

**Urban Development
Sector Review**

Final Report

Volume I

Philippines

July 1992

OFFICE OF

HOUSING AND URBAN

PROGRAMS

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



W O R K I N G P A P E R

This working paper represents a non-official publication of the Office of Housing and Urban Programs.
Working Papers are distributed unedited in order to ensure their timely availability.

7-21-92
PHASE 1

Urban Development Sector Review

Final Report

Volume I

Philippines

July 1992

Prepared by
PADCO, Inc

For the:

U.S. Agency for International Development
Regional Housing and Urban Development Office/Philippines

Contract No. 492-0388-C-00-2005-00
Decentralized Shelter and Urban development Project
(DSUD)

PADCO, Inc ■ 1012 N Street, NW ■
Washington, D.C. 20001

The views herein are those of the authors and do not necessarily reflect those of the Office of Housing or the U.S. Agency for International Development.

URBAN DEVELOPMENT SECTOR REVIEW

Final Report

Volume I

Summary

July 1992

**USAID/Philippines
Contract No. 492-0388-C-00-2005-00
Decentralized Shelter and Urban Development (DSUD) Project**

Prepared by

**Housing and Urban Development Coordinating Council
(HUDCC)
Planning and Development Collaborative International
(PADCO)**

URBAN DEVELOPMENT SECTOR REVIEW

TABLE OF CONTENTS

PREFACE

FOREWORD

1.0	INTRODUCTION	1
1.1	The Role of Urban Centers in National Economic Growth	4
1.2	Institutional Structures for Urban Development	5
1.3	Demographic Shifts in Philippine Urban Centers	8
2.0	URBAN DEVELOPMENT POLICIES AND PROGRAMS	13
2.1	Macroeconomic Policies and Programs	15
2.2	Effects of Macroeconomic Policies on Urban Economies	21
2.3	Urban-Related Policies at National and Local Levels	22
2.4	Key Findings of Policy Review	26
3.0	URBAN GROWTH AND ECONOMIC PRODUCTIVITY	29
3.1	Rapidly Urbanizing Cities and Municipalities	31
3.2	Factors Behind Urban Growth	33
3.3	Obstacles to Urban Economic Productivity	36
3.4	Urban Planning Systems	40
3.5	Urban Development Strategies	41
3.6	Urban Environmental Management	43
4.0	LOCAL GOVERNMENT AND URBAN DEVELOPMENT	47
4.1	Institutional Issues and Concerns	49
4.2	Urban Finance	50
4.3	Review of Local Government Capability	53
5.0	CONCLUSIONS AND RECOMMENDATIONS	59
	ACKNOWLEDGEMENT	74

PREFACE

The following report composed of two volumes was prepared by a consultant team under the direction of the Housing and Urban Development Coordinating Council (HUDCC) with advisory support of Planning and Development Collaborative International Inc, (PADCO) under USAID/Philippines Contract No. 492-0388-C-00-2005-00: Decentralized Shelter and Urban Development: Policy Analysis and Systems Development Studies. A supplementary volume of reference materials is with HUDCC.

This Study was completed through the assistance of the United States Agency for International Development (USAID). The views, expressions, and opinions contained in this report are the author(s)' and are not intended as statements of policy by either USAID or the author(s)' parent institution(s).

THE CONSULTANT TEAM

Senior Consultants

Gaudioso Sosmeña, Jr. - Team Leader
Joseph Alabanza - Policy Analyst
Leon Mayo - Urban Development Planner
Felipe Medalla - Economist

Advisors

Robert Merrill - Senior Advisor (PADCO)
Matthew Westfall - (PADCO)
Norman Ramos - (PADCO)

Research Associates

Santiago Ducay
Rolando De Joya
Avelino Buenafe
Remedios Endencia

Research Analysts

Jade Rose Pajaro
Lemuel Untalan

Support Staff

Genevieve Alsisto
Catherine Pepito

FOREWORD

The related challenges of urbanization, rural-urban migration and access to land have been evident through the years. While there have been attempts to examine these issues and develop the corresponding solutions, these efforts have been done on a piecemeal basis. Noticeably absent is an integrated urban development strategy that would serve to guide planners and policy makers in addressing the complex issues related to urban development.

The Urban Development Sector Review undertaken by the Housing and Urban Development Coordinating Council (HUDCC), is an integrative study which will serve as basis for subsequent formulation of necessary urban development policies and programs.

The study provides a clearer picture of the challenges of continuing urbanization of the country, critical areas of concern and identifies alternative strategies in carrying out relevant policies and programs.

The Housing and Urban Development Coordinating Council acknowledges the effort extended by Mr. Elpidio G. Damaso, Secretary General of HUDCC, in organizing the project team and sourcing funds for the study. We would also like to recognize the valuable insights and contributions of Mr. Nathaniel Von Einsiedel of the United Nations Center for Human Settlements (UNCHS) in the conceptualization of the study and the active support and guidance of Mr. Wilfredo G. Nuqui, Deputy Director General, National Economic and Development Authority (NEDA).

The HUDCC likewise gratefully acknowledges the financial assistance received from the United States Agency for International Development (USAID) under the Decentralized Shelter and Urban Development (DSUD) Project for this study.



TEODORO K. KATIGBAK
Chairman and Presidential Adviser on
Housing and Urban Development

SECTION 1.0
INTRODUCTION

SECTION 1.0

INTRODUCTION

Most of the attention on urban development in the Philippines has been focused on housing. There is the growing realization, however, that the housing problem cannot be adequately addressed without tackling the larger issues of urbanization, urban policy, and the interrelated aspects of land, infrastructure, finance and the environment.

At present, the Philippines operates without an urban development strategy to guide urbanization and support mutually reinforcing policies and programs at all levels of government. National economic development efforts are predominantly focused on rural development, which must be corrected to acknowledge the realities of rapid urbanization. This section provides the broad discussions on current urbanization issues and alternative recommendations are presented in Section 5.0.

The importance of urban growth and urbanization can no longer be ignored. 1990 Census figures indicate the Philippines is now 48.6% urban, significantly higher than the expected increase of 42.6%. More significantly, urban households in "other urban areas" outside the National Capital Region (NCR) increased by 90.67% over the last ten years -- an astounding figure (Figure 1-1). Urban areas grew at a rate 15 times faster than rural areas, and this trend shows no sign of weakening. By the year 2000, the urban population is expected to reach 36 million, well over 50 percent of the total population.

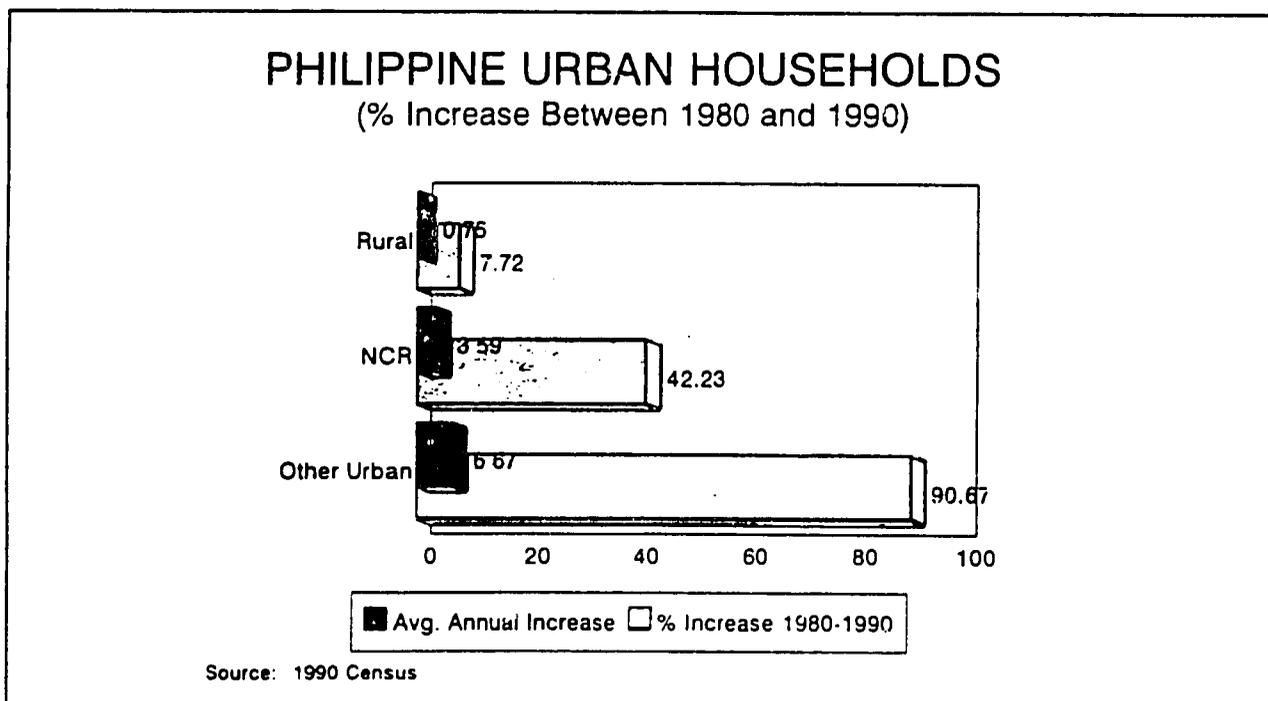


Figure 1-1 The urban population grew 5.08% annually on average between 1980-90.

1.1 THE ROLE OF URBAN CENTERS IN NATIONAL ECONOMIC GROWTH

Throughout the developing world, many nations are changing their view on the role of urbanization in the development process. Urban growth is now seen as a positive opportunity that supports national economic development objectives and not an undesirable outcome that should be avoided. This a major departure from earlier thinking that focused on rural development, particularly in the 1970s, which viewed cities as parasitical, resource-draining concentrations of people, often poor, that generated little productive return. Recent experience and analysis, however, demonstrate the limits of rural development strategies and the efficiency of cities as generators of economic growth.

Cities are expensive to build and maintain. Thus, it needs to be appreciated that while initial capital requirements may be greater in cities, the payoff to such investment can also be high. Urbanization brings health and social benefits that could only be achieved in rural areas at far greater costs. Residential infrastructure costs may be higher in cities, but households are also better serviced with piped water, solid waste collection, and electricity -- all of which imply better health and welfare. Additionally, economic returns to industrial and commercial investments also tend to be higher in cities than in small towns or rural regions. More productive jobs can be created in cities, due in part to the fact that workers have more complementary capital inputs to increase their productivity. In the Philippines in 1990, 77.2 percent of the country's GDP was generated from the industry and service sectors (**Figure 1-2**). Among the regions, the fully urbanized NCR contributed more than one-third of the country's GDP.

Economic efficiency of cities is based on the fact that urban growth follows the market. In a simple equilibrium model, cities will continue to expand to the highest point of economic efficiency. Cities with large productivity advantages, stemming from locational features or from the agglomeration of industries, will continue to expand to the largest population size and command the highest wages and land and housing prices. Less productive cities will grow to a smaller size, where wages, land prices, and worker productivity are lower. In a smooth functioning market, the occurrence of urban growth is a sign that the economy is favorably reacting to economic opportunities and advantages offered by cities.

Misguidance at national level, however, can create price distortions and subsidies which affect the way urban markets interact with the rest of the economy. Government planning and regulation, such as the National Physical Framework Plan (NPFP), also cause distortions as they are conducted outside the market system. Additionally, mortgage subsidies from national housing agencies that try to second guess the market with locational decisions inhibits productivity as they fail to acknowledge market realities in the urban housing sector.

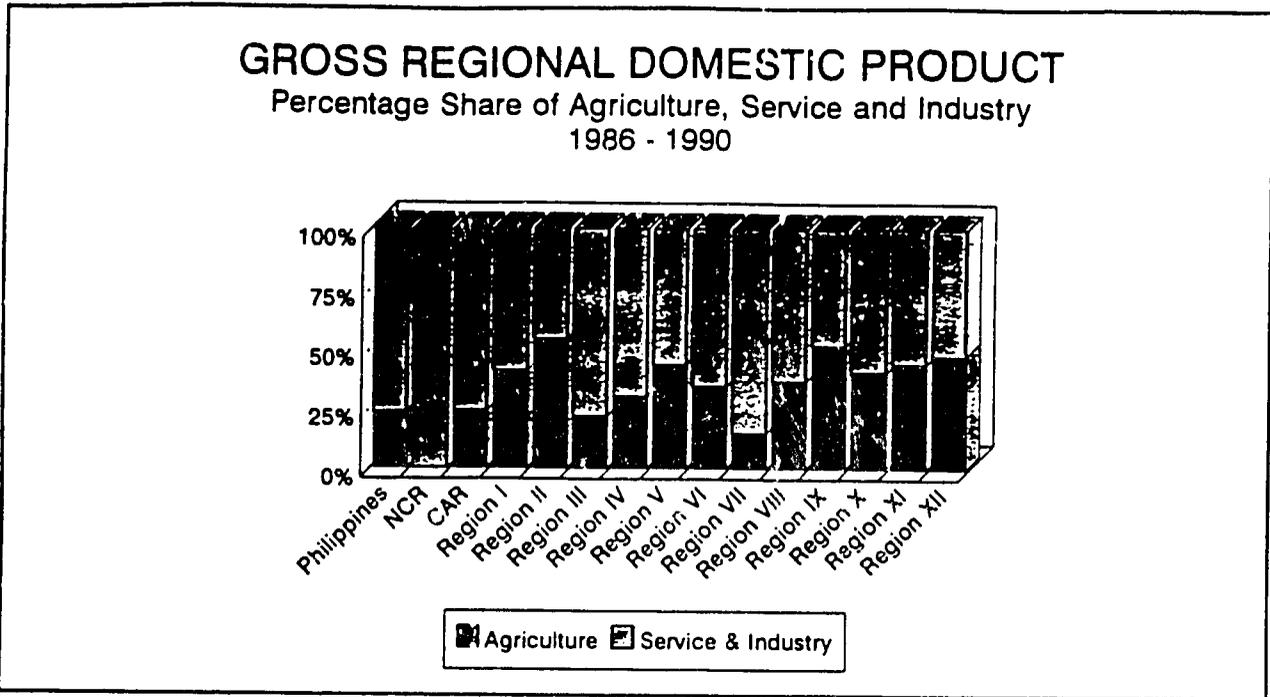


Figure 1-2 The Importance of Urban Areas in GDP in the Philippines

At the local level, both the national and local governments have numerous options for making local markets function more efficiently. Infrastructure can be provided at better quality and lower cost by developing sound and consistent policies and by promoting private sector initiatives. Local economic planning can help build a base for economic development that takes advantage of, or fills a specialized niche in, national markets. In all these examples, there are country-wide economic productivity payoffs to local policy which can be attained.

For the attainment of desired growth, it is clear that a new appreciation for the role of urban centers in national economic and physical development must be engendered in policy planners, decision-makers and development technicians in the Philippines.

1.2. INSTITUTIONAL STRUCTURES FOR URBAN DEVELOPMENT

Early planning bodies, namely the National Urban Planning Commission and the National Planning Commission created in the 1940s and 1950s, respectively, were heavily oriented towards physical planning. They were concerned primarily with the preparation of urban plans and model zoning ordinances for adoption by local government units.

