

PN-ABM-942
132 80235

**DECENTRALIZING PHILIPPINE
DEVELOPMENT:
SECOND YEAR ASSESSMENT**

G. Thomas Kingsley
Maris Mikelsons

November 1992

**SECOND YEAR ASSESSMENT OF THE PHILIPPINES
DECENTRALIZED SHELTER AND URBAN DEVELOPMENT PROGRAM**

Report prepared for the
U.S. Agency for International Development/
The Philippines

(Urban Institute Project 6304)
USAID Contract #PDC-1008-I-00-9067-00

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
PPC/CDIE/DI REPORT PROCESSING FORM

PA-ABM-942

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number

[Empty box]

2. Contract/Grant Number

PDC-1008-I-00-9067-00

3. Publication Date

Nov. 1992

4. Document Title/Translated Title

Decentralizing Philippine DEVELOPMENT:
SECOND YEAR ASSESSMENT

5. Author(s)

1. Kingsley, G. Thomas
2.
3.

6. Contributing Organization(s)

Urban Institute

7. Pagination

78 pg.

8. Report Number

[Empty box]

9. Sponsoring A.I.D. Office

PRE/H

10. Abstract (optional - 250 word limit)

[Empty box]

11. Subject Keywords (optional)

1. 4.
2. 5.
3. 6.

12. Supplementary Notes

[Empty box]

13. Submitting Official

MIKE PULLEY

14. Telephone Number

202-663-2516

15. Today's Date

12/8/92

16. DOCID

[Empty box]

.....DO NOT write below this line.....

17. Document Disposition

DOCRD[] INV[] DUPLICATE[]

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

 Background and Purpose 1

 DSUD and Basis for Assessment 2

 Overall Conclusions 4

 Progress on Individual Elements of the DSUD AGENDA 6

 Recommendations 8

 Structure of the Report 11

SECTION 1 - GOVERNANCE, URBANIZATION, AND DECENTRALIZATION 12

 Government Structure as It Relates to Local Development 12

 The Challenge of Rapid Urbanization 15

 Decentralization 17

SECTION 2 - LOCAL GOVERNMENT FINANCE 21

 Objective 1a - Improved Tax Collection 21

 Objective 1b - Self-Sustaining Finance System 23

 Objective 1c - City-Issued Bonds and other Credit Instruments 24

SECTION 3 - URBAN SERVICES AND INFRASTRUCTURE 26

 Objective 2a- Commercial Approach to Cost Recovery 27

 Objective 2b- Private Sector Delivery of Basic Services 28

 Objective 2c- Capital Investment Programming 29

 Objective 2d- Devolution of Responsibilities for Public Works Implementation 30

SECTION 4 - SHELTER DELIVERY 31

 Objective 3a - Use of Idle Public Lands and Updating Town Plans 31

 Objective 3b - Encourage Private Sector Provision of Affordable Housing 33

 Objective 3c - NGO/City Assistance to Associations of Informal Settlers
 to Acquire and Improve Homesites 33

TABLE OF CONTENTS (Continued)

SECTION 5 - TOWARD AN URBAN STRATEGY: RECOMMENDATIONS FOR DSUD	35
Heightening Awareness: An Urban Strategy	35
Strategic Planning at the Local Level	36
Strengthening Municipal Finances	42
Expanding the Sharing Program	43
Central Support for the Urban Strategy	44
 ANNEXES	
Annex A - The Philippine Economy and the Pace of Urbanization	48
Annex B - Local Government Finance	55
Annex C - Shelter Delivery	65
Annex D - List of Contacts	71
Annex E - List of References	73

EXECUTIVE SUMMARY

BACKGROUND AND PURPOSE

In September 1990, the U.S. Agency for International Development (AID) and the Government of the Philippines (GOP) completed the design of the three-year Decentralized Shelter and Urban Development program (DSUD) (USAID/Philippines, 1990a). The program will provide \$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 has agreed to 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, based on an assessment of first year progress in relation to the Policy Matrix (Kingsley and Mikelsons, 1991a) and additional GOP actions to achieve full compliance. The purposes of this report are: (1) to assess subsequent progress under the GOP agenda as a basis for decisions concerning approval AID's agreement to proceed with the second tranche borrowing; and (2) to review factors that may be constraining achievement and suggest ways the program could be strengthened.

DSUD AND BASIS FOR ASSESSMENT

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 AID projects in the Philippines have supported these ends. AID's Mission has more recently heightened its priority for decentralization, 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 AID assistance in decentralization is being provided through DSUD and a companion program, the Local Development Assistance Program (LDAP--see USAID/Philippines, 1990b).

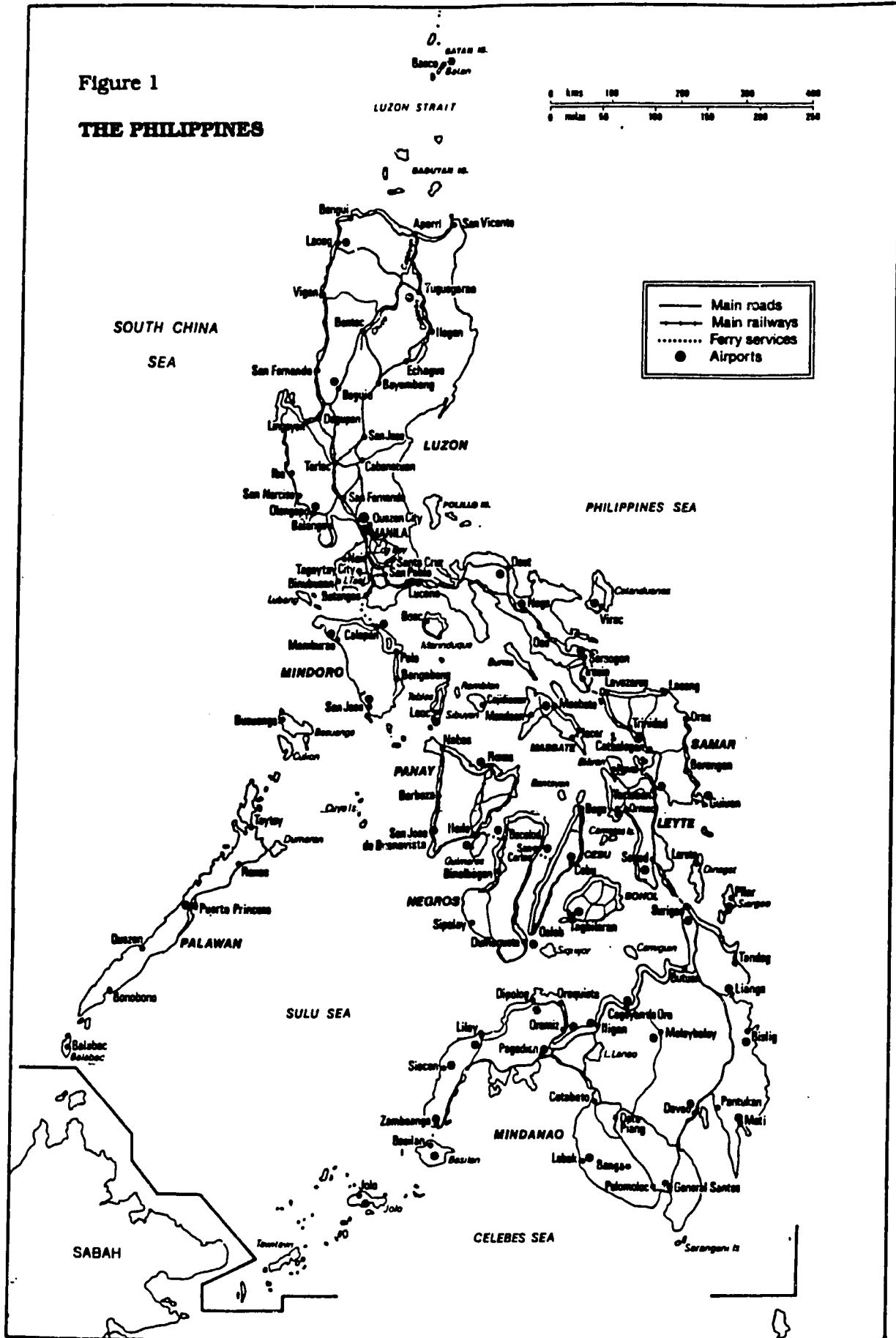
DSUD focuses on: (a) chartered Cities (these include all of the nation's larger urban centers, although particular emphasis is being given to Cities outside of Metropolitan Manila)¹ and (b) improving the delivery of shelter and related infrastructure and services in those cities. In contrast, LDAP concentrates 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 improvements benefitting below-median-income households in the Cities. (Data on GOP attainment of this requirement are assessed by USAID and are not reviewed in this report.)

The assessment 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 that includes a number of activities in addition to those addressed directly by the

¹Whereas 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 Section 2).



Policy Matrices of DSUD and LDAP--most critically of late, the enactment of a new *Local Government Code* and the country's most sweeping free elections.² Commentary pertaining to the DSUD Implementation Agreement recognizes that the broader decentralization program must also be considered in this assessment. 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.

OVERALL CONCLUSIONS

In light of the findings summarized in the paragraphs to follow (and discussed in more detail in the body of this report), the overall conclusions of this assessment are:

1. *The 1991 passage of the new Local Government Code is a fundamental achievement that dramatically enhances the potential impact of DSUD.* The new Code clearly transfers the responsibility, authority, and resources for local development to elected local governments. It had been in preparation for many years, and since it so substantially alters government power relationships, passage even one year ago appeared far from certain--its final acceptance in the law is indeed a fundamental achievement. The Code has imperfections and the implementation process has not been smooth. Nonetheless, the basic transfer of responsibility is what matters most. Local officials are now clearly on the line to deliver to their constituencies and this creates powerful incentives for effective performance. This, in turn, makes DSUD assistance more vital to the Cities and enhances its potential payoffs.

2. *Overall, DSUD performance over the past year has been successful, but mixed. Significant progress was made in all program elements, but in many cases stated targets were not achieved in full. Additional work is required for these targets to be met.* The GOP has made significant progress on all requirements specified in the DSUD Policy Matrix as the basis for the second borrowing. Most impressive has been a more than one-third increase in City property and business tax collections, a growing number of initiatives involving the private sector in City urban service provision, the start of a process to inventory idle public land as a basis for converting them to productive use, substantial progress in joint government-private sector housing production, and the provision of land tenure and services to poor households under the Community Mortgage Program. The DSUD technical assistance component has contributed directly to several accomplishments under the Policy Matrix, but it has also taken other steps to facilitate the overall decentralization process (ranging from pressures for enhanced performance in policy dialogues to the establishment of a "Sharing Program" by which City officials have the opportunity to learn

²The elections of 1992 represented the Philippines' first fully free presidential elections since 1969, and the only elections in the country's history in which positions at all levels of government were being contested (President, Senate, Congress, and officials at all local governments--17,205 positions in total).

about innovative techniques from the officials of other Cities who have successfully implemented them).

Though many of these accomplishments are impressive, in the view of this assessment, targets as stated for the second tranche in the Policy Matrix were achieved in full in only 3 of the 10 program elements. These delays do not appear to constitute a major problem. In each case, the responsible agencies are moving actively to complete program requirements and no major barriers exist that seem likely to prevent full achievement in the next few months. The remaining targets should be met before the second tranche is authorized. In addition, it is suggested that the GOP should also prepare a more detailed work plan and schedule for attaining third tranche milestones before that authorization (this should include revisions to third tranche targets as may now be appropriate to heighten program effectiveness).

3. Even with the passage of the new Code, national and local leaders have not fully faced up to the challenge of urbanization, which is certain to be the dominant societal transformation in the Philippines over the coming decades. DSUD should expand its efforts to both increase awareness of the importance of this challenge and encourage leaders to focus on the most critical means of addressing it. 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, urban areas had to accommodate twice as many (1.2 million per year, representing 94 percent of total growth). 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. Useful documentation on the scope and nature of these changes has been provided in the DSUD-sponsored *Urban Development Sector Review* that was requested by the National Economic and Development Authority (NEDA) and the Housing and Urban Development Coordinating Council (HUDCC).

Accommodating this growth represents probably the greatest challenge of 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 and effectively guided land development will be key to the outcomes. Yet the Philippines is spending a considerably smaller fraction of its GDP on urban infrastructure now than it did in the early 1980s. Both urban infrastructure investment and local resource mobilization remain extremely low by international standards.

The most important theme in addressing this urban challenge is already imbedded in the GOP's current decentralization program: i.e., giving local leaders the authority, resources, and strong incentives to play the leading role and to do so in a cost-effective manner. And the DSUD agenda already contains the key programmatic elements that are needed for the Cities. Over the coming year, however, DSUD should expand and focus its efforts in: heightening national awareness of the nature and scope of the urban challenge; strengthening its urban planning and capital programming components to assure City leaders will develop strategies that will address the full magnitude of the urban challenge in

their communities; strengthening components to enhance local resource mobilization and borrowing for capital improvements; expanding the "demand driven" system for local capacity building that has already been initiated; and strengthening central coordination and support for decentralized urban development. (Further suggestions in these areas are provided in the section on Recommendations below.)

PROGRESS ON INDIVIDUAL ELEMENTS OF THE DSUD AGENDA

Progress during the second year under each of the requirements of the Policy Matrix is summarized below. This assessment is based on interim progress reports by the DSUD Urban Advisor (1992a and 1992b) as well as interviews with, and additional documentation from, the relevant agencies. Views on achievement below are those of the authors, presented for review by USAID.

1. Develop a self-sustaining system of financing

a. Improved tax collection: Achieved. From 1989 to 1991, given a target of 32 percent increases, City real property tax collections went up from ₱1.53 billion to ₱2.07 billion (an increase of 35 percent) and business tax collections increased from ₱1.07 billion to ₱1.41 billion (an increase of 32 percent).

b. Design for a self-sustaining finance system: Partially Achieved. Studies with recommendations on systems changes have been prepared and discussed by relevant agencies, and policies for pilot testing have been tentatively selected, but definite plans for testing have not been made. Also, studies prepared to date do not provide sufficiently detailed guidance--a much improved guidebook is needed.

c. City issued bonds and other credit instruments: Partially Achieved. Sound studies of potentials have been completed and discussed in government, and an initial U.S. study tour on the topic is scheduled. Most important, the new *Local Government Code* has removed the most serious legislative constraints to expanded private credit financing for City capital projects. However, a full education program has not yet been planned as required.

2. Improve the delivery of urban services and infrastructure

a. Commercial approach to cost recovery: Partially Achieved. The Department of the Interior and Local Government (DILG) has issued a general circular enabling cost recovery programs, but DILG has not yet documented the implementation of cost recovery programs in at least 3 cities as called for. Recognition that the initial circular did not provide sufficient guidance, and preparing terms of reference for more detailed guidebooks, should be regarded as a positive step.

b. Private sector delivery of basic services: Achieved. A promising draft privatization guidebook has been prepared by DILG (which probably needs further detail and

more discussion before it becomes a fully useful guidebook for the Cities). Without waiting for detailed guidance from DILG, however, at least 7 cities initiated private involvement in service provision in 1990 and 1991 (in water supply, garbage collection and disposal, public market operation, and slaughterhouse operation).

c. Capital investment programming: Partially Achieved. A draft report reviewing options and proposing a model investment programming process has been prepared, but the model needs strengthening in several respects and full reviews and revisions have not taken place. Also, the required initiation of testing in at least 2 pilot Cities (along with associated training) has yet to occur.

d. Devolution of responsibilities for public works implementation: Partially Achieved. With the passage of the *Local Government Code*, the main purpose of this measure has been attained: i.e., the transfer of both authority and resources for implementing public works projects to the Cities. However, the Department of Public Works and Highways (DPWH) has not yet offered clear guidance on how it will proceed to transfer appropriate equipment and personnel to the Cities.

