Strong institutions are critical to the effective management of cities, the delivery of efficient urban services and infrastructure, and the establishment of an enabling environment for business and job creation. Strong institutions are needed to design and support policies for land and housing markets, raise and equitably redistribute revenues, and promote a safe and sustainable urban environment both at the national and local levels. In practice, there are many challenges in governing cities, particularly for metropolitan areas that include multiple jurisdictions, and require numerous municipalities for collaborative planning, decision-making, and implementation. Examples of core urban issues that spill over across municipal boundaries include urban transport, urban infrastructure, disaster risk mitigation and management, and climate change adaptation.

A number of underlying institutional and governance issues at both the national and metropolitan levels in the Philippines stand out as binding constraints which have limited the country from optimizing the benefits of urban development. Even as the share of the national population living in urban areas has expanded to around 50 percent, urbanization in the country has never been guided by a comprehensive urban development policy supported by a clearly defined institutional framework. Institutional fragmentation among various oversight and sectoral agencies at the national level has exacerbated the weak institutional environment for urban development. The continuing expansion and population growth of urban areas throughout the country heightens the urgency for adopting comprehensive urban policy and institutional reforms that will enable the country to harness the benefits of urban development and mitigate negative externalities.

Urban areas in the Philippines are characterized by higher levels of metropolitan fragmentation compared to the rest of countries in East Asia. As a consequence of rapid urbanization, urban growth inevitably expands beyond the original boundaries of cities to neighboring jurisdictions. Among urban areas in the Philippines with populations exceeding 100,000, only one-third are “contained” within a single jurisdiction compared to an average of 60 percent in the rest of East Asia. Specifically among the smallest urban areas with populations ranging from 100,000 to 500,000, which are classified as “contained” in almost 80 percent of cases in East Asia, only 37.5 percent are “contained” in the Philippines.

1 Metropolitan fragmentation describes the transition from “contained” urban areas, where the built up area is contained within a single municipal boundary, to “spillover” and “fragmented” urban areas (World Bank 2015). For “spillover” urban areas, one jurisdiction contains more than 50 percent of the total built-up area while the remaining urban area is divided among smaller jurisdictions (e.g., Hangzhou in China, Nha Trang in Vietnam, and Bandung in Indonesia). For “fragmented” urban areas, no jurisdiction accounts for more than half of the built-up area (e.g., Jakarta, Tokyo, and the Pearl River Delta urban area in China).
Metro Manila provides a prime example of the challenges of metropolitan fragmentation wherein the socio-economic and functional urban space does not correspond to a single jurisdiction. Officially, Metro Manila is a special development and administrative region composed of 16 cities and one municipality. However, in reality, the contiguous built-up urban area of Metro Manila encompasses 84 cities and municipalities with an aggregate urban population of 16.5 million. In the cases of Cebu and Angeles, the respective metropolitan areas are each spread out over 13 individual cities and municipalities.

Table 1. Fragmentation among Urban Areas in the Philippines

<table>
<thead>
<tr>
<th>URBAN AREAS</th>
<th>URBAN LAND (SQ. KM.)</th>
<th>AREA WITHIN ADMIN BOUNDARY (SQ. KM.)</th>
<th>URBAN POPULATION (THOUSANDS)</th>
<th>TOTAL</th>
<th>NUMBER OF LGUS CITIES</th>
<th>MUNIS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fragmented</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manila</td>
<td>1,275.0</td>
<td>6,037.8</td>
<td>16,521,948</td>
<td>84</td>
<td>30</td>
<td>54</td>
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<tr>
<td>Cebu</td>
<td>161.4</td>
<td>1,014.2</td>
<td>1,527,407</td>
<td>13</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Angeles</td>
<td>185.8</td>
<td>1,386.8</td>
<td>683,176</td>
<td>13</td>
<td>3</td>
<td>10</td>
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<tr>
<td>Dagupan</td>
<td>36.6</td>
<td>323.8</td>
<td>213,323</td>
<td>7</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td><strong>Spillover</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bacolod</td>
<td>78.6</td>
<td>902.2</td>
<td>538,628</td>
<td>4</td>
<td>4</td>
<td>0</td>
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<tr>
<td>Iloilo</td>
<td>39.4</td>
<td>220.4</td>
<td>337,552</td>
<td>4</td>
<td>1</td>
<td>3</td>
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<tr>
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<td>46.4</td>
<td>875.1</td>
<td>316,654</td>
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<td>3</td>
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<tr>
<td>Cagayan de Oro</td>
<td>47.3</td>
<td>643.4</td>
<td>268,087</td>
<td>3</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Cotabato</td>
<td>11.8</td>
<td>298.1</td>
<td>242,993</td>
<td>2</td>
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<td>1</td>
</tr>
<tr>
<td>Marawi</td>
<td>6.0</td>
<td>145.4</td>
<td>136,994</td>
<td>3</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Tarlac</td>
<td>43.8</td>
<td>943.2</td>
<td>133,092</td>
<td>3</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Cabanatuan</td>
<td>27.6</td>
<td>333.8</td>
<td>112,614</td>
<td>2</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Batangas</td>
<td>26.6</td>
<td>365.1</td>
<td>114,349</td>
<td>3</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Kabankalan</td>
<td>25.6</td>
<td>984.3</td>
<td>114,300</td>
<td>2</td>
<td>1</td>
<td>1</td>
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<tr>
<td><strong>Contained</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Davao</td>
<td>76.3</td>
<td>2,228.0</td>
<td>826,172</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Zamboanga</td>
<td>39.1</td>
<td>1,468.4</td>
<td>350,889</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>General Santos</td>
<td>67.8</td>
<td>477.0</td>
<td>269,341</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Lucena</td>
<td>15.8</td>
<td>91.1</td>
<td>185,455</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Iligan</td>
<td>13.1</td>
<td>652.5</td>
<td>141,727</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Tagum</td>
<td>21.2</td>
<td>181.3</td>
<td>138,986</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Butuan</td>
<td>12.1</td>
<td>670.0</td>
<td>106,491</td>
<td>1</td>
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<td>0</td>
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</tbody>
</table>

Source: World Bank 2015
Increasing mismatches between socio-economic (functional) areas and administrative (spatial) jurisdictions within rapidly expanding urban areas require effective governance solutions at the metropolitan level that are currently missing in the Philippines. The effective and efficient provision of core urban services with metropolitan-wide dimensions requires formal and functional mechanisms for effective inter-jurisdictional coordination. Cost efficiencies rooted in leveraging economies of scale in the delivery of urban services represent a primary motivation for adopting a metropolitan-wide governance structure. For capital-intensive services such as transport infrastructure, solid waste disposal, water supply, and sewerage, the cost per unit of providing services tends to decrease as the quantity of the service provide increases (Bahl 2013). The need to manage externalities among certain urban services within a metropolitan area, whereby the benefits or costs of a specific service in one jurisdiction spill over to the residents of another jurisdiction, is another reason to consider the adoption of a metropolitan-wide governance structure (Slack 2007). For urban infrastructure (such as roads) and services (such as air pollution regulation) that create have spillover impacts to non-residents, individual jurisdictions will tend to undersupply the infrastructure and service because they will only account for the costs and benefits accruing to them without fully considering the external impacts of budgetary and policy decisions (Bahl 2013).

However, with the exception of Metro Manila, there are no other metropolitan areas in the Philippines that have formal institutional structures enacted through national policies (Manasan and Mercado 1998). In the case of the Metro Manila Development Authority (MMDA), which was established to coordinate planning and service delivery in Metro Manila, the chronically poor quality of metropolitan-wide core urban services, such as traffic management, solid waste management, road infrastructure, and flood control and drainage, clearly indicates that the current metropolitan governance model has not functioned effectively.
2. Key Challenges

There are a number of key challenges related to governance and institutions that are hampering successful urbanization. These include: (i) absence of a comprehensive national urban policy; (ii) absence of a lead agency for urban development; (iii) weaknesses in the fiscal decentralization framework; and (iv) metropolitan fragmentation and weak mechanisms for inter-jurisdictional coordination.

2.1 Absence of a Comprehensive National Urban Policy

An effective national urban policy (NUP)—including legal foundations, capable institutions, and financial instruments—is critical to design and build productive, livable, and resilient cities (UN Habitat 2014). An NUP defines the overall intentions and policies of the national government with respect to cities and metropolitan regions to make them function better—economically, socially and ecologically; to leverage the urbanization process for national development; and to guide it towards sustainable patterns.

The Philippines has historically lacked an effective and comprehensive national urban policy that defines a vision for urban development that is supported by strategies and linked actions to realize the potential and to tackle the problems arising from the concentrated growth of population and economic activity. The spatial pattern of urbanization in the Philippines has evolved with an over-concentration of development in Metro Manila and an underdevelopment of secondary cities, a result of the lack of a vision and defined strategies for proactively managing urban development and expansion. Furthermore, the absence of well-functioning inter-jurisdictional coordinating mechanisms within metropolitan areas in the country can also be attributed to the absence of a national urban policy.

The development and adoption of a national urban policy is critical as the Philippines continues along a path of rapid urbanization. The Housing and Urban Development Coordinating Council (HUDCC), through the Housing and Land Use Regulatory Board (HLURB), one of its attached agencies, is mandated to prepare a National Urban Development and Housing Framework (NUDHF) to provide a macro framework for urban development and housing. While three iterations of the NUDHF have been prepared since 1992, its adoption as an effective policy framework has not been prioritized by administrations governing the country. By itself, HUDCC has been constrained in its ability to implement NUDHF recommendations due to its limited capacity and authority as a coordinating body, and its focus on housing issues as the main priority for its policymaking and operations.

As a result, the NUDHF has not functioned in practice as an effective policy instrument for the national government to guide urban development and direct public interventions in urban areas. Essentially, the NUDHF serves as a strategy paper that is not linked to an overarching national urban policy that defines the overall intentions of the national government with regard to urban development, including the institutional framework defining the roles and responsibilities of key institutions.
national oversight and sectoral agencies. Without a national urban policy on which it can be anchored, the NUDHF will remain a severely limited policy instrument.

Other national-level plans are potentially relevant for urban development but due to the absence of a comprehensive national urban policy, their effectiveness as policy instruments is limited. The National Economic and Development Authority (NEDA) is responsible for preparing a six-year Philippine Development Plans (PDP) to correspond to development priorities of ruling administrations. However, NEDA’s focus on urban development has been weak in recent decades. In the current PDP for 2011-16, a set of “urban development policies and strategies” based on the NUDHF is merely a short sub-section within a much longer section on Social Development. The National Framework for Physical Planning (NFPP) for 2001-30, in theory, serves as a strategic urban development framework for land-use planning in the country. In practice though, NEDA has minimal authority to enforce the NFPP; hence, relevant National Government Agencies (NGAs) and Local Government Units (LGUs) have not uniformly adopted the framework.