The 1970s marked major milestones for planning in the Philippines. After the declaration of martial law in 1972, President Marcos introduced many organizational changes in government under the Integrated Reorganization Plan. The Plan created, among others,

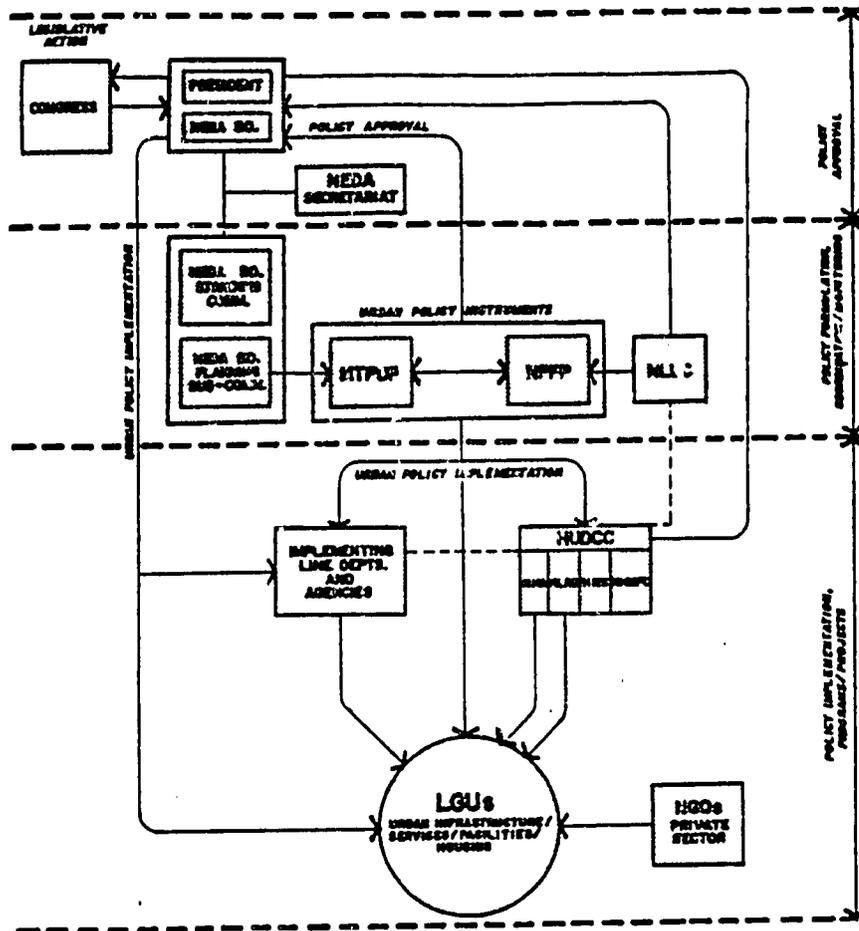
the National Economic and Development Authority (NEDA), a central agency charged with the preparation of national, regional and sectoral plans.

In 1978 the Ministry of Human Settlements (MHS) was created and became the most powerful institution in the country. MHS had both planning and implementation powers and had under its umbrella several agencies and corporations in the area of urban and shelter development. The MHS came out with the Philippine Multi-Year Development Plan for 1983-2000, which designated various growth centers throughout the country. Before the plan could be fully operationalized, however, the People's Power Revolution of 1986 swept the previous administration from office and MHS was abolished.

At present, there are two major institutions dealing with urban development: the Urban Development Coordinating Council (UDCC) and its implementing agency, the Urban Development and Housing Administration (UDHA), which replaced MHS, though with substantially diminished powers; and the National Land Use Committee (NLUC), an inter-agency committee headed by NEDA concerned with the preparation of the National Physical Framework Plan (NPFPP). This plan has four main components, namely: Production; Protection; Service; and Infrastructure Proposals.

Various line agencies, such as the Department of Public Works and Highways, implement urban-related programs and projects at the national level. LGUs, on the other hand, formulate local policies pertaining to urban development and are implementing local programs and projects.

Within the existing structure there is no distinct, major body which is responsible for urban development in the country. While various agencies have certain urban-related functions, these functions are either limited or applied within the context of specific policies rather than of urban development. **Figure 1-3** illustrates the existing structure for urban development. A realignment of functions and coordination across various agencies and between levels of government and the institutionalization of coordinating mechanisms is proposed in Section 5.



EXISTING INSTITUTIONAL STRUCTURE FOR URBAN DEVELOPMENT

LEGEND:

- MEDA - NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
- SITPLAN - MEDIUM TERM PHILIPPINE DEVELOPMENT PLAN
- NPPP - NATIONAL PHYSICAL FRAMEWORK PLAN
- NLA - NATIONAL LAND USE COMMITTEE
- HUDCC - HOUSING AND URBAN DEVELOPMENT COORDINATING COUNCIL
- NHA - NATIONAL HOUSING AUTHORITY
- NLRD - HOUSING AND LAND USE REGULATORY BOARD
- NRMPC - NATIONAL HOME MORTGAGE FINANCING CORP.
- HIGC - HOUSING INSURANCE GUARANTEE CORP.
- LGU - LOCAL GOVERNMENT UNIT

Figure 1-3 Existing Institutional Structure for Urban Development

1.3 DEMOGRAPHIC SHIFTS IN PHILIPPINE URBAN CENTERS

Distributional shifts among individual cities can be analyzed by comparing the actual demographic changes overall in the country with "what should have been" had each city grown at the same rate. As noted in **Table 1-1**, the results indicate that between 1980 and 1990, rural areas lost about 6.85 million people (11% of the total 1990 population and 55% of the total population increase during the decade) to urban areas. In terms of households, rural areas lost 1.34 million households (12% of total 1990 households and 48% of the total increase in households) to urban areas during the same period. All in all, the figures point to heavy rural to urban migration.

Relative to the whole urban sector, the NCR lost 1.81 million (0.35 million households) to other urban areas between 1980 and 1990. Based on the figures, it appears that the government policy to set up alternative growth centers is slowly working though this observation needs to be supported by further studies.

Table 1-1

URBAN-RURAL DISTRIBUTION OF THE POPULATION 1948-1990

Census Year	Total Pop. (millions)	Overall Growth Rate	Urban Population			Rural Population		
			Number	Percent	Growth Rate	Number	Percent	Growth Rate
1948	19.23		5.83	30.0		14.05	70.67	
1960	27.09	2.89	8.07	29.74	3.74	19.06	70.25	3.57
1970	36.64	3.01	12.07	32.90	4.10	24.61	66.60	2.58
1975	42.07	2.80	14.04	33.37	3.06	28.02	62.57	2.62
1980	48.20	2.75	17.94	37.21	5.02	30.16	51.17	1.48
1990	60.68	2.33	29.64	48.84	5.14	31.05	51.80	0.58

Source: National Statistics Office

City by city analyses vis-a-vis the whole country are presented. Relative to the whole country, cities are experiencing a positive net shift in population of 0.126 million. This simply means that relative to the total city population that should have occurred for cities to maintain their share of the total national population, they gained an additional 126,000 people. Instead of remaining or migrating to other rural areas, the 0.126 million people chose to migrate to cities. Thus, cities as a group increased their relative share of the total national population.

The calculations presented in **Table 1-2** support the following conclusions:

- The state of the regional economy greatly influences the population attraction potential of cities within the region. Thus, cities located in depressed regions like Region V (Bicol) and VIII (Eastern Visayas) are losing population to other cities and urban centers. The competitive impact of the CALABARZON developments (Region IV and the NCR) probably caused the population losses in Region III (Central Luzon) cities. Positive regional economic developments and increased central government and foreign assistance in Regions IV, VII (Central Visayas), IX (Western Mindanao), X (Northern Mindanao), XI (Southern Mindanao) and Region XII (Central Mindanao) have greatly contributed to growth of cities within those regions.
- Increasing population and concomitant problems of congestion, crime, garbage and drainage act as a negative factor to population movement. Thus, cities like Manila and Cebu with their limited land area and aging infrastructure experienced population losses between 1980 and 1990.
- Regional and provincial centers or those with special tourist attractions and facilities like Baguio, Tagaytay, Bacolod, and Zamboanga, Cagayan de Oro, have relatively high population attraction potential.

In the city by city analyses relative to the whole urban sector, the results support the following conclusions:

- On the whole, existing cities are losing population to other urban (non-city) centers such as provincial capitals and rapidly urbanizing municipalities. The figures show that between 1980 and 1990, cities as a group experienced a negative net population shift of 3.59 million people. This means that had the cities as a group attained the overall annual urban population growth rate (5.08%), they would have gained an additional 3.59 million people. The result points to the growing importance of these non-city urban areas as "population catchment areas".
- The relatively good demographic performances of Tagaytay City, Trece Martires, General Santos, Cotabato and Iligan point to a strong linkage between population attraction potential and the following "pull factors": (i) Project CALABARZON (Tagaytay and Trece Martires) and the Cagayan de Oro-Iligan industrial corridor (Iligan City); (ii) tourism potential (Tagaytay); and (iii) inflow of central government and foreign assistance (General Santos and Cotabato).

The analyses indicate that during the past decade, major population shifts have occurred between the country's rural areas and urban centers. Most of the urban migrants, however, went to urban centers outside Metro Manila, a reversal of the experience of three prior decades (1950 to 1980). Given this general rural-urban population movement, cities as a group have experienced highly positive net population shifts relative to the whole country. Relative to non-city urban centers such as provincial capitals and rapidly urbanizing municipalities, however, cities have lost their strong population potential.

For urban development, several questions then arise considering these findings: Where are these non-city rapidly urbanizing areas? Is metropolitan growth a key feature in non-city growth? Is the economic role of rapidly growing non-city urban centers being addressed under present or proposed development policies? Given the importance of urban productivity to the economy, these questions, and other related matters such as the determination of urban population origins and the impact of non-city urban activities in relation to the big cities will need to be ultimately addressed in the effective formulation of an urban development strategy.

Table 1-2

REGIONAL INDICATORS OF URBANIZATION AND ECONOMIC DEVELOPMENT

REGION	LEVEL OF URBANIZATION 1990 (in millions)	AVERAGE FAMILY INCOME 1988			EMPLOYMENT 1990 (in thousands)		
		Ave.	Urban.	Rural	Total	Employed in Primary Industry	% Employed Non-Primary
Philippines	48.8	40,408	60,330	28,284	22,532	10,185	54.8
NCR	100.00	79,314	79,314		2,718	39	98.6
CAR	30.6				507	318	37.3
I. Ilocos	37.8	34,031	45,440	30,688	1,283	685	45.8
II. Cagayan Valley	25.9	32,939	46,348	30,656	953	581	39.0
III. Central Luzon	60.2	46,855	61,007	36,732	2,161	759	64.9
IV. Southern Tagalog	51.1	37,978	51,298	30,949	2,940	1,128	61.6
V. Bicol	32.3	26,570	42,382	22,344	1,652	916	44.5
VI. Western Visayas	35.9	31,164	47,240	25,046	2,045	1,139	44.3
VII. Central Visayas	40.5	27,972	46,241	19,413	1,734	834	51.9
VIII Eastern Visayas	31.2	25,345	36,879	22,009	1,340	825	38.4
IX. Western Mindanao	30.1	31,984	45,700	29,120	1,074	657	38.9
X. Northern Mindanao	42.8	35,801	45,312	32,499	1,417	766	45.9
XI. Southern Mindanao	49.1	37,132	52,860	28,179	1,646	883	46.3
XII. Central Mindanao	25.3	35,090	45,726	32,931	1,069	655	38.7

Source: National Statistics Office

SECTION 2.0

**URBAN DEVELOPMENT
POLICIES AND PROGRAMS**

SECTION 2.0

URBAN DEVELOPMENT POLICIES AND PROGRAMS

2.1 MACROECONOMIC POLICIES AND PROGRAMS

Monetary, Fiscal and Exchange Rate Policy

The Aquino government inherited more than \$26 billion dollars of external debt from the Marcos government. While corruption contributed to the pile up of external debt between 1973 and 1986, inadvisable monetary, fiscal and exchange rate policy also exacerbated the situation. Buttressed by easy commercial and official external credit, the Marcos government pursued expansionary fiscal and monetary policy during much of the 1970s. Domestic liquidity more than doubled between 1975 and 1979 and the tax-GNP ratio fell below 10% while government expenditures exceeded 14% of GNP.

Government officials justified this policy by calling the macroeconomic program "countercyclical", i.e., designed to counteract the unfavorable effects of external shocks on domestic economic activity. Unfortunately, the expansionary fiscal and monetary policies of the regime also caused aggregate demand to grow even faster than GNP, which, in turn, caused persistent trade and current account deficits. The Marcos government stuck to its countercyclical role until it became obvious that there was no way it could keep on accessing more credit. The government let the peso depreciate gradually and shifted to contractionary fiscal and monetary policy in 1981-83. Credit was abruptly cut-off after the assassination of Senator Benigno Aquino, which, together with the international debt crisis, sent the Philippine economy into a tailspin.

The Aquino government, in turn, ran its international reserves down to perilously low levels (to less than a billion dollars, excluding gold) before it, too, made the necessary adjustments. Compared to 1985 levels, for example, imports of goods and services expanded much faster than either GDP or exports of goods and services. Between 1985 and 1990, real GDP increased by 22.5% and the dollar value of exports increased by 77.1%. However, the dollar value of imports increased by 137% or more than five times the increase in real GDP (Figure 2-1).

The government belatedly adjusted the reference peso-dollar rate to \$28 to P1 at the end of 1990. Since international reserves were low and speculative pressure strong, the black market rate hit a high of \$32 to P1 and interest rates increased to their highest level under the Aquino administration. As a result, the variation of short-term rates fluctuated 17 points on 91-day T-bills. Clearly, long-term loan capital markets cannot flourish with the

kind of volatility in short-term rates observed during the second half of the previous decade. Lenders find it too risky to make long-term loans at a fixed interest rate; particularly if they have to rely on short-term sources of funds such as time deposits with less than a one-year maturity. The impact of such interest rate volatility on urban development is discussed in Section 2.2.

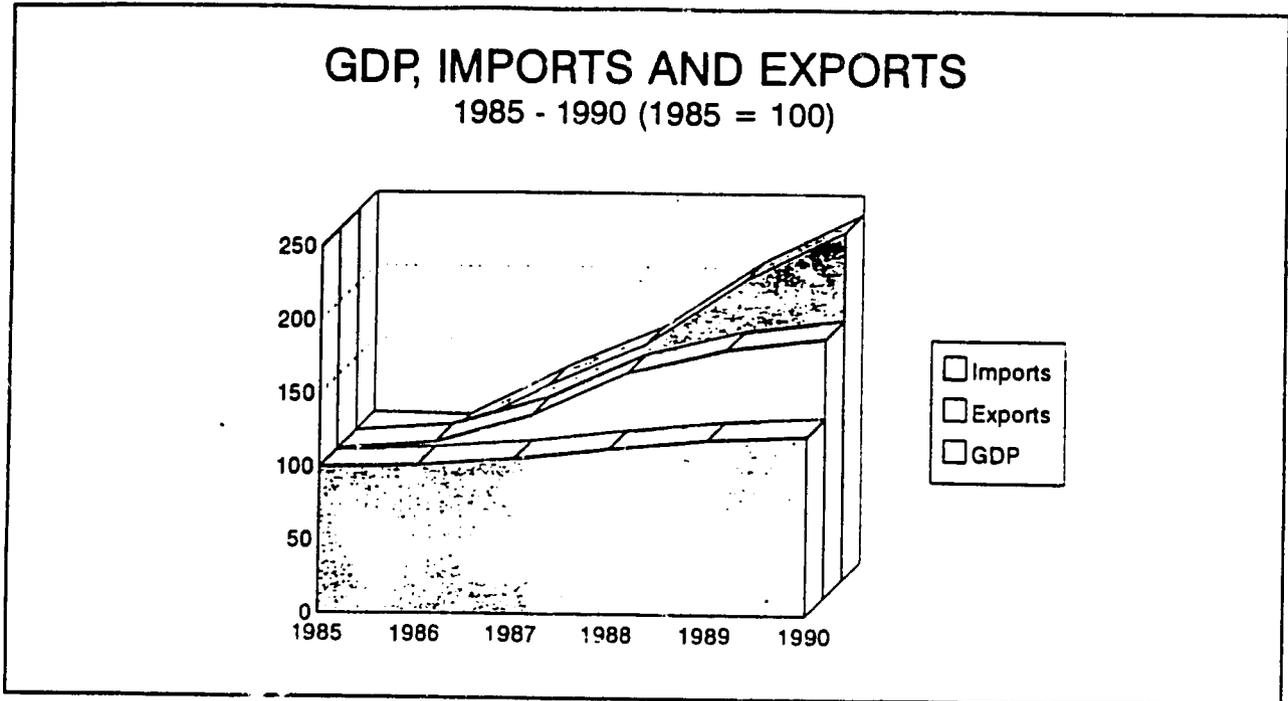


Figure 2-1 Between 1985 and 1990, real GDP increased by 22.5%, dollar value of exports increased by 77.1% and imports increased by 137%.

