organization

The DPWH, DENR, NHA, HLURB, and HUDCC will be responsible for timely achievement of policy benchmarks identified with their agencies in the project's policy matrix In addition they will· (i) prepare and submit reports to the DOF on the achievement of specified policy benchmarks; and (ii) cooperate with project funded contractors by providing necessary information and guidance to carry out their scopes of work

9.1.2 FILIPINO PRIVATE SECTOR, ASSOCIATIONS, AND NGOs

A) Private Sector Organizations

Private Filipino consulting firms, training specialists, and businesses will participate in the project. Consultants and trainers will provide professional services funded either by the project grant or the GOP's own resources. Businesses are anticipated to play an increasing role in cooperation with city governments and the NHA in the financing, development, and operation of basic urban services and housing.

B) The League of City Mayors (LCM)

The LCM will be the focus of assistance provided by the U.S. International City Management Association (ICMA) under DSUD grant funding LCM will use the resources of ICMA plus other project funded short-term technical assistance to· (i) enhance their advocacy role in promoting decentralization policies affecting chartered cities, (ii) increase their services to mayors in the form of seminars, conferences, and training programs related to promotion of shelter and urban development benefitting low income Filipinos, (iii) develop an information dissemination capability to share successful new activities developed in the member cities in areas such as cooperation with the private sector and NGOs, privatization of city services, service performance monitoring systems, environmental pollution control and abatement, and slum improvement.

LCM will also participate in an advisory capacity at the project implementation reviews conducted by the DOF and USAID-RHUDO. LCM views on implementation and possible revision of the project's policy matrix will be solicited as a representative of the leaders of chartered cities.

C) Non-Governmental Organizations (NGO)

A Philippine umbrella NGO, such as the Philippine Business for Social Progress (PBSP), will use a project-funded cooperative agreement to promote the development of community based NGOs in various chartered cities The focus of this effort will be to promote community organizations and development in slum areas so that the communities can more effectively articulate their needs for shelter, infrastructure, and services at the city government level.

9.1.3 AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.)

A) Regional Housing and Urban Development Office for Asia (RHUDO)

RHUDO has the delegated authority for implementation of the Housing Guaranty (HG) component of DSUD. This authority will be exercised in close cooperation with the USAID/Philippines Mission RHUDO, with the assistance of the General Counsel of the Private Enterprise Bureau (GC/PRE), will draft the HG Implementation Agreement in consultation with the Mission Negotiation of the Implementation Agreement with the GOP will be a joint activity of RHUDO, GC/PRE, and the Mission.

RHUDO will participate with the Mission in the policy dialogue component of the project and play a major role in the implementation review process with the GOP. With Mission concurrence, RHUDO will recommend to AID/Washington the initiation of HG borrowings by the GOP under DSUD RHUDO will also assist the Mission to perform all field functions necessary to the completion of the HG borrowing process and loan disbursement.

RHUDO will also provide shelter and urban development experts as staff support to the USAID technical office (see ORAD below) responsible for implementation of the grant component of DSUD. This support will include training and supplementary guidance for the Mission Urban Advisor who will work under the day-to-day supervision of the Mission. It will also include advice on the management of the technical assistance and training activities, project monitoring for both the policy matrix and investment program, and project evaluation activities.

RHUDO has two direct hire Housing and Urban Development officers plus two regional PSCs all based in Bangkok. In addition, the RHUDO can call upon the backstopping assistance of the Office of Housing and Urban Programs (PRE/H) in AID/Washington, as well as legal counsel from GC/PRE.

B) USAID Office of Rural and Agricultural Development (ORAD)

Within USAID/Philippines, project implementation will be the prime responsibility of the Rural Development Division, Office of Rural and Agricultural Development (RDD/ORAD). They will work in close cooperation with RHUDO. RDD/ORAD will manage the grant funded activities supporting the project. This encompasses monitoring of project implementation, including adherence to the policy matrix and investment program, monitoring of the technical assistance and training activities, and conduct of the progress reviews and evaluation activities.

RDD/ORAD's monitoring of the project will focus on the policy accomplishments and investment expenditures of the various GOP entities, resolving unanticipated implementation problems, and maximizing the impact of project grant assistance.

RDD/ORAD has two direct hire U.S officers and three Filipino professionals. Additional technical and management expertise in shelter and urban development will be provided by a project-funded PSC who will serve as the Mission Urban Advisor (MUA) attached to RDD/ORAD. Appropriate ORAD support staff will be provided as required

C) Other USAID Offices

The Office of Development Resources Management (ODRM), Office of the Program Economist (OPE), the Office of Financial Management (OFM), the Contract Services Office (CSO) and the Office of Legal Advisor (OLA) are expected to provide additional technical, legal, and professional expertise in various activities of the project

9.2 IMPLEMENTATION OF THE HG COMPONENT

Upon satisfaction of the conditions precedent to the first tranche borrowing under the HG Implementation Agreement (see Chapter 12 for details), USAID-RHUDO will approve a GOP request to seek a U S. lender to provide a $15 million loan guaranteed by A I.D The lender will be selected by a competitive process after the GOP has specified (and A I D. has advertised in the Federal Register) the features of the loan desired. After A I D. approval of the GOP's choice of lender and loan structure, the parties will enter into several agreements (i) the Loan Agreement between the DOF and the U S lender; (ii) the loan-associated Paying and Transfer Agency Agreement between the DOF and the A I D -approved Paying Agent, (iii) the Contract of Guaranty between A I.D. and the U S. lender, (iv) the Republic of the Philippines Guaranty Agreement between the DOF and A.I D.

When these agreements have all been successfully concluded, the U.S. lender will disburse the first tranche loan of $15 million (less A.I.D. fees and other fees/costs) to the GOP as instructed by the DOF.

Upon satisfaction of the Conditions Precedent to the second tranche borrowing, the same procedure will be used to disburse the second $15 million to the GOP.

Upon satisfaction of the Conditions Precedent to the third tranche borrowing, the same procedure will be used to disburse the third and final $20 million to the GOP.

9.3 IMPLEMENTATION OF THE GRANT COMPONENT: PROCUREMENT PLAN

The authorized source/origin for procurement under the project is the United States except as specifically waived. Procurement will follow the relevant AID Handbooks and regulations, including Handbook 1B, Procurement Policies for all procurements, Handbook 13, Grants, for the small support grants; Handbook 14, Procurement Regulations, for AID-direct contracting No major commodity procurement is included in the project.

Five major types of procurements are contemplated under the grant component of DSUD:

A) a buy-in to the existing contract between A.I.D. (PRE/H) and the International City Management Association for services to be provided to, and at the direction of, the Philippine League of City Mayors;

B) a cooperative grant agreement with an appropriate Philippine NGO which can serve as an intermediary institution that will provide subgrants to community-based NGOs for community development work in support of the objectives of the project,

C) short-term contracts with U S firms using purchase orders, work orders under Indefinite Quantity Contracts (IQC), or 8(a) mechanisms for policy studies, system development studies, and related training,

D) short-term training in the U S , the Asia Region, or the Philippines;

E) Personal Services Contracts to acquire the expert services of a Mission Urban Advisor and supporting professional and clerical staff.

9.4 IMPLEMENTATION SCHEDULE

	Implementation Action	Actors	Date
FY 90	Grant Project Agreement Signed	USAID, NEDA	Sept '90
	Recruit PSCs	USAID	Sept '90
	PIL No. 1 (Grant) issued	USAID	Sept '90
FY 91	HG Implementation Agreement Signed	USAID, DOF	Dec '90
	PSC's contracted	USAID	Dec '90
	ICMA buy-in executed	USAID	Dec '90
	Cooperative Agreement signed	USAID	Dec '90
	First Performance Review	USAID, DOF	Jan '91
	First HG Disbursement	USAID, DOF	May '91
FY 92	Second Performance Review	USAID, DOF	Jan '92
	Second HG Disbursement	USAID, DOF	May '92
FY 93	Third/Final Performance Review	USAID, DOF	Jan '93
	Third HG Disbursement	USAID, DOF	May '93
	Close-Out procedures initialed	USAID	Sept '93
FY 94	Impact Evaluation	USAID	June '94
	PACD		Sept '94

9.5 GRAY AMENDMENT CONTRACTING

USAID has fully considered the potential involvement in this project of small and/or economically and socially disadvantaged U.S. enterprises, and has determined that the U.S technical assistance required for policy implementations, monitoring, and evaluation services is best provided through open competition. Special consideration will be given to proposals that utilize the resources of small and/or disadvantaged U.S. firms.

9.6 ENVIRONMENTAL CONSIDERATIONS

The purpose of the program is to foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase, over an extended time period, the access of low income urban Filipinos to shelter and services needed for healthier and more productive lives. One of DSUD's objectives is to stimulate increased private economic activity through reduction of urban and environmental infrastructure constraints This is expected to have a positive impact on the environment of participating urban areas and chartered cities Because the principal objective is policy reform, a categorical exclusion from further environmental review was recommended at the time of PID preparation. However, ANE (now ENE) felt that because this project has components that could have a direct impact on the environment, project resources should be used to support environmental planning, training and assistance, particularly for waste collection and disposal It was also requested that the design team include expertise to address these questions. The above environmental concerns were taken into account during the PP design. A revised Initial Environmental Examination, to be signed by the Environmental Officer of the Bureau for Europe and the Near East, is included with this PP.

10. MONITORING AND EVALUATION

10.1 MONITORING OBJECTIVES

The project's monitoring objectives are:

1) to monitor the shelter and urban development indicators, and the benchmarks, related to the Policy Matrix;

2) to ensure that the proposed HG-supported investment program expenditures are in accordance with the beneficiary below-median-income test of Section 223 (j) of the Foreign Assistance Act (FAA); and

3) to ensure that the technical assistance and training directly support the GOP's Policy Matrix initiatives

10.2 POLICY MATRIX (PM) MONITORING

The jointly developed GOP/A I.D. PM will be formulated to assist the GOP in carrying out its on-going decentralization policy initiatives in the urban sector. Monitoring the implementation of the PM is essential to support the GOP's commitment to undertake difficult reforms. Qualitative monitoring will contribute to this process and assist the GOP, RHUDO, and USAID in determining project accomplishments.

The PM will be agreed upon jointly with the GOP and formulated in the Implementation Agreement for the Housing Guaranty Program. This matrix, as further described in Chapter 6, will include a menu of steps to further the GOP's decentralization policy.

A Mission Urban Adviser (MUA), resident in Manila, will be contracted by USAID under a Personal Services Contract. This PSC Urban Adviser will provide technical support to an USAID-designated Project Officer on execution of actions requiring direct hire status. The MUA will have overall responsibility for monitoring the GOP's progress on the implementation of the PM The MUA will be in close and continuous contact with the GOP officials responsible for PM implementation The MUA will prepare quarterly status reports on the plan, identifying progress, accomplishments, emerging opportunities and obstacles. Suggestions on how to use project technical assistance to address the opportunities/obstacles would also be part of the reporting. The MUA reports will be provided to RHUDO, the Mission's Office of Rural and Agricultural Development (ORAD), and the Project Committee The Committee will periodically review the project's progress and report their findings to the USAID Mission Director The RHUDO and USAID Project Committee will determine, in consultation with the GOP, the timing and terms of reference for independent performance reviews of the PM progress. These independent reviews will be conducted prior to each HG loan disbursement. A final project impact evaluation will be carried out just prior to the conclusion of the project.

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10.3 INVESTMENT PROGRAM MONITORING

10.3.1 ELIGIBLE INVESTMENTS

Section 223 (j) of the FAA requires that Housing Guaranties support shelter or shelter-related activities (e.g., infrastructure) suitable for families below the median income. The Investment Program (IP) designed for this project will be monitored to verify the suitability of local currency urban shelter and infrastructure expenditures for the shelter needs of below median income households. Chapter 5 describes the GOP programs and projects that will produce eligible expenditures for purposes of attribution of the Housing Guaranty local currency program

10.3.2 INVESTMENT PROGRAM MONITORING/REPORTING PROCESS

The GOP, through the Department of Finance (DOF) and Department of Budget and Management (DBM), will provide quarterly reports on the IP so that the pace of expenditure is monitored and any potential problems identified

These reports will be submitted to RHUDO by the MUA, who will spot check the reported expenditures by examining randomly selected investments from those reported for conformance to the urban shelter relationship and beneficiary income criteria RHUDO, through the MUA, will verify that the selected investments have actually been made and that they are suitable for the HG target group by field inspection of a small percentage of the sites specified in the reports The MUA will prepare reports documenting the verification measures employed and the results of each investment monitoring mission. Based on these monitoring missions, the Assistant Director for RHUDO/Asia will compile and maintain a list of approved expenditures by the GOP and report it back to the GOP by Project Implementation Letter (PIL) These PILs will be structured to show the amount of the HG eligible expenditures approved by A.I.D. as of the date of the PIL RHUDO will take responsibility for this aspect of monitoring and reporting on the IP based on guidance provided by the Office of Housing and Urban Programs and its cognizant General Counsel. The Mission Urban Adviser will be assisted by one full-time Assistant Urban Advisor to help monitor field activities.

10.4 TECHNICAL ASSISTANCE AND TRAINING PLAN MONITORING

The implementation of the TA and training component of the project will be monitored on behalf of A.I.D by the Mission Urban Adviser. The MUA will manage the contracting process and provide technical direction to the TA and training contractors. The MUA will monitor the quality and effectiveness of the contractors' performance by maintaining close contact with the consultants in-country, their GOP counterparts, and by reviewing their contractually specified reports. The MUA will assist A.I.D. in identifying any problems in the implementation of the TA and training plan and advise the Mission on ways to use TA and training resources to address opportunities and obstacles to the

achievement of the project's overall objectives. The MUA will also maintain close contact with the GOP implementing agencies involved in the TA and and training activities.

10.5 PERFORMANCE MONITORING/EVALUATION

Three external performance monitoring exercises are planned over the life of this project. The first will precede the first HG loan disbursement, now expected in 1991, the second will precede the second disbursement, now planned for 1992, and the third will precede the final disbursement planned for 1993. The final evaluation will be an impact evaluation and will occur just prior to the PACD. These dates could change, depending on the pace of GOP disbursements.

The objective of the project monitoring exercises will be to assess project progress and accomplishments, both in terms of the PM implementation and IP expenditures. The primary objective of the three exercises will be to review the action items in the PM in terms of identifying benchmark accomplishments, emerging opportunities and obstacles. The first two of these will also propose changes to the PM, as appropriate.

The final external evaluation will review overall action plan implementation in relation to benchmarks achieved, and their impact on purpose-level indicators, as well as review IP expenditures in relation to eligibility under Section 221 of the Foreign Assistance Act.

To carry out the performance monitoring, a team of up to four persons, possibly consisting of an evaluation specialist, one municipal finance/management specialist, an urban policy specialist, and the Mission Urban Advisor will be required for up to four weeks. The urban policy and the municipal finance/management policy specialists will have prior experience with policy action programs. Funding for these three reviews is provided for in the project's performance monitoring/evaluation line item.

In addition to the three formal monitoring exercises, the establishment of the proposed monitoring system will also assist in the overall evaluation of the project. The MUA will be in close contact with the GOP project manager, will keep detailed records of each meeting with the GOP, and will prepare quarterly progress reports on the implementation of the PM Detailed meeting memoranda, as well as quarterly reports, will document the project's history and will assist the external evaluators in fully documenting and assessing the project's policy impact.

11 SUMMARY OF PROJECT ANALYSES

11.1 ECONOMIC ANALYSIS SUMMAPY

This section provides a summary of the economic analysis of the benefits and costs of DSUD, the economic policy environment, and the country risk analysis. A full description of the economic benefit-cost analysis is provided in Annex 5.

11.1.1 ECONOMIC ANALYSIS

Mobilizing economic development in urban areas or particularly in potential growth areas outside Metro Manila will be a critical factor for determining the rate and pattern of growth of the Philippine economy in the next decade. However, the economy's capacity to expand its narrow development base depends on the availability of adequate infrastructure, including shelter and basic urban services One means of facilitating the development and maintenance of shelter-related infrastructure and the effective delivery of basic social services such as affordable housing is a decentralized system of government.

Adequate shelter-related infrastructure is critical for achieving the goals of sustained economic growth, open markets, and an open society Shelter-related infrastructure, such as roads, and drainage and water systems, opens up markets and the economy through the establishment of linkages between homes and businesses in the metropolis, secondary cities, and market towns. These linkages create employment and private sector business opportunities which stimulate economic growth, provide adequate access to goods and services which enable people to exercise meaningful choice for their betterment as well as the overall development of society, and spread the benefits of development to help sustain an open Philippine society.

Economic Benefits

The economic benefits of DSUD policy reforms for increased local autonomy would arise first from increased efficiency in the use of resources and enhanced equity in the incidence of revenue and spending patterns Second, to the extent that new money is available to the chartered cities, from increased local revenue collection and savings due to efficiency gains, and these revenues are used in the production of urban infrastructure, there are economic benefits from multiplier effects on private sector production, employment and income, The growth of domestic production and efficiency gains which decentralized development brings are highly associated with the flourishing of more competitive markets, increased mobility of labor and transformation of urban areas especially outside Metro Manila into more commercial and specialized production areas, and critical market centers for both rural and urban areas

If the collection rate of all cities is increased from 60.67 percent from 1990 (using the 1988 rate) to 65 percent in 1993, assuming a gradual increase between 1990 and 1993 (i.e., one third of the increase would occur each year,

19.1 through 1993), and assuming a ten percent growth in the tax base, this would result in over $10 million of additional revenues to chartered cities in 1991 alone If the average collection rate is increased in a straight line fashion to that of the National Capital Region (70 percent) by 1993, an additional $13 86 million would be added to revenues in 1991 alone. Thus, fairly modest increases in collection efficiency, particularly in the larger revenue cities like the Highly Urbanized Cities, would result in relatively large additional revenues to chartered city budgets.

Based on regression analysis of 22 sample chartered cities budgets for 1986 to 1989, it is expected that on the average, 45 percent of revenue increases from increased tax collection efficiency will be allocated to economic development expenditures for urban infrastructure If the tax collection rate increases to 62 45 percent in 1991, additional infrastructure investment in 1991 alone is projected to amount to $4 7 million.

Because complete devolution of the national infrastructure budget is an unreasonable outcome to expect under DSUD, the devolution of the budget is conservatively estimated to double the cities' economic development budgets The economic gain from this partial devolution would not be the value of the devolved funds Presumably, the funds selected for devolution (now being spent by the National Government) are spent on infrastructure, thus producing the economic benefits of infrastructure investment, regardless of whether the National or local government spends the funds on infrastructure However, the arguments advanced for decentralization and the evidence from empirical studies show that local governments will be more efficient in their selection of projects, in their choice of construction methods and materials, and in their administration That efficiency gain can be estimated as a percentage of the amount of funds devolved For example, if $28.6 million is devolved, and a 10 percent increase in efficiency is achieved, an additional $2.86 million in revenue is available for additional infrastructure investment that now is lost to lower efficiency of centralized administration.

The combined effect of increased tax collection rates and efficiency gains from partial devolution of the infrastructure budget is to add significantly to the economic development budget for investment in the urban infrastructure of chartered cities Recent evidence of the impact of public investment in infrastructure on private sector output range as much as four to seven times as large as the public investment Using a conservative estimate of just two times the public investment in infrastructure, investment by the chartered cities in urban infrastructure will lead to increased domestic production of the magnitudes given below

Under the most conservative assumptions, if chartered cities achieve in a straight line fashion a 65 percent tax collection rate by the year 1993, 45 percent of additional tax revenue is invested in infrastructure, resulting private sector output increase is twice the investment in infrastructure, and assuming efficiency gains of 10 percent from a relatively small devolution of the national infrastructure budget, then the economic benefit in terms of increased gross domestic production is over $12 million in 1991 alone,

increasing to over $23 million in 1992 and over $37 million in 1993. The present value of these economic benefits for the period 1991-1993 is $35.3 million using a 25 percent discount rate (the highest estimate of the current social discount rate in the Philippines). Projecting DSUD benefits over a longer ten year period, under the same assumptions, yields a present value in 1990 of $101.75 million. Direct and indirect costs of DSUD would have to exceed $101.75 million, and would have to be invested in yields of 25 percent before the opportunity cost of DSUD would warrant cancelling the project.

Economic Costs

The direct costs of DSUD consist of the guaranteed loans ($50 million) and incremental costs for capability building at the chartered city government level, technical assistance, and overhead expenses for overseeing the early phase of project implementation.

The direct costs of training, technical assistance, and overseeing the early phase of project implementation have been estimated to be $4 million over the three year project period. If these costs are spread evenly in $1.33 million increments over the three year period, then the 1990 present value of direct costs amount to $2 65 million, or about 7.5% of the present value of the economic benefits under the most conservative benefit scenario. Thus, the direct costs of DSUD are likely to be relatively small in relation to economic benefits

The indirect costs of decentralization include possible efficiency loss in those cases where the chartered city governments are not sufficiently prepared for the responsibilities associated with local autonomy Some amount of friction may be expected at the start, arising from heightened competition among local government politicians vying for visibility and credit. There also exists the risk of the local political and economic elites conniving to use the powers accompanying local autonomy to further their own self-interests

Further, with greater resources available at the local level, increased graft and corruption may occur. Finally, incompatibilities and conflicts between national and local objectives may arise with decentralization under the DSUD Project.

The indirect costs of DSUD obviously are very difficult to quantify. However, with the countervailing forces present in a democratic society that help to reduce these risks, the "drag" on the economy is not likely to significantly decrease the efficiency gains Given the large size of the economic benefits estimated for DSUD, even if the indirect costs decrease the efficiency gains and economic growth by 20%, the implementation of DSUD policy reforms would still be worthwhile.

The economic returns outweigh the total direct and indirect cost of DSUD. Economic benefits of DSUD over a ten year time horizon are estimated at over $100 million.

11.1.2 ECONOMIC POLICY ENVIRONMENT

One of the DSUD's major foci is support for the implementation of a GOP Policy Matrix designed to promote economic growth through decentralization and investment in urban infrastructure. An understanding of the economic policy environment in the Philippines is needed in order to assess the reasonableness of the assumption that DSUD will be able to have an impact on the implementation of the Policy Action Plan set forth in Chapter 7.

The Philippines real GNP grew at 5 9 percent in 1987 and 6.7 percent in 1988 as the economy's recovery from the slump of 1984-1985 continued for a third consecutive year. This was partly due to the beneficial impact of the economic reforms such as import liberalization, dismantling of agricultural monopolies, privatization, and a greater role for the private sector, introduced by the Aquino administration since 1986

The rate of real economic progress has slowed somewhat, with a real GNP growth rate of 5 7 percent in 1989 and 10.6 inflation Government expenditures for salaries and the private sector minimum wage adjustment mainly primed economic activity in 1989 Growth could have been higher or comparable to the 1988 performance if the first semester real growth of nearly 27 percent in private investments had been sustained in the second half of the year Constrained by high interest rates and escalating wages, investments in real terms grew only by 14 8 percent in 1989, compared to investment growth in excess of 25 percent in 1988

Real exports rose by 12.7 percent in 1988, reversing the decline (1.3 percent) experienced in 1987 and the growth of private consumption decelerated to 5.1 percent. Investment and exports contributed an increased share in the growth of real GNP in 1988, compared with 1986 and 1987. The economic situation aided a decline in the rate of unemployment from 11.2 percent in 1987 to 10.6 percent in 1988. However, the underemployment rate remained almost steady in the range of 30-33 percent since 1986.

Two major areas of concern in domestic economic management relate to the somewhat low domestic savings ratio (domestic savings/GNP) estimated at about 17 percent in 1988 and the slow progress in the implementation of infrastructure projects Domestic resource mobilization has been particularly constrained by the lagging tax effort which declined as a proportion of GNP from 12.6 percent in 1987 to about 11 5 percent in 1988. The slow progress in the implementation of large infrastructure projects over recent years reflects partly the continuing institutional weaknesses of the departments implementing them but also results from the political upheaval caused by successive elections at both national and local levels.

11.1.3 COUNTRY RISK ANALYSIS

The Philippines is carrying a massive foreign debt burden, but concerted efforts by the GOP in cooperation with the IMF, World Bank, USAID, and other bilateral donors are bringing the debt management situation under control.

The Philippines had a 1989 foreign debt of $27.6 billion, of which 44 percent ($12.1 billion) is owed to official lenders and 56 percent ($15.4 billion) is owned to private lenders. Debt service over the past three years has required foreign exchange outlays of $3.6 billion in 1987, $3.8 billion in 1988, and $3.7 billion in 1989. This represented 45 percent, 36 percent and 30 percent respectively of export earnings over the same three years. Because of the economic crisis which the current government inherited from the previous regime, the GOP has had to reschedule its debt three times from 1986 through 1989· through the Paris Club in 1986 and 1989 and with the commercial banks in 1987. These actions coupled with structural adjusiment reforms are believed to bring the debt situation under control for the next three to five years, subject to an early and favorable resolution of the current Middle East situation.

The Philippines is one of the several countries which is implementing a "Brady-like" plan for debt relief So far in 1990, the Philippines has been successful in implementing its debt strategy Major debt reduction efforts were undertaken during the first quarter of 1990, with the conclusion of several agreements in relation to the commercial bank financing package The first phase was completed in early January with a cash buyback of $1 3 billion in commercial debts at 50 percent discount The second phase involved the amendment of existing loan agreements to reschedule principal repayments on the 1985 new money falling due during the 1990-1993 period and to reduce the interest rate spread on the remaining 1985 new money and public sector restructured commercial bank debt On February 28, the Philippines signed a new agreement with its commercial bank creditors, to ensure external financing of about $712 million to stabilize the country's 1990 balance of payments position. The signing of the new loan accord, which marked the completion of the third component in the financing package, indicated confidence of the international banking and business community in the country

In September 1990, the GOP plans to initiate additional activities to further its debt reduction program These plans are aimed at both commercial and official creditors, and to provide options for commercial creditors that may be unwilling to provide new money in 1991. The plans include introduction of "temporary interest rate reduction" (TIRR) bonds to creditors in exchange for their existing restructured credits to the Philippines. Also, the GOP plans to undertake "deferred debt reduction" (DDR) transactions covering the restructured obligations of public corporations and other agencies.

The recently concluded (July 1990) IMF-Philippine Government consultations apparently include agreement on a favorable external sector outlook for 1990-1992. Next to final GOP projections on the balance of payments and its financing requirements indicate that the 1990 new money requirements will be met. Financing gap projected requirements have been revised significantly downwards from $1.06 billion to $226 million for 1991, and from $309 million to zero for 1992. Projected is a gradual decline in the debt service ratio (debt service to exports) and the ratio of debt to GNP over the next three years (from 30 percent and 63 percent in 1989 to 24 percent and 59 percent respectively in 1992). These projections include the likelihood of a further

Paris Club rescheduling possibly, as early as 1991, but very likely by 1993 and 1994. The past three reschedulings of official debt applied only to debt incurred before April 1, 1984.

On the other hand, the latest balance of payments and financing gap projections were completed prior to the devastating earthquake of July 16 and new uncertainties arising from the current Middle East situation Based on these developments, the GOP now targets 1990 real GNP growth to be around 3.6 percent, lower than the previous targeted range of between 4 8 and 5.2 percent. The preliminary revised real GNP target takes into account the effects of the earthquake and an increase in crude oil prices to $23 per barrel and its subsequent impact on foreign exchange, interest and inflation rates The GOP is still revising its GNP and balance of payments and financing gap projections to take both these developments and first semester economic performance into account. Earthquake relief and rehabilitation measures may be addressed more readily with a reprogramming of the public investment budget and mobilization of private sector resources for relatively contained parts of the country However, the Middle East situation is more problematic If unresolved, its effects will be more wide ranging both in scope and duration, particularly and directly on the country's import bill and the overseas workers' remittances.

The Philippines is currently eligible to borrow from the IBRD on terms similar to those that would apply to a HG loan. For 1990, five new loans from the IBRD had already been approved totalling $835.8 million, at the standard IBRD variable rate, currently, 7.7 percent. These loans have maturity periods of 20 years with five years grace on principal repayment The Philippines is current on all official and commercial debt on the basis of agreed reschedulings The expiration of previous Paris Club agreements, and the added financial pressures for earthquake rehabilitation and possibly from the Middle East situation, increase the possibility that the GOP will seek Paris Club rescheduling earlier than expected and possibly covering more than prior April 1, 1984 debts However, although the level of risk to the HG reserve fund is currently considered acceptable, it will be monitored regularly.

11.2 TECHNICAL ANALYSIS SUMMARY

The use of cities as instruments of development is appropriate to the Philippine setting both because of the central role of cities in the Spanish and United States colonial periods and the existence of powerful present-day political demands for programs of decentralization In addition, recent demonstration programs have shown that Philippine cities are capable of responding well to technical assistance and training efforts very similar to those proposed in this project. The Philippines is not alone in committing resources to decentralization efforts aimed at cities Many countries in the developing world are pursuing the same path, with some a bit further along in the process. The experiences from these other countries constitute an important body of knowledge and point of reference for this project

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The project does not envision exotic or sophisticated technologies that might be difficult to introduce and sustain in the local environment. Strategies in technical assistance and training are based both on successful experiences elsewhere in the world and, in most cases, successful experiments in Philippine cities. In the case of ideas developed in other countries, appropriate modifications have been made to fit the peculiarities of the Philippine setting.

Substantial numbers of sophisticated researchers, trainers, policy analysts, and program specialists are locally available to assist in the implementation of the various project activities In addition, a cadre of expatriate specialists exists which can complement the efforts of local professionals.

To achieve the project's objectives, significant resources will have to be made available in one form or another to local governments. The evidence is substantial that this is feasible if local governments exploit the resources already available to them. Local sources of revenue presently account for 61% of total local revenues For NCR Metro Manila the proportion is 78%, and 46% in all other chartered cities. Of these, property taxes account for 40% of own local revenues or 24% of total revenues available to local governments

The current collection efficiency rate is about 61% for all Chartered Cites, and there appears to be substantial untapped local revenue. If the property tax collection rate increased from 61% to 80%, for example, local revenues for chartered cities would increase by about $27 million.

In addition, the maximum tax rate for the real property tax presently is not applied by most local governments Of the highly urbanized areas, only Cebu and Baguio apply the present maximum of 2% of assessed value. Most are between .5% and 1 5% with the Metro Manila region at 1 6%

Similar data is hard to obtain for business taxes and other local revenues, but anecdotal evidence is considerable for the argument that collections of presently applied rates can be as much as doubled From 1984 to 1988, business tax collections increased 140%, and that was at estimated 50% to 60% collection efficiency.

Thus, even at the local level, considerable room for revenue improvement exists without major GOP executive or legislative policy action.

11.3 SOCIAL SOUNDNESS SUMMARY

11.3.1 THE SOCIAL SETTING

Cities in the Philippines are characterized by high levels of visible poverty. Slum and squatter communities are found in all urban areas and reach alarming proportions in the metro-Manila area and in some other highly urbanized cities. About 29% of all urban households outside metro-Manila are without electricity; 50% lack a clean water supply; 56% lack regular sanitation amenities. These conditions contribute to low labor productivity,

to the spread of disease and the danger of epidemics, to a strain on existing infrastructure and its deterioration, to a consequent lack of private commercial investment (both domestic and international), and thus to the further deterioration of the local governmental revenue base that could address these problems.

