11. The Philippines

JOEL V. MANGAHAS[1]

INTRODUCTION

This chapter examines the policies, programs, and practices on sustainable regional development in the Philippines and presents strategies to address identified issues and challenges. The paper commences with an overview of economic, social, and urban trends in the Philippines, which leads to a discussion on urbanization and sustainable development issues. Three case studies of good practice of urban city region development as experienced by Bacolod, Naga, and Iloilo are presented, followed by a discussion on key lessons learned and strategies to enhance urban region development. Table 11.1 shows relevant national statistics.

Table 11.1: Country Development Profile, Philippines

Human Development Index rank of 177 countries (2003)^	84
GDP growth (annual %, 2004)	6.15
GNI per capita, Atlas method (current $, 2004)	1,170
GNI, Atlas method (current $ billion, 2004)	96.9
GDP per capita PPP ($, 2003)^	4,321
GDP PPP ($ billion, 2003)^	352.2
Population growth (annual 2005–2010 %) #	1.59
Population, total (million, 2005)#	82.81
Urban population, total (million, 2005)#	51.82
Urban population % of total population (2005)#	63
Population largest city: Metro Manila (million, 2005)	10.68
Population growth: 42 capital cities or agglomerations >750,000 inhabitants 2000#	
- Est. average growth of capital cities or urban agglomerations 2005–2015 (%)	28
- Number of capital cities or urban agglomerations with growth > 50%, 2005–2015	0
- Number of capital cities or urban agglomerations with growth > 30%, 2005–2015	13
Sanitation, % of urban population with access to improved sanitation (2002)**	81
Water, % of urban population with access to improved water sources (2002)**	90
Slum population, % of urban population (2001)**	44
Slum population in urban areas (million, 2001)**	20.18
Poverty, % of urban population below national poverty line (1997)**	21.5
Aid (Net ODA received; $ million, 2003)^	737.2
Aid as share of country income (Net ODA/GNI, %, 2003)*	0.9
Aid per capita (current $, 2003)^	9.10

GDP = gross domestic product, GNI = gross national income, ODA = official development assistance, PPP = purchasing power parity.

Sources: See Footnote Table 3.1, World Bank (2005); Organisation for Economic Co-operation and Development (2003); United Nations (2004, 2005).

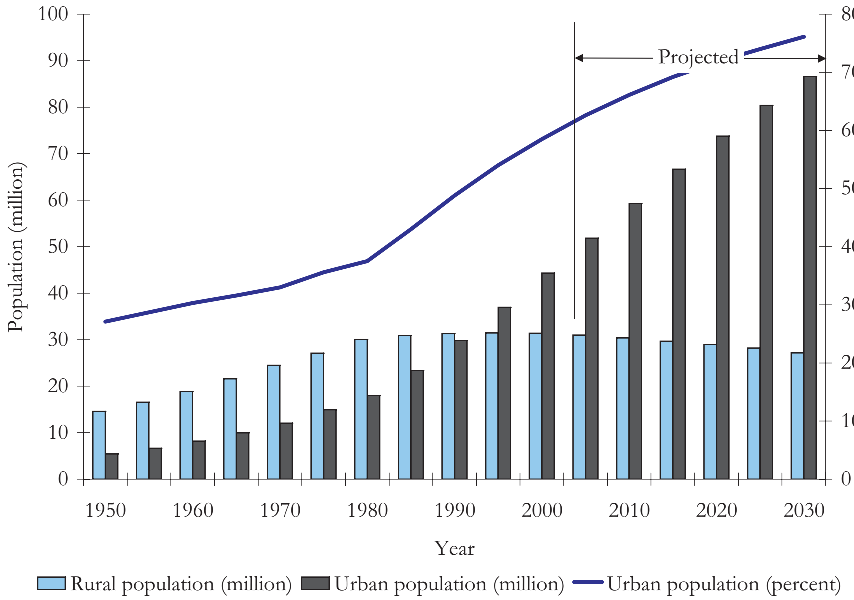
COUNTRY CONTEXT

Urbanization Issues

The rapid pace of urbanization in the Philippines poses a wide range of challenges.

The country's population growth rate—which is one of the highest in the world—places serious strains on the economy.[2] In 2005, the population was 82.8 million, of which 51.8 million or 63% lived in urban areas. Metropolitan Manila is the most densely populated urban area with 10.7 million. In 2000, there were 42 capital cities or urban agglomerations. From 2005 to 2015, the estimated average growth of capital cities or urban agglomerations is 28%. By 2030, the urban population is estimated to reach 85 million or approximately 70% of the total population (Figure 11.1). About 20% of the urban population is below the national poverty line (UN Millennium Indicators Database 1997).

Figure 11.1: Trends in Urban and Rural Population, Philippines



Economic Performance

In the early 1950s, the Philippines was second only to Japan in terms of economic performance. Over the past 3 decades, the country's economy slid behind many Asian economies. Gross domestic product (GDP) grew at an average of only 3%, compared with 8% in the People's Republic of China (PRC); 6% in the Republic of Korea, Singapore, Malaysia, and Thailand; and 5% in Indonesia over the last 30 years (Wallace Report 2004).

Growth has been primarily consumption-led and consumer-driven. Out of the 2003 GDP, 70% was personal consumption. As percentage of GDP, services increased from 40% in 1985 to 53% in 2003.[3] Between 1985 and 2003, manufacturing declined from 35% to 32% while agriculture dropped from 25% to 14%. The country's debt burden accounts for 71% of GDP. However, the GDP annual percentage growth is increasing, now slightly over 6%.

Investment trends in 1986–2001 showed a general decline in key industries, such as manufacturing, food processing, electrical and transport machinery, and fabricated metal products. Investments in textile, plastic, and metal basic industries continued to show resiliency.[4] The country also has one of the highest unemployment rates in Asia,[5] at 7.4% in October 2005.

Gross Regional Domestic Product

The National Capital Region (NCR) accounts for 30% of GDP while the adjacent Southern Tagalog Region or Region 4 contributes 16%. The other 14 regions together account for 54% of GDP. Interestingly, the Autonomous Region in Muslim Mindanao (ARMM) contributes less than 1% of GDP.[6]

Debt and Revenue Trends

In 2003, total debt of the national Government reached about $55 billion with debt service payments on interest alone amounting to $4 billion.[7] During 1999–2003, total national debt increased by 89%, from about $35 billion to nearly $70 billion. Domestic debt increased from $18 billion to $35 billion, representing a 74% increase over a 5-year period, while foreign debt increased from $15 billion to $35 billion. Overall debt service payments increased from $3.7 billion to $8.5 billion, a 129% increase. Debt service expenditures as a percentage of the national annual budget increased from 30% in 1999 to 44% in 2003. Debt service as percentage of government revenues is more alarming, increasing from 42.9% in 1999 to 75% in 2004. Without significant improvements in revenue collection efficiency, national debt is projected to reach $110 billion by 2008 and debt service payment to reach $18 billion.[8]

National revenue effort[9] has been declining since 1998. Prior to the Asian financial crisis in 1997, it was 19%, but dropped to 13% in 2003. Low revenues and increasing debt levels are squeezing resources for development, including those intended for regional development. The Government's fiscal woes mean that fewer financial resources can be expected for local and regional development projects.

Investment Trends

In 2001–2004, a total of $6 billion in foreign direct investment (FDI) was approved by the four investment promotion agencies, namely, the Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), and Clark Development Corporation (CDC).[10] BOI and PEZA approved 48% and 46% of the total FDI in 2001 and 2004, respectively. CDC approved 5%, while the SBMA processed only 1% of these FDIs. FDI inflows to the country are focused on manufacturing, electricity, services, transportation, and communications. Call centers and business outsourcing industries are increasing.

In contrast to the increasing trend in FDI inflows in most members of the Association of Southeast Asian Nations over the past 20 years, the Philippines has experienced a declining trend. From an annual average of $1,343 million in 1992–1997, total FDI inflows fell to $319 million in 2003.[11]

There are regional differences in FDI inflows into the country. Three of the 16 regions each have 8–13% of total FDI. These are also the regions with relatively low levels of poverty incidence. Eleven of the 16 regions have less than 1% share each of total FDI and poverty incidence in these regions is relatively high. Regions that are more affluent experience a higher level of such urban problems as increased levels of in-migration, informal settlers, pollution, and crime relative to other less affluent regions.

Banking System

Banking institutions are important sources of finance for development. The *Bangko Sentral ng Pilipinas,* the country's independent central bank, supervises a total of 19,003 financial institutions[12] consisting of 7,593 banks (4,344 universal and commercial banks; 1,264 thrift banks; and 1,985 cooperative and rural banks) and 11,400 nonbank institutions, such as investment houses, credit card companies, security dealers, and other financial institutions.

Banks are concentrated in cities and wealthier regions. Bank density ratio (number of banks per city/municipality) is highest in the NCR with about 155 banks per city/municipality,[13] followed by Central Luzon with six. Bank density ratios in the ARMM and the Cordillera Administrative Region are zero and one, respectively. About 75% of the country's banks are concentrated in six regions with low- to medium-levels of poverty incidence. Eleven regions compete for the capital and investments provided by the remaining 25% of the total number of banks. NCR, with the lowest poverty incidence, has 35% of the total number of banks. Five regions with very high poverty incidence have a combined 8% share of the total number of banks.