Devaluation and the Public Sector Deficit

A large part of the country's external debt is public, belonging to the National Government, Government Corporations, and the Central Bank. A devaluation may reduce domestic interest rates and therefore reduce government expenditures since the government is also a big domestic borrower. A devaluation, however, would also raise the peso cost of servicing the external debt. Relative to GNP, the external debt of the Philippine public sector is large but it is not overly so. The ratio of public sector interest payments on the external debt to GNP in 1988, for example, was 3.9%; not much higher than Malaysia's 3.7% and Indonesia's 3.4%. However, relative to government revenue, the burden of servicing the Philippine debt is much heavier than those of other Asian developing countries. The ratio of public sector interest payments on its external debt to central government revenue is 27.1% in contrast with the corresponding ratios of Indonesia and Malaysia which are only 17.8% and 14.8% respectively. (Figure 2-2)

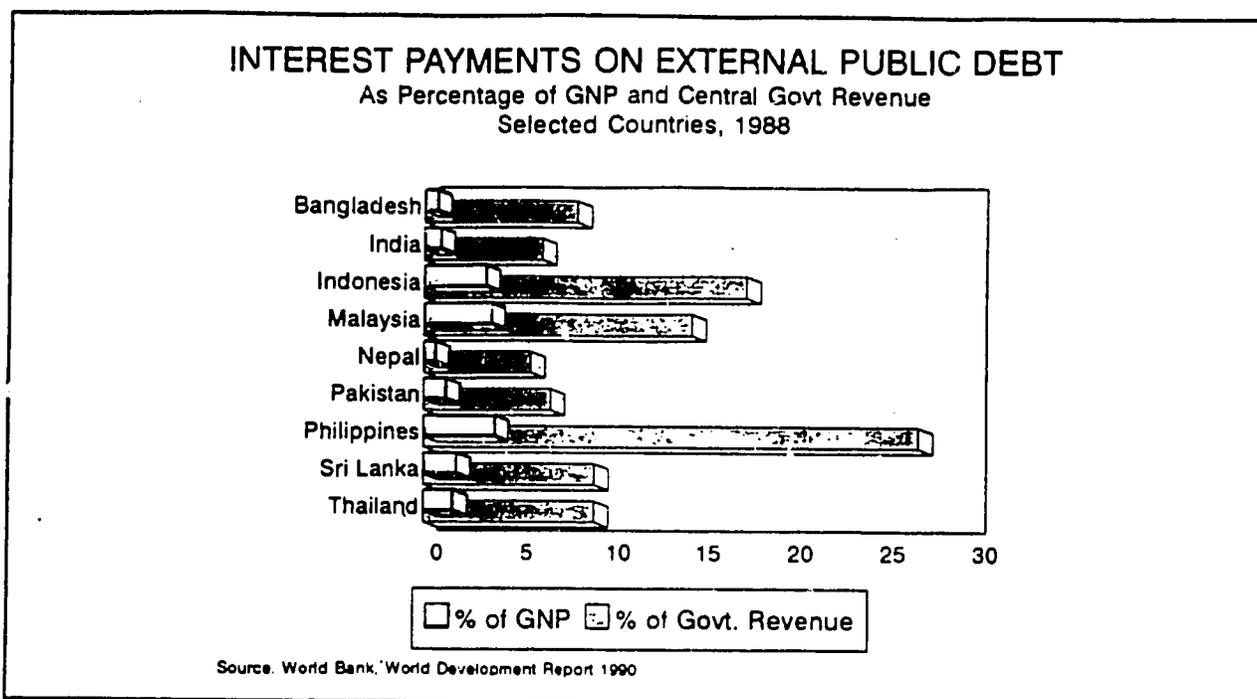


Figure 2-2 Interest payments are the largest single item in the GOP's budget.

Exchange Rates and Power Rates

After the Central Bank, the National Power Corporation (NPC) is perhaps the most financially vulnerable to devaluations among the government corporations. Just like the Central Bank, NPC's debts are mostly in foreign exchange. Imported oil accounts for a great bulk of its operating expenditures. Unlike the Central Bank, however, NPC can raise its revenue by raising rates every time the peso is devalued.

Theoretically, NPC should not be as vulnerable to devaluations as the Central Bank. With the long brown-outs, however, it is politically suicidal to adjust power rates commensurately every time the peso is devalued. (Ironically, even if the peso is not devalued, higher power rates would improve economic efficiency since the most efficient way to reduce the brown-outs in the short run is to raise power rates temporarily to reduce demand). However, given the negative image of the NPC and the history of the power problem, the pricing mechanism will almost surely be the last instrument that the government would use to ration scarce generating capacity.

It is important to stress, however, that failure to charge power rates that give the NPC a reasonable return will reduce the capability of the NPC to service its debts and therefore increase its dependence on cash infusions from the national government. This would in turn increase the public sector deficit unless tax revenue is increased. It is clear that higher power rates are a more efficient way to finance NPC debt service than money creation, increased taxation, and issuance of T-Bills.

Reforming the Tax System and Its Administration

The Philippine public external debt is a bigger problem because the ratio of government revenue to GNP is much lower in the Philippines than in Malaysia and Indonesia. Among Asian developing countries, for example, the Philippines has a comparatively lower ratio of government revenue to GNP. Only Bangladesh and Nepal have lower revenue effort, but they also have much lower per capita income than the Philippines.

In comparison, it is not surprising that Indonesia has a higher ratio of government revenue to GNP than the Philippines. Taxes on the profits from oil exports account for a large part of Indonesian revenue. Even Indonesia, however, is trying to reform its tax system, principally to reduce its dependence on tax revenue from oil. In comparison to countries that do not have as much natural resource exports, the Philippines tax effort is quite low. India, Pakistan, Thailand and Sri Lanka all have better tax performance than the Philippines. (Figure 2-3)

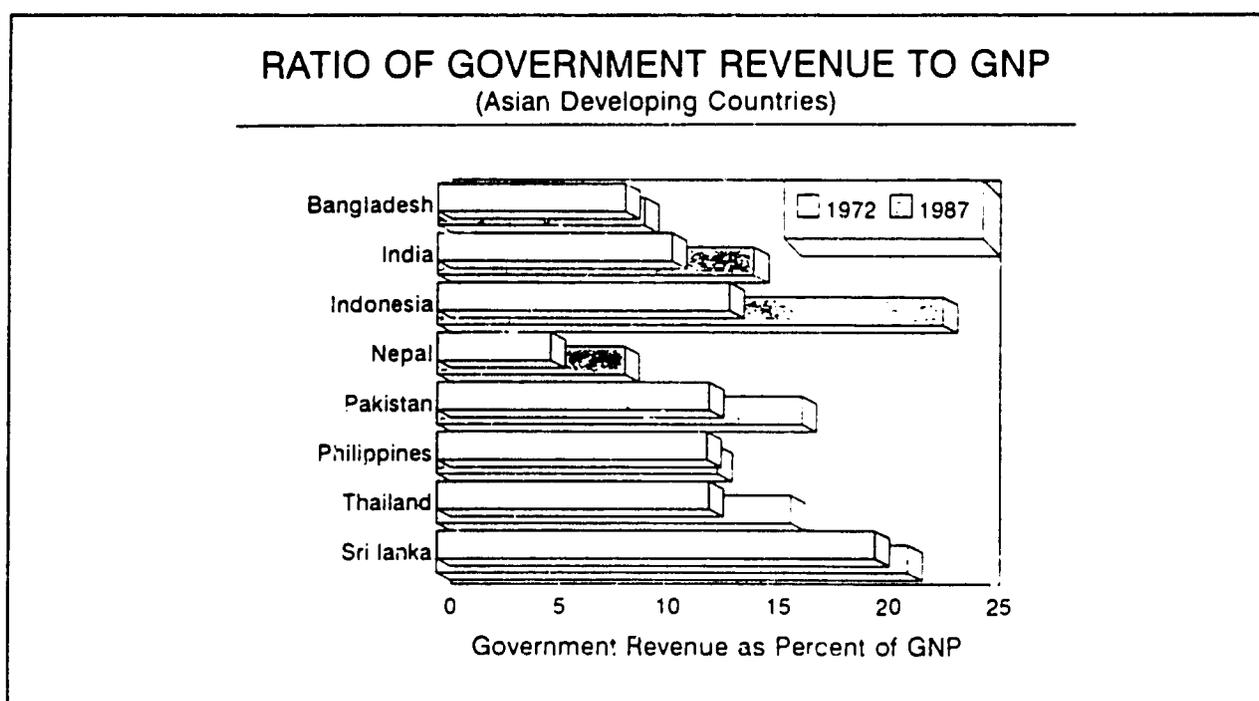


Figure 2-3 Among Asian developing countries, the Philippines has comparatively low ratio of revenue to GNP (Tax effort)

The most serious shortcoming of the Philippine tax system is its inability to raise sufficient revenue to finance basic functions of the government such as the provision of infrastructure and social services. Reforms undertaken during the last six years have increased revenue but this is still short by two to three percentage points in the ratio of tax revenue to GNP required.

Controlling the Growth of Public Debt

The Aquino government would have succeeded in preventing the growth in the dollar value of the country's external debt that it inherited from the previous government were it not for changes in the exchange rates between the U.S. dollar and other major currencies (principally the yen). The efforts to control the growth in the external debt however came at a very high social cost. The Aquino government ran an extremely austere budget for capital outlays, while borrowing domestically to finance the buyback of external debt and the interest payments on the external debt. Thus, while the relative importance of capital expenditures was falling, domestic interest payments increased to become the biggest single item in the national government's budget. In 1987, the national government paid P24.2 billion to cover interest payments on its domestic debt. In 1991, it paid P63.3 billion. (Table 2-1)

Table 2-1

INTEREST PAYMENTS OF NATIONAL GOVERNMENT (In Billions of Pesos)

Year	On Domestic Debt	On Assumed Domestic Debt	On Foreign Debt	On Assumed Foreign Debt	On Total Debt	On Total Assumed Debt
1987	24.2	5.5	12.7	6.6	36.9	12.1
1988	32.1	6.5	13.7	6.7	45.8	13.2
1989	41.0	6.2	13.7	7.1	54.7	13.3
1990	53.3	6.6	17.8	7.4	71.1	14.0
1991	63.3	5.1	20.1	8.5	83.4	13.6

Still, because the government budget showed substantial primary surpluses (i.e., excluding interest payments), the ratio of public debt to GNP actually declined since the Aquino government took over. Indeed, because of the austere 1991 budget, the public sector had a primary surplus of P51.9 billion or 4.1% of GNP in 1991. If the losses of the Central Bank are excluded, the primary surplus would be P73.4 or 5.8 % of GNP. These levels of the primary surplus were the highest ever during the Aquino administration.

There is no danger that the public debt problem will get out of control if the next administration continues with the conservative expenditure program of the Aquino government. If present policies are continued, the ratio of public debt to GNP will continue to fall.

As noted, the reduction of the public debt to GNP ratio came at a great social cost. Social services have suffered substantial cuts. In real terms, for example, per capita spending on education is much lower now than twenty years ago. In addition, national infrastructure

relative to the Medium Term Investment Program has been sacrificed. This can be seen quite clearly by comparing current operating expenditures (cash basis) with capital outlays. (Figure 2-4) Capital outlays as a proportion of current operating expenditures ranged between 15% and 31% during the term of President Aquino. The range for the first half of the 1980s was 31% to 61%. The layman's perception that the Aquino government produced very little additional infrastructure is not without basis. While such an austere spending program will improve debt ratios, there is also the risk that future productivity will be sacrificed.

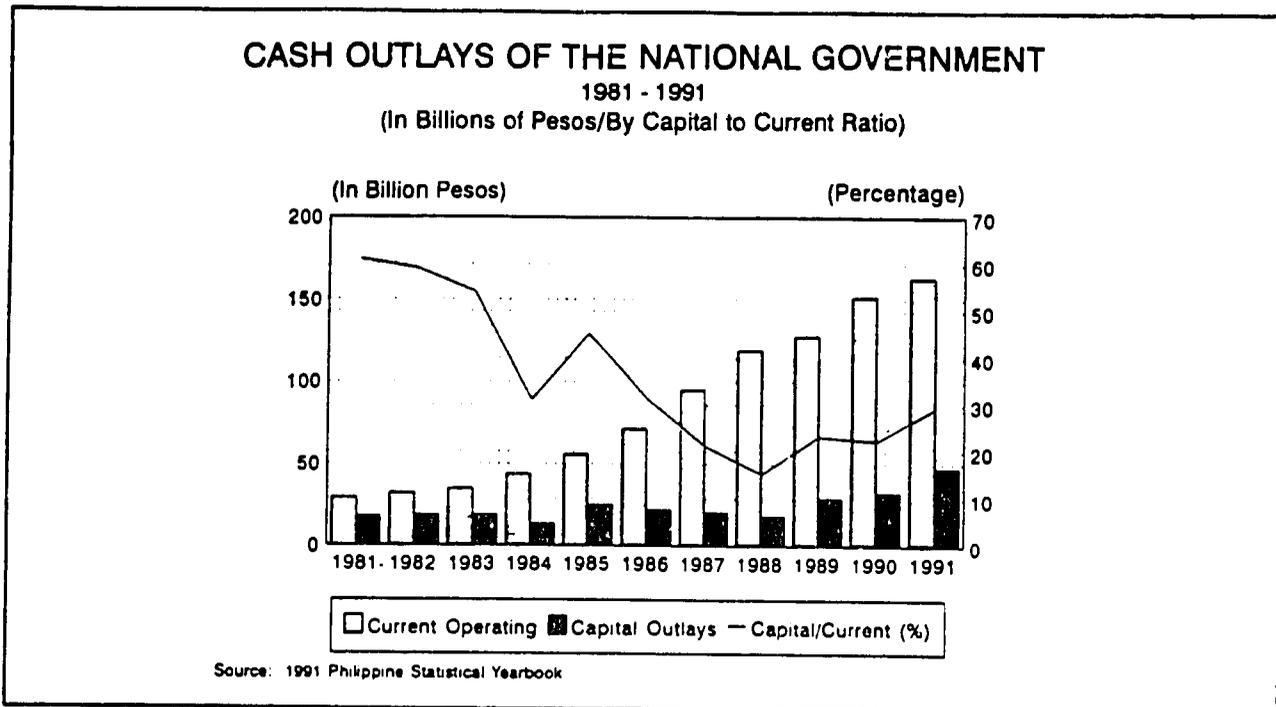


Figure 2-4 Capital outlays as a percentage of current operating expenditures.

Trade and Industrial Policy

The policy of import-substitution had outlived its usefulness by the middle of the 1960s. Measured in terms of either employment or the output share of the manufacturing sector, it is clear that even if import-substitution had been an effective strategy at its inception, it was a mistake to maintain a protectionist policy for it until the 1970s. The country's system of protection rewarded assembly and finishing by imposing high tariffs on finished products of import-substituting industries and at the same time imposing low tariffs on their raw materials.

The other weakness of the protectionist strategy is that it rewarded firms that are inward looking in terms of their market but import-dependent in terms of inputs and raw materials. Many industries that were spawned were very vulnerable to foreign exchange crises. Thus, instead of leading the economy, the manufacturing sector lagged behind.

2.2 EFFECTS OF MACROECONOMIC POLICIES ON URBAN ECONOMIES

Policies Affecting Interest Rates

The main source of short-term interest rate volatility is actual or perceived exchange rate instability. With volatile short-term interest rates, it is virtually impossible for long-term loan markets to prosper. One predominantly urban activity, the housing market, is affected, since few people have sufficient income to finance the acquisition of housing with short-term or even medium-term loans. If private financial markets cannot handle the demand for housing finance, there is greater pressure on the government to either provide housing or provide housing loans.

If the government decides to play a more active role in housing loans, there may be a tendency to favor highly urbanized areas and higher income groups. The high cost of urban land, compounded by the fact that only the top 50% of the Philippine population (with incomes above the poverty line) can afford to borrow P100,000 to P200,000 for "low-cost" housing, makes it difficult to reach other segments of the population. In the absence of affordable housing, the increasing gap between the limited supply of government housing and overwhelming demand has been filled by the informal sector, mostly in the form of squatting.

Trade and Tariff Reforms

Trade and industrial policies have protected certain industries from foreign competition. Unfortunately the industries that were protected failed to generate sufficient manufacturing jobs and productivity growth and turned out to be rather vulnerable to foreign exchange crises, which tend to occur every five to ten years in the Philippines. As a result the government has taken measures to make the tariff structure more neutral by reducing both the average level tariffs and the variation in rates. The government has also made export-oriented firms open to foreign investors. Since the industries that benefitted from the system of protection are mostly located in NCR and in nearby Regions III and IV, tariff reforms are likely to hurt the NCR and its peripheral areas in the short run.