Philippine cities are presently constrained in their ability to address these issues by a number of obstacles. One is the degree of centralism/centralization in the system, the origins of which have been discussed earlier in Chapter 2 Centralization of the sort currently characterizing the Philippine system "disenfranchises" people They may be able to vote in local elections, but if their elected officials have no control over the decisions and resources that address the livelihoods and living conditions of the constituency, those officials are not in any real sense accountable The central government instead is accountable, and is clearly unable to act quickly enough or with sufficient locally-relevant detail to redress the situation described above This is politically undemocratic, and it is destabilizing, given the activism of the population and the size of the urban problem it confronts Both economic growth and real political empowerment, then, depend on breaking the log-jam of over-centralization and addressing the conditions in urban slum and squatter communities which constrain both growth and development

11.3.2 PROJECT OBJECTIVES IN RELATION TO TARGET GROUPS

The project has a hierarchy of objectives, which translate into specific and somewhat distinct target groups Key targets of the expansion and improvement of urban infrastructure objective are below-median income households, directly, and indirectly the private sector, which is ultimately the engine of economic growth that will permit long-term maintenance of the infrastructure base. The strategy for accomplishing this is discussed above, increased local resource mobilization is the focal point and entails both increased autonomy of the local public sector over the mobilization and allocation of resources (e.g , taxes) and the removal of regulations which inhibit private sector contributions to infrastructure provision

A second set of objectives relates to the need to increase productivity and effectiveness of local public sector officials, both elective and appointive. A vast amount of human capital is wasted by a system which denies trained and relatively highly educated local officials the resources to exercise their skills, and inhibits the creative solution of local problems which vary from one area of the Philippines to another Further, these officials could more immediately be held accountable than bureaucrats in far-off Manila.

11.3.3 BENEFICIARIES

As in any institution-building project, there are both direct and indirect beneficiaries, and the quantifiable benefits and beneficiaries over the short-term may not be the most important set.

Direct beneficiaries include the below-median income urban communities benefitting from increased/improved infrastructure, either through the HG loan component in the short term, or that expected as the outcome of increased local resources and autonomy embodied in successful decentralization efforts in the longer term Women are an important component of poor urban dwellers numerically, as they are slightly over-represented in the urban population Their special needs involve primarily employment opportunities and improved health conditions The project will have a positive impact on them in providing types of infrastructure facilitating micro-enterprise (improved intra-urban mobility, access to water/electricity) and improved conditions of sanitation The private sector is expected to be attracted to invest, both by improved shelter-related infrastructure and by the lifting of regulations or inhibitions on private sector contributions to infrastructure provision.

Local elected and technical staffs are a major intended beneficiary group. Assistance to them will be indirect, through the devolution of authority and the increase in both locally-generated and centrally-generated resources. Their increased commitment to local economic growth is central to the success of the project

Finally, some important indirect beneficiaries include the metro-Manila resource base and environment, and central government agencies generally, through the decreasing strain on these that decentralization is ultimately meant to facilitate While it is true that a major proportion of national revenues are generated in metro-Manila, it has also experienced intolerable strains on its infrastructure and environment that will inevitably lead to further deterioration and the eventual flight of investors elsewhere, reducing the metropolitan area's revenue base The effort to create an alternative network of cities to attract investment and labor migrants is ultimately a measure of defense for Manila Similarly, the "domestication" of local political conflicts in their respective regions, and the holding of local governments accountable for real progress locally, is meant to take political pressure off the central government and give it time to build strong but self-limiting authority.

11.3.4 SOCIO-POLITICAL FEASIBILITY

The feasibility of the attainment of these objectives can be assessed through an examination of the principal actors affected by the decentralization. These include an Executive with a strong commitment to decentralization (on the part of the President) but a strong bureaucratic tradition of centralism. In spite of the latter, some of the executive agencies involved have made resolute initial steps toward decentralization "from within" and can be expected to continue -- and the pace to increase -- as the legislature comes closer to closure on its own set of guidelines. (See Annex 6 for a full discussion)

The legislature, despite initial foot-dragging, has moved to the stage of considering a compromise bill reported out of the House Committee on Local Government, which now represents the views of a majority of Congress; this

legislation can be expected to pass, although the timing is not at all certain. Because of its volume and numerous areas of compromise, it will contain enough loopholes for delay and issues of interpretation.

Local government officials are a powerful lobby for this effort, and will see that it is implemented when the mechanisms are agreed upon, indeed, the main problem will be that the local officials want to assume responsibility for more services and activities than they can initially adequately finance. Consequently, services may suffer At worst, this could have negative backlash effects on the effort. However, complementing the local officials is a welter of local NGOs and peoples' organizations, which can serve as advocates and watchdogs, to see the process through the inevitable hard spots. Technically, the capability to devolve functions and have them performed adequately at the city level does exist, especially in the highly urbanized cities, which are the initial focus of the project The process will proceed most smoothly if it is undertaken in a phased, gradual manner, with careful measuring and matching of resources available locally to the responsibilities devolved

11.3.5 RISKS

There are three main risks inherent in the decentralization effort. The first, and the one which most concerns Filipino advocates of decentralization, is the problem of local elite domination in some areas Some local elites are progressive and need not concern us, some are less so, and will be of concern. The problem can be mitigated to some extent by the continued setting of national performance standards and audit; by the local electoral process; and by the retention of central checks and balances or leverage in the form of grants to encourage appropriate allocation of resources

A second risk, one that could be fairly substantial, is that the devolution as mandated either by the executive or the legislature, and as demanded by the local officials through their advocacy organizations, is sweeping and undiscriminating It is quite capable of overwhelming the cities with immediate social service expenditure needs that soak up every additional peso in revenue provided from whatever source. Education and health expenditures are a standard political priority. Central agencies providing such services are generally only too willing to turn over major on-going activities, while retaining supervisory control, and without providing adequate funding to the localities.

The third major risk, related to the preceding, is that administratively changes will get stalled on the "national/local" distinction, in terms of devolving project and program responsibility. Both the executive mandate to the central agencies to prepare decentralization plans, and the current bill being considered in congress, require central agencies to define the scope of their "national" interests This is as it should be. However, it also must be undertaken in specific program and project terms, early in the decentralization process. Otherwise experience elsewhere suggests that the

scope of what is considered "national" will grow, the agencies will find ways to devolve only implementation and not real resource-allocation decisions, and they will above all not devolve adequate resources, retaining them instead for their own retained functions.

11.4 PRIVATE SECTOR AND NGO PARTICIPATION SUMMARY

11.4.1 BACKGROUND

Historical patterns of development in the Philippines have tended to focus on the public sector for stimulating economic growth. This has particularly been the case in shelter and urban development where the people have looked to national and local government for provision of infrastructure systems, assistance in meeting basic human needs, and in supporting housing for all but the most affluent.

Given limited resources and capabilities of cities, most of these activities are funded and implemented by the national line agencies. Cities, except the largest and most sophisticated, are restricted to a limited amount of planning and monitoring of large infrastructure development projects

Traditionally, private sector involvement has been limited to a number of clearly-defined areas: 1) contracting for construction of government-funded projects, 2) land assembly and development for purely private-sector purposes; 3) operation of the telephone system, 4) operation, often jointly, of local water and electrical utilities; 5) development of upper-income housing subdivisions; 6) small-scale service delivery such as garbage collection or road maintenance by NGOs, and 7) limited low-income shelter and upgrading projects undertaken by NGOs.

11.4.2 IMPACTS AND CONSTRAINTS

As a result of limited funding, inefficiency in implementation and lack of capabilities, among other problems, the public sector has been unable fully to address the infrastructure needs of a growing economy and an expanding population. The result has been constraints on private economic growth and the failure to meet basic human needs for many urban residents. These conditions are discussed in detail in Chapter 2.

In spite of these problems, and the potential market opportunities offered for an increased private sector role, private sector involvement in infrastructure has been limited. This has been the result of both practical barriers to greater private involvement and the lack of efforts to draw on private capital for the construction of infrastructure.

A number of key constraints have been identified. First, the significant power that national agencies hold over cities limits options to creatively involve private firms. This includes the power of the Department of Finance and NEDA, among others, to approve most city fiscal operations, the role that national line agencies play in implementing most infrastructure projects and the oversight role of the Commission on Audit.

Second, many local officials are simply unaware of the possibilities for involving the private sector and are reluctant to take positive actions to change public-private relationships. Moreover, even if officials are willing to move in new directions, skills and technical know-how are often unavailable.

Relationships between the private sector and government agencies are often characterized by a degree of mutual distrust. Private firms are often reluctant to invest in infrastructure because of their perception of costly transaction costs and bureaucratic impediments and their fear of public graft and corruption. Government agencies are sometimes unable to accept the 'for-profit' orientation of the private sector and to acknowledge that private action can result in positive benefits to the general public.

Finally, there is the very real constraint inherent in the difficulties of making money on the provision of urban services, particularly those serving poor neighborhood . Public sector failures have not entirely been the results of inefficiencies, and it is not surprising that few for-profit institutions have wanted to take on the complexities of urban development projects unless they are reasonably assured they can succeed.

Another concern has been the inability to attract private finance to supplement limited public funds in the infrastructure area Indications are that there is a substantial amount of untapped private capital in most regional cities However, efforts to address the private sector's concerns just discussed have been limited. Capital has therefore tended to flow, instead, into the national and international markets. Moreover, the development of effective mechanisms for mobilizing private capital at the local level has been hampered by a lack of knowledge of local capital conditions and limited skills.

11.4.3 FUTURE DIRECTIONS

Analysis of the limited number of creative examples in the Philippines, and lessons learned from other developing countries, suggest a number of approaches which could be employed to expand the role of the private sector in the Philippines These are of three types: 1) mobilization of private capital for investment in public infrastructure and shelter; 2) changing the balance between the public and private sectors to better take advantage of their relative strengths; and, 3) encouraging the public sector to operate on a more efficient market-oriented basis.

A number of detailed mechanisms are examined in Annex 7. First, mobilization of private capital through municipal borrowing or the creation of a municipal bond market could make available private funds for infrastructure Second, a variety of forms of public/private partnerships could facilitate infrastructure development Third, privatization of government functions could result in efficiency gains. Fourth, performance contracts for service delivery between government agencies and the private sector or NGOs could enhance efficiency. Finally, different forms of user charges would increase

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government revenues and facilitate more efficient service delivery. Although all of these measures obviously may not be appropriate in all situations, each offers potential for improving overall infrastructure service delivery in selected sectors and situations.

In general, there appear to be no major legal or procedural barriers to these efforts nor any overriding economic arguments against their use. Of utmost importance, then, is the need to address the constraints discussed above and to selectively implement such efforts in appropriate sectors and cities.

11.4.4 PRIVATE SECTOR INVESTMENT

Section 11.1 and Annex 5 detail the economic benefits and costs of DSUD. Public investment in infrastructure directly stimulates private sector investment. Roads, water and drainage systems, electricity, and communication networks open up markets and the economy through the establishment of linkages between homes and businesses in the cities These linkages create employment and private sector business opportunities that stimulate private sector investment. Evidence from developing countries suggests that rather than reducing ("crowding out") private investment, public investment in infrastructure tends to encourage private investment As the commercial and industrial sector grows, revenues are reinvested in productive activity.

Empirical work conducted in developing countries (referenced in Annex 5) suggests that every dollar spent on public infrastructure stimulates about 30 cents in private sector investment Using the most conservative estimate of additional public infrastructure investment as a result of DSUD given in Annex 5, suggests that DSUD will stimulate $2.26 million of private investment in the chartered cities in the first year of the project (1991) alone.

11.4.6 NON-GOVERNMENTAL ORGANIZATION PARTICIPATION

NGO participation in decentralization should be treated separately from that of the for-profit private sector, since their roles and needs are very different. Because of their access to donor funding, either indigenous or foreign, NGOs are not constrained by the need to make money on their projects unless the projects are intended to generate income for the beneficiaries and to be replicable by others.

The DSUD project must rely heavily on NGOs working in urban neighborhoods for the "bottom up" response to decentralization at the central level. Without effective organization at the community level, the opportunities offered by increased local resources and autonomy will not necessarily be used in ways that benefit poor neighborhoods. NGOs are uniquely positioned to assist in this organization effort that will encourage equity in the distribution of benefits of decentralization.

Their activities can range from purely organizational, as in mobilizing groups of residents to seek resources from central programs like the NHA's Community Mortgage Program, to attracting private investors in development projects with

the potential to offer profit, to organizing neighborhoods politically so that their voices can be heard more effectively in local elections.

Virtually no policy constraints have been identified to such a role for NGOs. For that reason, DSUD will use its grant resources to ensure that removal of policy constraints on local autonomy generally will result in improved living conditions for the urban poor.

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12 CONDITIONS AND COVENANTS

12.1 HOUSING GUARANTY CONDITIONS

In addition to the standard conditions precedent to A.I.D.'s guaranty of a disbursement, the GOP shall prepare reports on the status of accomplishments under the Policy Matrix and the extent of expenditures under the Investment Program. A project implementation progress review is to be held before the first HG loan borrowing is approved, and on at least an annual basis thereafter prior to approval of the second and third borrowings.

For each of the three tranches of HG loans to be disbursed to the GOP, two fundamental conditions must be met. First, progress in achieving the policy implementation benchmarks specified in the Policy Matrix for each funding tranche must be sufficient to justify the disbursement of the HG loan. Second, the GOP must present certified "and/or anticipated" peso expenditures under the terms of the Investment Program which are in excess of the equivalent dollar disbursement that is to take place

12 2 HOUSING GUARANTY COVENANTS

In addition to general covenants common to HG projects, the GOP will be asked to covenant the following concerns during the project implementation period ending with the last HG loan disbursement:

- protection of the natural environment in areas where project investments take place,
- development of systems which provide for operation and maintenance of facilities and infrastructure financed by the project,
- adequate coordination and management of the project, and
- adequate coordination of the project with the related activities of other donors.

12.3 PROJECT GRANT AGREEMENT

In addition to the standard conditions concerning signatures and legal opinion, the GOP will be asked to agree in writing to the PIO/T for long-term technical assistance before the first disbursement is made. In addition, in order to avoid a situation whereby the Project Agreement is signed but agreement is not reached on the Housing Guaranty, the GOP will agree that prior to disbursement under the grant for activities scheduled to begin after January 31, 1991, the Grantee will furnish to A I.D. an executed Housing Guarantee Implementation Agreement that includes a mutually agreed-upon policy matrix. If this condition is not met by January 31, uncommitted amounts will be deobligated

The parties to the agreement will also agree to establish an evaluation program and to coordinate the Project with other donor activities.

ANNEX 1.

LOGICAL FRAMEWORK

AID 1020-28 (1-73)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project
From FY 90 to FY 94
Total U S. Funding $4,000,000 + HG $50 M
Date Prepared September 17, 1990

Project Title & Number DECENTRALIZED SHELTER AND URBAN DEVELOPMENT (492-0388 and 492-HG-001)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal The broader objective to which this project contributes (A-1) To contribute to sustainable economic growth and development of democratic institutions by supporting the processes of decentralizing authority and resources for shelter and urban development affecting low-income Filipinos	**Measures of Goal Achievement. (A-2)** 1 Increased levels of income and employment 2 Rising shelter and health standards among low-income households 3 Increased levels of popular participation in local government	**(A-3)** 1 National statistics including census data, including gender-disaggregated data 2 Household and community surveys. 3 Final impact evaluation.	**Assumptions for achieving goal targets (A-4)** 1 Relative levels of economic and political stability maintained 2 Private organizations and intended beneficiaries are willing to mobilize their resources to carry out developmental activities to supplement government efforts 3 The GOP continues to devolve fiscal responsibility to the local level 4. The GOP remains committed to improving the well-being of lower income Filipinos
Project Purpose (B-1) To foster a greater role for elected city governments, the private sector and NGOs in the development of shelter-related infrastructure in Chartered Cities in order to increase, over an extended time period, the access of low income urban Filipinos to shelter and services for healthier and more productive lives	**Conditions that will indicate purpose has been achieved: End-of-Project status. (B 2)** 1 Self-sustaining systems of financing for Chartered Cities are being implemented 2 Urban and environmental infrastructure constraints on local economic development are being reduced 3 Access to sustainable urban shelter delivery systems for low income households being improved	**(B-3)** 1 Final impact evaluation 2 GOP and USAID project monitoring report. 3 Final project report. 4 Policy studies	**Assumptions for achieving purpose (B-4)** 1 The GOP will continue the policy of shifting political and financial responsibility for the provision of shelter and shelter-related services and infrastructure to local government and the private sector 2 City governments the private sector and NGOs will respond to the decentralization process with coordinated actions to increase the availability of shelter-related infrastructure 3 Elected city officials will respond effectively to provide their low income constituents with greater access to shelter and services
Project Outputs. (C-1) Technical assistance, training and grants will result in 1 Substantial increases in Chartered Cities' local revenue collections 2 Capital budgeting improvements 3 Improved management of commercial-like services (e g , solid waste collection, markets, etc) and cost recovery policies 4 Decreased central government regulations and approval/review procedures for land development, construction of shelter and urban infrastructure, and local taxes and fees 5 Expanded private sector delivery of some services	**Magnitude of outputs (C-2)** 1. 75% increase by year 3 2 In at least 12 Chartered cities 3 In at least 3 HUCs 4 Measurable and significant reduction. 5 In at least 6 HUCs	**(C-3)** 1 Three process evaluations preceeding each HG disbursement. 2 Project reviews. 3 Special studies	**Assumptions for achieving outputs (C-4)** 1. Local and regional governments have the technical capacity to manage the increased responsibility placed on them 2 Local and regional governments are inherently more economic and efficient than the national governments
Project Inputs (D-1) 1 Housing Guaranty Loans 2 Technical Assistance a) Long-term b) Short-term(incl. ICMA) 3 Training 4 NGO/Private Sector Support 5 Monitoring, Evaluation and Audit 6 Contingency 7 GOP contribution	**Implementation Target (Type and Quantity) (D-2)** 1 $50 million 2 $2,480 thousand a) 310 b) 2,170 3 295 4 850 5 305 6 70 7. $1.3 million equivalent	**(D-3)** 1 GOP quarterly reports 2 Mission Urban Adviser's monitoring reports. 3 Project records 4 AID financial records	**Assumptions for providing inputs: (D-4)** 1 Availability of incremental AID funding and HG authority. 2 Availability of funds from private commercial lenders in U S 3 NGO interest in participating in project 4. Continued GOP funding availabilities.

ANNEX 2

DECENTRALIZATION AND URBAN DEVELOPMENT

ANNEX 2

DECENTRALIZATION AND URBAN DEVELOPMENT

1.1 The Concept

Decentralization is a complex issue; and a decentralization program can consist of a wide range of specific, interrelated and, at times, conflicting measures. Hence, it is not surprising to find that there is little agreement in the Philippines today on what decentralization should consist of in terms of specific measures and policies

There is a growing perception in the Philippines, however, that the centralization model, which has served well in the past, has run out of steam and is inappropriate for the challenges of social and economic development during the 1990's and beyond There is an emerging consensus that centralization of revenues and functions in the central government and its institutions must now, somehow, yield to a process of strengthening local capacity to deal with many of the public sector services There is not yet any strong consensus, however, on just what specific things should be done, how they should be done, and in what sequence they should be undertaken

This project paper is an effort to provide some focus to the decentralization dialogue in the Philippines. For a specific target group of urbanized areas -- the Charter Cities and, especially, the twelve "Highly Urbanized Cities" -- it seeks to shift the discussion from an ideological and philosophical framework to pragmatic evaluation of the costs and benefits of specific measures that are available to the authorities.

1.2 The Perceived Benefits

There is little unanimity among those who support decentralization in the Philippines regarding the specific content of any reform. In general, however, they hope that decentralization will revitalize the political system and more efficiently mobilize resources for development through some combination of the following arguments:

a. Programs and projects at the local level offer an opportunity to involve the citizenry more directly in the process of development in the Philippines, thus giving them a personal stake in successful planning and implementation.

b. Due to the general ineffectiveness and inadequacy of local tax programs in the Philippines, financial resources may be available for development purposes at the local level which heretofore have not been utilized. That is, local revenue generation may increase the size of the budgetary pie available for development rather than simply change the configuration of the pieces.

c. Citizens may be more willing to contribute financially to projects that are planned and implemented at the local level, where results are more readily identifiable, than to be taxed by the central government for programs only dimly understood and implemented far from their localities, with little or no visible value to them.

d. Capable local institutions can identify and resolve many issues locally, reducing the demands made on already overtaxed central agencies.

e. Corruption may be reduced as citizens more effectively perform a watchdog function at the local rather than central level.

f. Community resources--including the private sector and NGO's--may be more effectively mobilized at the local level.

1.3 Forms of Decentralization

Decentralization can be defined as the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations.

There are four major forms of decentralization 1) deconcentration, 2) delegation, 3) devolution, and 4) privatization and deregulation. Each of these forms of decentralization has different characteristics. The distinctions, and their policy implications, must be kept in mind as the dialogue on decentralization evolves in the Philippines.

a. Deconcentration

Deconcentration is often considered the weakest form of decentralization. It is the redistribution of decision-making authority and/or financial and management responsibilities for providing urban services and infrastructure among different levels within the central government. It often takes the form of merely shifting work from central government officials in the capital city to those working in regions, provinces or cities. Deconcentration is usually the first cautious step toward decentralization that highly centralized governments take.

b. Delegation

Delegation is a somewhat more extensive form of decentralization and one that has long been used in the Philippines. Through delegation, the central government transfers responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the

central government, but ultimately accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making They may be exempt from constraints on regular civil service personnel They may be able to charge for heir services and may be operated like private corporations, using business practices and procedures Such organizations are usually distinguished from regular government agencies by their separate legal identity and corporate structure They are expected to price their goods and services at levels that recover investment, operating and maintenance costs.

c. Devolution

A third type of administrative decentralization is devolution. When governments devolve functions, they transfer authority for decision-making, finance and management to autonomous units of local government with corporate status Devolution involves transferring responsibilities for services to local governments that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions City governments potentially can play important roles in urban development and can be effective units to which to decentralize financial and management responsibility for providing local services, facilities and infrastructure required to improve the efficiency of urban economies City governments can also play an important "enabling" role that facilitates participation by other public and private sector organizations in urban development activities and that promotes more efficient urban development decisions.

d. Privatization and Deregulation

Finally, the most extensive types of decentralization (from the government's perspective) are privatization and deregulation. Privatization is usually, but not always, accompanied by economic liberalization policies and market decentralization It allows services to be provided by businesses, community groups, cooperatives, private voluntary associations, individuals, small enterprises in the informal sector and other non-governmental organizations. Goods and services that can be provided on the basis of people's ability to pay - - such as public transportation, electric power, piped water, or housing - - can often be delivered more efficiently and effectively by the private sector than by government.

Deregulation reduces the legal constraints on private participation in services provision or allows competition among private suppliers for services that in the past had been monopolies only because of government restrictions on widespread participation.

Privatization can range in scope from leaving the provision of goods and services entirely to free market operations to "public-private partnerships". Privatization can take a number of forms such as allowing private sector enterprises to provide services and facilities that had previously been monopolized by the public sector, contracting out the management of public services or facilities, financing public sector programs through the capital market and allowing private organizations to participate; and transferring responsibility for providing services and facilities from the public to the private sector (divestiture)

1.4 Conclusion

The validity of the arguments, the appropriate mix of the forms, and the ultimate success of decentralization in the Philippines depend on a number of variables. One of the critical conditions for success is that the strategies must reflect a clear understanding of the institutional and social environment in which they will be implemented. The Project Paper will identify the principal components of that environment.

ANNEX 3

HOUSING GUARANTY INVESTMENT PLAN SUPPORTING TABLES

ANNEX 3

The tables present the calculations on which the level of GOP expenditures on housing and housing-related services to low income Philippines are based. The material is extensive and can be found in the project files maintained at the USAID Mission in the Philippines.

ANNEX 4

TECHNICAL ANALYSIS

ANNEX 4

TECHNICAL ANALYSIS

Decentralization to City Governments as an Appropriate Project within the Philippine Context

The importance and role of municipal governments in the Philippines has varied a great deal over the centuries. The period of the Spanish conquest took place on the heels of the successful Christian effort to push the Muslims off the Iberian Peninsula For centuries Christian strongholds in the north of the peninsula gradually extended southward until, in 1492, the final Muslim center of power, Grenada, was defeated Having thus cleared the peninsula, finally, of a foe they had been battling for centuries and having built a strong military tradition in the process the Spaniards were uniquely prepared to take on the explorations that led to colonial control of the Philippines.

One of the institutions that had developed during the long period of conflict on the Iberian Peninsula was the municipality. It was important to colonize new sections of the frontier that was gradually moving south Thereefore, newly established municipalities were given special rights and powers (fueros) to encourage new settlements The tradition of relatively independent municipalities or cities was carried to Spanish colonial possessions, including the Philippines, and became a strategic consideration for conquistadores who wanted to gain a degree of independence from representatives of the monarch Thus, one of the first events following Spanish occupation of a new area was the establishment of a municipality to clothe the conquistadores with an additional level of legitimacy.

During the colonial period municipalities sank into a ceremonial and honorific hibernation from which they have only recently begun to emerge.

In the 1990's municipalities and cities are once again becoming a focus of attention, as governments look for ways to more completely involve the citizenry in programs of development and as the stultifying effects of highly centralized political systems become more clear. This is clearly the case in the Philippines.

Therefore, the use of cities as instruments of development is appropriate to the Philippine setting and does not represent an attempt to transfer an alien concept to an inhospitable host. The Philippines is not alone in committing resources to decentralization efforts to the cities. Many countries are pursuing the same path, with some a bit further along in the process, and the experience from these other countries constitutes an important body of knowledge and point of reference for this project.

4.1 Technial Feasibility and Appropriateness of Project Elements

The project does not envision exotic or sophisticated technologies that might be difficult to introduce and sustain in the local environment. Strategies in technical assistance and training are all based on successful experiences elsewhere in the developing world and most are designed to introduce in new urban settings techniques that have been successfully tested in other Philippine cities.

a. Development of Systems to Improve Local Contributions to Urban Infrastructure and Services.

A number of local experiments in various techniques and strategies has led to significant improvements in a few cities. Thus, the basic ideas for many of the systems to be developed are not of foreign origin but, rather, are firmly based in local reality. An example is the successful implementation of improvements in property tax mapping, assessment, and collection in cities participating in World Bank funded demonstration projects.

b. Policy Studies in Support of the Policy Dialogue and Specific Components of Decentralization.

The idea of policy studies is well-known and accepted in the Philippines. Sophisticated researchers and analysts are products both of local universities and foreign universities where substantial numbers of Filipinos have received graduate training. In addition, there is a cadre of expatriates who have had significant local experience in areas critical to the project.

4.2 Technical Analysis of Local Government Finance Possibilities

4.2.1 The Framework

Basic to any decentralization strategy is the presence of local government capacity as indicated by the availability of sufficient resources. As local governments take increasing responsibilities, the need for better fiscal condition likewise becomes imperative.

Given the wide economic, geographical and cultural variations within the country, there are agonizing fiscal decisions that need to be made: e. g. Is there a real necessity for the imposition of additional taxes? Should local governments be given complete freedom in determining the rate of taxation? Is there further need for heavy subsidization from the national government? Should it be in the form of block or categorical grant?

The process of selection from among these alternatives is based on the premise that the changes stem from Executive rather than Legislative action, thus implying that incremental rather than complete overhaul of the system is what is needed. The subject of the exercise is the local government system, a

politically-oriented entity steeped in a strong democratic tradition in which efficiency considerations most often take the least priority.

It is on this premise that the feasibility of the Project's decentralization strategy is strongest. In the area of local government finance, the Project has tried to veer away from restructuring of the revenue system, which could give local governments broad taxing powers, but would nonetheless need new legislation. Instead, the Project concentrates more on the improvement of the existing structure which needs only Executive action, but can be very potent too considering the wide latitude of authority vested upon the President of the country.

4.2 2 Local Financial Conditions and Potentials

The feasibility of the proposed decentralization strategy primarily through Executive decision is strongly indicated by the following:

4.2.2.1 Cities have not realized their maximum revenue potential (Tables 1 and 2). In general, local government resources are of two types: local and non-local. Local resources consist of both tax and non-tax revenues, such as the real property tax, the business tax, receipts from economic enterprises, and other fees and charges Non-local sources are mostly in the form of allotments and aids coming from the national government, such as the internal revenue allotment, the specific tax allotment, local government revenue stabilization fund, and other NALGU (National Assistance to Local Government Units) funds for infrastructure, public works, and other development projects. One big advantage of cities over other local government units such as the province and the municipality is the availability of more local sources and their ability to collect them. While a greater percentage of municipal income comes from the national government, cities show more reliance on local sources with an average of about 63 percent within a five-year period. The pattern is fairly consistent in both the cities of Metro Manila and the other cities throughout the country, except in 1988 when there was a small degree of predominance of local over non-local sources.

Of the existing local sources, RPT has the biggest potential. In fact, it can be considered as the lifeblood of Philippine local governments. It contributes the highest percentage share among local sources, fluctuating between 38 % and 42 % within a five-year period (Table 2). The implication is that RPT has thle most revenue yield potential, if tapped properly. There are several ways of improving this yield:

RPT collection efficiency can still be increased. Although the nationwide average collection efficiency for cities has increased to 60.67% in 1988, it is still deficient considering that within the period under review, the implementation of the 1984 revised assessment schedule took place in 1987. This increased the assessed values of real property, thereby increasing the

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amount of total collectibles (Table 3). Among cities, in 1987, Cagayan de Oro in Mindanao attained the highest collection efficiency rate (77.65%), second only to Makati in Metro Manila (94.76%).

RPT maximum tax rate ceiling has not been reached by almost all cities. In the case of a province, the allowable tax rate is only 1/4 - 1/2% of the assessed value of real property. In the case of a city, the tax allowed is 1/2 - 2% of the assessed value of real property.

In Metro Manila alone, the average rate of levy is only 1.6%. Of the most Highly Urbanized Cities, preliminary survey reveals that so far only Baguio and Cebu have availed of the maximum rate of two percent.

4.2.3. Collection efficiency of revenues from other major local sources also falls short of the realizable potential. However, there are no available city figures as of now. Overall figures for all Local Government Units indicate this low trend in collection. Unlike the RPT collection efficiency which follows specific formula prescribed in the Real Property Tax Code and the Local Tax code, the collection efficiencies for the other sources are based on the amount of income estimates of local treasurers which depend on personal perceptions on what would be realistic depending on the prevailing economic conditions. This is not a very good indicator but for lack of stronger indicators, it would suffice.

4.2.4. Classified by function, expenditures for General Public Services received the biggest share of total expenditures for 1988. The average, however, for four years shows Economic Services to be top of the list with a 33 percent share of the total. This indicates that cities are becoming more and more oriented towards development projects for the attainment of the level of economic growth which is being envisioned for the whole country.

4.2.5. By allotment class, personal services constitute the biggest share, followed by maintenance and other operating expenses. Capital outlays since 1984 have been dropping until it reached a low of 10 percent in 1988. This overall trend for city expenditures indicates a need for more reorientation towards development-related expenses.

ANNEX 5

ECONOMIC ANALYSIS

ANNEX 5

ECONOMIC ANALYSIS

I. INTRODUCTION

A. Economic Importance of Cities in the Philippines

The Philippines is one of the most highly urbanized countries in Asia, with approximately 40 percent of its population residing in urban areas and 49 percent projected to do so by the year 2000. A third of the labor force is now engaged in the manufacturing/service sector, up from 26 percent in 1988, and industry alone contributes 34 percent to Gross Domestic Production (GDP) (compared to 28 percent in 1965), indicating a growing diversification of the economy from its earlier reliance on agriculture By the year 2000, urban-rural migration and natural urban population increases should raise the urban population by 15 million But more meaningful than such statistics is the role that cities play in the overall economic development of the Philippines.

The economy is recovering from its 1984-85 slump, and cities are essential to sustaining that recovery Between 1983 and 1987, almost half of the GDP was generated in Metro Manila and adjacent provinces, highlighting their role as engines of development But smaller urban centers fill a crucial niche as well. They provide markets and other services to rural areas necessary to translate increased agricultural production into increased income. They offer concentrations of population to support and generate off-farm employment, and they make possible transport and communications efficiencies needed for economic growth For cities to fulfill these functions, they need local governments which can supply the infrastructure to support growth and a private sector which can direct its resources to those things it can do most efficiently.

The Philippines enjoys two advantages over many developing countries in its patterns of urbanization. One is that although Metro Manila clearly dominates as the primary city, containing one third of the urban population, there is also a network of other large cities having the capacity to support more growth, most notably the 60 chartered cities The other advantage is that, while the overall level of urbanization is high, the rate of urbanization has not been so rapid as to produce the overwhelming urban problems of Cairo or Bombay, for example. The Philippines still has the opportunity to avoid such extreme situations in which urban areas become constraints to, rather than engines of, growth.