Key lessons from international experience indicate that it is not sufficient for a national urban policy for the Philippines to include just technical prescriptions, such as those detailed in the NUDHF and NFPP. As elaborated in Box 5.1, it is essential that a national urban policy takes into account critical political and institutional issues and defines a political champion as well as the proper institutional and administrative arrangements to enable its effective implementation. In the context of a unitary state such as the Philippines, the development and implementation of a national urban policy is likely to be limited without a formally-designated institutional leader within the structure of the central government.

Box 1. Guiding Principles for the Development of a National Urban Policy

The development of an NUP must be responsive to the national context and sensitive to the political culture and dynamics in a country. While global experience indicates that there is no single model or approach guaranteed to produce a desirable outcome that can be replicated in different situations, there are several key lessons and principles that emerge from global experiences. Firstly, it is imperative that central governments recognize the unique threats and opportunities from rapid urban growth and understand that the complex challenges faced by cities cannot be solved by spatially blind sectoral policies.

Secondly, a political champion for the urban agenda can have different institutional locations, and there is no perfect model. Whatever structure is created has to be able to win support across different departments to ensure that sufficient resources of all kinds are mobilized to make a difference. Any structure also requires leaders who believe in the urban agenda and who are capable of persuading others to support the case – building a coalition of interests. Without high-level political support and vision, an NUP may achieve little in practice because of inertia and resistance to change.

Thirdly, implementing an NUP means a sustained technical process of building the legal foundations, institutional capabilities, administrative procedure and financial instruments to pursue this agenda effectively. A NUP may also need aspects of established legislation (such as old land-use planning regulations and laws governing the ownership, use, and development of land) to be altered so that it is more relevant to contemporary conditions and better equipped to deal with growing informality.

Fourthly, the proactive engagement of cities is critical to achieve national urban policy goals. Effectively implementing an NUP requires strong partnerships among national and sub-national governments as well as the decentralization of selected powers, responsibilities, and resources to city and metropolitan-level institutions.

Source: UN Habitat, 2014
Institutional fragmentation among various oversight and sectoral agencies at the national level has exacerbated the dysfunctional institutional environment for urban development. The absence of a functional institutional framework, including a clearly designated national agency accountable for urban development and formally defined coordination mechanisms for relevant oversight and sectoral agencies within metropolitan and urban areas, has led to duplications and overlapping mandates among these agencies and LGUs (ADB 2014).

Although several oversight national agencies have responsibilities directly related to urban issues, no single agency is fully accountable for the development and enforcement of urban development policies. HUDCC is notionally responsible for overseeing urban development issues in the Philippines but its focus has historically been on the administration and delivery of housing, specifically the supervision and coordination of four shelter agencies. The Department of the Interior and Local Government (DILG) exercises extensive oversight authority over LGUs. However, its mandate is not specific to cities and urban areas; hence, its policies and programs are designed for and implemented among the broad universe of LGUs. Finally, in its capacity as the national economic development and planning agency, NEDA has not focused on urban development as a strategic priority in recent medium-term development plans.

Due to the absence of a lead agency for urban development, formal mechanisms for both horizontal coordination (across sectoral agencies) and vertical coordination (between national agencies and LGUs) within urban areas are very weak. Given the unitary system of government in the Philippines, various sectoral agencies play major roles in the key urban sectors, including transport management, roads and bridges, solid waste management, housing, and social services. From the perspective of LGUs, the cumulative bureaucratic and administrative costs of coordinating with numerous sectoral NGAs are significant for capacity-strained local bureaucracies. Weak coordination between national and local government, both functionally and spatially, for planning, regulation, service provision, and investments contributes to the poor planning and quality of urban infrastructure and services in cities and urban areas.

The creation and empowerment of a lead agency mandated to oversee urban development in the Philippines is needed to ensure the effective development and implementation of a national urban policy, which is essential to reverse the poor urbanization outcomes related to competitiveness, mobility, poverty and inequality, and environmental quality. Such an entity is needed to directly address the fragmented institutional structure at the national and local levels. A lead agency is crucial to oversee the implementation of a national urban policy, including providing oversight and support for the development of functional metropolitan governance arrangements among the major urban areas in the country. Such institutions have been created in developing countries in recent years to address urban issues.

3 These are the National Housing Authority, the National Home Mortgage Finance Corporation, the Home Guaranty Corporation, and the Home Development Mutual Fund.
4 These include the departments of Transport & Communication (DOTC), Public Works & Highways (DPWH), Environment & Natural Resources (DENR), Health (DOH), Social Welfare & Development (DSWD), and National Housing Authority (NHA).
Box 2. Examples of National Urban Policies

South Korea’s NUP has evolved through three phases. The first involved explicit spatial concentration and sectoral focus because resource limitations prevented spreading investment more evenly across the country. The country’s rapid socio-economic development is attributable in large part to an industrial modernization strategy pursued by the government from the 1960s to the 1980s, geared largely to boosting exports. Due growth pressures and high infrastructure costs, the government sought to de-concentrate jobs and people away from the Capital Area in the 1980s and 1990s to pursue “balanced territorial development.” Finally, growth demands and inflated house prices in the Capital Area forced the government to respond by constructing five additional new cities around Seoul in order to relieve the housing shortages, accompanied by a massive increase in apartment building. The government’s housing program was accompanied by a policy to relax government controls on mortgage lending by financial institutions, allowing more people to afford home ownership. Both initiatives contributed to a dramatic increase in the supply of housing over a relatively short period.

During the 2000s, South Korea’s NUP shifted again towards trying to improve the quality of urban development, including livability, amenities, safety and environmental quality. This was partly a response to the previous emphasis on quantitative economic growth and the resulting inferior character of the built environment in many urban areas. One of the main lessons emerging from South Korea’s experience is the importance of aligning territorial planning, urban policy, housing programs and the provision of land for development. This example demonstrates the substantial benefits that can be derived if urban policy reinforces and contributes to economic development, with sufficient land and housing made available in the right places.

Following the adoption of the 1988 Constitution, which included a chapter on urban policy, Brazil enacted a law called the Statute of the City in 2001 to promote equity and access to urban land. The law facilitated more democratic city management by making land-use planning mandatory throughout each city and subjecting development decisions to social control and participation. Furthermore, the law ensured that the social function of urban land and buildings was put before their commercial value by removing part of the land from the market. Urban planning has henceforth been seen as a collaborative process of shared decision-making and negotiation among different interests, rather than a top-down, technocratic activity undertaken by government experts, private developers or commercial investors.

Colombia is a highly urbanized (75-80 per cent) country that has gradually developed a NUP to match the scale of its urban challenges. Two successive national development plans have set clear priorities for urban development. These are reflected in the 2005 “Livable Cities” Strategy, which focused on improving access to affordable land and housing, increasing water and sanitation services, and improving public transport. The strategy was reinforced when government responded to the global financial crisis with a major program of public investment to enable the construction of a million houses over a five-year period, starting in 2011. Additional reforms sought to develop new and innovative ways to finance urban infrastructure, such as public-private partnerships. Colombia has also learned from Brazil’s Constitution and urban laws by taking steps to facilitate more effective land readjustment and redevelopment. Special Zones of Social Interest were established to reduce the legal minimum plot size for houses and allow informal settlers to regularize dwelling conditions with less threat of speculation and eviction.

Australia’s first broad-based NUP was approved in 2011 following a period of extensive research and consultation. It was a response to a series of looming challenges in the major cities, including the escalating cost of housing, rising fuel costs, urban sprawl and its impact on infrastructure networks, transport systems, road congestion, uneven access to job opportunities and the natural environment. National government involvement was vital because of the limited fiscal capacity of the states and local government. The NUP sought to address the broader issues of managing the big cities better, improving their contribution to national economic performance, and reducing their carbon emissions. It had four pillars – productivity, sustainability, livability and governance. A novel feature of the NUP was the clear rationale established for the national government to get directly involved in a way that went well beyond that of a single, stand-alone department or spending program, as in the previous urban initiatives. Coordination went to the heart of the NUP in order to ensure a wide-ranging, sustained impact on mainstream government policy, in particular to ensure that urban infrastructure considerations became a more important feature of the government’s agenda. This was achieved by setting up an elaborate architecture for institutional alignment across key departments and agencies, including special committees and reporting arrangements.

Ghana is an example of a country that has prioritized the adoption of its NUP as its urban population has grown beyond 50 percent. After a four-year period of technical analysis, policy reviews, workshops and extensive domestic and international consultation, the first ever NUP was launched in March 2013, along with a five-year detailed Action Plan. The preparatory work included a public advocacy campaign to make the case for better-managed urbanization. The broad aim of the NUP is to promote sustainable, spatially integrated and orderly development of urban settlements, with adequate housing and services, and efficient institutions. Extensive investment in urban infrastructure funded by national government and managed by municipalities is intended to alleviate severe congestion in the big cities and create a sound living and working environment to accelerate the country’s all-round development. The implementation of the NUP is supposed to be coordinated by the Urban Development Unit within the Department of Local Government and Rural Development; however, there are no institutional mechanisms in place to encourage other government departments to follow the NUP. Consequently, the NUP at present is a coherent policy without an institution to implement it effectively. National and local forums have been set up to put urban issues on the agenda of other departments and external stakeholders but it is too soon to assess their effectiveness.

Source: UN Habitat, 2014
### 2.3 Weaknesses in the Fiscal Decentralization Framework Contribute to the Poor Enabling Environment for Urban Service Delivery

The intergovernmental fiscal system supporting local government units (LGUs) has not been conducive to improving local service delivery. Structural weaknesses in the institutional and legal framework for fiscal decentralization constrain the capacities of LGUs to effectively and efficiently provide urban services. Furthermore, an institutional environment characterized by overlapping accountabilities across levels of government, the absence of standards for service delivery, and poor availability of information on service delivery provides weak demand-side and supply-side incentives for LGU performance.