Infrastructure

The 2004–2010 Medium-Term Philippine Development Plan (MTPDP) recognizes the lack of public investment in infrastructure.[14] In 1998–2002, infrastructure expenditure was only 3% of GDP. The cost of electricity is one of the highest in Asia. Transportation systems depend heavily on the road network that caters to 90% and 50% of passenger and freight movement, respectively. The road network consists of provincial roads (13%), city and municipal roads (11%), and mostly unpaved barangay or village roads (60%). About 1,400 ports complement the road network but only 25 of them are considered major. The telecommunications sector has been deregulated, paving the way for multiple ventures in this sector. The private sector undertakes 90% of telecommunications projects.

Poverty Trends

As is evident in the above discussion, regional development in the Philippines is uneven. In 2000, the NCR's per capita income was more than twice the national average and almost six times that of the Bicol Region or Region 5. NCR has the highest regional share of GDP at 36%, with Southern Tagalog (or Region 4) the second highest at 14%. Table 11.2 shows poverty incidence in the Philippines, ranked by region. Table 11.3 also provides comparison of regions in terms of revenues and poverty incidence.

Table 11.2: Poverty Incidence in the Philippines, Ranked by Regions, 1997 and 2000 (%)

Rank	Region	1997	2000	Rank	Region	1997	2000
1	ARMM	50	57	9	Region VII	29.8	32.3
2	Region V	46.9	49	10	Region XI	31.1	31.5
3	Region XII	45.3	48.4	11	CAR	35.9	31.1
4	Caraga	44.7	42.9	12	Region I	31.4	29.6
5	Region IX	31.9	38.3	13	Region II	27.1	24.8
6	Region VI	37.2	37.8	14	Region IV	22.8	20.8
7	Region VIII	39.9	37.8	15	Region III	13.9	17
8	Region X	37.8	32.9	16	NCR	4.8	5.7

Note: Highest rank indicates highest poverty incidence.
ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region, NCR = National Capital Region.
Source: National Statistics Coordination Board.

Table 11.3: IRA Share, HDI, Local Taxes and Poverty Incidence, 2000

	IRA Share	HDI	Local Revenue	IRA Share vis-à-vis Poverty Incidence
Better Performing Regions	Regions IV, VI, III, and NCR	NCR, Regions III, IV, and II	NCR, Regions IV, VI, and III	NCR, Region III, Region IV
Poor Performing Regions	CAR, Region XII, Caraga, and ARMM	ARMM, Regions V, XII, and Caraga	ARMM, Caraga, Region XII, and II	ARMM, Region XII, Caraga

ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region, HDI = Human Development Index, IRA = internal revenue allotment, NCR = National Capital Region.
Source: Brillantes and Tiu Sonco 2005.

National Regional Development and Decentralization Policies

National Regional Development

Regional development has been enshrined in the policy and administrative agenda of every political leadership since the 1960s. President Gloria Macapagal-Arroyo, upon her assumption into office in 2001,[15] promptly declared the need to address regional development issues, such as reducing regional disparities, strengthening cities and urban areas, promoting peace and development in Mindanao, and stepping up tourism development (Mercado 2002).

Major strategies for regional development as mentioned in the National Framework for Regional Development of the National Economic Development Authority (NEDA) include national dispersion through regional deconcentration, enhancement of the urban-rural linkages, resource- and area-based development, effective mechanisms for regional development administration, and delivery of minimum desirable levels of welfare (NEDA 1998).

The 2004–2010 MTPDP provides the broad guidelines in implementing the 10-point agenda of the President released after her election in May 2004. Her administration promises to create 10 million new jobs, increase exports in the short term, develop 2 million hectares (ha) of land for agribusiness, and increase exports from $38 billion to $50 billion in the next 2 years. The plan calls for the development and rationalization of key infrastructure and utilities, promotion and development of identified tourism areas, and the provision of microfinance for small and medium-size enterprises.

In terms of regional development, MTPDP aims to maximize physical planning as a development tool for job creation, and to develop maritime basins and major rivers as transport and trading areas. It calls for congruence of development plans within the archipelagic economy of the country and the need to conserve its fragile island ecosystem. The development agenda also calls for decongesting NCR or Metropolitan Manila by "developing new centers for government, business and housing in each of Luzon, Visayas, and Mindanao," establishing commuter links between Metropolitan Manila and the north and south regional areas, and the development of other transport hubs, such as airports and ports in identified areas in the country (SONA 2004). Specific items in the agenda likewise aim to link Northern Luzon to the Taipei,China-Southern PRC-Hong Kong, China growth triangle and to establish special export outlets to the southern PRC.

Decentralization and Legislative Framework

The Local Government Code (LGC) of 1991 not only provides the legal mandate for government decentralization, but also contributes to the policy framework for regional planning and development, which is part of the functions and responsibilities devolved to local governments. LGC encourages local governments to group themselves, develop alliances, and form partnerships with civil society in managing development. It also recognizes the potential of metropolitan arrangements consisting of clusters of local government units (LGUs). The LGC further broadens opportunities for increased revenue generation of LGUs through more defined delineation of taxation powers and authority to venture into alternative sources of financing.

LGC devolves to LGUs the responsibility for the delivery of basic services—agriculture, health, social services, environment, and public works—that was formerly the responsibility of the national Government. In addition, LGC provides opportunities for LGUs, civil society, and businesses to work together and make choices that serve their collective interests.

LGC provides for the transfers of national income to LGUs through the internal revenue allotment (IRA) to finance the delivery of public services, particularly the devolved functions. IRA represents 40% of internal taxes collected by the national Government from the third preceding year's collection. IRA is first distributed by levels of LGU: provinces (23%), cities (23%), municipalities (34%), and barangays (20%). IRA share at each level is then distributed to individual LGUs using weighting factors: population (50%), land area (25%), and equal sharing (25%).

LGC expands the financial resources available to LGUs by (i) broadening their revenue-generating and taxation powers; (ii) providing them with a specific share from the national resources extracted in their area, such as charges for mining, fisheries, and forestry; and (iii) increasing their share from the national taxes, i.e., IRA. Moreover, LGC provides better opportunities for entrepreneurial leadership and corporate governance.

In 1995, the Special Economic Zone Act (SEZA) was signed into law to disperse the benefits of industrialization from Metropolitan Manila. SEZA aims to "encourage, promote, induce, and accelerate a sound and balanced industrial, economic, and social development of the country through the establishment of special economic zones in suitable and strategic locations in the country and through measures that shall effectively attract legitimate and productive foreign investments." By law, each economic zone is to be provided with transportation, telecommunications, and other facilities needed to link the zone with industries and employment opportunities for its own inhabitants and those of nearby towns and cities. Enterprises within the zones are granted fiscal incentives.

Regional Planning, Economic Governance, and Financing Regional Development

Regional Planning and Management

The 1987 Constitution provides for establishing regional development councils (RDC) or other similar bodies composed of local government officials, regional heads of departments and other government offices, and representatives from nongovernment organizations (NGOs) in the regions for purposes of administrative decentralization to strengthen the autonomy of the units therein and to accelerate the economic and social growth and development of the units in the regions (Sec. 14, Art. X, 1987 Philippine Constitution).

In practice, regional development planning has been fairly consistent over the years in terms of process. RDCs go through the established planning, programming, and budgeting process.[16] This involves preparing the regional development plans, regional development investment plans, and annual investment plans, as well as the review and endorsement of the proposed budget of the agency regional offices to the agency central offices for consideration in the final agency budget proposed to Congress.

Regional planning is indicated through the regional development plan, regional development investment plan, and regional physical framework plan. There is a need, however, to integrate these plans horizontally and to integrate them vertically with the national plan (Sec. 14, Art. X, 1987 Philippine Constitution).

Regional Economic Governance

Regional economic governance essentially favors a policy of consolidation rather than fragmentation of administrative regions and key areas in the country. This manifested in the MTPDP 2000–2004, which delineated nine regional groupings (out of 16 administrative regions) that cut across and overlap with the existing administrative regional delineations. These new regional groupings were based on the extent of existing and potential economic interaction, level of development, cultural and ethnic factors, and natural resources features like watersheds and river basins (Mercado 2002).

The President also appoints seven Presidential Assistants for Regional Concerns to advise her on regional development concerns. These are "liaison officers" of the Office of the President under the administrative supervision of the Executive Secretary (Mercado 2002).

The recent regional groupings seem to convey the importance of enhancing cooperation and connections rather than fragmentation among regions and key areas in the country. They seek to foster greater inter- and intraregional connections that have been more or less diminished by the practice of dividing the country into as many regions as possible for the sake of administrative convenience.

Regional development in the country, however, cannot escape from the problem of continuing income and human development disparities that necessarily call for greater inflow of labor and capital from richer to poorer regions. In addition, greater dispersion of concentrated development is needed to sustain development that is being threatened by increased migration of the rural population to relatively developed regions and urban areas in the country.

Financing Regional Development

IRAs to LGUs is the most dominant form of intergovernmental transfers. It is a block unconditional grant, giving an LGU-wide discretion as to its utilization. Each LGU is required to set aside no less than 20% of its IRA to local development projects contained in its local development plan.