Mobilizing economic development in urban areas or particularly in potential growth areas outside Metro Manila will be a critical factor for determining

the rate and pattern of growth of the Philippine economy in the next decade. However, the economy's capacity to expand its narrow development base depends on the availability of adequate infrastructure, including shelter and basic urban services. One means of facilitating the development and maintenance of urban infrastructure and the effective delivery of basic social services such as affordable housing is a decentralized system of government.

Adequate shelter-related infrastructure is critical for achieving the goals of sustained economic growth, open mark , and an open society. Shelter-related infrastructure, such as roads and drainage and water systems, opens up markets and the economy by linking homes and businesses in the metropolis, secondary cities, and market towns.

These linkages create employment and private sector business opportunities which stimulate economic growth, provide adequate access to goods and services, which will enable people to exercise meaningful choice for their betterment as well as the overall development of society; and spread the benefits of development to help sustain an open Philippine society.

B. Purposes of the Decentralized Shelter and Urban Development Project

The purposes of the Decentralized Shelter and Urban Development (DSUD) project are twofold: (1) to foster a greater role for elected city governments, NGOs, and the for-profit private sector in the development of shelter-related infrastructure and services, especially in slum areas; and (2) to increase the access of low-income urban Filipinos to basic infrastructure and services needed for healthier and more productive lives.

To achieve these purposes the project will support Government of the Philippines (GOP) initiatives to decentralize their system of government to make it more responsive to the will of the people. Specifically, it will focus on making the elected governments of chartered cities more effective, thereby increasing the efficiency by which shelter and related services are delivered in these important areas.

Operationally, the project will combine capital assistance funded through Housing Guaranty (HG) program loans, grant funded technical assistance and training, and a GOP policy agenda that seeks to. (1) devolve greater authority and responsibility to city governments; (2) develop a system for financing the cities which is commensurate with their greater responsibilities; and (3) enhance the cooperation between city governments, NGOs, and the for-profit private sector in fulfilling these new responsibilities.

C. Purpose of the Economic Analysis

The purpose of the economic analysis of the DSUD project is to identify and estimate the economic benefits and costs of DSUD decentralization policy

reforms. Several articles on regional development and local public finance address the likely economic impact of decentralization and local autonomy in qualitative terms (see, for example, Rondinelli 1989, Rondinelli and Nellis 1986), and micro-level case studies have been conducted of both the beneficial and adverse consequences of decentralization (Rondinelli and Wilson 1987, World Bank 1989b).

There is only one known previous attempt for the Philippines to place a quantitative value on the economic benefits and costs of decentralization at the macro level. Alonzo and Gamboa (1990) estimated the costs and benefits of the Local Development Assistance Program, a decentralization program to the provincial level of government in the Philippines The analysis contained in this annex builds on the Alonzo and Gamboa work by focusing on DSUD policy reforms at the chartered city level, estimating the impact of increased tax collection rates on chartered city revenues, and by extending the analysis to include macroeconomic growth benefits from investment of additional revenue on urban infrastructure.

D. Organization of the Annex

The next section contains background material on the Philippine local government system with a focus on the chartered cities targeted by the DSUD project. Section III presents the overall conceptual framework for the analysis, and specifically identifies the economic benefit and cost categories of DSUD. Section IV describes the data and estimation methodology. Section V contains the results of the analysis, and Section VI provides a summary of the analysis.

II. BACKGROUND

A. The Philippine Local Government System

In the Philippines, local governments are political and administrative subdivisions of the State created for the purpose of administering local affairs and delivering of local development programs and projects. As bodies politic and with corporate identities, local governments are endowed with powers exercised by and through their respective governments Governmental powers in general include the power of eminent domain, the closure of roads, the authority to create sources of revenue and the power to enact measures to promote the common good. Local authorities also prepare, enact and enforce their own respective budgets As public corporations, every local government exercises corporate powers subject to the limitations provided in the Local Government Code and other related laws.

The Philippine local government system is a network of 73 provinces, 2 sub-provinces, 60 cities, 1,534 municipalities, and about 41,657 barangays, including those in the Metro Manila area. Barangays constitute the basic

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political unit, and are components of the municipality, or city, where they are geographically located. Each barangay is a neighborhood community or cluster of neighborhood communities within a contiguous territory, except in cases of two or more islands comprising a barangay, with a population of at least 1,000 inhabitants. Municipalities constitute the second largest grouping of local government units. Their respective territories may comprise both rural and semi-urban areas.

The provinces are regarded as the intermediate tier of government, and represent the largest territorial subdivisions of the country. As political bodies corporate comprising municipalities and cities, provinces serve as administrative mechanisms in pursuing area-wide development concerns.

D. The Chartered Cities

The 60 Chartered Cities are relatively more urbanized and developed communities but similar to the municipalities in terms of a development role since they also serve a general purpose for the coordination and delivery of government services within their respective jurisdictions. Some cities, however, are not necessarily urban areas, but merely local government units, which operate under special laws called Charters, thus the term "Chartered Cities."

The 60 chartered cities are further classified either as "component cities" or "Highly Urbanized Cities (HUCs)." Those with a minimum population of 150,000 people and with an annual regular income of P30 million (about $1.3 million in 1990), are classified as Highly Urbanized by the National Census and Statistics Office and by the Department of Finance The reclassification into a Highly Urbanized status is not automatically granted but contingent upon the city's request for reclassification and an official declaration of the Secretary of Local Government. Chartered Cities that do not meet these requirements are categorized as component cities.

Chartered Cities are more autonomous than smaller local governments. Budgets, tax structures, local regulations and other local actions that require review and/or approval by central government are not reviewed by provincial governments for Chartered Cities as they are for smaller local governments.

Of the 60 chartered cities, 12 are classified as Highly Urbanized. It is important to note that these 12 cities do not include four of the largest cities in the Philippines. The National Capital Region (NCR) consisting of Manila, Quezon City, Pasay, and Caloocan are included in a separate category of "special cities," and are also sometimes broadly referred to as "Metro Manila." Thus, of the 60 Chartered Cities, 4 are special cities, 12 are Highly Urbanized, and 44 are component cities. Table 1 contains a complete listing of the 60 Chartered Cities, and their associated annual revenue and population, ranked by population size.

Table 1. Chartered Cities: Total Revenue and Population

Chartered City	Total Revenue (P Million)	Population
NATIONAL CAPITAL REGION:		
Manila*	769.719	1,813,064
Quezon*	512.929	1,462,327
Caloocan*	128.640	572,763
Pasay*	78.096	348,923
Subtotal	1489.384	4,197,077
Percent Total	45.006%	34.614%
HIGHLY URBANIZED:		
Davao*	138.176	771,777
Cebu*	174.589	585,357
Zamboanga*	73.027	413,445
Bacolod*	78.334	313,862
Cagayan de Oro*	67.906	306,977
Iloilo*	69.608	278,205
Angeles*	45.771	226,982
Iligan	56.480	211,711
Butuan	38.416	207,831
Olongapo*	153.471	188,203
General Santos*	51.278	184,174
Baguio*	63.443	146,198
Subtotal	994.785	3,689,925
Percent Total	30.060%	30.432%
COMPONENT CITIES:		
Batangas*	62.619	169,065
Cabanatuan*	22.868	163,244
San Pablo	22.178	156,214
Mandaue	30.259	154,436
Lipa	20.446	142,161
Cadiz	21.767	141,898
Lucena	20.574	133,623
Silay	20.068	130,426
Bago	17.134	123,683
Ormoc	34.003	119,248
Lapu-Lapu	21.323	117,752
Legaspi*	21.137	116,888
Tacloban	25.907	116,460
San Carlos	12.360	113,954
Calbayog	18.320	111,862
Dagupan*	24.429	110,691
Naga*	21.702	107,798
Toledo	30.999	107,133
Cavite	17.152	100,247

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Table 1. Continued.

Chartered City	Total Revenue* (P Million)	Population**
Pagadian	17.056	99,422
San Carlos	20.539	99,187
Cotabato*	19.967	97,754
Roxas	16.878	96,901
Surigao	10.019	94,254
Gingoog	19.689	93,733
Ozamis	15.512	90,877
Laoag*	18.607	78,516
Dipolog	6.851	75,852
Puerto Princesa	31.249	75,535
Dumaguete*	20.446	74,067
Iriga	11.253	72,527
San Jose	14.376	72,171
Dapitan	9.303	64,197
Danao	8.891	63,996
Marawi	7.306	60,566
Bais	16.441	57,586
La Carlota	13.207	55,699
Oroquieta	19.269	55,261
Tagbilaran	13.729	48,598
Tangub	11.380	44,668
Camlaon	6.047	33,622
Tagaytay	9.585	21,340
Palayan	3.535	19,489
Trece Martires	3.066	10,874
Subtotal	825.162	4,238,272
	24.934%	34.954%
Total	3309.330	12,125,274

Source: Bureau of Local Government Supervision, Department of Local Government

Notes:

1. Total revenue is for calendar year 1986.

2. Population if for 1987, from National Census and Statistics Office, based on the Medium Term Assumption for population projection.

3. * denotes sample cities.

The statistics contained in Table 1 reveal that the NCR accounts for over 45% of Chartered City revenues, and have about 35% of the Chartered City population Highly Urbanized Cities account for 30% of the revenue and 30% of the population of Chartered Cities. The remaining component cities account for about 25% of revenues, and 35% of the population.

III. CONCEPTUAL FRAMEWORK

A. Economic Benefits

The economic benefits of DSUD policy reforms for increased local autonomy would arise first from increased efficiency in the use of resources and enhanced equity in the incidence of revenue and spending patterns Second, to the extent that new money is available to the Chartered Cities from increased local revenue collection and savings due to efficiency gains, and these revenues are used in the production of urban infrastructure, there are economic benefits from multiplier effects on private sector production, employment, and income

The growth of domestic production and efficiency gains which decentralized development brings are highly associated with the flourishing of more competitive markets, increased mobility of labor, and the transformation of urban areas especially outside Metro Manila into more commercial and specialized production areas, and critical market centers for both rural and urban areas.

1. Economic Growth.

Under DSUD, shelter-related infrastructure improvements, particularly roads, electrification, water supply, sanitation, and communication networks will be stimulated in the Chartered Cities. The ability of Chartered Cities to mobilize additional local revenues will allow the cities to fund locally designed shelter-related infrastructure improvements Public investment in shelter-related infrastructure stimulates economic growth of cities by favorably impacting on production and productivity, local employment and incomes, and economic welfare in general, along with its accompanying gains in efficiency, equity and speed of realization

Investment in the elements of infrastructure can serve to relieve physical capital constraints to economic growth and productivity. Recent evidence from the U S economy indicates that increases in public investment in core infrastructure (water, sewers, roads, mass transit, electrical and gas facilities) stimulates private sector output which is as much as four to seven times as large as the public investment (Aschauer, 1989). In addition, certain shelter-related infrastructure, such as potable water and garbage

collection, are direct investments in human capital. These investments lead to a healthier and more productive labor force and further contribute to overall economic growth.

Public investment in infrastructure stimulates private sector investment. Shelter-related infrastructure, such as roads, drainage systems, and water systems, opens up markets and the economy through the establishment of linkages between homes and businesses in the metropolis, secondary cities, and market towns These linkages create employment and private sector business opportunities that stimulate private sector investment, and lead to economic growth of cities. Evidence from 24 developing countries suggests that rather than reducing ("crowding out") private investment, public investment in infrastructure tends to increase ("crowds in") private investment (Blejer and Khan 1984, Shah, 1988). As the commercial and industrial sector grows, revenues are reinvested in productive activity. A recent study in Malaysia indicates that a dollar spent on infrastructure investment stimulates 25 cents of private domestic investment (World Bank, 1989a) and similarly, in Turkey private domestic investment increases by 35 cents (Chhibber and van Wijnberge , 1988).

Expansion of the productive output of a city increases the demand for all factors of production, including the labor which produces that output. New commercial and industrial enterprises are more likely to be located in urban areas than rural areas. Evidence from large cities in both developed and developing countries such as Seoul, Bogota, and large U S. cities shows that from 60% to 80% of new jobs are created by newly established small firms which tend to locate in the central city (Lee, 1981, 1985). Urban infrastructure investment that provides the necessary factors of production will lead to new production and employment by fostering small enterprise development. Thus, investment in infrastructure leads to urban job creation and higher rates of urban employment.

DSUD decentralization policies will likely result in changes in the input mix of shelter-related infrastructure by city governments as local decision-making takes better account of relative factor price differences at the local level. The use of cheaper indigenous resources such as labor and materials would thus be favored, and local multiplier effects on employment and incomes would be more pronounced. The relative composition of the chartered cities' public expenditures is also expected to change with greater local autonomy, as shelter-related public investments become more attuned to the priorities of local residents.

2. Efficiency Gains.

Chartered City governments are in a better position than the national government to provide both the level and mix of shelter-related infrastructure that most closely meet the preferences of residents in their jurisdiction.

Economic efficiency is thus promoted as a closer match between shelter-related infrastructure and the multiplicity of individual shelter-related preferences. DSUD decentralization policy reforms also promote greater accountability by clearly linking the benefits of such shelter-related infrastructure with their costs.

With DSUD decentralization policies, administrative and regulatory functions will become more efficient as control of infrastructure resources are shifted to the chartered cities. Efficiency gains will be experienced through local administration of contracts with private firms for provision of infrastructure. Increased control of resources by city governments saves costly and time-consuming administrative and regulatory processing through the central authority.

Without decentralization the level of shelter-related infrastructure provided may be too low resulting in the rationing of the services or, in the opposite situation, the level provided may be too high, wasting scarce government resources. On the other hand, with decentralization, decision-making is more in touch with the needs of constituencies, and it is more likely the appropriate level of infrastructure will be provided Decentralization under DSUD will allow also chartered city governments to set their own design standards for shelter-related infrastructure. Uniform national design standards do not allow cities to be responsive to local conditions.

B. Economic Costs

1. Direct Costs.

DSUD policy reforms promoting decentralization have their attendant economic costs. The direct costs include incremental costs for capacity building at the Chartered City government level in general government administration, financial management and project development, that is, the direct cost of transferring management responsibility to chartered city governments In order for positive financial gains from decentralization to be realized, these costs must be less than the efficiency gains achieved in the transfer of responsibilities from the central government. Setting up new local management systems, the training of local administrators, and improving tax collection system efficiency are just a few examples of the transition costs of decentralization. Direct costs also include the overhead expenses for overseeing the early phase of project implementation.

2. Indirect Costs.

The indirect costs of decentralization, which may be higher than the direct costs, include possible efficiency loss in those cases where the chartered city governments are not sufficiently prepared for the responsibilities associated with local autonomy. Some amount of friction may be expected at

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the start, arising from heightened competition among local government politicians vying for visibility and credit. There also exists the risk of the local political and economic elites conniving to use the powers accompanying local autonomy to further their own self-interests. Further, with greater resources available at the local level, increased graft and corruption may occur. Finally, incompatibilities and conflicts between national and local objectives may arise with decentralization under the DSUD Program.

IV. DATA AND METHODOLOGY

A. Budget Data

In order to determine the effect of DSUD reforms on Chartered City revenues and investment on urban infrastructure, historical budget data was collected from the Bureau of Local Government Finance.

Detailed budgets, including revenue and expenditure categories for the years 1986-1989 for a sample of 22 of the 60 Chartered Cities were obtained. A combined total of over 80% of the revenues of the 60 Chartered Cities are administered by the 22 cities in the sample. The sample chartered cities are identified in Table 1.

For six of the 22 Chartered Cities in the sample, budget data was not available for one of the four sample years. For these observations, the average growth rate by revenue and expenditure category for the missing year were calculated based on the observations of sample cities with complete data. The average growth rate by budget category was then used to impute the revenue and expenditure line items for those cities with missing data.

Total revenue data were available for all 60 Chartered Cities for 1986 (see Table 1), and, on this basis, estimates of revenue and expenditure categories were made for the full population of 60 Chartered Cities for the years 1986-1989. That is, using the fact that the 22 Chartered Cities account for 80% of total revenues in 1986, it was assumed that the proportion of revenue represented by the sample remained the same for the years 1987-1989. The resulting estimate of the combined total budget for the full population of Chartered Cities for the years 1986- 1989 is given in Table 2.

The data contained in Table 2 indicate that the combined budgets for the Chartered Cities was over $200 million in 1989. Revenues obtained from local sources, including collections of real property taxes, business taxes and licenses, and receipts from economic enterprises, account for the majority of revenue available to the Chartered Cities. In 1989, local revenue generation accounted for over 75% of total revenue. The major source of the remaining 25% of the total budget is provided by the central government from the internal revenue allotment (82% in 1988). The central government also provides grants to the Chartered Cities that account for the remaining revenue under the aids and allotments category.

Table 2. Annual Budgets for Chartered Cities: 1986-1989

(Millions of Dollars)

	1986	1987	1988	1989
TOTAL REVENUES AND GRANTS	146.34	154.53	172.36	227.85
1. Local Sources	110.25	115.81	129.81	171.80
2. Aids and Allotments	36.10	38.72	42.56	56.05
TOTAL EXPENDITURES	144.11	155.17	158.49	208.72
1. General Government	21.69	26.73	33.07	58.15
2. Public Welfare and Safety	51.89	52.26	50.93	55.92
3. Economic Development	24.53	26.44	27.15	37.95
4. Other Charges	38.67	41.68	39.46	45.24
5. Capital Outlay	7.32	8.06	7.89	10.77

Source: Estimates based on budgets of 22 sample chartered cities accounting for 80% of income of all chartered cities. Original data obtained from Local Revenue Enforcement Division, Bureau of Local Government Finance.

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B. Pattern of Expenditures

An analysis was conducted on how Chartered Cities historically have spent revenues in order to determine how additional revenues are allocated to competing expenditure categories, in particular, to infrastructure.

The analysis of expenditure patterns is based on an Ordinary Least Squares (OLS) regression analysis of the 22 sample Chartered Cities' budgets for 1986-1989. The regressions were conducted on 88 observations (22 cities, 4 budget years) for each expenditure category. Per capita revenues and expenditures were used in the regressions to control for city population size.

Separate regressions were conducted for five expenditure categories with total city revenue as the independent variable in each case. The coefficient results indicate the marginal propensity to spend (MPS) additional revenue in each expenditure category. The results of the regressions are given in Table 3.

The results indicate that the MPS on general government is .069, public welfare and safety is .124, economic development is .45, other expenditures is .295, and capital equipment is .023. Thus, if Chartered Cities receive additional revenue that is not tied to specific expenditures, about 45% of the additional revenue would be spent on economic development (urban infrastructure).

C. Budget Projections

Projected budgets for the project phase of DSUD are required to establish forecasts of a baseline scenario from which to compare the effects of DSUD reforms in terms of projected revenues and expenditures. The DSUD project is assumed to occur over the calendar years 1991-1993.

In the absence of reliable information for forecasting future budgets, projected annual budgets for the Chartered Cities were estimated simply by increasing each 1989 budget category by 10% per year. This assumption does not imply real increases in revenues and expenditures, but rather accounts for inflation in nominal amounts.

The 10% annual increase in total revenues result in about a 50% nominal increase by the year 1993 compared to 1989. Projected annual budgets for the years 1991-1993 are shown in Table 4.

Table 3. OLS Regression Results for MPS on Expenditure Categories

Independent Variable: Total Revenue Per Capita

Dependent Variables: Expenditures Per Capita	Constant	Coeff	t-stat	R-Square
General Administration	48.71	0.069	3.982	0.156
Public Welfare and Safety	31.74	0.124	4.960	0.222
Economic Development	-80.74	0.450	7.703	0.408
Other	-8.62	0.295	6.362	0.320
Capital Equipment	12.16	0.023	1.915	0.123

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Table 4. Projected Annual Budgets for Chartered Cities:

1991-1993

(Millions of Dollars)

	1991	1992	1993
TOTAL REVENUES AND GRANTS	275.70	303.27	333.60
1. Local Sources	207.88	228.67	251.54
2. Aids and Allotments	67.82	74.60	82.06
TOTAL EXPENDITURES	252.55	277.80	305.58
1. General Government	58.26	64.09	70.50
2. Public Welfare and Safety			
3. Economic Development	28.60	31.46	34.60
4. Other Charges	92.25	101.48	111.62
5. Capital Outlay	13.04	14.34	15.77

Note: Estimates based on a 10% annual increase for years 1990-1993.

D. Local Resource Mobilization

The estimation of economic benefits of the DSUD Program are derived in large part from the effect of modest increases in local tax collection efficiency in chartered cities that lead to substantial increases in the resources available to cities for urban infrastructure investment. Increases in urban infrastructure, in turn, lead to increases in private sector investment and economic growth

There is much room for improvement in local property tax collection rates. In terms of potential revenue to Chartered Cities, the property tax collection system is relatively inefficient. Table 5 contains a list of assessed value, collectible revenues, actual collection, and the collection rate for real property tax in 1988 for the 60 Chartered Cities.

In 1988 the average property tax collection rate for all Chartered Cities was only 60 67% of collectible property taxes. The collection rate for the NCR outperforms the average Chartered City by a fairly substantial margin at about 69%. The Highly Urbanized Cities are particularly poor performers, with an average collection efficiency of only 45%. The component cities have an average collection rate under 50%

More efficient mapping and aggressive collection policies could result in substantial additional revenue from property taxes for chartered cities. In addition, more efficient collection practices for business taxes and licenses, and in the collection of receipts from economic enterprises are likely to add to the resources available to the Chartered Cities.

Estimates of additional revenue for Chartered Cities from increased collection efficiency, for a range of collection rates over the projected 1991-1993 period, are given in Table 6

Shown in Table 6 are collection rate assumptions ranging from 65%, representing a modest increase in the average collection rate for all Chartered Cities (60 67% in 1988), to a relatively high rate of 80%. For conservative estimation purposes, it is assumed that it will take three years (1991-1993) to achieve each collection rate shown in Table 6. For example, increasing the current average collection rate (60 67%) to 65% for all cities would finally occur in 1993, with additions to revenues representing one-third of the increase in 1991, accumulating to two-thirds in 1992, and the full increase in 1993.

Table 5. Chartered Cities: 1988 Collection Efficiency

Chartered City	Assessed Value	(Thousands of Pesos) Collectible	Collection	Collection Rate
NCR:				
Manila	20,549,841	328,798	259,156	78.82%
Quezon	15,015,590	258,258	174,675	67.64%
Pasay	2,898,828	40,584	17,522	43.17%
Caloocan	3,950,489	63,213	25,429	40.23%
Subtotal	42,414,748	690,853	476,782	69.01%
Highly Urban:				
Baguio	1,076,994	21,540	16,602	77.08%
Angeles	698,356	6,984	4,812	68.90%
Iloilo	1,168,118	19,040	12,592	66.13%
Cagayan	1,346,588	13,466	8,490	63.05%
Butuan	446,555	4,466	2,284	51.14%
Zamboanga	736,408	7,364	3,330	45.22%
Cebu	3,072,962	61,459	27,313	44.44%
Iligan	2,854,126	35,677	15,298	42.88%
General Santos	751,877	8,459	3,520	41.61%
Olongapo	678,832	6,788	2,631	38.76%
Davao	3,108,301	34,968	11,144	31.87%
Batangas	2,296,958	34,454	7,168	20.80%
Subtotal	18,236,075	254,665	115,184	45.23%
Component Cities:				
La Carlota	221,795	3,992	3,165	79.28%
Dapitan	55,385	554	412	74.37%
Dagupan	375,224	5,628	4,128	73.35%
San Carlos	158,514	1,585	1,132	71.42%
Cavite	205,401	2,054	1,462	71.18%
Mandaue	627,079	6,271	4,327	69.00%
Silay	304,464	3,045	2,097	68 87%
Lapu-Lapu	506,039	7,591	4,694	61.84%
San Carlos	202,257	2,023	1,213	59.96%
Bacolod	1,350,027	20,250	11,783	58.19%
Ormoc	282,590	2,826	1,638	57.96%
Tangub	37,163	372	200	53.76%
Tagbilaran	177,118	1,771	900	50.82%
Tagaytay	322,156	5,477	2,756	50.32%
Trece Martires	69,224	692	346	50.00%
Bais	180,141	1,802	880	48.83%
Ozamis	243,641	3,045	1,475	48.44%
San Pablo	453,490	4,535	2,157	47.56%
Tacloban	627,798	6,278	2,976	47.40%

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Table 5. Continued

Chartered City	Assessed Value	Collectible	Collection	Collection Rate
		(Thousands of Pesos)		
Gingoog	199,328	2,242	1,060	47.28%
Roxas	257,371	3,217	1,516	47.12%
Dumaguete	285,038	2,850	1,301	45.65%
Cadiz	231,196	2,312	1,051	45.46%
Lipa	361,790	3,618	1,624	44.89%
Lucena	529,219	5,292	2,371	44.80%
Bago	231,480	4,630	2,064	44.58%
Pagadian	152,508	1,708	731	42.80%
Oroquieta	79,584	796	333	41.83%
Cotabato	328,933	3,708	1,536	41 42%
Naga	559,342	6,219	2,473	39.77%
San Jose	176,356	1,764	679	38 49%
Laoag	323,982	3,240	1,240	38.27%
Dipolog	117,138	1,171	426	36.38%
Cabanatuam	413,944	5,174	1,827	35.31%
Puerto Princesa	208,057	2,081	686	32.96%
Legaspi	439,235	6,589	2,089	31.70%
Surigao	198,859	1,989	585	29.41%
Iriga	109,751	1,646	442	26.85%
Camlaon	43,759	656	176	26.83%
Danao	155,918	1,559	236	15.14%
Palayan	28,471	411	61	14.84%
Calbayog	167,989	1,680	185	11.01%
Toledo	394,184	5,415	530	9.79%
Marawi	76,469	765	16	2.09%
Subtotal	12,469,407	150,523	72,979	48.48%
Total	73,120,230	1,096,041	664,945	60.67%

Source: 1988 Annual Financial Report, Local Governments Volume III, Commission on Audit, GOP

Table 6. Estimated Additional Revenue to Chartered Cities from Increased Tax Collection Efficiency: 1991-1993

(Millions of Dollars)

Collection Rate:	1991	1992	1993
65%	10.39	22.87	37.73
70%	13.86	30.49	50.31
75%	18.02	39.64	65.40
80%	22.17	48.78	80.49

Notes:

1. Collection rates are assumed to take three years to attain.

The additional revenue available for infrastructure investment shown in Table 6 is estimated by applying percentage increases in collection efficiency to the projected local revenues given in Table 4. Using the information contained in Table 5, the percentage increase in local revenue represented by moving from the current average collection rate to each of the range values of collection efficiency was determined. For example, increasing the collection rate to 65% represents a 15% increase in local revenues. Likewise, a 70% collection rate represents a 20% increase, a 75% rate represents a 26% increase, and an 80% collection rate represents a 31% increase in local revenues.

In 1991, the effect of increasing the collection rate of all cities to 62% (60.67% plus one-third of the difference between the current average collection rate and 65%) would result in over $10 million of additional revenues to chartered cities If the average collection rate is increased to the average collection rate of the NCR, an increase in all cities to about 70%, an additional $13.86 million would be added to revenues in 1991 alone. Thus, fairly modest increases in collection efficiency, particularly in the larger revenue cities like the Highly Urbanized Cities, would result in relatively large additional revenues to Chartered City budgets

E. Investment in Infrastructure from Increased Tax Collections

The effect of additional revenue from local resource mobilization on additional infrastructure investment is estimated using the MPS regression results (Table 3) and the estimated additional revenue from increased tax collection efficiency (Table 6).

The MPS regression results were used to apportion projected revenue increases from increased tax collection efficiency by assigning 45% to economic development in the form of urban infrastructure Table 7 gives the estimated increase in infrastructure investment in the chartered cities in 1991 under a variety of scenarios.

Table 7 includes estimates of additional infrastructure investment in 1991 for the range of increased tax collection rates (65%, 70%, 75%, 80%), and a range of assumptions with regard to the percent of additional tax revenue allocated to infrastructure investment. The first column of Table 7 indicates the amount of additional infrastructure investment under various collection rate assumptions if the Chartered Cities are not restricted in the amount of additional revenue spent on infrastructure. Using the MPS regression results suggests that $4 68 million in 1991 alone (45% of additional revenue generated from increasing the collection rate to 65%) If an 80% collection rate is attained by 1993, then additional infrastructure investment in 1991 amounts to $9.98 million.

Table 7. Estimated Additional Infrastructure Investment from Increased Tax Collection Efficiency: 1991

	Percent of Additional Revenue Invested in Infrastructure (Millions of Dollars)			
	45%	60%	75%	100%
Collection Rate:				
65%	4.68	6.24	7.80	10.39
70%	6.24	8.32	10.39	13.86
75%	8.11	10.81	13.51	18.02
80%	9.98	13.30	16.63	22.17

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The remaining three columns in Table 7 give estimates of infrastructure investment in 1991 if chartered cities choose, or are required, to invest more than the MPS on infrastructure. For example, if all additional revenue generated from attaining a 65% collection rate by 1993 is spent on infrastructure, then $10.39 million would be invested in urban infrastructure in 1991. For an 80% rate, over $22 million would be invested in 1991.

F. Devolution of the Infrastructure Budget

The devolution of the national infrastructure budget will have a positive economic effect on Chartered Cities. As discussed in the conceptual framework section, local control of the infrastructure budget will lead to efficiency gains in terms of savings in construction costs and reduced delays. Revenues generated from efficiency gains may be used for more urban infrastructure

Because complete devolution of the national infrastructure budget is an unreasonable outcome to expect under DSUD (unless there is a simultaneous change in the Local Government Code that mandates such a total devolution), the devolution of the budget is conservatively estimated to double the size of the projected 1991-1993 Chartered Cities economic development budgets (See Table 4). A complete devolution of the national infrastructure budget would increase the economic development budget of cities by more than ten-fold the amount currently administered by Chartered Cities.

The economic gain from this partial devolution would not be the value of the devolved funds. Presumably, the funds selected for devolution (now being spent by the central government) are spent on infrastructure, thus producing the economic benefits of infrastructure investment, regardless of whether the central or local government spends the funds on infrastructure. However, the arguments advanced for decentralization and the evidence from empirical studies show that local governments will be more efficient in their selection of projects, in their choice of construction methods and materials, and in their administration That efficiency gain can be estimated as a percentage of the amount of funds devolved For example, if $10 million is devolved, and a 10% increase in efficiency is achieved, an additional $1 million in revenue is available for additional infrastructure investment that now is lost to the inefficiency of centralized administration.

Table 8 lists the revenue effects on Chartered Cities from a partial devolution of the infrastructure fund assuming that the economic development budgets would double as a result If such a devolution of the infrastructure budget leads to a 10 percent gain in the efficiency of administration of infrastructure projects due to cost savings and avoiding costly delays, then the additional revenue for investment in infrastructure would amount to nearly $3 million in 1991.

Table 8. Revenue Effects on Chartered Cities from Partial Devolution of the Infrastructure Fund: 1991-1993

(Millions of Dollars)

	1991	1992	1993
Transferred Revenue for Economic Development	28.60	31.46	34.60
Additional Revenue for Infrastructure	2.86	3.15	3.46

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V. SUMMARY

Mobilizing economic development in urban areas or particularly in potential growth areas outside Metro Manila will be a critical factor for determining the rate and pattern of growth of the Philippine economy in the next decade. However, the economy's capacity to expand its narrow development base depends on the availability of adequate infrastructure, including shelter and basic urban services One means of facilitating the development and maintenance of shelter-related infrastructure and the effective delivery of basic social services such as affordable housing is a decentralized system of government.

Adequate shelter-related infrastructure is critical for achieving the goals of sustained economic growth, open markets, and an open society. Shelter-related infrastructure, such as roads, and drainage and water systems, opens up markets and the economy through the establishment of linkages between homes and businesses in the metropolis, secondary cities, and market towns.