#### a. Misalignments Between Local Expenditure and Revenue Assignments

Misalignments between expenditure assignments and local revenue assignments undermine local government capacity for efficient local service delivery. The Local Government Code of 1991 (LGC) statutorily devolved to LGUs the principal responsibility for providing and financing services in a wide range of areas:

- Land use planning
- Enforcement of laws on environment protection, pollution control, small-scale mining, and forestry
- Solid waste disposal system
- Primary and tertiary health care services & hospitals
- Social welfare services
- Low-cost housing and mass dwellings
- Agricultural & fishery research & extension services

- Community-based forestry
- Investment support services
- Industrial research and development services
- Municipal buildings, cultural centers, and parks
- Municipal infrastructure (local roads & bridges, school buildings, health facilities, housing, water supply, communal irrigation, drainage, sewerage, flood control)
- Public markets, public cemetery, slaughterhouses and municipal enterprises
- Sites for police and fire stations and substations and the municipal jail
- Support for education, police & fire services & facilities
- Communication and transportation facilities
- Tourism facilities and other tourist attractions

Local tax assignments in the Philippines are weak in terms of providing local fiscal autonomy to LGUs. Local tax assignment in the Philippines has been assessed to be generally consistent with the conventional criteria for assessing appropriateness: economic efficiency, equity, and administrative feasibility (Manasan 2004). However, among the local tax bases, only the real property and business tax bases provide substantial local revenues. The LGC limits the power of LGUs to set tax rates by specifying floors and ceilings on the tax rates. Furthermore, the LGC allows LGUs to adjust tax rates only once every 5 years and by no more than 10 percent.
In general, relative to other types of LGUs, cities enjoy productive property and business tax bases and are less dependent on fiscal transfers to finance recurring expenditures. Importantly, cities are generally allowed to set higher tax rates compared to provinces and municipalities. The broader discretion in rate-setting together with the larger tax bases inherent in most Philippine cities due to the concentration of economic activity has led to wide disparities in local revenue mobilization between cities, on one hand, and municipalities and provinces, on the other. From 2001 to 2013, aggregate local revenues of cities averaged 0.77 percent of GDP while the corresponding averages for provinces and municipalities were just 0.14 percent and 0.24 percent, respectively (Manasan and Avila 2014). On average, cities are able to raise local revenues (mainly from real property and business taxes, which comprise 75 percent of own-source revenues) to fund the majority of local expenditures whereas provinces and municipalities are heavily reliant on the internal revenue allotment (IRA) for approximately 80 percent of operating income.

Table 2. LGU Own-Source Revenues as a Share of Total Operating Income

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces</td>
<td>17.1%</td>
<td>18.8%</td>
<td>19.3%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Cities</td>
<td>52.2%</td>
<td>55.7%</td>
<td>57.2%</td>
<td>55.7%</td>
</tr>
<tr>
<td>Municipalities</td>
<td>19.2%</td>
<td>19.2%</td>
<td>20.7%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Total</td>
<td>32.1%</td>
<td>34.8%</td>
<td>36.0%</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

Source: Bureau of Local Government Finance, Department of Finance
Box 3. Overview of Intergovernmental Transfers

Internal Revenue Allotment. The Local Government Code institutionalized the internal revenue allotment (IRA), which is the primary transfer of shared revenues from the national government to LGUs. The Code mandates that 40 percent of national internal revenues based on the collections of the third fiscal year preceding the current fiscal year shall be allotted to LGUs. The IRA is first subdivided among the different levels of LGUs using the following distribution: provinces (23 percent), cities (23 percent), municipalities (34 percent), and barangays (20 percent). The shares for each level of LGU are then allocated horizontally for provinces, cities, and municipalities based on the following formula: population (50 percent), land area (25 percent), and equal sharing (25 percent). For barangays, the horizontal sharing is based on: population (60 percent) and equal sharing (40 percent).

The IRA is an unconditional block grant that is automatically released to the LGUs five days after the end of each quarter. The LGC provides conditions for the national government to withhold a portion of the IRA during periods of national fiscal distress, although these cases have been very rare and there have been such cases in the past 15 years. The key restriction imposed by the LGC is for LGUs to set aside 20 percent of their IRA allocation for a local development fund.

The IRA represents the primary source of income for the vast majority of LGUs (see Table 5.2). However, the current formula does a poor job of compensating for the varying levels of fiscal capacities across LGUs, often worsening the horizontal resource imbalances across LGUs. (Manasan, 2007). The data shows that on average the IRA distribution to the provinces is highly regressive, allowing those provinces with the highest own-source revenues to receive three times more IRA than those with the least own-source revenues. The distribution becomes somewhat less regressive for municipalities and progressive for cities.

Non-IRA Transfers: LGUs also benefit from ad hoc grants from national government agencies, legislative funds, and foreign donors and creditors to support various local services. While these non-IRA transfers are cumulatively much smaller in scale compared to the IRA, there is no consolidated central tracking of data available that can be used to estimate the scale and distribution of such transfers. A study conducted to analyze the quantity and composition of non-IRA transfers to LGUs in 2003 estimated that the aggregate total for these transfers was equivalent to over 20 percent of the total IRA transfer for that year. The largest component of this total, comprising 61 percent, was funded by Priority Development Assistance Funds (PDAF) of legislators and the funds were mainly used to finance local infrastructure. However, the PDAF was declared unconstitutional in 2013 and has been discontinued beginning in fiscal year 2014. There is generally less transparency in the non-IRA funding systems, which has adverse effects on LGU planning and budgeting, and less information available for these miscellaneous transfers.

In the past five years (2011-2016), reforms were initiated by key oversight national government agencies that have attempted to utilize additional fiscal transfers to LGUs as leverage to strengthen both supply-side and demand-side systems for local government accountability and created a space for genuine participation in municipal and city planning.

- Through the Performance Challenge Fund (PCF), DILG provides small capital grants as incentives for LGUs that meet minimum standards in transparency and financial accountability (through the annual assessment of a “Seal of Good Financial Housekeeping”).

- On a much larger scale, the Bottom-Up Budgeting (BUB) program was jointly developed by DBM, DILG, NAPC, and DSWD to facilitate poverty reduction by providing funding for local poverty reduction programs of LGUs that are conditioned on an annual participatory planning process where municipal and city governments identify priority poverty reduction projects jointly with local civil society organizations, leading to the development of annual Poverty Reduction Action Plans that are funded by transfers. The program was piloted in April 2012 in 600 cities and municipalities with high concentrations of poverty. The program has been scaled up since to cover 1,590 LGUs as of 2016 (covering all LGUs in the country except for those in the Autonomous Region of Muslim Mindanao), with an annual budget allocation of approximately PhP 24 billion, which is equivalent to 5.5 percent of the IRA allocation for 2016.
The largest cities with relatively more expansive fiscal bases are more fiscally autonomous compared to smaller, secondary cities. The aggregate fiscal data hides discrepancies among the 145 LGUs in the Philippines that are classified as cities. For the 33 relatively large and urbanized cities that are classified as highly urbanized cities (HUCs), own-source revenues account for approximately 70 percent of total operating income, with the rate being even higher among the 16 cities of Metro Manila. In contrast, the remaining 111 cities that are relatively smaller and less urbanized remain heavily reliant on the IRA for almost two-thirds of their operating income.

Table 3. City-Level Own-Source Revenues as a Share of Total Operating Income

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly Urbanized Cities (33)</td>
<td>65.0%</td>
<td>70.5%</td>
<td>70.7%</td>
<td>69.8%</td>
</tr>
<tr>
<td>• Metro Manila (16)</td>
<td>75.5%</td>
<td>78.5%</td>
<td>79.7%</td>
<td>79.3%</td>
</tr>
<tr>
<td>• Non-Metro Manila (17)</td>
<td>42.9%</td>
<td>51.4%</td>
<td>50.0%</td>
<td>47.5%</td>
</tr>
<tr>
<td>Component Cities (111)</td>
<td>30.5%</td>
<td>35.2%</td>
<td>35.1%</td>
<td>34.7%</td>
</tr>
</tbody>
</table>

Source: Bureau of Local Government Finance, Department of Finance
Nonetheless, cities generally lack the fiscal capacity to independently undertake major urban infrastructure projects. Even the largest cities in the Philippines remain reliant on the national government for major public infrastructure investments, such as major road and bridge construction, drainage and flood control facilities, housing, and solid waste management facilities. In 2014, aggregate capital expenditures of cities totaled less than USD500 million, which was equivalent to just 0.18 percent of GDP. Importantly, as evidence of the preeminent role of the national government in public infrastructure investment, the aggregate capital expenditures of cities was equivalent to just 5.6 percent of budgeted infrastructure outlays of the national government in 2014. Critical reforms to the LGC are necessary to strengthen local revenue autonomy, including the constrained taxing authority with respect to rate setting, the limited productivity of devolved tax bases, and the complexity of the local business tax structure and other user fees (Manasan and Avila 2014).

b. Weak Performance Orientation of the Intergovernmental Fiscal System

Evidence suggests that the intergovernmental fiscal transfer system provides weak incentives for optimizing local taxing powers. Studies have consistently found that LGUs have not maximized the revenue-raising powers afforded to them by the LGC (Manasan 2007 and ADB 2012). Although LGUs are required to update their schedules of market values every three years, data from 2014 indicates that more than 72 percent of cities maintained schedules of market values that were more than 5 years old (Manasan and Avila 2014). Furthermore, very few LGUs have revised their local revenue codes since the passage of the LGC in 1991 even though they are allowed to adjust rates every 5 years and some taxes are not indexed to inflation.

<table>
<thead>
<tr>
<th>AGE OF REAL PROPERTY VALUES</th>
<th>PROVINCES</th>
<th>CITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUMBER</td>
<td>SHARE</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>19</td>
<td>23.8%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>28</td>
<td>35.0%</td>
</tr>
<tr>
<td>5 years or less</td>
<td>33</td>
<td>41.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>80</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Bureau of Local Government Finance, Department of Finance, Manasan and Avila, 2014
In spite of the relatively large real property tax bases of cities, evidence suggests that they have not fully optimized local revenue collections. As part of its heightened LGU fiscal performance assessments, the Bureau of Local Government Finance (BLGF) of the Department of Finance recently began publishing real property tax accomplishment rates (RPTAR) for LGUs, which are calculated using actual real property tax collections and collection targets based on assessed real property values. In 2014, only 30.5 percent of assessed cities achieved the BLGF RPTAR performance target of 90 percent. In fact, only half of the assessed cities were able to achieve an RPTAR of 75 percent. Among Metro Manila cities, only five were able to achieve the BLGF performance target while a total of 10 out the 16 cities were able to reach the 75 percent threshold.

The presence of significant unconditional central transfers through the Internal Revenue Allotment (IRA) has been found to create disincentive effects for local revenue mobilization (Manasan 2004). Data from BLGF indicates that cities that were on the first quintile in terms of IRA per capita allocation in 2014 (i.e., cities which enjoy the highest average IRA transfers per capita) have a lower average Real Property Tax Accomplishment Rate (RPTAR) of 73 percent compared to cities on the fifth quintile (i.e., cities with the lowest average IRA transfers per capita), which have an average RPTAR of 84 percent. Furthermore, national survey data from 2011 and 2012 indicates high rates of “Satisfaction with the city/municipal government” (75 and 73 percent, respectively) as well as high rates of “Satisfaction with local officials (Mayor)” (82 and 76 percent, respectively) (Social Weather Station 2012). Collectively, these findings suggest that the IRA and other national assistance appear to provide sufficient resources for many LGUs to provide a minimum level of service without having to optimize local revenue bases.

