

PS-ABS-867

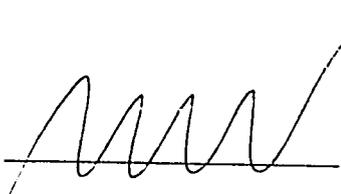
A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.  
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

<b>A. Reporting A.I.D. Unit:</b> Mission or AID/W Office <u>USAID/Philippines</u> (ES# _____)		<b>B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?</b> Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY _____ Q _____		<b>C. Evaluation Timing</b> Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
<b>D. Activity or Activities Evaluated</b> (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
492-0388	Decentralized Shelter & Urban Development (DSUD)	FY '90	9/93	4,000	4,000

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director		Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required			
(1) Extend DSUD to provide additional time for the project to fully achieve its objectives, including GOP compliance to the expanded Policy Matrix.		H. Dickherber	7/94
(2) Determine which area with the highest pay offs for remaining technical assistance resources and program then up to the project termination date to sustain momentum established by on-going activities.		J. Dulce	10/94
Clearance: OD/ADD: Mark S. Ward 		(Attach extra sheet if necessary)	

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation:				
	(Month)	(Day)	(Year)	
G. Approvals of Evaluation Summary And Action Decisions:				
Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	Harold Dickherber Chief, ONRAD/DLD	Aniceto Sobrepena DDG, NEDA	Sulpicio S. Roco Dev Assistance Specialist, PRM	Gordon H. West Acting Director, USAID
Date	Sept. 1, 1994	November 3, 1994	October 11, 1994	November 18, 1994

A B S T R A C T

**H. Evaluation Abstract** (Do not exceed the space provided)

Launched in September 1990, the DSUD Project supports the Government of the Philippines (GOP) decentralization program and on improving the delivery of urban shelter infrastructure, basic services, access to housing, and the development of self-sustaining financing systems for cities. This final evaluation was conducted by the Urban Institute team by assessing the extent to which the project has successfully supported the government's decentralization program, reduction of urban infrastructure constraints and improvement of delivery systems for urban shelter services. This was done through review of documents, interviews and site visits to cities.

**Major Findings/Conclusions:**

- \* DSUD helped cities in achieving rapid progress through innovative development approaches;
- \* Through DSUD technical assistance and training, cities are now able to increase revenues, avail credit, use modern technology as tools for development planning, increase urban poor access to housing and share successful experiences in urban management;
- \* DSUD will achieve all its objectives in full should completion date be extended for 9 months;
- \* USAID assistance through DSUD has proven to be an effective means of furthering the decentralization program;
- \* Additional support through USAID Housing Guaranty should be considered as part of new decentralization project, particularly on urban environmental infrastructure.

**The evaluators noted the following lessons learned:**

- DSUD provides a good model for how a policy-based sectoral Housing Guaranty Program can be made to work.
- With a framework for decentralization in place, USAID assistance is likely to be more productive if it directly supports local initiatives rather than working through central government agencies.

C O S T S

**I. Evaluation Costs**

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Dr. G. Thomas Kingsley	Urban Institute	PCE-1008-I-00- 2070-00	\$62,317	DSUD
Mr. Maris Mikelsons	"			
Ms. Rowena W. Guanzon	"			
Ms. Marcia Feria-Miranda	"			

2. Mission/Office Professional Staff Person-Days (Estimate) _____	3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____
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## A.I.D. EVALUATION SUMMARY - PART II

### SUMMARY

**J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)**

Address the following items:

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Purpose of evaluation and methodology used</li> <li>• Purpose of activity(ies) evaluated</li> <li>• Findings and conclusions (relate to questions)</li> </ul> | <ul style="list-style-type: none"> <li>• Principal recommendations</li> <li>• Lessons learned</li> </ul> |
|--|--|

Mission or Office:

Date This Summary Prepared:

Title And Date Of Full Evaluation Report:

### Executive Summary

**Objective:** The Urban Institute conducted an evaluation of DSUD for USAID/Philippines from April 11-29, 1994. The purpose of the evaluation was to:

- obtain an analytical report that assesses and documents the extent DSUD contributed to the government's decentralization program;
- provide USAID with an objective assessment of options for a follow-on activities and possible new Housing Guaranty (HG) funding; and
- serve as basis to assess the GOP's compliance to the third tranche policy indicators.

**Nature of the Program:** The DSUD provides a total of \$50 million in Housing Guaranty Loan resources, to be released in 3 performance-based disbursements and \$4 million in Economic Support Fund for technical assistance and training. The HG loan component shall be released upon the government's satisfactory performance in meeting the benchmarks in the Policy Matrix. The technical assistance and training component supports the GOP's urban decentralization policy agenda by funding: 1) Policy Analysis; 2) Systems Development Studies; 3) Support for Advancing Policy Dialogue; and 4) related training/conferences, workshops/seminars. The project's PACD is September 1994.

**Purpose of the Evaluation & Methodology Used:** The main purpose of the evaluation is to conduct an objective assessment of the extent DSUD advanced and supported the government's decentralization program. Also, it is a means to strengthen the program during its remaining months and possible future directions for USAID assistance to the GOP decentralization agenda. It is also designed to assess GOP's compliance to the third tranche policy indicators.

The evaluation examined activities under all of the program's components: 1) GOP performance under the Policy Matrix; 2) The technical assistance and training programs; and 3) Investment plan.

The evaluation was conducted by a team consisting of two U.S. senior urban policy specialists and two Philippine experts over a three-week period in April 1994. The evaluation team examined the record of policy change as documented in GOP reports and contractor's assessments; analyzed unpublished information on sectoral investment and financing; reviewed DSUD training and technical assistance reports; and interviewed selected 61 individuals from various GOP agencies, officials from six cities and League of Cities, technical assistance and training consultants, USAID, ADB, and World Bank Staff.

### Findings & Conclusions:

#### Impact on Philippine Decentralization -

Before the DSUD implementation, government planning and implementing development activities was highly centralized. Efforts have been made to further decentralized but its success would depend on: a) the passage of the new Local Government Code; and b) the capability of LGUs to respond to new responsibilities and authorities.

cont...

DSUD's timing was perfect. In October 1991, the new Code was passed providing sweeping changes in local governance. Initial implementation was rather rough but accomplishments are being made. Transfer of central staff and budget resources to LGUs have been occurring. City Mayors are the new leaders in innovations using modern technology in planning, accessing credit from financial institutions, facilitating urban poor access to housing finance, etc. DSUD facilitated this transformation through technical assistance and training.

### DSUD's Overall Performance -

DSUD have been structured around a Policy Matrix with a specified policy objectives set by GOP with USAID concurrence. Evidence showed that DSUD has been successful, with the existence of the Policy Matrix and the continuing USAID/GOP dialogue, in expediting and achieving policy objectives. The project made important contributions to decentralization that went beyond its expectations through the use of technical assistance and training components in terms of: 1) establishing pro-active approach to decentralization among City Mayors; 2) stimulating the spread of innovative practices among cities; and 3) raising national awareness on the challenges of rapid urbanization.

### Specific Accomplishments Under Policy Matrix -

Through DSUD and in response to specific Policy Matrix requirements, GOP and the cities have so far: increased city's tax collection by 57 percent; developed new approaches in revenue generation and financial management; developed sound approach to capital investment planning and budgeting; expedited decentralization of public works function to cities; inventoried idle public lands leading to identifying public land for housing; completed ratification of land use plans and zoning ordinances; secured completion of new housing units for low income families; initiated projects that provide land tenure to 19,281 poor urban families under the Community Mortgage Program (CMP) and motivated policy reforms of the CMP.

### Specific Accomplishment Under TA & Training -

The DSUD's direct technical assistance to cities has been particularly valuable over the past years in securing major changes in local capacity in a short period of time and in a manner that enhances the likelihood they will be sustained. As an example, some cities implemented notable innovations, ranging from computer-based tax management systems to a new method of land use mapping using U.S. GIS technology with high resolution Russian satellite imagery. This will dramatically reduce the cost of reliable analysis of land use change, the lack of which has been a significant barrier to effective development planning in the past.

One of the most notable contribution of DSUD to cities has been the support for the "Sharing Program". Under this activity, City Mayors and other city officials come to a seminar and discussed the common concerns and learned about innovative techniques from other cities who have successfully implemented them. Topics ranges from effective traffic management, revenue generation, tax collection, peace and other, environmental protection, etc. This activity clearly demonstrated that mayors must reach out to take advantage of empowerment granted them under the new Code.

Cities were introduced to new sources of financing with the conduct of the local government credit finance seminars. Financial sectors leaders together with city officials attended a week-long seminars on how cities can avail credit from banking institutions. Financial institutions' response was encouraging. A number of banks open new credit windows for LGUs enabling cities to avail P2 billion worth of credit to finance local projects. This amount far exceeds the P500 million extended by the banking sector to LGUs in the past 15 years.

cont...

## S U M M A R Y (Continued)

Overall, DSUD has supported the production of 40 technical reports, the convening of 26 individual conferences, seminars involving 683 participants and hands-on technical assistance to 11 individual cities implementing improvement program geared towards achievement of the Policy Matrix indicators.

The evaluation team concluded that the institutional base for effective governance in Philippine cities has been set through the contribution of DSUD and GOP's decentralization program. All the cities have to do is to expand their efficiency and output. The rapid urbanization poses a real challenge to cities. It is certain that the absolute amount of urban growth will be higher in the years to come. Accommodating this growth represents the greatest challenge to Philippine cities.

The provision of adequate basic infrastructure, land development and sound urban management will be the key to the outcomes. Expanding capacity to manage urban growth effectively will place enormous responsibility on the executives and legislatures in cities where most of this growth will occur.

### Principal Recommendation:

The evaluation team recommends to extend the project completion date for nine months to enable GOP fully complete the targets established in the Policy Matrix. DSUD has available technical assistance resources that can be programmed to support activities in the extension period.

Also, remaining technical assistance fund should be focused in areas where they have had the highest pay offs in the past: the "Sharing Program", hands-on work on selected cities in areas of financial management, credit finance, capital investment planning, and land use planning.

Further, USAID assistance to continue the momentum generated by DSUD in advancing the decentralization objective is recommended, particularly in addressing the country's growing rapid urbanization.

A new program support through USAID HG should be considered as part of any new decentralization project. This additional HG resources could be used to enhance a sustaining system to finance urban environmental infrastructure.

### Lessons Learned:

- 1) DSUD provides a good model for how a policy-based sectoral HG program can be made to work. It demonstrates that long-term involvement in an integrated program, with clearly focused policy sub-objectives can lead to important, measurable policy change while avoiding the dangers of project fragmentation. The approach should be replicable elsewhere.
- 2) Where local democracy exists along with an appropriate framework for decentralization with accountability (such as that provided by the Philippines' new Local Government Code), USAID assistance is likely to be more productive if it directly supports and facilitate local initiatives (by local governments in concerts with NGOs and the private sector), rather than working primarily through central government agencies.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report



**INSTRUCTIONS FOR COMPLETING AND SUBMITTING  
"A.I.D. EVALUATION SUMMARY"**

This form has two parts. Part I contains information to support future A.I.D. management action, and to process the evaluation into A.I.D.'s automated "memory". Part II is a self-contained summary of key elements of the full evaluation report; it can be distributed separately to interested A.I.D. staff.

**WHAT WILL THIS FORM BE USED FOR?**

- Record of the decisions reached by responsible officials, so that the principals involved in the activity or activities evaluated are clear about their subsequent responsibilities, and so that headquarters are aware of anticipated actions by the reporting unit.
- Notification that an evaluation has been completed, either as planned in the current Annual Evaluation Plan or for *ad hoc* reasons.
- Summary of findings at the time of the evaluation, for use in answering queries and for directing interested readers to the full evaluation report.
- Suggestions about lessons learned for use in planning and reviewing other activities of a similar nature. This form as well as the full evaluation report are processed by PPC/CDIE into A.I.D.'s automated "memory" for later access by planners and managers.

**WHEN SHOULD THE FORM BE COMPLETED AND SUBMITTED?** After the Mission or A.I.D./W office review of the evaluation, and after the full report has been put into a final draft (i.e., all pertinent comments included). The A.I.D. officer responsible for the evaluation should complete this form. Part of this task may be assigned to others (e.g., the evaluation team can be required to complete the Abstract and the Summary of Findings, Conclusions, and Recommendations). The individual designated as the Mission or A.I.D./W evaluation officer is responsible for ensuring that the form is completed and submitted in a timely fashion.

**WHERE SHOULD THE FORM BE SENT?** A copy of the form *and attachment(s)* should be sent to each of the following three places in A.I.D./Washington:

- The respective Bureau Evaluation Office
- PPC/CDIE/DI/Acquisitions, Room 209 SA-18 (Note: If word processor was used to type form, please attach floppy disk, labelled to indicate whether WANG PC, WANG OIS or other disk format.)
- SER/MO/CPM, Room B930 NS (please attach A.I.D. Form 5-18 or a 2-way memo and request duplication and standard distribution of 10 copies).

**HOW TO ORDER ADDITIONAL COPIES OF THIS FORM:** Copies of this form can be obtained by sending a "Supplies/Equipment/Services Requisition" (A.I.D. 5-7) to SER/MO/RM, Room 1264 SA-14 in A.I.D./Washington. Indicate the title and number of this form ("A.I.D. Evaluation Summary", A.I.D. 1330-5) and the quantity needed.

**PART I (Facesheet and Page 2)**

**A. REPORTING A.I.D. UNIT:** Identify the Mission or A.I.D./W office that initiated the evaluation (e.g., U.S.A.I.D./Senegal, S&T/H). Missions and offices which maintain a serial numbering system for their evaluation reports can use the next line for that purpose (e.g., ES# 87/5).

**B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?** If this form is being submitted close to the date indicated in the current FY Annual Evaluation Plan (or if the final draft of the full evaluation report was submitted close to that date), check "yes". If it is being submitted late or as carried over from a previous year's plan, check "slipped". In either case, indicate on the next line the FY and Quarter in which the evaluation was initially planned. If it is not included in this year's or last year's plan, check "ad hoc".

**C. EVALUATION TIMING:** If this is an evaluation of a single project or program, check the box most applicable to the timing of the evaluation relative to the anticipated life of the project or program. If this is the last evaluation expected to inform a decision about a subsequently phased or follow-on project, check "final", *even though the project may have a year or more to run before its PACD*. If this is an evaluation of more than a single project or program, check "other".

**D. ACTIVITY OR ACTIVITIES EVALUATED:** For an evaluation covering more than four projects or programs, only list the title and date of the full evaluation report.

**E. ACTION DECISIONS APPROVED BY MISSION OR A.I.D./W OFFICE DIRECTOR:** What is the Mission or office going to do based on the findings, conclusions, and recommendations of the evaluation; when are they going to do it; and who will be responsible for the actions required? List *in order of priority or importance* the key actions or decisions to be taken, unresolved issues and any items requiring further study. Identify as appropriate A.I.D. actions, borrower/grantee actions, and actions requiring joint efforts. Indicate any actions that are preliminary pending further discussion or negotiation with the borrower/grantee.

**F. DATE OF MISSION OR A.I.D./W OFFICE REVIEW OF EVALUATION:** Date when the internal Mission or office review was held or completed.

**G. APPROVALS OF EVALUATION SUMMARY AND ACTIONS DECISIONS:** As appropriate, the ranking representative of the borrower/grantee can sign beside the A.I.D. Project or Program Officer.

**H. EVALUATION ABSTRACT:** This one-paragraph abstract will be used by PPC/CDIE to enter information about the evaluation into A.I.D.'s automated "memory". It should invite potentially interested readers to the longer summary in Part II and perhaps ultimately to the full evaluation report. It should inform the reader about the following:

- If the evaluated activity or activities have characteristics related to the reader's interests.
- The key findings, conclusions, and lessons.
- An idea of the research methods used and the nature/quality of the data supporting findings.

Previous abstracts have often been deficient in one of two ways:

- Too much information on project design, implementation problems, and current project status discourages readers before they can determine if there are important findings of interest to them.
- A "remote" tone or style prevents readers from getting a real flavor of the activity or activities evaluated; progress or lack of progress; and major reasons as analyzed by the evaluation.

In sequential sentences, the abstract should convey:

- The programming reason behind the evaluation, and its timing (e.g., mid-term, final);
- The purpose and basic characteristics of the activities evaluated;
- A summary statement of the overall achievements or lack thereof to date;
- A picture of the status of the activities as disclosed in the full evaluation report;
- An idea of the research method and types of data sources used by the evaluators;
- The most important findings and conclusions; and key lessons learned.

Avoid the passive tense and vague adjectives. Where appropriate, use hard numbers. (An example of an abstract follows; "bullets" may be used to highlight key points).

## EXAMPLE OF AN ABSTRACT

The project aims to help the Government of Zaire (GOZ) establish a self-sustaining primary health care (PHC) system in 50 rural health zones (RHZ). The project is being implemented by the Church of Christ in Zaire and the GOZ's PHC Office. This mid-term evaluation (8/81-4/84) was conducted by a GOZ-USAID/Z team on the basis of a review of project documents (including a 4/84 project activity report), visits to nine RHZ's, and interviews with project personnel. The purpose was to clarify some uncertainties about the initial design and set future priorities for activities. The major findings and conclusions are:

- This well-managed and coordinated project should attain most objectives by its 1986 end.
- Progress has been good in establishing RHZ's, converting dispensaries into health centers, installing latrines (over double the target), and training medical zone chiefs, nurses, and auxiliary health workers. Long-term training has lagged however, and family planning and well construction targets have proven unviable.
- The initial assumption that doctors and nurses can organize and train village health committees seems invalid.
- User fees at health centers are insufficient to cover service costs. A.I.D.'s PRICOR project is currently studying self-financing procedures.
- Because of the project's strategic importance in Zaire's health development, it is strongly recommended to extend it 4-5 years and increase RHZ and health center targets, stressing pharmaceutical/medical supplies development and regional Training for Trainers Centers for nurses, supervisors, and village health workers.

The evaluators noted the following "lessons":

- The training of local leaders should begin as soon as the Project Identification Document is agreed upon.
- An annual national health conference spurs policy dialogue and development of donor sub-projects.
- The project's institution-building nature rather than directly service nature has helped prepare thousands of Zairois to work with others in large health systems.

I. **EVALUATION COSTS:** Costs of the evaluation are presented in two ways. The first are the cost of the work of the evaluation team per se. If Mission or office staff serve as members of the team, indicate the number of person-days in the third column. The second are the indirect estimated costs incurred by involvement of other Mission/Office and borrower/grantee staff in the broader evaluation process, including time for preparations, logistical support, and reviews.

## PART II (Pages 3-6)

J. **SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS:** The following reflects a consensus among A.I.D.'s Bureaus on common elements to be included in a summary of any evaluation. The summary should not exceed the three pages provided. It should be self-contained and avoid "in-house" jargon. Spell out acronyms when first used. Avoid unnecessarily complicated explanations of the activity or activities evaluated, or of the evaluation methodology; the interested reader can find this information in the full evaluation report. Get all the critical facts and findings into the summary since a large proportion of readers will go no further. Cover the following elements, preferably in the order given:

1. Purpose of the activity or activities evaluated. What constraints or opportunities does the loan and/or grant activity address; what is it trying to do about the constraints? Specify the problem, then specify the solution and its relationship, if any, to overall Mission or office strategy. State logframe purpose and goal, if applicable.

2. Purpose of the evaluation and methodology used. Why was the evaluation undertaken? Briefly describe the types and sources of evidence used to assess effectiveness and impact.

3. Findings and conclusion. Discuss major findings and interpretations related to the questions in the Scope of Work. Note any major assumptions about the activity that proved invalid, including policy related factors. Cite progress since any previous evaluation.

4. Principal recommendations for this activity and its offspring (in the Mission country or in the office program). Specify the pertinent conclusions for A.I.D. in design and management of the activity, and for approval/disapproval and fundamental changes in any follow-on activities. *Note any recommendations from a previous evaluation that are still valid but were not acted upon.*

5. Lessons learned (for other activities and for A.I.D. generally). This is an opportunity to give A.I.D. colleagues advice about planning and implementation strategies, i.e., how to tackle a similar development problem, key design factors, factors pertinent to management and to evaluation itself. There may be no clear lessons. Don't stretch the findings by presenting vague generalizations in an effort to suggest broadly applicable lessons. If items 3-4 above are succinctly covered, the reader can derive pertinent lessons. On the other hand, don't hold back clear lessons even when these may seem trite or naive. Address:

-- Project Design Implications. Findings/conclusions about this activity that bear on the design or management of other similar activities and their assumptions.

-- Broad action implications. Elements which suggest action beyond the activity evaluated, and which need to be considered in designing similar activities in other contexts (e.g., policy requirements, factors in the country that were particularly constraining or supportive).

**NOTE:** The above outline is identical to the outline recommended for the Executive Summary of the full evaluation report. At the discretion of the Mission or Office, the latter can be copied.

**K. ATTACHMENTS:** Always attach a copy of the full evaluation report. A.I.D. assumes that the bibliography of the full report will include all items considered relevant to the evaluation by the Mission or Office. **NOTE:** if the Mission or Office has prepared documents that (1) comment in detail on the full report or (2) go into greater detail on matters requiring future A.I.D. action, these can be attached to the A.I.D. Evaluation Summary form or submitted separately via memoranda or cables.

**L. COMMENTS BY MISSION, AID/W AND BORROWER/GRANTEE:** This section summarizes the comments of the Mission, AID/W Office, and the borrower/grantee on the full evaluation report. It should enable the reader to understand their respective views about the usefulness and quality of the evaluation, and why any recommendations may have been rejected. It can cover the following:

- To what extent does the evaluation meet the demands of the scope of work? Does the evaluation provide answers to the questions posed? Does it surface unforeseen issues of potential interest or concern to the Mission or Office?
- Did the evaluators spend sufficient time in the field to fully understand the activity, its impacts, and the problems encountered in managing the activity?
- Did any of the evaluators show particular biases which staff believe affected the findings? Avoid ad hominem discussions but cite objective evidence such as data overlooked, gaps in interviews, statements suggesting a lack of objectivity, weaknesses in data underlying principle conclusions and recommendations.
- Did the evaluation employ innovative methods which would be applicable and useful in evaluating other projects known to the Mission or Office? Note the development of proxy measures of impact or benefit; efforts to construct baseline data; techniques that were particularly effective in isolating the effects of the activity from other concurrent factors.
- Do the findings and lessons learned that are cited in the report generally concur with the conclusions reached by A.I.D. staff and well-informed host country officials? Do lower priority findings in the evaluation warrant greater emphasis?

ND-ART-267-10

USN 91676

**DECENTRALIZING PHILIPPINE  
DEVELOPMENT:  
EVALUATION**

G. Thomas Kingsley,  
Maris Mikelsons,  
Rowena W. Guanzon,  
and Marcia Feria-Miranda

July 1994

**EVALUATION OF THE PHILIPPINES  
DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROGRAM**

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

USAID Contract No. PCE-1008-I-00-2070-00  
UI Project No. 6384  
Delivery Order No. 4

**THE URBAN INSTITUTE  
WASHINGTON, D.C.**

# EVALUATION OF THE PHILIPPINES DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROJECT

## EXECUTIVE SUMMARY

This report evaluates the Decentralized Shelter and Urban Development Project (DSUD--Project No. 492-0388, 492-HG-001). The Project's May 1991 implementation agreement calls for: (a) USAID to provide \$50 million in Housing Guaranty (HG) loan resources along with \$4 million in ESF funds for technical assistance and training; and (b) the Government of the Philippines (GOP) to take a series of actions designed to further its decentralization objectives for Chartered Cities (as specified in a jointly agreed Policy Matrix) and to invest at least 125 percent of the peso equivalent of all HG funds it receives in shelter-related infrastructure benefitting below-median-income households.

## PURPOSE OF THE EVALUATION AND METHODOLOGY EMPLOYED

This evaluation assesses GOP progress under the Policy Matrix and investment plan requirements and the contributions made by the DSUD's technical assistance and training component. Its main purpose is to provide USAID managers with an objective assessment of the returns being gained from their investments. It is also designed to serve as a partial basis for decisions about the release of the third tranche of HG funds, means of strengthening the program during its remaining months and possible directions for USAID assistance to the GOP decentralization agenda.

The evaluation was conducted by a team consisting of two U.S. senior urban policy specialists and two Philippine experts over a three week period in April 1994. The authors examined the record of policy change as documented in GOP reports and independent contractor assessments, analyzed unpublished information regarding sectoral investment and financing, reviewed the products of DSUD technical assistance and training efforts and conducted interviews pertaining to DSUD performance with 61 individuals (including officials from all participating GOP agencies, officials from six cities and the Philippine League of Cities, technical assistance and training consultants, participants in training programs and relevant staff from USAID, the World Bank and the Asian Development Bank).