LGUs are authorized to borrow for financing development, i.e., access alternative financing mechanisms, such as bond flotation and build-operate-transfer (BOT) arrangements. The legislative branch of the Government through the Priority Development Assistance Fund (PDAF) is also another source of funding for LGU projects. Such funding is highly political and less strategic, and may finance development programs or projects inconsistent with the local development plans or unresponsive to local needs.

Foreign development assistance from multilateral institutions to LGUs has to be approved by and channeled through the national Government, which can make lending adjustments on the interest rates to LGUs that may be high and unattractive.[17] LGU access to the banking system has been limited. Commercial banks have not been keen on transacting with LGUs because there is no established system for evaluating their credit worthiness. To a certain extent, national development banks and even commercial banks extend loans to LGUs, with the IRA as the key indicator for obtaining the loan portfolio (Manasan and Chatterjee 2003).

The Municipal Finance Corporation (MFC) was formed in 2003 from an earlier LGU funding body. MFC aims to develop a viable and sustainable financing system that will enable LGUs, in the era of decentralization, to have greater access to financing their investment needs at competitive terms (Executive Order No. 41). The chairperson of the Board of Directors of MFC is the Finance Secretary.

In 1998, the Development Bank of the Philippines and the Bankers Association of the Philippines formed the LGU Guarantee Corporation (LGUGC) to help raise money in capital markets.[18] LGUGC is the leading private institution in developing primary and secondary markets for LGU debt instruments. It provides financial guarantees for LGUs' credit instruments, thus enhancing the sourcing of funds in the capital market.[19] Its total assets in 2004 stood at only $6.7 million, which meant it was only good for a guarantee of up to $55 million of LGU borrowings. The Asian Development Bank (ADB), through the Asian Development Fund, recently infused about $1.3 million of capital investments, thereby taking a 25% stake in LGUGC.[20] ADB's investment in LGUGC marks the first time it has assumed risk on subsovereign commercial obligations without a national Government guarantee. Borrowing from private credit markets provides a good option for LGUs keen to invest in revenue-generating projects with a long payback period.[21]

In the absence of an independent credit rating agency, LGUGC performs credit screening and evaluates credit ratings before it provides guarantees to LGUs issuing bonds or debt instruments. In rating an LGU, LGUGC adopts internationally accepted standards for due diligence requirements of private financial institutions.[22] The bond market at the local level is at the fledgling stage. Only a few LGUs have experienced bond flotation and the results have been uneven. LGUs are perceived to be high credit risks (Manasan and Chatterjee 2003).

The Role of International Aid and Loans in Supporting Regional Development

Official development assistance (ODA) loan commitments declined from $13 billion in 2000 to $10.9 billion in 2003.[23] In 2003, the Government of Japan was the biggest source of ODA, accounting for $7 billion or 62% of total ODA.[24] Other major sources were ADB and the World Bank, which contributed $1.6 billion (14%) and $1.4 billion (13%), respectively, of total

ODA loans in 2004.[25] Eleven percent of the total ODA portfolios came from Australia, Austria, PRC, Danish International Development Agency, European Investment Bank, France, Germany, International Fund for Agricultural Development, Republic of Korea, Kuwait, NORDIC (Denmark, Finland, Iceland, Norway, and Sweden) Development Fund, Organization of Petroleum Exporting Countries, Spain, and United Kingdom.

There is still substantial national government control over ODA as a source of development financing. During 2000–2003, the number of national government-implemented projects increased from 48% to 57%.

In 2000 and 2003, 17% and 18%, respectively, of ODA-funded projects had direct LGU participation. These projects have encountered problems, including the weak capacity of LGUs in putting up the required counterpart funds as well as in project development and management. The national Government usually provides budget covers for ODA-funded projects at the local level. In addition, LGU priorities are often unpredictable because of the political cycles (i.e., 3-year terms of local chief executives). Another issue is the poor compliance of LGUs with ODA requirements.

Paradoxically, regions that most need ODA usually have the least access. In 2003, for example, the NCR alone had a 15% share of total ODA commitments while the four poorest regions (Regions 5, 12, Caraga, and ARMM) together received only 10% of total ODA commitments.[26]

Impediments to Urban Region Development

In the Philippines, while both national Government and local governments pursue local and regional development, their efforts are hardly coordinated, resulting in the duplication and dissipation of scarce resources. Several factors work against effective coordination of central and local government units.

Disparate Planning and Budgeting Process at the National and Local Levels

There is a weak link between the planning and budgeting processes at the national and local government levels. Planning and budgeting processes at the national level are dominated by sectoral bias and have very weak spatial and physical orientation.

There has to be a coherent planning exercise at the regional level congruent with the spatial and physical dimensions of national and medium-term development plans. There is an apparent limited integration of regional and LGU plans. National line agencies implement and fund agency regional plans and programs, which usually do not reflect LGU programs and projects. LGUs implement their local plans, programs, and projects using local funds, unable to maximize resources and optimize results and benefits in the region.

A recent study noted that there appears to be a break in the planning chain from local government levels to the regional level, and then to the national level (Government of the Philippines, World Bank, and ADB 2003). The break occurs between the provincial and regional levels. It is noteworthy that national and regional planning processes are supervised by NEDA while LGU planning is supervised by the Department of Interior and Local Government, which has administrative supervision over all LGUs, and the Department of Finance through the Bureau of Local Government Finance.[27]

National and local development plans are weighed down by a number of factors. First, they often lack coherence and are hardly forward-looking. Sectoral plans tend to be fragmented and not closely linked to each other. Planning horizons tend to be short and dictated by 3-year political cycles of elections and potential changes in political leaderships. Second, plans are far from being knowledge based. Planning processes can be haphazardly executed over very tight schedules. Lack of information, objective criteria, and measurable parameters open frequent opportunities for discretion and arbitrariness. As such, the quality of plans is severely compromised, which has negative consequences for implementation and, more importantly, in directing development. Third, physical planning at the local level is a matter of concern. The comprehensive land-use plans of LGUs tend to be parochial and limited in coverage. The plans are not linked to or directed at promoting economic development from a regional or broader perspective. Maximizing the benefits of physical infrastructure, for instance, requires that it be established to its optimal size and may therefore cover more than one political jurisdiction. Fourth, plans are not linked to budgets. Fifth, there is a weak institutional mechanism for planning processes to take into account information on past performance and citizens' feedback. Finally, there is lack of accountability in the entire planning process.

Lack of Orientation to Compete in Global Economy

Individual LGUs hardly contemplate competing in the global economy. Most local development plans are supply-driven, inward-looking, and limited to encouraging businesses that cater to local consumption needs or, at best, attracting industries producing relatively low-value and small-scale products for export. Ironically, the national Government shares the same orientation and is neither providing the required strategic direction nor the enabling policy and institutional environment. The national Government has not provided leadership in developing basic infrastructure for efficient and cost-effective movement of goods and products within the country.

The Special Economic Zone Act and the creation of hundreds of economic zones in the country, for instance, have not helped in developing national/local industries that can compete in the world market, but instead have made LGUs compete with each other to host foreign locators, and impeded LGUs' ability to harness their competitive advantages and develop competitive alliances. Specialization of products and services—critical to sustainable growth—has been stifled by this mode of development.

There is a strong service orientation but very weak investment orientation in local development planning, even in the case of metropolitan planning as advocated by NEDA. NEDA's metropolitan concept has been observed to be primarily service oriented, dealing with traffic congestion, infrastructure, and other urban services (Robredo 1998). It is, however, seen as an instrument for promoting investment.

Weak System of Intergovernmental Transfers

Most LGUs rely on IRAs to finance their operations. The existing system of intergovernmental transfers does not facilitate the development of integrated and well-coordinated plans and programs across the different tiers of government. The IRA formula has also been criticized for being inequitable, inefficient, and incapable of promoting local tax effort. Provinces and cities each get 23% share of IRA. The cities, however, have more taxes and a richer tax base than do provinces. Among individual LGUs, it has also been observed that poor or low-income class LGUs tend to get lower shares than high-income class LGUs. The equal sharing component of IRA encourages greater local government fragmentation and discourages local government mergers that could lead to more efficient provision of local goods and services. Finally, there are indications that IRA tends to substitute or decrease local tax efforts. For LGUs not inclined to put up new projects or improve their services, the IRA is enough to meet their operational requirements.

In spite of the authority of LGUs to incur debts and raise equity, many LGUs seldom utilize the credit market for development financing. Most LGUs prefer to secure grants and donations. The PDAF is among the most popular sources of funding for many local projects. Such projects do not pass through local or regional development councils, bypassing prioritization procedures and possibly crowding out crucial projects.

A major factor constraining LGUs from borrowing is their lack of technical capability to formulate development plans and package project proposals for acquiring loans or other types of financing, such as BOT programs. Many LGUs do not have updated local development plans, and many development plans are not supported by sound financing programs. There is limited knowledge of the policy implications and general technical content of the different means of credit financing. For small and medium-sized LGUs, budgets are not available for preparing project feasibility studies.

In addition to the internal constraints of LGUs are legal and administrative constraints from the national Government. One major constraint is the debt cap on LGU borrowing under Section 324 of the LGC. It limits the annual appropriation for debt service to 20% of the regular income of an LGU, thus hindering the local government from implementing even self-liquidating and/or self-supporting projects that require sizeable capital outlay.