In general, land management issues and weak technical capacity at the LGU level are also additional constraints to maximizing real property tax collections. The complex structure of local business taxes also constrains the local tax administration capacity of LGUs (Manasan and Avila 2014). The resistance to update schedules of market values and local revenue codes is also attributed to political resistance from constituents and the fear of losing residents and businesses to other jurisdictions due to tax competition.

c. Ambiguity in Local Service Delivery Responsibilities

De facto ambiguity in service delivery arrangements between national and local government weaken systems for public accountability. While core local public services were statutorily devolved to LGUs, broad exceptions in the legal framework allow national government agencies to implement public works and infrastructure projects and supplement local service delivery (Manasan 2004). As a result, sectoral national agencies retain significant roles in the provision of sub-national infrastructure and services, creating a complex institutional environment that undermines the establishment of clear lines of accountability. Particularly in metropolitan areas where the need for coordination is heightened, the absence of a lead agency for urban development means that there is no single national government agency tasked to coordinate the delivery of urban services. Issues of ambiguity in service delivery arrangements and weak national-local coordination mechanisms have been assessed in detail for other critical urban services such as solid waste management (NEDA 2008), water and sanitation (World Bank 2013), urban transportation (ADB 2012, JICA 2014, and World Bank 2009), and health (World Bank 2011).
d. Inadequate Data and Standards for Local Service Delivery

Lack of timely and reliable data on local service delivery as well as the absence of uniform service standards further weakens incentives for local service delivery. The absence of an effective performance monitoring system prevents the assessment of service delivery at the local level (Manasan 1998, ADB and AfD 2012). While the Commission on Audit (COA) and BLGF regularly prepare annual reports on LGU fiscal performance, there are no comparable data sources for local service delivery from sectoral and oversight national agencies at present. Furthermore, socio-economic statistics in the Philippines are disaggregated to the regional level, corresponding to the administrative deconcentration of national agencies rather than the jurisdictional decentralization of local governments. As part of its oversight functions over LGUs, DILG has made strides in recent years to develop performance-monitoring systems (see Box 4.4 below) but progress has been slow and, as discussed earlier, its expansive mandate to oversee all LGUs prevents it from concentrating on monitoring urban service delivery. Hence, it has been very difficult to empirically assess correlations between local expenditure allocations and socio-economic development outcomes. These formidable data constraints prevent the establishment of uniform service standards, which would be a potentially powerful tool for strengthening local accountability for the quality of urban services and designing performance-oriented, conditional transfers to LGUs to complement the IRA.

Box 4. DILG Performance Monitoring of LGUs

Since the mid-2000s, DILG has maintained the Local Government Performance Management System (LGPMIS), a web-based system comprised of numerous indicators to help LGUs assess their capabilities and performance in the delivery of essential services. However, LGPMIS is severely constrained by the fact that it is a self-administered tool, wherein the data entered is generated by the LGU itself, and access to its database is strictly restricted to the LGUs and DILG, which prevents the public from accessing and scrutinizing the data (World Bank 2012).

More recently, DILG introduced the Seal of Good Local Governance (SGLG), which recognizes exemplary LGU performance based on an assessment of basic inputs and outputs for six broad areas: financial management and transparency, disaster preparedness, social protection, peace and order, environmental management, and business friendliness. The SGLG signals an increasing focus on the part of DILG to monitor local service delivery, however the initiative is still in the incipient stage (the first set of awardees were announced at the end of 2015) and DILG has not made the raw data used in the assessments available to the public.
e. Constraints to Debt Financing for Local Infrastructure Investment

Demand-side and supply-side issues limit cities from optimizing debt financing for local infrastructure. Despite the legal authority to access credit financing for capital investment needs, sub-national borrowing levels have historically been low, with the stock of outstanding debt hovering at around 0.7 percent of GDP (World Bank 2014) compared to an average level of 5 percent for developing and transitioning countries (Liu, Llanto and Peterson 2013). Unsurprisingly, LGU capital investment levels have consistently been very low, declining to 0.3 percent of GDP in 2012 (World Bank 2014).

Overall, the same weak local political incentives for service delivery and local infrastructure investment also dampen the demand for debt. These issues are summarized in a recent study on LGU borrowing.

On the supply-side, inefficiencies in the implementation of procedural controls by national oversight bodies (namely, BLGF and the Monetary Board of the Central Bank) have raised the bureaucratic hurdles for LGUs to access loans. These include: 1) the lack of clarity on the income base for assessing the debt capacities of LGUs; 2) the irrelevance and redundancy of documentary requirements of oversight bodies; and 3) time-consuming review and approval procedures (World Bank 2014). Furthermore, statutory restrictions on commercial banks essentially confine LGU borrowing to government financial institutions. This effectively constrains the supply of credit for sub-national borrowing and reduces the competition in the credit market.

Box 5. What Explains the Low Level of LGU Indebtedness?

Local governments in the Philippines are light borrowers and appear to restrict lending to relatively small projects or to meeting occasional cash flow needs. Several factors explain the smaller borrowing appetite of LGUs:

- Limited functions assigned to LGUs that require infrastructure spending notwithstanding the local autonomy and devolution introduced by the Local Government Code.
- Continuing major role of the central government in the delivery and finance of local services.
- Significant institutional and managerial barriers to planning and managing major projects.
- Reluctance of local governments to borrow due to natural conservatism and also partly to congressional allocations (“pork barrel”) that have historically substituted as source of financing for small projects.
- Poorer LGUs having a low fiscal capacity to leverage borrowing.
- Impact of various financial oversight mechanisms that constrain LGU borrowing.
- The policy framework for inter-jurisdictional collaboration is inadequate in terms of defining the juridical personality of the inter-LGU grouping in accessing the credit market, which effectively constrains the ability of LGUs to take advantage of economies of scale needed for large infrastructure investments.
- Lack of competition in a sub-national debt market dominated by government financial institutions.

Source: Liu, Llanto, and Peterson, 2013
2.4 Metropolitan Fragmentation and Weak Mechanisms for Inter-jurisdictional Coordination

Urban areas in the Philippines face the same broad issues of metropolitan fragmentation that are confronted by metropolitan regions across the world. As urban expansion leads to mismatches between socio-economic (functional) areas and administrative (spatial) jurisdictions, city and municipal mayors have to grapple with the demands for inter-jurisdictional coordination to effectively and efficiently provide core urban services with metropolitan-wide dimensions (i.e., economies of scale and externalities), such as traffic management, solid waste and environmental management, and road infrastructure.

With the urban transport crisis in Metro Manila and the increasing demand for inter-jurisdictional coordination in urban areas like Metro Cebu, the issue of institutional fragmentation within a metropolitan region is well known among policymakers. Yet there have been no substantive policy reforms initiated to address metropolitan governance in Metro Manila. Further, there have been no national government efforts to establish formal metropolitan arrangements in urban areas outside of Metro Manila (Manasan and Mercado 1998). For these secondary urban areas, the component LGUs have been left to voluntarily pursue coordination arrangements with minimal support and facilitation from the national government.

a. Metropolitan Governance Challenges in Metro Manila

The experience of the Metropolitan Manila Development Authority shows that a metropolitan authority created without the proper resources, both financial and technical, has limited potential to fulfill a comprehensive role. The MMDA mandate, as written, is very expansive and should, in principle, empower the agency to effectively meet the metropolitan-wide demands created by urban growth in Metro Manila. However, the MMDA does not receive sufficient funding to fulfill its mandate, which includes formulating, planning, implementing, and monitoring policies, programs, projects, and standards. It also lacks staff with the technical expertise to manage the mandate. Based on a study conducted in 2014 assessing MMDA staffing within a certain division, 32 out of 59 allocated positions remained vacant while among the 27 filled positions, only 11 were held by those with the expertise required for the position (World Bank 2014).

While the MMDA has a clear mandate for functions concerning metropolitan issues, it does not have the political authority to lead the agenda. For one, the LGC provides LGUs with strong local autonomy. Metro Manila mayors are members of the Metro Manila Council, the governing board of the MMDA, thus any project or policy can be rejected if individual mayors do not approve it. This has made it highly challenging to undertake metropolitan-wide land use planning or transport development. The fact that the President appoints the MMDA Chairman can cause further politicization of the MMDA’s agenda, pitting the Chairman against certain mayors affiliated with different political parties.

The MMDA has overlapping mandates with national government agencies causing inefficiencies and delays in fulfilling the mandate. One such case is evident with regards to any transportation agenda. The Department of Transportation (DOTr) is tasked with the development
and regulation of transportation systems nationwide while the MMDA has a similar mandate in Metro Manila specific to transport operations and systems. Although national agencies like DOTr do not have mandates to do projects in highly urbanized or metropolitan regions, they are allocated budgets for projects at the metropolitan level, often for much larger amounts than the allocation of the MMDA. It then becomes unclear who is responsible for managing and implementing projects at the metropolitan level.

b. Metropolitan Governance Challenges in Secondary Urban Areas

Cities outside of Metro Manila undertake inter-jurisdictional coordination on a project-by-project basis, resulting in varied quality of urban service delivery and management. The secondary urban areas do not have legally mandated authorities and therefore negotiate for metropolitan wide projects usually through memoranda of agreement. Some areas, such as Metro Cebu and Metro Iloilo, have strong private sector and citizen movements to lobby for and develop metropolitan strategies and plans, including the proposed formation of formal metropolitan authorities. However, other emerging urban areas, such as Metro Cagayan de Oro, are not self-organizing. While no broad-based analysis across provinces has been undertaken recently, it appears that there are weak underlying incentives in the current intergovernmental fiscal system to induce provincial governors to take the initiative of facilitating inter-jurisdictional coordination within metropolitan areas. Hence, without a national urban policy guiding and supporting metropolitan-wide coordination, cities and municipalities in such urban areas are likely to continue coordinating on an ad hoc manner, with varying levels of support from the provincial governments.

In the absence of a designated authority, inter-jurisdictional coordination is often handled at the provincial level and the attention to issues of this nature depends on the interest and strategic priorities of the provincial governor. In the case of Metro Cebu, while the governor supported the movement, the provincial government did not act as an instigator. The Regional Development Council (RDC), which is convened by NEDA, can assume this role but the RDCs tend to act as coordinating bodies in creating and overseeing regional development plans. There are no specific requirements for urban or metropolitan planning to address issues specific to rapidly expanding urban areas. In Metro Cebu, where a private entity organized stakeholders and leveraged international assistance in developing a strategy and roadmap for metropolitan growth, the RDC was able to adopt the proposed metropolitan agenda to the regional development plan. However, there have not been similar movements in other cities. Governors and RDCs do not appear to be taking the lead to incorporate metropolitan agendas into broader regional development plans.