## MAIN FINDINGS AND CONCLUSIONS

**Context: The Progress of Philippine Decentralization.** When DSUD was designed, government responsibility for planning and implementing development remained highly centralized. The GOP had made a number promises to further decentralize but it was highly uncertain as to whether: (a) the national legislature would pass a new *Local Government Code* that would clearly and substantially shift responsibility, authority and financing to local governments; and (b) if such a law was passed, whether local governments had the initiative and capacity to respond to the challenge.

Progress since then, however, has been notable in world terms. The new *Code*, passed in October 1991, provided much more sweeping change than most observers had thought would be politically feasible. Implementation has not been smooth but it is being accomplished. Major transfers of central staff and budget resources to local governments have already occurred. National agency performance in facilitating the process has been mixed, but local governments themselves seem to be responding positively. Their ability to overcome a tradition of "waiting for instructions from above" is by no means ubiquitous, but there are strong evidences of entrepreneurialism and innovation in taking on broadened responsibilities, particularly on the part of City Mayors. As it has turned out, therefore, DSUD was indeed well timed, with a greater opportunity to further basic Project objectives that would not have been possible if this watershed transformation had not been underway.

***DSUD's Overall Performance.*** The evidence reviewed in this evaluation suggests that DSUD has been successful in taking advantage of this opportunity and meeting its objectives. While four of the ten final project milestones called for by the Policy Matrix have not yet been achieved in full, significant progress has been made in every area, enough so that completion should be possible in the near term. Also important has been the way technical assistance and training resources have been applied: most intensively during the period of most active *Code* implementation (1992-1994) when they could have a higher payoff; strategically to take advantage of key opportunities that emerged during that period; and focused on direct assistance to the Cities (rather than through central government agencies).

With respect to the Policy Matrix, it would be difficult to argue that all achievements there would never have been made without DSUD (they were, after all, objectives set by the GOP with USAID concurrence, not the other way around), but there is evidence in many cases that the existence of the Matrix, along with USAID/GOP dialogue related to it, expedited them and/or led to significantly improved methods of approaching them. With respect to technical assistance and training, there is evidence that DSUD support made important, perhaps vital, contributions to decentralization that went well beyond its initial charter in: (1) establishing a proactive approach to decentralization among City Mayors--a forceful recognition that they had to take the initiative themselves (contributed mostly through the Sharing Program discussed below); (2) stimulating the spread of innovative practices across Cities; and (3) raising national awareness of the fundamental importance of the challenges now being imposed by rapid urbanization.

***Specific Accomplishments Under the Policy Matrix.*** In response to specific Matrix requirements, GOP and City actions have so far: increased annual City property and business tax collections by 57 percent from 1989 to 1992; developed new model approaches to improved City revenue enhancement and financial management (including computerized tax management) and implemented one or more of these techniques on a test basis in seven Cities; substantially expanded City understanding of, and interest in, credit financing (as well its availability) and direct linkages between Cities and private financial markets; facilitated the expansion of private sector involvement in urban service delivery (initiated in at least eight cities, including BOT schemes that appear to be good models for broader application); developed a sound approach to capital investment planning and budgeting that appears promising for replication (and is already being implemented in nine Cities); expedited the

decentralization of public works functions to Cities generally; inventoried idle public land in nine Cities, leading to the identification of at least 135 hectares that could be made available for low-income housing; completed and ratified new city land-use plans and zoning ordinances in six cities; secured the completion of 4,518 new housing units for low-income families through public-private joint partnerships (nine cities); initiated projects that will provide land tenure and services to 19,281 poor households under the Community Mortgage Program (CMP) in 29 Cities and motivated the design for notable reform of the CMP to heighten its effectiveness.

Remaining steps that must be taken to achieve all Policy Matrix milestones in full include: securing the floatation of at least one City bond issue and completion of a proposal for at least one other; securing the ratification of new land-use plans in at least six additional cities; initiating public-private joint partnership housing projects in at least three additional cities (or the equivalent in neighboring Municipalities in a manner that alleviates City housing problems); and making further progress on CMP program reforms.

***Specific Accomplishments of Technical Assistance and Training.*** DSUD has supported: (1) the production of 40 technical reports and assessments; (2) the convening of 26 individual conferences, seminars and other training sessions (with a total of over 683 participants); and (3) hands-on technical assistance to 11 individual Cities in implementing improvement programs--all of which have contributed to the achievements under the Policy Matrix noted above. The direct technical assistance to individual cities has been particularly valuable over the past year in securing major changes in local capacity in a short period of time and in a manner that enhances the likelihood they will be sustained. Some have resulted in notable innovations, ranging from computer-based tax-management systems to a new method of land-use mapping (employing Russian satellite technology). The latter promises to dramatically reduce the cost of reliable analysis of land-use change, the lack of which has been a significant barrier to effective development planning in the past.

But as noted, DSUD technical assistance and training resources have also made broader contributions. The most notable has been through its financial and design support for the "Sharing Program." Ten separate day long meetings as this program have been held so far, under the auspices of the League of Cities. In each, Mayors and other City officials have discussed common concerns and learned about innovative techniques from the officials of other Cities who have successfully implemented them. There is much to suggest that this program's strong implicit message to Mayors--that they must reach out to take advantage of empowerment granted them under the new Code--had an important effect in stimulating the positive response of the Cities to date in Code implementation.

Also important was DSUD support for the preparation of the national *Urban Development Sector Review* and high-level discussions of its findings (the latter was directly responsible for President Ramos' call for the preparation of a separate chapter on urban development in the next national development plan). Finally, week-long seminars sessions on local government credit finance (four held to date, with 183 participants) have been noteworthy beyond their direct contributions to the Policy Matrix. Financial sector leaders attended as well as City officials and the results were widely publicized--response to these

seminars played a role in the more recent establishment of a new credit window for LGUs at least one major bank where loans to Cities approved from September 1993 through March 1994 exceed two billion pesos.

***Accomplishments Under the Investment Plan.*** The data presented in this report indicate that the GOP is complying with its obligations under the investment plan. Although further verification of the initial figures presented in this report is needed, the eligible expenditures documented for calendar years 1990, 1991 and 1992, total ₱2.12 billion (\$82.49 million), which already exceeds the final requirement; i.e., 125 percent of the full \$50 million available under the HG loan.

***Challenge for the Future.*** The GOP's broader decentralization agenda, with important contributions from DSUD, has achieved a great deal in a very short period of time. We conclude that the institutional base for effective local governance in Philippine Cities has been set (a return to a more centralized form is highly improbable). Nonetheless, now that they are empowered to do so, the Cities must rapidly expand their efficiency and output.

In the 1980s, Philippine urban areas had to accommodate an average of 1.2 million new residents annually--almost all (94 percent) of the country's net population growth occurred in urban areas. This rate is two times the 0.6 million yearly urban growth increment of the 1970s (when only 51 percent of total growth was urban). It is certain that the absolute amounts of urban growth will be higher still over this decade and the next. Accommodating this growth represents probably the greatest challenge to Philippine society today. Depending on how it is managed, it can be associated with substantial economic advancement and reduction in poverty, or it could lead to severe economic hardship and unprecedented environmental degradation.

The provision of adequate basic infrastructure, efficiently guided land development and sound urban management will be key to the outcomes. Yet, in the Philippines, both urban infrastructure investment and local resource mobilization remain extremely low by international standards. Expanding capacity to manage urban growth effectively will place enormous responsibility on the executives and legislatures in the Cities, where most of this growth will occur.

## **RECOMMENDATIONS**

### ***Completing DSUD.***

1. The GOP is close to fully completing all of the targets established in the Policy Matrix, but does not have the time to do so before the current project completion date. Also, DSUD has additional technical assistance resources that are not yet programmed and could not be reasonably expended before that date--given the momentum established by these activities at present, it would seem reasonable to apply them to meet program objectives without requiring additional resources. Accordingly, we recommend that the project

completion date be extended for nine months (from September 30, 1994 to June 30, 1995). This should provide enough time for DSUD to achieve all of its objectives in full.

2. Remaining technical assistance funds should be focused in areas where they have had the highest payoffs in the past: continuing the "demand driven" system for local capacity building that has already been established in the Sharing Program; hands-on work with selected cities to demonstrate full implementation of key innovations (particularly related to financial management, credit financing and the integration of land planning and capital planning and budgeting); and further heightening national awareness of the nature and scope of the urban challenge. Further efforts should also be made through policy dialogues to strengthen the role and coordination of central agencies in facilitating decentralization.

#### ***Further AID Assistance to the Philippine's Decentralization Agenda.***

1. USAID assistance through DSUD has proven to be an effective means of furthering decentralization--a transformation that is critical to Philippine development generally, but particularly important as a base for addressing the country's growing challenges associated with rapid urbanization. Further USAID assistance to continue momentum toward these objectives is recommended.

The themes of DSUD may be the most formidable tools available to achieving key objectives in USAID's new strategy for sustainable development in the Philippines. The Cities are where most of the "action" in Philippine development is likely to take place over the coming decade. The participatory techniques applied in DSUD are the foundations for *strengthening democracy* in those areas, and its strategies for capital investment offer more hope than any other means of *protecting the environment* in the Cities. The new project should support all of themes represented in the DSUD Policy Matrix but should give even higher priority working directly with the Cities to build democracy and avert urban environmental degradation.

2. Assuming macro-economic conditions are appropriate, additional support through USAID's HG program should be considered as a part of any new decentralization project. Thought should be given to ways HG resources could be used to enhance a sustaining system to finance urban environmental infrastructure.

#### **LESSONS LEARNED**

1. DSUD provides a good model for how a policy-based sectoral HG program can be made to work. It demonstrates that long-term involvement in an integrated program with clearly focused policy sub-objectives can lead to important, measurable policy change while avoiding the dangers of project fragmentation. The approach should be applicable elsewhere.

2. Where local democracy exists along with an appropriate framework for decentralization with accountability (such as that provided by the Philippines new *Local Government Code*), USAID assistance is likely to be more productive if it directly supports and

facilitates local initiatives, (by local governments in concert with NGOs and the private sector), rather than working primarily through central government agencies.

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## Section 1

### INTRODUCTION

This section describes: the DSUD program and its current status; the purposes of this evaluation and the approach employed in conducting it; the structure of the report; and the context in which DSUD has operated, both with respect to the government's broader decentralization agenda and the challenges implied by the rapid urbanization now occurring in the Philippines.

#### **THE DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROGRAM (DSUD)**

In September 1990, the U.S. Agency for International Development (USAID) and the Government of the Philippines (GOP) completed the design of the Decentralized Shelter and Urban Development program (DSUD), Project No. 492-0388 and 492-HG-001 (USAID/Philippines, 1990a). The program is to provide a total of \$50 million in Housing Guaranty (HG) loan resources along with \$4 million in Economic Support Fund (ESF) monies (for technical assistance and training). To benefit from these resources, the GOP agreed complete a series of actions specified in a Policy Matrix directed toward the achievement of the program's overall purpose:

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

The Implementation Agreement (signed in May 1991) calls for the disbursement of HG funds in three tranches (of \$20 million, \$15 million and \$15 million, respectively). The first tranche was approved for disbursement in October 1991, and the second in December, 1993. The third tranche has not yet been approved. The program is scheduled to be completed in September 1994.

DSUD was designed to directly support selected elements of a broader GOP program to decentralize *authority* to local governments and assist them in developing the *resources* and *capacity* needed to carry out their new responsibilities efficiently and effectively.

A number of past USAID projects in the Philippines have supported these ends. Several years ago, USAID's Mission heightened its priority for decentralization, by making it

one of the three main themes of its Philippine Assistance Strategy (FY 1991-1995) that cut across all programmatic objectives (the other two being policy reform and the private sector). Most current USAID assistance in decentralization is being provided through DSUD and a companion program, the Local Development Assistance Program (LDAP--see USAID/Philippines, 1990b) which is also scheduled to be completed in 1994.

DSUD focuses on: (a) Chartered Cities (these include all of the nation's larger urban centers, although particular emphasis is being given to Cities outside of Metropolitan Manila)<sup>1</sup> and (b) improving the delivery of shelter and related infrastructure and services in those cities. In contrast, LDAP concentrates on: (a) local governments responsible for smaller towns and rural areas and (b) more general administrative and fiscal improvements. DSUD's Policy Matrix specifies contributions to three objectives for the Cities:

1. Develop a self-sustaining system of financing.
2. Improve the delivery of urban services and infrastructure.
3. Improve access to sustainable urban shelter delivery for low-income households.

In addition to taking actions to achieve these goals, the DSUD agreement specifies that the GOP must also meet an investment plan requirement: i.e., it must invest at least 125 percent of the Peso equivalent of all HG funds received in shelter-related infrastructure improvements benefitting below-median-income households in the Cities.

## **PURPOSE OF THE EVALUATION AND METHODOLOGY EMPLOYED**

The progress of DSUD through mid-1992 was reviewed in two prior assessments (Kingsley and Mikelsons, 1991a and 1992). This report evaluates the program as a whole as it has operated through early 1993. It examines activity under all of the program's three components: (1) GOP performance under the Policy Matrix; (2) the technical assistance and training program; and (3) the investment plan. The main purpose of this evaluation is to provide USAID managers with an objective assessment of whether and how its investments are paying off. Also, it is designed to serve as a partial basis for decisions about the release of the third tranche of HG funds, about means of strengthening the program during its remaining months and about possible future directions for USAID assistance to the GOP decentralization agenda.

The evaluation was conducted by a team consisting of two U.S. senior urban policy specialists and two Philippine experts over a three-week period in April 1994. The authors

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<sup>1</sup> Whereas much HG related documentation regularly refers to "chartered Cities", this report simply refers to them as the "Cities", since that is the more common term for them in the Philippines (see further definitions in Annex A).

examined the record of policy change as documented in GOP reports and independent contractor assessments, analyzed unpublished information regarding sectoral investment and financing, reviewed the products of DSUD technical assistance and training efforts and conducted interviews pertaining to DSUD performance with 61 individuals (including officials from all participating GOP agencies, officials from six Cities and the Philippine League of Cities, technical assistance and training consultants, participants in training programs and relevant staff from USAID, the World Bank and the Asian Development Bank). Sources of information used generally to document earlier progress in relation to the Policy Matrix include the two prior assessment reports and a USAID Action Memorandum (from John A. Grayzel, October 15, 1993) supporting the authorization of the second tranche under the HG loan.

## **STRUCTURE OF THE REPORT**

The next three sections of this report examine progress made in relation to each of the three goals in the Policy Matrix: improvements to City finances (Section 2), urban services and infrastructure (Section 3) and land and shelter delivery (Section 4). In each of these sections contributions of DSUD provided technical assistance and training that pertain to specific Policy Matrix objectives are assessed as well as GOP performance. Section 5 reviews contributions of technical assistance and training activities that serve broader program-wide objectives and performance under the investment plan. Section 6 offers conclusions and recommendations.

The first three annexes provide background information for readers not familiar with the Philippines: a description of the system of governance in the country and the way it is changing under the new *Local Government Code* (Annex A, which also defines most of the acronyms used throughout this report); a review of the country's economic structure and trends (Annex B); and an explanation of the structure of local government finance along with data series on changing revenues through 1992 (Annex C). Remaining annexes provide additional documentation to support the evaluation: a complete description of all technical assistance and training provided (Annex D); a copy of the current Policy Matrix (Annex E); a copy of the Terms of Reference for this work along with a list of the persons interviewed (Annex F); and a full list of references (Annex G).<sup>2</sup>

## **THE CHALLENGE OF RAPID URBANIZATION AND THE ROLE OF DECENTRALIZATION**

The evaluation of DSUD achievements must first be based on the specific targets set in its own Policy Matrix. However, the GOP is implementing a broader decentralization program which includes a number of activities in addition to those addressed directly by the Policy Matrices of DSUD and LDAP--most critically of late is the enactment of a new *Local*

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<sup>2</sup> Throughout this report, references (listed fully in Annex G) are identified in the text by noting the author's name and year of publication in parentheses.

*Government Code.* Commentary pertaining to the DSUD Implementation Agreement recognizes that the broader decentralization program must also be considered in this evaluation. Although DSUD was designed so that it could succeed regardless of the fate of the broader program, it cannot help but be influenced by the progress of that agenda. The progress of the broader program has a great deal to do with the way DSUD results should be interpreted. We summarize that progress below, but first we review the force that is making the success of decentralization (particularly in the Cities) so vital to the nation's future: rapid urbanization.

### **Acceleration of Urban Growth**

In 1970, at 11.7 million people, Philippines cities and towns accounted for only 32 percent of the nation's total population. But then urban growth accelerated. By 1980 urban areas (at 17.9 million) accounted for 37 percent of total population and in 1990 (at 29.6 million) their share had risen to 49 percent. The challenge of urbanization is seen more clearly when we talk in terms of the absolute numbers of new residents urban areas had to accommodate. In the 1970s, Philippine urban areas grew by an average of 0.6 million new residents annually (urban growth represented 51 percent of total population growth). In the 1980s, they had to accommodate twice as many (1.2 million per year, representing 94 percent of total growth). This urban expansion in the 1980s represented a growth rate of 5.1 percent per annum--one of the highest among the world's nations. It can be expected that almost all of the Philippines' net population growth over the next few decades will continue to be captured by urban areas and the absolute levels of urban growth will increase further.

### **New Views of the Role of Cities in Development**

Even a few years ago, urban growth at these levels would have been seen as disturbing to many development economists as well as political leaders. Views about the role of cities in development have changed of late, however, based on research suggesting that rapid urbanization not only probably could not, but also should not, be stopped or even substantially curtailed (see, for example, Peterson et al., 1991b). There may be some realistic possibilities for shifting some of this growth away from the largest metropolises toward intermediate centers, but even if policy continues to give the edge to rural development, it is doubtful that urban growth will diminish in absolute terms.

The reason, as now accepted by a growing number of development specialists, is that economic development (and the reduction of poverty) requires a structural shift in employment toward higher-productivity (higher-wage) occupations (i.e., away from subsistence agriculture and toward manufacturing and services) and, to be competitive (as they must be in today's world economy), non-farm economic activity must, for the most part, locate in or near urban areas. For most businesses in manufacturing and services, the efficiencies of urban locations (agglomeration economies) are significant, and they are likely to remain so. Today's broad acceptance of market-oriented development suggests that it makes little sense to force businesses to locate where they cannot be competitive. This account is consistent with trends in the Philippines, where by 1990, 77 percent of GDP was accounted for by industry and services--i.e., urban oriented activities (World Bank, 1992).

This greater acceptance of urban growth has been supported by findings that regions experiencing dramatic increases in agricultural productivity over the past two decades have also normally experienced accelerating urbanization (scenarios in which successful agriculture has created more demand for urban products and the resulting growth in urban economies has, in turn, enhanced demand for yet more growth in agriculture). It has also been supported by findings indicating that the burgeoning informal sector in cities is substantially more productive than had been previously thought (urban unemployment and underemployment, while far from trivial, are much less devastating than 1970s models had predicted) and that the provision of basic but adequate urban infrastructure (previously thought to be financially out of reach) can be made affordable if appropriate standards are applied and can be largely self-supporting if appropriate cost recovery programs are applied. Furthermore, the *urban biases* that significantly and unfairly benefitted cities in the past (e.g., major subsidies for--and/or price controls on--urban consumer goods, padded government payrolls in the capitols) are being largely curtailed by structural adjustments programs (in many cases causing severe short-term drops in urban incomes, but not offsetting the long-term benefits that still sustain urban growth).

### **Policy Implications for the Philippines**

This does not imply the need for "pro-urban" policies. To the contrary, sensible development policies should be spatially neutral--not favoring any one type of location over another. It does imply, however, that as urban growth occurs it needs to be provided for. It is now clear that inadequate infrastructure and land development to accommodate new urban growth can add substantially to the cost of doing business in a country and thereby constrain economic betterment and job generation. It is also clear that when infrastructure (e.g., water supply, wastewater treatment and disposal, drainage) lags significantly behind population growth, one outcome is sure to be severe environmental degradation.

Over the past decade, the Philippines response to these forces was woefully inadequate. Total local government expenditures actually declined in real terms over the 1980s. From the early 1980s to 1990, they dropped from 1.7 percent of GDP to 1.2 percent of GDP and from 14 percent of national government expenditures to 6.6 percent. Capital expenditures in 1986 represented only 7 percent of total LGU expenditures in the Philippines compared to 26 percent in Indonesia, 24 percent in India and 38 percent in Thailand. Local government capital expenditures in that year represented only 0.1 percent of GDP in the Philippines compared to 0.6 percent in Thailand, 0.7 percent in Indonesia and 3.3 percent in India (IMF, 1990).

### **Role of the Chartered Cities**

The 60 chartered Cities which are the focus of DSUD (14 Highly Urbanized Cities plus 46 Component Cities) had a total 1990 population of 13 million, about half of the urban total for the nation as a whole. Actually their share of the urban population is somewhat below that since the boundaries of many Cities also incorporate substantial rural population. The Cities' average total population growth rate over the 1980s was 2.4 percent, but as many

rural Barangays within their boundaries were reclassified as urban, it is certain that their actual urban growth rate was much above that level.

Compared to smaller towns and villages, the Cities have a special role in responding to the urban challenge. International research has shown that medium- and large-size urban areas (with populations at least above 50,000, more often exceeding 100,000) tend to be the focus for market oriented investment as structural change occurs in developing economies (Peterson et al., 1991b). That is because smaller towns do not yet have the agglomeration economies that make them locationally as attractive for business starts and expansions.

Actually, in the Philippines, the areas of the greatest concern are the emerging metropolitan areas outside of the Metro-Manila; areas including large Cities and rapidly grounding "suburban" Municipalities surrounding them. These urban areas offer the highest potential as counter-magnets to reduce the historic dominance of the National Capitol Region.

The implication is that these newer metropolises and other large Cities will have the most critical requirements for infrastructure investment in the coming decade--failure to provide sufficient infrastructure there will have the most damaging effect on the national economy. The amounts of infrastructure and service investment required in these areas is likely to be higher on a per capita basis at this stage because, compared to smaller towns, they face much greater demands of a rapidly expanding business community as well the needs of the resident population. Also, employment and residential densities are likely to build up to much higher levels in the City-centered urban areas than in the smaller, more remote Municipalities. This means these larger urban areas face greater risks of serious health hazards due to pollution and other forms of environmental degradation if adequate services are not provided as rapid growth occurs.

### **The Progress and Importance of Decentralization<sup>3</sup>**

Through 1991, public sector responsibilities for dealing with urbanization and the other challenges of development in the Philippines was placed dominantly on the shoulders of the central government. Local governments existed, but their functions and budgets were limited and the tradition for local officials was to "wait for instructions" from the central government rather than taking independent initiative. While there had been a number of efforts to promote more decentralization and local autonomy since the end of Spanish colonial rule in the late 19th century, very little had been accomplished.

In the late 1980s, the failure of rigid central bureaucracies to address the country's development problems were becoming more apparent and the Aquino administration stepped up the pressure for decentralization. Central departments *deconcentrated* some authority to their own officers located in the Provinces, regulations were altered to somewhat expand local government (LGU) responsibilities, and experiments with bolder changes were conducted.

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<sup>3</sup>A much more complete account of the broader GOP decentralization summarized in the following paragraphs is provided in Annex A.

It became clear, however, that significant progress in decentralization would be impossible under the constraints imposed by existing laws.

The mounting pressures for decentralization, did affect the legislature and in October 1991 it adopted a new *Local Government Code* that was truly a watershed, offering much more sweeping change than most observers had thought politically feasible. The *Code* provided for the clear devolution of a broad range of specific function to LGUs (including the construction, operation and maintenance of local infrastructure) and, correspondingly, the serious curtailment of the power of national agencies (along with explicit transfers of large shares of their staffs and budgets to the LGUs). It also widened local tax bases by giving LGUs access to some taxes previously prohibited for them and giving them more flexibility in establishing tax rates. Finally, it provided for a significant increase in the share of the national budget transferred directly to LGUs (through the Internal Revenue Allotment or IRA) and removed many of the constraints inhibiting LGU ability to access private credit financing.

The implementation of the new *Code* has been far from smooth and it has not met the tight time schedules originally prescribed. Nonetheless, it is working. Transfers of central staff to LGU payrolls are largely completed and the IRA for LGUs has been markedly expanded (from ₱22.0 billion in the 1992 budget to ₱37.1 billion in 1993 and ₱50.5 billion in 1994--an increase of 130 percent from 1992 to 1994).