These linkages create employment and private sector business opportunities which stimulate economic growth, provide adequate access to goods and services, which will enable people to exercise meaningful choice for their betterment as well as the overall development of society, and spread the benefits of development to help sustain an open Philippine society.

A. Economic Benefits

The combined effect of increased tax collection rates and efficiency gains from partial devolution of the infrastructure budget is to add significantly to the economic development budget for investment in the urban infrastructure of chartered cities. Recent evidence of the impact of public investment in infrastructure on private sector output range as much as four to seven times as large as the public investment Using a conservative estimate of just two times the public investment in infrastructure, investment by the chartered cities in urban infrastructure will lead to increased domestic production of the magnitudes given in Table 9.

Under the most conservative assumptions, if chartered cities can achieve a 65% tax collection rate by the year 1993, only 45% of additional tax revenue is invested in infrastructure, only a relatively small devolution of the national infrastructure budget occurs, and using a discount rate of 25% (the highest estimate of the current cost of capital in the Philippines), then the economic benefit in terms of increased domestic production is over $12 million in 1991 alone. The present value of the economic benefits under this most conservative scenario for the period 1991-1993 using a 25% discount rate, is $35.29 million.

Estimated Economic Benefits from DSUD: 1991-1993
(Millions of Dollars)

	1991	1992	1993	1990 Present Value
Increased GDP	12.21	23.73	37.42	35.29

Given that the economic benefit from continuous annual investment in urban infrastructure will occur far into the future, this short-run three year projection of benefits is highly conservative in magnitude The longer term economic benefits from DSUD are likely to be much greater than illustrated by the short-run 1991-1993 period. Projecting DSUD benefits over a longer ten year period, and again under the most conservative assumptions, yields a present value in 1990 of $101.75 That means the direct and indirect costs of DSUD would have to exceed $101.75, and would have to be invested at yields of 25% before the opportunity cost of DSUD would warrant canceling the project.

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Table 9. Estimated Economic Benefits from Investments in Infrastructure: 1991-1993

	(Millions of Dollars)			1990
Present 1993 Value		1991	1992	
Collection Rate:				
65%	12.21	23.73	37.42	35.29
70%	15.33	30.59	48.74	45.44
75%	19.07	38.82	62.32	57.61
80%	22.82	47.05	75.90	69.78

Assumes 45% of additional revenue from tax collections invested in infrastructure.

B. Economic Costs

The direct costs of DSUD consist of the guaranteed loans ($50 million) and incremental costs for capability building at the Chartered City government level
and the overhead expenses for overseeing the early phase of project implementation. The costs of capability building in financial management, capital budgeting, project planning and implementation for the 60 chartered cities may not be as large as one would initially expect. Training programs for local executives have been conducted extensively since the 1970s (such as under the USAID-funded Provincial Development Assistance Program), and many of the participants in these programs still work with the Chartered Cities. In fact, technical capability may already be sufficient in the 12 Highly Urbanized Chartered Cities

Given the large magnitude of potential economic benefits of DSUD, estimates of direct costs of capability building are pale by comparison Even if the training costs were as much as $1000 per participant (including the opportunity costs of time spent in training), and each of the 60 Chartered Cities sent 10 participants each, the total cost under these very liberal assumptions would only amount to $600 thousand, or only about 5 percent of the first year benefits under the most conservative benefit scenario

The direct costs of training, technical assistance, and overseeing the early phase of project implementation has been estimated to be $4 million over the three year project period. If these costs are spread evenly in $1.33 million increments over the three year period, then the 1990 present value of direct costs amount to $2 65 million, or about 10% of the present value of the economic benefits under the most conservative benefit scenario. Thus, the direct costs of DSUD are likely to be relatively small in relation to economic benefits.

The indirect costs of DSUD, discussed previously, obviously are very difficult to quantify. However, with the countervailing forces present in a democratic society that help to reduce these risks, the "drag" on the economy is not likely to significantly decrease the efficiency gains. Again, given the sizeable magnitude of the economic benefits estimated for DSUD, even if the indirect costs decrease the efficiency gains and economic growth by 20%, the implementation of DSUD policy reforms would still be worthwhile.

The economic returns over the longer term of economic benefits outweigh the total direct and indirect cost of DSUD. Economic benefits of DSUD over a ten year time horizon are estimated at over $100 million

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ANNEX 6

SOCIAL SOUNDNESS ANALYSIS

economic growth more generally, by discouraging investment, negatively affecting urban revenue bases and thus urban ability to deal with the problems through mobilization of their own resources. Ultimately, these conditions exacerbate political instability, as visible poverty is an easy breeding ground and rallying point for political dissent, opposition, and despair, eventuating in violence on the part of people who have little to lose.

Previous efforts to deal with urban problems and poverty through the central mechanisms of state have proved inadequate. The motivations of individuals and parties, political or otherwise, is not the issue. The results are the issue, and these have been rather dismal. In fact, centralization of decisions and resources, especially of resources generated locally, disenfranchises people even though they might have a local vote. Where they have no effective control over local affairs because of the central orientation of bureaucratic decision and resource flows, they effectively have no voice Locally elected office-holders under such conditions are not really accountable, have no incentive to focus on local conditions, and have strong incentives to shirk hard choices and responsibility by using the national, centralized system as a scapegoat

This is certainly the tenor of sentiments in the areas outside Manila today. Support for the national government thus remains weak, and yet its own strangle-hold on resources and responsibilities has also enfeebled local governments. Political stability requires a heightened perception of effectiveness and accountability at both the local and central levels. A more rational division of roles, responsibilities and resources is perceived by many actors within the system, including the President, as the appropriate way to accomplish this.

The social setting for DSUD thus revolves around the twin problems of highly visible and economically threatening urban poverty, and a lack of authority and means for urban governments to do much about it under the previous highly-centralized bureaucratic system.

III. Objectives and Target Groups of DSUD

DSUD's ultimate goal is to induce improvements in urban infrastructure, directed at both the condition of urban slum and squatter communities directly and at the needs of private sector-led economic growth that will provide jobs which sustain improved living standards. Project funds will contribute to infrastructure investments that reach this target group, the urban poor, through the HG loan component Longer-run sustainability of such infrastructure, and its expansion, will depend on increasing the responsibilities and resources of the local governments -- for DSUD, the more highly urbanized cities - - through the policy action dialogue and technical assistance components (See those sections for detailed discussion of activities and target groups).

ANNEX 6

SOCIAL SOUNDNESS ANALYSIS

I. Introduction.

The social soundness of the DSUD project will be determined by three major and interwoven sets of factors: the direct and indirect beneficiaries of the Project's components and the levels of benefits they sustain; the beliefs, attitudes, values and skills of the principal actors involved in this decentralization, and ultimately of Filipinos generally, as the custodians of this decentralized system of governance, and the technical and absorptive capacity of the institutions being targeted for increased responsibilities.

Each of these aspects of the decentralization effort needs careful consideration It should not be assumed that the social and institutional situation is wholly favorable, nor that the social benefits are guaranteed to be sustainable or costless These are empirical questions, and require both preliminary consideration in an assesssment of social soundness, such as this, as well as in the construction of monitoring and evaluation systems gauging project impact at realistic time lags during and after implementation.

II. Social Setting

Urban areas in the Philippines are characterized by high levels of visible poverty. Slums and squatter communities exist in many urban areas, and proliferate at an increasing and uncontrolled rate in metro-Manila and a few other large cities This type and extent of poverty translates itself into alarming disease statistics, particularly of types of disease for which the vector is insanitary water and waste disposal systems, and over-crowded housing, such as pneumonia, bronchitis, tuberculosis, and diarrhoeal diseases, all of which negatively affect the productivity of the labor force Further, it is seen in a marked deterioration of the urban environment. The shallowing and clogging of drainage canals with uncollected garbage leads to flooding problems, made worse due to the illegal encroachment of buildings into drainage areas There is in some areas a deterioration of groundwater quality, gross pollution of surface water, and obvious air pollution.

According to some reports, the majority of urban environmental problems are found in squatter areas, which lack paved access, garbage collection, and properly constructed drainage systems, and which are sometimes characterized by interior charcoal cooking in inadequately ventilated spaces, endangering the health of individuals further.

The specific manifestations of urban poverty have an impact well beyond the health and well-being of the human individuals involved. They also constrain

At least three complementary mechanisms for achieving this ultimate objective are incorporated in project design; they have multiple target groups. Increases in local resource mobilization directly is one mechanism This will involve increased authority for cities to tax and to charge for services, and require some technical assistance to lay the groundwork in terms of updated assessments and tax rolls, performance criteria for measuring service delivery costs, and related fiscal issues. Local elective and appointive officials are perceived as direct beneficiaries for this approach, as well as the target group for technical assistance.

Transfer of central functions and resources to local administrative cadres, who become the target beneficiaries, is a second mechanism Centrally implemented functions are already, in effect, performed by staffs at local level, who nonetheless lack the authority to decide and follow-through without interminable delay Less than optimal decisions are made because of the lack of contextual knowledge applied to decisions when they are made far away. Human capital is squandered, and professional abilities and aspirations frustrated, when perfectly competent local technical cadres are not allowed to get on with the job.

Deregulation of major areas relating to infrastructural and other urban service delivery activities is a third mechanism the project will pursue. Increased private and NGO participation in needs assessment and service provision can also increase the resources available locally The private sector is expected to benefit in a rationalization of the regulations relating to shelter-related infrastructure, as well as in the provision of more and better infrastructure under the public purse

In sum, the major target groups are· local elective and administrative officials, local slum and squatter communities, and the private sector as it initially relates to shelter-related infra- structure and service provision, initially (and to opportunities for expanded investment and growth brought about by improved infrastructure generally, in later stages). A more detailed discussion of beneficiaries will clarify the types of benefits expected in social terms.

IV. Beneficiaries

DSUD incorporates both direct and indirect beneficiaries Direct beneficiaries include low income households; city administrations (including both elected and technical officials), and the institutional network supporting the locally-elected chief executive officers (primarily the League of Mayors for DSUD, although AID's related LDAP project envisions a strategy incorporating other relevant leagues of elective officials). Indirect beneficiaries include most centrally the private sector and the NGO/PVO network presently dealing with urban development problems in the Philippines, and at a greater remove the Metro- Manila revenue base/infrastructure network

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and the cities' environmental conditions (as a defensive benefit from decentralizing resources to these cities).

1. Direct Beneficiaries

a. Below-median income families:

Direct beneficiaries include first and foremost the below median-income families that benefit from expenditures on urban infrastructure and related activities supported by the HG loan program. A large proportion of the Philippine population is classed as poor Definitional approaches have varied, from the NEDA/NCSO examination of the bottom 30% by family income, to the varying establishment of an absolute value of family income below which the family is poor In 1985 at current prices, these ranged from P 10,305 to P 18,000, producing a range of from 45% to 74% of all families falling below the poverty threshhold

The difficulty with these methods of estimating poverty thresholds is that they continually change with changing macro-economic conditions, with different research techniques, etc., resulting in a complication in both benefits assessment and actual monitoring.

Consequently, the approach here is to use median income as the dividing line -- a realistic one in the Philippine context -- and to target below median-income families as the beneficiary group.

If the project focuses on Highly Urbanized Cities in its first phase, that is during the implementation period for the Policy Action Plan, the target beneficiary population would therefore be around 2,202,000 (50% of the projected 1991 population of the 12 highly urbanized cities, using a conservative 5% growth rate to project from 1987 estimates). Some portion of this number will be affected by the specific urban development types of project undertaken by the central agencies which fund shelter- and infrastructure-related activities eligible for the HG loan program.

A large portion of the target households will be affected through increased ability of city governments to render effective services and to provide infrastructure relevant to local needs on a timely basis. The success of the project will be determined by the degree to which decentralization of responsibility and fiscal resource flows actually lead to this increase in infrastructure and shelter-related service provision, in concrete efforts that reach the below-median income group Benchmarks for monitoring this performance on a medium-term basis will be a part of the Project's strategy and are described in the monitoring and evaluation plan. In addition and more importantly, such monitoring will be a key element of the technical assistance and training component of the project.

b. Women as beneficiaries:

Incidence. An interesting aspect of the situation of urban women in the Philippines is their majority status. That is, while in many developing countries women are a minority in the urban areas, in the Philippines they represent a small overall majority. In contrast to the situation in Africa and parts of Latin America, Philippines urban areas are, in general, not characterized by greatly imbalanced sex ratios, with large numbers of immigrant males in towns and women and children remaining in rural areas. Migration into the urban areas consists of at least three streams -- male heads of households who later bring their families, unmarried young people of both sexes looking for employment, exhibiting fairly identical levels of education, and young family members joining parents or older siblings after the latter have established themselves

The result is a slight imbalance in favor of males in the rural areas, and females in the urban areas, which is probably not too dissimilar to other countries with levels of urbanization as high as the Philippines This pattern is especially pronounced with respect to the National Capitol Region, where in 1980 there were 93 males for every 100 females However, it appears to be a pattern in most of the smaller cities as well, as indicated in the sex distribution of urban/rural residence by region in the Philippine Statistical Yearbook for 1989.

Status. Further, not all women, urban or otherwise, are poor or powerless. It is quite clear from the present political situation that women in the Philippines can hold high political office, as well as senior positions in the civil service Women can speak out, both on general issues and on those affecting women, and can play central roles in decision-making and organization Data from a well-known study of poverty in the Philippines (Callanta, 1988) indicate that high adult literacy rates in the mid-70s were non-discriminatory between males and females (men, 87% literate, women, 86% literate) and that the major educational problems were urban-rural. (E.g., in 1970 adult literacy registered 93% in urban areas as against 79% in rural areas). Further assessment of educational trends indicates high levels of drop-outs, however, and of functional illiteracy, which cast a decided pall on the rosy picture. Nonetheless, while these data can be used as a discriminant factor to identify the urban poor, they do not discriminate particularly well between men and women.

Employment Employment profiles tell a somewhat different story. Evidence from surveys of informal sector and micro- enterprise in the urban areas indicates that up to two-thirds of one of the most marginal categories -- petty hawkers and street vendors -- are women. They are generally under 30 years of age, with some education, and with surprisingly lengthy residence (10 years or longer) in the urban areas in which they ply their trade. Others are domestic workers, doing menial housecleaning chores for wealthier and/or

working women. These perform their tasks in their employers habitats, so infrastructural and service provisions in slum/squatter areas do not affect them directly in livelihood activities; but moving to and from their places of work may.

On the other hand, the other two "informal sector" groups studied as most marginalized -- casual laborers and scavengers -- are disproportionately male. Although firm statistics are not presently available, it seems clear that the urban poor are roughly evenly divided on a gender-specific basis, but that the employment profiles of urban poor females, and their consequent needs, may be disaggregable and worth assessing further.

GOP Assistance. The GOP has not until recently assisted disadvantaged women as a separate or distinct group under the Department of Social Welfare and Development. The Department provides assistance in general of a "livelihood" nature (job search, skills training, etc) to a wide spectrum of both urban and rural Filipinos Families and heads of households are the traditional focus of its attention, with disadvantaged youth and children as a special category, and the handicapped also as a distinct focus. It also provides direct "relief of distress" support, which tends to vary regionally and over time with both broad economic circumstance and local calamity

In 1988 the Department began to break out disadvantaged women as a distinct category The effort is very new, and it is likely that most women receiving assistance are still counted under other categories (e g , family heads/needy adults). Not much can be made of the statistics on assistance for this reason. It appears, for example, that around 12 6% of Filipino families received assistance under the category of family heads or other needy adults in 1988 Relief of distress as a more general category of welfare assistance theoretically reached persons amounting to up to 39.7% of families in some form or other, but it is inevitable that this involved double counting of several orders of magnitude (i e , several people in the same family all counted separately) The more appropriate statistic may be that 6.6% of the total population was assisted temporarily, and even this may involve double counting for several types of assistance to the same individual (Philippine Statistical Yearbook, 1989).

By contrast, a total of about 144,000 women were assisted under the "disadvantaged women" category in 1988, roughly one for every ten family heads/needy adults, one for every fifteen disadvantaged child or youth. Of course, aid to disadvantaged women and children are quite likely to coincide. Thus, not until very recently have women been perceived as having particular or special needs (and many Filipino informants, including women, argued that Filipina women did not really manifest such needs, in contrast to other Third World situations). The data base to support identification of such needs and of optimal interventions is very weak. On the other hand, the existence of women in positions of power and influence, and the commitment of the present

regime to poverty alleviation, argue for an ability to address these issues directly and at center stage, unlike the case in societies where great obstacles are put in the way of interventions focused on women by the cultural positions of inferiority they are assigned.

Women's resources and needs.

The background data reviewed suggest that urban womens' needs center around two major problem areas: employment and health services/sanitation. Women are overwhelmingly found in micro-enterprise manufacture and the service sector in urban areas, in hawking and peddling, food preparation, laundry and domestic services, and other personal services For those involved in micro-enterprise manufacture and sales, mobility is a key issue; the ability to move to where customers can be found, or for customers to find easy access to the goods being offered, may make a critical difference in income Roads, road maintenance, transport availability, and space to ply their wares are thus major needs For women involved in food preparation and sales, other types of infrastructure are also important. These include access to potable water for cooking and cleaning of utensils, to electricity; to sanitary waste removal where health codes regulate food preparation and sales. Electricity for simple lighting may increase productivity in micro-enterprise manufacture.

Increased output in these activities could be fostered by improved and expanded urban infrastructure of the types noted The gaps in existing infrastructure are surprising For example, while in the National Capitol Region only 2.6% of houses are without water supply, in other urban areas fully 50 4% are without it (ADB, Urban Sector Profile, Appendix 13, p 7). Given that most of these are likely to be below median-income households, a very large gap potentially relevant to women's income-earning opportunities emerges in the form of urban water supply. Similarly, while in NCR only 7.1% of houses are reported to be without electricity, 28.7% are reported to be lacking it in other urban areas (and this may translate into well over 50% of low income slum and squatter areas) Finally, while NCR's households only lack regular sanitation facilities in 14 0% of houses, fully 56% of houses in other urban places are reported to lack such. These clearly will be below-median income households.

Health issues emerge as the other problem confronting women, not soley or particularly but as the residents of slum and squatter communities with primary responsibility for family/child welfare. Sick women cannot pursue productive employment In addition, their incomes are negatively affected and they become part of the large and growing portfolio of assistance recipients, either public or from charitable organizations. Sick children have the same effect of tying down potentially productive women to the pursuit of medical care, which drains family income further. Three of the ten major cause of morbidity in the Philippines are diarrhoeal diseases, pneumonias, and tuberculosis, in order of incidence All of these are bred in the squalor and

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misery of slum and squatter conditions. All are "shelter-related" and put a strain not just on family incomes and productivity but on the public sector budget as well, as significant amounts of resources are directed to curative services.

But curative services are not the most appropriate strategy for dealing with these problems. Rather, prevention through upgrading of slum/squatter conditions is the more effective approach. The actual provision of housing and house upgrading are vexed issues, in that the backlog of housing needs and the available public (and accessible private) resources are presently not making much headway. Total reported private construction from 1978 through 1988, for example, provided residential housing equal to the projected additional urban housing needs for the single year 1988. (Reported construction from Philippine Statistical Yearbook and housing needs from ADB Urban Sector Study) Infrastructure improvements in these areas, encompassing water and sanitation services, land access, and shelter-related credit finance may be critical to improvements that can address the health issues in tandem with gradual, community-generated increase in improved shelter.

DSUD's Impact.

DSUD should have a direct impact on women's needs in these two problem areas. Infrastructural improvements in roads and urban planning (including the re-thinking or removal of some regulations on micro-enterprise) will enhance access for micro- enterprise participants, up to two-thirds of whom are women in many urban areas. Many may be earning income vital as a supplement to that of the head of household, and potentially "discretionary" in the sense that it might be ear-markable for own-financed shelter-related improvements Some study of this may be worthwhile under the project The improvement or extension of water supply, electricity and sanitation/drainage will also facilitate the increase in productivity of women engaged in small scale manufacture and service occupations, especially those related to food preparation, laundry, piece-work and some personal services.

DSUD's other major impact will be in improved sanitary conditions, facilitating disease prevention and inhibiting the transmission of the common diseases related to unsanitary water, waste disposal, and highly over-crowded housing These conditions plague the slum and squatter communities that characterize half the population of most Philippine urban areas The effect on women should come in directly improved health, as well as in increased opportunities for employment due to reduced unproductive time spent caring for sick children and other family members. As children and pregnant/nursing women are groups with special health vulnerabilities, the benefits to them of improved environmental/health conditions should be disproportionate.

c. City Administrators.

The elected officials of the cities will be major beneficiaries, as will the technical staffs in charge of city departments. They will have enhanced responsibilities and increased resources to provide the services they perceive as critical (and which are affirmed or disconfirmed ultimately by the electoral process, in the case of chief executive officers and their councils). Thus, on the side of the elected officials, they will clearly have greater lattitude both to undertake capital improvements and to prioritize other service and maintenance activities The risk is that they will serve other clienteles than the below-median income group and neglect the latter, either as a form of "benign neglect" in attempting to enhance economic growth (hence servicing the commercial/manu- facturing sector) or as a more malign skewing of the available resources in the direction of wealthier groups, without regard to productivity enhancement. The ultimate "benchmark" and test of success is the electoral process, but the responsiveness of the electoral process itself to poor people is an issue to be considered

From the perspective of technical staffs, the benefits will be less tangible Devolution of authority should facilitate the timely and more professional performance of their jobs Currently, the constraints voiced relate to the inability to make locally-relevant decisions or judgments on an activity without referring it to agency head- quarters in Manila, and then of waiting inordinate lengths of time to receive approvals. Worse, they often receive directives on action or on project initiations in which they have taken no part yet are expected to assist to implement, and for which they will ultimately have to assume operational responsibility.

This inhibits efficiency in the planning of work, the projection, mobilization or allocation of resources, or in ensuring the adequacy of follow-up and maintenance. It also devalues the professional skills and abilities of the technical staff, who may search for alternative private sector employment that permits the fuller use of their professional qualifications These benefits to city administrators should be in the form of improved management, faster and more competent service provision, and fuller use of professional skills and judgement, all of which can contribute to greater incentives for local resource mobilization and a higher productivity public sector, as discussed in the economic assessment. (Annex 5)

d. League of Mayors and Sangguniang

The League of Mayors and the sangguniang as an object of the technical assistance component of the project will benefit in gaining perspectives on advocacy models and methods most likely to be productive in pursuing their cause (increased autonomy). In this regard, emphasis is on training for the broader issues of managing a heightened portfolio of responsibilities by contracting as much of the increased responsibility out to the relevant technical line departments, to NGOs, to the private sector, etc.. These

cities' real gain will be in overall fiscal autonomy and management authority rather than bloated payrolls.

Sangguniang members have been identified as a particularly important target group for technical assistance. They are the ultimate decision-makers whose views on appropriate service provision -- nature, level, mode, coverage -- will determine the effectiveness of increased local fiscal autonomy, or otherwise. They need to be made aware of the alternatives and options open to them, from both domestic and international comparative experience.

2. Indirect Beneficiaries

a. Private Sector:

Immediate private sector beneficiaries include construction and contracting businesses which are hired to do the work involved in the HG-eligible loan programs/projects. Similarly, in the medium term the increase in capital spending by cities will involve some combination of contracting out to line agency staffs (e g., DPWH), NGOs where relevant, and the private sector. Technical assistance to cities, directed at both the elected officials and to technical department heads, and focused on this area of "managing" a larger portfolio and resource flow without actually undertaking it all via the public payroll, will be key in the degree to which the private sector benefits and the project accomplishes its purposes.

In some sectors, (e.g. housing) hard questions will have to be faced regarding private sector incentives to provide what is needed, and some degree of central agency implementation activity will continue to be necessary There may be differences from region to region or city to city in the profile of appropriate (or immediately feasible) private sector capacity Whatever the mix, the private sector will of course benefit to the degree that infrastructure provision facilitates economic investment and growth, as well as from the availability of the projected better-housed and healthier labor force. However, the real test of success will be the movement toward "privatization" of relevant infrastructure-related activities, which should be identified by the cities involved.

b. Metro-Manila:

Another beneficiary of DSUD, indirect but explicitly a part of the project rationale, is Metro-Manila and its revenue base. Unproductive migration into Manila puts a strain on existing infrastructure. Housing is completely inadequate and has given rise to enormous problems of squatting and associated unsanitary conditions which jeopardise the health of large portions of the labor force, leading to low productivity and high social expenditure costs. The result is a decrease in the attractiveness of the city for investment.

The process is already evident even to the untrained eye, yet economic statistics indicate that it is not yet a hopeless situation. Manila has apparently not yet reached the point at which it cannot attract investment; yet it cannot be determined from this over-centralization of investment how much investible capital has been driven away altogether by the deteriorating infrastructural and environmental base

Due to the nation's island nature, strong regional identifications of its citizens and existence of a network of viable medium-sized cities, potential exists for preserving the metro-Manila infrastructural and revenue base. The best defense of this will be a concerted campaign to induce growth in the largest cities in all regions, serving as alternative magnets for in-migration, investment and job-creation Such alternative rural-urban migration could be encouraged by the existing wage differentials -- that is, the fact that real non-agricultural wage rates outside Manila have been, on average, 10% above those in Manila (Philippine Statistical Yearbook, 1989). While Manila is quite explicitly NOT a direct beneficiary, indirect benefits to the capital city are important.

V Environment

The environment is a final and important factor to consider. Infrastructural and shelter-related improvements can be environmentally sound, protecting the environment against pollution and the hazards of unsanitary squatter settlements At the same time, increased economic growth and investment will involve increased resource exploitation and problems of industrial waste The project addresses these by proposing the development of watchdog environmental monitoring capacity, possibly using NGOs/PVOs, or alternatively city planning office staff, and sensitizing the cities to this need through technical assistance directed at the Mayors in their role as managers of the increased functional portfolio. This will be doubly important as and when the new Local Government Code passes. The latter delegates to each LGU responsibility for environmental balance in the territorial area under its jurisdiction, and asserts that no investment (either private or public) with potential environmental impact may be undertaken in an LGU's domain without proper consultation.

VI. Socio-Political Environment and Feasibility

The socio-political environment is critical to the ultimate success and optimal shape of any decentralization effort. Particular attributes of the Philippine socio-political environment will facilitate the implementation of DSUD and of the broader policy reform package suggested The following discussion of the principal sets of actors in the present political context, and of those seen as key to the specific policy initiatives designed as the action program for DSUD, is meant to guide the assessment of areas of support and potential opposition. It is followed by discussions of the technical

capability to implement and sustain the devolution, and of the broader beliefs and values that condition behavior and expectation with respect to local government institutions, and to service provision to below median income families.

The principal sets of actors fall into four categories. First is the executive branch of government, including the President and her Cabinet, and the Administration it controls Second is the Congress, which determines the legislation and appropriations regulating that Administration The present Congress is thought to have mixed feelings about decentralization, being perceived as one of the two major "losers" in the process Third, and of critical importance, are the Local Government Units, which for DSUD are the chartered cities, with special emphasis on the highly urbanized cities Finally, there is the network of PVOs/NGOs/POs, which have been a conspicuous element of the "post-revolution" Philippine political context, and which have a series of advocacy, mobilization and monitoring roles to play in the devolution of power to lower levels of government.

1 Executive Branch

The Executive branch, consisting of the President, her Cabinet, and the administrative organs of the central government, is presently in the leading position with respect to the decentralization effort. The President is perceived as a sincere and committed partisan of increased autonomy for the local governments, and has made initiatives to advance increased local autonomy, as promised on gaining office. Memorandum circular No. 63 of 30 May, 1988 created a Presidential Task Force, the Cabinet Action Committee on Decentralization (CACD, comprised of the heads of major cabinet departments) and established a pilot project of decentralization of functions to four provinces (later expanded to 5) While this was perceived as a step in the right direction, many criticisms have been voiced both in terms of the pace of activity taking place as well as of the basic conceptualization of decentralization The mechanisms have been primarily memoranda of agreement or administrative directives to line agency personnel involved This has been a time-consuming process, albeit one which may ultimately produce a clearer and more committed understanding on both sides of the powers and responsibilities being devolved, and the way in which the central/local interface will occur.

More of a problem is the lack of any local government input into the design of the program itself: no chief executives of local governments are members of the committee, rather they are represented by the Undersecretary of the Department of Local Government Thus, the CACD consists of a centrally-constituted set of representatives of central agencies, undertaking the process of decentralization through Executive/Administrative action that delegates responsibilities to their own field staffs. It is not a body representative of alternative governmental units, much less of the broader spectrum of quasi- and non-governmental agents, which could provide public goods and services.

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Members of the CACD with most relevance to DSUD's effort at increasing the role of chartered cities are: DBM, DLG, DPWH, and the DOF/BLGF. Non-members of CACD with major importance to DSUD's objectives are NEDA, NHA, NHMFC, HUDCC, LWUA, and the central agencies responsible for electrification (NEA, etc.).

The lead role was given to DBM in the Cabinet Action Committee because of the centrality of the budgetary process to any real or meaningful movement toward increased local responsibility. DBM has experimented with the development of regional budgeting systems and capability, and has decentralized its own internal operations to the regional level. Focus on the regional level may be a realistic assessment of the feasibility of building sustainable capacity in the near term It may, on the other hand, indicate some difficulties in devolving responsibilities to lower units of government, especially below the level of the Highly Urbanized cities In the latter case, the capabilities are likely to be more immediately available than elsewhere

The Department of Local Government is also obviously a key player in the initiatives to devolve responsibility to cities. While it can play a central role in facilitating devolution, its own operations have not been decentralized Indeed, in field visits made by the design team, it was made clear that directives from the center frequently "surprise" the planning departments and overturn the planning they do For example, salary increases mandated twice in the last two years will have to be accommodated in their budgets However, these were not areas in which consultation or adaptation to local circumstances played any part. For reasons such as this, DLG was considered by the team to be a "conservative" agency in terms of its internal approach to decentralization.

The DPWH has been cited as the most dynamic of the administrative agencies with respect to the pilot decentralization effort. Local city planning staffs indicated that a good rapport existed between them and DPWH, despite the potential conflict of jurisdictions (and for resources) between the City Engineer and the District Engineer. City officials cite roads as a critical infrastructure need Many of their other priority needs are works-related, so this agency could be a central one its "liberal" reputation indicates a willingness to experiment and to actually delegate responsibilities

The DOF/BLGF, considered a "conservative agency", supervises revenue collection, both in terms of authority and personnel, and is responsible for financial data base management, monitoring of expenditures, and other central elements of financial flows that will have to be devolved If budgetary processes are devolved, and responsibility to initiate projects devolved, the construction of a satisfactory expenditure authorization and control process at the local level will be key to the success of decentralization. It will no doubt be necessary to prove to DOF that expenditure monitoring can be successfully implemented at the local level. This should be an initial emphasis of DSUD technical assistance to the cities, as it is most likely that such capacity can be substantiated for the Highly Urbanized cities first, and then provide a model for other local government units.

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Other central agencies with key responsibilities in infrastructure and shelter-related areas are the water and power providing agents (primarily LUWA, although some cities run their own water supplies), the NHA/NHMF/HUDCC "housing complex" and NEDA NEDA has supervisory responsibility for the Regional Development Councils and may be a central actor in devolving authority over capital improvement projects, as well as in the development of rural-urban linkage and economic data bases that can support the local level planning. NEDA can assist city planning departments with broad economic planning activity to complement the typical physical planning done by urban planning departments.

Generally, these central agencies are perceived as cautious with respect to their own commitment to decentralization. DPWH has gone the furthest with it thus far If the administrative model is the path to be followed (and clearly it must be a key portion of the decentralization effort, even if the legislation currently under consideration passes), then these are the central agencies which must be the target of the first phase of DSUD.

Several other agencies which are members of CACD have also been reviewed in supporting documents prepared for the DSUD PID They include DECS, DOLE, DA, and DOH They range from the extremely "conservative" on decentralization (i.e., hesitant about any devolution without significantly increased local capability e.g , DOH) to the relatively "liberal" DOLE They are not included in the DSUD core group as the target for the initial two or three years of the project, on several grounds.