The Commission on Audit and Central Bank regulations requiring LGUs to maintain their deposits with government financial institutions constitute another restriction. This requirement effectively disallows private financial institutions from availing of the IRA mechanism that serves as collateral for LGU and weakens the power of LGUs to negotiate or search for the cheapest borrowing rate.

The bond market is an alternative source of capital financing for LGUs, but such offerings are seen as high credit risk. The private sector sees LGU management, operations, and financial record-keeping as weak. In addition, LGUs and private financial institutions use different financial and accounting systems. Investors are wary that long-term credit obligations will not be honored should there be a change in administration. This problem is compounded by the absence of an independent LGU credit rating agency and the lack of a secondary market for LGU bonds.

Inadequate Infrastructure

The low capital outlay and infrastructure spending by local governments do not augur well for local and regional development. Infrastructure affects both supply of and demand for goods and services, reducing the cost of production and facilitating access to markets. It also improves the delivery of and access to social services. Moreover, the presence of key infrastructure is a major factor for the formation of industry clusters.

Infrastructure in the Philippines has been focused on the NCR, hindering local and regional development elsewhere. The special economic zones were created across the country in an effort to promote and encourage economic and social development around the country. According to the SEZA, "each ecozone shall be provided with transportation, telecommunications, and other facilities needed to generate linkage with industries and employment opportunities for its own inhabitants and those of nearby towns and cities." However, it appears that the majority of these ecozones are located in the Southern Tagalog Region, which is adjacent to Metro Manila. Of the total 150 ecozones in 2002, 63 of them, or 42%, were in Southern Tagalog, followed by the NCR with 13%, and by Central Luzon and Central Visayas with 9% each.

As expected, the share in approved investments (both foreign and domestic) is dominated by the four regions hosting the majority of the ecozones. Export processing zones and industrial estates, which are the predecessors of ecozones, generate little employment and have very weak forward and backward linkage with the rest of the regional economy (Lamberte et al. 1993). Thus, in terms of the avowed goal of spreading economic and social development and promoting local and regional development, ecozones leave much to be desired.

Inadequate Credit and Financial Services

Another major constraint to local and regional development, particularly in rural areas, is the inadequate flow of capital and credit to both agricultural and off-farm business, despite Central Bank and Government efforts to provide policy and practical support to agriculture and small enterprises. This can be attributed to two major factors. The first is the lack or inadequate presence of financial institutions, such as thrift banks, rural banks, development banks, and nonbank microfinance institutions that are able to cater to the unique requirements of agricultural and small borrowers and savers. The second is the increased uncertainty and risk involved in lending to and investing in these sectors. The problems with land tenure and uncertainty in the resolution of property rights brought about by the poor implementation of the agrarian reform law have been a big disincentive to bank lending. In the case of small enterprises, information asymmetry is the major problem.

Weak Human Capital Development

To prepare human resources adequately for higher levels of productivity, regional disparities in access to and quality of education should be addressed. The Philippine Progress Report on the Millennium Development Goals noted that, while regional disparities are not very evident in elementary participation rates, there are differences between the public and private schools in terms of achievement level at the elementary and secondary levels (United Nations Resident Coordinator 2004). The Report also highlighted the gross disparity in the functional literacy rates of women in urban and rural areas and cited the lack of educational opportunities, access to schools, and the tendency of some parents to discourage their daughters from attending school, as possible reasons.

Environmental Degradation

Metro Manila and other urban centers in the Philippines already exhibit many problems associated with unmanaged urbanization, such as pollution, inadequate water supply, weak sewerage infrastructure and waste disposal, high unemployment and crime rates, presence of squatter colonies, and traffic congestion. Population growth and urban migration have also resulted in the premature conversion of productive agricultural lands for residential and other urban uses. Lack of economic opportunities and poverty in the countryside leads to low productivity and destructive activities that threaten the already fragile ecosystem. The devastating typhoons and numerous landslide and flooding incidents in the recent past attest to the environmental degradation that besets the country.

Policy and Institutional Deficiencies

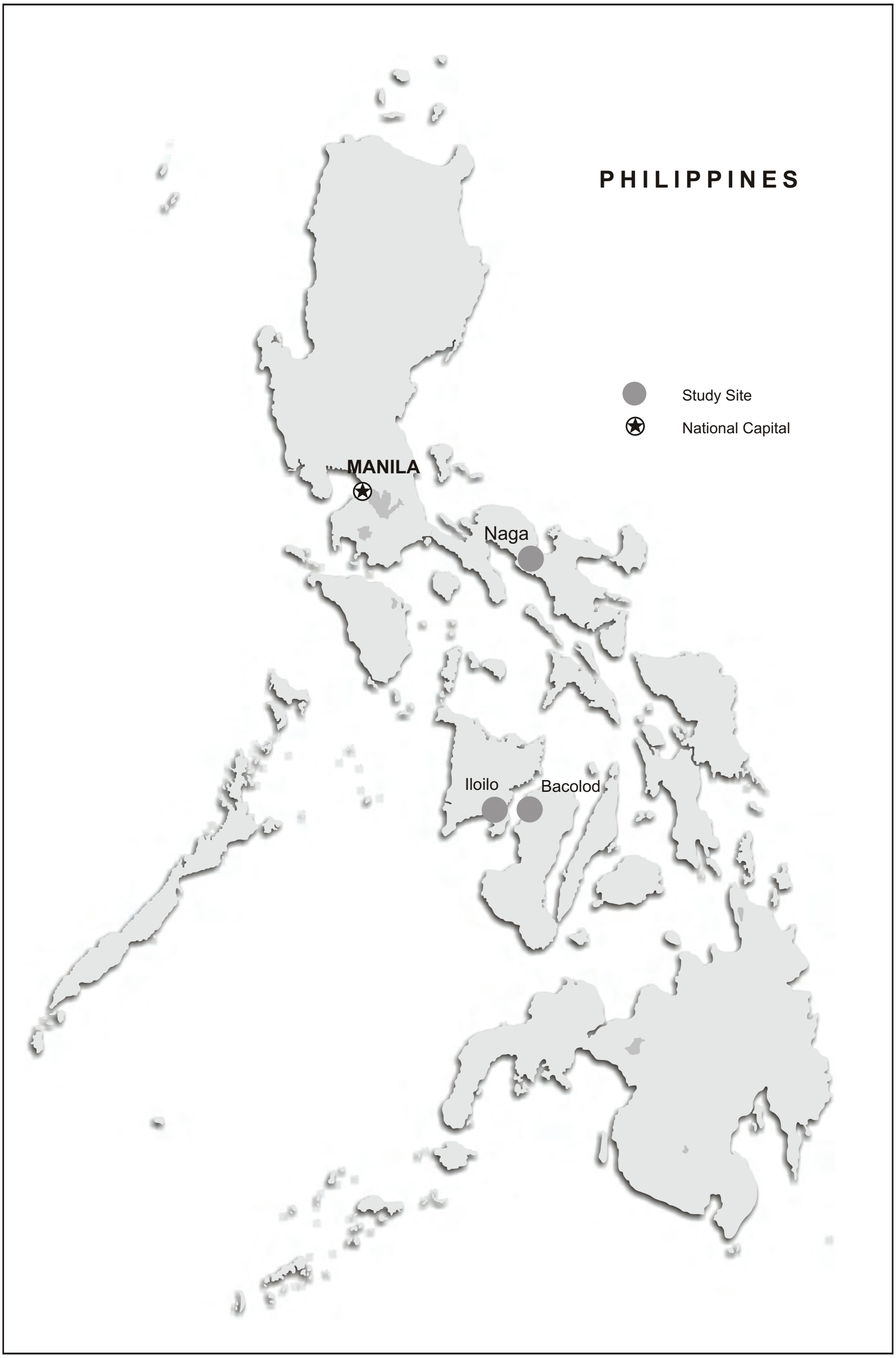
Regional economic development is further challenged by many other policy gaps and institutional constraints. The agrarian reform program, although well-meaning, subdivided farm production to the extent that economies of scale have been significantly distorted. Agriculture has, therefore, become an unattractive sector, contributing to increased rural unemployment.

There is also much to be desired in terms of the country's land information and management system. With the entire country divided into thousands of land parcels, titling and recording are problematic. Transfer of deeds and titles is extremely difficult and unnecessarily increases delays and transaction costs, thus impeding business development. Significant percentages of total land parcels are either untitled, disputed, or undervalued. LGUs have not adjusted the valuation of real properties in recent years for political reasons. This contributes to the lack of capacity of LGUs to raise revenue other than IRA. The highly politicized bureaucracy and corrupt activities similarly affect sustainable regional economic growth.

GOOD PRACTICE CASE STUDIES

Despite constraints to regional development, some cities in the country have begun laying down the foundations for good governance and undertaking initiatives to improve service delivery systems that improve living conditions. Bacolod was selected as a case study because it won the medium-sized cities category in the 2004 Philippine Cities Competitive Report (PCCR) conducted by the Asian Institute of Management. Naga, which was a runner-up

Figure 11.2: Map Showing Location of the Case Studies



in the study, was selected in view of the numerous awards and recognition it has received from national and international agencies. Iloilo, the third case study, is also one of the leading cities in the country, and its critical role in establishing a local area network partnership with adjacent municipalities deserves attention. Table 11.4 provides data on the three case study sites and other cities in the country.