Cities and regions without designated metropolitan authorities rely on funding from specific national agencies for needs that are urban or metropolitan in nature, yet there is a perceived lack of support and coordination at the local level. Informants from city planning offices complain of misaligned priorities between national and local governments. In some cases, LGUs submit project proposals to NGAs but, even with the endorsement of RDCs and the regional offices of the NGAs, a different list of projects is eventually approved at the central level. Without clear planning and institutional arrangements between LGUs and sectoral agencies regarding urban or metropolitan issues, there will continue to be gaps and inefficiencies in urban service delivery and infrastructure development.
3. Recommendations

Addressing the core underlying institutional challenges that greatly inhibit urban development in the Philippines is a top priority for the country. A number of specific recommendations are outlined below.

Strengthen the institutional framework supporting urban development through the adoption of a Philippine National Urban Policy and the establishment of a lead agency for urban development and housing

- The development and adoption of a comprehensive national urban policy for the Philippines is the necessary starting point for strengthening institutions and governance for more productive urban development and more effective urban management and service delivery. Importantly, global experience indicates that there is no single model or approach guaranteed to produce a desirable outcome that can be replicated in different situations. An NUP for the Philippines should take into account for the inherent capacity constraints at the national and sub-national levels, the existing public planning and financing systems, and the prevailing institutional and political context. Nonetheless, based on the findings from this study, there are fundamental areas that must be covered by such a policy framework:
  - The NUP should identify the urban development priorities of the country. This includes specifying how urban development is integrated into broader national development goals and defining a vision for the sustainable spatial expansion of urban areas across the country.
  - The NUP should clearly define the respective roles of the national and local governments in the planning, financing, and provision of core urban infrastructure and services.
    » The NUP should specify the set of core urban services for which the national government will provide support to cities and urban areas, which may include land use planning, urban transport (including roads and bridges), affordable housing, solid waste management, drainage and flood control, water supply and sanitation, and disaster risk management and mitigation.
    » The NUP should provide a policy framework for co-financing of urban infrastructure and services that strengthen incentives for cities to effectively and efficiently provide local public services. This can build on existing policies and programs that have been utilized in the past to channel funding from the national level to local governments for capital investments (such as the Performance Challenge Fund, the Bottom-Up Budgeting Program, and the National-Local Government Financing Framework).
    » The NUP should also define a policy framework for new and innovative financing instruments that cities and metropolitan areas can leverage to accelerate the sub-national finance of municipal public infrastructure investments (including possible new local tax bases, municipal bonds and bond pooling, local infrastructure investment funds, and public-private partnerships).
• The NUP should provide for a comprehensive urban planning framework that integrates national level development objectives and strategies with metropolitan- and city-level land use and development plans. A thorough review of national, regional, and local planning frameworks should be undertaken to determine how the NUP, under which the NUDHF can be maintained as the medium-term national urban development planning instrument, will be integrated in the context of the broader medium-term national development planning system.

• The NUP should specify principles for the national government to support metropolitan governance arrangements for major urban areas of the country, including a framework for the defining and classifying metropolitan areas outside of Metro Manila requiring special oversight of the national government. The criteria to assess metropolitan areas should consider various factors including population size and density, land area, and level of metropolitan fragmentation.

• The NUP should specify a national monitoring framework at the city and metropolitan level for collecting standardized data to assess the quality of service delivery for the identified core urban services.

Consistent with global experiences, the effective development and implementation requires strong partnerships between national and local governments as well as the private sector and civil society. Given the relative indifference of past administrations to comprehensive urban development issues, it is critical that at the initial stage, strong advocacy and information dissemination activities are undertaken to build the necessary political support for prioritizing and pursuing a comprehensive NUP for the Philippines. Importantly, a push to enact an NUP would be strongly aligned with the new administration’s broader push for deeper devolution (in the context of a shift to a federal system of government) as well as on-going efforts to promote convergence among sectoral agencies for implementing multi-sectoral national programs and streamline the bureaucracy. Mobilizing a coalition of private sector and civil society stakeholders to create bottom-up demand for urban development reforms is critical to overcome the inherent inertia and resistance to change among policymakers.

Political commitment at the highest level (Office of the President) is needed to push for the development and adoption of a national urban policy for the Philippines. To ensure its prioritization, a national urban policy should be enacted as an Executive Order (EO) of the President. This would specify the policy prescriptions of the NUP while also detailing the required legislative actions (e.g., the establishment of a lead agency) and follow-up executive and administrative actions among both national government agencies and local governments.

b. The implementation of a national urban policy in the Philippines requires the establishment of a lead agency for urban development. The experiences from the current institutional arrangement where there is no clear lead agency accountable for urban issues strongly suggest that the establishment of a champion within the national government structure is a prerequisite
to the effective development and implementation of a comprehensive national policy, as is proposed with the NUP. The mandates of the lead agency would be consistent with the key elements of the proposed NUP.

• The lead agency should be responsible and accountable for the implementation of the policy goals and priorities identified in the NUP. The primary role of the lead agency would be focused on: i) planning, in terms of developing and updating the long-term NUP and the preparation and implementation of medium-term NUDHFs; ii) coordinating, both horizontally among national sector agencies, and vertically between the national government and LGUs in major urban areas for the delivery of urban services and infrastructure investments; and iii) monitoring and regulation, in terms on overseeing the efficient and effective provision of quality urban services.

• The lead agency should be empowered to provide capacity building, technical assistance, and policymaking support to cities and metropolitan areas. The lead agency would help to address widespread weaknesses among cities with regard to technical and administrative capacities for urban planning (including the timely preparation and implementation of comprehensive land use plans that integrate climate change and disaster-risk management and mitigation measures), municipal finance, and urban service delivery. The assumption of these responsibilities by the lead agency for urban development and housing will fill up an existing gap in technical support to urban LGUs that DILG and BLGF have not been able to adequately provide.

• Consistent with on-going policy discussions to consolidate all the key shelter agencies under one national government agency, the lead agency for urban development should assume full responsibility for the housing sector. Specifically, the lead agency should be responsible for the coordination, supervision, and integration of all public sector policies, plans, and programs in the housing sector, including oversight for the key shelter agencies.

• The lead agency should spearhead the development and facilitate the implementation of the NUDHF, which should serve as the term-based, medium-term planning framework that articulates NUP’s urban development and housing goals and strategies into priority programs for a six-year period. The lead agency must collaborate with key NGAs and LGUs as well as private sector and civil society stakeholders in the development of the NUDHF given that the
implementation of the plans and programs will require partnerships between the public, private, and civil society actors at the national and local levels. Importantly, the lead agency must work closely with NEDA to ensure that the NUDHF is integrated with national medium-term development plans (i.e., the Philippine Development Plan and Philippine Investment Plan).

• In terms of implementing the NUDHF, the lead agency should lead the horizontal coordination among national oversight and sectoral agencies and vertical coordination between the national government and cities and metropolitan areas for integrated planning, financing, and implementation of national urban and housing programs in cities and metropolitan areas. In effect, the lead agency should address the institutional fragmentation that is prevalent within the national government such that cities and metropolitan areas would no longer have to deal with numerous sector and oversight agencies at the national level and can just deal with the lead agency as a single point of contact at the national level to resolve coordination and policy issues in relation to urban development and the priority programs, projects, and investments under the NUDHF.

» The lead agency should serve as the key champion within the national government that will ensure that the implementation of sector-specific programs in cities and metropolitan areas are prioritized by the responsible sector agencies (e.g., urban transport investments under DOT, telecommunications and information technology investments under DICT, urban poverty programs under DSWD, etc.). As needed, the lead agency will be responsible for addressing institutional and coordination challenges with LGUs to facilitate the implementation of priority programs, projects, and investments under the NUDHF.

» The lead agency should lead the implementation of multi-sectoral, inter-jurisdictional urban infrastructure projects in metropolitan areas where no single national sector agency is positioned to implement such projects and the LGUs lack the fiscal capacities and the inter-jurisdictional structures to undertake such investments.

» The lead agency will be responsible for developing financing instruments for co-financing of urban infrastructure and services that strengthen incentives for both the national and local governments to effectively and efficiently provide quality urban services. Such financing instruments may include the design of new fiscal categorical and/or conditional transfers targeted to cities and metropolitan areas, new local tax bases, and innovative municipal financing vehicles (including municipal bonds and bond pooling, local infrastructure investment funds, and public-private partnerships). Such policy reforms would be developed by the lead agency in collaboration with the Department of Finance, and in particularly, BLGF.

• The lead agency will develop and implement a performing monitoring system at the city and metropolitan levels for collecting standardized data on the quality of service delivery for core urban
services, eventually leading to the development of service standards. In this regard, the lead agency would assume the responsibility for monitoring the urban service delivery of all cities as well as those municipalities that are components of formally classified metropolitan areas, as specified in the NUP. Through the collection and analysis of data, the lead agency will then be in a position to develop service standards that are appropriate to different cities and metropolitan governments, which will be key to strengthening accountability systems for service delivery. The lead agency will need to coordinate with DILG as well as relevant sector national agencies in the design and implementation of a performance monitoring system for urban service delivery, which would subsequently allow DILG to concentrate its local service delivery monitoring on the non-urban LGUs.

- The lead agency will support the establishment and operationalization of formal inter-jurisdictional coordination and governance arrangements in metropolitan areas outside of Metro Manila, including the development and enforcement of metropolitan-wide spatial and land-use plans. Under this responsibility, the lead agency will define and classify inter-jurisdictional metropolitan areas outside of Metro Manila based on criteria to be specified in the NUP.

There are on-going policy discussions to create a Department of Housing and Urban Development but, as proposed, the new entity would maintain a primary focus on housing issues. The proposed legislation (House Bill 6194) seeks to consolidate HUDCC and the HLURB while essentially combining the mandates of the two existing entities. Although the new department also includes urban development in its mandate, the scope defined in the proposed legislation reflects a very narrow conceptualization of urban development that is limited to “the process of occupation and use of land or space for such activities as residential, industrial, commercial, and the like or their combinations, necessary to carry out the functions of urban living… (and) the building or rebuilding of more or less permanent structures over land… resulting in the creation of a built environment.”