First, these agencies range in size/weight from the major "human capital" service provision agents (Education, Health) to the relatively peripheral labor-relations focus of DOLE and do not directly address the hard infrastructure provision issues which DSUD focuses on Further, some agencies have relevant functions to decentralization as it concerns municipalities, but less so in terms of cities (most especially the Highly Urbanized cities), such as the Department of Agriculture The mechanisms and meaning of decentralization for such different types of function, can only be complicated further by trying to address them all at once.

Second, while local authorities increase their revenue base (during the first three year phase of the decentralization effort, it is probably wise that they not have to address social service provision directly immediately. This provision is likely to be able to completely absorb any and all additional revenues generated, either locally or through transfer from the central budgets. Indeed, responsiveness to local demand pushes them in this direction already. The Assistant Treasurer of Cagayan de Oro, for example, indicated that the City was already having to hire about 20 new teachers a year to keep up with the local expansion in school places These are, of course, eventually "regularised" onto the DECS national payroll, but by the time that this is the case another new cohort has been hired, and the size of this gap has increased.

Thus, this city is already having to provide "bridging finance" for social services which it is not "charged" with providing. If the responsibility for education and health functions are transferred immediately, together with

shelter and infrastructure-related ones, demand for social service provision is likely to be intense, immediate, and irresistible by local councils. Capital improvements, while desirable and probably more cost-effective, may not be able to command the same constituency pressure To minimize this risk, it is suggested that the social service provision agencies be the focus of special studies on financial implications and devolution in the first phase, and that the devolution itself be programmed for a few years after the transfer of infrastructure-provision services

2. Congress and the Legislative Branch

A second major set of actors is the Congress. Congress is perceived to be waffling on the issue of decentralization. There were several versions of congressional bills to constitute the new local goverment system, now consolidated into an omnibus bill with 185+ authors/sponsors. (See Annex 8 for implications of the proposed new Local Government Code) Many congressmen have expressed the sentiments expected of them in favor of decentralization, of greater "power to the people" However, some of the congressional proposals are fairly "conservative" in the actual reallocation of roles and resources Congress is nevertheless proceeding to put final touches on its compromise bill, and it now appears that a new Local Government Code will be passed during this session House and Senate reconciliation of their divergent bills is ready to be undertaken at the time of PP preparation (July, 1990).

The assumption is that many congressmen do not want meaningful decentralization because it will "empower" their political rivals -- governors, and in some cases mayors of the most important chartered cities, the immediate focus of DSUD. For this reason, DSUD's approach is to engage the GOP in a policy dialogue which is not dependent upon, but does strive for, congressional action to provide a new local government code. In the initial year or two, if the new code is not forthcoming or is not sufficiently vigorous to permit real transfer of responsibility, the dialogue will involve executive and administrative action that can temporarily increase local revenues, and amend central agency operating rules and responsibilities through memoranda of agreement, executive directives and circulars, etc.

The danger to this action is that Congress may object that it involves executive intrusion into areas of financial appropriation, the traditional domain of the legislature. Much may depend on the degree to which congressmen perceive the transfer of responsibilities as a real personal/political loss. It is argued that many do so, although the arguments are of course usually cloaked in terms of the abrogation of "proper" division of powers among branches of government, and/or technical incapacity for local governments to perform the functions effectively (the latter argument will also be heard at central agency level) One price that may have to be paid is the (already accomplished) incorporation of the congressmen into the Regional Development Assemblies, (which have not yet met) in which they now form close to a majority, and in some an actual majority. This mechanism may be the link to continued local influence and power for them, in their view.

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It is not clear how these assemblies will function, but if they do not directly negate the transfer of responsibility and resources to the cities (and, in the broader view, the provinces and municipalities), perhaps they can function as forums for congressmen to vent grievances and air views without greatly compromising the content and direction of decentralization. Assemblies might force legislators to make their interventions and prove their cases in more visible venues closer to home, thereby fostering accountability despite fears of greater Congressional "interference" in the regional capital development program

3. Local Government Officials

The third and in some senses most important, set of actors involved on the decentralization is the cadre of local government officials. This (set of actors) includes chief executives (mayor and vice mayor), city councilors (around 14 in a typical Highly Urbanized City), and the technical staffs, both those paid directly by the city and those on national payrolls, seconded to cities The major issue does not relate to the attitude toward decentralization of those staff under central agency control, i.e., not paid by the city government. All of the elected and directly-hired personnel are obviously in favor of greater responsibility, including the central agency employed staff to whom we spoke

The issue rather is the ability of technical staff currently under central agency supervision to maintain impartial and professional standards of work if paid by the city instead, and thus subject to removal by city elected officials. Many express fear about the effects of secondment or direct transfer to city payrolls. Others indicate that they already must be responsive to local officials' direction, and that the latter is not a negative consideration. It would, in theory, be possible for local technical personnel to be paid centrally, operating on a "secondment" basis but with the rest of their operating budgets flowing to and through the city budgets, and with only staff at the top level subject to this procedure It is also possible that this would produce friction between senior and junior personnel in these departments The proposed new Local Government Code retains central agency payroll status and supervision of DOF and DLG personnel, which include city Treasurers and Assessors.

However, if the initial activities take place through administrative action rather than through legislation, it is likely that the issue would be a key negotiating point between central agencies and chief executives, with differing outcomes for the central agencies involved DSUD's role might be to provide technical assistance in the design of such agreements, and in support of the monitoring and evaluation of results that could inform later stages of the devolution While seemingly a minor or technical issue, this is, in fact the type of decision which could undermine the entire effort if a decision is made and imposed on unwilling parties.

In sum, if both central agencies and their staffs are unwilling to submit to local elective payroll authority, and it is nonetheless imposed on them, experience elsewhere suggests that they will find ways of stalling the entire effort. Similarly, if local elected officials feel very strongly that they

must have complete freedom to hire and fire their senior staff in all areas, and yet it is denied them, they may continue to agitate and involve the city governments in unproductive political maneuvering that gives the whole effort a bad name and fuels congressional criticism This particular issue, then, is a sensitive one which needs priority attention to ensure social/institutional soundness In general, the more important issue to all local level officials (both elected and appointed), to whom the team spoke, appeared to be the need for increased locally-available discretionary resources and authority over their use, to enable city governments to get on with what they perceive to be the current major needs and opportunities.

4. NGOs/PVOs/POs

A final set of actors is the large network of NGOs/PVOs and People's Organizations Eager, capable, responsive to the below- median income community, these are able to operate at low cost They have been vocal and gained organizational and managerial experience in recent years A major issue in social soundness for DSUD will be the extent to which city governments are responsive to low-income community needs NGOs and PVOs will play a vital role in a watchdog capacity therefore, technical assistance to the Mayors envisioned under the project should include some element of familiarization with the use of such organizations for these purposes They can be contractually involved in studies for service provision designed to reach these communities They can also be involved in infrastructure provision of some types, especially where the private sector exhibits reluctance to become involved The existence of this network is one very positive factor arguing for the soundness of the strategy of decentralization The critical issue for DSUD will be to determine the role and types of NGOs and POs relevant to highly urbanized cities, which may vary from that in the municipalities and barangays.

VII. Summary

The orientation of the critical institutions toward decentralization is somewhat equivocal, however, the institutional matrix is weighted toward its feasibility. In addition, Presidential commitment seems firm Some agencies of the central administration have made a tentative beginning Local governments themselves are marshalling their resources to force the issue if Congressional action is not forthcoming, however, Congress seems poised to make a commitment, one conceived in compromise but therefore more likely to sustain the widespread support needed to succeed. The perceived "losers" -- Congress, and central-bureaucratic staffs - - are proceeding cautiously but relatively surely in the direction of devolution of substantial responsibilities to local government units.

Important issues regarding the content and timing of the process remain to be addressed. One of these is bound to be the question of technical capability of the local government units to undertake such wide-ranging new responsibilities, even with substantial resource transfers In fact, the single most important misgiving generally voiced by central government agencies, when confronted by demands for delegation and devolution, is the lack of technical capacity and the consequent need to delay the process until

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greater local technical and absorptive capacity can be demonstrated. That concern has been voiced in reviews of the readiness of Philippine LGUs to undertake hitherto centrally-implemented services and projects. The issue of technical and absorptive capacity of cities as they affect DSUD's proximate and ultimate objectives needs some attention in this feasibility assessment.

1. Technical Capacity

Three points about technical capacity seem clear. First, it is unlikely that technical skills required to perform all central agencies' functions can be found in chartered cities, except in the Highly Urbanized cities HUCs). In the latter, most activities already have substantial local input and are performed by relatively highly qualified personnel on a secondment basis. Of course, some specific skills will need to be developed Additional urban planning skills may be sought additional engineering and technical supervision training needed. These are all locally procurable skills. Technical and absorptive capacity are thus not likely to cause problems for the HUCs; when they do, they will provide experiential data for use in further efforts to devolve realistic responsibilities and resources to others of the chartered cities.

Second, in some cases there may be need for technical assistance Systems overhaul may be needed in many areas such as computerization of tax mapping and assessment records, and other systems currently suffering from backlogs due to obsolete systems However, these problems plague the centralized control of the function no less than they will its decentralized implementation Systems design and overhaul is not incompatible with devolution of control of the systems There will, of course, be need for standard guidelines where central monitoring is important. These are the issues which central agencies should be concerned with, not the actual implementation of the systems.

Third, that is, if some technical skills are in short supply or not available in the existing city cadre, it is more likely that alternatives such as private sector contracting, or bringing in low-cost NGO service providers, can be considered (Identifying non-traditional resources and ways to mobilize them may be easier where circumstances force the issue due to lack of a public sector capability)

In sum, technical capacity is not likely to be a serious constraint to implementation of any aspect of DSUD. In fact, it could set the stage for useful learning and non-traditional approaches to service provision. In any event, the HUCs are reported to be solidly staffed with some few exceptions. Much more likely to be a problem is over-staffing, and the consequent low per-employee output, than any lack of technical capacity.

More of a constraint in the view of some skeptics is the attitude/value nexus of Philippine culture, which it is feared will revert to centralism (or re-create at lower levels) and subvert the local gains through time-honored traditions of what is generally referred to as corruption. A brief look at these attitudes and values is needed.

2. Attitudes and Values

Attitudes and values have a role to play in determining the feasibility of changes in any culture. In the Philippines, critics and skeptics of devolution of responsibility or resources to local governments have cited several sets of attitudes and values which they feel will constrain successful pursuit of the strategy. These need to be assessed. Where they seem to ring true, efforts to fashion decentralization productively will have to take account of them and develop institutional buffers.

Patron/client and kin ties. One problem is the pervasive nature of patron/client and kinship ties, which are strong enough to inhibit any perception of the "public" good Critics claim that they will reassert themselves in enhanced local governments through concomitantly increased patronage, both in terms of employment of staff and the letting of contracts. It is argued that this currently characterizes the public sector -- not least the central agencies in Manila, which are frequently comprised of outposts of particularistic ethnic groups and families On the local scene, family dynasties are obvious in city councils half of whose councillors have the same surname.

This is indeed a danger and it is quite probable that this pattern will emerge in local governments However, it is difficult to see how its effect could be worse at the local level than at the center Still, it does argue for heightened attention to civil service development It has been suggested by one Philippine-knowledgeable source that bringing the bulk of the city employees under the civil service would not be a bad idea -- standardizing terms of service and qualifications at the very least, and providing an alternative channel for grievances To retain centralized control despite that it does not deal effectively with the problem seems to beg the question. Civil service reform, rather than tight but ineffective central control, would seem the appropriate strategy here.

Corruption Corruption is a ubiquitous phenomenon in developing countries. Corruption, it is averred, will increase if financial resources are devolved or permitted to local governments, without strong central monitoring and control. Indeed, the proposed Local Government Code is framed with this sentiment, i.e., it continues to give the Commission on Audit (COA) complete carte blanche to intervene in all financial procedures, as and how it wills.

Corruption is a many-sided issue, however. It is true that it can have very strong negative impacts on the legitimacy of government if it is perceived to pervade the organs of that government On the other hand, it is potentially more destabilizing as a perceived attribute of the central government than of the local units of government The reallocation of substantial resources to lower levels in the system may generate a less-destabilizing type of corruption, or perception of corruption, which is at least as important for legitimacy. Further, in both developed and developing countries increased responsibility and financial resources at the local level heighten competition for local office, increase the visibility of the actions of local officials, and afford greater accountability In a more open forum, corruption is more likely to be observed and used in the local political arena, giving voice to potential opposition elements and underserved strata.

Another issue is the degree to which the activities held to be corrupt are "productive" -- ie., misappropriation of state funds as opposed to the straightforward pilfering of funds with no visible public good provided.

In the Philippine case, far too often the latter is the case; funds diverted from public use are not being put into higher-productivity private sector investment, and so represent real losses to the economy If so, major efforts at building watchdog functions may be appropriate. If, on the other hand, substantial portions of misappropriated funds are being used in a redistributive manner, albeit with individual political gain as motive, then it is harder to argue the case for their negative effect economically, serving as a substitute for public sector redistributive mechanisms

Unfortunately, the Philippine response has been to construct a draconian set of "accountability" mechanisms, prime among them being pre-audit routines administered through COA These are generally actions which introduce serious time-lags into centralized systems; everyone is afraid to make decisions as they are unsure whether or not the complete range of pre- and post-audit expenditure authorizations has been complied with Ill-motivated individuals can generally subvent the system of controls which serves to induce a growing level of paralysis among the better-intended who are nonetheless afraid to get into murky water Neither efficiency nor accountability is served

Certainly, centralization does not deter corruption, but actually heightens the stakes and the likelihood that major scams and swindles will be undertaken. The fear of increased corruption in local governments -- is not a sensible reason to abandon the effort. It is, however, a reason to charge local entities with the setting up of watchdog units that can complement any retained central controls, since the central controls rarely speak to local fears and needs.

3. <u>Centralist/hierarchical Values</u>

It is argued that Philippine society reveres hierarchy, and that centralism is so engrained that even acts of Congress will be entirely insufficient to have any real effect on national/local agency interaction. This criticism seems fundamentally unsound. A proclivity for "centralism" seems likely to translate actually as a desire for order, especially as the drive toward democracy and individual freedom are also cited as strong attributes of the culture (and are quite visible in the present organizational ferment) If authority is clearly transferred to local governments, and other responsibilities clearly reserved to, and performed by, central agencies, the "centralism" said to characterize the system will probably assert itself as a strong focus on city officials. It is only if the functional devolution "fails" (which is not an insignificant risk) that there will be major continued focus on central organs of state to perform inappropriate roles. There is nothing wrong with a desire for hierarchy and order.

There is, of course, some risk that local officials will either not perform adequately (here the concern is not with technical staff but elective officials) or will be outright reactionary or corrupt. In that case, opponents will no doubt continue to try to bring their causes to light via national agencies and influential people in Manila.

4. Democratic Values

There are at least two more positive value sets which seem to be voiced frequently. One is the commitment to democratic values, manifested in the far-flung people's organizations, spontaneous demonstrations, and press freedom evident to the visitor The commitment to these values was nurtured and no doubt heightened by the anti-Marcos revolution Similarly, the statements of concern for the poor are far-reaching, ubiquitous, and frequently seem to be followed up by actions, albeit sometimes of a personal and insignificant nature in terms of absolute or monetary value. Nonetheless, some recognition of poor people and their plight seems to inform average citizens' views as well as those of national officials; whether this is true of local officials is not as clear, and probably is important in gauging the probability of project success.

5. Summary

On balance, a consideration of some important values and attitudes, both those raised by critics and those seen as important to project success, suggest that the strategy is fundamentally socially sound, but that attention will have to be paid to details of the devolution of role and responsibility, to time scheduling, sequential phasing and follow-through -- areas of reputed weakness in Philippine social culture -- in order to succeed in producing a workable decentralization that reaches target groups and which does not become discredited by lack of clarity or institutional paralysis It is of course possible that these might occur, and that other unexpected problems could constrain the achievement of project objectives through this strategy. A review of the major risks rounds out the social soundness assessment.

RISKS

Three main risks appear important to the design team, from discussions with local officials or familiarity with other decentralization efforts. The three are: subversion of the effort by local elites; the "sticking" of the process of central agency devolution on the thorny issue of what specifically is of national importance and what specifically is local; and the possibility of local governments being overwhelmed by immediate social service provision needs and demands, without sufficient resources.

1. Local elites

A major reason for retention of powers and resources in central governments where compensatory or supervisory functions can be performed. Is this an issue in the Philippines? There is a division of opinion on the answer, or at least on its implications for the project. Several Filipinos argue that some city governments are progressive even under the domination of elite families who have controlled them for decades, if not centuries. Other cities are dominated but with no such progressive leadership. Decentralization is likely to increase the problem for the latter, although it may make real economic development more possible for the former. There is no feeling that the local electoral process really can make reactionary elites accountable.

Another view holds that, while this may be true in provinces and some of the component cities, in the highly urbanized cities the local elites are rapidly being made obsolete, much as was the case in the rise of European alternative entrepreneurial elites with the rise of modern urban classes there. They are being marginalized by the march of economic progress, which tends to enlighten local elites where it doesn't rusticate them They are really not a threat in this view, which the team feels may be a reasonable reading of the situation for most of the target, Highly Urbanized cities.

One area in which concern might be retained during project implementation is the deregulation of access to land. Temptations by local elites to acquire land in irregular manner and for speculative gain could interfere with the project's goals, presumably this would be of special relevance to the sangguniang, although even locally-based appointive staff might be drawn to such opportunities.

Some ways for dealing with the problem of local elite domination might be mentioned. Monitoring to see that service provision is reaching intended target groups, not just serving the interests of elected officials' and their kin/client networks, is one method Central performance standards are to be set by national agencies, according to the draft Local Government Code. These set benchmarks against which such monitoring could be done. Finally, and most importantly, retention of central government grant funds which can be used as incentives to LGUs to induce appropriate local resource allocation should be assured This has been a characteristic of other systems, such as the American Federal system, in devising ways of dealing with non- progressive local situations, and could work in this system with its traditional dependence on central transfers

2. Administrative sticking points

It is possible that mandated decentralization will get stuck on the definition of what is national and what local. Although both the Presidential statements and the draft legislation make clear statements about the devolution of responsibility for all local projects and services to the relevant locality, the retention by central agencies of responsibility for national policies and programs leaves room for maneuver -- for declaring activities that are carried out in many, or all, jurisdications, to be national rather than local, for example.

Alternatively, there is the danger that central agencies will transfer as much responsibility as possible, but retain far more than proportionate resources to pursue their pared down functional load. In either case, service provision at the local levels could take a downturn, in terms of quantity, quality, and reliability or coverage Jurisdictional disputes could proliferate, although this is less likely with the highly urbanized cities than for other of the levels of local government.

Finally, the financial flows could become a sticking point, in that they might be "devolved" in theory but remain fairly centralized through retention of central audit procedures in practice. In any of these cases, the expected increase in local service provision might fail to materialize. These are

serious risks and speak to the need to monitor the degree to which the decentralization is proceeding in a systematic and detailed manner, and to offer assistance where any of these sticking points appear to have been reached.

3. Social Welfare Overload

A third risk is the serious one of increased initial responsibilities being accross-the-board and producing a social welfare expenditure overload from the outset. This seems quite likely. The cities are already spending funds on somewhat irregular supplementary social service expenditures. There is undoubtedly not enough money in the national budget to provide services in the quantity and quality desired, and these are the same resources that are theoretically going to be transferred to localities, but which will inevitably be a bit sticky with respect to central agency attempts at retention.

A strong case can therefore be made for some "tying" of expenditures -- some percentage to infrastructure, as in the past, rather than complete autonomy in local expenditure In the absence of such guidelines, the initial expenditures from increased revenue are likely to be overwhelmed by a combination of social welfare and a pent-up backlog of maintenance needs, and "new" infrastructure expenditure directed at the project's target groups could easily be sidelined.

ANNEX 7

THE PRIVATE SECTOR AND INFRASTRUCTURE DEVELOPMENT

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THE PRIVATE SECTOR AND INFRASTRUCTURE DEVELOPMENT

I. INTRODUCTION

BACKGROUND

Historically, the Philippines has looked towards the public sector to meet the needs of its population and to stimulate growth. Spanish governors built the basic infrastructure necessary to transport agricultural products from rural areas to regional cities for transhipment to Manila and thereby over seas The American colonial period was characterized by additional investments in basic infrastructure and substantial efforts in improving education and health care, among others, necessary to the "human capital" inputs required for economic growth More recent developments have included strengthening of the country's orientation towards central government, at the expense of local units of government, and fostering a general belief among residents that a strong public involvement is necessary in all sectors of the economy

Although recent economic growth has, to a large extent, been driven by private investments in the manufacturing, real estate and service sectors, public investments are still believed necessary for sustained development. At times, this prevailing attitude has had a negative effect on efforts to support private sector-led growth The focus on the role of government has tended to force the private sector into narrowly constrained roles, failed to tap substantial amounts of private capital and created barriers which hinder additional involvement of the private sector in the economy. Moreover, widespread perceptions of governmental inefficiency and lack of accountability have hindered the effective use of limited public resources and failed to meet the needs of much of the population

This annex addresses the possibilities for increasing private sector involvement in economic growth Recognizing the overall need for improvements in the country's infrastructure and shelter sector, and the relationship between those sectors and economic growth, it concentrates on key elements of those sectors: shelter, land and basic infrastructure considered essential for future development. Existing relationships between public and private sectors are first examined and key constraints identified. Possible models, both creative examples from the Philippines and from other developing countries, for increasing the involvement of the private sector are discussed and evaluated according to their applicability in the Philippines. Finally, the impact of the Decentralized Shelter and Urban Development Program is assessed.

INFRASTRUCTURE CONSTRAINTS

General responsibility for public goods in the Philippines rests with the government. As is discussed in Chapter 2, primary responsibility for urban

infrastructure lies with the national line agencies which tend to use local units as implementing and monitoring vehicles. Profitable public goods, the telephone system, for example, are provided by private firms under government control. Provision of shelter and land development is shared with the private sector addressing the needs of upper and portions of the middle class and public agencies addressing the lower income strata Direct private investment is generally limited to land assembly and development for private use.

Given limited budgets and problems with implementing development projects, reliance on a centralized public sector for infrastructure provision has resulted in: 1) significant infrastructure constraints to future development; 2) failure to meet the basic human needs of substantial numbers of citizens; and, 3) failure to mobilize potential sources of capital to support future growth.

Discussions with both private and public sector officials in regional cities clearly indicate the infrastructure constraints on growth. Almost all infrastructure systems are viewed as deficient. Of key concern are electricity, transportation, communications (telephones and data transmission), utilities and the ability to assemble land efficiently. Problems with providing citizens with tenure to a lot, basic shelter, potable water and adequate sanitation have reduced productivity and engendered political opposition.

Efforts to increase private sector involvement will result in numerous benefits: 1)maximizing limited government resources; 2) more efficient delivery of infrastructure services; 3) greater accountability at the local level; 4) close matches between consumer need and service provision, and 5) mobilization of additional amounts of private capital for public benefits.

II. PROVISION OF INFRASTRUCTURE SERVICES

Chapter 2 of the paper presented governmental roles in the shelter and urban infrastructure sectors. Discussed below are roles fulfilled at present by private firms.

TENURE and SHELTER

The housing market is highly segmented between private and public provision. Private contractors develop almost all private units for the upper 10-20% of the population. Units are generally constructed within self-contained subdivisions Basic infrastructure within these subdivisions is provided by the developer with trunk infrastructure provided by the city. Upon completion of a development, local governments are suppose to assume operation and maintenance responsibilities, however, this sometimes and consequently leads to lack of premature deterioration.

Construction financing is secured through market-rate loans (currently at 24-36% interest per year) from private banks or from previous profits. Houses are either purchased outright or with mortgages (generally at 18-25% per year for 20-25 year terms) from private sector banks. The country's three provident funds--GSIS, SSS and Pag-Ibig,-- also provide a limited amount of mortgage financing for upper income members.

Middle income residents often construct housing themselves using a local contractor. Financing is generally secured through the National Home Mortgage Corporation's Unified Home Lending Program which provides mortgage financing with a sliding scale of interest rates. Recently, some private developers have entered into the middle-income housing market using self-generated construction financing with mortgage takeouts from NHMFC. Some private corporations construct housing directly for their mid and upper-level employees.

Responsibility for the lower 30% of the population rests almost entirely with public institutions and a limited number of NGOs Depending on their income level, NHA delivers tenure regularization, sites and services or core houses to residents. Sites and services and core housing are generally developed within a subdivision with NHA providing basic infrastructure Construction financing for these developments is coursed through the National Home Mortgage Finance Corporation, one of the three provident funds, international borrowing or budgetary allocations. In general, even publicly funded housing developments are constructed by the private sector on a contractual basis.

A number of creative examples exist which suggest future directions for private sector involvement Joint venture programs conducted by NHA and the provident funds have recently been developed to encourage private sector involvement in the lower ends of the housing market. The public institutions provide up to 40% developer financing and offer technical assistance and monitoring. Private developers are free to develop the project as they see fit within overall guidelines for target populations and pricing.

Several large corporations, Del Monte and Caltex, for example, have built housing for lower income employees. The corporations have used their own funds for development financing and secured long term financing from the ULP. Private developers in a number of cities have developed other low-cost housing projects using their own funds for construction and linking up with NHMFC mortgage funds Several NGOs, Freedom to Build and Pagtabayayang, among others, have become developers themselves. Generally, they build low-cost houses for their service community and secure mortgage financing through the Unified Home Lending Program

The Community Mortgage Program, conducted by NHMFC, allows slum residents to purchase lots and, eventually build basic units. By involving community residents and initially focusing on security of tenure, the program has addressed a basic shelter need at a cost affordable to most urban residents.

Despite the successes just presented, statistics presented in Chapter 2 suggest the overall magnitude of the housing problem. Key constraints include: 1) limited government funds, 2) private involvement mainly for upper income houses; 2) inefficiency on the part of government agencies making it more difficult for private developers to put together land parcels, secure permits and developing housing and infrastructure, 3) general orientation towards costly complete houses, 4) lack of upfront construction financing; and 5) lack of technical know-how on the part of NGOs and local governments.

Roads and Bridges

The public sector has almost total responsibility for construction and maintenance of roads and bridges DPWH is responsible for national and regional roads while local government is responsible for intra-urban roads. Roads within new subdivisions are the responsibility of the developer. Almost all road construction is contracted out to the private sector Local contractor capabilities are such that most larger projects are contracted with national or regional firms. Intra-urban roads are often build by smaller labor contractors under supervision by city officials.

Financing for larger roads is provided through DPWH through its budgetary allocations or indirectly in the case of foreign funded programs Cities may borrow funds through the Municipal Development Fund for intra-urban roads.

There has been almost no involvement by the private sector in financing roads. Legally, provisions do exist for private construction and control and a few cases, such as the North-South Tollway in Luzon, do exist A number of municipalities do con tract with private firms or NGOs for ongoing maintenance.

Maintenance and replacement of major roads is a significant constraint to improvements in the transport sector. Funding for maintenance is generally limited and overlapping responsibilities often hinder preventive maintenance. Road construction is hindered by the lack of funds for land acquisition and construction, problems in assembling parcels of land and the lack of equipment and supplies.

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Water

The DPWH, directly or through LUWA, has general responsibility for urban water systems. They enforce standards, approve new and expanded systems nd provide funding to local utilities. Upgrading of existing services, especially for low-income residents, is often conducted by the NHA or various social service agencies.

Local water utilities provide facilities for pumping, purification and intra-urban distribution. Local utilities vary from private, quasi-public, cooperatives and government run Most larger cities have semi-autonomous bodies which are generally run on a for-profit basis with government representative on their board. These utilities are generally more efficient than the publicly run ones.

Pumping systems for larger private subdivisions and distribution systems for all subdivisions are the responsibility of the local developer. Often, these systems are eventually dedicated to the city which then bears responsibility for their maintenance.

The MWSS is responsible for providing water to residents of Metro-Manila.

Water systems are expensive and their expansion at the local level is hindered by the lack of funds. In some situations, water is oversupplied in some areas and undersupplied in others. Widespread illegal tapping hinders cost recovery and affects expansion efforts.

Electricity

Electrical power is generated nationally by the National Power Corporation NAPOCOR) from a variety of sources. NAPOCOR, a quasi- government agency sells electricity, on a full cost-recovery basis, to local electrical companies. Electricity is distributed through the national and regional grid system of the National Electrification Corporation, a national agency. All construction and maintenance is done by the agencies themselves.

Local electrical companies purchase power from NAPOCOR at government-established rates. Local companies, like the water districts, are generally quasi-governmental bodies run on a for-profit basis. Some are cooperatives while a few, in smaller cities, are entirely public. They are responsible for constructing and maintaining the intra-urban distribution system. MERALCO, a quasi-public corporation, is responsible for providing electricity to Metro-Manila.

Private developers are responsible for constructing electrical distribution systems within new subdivision. Given the extensive technical know-how required, developers generally make a 'loan' to the electrical company and eventually recapture costs through rate reductions. Consumers themselves are responsible for individual connections.

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As a result of problems at the national level: mistakes in anticipating demand and construction problems, the national electrical picture is dim. Overall, demand often exceeds supply during peak periods, and brownouts are frequent. Illegal tapping further exacerbates problems due to limited resources. Private firms are limited in their efforts to expand production facilities due to the unreliable and expensive supply of electricity.

Sanitation, Drainage and Flood Control

Large scale drainage and flood control systems are the responsibility of DPWH. Much of these systems are funded through foreign loan program such as RCDP and PREMIUMED MWSS provides a centralized sewerage system in Manila. No other cities have central system and residents generally provide their own septic tanks or other collection systems DPWH implements upgrading programs to assure that low-income residents have access to a basic sanitary system Most large-scale drainage and flood control systems are built by private contractors

Private involvement is restricted to small-scale drainage and sewerage systems within subdivisions where developers are required to build such systems. Generally, drainage, along with the road and water systems, is donated to the city following completion The city is then responsible for upkeep Private contractors build most public sector drainage, sewerage and flood control systems.

Sanitary facilities in low-income areas are frequently deficient and are a major cause of health problems Difficulties in securing funds for major flood control and drainage projects leads to erosion, problems with roads and flooding of valuable land The inability of localities to fund these projects means that potentially useful parcels of land remain undeveloped.

Garbage Collection

Garbage collection is a local responsibility. Often, local government units collect and dispose of solid waste themselves using government employees and equipment At times, private trucks are contracted for. Sometimes, government units contract out to a variety of private sector firms or NGOs for collection in specific residential areas.

Garbage collection is deficient in many residential areas of the country. As a result, health problems are compounded and investors are often unwilling to invest additional funds.

Telecommunications

National and international telephone and data transmission services are provided through a government-sanctioned franchise to the Philippine Long Distance Telephone Co (PLDT) and local franchises with smaller companies. The government is restricted to establishing rates and monitoring performance.

There is a large backlog in meeting the demand for telephone hookups throughout the country. Increasingly dependent on efficient communications, investors are therefore unable to expand existing firms or build new ones.

Land Assembly and Industrial Estates

Government agencies control a significant amount of land at the local level. Through direct ownership of reclaimed land by the Public Estates Authority, accretion land of the Bureau of Lands, foreclosed properties by various national lending institutions and city owned land, much vacant city land is publicly controlled.

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The public sector also plays an important regulatory role. The Housing and Land use Regulatory Board controls all assembly and development of land. It establishes standards and monitors development. The Department of Justice is responsible for the essential land titling and transfer process. Recent land conversions are required to be reviewed by the Department of Agrarian reform. Industrial estates are developed by the Department of Trade and Industry with lots sold to individual buyers.

Cities have the power of condemnation as well as the legal right to evict squatters These powers are rarely used due to political opposition and difficulties in enforcement.

The local land market is driven by the actions of private development firms. These range from large, well-capitalized firms to individuals Developers are often contractors as well. Such entities are the usual developers of private subdivisions. Given increasing land pressures, local developers and financial institutions have begun to purchase land and or structures on a speculative basis.

A number of public/private joint efforts have resulted in successful developments. In Cebu, city-funded infrastructure investments are being used to support private-sector developments. In Laguna, private developers are creating a private industrial estate.