Many LGU officials appear to be welcoming broader authority and exhibiting a great deal of creativity in adapting to it. Particularly encouraging are reports that the nation's new crop of recently elected Mayors is quite different from the comparable group in the past: more younger people who come from business backgrounds and fewer traditional politicians. Already, these Mayors have implemented a number of innovative practices.

#### **Implications for the Assessment of DSUD**

The criteria for evaluating DSUD are well specified in its Policy Matrix and investment plan requirements and they are operative regardless of the progress of the GOP's broader decentralization agenda. Nonetheless, the substantial progress of that agenda (through the adoption of the *Code* and its implementation) did affect DSUD in important ways. It created opportunities for DSUD to contribute more in facilitating change than ever would have been possible otherwise. In assessing DSUD's full impact, therefore, we must be alert to how well it took advantage of these opportunities.

## Section 2

### LOCAL GOVERNMENT FINANCE

This Section reviews GOP progress under the first objective of the DSUD agenda: developing a self-sustaining system of local government finance where subobjectives relate to improved tax collections, restructuring to develop a self-sustaining system of local government finance and expanded City use of credit financing for infrastructure improvements. (For readers not familiar with the structure and evolution of the local government finance system in the Philippines, a description is provided in Annex C; the full Policy Matrix is provided in Annex E).

#### OBJECTIVE 1a - IMPROVED TAX COLLECTION

Local government tax collections did increase in real terms in the late 1980s, partly due to the priority given to this objective by the DOF--this was in turn supported by technical assistance provided by USAID and other donors. The government's DSUD policy matrix calls for further progress in this area.

**Requirements.** While no DSUD target was set for the first tranche, the Policy Matrix calls for 1991 chartered City tax collections to be 32 percent above those of 1989 (as a basis for the second tranche) and 1992 collections to be 58 percent above the 1989 level (as the basis for the third tranche).<sup>4</sup>

**Progress.** This objective is judged to have been achieved in full. DOF data (letter from BLGF to NEDA, dated December 17, 1993) indicate that, from 1989 to 1992, City real property tax collections went up from ₱1.121 billion to ₱1.754 billion (an increase of 56.5 percent)<sup>5</sup> and business tax collections increased from ₱1.065 billion to ₱1.679 billion (an increase of 57.7 percent). Totals from both sources increased from ₱2.186 billion to ₱3.433

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<sup>4</sup> Such increases are to be calculated based on changes in nominal values.

<sup>5</sup> The 1989 number for the property tax shown here is lower than that presented for 1989 in the previous DSUD assessment (Kingsley and Mikelsons, 1992). That is because, in the best available data series at that time, Barangay shares were incorporated as well as City shares. The new series excludes Barangay shares and is thus more accurate for these purposes.

billion (an increase of 57.0 percent). In real terms (with the effects of inflation taken into account), the corresponding total increase is 10.4 percent.

Even though the 57 percent increase is slightly below the target figure for the third tranche, there are mitigating factors. The target was explicitly conditioned on two criteria:<sup>6</sup> (a) that the passage of a new *Local Government Code* not negatively impact the atmosphere for local tax collections; and (b) that general economic conditions remain supportive (requiring, specifically, the achievement of GNP growth rates of at least 3.0 percent in 1991 and 5.5 percent in 1992 and average inflation of no more than 15 percent in 1991 and 12 percent in 1992). In fact, GNP growth fell well below the stated thresholds, and inflation exceeded them, in both 1991 and 1992 (see Annex B). Also, circumstances related to the passage of the *Code* did provide some disincentives to enhancing collections of these taxes (see Comments below). In this light, the achievement of a 57 percent increase can be regarded as evidence of solid performance in relation to the goal.

It should also be noted that the Department of Finance's BLGF has continued a program to enhance LGU collections in support of this objective, including: monitoring and evaluation of collection performance through conferences and field visitations; development and field testing of prototype information and education campaigns; and institutionalization of a revenue audit program which includes inspections of tax operations and books of accounts by BLGF personnel. The DSUD Urban Advisor (1992a) reported that these activities generated enthusiasm and that, in particular, BLGF's publication of a regional ranking of collection efficiency helps to motivate LGUs to outdo each other in this regard. (Additional work along these lines after March 1993 is discussed under Objective 1b to follow).

**Comment.** Although performance in enhancing these tax revenues over the past few years has been impressive, there are reasons for uncertainty about whether this expansion will be sustained. On one hand, incentives have probably been weakened by the passage of the *Local Government Code*, at least in the short term. First, consistent with the *Code* there have been substantial increases in IRA allocations to Cities; i.e., with additional IRA funds Cities may feel that strong efforts to enhance local tax collection may not be worth the effort and political risk implied. Second, while it had been suggested that LGU tax collection effort should be a factor in the IRA allocation formula, that feature was not adopted in the final version of the *Code*. Third, the *Code* exempts considerable residential property (all with market values below ₱175,000). Finally, substantial further increases in property tax yields may well depend on the anticipated mass reassessments of property values, and such reassessments are a big job.<sup>7</sup>

On the other hand, the Cities also have markedly increased expenditure obligations consistent with the new functional responsibilities being assigned to them in relation to the demands inherent in rapid urbanization; i.e., the new IRA allocations will not be enough.

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<sup>6</sup> Agreements concerning these factors are documented in correspondence between NEDA and USAID.

<sup>7</sup> Some Cities have taken on this task, however, and are proceeding effectively.

This conclusion should emerge most forcefully in local capital planning processes as Cities compare their investment needs to resources likely to be available without greater local tax effort (see discussion of Objective 3c in Section 3). There is likely to be a risk of considerable voter concern if the adequacy of local services and infrastructure deteriorate further.

Possible future efforts to address this issue are discussed under the broader topic of developing a self-sustaining system for City finances under Objective 1b below.<sup>8</sup>

### **OBJECTIVE 1b - SELF-SUSTAINING FINANCE SYSTEM**

**Requirements.** Here, the target for the first tranche was the preparation of a scope of work for a study to assess factors constraining the development of a self-sustaining finance system for the Cities. Prior to the second tranche, the Matrix requires the completion of the study and the identification of recommended pilot tests of policies to overcome the constraints. Pilot tests are to be underway prior to authorizing the third tranche.

**Progress.** Technically, all requirements under this objective have been met (although the resulting program has a number of imperfections, as will be discussed under Comments below).

The scope of work prepared to meet the first tranche requirement was judged weak by a number of policy experts. Accordingly, USAID policy dialogues motivated a broader approach. Ultimately, three studies were prepared in response to the second tranche milestone. The first (by LDAP consultants--ARD, 1992e) offered a set of clear policy recommendations and these were endorsed by the GOP (see cover letter by the Secretary of DOF). The second (by DSUD consultants--Philnor and PADCO, 1992a and 1992b) was more of an analysis of local government financial trends and issues and did not offer a coherent set of policy recommendations. The third (by DILG, 1992b), focused only on business license tax administration and enforcement of the community tax (a consultative workshop in which staff from different Cities participated in the design of recommendations was regarded as a valuable step in preparing this study).

In March 1993, a one-day seminar was held to integrate the findings of these studies. This seminar was the basis for the DOF's selection of policies to be pilot-tested in selected Cities: (1) an approach to strengthening the real property tax (expediting reassessments of property values, more active follow-up on delinquencies, and involving community leaders in the process); and (2) capacity building related to revenue planning (including the application of cost-return analysis), simplified approaches to billing and collection and enhancing underutilized revenue sources. Actual work with Cities in pilot-testing since then has entailed the following:

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<sup>8</sup> Some analytic attention has been devoted to the prospects for continued expansion of these revenues (BLGF, 1992), but additional recurrent monitoring and analysis can certainly be recommended.

- The BLGF identified an approach to testing real property tax collection efficiency. Work was initiated in Iloilo in September 1993, and further testing is planned for Dagupan and Baguio in 1994.
- Earlier, DILG had worked with Batangas over the first half of 1992 on revenue enhancement strategy (and reports a 200 percent increase in collections by July 1992 as a result) (DILG, 1992b).
- DSUD contractor PADCO, Inc. has worked with four cities to install automated tax collection systems and promote other techniques for revenue enhancement. By April 1994, this work had been completed in Cebu, Lipa, and Batangas and is expected to be complete in Bacolod by June.

An impressive accomplishment in this area (although not identified in the Policy Matrix) is the finding of a recent assessment of *Local Government Code* implementation (ARD, 1993) that "most LGUs have passed new Local Revenue Codes (as called for in the implementation process), and virtually all which have not yet passed new codes are in the process of doing so . . . LGUs are not abusing their authority with respect to taxation powers . . . the general trend is toward conscientious and conservative exercise of new taxation powers coupled with greater emphasis on collections of existing taxes." This is one of the strongest signs that LGUs are indeed taking the initiative in assuming their new responsibilities and that they have the requisite capacity to do so.

**Comment.** Although testing of new models in several aspects of local government finance is underway (as required), these activities leave doubt as to whether enough is being done to facilitate development of the self-sustaining system, which is the ultimate goal.

First, the materials being worked on in the City tests are not comprehensive (covering all aspects of sound financial management at the local level). The list of materials that could be of use to Cities in implementing their new financial responsibilities under the *Code* is a long one. It starts with the development of model tax codes and other ordinances that the Cities could adopt to form the necessary legal foundation. Then there is need for guidance on forming local financial strategies and for all the component processes of financial management (ranging from revenue and expenditure forecasting and budgeting to monitoring, accounting and auditing). In addition, separate handbooks would be helpful on principles of administration and administrative techniques related to each tax and other revenue source (including non-traditional approaches such as betterment taxes and the government financial aspects of public-private venture activities such as BOT).

The topic of the linkage between financial management and performance management (prominent in current local management improvement efforts in many countries) has not been addressed at all. A particular important need at the moment, given the exigencies of the *Code*, is a set of simple and clear handbooks on modern methods of reassessing values to update the property tax rolls. Considerable additional "how-to-do-it" materials will also be needed to cover the function of municipal borrowing and debt management. Finally, guidelines are required on computer support systems for all aspects of financial management

and accounting. Many good international references exist that could provide a helpful starting point for topics not yet addressed--starting from general financial principles and strategies--see for example, Davey, 1989, Devas, 1991 and Peterson et al., 1991a--to more operational details contained, for example, in handbooks issued by the International City Managers Association.

Second, problems arise in that the guidelines prepared so far sometimes have not been developed with enough participation by City staffs (the model has been for national agency personnel to develop draft guidelines and then allow for some review and comment by localities--a better model would entail City personnel being involved in developing the drafts from the outset). This problem is the root of comments by several City officials interviewed during this evaluation that the materials sometimes take a "prescriptive" approach rather than an "enabling" one.

Finally, there has been little examination of the way rules and practices of national agencies may still inhibit the adopting of progressive financial management techniques by the Cities. An innovative approach to addressing such issues was exhibited by the 9th DSUD supported Sharing Program with City Mayors (see specifically ABC, Inc., 1994d and the general discussion of this program in Section 5). The League of Cities invited representatives of the national Commission on Audit (COA) to participate in this session and discuss City-COA substantive and procedural relationships. This was the first time in which a face-to-face meeting between these groups had ever occurred. At the end of this session COA representatives explicitly recognized a number of areas in which they needed to change their practices to permit more effective local management. In fact, many of the further efforts to develop better guidelines for all elements of local financial management might well start in sessions of the Sharing Program.

#### **OBJECTIVE 1c - CITY ISSUED BONDS AND OTHER CREDIT INSTRUMENTS**

Analysis of LGU finances (Annex C) shows that, traditionally, credit financing has accounted for a negligible share of the resources secured by Philippine Cities. Given accelerating demands for capital expenditures with rapid urban growth, however, there is a growing recognition that many benefits can be gained from increasing this share substantially in the future. The DSUD agenda under this objective focuses eliminating barriers to doing so:

**Requirements.** Prior to the first tranche, the GOP (DOF) was to have prepared the scope of work for a study to review relevant laws and regulations affecting Cities' ability to access credit financing for urban infrastructure (prominently, Presidential Decree 752) and recommend changes that will facilitate City borrowing. The second tranche milestone called for: (1) implementing appropriate recommendations from the study that are within the purview of the executive branch; (2) recommending to Congress those which require legislative action; and (3) establishing an education program for the Cities to familiarize them with the benefits and methods of credit financing. Prior to the third tranche, at least one City

is to have floated a bond issue and at least one additional City bond proposal is to have been completed.

**Progress.** Substantial achievements have been made in these areas--in some ways well beyond what could have been expected when the Policy Matrix was designed. Nonetheless, the requirements for the third tranche related to bond issuances have not yet been satisfied.

Perhaps the most important accomplishment in this area was the passage of the *Local Government Code* itself which, in Sections 297 and 299, substantially eliminated the constraints to broad use of local government bonds that had appeared in P.D. 752; i.e., the main legislative barriers that existed when DSUD was formulated have already been removed. Another provision of the *Code* may be equally important: its substantial increase in both the size and the certainty of IRA allocations to local governments. If creditors could be given, in effect, a first lien on IRA transfers in the event of City default on debt service payments, this would largely remove the risks for private capital markets in lending to cities or purchasing City bond issues. (So far, however, the Department of Budget and Management has not yet worked out the provisions for implementing this type of "IRA intercept" mechanism.)

The required studies were prepared in light of this new environment. First, under LDAP support, ARD completed a series of studies dealing with: the current environment and suggestions for LGU approaches to accessing credit finance (1992a), prospects and implications for financial institutions (1992b), training program needs (1992c) and areas in which further policy development is needed (1992d). In addition, DSUD funded a detailed analysis of the prospects for bond issuances by Quezon City (PADCO, 1992) which offered fairly optimistic conclusions regarding the City's ability to market both general obligation and revenue bonds.

After these studies were completed, DSUD supported a study tour for ten GOP officials to study bond financing in the United States (results of the tour are reported in PADCO, Inc., 1993c). These officials later worked with others to develop the education program called for under the second tranche requirement and this program appears to have been quite successful in broadly educating local governments and others about benefits of credit financing and generating enthusiasm for it.

The education program entailed the presentation of four five-day seminar/workshops in 1993--in Cebu (September), Tagaytay (October), Davao (November) and, again, Cebu (December). There were a total of 183 participants in these workshops (131 from LGUs, 13 from national agencies, and 39 from 15 financial institutions) (ABC, Inc., 1994a). The course materials were professionally designed to combine lectures and practical work assignments (ABC, Inc., 1993). Modules covered: (1) an overview of local government finance; (2) project preparation and analysis; (3) loans; (4) bonds and other long-term securities; (5) action planning. The workshops were designed so that Mayors and other high-level officials could stay only through the first module with their finance staffs completing the entire course. The participation of representatives from financial institutions was an important innovation--they not only expanded their own understanding of the means of serving credit needs of local

governments but also had the opportunity to meet local officials and discuss real projects with them directly. The workshops also entailed participant discussions of legal and other barriers still holding back local use of credit finance and possible means of overcoming them.

As an outgrowth of these events, several financial institutions have begun negotiations with Cities about possible loans or bond schemes (Far East Bank Investment, Inc., Investment and Capital Corporation of the Philippines, Multinational Investment Bancorporation and the Philippine National Bank--PNB). More impressive, PNB established a new credit window for municipalities in September 1993 and its portfolio has since developed rapidly. By the end of the year, it had approved loans amounting to ₱901 million for projects in eight cities (Bacolod, Cavite, Davao, Laoag, Pagadian, Puerto Princesa, Tacloban and Tagbilaran). The projects included public markets, slaughter houses, the purchase of heavy equipment, bus terminals and other infrastructure improvements. By April 1, 1994, cumulative approvals had reached just over ₱2 billion and approximately another ₱1 billion in applications were in the pipeline awaiting approval (interview with PNB, April 19, 1994).

PNB loans are at market rates (a range of 18 to 26 percent depending on the circumstances) for terms of up to seven-years. PNB has been willing to undertake this program because it requires depository agreements with all City borrowers under which the City is obligated to deposit its full IRA allotment with PNB and PNB can directly access these accounts in the event of any default in repayments; i.e., a mechanism similar to the IRA intercept concept proposed for more general application as noted above, virtually eliminating credit risk for PNB. PNB has also worked out a scheme with GSIS whereby it will finance the difference between the ₱20 million GSIS loan maximum and the full loan request on local government capital projects.

The intent of this element of the Policy Matrix was to stimulate knowledge of, and interest in, credit financing opportunities for City capital projects, and to attain some growth in the financing of relevant projects as a result. All of this has been achieved. Given the momentum for expanding credit financing evidenced in this evaluation (also, see comments in ARD, 1998), there seems little doubt that its use will accelerate in the future, and probably in a variety of forms. Nonetheless, the explicit requirements for the third tranche related to bond issuances have not yet been satisfied. Interviews conducted during this evaluation indicate that at least four Cities are making serious plans to issue bonds in the near term: Cagayan de Oro, Legaspi, Naga, Puerto Princesa. DSUD should make appropriate efforts to facilitate these initiatives.

**Comment.** Even with the fundamental impetus to credit financing contributed by the *Local Government Code* and the momentum gained by the activities noted above, barriers still remain. Several recommendations were generally endorsed by the participants in the DSUD workshops (ABC, Inc., 1994a) that should be pursued: (1) take steps as needed to permit implementation of an IRA intercept mechanism (many participants saw this as the solution to cleaning away complex and unreasonable collateral requirements now imposed by banks and other financial institutions); (2) secure action to grant tax exemptions on LGU bonds; (3) change current practices of COA requiring LGUs to use government finance institutions as

depositories (the *Code* states that the use of such institutions should be "preferred" but not "required"); (4) prepare more explicit and complete "enabling" guidelines on LGU use of credit financing; (5) develop some method to "accredit" financial institutions; i.e., to screen out "fly-by-night" investment houses that could take unfair advantage of LGUs; (6) provide training on credit financing for Sanggunian members (City credit financing requires legislative approval and many members are not informed about either the opportunities or the responsibilities implied); (7) find an effective method of training LGU technical staff in project selection and preparation (feasibility studies and appraisals).

### *Section 3*

#### **URBAN SERVICES AND INFRASTRUCTURE**

In recent years, there has been a growing recognition that adequate investment in urban infrastructure and services is vital to national economic development as well as addressing basic social needs. We noted in Section 1, that such investment in the Philippines has declined as a share of GDP over the last decade and is at present at an extremely low level in relation both to identified needs associated with rapid urbanization and actual experience in many other developing countries.

It is also recognized, to be sure, that such investment must be designed more efficiently than it has often been in the past. There are needs for stronger incentives for efficiency and the application of more effective techniques generally in infrastructure planning, financing and delivery. Principles advocated today include: employing affordable technologies and standards, implementing more efficient processes for programming and budgeting investment in line with realistic resource potentials, implementing procedures to recover costs from beneficiaries, encouraging greater private sector participation in service delivery, giving more emphasis to system maintenance and generally decentralizing responsibility for systems development and operation. (See discussions of these issues in Devas, 1991, Peterson, Kingsley and Telgarsky, 1990 and 1991b and Rondinelli, 1990).

The GOP has generally endorsed these principles (see, for example, Nuqui, 1991, HUDCC and PADCO, 1992) and several have been imbedded under the third objective of its DSUD program: cost recovery, privatization, improved capital budgeting and decentralization of responsibility. This section reviews the requirements and progress under each element of this component of the Policy Matrix.

#### **OBJECTIVE 2a--COMMERCIAL APPROACH TO COST RECOVERY**

**Requirements.** Prior to the first tranche under this objective, the GOP agreed to have DILG develop guidelines for Cities to use in planning and operating the cost-recovering delivery of at least one service (e.g., solid waste collection). Before the second tranche, such guidelines were to be developed for two additional services and one or more of these guidelines were to be in the process of implementation in at least three Cities (other candidate services pointed out in the Matrix are transport terminals, markets and slaughterhouses). Prior to the third tranche, implementation is to be underway under such guidelines in a cumulative total of at least six Cities.

**Progress.** All requirements under this objective have been met (although, again, there are imperfections in relation to longer term goals). To meet the first tranche requirement, DILG prepared and issued one guideline covering cost recovery for all relevant services (DILG Memorandum Circular No. 91-38, August 1, 1991). Reviews suggested that, while that document provided an appropriate framework, it was insufficiently detailed to provide adequate guidance to the Cities. In policy dialogues with USAID, it was agreed that further analysis of the issue was called for. Accordingly, with assistance from PADCO, DILG conducted a review of existing cost recovery practices in five cities (Cebu, Naga, Dagupan, Cagayan de Oro and Manila--Philnor and PADCO, 1992c).

On the basis of this review, guidelines were developed for specific services (e.g., public markets, slaughterhouses, transportation terminals) and the general guidelines were reformulated by DILG and circulated to LGUs through Memorandum Circular 93-63. DILG (letter to NEDA of July 12, 1993) later identified four Cities that were implementing cost recovery programs in compliance with second tranche requirements:

- Batangas (public market)
- Davao (bus terminal)
- Cebu (car park)
- Dagupan (public market)

DILG subsequently submitted case studies reviewing further experience in the above four Cities and indicating some progress in cost recovery in two additional Cities, thus satisfying the final requirement under this objective:

- Lucena (public market)
- Dumaguete (public market)

It should be noted that cost recovery is being practiced in many other Philippine Cities, although DILG has not formally identified them in relation to this particular element of the DSUD Matrix. The Philnor/PADCO study (1992c) discusses many such cases: for example, markets assisted under the World Bank's PREMIUMED program were obligated to increase fees to contribute to operating costs). We should also note the frequent observation among those interviewed for this evaluation that there has been a marked increase in City recognition of the need for additional cost recovery in service provision and that many Cities are trying to develop new approaches on their own. This recognition has been both evidenced and spread in the sessions of the DSUD sponsored Sharing Program (see Section 5).

**Comment.** While the need for cost recovery is now receiving greater attention by Philippine Cities, much remains to be done. The Philnor/PADCO (1992) study points out that a "high degree of subsidy" remains in public service provision generally ("the 'true' subsidy runs to as high as 100 to 150 percent of user charges"). A much greater cost recovery effort is justified on the grounds of equity as well as efficiency. It is most often the lack of cost recovery that prevents the provision of adequate services to the poor--only when middle- and higher-income beneficiaries are paying their full share of cost are there sufficient resources to expend service and provide subsidies for lower-income groups.

The Philnor/PADCO report explains that local executives and their Sangguniang still find it politically very difficult to raise user charges. It also notes, however, that there is much greater acceptance of, and compliance with, full cost recovery in services provided by private (or quasi-private) entities: for example, "it is only in the water supply sector, run by semi-private water districts working under the guidance of LWUA that a relatively effective cost recovery program has been carried out." Thus, longer term improvements in relation to this objective may be closely linked to progress under the "private provision" objective discussed below.

### **OBJECTIVE 2b--PRIVATE SECTOR DELIVERY OF BASIC SERVICES**

**Requirements.** The first tranche milestone in this area was for DILG to issue policy and implementation guidelines for testing private sector delivery of basic services such as solid waste collection, markets and road maintenance in the Cities. Prior to the second tranche, at least three Cities are to have issued specific guidelines for service privatization and the private sector should be delivering one or more services in at least two Cities. The third tranche requirement is that the private sector be delivering one or more services in a cumulative total of at least six Cities.

**Progress.** Requirements under this objective have also been achieved in full. As background, DILG had issued an initial guideline for privatization in its Memorandum Circular No. 90-104 of December 8, 1991, and augmented that guidance in its Memorandum Circular No. 91-37. After study of several case experiences, it then published and widely disseminated a full "Guidebook on Privatization" (DILG, 1992a--Memorandum Circular 92-06). To satisfy the second tranche requirement, DILG submitted information on three cities that had passed ordinances to implement service privatization:

- Cagayan de Oro (management of slaughterhouses by the local meat industry)
- Davao (sale of the City's telephone system to PLDT)
- Naga (construction and management of public markets by private associations)

DILG has since submitted documentation on five additional cases which, taken with those above, more than satisfy the third tranche requirement:

- Bais (transfer of operating responsibility for the water supply system to the Bais Water District--October 1993 resolution)
- Dagupan (private management of the public market--resolution signed in 1992)
- Iloilo (private provision solid water collection and water supply services--resolutions in 1992 and 1993)
- Tacloban (privatization of bus terminal and shopping center)
- Tagbilaran (leasing of City hospital to Bohol Medical Mission Group Hospitals and Health Services Cooperative--resolution in January 1994)

**Comment.** This is an area in which a marked change of traditions is taking hold. Interviews conducted for this evaluation suggest that City Mayors generally now understand the benefits of additional private participation in urban service provision and they are taking action in light of this understanding. Of particular interest is the initiation of new BOT (Build-Operate-Transfer) projects in which private investors, under agreements with LGUs, develop public facilities and operate them for a specified period of time. Even though not identified by DILG in relation to DSUD requirements, at least two Cities are entering into BOT arrangements to rebuild public markets that had been destroyed (by earthquake damage in Dagupan and by fire in Mandaluyang).<sup>9</sup> The national government appears fully supportive of this trend. A proposed law, clearly endorsing the right of LGUs to initiate such projects and greatly simplifying related procedural requirements, has emerged from conference committee (reconciling the provisions of Senate Bill No. 1586 and House Bill No. 10943) and passage appears likely. This law expands the types of facilities that can be considered for such arrangements to also include tourism, slaughterhouses, warehouses, solid waste management, information technology, education and health facilities, sewerage, drainage and dredging.