Taxation and Debt Management Policy

By ASEAN standards, Philippine tax collection efforts are still mediocre though there were increases in collections during the last six years. Yet, in spite of the mediocre performance, public debt has fallen relative to GNP. The reduction in the ratio of the public debt to GNP was achieved partly by scaling down the government's infrastructure program. Other things equal, a reduction in investments in infrastructure need not effect disproportional spatial implications. There is, however, a wide gap between the state of

infrastructure in Metro Manila and its periphery and other urban areas. In the south, Cebu also has a much better supply of public goods than other cities in Visayas and Mindanao. If the choice is between congested but adequate infrastructure and uncongested but inadequate infrastructure, the former would most likely be the lesser of two evils.

In short, the shortage of funds for infrastructure will tend to favor the more developed cities relative to the less developed ones. Policy makers should therefore weigh the benefits of reducing the debt-GNP ratio against the benefits resulting from better infrastructure. Unfortunately, short-run macroeconomic management does not distinguish between capital outlays and current expenditures in computing the deficit. As far as achieving short-term macroeconomic targets is concerned, a billion pesos of deficit arising from payment of salaries has the same effect as a billion pesos of deficit arising from expenditures for improving the transport system.

Future Implications and Questions

What are the implications of these shifts in macroeconomic policies on urbanization policies? Are official pronouncements on physical framework plans consistent with the possibility that urban centers would be creating more manufacturing employment in the future? Probably not. The MTPDP, for example, emphasizes agricultural development and has a somewhat unclear policy that refers to a "hierarchy" of urban centers. The concept of hierarchy in the plans is devoid of the notion of competitiveness and comparative advantage. Thus, unless the government adopts a more explicit urbanization strategy, it is likely that urbanization policies will not be consistent with the opening of the Philippine economy.

2.3 URBAN-RELATED POLICIES AT NATIONAL AND LOCAL LEVELS

MAJOR GOP POLICIES AND PLANS

Medium-Term Philippine Development Plan (MTPDP)

The Medium-Term Philippine Development Plan (MTPDP) for 1987-1992 is a 5-year plan detailing the goals, strategies, policies, programs and projects for national economic development. Urban development is mainly perceived to be a factor of agricultural and agro-industrial development.

Philippine Strategy for Sustainable Development (PSSD)

The Philippine Strategy for Sustainable Development (PSSD) attempts to achieve economic growth while adequately protecting the country's bio-ecological resources and

vital ecosystems and maintaining overall environmental quality. The integration of these provisions with actual control mechanisms such as the urban planning system, is not amplified.

Urban Development and Housing Act (UDHA)

Republic Act No. 7279, otherwise known as the Urban Development and Housing Act (UDHA), "provides for a comprehensive and continuing urban development and housing program". Though the UDHA mandates the formulation of national urban development and housing framework under the Housing and Urban Development Coordinating Council (HUDCC), emphasis and thrust of the act is still basically on housing.

Draft National Physical Framework Plan (NFPF)

This is the first attempt at formulating a complete and detailed physical framework plan for the Philippines. The NFPF effort is being led by the National Land Use Committee (NLUC). The role of urban centers in national development is not clearly defined.

Local Government Code of 1991 (LGC)

The Local Government Code of 1991 (LGC), also called Republic Act No. 7160, empowers local governments by vesting in them "meaningful local autonomy based on effective decentralization of functions" of LGUs. The cost to service devolved responsibilities is not matched by the corresponding incremental revenue. In addition, the management capability of many LGUs is in question.

Comprehensive Agrarian Reform Program (CARP)

The Comprehensive Agrarian Reform Program (Republic Act No. 6657) pursues a program for landless farmers and farm workers. The law discourages expansion of urban land use in tenanted agricultural areas.

The Tourism Master Plan

The Philippine Tourism Master Plan is a long-range plan for the development and promotion of tourism in the Philippines. Specifically, it provides an overview of the tourism sector in the Philippines as a basis for considering expansion, and identifies broad goals, objectives, tourism targets and strategies. Urban development and the investment climate is crucial to the success of this plan.

Forestry Master Plan

The National Forestry Master Plan of the Philippines is a twenty-five year master plan for the development of the country's forestry resources. It is a macro-level plan which will

chart the overall direction of the forestry sector. It assumes a constant area for rural and urban needs but does not consider the effects of migration of the upland population into the urban areas.

Charter on Agricultural Lands

The Charter serves as the foundation for the Department of Agriculture's participation and input for physical development planning and agrarian reform. It is governed by the principle that the Philippine government is committed to an agriculture-led and farmer-focused development path as the strategy towards sustainable development. Even more restrictive than the CARP, the charter has effectively no provision for reclassification of agricultural lands at all.

MAJOR GOP PROGRAMS AND PROJECTS

Regional Industrial Centers (RICs)

RICs are part of the national industrial dispersal program of the government. It aims to counteract the locational advantage of Metro Manila Area by transforming selected areas into attractive and viable industrial centers. Access to land is one of the major problems in its implementation.

People's Industrial Enterprises (PIEs)

PIEs aim to promote rural industrialization at the district level while the RICs does this at the regional level. The PIEs aims to develop and harness the country's labor - intensive micro, cottage, small and medium enterprises which contribute to creation of jobs and income earning opportunities. The intended project initiators- the private sector- have at the moment not responded positively to the program.

Social Housing Program (SHP)

This consist of three major programs, namely (a) Sites and Services Development; (b) Resettlement; and (c) Construction of New Units/Joint Ventures. Projects under the program are undertaken either solely by the NHA or through joint venture arrangements with the private sector or local government units. The program experience reveals that the lower 30% of target beneficiaries are not being adequately serviced.

FOREIGN-ASSISTED PROGRAMS AND PROJECTS

With financial assistance from multi-lateral lending institutions such as the World Bank and bilateral agencies such as USAID, JICA, OECF, and other foreign Governments, the GOP has embarked on a number of programs aimed at enhancing the viability and capability of major cities and towns to be economic growth centers. Notable programs include:

- Regional Cities Development Project (RCDP)
- Program for Essential Municipal Infrastructure Utilities, Maintenance Engineering Development (PREMIUMED)
- Metro Manila Infrastructure Utilities and Engineering Program (MMINUTE)
- Metro Cebu Development Project (MCDP)
- Decentralized Shelter and Urban Development (DSUD) Program
- Local Development Assistance Program (LDAP)
- Master Plan Study on the Project CALABARZON
- BLIST Metro Planning Project
- Cagayan de Oro - Iligan Corridor Master Plan
- Western Visayas Master Plan Study
- Growth Plan for the South Cotabato/General Santos City Area Development Project
- Industrial Efficiency and Pollution Control Project
- Project for Industrial Management of the Environment
- Manila Bay Monitoring Program (PHASE II)
- Philippine Regional Municipal Development Project (PRMDP)
- Local Government Infrastructure Fund (LGIF)

Foreign-assisted development projects have been implemented in pilot cities and towns in the Philippines, and many are still ongoing. Because of the importance of the role of

urban centers in national development, the larger projects are infrastructure for cities. Problems encountered in the implementation of infrastructure projects are:

- Delays in release of funds;
- Lack of GOP and LGUs counterpart funds;
- Price escalation and scarcity of construction materials;
- Access to land;
- Design and scope changes and poor performance by contractors; and
- Political interference.

Projects are typically carried out independently of one another without an integrating framework based on urban development objectives. A coordinating mechanism to anticipate overlaps and conflicts is missing. Projects are planned and implemented as remedies or palliatives to existing deficiencies. In many cases, pilot cities were selected based on subjective criteria, without any perspective on national priorities. Thus, some cities have received greater assistance than others. Projects have also been carried out with minimum consideration of impact on surrounding towns and cities. The implication of such projects on population, demographic shifts, and social concerns are not emphasized in relation to urban growth. The population-development linkages (migration, fertility, mortality), in most cases, have not been considered in the design of programs and projects. The effect of these projects on the quality of life of various segments of the population also needs to be reviewed.

2.4 KEY FINDINGS OF POLICY REVIEW

Nine key findings regarding policies at the urban-related national and local level have been identified. They include:

1. ABSENCE OF A NATIONAL URBANIZATION STRATEGY

Urbanization in the Philippines has rarely been guided by public policy. The pattern of urbanization remains a by-product of national macro economic and sectoral policies that do not directly address the causes of rapid urban growth or deal with its economic, social or physical impacts. Urban policies, if any, that have been included in the national development plan have rarely been implemented consistently.

2. POLICIES DO NOT REFLECT AN UNDERSTANDING OF THE ROLE OF CITIES IN NATIONAL ECONOMIC DEVELOPMENT

Cities are important to national economic and regional development and contribute significantly to economic growth. Cities also provide the better facilities and amenities for the people, supports the development of linkages between rural and urban areas through the absorption of rural surplus labor, and introduces economies of scale and advantages of agglomeration which generates the multiplier effects for further economic activities.

3. POLICIES AND PROGRAMS SHOULD BE FORMULATED WITH AN UNDERSTANDING OF WHERE URBAN ECONOMIC GROWTH IS ACTUALLY OCCURRING

As noted in Section 1, rapid urban growth is occurring in "other urban areas", often outside established urban centers. This finding, based on an analysis of the 1980 and 1990 censuses, challenges the focus of existing programs and policies, which targeted traditional cities from a singular perspective. The rapid "spill-over" growth to peripheral areas contiguous to large urban cores necessitate a review of programs and policies.

4. URBAN POVERTY PROGRAMS SHOULD BE STRENGTHENED IN NATIONAL ECONOMIC DEVELOPMENT POLICIES

The extent of urban poverty is not readily recognized. The harsh nature of urban poverty is manifest in squalid living conditions of squatter communities which contribute to the blight in urban areas. Malnutrition is widespread, health and sanitary facilities are inadequate and infant mortality rates remain high. Urban-poverty tend to persist despite relatively high levels of per capita urban income. The absolute number of the urban poor is projected to grow rapidly. Effective urban poverty programs which address livelihood opportunities and the delivery of basic services is necessary for sound urban growth.

5. POOR COORDINATION OF PROGRAMS AND PROJECTS FOR URBAN DEVELOPMENT

In the formulation of a program or project, institutional arrangements, the legal framework and the mechanics of implementation must be addressed in addition to functional linkages. The interrelated nature of urban systems demands strong inter-sectoral linkages.

6. LIMITED ROLE OF THE PRIVATE SECTOR IN URBAN DEVELOPMENT

Constrained resources call for an expanded role of private sector in urban development. National urban policies should facilitate private sector investment. Policies for financing urban development should be an integral part of national urban policies. Comparative advantage in the provision of services by the private sector should be identified.

7. MULTIPLE AGENCIES RESPONSIBLE FOR URBAN DEVELOPMENT

At present, multiple agencies are responsible for urban development. The HUDCC is an umbrella coordinating agency for national shelter policies and programs, but plays a very minor role in urban development. Overall responsibility must clearly rest with a strengthened entity which can focus on urban issues and charged with the: formulation of a national urban development policy; coordination, and prioritization of investment programs; and effective use of policy instruments insofar as these relate to the development of urban areas and their economies.

8. WEAK ENVIRONMENTAL CONSIDERATIONS IN URBAN-RELATED POLICY-MAKING

A more conscious effort needs to be made to integrate sound environmental management policies in local planning endeavors and to enforce measures to regulate various activities which may have implications on the environment, safety of the population and on the physical appearance of urban centers.

9. THE METROPOLITANIZATION PHENOMENON SHOULD BE EFFECTIVELY ADDRESSED IN NATIONAL POLICIES NOW

In areas that are metropolitanizing, unique development issues will arise which will need to be addressed under effective metro-wide government. The 1987 constitution provides that special metropolitan political subdivisions can be created provided that component cities and municipalities shall retain their executive-legislative functions. This constitutional provision actually delimits the options for effective metropolitan governance. Metropolitan areas promotes economies of scale, a wider perspective for more effective resource conservation, and creates gateways for international trade.

SECTION 3.0

**URBAN GROWTH
AND
ECONOMIC PRODUCTIVITY**

SECTION 3.0

URBAN GROWTH AND ECONOMIC PRODUCTIVITY

3.1 RAPIDLY URBANIZING CITIES AND MUNICIPALITIES

The study team selected twelve rapidly urbanizing cities and municipalities (RUCMs) for field visits and data collection. These cities and municipalities were chosen as representative urban centers in four categories; highly urbanized cities, component cities, regional centers/provincial capitals, and municipalities. In each city, interviews were conducted with key local government officials and members of the private sector. Data were collected on the economic base of each urban center, including data on technical, managerial and financial capacity in light of newly devolved functions related to urban development and the Local Government Code of 1991.

For twelve selected RUCMs, basic indicators in **Table 3-1** are statistics related to the growth and economic aspects of RUCM's population. The statistics gathered for the twelve RUCMs on household income, labor force participation, and including tax revenues, reveal that the case cities which had consistently ranked highest are: Cebu, Davao, Iloilo, and Cagayan de Oro. The same cities lead the RUCMs on the number of population, stressing their role as production centers with significant contribution to the economy, and thus can be considered as four of the more economically successful cities in the country today.

The other RUCMs are likewise rapidly urbanizing particularly Baguio despite the 1990 earthquake, Batangas with its major role in CALABARZON, Lucena and its new fishing port complex, and the municipality of Sta. Rosa in Laguna where large tracts of rural lands have recently been reclassified through great efforts by investors for the establishment of major industries.

All in all, sub-sections 3.2 and 3.3 discusses the growth factors and obstacles to economic productivity affecting these RUCM's urbanization. The subsequent sub-sections on urban planning systems, development strategies, and environmental management raises further policy and management issues which RUCMs and the national government can consider in development. For the other concerns on institutional operating efficiencies and the all-important funding requirement, section 4.0 of this study presents useful recommendations which cities and towns can adapt.

**Table 3-1
DEMOGRAPHIC AND ECONOMIC INDICATORS**

INDICATOR	Bagulo City	Cebu City	Davao City	Cagayan De Oro City	Batangas City	Iloilo City	Cotabato City	Lucena City	San Fernando, La Union	Pagadian City	Santiago, Isabela	Sta. Rosa, Laguna
Population												
1970	84,538	347,116	392,473	128,319	108,868	209,738	61,184	77,008	52,597	49,688	49,688	41,335
1980	119,009	490,281	610,375	227,312	143,570	244,827	83,871	107,880	68,410	90,861	69,877	64,325
1990	183,102	610,417	849,947	339,598	184,970	309,565	127,065	150,624	84,949	106,307	90,787	94,719
Population Density (In persons/sq.km.)												
1970	1,729	1,236	178	311	385	3,745	348	1,124	435	152	195	1,057
1980	2,434	1,745	276	551	507	4,372	477	1,575	566	214	274	1,645
1990	3,736	2,173	899	834	669	4,520	722	2,199	850	319	355	1,749
Annual Growth Rate												
1970	2.77	2.16	3.58	6.51	2.18	5.32	0.07	4.57	2.10	2.42	4.08	4.51
1980	2.73	2.11	2.95	5.88	2.44	1.56	2.53	3.43	2.32	2.51	3.47	4.52
1990	2.51	1.93	2.57	4.10	2.10	2.37	2.19	3.39	2.22	2.28	2.65	3.95
Average Household Income/Annum (In Pesos)												
1988	44,828	60,222	51,823	54,022	43,240	83,914	25,474	27,991	31,522	2,173	27,936	62,660
Labor Force Participation Rate												
1990	93.33%	80.50%	89.00%	91.30%	61.43%	93.33%	71.35%	67.00%	99.97%	66.00%	53.00%	70.00%

Source: Demographic Indicators - National Census and Statistics Office;
Household Income and Labor Force Participation Rate - Profiles of respective Cities

**MAJOR REVENUE SOURCES
1992 City Revenue (in Million Pesos)**

Real Prop. Tax	29.0	81.2	30.4	17.0	26.0	38.2	10.0	3.7	1.5	3.5	2.9	9.8
Goods/Svcs Tax	19.3	88.9	52.3	47.6	8.5	39.2	10.4	6.1	10.5	5.4	4.8	2.8
IRA	35.0	143.9	257.0	130.5	51.2	70.2	36.8	24.5	7.8	20.0	6.3	5.9
Miscellaneous	16.8	63.1	34.7	26.5	10.8	10.3	8.0	2.6	11.4	8.1	6.3	1.6
Total	102.4	377.1	374.4	221.6	96.5	157.9	65.2	36.9	31.2	37.0	20.3	20.1

3.2 FACTORS BEHIND URBAN GROWTH

Natural Physical Characteristics

Behind the growth of urban centers are two basic attributes of place: strategic location and supportive natural physical features. Strategic location is usually the ability to be an advantageous central point of collection and distribution, which in turn induces the convergence of additional activities. This situation created many of the "market towns" from which the RUCMs arose. An urban center like Cebu City, for example, possesses the unique attribute of both regional and national centrality. Consequently, Cebu City has the potential to promote inter-regional trade on a national scale due to its ability to act as a "terminal" for the activities of its surrounding areas. Among the twelve cities and municipalities under this study, nine are coastal cities or towns with traditionally active seaports.