An efficiently functioning land market is hindered by a number of factors. Difficulties in securing approvals hinders the transfer, assembly and development of vacant land and imposes significant transaction costs on private sector developers. Squatters illegally occupy land and prevent its use for more productive activities. Local government units, with limited funds, are unable to develop productive parcels of land. Finally, individual families, without security of tenure, are unwilling to invest funds in house construction or upkeep

Other Services

Markets, bus stations and slaughterhouses are generally constructed by cities and then leased out to private salespeople. In some situations, the entire structure is leased to a single firm which then sub-leases individual stalls. In other cases, cities manage the structure themselves and directly lease to individuals.

Airports and port facilities are the responsibility of the Department of Transportation and Communications. Major investments, almost always at least partially foreign funded, are the responsibility of the appropriate agency. Use of these facilities by private sector firms is generally governed by contracts.

III. INFRASTRUCTURE

POSSIBLE MODELS

The previous discussion indicates the deficiencies in the present relationship between the public and private sectors in the Philippines and the impediments to change. It also discusses a number of more innovative approaches to supporting urban infrastructure and shelter drawn from a variety of cities. Examination of the experiences of local governments in a variety of other developing countries yields additional examples which could be applied in the Philippines Discussed below are possible models towards increasing and improving the involvement of the private sector in shelter and urban infrastructure, their feasibility in the Philippines and their relationship to the DSUD

In general, these reflect three types of approaches The first approach is mobilizing private capital for investment in shelter and infrastructure. Indications are that there is a considerable amount of untapped private capital in most local cities However, effective mechanisms for mobilizing such capital for infrastructure purposes do not exist and need to be developed The second is changing the balance between the public and private sectors approach to better take advantage of each's comparative advantages. In many situations this means reducing the role of the government and enhancing that of private sector firms The third and final approach is improving the functioning of the public sector by encouraging it to operate on a more private- sector basis In doing so, services are delivered more efficiently and the ability of a city to deliver a broad range of services is enhanced.

These models are examined in light of their general advantages and disadvantages, local and national constraints, feasibility of implementation and their ultimate impact in Philippine cities Technical constraints-- legal, procedural or financial--may require legal or administrative action at the local or national level or ultimately block use of an attractive approach. The political or social dimension to an approach--equity concerns or political opposition, for example--may equally hinder implementation The appropriateness of a given model to a specific infrastructure sector is examined Finally, the role of the DSUD in further supporting the application of possible models assessed

MOBILIZING PRIVATE CAPITAL

Discussions with local and national officials and representatives of the financial and development sectors indicate that there is a considerable amount of untapped private capital within Philippine cities. At present, much of these funds are channelled into the international or national capital markets or consumption activities. However, the ongoing 'boom' of the real estate market in Manila and Cebu and, to a lesser extent, in a number of regional cities suggests that private investors are at least willing to consider investing in shelter and urban infrastructure activities elsewhere. Effective mechanisms at the local market which address investor concerns and facilitate the mobilization of private capital for infrastructure purposes, however, are lacking.

Municipal borrowing, directly from private or public financial institutions or through a bond market, offers a number of advantages to cities looking to channel funds into infrastructure development. Borrowing expands the amount of overall capital available within the community for development activities and substantially taps fragmented private sources Through the use of economies of scale and the ability to offer a variety of separate financial instruments, the overall cost of capital can be reduced Municipal development financing institutions, generally a prerequisite for significant city borrowing, generally improve the credit-worthiness and business-like operations of a city, support project development with technical assistance and enhance investor confidence

In some situations, however, municipal borrowing can inhibit the expansion of private sector markets Moreover, the local financing institutions may serve simply as vehicles for inter- governmental transfers rather than mobilizing capital Inefficient operations and the imposition of overly-bureaucratic regulations may discourage, rather than encourage, private investors. Interest rate subsidies and other concessionary practices discourage the future involvement of private financial institutions and investors.

On a smaller scale, mobilization of smaller amounts of private capital from individual investors also offers benefits The use of small credit institutions--credit unions, cooperatives, NGOs-- can assist members of society with limited amounts of 'investment' capital to funnel such funds into productive endeavors in the infrastructure area Such mechanisms help lower-income residents to accumulate capital in sufficient amounts to invest. As such, they serve as another method through which private capital is directed towards infrastructure and shelter areas.

Small-scale financial institutions offer the potential disadvantage of discouraging private investments. If such institutions are run improperly or on a subsidized, non-financial basis, they can potentially result in the loss of funds to their generally lower-income members. Moreover, their small scale and personalized nature makes them highly susceptible to graft and corruption.

Technical Dimensions

Presidential Decree 752 gives Local Government Units, including cities, the power to borrow funds from a variety of national financing institutions (Philippine National Bank, the Development Bank of the Philippines, Land Bank of the Philippines); provident funds (Government Social Insurance System, Social Security System, Home Mutual Development Fund), the Municipal Development Fund and from private financial institutions Lending to LGUs is subject to the charters of the respective institutions.

Funds must be used to construct, operate and maintain utility systems, markets, government housing, land assembly and other capital investment projects in the general infrastructure area The regulations suggest specific appropriate activities but it is likely that most infrastructure activities could be funded through borrowing. LGUs are permitted to borrow, from all sources, up to 15% of the average annual income realized from regular sources for the last three fiscal years

More specifically, cities are authorized to issue bonds, notes and other financial instruments to finance self-liquidating and/or income-producing development projects. The total value of all outstanding bonds must be less than one-half of one percent of the total assessed value of taxable real property within the city Local bonds must be issued under the following conditions: 1) registered and transferable to the Central Bank of the Philippines; 2) not sold at less than face value, 3) redeemable in ten years or more (although the Sangguniang Bayan can reduce the term) All bonds are tax-free.

A bond issuance must be specifically approved by the Sangguniang Bayan and a request forwarded to the national government. Approval is granted by the Department of Finance following review by the National Economic Development Authority. The Sangguniang Bayan must establish a sinking fund, and appropriate funds, for redemption at the maturity of the bonds with annual contributions covering in full principal and interest due on the bonds.

No provisions exist at present within the Local Government Code or Presidential Decree 752 for the technical activities necessary for the actual issuance of bonds and other financial instruments. Most cities have sufficient private sector skills in this area-- banks, insurance companies or lawyers--or have offices of national institutions such as DBP which can conduct these important functions.

Small-scale credit institutions are generally required to meet the fiduciary requirements of large-scale institutions. Depending on their form, they are governed by the SEC, Bureau of Cooperative Development or the Central Bank. Within limitations imposed by these institutions related to protection of investors, institutional financial requirements and procedural regulations, credit institutions are free to mobilize and use capital as they see fit.

Financial Considerations

Economic growth at the local level and substantial repatriation of capital and remittances from overseas workers have resulted in a substantial amount of capital at the local level which, potentially, could be attracted into a municipal bond market Local investors are often interested and willing to direct funds towards local enterprises which more closely reflect their priorities and needs than towards national or international investments. Of course, overall profitability remains the overriding concern.

The enabling regulations fail to address the obvious key financial concerns: interest rates and terms. These would need to be pegged at terms attractive enough to divert funds from the national capital markets. With national offerings in the 20-25% and 90 day one year range, local offers would need to approach these conditions. Interest rates could be somewhat lower, perhaps in the 15-20% range, but terms would need to be substantially shorter than the recommended 10 year terms in the regulations With an existing inflation rate of approximately 13%, sensitivity must be applied to properly setting interest rates. Interest rates for municipal borrowing from the Municipal Development Fund is set at 11%, which discourages private sector involvement in municipal lending.

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Small-scale financial institutions generally serve with the sole purpose of mobilizing and applying individual capital. Their investors typically have little recourse to other financial institutions. Moreover, their reasons for investing turn more on the desire to save and accumulate capital than to make a profit. As such, institutional profitability is not as important and interest rates are generally less. Indications are that at the local level, existing small-scale credit institutions are serving investor needs, attracting sufficient capital and serving as effective mechanisms for small-scale investments

Feasibility

The above discussion indicates that the potential exists for the mobilization of private capital at the local level. Clearly, direct municipal borrowing from government and private institutions appears most feasible Institutions exist already and cities have, in the past, borrowed funds Overall, however, municipal borrowing has not been significant. Moreover, repayment rates in cases where cities have borrowed, such as from the Municipal Development Fund (MDF), have not been outstanding Such problems likely have undermined the confidence of institutional lenders in cities, even where they are specifically mandated to provide capital to local units. The reasons for defaults during the MDF Program must be addressed and, at a minimum, all bad debts 'cleared' before municipal borrowing, even from existing institutions, is expanded.

The problem of investor confidence would also affect efforts to create local municipal bond markets. Given general private sector skepticism about local government financial stability and the additional concern over new, untested instruments such as municipal bonds, it is likely that, at least initially, the private sector would be reluctant to invest. Considerable attention would need to be paid to ensuring the financial stability of the cities and building investor confidence. Initial issuances would need to be limited and attractive enough to 'start the ball rolling' If such efforts succeeded, however, further investor interest would be expected.

Bonds must be marketed by reliable institutions which instill consumer confidence, properly establish lending terms and enforce repayment. These can be either public or private institutions but care must be taken to assure that their actions meet the public's needs

A major concern in this scheme is the role of the Department of Finance (DOF) and other units of the national government. Although the regulations grant broad powers to cities to issue bonds, approval must be secured from NEDA and ultimately DOF. Indications are that DOF has been reluctant to grant approval. Much of this reluctance may stem from the desire to protect local units from incurring debts which might prove unserviceable or from the department's experiences with the MDF or other cases of municipal borrowing DOF may also be hedging in order to protect national capital markets. For whatever reasons, care would need to be paid to securing the support of DOF in an attempt to build a municipal capital market.

Finally, as discussed earlier, given the ability of a locality to surmount the problems just discussed, municipal bonds would appear to valid instruments for mobilizing private capital. The actual amount of capital which could ultimately be attracted to a bond market requires more detailed study of local capital availability and markets and empirical data on those bond flotations which have occurred.

Consumer confidence in small-scale credit institutions is of supreme importance. Given past negative experiences such as the KKK, many lower-income families have shied away from investing in such institutions The widespread perception that some institutions have failed to meet their investor's needs or have been allowed to serve the individual needs of their officials has hindered investment. However, given sufficient concern and the barriers to other mechanisms for facilitating small investments, these institutions can and do play important roles.

With all of these possibilities, a key factor is simply the lack of experience with them at the local level. Unaccustomed to borrowing, cities are unsure of their powers and lacking in the capability of successfully implementing a borrowing program The private sector, equally unaware of a city's ability to issue bonds, are reluctant to invest Small investors, unused to credit institutions, are more likely to use alternative savings mechanisms or simply neglect to save. Much effort is required to raise the consciousness of all actors at the local level to the possibilities inherent in efforts to mobilize capital.

Interest rates and terms would have to be competitive with other private investment opportunities, although the tax exemption of interest earned and the appeal to "social obligations" would make the interest lower than the highest private sector rate.

Applications

In general, municipal bonds or borrowing can be used to support most infrastructure or shelter endeavors. The regulations are inclusive and not exclusive in terms of what they permit. From a practical standpoint, economies of scales suggest that bonds should be used to fund large-scale trunk infrastructure investments such as water, electricity or sewerage/drainage systems; connector roads and bridges; public facilities such as markets or bus terminals; or mass housing. Moreover, given high capital costs, they can be used successfully for land acquisition and assembly.

Bonds will be more attractive if they are targeted for a specific purpose which is related to local needs as identified by the private sector. They offer the opportunity for local governments to assess private sector needs, anticipate growth directions and lay the groundwork for private sector investments. As such, they can be used to fund public sector inputs for joint ventures with private sector firms.

Infrastructure projects funded through borrowing or bonds must be carefully planned and implemented. Financing must be well-defined and attention paid to full cost-recovery. The key element of consumer confidence must be supported through assurances that the public 'gets its money's worth' in any bond issue used to support private sector actions.

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Small scale institutions can play important roles in facilitating investments at the local level in infrastructure.

Typically, these investments should be used for incremental, inexpensive improvements, often at a family level. Use of these institutions to facilitate house construction or improvements, for example, is extensive. Community-wide investments, often through the assistance of an NGO, offer another option. Community-wide drainage, road or water systems, for example, can be funded through family savings in credit institutions. Care must be paid to assure that such projects are carried out properly. Moreover, credit must be provided on a full cost-recovery basis to assure the long-term viability of the institution.

PUBLIC-PRIVATE PARTNERSHIPS

Public-private partnerships are mechanisms for further increasing investment in infrastructure and enhancing the impact of such investments. Partnerships can take a variety of forms: 1) joint ventures towards implementation of urban development; 2) joint investments involving joint financing of projects; 3) turn-key projects in which the public sector agrees to buy or lease facilitates financed or leased by the private sector; or 4) government incentives for private investment All are based on the belief that cooperative efforts between the public and private sectors result in mutual benefits which outweigh those which would result given non-cooperative, individualized efforts.

Partnerships allow the public sector to mobilize private sector investments maximize the investments it makes, and tap substantial amounts of private sector expertise, experience and equipment. Moreover, partnerships often avoid publicly-imposed impediments to efficient project implementation and accelerate project completion.

Partnerships do offer the potential danger of neglecting the needs of low-income residents. The greater emphasis on profitability can lead to situations where issues of public needs or equity are ignored. Depending on the terms of agreements between units of government and the private sector, some projects might result in more benefits to the public if developed solely by the government rather than jointly with private concerns. In the highly politicized local environment, negative perceptions by the general public of partnerships can serve to inhibit or prevent potentially successful projects.

Technical Dimensions

Cities are empowered to enter into partnerships within their legal roles for endeavors that address the needs of the public. Creative partnerships with private sector firms can be used to construct, operate and maintain utility systems, markets, government housing, land assembly and other capital investment projects in the general infrastructure area. The regulations suggest specific appropriate activities but it is likely that most infrastructure development activities would be allowable.

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The city engineer's office must prepare technical materials and a feasibility analysis prior to the contracting process. The ability of a city to enter into a contract is constrained by bidding requirements. All contracts, including presumably those involving partnerships, must be open to public bidding and the contract awarded to the lowest bidder. Negotiated ventures, which might be more efficient, are not permitted. Although no specific regulations exist, it is likely that similar requirements would pertain in situations where a city was providing an equity contribution. The value of a city's contribution can not be more than its allowable legal borrowing capacity.

As with its bonding power, all situations where a city is formally "joining" the private sector in a partnership must be initiated by the Sangguniang Bayan. Ultimate approval, again, rests with the Department of Finance. It is likely that in situations where significant amounts of land or capital, typical contributions from the public sector in partnerships, are involved, DOF would require assurances that the city's fiscal health was protected.

In the past, local officials and private firms have felt that COA auditing procedures have served to unnecessarily hinder development of joint ventures. All government contracts are subject to post-audits from the Commission on Audit and those of a value greater than P 250,000 are subject to pre-audits. COA would also likely closely scrutinize all transactions involving equity contributions on the part of the public sector A clear case would need to be made that a city is benefiting from a project before it was approved This might prove to be especially difficult in situations where land transfers are involved. Differences between assessed land value and market value are considerable and might hinder negotiations between the public and private sectors.

A newly-signed Law, R.A 6957, also known as the "Build-Operate- Transfer Law", provides a specific mechanism for facilitating turnkey projects. The law allows local private sector contractors to finance and construct basic public infrastructure and to operate it at a profit The private firm must turn over the property to the government within a fixed number of years and in no case exceeding fifty years. Cities would appear to be eligible to participate in the program although DOF would likely need to approve their participation on a project by project basis.

No regulations have been prepared as of yet so the details of the program are unknown. Presumably, each project will be the subject of separate negotiations and a contract between an appropriate unit of government and a private firm. Such contracts would specify financing provisions, profit margins, turnover periods and other details. Such schemes could likely be "piggybacked" onto joint investment endeavors or tied to projects financed by municipal borrowing.

Financial Considerations

Key to the effectiveness of partnerships is the structuring of projects which result in mutual benefits to the public and private sectors. From the private sector's perspective, this likely means sufficient returns on investment through profit margins and reduced costs to merit private sector investment.

The public sector, on the other hand, requires a project to address public needs in a way that is better and less costly than if the city were to do it itself. The ability of city and private sector negotiators to analyze the implications of partnerships and therefore to structure a project which meets both their objectives is crucial to their success.

Transfers of land often serve as a city's contribution in a joint investment scheme. Their ability to construct trunk infrastructure indicates another typical contribution. The private sector, on the other hand, offers substantial amounts of capital for on-site development, expertise and experience and an often more efficient approach to project development.

Given their often extensive land holdings, joint partnerships involving land assembly and development offer considerable promise as means for cities to stimulate growth. Similarly, improved access to financing mechanisms for trunk infrastructure will similarly enhance the potential contributions that cities can make to joint ventures. From the other perspective, given the amount of existing private investment underway in many cities, indications are that there is sufficient private capital available for future joint partnerships.

Feasibility

Public/private partnerships represent a broad array of possibilities; therefore, their feasibility must be considered on a project by project basis. As discussed above, their ultimate success or failure lies in the successful negotiation of contracts which address the main concerns of all parties.

In general, no legal or procedural impediments exist to joint partnerships. In cases where the public sector is making an equity contribution, the difficulties in valuation and tight scrutiny by COA might hamper efforts to construct joint investment projects.

Although legally empowered to enter into partnerships, cities must secure the approval of DOF. Because joint ventures are comparatively new in the country and given DOF's often conservative outlook on the roles of cities, approvals may be hard to secure. Such a 'negative' role, of course, may prove to be beneficial by restricting partnerships to those situations where they are clearly warranted.

As is the case with municipal bonds, mutual distrust between the private and public sectors have hindered efforts at encouraging productive joint enterprises Transaction costs for private sector dealings with local government--waiting periods for approvals and payments, restrictive audits and time spent waiting for 'promised' infrastructure investments--have served to scare away the private sector Widespread fears of graft and corruption among local officials have similarly served to direct the private sector away from working with government.

On the other hand, the public sector has tended to view the profit motivations of private firms with apprehension. Given the need of government to address basic public needs and equity issues, many government officials are reluctant to work with private firms where the desire to achieve a return on investment is a stronger motivation.

In general, these apprehensions are not insurmountable. In many cases, they can be addressed through carefully-thought-out contracts which specify contributions from each side and which provide mechanisms to enforce these specifications. Moreover, given the often tightly-knit social structure of cities, personal efforts to overcome mutual suspicions are often successful. In the end, successful, mutually beneficial projects will go a long way towards reducing animosity and distrust.

Applications

As has been stressed, projects which play to the relative strengths of the public and private sector are most likely to succeed. Given city ownership of land, power to assemble parcels through condemnation and ability to construct basic infrastructure, projects where the city contributes land, serviced or unserviced, for private sector construction have proven to be successful in the past. These include direct partnerships with private firms desiring to construct a factory, initiation of industrial estates or the use of infrastructure to guide development in particular directions.

Joint partnerships involved in development of low-cost housing are equally possible In such schemes, local officials can provided serviced plots to residents or to NGOs for construction of homes on self-help basis.

PRIVATIZING PUBLIC SERVICES

Another approach to increasing the role of the private sector in urban infrastructure is to transfer responsibility for certain services from the government to private firms or, in certain situations, NGOs. Such an approach assumes that private firms, given their for-profit orientation, can better deliver services at lower costs. Moreover, less constrained by mandated service levels and more flexible, they are better able to match consumer demand to the level of services they offer. By reducing costs and varying service levels, private firms are able to reach greater numbers of residents. The potential for competition suggests, at least theoretically, reduced costs to consumers. Finally, private firms are generally more efficient in responding quickly to changes in consumer demand.

Privatization, however, is not without its dangers. The potential exists that transferring responsibility to a private firm will simply result in a private monopoly, increased costs and lower levels of service. Moreover, total control by a private firm might result in some residents being denied service entirely or the elimination of an unprofitable but necessary service

Clearly, privatization can play an important role in improving the effectiveness of local government by transferring certain responsibilities to private firms better able to achieve delivery objectives. However, care must be taken to assure that the basic needs of all residents are met by private providers and, in all situations, that private delivers address overall public objectives relative to cost, service breadth and quality.

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Technical Dimensions

The Local Government Code specifies the public services that cities are required to provide to their residents. However, it does not address the mechanism through which these services are to be provided. Presumably, cities have at least some power to privatize given functions. The degree to which this is allowable would probably depend on the importance of the activity, its relationship to the basic needs of the city's residents and its impact on residents.

Privatization of functions now conducted by units of government would require a contract with a private firm to protect public interests. Cities are empowered to contract with the private sector for various activities. In general, these have been major infrastructure projects All contracts are subject to public bidding and awarded to the lowest bidder Negotiated contracts are not allowed All contracts are subject to post-audits by COA and those over P 250,000 to pre-audits.

As in most other municipal financial arrangements, privatization schemes must be initiated by the Sangguniang Bayan and submitted to DOF for approval. Given its minimal experience in this area, DOF would likely look closely at any scheme to privatize a service previously delivered by a city.

Financial Considerations

Obviously only those services which the private sector believes it can make profit on are candidates for privatization. Moreover, those city-run services which achieve near cost-recovery are unlikely to be privitized by cities. Therefore, the most likely service areas are those where private sector efficiency would result in sufficient returns on investment for a private firm but where the government is unable to recover its costs. Given these criteria, there are a number of service delivery areas which, from a financial perspective, would be candidates for privatization.

A careful feasibility study must be conducted with attention paid to: 1) existing supply/demand relationships; 2) pricing; 3) private sector capabilities; 4) the impact of privitization on the levels of service delivery; and 5) equity concerns.

Feasibility

Legally, there are no explicit hindrances to privatizing public services. However, the requirement for DOF approval suggests that, at least initially, only certain services can be privatized. Given legal requirements that cities provide given services, privatization would require specific contracts with service providers to assure that legal requirements for service provision are met. Contracting with private firms would be subject to the scrutiny of COA.

Privatization is feasible in those areas where: 1) private sector capabilities exist; 2) sufficient numbers of private firms exist to create a competitive market; 3) competition will prevent monopoly pricing; 4) private sector firms can absorb some government employees displaced by privitization; and 4) capital costs are not high.

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Although economically feasible, privatization must also be subjected to social and political concerns. Privatization will have the most positive impact, and therefore most likely be permitted, in situations where: 1) existing governmental service delivery levels are insufficient and inefficient; 2) costs are perceived to be high; 3) private sector delivery will result in expansion and improvement of services at existing or reduced cost levels; 4) where private sector delivery will continue to meet the equity concerns of government.

Opposition to privatization at the local level can be significant Service delivery often serves as a political mechanism used by local politicians to 'buy' support. As such, privatization will be most successful where it would result in better service delivery and where the transition is 'transparent' to the consumer. Attention must be paid to the possibility of graft and corruption

Privatization must be followed by effective monitoring of private firms to assure that public concerns are being met. Use of contracts with private firms can best assure that minimal service levels are being met, prices are reasonable and equity concerns are being addressed.

Efforts to privatize government functions must overcome private sector reluctance to work with the government. Although privatization, in theory, should result in total freedom from government control, the situation in the Philippines suggests the need for contracts to address overriding social concerns. In these situations, government monitoring must be efficient and assist rather than hinder private firms.

Applications

In general, service areas best privatized in the Philippines are those which: 1) are not pure public goods; 2) are not viewed as essential by the public; 3) will result in a competitive market; 4) price changes will be limited and service delivery improved; 5) sufficient firms exist; 6) entry costs are low.

Possible areas include solid waste collection, management of existing facilities such as bus terminals, markets or slaughterhouses and recreation services. Utility systems, where publicly- run, can also be successfully privitized if care is taken to assure minimal service levels and prices.

CONTRACTING

In situations where full privatization (i.e. allowing the private sector to have complete control over the provision of a service or activity) is not feasible, contracting with private firms offers a viable option It allows a city to maintain closer control over service provision to assure that city objectives-- pricing, coverage, level of service delivery--are met while still tapping the skills and resources of the private sector. In some cases, it can serve as a transition to full privatization during which local awareness is created, a competitive market is built and private sector skills developed. When conditions exist where public objectives can be met without the need of often cumbersome contracts, full privatization can occur.

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The use of performance contracts with private firms offers a number of advantages. Costs to the local government can be reduced and the bureaucratic impediments to efficient delivery removed. Access to private capital and equipment often leads to improved levels of delivery. Operation on a cost-recovery basis can lead to higher labor productivity and the use of more innovative technologies Performance contracts can be used to supplement government provision rather than to totally replace it. Contracting can allow the government to tap the skills and energies of NGOs and involve residents in community-oriented activities.

Many of the potential disadvantages of full privatization also exist with performance contracts. They can result in higher costs than with government delivery and reduced levels of delivery. Government administration and monitoring costs can be substantial.

Technical Concerns

The Local Government Code permits cities to contract with private firms. As with full privatization, the Code is generally oriented towards infrastructure development and somewhat vague on the service areas which are the likely candidates for contracts All contracts must be open to public bidding with awards made to the lowest bidder. No negotiated contracts are permitted. Contracts are subject to audits by the Commission on Audit

As with other such arrangements, approval must be secured from the Department of Finance. Service contracts in Philippine cities are more common than full privatization and therefore are more likely to be approved, especially in those service areas that historically have been contracted out. Attempts to contract out services traditionally undertaken by governments would likely be studied quite carefully.

A carefully constructed contract agreement and effective monitoring are keys to the success of contracting. The contract must clearly specify levels of service delivery, coverage and pricing limitations. Provision must be made to assure that minimal levels of essential services are delivered at affordable prices to all residents. Government administration must provide enough guidance to assure that public objectives are met while not hampering efficient operations.

Financial Considerations

Most of the financial issues raised in the section on privatization are appropriate here. When a city contracts out only a portion of the total delivery of a service, careful attention must be paid to situations in which service delivery is to be split between the private sector and government. Possibilities exist for a degree of negotiation in which firms are allowed to operate in profitable areas in return for provision of basic services to lower-income residents.

Feasibility

There are no legal impediments to contracting with the private sector for service delivery other than the requirements for public bidding and COA audits. As has been discussed, DOF must approve all contracts and therefore plays an important role in structuring contracting relationships.

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The local political climate is key to the success of contracting arrangements. The general orientation of the public towards public provision of services means that a certain reorientation towards private provision must occur. Again, many of the political arguments raised in the privatization section hold here. Opposition from public sector employees is probable in situations where job displacement or declines in job security would result

The ability to partially contract services to private firms allows the implementation of contracting to occur gradually This permits cities to build political support, develop skills and educate consumers. This contracting is most beneficial and least likely to engender opposition when competitive markets exist, a gradual approach is preferable As private firms perceive the benefits of contracting with government, more will enter the field and greater competition will occur Of course, this will only take place in those sectors with relatively low entry costs and where a trained laborforce exists

Partial contracting also facilitates the involvement of NGOs in service delivery NGOs are often unable to compete with private firms because of high capital costs, lack of personnel or limitations related to geographic location. Single contracts can be split into smaller ones, often according to geographic area, which require less capital and are more appropriate for smaller NGOs. Most communities have at least one, if not several, NGOs with degrees of administrative and implementation skills sufficient for small-scale contracting.

Applications

Contracting will work best when: 1) efficiencies can be achieved through economies of scale; 2) greater productivity can be achieved through innovative approaches not bound by bureaucratic limitations; 3) firms can use part-time non-civil service staff; 4) capital costs are limited.

In general, these criteria restrict provision of major infrastructure systems to units of government with the capital and skills required to construct such systems. However, maintenance, in general a labor-intensive activity, is well suited for contracting Contracting for the routine maintenance of roads or public facilities provides one example. Given their geographic orientation, NGOs are appropriate candidates for maintenance of roads within their communities. Management of public facilities such as markets, bus stations or slaughterhouses is another possibility. Collection of solid waste is yet another possibility.

USER FEES

Although user fees do not directly increase the role of the private sector in urban infrastructure, they do place the operation of government on a more "private-sector" basis. As such, they offer opportunities for more efficient and broader delivery of services.

User fees, and other forms of cost-recovery, are based on the concept that, where possible, consumers of public services should pay in direct proportion to the degree and frequency with which they use the service. User fees have a number of advantages as a means of recovering costs or financing services and

facilities. They permit a better 'match' between levels of service delivery and payments. User charges are relatively easy to assess and collect. They permit consumers to vary the amount of a service they consume Properly designed and applied, user fees will result in enhanced local revenues. Their inherent flexibility allows providers to adjust fees as costs change. Finally, they encourage fiscal discipline among providers and consumers

There are certain disadvantages to user fees Their application is limited in cases where a given service is essential to the public good, where delivery is indivisible or where high political priority is placed on the service. For some services, the process of measuring demand and pricing for individual consumers is technically difficult. From an equity perspective, user fees can result in the exclusion of some residents from consuming a given service.

Technical Concerns

The Local Government Code permits cities to charge for the services they provide. Although most cities have tended to provide services free, there are some cases where fees, especially for non-essential services, are charged. Efforts to drastically change fee schedules for city services would need to be approved by the Sangguniang Bayan and, presumably, by the Department of Finance. DOF would likely be most critical at efforts to charge for essential services or cases where abrupt changes were proposed

Betterment Levies are special forms of user fees where portions of increases in land value attributable to public action are 'recaptured' from land owners. Such fees are allowed by the Local Government Code In theory, there are no legal or procedural difficulties in implementing such fees However, given their relationship to the complex local real property tax valuation and collection system, it is likely that implementation would be difficult.

Land readjustment is another form of cost recovery useful in financing new services. Readjustment is a form of land pooling where local authorities temporarily take control of scattered parcels of land and then consolidate them into cohesive units without providing compensation The city provides infrastructure, subdivides the land and returns most to private owners. The city then sells the remaining portion of land to recover the costs of constructing infrastructure. There has been little experience with this process in the Philippines and its legal and procedural dimensions are unclear. However, it has proven to be successful in other developing countries.

Financial Considerations

Central to the concept of user fees is the proper setting of appropriate fees. Cities must understand the relationships between levels of services demanded by consumers and fees i.e. their "willingness to pay". Raising rates too high or too rapidly, for example, can result in drastic drops in demand and net losses in revenues However, given careful analysis, fees can be set at appropriate levels which result in net increases in revenues Care must be taken in cases of essential services to protect the interests of low-income residents Cross-subsidy schemes offer one mechanism to address this concern.

Both betterment levies and land readjustment are highly dependent on the valuation of land. Given present difficulties in the land valuation system--outdated assessments and resulting differences between assessed and market values--and the difficulties inherent in determining the influence that infrastructure has on land value, both schemes would be difficult to implement.

Feasibility

Although the legal status of betterment levies or land readjustment is somewhat unclear, there are no impediments to the application of user fees for services at the local level. Approval by the Department of Finance would likely be conditioned by the extent and speed of implementation and the nature of the service to be charged for.

Public reaction to user fees, of course, is of paramount importance. In a society where the public has been conditioned to receiving a variety of 'free' services, efforts to charge for these would likely engender opposition. This would particularly be the case where fees charged were disproportionate to the public's perception of value achieved, where essential services were involved or where significant numbers of residents were excluded from receiving a given service Moreover, local politicians might object to user fees in situations where service delivery is used as tool to garner support.

Given the common problems associated with collection of existing fees and levies, efforts to expand such fees would likely confront the same problems. This would particularly be the case in complex betterment levy or land readjustment schemes

Careful study would be an absolute prerequisite before embarking on efforts to improve cost-recovery by local governments. However, given proper attention to the issues such as appropriate services, equity considerations, supply/demand relationships and the technical concerns of collection, there is no reason why user fees can not be relied upon by cities to enhance revenues and better deliver services.

Applications

In general, services where user fees are most appropriate are those which: 1) are individually consumed; 2) non-essential; 3) allow fees to be set easily; and 4) permit easy collection.