3. Improve access to sustainable urban shelter delivery for low-income households

a. Use of idle public lands and updating town plans: Partially Achieved. It appears that research has begun for land inventories in 3 cities (although documentation on research plans and accomplishment of specific milestones has not yet been provided) and considerable progress has been made in preparing new City land-use plans, but such plans have so far been ratified for only 3 Cities rather than the 6 targeted.

b. Encourage private sector provision of affordable housing: Achieved. National Housing Authority (NHA) joint venture projects with private firms have actually completed construction in 9 Cities (this substantially exceeds the target that called for only the start of construction on projects in 6 Cities).

c. NGO/City assistance to associations of informal settlers to acquire and improve homesites: Partially Achieved. The first target has been substantially exceeded. The Community Mortgage Program (CMP)³ has initiated a cumulative total of 65 projects in 14 Cities (compared to a target of 20 projects in 8 cities). Other requirements, however, have not been met. Plans for allotting unit titles have been completed, and basic services have been provided, in only 3 (rather than the targeted 4) of these projects.

³Under the CMP, associations of informal settlers can obtain low-rate loans to purchase the land that they are occupying. The community association is held liable for mortgage payments over the first two years. After that, mortgage responsibilities can be transferred to individual households.

DSUD Technical Assistance and Training

In addition to progress under the Policy Matrix, support provided by the DSUD technical assistance and training program should be noted independently. This includes funding for most of the studies required under the agenda described above, but other important contributions were also made. Most notable was implementing the Sharing Program mentioned earlier, but the program also supported ongoing technical guidance provided to the Cities by the DSUD Urban Advisor, the development of the national *Urban Development Sector Review*, and a program to train 15-20 NGOs in developing 200 sites for 10,000 households under the CMP.

RECOMMENDATIONS

DSUD has an ambitious agenda for the coming year, both to complete remaining targets for the second tranche and to accomplish the new targets specified for the third tranche. Five additional recommendations are specified below for actions that in some ways reorient DSUD activities and in some ways provide additional support for the existing agenda. Where reorientation is suggested, more specific ideas are offered in later sections of this report.

1. Heighten national awareness of the nature and scope of the urban challenge. Over the coming year, DSUD could make an important contribution to helping the nation face up to the urban challenge that lies ahead. The country's leaders need to understand how urbanization works and what it implies for national goal so that they can better *see urban growth as an opportunity rather than as a problem*. This should include sponsoring studies which would include: (a) roughly estimating the likely impacts of a continuation of current trends in terms of economic conditions, poverty, and environmental degradation; and (b) considering how revised policies (national and local) might alter those outcomes. The next step would be to sponsor conferences and seminars on the results (with national and local leaders) to stimulate consideration of policy change.

2. Strengthen urban planning and capital programming components to assure that City leaders will develop strategies to address the full magnitude of the urban challenge in their communities--it should also be recognized that these strategies are the foundation needed for effective urban environmental management. The Local Development Planning process now followed in the Philippines is an excellent base for local policy making, but it does not yet encourage longer-term strategic planning to deal effectively with the likely magnitude of urban change. Similarly, the work in land-use planning and capital planning under DSUD (including the new model developed under Objective 2c) does not go far enough toward this end.

The process in each City 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. The sequence should involve a series of estimates: (a) what infrastructure and land development is required to accommodate

projected growth under current standards; (b) what would be the costs and how do they compare with a projection of resources likely to be available to finance these based on current policies; (c) what are the implications of the shortfall (e.g., on poverty, health hazards, and other environmental conditions); (d) what would be the impacts of alternative strategies to address the shortfall (e.g., to mobilize additional resources and change standards and techniques to reduce costs).

This framework should support creative thinking about a broad range of policy options. For example, finding that the costs of adequate water supply and wastewater treatment under traditional approaches vastly exceed projected resources could motivate strong programs to conserve water (promote community water conservation, system maintenance to reduce leaks, hands-on work with industries to adopt water conserving techniques, etc.), as well as strategies to mobilize more resources to build more capacity.

Team work by the Local Development Council (including local NGOs and business leaders as well as politicians and government staff) in thinking through the alternatives in this manner should stimulate consensus and coalition building that should, in turn, help the team convince the voters to do what they need to do. 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.

3. Strengthen components to enhance local resource mobilization and borrowing for capital improvements. The new *Local Government Code* gives Cities exciting new opportunities, as well as heavy responsibilities, neither of which are they well prepared to handle. This suggests that the local finance elements of the DSUD agenda should be given special priority over the coming year. First, there is a strong need for central officials to meet and clarify their plans for facilitating financial decentralization. Second, clear written guidelines on how to perform a host of essential financial management activities are still not available. Devolution could be effectively expedited if the Cities had access to sound model tax codes and other ordinances, and handbooks on a series of topics ranging from the fundamentals of financial management to the details of tax administration and techniques of credit financing and debt management.

Third, stronger targets should be set for cost recovery--basic guidelines have been issued, but studies are warranted that would monitor the extent of City adoption of modern cost recovery techniques and hands-on technical assistance should be provided in selected Cities--experiences that could serve as models to be presented to other Cities through the Sharing Program. Fourth, now that many of the initial objectives related to credit financing have been achieved, others should be developed to address the next range of constraints. One of the most important may be to reform policies of the Department of Finance (DOF) Municipal Development Fund so that it will not deter movement toward Cities accessing private capital markets.

Finally, the new *Code* makes it urgent for Cities to revalue their real property as a basis for enhanced property tax collections. Software to facilitate and document

reassessment has been developed under a previous AID sponsored program--a priority program should be mounted to encourage adoption of this or similar systems in more Cities since doing so should not only expedite reassessment but also fundamentally improve subsequent tax administration. Such a database can also much facilitate other basic planning and implementation processes in the Cities.

4. Expand the "demand driven" system for local capacity building that has already been initiated. Strengthening capacities at the local level is in many ways the most challenging element of the decentralization agenda. The DSUD first year agenda argued that a "demand driven" system for capacity building was more likely to succeed than one planned by central officials. This argument recognized there are many examples of impressive achievements in recent years by the Cities themselves (e.g., new computer systems, new methods of raising revenue or privatizing services). It suggested that one promising approach would be to give local officials additional resources for capacity development, encourage them to talk together and share common experiences and problems, and allow them to choose their own priorities and the means of fulfilling them. They are likely to know best how to select services (in some cases choosing a course from a local university, in others using a consulting firm to design and install a new system, in others gaining hands-on assistance from experienced personnel from another City, and in yet others choosing a training course or operational manual developed by a central agency).

This approach has been adopted in the Sharing Program initiated by DSUD over the past year. It is also encouraging to note that DILG and Local Government Academy leaders have moved in these directions--working out their own training plans with the Mayors based on local perceptions of need. What is needed over the coming year is an expansion of this basic approach. The DSUD agenda itself offers the basis for numerous conference and seminars. Topics could include an introduction to more strategic approaches to the urban challenge (Recommendations 1 and 2 above), as well as technical presentation on other DSUD topics: e.g., local resource mobilization and financial management, municipal credit, capital investment programming.

5. Strengthen central coordination and support for decentralized urban development. The first year assessment also argued for more effective action by DSUD and LDAP committees at the central level to facilitate the implementation of decentralization. This was to include more frequent (regularly scheduled) meetings in which: (1) agency representatives review the progress they have made toward stated objectives and discuss the problems and constraints they face; (2) other attendees comment and offer suggestions; and (3) adjustments are made to interim assignments under each objective. It was argued further that this sort of a process can create pressures for more timely performance and, more important, build positive and strong interagency ties and camaraderie. Also, effectiveness would be much enhanced by inviting representatives from the Leagues of Provinces, Cities, and Municipalities to serve as regular participants.

Given the pressures of the immediate tasks in implementing the Code and diversions because of elections, this development did not occur in 1991/1992. It should become a

priority during the year ahead. Furthermore, the combined committee, chaired by NEDA, should be the ideal forum for the development of a new national urban development strategy.

STRUCTURE OF THE REPORT

In the main body of this report, Section 1 examines the context for decentralization in the Philippines, reviewing the structure of governance, the nature and magnitude of the urban challenge, and the progress of the nation's overall decentralization program (including the main features of the new *Local Government Code*). The next three sections review in more depth the progress that has been achieved under each of the main objectives of the DSUD policy matrix: improvements to City finances (Section 2), urban services and infrastructure (Section 3), and land and shelter delivery (Section 4). Finally, Section 5, discusses approaches to addressing the urban challenge in more depth and offers recommendations for the DSUD agenda in response. Annexes provide: background data and interpretation of recent economic trends and their relation to urban development, a description of the local government finance system in the Philippines, a review of housing policies and trends, a list of persons interviewed during the assessment, and a list of references.

Section 1

GOVERNANCE, URBANIZATION, AND DECENTRALIZATION

This section provides background information to set the context for the more specific review of DSUD performance in the sections that follow. It begins with a description of the structure of the public sector in the Philippines as it relates to local development. It then reviews data showing the growing importance of urbanization and discusses its implications for the nation's future. It closes with a review of the progress that has been made in implementing the nation's broader decentralization program, noting in particular the content and implementation status of the new *Local Government Code* adopted in 1991.

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 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 are responsible for central oversight of local governments.

- *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 Local Government Units (LGUs).
- *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: dealing with questions regarding their jurisdiction and status, regulating their activity, and monitoring and supervising their performance.

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 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 housing guarantee 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 local government units (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* (60), headed by Mayors. The latter include *Highly Urbanized Cities* (16) 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.⁴ 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 exist at all local government levels above that of the *Barangay*.

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

⁴For 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.

THE CHALLENGE OF RAPID URBANIZATION

Acceleration of Urban Growth

In 1970, at 11.7 million, the 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 perhaps 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 in the world. 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. (See further discussion in Annex A.)

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 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 be derailed.

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 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 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) have been 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. 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.

In the Philippines, total local government expenditures 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.

Role of the Chartered Cities

The 60 chartered Cities that 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 Cities also contain some 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 urban growth rate was considerably above that level.

Compared to smaller municipalities, the Cities have a special role in responding to the urban challenge. International research has shown that medium and large 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 attractive for business starts and expansions.

The implications is that Philippine 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 amount of infrastructure and service investment required in the Cities is likely to be higher on a per capita basis at this stage, because they face the 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 Cities than in the smaller Municipalities. This means the Cities face greater risks of serious health hazards due to pollution and other forms of environmental degradation if adequate services are not provided as rapid urban growth occurs.

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 last year, 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 of those functions were 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.

Over the past several years, central Departments have *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, 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).⁵ 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 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 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 function 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).

⁵This discussion is drawn largely from Yotoko (1991) which reviews both the progress and the problems of the President's program in some depth.

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 President 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 for 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 rate setting 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 Section 2.)

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.⁶ 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 have been slow and uncertain in the past). (See further discussion in Section 2).

⁶This is calculated as a share of internal revenue collections in the third previous year, not the current year.

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 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* have been issued (GOP, 1992). Earlier financial allocations to the DPWH for local infrastructure development have been fully removed from their budget. The target was for full devolution to be complete by June 1992, but that has not occurred and the transfer process has been far from smooth. One appraisal (ARD, 1992f) indicates several problems: (1) central implementation directives have often presented inadequately detailed guidance or sometimes been in conflict with one another; (2) lack of clarity on the timing and amounts of IRA payments have caused LGUs to be reluctant to sign MOAs related to the transfer of central staff; (3) other uncertainties about personnel transfers will affect the benefits and other conditions of the staff being transferred.

Nonetheless, it is widely recognized that the June deadline was unreasonably tight given the work that had to be accomplished. Other studies (DSUD Urban Advisor, 1992a and 1992) indicate that, while the need for clarification to reduce apprehension is great, the process as a whole is moving positively. 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 composed quite differently from the comparable group in the past: more younger people who come from business backgrounds and fewer traditional politicians. Already, a substantial number of innovations have been implemented by the Mayors (DSUD Urban Advisor, 1992c and 1992d).

The reports cited above all call for media campaigns and other dissemination programs to help local leaders understand the implications of devolution and, more important, for more detailed "how-to-do-it" guidelines to make the transition more effective. The DSUD agenda should be able to contribute much to these requirements.

Section 2

**LOCAL GOVERNMENT
FINANCE**

This Section reviews GOP progress and future performance requirements under the first objective of the DSUD agenda: developing a self-sustaining system of local government finance where sub-objectives relate to improved tax collections, restructuring to develop a self-sustaining system of local government finance, and the expanded use of local government bonds for infrastructure improvements. (For readers not familiar with the structure and evolution of the local government finance system in the Philippines to date, a description is provided in Annex B.)

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 AID 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 32 percent above those of 1989 (as a basis for the second tranche) and 1992 collections 58 percent above the 1989 level (as the basis for the third tranche).⁷

⁷Such increases are to be calculated based on changes in nominal values.

Progress. The second tranche requirement has been fully achieved. DOF data indicate that, from 1989 to 1991, City real property tax collections went up from ₱1.53 billion to ₱2.07 billion (an increase of 35 percent) and business tax collections increased from ₱1.07 billion to ₱1.41 billion (an increase of 32 percent). Totals from both sources increased from ₱2.60 billion to ₱3.48 billion (an increase of 34 percent).

It should also be noted that DOF's Bureau of Local Government Finance has continued a strong program to enhance LGU collections during this period, including: monitoring and evaluation of collection performance through conferences and field visitations; develop and field testing of prototype information and education campaigns; and institutionalization of a revenue audit program that includes inspections of tax operations and books of accounts by BLGF personnel. The DSUD Urban Advisor (1992a) reports that these activities have generated much enthusiasm and that, in particular, BLGF's publication of a regional ranking of collection efficiency strongly motivates LGUs to outdo each other in this regard.

Comment. This enhancement of collections can be rightly regarded as a major accomplishment. There are reasons for uncertainty, however, about whether the third tranche requirement is still realistic. On one hand, incentives may be weakened by the passage of the *Local Government Code* for several reasons. First, as noted earlier, the *Code* calls for substantial increases in IRA allocations to LGUs; 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.

On the other hand, the Cities will 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. 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 the risk of considerable voter concern if the adequacy of local services and infrastructure deteriorates.

Some analysis has been done on these issues (BLG, 1992) but more would be useful as a basis for joint GOP/AID discussions in determining the most appropriate requirement for the third tranche. These discussions should also consider additional needs for technical assistance in the types of activities that contributed to the collection increases of the 1980s (better process management, computerization, improved collection procedures, etc.).

Finally, a high priority should be given to expediting City property value reassessments. The new *Code* makes it urgent for Cities to revalue their real property as a basis for enhanced property tax collections. Software to facilitate and document

reassessment has been developed under the AID-sponsored Local Revenue Management (LRM) program--a priority effort should be mounted to encourage adoption of this or similar systems in more Cities, since doing so should not only expedite reassessment but also fundamentally improve subsequent tax administration. Such a database can also greatly facilitate other basic planning and implementation processes in the Cities.

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 the third tranche.

Progress. This target has been met only partially. Actually, three studies have been completed: one by LDAP consultants (ARD, 1992e), one by DSUD consultants (Philnor and PADCO, 1992a and 1992b) and one by DILG (1992). The first offers focussed recommendations on reforms, the second is more an analysis of local government financial trends and issues, and the third focuses only on business license tax administration and enforcement of the community tax. The first Philnor and PADCO report has been circulated to the concerned agencies for review. A valuable activity in developing the DILG study was consultative workshop in which staff from different Cities participated in the design of recommendations.

The ARD report does present a set of clear policy recommendations and these have been endorsed by the GOP (see cover letter by the Secretary of DOF). However, no clear commitment has been made to the pilot testing of these policies. Furthermore, there is a need for GOP officials to meet and clarify how they can more generally further effective financial decentralization consistent with the spirit and intent of the *Local Government Code*.