#### **OBJECTIVE 2c--CAPITAL INVESTMENT PROGRAMMING**

**Requirements.** Under this objective DILG was to have prepared, prior to the first tranche, a scope of work for reviewing the CIF along with promising capital programming processes from other countries, as a basis for developing better procedures for all Philippine Cities. Second tranche milestones call for the completion of this study (including the development of recommendations and a model capital programming process) and actually developing procedures, providing training, and then trying out the model in at least two Cities. Prior to the third tranche, a cumulative total of at least six Cities were to be trying out the model process.

**Progress.** The requirements under this objective have also been satisfied. The work began with the preparation of a draft report reviewing options and proposing a model investment programming process has been prepared (PLANADES and PADCO, 1992). The proposed model appeared sound in general. It emphasized the critical financial discipline required in investment programming (forcing local leaders to explicitly consider how they will finance the program they develop rather than simply constructing a "wish list", as has been typical in much of local capital planning in the past) and it recognized the need to broaden the approach to cover the full Local Development Investment Programming process (rather than more limited approaches dealing only with selected sectors). Nonetheless, procedural guidance was not yet well detailed.

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<sup>9</sup> One other BOT scheme (for a bus terminal in Cabanatuan) was offered on a competitive basis, but apparently the facility as proposed was overdesigned and little private interest emerged. This is a reminder of the importance of good market demand analysis in facility development (as stressed in DSUD workshops-- see, for example, ABC, Inc. 1993).

Reviews in USAID/GOP policy dialogues led to a strengthening of the approach through the development of a full Manual which added explicit practical guidelines for: project identification; financial policy development; economic analysis of projects; and an iterative method of priority setting and final budget preparation (PLANADES and PADCO, 1993). The Manual was accepted by both DILG and NEDA and issued by DILG as guidance for all Cities and Municipalities (Memorandum Circular 93-14). The approach had been pilot-tested in two Cities (Naga and Lipa) to meet the second tranche requirement, and descriptions of these experiences were also incorporated in the Manual.

PADCO has since worked with two other cities in trying out the approach (Batangas and Dagupan) and has provided follow-up assistance to the initial two Cities involved. DILG has provided training sessions to begin the process in five additional cities. Thus the new form of capital planning and budgeting has been initiated in a total of nine Cities so far:

- Bacolod
- Batangas
- Butuan
- Cabanatuan
- Dagupan
- Iloilo
- Lipa
- Naga
- Tangub

Probably the most successful case so far is that of Batangas, which completed its full 1995-97 capital investment program in accord with the Manual (Batangas City, 1994). The technical assistance team reported that the City staff had already read the Manual and prepared drafts of the basic tables before they arrived, so they were able to make much more progress while they were there (PADCO progress report, April 11, 1994). The staff began by identifying 21 "project ideas" which they then analyzed and ranked by various criteria. After analyzing funding opportunities and constraints, they proposed the 14 highest ranked projects for financing as a part of their program.

**Comment.** This work should be regarded as an important achievement. The process has not yet been fully completed in all Cities where it has been initiated but interviews conducted for this evaluation suggest that it is likely to be perpetuated there and spread to other Cities. In the early 1980s, the Philippines *Capital Investment Folio (CIF)* process for Metro-Manila won international recognition as a disciplined approach to prioritizing public sector capital projects (Von Einsiedel, 1986; Panganiban, 1984), but the process was never implemented in full in Manila, let alone in other regions. The new process developed under DSUD has the chance of winning even greater recognition if it is indeed implemented in all or most of the Cities. Over the coming year, efforts should be made to encourage the replication of the approach elsewhere. The best way to do that may well be to make it the subject of one or more sessions of the Sharing Program.

There is one area in which the approach should be extended. The Manual endorses linkages between capital investment planning and long-term land-use and development planning, but does not say much about how such linkages are to occur. The topic is important because, inevitably, the choices that will be made in annual, and even three- to five-year, capital investment programs will be heavily influenced by the longer term visions of City development held in the heads of the decision makers. Such visions are not likely to be very coherent, or creative enough to address the full measure of the urban challenge for the City as discussed earlier, until they have been structured in a well-formed planning process.

The process should begin with an analysis of strategic alternatives over a longer time frame (10-15 years) that forces local leaders to think through how they might best accommodate the growth that lies ahead for their City. Land-use plans and shorter term capital budgets should be prepared (or revised) as a next step, consistent with the strategy that has been accepted. As such, they are likely to be much more effective than those prepared under current methods without the benefit of such strategic thinking ahead of time. An innovation that may help to make such planning feasible is the Rapid Land-Use Assessment technique developed, and tested in the Philippines, by PADCO (see discussion under Objective 3a in Section 4).

#### **OBJECTIVE 2d--DEVOLUTION OF RESPONSIBILITIES FOR PUBLIC WORKS IMPLEMENTATION**

**Requirements.** The first tranche milestone here calls for the DPWH to have signed a Memorandum of Agreement (MOA) with the League of City Mayors giving Cities the authority to implement some public works projects. By the second tranche, DPWH was to have actually delegated authority and funding (e.g., through City-specific MOAs, as far as is permissible under existing law) to implement such projects in at least seven Cities. The third tranche milestone required an expansion of the cumulative total to at least 19 Cities.

**Progress.** All of these requirements have been met, with MOAs having been executed with 22 Cities. In fact, it could be considered that the Objective was met automatically with the passage of the *Local Government Code*. Under the *Code*, both the authority and the resources for implementing urban development in an effective manner were clearly transferred to the Cities. The DPWH would clearly be unable to continue implementation of local infrastructure projects even if it wanted to do so, since all funds for such projects have been removed from its budget.

Nonetheless, after reviews of the progress of *Code* implementation in 1993, USAID dialogues with the DSUD Steering Committee led to the decision to retain the requirement for MOAs to clarify the transfer of authority. Many Mayors had said at that time that the process of transferring DPWH equipment and personnel to LGUs remained fraught with uncertainty. At the central level, DPWH had stated that it retained very little of either to be transferred (since most of the personnel and equipment used in building infrastructure projects had been procured under contracts for individual projects). But the exact status

remained unclear. Some Mayors who contacted DPWH regional offices were told that clear instructions on transfer had not yet been provided from the center.

DSUD clearly had an impact in clarifying and expediting the process. A central DPWH order directing its district and regional offices to conclude the devolution of DPWH functions, projects, personnel, assets and liabilities to local government had been drafted soon after the new *Code* had passed, but had never been issued. Its issuance (as DPWH Department Order No. 110 of April 1993) occurred only after DPWH was reminded by DOF of the DSUD conditionality. The MOAs led to further clarification in individual cities. The 22 Cities with which they have been signed are:

- Batangas
- Cadiz
- Cavite
- Calbayog
- Cotabato
- Dapitan
- Davao
- Dipolog
- Iligan
- Iriga
- La Carlota
- Lagazpi
- Laoag
- Lipa
- Marawi
- Pagadian
- Palayan
- Puerto Princesa
- San Carlos, Negros Occidental
- Surigao
- Toledo
- Tres Martires

#### Section 4

#### SHELTER DELIVERY

The GOP's housing policies have also changed markedly over the past few years (see discussion in Nuqui, 1991). In general, the approach is to reduce the government's role as a direct producer of housing and convert it more to one of facilitating housing production by the private sector (formal and informal) as well as focusing available subsidies more tightly on the poor--positions very much in line with the United Nations' (1988) *Global Strategy for Shelter to the Year 2000*. Elements of the new approach have been accepted as policy objectives under DSUD. There are three sub-objectives: making better use of idle public lands and updating town plans to support low-income housing; encouraging private sector housing production for low-income groups through joint-venture partnerships with government; and assisting informal urban settlers to acquire and improve their homesites through the Community Mortgage Program.

#### OBJECTIVE 3a - USE OF IDLE PUBLIC LANDS AND UPDATING TOWN PLANS

**Requirements.** This objective calls for progress in two interrelated fields. The first is the use of idle public lands in the Cities for low-income housing. By the first tranche, the Land Management Bureau (LMB) of DENR was to have prepared an action plan for inventorying such land. Further targets called for the start of research for the inventory in at least three Cities, (before the second tranche) and completing inventories in at least three cities and starting research for them in at least six others (before the third tranche).

The second is the updating of town plans. HUDCC (actually the HLRB working under HUDCC coordination) was to have prepared a work program for updating town plans prior to the first tranche. The second tranche milestone called for the completion and ratification of new plans in at least six Cities and the third called for the ratification of new plans in six additional Cities plus the ratification of zoning ordinances based on the new plans in the first six.

**Overall Progress.** All of the requirements specified for this element have been satisfied except one: the ratification of land-use plans for the second group of six Cities. HLURB is confident, however, that among the Cities participating in its ongoing technical assistance program, at least six more plans will be ratified by the end of July 1994.

**Land Inventory Requirements.** To satisfy the second tranche requirement, LMB's December 8, 1992 submission to NEDA identified that not only had the requisite research been initiated in three Cities (Olongapo, Ormoc and Davao) but the inventory itself had been completed in one of them (Olongapo), thereby exceeding the basic requirement. With the passage of the *Urban Development and Housing Act of 1992*, however, LGUs were assigned full responsibility for preparing their own land inventories and for submitting results with respect to idle public lands suitable for social housing to HUDCC (rather than LMB). Since then, data on inventories have been obtained for eight additional cities, shown below, along with the number of hectares identified as being available for social housing:

▪ Angeles	3.2
▪ Baguio*	25.0
▪ Dagupan*	7.0
▪ Manila	65.0
▪ Quezon City	17.3
▪ Roxas	10.0
▪ San Carlos	2.6
▪ San Carlos, Negros Occidental	4.7

Total 134.8

(\* = data from DSUD consultants, others from HUDCC)

Including these and the initial three, data have been received for a total of eleven cities. Two of these Cities (Baguio and Manila) stated that their inventories were not fully complete and no information has been received on the completion of inventories for Ormoc and Davao. Still, in total, inventory is proceeding well for eleven Cities and definite information has been received that seven of these have been completed--totals which exceed the third tranche requirement.

**Planning and Zoning Requirements.** In response to the second tranche requirement, HLURB reported the completion of new and updated land-use plans for nine Cities--Batangas, La Carlota, Cabanatuan, Dipolog, Canlaon, Roxas, Olongapo, Oroquieta and General Santos. By March 1993, five of those had been ratified--Batangas, La Carlota, Olongapo, Oroquieta and General Santos (HLURB letter to NEDA, March 30, 1993).

At that point (March 25, 1993) Executive Order No. 72 was promulgated, consistent with the new *Local Government Code*, delegating authority to ratify land-use plans of Component Cities to the Provincial governments. HLURB retained authority to ratify plans for Highly-Urbanized Cities, however. In July 1993, they ratified the plan for one such City (Roxas) thereby bringing to the total to the six specified by the Policy Matrix.

One element of the third tranche requirement has been met: HLURB certifies that zoning ordinances have been completed and ratified for all of the six Cities noted above. The other element, however, has not been satisfied: i.e., that land-use plans be prepared and ratified for six additional Cities. Interviews conducted during this evaluation suggest that Cities are generally working to prepare and improve plans, but that experience is mixed. This

is confirmed by the most recent assessment of *Code* implementation (ARD, 1993) which states: ". . . on the one hand, LGUs increasingly value the need to plan. On the other, they have not had adequate time and sufficient experience to shift planning processes and outputs toward the new circumstances caused by the *Code*, a circumstance which is exacerbated by absence of cohesive, relevant planning manuals which are applicable to their needs."

There has been no survey to identify the status of Planning in all Cities. HLURB is, however, continuing to provide technical assistance in land-use planning to a number of Cities and it has expressed confidence that progress is far enough along for eleven of them that at least six plans should be complete and ratified by the end of July 1994. These Cities are:

- Bago
- Baguio
- Cadiz
- Cavite
- Iloilo
- Ormoc
- San Carlos
- San Carlos, Negros Occidental
- Surigao
- Tagaytay
- Tres Marteres

It should also be noted that DSUD has contributed directly to technical assistance to improve City land-use planning practice. First, the Project sponsored workshops on the topic in Tagaytay, Iloilo and Cagayan de Oro (attended by representatives of 13 Cities--ARMDEV, Inc., 1993). These workshops were conducted in collaboration with HLURB, whose staff provided technical inputs. Second, innovative work with individual Cities in applying new technology in land-use mapping and interpretation has been conducted by PADCO, Inc. (see further discussion below).

**Comment.** Work in these areas still needs strengthening. It is worth repeating some comments made in the first DSUD assessment. First, there remains a substantial need for better mapping and computer systems--including today's less expensive Geographic Information Systems (GIS) that can contain information on ownership and other characteristics of individual parcels as well as data on road and utility systems. Without these tools, it is extremely difficult for officials at any level of government to track land-use trends and effectuate appropriate land management.

The PADCO project, mentioned above, has contributed what is likely to become an internationally recognized model to address these opportunities: its *Rapid Land-Use Assessment* methodology. The effort began with a seminar in June 1992, to which all Cities were invited, describing the potential use of GIS and satellite imagery for urban management. The results of a survey (questionnaires filled out at the seminars--PADCO Inc., 1993b)

provided a rational basis for the selection of four cities to try out the approach: Cebu, Davao, Lipa and Naga. Work on applications began in October 1993 and is continuing.

Its foundation has been PADCO's ability to secure high-resolution Russian military satellite images which allow the mapping of detailed land-use at appropriate urban scales (1:5,000 and 1:25,000). The interpretation of these images allows a more detailed classification of land uses than has been typically used in the past (see PADCO Inc., 1994). For example, it enables Cities to measure exactly the amounts of land being taken up by informal settlements in contrast to the geographic pace of more formal forms of residential development--in various subareas of the City as well as for the City as a whole. This type of information can serve as a base for the development of effective land management policies that would be virtually impossible to justify with the simplistic and outdated land-use information now typically available for urban areas in the Philippines.

Perhaps the greatest benefit of this approach is that it is much less costly than traditional methods of land-use measurement. For example, satellite images of a 60 km. by 60 km. "screen" (10 M panchromatic) can now be obtained for as low as \$2,400; compared to around \$180,000 for aerial photography and, certainly, much more for an on-the-ground survey that would yield the same results (PADCO Inc., 1993b). The selected Cities are only beginning to use the new land-use information provided in policy decisions. USAID should consider further technical assistance to help them do that effectively, monitor the results and disseminate the findings.

A more fundamental need in this area may be for HLURB (and others, working in concert with the League of Cities) to develop and promote a revised approach for City land-use planning. The old "master planning" approach has been criticized in the Philippines, as it has in much of the world, because it is not closely linked to action programming and gives too much emphasis to detailed regulatory controls. It causes local leaders to focus on the trees (detailed land-use decisions for individual parcels) rather than the forest (broad relationships between major infrastructure networks and environmental conditions and overall urban form--see, for example, Courtney, 1978 and MacNeil, 1984). There has been support for broader "framework planning" at higher levels, but this approach needs more definition as it could be applied in dealing with local land-use (see Peterson et al., 1990).

### **OBJECTIVE 3b - ENCOURAGE PRIVATE SECTOR PROVISION OF AFFORDABLE HOUSING**

**Requirements.** This objective focuses on a program of housing production in the Cities performed by private firms working under joint-venture agreements with NHA. The Matrix calls for the signing of such agreements in six Cities (first tranche), the start of construction on such projects in six Cities (second tranche), and start of construction in a cumulative total of twelve Cities and the completion of 30 percent of the units in first-tranche projects in at least two Cities (third tranche).

**Progress.** The second tranche target in this area was met in full by June 1992 when National Housing Authority (NHA) joint venture projects with private firms had actually

completed construction on projects in nine Cities, substantially exceeding the target: Davao, Quezon City, Naga, Roxas, Tagbilaran, Zamboanga, Pagadian, Cagayan de Oro and General Santos.

Since then, NHA has continued to expand the program. By the end of 1993, the total number of units and plots planned in Board-approved projects in the nine Cities had grown to 5,980, and 4,518 (76 percent) had already completed construction (Table 4.1). Construction had been fully completed on all of the projects in four Cities. The total investment in completed units totaled ₱484.7 million (average of ₱107,282 per unit); only 21 percent of this total was provided by NHA, the remaining four fifths being provided by private investors.

While this is an important accomplishment, it still does not meet the letter of the third tranche requirements because progress has been made in only nine Chartered Cities rather than the requisite twelve. NHA's joint-venture program, however, is also active in other areas, mostly in rapidly growing Municipalities that surround the Cities. At the end of 1993, total Board-approved projects had a planned capacity of 43,668 units (more than seven times the total for the Cities alone); 21,773 units had been completed.

In our judgement, much of this additional production is actually serving the housing problems of the Cities, even though it is not provided within their boundaries. In fact, some of the largest Philippine Cities are already virtually fully built-up. Hardly any land remains available in the core areas and providing additional housing for low-income groups in those areas might be considered questionable at any rate. New housing development in the surrounding Municipalities is all that makes sense.

Over the next few months, it would seem reasonable for NHA to present data on its complete program, isolating production in Municipalities surrounding Chartered Cities. If that production is substantial, we believe the third tranche requirement should be considered to be satisfied.

**Comment.** This program is proceeding well and appears to be meeting its objectives. No changes are recommended.

### **OBJECTIVE 3c - NGO/CITY ASSISTANCE TO ASSOCIATIONS OF INFORMAL SETTLERS TO ACQUIRE AND IMPROVE HOMESITES**

**Requirements.** This objective calls for continued progress by the GOP under its Community Mortgage Program (CMP). In this program, NHMFC provides low-rate loans to associations of informal settlers enabling them to purchase and improve the land they occupy (the community associations are themselves held liable for mortgage payments the first two-years, but they can then transfer those obligations to individual households benefitting from the program). NGOs are making an important contribution in helping the residents of informal communities organize themselves to take advantage of the CMP.

The first tranche milestone specified program initiation (indicated by the provision of guaranty notes of payment to land owners, putting the funds in escrow, or actual payment of funds) in at least eight NGO-assisted CMP projects in at least four Cities. By the second tranche: (a) cumulative initiation was to be expanded to a minimum of 20 such projects in eight Cities; (b) plans for allotting units were to be completed in at least four projects in four Cities; and (c) at least one basic service (such as water or electricity) was to be provided to at least four projects.

The original third tranche requirement called for further program expansion (more program outputs in more Cities) but, in 1993, such targets were replaced. A DSUD-sponsored study (described below) had shown that the CMP had developed several financial and administrative problems which threatened its long-term sustainability. USAID/GOP policy dialogues led to the definition of new third tranche requirements that focus on those problems rather than additional production. These include: (a) developing a plan to attract adequate funding to make the program self-sustaining; (b) increasing the collection rate to a minimum of 80 percent for the quarter ending June 30, 1994; (c) strengthening the accreditation process for originators; and (d) developing a plan and initiating activities to decentralize CMP implementation to originators and local offices.

**Progress.** None of the four new requirements to complete this element of DSUD has been completed as yet, but the issues are being addressed and there is reason to expect they can be satisfied over the coming year. Before, reviewing this more recent progress it should be helpful to provide additional background on the program's development.

The CMP program has grown dramatically since DSUD began. From January 1, 1990 through July 31, 1992, it had initiated 65 projects in 14 Cities, accommodating 8,071 households with a total mortgage value of P136.2 million. Units had been allocated to residents in eight projects in four cities and at least one new service was being provided to all of these projects. All of this substantially exceeded the second tranche requirements.

From that point, the program has continued its pattern of rapid growth. By the end of 1993, the total number of Cities with CMP projects had expanded to 29--almost twice the mid-1992 figure. The cumulative number of households to be assisted had reached 19,281 (2.4 times the mid-1992 level). DSUD has provided direct assistance to the program through its support of three major NGOs that have been the major technical assistance providers to the program's participants (see further discussion in Section 5).

Production accomplishments at the end of 1993 would have by far exceeded the original third tranche targets, had they been retained. However, the focus has shifted (appropriately, in our view) to the intrinsic problems that threaten the program's sustainability over the long-term.

The assessment of the program (PADCO Inc., 1993a) pointed out that while the CMP was the first government program to directly address the housing needs of the poor, its output was sorely inadequate in relation to demand. The main problems it identified include: the lack of a strategy to ensure funding for the program over the long-term; a number of

management weaknesses; collection rates well below those needed to sustain the program; and the lack of sufficient attention to the provision of services and housing improvements in CMP projects. Policy dialogues related to the findings of this report led to the establishment of the four new requirements noted above. Progress made to date in relation to each is as follows:

- *Developing a plan to attract adequate funding.* NHMFC has been active in supporting the proposed "Integrated Shelter Finance Act" which could, in conjunction with the "Abot Kaya" Fund, provide substantial subsidy resources for CMP. A DSUD supported proposal (Lee and Brockman, 1994) notes that such subsidies are needed to make the program affordable but must be: (1) well targeted and (2) matched with market rate lending to ensure a long-term source of funds (loans funds accessed from the commercial banking system, ultimately, could be refinanced by NHMFC through secondary market operations). The proposal argues that sustainability will also require operational measures to increase collections, the introduction of savings schemes (to encourage beneficiary equity participation and reduce the size of the loans required), and shortening the current 25 year loan period to 15 years, to recycle funds more quickly. The next steps will be for NHMFC and others in the government to review these proposals and develop a plan that takes advantage of them.
- *Increasing the collection rate.* NHMFC has already taken steps to improve collections (ranging from more aggressive programs to collect from recalcitrant households to writing off some debts deemed uncollectable) and these efforts are paying off. At the end of 1992, the collection rate stood at 55 percent. NHMFC reports it had been raised to 71.3 percent by the end of March, 1994, and the Corporation states that it is confident that the 80 percent target can be attained by mid-year.
- *Strengthening the accreditation process for originators.* The PADCO (1993) report noted that the CMP had 35 originators nation-wide, but that five accounted for 56 percent of the total amount of loans. Many were not performing their roles adequately. Although a formal plan has not been presented, NHMFC (with assistance from USAID consultants) is working toward an approach to deal with this problem. There is a proposal for new rules that would grant accreditation only to originators that have been in existence for at least two-years and require all originators to update their corporate profiles annually. A number of other recommendations were made in the PADCO report (e.g., conducting pre-accreditation seminars, setting up regional networks of originators, monitoring and rewarding satisfactory performance and several steps to strengthen community organizations). Progress in these areas has been mixed. Needed now is the development of a clear plan and progress report by NHMFC.
- *Developing a plan and initiating activities to decentralize CMP implementation.* It may seem somewhat ironic that DSUD, a Project primarily intended to promote decentralization, has provided considerable support to a program that is operated in a highly centralized manner. However, the program is one that is clearly needed in all Cities and it has always had the potential for more decentralized administration. This new requirement implies that now is the time to take advantage of that potential. The PADCO report clearly recognized this centralization as a structural weakness in relation to long-term sustainability

and there is understanding as well that the operation of CMP places burdens on NHMFC that are not consistent with its central mission. The report considered that no major shift of responsibility would be reasonable in the short term, but recommended that a plan for decentralization be prepared. NHMFC is actively discussing options, but no firm plan is yet available.

*Section 5*

**TECHNICAL ASSISTANCE,  
TRAINING, AND THE  
INVESTMENT PLAN**

This section assesses the DSUD's technical assistance and training activities, one of its most important innovations (the Sharing Program), and GOP progress in relation to its investment plan requirement.