Table 11.4: Comparative Data on Case Study Sites and other Cities

City	Population 2000 Census	Population growth rate (%)	Income Class	IRA (P Mn)[a] 2003	Local Revenue (P Mn)[a] 2003	land area (km^2)
Naga	137,810	1.72[28]	1st	178	532	84.48
Bacolod	429,076	1.39	1st	370	284	161.45
Iloilo	365,820	1.93	1st	310	394	56
Quezon City	2,173,831	1.92	Special	1,473	4,669	153.60
Manila	1,581,082	(0.97)	Special	1,100	3,911	38.3
Cebu	718,821	1.77	1st	608	1,215	291.25
San Fernando, La Union	102,082	2.09[29]	3rd	165	82	100
Marikina	391,170	1.96	1st	307	805	21.50
Davao	1,147,116	2.83	1st	1,395	783	2,443.6
Calbayog	147,187	1.83[30]	1st	383	32	903
Cagayan De Oro	461,877	1.63	1st	474	550	488.86

IRA = internal revenue allotment, km^2 = square kilometers, mn = million.
[a] US$ 1.0 = approximately P55 in 2003.
Sources: www.census.gov.ph/census2000/index.html; www.census.gov.ph/census2000/index.html (1995–2000 annual growth rate); www.nscb.gov.ph/activestats/psgc/listcity.asp; BLGF; 2003 SIE Report; LGU Websites; Provincial annual growth rates.

Bacolod City

GOOD PRACTICE	
Good Governance	✓
Urban Management	✓
Infrastructure/Service Provision	✓
Financing and Cost Recovery	
Sustainability	✓
Innovation and Change	
Leveraging ODA	

Bacolod City is the capital of Negros Occidental Province in Region 6 or Western Visayas. It is a medium-size city with a low annual population growth rate of about 1% compared to the national average of 2%. It is the seat of the provincial government and a center of commerce, trade, industry, and cultural activities. The city consists of 61 barangays with a total land area of around 18,000 ha, of which 56.4% is classified as agricultural land. Sugar is the main agricultural product of

Bacolod City as it is for the entire province, supplying 50% of the country's sugar requirements. The city is also well-known for its handicrafts and cottage industries, such as wood carving, ceramics, pottery, and novelty candles. Bacolod, together with the entire Region 6, is one of the country's steady sources of fishery and aquaculture products.

Initiatives and Gains

Bacolod City ranked first among mid-size cities in the 2004 PCCR. Bacolod City topped in three out of seven drivers of change identified by the PCCR: (1) human resources and training; (2) infrastructure; and (3) quality of life.[31] Through partnerships and cooperation between and among the different stakeholders, Bacolod has been able to sustain modest economic growth and significantly improve the quality of life for its citizens in recent years. Notwithstanding the wide-ranging improvements that need to be put in place for Bacolod to harness its full potential, the city has shown encouraging initiatives and positive results worth noting for purposes of replication by similarly situated localities and providing inputs in crafting a viable framework for regional development.

Trained Human Resources. Bacolod has a well-educated labor force. Bacolod is consistently one of the top performers in the National Elementary Assessment Test and National Secondary Assessment Test administered by the Department of Education. The city's educational system is unique in its institutionalized system of on-the-job training programs for students, which has been made possible through effective partnerships between local industries and educational institutions. Businesses allow trainees from schools and other institutions, and provide ample opportunities for students to develop practical skills needed for actual work situations. Bacolod has two universities, 11 colleges, and 23 vocational schools.[32] Efforts have been undertaken to make the school curricula responsive to the needs of local businesses as well as demands for specialized services, both domestic and abroad (e.g., call center, nursing, caregiver, and maritime professions).

Educational and training institutions have been tapped to advance and sustain various initiatives, such as community-based solid waste management, fire prevention, rescue operations, disaster preparedness, and crime prevention. In support of the National Civic Welfare Training Service, college students are sent on field training and social immersion wherein they are asked to serve their communities as part of their schooling and learning experience.

The Technical Education for Skills Development Authority, in collaboration with the National Federation of Sugar Cane Planters, co-manages a vocational school for the children of sugar planters who intend to develop skills in automotive repair, as diesel mechanics, and other technical rural subjects. The city government works closely with civil society organizations in providing scholarships, training programs, and special projects for the elderly, unemployed adults, out-of-school youth, and physically challenged residents.

Good Infrastructure Base. Bacolod has a relatively well-developed infrastructure base. It has seaports and airports within the city limits and nearby areas that serve domestic and international clients. Bacolod is 45 minutes away by sea from bigger and busier Iloilo City. An airport following international standards will be built by the city government about 60 km from the city center under a BOT scheme. Bacolod has a well-managed road network with extensive drainage systems, wide streets, and well-maintained footpaths. With assistance from Japan International Cooperation Agency, Bacolod has a traffic management plan that identifies directions for road expansion and widening, building of bridges, and improving the mass transport system. Communication facilities are likewise well developed. Together with landline networks, the city has adequate cell sites that ensure stable and high-speed internet connections. The city also has a steady supply of water and electricity.

Livable City. Bacolod has been identified as an ideal place to reside in due to its clean air, healthy population, low incidence of crime, and easy access to basic amenities and leisure activities. Bacolod belongs to the *Cleanest and Greenest City Hall of Fame*.[33] The city government, citizens, and private groups cooperate in maintaining the cleanliness of the whole city and the preservation of public domains, such as median islands, parks, and gardens.[34]

The solid waste management program implemented by the city government is well received and well supported by the citizens. Garbage is collected daily in commercial and urban residential areas, and weekly in rural residential areas. The city government provides refuse bins and compost pits in selected locations. Waste segregation and recycling are part of the program. The city also regularly sprays anti-pollutants and insecticides to prevent diseases.

The city has one of the lowest maternal and infant mortality rates and one of the highest numbers of hospital beds among mid-size cities nationwide. The city government highly prioritizes maternal health care and family planning. The 61 barangays all have easy access to basic health services.

The crime rate is low with the city police force being cited as the best in Region 6. This can be attributed to a monthly financial assistance of about $10,000 extended by the office of the city mayor, which is drawn from the monthly donation of some $20,000 by the Philippine Gaming Corporation to the city government. The financial assistance is used to augment the meager budget of the police force for operating and maintenance expenses. With more money for fuel and maintenance of patrol cars, police visibility and effectiveness have been enhanced.

Governance. Participatory approaches and consultative processes are increasingly becoming very familiar in managing the city's affairs. The LGC has not only provided the basic legal mandate for devolving power and authority to subnational administrative units, but it also opened opportunities for citizens' empowerment by their gaining access to and representation in government decision-making bodies and discharge of official functions. LGC provides the enabling policy environment to promote good governance. The partnerships and linkages that have evolved in Bacolod are attributable to the LGC, and have been reinforced by local ordinances, such as the Investment Code (1996 and 2002) establishing a multisectoral local investment board and providing tax incentives to investors.

Citizens' feedback on public services has also been welcomed and used to improve service delivery. This feedback, coupled with benchmarking of good practices by other LGUs, prompted the city government to institutionalize a one-stop shop for processing business license applications and payment of local taxes and fees. The concept resulted in a modest but steady increase in non-IRA revenues.

Practicing the principles of transparency and public accountability, the incumbent local chief executive delivers his annual State of the City Address wherein he publicly announces his administrative agenda and reports his accomplishments in measurable terms. He openly encourages his constituents to hold his administration to account for the services and changes that he has promised to deliver. Local business associations and civil society organizations have been very cooperative and active in working with the city government to advance and sustain a number of initiatives that improve the quality of life.

Economic Activities and Opportunities. Issuance of business permits/licenses is increasing as more residents are employed. Business taxes and real property taxes accounted for an average of 43% and 47%, respectively, of the total local tax collections in 2004. Real property tax collections increased by PhP20.4M from 2001 to 2002, PhP7.9M from 2002 to 2003 and PhP4.9M from 2003 to 2004 or approximately PhP33.2M for four years from 2001 to 2004.[35] Tourist arrivals have been increasing. The number of banks increased from 47 in 1998 to 56 in 2003. There is an increasing trend in real estate business. Repatriated earnings from overseas Filipino workers and relatives are also increasing.

Bacolod and Iloilo provide good educational institutions for residents of Western Visayas, thus avoiding the high costs of tuition and living in Metro Manila and Metro Cebu. Western Visayas is known for its mango and sugar production. Rich aquatic resources and white sand beaches are the other competitive advantages of the region. The city is a jump-off point to various ecotourism destinations in the Western Visayas. Bacolod offers opportunities for food processing and manufacturing of the region's produce. It also serves as an alternative place for conventions and permanent residence to the crowded and nearby Iloilo.

Challenges and Future Directions

Economic Development and Revenue Generation. Bacolod needs to increase its capacity to promote sustainable local economic development to generate more revenues and become less dependent on the IRA. As of 2004, IRA and local sources were 54% and 46%, respectively. IRA dependency has decreased and improved by 5% from 2001 to 2004.[36]

The city's revenue-generating capacity can be improved by implementing a strategic and coherent business model and providing the enabling policy and appropriate institutional environment. The efficiency of tax and revenue collection should also be strengthened. Increases in applications for new businesses and commercial activities have not been matched by increases in total annual tax collections.