Other forms of strategic location and supportive physical features which fosters urban growth are reflected in the cases of Sta. Rosa (Laguna), a spillover town, and Baguio City, a tourism site.

Social and Demographic Aspects

A major consequence of the urban economic growth is the concomitant population growth. Rural-urban migration occurs primarily because of income differentials between depressed rural and expanding urban economies. Migration into urban areas has also been triggered by the peace and order situation in rural areas. Though ill-equipped for urban employment, most rural migrants are able to provide the unskilled labor required by many businesses and industries in cities. New migrants also engage in vending and other informal sector economic activities. Urban areas offer migrants a wider range of choice and opportunities for income generation. Ultimately, the expanding population becomes a labor force and consumer market sought by investors.

Socially supportive institutions such as educational and health facilities likewise promote urban growth. Many cities retained their importance in their regions over the years on account of their good universities and hospitals.

Institutional Aspects

Another factor to growth is the institutional capability of urban local governments. A few urban centers have been able to promote growth better because of the institutional strength and initiative of the individual urban local governments. Cebu, General Santos, and Cavite are examples. Acting as development managers rather than traditional

administrators, these urban local governments are able to plan and optimize their limited resources, foster confidence in the viability of their urban centers, and promote development of their centers in effective coordination or even in partnership, with the private sector.

The administrative burdens on RUCMs become more complex over time. The endemic financial constraints on local governments will require the harnessing of all available resources. For most RUCMs, the private sector plays an active role in development. Infrastructure provision, management and technical services, affordable housing, and social services outreach to the urban poor are but a few areas where the private sector, NGOs and PVOs support local government. Many examples of local government-private sector joint activities are evident in the RUCMs.

BOT Financing

One scheme developed to encourage private sector participation in financing, construction, maintenance, operation, and management of infrastructure projects entails build-operate-transfer (BOT) agreements. Authorized under R.A. 6957 in July, 1990, the BOT process involves the construction of an infrastructure facility by the private sector which will be operated for a pre-determined period. During this period, user fees are charged to recover costs and operating expenses, and to generate a profit for the investors. After the pre-determined period, which should not exceed fifty years, the facility is turned over to the appropriate government agency, who are then responsible for its operation and maintenance.

By harnessing private capital for long-term projects, BOT financing provides an attractive option for governments with limited resources. While the BOT model is straightforward enough, many governments are often unwilling to relinquish control, albeit temporarily, of key utilities. BOT projects also require vision and confidence on the part of the investors, who are willing to confront possible political and economic obstacles that may emerge over a long-term scenario.

In Asia, two major BOT power projects have been completed: China's 700-megawatt Shajiao B power plant in Guangdong province and a 210-megawatt gas-turbine generator in Navotas, near Manila. The China project cost \$512 million and the Philippines project cost \$41 million. Both were undertaken by Hopewell Holdings in Hongkong which took Citicorp Scrimgeour Vickers Asian Pacific, a subsidiary of Citibank, as partner in the Philippines project.

Financing for the Navotas plant was provided by the Asian Development Bank and the International Finance Corp. (IFC), the private sector-financing arm of the World Bank. Additional financing was raised from European and Middle Eastern banks through ADB's co-financing windows.

Infrastructure

Public investments in infrastructure such as roads, ports, airports, telecommunications, etc. are key factors in the growth of urban centers. Infrastructure is a necessary tool for business activities, and has high visibility which directly affects the investment climate of cities. The state of a city's physical development is typically the initial criterion used by private investors in their business decisions. Urban centers which receive major infrastructure investments such as Metro Manila, Cebu and General Santos experience higher growth than other urban centers which continue to suffer from infrastructure deficiencies and/or obsolescence.

For RUCMs, even the private sector contributes to infrastructure provision through their private requirement, particularly if the investment climate is conducive, government is supportive, and there is a measure of assurance on the continuity of plans and projects.

The Private Sector in Urban Development

Today, projects covering hundreds of hectares are being undertaken in RUCMs by the private sector. These include Planned Unit Developments (PUDs), industrial estates, and golf resorts, particularly in the CALABARZON area. For example, six 18-hole golf courses under construction at four sites, at an average of \$11 million a piece, excluding land costs, club buildings and roads. Developing the residential areas will bring the total cost of the four projects to \$150 million by the end of 1992. In the Tagaytay area, land prices have skyrocketed from P60 to about P2,000 per sqm.

The private sector has also played an active role in infrastructure projects. In Laguna, the Coca-Cola Corp, Laguna International & Industrial Park, and private businessmen involved in a golf community and industrial estate projects financed three South Superhighway interchanges at a cost of P35 to P50 million each to facilitate access to their developments. In Cebu, Ayala Land, Inc. (ALI) will be providing public access into their "Business Park" project. Ladislawa Garden Village, a residential subdivision in Davao, integrated a major drainage system through their development to accommodate external service areas of the city.

Other private sector activities are undertaken as goodwill efforts to improve community relations and support local development. In Cebu, ALI contributed more than P2 million for street lighting along Gorordo Avenue. In Laguna, ALI, LIIP and Canlubang Estate have donated schoolhouse projects to nearby communities. For Makati Commercial Center, ALI set aside 4000 sqm. as a bus terminal site for the general public.

3.3 OBSTACLES TO URBAN ECONOMIC PRODUCTIVITY

Physical Concerns

Increasing investments in RUCMs will magnify the environmental strains on already overburdened urban areas. Industries will continue to tap limited ground water reserves, and without the proper mitigation measures in place, will contribute to air, land, waterway, and coastal pollution. In the provision of expansion areas, economically productive rural areas could be prematurely compromised, creating unemployment and encouraging further in-migration to congested cities. Additionally, forest reservations are increasingly open to abuse as urbanized areas expand into previously undeveloped areas. The effects of ignoring these important environmental concerns - overdevelopment, deforestation, failing to protect vital watersheds - is manifest in RUCMs as they cope with flash floods, water shortages, and disease.

Other disadvantages are related to location. Proximity to areas with peace and order problems diminishes RUCMs' growth potentials. On the other hand, distance from the country's limited international ports reduce LGUs' competitiveness for certain industries.

Infrastructure Concerns

Infrastructure facilities quickly depreciate under the pressure of growing urban activities, and are often outpaced by growth in their capacity to serve the urban population. Financial constraints limit maintenance and upkeep, and as a result, existing infrastructure falls into disrepair. On the other hand, activities related to infrastructure provision such as paving roads, installing water and drainage systems, etc. hamper ongoing productivity. In virtually every RUCM studied, ports, markets, slaughterhouses and transport terminals need extensive rehabilitation or expansion, roads need to be extended and widened, bridges need to be built, drainage systems need to be cleared and expanded. A "workplace" not supportive of economic productivity will not be a priority area for investment by the business community.

Land Use Concerns

An additional cause for concern is the management and control over the emerging land uses in these areas. The urbanization phenomenon tends to overwhelm RUCMs who are unable to fully contain and direct these forces. The official guide to spatial development of cities and towns is the physical component of the local development plans -- the comprehensive development plan, or the physical master plan, inclusive of land use and zoning plans. Theoretically, these plans address: environmental issues; existing and proposed infrastructure and land development projects; proposed expansion areas and

reservations to support future growth. RUCMs are tasked with the initiation and enforcement of these plans. Unfortunately, many RUCMs are unable to accomplish these tasks adequately, an example of which is the upgrading of their land use and zoning plans that in many instances are more than 10 years old, according to HLURB records.

The land use policies of many RUCMs reveal glaring inconsistencies and exceptions. In their efforts to attract investors, many RUCMs resort to spot-zoning and special approvals. As exemptions continue, land use designations become meaningless and the planned ideal as represented in the land use plan is violated. The result are entire districts riddled with inappropriate and conflicting uses that harm residents and diminish the quality of life in RUCMs. City parks disappear, pristine waterways and coastal stretches are abused, and strategically located residential areas are subjected to health hazards, traffic congestion, and noise.

The Baguio Experience

Historically, Baguio City was envisioned to be a prime tourist destination, however, urbanization demands have eclipsed this vision. Inadequate lodging facilities, dilapidated dwellings, pollution, destruction of the landscape to accommodate housing development, traffic and waste disposal problems are exacerbated by:

- rapid in-migration which pushed the population to over 180,000 in a city originally designed for 25,000 persons;
- indiscriminate granting of subdivision permits in response to the housing shortage;
- a proliferation of squatters throughout the city, yet no government agency has been specifically tasked to deal with them nor is there the political will to do so. As of June 1990, 3,685 illegal dwelling units were counted, many on steep slopes, parks, and in critical watersheds and forest reservations;
- local government officials who have neglected tourism in Baguio in favor of uncontrolled commercial development.

The rapid urban growth of Baguio has spilled over to an adjacent municipality, La Trinidad, Benguet, which now shares common urban problems such as inadequate sewerage systems, traffic congestion, sprawling housing developments, and environmental degradation. Strong collaborative efforts between La Trinidad and Baguio must be developed. It is recommended that a metropolitan approach towards planning and project implementation be undertaken, encompassing not only La Trinidad and Baguio City but other adjacent, potential catchment areas such as the municipalities of Itogon, Tuba and Sablan in Benguet.

Additionally, there is no evidence of an effective design review and monitoring process for development projects which therefore allows developers to overbuild to the absolute edge of property lines, disregard pedestrian rights-of-way, and skirt required provisions for adequate vehicular parking areas. The result is a poorly planned, chaotic urban space where pedestrians must risk life and limb to navigate culverts, drainage ways and uncontrolled traffic along "sidewalks" that lack the suitable area for greening projects, the planting of trees, bus stops and passenger pick-up points.

RUCMs face financial, social and legal problems in gaining access to land necessary for urban development. Idle government lands, the logical, available land for local government use, are not readily available. Legislation such as CARL, UDHA, and the new Local Government Code provide conflicting prerogatives over the use of idle government lands. For acquisition purchases of private land, the added value to urban neighborhoods due to increasing demand make the cost prohibitive. Many strategically situated idle lands are populated by squatters who vigorously resist eviction efforts and add to the blight of these areas. Expropriation valuations are contested in virtually every instance by emotionally affected parties, delaying proceedings and throwing into question expropriation procedures and land valuation practices.

Land Readjustment

Land readjustment is the term used for the retention by the landlord of a portion of developed land in exchange for the negotiated price of a parcel of raw land which is to be developed. It was first tried on a large scale in Seoul, Korea in the 1960s.

The city was expanding rapidly in a typical 'leap frog', uncontrolled fashion and land prices on the periphery were increasing rapidly. As in other cities of the developing world today, the National Housing Corporation of Korea found that the price of land on the open market rendered its units unaffordable to its target population of low to moderate income families. It therefore entered into negotiations with agricultural landlords who did not care to see their land sold off piecemeal to private developers. According to location and the amenities of the land, the NHC would offer a portion of the developed land at least equal in price to the total parcel of raw land. In this fashion, NHC and the Seoul City government were able to control a significant portion of the developed land as the city expanded.

Social Concerns

The substantial number of urban poor burdens the resources of local government. Already financially short for necessary development projects, local governments are confronted with the need to subsidize the requirement of the urban poor. For RUCMs under this study, interviews revealed that the number of urban poor is close to 40% of the local population.

Housing problems for the poor are compounded by livelihood and income generation concerns. Many programs have been implemented, but many more will be needed if the urban poor are to be absorbed into the mainstream of society. Programs addressing skills training, community organization, and access to credit and markets should be primary areas of focus. The magnitude of urban poverty continues to grow rapidly. Economic productivity and sustainable growth of RUCMs will be highly dependent upon the success of policies and programs which strive to alleviate urban poverty.

Who are the Urban Poor?

The Espinoza family exemplifies in almost every dimension - living conditions, family composition, occupations, lifestyle - the Filipino urban poor. More than five million people, or 830,000 families, belong in this category. They live in slums and squatter colonies in major towns and cities. Ninety percent are "illegals", renting or squatting on government or privately owned land.

The urban poor comprise around 10 percent of the national population of 60.5 million, and around one quarter of the entire urban population. Metro Manila, with by far the highest proportion, contains 591 slums colonies housing three million people. Cebu and Davao cities are the second and third large urban centers. Almost all residents of the slum and squatter settlements - including three-quarters of Manila's population - live below the official poverty line, reckoned at P3,500-P5,000 per month (\$130-\$185) for a family of six. Nearly half are under 18 years of age.

The average low-income urban family has six members and is nuclear in structure. Like Carlito Espinoza, the typical head of household is aged less than 40 years and has only the barest elementary education, normally no higher than grade four. Unemployment among men is 16 percent, and underemployment much more pervasive. With few skills or training and little entrepreneurial self-confidence, most slum dwellers land in service jobs, under-paid and without security.

The exigencies of life within this socio-economic group mean that all family members above a certain age, male and female, must help support the family. In the Espinoza household, Carlito's wife's salary and tips at the beauty parlour were vital to their income. Women's childrearing responsibilities do not fit easily with a regular job so many operate within the informal sector. They trade in the market, sell snacks or run a makeshift stall. Others work as launderers, dressmakers, beauticians, maids, and cooks. Many children learn the ways of the working world and are forced to start to earn at an early age.

Although the immediate surroundings of the Espinoza's house in Barangay Suba are particularly squalid, this is not uncommon. Only around one-third of such households enjoy garbage collection service from a government dumptruck. Even fewer benefit from a piped water system: only between 16 percent and 28 percent of households. Up to two-thirds, depending on the city and the area, have no sanitation facility and are reduced to a system of "wrap and throw" for human waste.

In case of sickness, many slum residents use traditional remedies as they cannot afford the expense of modern drugs. There is little routine protection for child health. In 1986, only 19 to 25 percent of preschoolers were fully immunized. Nearly half were found to be mildly malnourish and nearly one quarter moderately so.

* Philippines: Children of the Runaway Cities, UNICEF, 1991

Institutional Concerns

Many technical and administrative divisions of RUCMs lack the necessary skills to carry out their functions and responsibilities properly. Political interventions also weaken the performance and capability of administrative divisions, and rather than encourage potential investors have actually discouraged them at times. The multi-agency aspect of the development permit application process is another problem. For physical planning and environmental management, complacency, technical and financial limitations, and undue external influences have left many responsibilities to chance, while an appreciation for inter-local coordination has been overlooked altogether. As a result, resource conservation and the quality of life in many areas is significantly diminished.

The lack of an urban policy which explicitly stresses national urban development objectives reduce the productive potentials of cities. For example, national policies on land use, particularly CARP, constrains the government's investment promotion program since difficulty in obtaining suitable expansion areas is a disincentive for new industries.

3.4 URBAN PLANNING SYSTEMS

The task of overseeing urban development of LGUs rests with the Planning and Development Office (PDO) under the Planning and Development Coordinator. Within this office, the required development planning and programming and budgeting coordination are carried out. The other departments of the city assist the PDO in other related areas such as servicing, monitoring and evaluation. The land use and zoning planning exercise of the PDO are coordinated primarily with the Housing and Land Use Regulatory Board (HLURB). For policy direction and coordination, the Planning and Development Council guides the work of the PDO, and consists of local officers and representatives from the private sector. Ultimately, all development project proposals are formalized and approved by the Sanggunian (the local city or municipal council).

Under the planning and development process, cities and municipalities are supposed to set goals and develop a strategy to promote economic opportunities, reduce poverty, and enhance the quality of life for its citizenry. Insufficient funds, however, limit the successful implementation of these responsibilities and technical competence is subverted by political intervention which affects the personnel selection process.

