



PHILIPPINES URBANIZATION REVIEW

FOSTERING COMPETITIVE,
SUSTAINABLE AND INCLUSIVE CITIES

FULL REPORT



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FULL REPORT

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List of Acronyms and Abbreviations

Abbreviation/Acronym	Definition
AAB	AUTHORIZED AGENT BANK
AIP	ANNUAL INVESTMENT PLAN
ATO	AIR TRANSPORTATION OFFICE
AUSAID	AUSTRALIAN AGENCY FOR INTERNATIONAL DEVELOPMENT
BIR	BUREAU OF INTERNAL REVENUE
BLGF	BUREAU OF LOCAL GOVERNMENT FINANCE
BMA	BARCELONA METROPOLITAN AREA
BP 220	BATAS PAMBANSA 220
BPLO	BUSINESS PERMITS AND LICENSING OFFICE
BPLS	BUSINESS PERMITS AND LICENSING SYSTEM
BPLSR	BUSINESS PERMITS AND LICENSING SYSTEM REFORM
BPO	BUSINESS PROCESSING OUTSOURCING
BUB	BOTTOM-UP BUDGETING
CADTs	CERTIFICATE OF ANCENTRAL DOMAIN TITLES
CATS	CHICAGO AREA TRANSPORTATION STUDY
CCT	CONDITIONAL CASH TRANSFER
CDO	CAGAYAN DE ORO CITY
CDP	COMPREHENSIVE DEVELOPMENT PLAN
CEAMSE	COORDINATION ECOLOGICA DEL AREA METROPOLITANA SOCIEDAD DEL ESTADO
CEDF-IT	CEBU EDUCATION DEVELOPMENT FOUNDATION FOR INFORMATION TECHNOLOGY
CHED	COMMISSION ON HIGHER EDUCATION
CELA	CERTIFICATE OF LAND ALLOCATION
CICT	COMMISSION ON INFORMATION AND COMMUNICATIONS TECHNOLOGY
CIP	CEBU INTERNATIONAL PORT
CLOAs	CERTIFICATE OF LAND OWNERSHIP AWARDS
CLUP	COMPREHENSIVE LAND USE PLAN
CMAP	CHICAGO METROPOLITAN AGENCY FOR PLANNING
CMP	COMMUNITY MORTGAGE PROGRAM
COA	COMMISSION ON AUDIT
COR	CERTIFICATE OF REGISTRATION
CPA	CEBU PORT AUTHORITY
CPBI	CENSUS OF PHILIPPINE BUSINESS AND INDUSTRY
CRRU	CONCESSION OF THE REAL RIGHT TO USE
CSO	CIVIL SOCIETY ORGANIZATION
CTC	COMMUNITY TAX CERTIFICATE
CTO	CITY TREASURER'S OFFICE
DA	DEVELOPMENT AGENCIES
DAR	DEPARTMENT OF AGRARIAN REFORM
DBM	DEPARTMENT OF BUDGET MANAGEMEBT
DENR	DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES
DENR-LMB	DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES LAND MANAGEMENT BUREAU
DFA	DEPARTMENT OF FOREIGN AFFAIRS
DILG	DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT
DND	DEPARTMENT OF NATIONAL DEFENSE

Abbreviation/Acronym	Definition
DOE	DEPARTMENT OF ENERGY
DOH	DEPARTMENT OF HEALTH
DOLE	DEPARTMENT OF LABOR AND EMPLOYMENT
DOTr	DEPARTMENT OF TRANSPORTATION
DOTC	DEPARTMENT OF TRANSPORTATION AND COMMUNICATION
DPWH	DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS
DST	DOCUMENTARY STAMP TAXES
DSWD	DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT
DTI	DEPARTMENT OF TRADE AND INDUSTRY
DU	DELIVERY UNIT
EBRD	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
EDC	EXPORT DEVELOPMENT COUNCIL
EDSA	EPIFANIO DE LOS SANTOS AVENUE
EIU	ECONOMIST INTELLIGENCE UNIT
EMT	ENTITAT METROPOLITANA DE TRANSPORT
EO	EXECUTIVE ORDER
ETRACS	LAM TECHNOLOGY TO AUTOMATE TAX ASSESSMENT AND COLLECTION
FIES	FAMILY INCOME AND EXPENDITURE SURVEY
FNRI	FOOD AND NUTRITION RESEARCH INSTITUTE
FPSG	FIXED PERIOD STATE GRANT
GADM	GLOBAL ADMINISTRATIVE AREAS BOUNDARIES WITHOUT LIMITS
GDP	GROSS DOMESTIC PRODUCT
GLA	GREATER LONDON AUTHORITY
GLC	GREATER LONDON COUNCIL
GOCCs	GOVERNMENT OWNED AND CONTROLLED CORPORATIONS
GUCR	GLOBAL URBAN COMPETITIVENESS REPORT
HCI	HUMAN CAPITAL INDEX
HDH	HIGH DENSITY HOUSING
HLURB	HOUSING AND LAND USE REGULATORY BOARD
HOA	HOMEOWNER'S ASSOCIATION
HUCs	HIGHLY URBANIZED CITIES
HUDCC	HOUSING AND URBAN DEVELOPMENT COORDINATING COUNCIL
IBPAP	INFORMATION TECHNOLOGY AND BUSINESS PROCESSING ASSOCIATION OF THE PHILIPPINES
ICT	INFORMATION AND COMMUNICATION TECHNOLOGY
IMF	INTERNATIONAL MONETARY FUND
INVEST	INVESTMENT ENABLING ENVIRONMENT
IRA	INTERNAL REVENUE ALLOTMENT
IRR	INTERNAL RULES AND REGULATIONS
ISA	INSTITUTE FOR SOLIDARITY IN ASIA
ISF	INFORMAL SETTLER FAMILIES
ISFs	INFORMAL SETTLER FAMILIES
IT	INFORMATION TECHNOLOGY
LAM	LAND ADMINISTRATION MANAGEMENT
LAMP2	LAND ADMINISTRATION MANAGEMENT PROGRAM
LCPDC	LEGAZPI CITY PLANNING AND DEVELOPMENT COUNCIL
LDA	LONDON DEVELOPMENT AGENCY
LEIPO	LOCAL ECONOMIC AND INVESTMENT PROMOTION OFFICE