Given the broader and more inter-connected nature of urban development issues, the passage of a law establishing a Department of Housing and Urban Development should ensure that the new entity has a wider mandate for both urban development and housing. The on-going discussions about consolidating the various shelter agencies into a single national agency is consistent with the thrust of the new administration to streamline the bureaucracy and promote convergence within government. At this juncture, it is critical that as part of the policy dialogue and advocacy activities on urban development policy, the integrated nature of urban issues, including housing, connectivity, productivity, spatial expansion, and poverty reduction, are fully taken into account in determining the appropriate institutional reform to be undertaken. While global experiences on the adoption of NUPs and the establishment of national urban ministries can provide valuable lessons, ultimately the “appropriate” solution will necessarily need to account for the specific political and institutional context prevailing in the Philippines. Nonetheless, a Department of Housing and Urban Development with a more comprehensively defined mandate will be better placed to manage the diverse and dynamic range of urban development and metropolitan governance issues, while assuming the responsibilities for policymaking, regulation, and development of the housing sector.
Brazil’s Ministry of Cities is responsible for urban development policy and sectoral policies for housing, sanitation and urban transportation. In January 2003, the Brazilian government created the Ministry of Cities with the objective of formulating national housing, environmental sanitation, and urban mobility policies that have a strong impact in urban development. The National Secretary of Transportation and Urban Mobility was created and the Brazilian Urban Train Company, which was part of the Ministry of Transportation, and the National Traffic Department, which was part of the Ministry of Justice, were incorporated by the Ministry of Cities to elaborate and implement urban mobility policy. The Ministry of Cities is charged with designing and implementing a national policy to upgrade informal and precarious settlements in conjunction with state and municipal governments, which are responsible for its execution. The Ministry of Cities is also tasked with strengthening municipal capabilities and a National Council of Cities engages diverse stakeholders in discussing national urban policy.

In Chile, in the early 1960s, there were at least 28 institutions and eight different departments that intervened in matters of housing, urbanization, and equipment. To deal with this situation, the Ministry of Housing and Urban Planning was created in 1965 with the goal of improving and renewing the deteriorated areas of cities through rehabilitation and urban development programs. Among the priorities of the Ministry of Housing and Urban Planning is to address issues of urban equality, combat spatial segregation, and ensure that all residents benefit from the city, especially the most vulnerable. The ministry expanded programs to improve neighborhoods and condominiums, promoted a new program focused on interventions on small towns, and invested in infrastructure – all with a strategic vision and relevance to Chile’s distinct regions.

In Colombia, a national Ministry of Housing, City and Territory was formed in 2011 and was tasked with the responsibilities for formulating, implementing, and orienting housing policy, urban planning, and water and sanitation services, particularly in the major cities. Prior to this, urban and housing issues were subsumed under a broader mandate of the Ministry of the Environment, Housing and Territorial Development. With the establishment of a separate Ministry of Housing, City, and Territory, the national government now has a focal agency responsible for housing and urban development issues, including disaster risk management.

The Ministry of Urban Development is the apex authority of Government of India at the national level to formulate policies and programs and to coordinate the activities of various central ministries, state governments, and other nodal authorities concerning all the issues of urban development in the country. The Ministry was attached on and off with the Ministry of Housing and Urban Poverty Alleviation on many occasions, before finally becoming independent in 2004.

Source: UN Habitat, 2015

**Box 6. Examples of National Urban Development Agencies**

Brazil’s Ministry of Cities is responsible for urban development policy and sectoral policies for housing, sanitation and urban transportation. In January 2003, the Brazilian government created the Ministry of Cities with the objective of formulating national housing, environmental sanitation, and urban mobility policies that have a strong impact in urban development. The National Secretary of Transportation and Urban Mobility was created and the Brazilian Urban Train Company, which was part of the Ministry of Transportation, and the National Traffic Department, which was part of the Ministry of Justice, were incorporated by the Ministry of Cities to elaborate and implement urban mobility policy. The Ministry of Cities is charged with designing and implementing a national policy to upgrade informal and precarious settlements in conjunction with state and municipal governments, which are responsible for its execution. The Ministry of Cities is also tasked with strengthening municipal capabilities and a National Council of Cities engages diverse stakeholders in discussing national urban policy.

In Chile, in the early 1960s, there were at least 28 institutions and eight different departments that intervened in matters of housing, urbanization, and equipment. To deal with this situation, the Ministry of Housing and Urban Planning was created in 1965 with the goal of improving and renewing the deteriorated areas of cities through rehabilitation and urban development programs. Among the priorities of the Ministry of Housing and Urban Planning is to address issues of urban equality, combat spatial segregation, and ensure that all residents benefit from the city, especially the most vulnerable. The ministry expanded programs to improve neighborhoods and condominiums, promoted a new program focused on interventions on small towns, and invested in infrastructure – all with a strategic vision and relevance to Chile’s distinct regions.

In Colombia, a national Ministry of Housing, City and Territory was formed in 2011 and was tasked with the responsibilities for formulating, implementing, and orienting housing policy, urban planning, and water and sanitation services, particularly in the major cities. Prior to this, urban and housing issues were subsumed under a broader mandate of the Ministry of the Environment, Housing and Territorial Development. With the establishment of a separate Ministry of Housing, City, and Territory, the national government now has a focal agency responsible for housing and urban development issues, including disaster risk management.

The Ministry of Urban Development is the apex authority of Government of India at the national level to formulate policies and programs and to coordinate the activities of various central ministries, state governments, and other nodal authorities concerning all the issues of urban development in the country. The Ministry was attached on and off with the Ministry of Housing and Urban Poverty Alleviation on many occasions, before finally becoming independent in 2004.

**Strengthen metropolitan governance and service delivery through the reform of metropolitan coordination arrangements in Metro Manila and secondary urban areas**

a. Possible Directions for Metropolitan Governance Reforms in Metro Manila

While a formal metropolitan governance structure has long been established in Metro Manila, it is apparent that the challenges of metropolitan fragmentation remain. Globally, there have been various institutional approaches that have emerged in response to the challenges of metropolitan-wide governance. Given the experience of MMDA, which illustrates the limitations of a comprehensive metropolitan authority with constrained political authority and weak financial and technical resources, the Philippines may draw lessons on metropolitan governance from the experiences of mega-cities around the world.
A common institutional approach in response to the challenge of metropolitan-wide governance has been simply to maintain jurisdictional fragmentation. In such cases, multiple jurisdictions function within a metropolitan area with some level of autonomy (Bahl 2013).

- In a one-tier fragmented government model, a metropolitan area has a number of autonomous local government units responsible for delivering services within their own boundaries, which often leads to poor coordination among the various government units for critical metropolitan-wide issues such as economic development, environmental quality, social and spatial disparities, and the level of service delivery (Slack 2007). Jurisdictional fragmentation is prevalent in the United States, where there is a strong desire for local autonomy, and generally describes the metropolitan governance models of Mumbai and Sao Paulo.

- Horizontal cooperation among local governments (which may take the form of case-by-case joint initiatives; contracting among local governments; and ad hoc committees, commissions, working groups, and consultative platforms) is a common approach to mitigate coordination issues within jurisdictionally fragmented metropolitan areas (Andersson 2014). However, voluntary cooperation is contingent on policy-makers of the various local governments having shared policy objectives. In cases where there are diverse objectives and motivations among local governments within a metropolitan area, voluntary cooperation is unlikely to succeed. Furthermore, given the magnitude of the challenges confronted by metropolitan areas (such as traffic congestion, pollution, global competition, and fiscal disparities) the required solutions are likely to require a more permanent institutional status. (Slack 2007).

An alternative metropolitan governance structure is functional fragmentation, wherein the delivery of a single service or cluster of services is assigned to an autonomous agency (Bahl 2013). This approach may result in technical and cost efficiencies in service delivery because the autonomous agency would be able to specialize on a particular service while potentially leveraging economies of scale in providing services across a wider spatial jurisdiction.

- The public service enterprise may take the form of a metropolitan-wide/regional authority or a special purpose district and, as is frequently the case in the United States as well as in the cities of Bangkok and Buenos Aires, different autonomous agencies may be established to deliver different urban services within a metropolitan area. Since it is unlikely that the spillover boundaries are uniform across different services (e.g., a regional transit authority may have a different spatial coverage than a solid waste management district), the advantage of such autonomous entities is that the externalities for each service can be addressed on an individual basis (Slack 2007). However, while there are economic efficiencies to be gained from pursuing metropolitan-wide authorities, this approach has also been criticized for reducing citizen control and local accountability for service delivery given that these autonomous entities are generally not directly under the control of any single local jurisdiction. Further, when independent special purpose bodies proliferate within a metropolitan area, it may become difficult to coordinate interrelated activities among them and to mitigate tradeoffs between competing investments and policies among sectors (e.g., transit infrastructure and water and sewer infrastructure).

A more comprehensive governance structure is a metropolitan government where urban services are administered on a metropolitan-wide area (Bahl 2013).

- Under a one-tier consolidated model, urban service delivery over an entire urban area is consolidated under a single metropolitan government, which allows it to leverage economies of scale and to internalize externalities to a greater degree compared to fragmented metropolitan governance structures. Such a structure also provides more potential for equalizing disparities in service delivery throughout the metropolitan area. Large single-tier governments have been created through the amalgamation of multiple local governments within an existing region or the annexation of a jurisdiction (or a portion of a jurisdiction) by an adjacent jurisdiction (Slack 2007). A diverse range of metropolitan areas has adopted this model globally, including Toronto, Shanghai, Cape Town, and Abidjan (Andersson 2014).

- Another model of metropolitan government is a two-tier model where an upper-tier metropolitan body provides region-wide services while lower-tier jurisdictions are maintained to provide services of a local nature, such as local parks and amenities (Slack 2007). In such a model, the upper tier assumes responsibility for services that benefit from economies of scale, generate externalities, and are redistributive in nature. Examples of metropolitan areas that utilize this approach are Tokyo, Madrid, Istanbul, and Portland (Andersson 2014).
Given the strong history of and legal protections for the local autonomy of LGUs, a renewed approach to the more effective metropolitan governance of Metro Manila requires a balance of maintaining the local autonomy of the constituent LGUs while adopting politically and technically feasible compromises for the more effective and efficient delivery of critical urban services. It is unrealistic to expect that the LGC can be revised to reduce the local autonomy of LGUs. Moreover, there is little evidence to suggest that the national government will increase support and devote more resources to the MMDA to realize its comprehensive statutory mandate, as written in the current law. Further, the amalgamation of metropolitan functions within the MMDA or a single-tier, consolidated metropolitan government is unlikely to be politically feasible (even in the context of a possible shift to a federal system of government). Hence, the effort to determine the “appropriate” model for Metro Manila must account for the distinct political and institutional context of Metro Manila as well as the technical and administrative constraints that MMDA has historically faced, while balancing the desire of political stakeholders and constituents to preserve local autonomy with the need to strengthen the quality and efficiency of metropolitan-wide urban service delivery.

Box 8. Key Issues in Metropolitan Governance

While there is a wide range of experience globally in attempting to deal with the challenges of metropolitan fragmentation, there is no consensus on a single “best” approach for governing metropolitan areas. As Bahl, Linn, and Wetzel (2013) observe, “the great variation in practice that exists among developing countries suggests that almost any arrangement can work, if ‘work’ means that local services do not collapse.” Indeed, the key lesson from international experience is that the “appropriate” metropolitan governance model depends on national and local context (Slack 2007), including the strength of the desire for local autonomy vs. more efficiency in service delivery.