**TECHNICAL ASSISTANCE AND TRAINING**

Six objectives were laid out to guide the training and technical assistance component. Accomplishments in relation to each are summarized in the following paragraphs (full listing of DSUD activities in these areas are found in Annex D):

- (1) *To advance the GOP's ongoing decentralization efforts with policy studies, systems development packages, and information exchange and training workshops;***

Five major policy studies were undertaken beginning with a study on developing and improving city government's capacity to evolve a self-sustaining system of city financing and capped by an urban development sector review study. Other studies looked at specific areas of financing possibilities such as bonds, cost recovery performance of city utilities and services, and capital investment planning. The studies have provided direction for the development of specific training interventions and basis for policy action. The *Urban Sector Review* is being used for GOP formulation of a national urban policy, expected to be completed before the end of the project by the NEDA.

Ten formal training modules and workshops were developed and implemented for city decision makers and staff and regional government offices, particularly of the DILG. The objectives of these interventions were to develop skills or evolve guidelines for use by the cities. These were in Cost Recovery, Privatization, Capital Investment Programming, Revenue Generating systems, Credit Finance, Financial Management, Land-Use Plan Formulation, use of the Geographic Information Systems and training of CMP Community Workers. A total of 683 local government staff, from 39 cities, participated in the training activities (see Annex D).

1. *Revenue Generating Systems (Policy Matrix Obj. 1B)*. Workshops were held by DILG-BLGD in three cities: Batangas, Tagbilaran and Iligan from November to December, 1992. The workshop goal was to enhance the revenue performance of LGUs through adoptable policy schemes and improve innovative systems and procedures. The workshop participants reviewed real property, business and community tax administration, and market and slaughterhouse administration. With these as examples, operations problems were discussed and recommendations for policy were identified.
2. *Financial Management Systems (Policy Matrix Obj. 1B)*. Workshops were held involving four cities from January 24 - 25. The workshop was held to help members of the city local finance committee understand how the interrelated systems, processes and forms are part of the overall financial management of local governments. The cities of Cebu, Batangas, Lipa and Bacolod are involved. Technical assistance with an on-site staff is ongoing. The cities were chosen following a survey conducted by PADCO and a selection process that involved 28 cities.
3. *Credit Finance Course (Policy Matrix Obj. 1C)*. A formal training course was designed by ABC Business Consultants and ran from September to December 1993. It exposed 131 city representatives (39 cities) to credit finance options, methods of packaging, and identification of business opportunities. The training goal was to help build the capability of city governments to use credit financing as a strategy for funding their revenue generating projects. Representatives from financing institutions were invited. Skills was the focus of the training. In addition to information, application modules were designed so participants could work on new information. Issues raised include need for explicit guidelines for LGUs on credit financing and accreditation of financial institutions. An issue that leads to an expanded awareness among LGU policymakers of credit finance is the lack of exposure of *sangguniann* members to credit financing.

The participation of financial institutions in the seminar was important. It stressed the issues that need to be addressed before productive linkage between LGU and formal financial sector is possible. These include the LGU bureaucracy, guarantee by national government, need for more data on LGUs and their operations, anxiety over changes in LGU political leadership, and the negative mark of the Cebu province bond floatation.

4. *Observation/Study Tour (Policy Matrix Obj. 1C)*. During a 15-day period (November 9025, 1992), a Filipino team of local government officials, members of central government agencies, and the private sector examined US Local government bond financing systems. They visited 24 federal, state, special authority and non-governmental institutions that deal with local bond financing. A Portland Statement was formulated that committed the study group to work together in order to create a local government credit finance advisory association. Of the 5 cities and provinces who attended the tour, 4 bond flotations are planned (Dumaguete, Muntinlupa, Dagupan and Naga). The study team identified key precedents and practices that need to be established. These relate to trusts and trustees; security from revenue

assignment and intercepts, intergovernmental agreements and projects, regulation of LGU issuance by SEC and banking authority and the need for advocacy.

5. *Cost Recovery (Policy Matrix Obj. 2A)*. An expert panel meeting and an orientation workshop on Cost Recovery Programs were held September 7, 1992 and September 29-October 1, 1993. The cities of Cagayan de Oro, Olongapo, Lipa and municipality of Los Banos sent representatives. The workshop encouraged sharing of experiences and resulted in an outline for a DILG-BLDG Guidebook on Cost Recovery.
6. *Privatization (Policy Matrix Obj. 2B)*. Four workshops on privatization schemes were held in 1992 and 1993. The workshops were used by DILG-BLDG to launch awareness of the concept of privatization, including understanding of the BOT/BT Law among DILG regional offices and discuss and pre-test a guidebook on privatization. It resulted in an action plan on the promotion of privatization among local governments. Circular No. 93-83 suggesting operational guidelines on privatization of local services and facilities was disseminated.
7. *Capital Investment Programming (Policy Matrix Obj. 2C)*. Five workshops were held in five cities to promote the adoption of a Manual of Procedures on Capital Investment programming for local government units which was endorsed by DILG-BLGD and NEDA. The workshop was attended by a total of 175 participants from 5 cities during August - September 1993. Participants worked on a CIP and pledges to use the Manual of Procedures. None of the participant cities has produced a CIP program.

Two-day workshops on CIP were held in Batangas (March 1-2, 1994) and Dagupan City (Jan 13-14) as part of a technical assistance project. The TA goal is to use CIP as a development planning tool for their cities and effect the dialogue needed in its preparation. Batangas City has produced a CIP program and Dagupan's CIP program has been drafted. Notably, the tools of land-use planning and satellite imagery led Lipa City and Naga City to prepare a CIP.

8. *Land-Use Plan Formulation (Policy Matrix Obj. 3A)*. From November to January 1993, Land-Use Plan Formulation training was held involving 74 participants from 13 cities. A contractor, ARMDEV, was hired. The training was designed to enhance the skills and knowledge of cities on the formulation of a Comprehensive Land-Use Plan so they could update existing city plans. Participants said they learned how to update or revise their city Land-Use Plans and learned the process that was required. They did not express the same confidence level on explaining the techniques and processes in environmental impact analysis and in explaining the alternative forms of Land-Use Control such as taxation and deeds restrictions.
9. *Geographic Information System Presentation (Policy Matrix Obj. 3A)*. A one-day training seminar was held by PADCO in June 1993 to selected government executives on the state-of-the-art GIS tools and techniques useful for urban planning. Four cities have since purchased Russian satellite imagery to assist them in their land-use planning.

10. *Community Organizing for the Community Mortgage Program (Policy Matrix Obj. 3C).* Three leading non-government organizations trained a total of 100 community workers to prepare communities to access funding under the Community Mortgage Program. The training goal was to enable NGO originators to internalize the various principles and skills needed to organize a responsive group which will participate in the Community Mortgage Program. The 6-module course examined community organizing for CMP, roles of different agencies, key processes and workflows, self-reflection of the worker on personal effectiveness and training effectiveness, training design and curriculum, and examined different cases.

While DSUD technical assistance and training resources were primarily devoted to specific objectives under the Policy Matrix they also contributed to broader goals related to decentralization and other challenges being faced by the Cities. Most noteworthy here was the Sharing Program, discussed in a special section below. Also important was DSUD support for the preparation of the national *Urban Development Sector Review* and high-level discussions of its findings. This report and the discussions related to it were the direct stimulus of President Ramos' decision to call for the preparation of a separate chapter on urban development in the next national development plan.

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

The design of the training activities, particularly for self-financing of Cities through credit finance, involved representatives of private commercial banks and other financial institutions as well as government officials. Opportunities were opened through the linkages fostered. Following the training in credit finance, preliminary discussions have been held between twelve cities and various financing institutions.<sup>10</sup> Technical assistance provided in relation to objectives 2b and 2c (private provision of urban services and capital improvement programming to efficiently provide services needed for business expansion--as discussed in Section 3) was also important in this regard.

- (3) To provide management, monitoring and evaluation services for all components of the project;**

Overall management of the project was undertaken primarily by the USAID DSUD project staff, but entailed two interim assessments by outside contractors (Kingsley and Mikelsons, 1991a and 1992). Hands-on involvement within USAID allowed for the integration of learnings from the Local Development Assistance Project or LDAP. It also provided USAID with a front seat in the evolution of a radical change in local governance. This learning systems approach to management of the Project, in retrospect, appears to have been the only

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<sup>10</sup> These are the cities of Olongapo, Iligan, Dagupan, Dumaguete, Bacolod, Davao, Laoag, Pagadlan, Cavite, Tacloban, Tagbilaran and Puerto Princesa.

way to manage the it. Designed before the *Local Government Code* was enacted, the Project evolved based on how the Cities, national government, and private sector groups reacted to the law.

Project activities were generally demand-driven, dictated by what the Cities felt they needed, after a general awareness was provided. For example, the Cities realized during the land-use plan formulation training in 1993 that the lack of a complete set of maps prevented them from coming up with real spatial strategies. This led to a one-day presentation by PADCO on the Geographic Information System and brokering of the purchase of Russian satellite imagery of their cities (see description under Objective 3a in Section 4).

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

A key area where the Project involved the private non-governmental organizations was in the Community Mortgage Program (CMP). Through DSUD, three established NGOs trained 35 other NGO originators to organize communities to access resources for land acquisition and management of their communities. But of the many communities organized, only a comparatively small number have been able to receive funding from CMP. The problem as both government and NGOs have identified is the lack of resources to meet the overwhelming demand for shelter by the urban poor. Dialogue appears to be strained between the NGOs and NHMFC, the lead government agency tasked with CMP.

As discussed under Objective 3c (Section 4), a self-sustaining financing plan for the CMP was recently completed in March 1994 by independent consultants. The plan has been presented to involved NGOs and HUDCC to help them advocate for a long-term and permanent funding source for CMP.

There are a number of issues that provide a pessimistic backdrop to seeing a successful resolution of the issues that confront the CMP program. The first is the dismal performance of the 315 old CMP communities, where only 5 have been individualized and the repayment rate ranges between 65-71 percent. The second is the pending bill to set up a Department of Housing and the agitation to rationalize the different agencies in housing and find viable solutions to meet the three million unit housing backlog.

In the meantime, the impact of a highly trained group of NGOs on urban shelter for the urban poor is put into question. The Davao NGO Kauswagan sa Timogang Mindanao has encouraged its NGO originators to access other low-cost shelter programs such as the PAGIBIG's GLAD.

**(5) To provide local and U.S. consulting services to public and private agencies in order to advance the agreed-upon policy matrix;**

Two main contractors, one US-based and the other local, were hired to work on the technical assistance and training component. Task orders issued by the USAID-DSUD

project officer guided their work. Slowly, requests for particular innovations have come in. For one, Cebu has requested that PADCO develop a study on presumptive business levels to help the city government persuade businesses to pay proper taxes.

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

DSUD technical assistance and training activities were weighted heavily toward the use (and thereby expanded capacity building) of indigenous (rather than U.S.) professionals and institutions. The beginnings of a pool of experts knowledgeable in decentralization and the issues that confront cities has been formed (although not many have been identified in cities, outside Metro Manila). Some areas where additional expertise is needed are in bond floatation, property tax appraisal, and city finance.

Benefiting from and supporting the training and technical assistance effort is the League of Cities of the Philippines. This group has been involved in the successful City Sharing Program (see discussion below) and provides a mechanism where future training and technical assistance can be anchored.

#### ***General Impact of DSUD Training and Technical Assistance***

DSUD has introduced innovations to local governments exploiting the implicit change that the new *Code* demanded. The innovations are beginning to take root in a several Cities where on-site technical assistance has been directed. (The enthusiasm needed to promote change has been kindled in particular by the City Sharing program discussed later in this Section). Workbooks, guidelines and manuals provide ready reference for skills directed at a self-financing City and programs for urban infrastructure.

The DSUD training methodology generally presented the incongruity of "what is" against "what needs to be" through a process of study, presentation, discussion and resolution. Based on the DSUD policy studies, new policies were formulated at the local and national level. And again from the studies, case studies and consultations, formal training courses were designed to bring the new knowledge and skills that City governments needed to innovate and create effective programs.

*The training was "demand driven".* From those who had attended the generic training courses, a few Cities were identified who had the greatest demand for the skills, were confronted with rapid urbanization and appeared committed to exercise the political will to see through the innovations. To these cities, technical assistance was focused. New planning and financial management systems are being introduced in seven Cities: Lipa, Batangas, Cebu, Naga, Dagupan and Bacolod.

*The timing was correct.* Work on DSUD policy studies and consultations expanded substantially in 1992 when the process of implementing the new *Code* was forcing local government officials to learn new ways of public service. It was in 1993 that formal DSUD

training activities were most active. This timing allowed for officials, newly elected during the national elections of mid-1992, to settle in and raise questions on what needed to be done next. Common concerns included methods of planning and raising revenues.

Of the seven training activities and consultations, three were sequentially offered to all the cities: Land-Use Plan Formulation (January 1993), Capital Investment Programming (August-September, 1993) and Credit Finance (September-December, 1993). A total of 39 cities were participants in the courses. It was observed that the attendance of cities in the training courses progressively increased from 1992.

From a broad overview, the DSUD technical assistance approach is now narrowing down to *on-site systems implementation* in hands-on joint work with City officials. Technical assistance is formally being provided in three areas: financial management, capital investment planning and geographic information systems for rapid land-use assessments. The TA process encourages City technical staff to be aware of the issues and promotes dialogue between government and the private sector. City counterparts (through complementary direct expenditures on computer hardware, the allocation of substantial amounts of time by high-level officials, and other means) do seem to be evidencing that they value DSUD assistance.

Tangible outputs are seen. Batangas City has a Capital Investment Plan. The cities of Cebu, Davao and Naga hang wall-size photographs of their Cities derived from the satellite images DSUD helped the obtain. DSUD has provided tools for Cities to become self-financing. The training and consultation workshops focused on mobilizing resources and managing finances. These tools now need to be transferred from USAID/Contractors to a mechanism that can continue to promote new methods for city governance, link the theoretical knowledge with actual field experiences and follow through on the use of the knowledge in the field.

DSUD did not provide the technical information needed for Cities to plan specific urban infrastructure. Only the City Sharing program provided a general glimpse into the technicalities of solid waste, sewerage, roads and shelter. No training was designed to help the cities deal with the next part of their challenge--after the plans and the money--how to implement projects effectively. This already been recognized by USAID DSUD as a need to build up a pool of private expertise for city governance. The impact of the training and technical assistance was clearly of greatest benefit to those Cities who already had the basic fiscal and human resources needed to take advantage of them.

The NGO training for originators and community associations is threatened by an impasse created by the constraints on the Community Mortgage Program. This impasse threatens to wipe clean the new knowledge and skills imparted to NGO originators and the urban poor communities by a lethal combination of frustration and inaction. The concept of private sector financing was not introduced in the training programs of the NGOs and thus diminishes the flexibility of the program--unless retrofitting can be done during a program extension.

The opportunity is there to build up self-financing capability in the DSUD organized communities and open access to private sector financing. This option was initially proposed in the DSUD sponsored assessment (PADCO, 1993).

For the 35 NGO originators, new roles need to be searched for, in addition to that of government advocate, however important this is. The example of Pagtambayayong in Cebu, which has branched into the production of low-cost housing materials and construction of low-cost house and lot units, should be looked at as one model.

Overall, the DSUD training and technical assistance components have positively impacted on a core group of Cities that have begun to innovate and change their management and financial systems. This group can serve as the vanguard in continuing on the DSUD work. One DSUD finding for future training and technical assistance is that "Cities learn from other Cities". The core group can serve as learning labs for others in the logical next stage: "Cities helping other Cities".

## **CITIES SHARING PROGRAM**

### ***Background: The League of Cities of the Philippines***

Understanding the story of the Sharing Program requires some understanding of the history of the League of Cities of the Philippines (LCP). In 1988, the LCP was organized after a new crop of elected City Mayors took office. Prior to 1988, during the Marcos Administration, the City Mayors had a common organization with the Governors, called the League of Governors and City Mayors.

Mayor Brigido Simon, Jr. of Quezon City was elected as the first LCP President. The functions of the LCP and its officers were defined in its Constitution and By-Laws, which up to now remain without any amendment. The LCP enjoyed representation, through its President, in many important meetings of the national government. It also became a member of the Pacific Asia Congress of Municipalities (PACOM), and some officers of the LCP attended PACOM's conferences abroad.

Toward 1990, the LCP focused on demanding the decentralization of national government functions and the promotion of local autonomy, until the *Local Government Code* of 1991 was passed. In 1990, the second set of officers for 1990-1992 was elected, with Mayor Simon, Jr. as President and Mayor Tomas R. Osmeña of Cebu City as Executive Vice President. After the synchronized national and local elections in 1992, Mayor Tomas R. Osmeña was elected President of the LCP. It was also in January 1992 when the Cities Sharing Program was initiated.

### ***The Cities Sharing Program***

The Cities Sharing Program (hereafter, the "Sharing Program") was conceived in 1991, when Mayor Osmeña was offered by the USAID to travel to the United States to learn about

management of cities. Mayor Osmeña instead proposed that the City Mayors learn from each other. Thereafter, the Sharing Program was designed as part of the DSUD Project.

The Program entails presentations held in conjunction with periodic two- to three-day business meetings of the League. In most cases the sessions are devoted to Case study presentations by one or more Cities on innovative practices they have developed and implemented; in others the sessions are simply devoted to joint discussions by Mayors of substantive topic of special interest to them. In one, as will be noted below, officials from a national government agency (COA) were invited to meet the Mayors and mutually discuss agency policies and practices in light of decentralization. A total of ten such sessions have been held--the first was in Cebu in January 1992. (See Table 5.1.)

PADCO, Inc., was the DSUD supported contractor responsible for handling logistics and facilitating the first six programs and Asia Business Consultants, Inc. (ABC) has handled the latest three. So far, DSUD funds have typically covered the costs of the contractors and hotel and meal expenses of the participants, while the Cities pay for their own transportation expenses. Still, there are some mayors who do not attend the Sharing Program for lack of city funds (such as Canlaon City).

Through the Sharing Program, the Mayors learn from innovative methods, ideas and successful projects of other Mayors. Presentation is often done by the Mayors themselves. Through this informal, non-classroom setting, the Mayors' attention is better sustained, bolstered by their camaraderie.

### ***Impact of the Sharing Program***

While the cost in of the program have not been trivial, its benefits, although non-quantifiable, have been enormous. It has certainly brought a positive impact on the institution of the League of Cities of the Philippines, urban development and on gaining momentum for decentralization in the Philippines. (These benefits have been examined in a DSUD funded assessment of the Program--Bonifacio, Guanzon and Medina, 1993.)

*Impact on the City Mayors.* The Sharing Program has caught the imagination of the City Mayors, unlike the usual seminars and lectures on management of local governments. Knowing that these ideas and success stories were actually accomplished by fellow mayors inspires them to do better in similar endeavors at home, or make their own innovations, or "try something new." They are now more keen on better revenue generation, and realize that many options are actually open to them, such as build-operate-transfer, credit financing, and floating municipal bonds, to fund their priority projects. Emboldened by their expanded authority under the *Local Government Code* and a marked increase in their Internal Revenue Allocations (IRA) from the national government, the City Mayors are now, especially because of the Sharing Program, "thinking big."

The Sharing Program has given them credible models. Replication has not been extensive so far but it is likely to expand in the future (although it is unlikely that the models developed in any one City will be implemented in exactly the same form in other Cities).

**TABLE 5.1**  
**EVENTS IN THE CITY SHARING PROGRAM**

Sharing Program No.	Topic	Date	Venue	No. of Mayors to Cities Represented
1	Footpaths to Progress: A Case Study of Cebu City's Engineering and Infrastructure Program	27-31 January 1992	Cebu City	3/26
2	Bacolod City's Innovative Revenue Enhancement and Control System	24-27 March 1992	Bacolod City	0/15
3	Devolution of Functions and Services: Davao and Naga City Experience	30 August 1 September 1992	Davao City	26/33
4	Puerto Princesa City and the Challenges to its Environment: 1. Ecological/Environmental Program 2. Anti-Drug Campaign	7-9 December 1992	Puerto Princesa City	19/23
5	Upgrading the Delivery of Basic Services: 1. Solid Waste Management System 2. Color Coded System of Olongapo City 3. Sectoral Organizations	3-5 March 1993	Subic, Olongapo City	35/45
6	Revenue Generation, The Baguio City Experience (Administration of the Real Property Tax)	21-23 April 1993	Baguio City	25/53
7	Civilian Initiatives to Peace and order	22-23 October 1993	Cebu City	28/43
8	Forum on Children	9-11 December 1993	Cebu City	34/46
9	Commission on Audit Procedures	17-19 February 1994	Manila	40/59
10	GO-NGO Cooperation for Urban Development and Housing	27-28 April 1994	Naga City	9/36

Regardless, the most important benefit may be in the opening and expanding of their minds to new ideas and many possibilities. For the new Mayors, learning from the other Mayors' experiences will hasten their preparedness for their new job. Best of all, they become more focused on their role as City managers aside from just being political leaders. These will surely have positive effects on the delivery of basic services in their cities.

### ***Impact on Decentralization***

Decentralization in the Philippines is going at a less than ideal pace, but is well on its way. The difficulties in adjustments and structural reforms are mainly on the part of national government agencies. The resistance or "slow motion" in some quarters is understandable, considering that this is still a transition period, but the local governments are getting impatient.

While the national government agencies have made their initial steps at decentralization of functions and policy reforms, the process could be expedited by heightening the "demand." The League of Cities as an organization has a major role to play in this regard.

The Sharing Program is an effective mechanism for a constructive way to demand decentralization reforms from national government agencies. In the 9th Sharing Program, the Commission on Audit (COA) admitted that it must "change its ways" and abolish or reform regulations which are obstructing the decentralization process and the autonomy of local government executives. Many more similar fora in the future could be done through the Sharing Program, involving agencies such as the Department of Environment and Natural Resources, Department of Agriculture and the Department of Public Works and Highways.

### ***Impact on the League of Cities of the Philippines***

With the Sharing Program as its centerpiece project, the LCP has gained more prestige in the eyes of its members, the national government agencies and foreign funding agencies. Its members are now more encouraged to attend the General Assembly Meetings, which are held after the Sharing Program is finished, and in the same venue. In between schedules, the mayors informally gather in small groups and continue their discussions on "how to do this project" and "how did you solve this problem."

The LCP is perceived by its members as an organization which should, and can, advance their common goals and interests. It is a "working" League, serious in its intentions to help its members attain progress in their cities. This is significant because in the past, especially during the Marcos Administration, organizations of local government officials did not enjoy the respect of the public. They were perceived as rubber stamps, with no genuine participation of its members in its decisions and activities.

Not only that, as the LCP had gained more prestige and respect, it likewise continued to take bold steps in the name of decentralization and development. For instance, the member Cities agreed to support the City of Palayan in its bid to gain official recognition of

substantially increased land area within its boundaries. This gave Palayan a larger share of the total IRA and resulted in a reduction of the IRAs of all other cities. Unity could not be clearer than this.

The Sharing Program has become not only a unifying element for the LCP, it is also an effective forum for consolidating efforts to get national government response and reforms. The "one for all, all for one" spirit of the LCP in tackling the national government bureaucracy is truly inspiring.

### ***Impact on Urban Development***

Urban development can be hastened if the City Mayors will give it priority. Considering that there are so many things on their minds, it is easier to focus the mayors' attention on urban development by raising their awareness of the gravity of the problem and the ways by which delivery of basic urban infrastructure could best be achieved.

This "handle" is provided by the Sharing Program in an interesting and creative manner. The mayors generally begin with what is doable given their resources, and then they can move on to doing bigger things such as housing (Puerto Princesa City) and floating of bonds for a bus terminal (Naga City).

### ***Recommendations***

After having sown the seeds for urban development, the Sharing Program should not be left to end only for the reason that the LCP cannot afford it. There is a serious intention in the LCP to continue the Sharing Program even after the USAID's assistance stops, and initial steps have already been taken by the LCP towards this track.

Within a few months of the end of the DSUD, the LCP's move to build its capacity to manage its Sharing Program on its own or with minimum assistance of a consultant, should be supported by the Project. While independence of the LCP in all its activities is ideal, its present state of organization and competence needs to be improved before it can manage the Sharing Program with success.

The push which the LCP could give to urban development and decentralization could be stronger if the LCP could be professionalized, strengthened, and otherwise institutionalized. Future project assistance should also focus towards the attainment of this goal.

## **PROGRESS UNDER THE INVESTMENT PLAN**

The Program Agreement between the GOP and USAID for DSUD calls for the GOP to prepare and periodically update an Investment Plan for City shelter or shelter-related infrastructure investment. The plan is to consist of a listing of programmed GOP investments, all of which meet four criteria:

1. They must be investments either directly in shelter, or in shelter related infrastructure (e.g., water supply, access roads).
2. They must benefit households whose incomes are below the national median income (the current official estimate of median income in the Philippines is ₱5,000 per month).
3. They must exclude any funds (loans or grants) provided by external donors.
4. They must be located in chartered Cities.