A common service area for increasing user charges are public water and electrical utilities. Consumption of these services is individual, fees are easily collected and demand/supply relationships can be relatively easily determined. Moreover, fees can be varied by the nature of the consumer, thereby providing mechanisms for assuring minimal levels of services for all residents. Publicly-run transportation systems, for similar reasons, offer opportunities for increasing user fees Public markets and slaughterhouses, which often rent stalls on flat-fee basis, can easily better match costs of services delivered to fees

Non-essential services might include public recreation facilities, restaurants, hotels and private amusements.

As discussed, the delivery of infrastructure services to private land owners offers considerable potential. Public infrastructure investments are considerable and, given the existing valuation system, little direct cost recovery is achieved. Betterment taxes on land value increases or more comprehensive efforts at land readjustment could result in significant revenue enhancements and the more efficient use of scarce urban land.

IV. PRIVATE SECTOR AND THE DSUD PROGRAM

CONSTRAINTS

The previous sections have discussed the potential for increasing private sector and NGO participation in urban infrastructure and shelter services. The resulting benefits of private sector involvement through the mechanisms discussed--increased investment, better service delivery, efficiency--will eventually lead to increased economic growth and an enhancement of the ability of cities to meet the needs of their residents. However, actual efforts to increase involvement are hindered by a number of very real constraints A number of examples in which local units of government have creatively involved the private sector have been discussed These include municipal bond issues, joint land development schemes, service delivery by NGOs and increased use of user fees Moreover, the discussions have indicated the potential for additional efforts in these areas However, many units of local government are simply unaware of the potential offered by such innovations Mayors and the Sangguniang Bayans, especially the more conservative ones, are content to function as they have in the past rather than implement innovations of which they know little and which contain real political and economic risks

The relative lack of local autonomy on the part of city governments imposes a significant constraint on their ability to creatively involve the private sector in infrastructure development Although there do not appear to be many significant legal or procedural constraints to such efforts, the fact that cities must secure national approval for such efforts limits innovation Such approvals are required explicitly from the Department of Finance and NEDA Moreover, the role that the Commission on Audit plays at the local level in its pre and post-audits often serves as a 'hidden' constraint DOF, primarily concerned with the fiscal health of a city, is often reluctant to approve untested innovations which may change a city's financial situation The private sector's willingness to work with local governments is frequently diminished due to the perception that COA procedures often result in processing problems and payment delays The fear of DOF or COA disapproval sometimes proves to be enough for a city to not even initiate an innovation.

Relationships between the private and public sectors at the city level are frequently characterized by mutual distrust. City officials, concerned with meeting public needs, decry the "for- profit" orientation of private firms The private sector often views government agencies as difficult to work with, inefficient and costly. Such feelings serve to inhibit creative endeavors for cooperation between the two sectors Much of the distrust stems from a lack of knowledge of the "other side" and from the inability to acknowledge that different roles can be supportive of each other rather than antagonistic.

For many of the mechanisms discussed above, there simply is a lack of technical knowledge at the local level. Although their general applicability to Philippine cities has been suggested, more detail is required Local officials are unlikely to push creative mechanisms unless they are fully aware of their implications. Moreover, for some, the specific skills and approaches required for successful implementation are simply lacking in many cities.

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DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROJECT

DSUD Project efforts in influencing policy changes related to development of urban infrastructure and in providing technical assistance and training oriented towards Philippine cities will facilitate the greater involvement of the private sector in urban infrastructure activities However, activity areas designed to address these issues have been identified. These are all designed to remove barriers to, and encourage, additional private sector involvement.

"Consciousness-raising"

The simple lack of knowledge between cities of existing creative examples or future potentials has been identified as a key constraint. Project activities will focus on "consciousness-raising" and information transfer at a number of different levels ranging from national officials, local politicians, technical staff and private sector representatives. These will all be designed to publicize positive directions, remove perceptual barriers and transfer specific skills.

National-local relations

Policy Action Plan efforts in this area will focus on removing barriers at the national level to local efforts to involve the private sector. Analysis of key impediments will be followed by efforts to build a stronger and more positive relationship between the approval functions of national agencies and the implementation needs of local officials.

Public-private relations

A significant hinderance to public-private cooperative are often deep distrust each sector holds for the other. The DSUD, through efforts to improve the efficiency of cities, reduce transaction costs and to address private sector fears, will lay the groundwork for enhanced private-public partnerships. Policy Action Plan activities and various forms of training will result in enhanced local revenues and greater autonomy for their use. This, in turn, will allow cities to creatively work with private sector firms in planning and initiating infrastructure projects necessary for economic growth.

Technical studies and training

Much remains to be learned about local conditions which impact on the potential success of the examples discussed earlier. A series of policy studies on capital markets, privitization schemes and constraints on land development will provide detailed information necessary before specific efforts to involve the private sector can be initiated

Based on the information gained from these studies, specific training and technical assistance programs will be implemented. These will focus on developing the local skills and techniques necessary for successful involvement of the private sector.

Economic Benefits

Section 12.1 and Annex 5 detail the economic benefits and costs of DSUD. The beneficial economic outcomes of the project will arise from increased investment in urban infrastructure that stimulates economic growth. Public investment in shelter-related infrastructure promotes economic growth by favorably impacting on production and productivity, local employment and income, and economic welfare in general.

Public investment in infrastructure directly stimulates private sector investment Roads, water and drainage systems, electricity, and communication networks open up markets and the economy through the establishment of linkages between homes and businesses in the cities. These linkages create employment and private sector business opportunities that stimulate private sector investment Evidence from developing countries suggests that rather than reducing ("crowding out") private investment, public investment in infrastructure tends to increase ("crowds in") private investment As the commercial and industrial sector grows, revenues are reinvested in productive activity.

Empirical work conducted in developing countries (referenced in Annex 5) suggests that every dollar spent on public infrastructure stimulates about 30 cents in private sector investment. Using the most conservative estimate of additional public infrastructure investment as a result of DSUD given in Annex 5, suggests that DSUD will stimulate $2.26 million of private investment in the chartered cities in the first year of the project (1991) alone.

ANNEX 8

LOCAL GOVERNMENT CODE

Proposed New Local Government Code

The proposed new local government code is presently being considered by Congress with a view toward legislation in the 1990 session that would provide the legal basis for a significant increase in autonomy for local governments in the Philippines There are a House and a Senate version (HB 310246, SB 155) with broadly similar objectives. They diverge in some significant details that affect resource transfers from the central agencies to local units, or the type of ceilings set on local revenue raising autonomy The major consequence of the differences is that passage of the legislation is likely to be delayed further, involving a recconciliation effort that could be lengthy. However, sufficient support appears to have been generated that legislation in 1990 seems a reasonably certain outcome.

The following discussion outlines the provisions of the draft proposed code according to the House version primarily. A summary of the Senate version was acquired late, and the summary is not entirely adequate to be certain of the detailed provisions Full review and integration of the Senate version into this discussion is thus not done However, major points of the Senate Bill are noted where implications were clear, especially with respect to the implications of specific tax administration provisions

The discussion is organized into five topics which cover the four "books" of HB 310246, with the additional division of Book II (fiscal issues) into two separate sections, as follows: general principles, procedures and conceptualization (Book I of the draft code); local fiscal administration (Book II, Titles I through IV); local fiscal management (Book II, Titles V and VI); composition and procedures of local government units (Book III); and sanctions (Book IV).

I. General Principles and Conceptualization

1. Provisions

The provisions of the draft code have as their stated objective an increase in the autonomy of local government units, both through an increase in functional roles and decision-making authority and an increase in resources and control over those resources at the local government level. A lengthy list of functions which LGUs are henceforth responsible for is given, in detail and separately for different local units, with cities having a higher functional load than municipalities, municipalities than barangays Not only are these functional areas spelled out, but in addition an effort is made to define the role which national agencies will retain, and indicate that the rest -- the actual implementation of locally-specific projects and services -- will be

transferred from the control of the central ministries to the local government concerned.

The national agencies will henceforth be responsible for four general activities with respect to their substantive area of jurisdiction: formulating national policies, plans, programs and projects; setting up uniform standards and guidelines for implementation, monitoring compliance with such guidelines; and seconding (and supervising) staff to the LGUs. Since the draft code indicates that such staff will not receive additional compensation from the LGUs to which they are seconded, it is clear that the national agency in these cases will continue to pay them

It is not entirely clear which staff will be seconded in this manner, and which will actually be transferred eventually onto the LGU payrolls under the central agencies' devolution plan Both the House and the Senate Bills are "conservative" on devolution of responsibility for personnel from the fiscal agencies, ie DOF, DLG, and DBM The Senate Bill is hesitant in the educational sphere, indicating that DECS will retain responsibility for all educational matters, while the House Bill seems to put major responsibility for local educational policy on the shoulders of the local school board, chaired by the CEO in each LGU.

There are thus questions about how far-reaching the central staff resource transfer measures will go Nonetheless, it is clear that the House Bill intends the central agencies to get out of the business of implementing activities that are specific to a locality, and to focus instead on the "enabling environment" type of quality control, national standards, national needs assessment activity that professionals at that level are more appropriately charged with.

The mechanism through which this will be accomplished is an Executive-initiated set of directives to the central agencies to formulate their own in-house devolution plans, dealing with their specific projects and activities, and requiring the plan to be produced within 6 months of the passage of the code, and the actual implementation of same to be accomplished within 18 months of the passage of the code Central agencies are thus being asked to decentralize themselves

Another important component of the conceptualization of the new system is the institution of local development councils at all LGU levels, and a Regional Development Assembly in each region. These are to comprise both elective officials and the technical heads of all departments under the CEOs jurisdiction, and are charged with the responsibility of producing multi-sectoral development plans that will be fed up a chain and be integrated by each successive level of local government.

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The general statement of principles makes clear that in case of differences of interpretation with respect to the scope of the code, it is to be interpreted "liberally", i.e., in favor of the autonomy of the local government units.

2. Implications and Issues

Some implications of the draft code with relevance to the Project are apparent. The functional transfer of responsibility and resources is left to the central agencies, a not unproductive albeit time-consuming way of approaching the process. That is, while it is not as clean-cut and quick as a blue-print imposed from above, it is obviously more realistic and may generate commitment on the part of the central agency personnel to a higher level of follow-through than any imposition would. Of course, at the same time there is the danger that the functions transferred will only be partial, and consist particularly in the ones the central agency wanted to shrug off anyway; and that the resource transfer will similarly be partial, not sufficient to cover the performance of the activities transferred in a manner that meets the central agency's own performance standards

These are issues that will need to be addressed by the Executive Indeed, far from being a matter of legislative action substituting for executive action, it is likely that legislation will require concerted and active monitoring and other follow-up actions from the executive, to ensure that the time-schedules are being met and to review the adequacy of the substance of the individual agencies' devolution plans and implementations Programmatic follow-through by the Executive in the case of legislation being passed might be thought about as the policy agenda is discussed with GOP

A second issue area is the development councils and regional assembly functioning. These councils, if constituted carefully and given operational responsibility for planning, (i.e , actual control over plan formulation, forwarding, and initiation), could be part of the mechanism for addressing the problems of capture of enhanced local resource flows by "local elites". The councils are a potential intervention point for technical assistance and/or systems design activities, and they are a fulcrum for the introduction of technical and economic criteria into project identification and development, which may otherwise be done on the basis of political criteria at the LGU level. Of course, maintenance of rigorous civil service rules and regs is necessary for technical staff to fend off potential victimization by local politicians (either CEOs or sanggunian members).

Indeed, there is much merit to a system whereby political and technical staff are somehow jointly involved in development and capital plan development. Local politicians as resource mobilizers and technical staffs as needs assessors and project designers can provide an important element of dynamism into local public sector activity, one which can be very stimulative of local commercial and industrial development. The combination does argue for the

careful monitoring of civil service safety devices for technical staff, whether seconded from central agencies or hired locally.

A third issue relates to the risk outlined in the social soundness assessment, dealing with potential social welfare overloads. The draft code in listing responsibilities of LGUs outlines a fairly heavy social-welfare portfolio. These include elementary schools (construction, maintenance, and repair), health centers, nutrition and social welfare services, population program, "ecological balance", public information, a jail and rehabilitation system, a labor exchange Of course, there are many infrastructure items and services detailed as well, including. sanitation, sewerage, drainage, potable water supply; "ensuring the delivery of electric power", construction and maintenance of roads and bridges; a market and slaughterhouse; and approval of the establishment and operation of sub-division, which implies survey.

The point is that this functional load is probably well in excess of any realistic near-term resource capability, even given increased local collections and allotments, and even significant central transfers While it is not reasonable to suggest limiting local governments' jurisdictions on the social welfare front, it might be appropriate to think in terms of further phasing of the devolution, in order to transfer the "hard" infrastructure functions first and make sure the resources were sufficient to handle them adequately, while putting the social welfare functions (which at any rate have "national standards" implications that will undoubtedly be used by their central agencies anyway to try to dilute or stall the devolution) into a second tranche of concerns for the Executive in terms of follow-through on the devolution

II. Local Fiscal Administration

1. Provisions

The code treats in great detail the revenue base for local government operation, and makes some major changes in the autonomy of LGUs over this revenue base. House and Senate Bills differ significantly on one or two provisions The revenue sources treated can be categorized as. business license taxes, real property taxes; fees and charges (for services); residence tax; national allotments; and credit finance. The House Bill gives each LGU the power to create its own sources of revenue subject only to the provisions of the Code relating to these categories, and specifically denies any other agency the right to "review" such revenue plans except for higher level sangguniang (for HUCs there are no higher level sangguniang) and/or the citizenry by referendum or initiative (or presumably the courts, in assessing conformity with the Code itself). There is an extensive set of definitions of terms (pp 75-94), and an indication of taxes prohibited to the LGUs, which include income tax, taxes on motor vehicles (except motorized tricycles), customs and wharfage (except taxes on wharves constructed and maintained by

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the LGU, and conforming to the Customs Code), export taxes, surtax on VAT, taxes on "pioneer" and other businesses enjoying incentive protection schemes, and a few others.

2. Business license taxes

A whole host of business license taxes are then laid out, in the House version, with base minimun amounts established; only in a very few cases are maximums/ceilings also established, i.e., motorized tricycles. Generally, the minima are set quite low; presumably this is so that no authority will forego the tax altogether, fearing that it is too high and might serve to inhibit business. It remains to be seen whether LGUs will set their own rates higher than these minima, or whether business elites will prove strong enough to force them to treat them as maxima This will be an area the Project can study if and when the code is enacted in this form Examples of the minima set: peddlars, not less than 50 pesos; peddlars from vans, not less than 100p or 150p, depending on the type of merchandise, pawnbrokers, not less than P6,000 (that was the highest one that caught the reviewer's eye on a rapid reading).

There are provisions for branch sales offices of businesses with factories; for individuals/premises with multiple businesses; for different categories of retailer and wholesaler, by commodity. There are provisions for the disposition of the receipts, in the case of cities to be: 80% into the General Fund, 20% to the barangays, with the latter receiving the share 50% by their contribution (ie , source of the collections) and 50% according to need The latter provision occurs throughout the code and is one fairly strong piece of evidence of the commitment to compensatory financing to target the urban poor.

The Senate version in its summary form makes reference to maximum ceilings as well as minima. Whether these are as detailed as the House version, or are categorical, and what level the ceilings are set at is not indicated in the summary.

3. Enterprises

Public enterprises are both allowed and encouraged. This includes the market and slaughterhouse infrastructure that have been a traditionally important source of revenue for LGUs They include also public utilities, but it is made clear that utilities can be provided by private companies; it is simply the responsibility or the LGU to ensure that they get provided. Generally, the principle is the same here: minima are set rather than maxima, although some hedging is done Thus, no maximum levels of profit for enterprises or public utilities are set, but at some other point in the code it is indicated that profits from power companies are to be applied to subsidizing consumption (lowering consumers bills) rather than supporting other services. Other fees and service charges are indicated more sketchily -- road tolls may be charged

at "reasonable" rates, minima are set for parking tolls in HUCs, fees for tuition may be charged on higher education (but not elementary or secondary).

The House version of the bill indicates further that other fees can be imposed (i.e., other than the ones detailed) with "similar" tax base and subject as those specified, and be levied at the similar rate; or if there is nothing similar, at a "just" rate.

4. Residence tax

A residence tax is instituted, on both individuals and businesses, based on wage income/assets on a sliding scale, with a minimum at p100 for individuals, and p500 for corporations, up to a maximum of p10,000 (This appears to be something of an attempt to institute an income tax-equivalent and probably is expected to yield enormous revenues, the hitch being that the sanction is no city services to those who need them -- e g., birth certificates, etc. -- without proof of payment. This tends to target individuals who are already paying business license taxes, fees, etc , so it doesn't achieve the coverage intended and "double taxes" the same people, in effect.)

5. Property taxes

Real property taxes have been an important source of revenue for local governments historically, although the low collection efficiency leaves room for improvement even within the current code. The House version of the new code indicates that real property taxes, like business license taxes, and fees and charges for services/enterprises, can be taxed and sets minima for the rate structure (albeit, it sets maxima for the assessed valuations). The Senate version again is quite different, setting the traditional minima and maxima, as well as maximum assessments against market value.

HB 310246 sets out the principles for real property taxation on p. 140: appraisal is to be at current and fair market value, is to be uniform in each LGU; assessment is to be based on actual (rather than potential) use; assessments are to be on a uniform standard of value in each LGU; and the goal is the equitable distribution of the tax burden.

Assessment level maxima are set out (p. 150?) for land, buildings, and machineries, of six different types. The code then indicates that taxes can be levied and sets minima; for cities, it is no less than 2%. In the Senate bill, some different assessment maxima are set, and the standard 1-2% cap for cities is set. In both bills there is then a further 1% tax on real property for the Special Education Fund; a 5% tax on idle lands; and an indication that special assessments can be levied for improvements.

6. Allotments

Title III of Book II of the HB lays out shares of LGUs in the proceeds of national taxes. NIRA is mandated at 25% of the IRA collections, second fiscal year preceding the current one being the operative one for calculation, and then distributed according to a slightly revised formula 20% provinces, 25% cities, 40% municipalities, 15% barangays (with the specific share to each LGU within a category calculated on the basis of a 60-20-20 sharing formula, population-land-equal share). Allotments are tied to development expenditure as follows. "Each local government unit shall appropriate in its annual general fund budget no less than 20% of its annual general and specific tax allotment for development projects" -- no change from present

Further, 40% of collections from mining taxes, forestry charges, fishery charges, francise taxes, etc. are go to the LGU with territorial jurisdiction over the resource being exploited These revenues are tied to local development and livelihood projects

The Senate Bill lays out a different plan. Instead of a 25% of IRA to LGUs, divided 25% to cities (etc) and by the further population/land/equity shares within it, the collection process for national income tax retains 30% of the collections for the cities (might be a slightly different figure for other LGUs). They never part with it, forwarding only 70% to national government, and thus have a slightly better ability to predict receipts, at least in theory. (This also decreases the degree of compensatory finance in these transfers).

7. Credit Finance

Title IV of the HB deals with credit finance, what it may be used for, role of DOF, COA, Central Bank, etc. While the finance mechanism is thus continued as a vehicle, the level of supervision and the tight control over all stages of it -- although these are not made completely explicit in the legislation -- suggest that there is no real change here from previous practice.

8. Implications

These sources of finance indicate a real effort to free up local governments in some respects. Much will depend on the version adopted in the final legislation. The HB tax minima are a much more encouraging sign than the Senate Bill's ceilings, which are very little different from current practice (of course, it can always be argued -- and has been by many -- that most LGUs are not making use of the sources they have, so the "freeing up" is not the real issue -- motivation to collect is the issue) On the other hand the Senate Bill's provision to allow LGUs to retain a portion of income tax collections has some merit, although the implications with respect to equity and to the retention of central "leverage" through judicious use of the IRA

transfer need to be thought about carefully. DSUD's policy dialogue contains items relating to such leverage use of IRA transfers, as well as to the autonomy of LGUs to set tax rates at levels they themselves see as most consonant with sustained service provision and revenue collection. The tying of the IRA allotment to development spending at a 20% level is not nearly as severe as the suggestion in the DSUD draft policy dialogue tying IRA transfers to infrastructure expenditure (especially given the extremely broad bands around the term "development" expenditure traditionally observed)

The lack of teeth in the credit finance section (or rather, the fairly clear pointing to teeth that will punish if the LGUs get it wrong) indicates that something more than mere "permission" is needed to get the LGUs to think more creatively about credit finance DSUD addresses this in the policy dialogue. Indeed, in some senses even the liberalisation implied in the House Bill does not indicate that the taxes identified will actually be imposed, or efficiently collected the motivational framework and competence are at least as important as the enabling legislation DSUD addresses these more directly in its technical assistance component

A central concern to the design team has been the need to increase local tax impositions and collections Major increases in national allotments of IRA -- whether transfers from the center or retention of local income tax collections -- could work against the improved effectiveness and efficiency of local taxes. The House Bill is seen by recent Congressional proponents as doubling or tripling revenue to LGUs from the center (this may be a substantial overestimate, but data available did not permit verification of the figures cited by Congress) In the face of powerful local business elites opposing business license tax increases or property tax rates above 1%, this central revenue source could become substitutive

Consequently, DSUD's policy agenda contains items directed at tying IRA allotments to infrastructure expenditure and decreasing it if local effort is inadequate or is clearly not being used for some infrastructural improvements This is a key issue, in that the technical assistance component of the Project (which will deal with local tax imposition and collection efficiency) could be undermined by national policy on transfers to local governments. Policy dialogue needs to pursue the issue of incentives to local effort and avoidance of substitution of national transfers for local effort.

III. Local Fiscal Management

1. Provisions

The section on local fiscal management is dealt with in Titles V and VI of Book II of the draft House bill, and treats budgeting and property supply and management. The section on budgeting indicates that budgets will be prepared and submitted according to a standard schedule (calendar/fiscal year); that

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the sangguniang must approve the budget before taking up any other business; that the sangguniang may not increase the CEO's budget (?); and that supplemental budgets can be enacted on a quarterly basis.

It further mandates a 2% contingency reserve, a 55% salary cap (although the salary cap does not apply to the LGUs enterprise activities, or to national agency supplied staff salaries), and a provision for barangay budgets which sounds quite complicated and management-intensive, and potentially could fragment the budgeting efforts of cities, an issue that technical assistance might need to address early in the Project

Property and supply management procedures spell out in some detail the expenditure regulations and procedures, including tendering procedures, the checking of expenditure authorisation against appropriations and balances, and the like These may be of some interest as and if they are determined to be internal constraints on the speed of implementation of approved projects, expenditure control regulations in many bureaucracies are confused, time-consuming, and ineffective No data was gathered by the design team to assess this issue, but technical assistance efforts will no doubt uncover the degree to which there are real constraints that need to be addressed through systems design activities which could streamline these procedures without requiring any actual amendments to the code

2. Implications

In general, the budgetary provisions of the code are far less detailed and specific than the revenue provisions, and indicate a fairly weak basis (albeit with consequently fairly great room for maneuver and flexibility) for the budgeting system. The Project includes systems design activities under the general rubric of "performance budgeting", i.e., the elaboration of "cost-point" or "cost-center" methods of accounting to determine the efficiency of service provision, and to allow comparison with other jurisdictions -- or different activities within the same jurisdiction -- which can assist in setting targets for improvement, identifying activities for potential privatization, etc. There is nothing in the draft code which would inhibit this, although there are a fairly standard set of regulations relating to cross-checks to determine the propriety of expenditure authorizations.

IV. LGU Composition and Procedures

1. Provisions

There are a few points in the section on composition and procedures (Book III) of note. First, the barangays are given fairly heavy responsibilities in theory for the types of infrastructural planning and maintenance in low income areas of most relevance to the Project. (P. 248, House draft). On the other hand, it is not clear that the barangays have the resources to manage these

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activities (I am not clear on the present resources barangays control, either human or material). Second, it seems that there is room for conflict between barangays and sangguniang panlungsod over these functions, both with respect to planning and the actual allocation of resources/implementation of facilities or maintenance.

The code also indicates that sangguniang may have "special interest representation" for five or six categories of groups -- labor, farmers, women, poor people/NGOs -- whenever it is felt that their number in the population warrants it (given the slight majority status of women in all urban areas, it will be interesting to see whether they are routinely appointed or whether this representation is perceived as needed at all).

There is a major section on the composition, function, and office holding provisions for a youth council, which is clearly an important social segment.

Finally, cities will have to be 100,000 people, HUCs will have to be at least 150,000. As one or two cities currently recognized as "highly urbanized" are considerably below this population figure, they will under the new code revert to component city status (unless, of course, they revise their boundaries to incorporate vast rural areas, as do cities in other countries for various revenue-related purposes).

2. Implications

DSUD could incorporate in the policy dialogue the need to create more "highly urbanized cities" if it proves to be the case that the lack of a provincial regulatory apparatus facilitates planning and implementation of infrastructure projects The code would not restrain them in any way, and the population and income level set seems reasonable (the problem seems to have been in fact that both limits are on the low side, and the actual follow through on creation of HUCs seems politicized). With respect to representation for special interests, appointment of women is at first blush an attractive item to encourage given AID's concern with integrating women firmly into the institutions of decision- making with respect to development On the other hand, if there are no well-articulated goals and program targets for women it might not serve much function, the effort might be more productively directed to establishing a baseline both of data and of intervention strategies in the fields of health and livelihood identified in the social soundness assessment as the critical ones for urban Filipinas.

V. Sanctions

1. Provisions

The section on sanctions is by far the smallest, dealing with both sanctions for malfeasance and miscellaneous other issues in the space of a few pages.

For most offenses the sanctions are fine which are fairly laughable. Conflict of interest provisions, which are scattered in several places in the code, generally relate to non-participation in establishments doing business with the LGU, and not appointing relatives (generally prohibited within the fourth degree of consangunity or affinity, which is fairly drastic). For these more serious offenses of conflict of interest the code mandates fines as well as prison terms "not exceeding two years".

The one set of sanctions of special interest to DSUD relates to non-payment of property taxes. Property taxes left unpaid for a period of one year (earning interest on the unpaid balance at 2% per month) then permit the city to sell the property for taxes at auction. The owner then has a further year to redeem the property, even after its sale for delinquent taxes, and has the right of use of the property during the whole of that period. There are penalties for individuals attempting to "interfere" with the sale at auction of such properties.

2. Implications

It is not clear that the sanctions provided either differ from the present set, or wil be effective. Small fines are not particularly a deterent in a rent-seeking society, as this one is reputed to be, and stiff prison terms are also generally not ever imposed and so have no effect whatever (this may not be the case here; someone more familiar with the local situation should assess this). With respect to delinquent property taxes, it is not clear whether the city is required to institute tax condemnation proceedings, nor what happens if (as is reputed to be the case) individuals refuse to buy tax condemned properties, leaving the city with a large unproductive asset base and tying up its capital. This should be a major issue in the technical assistance provided under DSUD, since property tax collection rates are of central concern.

ANNEX 9

DATA TABLES

ANNEX 9

BACKGROUND TABLES

Table 1: Summary Data

	1984	1985	1986	1987	1988	
Real GDP Growth (%)	(6.0)	(4.3)	(1.4)	4.7	6.4	
Inflation (%)	50.4	23.1	0.7	3.8	8.8	
Population (mn)	53.4	54.7	56.0	57.4	58.7	
Poverty (%)	-	59.0	-	-	49.5	
Median Income (P)	-	20,480	-	-	23,177	(1985 Prices)

SOURCE: NEDA; Central Bank of the Philippines; Philippine Statistical Yearbook, 1989; Family Income and Expenditure Survey, 1988

ROXAS	96,901	1.75
SURIGAO	94,254	4.50
GINGOOG	93,733	1.92
OZAMIS	90,877	1.82
LAOAG	78,516	1.21
DIPOLOG	75,852	2.98
PUERTO PRINCES	75,535	4.57
DUMAGUETE	74,067	1.92
IRIGA	72,527	(1.54)
SAN JOSE	72,171	(0.9)
DAPITAN	64,197	3.70
DANAO	63,996	1.72
MARAWI	60,566	(0.36)
BAIS	57,586	2.03
LA CARLOTA	55,699	1.91
OROQUIETA	55,261	1.87
TAGBILARAN	48,598	2.65
TANGUB	44,668	2.55
CANLAON	33,622	1.89
TAGAYTAY	21,340	3.75
PALAYAN	19,489	6.29
TRECE MARTIRES	10,874	4.05
TOTAL	12,[illegible]25,274	

Highly Urbanized Cities: *
National Capital Region: #

SOURCE: NEDA Statistical Yearkbook 1987

Table 3: City Size by Island Group

CITY SIZE	LUZON	VISAYAS	MINDANAO	TOTAL
> 1,000,000	2	-	-	2
500,000 - 999,000	-	-	1	1
250,000 - 499,000	2	2	1	5
100,000 - 249,999	9	8	4	21
50,000 - 99,000	8	7	8	23
< 50,000	3	3	2	8

SOURCE: NEDA

200k

Table 2: Philippine Cities

CITY	1987 POPULATION	1970-80 Annual Growth Rate (%)
MANILA #	1,813,064	2.03
QUEZON #	1,462,327	4.30
DAVAO *	771,777	4.42
CEBU *	585,357	3.45
CALOOCAN #	572,763	5.35
ZAMBOANGA *	413,445	5.42
PASAY #	348,923	3.35
BACOLOD *	313,862	3.37
CAGAYAN de ORO *	306,977	5.73
ILOILO *	278,205	1.54
ANGELES *	226,982	3.36
ILIGAN *	211,711	4.74
BUTUAN *	207,831	2.72
OLONGAPO *	188,203	3.68
GEN SANTOS *	184,174	5.50
BATANGAS	169,065	2.78
CABANATUAN	163,244	3.22
SAN PABLO	156,214	2.29
MANDAUE	154,436	6.32

Table 2 (Continued)

BAGUIO	146,198	3.36
LIPA	142,161	2.52
CADIZ	141,898	0.4
LUCENA	133,623	3.38
SILAY	130,426	4.75
BAGO	123,683	3.29
ORMOC	119,248	2.11
LAPU-LAPU	117,752	3.61
LEGASPI	116,888	1.74
TACLOBAN	116,460	2.81
SAN CARLOS (P)	113,954	1.84
CALBAYOG	111,862	1.30
DAGUPAN	110,691	1.54
NAGA	107,798	1.29
TOLEDO	107,133	3.02
CAVITE	100,247	1.47
PAGADIAN	99,422	3.51
SAN CARLOS	99,187	0.22
COTABATO	97,754	3.20

Table 4: Requirements for Philippine Cities

UNIT	POPULATION	ANNUAL INCOME	PROCEDURE
Municipality	10,000	P200,000	Act of Congress, plebiscite
Component	100,000	10 million	Same
Highly Urbanized	150,000	30 million	Same declaration by Dept. Local Gov.

SOURCE: Local Government Code

Table 5: Projected Housing Demand--1990-1992

	1988	1989	1990	1991	1992	Total
	(thousands of units)					
Philippines	545	558	570	580	590	3,205
Rural Areas	290	294	297	299	303	1,483
Urban Areas	255	264	273	281	289	1,362
NCR	93	96	98	98	100	485
Other	162	168	175	183	189	877
For Urban						
Growth	160	169	178	186	194	887
Replacement	87	87	87	87	87	435
Doubled-Up	3	3	3	3	3	25
Substandard	3	5	5	5	5	25

SOURCE: HUDCC

Table 6: Shelter Conditions--1987

CONDITION	TOTAL	RURAL	URBAN	NCR
	(% families without)			
Title to lot	50.7	43.9	60.4	73.3
Own house	20.7	10.3	35.6	57.6
Electricity	62.6	71.3	28.7	7.1
Potable Water	37.7	49.6	50.4	2.6
Sanitary Facilities	38.5	44.1	55.9	14.0

Table 7: Regional Incidence of Poverty--1988

REGION	POVERTY THRESHOLD a/	POVERTY INCIDENCE b/
PHILIPPINES	2,709	49.5
NCR	4,037	31.8
Ilocos Region	2,597	47.5
Cagayan Valley	2,576	48.9
Central Luzon	2,881	39.6
Southern Tagalog	2,832	49.5
Bicol Region	2,443	65 3
Western Visayas	2,654	61.8
Central Visayas	2,173	54.6
Eastern Visayas	2,263	60.5
Western Mindanao	2,289	52.0
Northern Mindanao	2,439	51.5
Southern Mindanao	2,763	52.2
Central Mindanao	2,468	47.1

a/ Pesos per month for family of 6
b/ Percent families below threshold

SOURCE: Family Income and Expenditure Survey--1988

ANNEX 10

SCOPES OF WORK FOR RESIDENT HIRES

Annex 10

DSUD PERSONAL SERVICES CONTRACTOR SCOPE OF WORK

Background

USAID is seeking an experienced project manager to serve as Mission Urban Advisor, managing a $50 million Housing Guaranty loan-funded Decentralized Shelter and Urban Development project and associated $5 million grant project.