Comment. In the judgement of this review, considerable additional work is needed in developing guidelines before there is an adequate set of policies and techniques to be tested. The Philnor and PADCO reports emphasize analysis of fiscal conditions and trends in Philippine Cities, but do not offer much in the way of concrete methods of dealing with the problems at hand--they do not add up to the description of a proposed "self-sustaining system."

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). A particularly 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.

How could such materials be developed in a short time frame? One approach would be to: (1) assemble references and handbooks on these topics that have proven successful elsewhere (many international references exist on these topics, starting from general financial principles and strategies--see for example, Davey, 1989, Devas, 1991, and Peterson et al., 1991a--to the handbooks issued by the International City Managers Association); and then (2) follow a procedure like that of DILG discussed above, whereby Philippine financial specialists along with City staff discuss and then modify these materials as appropriate for use here.

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

As noted earlier, borrowing has accounted for only negligible share of the funds raised by Philippine Cities to date. 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 that will review relevant laws and regulations affecting Cities' abilities to access credit financing for urban infrastructure (prominently, Presidential Decree 752) and recommend changes that will facilitate City borrowing. The second tranche milestone calls for: (1) implementing appropriate recommendations from the study that are within the purview of the executive branch; (2) recommending to Congress those that 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 the DOF is to have submitted recommendations to the Monetary Board for at least one additional City bond proposal.

Progress. The second tranche milestones have been largely, but not totally, achieved. The most important accomplishment 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 are 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 purchasing City bond issues.

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) offered fairly optimistic conclusions regarding the City's ability to market both general obligation and revenue bonds.

Also, DSUD has scheduled a study tour for GOP officials to study bond financing in the United States. This represents a start, but it must be recognized that an education program in credit financing, as required prior to the second tranche, still has not been planned.

Comment. Given the fundamental change implied by the *Local Government Code* for this objective, it would seem appropriate for DSUD to provide additional support for its implementation. Ideas along these lines are provided in the ARD report (1992d). One of the most important will be to develop policies such that LGU bond-holders are uniformly assured of access the LGUs' IRA allocations in the event of debt service default--the decision to make such provisions rests with the LGUs, but national level encouragement should be mobilized. Once this feature is provided in a few issues, it is likely that it will become an expectation of the market.

Another initiative that can be addressed in the near term is to strengthen the DOF's Municipal Development Fund (MDF). MDF should be operated by a true financial institution (rather than from within the DOF). Also, if MDF continues to offer loans at markedly concessionary rates, LGUs (particularly the more enterprising) will try to rely on it rather than the private market, thus deferring the development of LGU access to private capital. A plan needs to be developed to restructure this fund and adopt appropriate policies so that it will not have a detrimental affect on LGU bond issuances.

Finally, steps should probably be taken to try to gain tax exemption status for local securities instruments (an exemption was provided under P.D.752 and approved for Cebu Provincial Bonds, but it was not enacted in the *Local Government Code*).

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 as far as possible, encouraging greater private sector participation in infrastructure delivery, higher levels of local government borrowing, 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) 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 are to be developed for two additional services and one or more of these guidelines are 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. The second tranche requirement here has been only partially achieved. Rather than develop separate guidelines for each service, the DILG prepared and issued one guideline covering cost recovery for all relevant services (DILG Memorandum Circular No. 91-38, August 1, 1991). The statements in this document do seem to provide an appropriate framework, but represent only very general guidelines. To date, no City has notified DILG of its implementation of this Circular for any service, and DILG has not monitored to determine if any City has complied.

There are anecdotal reports, however, that some Cities have implemented cost recovery programs (for example, markets assisted under the PREMIUMED program were obligated to increase fees to contribute to operating costs). The next step here should be to survey the Cities to identify such effort. It seems quite likely that, having done so, this requirement will be met.

It should also be noted that discussions with DILG (by the DSUD Urban Advisor and others) led to the recognition that a much more detailed handbook is required on this topic to provide adequate guidance, and DILG is now pursuing that approach. An expert panel meeting was held on the topic in early September to discuss issues affecting cost recovery opportunities in the Philippines (LGU representatives attended), and DILG expects to hire a technical consultant to help in formulating the handbook.

Comment. A higher priority should be given to cost recovery over the coming year. Although it is not appropriate to do so for all of them, it will be important in the future for Cities to attempt to recover costs for a number of municipal services directly from the beneficiaries. 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 group.

While the basic DILG guidelines have been issued, other steps should be taken. The first, is the completion of the more detailed handbook, as noted above. Second, studies should be undertaken to establish the base for regular monitoring of City cost recovery experience. Third, hands-on technical assistance could also be provided to develop cost recovery systems in a few municipalities, and the results of these experiences could be used as a base for case studies and training presented to other Cities through the Sharing Program.

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. Although progress here could be interpreted in different ways, it is the judgement of this assessment that the second tranche requirement for this objective has been achieved. 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 of August 1, 1992. (It has also prepared a more detailed draft guidebook on privatization, which appears promising, although it could and should be improved with more specific "how-to-do-it" sections and examples.)

DILG has so far not received copies of any formal City issued guidelines for private service implementation in conformance with its Circulars (as the letter of the Policy Matrix requirement implies to be needed), but information from its regional offices indicate that such activity is underway in more Cities and for more services that is called for under the requirement. Specific examples include the following (there may be others that have not been brought to the attention of DILG):

- Water supply systems (Iriga, Bacolod, Cadiz, La Carlotta)
- Garbage collection and disposal (Iliolo)
- Public markets (Naga, Bacolod)
- Slaughterhouse (Cagayan de Oro)

The main objective here is the initiation of private service provision itself. We believe that the evidence is sufficient to declare this requirement met, even though formal documentation has not been submitted to DILG (such documentation on each case no doubt exists, in contracts and other records of each of these cities).

Comment. Over the coming year, it should make sense for DSUD to sponsor a study of these initial privatization efforts. The outcomes would be critically examined and the

results used as a basis for one of the meetings of Mayors in the Sharing Program. Conclusions drawn from these experiences would then be a good base for extending the initial DILG report into a more complete handbook on policies and techniques for successful privatization programs.

OBJECTIVE 2c--CAPITAL INVESTMENT PROGRAMMING

Requirements. In the early 1980s, the *Capital Investment Folio (CIF)* process was designed as a disciplined approach to prioritizing public sector capital projects in Metro-Manila. The process was never fully implemented, but it still serves as a model for emulation in Philippine Cities, as well as in other countries. 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 are to be trying out the model process.

Progress. The requirement for this year has been only partially completed. A draft report reviewing options and proposing a model investment programming process has been prepared (PLANADES and PADCO, 1992). The proposed model appears sound in general. Most important, it incorporates the critical financial discipline in investment programming: forcing local leaders to explicitly consider how they will finance the program they develop, rather than simply constructing a "wish list." Also, it recognizes the need to broaden the approach to cover the full Local Development Investment Programming process (rather than the more limited Capital Improvement Program concept).

Still, the model needs strengthening (see discussion below), and full reviews and revisions have not taken place. Also the required initiation of testing in at least two pilot Cities (along with associated training) has yet to occur.

Comment. There are two deficiencies with the model that has been defined in the draft. First, while it endorses linkages to long term land-use and development planning, it does not say much about how such linkages are to occur. Yet 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. Further suggestions about how such a process could work and how it could guide priorities for shorter term land-use, as well as infrastructure decisions, will be provided in Section 5.

The second problem with the draft report is that it does not employ economic analysis as a basis for prioritizing projects. Full formal cost-benefit analysis of every project would probably not be feasible, nor is it required to make sensible judgements in ranking projects for implementation. Nonetheless some crude approximations of economic rates of return, perhaps applied to packages of investment rather than individual projects, should be feasible and would provide important insights when combined with other more judgmental evaluation methods such as those suggested in the draft. A number of texts offer realistic methods that can be employed in this regard (see, for example, Sang, 1988).

The model should be strengthened by addressing these issue and then plans made for testing the process could be prepared and negotiated with interested Cities.

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 is 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 requires an expansion of the cumulative total to at least 19 Cities.

Progress. With the passage of the *Local Government Code*, the main purpose of this measure has been attained. Both the authority and the resources for implementing urban development in an effective manner have clearly been transferred to the Cities. The DPWH clearly has no intention to continue implementation of local infrastructure projects. All funds for such projects have been removed from its budget.

The implementation of the transfer, however, has been fraught with uncertainty. The primary set of questions relate to the transfer of DPWH equipment and personnel to LGUs. At the central level, DPWH has stated that it retains very little of either to be transferred (most the personnel and equipment used in building infrastructure projects are contracted for individual projects). But the exact status remains unclear. When Mayors have contacted DPWH regional offices, they have been told that clear instructions on transfer have not yet been provided from the center.

MOAs with individual cities may or may not be needed, but it should be a priority for DPWH to formulate clear guidelines on the transfer process and disseminate them to their regional staff and the LGUs.

Section 4

SHELTER DELIVERY

The GOP's housing policies have also changed markedly over the past few years (again see discussion in Nuqui, 1991). In general, the approach is to reduce the governments 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 LMB is to have prepared an action plan for inventorying such land. Further targets call 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 (incorporating the specification of effective use of land owned by the national government). HUDCC (actually the HLRB working under HUDCC coordination) is to have prepared a work program for updating town plans prior to

the first tranche. The second tranche milestone calls for the completion and ratification of new plans in at least six Cities, and the third calls 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.

Progress. Progress in this area has been almost, but not quite, sufficient to meet the full specification of this requirement. First the LMB has begun research for the required inventories of public lands in three Cities: Olongapo, Davao, and Tagbilaran. Anecdotal evidence suggests that they are implementing this work in the spirit which was intended: i.e., the data are being examined to identify idle land that could be put to productive use, in particular for low-income settlement. (See DSUD Urban Advisor, 1992b.) However, little documentation is available on these activities. The LMB should present their research plans and more complete information on milestones that have been achieved, in their schedule before this requirement is met in full.

On the planning side, new and updated land-use plans have been completed this year for nine Cities this year--Batangas, La Carlota, Cabanatuan, Dipolog, Canlaon, Roxas, Olongapo, Oroquieta, and General Santos--but those plans have earned ratification from HLURB in only three, rather than the six, targeted--Olongapo, Oroquieta, and General Santos.

HLRB has notified AID that it expects to ratify the remaining six plans--and thereby exceed the target--by the end of November 1992. In fact, it could be argued that this requirement has already been achieved. It would seem clear that the intent of the new *Local Government Code* is to eliminate the requirement of central government ratification of LGU land-use plans--independent planning, within only the broadest guidelines of national interest, is perhaps one of the most essential features in the concept of devolution and local responsibility. However, the legal status of this issue remains unclear at the moment. Executive Order 648 has required HLRB ratification and the *Code* did not explicitly negate that requirement. HLRB has lodged a query with the Decentralization Oversight Committee, with the expectation that the central ratification requirement will be revoked. But the Committee has not yet offered its ruling. Thus either additional ratifications, or a positive Oversight Committee ruling, remains needed for this requirement to be met consistent with the law.

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 GIS systems) that contain information on ownership and other characteristics of individual parcels. Without these tools, it is extremely difficult for officials at any level of government to track land use trends and effectuate appropriate land management.

Second, it probably makes sense for HLRB (and others, working in concert with the League of City Mayors) to more clearly 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 and further discussion in Section 5).

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 12 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 has been met in full. National Housing Authority (NHA) joint venture projects with private firms have 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.

Projects in these Cities are planned to provide a total of 6,147 housing units and plots at a total cost of ₱618.9 billion (an average of cost of ₱101,000). Of the total cost, 84 percent will be covered by the private investors and the remaining 16 percent by NHA. Through June 1992, 4,103 units (two thirds of all planned for these projects) had been completed.

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 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 is to be expanded to a minimum of 20 such projects in

eight Cities; (b) plans for allotting units are to be completed in at least four projects in four Cities; and (c) at least one basic service (such as water or electricity) is to be provided to at least four projects. The third tranche milestone calls for: (a) cumulative totals for initiation to reach at least 50 projects in 10 Cities; (b) completion of plans for allotting units in at least 10 projects in eight Cities; and (c) the provision of at least one basic service to a cumulative total of at least 10 projects.

Progress. Substantial progress has been made toward the targets for the second tranche, but they have not been achieved in full. Accomplishment under the first element of the target has by far exceeded the target. From January 1991 through July 1992, CMP initiation (mortgage take outs) occurred in 14 additional projects in four cities (Cebu, General Santos, Iliolo and Pasay). These projects will provide tenure to 1,205 households with a total mortgage value of ₱18.1 million.

This brings the cumulative totals under CMP since the start of 1990 to 65 projects in 14 cities--8,071 households are being served and the total mortgage value is ₱136.2 million.

The deficiencies occurred in the remaining two elements. Plans for allotting units have been prepared and services provided in only three projects rather than the targeted four. These projects are in Mandaue (59 households), Cebu (48 households) and General Santos (90 households).

Section 5

**TOWARD AN URBAN STRATEGY:
RECOMMENDATIONS FOR DSUD**

In Section 2, we cited the figures on the massive urban growth that is now taking place in the Philippines--a force that is sure to continue for decades to come. This phenomenon--more importantly, the way it is managed--will have a dominant influence on what Philippine society, and its economy, will be like in the future. Observations during this assessment suggest that, while both national and local governments are working on pieces of the puzzle, neither level is fully recognizing or addressing the challenges the phenomenon of urbanization implies.

This Section considers what this conclusion could mean for DSUD and offers recommendations as to how the program might be adapted to help Philippine leaders come to grips with the realities of urbanization.

HEIGHTENING AWARENESS: AN URBAN STRATEGY

Because of the general substance of its mandate, and its focus on chartered Cities, which are the locations where the bulk of the nation's economic growth is taking place, DSUD is in a particularly advantageous position to help in this area. Our first recommendation then is that some DSUD resources should be used to:

- 1. Heighten national awareness of the nature and scope of the urban challenge.**

The country's leaders need to understand how urbanization works and what it implies for national goal so that they can better **see urban growth as an opportunity rather than as a problem**. DSUD could help by supporting studies which could, among other things, include (a) roughly estimating the likely impacts of a continuation of current trends in terms of economic conditions, poverty, and environmental degradation; and (b) considering how revised policies (national and local) might alter those outcomes. The next step would be to sponsor conferences and seminars on the results (with national and local leaders) to stimulate consideration of policy change.

A valuable contribution in this direction was made this year by HUDCC's (1992) *Urban Development Sector Review*. That report contains useful background data on urbanization and offers a number of interesting policy ideas. It also calls for the preparation of a national *urban strategy*, although it does not say much about how it should be structured or what it should contain. This assessment endorses that recommendation, but we emphasize that such a strategy could be distorting rather than beneficial unless it recognizes two points:

a. At the most fundamental level, the Philippines already has decided on its urban strategy. It is embodied in the Local Government Code: i.e., placing the primary responsibility for guiding and financing urban development on self-reliant local governments. This means that an urban strategy formed at the central level should not attempt to set quantitative targets or infrastructure service plans for the development of individual cities, and while it can offer a framework, it should not establish economic or other policies that would unreasonably constrain creative decision making at the local level.

b. The primary purpose of a national urban strategy should be to build consensus and take other actions that will "facilitate" local leaders in carrying out this role. It is sometimes argued that government formulated development strategies do not work. But this is often because people expect too much from them. If a strategy is designed as a "blueprint," with the expectation that tight sectoral and geographical targets will be established and controlled, it probably will be headed for failure. A more general strategy, however, can be helpful. The process of preparing it can be used to broaden understanding, build consensus, and develop a shared sense of priority.