Prior to any borrowing, the GOP must provide (and certify to be authentic) a record of funds that have been expended on such eligible projects. The DSUD Program Agreement requires that eligible expenditures so documented must equal at least 125 percent of the amount of the proposed borrowing. For example, eligible expenditures of a minimum of US\$25 million had to be certified and accepted by USAID prior to the US\$20 million first tranche borrowing.<sup>11</sup> Expenditures certified for the second and third tranches naturally exclude those certified for earlier tranches.

#### ***GOP Data on Investments***

Base data are derived from individual agency accounting systems. These data must be audited by COA, but it has been recognized that, because the audit process can take one or more years, it is infeasible to wait for audited data as a basis for Investment Plan determinations in DSUD. Generally, however, AID staff report that data from internal agency accounting systems meet fairly high standards for reliability (no doubt in part motivated by the fact that they will be subjected to a rigorous subsequent audit by COA). Data are provided by each agency or department on a quarterly basis, allowing for conversion to dollars using the average exchange rate over a three month period.

*Agencies and the Type-of-Investment Criterion.* Expenditure data were submitted by four government corporations and one central government department: (1) the National Housing Authority (NHA); (2) the National Housing Mortgage Finance Corporation (NHMFC) for the Community Mortgage Program (CMP); (3) the Metropolitan Waterworks and Sewage System (MWSS--which operates only within the National Capital Region); (4) the Local Waterworks and Utilities Administration (LWUA); and (5) the Department of Public Works and Highways (DPWH--the one GOP department).

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<sup>11</sup>By U.S. law, the local currency equivalent of 100 percent of all funds borrowed under the HG program must be spent on projects that satisfy the first three criteria listed above. It is recognized that it would be prohibitively expensive to actually field-verify the compliance of all projects ahead of time. Therefore, some reasonable proxy indicators of eligibility have to be applied in evaluating compliance prior to a borrowing. The DSUD Program Agreement requirement was set at 125 percent to provide a reasonable safety factor in case subsequent audits show that some claimed expenditures were in fact not eligible.

As indicated by the titles on Table 5.1, all of the reported investments fall in definitionally eligible categories: i.e., expenditures for shelter or shelter-related infrastructure. NHA expenditures are for sites and services shelter schemes, slum upgrading, median-rise NHA produced finished housing and housing resettlements schemes. NHFMC data are all for the CMP (which was described in Section 4). MWSS and LWUA investments were made for water supply and sanitation improvements. DPWH investments include water supply as well as flood control, drainage, access roads and combined urban infrastructure schemes.

*The Below-Median-Income Criterion.* Two of the contributors to the Investment Plan restrict their programs directly to individuals and families in low-income groups (in all cases, below-median, and in most cases, well below-median): the NHA and the NHMFC (CMP). Their programs are either means tested or focused exclusively in existing communities where virtually all residents have incomes well below the national median.

The other programs (by MWSS, DWPB and LWUA) provide services that benefit higher as well as lower income groups, so some estimate of the share received by below-median income households has to be made. Unfortunately, data on the distribution of household income in Philippine Cities is not available. However, DOF staff have noted that a recent survey shows that approximately 50 percent of the households in Philippine *urban areas* nationwide live below the poverty line.<sup>12</sup> From this, the DOF proposes it would be appropriate to assume that at least 50 percent of the households in the Cities have incomes below the national median, and therefore to count 50 percent of project outlays in these programs as HG-eligible on this criterion.

*The Exclusive-of-Donor-Support Criterion.* The accounting system of all agencies report sources of funds on an individual project-by-project basis. Thus loan or grant funds received from external donors can be clearly excluded in the tabulations.

*The City-Location Criterion.* All agencies but one have provided project data on a City-by-City basis, so it is clear what is HG-eligible for Cities for these agencies. The exception is MWSS. Its service area (the National Capital Region) contains four Cities and a considerable area outside of the City boundaries (13 Municipalities). MWSS records do not permit a direct break out of project beneficiaries by location. DOF proposes that the share of MWSS project expenditures accepted as serving the Cities should be the same as the share of the NCR's total 1990 population located in the four Cities (56 percent).

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<sup>12</sup> As noted in Section 2, there are many urban areas outside of the Cities and not all of the populations of the Cities are urban. The data that are the basis for the poverty estimate were derived from the 1988 *Family Income and Expenditure Survey (FIES)*. In this survey, the incomes of individual families are set against a national norm and adjusted for family size in order to determine poverty status. The survey was administered to a sample of approximately 17,000 heads of households and is now being conducted every three years.

## **Results**

In determining whether the DSUD Investment Plan requirement has been met, the GOP and AID have agreed to convert eligible peso expenditures to dollars on a quarterly basis, using the average daily exchange rate for the quarter. Table 5.1 shows eligible expenditure for 1990, 1991 and 1992. Eligible expenditures for 1990 (\$39.97 million) exceeded the required \$25 million for the first tranche by 51.8 percent (or \$12.9 million dollars). By the end of 1991, the GOP had expended a cumulative total of \$64.55 million towards infrastructure investments benefitting low-income households--even then, more than enough to qualify for the third tranche under the criteria of the investment plan.

Though all the participating agencies provided data to USAID for 1992, these data must be preliminary since they have not undergone a verification process for accuracy. Nonetheless they indicate additional eligible expenditures of \$17.94 million, bringing the cumulative total to \$82.49 million, 165 percent of the HG loan's \$50 million total.

## **Data Verification**

Plans developed by DOF and AID staff during the first tranche assessment (Kingsley and Mikelsons, 1991) specified a more systematic approach for the submission and review of DSUD Investment Plan data for the second and third tranches. A form was devised and agreed upon by which each agency would record their data on a quarterly basis and submit the data with signature of responsible agency or department head as evidence of authenticity. DOF staff would regularly assemble the expenditure data from the agencies, critically examine all data presented, negotiate improvements as appropriate, and submit full reports to USAID/Manila.

USAID staff in 1992 and 1993 conducted random spot checks of the investment projects identified under the investment plan by the GOP. The staff undertook several trips to selected Cities, including Batangas, Bicolod, Iloilo, Cagayan de Oro, Zamboanga, Dagupan, Baguio, Lipa, San Pablo, Tagaytay, Cebu and Davao. In each City, the staff verified the authenticity of expenditure by agency or department project. They concluded that, in all cases, the projects visited met the investment plan criteria. Similar spot checks are planned for additional cities in 1994.

**TABLE 5.2**  
**INVESTMENT PLAN - TABULATION, 1990-1992 DSUD PROJECT**

Millions of Pesos AGENCY/DEPARTMENT	Total Eligible Expenditure			TOTAL
	1990	1991	1992	
<b>1) NATIONAL HOUSING AUTHORITY</b>				
Sites and Services	15.039	49.408	17.776	82.223
Slum Upgrading	11.219	2.696	0.000	13.915
Medium Rise Housing	87.908	0.000	0.000	87.908
Resettlement	125.542	0.000	0.000	125.542
Sites and Services with Housing	21.489	11.574	0.000	33.063
Sub-total:	261.197	63.678	17.776	342.651
<b>2) COMMUNITY MORTGAGE PROGRAM</b>				
Community Mortgage Program (HUDCC)	115.488	21.624	58.770	195.882
Sub-total:	115.488	21.624	58.770	195.882
<b>3) DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS</b>				
Level I Water Supply	55.140	50.679	50.133	155.952
Flood Control and Drainage	34.611	37.707	14.839	87.157
Barangay Roads	76.869	87.310	35.424	199.603
Urban Infrastructure	7.616	1.814	19.126	28.556
Sub-total:	174.236	177.510	119.521	471.267
<b>4) LOCAL WATER UTILITIES ADMINISTRATION</b>				
Water Supply	104.426	127.300	106.316	338.042
Sub-total:	104.426	127.300	106.316	338.042
<b>5) METROPOLITAN WATERWORKS AND SEWAGE SYSTEM</b>				
MWSRP I	66.861	51.374	25.122	143.357
MWSRP II	50.918	56.840	44.845	152.603
MWSP II	1.053	16.590	12.796	30.439
MWSP III	1.058	14.120	4.326	19.504
MMSSP	2.019	6.454	0.062	8.535
MMWDP	48.101	13.852	13.387	75.340
AWSOP	89.393	151.522	17.231	258.146
MSWOP	0.000	0.722	2.988	3.710
RPWSIP	0.000	0.412	0.756	1.168
FAWSP	0.000	0.636	0.759	1.395
UATP	0.000	0.378	4.620	4.998
MNEWSP	0.000	0.000	1.165	1.165
GWDP	0.000	0.000	0.440	0.440
Locally Funded Project/Equipmt.	21.182	20.966	26.642	68.790
Sub-total:	280.585	333.866	155.137	769.588
<b>TOTAL ELIGIBLE EXPENDITURES IN PESOS:</b>	<b>P935.972</b>	<b>P723.978</b>	<b>P457.520</b>	<b>P1774.779</b>
<b>TOTAL ELIGIBLE EXPENDITURES IN DOLLARS:</b>	<b>\$37.972</b>	<b>\$26.577</b>	<b>\$17.940</b>	<b>\$82.489</b>

Source: GOP

*Section 6*

**CONCLUSIONS AND  
RECOMMENDATIONS**

**CONCLUSIONS: DSUD PERFORMANCE**

In 1991, when DSUD began, two things were required before true decentralization could occur in Philippine Cities. First, a major change in the law was essential to mandate and legitimize substantial transfer of authority, responsibility, and resources to the Cities. Second, if such legal changes were enacted, the Cities had to show evidence that they were both willing and able to take on and creatively address the enormous new responsibilities transferred to them.

In this environment, the GOP and USAID took considerable risk in initiating the DSUD Project. If the new *Code* had not been passed, progress would have been slow indeed and DSUD might have appeared largely irrelevant in wrestling with forces well beyond its control. If the *Code* was passed, but the Cities did not respond, DSUD, and the cause of decentralization generally, might have been regarded as failures.

In fact, both of these conditions were met, creating important new opportunities for DSUD to influence the course of events. The overall judgement from this assessment is that DSUD has been successful, not only in meeting the basic objectives set for it initially, but also in taking advantages of the broader opportunities that opened up with the passage of the *Code* and its implementation.

***The Policy Matrix***

Of the requirements specified in the matrix, six of the ten have already been achieved in full. In the other four cases, considerable progress has been made in each area and we judge there should be no difficulty in completing them over the coming year.

The process of pursuing these objectives was far from smooth. As documented in the two prior assessments of the program, the quality of the work in process under some elements was at times seriously lacking. From time to time, there were questions as to whether the agencies responsible for particular achievements had the will or the ability to deliver. What is important is that the process mandated by the Matrix--the continued

dialogues between key members of the steering committee and USAID--was taken seriously. When things began to go off course, they were paid attention to. The problem was assessed, joint deliberations were held, and corrective actions were taken.

It would be difficult to argue that achievements under the Matrix would never have been made without DSUD (they were, after all, objectives set by the GOP with USAID concurrence, not the other way around), but there is evidence in many cases that the existence of the Matrix, along with USAID/GOP dialogue related to it, either expedited them, led to significantly improved methods of approaching them, or resulted in accomplishments beyond those initially anticipated. For example:

- Initial work related to the design of a self-sustaining finance system (Objective 1b) was weak. This was recognized and additional efforts by several groups were mounted to overcome the deficiencies.
- The design of the education program related to credit finance was particularly effective (Objective 1c). It did contribute the basic understanding that was expected, but it also generated enough enthusiasm and direct linking of officials from Cities and financial institutions that a significant amount of bank lending to Cities occurred shortly after the seminars were complete--a contribution not originally anticipated.
- The interim assessment of cost-recovery practices in the Philippines (Objective 2a) led to a more complete and accurate understanding of the potential of this approach and the best ways of achieving it.
- Critical review of the guidelines initially developed for capital improvement programming (Objective 1c) led to the preparation of a much more comprehensive and professional manual.
- Joint efforts of the DSUD steering committee and USAID related to the devolution of public works functions (Objective 2d) led to the recognition that further clarification of procedures was essential and ensured that such clarification was formulated and officially promulgated.
- Even though progress of the CMP program toward targets set in the Matrix had been excellent (Objective 3c), DSUD sponsored assessment uncovered a deeper understanding of program flaws and altered third tranche requirements so they would be addressed.

### **Technical Assistance and Training**

DSUD technical assistance and training activities were primarily focused on specific objectives under the Policy Matrix but they also supported broader goals. In total, the Project contributed: (1) the production of 40 technical reports and assessments; (2) the convening of 26 individual conferences, seminars, and other training sessions (total of over 683

participants); and (3) hands-on technical assistance to 11 individual Cities in implementing improvement programs the view of this evaluation. Some of these efforts have resulted in notable innovations: ranging from computer-based tax management systems to a new method of land-use mapping (employing Russian satellite technology) that promises to dramatically reduce the cost of reliable analysis of land-use change, the lack of which has been a significant barrier to effective development planning in the past.

This evaluation suggests that these efforts were applied successfully; in fact, they were successful beyond what might reasonably have been expected of them initially. Resources were applied strategically to take advantage of new opportunities created by the enactment of the new *Local Government Code* and in the process of its implementation from 1992 to 1994.

Perhaps most important of all was DSUD's contribution to the League of Cities' Sharing Program. The critical question after the *Code* was passed was how local leaders would respond--whether they would evidence the willingness and capacity to take on the new responsibilities assigned to them. At the start, the Mayors were relatively isolated and exhibiting considerable uncertainty as to how to proceed. Without DSUD assistance for the Sharing Program, along with Mayor Osmeña's leadership in linking this Program to regular meetings of the League, it seems quite likely that they would have remained isolated, and much weaker, in their response. The League's meetings brought them together and Sharing Program presentations gave these gatherings their substantive tone. The implicit message was that the Mayor's were now in the position where they had no other choice than to take charge of their own affairs and learn rapidly the techniques they needed to control their own destinies. Some, like Osmeña, would undoubtedly have done this anyway. However, it was the universal view of those interviewed for this evaluation that it was the League meetings and the Sharing Program sessions that motivated much stronger initiative on the part of many others.

Another contribution beyond DSUD's initial charter was helping to raise national awareness of the fundamental importance of the challenges now being imposed by rapid urbanization. The preparation of the national *Urban Development Sector Review* and high-level discussions of its findings did change attitudes and, explicitly, led President Ramos to call for the preparation of a separate chapter on urban development in the next national development plan. While this has been significant, it is our view that much more work remains to be done along these lines before the lessons here are truly internalized at the national level or among the Cities.

A final comment from this experience is that DSUD technical assistance and training resources appeared to have the highest payoffs when they were focused on direct assistance to the Cities, rather than through central government agencies. In the first months of the Project, many problems were evidenced in the work of national agencies to further its objectives. The highlights of Project performance occurred through the Sharing Program and in direct technical assistance to individual cities, working with them jointly to implement important changes in local capacity in a short period of time and in a manner that enhances the likelihood they will be sustained. Perhaps this is yet another evidence of the value of

decentralization itself. National agencies are unlikely to have either enough knowledge of local circumstances or the incentives required to design and rapidly implement truly effective programmatic responses. Local leaders, on the other hand, have the strongest of personal incentives to avoid failure. Once the barriers are removed and they have the basic tools they need, the probability of "take off" in performance is high.

### ***The Investment Plan***

The data presented in this report indicate that the GOP is complying with its obligations under the investment plan. Although further verification of the initial figures presented in this report is needed, the eligible expenditures documented for calendar years 1990, 1991 and 1992, total ₱2.12 billion (\$82.49 million) which already exceeds the final requirement, i.e., exceeds 125 percent of the full \$50 million available under the HG loan.

## **RECOMMENDATIONS**

### ***Completing DSUD: Extending the Completion Date***

The GOP is close to fully completing all of the targets established in the Policy Matrix, but does not have the time to do so before the current project completion date. Also, DSUD has additional technical assistance resources that are not yet programmed and could not be reasonably expended before that date--given the momentum established by these activities at present, it would seem reasonable to apply them to meet program objectives without requiring additional resources. Accordingly, we recommend that the project completion date be extended for nine months (from September 30, 1994 to June 30, 1995). This should provide enough time for DSUD to achieve all of its objectives in full.

### ***Completing DSUD: Priorities Over the Coming Year***

The findings of this evaluation suggest several priorities that are recommended for DSUD activity through mid-1995. They include the completion of the remaining requirements under the Policy Matrix but they also focus on broader actions to solidify achievements in decentralized development.

1. The highest priority should be given to ensuring the long-term continuation of the "demand driven" system for local capacity building that has already been established in the Sharing Program. This implies support for the League of Cities in its efforts to establish a sound permanent operating structure and financial base. It then implies careful thought in selecting the next set of substantive presentations so that they will have the highest impact, and an explicit plan for phasing out USAID assistance. With their new resources under a much expanded IRA, the Cities should be able to afford larger contributions to the League. League officers should be more exposed to the functions and operating procedures of successful organizations with similar charters elsewhere (e.g., the National League of Cities in the U.S.)

2. A second priority should be in continuing and expanding direct technical assistance to individual cities (assuming the later dissemination of the success stories that emerge through the Sharing Program and other means). These efforts should emphasize themes supported in the past: financial management, credit financing, and the integration of land and broader development planning with capital planning and budgeting (see more specific suggestions on how the latter could be accomplished in Kingsley and Mikelsons, 1992). Because of the remaining unfulfilled requirement under Objective 1c, the program should examine whether the Cities now preparing for bond issues need additional help to implement their plans and, if so, provide it.

3. A special concern over the coming year will be in providing additional help as needed so that effective reforms of the Community Mortgage Program will be designed and implemented.

4. Efforts are still required (although probably not much in the way of technical assistance and training resources) to help national agencies do a better job of facilitating decentralization. Ideas about strengthening the activities of the DSUD/LDAP steering committees under NEDA leadership were presented in the DSUD second-year assessment.

5. There is still work to be done in heightening national awareness of the challenge of rapid urbanization and adopting clearer national policy regarding this challenge. The vital recognition in this work must be that the responsibility rests primarily with local governments--involvement of national agencies must be enabling and facilitative, rather than prescriptive. Perhaps the way to approach this would be to establish the committee for urban policy under the auspices of the League of Cities and attended by representatives of national agencies, rather than the other way around.

The largest metropolitan areas outside of the National Capitol Region are probably the most critical to outcomes in the near term. DSUD might well sponsor additional analytic work (using census and other data) to help define these areas, identify their most critical developmental priorities, and consider how intergovernmental arrangements in those areas (between Cities and surrounding Municipalities) to address those priorities might best be designed.

#### ***Further AID Assistance to the Philippine's Decentralization Agenda***

USAID assistance through DSUD has proven to be an effective means of furthering decentralization--a transformation that is critical to Philippine development generally, but particularly important as a base for addressing the country's growing challenges associated with rapid urbanization. Further USAID assistance to carry on the momentum toward these objectives is recommended.

The themes of DSUD may be the most formidable tools available to achieving key objectives in USAID's new strategy for sustainable development in the Philippines. The Cities are where most of the "action" in Philippine development is likely to take place over the coming decade. The participatory techniques applied in DSUD are the foundations for

*strengthening democracy* in those areas and its strategies for capital investment offer more hope than any other means of *protecting the environment* in the Cities. The new project should support all of themes represented in the DSUD Policy Matrix but should give even higher priority working directly with the Cities to build democracy and avert urban environmental degradation.

Assuming macro-economic conditions are appropriate, additional support through USAID's HG program should be considered as a part of any new decentralization project. Thought should be given to ways HG resources could be used to enhance a sustaining system to finance urban environmental infrastructure.

## Annex A

### SYSTEM OF GOVERNANCE AND DECENTRALIZATION PROGRESS

This Annex provides background information on the Philippines' system of governance as it pertains to local development and progress made on the country's broader decentralization program.

#### GOVERNMENT STRUCTURE AS IT RELATES TO LOCAL DEVELOPMENT

##### The Central Role

The central government is composed of three basic institutions: the Presidency, the legislature (Batasang Pambasa), and the courts. The two houses of the legislature are the Senate (with senators elected at large nationally) and the House of Representatives (with Congressmen elected by the constituents of separate districts).

Under the direction of the President, the executive branch is made up of a sizeable number of Ministries (Departments) and special agencies. Each Department is headed by a Secretary, appointed by the elected members of the House. Public functions are also carried out by a variety of government-owned corporations, established to fulfill special functions.

The Departments and corporations most actively involved in local development are noted below (all have responsibilities under DSUD). The first four have been traditionally responsible for central oversight of all Local Government Units (LGUs).

- *The National Economic and Development Authority (NEDA)* formulates national economic and investment policies and plans and coordinated public sector development activities.
- *The Department of Finance (DOF)* oversees the distribution of central government grants and the financial management and revenue activities of LGUs, particularly through the work of its Bureau of Local Government Finance (BLGF).
- *The Commission on Audit (COA)* audits financial reports of all levels of government.

- *The Department of the Interior and Local Government (DILG)* is responsible for the police function nationally and is the main link between the central government and the LGUs; deals with questions regarding their jurisdiction and status, regulates their activity, and monitors and supervises their performance. Its subunit most active in relation to DSUD is its Bureau of Local Government Development (BLGD).

The following central agencies are responsible for shelter and infrastructure services in localities.

- *The Department of Public Works and Highways (DPWH)* has traditionally built most of the infrastructure in the nation (roads, drainage improvements, sanitation systems, water supply), but its functions have been confined to national-level facilities with the adoption of the new *Local Government Code* (see discussion below).
- *The National Power Corporation (NAPOCOR)* generates electricity and distributes it through the national power grid. (Electricity is then sold to local and electrical utilities for distribution to consumers).
- *The Local Water Utilities Administration (LWUA)* helps to establish local water utilities and provides ongoing financial support.
- *The Land Management Bureau (LMB) of the Department of the Environment and Natural Resources (DENR)* is responsible for inventorying and managing nationally owned public lands.
- *The Bureau of Lands (BL) within the Department of Justice (DOJ)* is responsible for regulating private-land registration and transfer.
- *The Housing and Urban Development Coordinating Council (HUDCC)*, under the Office of the President, coordinates housing policy and the activities of the following agencies.
- *The National Housing Authority (NHA)* is responsible for direct government-housing production programs for low-income households (although it is now shifting emphasis toward joint-venture production with private developers).
- *The National Housing Mortgage Finance Corporation (NHMFC)* provides long-term mortgage financing for home purchases.
- *The Housing Insurance and Guaranty Corporation (HIGC)* provides various kinds of housing guarantees and loan insurance related to housing.

- *The Housing and Land-Use Regulatory Board (HLURB)* administers land-development regulations and coordinates and supervises local physical planning.

### Local Government

The Philippines is a unitary state; i.e., the national government retains the authority to determine how LGUs are created and to define their functions and the processes by which they select their leaders and carry out their responsibilities.

At the first level below the national government are the *Provinces* (total of 76), headed by Governors, and the *Cities* (61), headed by Mayors.<sup>13</sup> The latter include *Highly Urbanized Cities* (17) which are territorially and politically independent from the Provinces, and *Component Cities* (44) which fall within Province boundaries and remain under Provincial regulatory and supervisory authority.<sup>14</sup> Province territories are further subdivided into *Municipalities* (1,531) which have a narrower range of independent powers and functions than the *Cities*.

Standards now call for *Municipalities* (or clusters of *Barangays*) to be reclassified as *Component Cities* when their annual incomes exceed ₱20 million and either their populations exceed 150,000 or their land areas exceed 100 square kilometers. *Component Cities* are to be reclassified as *Highly Urbanized Cities* when their annual incomes exceed ₱50 million and their populations exceed 200,000 (for further clarification of these standards see Sec. 450 and 452 of the *Local Government Code*). Such reclassifications, however, have occurred before applicable standards have been reached.

At the lowest level, all national territory is divided into 40,650 *Barangays* (villages). Based on population density and other factors, *Barangays* are classified as either urban or rural. Both types can and do exist in all of the intermediate level territories defined above. Even *Highly Urbanized Cities* contain rural *Barangays*, sometimes a large number. Some *Municipalities* are entirely rural, but many contain urban *Barangays*. Thus urban growth management responsibilities can exist at all local government levels.

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<sup>13</sup> The number of *Cities*, which had held at 60 for many years, grew this year by the incorporation of Mandaluyong, a highly urbanized city in the National Capital Region.