Rules and regulations for building and development are governed predominantly by provisions in the National Building Code (NBC). The NBC is largely obsolete, however, as it emphasizes structural design and barely the rudiments of planning. Missing from the NBC are provisions covering environmental design considerations. Tedious approval is required to revise the NBC. Land use and zoning plans and subdivision approvals fall under the domain of HLURB, though much of this responsibility is in the process of being

devolved under the Local Government Code of 1991. Philippine Cities have existing zoning ordinances, but it is not unusual for commercial and residential development projects to ignore or circumvent them.

The private sector can constructively contribute to the planning process. In smaller towns, local governments have availed of private sector expertise in urban planning for the formation of their town plans. The private sector is also the driving force between many large scale projects such as new town developments, resort communities, and industrial estates in urban centers as well. With proper coordination and planning, private sector development initiatives can be dovetailed with local community needs.

3.5 URBAN DEVELOPMENT STRATEGIES

Project Funding Sources

Between the period 1975-1990, LGU projects financed by Government Financial Institutions (GFI) in descending magnitude of loans involved: acquisition of heavy equipment and machinery; construction of public markets and slaughterhouses, the financing of waterworks projects; cadastral surveys; and other infrastructure building activities.

The GFI lenders are DBP, LBP, PNB, and GSIS. Recently, the SSS introduced their "Power Generation Loan Program" in which local governments can participate. Other sources of funds are the Municipal Development Fund (MDF) and the Economic Support Fund (ESF). The MDF is a specialized revolving fund with a low interest rate of 11%, capitalized by foreign loans or grants and made available to LGUs on a qualifying basis.

GOP Policies, Plans and Programs

Today, the GOP has promulgated specific policies, plans and programs which attempt to guide and support sustainable urban growth. Among the policies, the 1991 Local Government Code will have the most telling impact on the development of local governments. Granted increased administrative prerogatives and project incentives under the LGC, cities and towns now have new financing options and development strategies at their disposal to implement approved local development plans and public investment programs.

The Urban Development and Housing Act enacted in February 1992 will also have significant implications on urban land management, setting conditions for the preparation of an Urban Development Framework (UDF) for all 60 cities and 226 municipalities whose population densities exceed 500 persons/sq.km.. HLURB is responsible for the collection

and evaluation of data necessary for the preparation of UDF. LGUs, on the other hand, are required to undertake a comprehensive inventory of land and associated improvements by February 1993. LGUs are empowered to identify social housing sites, determine appropriate modes of land acquisition, expropriate idle land, and in association with the NHA, dispose of land for low-cost housing. It is significant that LGUs can employ eminent domain on land for social housing purposes.

Institutional Support

For better management of LGUs, the government has several training academies for local officials. For the issues requiring a broader development outlook, local government leagues can provide the necessary actions and support.

The League of Cities

Empowered under Section 499 Article 3 of the Local Government Code, the League of Cities has 60 Philippine cities as its members. Its primary purpose is to provide a forum for crystallizing and expressing ideas, seeking the necessary assistance of the national government, and providing the private sector avenues for cooperation in the promotion of the welfare of cities.

Other functions and powers of the League of Cities include:

- Assist in formulating and implementing policies, programs, and projects;
- Promote local autonomy;
- Encourage people's participation;
- Create employment opportunities;

The League can play a pivotal role in the continuing improvement of city government administration, while serving as a non-partisan advocate of broad-based participatory democracy.

Need for Strategy Formulation

The unwieldy multi-sectoral initiatives of government in urban development can only lead to inoptimal efforts, neither directly confronting the main issues nor fast-tracking necessary developments. The initiation of a broad, integrative strategy for urban development can provide the direction and guidance mechanisms and promote the enabling facilities which will harness the use of resources towards making urban centers the "engines of economic growth" that they should be.

Supported by tougher laws, legislations, and funding under a national urban development policy, a focused strategy framework which integrates, utilizes, addresses, encourages, and/or promotes: national urban socio-economic policies; appropriate urban planning concepts; development management systems, methods, and training; and efficiencies and creativity in operations, can be formulated.

Under the strategy, enabled management and administrative systems will enhance operational aspects particularly in relation to necessary solutions to problems on access to land, land-use and zoning enforcement, and infrastructure provision. Systematization and standardization of specific procedures will likewise result in: consistency in planning approach and objectives; patent provisions for poverty alleviation, disaster mitigation, and environmental care; and streamlining of bureaucratic procedures which minimizes avenues for graft and corruption.

Overall, the strategy can elicit guiding ideas from desirable developmental planning abstractions which promote:

- National identity;
- Desirable urban scapes;
- Low-resource urban development approaches (due to limited natural resources); and
- Appropriate building densities in development

Enshrined within a national urban development strategy, these and other practical instruments should support sound urban development and enhance the economy, liveability, and attractiveness of urban areas.

3.6 URBAN ENVIRONMENTAL MANAGEMENT

Background

The increasing population and industrial growth in urban centers is spawning pollution problems to levels never experienced before by RUCMs, and in many cases they are simply overwhelmed by the magnitude of the problems. The major concerns ranked by order of severity in the NCR have been identified in the 1990 Metro Manila Environmental Improvement Study, which closely parallel, though on a much larger scale, the problems faced by most RUCMs. These are: solid waste pollution; flooding; slum/squatter settlements; water pollution; air pollution; hazardous/toxic waste; degradation of natural resources; and noise pollution. Fortunately, many cities are not yet confronted with environmental problems of the magnitude currently experienced in Metro Manila, though little data has been collected to confirm this.

Metro Manila's Environment

Over 4,000 tons of garbage is generated daily throughout the NCR, much of which is left uncollected or randomly dumped into storm drains and sewers. This is forecasted to increase to 8,500 tons a day by the year 2005.

7% of the City's land area floods annually, a problem compounded by a lack of proper drainage systems and rapid urbanization which increases storm-water run-off while reducing the capacity of storm channels through siltation, garbage dumping, and squatter settlement.

Raw and untreated hazardous and toxic wastes are routinely discharged into drains and waterways; all the City's river systems are so highly polluted that they are considered biologically dead. Recent data show that during the dry season the Pasig River water quality is slightly better than lightly diluted raw sewage.

Nearby watershed basins are severely deforested, while ongoing reclamation projects are destroying the fishing and aquaculture potentials in many surrounding coastal areas.

Combustion-driven pollutants such as soot, fly ash, carbon monoxide, and nitrogen oxides choke the air; over 471,000 respiratory tract infections and 79,400 cases of bronchitis were reported in 1988 in the NCR alone.

Over 3 million residents are now estimated to live in environmentally substandard slums and squatter areas, overburdening already inadequate infrastructure, exacerbating negative environmental impacts, and obstructing efforts to improve and develop the City.

It is interesting to note the magnitude of Metro Manila's problems, recognizing that some RUCMs are not far behind. The state of Metro Manila's environment is a sobering illustration of uncontrolled urbanization resulting in severe environmental ills. Many Philippine cities are in the enviable position of having the opportunity to learn from these experiences, and to plan for future growth. In the face of rapid urbanization and increasing in-migration, it is inevitable that relatively new environmental problems will worsen. The time to act is now.

The Local Government Code devolves new responsibilities to LGUs regarding the environment and natural resources. Under the Code, LGUs are to undertake the following functions devolved from the Department of Environment and Natural Resources (DENR): Forestry Management; Protected Areas and Wildlife; Environmental Management; Mines and Geoscience Development; Land Management; and Marine Resource Management. LGUs are required, with the support of DENR, to form an Environmental and Natural Resources Council (ENRC) in their respective jurisdictions. The ENRC, comprised of representatives from DENR, LGU officials, and the private sector will review and monitor local-level projects and programs related to the environment. DENR is supporting the devolution process by identifying transferees from regional DENR offices to LGUs, and the provision of a Manual of Operations for LGUs.

Urban Environmental Management Strategies

Currently, very little has been done by the central government in determining an appropriate environmental strategy for Philippines cities. The present priority is Metro Manila, whose environmental problems have reached crisis proportions. With the devolution of responsibilities under the Local Government Code and new provisions under UDHA, it is clear that local governments will be increasingly responsible for the management of the environment and natural resources in their jurisdictions. Strong, proactive leadership, grounded in public support and backed by political will, will be vital to local-level urban environmental management initiatives.

Within the milieu of ongoing and proposed environmental programs in the country, there are fundamental precepts which need to be stressed in environmental management strategies. These include:

1. Public Awareness and Mobilization

The impact of a sustained and vigorous public awareness and mobilization campaign should not be overlooked. Community-based approaches to environmental education and information are necessary at both the national and barangay level to raise awareness on specific issues and projects.

2. Strengthened Local Level Capabilities

Under the new Local Government Code, aspects of environmental protection will be devolved to local governments. Staff capability building and financial support will be necessary. It is understood that DENR has prepared a five-year plan to prepare LGU's for undertaking the newly devolved functions. Local government will need to develop self-sustaining systems of finance that will generate the necessary funds to cover these responsibilities, and provide the required technical expertise.

3. Inter-local Approaches

Environmental degradation in the form of gaseous emissions and water do not respect territorial jurisdictions. "Shared" local natural resources such as watersheds and groundwater reservoirs should be identified, and strategies should be developed within an inter-local perspective. Regional considerations must be emphasized, and the technical parameters for local efforts should be widened to include appropriate areas.

4. Private Sector Participation

Private sector participation must be developed on environmental matters, and can play much more than simply a supportive role to government. Citizens experience

first hand the ill effects of urban and industrial pollution, and are the most effective monitoring system for cities. Solid waste collection systems which involve the general public not only reduces the burden on city government, but also helps improve public attitudes toward the proper collection and disposal of garbage.

5. Integration of Environmental Management Issues Within Urban Planning Systems

An urban planning system that formally integrates environmental management issues can provide the necessary tools for a proactive approach towards meeting environmental objectives. Planning and environmental sensitivity can reinforce and strengthen each other, and indeed, if the quality of urban life is to be improved, are necessarily and intrinsically intertwined.

The Private Sector in Environmental Management

Private sector participation in environmental management can be encouraged through:

- Skills training and information dissemination for local community to promote simple environmental monitoring strategies;
- Non-government organizations and people's organization working closely as lobby groups with local government units and government regulatory bodies;
- Tapping professional organizations (e.g. PCPAI) to augment the technical capability of private voluntary organizations in compiling technical data on reported environmental abuses;
- Utilizing the facilities and laboratories of private schools and other private sector entities in the locality to augment local government environmental monitoring and control;
- Strengthening existing NGOs, POs, professional organizations network in the locality through popular education, information exchange and dissemination and effective networking.

* Pollution Control Association of the Philippines, Inc.

SECTION 4.0

**LOCAL GOVERNMENT
AND
URBAN DEVELOPMENT**

SECTION 4.0

LOCAL GOVERNMENT AND URBAN DEVELOPMENT

4.1 INSTITUTIONAL ISSUES AND CONCERNS

Roles and Responsibilities

Major changes brought about by the Local Government Code of 1991 have a direct impact on administrative structures at the local level. Local governments must now absorb additional functions and responsibilities which are being devolved to them, creating offices where necessary, if they wish to effectively respond to urbanization. The intended reforms of the Local Government Code bring to the fore two general sets of policy issues that must be addressed immediately by national government agencies and local governments. The first two fall within the area of finance related issues while the last two issues relate to regulatory functions:

1. Increased IRA allocation which may not be enough to fully cover the cost of devolved functions particularly for medium and small size cities.
2. Rapid urban population growth has put incredible pressure on city officials to provide urban infrastructure. Without the support of national government, opportunities to capture urban economic growth potentials will be lost.
3. Policies which present an overlap of regulatory functions between national and local government need to be clarified, such as the land classification function and zoning.
4. National government should review, evaluate and codify national administrative issuances and policies to simplify inter-governmental relations and facilitate easy compliance of circulars and policies by local authorities.

These four highlighted issues dictate a review of available options by the local government officials. A needs/resource analysis by concerned cities is in order with special emphasis on these major areas of concern. These are detailed further in the succeeding discussions on organizational structure, urban finance and overall local government capability.

Organizational Structures: City Government Administration

Most cities including those in this urban sector review have obsolete organizational units that do not respond effectively to present day problems of urbanization. Most cities visited are not in a position to respond to environmental problems like pollution or marine resource conservation. In the event that any of the cities decide to reorganize and streamline their structures in response to the challenges of urbanization, three options are available:

- Maintain Present Structures
- Create New Offices and Abolish Others
- Reduce the Size of City Bureaucracy by Privatizing Basic Services

Increased revenues and city budgets will allow better service delivery and the hiring of additional city personnel to manage devolved functions. This can be optimized by city governments if recruitment is made after a thorough review of administrative structures and functions.

4.2 URBAN FINANCE

A review of finances of the cities under study depicts a picture of limited traditional revenue sources which cannot meet the increasing financial requirements of cities. Also visible are patterns of urban expenditures which require more progressive approaches to finance if cities like Baguio, Batangas, Cebu, Davao and Iloilo are to respond effectively to urban problems. Analysis of revenue sources of selected cities in this study at present indicates that in addition to revenues from the real property tax, the only other major source of city funds is from the internal revenue allotment (IRA). (Figure 4-1)

Other city revenue sources with high potential are revenues generated from licenses and fees and other local tax sources, such as an amusement tax and a corporate taxes which cities are authorized to levy under the new Local Government Code. The administrative costs of servicing the collection of these other revenue sources are high, however.

The following profiles of city finances demonstrate that if city governments are forced to rely on traditional sources of income, they will be unable to provide basic amenities. (Figure 4-2).

Expenditure Patterns of Selected Cities

The expenditure patterns of the twelve RUCMs selected for this study were analyzed with respect to income elasticity. It was found that expenditure levels are generally subject to their respective income constraints. It was also found that the rapidly urbanizing cities and municipalities have attempted to support their growth through the creation of development-oriented budgets and expenditures. **Table 4-1** shows that the RUCMs under study have limited the personal services component of their planned 1992 expenditures to less than half (49%) of the total budget in favor of more capital outlays in the form of equipment acquisition and socio-economic development projects, including the required overhead for project implementation (35%). The figures thus indicate that RUCMs are developing budgets that effectively respond to their developmental needs.

Table 4-1

Expenditure Item	Income Elasticity
Personal Services	0.98
MOE	0.71
Equipment Outlay	1.66
Socio-Econ. Dev't Projects	1.25
Non-office Overhead	2.01

The computed elasticities indicate that RUCMs will channel future increases in their respective incomes into more project outlays. Increases in the personal services will keep pace with income (and therefore, development level) increases. A disturbing finding is that MOE will barely keep pace with income increases. Considering their thrust towards more projects, RUCMs will have to correspondingly increase their MOE allocations to service their growing stock of physical capital.

The figures indicate the RUCMs do not seem to attain economies of scale in project implementation as evidenced by the very high percentage share of non-office overhead (14%) and its high income elasticity (2.01). RUCMs should look closely at their capital project budgets in order to minimize unnecessary project-related overhead. Such savings can be channeled into additional projects and increased MOE for their growing stock of physical capital, particularly infrastructure.