Economic activities have been largely limited to domestic consumption. Sugar production—the key industry in Bacolod and the rest of Negros Occidental Province—has remained the same for many decades, and has not adopted new methods of production to increase yield and quality or to make the price competitive in the world market. Investment programs need to be more effective to attract foreign investments for new ventures. The city government, like most local governments in the country, is yet to think globally in the context of the new economic order and orient its way of doing things accordingly.

The Local Investment Ordinance of Bacolod—passed in 1996, reinstated, and amended in 2002—has provided tax incentives to investors and established the Local Investment Board. This policy instrument needs to be reviewed because potential revenues of the city are undermined due to tax cuts and exemptions. Besides, these do not necessarily attract investors to bring their business to Bacolod. Investors give more weight to the availability and costs of inputs, security of investments, and profit margins.

The city can generate more revenue by rationalizing its land information system and real property valuation, and linking them to an efficient revenue collection system. Land titling is problematic. Some titles either have conflicting information, are missing, unrecorded, or not updated. Real property valuation is not regularly updated and reconciled with tax records. Valuation is significantly below the market value and adjusting it to higher rates has not been included in the administrative agenda in view of the perceived political risks and resistance from influential and landed residents. Accurate and updated tax maps are critical to revenue generation.

Development Planning and Management. The comprehensive land-use plan (CLUP) serves as the blueprint for city development. The Philippine Regional Municipal Development Project provided support to Bacolod in digitizing land information, which became the bases for land classification and setting development priorities. CLUP, together with the annual investment plans, however, need to be more information-based, inclusive, and forward looking. An effective national and regional development framework can be helpful and provide the needed guidance. Existing policy guidelines from the national Government are similarly in disarray. Development planning lacks careful analysis and strategic direction. Plans are usually reduced to an enumeration of activities that are not linked to budgets and directed at achieving the desired outcomes.

Weaknesses in development plans and the lack of career opportunities and performance culture further subject development administration to extreme pressures of political patronage and partisan politics. Development priorities have been largely influenced by the local chief executive and the dominant political party in the city council.[37] It has been difficult to pursue and sustain development initiatives in the long term.

Knowledge Management. Information is essential to enhancing productivity and competitiveness. Basic data about the city is nonetheless either incomplete or inaccurate or both. Official records on revenues and other development indices are sometimes conflicting even when generated by the same office. Variations in the reported figures can become greater and more confusing as more offices get involved in gathering and generating the information. There are no economic development indices at the level of cities and municipalities. In the absence of adequate and reliable information, development planning and management are severely compromised.

Naga City

GOOD PRACTICE	
Good Governance	✓
Urban Management	✓
Infrastructure/Service Provision	✓
Financing and Cost Recovery	✓
Sustainability	✓
Innovation and Change	✓
Leveraging ODA	✓

Naga is 500 km southeast of the NCR. Although an established center of commerce in the Bicol Region,[38] Naga's performance before the mid-1980s was poor. The city government's overspending in a time of scarce revenue prompted the Department of Finance to downgrade the city's status in 1988. The prevalence of illegal gambling and other vices worsened the quality of life in the city. The election of 29-year old Jesse Robredo as city mayor in 1988 ushered in inspiring governance practices that, in just 3 years, helped the city regain its premier status. Through transparent and participatory governance, the city government has rebuilt its credibility. With over 100 international, national, and regional awards in best governance practices, Naga City is also now one of the country's brightest economic spots.

As Bicol's center for commerce, finance, trade, and services, Naga plays a crucial role in regional development. It serves as an industrial hub for Metro Naga and the Legaspi-Iriga-Daet growth corridors and is being groomed to be a major link to Metro Manila and other metropolitan areas in the country.[39] The dynamism of Naga's economy is evident in its 6.5% average annual growth rate, the presence of two business districts and several new growth zones, and an average family income that is 126% and 42% higher than the national and regional averages, respectively (Robredo 2003). Without appropriate intervention to reduce regional poverty (Bicol houses the largest number of poor families in the country) and accelerate regional growth (a mere 2.7% contribution to the gross regional domestic product compared to Metro Manila's 30%), Naga's economic gains are not sustainable in the long run.

Initiatives and Gains

Economic Governance. Strengthening partnerships with the organized sectors and eliciting people's participation are key governance practices (Robredo 2003). The city government shows a strong drive for economic growth and poverty reduction. It uses a pragmatic governance approach providing key directions for the local economy and empowering the private sector in spurring economic development.[40] It practices strategic planning that goes beyond the confines of the city's immediate concerns. To sustain economic and service-delivery partnerships, it provides technical, livelihood, and job-placement services that benefit not only its constituents but also those of other local governments.

Improving Local Government Capability. To enhance its capability to manage economic development, the city government reorganized its bureaucracy based on aptitude and competence, implemented an award-winning Productivity Improvement Program, activated the Merit and Promotions Board to eliminate patronage, empowered employees to propose innovations, and improved systems and procedures (Robredo 1999). Naga's economic recovery lies in working with people with very good credentials.[41]

Metro Naga. The city government initiated the formation of the Metro Naga Development Council (MNDC) or Metro Naga, which comprises Naga

City and 14 towns of Camarines Sur, Bicol's largest province, accounting for 33% of the regional population. Unlike other metropolitan groupings in the Philippines, Metro Naga is a cooperative undertaking among local governments exercising their new prerogatives in the era of enhanced local autonomy. It operates on the principles of complementing limited resources and pooling investment potentials and comparative advantages. It relies on enhanced urban-rural linkages (Robredo 1999) and practices metro-wide planning to ensure balanced growth and sustainable development. It earned formal legal status in 1993 (Mercado and Ubaldo 2002; Robredo 2005). Some key features of MNDC are:

- *Council structure to facilitate economic cooperation.* MNDC established a plan to formulate programs through the coordination of mayors and governors. It consists of 15 mayors and representatives of the provincial government, and representatives of NEDA, the private sector, and NGOs.
- *Metro-wide planning and role definitions.* A Metro Naga Development Program serves as a framework for defining the roles of LGUs. An agreement empowers each LGU to implement a complementary development program within its area. Naga is the trade, financial, education, and services center. One town is the industrial center. The other towns are key sites for manufacturing, food processing, and other industries.
- *Organizational machinery.* The city government created a separate office that initiates and manages MNDC activities. Led by an Executive Director who supervises the project formulation, implementation, and support-service units, this office is crucial in sustaining LGU interests in the economic and service-delivery partnership.[42]
- *Pooling of resources and services for Metro-wide service delivery.* LGUs contribute 2% of their economic development fund to a common fund. During 1993–1997, this fund reached about $400,000 (half of it came from Naga City). Other initiatives include setting up a Metro Naga equipment pool and emergency rescue network, construction of 50 km of farm-to-market roads, and 500 water systems and extension of livelihood assistance to Metro Naga constituents.
- *Pooling investment potentials and comparative advantages.* Metro Naga capitalizes on its competitive advantages: the city's image as one of the fastest-growing local economies in the country, the presence of four special economic zones, two of the country's richest fishing grounds, and a market of over half a million people. Investment-promotion activities are guided by the objectives of economic diversification, employment generation, and poverty reduction.

Partnerships with the Private Sector. The city government encourages private-sector partnerships by eliminating vices, reducing the costs of public works construction, practicing transparency in its operations, and implementing other confidence-building measures. It partnered with the private sector even before the enactment of the LGC of 1991. In 1989, private firms, through a build-operate-lease agreement, converted a kilometer-long eyesore into a commercial strip. Partnerships with the private sector resulted in the development of four new satellite markets that decongested and, in turn, made the old business district dynamic again.

Participatory and Inclusive Governance. The city government fosters and institutionalizes community consensus and ownership of development priorities. Through the Empowerment Ordinance (95-092), accredited NGOs were organized into a People's Council that sits in every legislative committee and local special body mandated under the LGC. Through its award-winning *i*-governance program, the city government published the *Naga Citizen's Charter* which provides step-by-step procedures for availing of its 150 frontline services. It also set up an award-winning website (www.naga.gov.ph) that updates citizens on the city's finances, policies, and activities.

Local Policies and Initiatives. By virtue of Ordinance No. 97-114, the city government grants incentives to investors in preferred investments. The ordinance aims to generate jobs for Metro Naga constituents and promote balanced growth. The Investment Promotions and Action Center implements the objectives set by the city's investment board, markets Metro Naga as an investment site, facilitates joint venture projects with local and external investors, and provides assistance to investors.

Economic Planning and Analysis. The mayor helped change planning practices; from a "shotgun" approach in formulating annual plans, to a planning process that has become more participatory and focused on what the city and its people need.[43] A needs inventory ensured the formulation of feasible projects. Plans became long-term policies defying the limitations of 3-year political cycles, e.g., the city's 1990 zoning ordinance guided city development until year 2000. For planning purposes, the city was viewed as a system whose sustainability also depended on conditions beyond its immediate geographic environment.

Financing Development. Less than 60% of the city's income is from the national Government; the rest is from local revenues. City government income rose from \$0.5 million in 1988 to about \$6.0 million in 2001. Borrowing from banks, mixed public-private financing, and grants are the forms of development financing. Bond flotation is not widely practiced.