Abbreviation/Acronym	Definition
LFEP	LONDON FIRE AND EMERGENCY PLANNING AUTHORITY
LFS	LABOR FORCE SURVEY
LGC	LOCAL GOVERNMENT CODE
LGPMS	LOCAL GOVERNMENT PERFORMANCE MANAGEMENT SYSTEM
LLDA	LAGUNA LAKE DEVELOPMENT AUTHORITY
LPG	LIQUEFIED PETROLEUM GAS
LPI	LOGISTICS PERFORMANCE INDEX
LRA	LAND REGISTRATION AUTHORITY
LSCI	LINER SHIPPING CONNECTIVITY INDEX
MCCT	MODIFIED CONDITIONAL CASH TRANSFER
MMDA	METRO MANILA DEVELOPMENT AUTHORITY
MPA	METROPOLITAN POLICE AUTHORITY
MSMEs	MICRO, SMALL AND MEDIUM ENTERPRISES
MSTPL	MANAGING SPATIAL TRANSFORMATION FOR PROSPERITY AND LIVABILITY
MTPIP	MEDIUM TERM PUBLIC INVESTMENT PLAN
MWSS	METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
NAST	NATIONAL ACADEMY OF SCIENCE AND TECHNOLOGY PHILIPPINES
NCIP	NATIONAL COMMISSION ON INDIGENOUS PEOPLES
NCR	NATIONAL CAPITAL REGION
NCWDP	NATIONAL COUNCIL ON DISABILITY AFFAIRS (PHILIPPINES)
NEDA	NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NFPP	NATIONAL FRAMEWORK FOR PHYSICAL PLANNING
NHA	NATIONAL HOUSING AUTHORITY
NIPC	NORTHEASTERN ILLINOIS PLANNING COMMISSION
NRCP	NATIONAL RESEARCH COUNCIL OF THE PHILIPPINES
NSDI	NATIONAL SPATIAL DATA INFRASTRUCTURE
NSO	NATIONAL STATISTICS OFFICE
NTL	NIGHT-TIME LIGHTS
NUDHF	NATIONAL URBAN DEVELOPMENT AND HOUSING FRAMEWORK
NUP	NATIONAL URBAN POLICY
NWRB	NATIONAL WATER RESOURCES BOARD
NYC	NEW YORK CITY
OECD	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
OSS	ONE STOP SHOP
Pag-ibig	HOME DEVELOPMENT MUTUAL FUND
PBR	PHILIPPINE BUSINESS REGISTRY
PCD	PRINTER'S CERTIFICATE OF DELIVERY
PCF	PERFORMANCE CHALLENGE FUND
PDEA	PHILIPPINE DRUG ENFORCEMENT AGENCY
PDP	PHILIPPINE DEVELOPMENT PLAN
PEMANDU	PERFORMANCE MANAGEMENT AND DELIVERY UNIT
PEZA	PHILIPPINE ECONOMIC ZONE AUTHORITY
PGS	PERFORMANCE GOVERNANCE SYSTEM
PhilHealth	THE PHILIPPINE HEALTH INSURANCE COMPANY
PHIVOLCS	PHILIPPINE INSTITUTE OF VOLCANOLOGY AND SEISMOLOGY

Abbreviation/Acronym	Definition
PISR	PHILIPPINE BUSINESS REGISTRY
PPA	PHILIPPINE PORTS AUTHORITY
PPD	PUBLIC PRIVATE DIALOGUE
PPSB	PUHUNAN PANGKABUHAYANG SIKAP BUHAY
PSIC	PHILIPPINE STANDARD INDUSTRIAL CLASSIFICATION
QLAI	QUALITY OF LAND ADMINISTRATION INDEX
R&D	RESEARCH AND DEVELOPMENT
RDC	REGIONAL DEVELOPMENT COUNCIL
REGALA	SUPPORT TO LOCAL GOVERNMENT REVENUE GENERATION AND LAND ADMINISTRATION REFORMS (ADB PROGRAM)
ROD	REGISTRY OF DEEDS
RPT	REAL PROPERTY TAX
RPTAR	REAL PROPERTY TAX ACCOMPLISHMENT RATE
RS4LG	REFORM SIMPLIFICATION FOR LOCAL GOVERNMENT
SBECO	SIKAP BUHAY ENTREPRENEURSHIP AND COOPERATIVE OFFICE
SEC	SECURITY EXCHANGE COMMISSION
SGLG	SEAL OF GOOD LOCAL GOVERNANCE
SHFC	SOCIAL HOUSING FINANCE CORPORATION
SME	SMALL, MEDIUM ENTERPRISE
SMV	SCHEDULE OF MARKET VALUES
SSS	SOCIAL SECURITY SYSTEM
SRP	SOUTH ROAD PROPERTIES
STEM	SCIENCE, TECHNOLOGY, ENGINEERING AND MATHEMATICS
TCT	TRANSFER CERTIFICATE OF TITLE
TESDA	TECHNICAL EDUCATION AND SKILLS DEVELOPMENT AGENCY
TFL	TRANSPORT FOR LONDON
TFP	TOTAL FACTOR PRODUCTIVITY
TIN	TAXPAYER IDENTIFICATION NUMBER
TOD	TRANSIT ORIENTED DEVELOPMENT
TWG	TECHNICAL WORKING GROUP
UDHA	URBAN DEVELOPMENT AND HOUSING ACT
UID	UNIQUE IDENTIFICATION DENOMINATION
USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
VAT	VALUE ADDED TAX
WDI	WORLD DEVELOPMENT INDICATORS
WDR	WORLD DEVELOPMENT REPORT
ZEIS	ZONA ESPECIAL DE INTERESSE SOCIAL

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Memorandum to Policy Makers and City Mayors in the Philippines

This memo introduces you to a report about Urbanization in the Philippines with a set of priority recommendations for fostering more competitive, sustainable and inclusive cities in your country. The global evidence is clear – urbanization provides enormous opportunities for growth, job creation and poverty reduction. Yet when unmanaged, it can lead to congestion, slums, pollution, inequality and crime.

The Philippines is at a critical juncture in its urbanization process with the number of people living in cities projected to increase by approximately 20 million over the next 20 years. By 2050, it is estimated that close to 102 million Filipinos will live in cities, about double the number of today. Decisions made now will affect how that urbanization takes place, how cities grow, how vibrant they are, and the extent to which they contribute to improving the lives of tens of millions of residents. The opportunity, therefore, lies in ensuring that some of the binding constraints that have hampered the full benefits of urbanization from being realized until now, are addressed. This will require a number of bold policy reforms that are needed at both the national and local level.

The top priorities fall into 5 broad categories with the final two, strengthening institutions for urban development and improving land administration management, likely to have the biggest impact given the extent to which effective urban governance and land issues constrain urban development in the Philippines today. For your consideration are the following areas for policy reform:

- Managing urbanization for efficiency and growth. The spatial and economic patterns of urbanization are impeding urban led growth and productivity. Priority policies include focusing on managing the existing urban density and preparing for further concentration such as better coordinating spatial planning, land use, infrastructure development and service delivery, encouraging mobility in the labor market, and improved transport infrastructure to lower inter-city transportation costs, expand market access, and generate complementary and specialized functions for each city to formulate a more efficient system of cities. Within cities, the promotion of efficient and affordable mass transport such as metro rail transit (MRT) and bus rapid transit (BRT) will increase productivity and improve sustainability. Efficient land use through transit-oriented development (TOD) has been demonstrated to be a high-value complement to mass transit in many other countries.
- Improving city competitiveness for local economic development and job creation. There are a number of actions needed to improve the business environment to make cities more attractive to investors such as simplifying licensing and permitting, and standardizing requirements and procedures. Investing in basic infrastructure, particularly connective infrastructure and mass transit, and opening up land markets to make areas more available for development will foster a competitive environment. Strengthening programs to foster innovation and match skills with demand, strengthening the Local Economic and Investment Promotion Offices (LEIPOs) and promoting new opportunities with the private sector will generate new opportunities for workers.

- Promoting inclusive growth by creating opportunities for the urban poor. There are many people in cities that rely entirely on the informal sector for work, and live without access to affordable housing and basic services, ultimately creating divisions which hamper growth and competitiveness. To promote inclusion in cities, there is a need to prioritize programs for affordable housing and basic services, foster participation at the community level for slum upgrading, provide incentives for completion of secondary education which is critical to securing jobs, and invest in livelihoods and job support for low income groups.
- Strengthening institutions and governance of metropolitan areas for efficient service delivery and sustainable urban planning and management. At the core of the effective management of cities, delivery of services and creation of a dynamic environment for job creation is strong institutions and good governance. A necessary starting point is a comprehensive national urban policy that includes provision for the establishment of a lead agency for urban development and housing, and clearly defines the roles of national and local governments. Structural reforms to the legal framework for fiscal decentralization will also be required to strengthen local service delivery. At the metropolitan level, a reform of Metro Manila Development Authority (MMDA) is needed for Metro Manila and the development of metropolitan coordination arrangements in some of the larger secondary urban areas.
- Improving land administration and management to open up land markets. Improvements in land information systems are critically needed so that can be used reliably and transparently across agencies, updating land use planning and regulations that takes into account future requirements and sustainability concerns, improving property taxation and valuation practices to ensure the proper collection of real property taxes, and addressing informality by expanding opportunities for affordable housing and land tenure.