This project, approved in September, ,90, has as its purposes (1) to foster a greater role for elected city governments, non-government organizations, and the private sector in the development of shelter-related infrastructure and services, especially in urban slum areas, and (2) to increase the access of low income urban Filipinos to basic infrastructure, facilities, and services needed for more healthy and productive lives.

The project includes a U.S government-guaranteed dollar loan disbursed on the basis of agreed upon GOP policy actions; a local currency program of expenditures on urban shelter and infrastructure programs benefiting below median income households, and grant-funded technical assistance and training in support of decentralization of shelter and urban services. The expected life of the project is three years

Statement of Work

As Mission Urban Advisor, the Contractor will undertake the following responsibilities:

1. As appropriate, work with select GOP policy-makers to provide advisory services on national urbanization and decentralization policy issues;

2. Become familiar with USAID regulations and procedures pertaining to project implementation and Housing Guaranty program administration;

3. Monitor and document GOP progress on agreed upon policy actions. Identify any problems in implementing actions and propose solutions;

4. Track GOP expenditures under approved investment plan to establish attribution of local currency equivalent of dollar loan disbursements; obtain and review GOP quarterly reports and identify any shortfalls or problems in invesiment plan implementation Recommend actions to address problems;

5. Assist as directed in coordination of any dollar borrowing(s) under the Housing Guaranty· provide USAID and RHUDO with required field inspection reports to verify expenditures under no (3) above, assemble and review

documentation submitted in fulfillment of conditions precedent, recommend approvals or identify additional materials needed, draft correspondence approving submissions, assist as needed in lender selection process in coordination with RHUDO and PRE/H,

6. Establish working relationships with GOP implementing agencies, local government agencies, private sector actors, and NGOs involved or potentially involved in project related activities and keep USAID and RHUDO fully informed via oral reports or memoranda of conversation as appropriate;

7. Identify needs for technical assistance and training, prepare scopes of work and budgets, monitor contractor performance, and coordinate USAID, RHUDO, and GOP and other appropriate reviews of products;

8. Assist as directed in any workshops, conferences, or in-country training activities related to the project; and

9. Perform any other assignments associated with the Program.

Qualifications

The Mission Urban Advisor should have a Master's degree in one of the following fields· urban planning, government/political science, public administration, architecture, economics, sociology, or law. S/he should have five years of professional experience. Excellent written and spoken English is required

Reporting

The Urban Advisor will submit quarterly reports to USAID, with a copy furnished to RHUDO, covering his/her activities under the above tasks.

Relationships

The Mission Urban Advisor will report to USAID's Office of Rural and Agricultural Development. In addition, the Urban Advisor will maintain contacts with RHUDO/Asia for Housing Guaranty policy guidance.

Scope of Work

FN/PSC Assistant Mission Urban Arvisor

Background

USAID/Manila is seeking the services of a Foreign National professional under a Personal Services Contract to provide technical and analytical expertise in support of its Decentralized Shelter and Urban Development Project, a multi-year, $50 million loan-funded program and accompanying $5 million grant project The loan program consists of two main elements· dollar disbursement based on GOP performance under a mutually-agreed upon Policy Action Plan, which focuses on decentralization of authorities and responsibilities to Chartered Cities, and attribution of the local currency equivalent to an agreed upon Investment Plan, whose expenditures must improve the shelter conditions of urban low income households.

Statement of Work

The Assistant Mission Urban Advisor will undertake the following:

1. Become familiar with policies and procedures related to A I.D's Housing Guaranty program and with USAID project implementation procedures and practices;

2. Collect and analyze data required for monitoring GOP expenditures under the Investment Plan and assist in spot inspections of eligible projects;

3. As directed, serve as technical resource for short-term technical assistance and training consultants, both local and expatriate;

4. Provide input to policy analyses related to Policy Action Plan;

5. Assist in maintaining day-to-day contact with implementing agencies, including private sector organizations and NGOs;

Qualifications

The Assistant Mission Urban Advisor should have an advanced degree in one of the following or related fields: public adminstration, political science, sociology, architecture, urban planning, law, economics.

A minimum of three years professional experience and excellent written and spoken English is required.

Reporting

The Assistant Mission Urban Advisor will submit technical reports as directed, as well as draft correspondance, memoranda of conversation, etc., as appropriate.

Relationships

The Assistant Mission Urban Advisor will work in USAID's Office of Rural and Agricultural Development under the day-to-day supervision of the Mission Urban Advisor. From time to time, s/he may receive technical guidance from staff of the Regional Housing and Urban Development Office.

ANNEX 11

PID APPROVAL CABLE

/2 D UNCLASSIFIED STATE 219501/01

PRM

CTION: AID-6 INFO: AMB DCM AA ECON/10

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R RUEHML
E RUEHC #9501/01 1870325 06-JUL-90 TOR: 08:23
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M SECSTATE WASHDC
O AMEMBASSY MANILA 1030
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NCLAS SECTION 01 OF 02 STATE 219501

IDAC

.O. 12356: N/A
AGS:
UBJECT: DECENTRALIZED SHELTER AND URBAN DEVELOPMENT
DSUD) PROJECT (492-0388), APPROVAL OF PROJECT
DENTIFICATION DOCUMENT (PID)

DIV	ACT	INFO
OD	✓	✓
PE	✓	
OLA		
PESO		
CSO		
DRM		✓
EXO		
NEXO		
PROG		
PER		
C&R		
DMD		
CMD		
GSO		
TRV		
OFM		
OCP		
OHMD		
OPHN		
OFFPVC		
RIG/A		
RIG/I		
DUE DATE		

. SUMMARY. AA/ANE HEREBY APPROVES THE PROJECT
DENTIFICATION DOCUMENT (PID) AND DELEGATES TO THE
ISSION DIRECTOR AUTHORITY TO APPROVE THE PROJECT PAPER
PP) SUBJECT TO THE GUIDANCE PROVIDED IN THIS CABLE.
UE TO THE NEED FOR FURTHER CLARIFICATION OF THE ISSUES
UTLINED BELOW, THE FOLLOWING SHOULD BE SUBMITTED FOR
ID/W REVIEW PRIOR TO PP AUTHORIZATION: AN ASSESSMENT OF
HE HOUSING GUARANTY (HG) LOAN'S FIT WITH THE PHILIPPINE
EBT REPAYMENT STRATEGY; ANALYSIS OF THE PROJECT'S
CONOMIC AND SOCIAL BENEFITS, A DESCRIPTION OF HOW THE
ROJECT WILL FOSTER A GREATER ROLE FOR THE PRIVATE
ECTOR, AND DIFFERENCES AND AREAS OF OVERLAP BETWEEN
SUD AND THE LOCAL DEVELOPMENT ASSISTANCE PROGRAM
LDAP). END SUMMARY.

. THE PROJECT REVIEW COMMITTEE (PRC) MET MAY 4 TO
EVIEW THE PID WITH USAID REPRESENTATIVE DAVID PAINTER.
HE BUREAU COMMENDS THE MISSION FOR THE HIGH DEGREE OF

IT BETWEEN ITS PROPOSED DSUD PROJECT AND AND THE
UREAU'S OPEN SOCIETIES STRATEGY. THE PRC RAISED THE
OLLOWING ISSUES FOR MISSION REVIEW/ANALYSIS AND
UBMISSION TO AID/W PRIOR TO PP AUTHORIZATION.

. THE REVIEW COMMITTEE IS CONCERNED ABOUT THE
HILIPPINES' CAPACITY TO SERVICE ITS DEBT. GIVEN THE
OSSIBILITY OF THE GOP RESCHEDULING THE U.S. 50 MILLION
OLLAR HG LOAN, THE COMMITTEE RECOMMENDS THAT THE
ISSION ASSESS 1) HOW THE HG LOAN WILL ASSIST THE GOP IN
ULFILLING ITS DEBT REPAYMENT STRATEGY UNDER THE BRADY
LAN, 2) TO WHAT EXTENT THE HG LOAN EITHER WILL
MELIORATE OR WORSEN THE COUNTRY'S OVERALL DEBT BURDEN
OSITION, AND 3) THE NET IMPACT OF THE LOAN ON THE
XTERNAL DEBT SITUATION. IN PRESENTING THIS
NFORMATION, MISSION SHOULD CONSIDER GOP PERFORMANCE
AINST THE QUOTE 100 DAY ENDQUOTE TARGETS.

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THE PRC BELIEVES THAT THERE IS A POTENTIAL FOR NET ECONOMIC BENEFITS SINCE THE PROJECT IS AIMED AT HELPING LOCAL GOVERNMENTS MANAGE RESOURCES MORE EFFICIENTLY, REDUCE SUBSIDIES FOR THE PROVISION OF INFRASTRUCTURE, AND GENERATE ADDITIONAL LOCAL RESOURCES FOR INFRASTRUCTURE AND SERVICES. TO THE EXTENT POSSIBLE, THE MISSION SHOULD QUANTIFY EXPECTED ECONOMIC BENEFITS SUCH AS THOSE OUTLINED ABOVE, AND POSSIBLE NON-ECONOMIC BENEFITS WHICH ENCOURAGE AND SUPPORT THE BUREAU'S OPEN MARKETS/OPEN SOCIETIES STRATEGY.

5. THE PID IS FAIRLY STRAIGHT FORWARD IN ITS EFFORTS TO DECENTRALIZE AUTHORITY AND RESOURCES FROM THE CENTRAL GOVERNMENT TO LOCAL GOVERNMENT UNITS. IT IS LESS PRECISE ON HOW THE PROJECT WILL FOSTER A GREATER ROLE FOR THE PRIVATE SECTOR IN THE DEVELOPMENT OF SHELTER-RELATED INFRASTRUCTURE AND SERVICES. THE PROJECT AND ITS POLICY AGENDA SHOULD HELP ESTABLISH THE ENVIRONMENT FOR PRIVATE SECTOR GROWTH IN THIS AREA THROUGH POICY CHANGE, PRIVATIZATION, PRIVATE CAPITAL MOBILIZATION AND PRIVATE SECTOR SUPPLY OF SERVICES. THE MISSION SHOULD FORWARD TO THE BUREAU A BRIEF DESCRIPTION OF HOW THE PROJECT WILL EXPAND THE ROLE OF THE PRIVATE SECTOR AND THE PP SHOULD DISCUSS THIS CONCERN FULLY.

6. CONCERNS WHICH SHOULD BE ADDRESSED DURING PP DESIGN: DSUD IS COMPLEMENTARY TO MISSION'S DECENTRALIZATION OBJECTIVE AND TO THE LOCAL DEVELOPMENT ASSISTANCE PROGRAM IN TERMS OF PROMOTING THE DEVOLUTION OF CENTRALIZED URBAN ACTIVITIES TO THE LOCAL LEVEL. IN

LIGHT OF THE SIMILARITIES BETWEEN THE TWO ACTIVITIES, THE PRC RECOMMENDS THAT THE MISSION DEFINE MORE CLEARLY DIFFERENCES AND COMPLEMENTARITIES BETWEEN DSUD AND LDAP.

7. THE MISSION'S FOUR LEVEL POLICY ACTION PLAN AND CORRESPONDING BENCHMARKS ARE A CLEAR AND GENERALLY COMPREHENSIVE DESCRIPTION OF ITS STRATEGY TO DEVOLVE GOVERNMENTAL RESPONSIBILITIES AND AUTHORITY FOR URBAN DEVELOPMENT AND SERVICES TO THE SIXTY TARGET QUOTE CHARTERED CITIES ENDQUOTE. AS THE MISSION DEFINES FURTHER ITS LIST OF PROPOSED OBJECTIVES AND CONTEMPLATES ADDITIONAL OBJECTIVES, E.G., FOR THE PRIVATE SECTOR, IT SHOULD ASSESS WHETHER THERE IS A REASONABLE USAID EXPECTATION THAT THE LEGISLATIVE ACTION UPON WHICH ACCOMPLISHMENT OF THE POLICY OBJECTIVES IS PREDICATED INDEED WILL OCCUR.

8. MISSION STATES THAT IT WILL TRANCHE RELEASE OF THE U.S.50 MILLION DOLLARS IN HG LOANS ON ROUGHLY AN ANNUAL BASIS. THE FIRST TRANCHE WILL BE DISBURSED AFTER THE CONCLUSION OF THE HOUSING GUARANTY PROGRAM
BT

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MPLEMENTATION AGREEMENT IN FY 1991 AS INDICATED BY GOP
IGNING OF THE HOUSING GUARANTY AGREEMENT. THE BUREAU
ONCURS THAT SIGNING OF THIS AGREEMENT IS A FUNDAMENTAL
REREQUISITE TO SHELTER-BASED POLICY REFORM. HOWEVER,
ISSION SHOULD ENSURE THAT IT HAS GOP CONCURRENCE TO
ECENTRALIZE MANAGEMENT OF AND ACCOUNTABILITY FOR
HELTER-RELATED POLICIES BASED ON GOP PERFORMANCE IN
NDERTAKING REFORMS. BUREAU RECOMMENDS THAT MISSION
EVELOP A SET OF CRITERIA IN THE FORM OF A POLICY MATRIX
O DETERMINE RELEASE OF FUNDS, AND ESTABLISH A BASELINE
GAINST WHICH GOP POLICY REFORM PROGRESS CAN BE MEASURED.

. THE PID STATES THAT THE PROJECT WILL HAVE A DIRECT
MPACT ON WOMEN BECAUSE IT IMPROVES SHELTER CONDITIONS.
N ORDER TO MEASURE THIS IMPACT, GENDER DISAGGREGATED
ATA SHOULD BE INCLUDED IN THE LOGFRAME UNDER PROJECT
UPPOSE, OBJECTIVELY VERIFIABLE INDICATORS, AND AND
EANS OF VERIFICATION. THIS INFORMATION SHOULD REFLECT
ROJECT OBJECTIVES IN REACHING FEMALES UNDER THE HOUSING
UARANTY AND TRAINING PROGRAMS AS WELL AS IMPACT ON
EMALE-HEADED HOUSEHOLDS IN SLUM AREAS.

Ø. THIS PROJECT MEETS THE CRITERIA FOR A CATEGORICAL
XCLUSION UNDER 22 CFR 216.2(C)(1)(II) BECAUSE THE
ISSION DOES NOT HAVE KNOWLEDGE OF OR CONTROL OVER
ETAILS OF THE SPECIFIC ACTIVITIES THAT HAVE AN EFFECT
N THE ENVIRONMENT FOR WHICH FINANCING IS PROVIDED BY

ID. HOWEVER, AS A MATTER OF POLICY, ANE BELIEVES THIS
ROJECT HAS COMPONENTS THAT COULD HAVE A DIRECT IMPACT
N THE ENVIRONMENT AND THUS PART OF THE 3 MILLION
OLLARS OR TECHNICAL ASSISTANCE, TRAINING AND
ONITORING SHOULD BE USED TO SUPPORT ENVIRONMENTAL
LANNING, TRAINING AND ASSISTANCE ON ACTIVITIES
NCLUDING SEWAGE COLLECTION AND TREATMENT AND SOLID
ASTE COLLECTION AND PROPER DISPOSAL. FINANCIAL
ECHANISMS AND PRIVATE SECTOR SOLUTIONS (WASTE
OLLECTION SHOULD ALSO BE CONSIDERED). THE PP DESIGN
EAM SHOULD INCLUDE EXPERTISE TO ADDRESS THESE NEEDS.
AGLEBURGER
T
9501

NNN

ANNEX 12

STATUTORY CHECKLISTS

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

PROJECT NO. 492-HG-001

THE PHILIPPINES

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;	Yes. The project is intended to increase the availability of financing for shelter and shelter-related services for low income households.
(2) is intended to assist in marshalling resources for low-cost housing;	Yes. NGO participation will be actively engaged to attain this objective.
(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and,	Yes. The project is intended to have a major impact on shelter policies and programs at both the local and national level for low income households.
(4) is intended to have a long-run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low cost shelter programs and policies.	Yes. The project is expected to level to increased availability of domestic capital for low-income shelter and shelter-related programs.

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $1,718,000,000?	No.
Will the guaranty be issued prior to September 30, 1984?	No.

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:	
(1) projects providing improved home sites to poor families on which to build shelter and related services; or	Yes.
(2) projects comprised of expandable core shelter units on serviced sites; or	Yes.
(3) slum upgrading projects designed to conserve and improve existing shelter; or	Yes. The project is intended to generally support improved shelter conditions.
(4) shelter projects for low-income people designed for demonstration or institution building; or	Project will encourage the provision of affordable housing for low income household.
(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?	Yes. NGO and local institutions will participate to improve shelter-related sources to low income households.

Section 222(c)

If the project requires the use of conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?	Yes. However, solar energy technologies are not expected to be used in this project.

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?	Yes.

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?	Yes.

Section 223(j)

(1)	Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?	Yes.
(2)	Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?	Yes.
(3)	Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for housing suitable for families below the median urban income for housing in urban areas, in the host country?	Yes.
(4)	Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year?	No.
(5)	Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million?	No.

Section 238(c)

Will the guaranty agreement provide that will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?	Yes.

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

(a)	Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?	Yes.
(b)	Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?	No.

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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b). Has the President certified to the Congress that the government or the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

   Philippines is not a "major illicit-drug-producing country" or a "major drug transit country."

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are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to N/A

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Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No

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6.	FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?	No
7.	FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	No
8.	FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?	No
9.	FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	(a) No (b) N/A

10.	FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518 (Brooks Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?	(a) No (b) No
11.	FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo. "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	Yes, taken into account by the Administrator at the time of approval of Agency OYB.
12.	FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No
13.	FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)	The GOP is not delinquent with respe to its U.N. obligations within the meaning of the first sentence of Article . of the U.N. Charter.

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14. FAA-Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No

15. FY 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? No

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No

19.	FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No
20.	ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)	No
21.	FY 1990 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?	No
22.	FY 1990 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?	Yes

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? — No

b. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? — Philippines is not a major illicit-drug-producing country

Annex B

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	The CN was submitted in August 1990.
2. FAA Sec. 611(a). Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes.
3. FAA Sec 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N/A.

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4.	FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U S.C. 1962, et seq.)? (See A.I D. Handbook 3 for guidelines.)	N/A.
5.	FAA Sec 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A.
6.	FAA Sec 209 Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No.
7.	FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition, (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	a) N/A; b) Project will include mechanisms to encourage greater private sector investment in the country; c) N/A; d) N/A; e) N/A f) N/A.
8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U S. private enterprise).	8. Project will provide incentives for US private investment in form of financing under the Housing Guaranty program.

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9.	FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	GOP will provide a counte part contribution of of the total project cost
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U S producers of the same, similar or competing commodity?	No
12.	FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S.' exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No.
13.	FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other	a) No. b) No. c) No. d) No.

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A.

15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A.

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? All PVOs will be duly registered with USAID.

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A.

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	N/A.
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	The metric system is used by GOP for roads/ distances and material procurement. The use o such measures for roads and other infrastructur will not, however, preclude the involvement of U.S. firms or suppli
20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?	The project will have direct positive impacts on women through improv ment of infrastructure and sanitary conditions which will facilitate increased health and productivity.
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?	Local currencies will not be generated under the project or by the Housing Guaranty.

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Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?	N/A
Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?	N/A
If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?	N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can such activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?	N/A.
b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	N/A.
c. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The project promotes a decentralization concept for the furnishing of shelter and shelter-related services to low income Filipinos.

d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.
e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.	1) The project promotes the decentralization of political and economic authority to local government units, including cities and towns, for shelter and shelter-related services. 2) The project encourages democratic private and local governmental institutions to provide needed services. 3) In pursuing decentralization through policy reform, the Project contributes to "self-help development efforts" by involving all segments of society in determining local development needs. 4) The project will promote women's participation in the workforce through improved infrastructure and sanitary conditions which will facilitate increased health and productivity. 5) N/A
f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?	N/A
g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for	N/A

use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107 Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A.

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes. The GOP will provide at least $1.3 million in direct support of this project.

j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? Yes. The project has been designed so that the ultimate beneficiaries are the poor majority.

k. FAA Sec. 281(b) Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. The project promotes a decentralization concept which will allow for the more effective and efficient use of resources for shelter and shelter-related needs.

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No.

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Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No.
Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No.
Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	No.
In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	No.
Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No.
m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and	Although no specific set-asides are being requested during the implementation of the project, AID will encourage the participation to the maximum extent of such organizations in accordance with Federal Acquisition Regulations.

private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

Yes.

(1)-(11) N/A.

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condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests, and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

p. F A Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2)/take full account of the environmental impacts of the proposed activities on biological diversity? N/A.

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? 1) No. 2) No.

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock, (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the 1) No. 2) No. 3) No. 4) No.

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colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

s. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A.

t. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources? N/A.

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced N/A.

biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. <u>FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA"</u> (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take

N/A.

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into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A.

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

Yes. Funds are from deob/reob sources.

2. Development Assistance Project Criteria (Loans Only) — N/A.

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

a) Yes. Yes.
b) No.
c) N/A.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1.	FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	U.S. small businesses will be encouraged to participate in monitoring and evaluation activities.
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	Yes
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A.
4.	FAA Sec. 604(e). If non-U S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A.

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5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	N/A.
6.	FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	N/A.
7.	FAA Sec 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	1. Yes. 2. Yes
8.	International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
9.	FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes.

10.	FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	N/A.
11.	Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	1. N/A. 2. N/A.
12.	FAA Secs 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A.
13.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
14.	FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts; except where applicable procurement rules allow otherwise?	Yes.

B. CONSTRUCTION

1.	FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?	N/A.
2.	FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	N/A.
3.	FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress?	N/A.

C. OTHER RESTRICTIONS

1.	FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	N/A.
2.	FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A.
3.	FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes.

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — a.1) Yes. 2) Yes. 3) Yes. 4) Yes.

b FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — b. Yes.

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — c. Yes.

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — d. Yes.

e. FAA Sec. 662. For CIA activities? — e. Yes.

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — f. Yes.

g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? — g. Yes.

h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? — h. Yes.

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i. FY 1990 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? — i. Yes.

j. FY 1990 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? — j. Yes

k. FY 1990 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — k. Yes.

l. FY 1990 Appropriations Act Sec 516; State Authorization Sec 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — l. Yes.

5. FY 1990 Appropriations Act Sec. 574. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? — Yes

6. FY 1990 Appropriations Act Sec. 582. Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? — No.

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ANNEX 13

LETTER OF REQUEST

REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue Pasig, Metro Manila

Cable Address NEDAPHIL
P O. Box 419, Greenhills
Tels. 673 50-31 to 50

SEP. 25. 1990

Mr. Malcolm Butler
Mission Director
USAID Manila
Ramon Magsaysay Center
Roxas Boulevard, Manila

Dear Director Butler:

We wish to convey the request of the Government of the Philippines (GOP) for $50 million housing guaranty loan and $4.0 million grant assistance to finance the proposed Decentralized Shelter and Urban Development (DSUD) Project. The DSUD Project envisions to support the GOP's efforts on decentralization and improvement of shelter-related urban infrastructure and services for low-income Filipinos.

We have transmitted under separate cover our initial comments on the Project Identification Document (PID) submitted earlier by USAID for GOP review. We look forward to holding continuing dialogues on the details of the project design in the next few days with the end in view of concluding the Project Agreement for the technical assistance and training components by 30 September 1990. Likewise, we hope that both sides will arrive at a trim but substantive enough Policy Implementation Matrix within the next month so that we can proceed with further steps towards completion of arrangements for GOP's availment of the assistance.

In view of the importance of decentralization and shelter improvement to our efforts at achieving sustainable economic growth, we shall appreciate USAID's favorable consideration of this request for assistance.

Thank you for your continued support.

Very truly yours,

PONCIANO S. INTAL, JR.
Deputy Director-General
Officer-in-Charge

3.48

ANNEX 14

GRAY AMENDMENT CERTIFICATION

ANNEX 14

GRAY AMENDMENT CERTIFICATION

I, RICHARD A. JOHNSON, Acting Director of the U.S. Agency for International Development in the Philippines, having taken into account the potential involvement of small and/or economically and socially disadvantaged enterprises, do hereby certify that in my judgment the technical assistance required for financial monitoring, performance monitoring and evaluation services under this project can best be procured through full and open competition. However, the participation of Gray Amendment entities will be encouraged and special consideration will be given to proposals that utilize the resources of small and/or disadvantaged U.S. firms. My judgment is based on the recommendations of the Project and Mission Review Committees.

R. A. Johnson

RICHARD A. JOHNSON
Acting Director
USAID/Philippines

SEP 27 1990

Date

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ANNEX 15

APPROVAL CABLES

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UNCLASSIFIED STATE 294061

CTION: AID-6 INFO: AMB DCM AA ECON RA/11

ZCZCMB0598
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E RUEHC #4061 2430025
NR UUUUU ZZH
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M SECSTATE WASHDC
O RUEHML/AMEMBASSY MANILA PRIORITY 3273
JEHBK/AMEMBASSY BANGKOK PRIORITY 9178
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31-AUG-90 TOR: 00:26
CHRG: AID
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USAID/C&R

IDAC FOR PAUL DEUSTER AND DAVID PAINTER

.O. 12356: N/A
AGS:
JBJECT: APPROVAL OF FINAL DRAFTS OF THE AUTHORIZATION, ETTERS OF ADVICE, AND INFORMATION SHEET FOR THE HILIPPINES HOUSING GUARANTY (492-HG-001)

. THIS IS TO ADVISE USAID/PHILIPPINES AND RHUDO/ASIA HAT AAE/PD, GC/PRE, FM/LMD, AND PRE/H HAVE REVIEWED AND PPROVED THE FINAL DRAFTS OF THE PHILIPPINES HOUSING JARANTY (HG) AUTHORIZATION DOCUMENTS, WHICH INCLUDE THE ITHORIZATION GUARANTY, LETTERS OF ADVICE, AND IFORMATION SHEET.

AA/AAE DELEGATION TO THE USAID/PHILIPPINES MISSION RECTOR TO APPROVE THE PROJECT PAPER AND TO BSEQUENTLY AUTHORIZE THE US DOLS 50 MILLION HG LOAN F WHICH 25 MILLION MAY BE COMMITTED IN EACH FY 1990 D FY 1991) REMAINS SUBJECT TO AID/W APPROVAL OF THE UR ANALYSES REQUIRED BY THE DSUD PID CABLE (STATE 9501). THESE ANALYSES HAVE BEEN RECEIVED BY A.I.D. D ARE CURRENTLY UNDER REVIEW. BAKER

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NN

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DUE DATE		
9-5-90		

UNCLASSIFIED STATE 294061

ACTION TAKEN
NAN ✓ Other
Type No
Dated 8/31/90 Initials KD

dist. copies to Committee

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D UNCLASSIFIED STATE 305335

Fyi: DC Report
DRM
cc: GMI

ACTION: AID-6 INFO: AMB DCM AA ECON RA/11

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TO AMEMBASSY MANILA IMMEDIATE 3607
BT
UNCLAS STATE 305335

11-SEP-90 TOR: 00:54
CHRG: AID
DIST: AID

IMMEDIATE TELEGRAM
ACTION TAKEN
9-11-90 1:15 PM
DATE | HOURS | MIN

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: DECENTRALIZED SHELTER AND URBAN DEVELOPMENT (USUD) 492-0388 - APPROVED TO AUTHORIZE PROJECT

REF: (A) USAID/PHILIPPINES FAX OF 8/22/90, (B) STATE 319501

. ANE, PRE/H AND PPC HAVE REVIEWED THE FOUR ANALYSES UBMITTED VIA REF (A), WHICH RESPOND TO QUESTIONS RAISED URING THE AID/W REVIEW OF THE DSUD PID. AA/ANE HEREBY UTHORIZES THE MISSION DIRECTOR TO APPROVE THE PROJECT APER AND AUTHORIZE THE PROJECT.

. REGARDING THE ROLE OF THE PRIVATE SECTOR IN THIS CTIVITY, THE BUREAU SUGGESTS THE FOLLOWING: 1) THAT ARTICULAR ATTENTION BE GIVEN TO THE PROVISION OF ECHNICAL ASSISTANCE AND TRAINING CONCERNED WITH CAPITAI ARKETS, PRIVATIZATION, AND CONSTRAINTS ON LAND EVELOPMENT EXPLICITLY RELATED TO ACHIEVEMENT OF POLICY ENCHMARKS; AND 2) THAT ANNUAL EVALUATIONS ALSO GIVE ARTICULAR ATTENTION TO ASSESSING PROGRESS IN ACHIEVING ENCHMARKS RELATED TO FOSTERING GREATER PRIVATE SECTOR ARTICIPATION IN URBAN SERVICE DELIVERY. EAGLEBURGER
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OD		✓
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DRM		✓
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DUE DATE		

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ANNEX 16

INITIAL ENVIRONMENTAL EXAMINATION

Annex 16

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

A. Description of the Project

The project was designed to contribute to sustainable economic growth and development of democratic institutions in the Philippines by supporting the processes of decentralizing authority and resources for shelter and urban development affecting low-income Filipinos. This goal will be pursued through the active promotion of more open markets for shelter and related services, as well as by redelegating key governmental responsibilities to city governments. The purpose of the project is to foster a greater role for elected city governments, the private sector, and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase the access of low-income urban Filipinos to shelter and related services.

The total life-of-project cost for this four-year effort will be $55 333 million $50 million for a Housing Guaranty (HG) Loan, $4 million for the financing of technical assistance, training and performance monitoring, and; a host-country contribution of $1.333 million peso equivalent for local costs. A local currency amount equivalent to the total loan guaranty disbursement disbursement $50 million will be attributed to Government of the Philippines' expenditures on shelter-related services for low-income urban households. The foreign exchange made available to the Government under the Guaranty is unrestricted as to use.

Under the HG, the GOP can borrow up to $50 million from the U.S. capital market in three tranches under an AID guaranty. As a prerequisite for the AID loan guaranty, the GOP will agree to implement a set of negotiated policy actions. Project inputs will include a long-term Mission Urban Advisor who will manage the project, three performance monitoring reviews to confirm compliance with the Policy Matrix, a final impact evaluation, training and studies and a cooperative agreement with an umbrella NGO to provide direct support to local community organizations.

B Recommended Environmental Action

The project consists exclusively of technical assistance, training, studies and monitoring and an NGO grant to foster technical assistance and training in the area of shelter-related services at the local level. No construction or other activities which could have an adverse environmental impact will be undertaken All project activities are eligible and recommended for categorical exclusion pursuant to the provisions of 22 CFR 216.2 (c)(2)(i) and 22 CFR 216.2 (c)(2)(ix) which provide for a categorical exclusion in such situations.

INITIAL ENVIRONMENTAL EXAMINATION

A. COUNTRY: Republic of the Philippines

B. ACTIVITY: DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROJECT (492-0388 AND 492-HG-001)

C. TOTAL A.I.D. FUNDING: $4 million (ESF grant)

D. LIFE OF PROGRAM: September 1990 - September 30, 1994

E. STATEMENT PREPARED BY:

Cameron L. Pippitt
Office of Development Resources Management
USAID/Philippines

F. ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion

G USAID ENVIRONMENTAL OFFICER'S CONCURRENCE:

Kevin Rushing
Office of Rural and Agricultural Development
USAID/Philippines

H. USAID/PHILIPPINES DIRECTOR'S DECISION:

APPROVED: _____

DISAPPROVED: _____

DATE: SEP 27 1990

I. ANE ENVIRONMENTAL OFFICER'S DECISION:

APPROVED: _____

DISAPPROVED: _____

DATE: _____

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