A metropolitan government model where urban services are administered on a metropolitan-wide area would, in principle, be the ideal solution. However, in the context of developing countries, the option to adopt a comprehensive metropolitan-wide governance model is likely to be unrealistic because of rapid population growth, scarce resources, and the reluctance of central government to shift away from fiscal centralization (Bahl, Linn and Wetzel 2013). Even in cases of metropolitan consolidation in developed countries, the resulting metropolitan governments typically do not cover the entire metropolitan region (OECD 2006). For developing countries that are rapidly urbanizing, economic boundaries will continue to expand over time making it inevitable that even consolidated cities would still need to coordinate services such as transportation and economic development with neighboring municipalities (Slack 2007).

Voluntary cooperation for the provision of some services may be more achievable than a full-scale metropolitan government in circumstances where a metropolitan area is too big to be acceptable as a political or administrative unit or where local autonomy is paramount and prevents a consolidation (Slack 2007). In such cases, politics are more likely to dictate outcomes than efficiency or equity considerations. However, these approaches generally do not work well when objectives differ among local governments nor do they provide the needed regional foundation for metropolitan areas to coordinate service delivery.

In many cases, adopting a metropolitan-wide/regional authority or a special purpose district to deliver different urban services within a metropolitan area may be a more politically and technically feasible compromise for a metropolitan region. In designing such arrangements, a key consideration is the need to balance between the potentials for economies of scale, externalities, and service coordination efficiency with the impact on residents’ access to their government and its responsiveness and accountability (Andersson 2014). Also, each urban service will likely achieve the lowest per-unit cost at a different scale of production, potentially leading to variations in the boundaries of different services (Slack 2007).

While there is no single solution that is right for all countries, addressing governance issues of metropolitan fragmentation must begin with the central government taking a metropolitan-wide view of reform (Bahl, Linn and Wetzel 2013). Ultimately, central governments raise most of the tax money, spend the largest share of the public budget, and make rules on how sub-national governments operate. Hence, the road to better metropolitan governance and fiscal outcomes in metropolitan areas begins with national governments, which must consider that constantly changing conditions (such population growth, economic globalization, and climate change) demand a continuous evolution of metropolitan governance arrangements over time (Slack 2007, Yaro and Roneros 2011).
The adoption of metropolitan authorities to deliver specific urban services within Metro Manila may be a more politically and technically feasible compromise. This option would potentially allow the constituent cities and municipalities to largely retain local political autonomy and responsibility for local services while allowing for the establishment of technically competent and financially viable metropolitan-wide authorities to be accountable for the efficient delivery of services in key urban sectors that are inter-jurisdictional in nature, such as urban transport and traffic management, and solid waste disposal and management. Such metropolitan authorities would be established as government-owned and controlled corporations (GOCCs) that would not be under the direct control of single jurisdiction; however, the governance structure would include the mayors of the constituent LGUs to ensure that local concerns are adequately addressed.

Under metropolitan authorities, territorial fragmentation persists but specific sector-based integration overcomes it in the performance of specific sectors, such as transportation and traffic management, solid waste disposal and management, and water and sanitation. Services provided by metropolitan authorities are typically financed by user fees and other charges, as well as intra-local transfers, and these models are usually overseen in regulatory terms by the national government. A key advantage of such autonomous entities is that the externalities for each service can be addressed on an individual basis given the likelihood that the spillover boundaries are different uniform across different services (for example, the coverage of a solid waste management authority may be smaller and contained to the 16 cities and one municipality of Metro Manila while the coverage of a transport and traffic authority may extend beyond Metro Manila to include Greater Metro Manila, which would encompass 84 cities and municipalities). The Philippines may draw lessons from successful examples of metropolitan service authorities should it consider this reform path.
Box 9. Examples of Metropolitan Service Authorities

The institutional arrangement for the Barcelona, Spain, is a result of the cooperation of the different local governments within the region on specific sector based issues, including transportation and the environment. In 1997, following the dissolution of the Barcelona Metropolitan Corporation, given local and home rule concerns by the underlying local governments, three sectoral institutions were created in the metropolitan sphere, which city councils in the Barcelona area may join on a voluntary basis. Because affiliation was voluntary, the territorial sphere of the three organizations was different.

- The Mancomunitat de Municipis was tasked to bring a common metropolitan perspective to those jurisdictional areas decided upon by the municipalities. It acted in the area of planning and the improvement of metropolitan infrastructures, public space, housing and land.

- The metropolitan transport organization, Entitat Metropolitana del Transport (EMT) was responsible for the organization, management and planning of the public transport system; the provision of the subway service in seven municipalities; and the organization and control of the taxi system and traffic and road-network programming.

- The organization for the Environment, Entitat Metropolitana del Medi Ambient was responsible for the construction and maintenance of hydraulic infrastructures: water supply; drainage and wastewater and the treatment of urban and industrial waste.

In 2011 the new Barcelona Metropolitan Area (BMA) organization was formed and encompasses and absorbs the three existing voluntary transportation, planning, and environmental organizations in a two-tier council structure to better coordinate efforts. The emerging BMA defines its competencies as territorial management, such as planning, territorial policy, housing, infrastructure and services and political coordination among the 35 local governments. It also includes the competencies of transport, environmental issues and planning and absorbs the previously existing metropolitan arrangements. These have been the purview of the three previous organizations that are being merged. Economic Development and strategic planning are new competencies being added to the new model.

The BMA is financed through a diverse set of resources, including taxes, charges and other fees and transfers from the municipalities to the BMA, which assign these resources to the planning, transport or environmental functions within its jurisdiction. Each local government has a representative, principally the executive, within the Metropolitan Council who elects the executive of the BMA organization.

London, United Kingdom, was governed by a two-level structure from 1964 to 1986, the Greater London Council (GLC) and 32 local governments (each with its own mayor and council). In 1986, the GLC was abolished and governance of London became responsibility of central government ministers, using ad hoc arrangements for regional planning. Since 2000, London has again a city-wide government with elected members of a Greater London Authority (GLA) and since 2002 also a directly elected mayor. The GLA Act created two new elected bodies – the 25-member Assembly elected from two different electoral bases (14 on a constituency basis and 11 London-wide) and the Mayor (who is not a member of the Assembly). Together, the Mayor and the Assembly constitute the GLA.

GLA is a higher-level strategic authority whose principal purpose is to promote economic development and wealth creation, social development, and the environment. GLA and the local governments have little fiscal autonomy; more than 80 percent of their revenues come from central government grants. There are four functions that are separate from the Assembly but accountable to it through the GLA:

- Transport for London (TFL) is responsible for roads, buses, trains, subways, traffic lights, regulation of taxis (metered) and mini-cabs (unmetered and unmarked).

- The London Development Agency (LDA) coordinates economic development and regeneration. It promotes business and works in partnership with industry, public and voluntary sectors.

- The Metropolitan Police Authority (MPA) has 23 members of whom 12 are Assembly members, one is appointed by the Home Secretary, four are magistrates, and six are independent Londoners.

- The London Fire and Emergency Planning Authority (LFEPA) is responsible for fire and emergency services.

The Metropolitan Area of Buenos Aires (Gran Buenos Aires), Argentina, comprises the city of Buenos Aires, consisting of 48 neighborhoods occupying about 200 square kilometers, and 33 adjacent municipalities. The population of the City of Buenos Aires is 2.9 million, plus an estimated 1.6 million commuters, while the rest of Gran Buenos Aires has a population of 9.9 million. In 1978, a public company was created, named CEAMSE (Coordinación Ecológica del Área Metropolitana Sociedad del Estado), by the province of Buenos Aires and the city of Buenos Aires with the responsibility for the collection, treatment, and final disposal of solid waste generated in Buenos Aires and the 33 municipalities of the greater metropolitan area.

CEAMSE collects more than 435,000 tons of residues per month, which is the equivalent of the residues generated by 13.0 million habitants. CEAMSE has inter-jurisdictional character, since its capital stock is shared in equal parts by the Government of the Province of Buenos Aires and the Government of the Independent City of Buenos Aires. Buenos Aires’ Solid Waste Management Plan was a winner at the C40 Cities’ City Climate Leadership Awards 2014, which honour cities for their leadership in tackling climate change.

Source: Andersson, 2014; Slack 2007; Yaro and Ronderos 2011
A transition to a Metro Manila governance model wherein metropolitan service authorities are adopted to provide strategic urban services (such as transport and traffic management, and solid waste disposal and management) across Metro Manila and, as the case may be, Greater Metro Manila will require a shift in the role of MMDA to focus on metropolitan wide development and land use planning and coordination. The functions of MMDA as an implementing agency with responsibilities for direct service provision would thus be greatly reduced, allowing it to focus on its core competencies. MMDA has been the only organization mandated for planning at the metropolitan level and it is one area in which it has arguably functioned adequately, as evidenced by the successful integration of disaster risk management into the comprehensive land use plans in several cities of Metro Manila. The responsibility for implementation and service delivery functions for strategic urban services, which are currently statutorily included in MMDA’s mandate, will be relegated to the new metropolitan service authorities and, in some cases, sector national agencies. The conversion of MMDA to a metropolitan planning and coordinating agency builds on global experiences and good practices.

Box 10. Examples of Metropolitan-wide Planning Authorities

Separate agency for planning and development has been established for some cities; some with a mandate focused on land use and master planning (Delhi Development Authority in India, and Dhaka Capital Development Authority in Bangladesh); others with broader city development mandates such as Lagos Mega-City Development Authority in Nigeria, and London Development Agency in the UK, recently incorporated into the Greater London Authority to which the Mayor of London reports.

The institutional arrangement for Mexico City, Mexico, provides a bridge between the State and multiple local governments creating a set of sector based committees that coordinate metropolitan planning. The Statute of the Federal District authorizes that the Metropolitan Coordination Executive Committee is responsible for the “planning and execution of coordinated actions with the Federation, States and Municipalities in the outlying city areas of Mexico City, in the areas of human settlements; environmental protection, preservation and restoration of the ecological balance; transport; drinking and drainage water; the collection, treatment and disposal of solid waste and public security”.

In New York City, USA, the Regional Plan Association (RPA) was convened as an ad hoc group in 1922 to develop the Regional Plan for New York and its Environ - the world’s first comprehensive, long-range metropolitan plan. This First Regional Plan was completed in 1929 and the Association was incorporated as a permanent non-profit organization later that year to oversee the plan’s implementation. In response to new economic, mobility, environmental and social challenges, the Second and Third Regional Plans were completed by RPA in 1968 and 1996 to address these concerns. RPA serves the New York-New Jersey-Connecticut Metropolitan Region, which is comprised of 31 Counties. It is an independent metropolitan policy, research and advocacy group, which performs most of the regional planning functions, partly funded by the area Counties.