Implementing such reforms in the Philippines is possible but will require a strong commitment from you, your counterparts in other agencies or neighboring municipalities, and from the private sector and citizens. The investments made now will provide a pathway forward for the Philippines where urban areas contribute significantly to boosting growth and reducing poverty, and are dynamic, prosperous, resilient, inclusive and attractive places to live.

Executive Summary

Introduction

Urbanization is a driving force for growth and poverty reduction. Globally, over 80 percent of economic activity is concentrated in cities, and cities are essential for lifting millions of people out of poverty through the opportunities that density and agglomeration can bring with jobs, services, and innovation. However, if not carefully managed and planned for, the benefits of urbanization are not realized and can result in congestion, slums, pollution, inequality and crime.

City competitiveness is an important part of successful urbanization. A competitive city facilitates its firms and industries to create jobs, raise productivity, and increase the incomes of citizens over time.¹ At the same time, it is not possible to achieve these objectives without strong institutions, social inclusion, resilience, and environmental sustainability. All of these elements are important to harnessing the benefits of urbanization and must be enabled by both national and local governments.

The Philippines is one of the fastest urbanizing countries in the East Asia and Pacific region. In the past five decades the urban population grew by over 50 million people, and by 2050, approximately 102 million people (more than 65 percent of the country's total population) will reside in cities. Urban density overall is high, particularly in Metro Manila, one of the regions fast growing megacities.

Urbanization is correlated with economic efficiency and growth in the Philippines, as has been found in other countries. The economic benefits of urbanization are realized through agglomeration economies based on the high and increasing density of cities which provides much opportunity for structural transformation of the economy

While urbanization in the Philippines has had positive impacts on increased productivity, economic growth and poverty reduction, the country has not benefited from urbanization gains as much as other countries which leaves much scope for increasing opportunities going forward. There are a number of underlying structural issues affecting urbanization in the Philippines in various ways. First is the countries' archipelagic geography which creates divisions in connectivity both internally and to external markets. Second is the country's bypassing the industrialization process normally associated with urbanization, having shifted directly from agriculture to service sector dominance. Third is a stagnating manufacturing sector which has not resulted in high quality jobs and, in turn, has negatively affected urban led growth. In all known cases of high and sustained growth, urban manufacturing and services led the process while increases in agricultural productivity freed up the labor force that moved to the cities and manned factories.² Fourth, is the Philippines high exposure to natural hazards, particularly flooding and seismic risk, all of which exacerbate urban management challenges.

¹ World Bank, 2016, "Competitive Cities for jobs and growth: what, who and how"

² Spence, M. Annez, P. and Buckley, B. eds, 2009, Urbanization and Growth, World Bank.

Beyond these key structural issues are two binding constraints which, unlike the structural issues, can be addressed through a bold reform agenda. These include highly fragmented institutional arrangements for urban development and metropolitan governance, and major shortcomings in land administration and management. The resulting impacts of these issues coupled with rapid urbanization have greatly hampered city competitiveness affecting economic development, job creation, poverty reduction and livability.

This being said, there are many encouraging opportunities for better leveraging urbanization in the Philippines. One only has to look at the vibrant private sector and development of areas such as Bonifacio Global City in Taguig City, or the Ilollo Business Park in Ilollo, City, Center, or a number of successful programs at the local level to know what is possible. To realize these opportunities, however, commitment to implement bold reforms will be needed by a range of stakeholders including national and local government, the private sector and civil society.

This policy report aims to analyze key issues related to urbanization in the Philippines and provide a set of recommendations as part of a major reform agenda for improving the competitiveness of cities in the country. The report draws on a number of existing data sets, extensive consultations with Government, the private sector, researchers and civil society groups. It also draws on international experience on urbanization.

Chapter 1 of the report provides an introduction to urbanization in the Philippines. Chapter 2 covers analysis of urbanization and growth in the Philippines, Chapter 3 focuses on city competitiveness for economic development and job creation, Chapter 4 provides an analysis of urban poverty with a particularly focus on informal settler families (ISFs) in Metro Manila, Chapter 5 outlines the key binding constraints related to institutions for urban development and metropolitan governance; and Chapter 6 covers constraints related to land administration and management in urban areas. Each chapter includes a framework for analysis, identification and assessment of key issues, and provides recommendations for the Government of the Philippines to consider. Important topics related to environmental sustainability and resilience are included as a cross cutting issue as they relate to urban planning and land management, but not covered in depth as they have been addressed in other World Bank reports. The full study is summarized below. Background technical papers for each section have also been prepared and cover much more analysis and detail. These are available as a companion to this policy report.

Urbanization and Economic Growth

Urbanization presents a great opportunity for the economic growth of the Philippines. Evidence from today's developed countries and rapidly emerging economies suggests that urbanization and economic growth go hand in hand due to agglomeration economies embedded in the high density of cities. The Philippines has the second highest average urban density in East Asia and Pacific Region and it is still increasing. This provides a potential driver for enhanced productivity and economic growth. Rising population and economic densities could enable savings in transport and communication costs, lead to frequent interactions, enable finer specialization and knowledge spillovers, and heighten competition in product and labor markets. A clear densification process has been experienced by Metro Manila since 1990s together with a structural transformation of the urban economy, with industries moving out of the central urban areas into the metro fringe and secondary cities, and replaced by services, which can lead to a more efficient system of cities based on experience from developed countries.

The economic benefits from urbanization in the Philippines, however, are yet to be fully harnessed. Realization of efficiency gains from urbanization have been hampered by some key challenges, which can be summarized from the dimensions of Density, Distance and Division.

- **Density.** The fast growing urban population and urban density have not been accompanied by commensurate investments in urban infrastructure, as exacerbated by the weak and fragmented institutions and governance for urban and metropolitan management and service delivery, leading to congestion diseconomies associated with land scarcity and lack of basic services such as clean water and sanitation, and housing, increases in natural hazard risk and pollution, and rising commuting costs, which have most clearly manifested in Metro Manila.
- **Distance.** The country faces significant connectivity challenges from infrastructure bottlenecks alongside the archipelagic geography. Inadequacy of urban and regional transportation infrastructure remains a major constraint in the movement of people and commodities between production and consumption centers as well as between urban centers. The high domestic transport cost increases economic distance between cities, limits the potential for cities to diversify or specialize based on their comparative advantage and trade with each other, and thus undermines the efficiency of the whole city network.
- **Division.** The economic, social and spatial exclusion in urban areas are most prominently manifested by the large scale of ISFs living in poor conditions with limited access to basic urban services. Such divisions and inequality can also be detrimental to the development of a vibrant urban middle class whose consumption patterns can boost domestic demand and a more service based urban economy.

Competitiveness for Economic Development and Job Creation

City competitiveness is important to job creation, growth and livability. Both national and local governments have a role in providing an enabling environment that facilitates firms and industries to create jobs, raise productivity and increase the incomes of citizens over time. The primary source of job creation in cities all over the world has been the growth of private sector firms, which have typically accounted for around 75 percent of job creation. In recent years large cities in the Philippines have been the main drivers of growth consistently outperforming the national economy. The rise of service sector, particularly the BPO industry, have led to creation of hundreds of thousands of well paid jobs. However Filipino cities remain behind their international peers, suggesting the need for reforms to improve the potential for additional economic growth and job creation in cities. Several key issues have been identified as major obstacles.