<sup>14</sup> For a number of purposes, the *Provinces* and *Cities* are grouped into 15 regions, one of which is metropolitan Manila, or more formally, the National Capital Region (NCR). A number of governmental functions are performed at the regional level through bodies such as the Regional Development Councils (made up of Province Governors and City Mayors), but these functions are basically coordinative. With two exceptions, there are no general purpose governments with independent executives and legislatures between the central level and the level of the *Provinces* and *Highly-Urbanized Cities*. The exceptions are the NCR and the autonomous regions of Muslim Mindanao. A full description of the system of local governance in the Philippines, and the history of its evolution, is found in Ocampo and Panganiban, 1985.

All units (from the Provinces and Highly Urbanized Cities to the Barangays) have popularly elected executives and legislatures (Sangguniang Bayan).

## DECENTRALIZATION

Several efforts to promote more decentralization and local autonomy have been made in the Philippines since the end of Spanish colonial rule in the late 19th century (see Ocampo and Panganiban, 1985). Up until 1991, however, the central government's control over public-sector policies and activities in the LGUs had not substantially diminished. While under the previous *Local Government Code* (Batas Pambansa Blg. 337 of 1983), Cities and other LGUs could perform a fairly broad range of functions, all tightly regulated and supervised by central officials. Central departments had the right to review and either ratify or amend most local programs. Also, many services and the bulk of local infrastructure were still provided directly by the central government.

Since the late 1980s, central Departments *deconcentrated* considerable authority to their own officers located in the Provinces. Governors and Mayors did not have to deal with Manila as often, but they still had to deal with officials representing Manila. Local executives were able to appoint their own staffs for the most part, but local Treasurers, for example, were appointed by, and served as employees of, the central government.

### Decentralization Efforts of the Aquino Administration

Pressure for further decentralization heightened particularly since 1988 and was strongly supported by President Aquino, who made it a major theme of her administration. She began by issuing a number of memoranda-circulars furthering the deconcentration of central agency functions to regional and local offices. In 1988, she established the Cabinet Action Committee on Decentralization (CACD) and the Pilot Decentralization Project (PDP).<sup>15</sup> The overall strategy was to (1) more fully implement existing laws and regulations permitting additional decentralization; (2) find gaps in existing executive pronouncements and issue new Presidential Directives to fill them in order to further decentralization to the extent permitted under existing law; and, then, (3) pursue additional political, administrative, and fiscal reforms and encourage the development and enactment of a new legal framework supporting decentralization (a new *Local Government Code*).

After a number of problems emerged (particularly in the PDP project), she took steps to reinvigorate her decentralization initiative. A new Cabinet Decentralization Implementing Team (CDIT) was set up in March 1990 to manage the process more forcefully, and more use was made of directives from the Office of the President, instructing central agencies to be explicit about their decentralization programs. (A new wave of circulars was issued in July 1990, covering an expanded list of agencies.) Emphasis was given to pilot tests of specific

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<sup>15</sup> This discussion is drawn largely from Yotoko (1991) which reviews both the progress and the problems of the President's program in some depth.

changes and, generally, to more involvement of the private sector and NGOs in service delivery, as well as continuing support of passage of the *Local Government Code*.

Under the CDIT, pilot testing was expanded to 14 additional provinces with the expectation of negotiating Memoranda of Agreement on operating relationships and offering smaller block grants than had been available under the initial Pilot program. This program was not fully implemented, however. The experience reinforced views among many that even such limited measures were extremely difficult under the existing legal framework. CDIT decided that full implementation of the pilot programs would not be worthwhile and shifted its attention almost entirely to focus on passage of the *Code*.

### ***The New Local Government Code***

While political opposition was far from trivial, forces supporting decentralization secured the passage of *The Local Government Code of 1991* (GOP, 1991) last October. By international standards, it represents a strong and forceful devolution of authority, responsibility, and resources to local governments. Its principal features are as follows:

***Devolution of Functions.*** The *Code* provides for the clear devolution of a broad range of specific functions to LGUs. Higher levels can prepare plans for their own development, levy and collect several types of taxes, establish and operate public markets and other enterprises, provide many services, and regulate private activity within their boundaries. Perhaps the most important concerning urban development is the devolution of responsibility for "construction, improvement, rehabilitation, repair, and maintenance of all infrastructure facilities intended primarily to service the needs of the residents of" the LGU (i.e., this would include local water supply and residential service roads, but not inter-provincial highways).

Also important, the LGUs are given limited power to authorize the reclassification of agricultural lands for urban use and to provide for the manner of their disposition. Other functions specifically devolved include social welfare services, field and community health services, implementation of low-income housing programs (with some limitations), development of tourism facilities, and extension services related to agriculture and fisheries. The principle of "subsidiarity" is applied to avoid overlaps in responsibilities; i.e., powers specifically devolved in the *Code* are automatically excluded from the responsibilities of higher levels of government.

***Changes in the Operations of National Agencies.*** Regional and local offices of central agencies whose functions are devolved are to distribute appropriate property and equipment to the LGUs. Also, affected staffs of these offices are to be transferred to LGU payrolls (with the provision that their compensation not be reduced as a result). Such agencies previously responsible for frontline services are hereafter to confine their activity to the formulation of national plans and programs and the setting of standards and guidelines for LGU performance. These agencies are to continue to monitor LGU compliance with these guidelines and standards, but will be able to intervene in LGU actions only upon order of the Presidents based on findings that the performance of a particular LGU has not been

adequate. As a basis for coordination, these agencies are also required to furnish LGU chief executives with copies of reports on their own activities, including budgetary releases.

**Local Taxes.** The *Code* widens local tax bases by giving LGUs access to some taxes previously prohibited to them. It also gives them more flexibility in establishing tax rates. Whereas the previous laws prescribed graduated fixed rates for business taxes (based on gross receipts), the *Code* leaves the setting of rates totally up to the local government within a specified range. With respect to property taxes, the *Code* empowers LGUs to fix assessment levels as a function of the current market value of real property (specifying only maximum levels for different classes of property). Unlike the previous practice, LGUs will retain all property tax revenues collected (i.e., none will be diverted to the national government). (See further discussion in Annex C).

**Transfers of Central Revenues to LGUs.** In the past, LGUs were theoretically entitled to up to 20 percent of internal revenue taxes (the Internal Revenue Allotment or IRA), but recently they have been receiving only about 12 percent. Under the new *Code*, the LGU share will be incrementally increased to 40 percent in 1994 and remain at that level thereafter.<sup>16</sup> In addition, LGUs will be granted 40 percent of the mining taxes, fisheries charges, franchise taxes, and other revenues gained from the development and use of natural resources within their territories. Provisions also call for the automatic release of these funds to the LGUs (payment frequencies had been slow and uncertain in the past). (See further discussion in Annex C).

**Credit Financing.** The new *Code* allows LGUs to tap private sector credit sources to finance self-liquidating or income-producing projects, subject to certain conditions. (It has much reduced the constraints to local borrowing contained in the previous Presidential Decree covering local credit financing.)

**Local Development Councils and NGOs.** The *Code* requires that each LGU ensure the preparation of a multi-sectoral development plan by its Local Development Council and the review and approval of that plan by its Sanggunian. LGUs are also obligated to promote the establishment of NGOs within their territories, required to place NGO representatives on their Development Councils, and encouraged to enter into joint-ventures and other collaborative relationships with NGOs.

### **Local Government Code Implementation**

Regulations on implementing the *Code* were issued soon after the code was passed (GOP, 1992). The process of implementation was far from smooth. One early appraisal (ARD, 1992f) indicated several problems: (1) central implementation directives often presented inadequately detailed guidance or sometimes were in conflict with one another; (2) lack of clarity on the timing and amounts of IRA payments were causing LGUs to be reluctant to sign

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<sup>16</sup> This is calculated as a share of internal revenue collections in the third previous year, not the current year.

MOAs related to the transfer of central staff; (3) other uncertainties about personnel transfers were expected to affect the benefits and other conditions of the staffs being transferred.

Even in 1992, however, there were signs of more positive response of LGU officials welcoming broader authority and exhibiting creativity in adapting to it. Particularly encouraging were reports that the nation's new crop of recently elected Mayors is composed quite differently than the comparable group in the past; the group contains more younger people who come from business backgrounds and fewer traditional politicians (see reports of the DSUD Urban Advisor, 1992a through 1992d).

A more recent assessment of *Code* implementation through October 1993 (ARD, 1993) found progress to be "highly encouraging." The report notes that the process of devolving personnel (over 69,000 employees) and assets had essentially been accomplished and the promised increases in the IRA had occurred and had been delivered on time. As to responses from local government officials, the assessment found that "some display extraordinary will in doing so, others are less aggressive, but overall, local governments are rapidly changing to meet the new demands placed upon them. Service delivery has continued without major disruption and, in some cases, has improved." It also found, however, that national government agencies were adapting less rapidly and having problems facilitating the decentralization process effectively.

Clearly, much remains to be done before local governments are fully equipped to provide adequate services and manage the full developmental tasks now assigned to them (see, for example, Panganiban, 1993). However, there is much to suggest that the riskiest phase in the process has been completed and a foundation for improved performance has been established.

## *Annex B*

### **THE PHILIPPINE ECONOMY AND RECENT TRENDS**

The need to decentralize the Philippine governance derives from a number of factors. Perhaps the most important is rapid urbanization which, in turn, is largely explained by changes in the structure of the national economy. The economic disparity between urban and rural households is large in the Philippines. According to recent survey data (FEIS, 1991) over 56 percent of all rural families live below the poverty line, this contrast with a 37 percent poverty rate for urban areas. Based on these statistics, it is easy to understand why the pace of urbanization is so high in the Philippines. There is good reason to believe that managing urban growth effectively requires a different level and mix of government activity than is required in rural areas, and that the public sector "urban package" is much more likely to break down when central government attempts to provide it than if local governments were devolved greater responsibilities for determining their own futures.

#### **The Philippine Economy in the Late 1980s.**

Economic growth in the Philippines was rapid through the late 80s. The Gross National Product (GNP) rose, while employment improved, and inflation was held at reasonable levels relative to historical standards. This growth, however, was not sustainable. In 1989, the structural weaknesses in the economy began to appear in the form of a large fiscal deficit, a widening trade gap, and high inflation and interest rates. Independent of these macroeconomic developments, a series of natural disasters put even more pressure on the economy.

The Philippine economy stagnated through 1992 due to the weak output in all sectors of the economy. A major drought contributed to the overall decrease in output in the agricultural sector, coupled with a ban on logging and other conservation measures. Industrial output also diminished due to a fall in utility output with chronic energy shortages leading to manufacturing output to decline. While, the service sector experienced only anemic growth rates from 1989 to 1992.

Slow growth of the economy was aggravated by the Government's difficulty to increase domestic income and lessen inequality. The gini coefficient, often used as a measure of the degree of income inequality, increased from 0.44 in 1988 to 0.47 in 1991. (Comparatively, the gini coefficient in the United States is about 0.24.) On a relative basis, the poorest 30

percent of the population accounted for only 8.4 percent of total national income in 1991, compared to 38.6 percent for the upper 10 percent of the population.

### **Economic Outlook.**

As table B1 shows, indicators of economic development declined from 1990 to 1992, with industrial sector the hardest hit by falling output. Gross domestic investment, reflecting the amount of resources devoted to infrastructure investments, also declined over this period. Gross domestic savings, so vitally important for funding investment, fell at even greater rates than manufacturing through the early 1990s.

The inflation rate increased to almost 19 percent per annum over this period. In part, the high price of oil -- the residual of the Gulf war -- drove prices upward for all commodities. The moderation of inflation in 1992 and into 1993 was consistent with the Philippine economic stabilization program with fiscal policy replacing monetary policy as means of controlling inflation. Merchandise trade deficits have been a chronic phenomena in the Philippines. If not for considerable remittances from abroad, the total trade balance would be large indeed for an economy the size of the Philippines.

At the start of 1992, the Philippine economy began a slow, but deliberate climb from negative to positive growth. The external perception of the country changed. In 1992, as a result of a peaceful election, the newly-elected President committed to reforming the ailing economy. As a result, foreign investment increased. Regulations governing foreign exchange holdings and foreign exchange transactions were liberalized. In addition, the accounting of remittances from abroad was made easier. Combined, these measures helped create a positive foreign as well as domestic investment climate in the country.

The near-term prospects for growth are good. In 1993, the economy improved even further to post a positive 2.8 percent growth rate, with all sectors of the economy showing signs of recovery. Exports increased by a full 11.5 percent, an important development for an economy with little value-added to exports. In addition, the chronically bad debt-service ratio fell to only 18.9 percent of exports from 26.8 percent in 1990.

The new President was also committed to overcoming the energy crisis. Eleven plants, amounting to a significant infrastructure investment, were put into use during 1993. With this addition capacity increased to a point where central Philippines no longer experiences daily power outages. As a direct result, industrial output increased by 6 percentage points in 1994. With a renewed emphasis on investment, especially in infrastructure projects, there was an increase in activity in all regions of the country. Helped along by Asia's most innovative and liberal build-operate-transfer (BOT) scheme, investment in infrastructure should steadily climb from the low-levels experienced in the last two decades.

### **Economic Growth and Urbanization.**

If positive political and social trends continue in the Philippines, urbanization should accelerate at a faster pace going into the mid-1990s. Population migrations are, in part,

**Table B1**  
**Economic Indicators, 1990-1994**  
**The Philippines**

	1990	1991	1992	1993	1994
<b>Gross Domestic Product</b>	<b>2.7</b>	<b>-0.7</b>	<b>0.0</b>	<b>2.8</b>	<b>4.5</b>
Pct. change					
Agriculture	0.5	0.9	-0.9	1.4	2.6
Industry	2.6	-3.1	-0.5	2.9	6.0
Services	4.0	0.6	0.8	3.4	4.3
<b>Population (millions)</b>	<b>60.7</b>	<b>62.1</b>	<b>64.3</b>	<b>65.6</b>	<b>67.0</b>
<b>Gross Domestic Investment</b>	<b>22.5</b>	<b>19.8</b>	<b>21.1</b>	<b>22.7</b>	<b>24.6</b>
% of GDP					
<b>Inflation Rate</b>	<b>14.2</b>	<b>18.7</b>	<b>8.9</b>	<b>8.8</b>	<b>7.8</b>
<b>Merchandise Exports,</b>	<b>4.7</b>	<b>8.0</b>	<b>9.8</b>	<b>11.5</b>	<b>11.2</b>
Pct. change					
<b>Merchandise Imports,</b>	<b>17.2</b>	<b>-1.3</b>	<b>14.6</b>	<b>13.3</b>	<b>13.0</b>
Pct. change					
<b>External Debt Outstanding</b>	<b>30.2</b>	<b>31.9</b>	<b>32.5</b>	<b>33.0</b>	<b>n/a</b>
(billions \$)					
<b>Debt-Service Ratio</b>	<b>26.8</b>	<b>23.2</b>	<b>18.9</b>	<b>15.7</b>	<b>n/a</b>
Pct. of exports					

Source: Philippine National Statistics Board, IMF

predicated on employment opportunities. If industrial output increases in the Philippines as expected, and the service sector expands as well, out-migration from rural to urban areas should increase even further thereby increasing the demands on infrastructure in urban areas. If economic development bottlenecks are to be avoided, local capacity to provide infrastructure needs to be intensified and expanded.

Traditionally, localities in the Philippines invested few resources in infrastructure maintenance and capital projects. Over a four year period, from 1987 to 1991, local government's share of capital investment in the Philippines as a whole averaged only 4.3 percent. Compared to Thailand's 16 percent and India's 56 percent, the Philippine share represents a low level of investment. Local capital outlays as share of total expenditure have also been traditional low by international standards. On average, the local governments in

the Philippines expended only 6.3 percent of the total expenditure for capital outlays (compared to 20 percent in Thailand and 36 percent in India).

The long term prospects for economic growth in the Philippines are positive. Recent political, social, and economic factors are coalescing to bring about a permanent change necessary for long-term sustained growth. If the Philippines is to realize the full potential of its human capital, then decentralization will contribute to the overall growth of the country by alleviating development bottlenecks in urban areas so that growth can evolve where investment will naturally concentrate. Local governments will need to respond to economic development not only through increased outlays for capital expenditures but for increase capacity to meet the services needs of the growing urban population.

## *Annex C*

### **LOCAL GOVERNMENT FINANCE**

This section summarizes the system of local government finance in the Philippines, concentrating on city revenue collection mechanisms as mandated by the *Local Government Code of 1991*. In so doing, it highlights the changes in the structure of local finance brought on by the *Code*.

Local governments garner revenue from a multiplicity of sources. These sources can be grouped into two broad categories -- locally generated and externally generated revenue. Cities generate the majority of revenue monies locally through the collection of taxes and fees. The two principal sources of local revenue are the real property tax (RPT) and the business tax. Among the different sources of external funds, the largest amount is collected through a sharing formula embodied in the internal revenue allotment (IRA). In addition to these sources of revenue, Cities may borrow and issue bonds to finance capital expenditures.

With the passage of the *Code* revenue sources for local governments were fundamentally changed from their pre-1991 structure. In order to promote independence from the central government, the *Code* strengthened the fiscal autonomy of the Cities through increased tax rates, greater administrative powers, enhanced borrowing capacity, and a change in the distribution of the Internal Revenue Allotment (IRA) among LGUs.

#### **Locally Generated Revenues**

Under the 1991 *Code*, the Cities expanded their capacity to generate local tax revenue. All the major taxing authority before the passage of the *Code* was retained, including specific modifications to property assessment rates and accrual of the proceeds.

**Business Taxes and User Fees.** The right of a city to collect business taxes and user fees was originally established by the former revenue code that allowed Cities to levy taxes on selected types of businesses within their jurisdiction. In addition, Cities were able to collect user fees from operating economic enterprises such as public markets or slaughterhouses as well as collecting statutory user fees for public goods and licenses such as a residency taxes. Previous to the passage of the *Code*, only federal legislative action could alter these tax rates.

The *Code* expanded local authority to increase the rates of the business taxes, and, in some cases, added new taxing powers. For example, the Cities may now collect taxes on gross receipts of banks, and financial institutions whereas before the *Code* these businesses were exempt. Cities can also collect taxes on financial transactions including all forms of leasing, many types of dividends, property rentals, and sale of property and insurance premiums. With the passage of the *Code*, the schedule of tax rates for businesses was increased, with the rate set according to the type of business and the amount of gross annual receipts. On average, the business tax rates increased under the provisions in the *Code* by approximately 15 percent.

Another fundamental difference between the old revenue generating system and the new one is the way authority is granted for levying taxes. Previously, all provincial and City tax ordinances were reviewed by the DOF, who, in turn, was granted the authority to alter or retract a local government tax ordinance on selective grounds. The *Code* allowed the Cities to retain taxing authority by a local review process, though the DOF still retains the right to appoint the city treasurer.

**The Real Property Tax.** Provisions in the *Code* altered property taxation by modifying the valuation process for all properties. Similar to provision found in old code, tax rates are set, as well as administered on a national level. The assessments range from 15 to 80 percent of market value although specific properties are assessed at a lower rate than the one under the previous code or altogether exempted (residential buildings with a market value of ₱175,000 or less). Under the *Code*, only Sanggunain can alter property assessments. The *Code* changed the distribution of RPT tax proceeds between Cities and their component barangays. The barangay share in the tax increased from 10 to 30 percent, leaving the Cities with a lower share (70 percent) of the overall property tax revenue stream. Lastly, the *Code* lifted the property tax exemptions for government owned and controlled corporations.

**Other Taxes and Fees.** Among the new provisions found in the *Code* are enhanced powers for LGUs to collect a variety of special taxes and fees. These include five new land taxes and new collection schedules for business taxes. The five land based taxes are: land sale tax, land transfer tax, idle land tax, and public land use tax, including a special education fund valid only in the Metro Manila area.

What was the former residence tax is now reclassified under the 1991 *Code* as the community tax. Persons over 18 years of age are required to pay 5 pesos per 1000 pesos earned. At this rate, *Code* authorized revenue from the community tax represents a two fold increase over the amount of revenue received by the previous residency tax. The community tax also applies to businesses operating within the Cities' jurisdiction, though the schedule of rates differ from those applied to individuals.

### **External Sources of Revenue**

**Internal Revenue Allotment (IRA).** The IRA is a national government internal revenue that is shared with the local government units. Before the passage of the *Code* the IRA share of total LGU revenue fell below 50 percent. The *Code* increased the IRA to the

LGUs and redistributed the shared revenue in favor of Cities. Under the previous revenue sharing scheme, the IRA allotted 90 percent of the funds to provinces, cities, and municipalities, and barangays (with a 30, 25, 45, 10 percent distribution, respectively). Under the *Code*, the barangay share increased to 20 percent, with the remaining portion distributed by allocating 23 percent to provinces, 23 percent to the cities, and 34 percent to the municipalities. The criteria to distribute the IRA relied on population (50 percent), land area (25 percent) and equal sharing (25 percent). Because of this new distribution scheme, the Cities realized a net 2.2 percentage point increase in the way the IRA is distributed.

**Debt Financing.** Under the new *Code*, the LGU's ability to fund development projects by borrowing money directly from credit institutions, or floating bonds in the financial markets, was streamlined. A City may now use real property as collateral for credit financing and enter into build-operate-transfer (BOT) agreements with private sector developers. Both of these provisions in the *Code* are new and reflect the overall attention the *Code* devotes to enhancing local capital financing capability. Before the *Code*, borrowing on the part of Cities was limited to loans extended by mostly government agencies or corporations. Now LGUs may borrow from private financial institutions without DOF approval.

### Local Government Finance Data and Revenue Trends

Reliable data on city and local governments revenues are available on an annual basis broken down by specific source categories (COA, 1994). Table C1 shows revenues for Cities by source, in current pesos, on an annual basis for the 1989 through 1992 period. This table also shows the distribution of revenue sources as a percentage of total revenue. In order to net out the effects of inflation, revenue was adjusted by the implicit GDP price deflator and is shown in Table C2 in constant 1992 pesos.

**Local Revenue.** Through 1992, Chartered Cities derived the majority of revenue from local sources. Table C1 shows that in 1989, 62 percent of all City revenue was derived from local sources while in 1992 it decreased to less than 50 percent. When revenue sources are compared local revenue increased from ₱3.03 billion to ₱4.57 billion, representing a 50.8 percent expansion over the four year period.

Revenue from taxation was the dominate source of local revenue, though it too decreased as a share of total revenue over the four year period. Property taxes in particular, decreased in relative terms over this period proportionally more than business taxes. Business taxes registered a 3 percentage point decrease while the RPT collections decreased by 5 percentage points from 1989 to 1992.

The most dramatic increase in revenues among the categories of local sources was found in Fees, charges, and other receipts. In absolute terms these receipts totaled ₱0.87 billion in 1989, increasing to ₱1.54 billion in 1992, representing a 77.0 percent increase over a four year period. Alternatively, receipts from economic enterprises decreased substantially. In 1989, for Cities as a whole, only ₱0.33 billion were collected from revenue generating City enterprises, while in 1992 this figure dropped to ₱0.23 billion, representing a 44.5 percent decrease.