Presence of a Competent and Willing Catalyst. The city government served as a regional development catalyst by spearheading the formation of an economic region out of disparate political units in the province. Its readiness as a catalyst springs from the realization that the sustainability of the city also rests on the development of neighboring towns. Its enhanced financial and administrative capability enabled it to absorb most of the burdens of sustaining the needed LGU partnerships for the economic region. The presence of a strong political leader and skilled development manager and the city's good reputation served it well in speeding up the process of regional development.

Institutionalization of Good Governance. The Naga experience strongly demonstrates the imperatives of promoting participation, accountability, transparency, and predictability in managing state and societal affairs. Realizing that it cannot pursue development objectives by itself and that quality of public decisions will be ensured by meaningful stakeholder engagement, the political leadership developed partnerships with nongovernment actors in development management. Stakeholders were given permanent seats in decision-making bodies and the public has been adequately informed about government transactions, particularly finances.

Naga citizens were empowered by the institutionalization of the so-called Citizens Charter, which clearly enumerates the services provided by the city government as well as the responsible persons and offices for the delivery of a particular service, including the maximum time required to deliver the service. This initiative has tremendously strengthened public accountability and improves the efficiency and responsiveness of service delivery.

Challenges and Future Directions

Strengthening Economic Partnerships. An ongoing conflict between the provincial and city leadership threatens the gains of Metro Naga and reveals the urgent task of achieving greater cohesiveness among politically fragmented LGUs. The potential for conflict to short-circuit the development process reveals the precariousness of a politically driven arrangement. Surmounting this challenge will surely involve pooling resources, investment potentials, and comparative advantages that, in turn, boost regional competitiveness. A key direction is to put in place stronger public-private partnerships for managing the next stages of the development process.

Accelerating Economic Development in the Region. The city is an island of prosperity in the sea of want"[44]. More than 60% of the Metro Naga population live below the poverty line. Investments are still heavily concentrated in the city. Diffusing economic opportunities and key infrastructure, such as seaports, to other towns in Metro Naga is a major step to reduce poverty. Strategies for developing Metro Naga must also complement the strategies prescribed by NEDA for developing the wider Bicol administrative region. These include increasing revenue collections and agricultural productivity, developing human capital, and providing infrastructure support.[45]

Financing Regional Projects. Accessing low-interest financing for major projects is a significant problem for hastening regional development. Borrowing directly from multilateral agencies is constrained by a centralized financing system and, of course, by the existing practice of multilateral agencies to channel loans through national offices. A comprehensive valuation of the assets of the city and Metro Naga member LGUs should be undertaken to generate a reliable credit rating that would both serve as a guide for credit risks and investment opportunities.

Developing Linkages. The absence of very good seaport and rail facilities explains why the region has been unable to sell its local products outside the regional market.[46] Campaigns to develop national and international linkages must be launched to surmount the geographic and infrastructural disadvantage. Overseas Filipino workers can be tapped to sell Metro Naga as an investment site and tourism destination. Developing its information and communications technology infrastructure would enable Metro Naga to ride on the booming global services industry. The high cost of power and frequent outages in the region, however, must be addressed as well (AIM 2003).

Iloilo City

GOOD PRACTICE	
Good Governance	✓
Urban Management	✓
Infrastructure/Service Provision	✓
Financing and Cost Recovery	
Sustainability	✓
Innovation and Change	
Leveraging ODA	✓

Iloilo City is the capital of the Province of Ilolilo and is also located in Region 6. It has a small land area of only 56 km^2. It has an annual population growth rate of nearly 2% and is a highly urbanized city consisting of 180 barangays.

Iloilo is strategically located at the center of the Philippines with an excellent port, airport, extensive infrastructure, modern telecommunications systems, and reliable utilities. It serves as the hub of trade, commerce, industry, information, and services in the region. The main industry is agriculture—cultivating rice, corn, coconuts, bananas, mangos, coffee, and sugarcane. It also has rich fishing grounds and cottage industries, including weaving, pottery, processing of marine products, and cut flowers. Museo Iloilo, which displays its cultural heritage, Fort San Pedro waterfront promenade, and the Dinagyang festival are among the tourist attractions in the city.

Initiatives and Gains

The establishment of the Metropolitan Iloilo Development Council (MIDC) is one of the key development initiatives of Iloilo City and its adjacent four municipalities within a 15 km radius, namely, Oton in the south, San Miguel in the northwest, and Pavia and Leganes in the north. MIDC was created as a mechanism to promote inter- and intra-LGU cooperation in the pursuit of well-planned and coordinated local and regional development toward national development objectives. It helps reduce unwanted competition between cities and municipalities, which oftentimes dissipates the impact on regional and national development. MIDC formulates spatial development strategies and governance arrangements. It is particularly concerned with (i) development planning; (ii) transport and traffic engineering and management; (iii) environmental sanitation and waste management and disposal; (iv) flood control and sewerage management; (v) urban renewal, land use, and zoning and shelter services; (vi) networking of economic support infrastructure; (vii) public safety, maintenance of peace and order, and disaster management; and (viii) trade and investment promotion.

With Iloilo City serving as the center for residential, commercial, financial, and industrial activities in the region, each participating municipality has a distinct area of specialization: (i) Pavia is the agro-industrial center; (ii) Leganes concentrates on heavy industry; (iii) Oton is best suited as a residential area; and (iv) San Miguel concentrates on agricultural production.

It took the proponents and advocates of Metro Iloilo nearly 10 years of discussion and consultation before the MIDC was formally approved in February 2001. The mayors of the five participating LGUs comprise the Executive Council of MIDC, which provides overall supervision and policy direction. An advisory board contributes policy and technical advice to the Executive Council while an MIDC secretariat coordinates the administrative work of the Council. Six project steering committees have been organized to plan and coordinate services that have metro-wide impact, namely: (i) environmental management, (ii) land-use planning and management, (iii) public safety and security, (iv) infrastructure development, (v) basic services delivery, and (vi) economic promotion. In addition, a technical working group supports each steering committee.

With a view of applying a coherent urban development plan, Iloilo City together with its four satellite municipalities formulated a regional growth management strategy through the preparation of the Metro Iloilo Land Use Framework (MILUF) plan. It serves as the overall policy framework for sustainable Metro Iloilo development programs and projects. Iloilo City has learned not to fast-track metropolitanization. The preparation of the MILUF followed a six-step land-use planning process, as follows:

(i) review of existing municipal and city comprehensive land-use plans;
(ii) information, analysis, and mapping—which required data gathering, comprehensive review of reports, plans, and strategies—and preparation and integration of land-use maps in the region;
(iii) sectoral consultations and reports on social development, economic development, infrastructure development, environmental development, and local administration;
(iv) public consultation (phase I) to review initial data and maps and develop framework for the plan, develop regional growth options for Metro Iloilo, and draft MILUF vision, mission, goals, and strategies;
(v) prepare draft metropolitan plan containing the goals, objectives, and framework; and
(vi) public consultation (phase II) and approval.

The spatial expansion of Iloilo City to the north (toward the municipalities of Leganes and Pavia) is supported by an extensive road network connecting the city to other locations in Panay Island. Recent infrastructure projects include the coastal road, providing a second link to the municipality of Leganes and adjacent municipalities of Zaraga and Dumangas in the north as well as to the Iloilo International Port Complex. The municipality of Leganes has initiated a large-scale multipurpose land development, providing opportunities for an attractive industrial and residential zone. Reclamation of about 200 ha of seashore along the Guimaras Strait for industrial use is being considered under a BOT scheme.[47]

Challenges and Future Directions

Transport and Traffic Management. Iloilo City and the adjoining municipalities need to expand further and improve the road network as well as to address the worsening traffic problem effectively. Roads are narrow and inadequate to accommodate the increasing number of vehicles. The number of provincial buses and public utility vehicles going through the city and the location of the bus terminals in the city proper further clog the overcrowded roads. The plan is to relocate the bus terminals outside the city proper.[48] The effectiveness of the fledgling metropolitan arrangement in redesigning the road network will be put to the test.

Waste Management. Another task ahead for MIDC is to establish an environmental friendly and common solid waste management system. Iloilo City is facing serious constraints in disposing waste. The current disposal site is no longer viable in view of the mounting protests from concerned residents. An alternative site in the municipality of Oton is being considered, but agreeing on a landfill site through cost-sharing arrangements is expected to be contentious.

Flood Control and Sewerage System. A comprehensive flood control system for Metro Iloilo is deemed necessary to address the perennial flooding that significantly affects social and economic activities, particularly in Iloilo City and the municipality of Pavia. A cooperative arrangement is being considered that will involve dredging adjoining bodies of water and constructing a network of floodways. An equally important challenge is the establishment of a comprehensive sewerage system to minimize the effects on the underground water aquifer.[49] It is in this context that large-scale and integrated physical planning for the whole metropolis must be undertaken.

Urban Infrastructure and Economic Promotion. The proposed construction of an international standard airport in lieu of the present one located in Iloilo City will require collaboration between the province of Iloilo and Iloilo City. The current airport facilities cannot accommodate large aircraft and expansion is constrained by limited land availability. Alternative sites in the municipalities of Cabatuan and Santa Barbara, adjacent to the municipality of Pavia, are being considered. Other concerns requiring collaborative effort are in the areas of public safety, maintenance of peace and order, disaster management, and trade and investment promotion.