Poor business environment. Business regulations in the Philippines are among the most complex in East Asia, and impact overall job creation. The World Bank Doing Business 2016 report ranks the Philippines 103 out of 189 in overall ease of doing business with only Indonesia ranking lower (109) among major regional economies. Cities impose additional constraints on national level regulations and fail to adopt best practice solutions plenty of which are available within the country. As a result, starting a business, paying taxes, construction permits, and registering property are all especially onerous.

Weak infrastructure, land management and access to markets. The high costs and unreliable provision of internet, water, and electricity serve to undermine firm productivity and growth. Poor telecommunication infrastructure in particular limits the growth of the business process outsourcing sector, an important source of well-paying jobs. Cities are also crippled by traffic due to underinvestment in transportation infrastructure. High infrastructure, logistics and shipping costs, coupled with corruption, has led the Philippines to have higher than average bilateral trade and export costs within the region and limited access to international markets.

Low demand for innovation and skill match. The Philippines spends only 0.1 percent of GDP on R&D, behind all regional peers with the exception of Indonesia. According to the Global Innovation Index, it also lags behind peers in research outputs, patents and intellectual property rights. The combined negative impact of poor business environment, lack of access to early-stage finance and weak access to domestic and global markets has resulted in cities like Metro Manila, Cebu and Davao being unable to leverage substantial human capital potential to enhance innovation. This is compounded by a lack of coordination between the university system and the private sector, and an overall mismatch between the skills of university graduates and the needs of the business community.

Limited access to finance and business support. The banking sector in the Philippines is stable, profitable and well capitalized, but provides limited financing to micro, small, and medium-size enterprises (MSMEs). The lack of legal protection for bank supervisors, an inadequate bankruptcy resolution framework, lack of centralized credit information, and a cumbersome collateral registration process all result in overly conservative guidelines for credit operations. As a result, many large banks fail to meet the legal target of loans to MSMEs accounting for at least 8 percent of the lending portfolio. Other forms of public business support while plentiful suffer from poor coordination and lack of monitoring and evaluation systems that allow for assessment of effectiveness of such programs.

Insufficient economic planning. Many city-level economic development programs, with a possible exception of the few most developed cities in Metro Manila, are under-resourced and fail to reach a critical mass to tangibly support the private sector. Furthermore, a lack of clarity of the economic development functions of both local and national government agencies undermines efficiency. While at the local level lack of transparency and inefficient organization of economic function in city halls becomes a hindrance for economic growth.

Inclusive Growth for Pro-Poor Development and City Competitiveness

Inclusive urbanization, where everyone can reap the benefits of urban growth, is a key aspect of competitive cities. If urbanization is managed well, it can provide a pathway out of poverty and act as an engine of growth. If not, it can give rise to inequality and exclusion that can derail the development process. As mentioned above, the challenges of division as manifested through economic, spatial and social exclusion ultimately affect opportunities in cities.

Rising multi-dimensional urban poverty, inequality and high levels of informality. Urban poverty has remained largely unchanged between 2003 and 2012, while national poverty decreased slightly. Yet, disparities in living conditions are most evident in urban areas as cities fail to keep pace with the increased demand for jobs, housing, infrastructure and basic services. Not all informal settlers are income poor, but many live just above the poverty line and are extremely vulnerable to slipping back into poverty with potential external shocks such as natural disasters and illnesses.

Informal employment and low wages. Urban poor suffer from high underemployment, which was twice as high (29%) as that of urban non-poor (14.7%) in 2012. This signifies that urban poor are predominantly engaged in part-time or casual labor, which is informal by nature, and suffer from unstable and low income. The urban poor are affected by informality and low wages due to low levels of education. Workers with less than secondary education face substantially worse labor market prospects than those who completed high school. Their earnings are significantly lower, and the risk of poverty is much higher. Indeed, a survey of 3,000 ISFs in Metro Manila found that 53% have less than secondary education, severely limiting their job opportunities. Research shows that most urban poor prefer formal wage employment should there be opportunities. But many are trapped in informal service sector and are engaged in self-entrepreneurship “out of necessity”.

Large and growing slum populations and limited basic services. Informal settlements vividly depict multi-dimensional poverty in the Philippines. The high rate of migration to cities has put enormous pressure on needs for housing, infrastructure, and basic services in major cities. The result has been proliferation of informal settlers without adequate access to decent living conditions with security of tenure. The number of informal settlers in the Philippines has increased gradually, from 4.1% of total urban population in 2003 to 5.4% in 2012. In 2012, 5.4% of the urban population or about 2.2 million people lived in informal settlements. In Metro Manila alone, an estimated 1.3 million people live in informal settlements.

Exposure to natural and other hazards. Many informal settlements are located on river floodplains or along shorelines exposing informal settlers to recurring floods. This creates an enormous burden in terms of loss of livelihood, damage to housing and assets, and increased health risks due to prolonged exposure to water pollution. Fires in congested informal settlements are also quite common creating additional risk to low income families.

Social problems of crime and violence. The rates of crime and violence are higher in cities than the national average and understood to disproportionately affect the urban poor. Numbeo data shows that Quezon City, Zamboanga, Bacolod, Manila and Cebu in that order have the highest crime rates in the country. Many low income residents report feeling unsafe, with the group considered most at risk for getting involved in criminal activity being male youth who have dropped out of school or are unemployed.

Institutions for Urban and Metropolitan Management and Service Delivery

Strong institutions and governance are critical to the effective management of cities, the delivery of efficient and sustainable urban services and infrastructure, and the establishment of an enabling environment for business and job creation. In the Philippines, a number of underlying institutional and governance issues at both the national and metropolitan levels stand out as binding constraints, preventing the country from optimizing the benefits of urban development. With continued expansion and population growth in urban areas, the need for the Philippines to address these issues becomes more urgent.

Absence of a comprehensive national urban policy. An effective national urban policy (NUP)—including legal foundations, capable institutions, and financial instruments—is critical for designing and building productive, livable, and resilient cities. The Philippines has historically lacked an effective and comprehensive 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. Encouragingly, a number of existing national planning frameworks, such as the National Urban Development and Housing Framework and the National Framework for Physical Planning, attempt to address specific dimensions of urban development. However, past administrations have not prioritized such plans, and as a result, relevant national agencies have not been empowered to enforce them. The inefficient spatial pattern of urbanization at the macro level, with an over-concentration of development in Metro Manila and the underdevelopment of secondary urban areas, is a consequence of the absence of a national urban policy in the Philippines.

Absence of a lead agency for urban development and housing. An already complex environment for urban development is exacerbated by institutional fragmentation. Numerous regulatory and sectoral agencies have overlapping mandates and functions, with no single designated national authority to oversee urban development. Due to the absence of a lead agency for urban development and housing, formal mechanisms for both horizontal coordination (across sectoral agencies) and vertical coordination (between national agencies and LGUs) within urban areas are very weak, which has contributed to poor urbanization outcomes as they relate to city competitiveness, mobility, poverty and inequality, and environmental quality.

Fiscal decentralization complicates urban service delivery. The intergovernmental fiscal system supporting 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. 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. In contrast to the vast majority of provinces and municipalities, most cities are able to raise local revenues to fund the majority of their local expenditures. Nonetheless, cities continue to lack the fiscal capacity to independently undertake major urban infrastructure projects and 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.

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, such as traffic management, solid waste and environmental management, and road infrastructure. The experience of MMDA shows that a metropolitan authority created without the proper resources, both financial and technical, has limited potential to fulfill a comprehensive mandate. MMDA has historically lacked the funding, technical capacity, and political authority to properly fulfill its role, leading to poor service delivery outcomes highlighted by an on-going transportation crisis. Outside of Metro Manila, there have been no efforts by the national government to establish formal metropolitan arrangements. Composite urban LGUs are left to voluntarily pursue coordination agreements with minimal external support, resulting in varied quality of service delivery and inadequate management across urban areas.