**Table C1**  
**CONSOLIDATED REVENUE FOR CHARTERED CITIES, 1989-1992**  
**THE PHILIPPINES**

	1989	1990	1991	1992
<b>REVENUES (millions of Pesos)</b>				
<b>LOCAL:</b>				
Revenue from Taxation	1,835	2,335	2,748	2,806
Business Taxes	710	854	1,006	1,078
Real Property Taxes	1,125	1,481	1,742	1,728
Non-tax Revenue	1,198	1,602	1,749	1,767
Receipts from Econ. Enterprises	331	391	223	229
Fees, Charges and Other Receipts	867	1,211	1,526	1,538
Sub-total	3,033	3,938	4,498	4,573
<b>OTHER:</b>				
Internal Revenue and Specific Allotments	1,542	2,108	2,737	4,497
National Aids	308	327	432	28
Borrowing	20	71	86	291
Sub-total	1,870	2,508	3,255	4,816
<b>TOTAL</b>	<b>4,903</b>	<b>6,446</b>	<b>7,754</b>	<b>9,389</b>
<b>PERCENT OF TOTAL REVENUE</b>				
<b>LOCAL:</b>				
Revenue from Taxation	37	36	35	30
Business Taxes	14	13	13	11
Real Property Taxes	23	23	22	18
Non-tax Revenue	24	25	23	19
Receipts from Econ. Enterprises	7	6	3	2
Fees, Charges and Other Receipts	18	19	20	16
Sub-total	62	61	58	49
<b>OTHER:</b>				
Internal Revenue and Specific Allotments	31	33	35	48
National Aids	6	5	6	0
Borrowing	0	1	1	3
Sub-total	38	39	42	51
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : COA

**Table C2**  
**CONSOLIDATED REAL REVENUE FOR CHARTERED CITIES, 1989-1992**  
**THE PHILIPPINES**

	1989	1990	1991	1992
<b>REAL REVENUES (millions of 1992 Pesos)</b>				
<b>LOCAL:</b>				
Revenue from Taxation	2,611	2,948	2,967	2,806
Business Taxes	1,010	1,078	1,086	1,078
Real Property Taxes	1,601	1,870	1,881	1,728
Non-tax Revenue	1,704	2,023	1,888	1,767
Receipts from Econ. Enterprises	471	494	241	229
Fees, Charges and Other Receipts	1,233	1,529	1,648	1,538
Sub-total	4,315	4,972	4,856	4,573
<b>OTHER:</b>				
Internal Revenue and Specific Allotments	2,194	2,662	2,955	4,497
National Aids	438	413	466	28
Borrowing	28	90	93	291
Sub-total	2,660	3,167	3,514	4,816
<b>TOTAL</b>	<b>6,975</b>	<b>8,139</b>	<b>8,372</b>	<b>9,389</b>

Source : COA

While local source revenue decreased as a share of total revenue, in absolute terms this category experienced a significant revenue increase from 1989 to 1992. This result was partly due to the devolved taxing powers granted to Cities with the advent of the *Code*. Even when local source revenues are measured in real terms (constant 1992 pesos), revenue from taxation increased over the four year period. Table C2 shows that in 1989, City business tax collections registered just over ₱1.01 billion and in 1992. When controlling for the effects of inflation, taxes collections rose to ₱1.08 billion for a 6.9 percent real increase. Though the Philippines experienced annual double digit inflation rates over this period, Cities experienced real increases in local source revenue.

**External Revenue.** The IRA share of total revenue grew at a faster rate than did taxation over the four year period. As table C1 shows, in 1989, the IRA stood at ₱1.54 billion, or 31 percent of total revenue. In 1992, the IRA increased by ₱2.95 billion to ₱4.50 billion,

representing almost 50 percent of total revenue of City revenue. This increase is attributed to the provision in the 1991 *Code*, which significantly increased the share of internal revenue allotted to the LGUs, especially the Cities. The IRA is expected to increase further in absolute terms and in relative terms in the coming years. Preliminary national budget data show the City share of the IRA increased still further in 1993 to ₱9.99 billion in 1993 and in 1994 to ₱11.49 billion.

By international standards, before the passage of the *Code* the Philippines government transferred a very small share of internal revenue to local governments. Over a four year period (1985-1989), on average, only 2.2 percent of national government expenditures were allocated to LGUs, representing only one half of one percent of GDP. This is less than other Asian countries transfer to their respective local governments. Over the same four period, Thailand's government transferred, on average 2.8 percent of all expenditures to local governments, Malaysia 5.3 percent, and India 17.2 percent (IMF 1991).

Borrowing by Cities increased dramatically from 1989 to 1992. With the passage of the *Code*, LGUs were given much more discretion when accessing credit. In the past LGUs, as a whole, borrowing mainly from government agencies since they had to rely on DOF approval to access credit. Table C2 shows that borrowing only accounted for less than one percent (₱20 million) of total City revenue in 1989.<sup>17</sup> In 1992, this share increased dramatically to 3 percent, or ₱291 million--representing a 14 fold increase in just two years. As noted in Section 2, the extent of City borrowing is increasing rapidly beyond that, with approved loans to Cities from one institution alone (Philippine National Bank) exceeding ₱2 billion from September 1993 through April 1994.

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<sup>17</sup> The only other source of credit for City financing was the Municipal Development Fund (MDF) administered by the DOF. This fund was established, in part, with donor money and lends funds at a subsidized interest rate over an extended term (20 years) for mostly revenue generating projects. Debt service was limited to 1.2 times the Cities' revenues net of operating expenses. The IRA is subject to a lien, thereby protecting against LGU default.

*Annex D*

**DSUD TECHNICAL ASSISTANCE  
AND TRAINING PROGRAM**

**Annex D**  
**DSUD TRAINING ACTIVITIES, 1992-1994**

Project Objective	Training Course/ Workshop	No. of Participants		1992	1993	1994	Results
		Cities	Total				
1B	1. Revenue Generating Systems a. Workshop on Policy Systems and Procedures 1. Batangas City 2. Tagbilaran City 3. Iligan City	3	25	12/16-19, 27	11/22-28 12/6-19		List of recommendations to improve systems and procedures and direct policy
1B	2. Financial Management Systems	4			1/24-25		Awareness, dialogue systems, database design and set-up (Cebu), microcomputer revenue information system (Batangas, Lipa), computerized real property and business tax and licenses (Bacolod).
1C	1. Credit Finance Course a. Cebu b. Tagaytay c. Davao d. Cebu	39	183		Sept. — Dec.		Skills in Credit Finance, linkage with commercial and development banks (12 cities)
1C	2. Observation/Study Tour	3	9	10/	— 1/93		
2A	Cost Recovery 1. Expert Panel Meeting 2. Orientation workshop on the Cost Recovery Program	NR NR	15 13	9/7		11/23-25	<ul style="list-style-type: none"> <li>• Framework/Guidelines on Cost Recovery</li> <li>• DILG Policy Circular Issued 17 May 1993</li> <li>• Cost Recovery Guidebook</li> </ul>
2B	Privatization 1. Planning Workshop 2. Consultative Workshop on BOT 3. Discussion Workshop on Guidebook 4. Workshop to Pre-test Privatization Guidebook	NR NR NR NR	20 25 14 30		4/20-22 11/9	2/12-13 6/23-25	<ul style="list-style-type: none"> <li>• Action plan on promotion of privatization; Circular of 7/2/93</li> <li>• Awareness of BOT Law</li> <li>• Draft of workbook</li> <li>• Final revision of workbook</li> </ul>

Annex D  
DSUD TRAINING ACTIVITIES, 1992-1994

Project Objective	Training Course/ Workshop	No. of Participants		1992	1993	1994	Results
		Cities	Total				
2C	Capital Investment Programming						<ul style="list-style-type: none"> <li>• Multi-sectoral lists of projects</li> <li>• Pledges to use Manual of Procedures of Capital Investment Programming for LGUs</li> <li>• Awareness of need for conference between project lists and financing</li> </ul>
	1. Pilot Test Workshop on CIP System for LGUs (Cabanatuan, Iloilo, Bacolod, Butuan, Tangub)	5	175				
	2. Technical Assistance to Batangas City and Dagupan, Naga and Lipa	4			Aug — Ongoing		
3A	1. Land Use Plan. Formulation Training	13	74	11/4-24	11/6-13		
	2. Geographic Information System Presentation						
3C	1. CMP Community Workers Training	NR	100				

NR = Not Reported

*Annex E*

**THE DSUD POLICY MATRIX**

**DECENTRALIZED SHELTER & URBAN DEVELOPMENT (DSUD) PROJECT**  
**POLICY MATRIX**  
 (REVISED AS OF NOVEMBER 23, 1993)

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			TRANCHE 1	TRANCHE 2	TRANCHE 3
1. Develop self-sustaining system of financing for Chartered Cities (CCs).	a) Mobilize additional revenues.	Improvement in tax collection of Chartered Cities.		CCs (as a group) achieved at least 32% increase in local tax collections in 1991 over 1989.	CCs (as a group) achieved at least 58% increase in local tax collections in 1992 over 1989.
	b) Assess factors constraining Chartered Cities to develop a self-sustaining system of financing.	Assessment of self-sustaining financing system for Chartered Cities	GOP (DILG) prepared scope of work to assess constraining factors for CCs to develop a self-sustaining system of financing.	GOP (DILG) conducted study and pertinent GOP agencies identified policies for pilot testing based on the recommendations of the study/assessment.	Pilot testing of identified policy actions being conducted by GOP (DILG).
	c) Establish a program for Chartered Cities to obtain credit financing for urban infrastructure investments.	Offering of Chartered City issued bonds or credit instruments.	GOP (DOF) prepared scope of work and mobilized team to review and make recommendations to improve P.D. 752, as amended, and other relevant laws and regulations.	GOP (DOF) established educational program for CCs to facilitate borrowing, implemented appropriate recommendations of the completed review which are within the purview of the Executive Department and recommended to Congress those requiring legislative action.	At least 1 CC offered bonds and at least 1 other CC bond proposal completed.

LEGEND: CC - Chartered City; CIP - Capital Investment Program; DOF - Dept. of Finance; DILG - Dept. of Interior & Local Govt.; DPWH - Dept. of Public Works and Highways; GOP - Govt. of the Philippines; HLRB - Housing & Land Use Regulatory Board; HUDCC - Housing & Urban Development Coordinating Council; LGU - Local Government Unit; LMB - Land Management Bureau of DENR (Dept. of Environment & Natural Resources); MOA - Memorandum of Agreement; NGO - Non-Govt. Organization; NHA - Nat. Housing Authority; NIIMFC - Nat. Home Mortgage Finance Corp.; P.D. 752 - Pres. Decree No. 752.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			TRANCHE 1	TRANCHE 2	TRANCHE 3
2. Improve delivery of urban services and infrastructure.	a) Encourage cities to adopt more commercial approach to recovering costs of urban and environmental services.	Development and implementation of guidelines for cities to use in planning and operating cost recovering service delivery, including identifying conditions under which subsidies may be justified.	GOP (DILG) developed guidelines for at least one service (e.g. solid waste collection).	GOP (DILG) developed guidelines for a cumulative total of at least 3 services (e.g. transport terminals, markets and slaughterhouses), and services being implemented under one or more guidelines in at least 3 CCs.	Services being implemented under one or more guidelines in a cumulative total of at least 6 CCs.
	b) Encourage private sector involvement in the delivery of basic services in Chartered Cities.	Improvement in private sector delivery of basic services in Chartered Cities.	GOP (DILG) issued policy and implementation guidelines for testing private sector delivery of basic services such as solid waste collection, markets, and contract maintenance for roads in CCs.	At least 3 CCs issued specific guidelines for implementing private sector delivery of identified basic services and one or more services being delivered by the private sector in at least 2 CCs.	One or more basic services being delivered by the private sector in a cumulative total of at least 6 CCs.
	c) Establish multi-year rolling capital investment program (CIPs) in Chartered Cities.	Development of trial of model framework.	GOP (DILG) prepared scope of work and arranged financing for review of Capital Investment Folio project from old Metro Manila Commission and CIPs in other cities/countries.	GOP (DILG) completed review with recommendations and model CIP being tried in at least 2 CCs, including training and developing CIP process.	Model CIP being tried in a cumulative total of at least 6 CCs, including training and developing CIP process.
	d) Devolve funding and implementation responsibilities for appropriate urban and environmental public works projects to Chartered Cities.	Design and implementation of a national program to assign design/implementation responsibilities and funding for individual public works projects of less than P10 million value to Chartered Cities.	DPWH signed Memorandum of Agreement (MOA) with League of City Mayors.	DPWH delegated authority and funding that do not require legislative action, e.g. through MOAs, to a total of at least 7 CCs.	DPWH delegated authority and funding that do not require legislative action, e.g. through MOAs, to a cumulative total of at least 19 CCs.

POLICY OBJECTIVE	IMPLEMENTATION ACTION	PERFORMANCE INDICATORS	T I M E T A B L E		
			TRANCHE 1	TRANCHE 2	TRANCHE 3
3. Improve access to sustainable urban shelter delivery system for low income households.	a) Encourage use of idle nationally-owned public lands in CCs for low income housing.	Inventory of nationally-owned public land in CCs.	GOP (LMB) prepared action plan for inventory-ing nationally-owned public land in CCs.	GOP (LMB) started research for public land inventory in at least 3 CCs.	GOP (LGUs) completed the inventory in at least 3 CCs and started research in a total of at least 6 more CCs.
		Updated town plans incorporating national government properties.	GOP (HUDCC) prepared work program for updating town plans of priority CCs.	GOP (HLRB) ratified land use plans for at least 6 CCs.	GOP (LGU) enacted zoning ordinances for the 6 CCs with completed land use plans.  GOP (LGU) adopted land use plans for another 6 CCs.
	b) Encourage participation of private sector in provision of affordable housing in Chartered Cities.	Implementation of a program of housing construction in joint venture with private developers in Chartered Cities.	GOP (NHA) signed contract/agreement on venture projects with private developers in at least 6 CCs, starting in 1990.	Construction started on joint venture projects of GOP (NHA) with private developers in a total of at least 6 CCs.	Construction started on joint venture projects of GOP (NHA) with private developers in a cumulative total of at least 12 CCs and finished for 30% of total units in each of at least 2 CCs under tranche 1 projects.
			c) Encourage NGO and Chartered Cities to assist low income urban communities to acquire and improve their homelots and houses.	Implementation of program to encourage NGO/city assistance to associations of informal settlers in acquiring homesites, introducing services, and improving housing in Chartered Cities.	GOP (NHMFC) provided guaranty note of payment to landowners, put in escrow money/payment to landowners or paid landowners under at least 8 NGO-assisted community land acquisition projects in at least 4 CCs.

*Annex F*

**DSUD EVALUATION TERMS OF REFERENCE  
AND LIST OF PERSONS INTERVIEWED**

Statement of Work  
Evaluation of the Decentralized Shelter and Urban Development

I. Title:

Decentralized Shelter and Urban Development (DSUD), Housing Guaranty No. 492-HG-001, Project No. 492-0388: DSUD Evaluation

II. Background

The USAID-funded Decentralized Shelter and Urban Development (DSUD) aims to foster a greater role for elected city governments, the private sector and NGOs in the development of shelter-related infrastructure in chartered cities in order to increase, over an extended time period, the access of low income urban Filipinos to shelter and services needed for healthier and more productive lives.

The project is structured around a Policy Matrix which specifies agreed policy actions and accomplishment benchmarks designed to: (i) develop a sustainable system of city government finance; (ii) reduce urban and environmental infrastructure constraints on economic development; and (iii) improve access to the urban shelter delivery system for low income households.

DSUD consists of two implementation components:

1. Housing Guaranty (HG) Program - \$50 million in loans from the U.S. private sector guaranteed by the AID Housing Guaranty Loan Program. In three performance-based disbursements during the period 1991 through 1994, the loan funds provide foreign exchange which can be used at the discretion of the GOP. The annual "borrowings" were planned for \$20 million in 1991, \$15 million in 1992 and \$15 million in 1993. To qualify for the loan tranche disbursement, the GOP will demonstrate satisfactory accomplishment of Policy Matrix tranche indicators and certify adequate peso expenditure for the equivalent of 125% of the scheduled tranche disbursement.
2. Technical Assistance and Training - A USAID-funded \$4 million ESF grant to provide technical assistance and training in order to support development and implementation of the GOP's urban decentralization policy agenda including: policy analysis; systems development studies; support to key public, private and NGO groups advancing the policy dialogue and related training and conferences.

The first tranche of \$20 million was released to GOP in March 1992 and steps for the second borrowing have been initiated with disbursement expected in January of 1994. This evaluation will respond to question of whether the project has been able to meet its purpose and lay down options for future Philippine management of urban development.

### III. Objective

The purpose of this evaluation is to obtain an analytical report and presentation which thoroughly assesses and documents the extent to which DSUD contributes to the direction GOP has taken in decentralization through policy dialogue, providing support for HG loan on shelter-related services to urban poor and technical assistance and training to help GOP implement its decentralization agenda to the cities. The evaluation report may be used by USAID management in proposing a follow-on project and possible new HG funding.

### IV. Statement of Work

A. General Approach: This evaluation is concerned about the measurable effects envisioned by the program on the immediate beneficiaries - the city governments, private sector and the urban poor. It will look into how these effects emerged given the current GOP and USAID policy environments. Consistent with the program objectives, the evaluation will measure the extent to which the project has successfully supported and advanced the government's decentralization program, reduction of urban infrastructure constraints and improvement of delivery systems for urban shelter basic services.

In addressing the questions and issues summarized below, the team will perform the following tasks:

1. Team members will familiarize themselves with available literature about DSUD. The Mission and its contractors (PADCO and ABC) will assist the team in identifying the important literature which include among others:
  - a. Program and Project Agreements
  - b. CMP Evaluation Reports
  - c. City Sharing Program Evaluation Reports
  - d. Urban Institute Report on GOP's Compliance with the Policy Matrix (First and Second Assessments)
  - e. Urban Advisor Reports
  - f. PADCO Reports and various studies
  - g. DSUD Project Paper
2. The evaluation team will hold preliminary meetings with USAID/Philippines, RHUDO, PADCO, ABC, NEDA, DOF, DILG,

HUDCC, League of Cities, PBSP, RAFI, KTMFI, and other concerned agencies to determine those organizations views on the implementation of DSUD. The team will conduct site visits to selected cities to validate findings of the program and interview key LGU officials.

3. In addition, the team will meet with appropriate officials in AID/W, the World Bank, and ADB to get their views about DSUD and DSUD-related issues.

**B. Specific Task:** The evaluation team will provide empirical findings to answer the questions listed below. Using these findings, the team will provide answers to issues identified and make recommendations for future courses of action.

1. To what extent is the program achieving its principal objective, particularly with regards to:

- a. establishment of self-sustaining finance for chartered cities;
- b. reduction of constraints in the urban and environmental infrastructure on local economic development; and
- c. access to sustainable urban shelter delivery systems for low income households.

What specifically has been achieved in each of these areas? How do these compare with the original objective and purpose of the program? What major successes have been achieved in regard to these objectives? What are the issues and problems that impede achievement of purpose of the above objectives? What are the recommended solutions or options to achieve the objective as intended by the program?

2. In supporting the decentralization program of the government, what has the program contributed in fostering greater roles for city government officials in sustaining economic growth and development of chartered cities? Has there been improvement in accessing resources for shelter for low income households? Has there been increased levels of popular awareness in urban development issues from local government and the national government in urban development? Has there been devolution of authority to LGUs in relation to the delivery of basic services and access to shelter and shelter-related infrastructure of low income households in the urban areas?

3. Assess the strategy of policy change, including policy implementation, through policy dialogue and the use of the Policy Matrix for mutually agreed policy reforms. Identify the advantages and obstacles of this strategy. Indicate successes and failures.

4. Assess the various technical assistance activities and policy studies conducted on areas such as local credit, urban finance, land use planning and zoning, urban development and housing. What have GOP and local government units (LGUs) done to implement the recommendations identified in those policy studies?

5. The League of Cities of the Philippines (LCP) has been one important participant in the project. Assess their role in achieving the objectives of the program. What are the potentials of LCP promotion of urban development and identify a possible mechanism to strengthen this objective. Assess the extent to which cities have been enabled to improve service delivery either through privatization or more effective cost recovery.

6. Assess the use of the Investment Plan and the selection of eligible expenditures. Summarize the types and amounts of eligible expenditures to date.

7. Examine the role of NGOs in regard to CMP, training and other project activities.

8. Assess how training and technical assistance provided under the program to chartered cities have generated results in the following: local revenue collection; capital budgeting, management of services and cost recovery policies; LGU credit; central government regulation and approval for land development and other urban infrastructure; and the private sector delivery of basic services. Prepare a detailed analysis of the training programs supported under DSUD. This should include the overall training goal, objectives and strategies, implementation successes and constraints, as well as the number(s) and types of training undertaken during the program's implementation. Additional analysis should examine how the training program developed over the implementation period, make judgements as to the value of the specific types of training, and make recommendations for future training programs undertaken by DSUD.

9. Examine if the program objectives stimulated LGU borrowings for the reduction of urban and environmental infrastructure constraints. Summarize recent examples of LGU borrowings including the types of investments and the terms.

10. Document the lessons generated through DSUD for use in similar AID programs.

V. Evaluation Team

The consultant team will consist of four persons: one Urban Policy Specialist (U.S.), Evaluation Specialist (U.S.),

Community Development Specialist, and Local Government Specialist. The Urban Policy Specialist shall act as the team leader. The Urban Policy Specialist will have prior experience with policy action programs. All of the individuals should have demonstrated ability to work as members of a team, and to meet tight deadlines.

The team leader should possess sound analytical capabilities and superior presentation skills in order to present the team's findings clearly and succinctly. The local government specialist should have thorough understanding of the local government system of the Philippines and mastery of the Local Government Code.

**VI. Level of Effort**

The evaluation team will spend 3.5 weeks in the Philippines. A 6-day work week is authorized and will start on/or about February 15, 1994 and end on/or about March 14, 1994.

**VII. Briefing and Reports**

**A. Briefing:** The evaluation team will begin in Manila on/or about February 15, 1994. The team will be required to meet with USAID, RHUDO and GOP representatives (NEDA, DOF, DILG) for a full briefing at the start of the assignment. The contractor will also conduct a mid-way debriefing to the DSUD Project Committee on efforts and findings to date to seek any changes in the evaluation approach or methodology. An exit and final debriefing will be conducted at USAID and the GOP Project Steering Committee 3 days before the conclusion of the contract summarizing the relevant findings and conclusion of the evaluation.

**B. Reports:** Within one week of the start of the evaluation, the team will submit the evaluation framework for approval by NEDA and USAID. In addition, the team will submit the following reports:

1. Draft Report - This will be submitted not later than 21 calendar days after the start of the study for comments of the Project Committee and GOP officials.
2. Final Report - Five copies of the final report will be submitted to USAID not later than five calendar days after receipt of comments from the draft report. Copies will also be distributed to appropriate GOP officials.

The final report will not exceed 50 typed, single-spaced pages excluding any appendices and will follow the outline below:

- o table of contents
- o executive summary/abstract

- o project identification data sheet
- o body of the report
- o appendices

The executive summary/abstract will include: DSUD objectives, purpose of evaluation, study methodology, findings, conclusion and recommendations; and lessons learned about the design and implementation of this kind of development effort. The body of the report will include a discussion of:

- o the project background and goals (brief summary)
- o the purpose and key questions of the evaluation
- o study and analytical methodology
- o findings and response to questions
- o conclusions
- o actionable recommendations based on conclusions
- o lessons learned of broader application to USAID/Manila and GOP programs

The contractor is also responsible for preparing the Project Evaluation Summary (PES). Appendices should include a copy of the evaluation scope of work, a list of documents consulted and individual/agencies contacted, the study methodology and relevant technical topics as appropriate.

#### VIII. Technical Direction

Mr. Harold L. Dickherber, Chief, ONRAD/DLD and DSUD Project Officer or his designee will provide the necessary technical direction for this contract. The Contractor will be responsible for providing all administrative requirements of the evaluation and will submit all required outputs in accordance with the schedule described in Section VIII.

**LIST OF INTERVIEWS AND CONTACTS**

**DEPARTMENT OF FINANCE (DOF)**

**International Finance Group**

Romeo Bernardo, Undersecretary

**Bureau of Local Government Finance (BLGF)**

Erlito Pardo, Director, BLGF

Norberto G. Malvar, Project Officer, BLGF

**NATIONAL ECONOMIC DEVELOPMENT AUTHORITY (NEDA)**

Aniceto M. Sobrepena, Deputy Director General

Cozette R. Villera

Violetta S. Corpus

Carla L. Munsayac

**DEPARTMENT OF BUDGET AND MANAGEMENT**

Tita Francisco, Director Government Monitoring Corporation

**DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT (DILG)**

Victor R. Sumulong, Undersecretary

T. Mistal, Director, Urban Infrastructure/Services

Renato L. Brion, Director III

**DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS (DPWH)**

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Joel L. Altes

**DEPARTMENT OF THE ENVIRONMENT AND NATURAL RESOURCES, BUREAU OF LAND MANAGEMENT**

Renatta A. Paraggua

Nancy F. D. Ralelis

**HOUSING AND URBAN DEVELOPMENT COORDINATING COUNCIL (HUDCC)**

Luis Pangillinan, Secretary General

Alberto G. Ocampo

**HOUSING AND LAND-USE REGULATORY BOARD (HLURB)**

Pedro Rarallo, Director

Delia D. Josef

**NATIONAL HOME MORTGAGE FINANCE CORPORATION (NHMFC)**

Manuel Eduardo B. Lunas, President  
Bong Fernandez, Manager, CMP  
Danny Lacuala  
Angle Araneta  
Jess Casamayor

**NATIONAL HOUSING AUTHORITY**

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**LEAGUE OF PHILIPPINE CITIES**

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*Annex G*

**LIST OF REFERENCES**

This list is divided into two parts. The first part identifies all reports and papers produced with DSUD project support (including some prepared as a basis for the Project's initial design). The second part lists all other references.

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