There is a role for national planning in the spatial allocation of infrastructure and facilities that have national impact (e.g., interregional highways, enhancing the power grid, expanding port facilities--more will be said about this later in this Section), but most infrastructure decisions should be left to local governments. A national urban strategy should be focused on elements that provide positive incentives and remove barriers so that local leaders can make, finance, and implement such decisions more effectively.

STRATEGIC PLANNING AT THE LOCAL LEVEL

One of the contributions a national urban strategy could make would be to encourage Mayors and other local leaders to adopt *processes* for decision making that have proved effective elsewhere. None is more important than *strategic planning* at the local level. In the

view of this assessment, the Local Development Planning process now followed in the Philippines is an excellent base for local policy making, but it does not yet assure longer-term strategic planning that will deal effectively with the full dimensions of change implied by urbanization. Similarly, the work in land-use planning and capital planning under DSUD (including the new model developed under Objective 2c) is on the right track, but does not go far enough toward this end. Accordingly, our second recommendation for DSUD over the coming year is to:

- 2. Strengthen urban planning and capital programming components to assure City leaders will develop strategies to address the full magnitude of the urban challenge in their communities--it should also be recognized that these strategies are the foundation needed for effective urban environmental management.**

As suggested earlier, such planning is necessarily an integration of spatial and capital planning. Urban master plans have often failed because they have not offered adequate guidance to action programming. Capital budgeting has often run into problems when it has not been guided by some sort of spatial plan for a city that facilitates the geographic coordination of investment. Also, the capital program can become simply a "collection of projects" unless serious financial planning is associated with it directly. Furthermore, a good spatial framework plan can much simplify the processes of project identification and appraisal. If sufficient economic and cost analysis is provided to back it up, the plan provides substantial background data and reasoning to support the selection of projects without requiring elaborate and time-consuming appraisals for each project individually; i.e., the program as a whole can be appraised in economic terms and individual component projects can be justified with little additional analysis.

An expanded strategic planning process in each City should begin with an analysis of 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 them. The sequence should involve a series of estimates (they can be fairly rough): (a) what infrastructure and land development is required to accommodate projected growth under current standards?; (b) what would be the costs and how do they compare with a projection of resources likely to be available to finance these based on current policies?; (c) what are the implications of the shortfall (e.g., on poverty, health hazards, and other environmental conditions)?; (d) what would be the impacts of alternative strategies to address the shortfall (e.g., to mobilize additional resources and change standards and techniques to reduce costs)?

This framework should support creative thinking about a broad range of policy options. For example, finding that the costs of adequate water supply and wastewater treatment under traditional approaches vastly exceed projected resources could motivate strong programs to conserve water (promote community water conservation, system maintenance to reduce leaks, hands-on work with industries to adopt water conserving techniques, etc.), as well as strategies to mobilize more resources to build more capacity.

Also, underutilized land might be identified that, when put to use, would enhance business and job expansion, as well as city revenues.

Team work by the Local Development Council (including local NGOs and business leaders as well as politicians and government staff) in thinking through the alternatives in this manner should stimulate consensus and coalition building that should, in turn, help the team convince the voters to do what they need to do. 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 Example: Naga City

Good examples of the kind of strategic thinking we have in mind are offered by some of the programs recently implemented by Mayor Jesse Robredo of Naga City. People often think of land-use planning as static and long term. Robredo has made land-use decisions "come alive" in restructuring urban transportation and activity location in a way that has had immediate impact to the benefit of the community (see Prilles, 1992).

One of Naga's most serious problems when the Mayor took office was congestion in the urban core. Naga had only one market located at the center of the city. Completed in 1969 (two storeys, 12,284 square meters of floor area), it had been one of the largest public markets in Asia, but fires in the mid-1980s had reduced its usable floor space by over 40 percent while the population in its service area over that decade had increased from 35,000 to 50,000. Vendors were spilling out into the surrounding streets and corruption in market operations was rampant. At the same time, the city's bus terminals were also all located in the city's core near the market and added much to the congestion. The problem was not only that the congestion itself was dysfunctional, but also that this arrangement left no room for expansion. The existing spatial structure was holding back economic activity and job creation.

Addressing these problems was not easy--strong vested interests tried to hold onto the status quo--but the Mayor developed a forceful action plan and mobilized enough public support for it to secure implementation. The steps were fairly simple: (1) rezoning high-access locations farther out (one-half to one kilometer from the center), and negotiating with private developers as needed, to establish new satellite markets; (2) forcing the buses to stop at new terminal locations outside of the core (a total of eight have been established) along with facilitating jeepney service from those terminals to the city center; (3) focusing road repairs on those arteries most important to the new markets and terminals; and (4) combining a rehabilitation plan for the old central market with an administrative reform that would root out corruption and put it on a sound commercial footing.

The two new satellite markets (the Barlin Market, 465 square meters of floor space, and the People's Mart, 1,587 square meters) provide a broad array of goods with substantially enhanced convenience to the customers, and they have expanded both job opportunities and the city's tax base. The new terminals have had similar effects. One of the locations, a

previously vacant and poorly drained site on Diversion Road, is now home to three warehouses, a hospital, and a number of new business establishments, as well as the terminal facilities. Land values there are now in the neighborhood of ₱1,000 per square meter.

Another innovative program addressed a problem along Panganiban Drive, the main road from the airport to the city center. A kilometer long strip of swampy land between the road and a parallel railway was being settled by squatters, and some of it was serving as an illegal garbage dump. It had become an eyesore, dampening the investment potential of an area that should have been an attractive location for business expansion.

In November 1988, the City leased the land (7,270 square meters) from the owner (PNR, Philippine National Railways) at a fairly low rate (₱145,500 per annum). It then relocated the squatters and negotiated with the private sector to finance structures for businesses (in accord with plans developed by the city with assistance from the United Architects of the Philippines). The structures were completed quickly (13 2-door pavilions, 6 8-door pavilions, and one 12-door pavilion) and, by the end of 1990, were occupied by a broad array of establishments (e.g., computer shops, restaurants, appliance dealers, motorcycle dealers, clinics, offices). The City sub-leases the space to the businesses at a higher rate (sufficient to yield a net income of ₱47,378 to City revenues in 1991).

These initiatives illustrate the kinds of behaviour that will be needed from all City Mayors in the Philippines if they are to meet the demands of accelerating urban growth. They require an entrepreneurial spirit and strategic thinking on the part of City officials. They focus on problems and opportunities and integrate actions across traditional programs (land-use, infrastructure, economic development) as needed to address them. They have major positive impacts on things the voters care about (job growth, reducing congestion, improving the appearance of the City, reducing environmental hazards) and yet, in all cases, they create significant additional revenues for the City rather than implying a net drain on its treasury.

A Context for Environmental Management and Disaster PMP

The strategic planning process we have suggested would also be an ideal context and foundation for urban environmental management and disaster PMP (prevention, mitigation, and preparedness). In the past few years the rapid acceleration of environmental degradation has become evident, and alarming, in most Philippine Cities, particularly the larger ones.

One problem, of course, is much increased air pollution brought about by the acceleration of motor vehicle use, as well as inadequate programs to control industrial pollution. Many of the needed actions in this field must be taken at the national level (e.g., setting standards and establishing incentives). To address most other aspects of environmental degradation, however, the ball is predominantly in the court of local government. The growing incidence of waterborne disease, for example, requires local programs to expand safe water supply systems, provide adequate handling (collection and treatment) of wastewater and solid wastes, and implement drainage improvements to

diminish standing water. A host of additional examples of environmental problems arise due to inadequate local management of land development--in particular, the extension of squatter settlements and other illegal developments in environmentally sensitive and/or hazard prone areas. More broadly, while there is much talk about local industrial location policy from the standpoint of pollution and other environmental impacts, few actions have been taken to address the issue.

More effective local environmental impact assessment (EIA) processes are certainly needed, but specialists increasingly recognize that EIAs in and of themselves are not enough. They often come too late to affect the key public decisions that determine environmental quality: i.e., much work has gone into a project's design by the time environmental assessment is conducted, and there is much resistance to change at that point. Environmental criteria should be given prominence at the very start of the planning process, but there is presently no mechanism to ensure that will occur.

It is self-evident that the solution to most urban environmental problems will depend on improved infrastructure and services, or programs closely linked to them; i.e., it is impossible to imagine effective urban environmental management that does not entail enhanced water supply, waste disposal and treatment, and guidance of land development (which is primarily influenced by the placement of major roads and water supply mains). Therefore, the type of local urban strategy formulation we have discussed should be the best, perhaps the only, context to stimulate effective urban environmental management.

In addition to promoting environmental considerations as a part of local strategy formulation, DSUD (or an expanded form of it) might also support other City-oriented environmental initiatives, for example: efforts to begin to measure and monitor environmental problems in cities (e.g., the extent and spatial spread of ground-water pollution) and national level work to develop analytic techniques that can show local decision makers in a straightforward manner the implications of alternative strategies (there are bases for such techniques--see, for example, Abt Associates and Sobotka Inc., 1990, and Shin et al., 1992--but effort is needed in making their outputs easier for local leaders to understand).

The main arguments supporting this approach for environmental management are also highly relevant for disaster prevention, mitigation, and preparedness (PMP) in urban areas. In particular, (1) while supportive roles should be played by national and provincial governments, if it is to be effective, the main thrust of PMP activity should be designed and implemented by local leadership; and (2) early local strategic planning, linked to environmental management, is likely to do much more to relieve the pain and damage associated with disasters in urban areas, and at much lower cost, than anything done after the fact. An example is the Bhopal disaster in India. The problem there was fundamentally a land-use problem--squatter settlements would not have sprung up around the plant if local government had done more (provided trunk infrastructure, etc.) to open up sufficient land for low-cost residential development in other locations. The same can be said for the emergence of squatter settlements in flood prone areas in the Philippines.

A Possible Scenario for Technical Assistance and Training

How could DSUD help in furthering effective strategic planning by local governments? To give a clearer idea of the potentials, a scenario along these lines was suggested in the first DSUD assessment, but it remains relevant this year as well. It has seven steps:

1. As a part of the process of "demand driven" capacity building, the League of City Mayors would meet with AID DSUD representatives and representatives of the central coordinating committee, to work out a basic approach for integrating the planning and implementation of urban physical development. On the basis of some analysis of comparative needs and capabilities, several Cities would be selected as places to try it out. (Actually, several meetings would be required with some consultant assistance in-between.)
2. Technical assistance teams would then arrive to work with officials of the selected cities to implement the model approach. (The TA teams might include staff from other Cities and central agencies as well as consultants.) The first meetings would develop a work program and schedule and clarify assignments.
3. The first step in the process would be to conduct analyses of the City's conditions and prepare a simple spatial framework plan for the City's future development. The approach would vary depending on what information the City already has on hand; e.g., data on demographic, economic, and land use trends for sub-areas. Even where data are sparse, new techniques (e.g. quick interpretation of satellite images, numerous analytic software packages) permit much more rapid and inexpensive work of this kind. The inventorying of lands owned by all levels of government within the City would be a key element at this stage.
4. In preparing the strategy, results of the analysis would be presented to a broad committee of local leadership (the local Development Councils with representation from NGOs and other private leaders, as well as local government, are ideal for this purpose). It is important that local public works and budget staff participate actively--they will have to live with the decisions that are made and their participation will give them personal stake in the outcomes. For a more complete discussion of approaches to this sort of framework (or "structure") planning (See Kingsley, 1991, and Peterson, et al., 1990).
5. Once a broad framework plan is developed, the Local Development Council and technical assistance team should move immediately to considering its implications for the capital budget (no need to wait for any official "adoption" of the plan). The model process developed for Objective 2c (PLANADES and PADCO, 1992), with improvements as suggested in Section 3, would offer guidelines for this phase. The framework plan provides the most rational basis possible for assessing priorities and internal consistencies in the capital budget, across sectors and across the spatial terrain of the City. At the same time the framework plan is being prepared, the Council should consider actions other than capital projects that may be necessary for achieving the type of development called for in the plan: e.g., streamlining development records, purposeful sales or leases of government owned land, establishing environmental protection approaches.

6. A clear imperative is that a financing plan (evaluating all potential sources of funding) be prepared at the same time as capital projects are being prioritized. This--the comparison of assembled costs of projects you want to implement with potentially available funding--is the process that should force local leadership to recognize the need to enhance tax generation and use new sources of funds (e.g., bonds and other creative approaches to borrowing). It should be remembered at this time as well that the selling of idle public lands to private users can be an extremely effective means for raising funds to support capital development. Cost recovery and privatization also will have to be considered and planned for in these deliberations.

7. These planning/programming/budgeting efforts in the selected cities would be carefully monitored and evaluated. The results would be presented back to the League of City Mayors on a regular basis as the process is going on and feedback gained in this forum should be used for mid-course corrections. After the processes are well advanced in the first round of Cities, guidelines and manuals might be developed and sent to other Cities. A second round would then be designed, hopefully requiring much less in the way of technical assistance resources per City than the first.

STRENGTHENING MUNICIPAL FINANCES

The new *Local Government Code* gives Cities exciting new opportunities, as well as heavy responsibilities. We noted earlier that urban growth will require a substantial increase in infrastructure and other investments in the Cities, and yet current levels of such investment in the Philippines are very low by international standards. This suggests that the local finance elements of the DSUD agenda should be given special priority over the coming year. Our third recommendation, therefore, is to:

3. *Strengthen components to enhance local resource mobilization and borrowing for capital improvements.*

First, there is a strong need for central officials to meet and clarify their plans for facilitating financial decentralization. Second, clear written guidelines on how to perform a host of essential financial management activities are still not available. Devolution could be effectively expedited if the Cities had access to sound model tax codes and other ordinances, and handbooks on a series of topics ranging from the fundamentals of financial management to the details of tax administration and techniques of credit financing and debt management.

Third, stronger targets should be set for cost recovery--basic guidelines have been issued, but studies are warranted that would monitor the extent of City adoption of modern cost recovery techniques and hands-on technical assistance should be provided in selected Cities--experiences that could serve as models to be presented to other Cities through the Sharing Program. Fourth, now that many of the initial objectives related to credit financing have been achieved, others should be developed to address the next range of constraints. One of the most important may be to reform policies of the DOF Municipal Development Fund so that it will not deter movement toward Cities accessing private capital markets.

Finally, the new Code makes it urgent for Cities to revalue their real property as a basis for enhanced property tax collections. Software to facilitate and document reassessment has been developed under a previous AID sponsored program--a priority program should be mounted to encourage adoption of this or similar systems in more Cities since doing so should not only expedite reassessment but also fundamentally improve subsequent tax administration. Such a database can also much facilitate other basic planning and implementation processes in the Cities.

EXPANDING THE SHARING PROGRAM

Strengthening capacities at the local level is in many ways the most challenging element of the decentralization agenda. The DSUD first-year assessment noted that, even before passage of the new Code, Philippine local governments were not performing all of the functions they had the power to perform, or raising all of the revenue they were entitled to raise, even under current laws and regulations. It noted further that recent literature examining the decentralization experiences of many countries around the world (see, for example, Rondinelli, 1990, and Peterson, et al., 1990) offered two relevant lessons. First, decentralization has proceeded in a number of countries by continuing political conflict between central bureaucracies (attempting to hold on to power) and popularly elected Mayors, in which the Mayors gradually gain the upper hand (e.g., this appears to be happening in much of Latin America). The problem with this mode is that it is time consuming. The Philippines does not have the time for it. Therefore, *the next stages of decentralization must take place as a truly cooperative and well coordinated effort on the part of central and local governments--one characterized by frequent and open exchanges of views in a settings designed to bring harmony and motivate progress.*

The second lesson is that central governments appear to be as unable to design local capacity building effectively as they are unable to deliver local services effectively. Experiences throughout the world over the past decade indicate that even well-intentioned efforts by central governments to plan decentralization in detail are doomed to failure. The central Ministries of Home Affairs or Local Government simply cannot know enough about the varying circumstances and priorities of different localities to design workable manuals. Therefore, *the job of strengthening effective local performance capacity must rest with the localities themselves, and the job of central staff must be to facilitate their efforts in that role.*

Our fourth recommendation for DSUD over the coming year is to:

4. Expand the "demand driven" system for local capacity building that has already been initiated.

This approach has been adopted in the Sharing Program initiated by DSUD over the past year. The approach recognized that there are many examples of impressive achievements in recent years by the Cities themselves (e.g., new computer systems, new methods of raising revenue or privatizing services). It embraced the idea of giving local officials additional resources for capacity development, encourage them to talk together and share common experiences and problems, and allow them to choose their own priorities and

the means of fulfilling them. The assumption has been that they are likely to know best how to select services (in some cases choosing a course from a local university, in others using a consulting firm to design and install a new system, in others gaining hands-on assistance from experienced personnel from another City, and in yet others choosing a training course or operational manual developed by a central agency).