Land Administration and Management for Effective and Sustainable Urban Development

Land administration and management systems (LAM) help shape the spatial, economic and social development in cities. Weak land administration and management, poor land use planning, and limited capacities in property taxation and valuation in the Philippines are also binding constraints which have far ranging effects on the vibrancy of the land market, in shaping and rationalizing urban growth in a sustainable manner, and in generating revenues to support programs to improve urban life.

Weak land administration and management system. There are multiple institutions with overlapping mandates that address land in the Philippines. Poor information sharing between these institutions creates gaps in records, multiple titles on the same land, and fake and spurious titles which all serve to undermine investor confidence in the titling system. Secondly, incomplete cadastral surveys have resulted in unresolved conflicts and boundary disputes among local governments. This has created governance issues in affected areas – such as inconsistent taxation, conflicting land uses, unclear responsibilities in service provision, and computation of national government transfers. Third is the huge backlog in titling. In the face of rising land values, this prevents proper land management in cities and can even constrain investments in property development. This situation has also contributed to an incomplete tax base for real property taxes collection efforts, and underdevelopment of high growth areas. Finally, slow registration and processing times for transfers, mortgages, and securing BIR clearance has increased the cost of doing business in the Philippines.

Outdated and ineffective land use planning and regulations. In cities such as Metro Manila and Cebu, comprehensive land use plans (CLUP) are out of date. Of the sixteen cities and one municipality in Metro Manila, only five cities have updated CLUPs, while in Cebu city, the CLUP has not been updated since 1980. This has created a situation where urban land use planning is not effective in controlling spatial development, and urban growth is happening in an ad hoc manner. Urban sprawl has been the norm, compromising efficiency and negating many of the benefits of agglomeration. Additionally, the review and approval of development permits has been discretionary. In the absence of updated CLUPs as a basis of zoning, applications for land development have been evaluated on a piece meal basis, creating opportunities for improper and corrupt practices.

Increasing informality with many areas at high risk. The growth of ISF in Metro Manila and major urban centers has partly been the consequence of weak planning and ad hoc spatial development. Issues of informality are further exacerbated by limited information about ISF populations, hindering efforts to provide services and assistance. Guidelines and standards for socialized housing are weakly enforced, and there have been systematic barriers in mobilizing government lands for ISF. Rapid property development has also increased land prices beyond affordability, and ISF struggle to find tenure options and have their housing rights respected. Many also settle on lands that are high risk flood prone areas.

Ineffective property taxation and valuation practices. Revenues from real property constitutes the most stable source of income for local governments, and are important sources of resources to improve service delivery and finance infrastructure projects. However, average real property tax collection by all LGUs has declined as proportion of GDP, representing only 0.35% in 2013 down from 0.45% in 2000. This can be explained in part by incomplete LGU assessment roles, which are overly dependent on the self-reporting of property owner about the values of their lands. Information about land and properties is also not frequently shared across government agencies and LGUs. Additionally, in many cities in Metro Manila, Metro Cebu and Cagayan de Oro, property assessment for tax purposes is not based on market prices and the schedule of market values are not updated regularly.

Recommendations

The analysis in this report raises a number of complex, deep rooted problems that have limited the Philippines from fully benefiting from urbanization. Looking ahead, there are many opportunities for changing course towards more competitive, sustainable and inclusive cities in the Philippines. This will require bold actions and a sustained commitment to prioritizing investments in cities. Both Metro Manila and secondary cities have substantial needs for urban infrastructure, improving the investment climate, and the delivery of basic services to residents. Actions are required at both the national and local level, and will be reliant on strong leaders who are willing to take risks in a transparent and consultative manner, and push forward on difficult reforms.

Given the size and complexity in Metro Manila, and its importance for the national economy, there is an urgent imperative to prioritize a few critical areas that impede competitiveness such as congestion, urban flooding, and slums. These issues span across administrative boundaries and can only be solved through strong political commitment and coalitions for change in metropolitan governance and land administration management. At the same time, investing in secondary cities presents an enormous opportunity for shifting the overall balance of spatial development in the country, increasing productivity in urban areas and avoiding many of the problems that have evolved over time in Metro Manila as these cities grow. Across all cities, there are substantial needs to address fiscal and capacity constraints to deliver core urban services.

Key recommendations are grouped into 5 priority areas, with two that stand out as top priorities for broadest impact: i) addressing the binding constraints of weak institutions to improve the delivery of necessary infrastructure, services and sustainable urban planning, and ii) improving land administration management to open up land markets for city competitiveness. The recommendations are discussed in greater detail in the full report. A matrix of proposed level of priority, time frame and implementing agency is also included.

1. Managing Urbanization for Efficiency and Growth

In order to maximize the economic gains from urbanization, policies on land use and investments in connective infrastructure should focus on managing the existing urban density and prepare for further concentration. It is important to ensure that spatial planning, land use, infrastructure development and service delivery can progress commensurately with the population growth and density increase in existing urban areas. Policy measures are needed to make the productive factors, such as land, people and capital, more efficiently allocated within cities. The land administration and management need to be strengthened and the land use planning needs to be more effective so that the land market can function to meet the needs of growing urban density. Infrastructure development needs to be coordinated with land use planning and addressed as an integrated urban strategy that can cater to various user groups and anticipate long-term needs. More investments and stronger management are needed to improve intra-city connectivity and reduce the actual distance between people and jobs. Investments should be focused on increasing the capacity of existing road networks on one hand, and expanding and modernizing the mass transit system on the other hand. Efficient land use through transit-oriented development (TOD) has been demonstrated to be a high-value complement to mass transit development in many other countries.

Improve transport infrastructure to lower inter-city transport cost, expand market access and generate complementary and specialized functions for each city, and formulate an efficient system of cities. Given the differing roles of cities in a national urban portfolio where each has a comparative advantage, specialization can facilitate the benefits of agglomeration. Primary cities such as Metro Manila typically serve as the gateway to the global economy with a strong service sector. Clustering of manufacturing in secondary cities enables cost saving for firms due to relatively cheap land and labor. Meanwhile, producers in the same or related industries gain from proximity to others through the sharing of capital inputs, information, and labor, matching between production requirements and types of land, labor, and intermediate inputs and can help accelerate industrial diversification and upgrading for the country. The importance of secondary cities is already recognized by in the Philippines through its National Spatial Strategy. Growth of secondary cities would also help absorb surplus labor from rural areas and alleviate migration pressures on Manila. Key elements to fostering the growth of secondary cities are improved transport infrastructure and low transport costs between cities which can enable firms to access local, regional, and global markets—both for buying inputs and selling outputs, reinforce agglomeration effects and generate complementary and specialized functions, as well as investments in quality basic services such as health and education to attract a well skilled labor force. Policy measures to improve inter-city connectivity should be prioritized based on an integrated transport framework that takes into account selectivity, sequencing and prioritization. New connective infrastructure investments should be accessed based on their impacts on the entire existing transport network and respective overall and spatial economic development. Accordingly, key data gaps, such as the absence of a national database of local roadways, needs to be addressed to promote evidence based planning.