In Chicago, USA, the Chicago Metropolitan Agency for Planning (CMAP) was created in 2006 to address development and transport challenges in seven counties in north-eastern Illinois. Its aim is to plan for public and private investments in the area and integrate plans for land use and transport. The CMAP merged the operations of the Chicago Area Transportation Study (CATS) and the Northeastern Illinois Planning Commission (NIPC). CMAP is responsible for developing a comprehensive regional plan at least every five years that integrates land use and transport. This plan presents the goals, policies, guidelines and recommendations to guide the physical development of the region. Based on this plan, a listing of proposed public investment priorities in transport and other facilities and utilities is made. In addition, the comprehensive regional plan can contain proposals for model ordinances and agreements that may be enacted by local governments, as well as recommendations for legislation that may be necessary to implement the plan. CMAP’s official forecasts and plans are the foundation for all planning in the region, whilst units of local governments continue to maintain control over land use and zoning decisions.

Key lessons from these examples highlight the need to:

- Include representation of all local governments of the metropolitan area in the government organs of the planning authority
- Specify technical profiles for technical and management staff
- Design management periods with a different duration than those of the local or national authorities
- Provide long-term programs of work
- Detail clear mechanisms to link technical studies with public works and private developments

Source: Andersson, 2014; Stark 2007; Yaro and Ronderos 2011
If MMDA is converted into metropolitan-wide development and land use planning and coordination body, the Metro Manila Council should continue to serve as the governing body but its membership should be expanded to include voting representatives from the national agencies with corresponding responsibilities, as well as private sector and civil society organizations. Currently, the Metro Manila Council places the decisions about metropolitan issues in the hands of elected representatives from individual localities and the MMDA Chairman, who is a Presidential appointee and, historically, has usually been a career politician. The recommendation is to open the voting powers of the council to reflect a wider range of other interests and concerns, as well as appoint a Chairperson with a technical and professional background (as opposed to a political background).

Regional development authorities such as the Regional Plan Association, the non-profit planning organization responsible for developing metropolitan strategies for the New York, New Jersey, and Connecticut metropolitan region, is managed by a diverse board and committees that include civic, community and business leaders. In Sao Paolo, the Regional Development Agency is led with a board of directors comprised of private sector members who control 51 percent of board and the Inter-municipal Consortium with the remaining 49 percent.

Importantly, steps towards adopting metropolitan authority model for Metro Manila, with MMDA serving as a development and land use planning and coordinating body, will require a thorough technical and institutional review. Fundamental questions would need to be studied regarding: i) the specific sectors to be delegated to new metropolitan service authorities and, as the case may be, to sector national agencies; ii) the scope of responsibilities to be retained by MMDA; iii) the spatial and jurisdictional coverage of the new metropolitan service authorities and the reformed MMDA; iv) institutional arrangements among the new metropolitan service authorities, the reformed MMDA, national sector agencies (including the proposed Department of Housing and Urban Development), LGUs, and the private sector and civil society organizations; and vi) the legal requirements and follow-up executive and administrative actions among both national government agencies and local governments needed to enact the coordinated series of reforms. Political commitment at the highest level (Office of the President) is needed to push for such a comprehensive reform of Metro Manila’s metropolitan governance structure, which would be fully consistent with the development and adoption of a comprehensive NUP for the Philippines.

b. Directions for Metropolitan Governance Reforms in Secondary Urban Areas

For metropolitan areas outside of Metro Manila, which are much smaller in scale and are predominantly “spillover” rather than “fragmented” urban areas, a more nuanced approach should be provided for under the proposed NUP that allows for more flexibility and innovation.

- In relatively large-scale, “fragmented” metropolitan areas, particularly Metro Cebu or Metro Angeles in Pampanga, adopting the same approach proposed for Metro Manila may be beneficial. In these cases, metropolitan-wide planning bodies may be established to coordinate inter-jurisdictional development and land use planning and to lead the coordination between the metropolitan area and the national government for service delivery and large-scale public infrastructure investments. Concurrently, metropolitan service authorities may established (as appropriate to the specific needs of each metropolitan area) to deliver strategic, inter-jurisdictional urban services across each metropolitan area. In each
case, a comprehensive technical and institutional review should be undertaken to design the appropriate model, as consistent with the broad goals of the proposed NUP.

- For smaller-scale, “spillover” metropolitan areas, formally establishing a separate planning and service delivery authorities may not be necessary and cost-efficient in the medium-term. The more practical approach may be to strengthen formal mechanisms and incentives for inter-local coordination for spatial and land-use planning and collaboration for service delivery. Such reforms have already been subject to extensive policy discussions and analysis by DILG in recent years (AusAID 2008, European Union 2010). Models and lessons from examples of successful inter-jurisdictional coordination within urban areas, such as Metro Iloilo and Metro Naga, should be studied and replicated in urban areas with similar characteristics.

The enactment of the NUP and establishment of a new Department of Housing and Urban Development will create the appropriate enabling environment for implementing financing and institutional reforms to enable effective inter-LGU cooperation within metropolitan areas. These would include: i) establishing a legal framework for the creation and operation of inter-local enterprises, ii) developing financing instruments to finance inter-local enterprises, and iii) providing capacity and institutional development and financial incentives to support operationalize inter-local enterprises.

For metropolitan areas outside of Metro Manila, the NUP should provide policy guidelines for the national government to foster the appropriate governance structures necessary to evolve from urban clusters to formal metropolitan status and function. The proposed Department of Housing and Urban Development should be tasked with the responsibility for supporting the establishment and operationalization of formal inter-jurisdictional coordination and governance arrangements in metropolitan areas outside of Metro Manila. Within the context of metropolitan areas, the NUP should specify the specific roles of the national government (including the proposed Department of Urban Development as well as relevant sectoral agencies), metropolitan body (in whatever form it is established), and the component LGUs for metropolitan-wide planning, service delivery, and infrastructure development.

The NUP should clearly define and classify metropolitan areas outside of Metro Manila, that is, urban areas that attain a certain scale requiring special oversight by the national government. The criteria to assess metropolitan areas should include population size and density, land area, and level of metropolitan fragmentation. As seen with the cases of Metro Cebu and Metro CDO, voluntary coordination through project-by-project agreement only works in a limited manner for pro-active, self-organizing stakeholders. Therefore, the NUP should specify guiding principles for establishing and supporting formal inter-jurisdictional coordination and governance arrangements based on the classification of metropolitan areas that achieve a minimum scale.

**Strengthen accountability systems for local service delivery through fiscal decentralization reforms**

Structural reforms to the intergovernmental fiscal system of the Philippines requires legislative actions and must hence be considered as part of a long-term agenda given the lack of substantive revisions to the LGC since it was enacted 25 years ago. In recent years, DILG has undertaken a comprehensive review of the fiscal decentralization system leading to the submission in 2015 of a proposed a package of legislative revisions to the LGC:
• In terms of improving revenue assignments: a) transfer the authority to approve the schedule of market values of real properties from the LGUs to the Department of Finance while retaining the autonomy of LGUs to set tax rates and assessment levels; and b) simplify the differentiated and graduated local business tax structure.

• In terms of improving expenditure assignments: clarify functional assignments by differentiating between fully devolved functions, for which LGUs will assume exclusive responsibility for service provision, and delegated functions, for which the national government retains primary responsibility but which are to be implemented by LGUs.

• In terms of improving the progressivity of the IRA: revise the IRA formula to take into account disparities in the revenue raising capacity of LGUs in line with their expenditure needs.

However, as has been the case in past attempts to revise the LGC, the proposed legislative reforms from DILG were not classified as a priority bill in the last Congressional session and were subsequently not seriously debated. With the current political discussions regarding the possible shift from a unitary system of government to a federal system, it is possible that structural reforms to the LGC will be given serious consideration. However, such reforms must navigate very expansive and diverse sets of interest among local and national government stakeholders and will likely remain highly challenging to enact.

Nonetheless, executive actions that accompany the proposed enactment of a national urbanization policy and establishment of a Department of a lead agency for urban development and housing will help to address weak systems of accountability that stem from structural issues in the decentralization system.

• The establishment of a Department of Housing and Urban Development will serve to clarify the respective responsibilities of NGAs and LGUs for the provision of core urban services and investments within cities and metropolitan areas.

• Designating the Department of Housing and Urban Development with the responsibility to develop and implement a monitoring system at the city and metropolitan level for collecting standardized data on core urban services will address the issue of the lack of service delivery data at the local level.

• The collection of critical data on urban service delivery outputs and outcomes will allow the Department of Housing and Urban Development to develop service
standards for core urban services over the medium-term. This would represent a major step towards strengthening incentives for better service delivery and providing local chief executives with management tools to improve service delivery.

- The availability of urban service data will also serve as a platform for designing more effective LGU financing instruments based on the prescribed roles of the national and local governments in the planning, financing, and provision of core urban infrastructure and services as specified in the NUP. For example, performance-based and/or conditional transfers to LGUs in metropolitan regions could be designed to finance investments in strategic core urban infrastructure and services. Such transfers would serve as important tools for addressing the financing gap in key sectors (e.g., major road and bridge construction, drainage and flood control facilities, housing, and solid waste management facilities) while concurrently strengthening accountability systems. Furthermore, innovative municipal financing instruments that are absent from the current intergovernmental fiscal system (including municipal bonds and bond pooling, local infrastructure investment funds, and public-private partnerships) may be developed to strengthen the fiscal autonomy of cities to finance local infrastructure priorities.

Near-term reforms should be pursued to support the capacity building of cities for local revenue administration and to improve the institutional environment for debt financing. The comprehensive package of institutional reforms for urban development and metropolitan governance are intended to strengthen the institutional environment for urban service delivery. In theory, this would increase the incentives for cities to optimize local tax bases and to utilize debt financing to accelerate local infrastructure development. However, capacity building and policy reforms can further address weaknesses in local fiscal autonomy of cities.

- Capacity building support and advocacy activities targeted to cities can help to facilitate the regular updating of schedules of market values and local revenue codes, the adoption of modern tax mapping and GIS tools, and the streamlining of business permits and licensing systems.

- Supply-side interventions requiring executive actions are needed to facilitate LGU borrowing. Specifically, BLGF and the Monetary Board must coordinate to lower the bureaucratic hurdles and shorten the processing time for LGUs to access loans. Furthermore, the Department of Finance should eliminate unnecessary restrictions on commercial bank lending to LGUs. The continued restriction of commercial banks reduces competition in the LGU credit market and may prevent cities from accessing more affordable credit.