Key Lessons Learned

Responsible leadership is critical in providing direction and mobilizing resources to bring about results. Reform initiatives would not have been possible without the vision and commitment of local chief executives. The case studies also underscore the value of engaging nonstate actors and the private sector in public decision making and the management of state affairs. Their involvement does not only help improve the quality of public policies but also improves the delivery of basic services. Citizens' empowerment and engagement in public management were part of the administrative agenda of the three city governments.

People's participation and ownership during the establishment of metropolitan arrangements in Naga and Iloilo demonstrate that LGUs are keen and committed to partnering with each other to pursue shared development goals. All three cities underscore the active role of civil society in undertaking numerous development projects with the local governments.

Policy instruments, such as the LGC of 1991 and city ordinances, open avenues not only for citizen participation, but also for encouraging private sector development. Strict enforcement of the rule of law is common to the three cities. They have also prioritized and invested in developing human capital. Although there is much to be desired in terms of infrastructure, the three cities are relatively accessible for commerce and trade.

There is, however, a need to reorient the thinking and approach to promoting economic development, which is largely inward looking and consumption driven. Too often, progress is equated with the presence of a popular shopping mall and food chains, expansion of housing subdivisions, and more bus terminals. Local governments are yet to promote private investments focusing on high value-adding industries or export-oriented and import-substitution strategies.

ENHANCING SUSTAINABLE URBAN REGION DEVELOPMENT

Provide Enabling Policy Instruments and Institutional Environment. The existing regional development framework and statutes tend to restrict business opportunities and weigh down economic efficiency. SEZA, for instance, identifies more than a hundred ecozones nationwide, which results in localities competing with each other to attract business locators. Another example is the negative externality to economies of scale in agricultural production brought about by CARP. Many LGUs also extend tax incentives to investors, but such are not really key factors in attracting investments. The excessive and increasing number of LGUs in the country also impedes resource allocation and utilization.

Address Issue of Fiscal Sustainability and Intergovernment Fiscal Transfers. National and local governments need to enhance their revenue-generating and collection capacities. This will require simplification and rationalization of tax policies and tax administration. Leakages in collections must be effectively stopped.

Run LGUs Like Corporations. Local capacities for development financing remain weak. Being asset rich and cash poor, local government capacities for asset management should be built. LGUs should make their assets work for them, which would tremendously improve their revenue-generating capacities and ability to finance development. LGUs should be able to participate in credit rating systems just like private corporations. At present, they are still largely dependent on revenue transfers, which are inadequate for financing economic projects with big returns. Joint LGU initiatives to raise financing for regional projects are uncommon but should be promoted when appropriate. Development financing and building the credit worthiness of city governments have not been fully explored. Asset valuation for credit rating purposes is not widely practiced although this could widen avenues for accessing low-interest financing. At present, the borrowing capacity of local governments is measured by development and commercial banks in terms of the size of the IRA.

Increase Effort to Attract Foreign Investments. Attracting foreign direct investment has proven to be very difficult for the three cities, despite initiatives to provide liberal investment incentives. Such investment comes in trickles, if at all. Two key factors may explain this. First, issues such as high cost of doing business, leakages, and peace and security affect investment opportunities. Second, there is concentration of government and private investments, infrastructure facilities, and business opportunities in better-off regions. Well-coordinated national, regional, and local initiatives are needed to deal with the problems of decreasing foreign direct investment inflows in the country and concentrated development.

Adopt a More Regional Planning Outlook. LGUs across regions become more economically competitive when they pool their resources. Most local governments may have to change their governance paradigm. They need to realize that addressing poverty, joblessness, and other complex issues that transcend political and geographical jurisdictions requires stronger partnerships and collaboration. Hence, they need to adopt a more regional development outlook. Planning and programming that transcend the regional and national levels would be far more effective if based on information provided by the LGUs.

Notes

[1] With research inputs from Prof. Simeon Ilago, Dr. Romulo Miral, Mr. Jose Tiu Sonco, Mr. Julius Dumangas, and Ms. Ely Cureg.

[2] See www.census.gov.ph/data/quickstat.

[3] The changing structure of the country's economic output since 1985 is very evident in the key indicators published by the Asian Development Bank. See www.adb.org/Documents/Books/Key_Indicators/ 2004/pdf/PHI.pdf.

[4] localweb.neda.gov.ph/~ioneda/cgi-bin/st2.cgi? /eds/db/national/finvest/peza_investments_a.sc.

[5] Thailand (2.8875), Malaysia (3.465), and Republic of Korea (3.625).

[6] These performance figures are very consistent across the years (1990–2003, the most recent data).

[7] The main source of data for these computations is the Department of Budget and Management's annual Budget of Expenditures and Sources of Financing, a document accompanying the President's Executive Budget submitted to the House of Representatives.

[8] These projections are based on past revenue performance and actual average increases in debt service burdens. It is highly possible that actual figures in 2008 will be much higher.

[9] Revenue effort is the ratio of annual revenue collections over the gross domestic product.

[10] Total foreign direct investment (FDI) and percentage contribution of the four investment promotion agencies to the total approved FDIs for 2001–2004 were computed based on data from the Board of Investments, as compiled by the Philippine Institute of Development Studies. See dirp.pids.gov.ph/cgi-bin/sg? fdi_agency.tbl.

[11] See www.undp.org.ph/news/readnews.asp? id=108.

[12] See www.bsp.gov.ph/statistics/sipbs/table1a.htm.

[13] Bank density ratios can also be used as indicators of dynamism of regional and local economies.

[14] www.neda.gov.ph/ads/mtpdp/MTPDP2004-2010/MTPDP%202004-2010%20NEDA%20v
11-12.pdf

[15] The incumbent was installed into office in 2001, following impeachment charges against then President Joseph Estrada.

[16] Regional Development Council (RDC) members initially consisted of the heads of regional offices of the national government with sectoral functions, and elected local government and congressional district officials. The regional office of the National Economic Development Authority provided technical assistance and acted as secretariat to the RDC.

[17] An interview with Mayor Jesse Robredo of Naga City revealed that the city government borrowed from a bank to finance the construction of the Metro Naga Coliseum. At 11% interest, the loan was much lower than the lending extended by the World Bank or the Department of Finance's Municipal Development Fund.

[18] The Development Bank of the Philippines and Bankers Association of the Philippines are the original incorporators of LGU Guarantee Corporation, owning 51% and 49%, respectively. www.mb.com.ph/BSNS2004122224934.html.

[19] www.lgugc.com/about.htm.

[20] www.manilatimes.net/national/2005/jan/22/yehey/business/20050122bus2.html.

[21] www.adb.org/Documents/Speeches/2005/sp2005005. asp.

[22] www.mb.com.ph/BSNS2004122224934.html.

[23] www.neda.gov.ph/progs_prj/12th%20oda/12th_odamain.htm.

[24] www.neda.gov.ph/progs_prj/12th%20oda/12th_odamain.htm.

[25] www.neda.gov.ph/progs_prj/12th%20oda/12th_odamain.htm.

[26] ibid.

[27] To date, local treasurers are appointed by and under the administrative supervision and control of the Department of Finance.

[28] Ibid.

[29] Provincial annual growth rate.

[30] Ibid.

[31] The other four drivers of change are: (1) cost of doing business, (2) dynamism of local economy, (3) linkages and accessibility, (4) responsiveness of the local government unit.

[32] Within a 30-kilometer radius from the city center of Bacolod, other schools also participate in the program: two colleges and two vocational schools in Talisay City; one college and three vocational schools in Silay City; one college and one vocational school in Bago City; and one college in Murcia.

[33] This is an award given by the national Government.

[34] Bacolod served as an example and inspiration to Marikina City in the late 1990s by having a clean and healthy environment. Marikina put up large billboards praising Bacolod for its gains and encouraging the residents of Marikina to support the city government's campaign for cleanliness. Marikina is a leading small-size city in the country and one of the cleanest and greenest cities.

[35] Based on Bureau of Local Government Finance Data.

[36] IRA dependency of Bacolod City is 59% and 54% for the years 2001 and 2004, respectively, based on Bureau of Local Government Finance data.

[37] The incumbent mayor belongs to the opposition party. Thirteen out of the 14 members in the city council belong to the rival party.

[38] Bicol is one of the five poorest of the country's 16 administrative regions based on recent statistics.

[39] The Regional Physical Framework Plan identifies Naga City as the regional center for commerce, finance, trade, and public/private services [*Naga City Statistical Profile*].

[40] Willy Prilles, Executive Director of the Naga City School Board and coordinator of the I-Governance program. *Fieldwork Study/Interview in Naga,* February 2005.

[41] Statement of Mayor Jesse Robredo. *Field study/interview in Naga*, February 2005.

[42] Ibid.

[43] Statement of Juan Villegas, City Planning and Development Officer. *Field study/interview in Naga,* February 2005.

[44] While Naga's land area is only 0.48% and 2.9% of Bicol's land area and population, respectively, 21% of investments in the region are concentrated in the city. An estimated 51% of all enterprises in the whole province of Camarines Sur are concentrated in the city (Robredo 2003).

[45] See www.neda5.net/MTRDP/chap2.htm (2005).

[46] Statement of Mr. Beda Priela of the Metro Naga Chamber of Commerce and Industry. *Field study/interview in Naga,* February 2005.

[47] http://chymera00.blogspot.com/2005/12/metro-iloilo-development-council.html.

[48] Ibid.

[49] Ibid.