2. Improving City Competitiveness to Generate Local Economic Development and Foster Job Creation

Simplify business registration, licensing, and tax regimes to spur more rapid business growth. A healthy business environment is essential for growth and poverty reduction. Yet, the Philippines ranks 103th among 189 countries in the World Bank Doing Business 2016 report. In the short-term, the government should: (i) standardize requirements and procedures, (ii) reduce or abolish the paid-in minimum capital requirement, (iii) make the use of notaries and lawyers optional for company startups, and (iv) move toward a fixed registration fee that covers only administrative costs. Government should consider disassociating business tax collection from business permit renewal, in line with international good practice. The simplified tax regime can encourage micro, small and medium enterprises (MSMEs) to move to the formal sector. Possible measures include replacing the value-added tax (VAT), percentage tax, and income tax with a single business tax on turnover and offer a simplified system of accounting and reporting. Modernization of tax payments through on line systems would increase efficiency.³

Improve access to land and markets and upgrade infrastructure to foster better trade connectivity and higher firm productivity. Given the fragmented market and archipelagic geography, good access to regional and international markets and trade connectivity are essential for the Philippines. Accurate land information system on ownership, boundaries, and land values available to all is urgently needed. Government should prioritize investments in connective infrastructure, mass transit, and identifying areas of land for development to foster a more competitive environment for private sector. Reforms to lower entry barriers for shipping and modernization of ports⁴ should be accelerated through coordinated efforts by Bureau of Internal Revenues (BIR), Department of Trade and Industry (DTI) and Department of Public Works and Highways (DPWH) to further simplify import-export procedures by streamlining customs and border management procedures, simplifying the BIR importer licensing process, improving shipping/trucking/warehouse regulations and facilitating logistics services multimodality. More investments are needed to improve roads, electricity, water, sanitation, transportation, communication and upgrading of ports to improve productivity and connectivity. The Competition Commission which became operational in 2016 has substantial power to promote fair competition across industries and can help to promote competition in the network industries, particularly the telecoms, to encourage sharing of infrastructure by providers, increased competition on the price and quality, and more inclusive access, especially for broadband Internet.

Strengthen innovation systems that drive productivity and sustained economic growth. Filipino cities, with their high levels of human capital, well-established university systems, and vibrant business process outsourcing (BPO) industry, have high potential to breed innovative activities. Yet, their potential is not maximized. The establishment of a new flagship entrepreneurship agency would help to consolidate various existing support programs and centralize resources available for supporting innovation. There is also much potential for expanding collaboration between universities and business, drawing on programs such as the Commission on Higher Education (CHED)'s secondment program between science and the business community. At the city level, there is scope for developing the community of entrepreneurs through creating networking spaces, accelerators, incubators and shared services facilities, and upgrading skills and attracting talent through targeted programs.

³ For good practices on paying taxes, see <http://www.doingbusiness.org/data/exploretopics/paying-taxes/good-practices>

⁴ The Philippines Economic Update. October 2015. The World Bank.

Improve access to finance and business support services especially for MSMEs to facilitate their growth. Reforms are needed in many areas to address the main constraints to financing MSMEs including strengthening of comprehensive credit information system, legal protections for banks and adequate bankruptcy and debt resolution framework to encourage more proactive bank financing, and better collateral registration system. There is also need to consolidate the business support system managed by multiple agencies. A low hanging fruit is the expansion and strengthening of the network of Go Negosyo centers, one-stop shops for business support, and upgrade the scope and quality of their services.

Strengthen cities' role and capacity in economic development planning and implementation. Cities can play a decisive role in promoting competitiveness, given the significant responsibilities decentralized to the local governments. Yet, there is lack of enabling environment, adequate capacity and incentives for the local governments to fulfill their mandates. The national government needs to clearly delineate the roles of national and city governments for economic development, provide incentives for local governments to collaborate at the metropolitan level and harmonize business support mechanisms (such as registration requirements, tax regimes, etc.) to promote the development of industrial clusters, modify the structure of Comprehensive Development Plans (CDPs) to give priority to economic development targets, and provide resources for local governments' capacity building. City governments should strengthen the Local Economic and Investment Offices (LEIPOs) to identify local economic development priorities and coordinate relevant activities, and deepen the public-private collaboration with business associations to promote economic policy reforms.

3. Promoting Inclusive Growth by Creating Opportunities for the Urban Poor

Economic Inclusion

Enhance livelihoods/jobs support for ISFs in close collaboration with the private sector. A majority of the ISFs engage in low-paying low-skilled informal jobs due to lack of education and skills, vulnerable to external shocks that can push them below the poverty line. There is a need to help them move up the job ladder and augment their income. Such support requires a two-pronged approach. One for skills training and placement for formal wage employment, and the other for enterprise development. For the former, the government should reorient the existing vocational skills training and placement programs to a more "market demand-driven" approach, where potential employers are involved in the course design and subsidy for initial post-placement period. For the latter, upfront support to analyze the marketability of end products or services and end support to link the microenterprises to market need to be built in. A properly designed public works program can also be an effective means to provide complementary income support to the unskilled poor, especially to compensate the unstable income.

Prioritize investments in facilitating secondary education completion to improve job prospects of the poor. Completion of high school education is critical in securing job opportunities. Support to alleviate the financial burden of uniforms, school supplies, education materials, and transportation costs, possibly through the ongoing conditional cash transfer (CCT), would greatly enhance the chances of more urban poor youths to complete higher education.

Spatial Inclusion

Provide support for affordable housing, secure tenure, and access to basic infrastructure and services. Provide support to finance primary and secondary infrastructure development which would be undertaken under the leadership of the local government unit (LGU) consistent with city-level planning. Tertiary infrastructure such as small-scale water supply, drainage, sanitation, solid waste management, footpaths, fire safety measures, sidewalks and street lights are also needed. Identification and prioritization of tertiary infrastructure could be carried out in a community-driven manner to empower the poor. Disaster risk reduction will be mainstreamed through design and implementation to reduce the poor's exposure to both natural and man-made disasters. Alternative housing support in the form of incremental housing or rental housing should also be undertaken concurrently to maximize options.

Strengthen institutions that underpin affordable housing and inclusive urbanization. A coherent assignment of institutional roles and functions in managing the urbanization processes at both the national and local level is absent. There is a need to strengthen support for the LGUs. Additionally, the mandates of key shelter agencies need to be refined, and an authoritative body that oversees overall urban development needs to be identified or created. Finally, there is a need for continued support to develop and implement key policy reforms in the areas of urban development planning, housing finance, land use management and administration, disaster risk management etc.

Social Inclusion

Support communities and engage them in the local development process through citywide mapping and community-driven slum upgrading. Beyond the needs of addressing affordable housing and secure tenure for ISFs, there is much that can be done at the community level. It is well established that communities can be effective if empowered to undertake planning and decision-making of their own affairs. By providing hands-on facilitation, capacity building, and engaging them in community-driven mapping and slum upgrading, and providing opportunities to engage with LGU officials, urban poor communities will be empowered and social cohesion within the community will be strengthened. Increased social cohesion can nurture mutual trust that helps mitigate crime and violence. Moreover, increased interaction between the LGU and the communities helps generate social capital which can be harnessed by LGUs toward advancing local development and housing initiatives.

4. Strengthening Institutions and Metropolitan Governance for Better Delivery of Infrastructure, Services and Resilient Urban Planning and Management

Strengthen the institutional framework for urban development through the adoption of a Philippine National Urban Policy (NUP) and the establishment of a lead agency for urban development and housing. A comprehensive NUP for the Philippines should define the urban development priorities of the country, which specifies how urban development is integrated into broader national development goals and defines a vision for the sustainable spatial expansion of urban areas across the country. Key elements include specification on the respective roles of the national and local governments in the urban planning, financing, and provision of core urban infrastructure and services. At the same time, NUP should also

provide a comprehensive urban planning framework that integrates national level development objectives and strategies with metropolitan- and city-level land use and development plans. The NUP should provide for the establishment of a lead agency for urban development and housing, which will be responsible for the implementation of the policy's objectives and priorities. Consistent with on-going policy discussions to consolidate all the key shelter agencies under one national government agency, the lead agency should also assume full responsibility for the housing sector and be empowered to provide capacity building, technical assistance, and policymaking support to cities and metropolitan areas.