MAJOR EXPENDITURES SELECTED CITIES - 1992 (In Millions of Pesos)

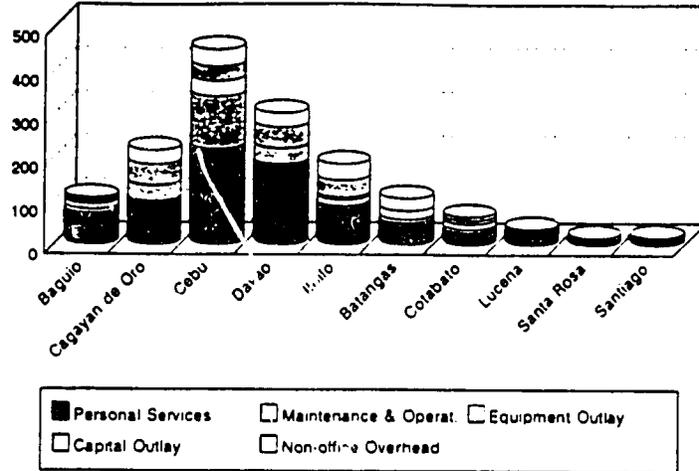


Figure 4-1 Major Source of Revenue, Selected Cities - 1992 (In Millions of Pesos)

MAJOR SOURCES OF REVENUE SELECTED CITIES - 1992 (In Millions of Pesos)

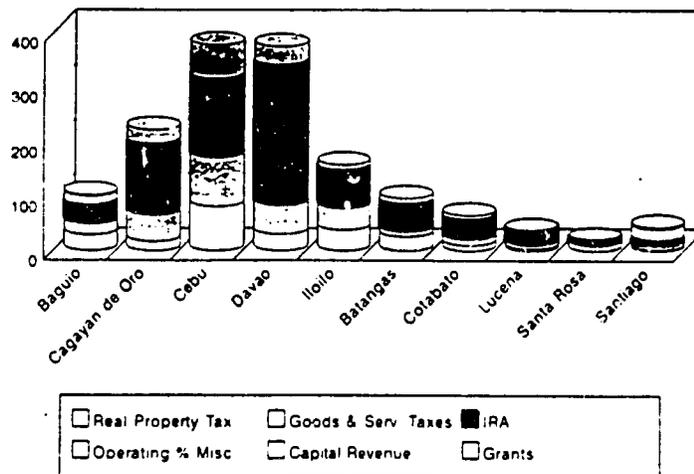


Figure 4-2 Major Expenditures, Selected Cities - 1992 (In Millions of Pesos)

4.3 REVIEW OF LOCAL GOVERNMENT CAPABILITY

Technical Capability

A study of the personnel force of RUCMs indicates that the educational background and technical qualifications of most staff personnel are inadequate for assuming additional responsibilities as mandated under the Local Government Code. Environmental management, marine resource management, and licensing fishing vessels are several of the new responsibilities that require specific skills and training unavailable at local levels.

The cities studied, representative of all Philippine cities, have a very low level of technology. In general they are not prepared to shift to higher levels of technology, and if they chose to do so, it would take some time before they can be effective.

Managerial Capability

Positive public relations supported by a streamlined bureaucracy are key factors to successful city management, and a number of steps can be taken to improve the interface between officials and the public. The province of Bulacan, for example, has succeeded in cutting down the number of signatories required in paying general vouchers, in effect reducing the number of steps involved from 30 to 15. Instituting a system for lateral communication among department heads has also improved internal coordination. A by-product of this successful management experiment is a manual on communications being used now in other areas.

Davao City practiced what was called the "Monday Conference" where the Mayor met weekly with all city department heads to discuss issues and problems. While meeting with those involved in the day-to-day operations of city administration seems rather elemental to effective governance, few cities under this study have instituted them on a regularly scheduled basis. As a fundamental management practice, the "Monday Conference" has two objectives: (1) to develop a city government team that has the morale and interpersonal communication to carry out the work of good city administration; and (2) to provide an avenue and a forum where problems can be discussed before they reach unmanageable proportions.

Finally, there is the role of strong leadership and hard decisions. The Provinces of Bulacan and Cebu both dramatically trimmed down the size of their bureaucracies. In Bulacan, the provincial Governor trimmed his workforce from 1,500 to approximately 800 positions; in Cebu, personnel was cut by 70% from 2,500 to 750. It is doubtful in both instances if there was any corresponding decrease in the productivity of provincial operations.

Financial Capability

Service standards are not used by departments in the national government, and is yet to be appreciated by local government. However, the concept of effective budget in the general supervision of local governments by the Department of Interior and Local Government has been utilized for the past eight years, and historical records of service standard are available for that period.

When used in local government budget analysis, service standards per capita are dependent on three factors:

- Perception of cities as to the priority of a specific service or services;
- Affordability on the part of the city to deliver certain services;
- Political accommodation.

A review of city budgets for 1992 and their expenditure patterns indicates that only limited areas of city administration can be covered with present resources. Levels of revenues and expenditure illustrate the fact that cities will find it hard to provide even basic services. This is supported by the findings on per capita service allocations, which indicate an uneven match-up between revenue and expenditure. It is obvious that new approaches to financing and new sources of revenue outside of traditional sources will be necessary for cities to perform their functions in full.

To remedy this financial "anemia", cities can consider the following options:

1. Full implementation of the taxing powers of cities under the City Law provisions in the Local Government Code.

Without driving out business, full taxing powers should be exercised. Codification of city tax ordinances would be a first step in the preparation of strategies to implement this. The experiences of the municipalities of Makati and Urdaneta, Pangasinan would be very instructive to other cities and towns. In Urdaneta after its tax codification project, P300,000 was generated in the following 11 months from one tax source alone.

2. Increase tax collection efficiency

Performance records of cities studied in revenue generation indicate that there is much room for improvement. One innovative approach would be to develop an incentive-based formula that would tie efficiency of local tax collection to proportional increases in a city's IRA allotment. For instance, an improvement in local tax collections could be provided a counterpart increase in IRA allotment. A

similar formula for local debt reduction is considered under the LGC and can likewise be applied to the allocation of IRA.

3. Prioritize resource allocations

Establishing a system of prioritizing resource allocations allows a city to channel scarce resources in the most productive manner, ensuring that activities and projects will have the maximum use and impact.

Integrated Strategic Forecasting

As urbanization outpaces local governments' capacity to manage growth and provide services, concerns are raised regarding the future quality of life in urban areas. One innovative approach involves modeling future scenarios, which allows planners and policy maker to ask "what if?" and formulate anticipatory policies to potential problems.

This scenario building technique is called Integrated Strategic Forecasting (ISF), which help cities develop their ability to respond to urban problems by formulating responsive public policies that will influence probable outcomes in the future. The ISF concept emerged from the recognition that urbanization is a function of various interacting variables such as demographic, social and economic forces.

Forecasting and relevant integrated analysis can help policy makers and development planners, including the interested public, to share their respective views rationally. The public can be made aware that forecasting is a tool for attaining informed judgement.

The concept of ISF is being used by the Bureau of Local Government Supervision (BLGS) in the cities of Cebu and Cagayan de Oro, the Province of Cebu, and the municipality of San Fernando, La Union in determining service requirements like health, housing and employment using population growth as the key determinant factor.

4. Efficient use of Internal Revenue Allotment (IRA)

Cutting down the size of the bureaucracy and increasing the efficiency in the provision of city services will allow cities to use funds less for overhead and more for development. The exemplary experience is of the Provinces of Bulacan and Cebu in reducing administrative expenses have been cited earlier in this section.

5. Loan acquisition

Now that cities are authorized to secure both domestic and foreign loans, credit financing can be utilized to support urban projects that exceed city budgets. Revenue generating projects such as markets, abattoirs, bus stations, etc. will be

even more bankable, and will allow cities to avail of financial leverage to maximize the use of their funds.

Few cities have taken advantage of this option because they are unable to package bankable projects. DBP, has opened a local government "window" specifically for this purpose and six towns will be selected as pilot areas. DBP will provide credit financing for their construction equipment requirement.

6. Bond Flotation

While the bond float as an instrument for the development of cities and towns is relatively new in the country, this can be considered to raise revenue for urban projects, particularly when the exercise is coupled with the promotion of the local investment climate.

Cebu Bonds

There were previous attempts by the Cities of Cebu and Iloilo to float city bonds for the purposes of generating funds for city projects. Both ventures were stymied by legal issues and failed to get off the ground.

The Province of Cebu, however, utilized Section 299, Title 4 under the 1991 Local Government Code to "incur public debts" through the floatation of Cebu Equity Bond Units. Developed under the leadership of former Governor Emilio R. Osmeña, the program offers bonds to the public with a par value of P1.00 per share, at a minimum purchase of 10,000 units. The bonds provide a fixed interest of 16% per annum, payable semi-annual on a tax-free basis.

The managing underwriters of the Cebu Equity Bonds are the Bank of the Philippine Islands and the Development bank of the Philippines. As of 25 June 1992, according to the Provincial Treasurer's Office, proceeds from bond sales total P267 million.

7. Sale of city properties

Cities requiring finances to cover capital intensive infrastructure projects may sell city properties. Cebu's bond issue is actually a way of disposing of provincial properties. Under the bond issue, Cebu Province stands to benefit not only from the productivity which will be generated when the idle land is developed, but the proceeds from the issue will be used for the development of other areas as well.

8. Financing development in partnership with the private sector

Financial capacities of cities to provide service delivery infrastructure can be enhanced through private financing, joint ventures, or by Build, Operate and Transfer (BOT) and Build-Transfer (BT) schemes.

Local government as well as the private sector needs to be provided with effective guidelines and manuals on how to proceed with such joint venture schemes.

9. Inter-local financing

Towns can pool their funds to finance a project collectively beneficial to them. Examples of these projects are flood control systems, environmental conservation, traffic management and other special development areas and projects. For Pagadian and San Fernando, La Union it is apparent that these LGUs will be unable to finance the devolved operations of government hospitals in their areas. Inter-local arrangements can solve the financial problem and the public stands to benefit. One successful example of inter-local arrangement is in the City of Tagbilaran, where a water works system was developed through an inter-local financing scheme.

Special Development Areas

Projects which have strategic significance in meeting the country's socio-economic development objectives should be supported through the designation of appropriate land as a "Special Development Area". These could include::

- Major industries or development projects which will "pioneer" in secondary cities, such as RIC sites, industrial estates, and new town development.
- Priority projects identified under the local development plan, key road and rail rights-of-way; transport terminals to alleviate traffic congestion; rehabilitation of ecologically sensitive zones; parks; and utility corridors.
- Resettlement projects for calamity victims and evicted squatters;
- Other sites which may be proposed under an urban development strategy.

Land assembly under "Special Development Areas" will encounter problems with reclassification, consolidation, acquisition, and titling. Supportive policies and guidelines which facilitate development of these lands for needed projects on a "fast track" basis should be implemented.

10. Special Assessments

The cities can likewise undertake projects in their jurisdiction through special assessments, which allow project beneficiaries to advance the financing of projects under a tax payment credit system. A portion of Colorado Street, now Felipe Agoncillo Street, in Malate, Metro Manila was constructed through the utilization of special assessments. Given the proper consultation with the urban constituencies concerned, special assessments can be a highly effective tool for infrastructure provision.

11. User charges

Users charges and other cost recovery schemes can be introduced by many cities in the planning and operations of infrastructure projects. For the financing of these projects the potential revenue will improve project viability and make it more bankable. The previous Metro Manila Commission (MMC) actually considered user charges for all vehicles entering the NCR, but this was never implemented. The philosophy behind the charge is that vehicles entering the NCR should share in the maintenance and upkeep of city roads. Such a scheme would not only generate needed revenue, but would also serve to reduce the vehicle load currently handled by the NCR's already overburdened road network.

SECTION 5.0

**CONCLUSIONS
AND
RECOMMENDATIONS**

CONCLUSIONS AND RECOMMENDATIONS**The Role of the Philippine Urban Sector**

At this point in time, the Philippines has likely passed the demographic transition point as far as urbanization is concerned. The 1990 Census of Population showed that the urban populace constituted nearly half (48.8%) of the total population of the country. The urban population growth rate of (5.14%) is more than twice that of the overall national average (2.33%) and which growth has been traced to favor more the fast-growing and rapidly urbanizing provincial capitals and municipalities. Moreover, more than three-fourths (77.2%) of the country's GDP was generated by the heavily urban-based industry and service sectors. Despite the growing importance of the urban sector however, GOP policies and programs have failed to properly support the sector.

Interest rate instability, taxation, and debt management policies have resulted in a shortage of funds with which to support the capital and operating requirements of national economic growth, including urban growth. Protectionist trade and tariff policies have hampered the growth potential of urban-based manufacturing industries by coddling these industries, most of which are in the NCR, instead of encouraging their evolution, dispersion, and strengthening under competitive terms in the free market.

Recently promulgated GOP legislation and plans have failed to consistently address the problems which have inhibited urban centers from turning into competitive economic generators. Present urban-related national and local level policies are characterized by the following:

- **Absence of a national urbanization strategy.**
- **Policies do not reflect an understanding of the role of cities in national economic development.**
- **Policies and programs have been formulated without determining where growth is actually occurring.**
- **Weak urban poverty programs in relation to national economic development policies.**
- **Poor coordination of programs and projects.**
- **Limited role of private sector in urban development.**

- **Multiple agencies responsible for urban development.**
- **Weak environmental considerations in urban-related policy-making.**
- **The metropolitanization phenomenon is not presently effectively addressed.**

The scattered and weakly coordinated urban development efforts of the GOP have resulted in urban centers not being able to effectively maximize their comparative advantage in terms of strategic location and supportive natural features. With limited financial resources and institutional support generated by weak GOP urban-related policies and programs, urban centers have likewise not fully and effectively addressed their respective socio-economic, infrastructure, environmental, and institutional problems.

Issues and Opportunities

The challenges posed by the new Local Government Code (LGC) require that urban centers restructure and improve the efficiency of their respective operations. In discussions with national leaders and officials, local officials, and private sector groups, the problems of urban development arise as major points of concern. The identification of many obstacles to urban productivity and a better appreciation of the influence of market forces in development reveals new opportunities for revised policy and legislation leading to a comprehensive and rational urban development strategy, and subsequently, the provision of supportive intervention, supplemental training, and appropriate local development management efforts.

The recent very creative responses of local city executives to their very serious financial and urban services demand, give cause for optimism that urban centers can meet the demands of the time and effectively adjust to their increasingly growing role in national development. The internal initiatives of urban center executives have to be properly supported by an appropriate urban development plan that is a product of an effective multi-sectoral and inter-disciplinary effort and which will balance national, local, and sectoral considerations. In such a plan, government resources are optimally used which can be effectively matched by private sector endeavor.

Institutional Considerations for Urban Development

At present, overall responsibility is subdivided between various national government agencies (NGA) for the formulation and coordination of broad urban development policies, prioritization of investment programs, and the provision of policy instruments and projects which affect urban economies and development. The prevailing lack of clarity in the

allocation of functions and responsibilities to agencies at various levels spoils the effectiveness of policies and plans and diminishes the impact of programs and projects. The national government will eventually need to designate a consolidating group which can focus on urban development matters and provide the necessary overall strategy, planning guidelines, standards, conflict-resolution mechanisms, and other general support that cities and towns may rationally assume their role in local urban development.

In line with the government's preference for simplifying the composition of line agencies due to constrained resources, an existing institution such as HUDCC can be elevated, strengthened, and transformed into an effective lead national agency, clothed with sufficient stature and implementing abilities to promote, direct, synchronize, and unify urban development efforts and activities. It should be directly linked to the socio-economic planning activities of NEDA for urban policy formulation and laterally to NGAs implementing urban development projects for prioritization, coordination, and facilitation.

The basic premise of an effective urban development policy is that individual city-level development planning and project implementation efforts are in the end the sole responsibility of the individual city governments. National urban development policy must then be supportive of such city-level efforts. The formulation of the policy require proper consultation and inputs from local officials such that national-level investment programs and policy instruments related to the development of urban areas and their economies are prioritized based on the actual local "felt-needs" of the urban centers. From a wider perspective, the policy should also recognize the development impact of collective and interactive market-driven activities between urban centers and thereby guiding, facilitating, and regulating metropolitan-type growth wherever advisable, advantageous, and necessary.

Recommendations and Suggestions

Emerging issues and problems within the urban development sector were identified during the course of the study. Clearly, many issues overlap into other categories, and most relate back to the general discussion under policy correlation. Many recommendations likewise need to cross sectoral lines, which emphasizes the formidable obstacles to development under the present set-up in the absence of an explicit urban policy. It is evident then that only through the coordinated efforts of the national government, local city governments, and the private sector will cities finally live up to their appropriate role in newly industrializing countries, as "engines of growth". The following matrices and chart present the various emerging issues, recommended actions for consideration, and the proposed institutional structure strengthening for urban development.