DSUD's Sharing Program has so far convened three national conferences of Mayors, all of which were well attended. In addition, the DSUD Urban Advisor has worked in between these conferences to facilitate the transfer of information between Cities. It is also encouraging to note that DILG and Local Government Academy leaders have moved in ways that are consistent with the theme of demand-driven capacity building; i.e., working out their own training plans jointly with the Mayors based on local perceptions of need. What is needed over the coming year is an expansion of this basic approach.

The DSUD agenda itself offers the basis for numerous additional conference and seminars. Topics could include an introduction to more strategic approaches to the urban challenge (Recommendations 1 and 2 above) as well as technical presentation on other DSUD topics: e.g., local resource mobilization and financial management, municipal credit, capital investment programming.

CENTRAL SUPPORT FOR THE URBAN STRATEGY

The first year assessment also argued that the committees of central government officials responsible for DSUD and LDAP should be combined and work more actively to facilitate the implementation of decentralization. This was to include more frequent (regularly scheduled) meetings in which (1) agency representatives review the progress they have made toward stated objectives and discuss the problems and constraints they face; (2) other attendees comment and offer suggestions; and (3) adjustments are made to interim assignments under each objective. It was argued further that this sort of a process can create pressures for more timely performance and, more important, build positive and strong interagency ties and camaraderie. Also, effectiveness would be much enhanced by inviting representatives from the Leagues of Provinces, Cities, and Municipalities to serve as regular participants. Given the pressures of the immediate tasks in implementing the *Code* and diversions because of elections, this development did not occur in 1991/92. Accordingly, our final recommendation is that it should become a priority over the coming year:

- 5. Strengthen central coordination and support for decentralized urban development.**

Possible Role in Formulating an Urban Strategy

The substance of the DSUD and LDAP agendas cover most of what is conventionally thought of as the substance of urban strategy. Accordingly, it might make sense for the GOP to assign the combined committee the task of developing the urban strategy and

spearheading the education and dissemination programs that would be associated with it.

There is some question as to the most appropriate location within government to chair the development of an urban strategy. The *Urban Development Sector Review*, noted earlier, describes an approach in which HUDCC would have the main coordinating role. We believe that would not be good idea. While HUDCC should be assigned a very important role in the strategy formulation process, NEDA is the only logical choice to chair the committee.

This conclusion is based on a formidable change that is now taking place throughout the developing world in the way governments are viewing urbanization. A decade ago, the topic of urban improvement, like that of housing, was thought to belong to the realm of "social policy"--the primary aim was to ameliorate the physical living environment for urban dwellers, particularly the poor.

Now there is much more recognition that what happens in urban areas is going to be the key determinant of national economic development, and that, within a broad framework of sensible macro-economic policies, Mayors and other local leaders can play among the most important roles in facilitating private sector lead economic growth and generally creating an environment in which businesses can operate competitively. This does not mean that housing and related services are not important, but it does mean that Mayors do need to give higher priority to efforts (such as reforms in land development, infrastructure provision, and the creation of a good business environment) that further local income growth (recall the initiatives of Naga City discussed earlier above). Particularly with decentralization of governmental responsibility, a healthy *local* economy is a prerequisite to effective efforts to improve housing conditions and the living environment.

At the central level, NEDA is the only agency that has the charter (therefore, the credibility and clout) needed to further this broader view of what an urban strategy should be about.

The Ongoing Role for Central Government

We have said that the central government does have a role in formulating a national urban strategy, and using it as an education device to encourage local governments to develop and implement effective strategies, to remove barriers that stand in their way, and to build public support for local and national policies that will be required. But there is also a need for an ongoing role at the central level. We identify three elements: (1) technical assistance and training; (2) monitoring, research, and education; and (3) programming national and regional public investment.

Technical Assistance and Training. The first principle in this area has already been discussed: the maintenance of a "demand driven" system to strengthen local government capacity. Central officials should continue to work with the Mayors to help them access technical assistance and training resources most relevant to their needs. The Sharing Program now operated under DSUD provides a good model approach for the future. The Local Government Academy and other central agencies would meet with local officials on a

regular basis, provide some technical assistance and training directly, help local officials access more from other sources, and work with regional universities and other institutions to build additional expertise.

Monitoring, Research, and Public Education. The central coordination committee (and its constituent agencies, as appropriate) should monitor the progress of decentralization and local government performance, and then provide feedback indicating opportunities for program enhancement where it is most needed. (In many cases, simply the regular publication of comparative statistics on changes in local conditions and performance for all cities individually, will be the strongest motivator--see suggestions on report formats for this in Kingsley and Mikelsons, 1991b). Also, central agencies should support broader research on changing urban conditions and some developmental research (e.g., systems to address common problems). These are tasks where economies of scale make a difference--individual cities cannot normally afford them on their own.

Programming National and Regional Public Investment. We noted earlier that the central government will continue to have an important impact on urbanization through its programming of infrastructure and facilities that have national and regional impacts; e.g., interregional highways, reliable telephone systems, extensions to the power grid, expanding port facilities. Given recent international research (see Peterson, et al., 1991), it is now clearer that the adequacy of such investment will have an important effect on national economic growth. The relevant question here is how should such investment be allocated spatially to most enhance urban contributions to national development?

Views are changing in this area as well. A decade ago, it was widely believed that central governments should use infrastructure placement to steer economic activity to underdeveloped regions. Today, it is recognized that such strategies have often missed their targets and wasted scarce investment resources. The current distrust of outlying industrial parks and attempts to develop "growth poles" in outer regions is based on many failures; i.e., infrastructure and facilities sitting unused for many years. The conclusion is that infrastructure alone is not enough to stimulate economic development. The highest priority for such infrastructure is in locations where the economy is already evidencing signs of "take off" and thus the lack of infrastructure could be a damaging constraint.

This does not mean that government should never attempt to influence the spatial pattern, but only that it should do so carefully with a realistic understanding of market potentials. For example, it is quite reasonable to try to diminish the economic dominance of Metro Manila. The Philippines has a number of economically promising secondary cities (most with populations in excess of 75,000) that are badly in need of more reliable telephone service and electric power, among other things. Investment there is likely to yield a high return in the short run. The idea is to give priority to cities where economic demand is already becoming evident and play off that strength. Similar investments in smaller and more remote towns today would be wasteful. Some of those same towns will reach the "take-off" stage later and strategic infrastructure for them then will be critical, but not now.

To implement this feature of the central government role, a rigid long-term investment plan would not make sense. What is needed is a monitoring capability to allow central planners to spot "demand bottlenecks" (circumstances where the lack of public infrastructure or services is already constraining economic growth) and to retain enough flexibility in the strategy to be able to address them.

Clarifying Responsibility. We have said that NEDA is the only central agency with the charter and clout needed to chair the process of forming an urban strategy, but it may not have clear responsibility to perform all of the functions just identified (e.g., technical assistance and monitoring). As a part of the strategy itself, further consideration should be given to clarifying the responsibility for such functions at the central level. However such responsibilities are allocated, it is recognized that new professional staff will have to be recruited and trained to meet these requirements.

Annex A

THE PHILIPPINE ECONOMY AND THE PACE OF URBANIZATION

The need to decentralize 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. There is good reasons 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. This Annex reviews basic macro-economic trends through the 1980s and into the early 1990s. These trends are then related to the pace of urbanization in the Philippines.

The Philippine Economy in the 1980s. The Marcos regime's 1983-1987 development plan called for an intensive build-up of the industrial/manufacturing sector--a capital intensive sector--which at the time relied on foreign sources of capital and material inputs. The early version of this plan virtually ignored development of agriculture, a sector of the Philippine economy with great potential for leading economic growth over the period of the 1980s since the Philippines was well endowed with natural resources and a relatively skilled, low cost labor force. In addition, emphasis on capital intensive industries did not promote the Philippine's potential to expand high wage opportunities in the outlying regions since the majority of such industries located themselves in the larger Cities, particularly Metro-Manila.

With the world recession and internal weaknesses, the Philippine economy went into a sharp decline in 1983 and remained in a recession through 1985. After two years of decline, it was estimated that two-thirds of the Filipinos were living below the nation's poverty line, with over 15 percent of the labor force unemployed and another 45 percent underemployed. Concurrent with the early 1980s development plan, the government had built-up a \$26.4 billion national debt: a debt level that was attributed to the administration's efforts to borrow foreign funds for its industry-orientated development plan.

After the assassination of Aquino in 1983, economic activity came to a virtual halt, resulting in massive capital flows out of country, suspension of credit, and little, if any, investment taking place. The strategy of the newly elected government was to enhance agricultural productivity as a basis for self-sustaining growth. Further stimulation of economy was directed at trade liberalization, imports in particular. Initially this policy, combined with a severe austerity program imposed by the IMF, promoted a period of growth and dampened the previous period's high inflation rates.

Due to a buoyant global economy, with especially high demand by the Philippine's largest trading partners (United States and Japan), exports grew while domestic consumption and investment leveled off. Moreover, the high prices of the early 1980s were contained, thereby increasing real incomes across the income distribution and allowing Filipinos to incrementally raise their standard of living. However, the Philippine economy was not structurally sound enough to withstand the impact of external shocks and the recovery could not sustain positive real growth going into the 1990s.

Recent Economic Trends. The Philippine economy weakened again in 1989 as a result of policy slippage and an extraordinary series of adverse shocks. A coup attempt in late 1989 along with a severe drought and an earthquake coupled with a typhoon in 1990 combined to lower exports and wreak havoc with the local infrastructure--an infrastructure which already had experienced very little investment over the previous decade. Deferred maintenance in infrastructure had already weakened a bad transportation system which in turn had steered investment towards paths of the least resistance such as the national capital region, Cebu and Davao provinces, areas also easily accessed by water routes. This type of spatial mismatch for allocating limited infrastructure resources helped to concentrate industries, promoted uneven development, and left local economies extremely vulnerable to external shocks.

Over the long term, the amount of resources devoted to infrastructure needs in the Philippines has not been adequate to keep pace with growing demands by market areas. With this type of investment policy, growth is constrained, especially in an environment where local governments lack the capital financing mechanisms to develop their own infrastructure to accommodate expansion. When viewed by the standards set by similar Asian countries, the Philippines budgets little for infrastructure. The rather high debt-to-GNP ratio--a direct result of the misguided policies of the Marcos' administration--has helped to chronically dampen outlays for infrastructure and thus thwart a more even development pattern.⁸

After sustaining positive GNP growth rates through the late 1980s, output fell again in 1991. The Philippine economy was just structurally too weak to overcome global and domestic shocks. Export earnings dropped due to the unfavorable terms of trade caused by an appreciating peso. The 1991 slowdown was also exacerbated by the immediate costs of relief and rehabilitation after the eruption of Mount Pinatubo and further eroded by the dislocation of some 36,000 Filipinos who once serviced the now closed Subic and Clark military bases. Additionally, Central government spending was down during much of the year. The problem was less the budget than the slow release of cash by the DBM which in turn was constrained by a shortage of cash made available to them by the DOF for release. During this year, higher import prices and excess liquidity caused prices to rise by 17 percent over the previous years level.

⁸ Currently, over 40 percent of the nation's output comes from the National Capital Region.

With a high inflation rate and an appreciating peso the government was hard pressed to keep a stable real interest rate during much of 1991. This volatility affected the capital markets which in turn influenced local demand for credit financing of capital goods such as housing, and commercial construction since the cost of capital (or the interest rate) is a major determinant of investment decisions. Moreover, capital expansion projects usually take place in or near urban areas, therefore the nation's cities are more vulnerable to interest rate fluctuations than the rural areas where more labor intensive industries tend to migrate.

The Structure of GDP. Table A.1 shows the level of nominal and real GDP over the period from 1986 to 1991. Output measured in current pesos increased steadily every year, though when measured in real terms, output turned negative in 1991. This table also shows how the sectoral distribution of GDP changed over the period, favoring sectors predominately located in urban areas. For example, agriculture's share of GDP dropped from 29 percent in 1985 to 23 percent in 1991, while manufacturing's share increased from 23 percent to 26 percent and construction's share increased from 4 percent to 5 percent.

Population migration patterns are, in part, predicated on employment opportunities. Table A.2 shows the structure of employment among the sectors of the economy. Non-agricultural employment expanded from 50 percent in 1986 to 55 percent in 1990--a substantial change in such a short period of time. This trend is not surprising in a healthy development transition since expansion in manufacturing and services is usually accompanied by significant improvements in productivity that require fewer workers per unit of output.

Non-agricultural jobs on the whole offer higher wages. In the Philippines the average non-agriculture wage outside of metropolitan Manila in 1989 was 35 percent higher than the average national agricultural wage (NEDA 1990). As the shift to non-agricultural employment occurs, it inevitably implies a shift in location toward urban areas since the efficiencies of locations in Cities and municipalities are important to the competitiveness of most manufacturing, commercial, and service enterprises. This type of affect is particularly pronounced in the Philippines due the relative weak infrastructure and waterlocked land areas requiring special (and more expensive) modes of transportation.

Urbanization. The economic trends of the past decades have helped to accelerate the urbanization trends in the Philippines. Data in Table A.3 indicate that from 1970 to 1980 the population of Philippine urban areas grew at an annual rate of 5.02 percent (this compares to a 1.48 percent growth rate for the rural sector) while over the 1980 to 1990 period the urban growth rate increased to 5.14 percent. An urban growth rate of this magnitude is substantial in world terms (the U.N. estimates that urban areas in all the world's less developed nations grew at an annual rate of 3.8 percent from 1960 to 1990--United Nations, 1987).

Table A.3 also shows that the share of the population living in urban areas has steadily increased from a little over one-third to almost half of the population by 1990.⁹

Table A.1
GDP and Origin of Gross Domestic Product
The Philippines

	1986	1987	1988	1989	1990	1991
GDP - Billions of Pesos						
Current Prices	612.0	685.9	803.1	925.2	1,074.3	1,238.7
Real GNP Growth	6.0	5.8	6.7	5.7	3.1	-0.1
Inflation	1.6	3.8	8.7	10.6	12.7	17.7
Origin of GDP (pct) in constant prices						
Agricul., forestry, fish	29.8	28.4	27.4	27.1	27.0	22.8
Mining	1.8	1.6	1.6	1.5	1.5	1.5
Manufacturing	23.8	24.3	24.9	25.1	24.8	25.5
Construction	3.7	4.2	4.2	4.6	4.7	5.1
Utilities	1.9	2.0	5.4	2.0	2.0	2.9
Trans. and communications	5.6	5.5	2.0	5.3	5.4	5.9
Commerce and finance	15.7	15.8	15.6	15.6	15.8	14.5
Government and service	17.8	18.3	18.9	18.7	18.8	21.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF 1991, NEDA 1992.