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.1 POLICY CORRELATIONS			
1. Absence of an integrated national urban development policy	<ul style="list-style-type: none"> • Formulation and adoption of an integrated national urban development policy which shall include: <ul style="list-style-type: none"> - Integration into the MTPDP and NPPF - Linking economic development with a national spatial system of cities and regional development - An implementing process within an institutional structure for urban development - Mutual agreement on the roles and functions of cities - An urban land use policy • Conduct a comprehensive study on urbanization and urban development in the country 	<ul style="list-style-type: none"> • Review existing Local Development Plan and planning processes in the context of national policies and priorities • Implement a shift in the planning approach from sectoral to spatial • Participate/Conduct more capability-building on strategic and spatial planning 	<ul style="list-style-type: none"> • Private sector programs and projects should be planned and implemented within the framework of the Local Development Plan and the national urban development policy • Adopt and institutionalize a public-private partnership in urban development planning
	2. Absence of a separate urban development section in the MTPDP	<ul style="list-style-type: none"> • Integrate a separate chapter on urban development in the successor MTPDP • Integrate and elevate the NLUC as a NEDA Board Inter-Agency Committee 	<ul style="list-style-type: none"> • Encourage inputs from cities in the formulation of the urban development section of the MTPDP

URBAN DEVELOPMENT SECTOR REVIEW

	ISSUES	RECOMMENDED ACTIONS		
		NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
	3. Need to identify, classify, prioritize and develop secondary and intermediate cities	<ul style="list-style-type: none"> • Delineate a network of urban and urbanizing areas within a hierarchy of roles and functions • Institute a process and mechanism within a single organization (HUDCC?) to identify and facilitate urban growth and promote Agency/LGU collaboration 	<ul style="list-style-type: none"> • Increase awareness on the part of the cities of their roles and functions in national development 	
65	4. Concentration of population and economic activities in the Metro Manila area because of unintended biases generated by macro-economic policies	<ul style="list-style-type: none"> • Analyze and evaluate macro-economic and administrative policies as to their unintended effects on urbanization 	<ul style="list-style-type: none"> • Cities should explicitly determine their comparative advantages for urban and economic growth 	<ul style="list-style-type: none"> • Private sector should determine the effects of implicit policies as they influence their investment plans
	5. Absence of explicit consideration of population policy in the urban development sector	<ul style="list-style-type: none"> • Support efforts to integrate population concerns of various agencies into the Settlements Component of the MTPDP and the NPPF • Pursue Government's Countryside Agro-Industrial Development Strategy (CAIDS) to develop medium and small sized cities 	<ul style="list-style-type: none"> • Local Governments should increase their support of the national population program • Local Government should anticipate the consequences of population growth through Integrated Strategic Forecasting, c.f. Cagayan de Oro, San Fernando (La Union) • Local Governments should adopt policies to support CAIDS 	<ul style="list-style-type: none"> • The formal and informal private sector should support the national population program through information, education and communication (IEC), and other necessary measures in the community and market place

URBAN DEVELOPMENT SECTOR REVIEW

	ISSUES	RECOMMENDED ACTIONS		
		NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
	3.2 ADMINISTRATION			
	1. The need for cities to undertake organizational restructuring	<ul style="list-style-type: none"> • Civil Service Commission to provide organizational models for cities 	<ul style="list-style-type: none"> • Cities can undertake reorganization using any combination of three options in the study Option 1: Cities maintain their present structures Option 2: Cities create new offices and abolish others Option 3: Cities reduce personnel through privatization of selected services 	<ul style="list-style-type: none"> • Recommend to local governments services which could be privatized
66	2. The need for cities to upgrade their overall capabilities and respond more effectively to urbanization	<ul style="list-style-type: none"> • Provide technical and financial assistance for city capability building through DILG, NEDA, HLURB and national training institutions 	<ul style="list-style-type: none"> • Cities to streamline their bureaucracies by adopting modern technology to improve internal systems, c.f. Bulacan and Bacolod 	<ul style="list-style-type: none"> • Provide training program modules or models of management and organizational productivity
	3. The need for cities to codify their administrative issuances for the effective exercise of their regulatory powers	<ul style="list-style-type: none"> • Implement E.O. 870 which requires all Departments to review, evaluate and codify their administrative issuances 	<ul style="list-style-type: none"> • Cities to undertake codification of administrative issuances for more effective exercise of regulatory powers 	<ul style="list-style-type: none"> • Provide necessary inputs into the formulation of city ordinances

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.3 LEGISLATION			
1. Need to amend selected provisions of the Local Government Code of 1991	<ul style="list-style-type: none"> Local Government Committees of Congress to review provisions which are restrictive and non-supportive to the formulation of a national urban development policy 	<ul style="list-style-type: none"> Cities and local governments to provide inputs as to which local provisions are to be amended 	
2. Metropolitanization	<ul style="list-style-type: none"> Passage of legislation which clarifies the political structures of metropolitan areas, i.e. Metro Manila, Cebu, Davao, Baguio and Bacolod 	<ul style="list-style-type: none"> Affected local governments to adopt resolution endorsing the recommended clarifications 	

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.4 ACCESS TO LAND			
1. Absence of land use conflict resolution mechanisms	<ul style="list-style-type: none"> Establish an inter-sectoral body under an urban development authority (see 5.1.7.1) to resolve land classification issues 	<ul style="list-style-type: none"> Preparation of local Comprehensive Development Plan (CDP) rationalizing key project areas & expansion areas 	<ul style="list-style-type: none"> Integration of private development plans with CDP as much as possible
2. Increasing land values and speculation constrain government acquisition of land	<ul style="list-style-type: none"> Support local CDPs by providing special facilitating policies and incentives to address obstacles to land assembly, acquisition & development by Government Exemption from capital gains tax for land acquisition by Government 	<ul style="list-style-type: none"> Implementation of joint venture project and land readjustment arrangements wherever applicable Projection of strategic city facilities in the CDP for consideration in future microplanning 	<ul style="list-style-type: none"> Participation in joint venture projects with Government Provision of sites for necessary public utilities/ facilities within private development plans
3. Conflicting legislative provisions as to the use of idle government lands	<ul style="list-style-type: none"> Clarify the provisions of CARL, UDHA and the LGC pertaining to the use of idle government lands 	<ul style="list-style-type: none"> Identify idle government lands and project its possible use in the CDP 	
4. Inadequate alternatives for squatters	<ul style="list-style-type: none"> Strengthen program criteria for upgrading and/or relocation of squatters Implement housing strategies under UDHA for the provision of alternatives for squatters 	<ul style="list-style-type: none"> Promote effective socio-economic programs for the urban poor Formalize assistance to NGOs and urban poor communities Implement regulations safeguarding idle government lands 	<ul style="list-style-type: none"> Participate in urban poor programs concerning skills training, livelihood projects, and social housing projects Collaborate with local government in formalizing informal service sector activities

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.5 INFRASTRUCTURE PROVISION			
1. Lack of sectoral coordination in prioritization of urban infrastructure projects	<ul style="list-style-type: none"> • Identification and prioritization of secondary cities to be supported under a national urban development strategy 	<ul style="list-style-type: none"> • Projection, identification and prioritization of necessary city infrastructure projects 	<ul style="list-style-type: none"> • Collaboration in planning infrastructure projects wherever possible
2. Lack of sectoral coordination in implementation of urban infrastructure projects	<ul style="list-style-type: none"> • Provision of a mechanism to effect inter-sectoral coordination in prioritization of urban projects 	<ul style="list-style-type: none"> • Synchronization of the development of various city projects with externally funded projects as much as possible 	<ul style="list-style-type: none"> • Synchronization of private projects with city plans and projects as much as possible
3. Inadequate funding for city infrastructure	<ul style="list-style-type: none"> • Establishment of clear implementation guidelines in the IPDP and the related IPPBS • Provision of adequate guidelines and single information center for facilitating project privatization schemes • Recommendation on placement of foreign funded projects based on a national urban development strategy 	<ul style="list-style-type: none"> • Exercise effective and innovative revenue generation activities for infrastructure projects • Encouragement of private sector participation in infrastructure provision 	<ul style="list-style-type: none"> • Participation in ST and BOT projects • Implementation of infrastructure development within private projects in support of the GPPF • Fund raising activities by civic groups for city infrastructure

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
8.8 URBAN FINANCE			
1. Inadequate urban finance for infrastructure and services	<ul style="list-style-type: none"> Review and amend resource allocation policies, i.e. IRA, and other national assistance to Local Governments Formulate liberal credit policies for financing urban projects, e.g. DBP, LBP and SSS 	<ul style="list-style-type: none"> Optimize the use of taxing powers, e.g. real property tax, business tax, licenses and fees Improve tax collection efficiency Use other options, i.e. floating of bonds, special assessment levies and user charges Update the rates and improve cost recovery of urban services Reduce city government personnel 	<ul style="list-style-type: none"> Increase commercial lending for urban development projects Participation in privatization efforts of government Participation in the bond market
	2. Politics inhibits bureaucratic efficiency and the complete exercise of various taxing powers		<ul style="list-style-type: none"> Formulate politically acceptable balance between complete implementation of taxation and selective use of various tax measures Prepare prospectus for privatization, manualize program steps for transparent transactions.

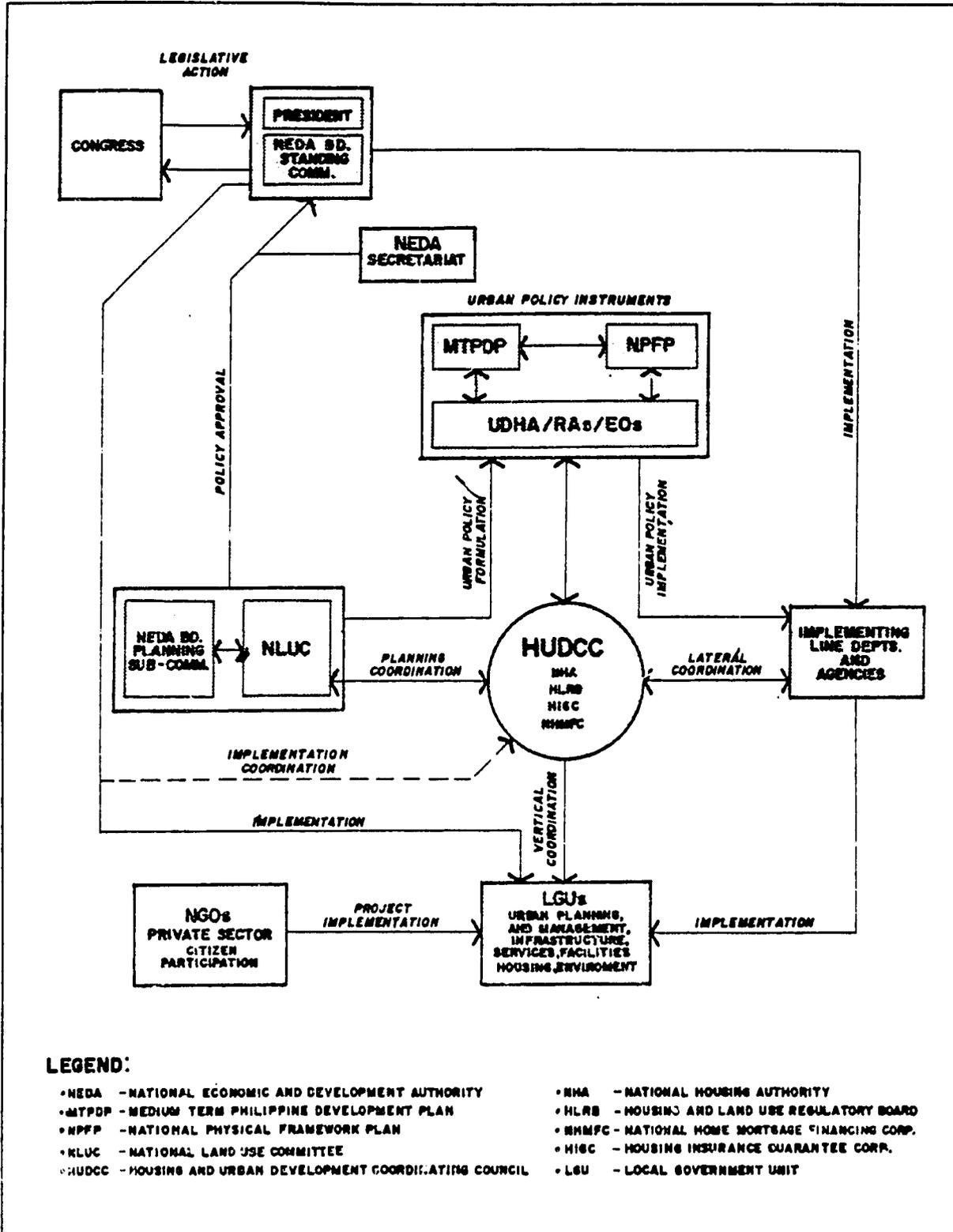
URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.7 INSTITUTIONAL DEVELOPMENT			
1. Weak alignment of policies and poor coordination of programs across various levels of organizations and LGUs	<ul style="list-style-type: none"> Put up an effective lead urban development authority empowered to act as the overall coordinator for urban development (HUDCC?) Put up an effective inter-agency body (NLUC?) organized to formulate national urban policies to assist the urban development authority 	<ul style="list-style-type: none"> Strengthen the CPDO as the coordinating body in the city Strengthen city planning and development councils 	<ul style="list-style-type: none"> Strengthen the involvement of the private sector in the urban development process: functionally, technically, financially, and operationally
2. Weak involvement of the private sector in the planning process	<ul style="list-style-type: none"> Conduct mandatory consultations in policy formulation/program identification 	<ul style="list-style-type: none"> Mobilize citizen and institutional participation in the urban planning process 	<ul style="list-style-type: none"> Greater involvement of the informal sectors in urban planning and development
3. Weak urban services delivery systems	<ul style="list-style-type: none"> Include private sector representation in the NLUC Implement provisions of LGC requiring consultation with local governments in the planning and implementation of national projects 	<ul style="list-style-type: none"> Involve beneficiaries in the management and maintenance of urban services delivery systems 	<ul style="list-style-type: none"> Privatize selected services; "peopleize" other services
4. Weak or lack of linkage in planning programming, budgeting and information systems in urban development	<ul style="list-style-type: none"> Evaluate the existing IPPBIS to improve lateral consultation among agencies involved in urban development 	<ul style="list-style-type: none"> Institutionalize synchronized planning, programming, budgeting and information systems within and between local government departments and national agencies Link city systems to the national IPPBIS 	

URBAN DEVELOPMENT SECTOR REVIEW

ISSUES	RECOMMENDED ACTIONS		
	NATIONAL GOVERNMENT	LOCAL GOVERNMENT	PRIVATE SECTOR
5.8 URBAN ENVIRONMENTAL MANAGEMENT			
1. Lack of appreciation of environmental issues in urban development	• Integrate urban environmental management with urban planning systems	• Integrate explicit urban environmental considerations within the local CDP	• Integrate required urban environmental considerations within private development plans
	• Strengthen regional level urban environmental management capability and mandate the need for inter-local joint efforts	• Strictly enforce regulations on pollution & forest preservation, and promote resource conservation	• Undertake active information and education campaign; encourage monitoring and follow-up by citizens/NGOs
	• Impose penalties and fines for violators to be directly remitted to the concerned cities for the establishment of an environmental protection fund	• Actively coordinate and generate projects among neighboring LGUs sharing common environmental concerns	• NGOs to source development funds for environmental concerns
	• Recommend the placement of foreign-funded programs and projects for priority areas under the national urban development strategy	• Exercise effective and innovative revenue generation activities for environmental projects and capability-building	• Involvement in privatization efforts of government
	• Include explicit section on disaster mitigation for urban areas in the MTPDP	• Encourage private sector participation in urban environmental management and project generation	• Civic groups to undertake fund raising activities and generate programs for city environmental projects
	2. Inadequate alternatives for squatters	• Strengthen program criteria for upgrading and/or relocation of squatters	• Promote effective socio-economic programs for the urban poor
• Implement housing strategies under UDHA for the provision of alternatives for squatters		• Formalize assistance to NGOs and urban poor communities	• Participate in urban poor programs concerning skills training, livelihood projects, and social housing projects
		• Implement regulations safeguarding ecologically sensitive areas	

5.9 STRENGTHENING INSTITUTIONAL STRUCTURE FOR URBAN DEVELOPMENT



ACKNOWLEDGEMENT

The study team wishes to acknowledge the valuable contribution of the members of Project Steering Committee composed of Housing and Urban Development Coordinating Council (HUDCC), National Economic and Development Authority (NEDA), Department of Interior and Local Government (DILG), Department of Trade and Industry (DTI), Department of Public Works and Highways (DPWH), Department of Transportation and Communication (DOTC) and the other agencies and institutions which have extended assistance to the project.

Our gratitude is extended to the mayors, city and municipal planning officers and staff of the local government units for their cooperation during the conduct of our field visits. We also wish to recognize the role of Mr. Jose Antonio League as a resource person during the study stage and the contributions of Ms. Marilyn del Rosario and the staff of HUDCC and CONCEP for the physical preparation of the report.