⁹ See Box A.1 for a comprehensive definition of urban and rural areas for the Philippines.

Table A.2
Structure of Employment, 1986-1989
The Philippines

Sector:	Percent of Total				
	1986	1987	1988	1989	1990
Agriculture	50.0	47.8	47.7	44.8	45.2
Mining and Quarrying	0.7	0.7	0.8	0.8	0.6
Manufacturing	9.2	9.9	10.2	10.8	9.7
Electricity, Gas and Water	0.3	0.4	0.4	0.4	0.4
Construction	3.1	3.6	4.0	4.4	4.3
Wholesale and Retail Trade	13.7	13.7	13.2	14.0	14.0
Transportation and Communication	4.1	4.5	4.8	4.9	5.0
Finance, Insurance and Business Services	1.9	1.9	1.9	1.8	1.8
Government, Community and Social	17.1	17.4	16.9	18.1	18.7
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: NEDA, 1992.

Table A.3
URBAN GROWTH

	Population		Pct.
	Total	Urban	
TOTALS			
1970	36,685	11,678	31.8
1980	48,098	17,944	37.3
1990	61,480	29,640	48.8

Source: NEDA 1990, Census 1992.

BOX A.1

Urban/Rural Definition

Urban is defined by the following criteria:

1. In their entirety, all cities and municipalities having a population density of at least 1,000 persons per square kilometer.
2. Poblaciones or central districts of municipalities and cities that have a population density of at least 500 persons per square kilometer.
3. Poblaciones or central districts (not included in 1 and 2), regardless of the population size, that have the following:
 - a. Street patterns
 - b. At least six establishments (commercial, manufacturing, recreational, and or personal services).
 - c. At least three of the following:
 1. A town hall, church or chapel.
 2. A public plaza
 3. A public market or building where trading takes place at least once a week
 4. A public building such as a school, hospital, etc.
4. Barangays having at least 1,000 inhabitants, which meet the conditions set forth in number 3 above, and where the occupation of the inhabitants is predominantly non-farming or non-fishing.

All areas not falling under any of the above classifications are considered rural.

Annex B

LOCAL GOVERNMENT FINANCE

This Annex summarizes the system of intergovernment finance in the Philippines, highlighting changes brought about by the introduction of the 1991 *Local Government Code*. In addition, it reviews trends in revenues the Local Government Units (LGUs) as a whole and then, specifically for the Cities.

THE SYSTEM OF LOCAL GOVERNMENT FINANCE

The budgets of local governments units (LGUs) draw upon a multiplicity of revenue sources. These sources can be grouped into two broad categories--locally generated and externally generated revenues. Cities generate most of their revenues 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. The bulk of the remaining revenue for LGUs is allocated through revenue sharing of nationally generated taxes in the form of the internal revenue allotment (IRA).

With the passage of the 1991 *Local Government Code* revenue sources for local governments have been fundamentally changed from their pre-1991 structure. In order to promote independence from the central government, the *Code* strengthens the fiscal autonomy of the Cities through increased tax rates, greater administrative powers, and a change in the distribution of the IRA among LGUs.

Locally Generated Revenues. Under the 1991 *Code*, the Cities can expand their capacity to generate tax revenue. All the major taxing authority was retained in the new *Code* along with modifications to the rates of levies, accrual of the proceeds, and administrative implementation.

Business Taxes and User Fees. The right of a city to collect business taxes and user fees was established by PD 231 and PD 426. Cities may levy taxes on all types of businesses regardless of their product. In addition to these taxes, Cities collect user fees from operating economic enterprises such as public markets or slaughterhouses. Similarly, statutory user fees are charged for public goods and licenses such as residency taxes. Before the passage of the *Code*, federal approval was required of any local legislation altering business tax rates. Local revenue ordinances, needed to enact these changes, are no longer subject to review by the DOF.

The *Code* expands local authority to increase the rates of the business taxes and in some cases adds new taxing powers. The *Code* now allows the cities to tax gross receipts of banks and financial institutions and financial transactions including financial leasing, dividends, rentals on property, and profits from sale of property and on insurance premiums. In addition, the schedule of tax rates for businesses has been increased. The new rates vary according to the type of business and the amount of gross annual receipts. On average, the business tax rates under the new *Code* increase by approximately 15 percent.

One provision in the *Code* further enhances the LGU's capacity to generate revenue from business taxes. Section 186 of the *Code* permits the levying of taxes, fees, or charges not otherwise specified in this *Code* or the National Internal Revenue Code. If LGUs choose to pass ordinances to define and support this new authority, their potential to enhance revenue from business activities could increase further.

Another fundamental difference between the old 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 Secretary of Finance, who in turn was granted the authority to alter or retract a tax ordinance on selective grounds. The new *Code* allows the Cities to retain taxing authority by a local review process. The city treasurer is still appointed by the DOF, but the appointment must be made from a list of candidates selected by the local Mayor.

The Real Property Tax. With respect to property taxes, the 1991 *Code* has only slightly altered the provisions of the previous tax code (PD 464) although it mandates a general revaluation of all properties. As before, the tax rates are set, as well as administered, at the national level. One new provision in the *Code*, delegates appointment of the assessor to the locality whereas before this was DOF's responsibility.

Overall, property assessment levels have been reduced by the new *Code*. First, residential buildings with a market value of ₱175,000 or less are exempted altogether. For other properties, as before, the *Code* contains schedules for different types of properties (e.g., residential, business, land) that set assessed values as a percent of market value. The full range, depending on the type, is from 15 percent to 80 percent, with higher ratios being assigned to properties with higher market values. The ratios in the new schedule are generally lower than under the prior schedule: e.g., where before the lowest assessed value for residential land was 30 percent of market value, the new minimum has been dropped to 20 percent, and the maximum ratio for residential properties has been reduced from 80 percent to 60 percent.

In an important change, the schedule of current market values is now authorized by the local sanggunian instead of central government as before. Another change is that LGUs have been given the additional power to levy an *ad valorem* tax on idle lands at a rate not to exceed five percent of the assessed value of the property. The *Code* also lifts most property tax exemptions for government owned and controlled corporations. This provision is expected to significantly increase revenue for the coffers of the LGUs since the government corporations, on the whole, possess significant structures located on large tracts of land.

Because of the skewed geographic distribution of these corporations, however, the potential revenue from this new source will be divided unevenly among the LGUs.

As before, the *Code* sets strict limits on tax rates. The tax rate for the basic RPT cannot exceed 2 percent of assessed value and the rate for the Special Education Fund (SEF) component of the RPT cannot exceed an additional 1 percent. Under the new *Code*, the distribution of tax proceeds has changed significantly. The barangay share in the basic RPT has been increased from 10 to 30 percent, leaving the Cities with a lower share of the overall revenue stream from the RPT; 100 percent of the SEF component is now returned to the local school board.

Other Taxes and Fees. Among the provisions of the new *Code* are enhanced powers for LGUs to collect a variety of taxes and fees. These include four land and numerous economic activity based taxes. The land based taxes are land sale tax, land transfer tax, idle land tax, and the public land use tax. Among the business based taxes available to Cities are franchise tax, professional tax, amusement tax, delivery tax, quarrying tax, and the printing business tax. The majority of these taxes were in place before, but the new *Code* increases the rates for most of them (by as much as 15 percent).

The former residence tax was reclassified under the *Code* as the community tax. Persons over 18 years of age who live within a City, are required to pay a flat rate of ₱5 on top of a ₱1 tax for every ₱1,000 earned. This represents at least a two-fold increase over the provisions set by the old residency tax. Similarly, the community tax is also applied to businesses operating within the City jurisdiction, although the rates differ from those applied to individuals. (In the past, the residence tax represented 1.5 to 2 percent of the total LGU revenues.)

Debt Financing. Under the new *Code*, the LGU's ability to fund development projects by borrowing money directly from credit institutions, or float bonds in the financial markets, has been streamlined. Additionally, a city may also use its real property as collateral for such loans and enter into build-operate-transfer (BOT) agreements with the private sector. These provisions in the *Code* are new and reflect the overall attention the code devotes to enhancing local capital financing capability. Borrowing on the part of Cities has thus far been limited to loans extended by government agencies or corporations. Debt-financing has not been utilized by Cities to any great extent.

Internal Revenue Allotment. The IRA is central government revenue shared with the local government units. To date, these monies have only represented a small, though increasing, fraction of total central government expenditures. Table B.1 shows the expenditure pattern (in constant 1978 pesos) of the GOP from the year 1988 to 1992. In 1988, revenue shared with the local governments amounted to only ₱770 million, or roughly 2.1 percent of total GOP expenditures. This figure increased steadily in nominal and real terms through the later half of the 1980s. In 1991, the IRA climbed to ₱1.02 billion or 2.4 percent of the total government expenditures. This represented a 42 percent real increase over the 1988 funding level.

Table B.1
NATIONAL GOVERNMENT EXPENDITURES, 1988-1992
THE PHILIPPINES

	1988	1989	1990	1991	1992 (estimated)
EXPENDITURES: (billions of 1978 pesos)					
Wages and Salaries	10.17	11.60	12.46	12.57	11.83
Maintenance and Operating Expenditures	4.86	6.05	6.05	6.34	5.95
Interest Payments	11.45	12.35	14.25	12.97	13.30
Subsidies	0.75	1.47	1.04	1.02	0.97
Transfer of OPSF	0.00	0.00	0.92	0.00	0.00
Capital Outlays	4.16	5.28	6.65	7.66	7.02
Equity and Net Lending	1.80	1.31	1.36	1.30	0.72
Allotment to LGUs	0.72	0.77	0.94	1.02	3.72
Total	33.92	38.83	43.69	42.88	43.51
PERCENT OF TOTAL EXPENDITURES:					
Central Uses	97.9	98.0	97.8	97.6	91.5
Allotment to LGUs	2.1	2.0	2.2	2.4	8.5
Total	100.0	100.0	100.0	100.0	100.0
PERCENT OF GDP:					
Central Uses	16.60	18.20	19.90	19.50	N/A
Allotment to LGUs	0.36	0.37	0.44	0.48	N/A
Total	16.90	18.60	20.30	19.90	N/A

Source: DOF and DBM.

By international standards, however, the Philippine central government transfers a small share of its total revenues to local government units. Table B.1 also shows that, averaging the six years shown, only 2.2 percent of central expenditures were allocated to LGUs. This compares unfavorably to other Asian countries. On average from 1986 through 1990, the comparable figure was 2.8 percent for Thailand, 5.3 percent for Malaysia, and a full 17.2 percent for India (IMF 1991). For the 1989 and 1990 recent years, Philippine government transfers to LGUs represent only about one-half of one percent of gross domestic product.

The new *Code* increases the IRA to the LGUs and redistributes the monies in favor of rural areas. Under the old code, the IRA sharing schedule allocated 30 percent of the funds to provinces, 25 percent to Cities, 45 percent to municipalities (barangays received no share). The new *Code* created a barangay share at 20 percent and redistributes the residual by allocating 23 percent to provinces, 23 percent to the Cities, and 34 percent to the municipalities.

The distribution of the IRA within each category depends on population, land area, and equal sharing. Under the new provision, 50 percent of the funds is allocated in proportion to population size (down from the previous 70 percent); 25 percent is distributed in proportion to land area; and the remaining 25 percent is distributed in equal shares to each unit.

The net effect of the changes in the new distribution patterns is an overall increase in the IRA, though the distribution among the LGUs changes radically. Table B.1 shows the DOF's expected central government expenditures in 1992. The allocation for the IRA increases from ₱1.02 billion in 1991 to ₱3.72 billion in 1992 (1978 pesos). In real terms this represents almost a four-fold increase in government transfers to the LGUs reaching a level of 8.5 percent of the total GOP expenditures in 1992. And IRA levels will increase further. The IRA for 1992 is calculated as 30 percent of total internal revenue collected by the GOP in the third previous year. The IRA share, calculated similarly, will go up to 35 percent in 1993, and 40 percent in 1994--it will remain at that level thereafter.

Local Government Finance Data and Revenue Trends. Reliable data for Cities and all LGUs are available from COA on an annual basis, broken down by specific revenue categories. Table B.2 shows revenues for Cities by source, in real terms for the 1986 through 1991 period, while table B.3 shows revenue by category for all LGUs (including the Cities) over the same period. In order to net out the effects of inflation, pesos were deflated by a constant price index (based on a 1978 starting value).

As shown on the table, total revenues for Cities and all LGUs have increased substantially in real terms since the mid-1980s. The total for all LGUs went up by 69 percent from 1986 to 1991, whereas revenues for Cities increased by 49 percent over the same period. The City share of all LGU revenues went down from 36 percent in 1986 to 32 percent in 1991.

Table B.2
CONSOLIDATED REVENUE FOR CHARTERED CITIES, 1986-1991
THE PHILIPPINES

	1986	1987	1988	1989	1990	1991
REVENUES (millions of 1978 pesos)						
LOCAL:						
Revenue from Taxation	376	364	385	414	468	477
Business Taxes	129	131	141	160	171	175
Real Property Taxes	247	233	243	254	297	302
Non-tax Revenue	211	231	230	270	321	304
Receipts from Econ. Enterprises	63	44	71	75	78	39
Fees, Charges and Other Receipts	148	187	159	196	243	265
Sub-total	588	596	615	685	789	781
CENTRAL:						
Internal Revenue and Specific Allotments	283	266	319	348	422	475
National Aids	23	24	59	70	66	75
Borrowing	9	1	6	5	14	15
Sub-total	315	292	385	422	503	565
Total	903	887	1,000	1,107	1,292	1,346
PERCENT OF TOTAL REVENUE						
LOCAL:						
Revenue from Taxation	42	41	38	37	36	35
Business Taxes	14	15	14	14	13	13
Real Property Taxes	27	26	24	23	23	22
Non-tax Revenue	23	26	23	24	25	23
Receipts from Econ. Enterprises	7	5	7	7	6	3
Fees, Charges and Other Receipts	16	21	16	18	19	20
Sub-total	65	67	62	62	61	58
CENTRAL:						
Internal Revenue and Specific Allotments	31	30	32	31	33	35
National Aids	3	3	6	6	5	6
Borrowing	1	0	1	0	1	1
Sub-total	35	33	38	38	39	42
Total	100	100	100	100	100	100

Source : COA

Table B.3
CONSOLIDATED REVENUE FOR LOCAL GOVERNMENT UNITS, 1986-1991
THE PHILIPPINES

	1986	1987	1988	1989	1990	1991
REVENUES (millions of 1978 pesos)						
LOCAL:						
Revenue from Taxation	802	789	812	881	1,012	998
Business Taxes	233	240	265	296	320	330
Real Property Taxes	569	549	547	585	692	668
Non-tax Revenue	501	547	564	874	847	831
Receipts from Econ. Enterprises	149	136	169	170	177	136
Fees, Charges and Other Receipts	352	411	395	705	670	694
Sub-total	1,303	1,336	1,376	1,756	1,859	1,829
CENTRAL:						
Internal Revenue and Specific Allotments	915	913	1,048	1,128	1,402	1,667
National Aids	207	172	899	555	539	577
Borrowing	82	53	58	79	92	153
Sub-total	1,204	1,138	2,004	1,762	2,033	2,397
Total	2,506	2,474	3,380	3,517	3,891	4,226
PERCENT OF TOTAL REVENUE						
LOCAL:						
Revenue from Taxation	32	32	24	25	26	24
Business Taxes	9	10	8	8	8	8
Real Property Taxes	23	22	16	17	18	16
Non-tax Revenue	20	22	17	25	22	20
Receipts from Econ. Enterprises	6	6	5	5	5	3
Fees, Charges and Other Receipts	14	17	12	20	17	16
Sub-total	52	54	41	50	48	43
AIDS AND ALLOTMENTS:						
Internal Revenue and Specific Allotments	37	37	31	32	36	39
National Aids	8	7	27	16	14	14
Borrowing	3	2	2	0	2	4
Sub-total	48	46	59	50	52	57
Total	100	100	100	100	100	100

Source: COA .

Real increases were experienced in both major revenue categories: "local" (own-source) revenues and grants and other funds transferred from the central government. Own-source revenues, however, have declined as a share of the total. Own-source revenues represented 43 percent of total revenues for all LGUs in 1991, down from 51 percent in 1986. For the Cities, the own source share has been larger but has also declined (dropping from 65 percent to 58 percent over the period). The RPT accounted for 22 percent of all City revenues in 1991 (compared to 16 percent for all LGUs). Business taxes in 1991 represented 8 percent of all LGU revenues but 13 percent of City revenues.

For Cities, the greatest increases, were registered by non-tax revenues, specifically fees, charges, and other receipts category. Table B.2 shows a real increase of ₱117 million in the level of effort over a six-year period for this category or a 79 percent real increase over six years. Given that the new Code enhances the collection rates and capabilities of these non-tax revenue vehicles, future figures in this category should increase at an even faster rate.

The IRA share of total revenues grew at a faster rate than did taxation over the period. As table B.2 shows, in 1986 the IRA stood at ₱283 million pesos, while in 1991 the figure was ₱475 million (1978 pesos). This represented a 68 percent increase.

Another useful measure of the capability of local revenue generation is the effective tax rate or the ratio of revenues from taxes to the tax base. In 1991, the RPT collections represented only 1.27 percent of the assessed value of properties for LGUs (ARD 1992). This figure can be likened to the RPT collection efficiency rate, which relates the amount of taxes collected to the taxes that should have been collected (based on total assessed value) and expressed this ratio as a percentage. For Cities, the average collection efficiency rate was 53 percent in 1989.

Local revenues from central sources grew at varying rates over the 1986 to 1991 period. The LGUs revenues from the IRA did keep pace with inflation by increasing 19 percent from 1990 to 1991 or 4 percentage points higher than Cities fared in the same period. Another interesting aspect of revenue growth for LGUs was the substantial increase in real borrowing levels (although the totals still remain quite small as a percentage of total revenues). In 1987, LGUs borrowed about ₱53 million. This figure increased to over ₱153 million by 1991. Cities borrowing also grew rapidly, increasing from an average of ₱5.3 million over 1986-88 to an average of ₱14.5 million over 1990-91. This increase was mainly due to the expanded release of donor project funds.

Table B.4 shows the per capita revenues for each chartered City by region. These data are further broken down by source. The amount of variation among city collection efforts is significant; particularly important, and troubling, is the substantial variation in central government allocations (predominately the IRA) when expressed on a per capita basis. The table also compares the Cities as to RPT collection efficiency.

Table B.4
PER CAPITA REVENUE FOR CHARTERED CITIES BY SOURCE, 1990
THE PHILIPPINES

CITY:	RPT Coll. Effic. (1989)	Revenue/ Per Capita (local)	Revenue/ Per Capita (central)	Revenue/ Per Capita (total)	Pop. 1990 (000)
REGION I					
Baguio City	59.3	392	553	945	183
Dagupan City	60.5	172	920	1092	122
Laoag City	31.4	249	249	498	84
San Carlos City	57.5	82	537	619	106
REGION III					
Angeles City	69.2	173	293	466	236
Cabanatuan City	39.3	149	211	360	173
Olongapo City	46.8	1174	193	1366	192
Palayan City	18.8	38	615	653	20
San Jose City	39.9	162	283	445	82
REGION IV					
Batangas City	47.7	302	228	529	184
Cavite City	73.1	181	315	497	92
Lipa City	47.4	115	303	418	160
Lucena City	42.5	147	194	341	151
Puerto Princesa City	36.6	210	921	1131	92
San Pablo City	56.8	145	230	375	161
Tagaytay City	53.9	583	436	1019	24
Trece Martires City	39.1	199	570	769	16
REGION V					
Iriga City	31.8	96	296	392	74
Legaspi City	45.0	181	258	439	121
Naga City	43.5	265	231	496	115
REGION VI					
Bacolod City	56.5	293	242	535	364
Bago City	49.3	90	337	428	124
Cadiz City	54.2	119	463	582	173
Iloilo City	56.9	382	179	561	311
La Carlota City	90.8	333	338	671	56
Roxas City	42.5	203	269	472	103
San Carlos City	57.5	149	338	487	106
Silay City	70.3	138	229	437	92
REGION VII					
Bais City	53.1	100	439	538	60
Canlaon City	46.5	89	435	514	746
Cebu City	49.7	438	187	625	610
Danao City	35.3	101	292	393	73

Table B.4 (continued)
PER CAPITA REVENUE FOR CHARTERED CITES BY SOURCE, 1990
THE PHILIPPINES

CITY:	RPT Coll. Effic. (1989)	Revenue/ Per Capita (local)	Revenue/ Per Capita (central)	Revenue/ Per Capita (total)	Pop. 1990 (000)
Dumaguete City	75.1	349	281	629	80
Lapu-Lapu City	61.4	207	156	363	146
Mandaue City	68.8	234	169	404	180
Tagbilaran City	55.8	400	283	683	56
Toldado City	54.5	136	252	388	120
REGION VIII					
Calbayog City	15.6	72	469	541	113
Ormoc City	51.0	138	343	481	129
Tacloban City	44.9	264	236	500	138
REGION IX					
Dapitan City	49.8	39	425	464	59
Dipology City	37.3	92	343	481	80
Pagadina City	49.8	132	303	435	107
Zamboanaga City	49.5	109	357	466	444
REGION X					
Butuan City	52.6	179	277	456	228
Cagayna de Oro City	84.8	268	232	500	340
Gingoog City	46.9	126	430	555	82
Oroquieta City	51.7	102	394	496	53
Ozamis City	59.0	185	285	470	92
Surigao City	34.6	140	284	423	100
Tangub City	55.8	100	369	469	56
REGIONS XI					
Davao City	35.3	209	266	475	850
General Santo/City	46.8	229	235	463	250
REGION XII					
Iligan City	54.7	317	260	577	227
Marawi City	40.3	18	199	217	92
Cotabato City	41.3	176	239	414	127
REGION NCR					
Manila	77.4	638	164	803	1,587
Quezon City	62.7	542	180	722	1,632
Pasay City	38.3	916	163	1079	354
Caloocan City	42.3	241	148	389	746

Sources: COA, 1990 Census .

Annex C

SHELTER DELIVERY

In this Annex, shelter refers not only to the provision of housing but also to the provision of basic amenities that make up a human settlement, as well as the improvement of the environmental conditions in marginal areas. Unfortunately, the Philippines suffers from a severe shortage of shelter. This shortage was exacerbated by a prolonged period of government policies that misallocated resources by targeting subsidies to middle- and high-income households. With the advent of the Aquino administration in 1986, the government altered its housing policies away from a centralized multi-agency approach towards a streamlined set of agencies that promoted private sector involvement in low-cost housing and better utilized the nation's vast network of Non-Governmental Organizations (NGOs).

Notwithstanding housing supply constraints, the present housing situation is also the result of the rapid pace of urbanization in the country. Over the past few decades, a growing shortage of housing has plagued urban centers, but especially Metropolitan Manila because of the continuing influx of rural migrants. Thus, major urban centers such as Manila are characterized by a sporadic urban sprawl and a preponderance of substandard dwellings.¹⁰

Historical Overview. The Marcos administration's policy for meeting shelter needs emphasized direct public production of housing with extensive squatter resettlement. In the mid-1970s, the effort to respond to the growing demand for housing was promulgated by the National Housing Authority (NHA) and a related agency responsible for regulating public housing construction, the National Housing Corporation (NHC). The NHA, in a rather ad-hoc and disjointed manner, set policy for financing and regulating the housing industry while the NHC was in charge of building public housing. This approach, often under conflicting policy directives, did little to impact upon the growing shortage of low cost housing.

As a facile response to the housing shortage, in 1979 the government established the Ministry of Human Settlements (MHS) along with ten chartered agencies. The ministry's role was to set and guide central government housing policy--a policy that gave greater emphasis stimulating the financial sector. The ten affiliated government bodies, assigned to the

¹⁰ The average household size in the Philippines is 5.5 members or roughly 1.02 households per unit. Not only is there a shortage of housing for newly formed and in-migrated households but the number of households doubling-up and living in overcrowded housing puts additional pressure on demand.

ministry, were designated a specific role within the housing sector. The major agencies included:

Home Development Mutual Fund (HDMF). This fund relied on employee contributions as the sole source of funds. The HDMF purchased mortgages granted to HDMF members by either private or government lenders.

National Home Mortgage Finance Corporation (NHMFC). Originally a buyer and seller of mortgages on the secondary market, the NHMFC came to later dominate mortgage financing on private units as well.

Home Finance Corporation (HFC) or the Housing Investment Guaranty Corporation (HIGC). This agency insures mortgages as well as construction loans made to private builders.

National Housing Authority (NHA). Financed directly by the central government, this agency provided low income housing through activities such as servicing sites for self help construction, upgrading existing slums, and resettling squatters.

Human Settlements Regulatory Commission (HSRC). This government body regulated private construction firms and developers by overseeing construction standards, land use ordinances and zoning laws.

The private sector's response to the government's new policy and the expanded availability of subsidized mortgage finance was initially positive. From an annual level of roughly 28,000 units in the late 1970s, housing starts tripled to an all time high of 86,000 units in 1983. By accessing HDMF funds and other external borrowing, the NHMFC generated nearly ₱5 million (\$245 million) of home mortgages (World Bank, 1988). But within the context of a weak macroeconomy, this level of housing investment could not be sustained. With the 1983-85 economic crisis, coinciding with the fall of the Marcos administration, housing investment dropped sharply.

By the beginning of 1985, the Philippine housing industry was devastated by large credit defaults due to a build-up of unsold housing inventory financed with NHMFC loans and insured by the HIGC. These, as well as the other government housing agencies, were losing large sums of monies due to mortgage defaults and poorly managed housing investment funds. Prior to the Aquino administration, housing policies allowed for large transfers of resources from predominately low-income wage earners (source of HDMF mortgage monies) to high-income loan beneficiaries at subsidized interest rates. Thus, national housing policies in the late 1970s and early 1980s helped to contribute to the shortage of housing demanded by lower income households.¹¹ These types of structural

¹¹ Of the total housing expenditures from 1976-1984, nearly two thirds were for units affordable only to the most affluent 20 percent of urban families, with only about a third of the funds for upgrading or serviced sites affecting the remaining 80 percent of the population (World Bank, 1988).

faults in the government's managed system of housing provision prompted a reevaluation of housing policy by the new Aquino government.

Executive Order 90 (EO 90), issued in 1986, became the Aquino government's new framework for the national housing policy and set the course for the new five year National Shelter Program (NSP). Under EO 90, subsidies were more tightly targeted to the lower and middle income households. Additionally, EO 90 provided for greater participation of the private sector in the supply of housing. Provisions in the new NSP consolidated some of the former housing agencies into a more parsimonious set of non-duplicative government bodies. Most important among the new policy initiatives was the decision to leave the NHMFC as the government's primary mortgage institution, while the NHA was retained as its single producer of public housing. To ensure conformance to the new policies, the Housing and Urban Development Council (HUDCC) was established, along with a Secretariat (membership included the NHA, NHMFC, HIGC, and HLURB). This operating structure, currently determines housing policy at the national level.

By 1989, government housing assistance had shifted from subsidies directed at the wealthy, to ones directed at the poor and homeless. Figures for 1989 show that 75 percent of total housing assistance benefitted the lowest 50 percent of the population and, of these, 12,800 units or 64 percent benefitted the lowest 30 percent of the population. Major housing programs included the Unified Home Lending Program (UHLP), NHA housing production and resettlement programs, and the Community Mortgage Program (CMP). The CMP, more than any other government program, enhanced the opportunity for affordable shelter.

The CMP was launched in 1988 to help organize urban poor communities to finance the purchase of properties they occupy through an agreement with the landowner. The program provides concessional loans from the NHMFC at an interest rate of 6 percent over 25 year period, to organized community groups for land acquisition. The three stages of the program are as follows;

- (a) **Tenure.** The immediate purchase by the community group of the land they occupy provides these households with security of tenure and ends the constant threat of eviction.
- (b) **Basic Services.** The community enters into a second loan to finance the basic amenities which they need such as water, electrical drainage, and access areas to the houses (roadways, pathways, etc).
- (c) **Housing Construction.** After the individual titles to the property are secured, the beneficiary can apply for an additional loan to improve their housing unit.

The CMP focuses on empowering the community to approach formal credit for shelter provision while tapping into the resources of local NGO networks as conduits for initiating this partnership. This type of institutional characteristic has made the CMP program an overall success story as evidenced by its high rate of loan repayment and growing

participation rates over a three year period.¹² (Experience with the CMP in Naga City is discussed in Box C.1).

Box C.1

Naga's experience with the CMP.

Naga city is located in northeastern part of Luzon with a population of approximately 115 thousand people. This translates to an overall density ratio of 12 persons per hectare of land. Nevertheless, 88 percent of the population occupies only 22 percent of its land area. Compared to the its neighboring cities, Naga is growing more rapidly because of its central business location and tradition as a trade center for the region. Of all the chartered cities Naga ranks the lowest in the number of inhabitants living below the poverty level and only 33 percent of its population are homeowners.

The CMP program is a one of the components of Naga's comprehensive program for the urban poor that is run by its Urban Poor Affairs Office. This office administers various other city wide programs targeted to lower income households, including: the Resettlement Program, capacity training program for the urban poor associations, urban renewal, livelihood and employment opportunities, and other special projects.

Naga city has successfully teamed with local NGOs to provide low cost shelter to its urban poor population through the CMP. Together with three prominent NGOs, seven urban poor associations have applied for over 19 million pesos of mortgage monies from the NHMFC under the terms of the CMP. Five more projects are under consideration with the help of the co-ordinator NGOs while the units funded under program are looking to expand service delivery.

Notwithstanding the success of the CMP, the housing situation in the Philippines is plagued by an acute shortage. NEDA estimated that in 1988 the housing deficit reached 3.4 million units nationwide, of which half a million units were needed in Metro Manila alone. Because over 50 percent of the population lives below the official poverty line, over 70 percent of the population are unable to obtain financing for home ownership. Household demand for low cost housing, and access to land perpetually drives the shortages of adequate housing in the Philippines.

Rough calculations indicate that the gap between housing need and approved housing production in urban areas remains enormous. Applying the 1980-90 annual urban growth rate of 5.14 percent to the 1990 urban population yields an estimate of 1.52 million new urban dwellers in 1991. Dividing by the average 1990 household size, this is the equivalent

¹² The CMP produced approximately 2,500 units in 1989, and in 1990 this figure rose to 10,232 units (208.40 million pesos) with a repayment rate of 94 percent of the outstanding loan portfolio (NEDA, 1992).

of 276,900 new households. Applying the 1990 rate of overcrowding (1.05 households per housing unit) implies a need for 263,700 new housing units in 1991 just to accommodate the net growth in urban households.

Reliable data on approved housing production are not available, but new urban mortgage take-outs in 1990 covered only 101,200 units. Applying the 1989 to 1990 growth rate, the estimate for 1991 would be only 112,100 units. Clearly, formal sector housing production falls far short of addressing the need. If cumulative effects are taken into account, in just a few years the number of adequate units will be millions of units short in relation to the needs implied by urban growth.

Quality of Housing. Not only is there a shortage of new housing units in the Philippines, but the structural quality of the existing housing units is poor and access to services remains a serious problem, although there have been improvements over the past decade. Census data indicate that 20.8 percent of all urban housing units still lacked access to electricity in 1990 (down from 28.7 percent in 1980); 22.5 percent of all 1990 urban units still did not have a water-sealed toilet (down from 27.5 percent in 1980). Urban housing units without access to a piped water dropped from 15.3 percent in 1980 to 11.3 percent in 1990.

The Census shows that over 22 percent of the total residential housing stock is in need of major repair. Of these units, 30 percent of were built between 1986 and 1990. This figure, in part, attests to the devastation of the major natural disasters that affected the housing in the Philippines within the past several years. Further, if the quality of housing is determined by the amount of the floor space per person in an unit, the average housing unit is overcrowded by any standard. In 1990, for units with less than 10 square meters of floor space, the average number of occupants was 4.9 persons (in fact, this figure remained essentially the same as size of the unit increased).

Housing and the Local Government Code. Recognizing the need for the decentralization of the provision of shelter services to the basic administrative units, the new *Local Government Code* devolved some housing related functions formerly held by the central government. Specifically, the provisions of programs and projects for low-cost housing (except those funded by certain national agencies) were devolved to the LGUs provided that national funds for these programs and projects are equitably assigned among Philippines' regions in proportion to the ratio of the homeless to the population. In addition, the 1991 *Code* also empowers the Cities to:

- (a) *adopt a comprehensive land use plan for the Cities provided that the formulation, adoption, or modification of the plan shall be in coordination with the approved provincial comprehensive use plan;*
- (b) *reclassify land within the jurisdiction of the city, subject to the pertinent provisions of the Code; and*

- (c) *enact integrated zoning ordinances in consonance with the approved comprehensive land use plan.*

In order to address the shortage of low cost housing and to make available idle land to communities, the Philippine government further devolved responsibility to the LGUs by mandating additional measures to alleviate the housing shortage. In the spring of 1992, the *Urban Development and Housing Act* was signed into law as Republic Act No. 7279. This act responds to the housing shortage by mandating specific tasks in relation to housing provision to the LGUs, including (1) identification, registration, disposition of lands, (2) imposition of a housing tax on covered lands, (3) guidelines for actions on professional squatters and housing syndicates as well as procedures on evictions, demolition and resettlement, and (4) guidelines for implementing the social housing program.

Annex D

LIST OF CONTACTS

DEPARTMENT OF FINANCE (DOF)

Bureau of Local Government Finance (BLGF)

Palacia del Gobernador, Intramuros, Manila, Phone: 40-09-10

Erlito Pardo, Director, BLGF

Norberto G. Malvar, Project Evaluation Officer

NATIONAL ECONOMIC DEVELOPMENT AUTHORITY (NEDA)

Amber Avenue, Pasig, 1600 Metro Manila, Phone: 631-3707, FAX: 631-3753

Aniceto M. Sobrepena, Deputy Director General

Marcelina E. Bacani, Director, Regional Development Coordination

DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT (DILG)

PNCC Compound, Mandalugong, EDSA, Manila, Phone: 631-84-31

Victor R. Sumulong, Undersecretary

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS (DPWH)

DPWH Building, Bonifacio Drive, Port Area, Manila, Phone: 488-408

Mr. Bonoan

HOUSING AND DEVELOPMENT COORDINATING COUNCIL (HUDCC)

Albert Ucampo

HOUSING AND LAND USE REGULATORY BOARD (HLURB)

D&E Building, Quezon Avenue, Corner Reces Avenue, Quezon City

Ernesto Mendiola, Commissioner and Executive Director

Pedro M. Raralio, Jr., Director, Standards and Rules
Development

NATIONAL STATISTICS OFFICE

Magsaysay Boulevard, Sta. Mesa., Metro Manila, Phone: 61-36-95

Mrs. Ancheta, Chief, Publications Sales Division

LIPA CITY

City Hall, Lipa City

Ruben L. Umali, Mayor
Carlo M. Malabanan, City Administrator
Dante B. Villanueva, City Planning Officer

NAGA CITY

City Hall, City of Naga, Tel: 35-94

Jesse M. Robredo, Mayor
Elmer Galiardo, Assistant City Planning Development Officer
Sartio Nathan, Chief, Office of the Urban Poor
Willy Prilles, City Planning Officer

PADCO

8728 Paseo de Roxas, Puyat Avenue, Makati, Tel: 810-04-55

Norman R. Ramos, Contract Manager

DSUD PROJECT OFFICE

2nd Floor, Singapore Airlines Building, 138 H.V. de la Costa St., Salcedo Village,
Makati, Metro Manila, Tel: 818-70-13, FAX: 818-03-95

Elena M. Panganiban, DPA, DSUD Urban Advisor

Annex E

LIST OF REFERENCES

- ARD (Associates in Rural Development, Inc.). 1992a. *Local Government Credit Finance for Municipalities, Cities, and Provinces*. Information Paper No. 1 prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- _____. 1992b. *Local Government Credit Finance and Private Commercial Banks, Development Banks, Investment Houses, and Government-Financed Banks-Programs*. Information Paper No. 2 prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- _____. 1992c. *Local Government Credit Finance: Training*. Information Paper No. 3 prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- _____. 1992d. *Local Government Credit Finance: Policy Development*. Information Paper No. 4 prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- _____. 1992e. *Essential Actions for LGU Revenue Mobilization*. Prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- _____. 1992f. *Synopsis of Findings of the Rapid Field Appraisal of the Status of Decentralization: The Local Perspective*. Report prepared for USAID/Philippines Local Development Assistance Program. Manila: Associates for Rural Development, Inc.
- Basaen, Ines Miranda. 1991. *A Philippine Case Study on NGO Initiatives in Facilitating Access by the Poor to Basic Infrastructure Services*. Prepared for the Asian Development Bank Seminar on the Urban Poor and Basic Infrastructure Services. Manila, January.
- BLG (Bureau of Local Government Finance, Department of Finance). 1992. "Implications of the Local Government Code of 1991 on Local Finance: An Initial Observation." Unpublished paper. Manila: Department of Finance, Government of the Philippines.

- Davey, Kenneth. 1989. *Strengthening Municipal Government*. Discussion Paper INU No. 47. Washington, D.C.: The World Bank.
- Devas, Charles Nick. 1991. "Financing Mechanisms, Constraints, and Future Opportunities." Asian Development Bank and Economic Development Institute. *The Urban Poor and Basic Infrastructure Services in Asia and the Pacific*. Manila: Asian Development Bank.
- DILG (Department of Interior and Local Government). 1992. "Privatization Guidebook" (Draft). Manila: DILG, Government of the Philippines.
- Dillinger, William. 1988a. *Urban Property Tax Reform: The Case of the Philippines Real Property Tax Administration Project*. Discussion Paper INU 16. Washington D.C.: The World Bank.
- _____. 1988b. *Urban Property Taxation in Developing Countries*. Working Paper. Washington, D.C.: The World Bank.
- Doeble, William A. 1989. "Relating Urban Land Policy to Economic Development." Paper presented at seminar on urban economic development jointly convened by USAID Office of Housing and Urban Programs and The Urban Institute. October.
- Dowall, David E. 1989. *Analysis of Land Markets*. Analysis and Synthesis Report. Draft prepared for the Urban Management Programme. Nairobi: United Nations Centre for Human Settlements.
- _____. 1990. *The Price of Land for Housing In Jakarta: An Analysis of the Effects of Location, Urban Infrastructure, and Tenure on Residential Plot Prices*. Paper presented at the Workshop on Spatial Development in Indonesia. Jakarta: Ministry of Education and Culture and University of Indonesia. July.
- DSUD Urban Advisor. 1992a. "Devolution in Two Cities: Mechanics and Dynamics of Implementation." Manila: USAID/Indonesia.
- _____. 1992b. "Devolution Under the New Local Government Code: A Mid-Year Assessment". Manila: USAID/Indonesia. July.
- _____. 1992c. "DSUD Policy Matrix (Tranche 2) Semi-Annual Appraisal Report." Manila: USAID/Indonesia. February.
- _____. 1992d. "DSUD Policy Matrix (Tranche 2) Annual Appraisal Report." Manila: USAID/Indonesia. September.
- GOP (Government of the Philippines). 1991. *Local Government Code of 1991*. Republic Act No. 7160. Manila: Government of the Philippines.

-
- _____. 1992. *Rules and Regulations Implementing the Local Government Code of 1991*. Manila: Government of the Philippines.
- HUDCC (Housing and Urban Development Coordinating Council) and PADCO. 1992. *Urban Development Sector Review: Summary*. Report prepared for USAID/Philippines Decentralized Shelter and Urban Development Program. Manila: HUDCC, Government of the Philippines.
- _____. 1991. "Toward an Urban Development Policy Framework for the Philippines by the Year 2000." Manila: HUDCC, Government of the Philippines.
- International Monetary Fund (IMF), "Recent Economic Development -- Philippines," Washington, D.C., unpublished paper, 1991.
- _____. 1990. *Government Finance Statistics Yearbook*, Washington, D.C.
- Israel, Arturo. 1987. *Institutional Development: Incentives to Performance*, The World Bank, Baltimore: Johns Hopkins University Press.
- Kahnert, Friedrich. 1987. *Improving Urban Employment and Labor Productivity*, World Bank Discussion Papers. Washington, D.C.: The World Bank.
- Kingsley, G. Thomas. 1990. *Indonesia Municipal Finance and Shelter Program: Second Year Assessment*. Urban Institute Project Report prepared for USAID/Indonesia. Washington, D.C.: The Urban Institute.
- _____. 1991. "Land, Infrastructure, and the Urban Poor: Changing Roles for Different Levels of Government." Asian Development Bank and Economic Development Institute. *The Urban Poor and Basic Infrastructure Services in Asia and the Pacific*. Manila: Asian Development Bank.
- Kingsley, G. Thomas, and Maris Mikelsons. 1991a. *Decentralizing Philippine Development: An Assessment of the Decentralized Shelter and Urban Development Program*. Urban Institute Project Report Prepared for USAID/Philippines. Washington, D.C.: The Urban Institute.
- _____. 1991b. *Monitoring Decentralization in the Philippines: Supplement to an Assessment of the Decentralized Shelter and Urban Development Program*. Urban Institute Project Report Prepared for USAID/Philippines. Washington, D.C.: The Urban Institute.
- Kreimer, Alcira, and Mohan Munasinghe, Editors. 1992. *Environmental Management and Urban Vulnerability*. World Bank Discussion Paper 168. Washington, D.C.: The World Bank.

McNeill, Desmond. 1983. "The Changing Practice of Urban Planning," *Habitat International*, Vol. 7, No. 56.

National Statistical Coordination Board, *Economic and Social Indicators 1988*, Manila: Republic of the Philippines, 1990.

National Statistics Office, *Journal of Philippine Statistics*, Manila: Republic of the Philippines, Various Issues.

_____. 1992. *Census of Population and Housing, 1990*. Electronic Media. Manila: Republic of the Philippines.

_____. 1988. *Family Income and Expenditure Survey-Special Report on Housing, 1985*. Volume V. Manila: Republic of the Philippines.

NEDA (National Economic and Development Authority). 1992. *Philippine Development Report, 1991*. Manila: Republic of the Philippines.

_____. 1990. *Statistical Yearbook, 1990*. Manila: Republic of the Philippines.

_____. 1987. *Philippines Development Report, 1987*. Manila: Republic of the Philippines.

NUDS (National Urban Development Strategy Project). 1985. *National Urban Development Strategy Project Final Report*. National Urban Development Strategy Project Report T2.3/3. Jakarta: United Nations Centre for Human Settlements and Ministry of Public Works, Government of Indonesia. September.

Nuqui, Wilfredo. 1991. *Country Paper on the Philippines*. Prepared for the Asian Development Bank Seminar on the Urban Poor and Basic Infrastructure Services. Manila, January.

Ocampo, Romeo B. and Elena M. Panganiban. 1985. *The Philippine Local Government System: History, Politics, and Finance*. Manila: Local Government Center, College of Public Administration, University of the Philippines.

PADCO. 1992. *Pre-Feasibility Study on the Issuance of Local Government Bonds*. Prepared for USAID/Philippines Decentralized Shelter and Urban Development Program. Manila: PADCO.

Panganiban, Elena M. 1984. *Information System for Regional and Local Planning in the Metro Manila Commission*, Manila: College of Public Administration, University of the Philippines.

- PLANADES and PADCO. 1992. *Local Development Investment Planning Process: A Proposed System*. Manila: University of the Philippines, Planning and Development Research Foundation, Incorporated.
- Peterson, George E., G. Thomas Kingsley, and Jeffrey P. Telgarsky. 1990. "Multi-Sectoral Investment Planning," Discussion paper prepared for the United Nations Centre for Human Settlements Urban Management Programme.
- _____. 1991a. *Infrastructure Finance: Institutional and Macroeconomic Issues*. Urban Institute Project Report prepared for the Office of Housing and Urban Programs, U.S. Agency for International Development. Washington, D.C.: The Urban Institute, March.
- _____. 1991b. *Urban Economies and National Development*. Washington, D.C.: U.S. Agency for International Development.
- Philnor Consultants and Planners, Inc. and PADCO. 1992a. *A Self-Sustaining System of Financing for Cities: Volume I: Main Report*. Prepared for USAID/Philippines Decentralized Shelter and Urban Development Program. Manila: Philnor Consultants and Planners, Inc.
- _____. 1992b. *A Self-Sustaining System of Financing for Cities: Volume II: City Revenue Mobilization Toolkit*. Prepared for USAID/Philippines Decentralized Shelter and Urban Development Program. Manila: Philnor Consultants and Planners, Inc.
- Prilles, Willy. 1992. "Devolution: the Naga City Experience." Paper prepared for the DSUD Third Sharing Program, Davao City, August. Naga: City of Naga.
- Richardson, Harry W. 1987. "The Costs of Urbanization: A Four-Country Comparison," *Economic Development and Cultural Change*, Vol. 35, No. 3, April.
- Rondinelli, Dennis A. 1990. *Decentralizing Urban Development Programs: A Framework for Analyzing Policy*. Washington D.C.: Office of Housing and Urban Programs, U.S. Agency for International Development. May.
- United Nations. 1988. *Global Strategy for Shelter to the Year 2000*, Report to the Commission on Human Settlements on the Work of the Eleventh Session, Document A/43/Add.1, United Nations General Assembly, New York.
- United Nations Centre for Human Settlements. 1989. "Appropriate Standards for the Regulation of Land Use: Analysis and Synthesis Report," (Draft) March.
- USAID. 1990. *Implementing Policy Change Project: Project Paper*. Project 936-5451.

USAID/Philippines. 1990a. *Decentralized Shelter and Urban Development Project Paper*. Project No. 492-0388, Housing Guaranty No. 492-HG-001.

_____. 1990b. *Local Development Assistance Program: Program Assistance Approval Document*. Project 492-0436.

Von Einsiedel, N. 1986. *The Metro Manila Capital Investment Folio*. Manila: Metro Manila Commission.

Wegelin, Emiel A. 1990. "New Approaches in Urban Service Delivery: Comparison of Recent Experiences in Selected Asian Country." *Cities*. August.

The World Bank. 1992. *Staff Appraisal Report: Philippines Third Municipal Development Project*. Washington, D.C.: The World Bank.

_____. 1988. *Staff Appraisal Report: Housing Sector Loan*. Washington, D.C.: The World Bank.

Wunsch, James S. 1991. "Sustaining Third World Infrastructure Investments: Decentralization and Alternative Strategies." *Public Administration and Development*. Vol 11,5-23.

Yotoko, Eduardo A., et al. 1990. *Policy Analysis of Philippine Decentralization: Final Report*. Manila: Center for Research and Communication. February.

Yotoko, Eduardo A., et al. 1991. *Prospects and Opportunities for Philippine Decentralization: Final Report*. Manila: Center for Research and Communication. May.