Reform metropolitan governance arrangements in Metro Manila and in secondary urban areas. Given the strong history of and legal protections for the local autonomy of LGUs, a renewed approach to a 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. A feasible arrangement could be one that allows territorial fragmentation but where sector-based integration overcomes it in the performance of certain sectors, such as transportation and traffic management, solid waste disposal and management, and water and sanitation. Such an arrangement will require a shift in the role of MMDA to focus on metropolitan wide development and land use planning and coordination. The current 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. For smaller metropolitan areas outside of Metro Manila, a more nuanced approach should be provided for under the proposed NUP that allows for more flexibility and innovation.

- i. In relatively large, “fragmented” metropolitan areas, particularly Metro Cebu or Metro Angeles in Pampanga, adopting the same approach proposed for Metro Manila would be appropriate. 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 be established to deliver strategic, inter-jurisdictional urban services across each metropolitan area.
- ii. For smaller “spillover” metropolitan areas, a more practical approach may be to strengthen formal mechanisms and incentives for inter-local government coordination for spatial and land-use planning and collaboration for service delivery.

Improve accountability systems for local service delivery through fiscal decentralization reforms. Structural reforms to the intergovernmental fiscal system of the Philippines require legislative actions and must hence be considered as part of a long-term agenda. DILG has led comprehensive reviews of the fiscal decentralization system in past but proposed revisions to the Local Government Code (LGC) have found minimal support in Congress. Nonetheless, executive actions of the proposed enactment of NUP and establishment of a lead agency for urban development and housing will help to address weak systems of accountability that stem from fundamental issues in the decentralization system. Further, short-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. 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. Executive actions are also needed to facilitate LGU borrowing, such as better coordination by Bureau of Local Government Finance (BLGF) of the Department of Finance and the Monetary Board to lower the bureaucratic hurdles and to shorten the processing time for LGUs to access loans.

5. Strengthening the Land Administration and Management System to Promote City Competitiveness and Sustainable Urbanization

Establish a unified land information system available to the public and streamline the institutional arrangement for LAM. Fragmented institutional responsibilities have resulted in lack of a coherent land information system. This has led to gaps in records, overlaps, existence of multiple titles on the same land, and spurious titles, increasing the transaction costs in securing, registering and transferring property rights and constraining investments in property development. By consolidating land information from all agencies concerned, an integrated system can serve as a backbone of a land tenure improvement program and up-to-date property tax and information system. It should be supported by the development of a national spatial data infrastructure (NSDI) or data inter-operability system that will facilitate exchange and sharing of land records among agencies and make these more accessible to the public. Concurrently, fragmented institutional responsibilities on LAM should be consolidated to improve efficiency in service delivery.

Develop a metropolitan-wide land use physical framework plan to optimize the benefits of agglomeration and mitigate urban sprawl. A metropolitan-wide land use physical plan that takes into account future requirements for space, economic activities and function is needed to guide development and improve efficiency in infrastructure and service provision across cities. Such a plan needs to support implementation of projects aimed at maximizing the benefits of agglomeration, especially in the areas of transport, environmental management, sewage, and other urban infrastructure. This should be developed in a consultative manner including the private sector and citizens as they will have important roles to play in its realization. Based on the framework plan, there should be incentives for the LGUs to update their comprehensive land use plan (CLUPs) and Zoning Ordinances to guide spatial development in cities. The roles for projects to be implemented by local government and those to be carried out by national government based on the framework plan should be clearly distinguished.

Address increasing informality in major urban centers by establishing an integrated land and ISF information system and undertake a systematic approach to tenure improvement of ISFs. Given the magnitude of ISFs, it is vital that opportunities for affordable housing and secure tenure are sustainably expanded. A program on integrated land and ISF information systems is urgently needed, and will require dedicated funding, resources and a timetable to undertake inventory of existing tenure status of ISFs and prepare citywide land tenure improvement plans. The designated office would also need to take responsibility for identifying available land for ISFs for in-city resettlement and on-site development, establish infosystem link between government agencies and LGUs, make land information more accessible to all users, and take measures to institutionalize land data-sharing between and among LGUs and national government agencies. A systematic or citywide approach to tenure improvement for ISFs is also urgently needed, while piloting alternative tenure options such as usufruct, long term leases, and land sharing. There is also a need to simplify current procedures to mobilize government lands for ISFs.

Strengthen local governments' capacity on property valuation and taxation to improve service delivery and increase investments in vital infrastructure. Capacity building by BLGF under Department of Finance is needed for LGUs on valuation and taxation to implement existing standards and methods. Concurrently, there is a need to develop an accurate integrated land information system that allows LGUs to capture accurate information on land ownership, strengthen BLGF's monitoring of LGUs' real property tax collection, and developing measures to ensure that LGUs regularly update their schedule of market values – such as establishment of a National Valuation Authority which will be responsible for approving the values - so that property tax is based on the latest market prices.

Prioritize sustainable land management and enhance resilience in urban planning. Given the potentially negative consequences of specific urban planning and land management decisions that can lead to congestion, pollution and high greenhouse gas emissions, cities need to consider the trade-offs of infrastructure investments as these are likely to be locked in for hundreds of years. The rapid population growth particularly in unplanned or poorly planned settlements is also contributing to growing exposure to natural hazards in cities. Enhancing city resilience as a cross cutting approach through multi-hazard risk reduction measures, public awareness and preparedness, and risk mitigation for public facilities (e.g. retrofitting of schools, hospitals, government administrative buildings, etc.) in the Philippines is a priority for city competitiveness and can be integrated with good urban planning and management, sectoral investments, and better preparedness.

Fostering Competitive, Sustainable, and Inclusive Cities for the Philippines

Summary Matrix of Policy Recommendations

Key to Table:

Priority level:

H-High, M-Medium, Low

Time Horizon

S: Short term: next 12 months

M: Medium Term: next 3 years

L: Long Term: next 5-6 year

Level of Difficulty (based on experience in the Philippines and internationally)

1. Easiest: Introduction/change in business process/practices without changing existing policies/regulations. Changes that can be issued as a Secretary's letter.
2. Moderately easy: Introduction/changes in process, programs, policies or regulations pertaining to a single agency. Changes that can be introduced through Memorandum Circulars/Memoranda signed by one secretary.
3. Challenging: Introduction/changes in process, programs, policies or regulations pertaining to multiple agencies, which require substantial commitment, capacity, and budget. Changes that can be introduced through Joint Memorandum Circulars signed by various secretaries.
4. Very difficult: Introduction/changes of permanent character that require Presidential Executive Order or Administrative Order.
5. Extremely difficult: Introduction/changes in policies and regulations that require an enactment of a bill e.g.- establishment of a new department.

Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Managing Urbanization for Efficiency and Growth					
High and increasing urban density not accompanied by commensurate infrastructure and management, leading to congestion diseconomies	Give policy priorities to managing the urban density and preparing for further concentration, facilitating market driven urbanization and make the productive factors more efficiently allocated within cities.	H	NEDA (w/ HUDCC, LGUs)	M/L	3
	Improve the land administration and management and strengthen the land use planning to make the land market function for growing urban density.	H	HUDCC (w/ LGUs, DENR, LRA)	M/L	3
	Coordinate infrastructure development, especially public transport, with land use planning as an integrated urban strategy that can cater to various user groups and anticipate long-term needs.	M	HUDCC(w/ DOTr, MMDA, LGUs)	M	3
Inadequate inter-city connectivity infrastructure increases economic distance, limits market access and specialization inter-city connectivity infrastructure is inadequate with very uneven distribution	Increase investments in inter-city connectivity infrastructure.	H	NEDA (w/ DOTr, DPWH, DOF)	M	2
	New investments should be considered under an integrated transport framework and assessed based on their impacts on the entire existing transport network and respective overall and spatial economic development.	M	NEDA (w/ DOTr, DPWH, HUDCC, DTI)	M/L	3
	Key data gaps, such as the absence of a national database of local roadways, needs to be addressed to promote evidence based planning.	H	DOTr (w/ DPWH, PSA)	S	3

Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Improving City Competitiveness to Generate Local Economic Development and Foster Job Creation					
Poor business environment	Further simplify business registration, licensing and business permit renewal based on international and domestic good practice.	H	DTI (w/ NCC)	S	2
	Improve transparency of business regulations by publishing all regulations and processes online.	H	DTI	S	1
	Introduce a simplified tax regime for micro enterprises to enhance compliance with tax laws, reduce the size of the informal sector and increase tax revenue.	H	BIR	M	3
	Harmonize regulatory requirements and processes across metropolitan areas to reduce compliance burden on enterprises.	M	LGUs	M	3
	Expand the use of city rankings on the business environment to enhance transparency and accountability and strengthen incentives.	M	DILG (w/NCC)	M	2
Low demand for innovation, skills mismatch, and limited access to finance and business support	Expand incentives for collaboration between universities and business by reforming funding for public universities and increasing funding for applied, commercial research.	H	DOST (w/DTI)	S	2
	Create a public fund to support the development of a private seed and venture capital market to finance startups.	M	DOST (w/CHED)	S	2
	Introduce innovation-oriented public procurement to support innovative SMEs.	M	DOST (w/DTI)	S	3
	Attract diaspora and global talents by expanding on the existing programs for attracting diaspora and creating new programs to attract global talents.	M	DTI	M	2
	Address the skills mismatch by facilitating city-level dialogue between universities and business, adjusting curricula to business needs, and monitoring the job market performance of university graduates.	M	CHED	M	2
	Consolidate the business support system; and introduce a monitoring and evaluation framework to track its effectiveness.	H	CHED	M	2
	Encourage cities to leverage national support programs by providing small grants to prepare and submit applications for funding to national support programs ("grants for grants").	M	DTI (w/LGUs)	S	2
Inefficient economic planning, unclear mandate and weak governance	Increase transparency and accountability of local governance to strengthen incentives for reforms by expanding access to online information and raising rewards for top performers.	H	DILG	S/M	2
	Modify the structure of the local planning system and guidelines for LGUs to give priority to economic development targets.	M	NEDA (w/LGUs)	S	2
	Enhance the mandate and capacity of Local Economic and Investment Offices (LEIPOs) to identify economic development priorities and programs and coordinate activities of various departments.	M	DILG (w/DTI)	M	3

Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Promoting Inclusive Growth by Creating Opportunities for the Urban Poor					
Low incomes and limited job opportunities for ISFs	Help the urban poor access formal wage employment by providing skills training and placement services in close collaboration with the private sector.	H	DOLE (w/ NCC)	S	2
	Expand cash-for-work programs to provide income support to the unskilled poor to smooth the income variability.	M	DSWD	S	2
	Provide financial support through conditional cash transfer to facilitate secondary education completion.	M	DSWD	M/L	2
Shortage of affordable housing, large slum populations, and deficiencies in access to basic services	Establish an integrated land and ISF information system through citywide participatory mapping.	H	HUDCC (w/ LGUs, LRA, DENR)	S	3
	Provide grants in the form of serviced land, help secure property rights, and provide home improvement grants for low-income informal communities.	H	HUDCC (w/ SHFC, NHA, LGUs)	S	2
	Provide infrastructure and site development for formal but blighted communities and informal communities that are in the process of securing land tenure.	H	SHFC, NHA (w/ LGUs)	S	2
	Expand connective infrastructure to allow neighboring areas to benefit from urbanization, including off-city resettlement sites.	H	DPWH (w/ HUDCC, LGUs)	M/L	3
	Help the rental housing market grow.	M	HUDCC (w/ private market)	M	3
Communities excluded from local development process	Provide hands-on facilitation, capacity building, and engage them in community-driven mapping and slum upgrading, and provide opportunities to engage with LGU officials.	H	HUDCC (w/ SHFC, LGUs)	S	2
	Provide TA funds to help organize urban poor communities around collective priority issue of housing.	H	HUDCC	S	2
Weak institutional capacity for affordable housing and inclusive urbanization	Strengthen support for the LGUs to allow them to fulfill their mandate to plan and implement housing programs.	H	HUDCC (w/DILG)	S	2
	Review and streamline the roles and responsibilities of key shelter agencies need to be refined.	H	HUDCC (w/ key shelter agencies)	S	4
	Work to establishing an authoritative body that oversees overall urban development and housing needs.	H	HUDCC (w/ key shelter agencies, Congress, Senate)	M	5
	Continue to support to develop and implement key policy reforms in the areas of urban development planning, housing finance, land use management and administration, disaster risk management etc.	H	HUDCC (w/ key shelter agencies, Congress, Senate)	S	3

Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Strengthening Institutions and Metropolitan Governance for Better Delivery of Infrastructure, Services and Urban Planning and Management					
Absence of a Comprehensive National Urban Policy Absence of a Lead Agency for Urban Development	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.	H	Office of the President Legislature » Senate Comm. on Urban Planning, Housing & Resettlement » Congress Comm. on Housing & Urban Development HUDCC (w/ DILG, DOF- BLGF)	M	5
Metropolitan fragmentation and weak mechanisms for inter-jurisdictional coordination	Strengthen metropolitan governance and service delivery through the reform of metropolitan governance arrangements in Metro Manila and secondary urban areas.	H	Office of the President Legislature » Senate Comm. on Urban Planning, Housing & Resettlement » Congress Comm. on Housing & Urban Development HUDCC (w/ MMDA)	M	5
Weaknesses in the fiscal decentralization framework	Strengthen accountability systems for local service delivery through fiscal decentralization reforms.	H	Office of the President Legislature » Senate Comm. on Urban Planning, Housing & Resettlement » Congress Comm. on Housing & Urban Development	M (The potential Constitution shift to a federal system will entail fiscal decentralization reforms)	5
	Short-term reforms to support the capacity building of cities for local revenue administration and to improve the institutional environment for debt financing.	H	DOF-BLGF (w/ DILG)	S	3

Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Strengthening the Land Administration and Management System to Promote City Competitiveness and Sustainable Urbanization					
Overlaps in delivery of LAM services	Support earlier moves to establish a single agency integrating the functions of LRA, and DENR-LMB.	H	LRA (w/ DENR-LMB, Congress and Senate)	L	5
Lack of land information sharing among agencies	Establish unified land information system (ULIS) at the LGU.	H	LGUs (w/ LRA-RoD, DENR-LMB)	M	4
	Develop a national spatial data infrastructure (NSDI) or data interoperability system that will facilitate exchange and sharing of land records among agencies and make these more accessible to the public.	M	LGUs (w/ LRA-RoD, DENR-LMB)	M	4
	Develop and implement Citywide Land Tenure Improvement Plans.	M	LGUs (w/ LRA-RoD, DENR-LMB)	M	3
	Prepare implementing rules for section 209 of Local Government Code mandating RoDs to provide annual abstracts of Registries to LGUs.	H	DOJ (w/ DILG)	S	2
Most CLUPs are outdated, resulting in ad hoc and unplanned development, uncontrolled urban sprawl; lack of coherence in city CLUPs in metropolitan areas	Develop a metropolitan wide land use physical planning framework that takes into account future requirements for space, economic activities, and function and incentives for updating of CLUPs.	H	NEDA (w/ DILG, HUDCC, MMDA, LGUs in MM, Metro Cebu and LGU clusters)	M	3
	The national government, should develop a metro wide plan to support implementation of projects aimed at maximizing agglomeration, for transport, environmental management, sewage, and other urban infrastructure.	H	NEDA (w/ HUDCC, DILG)	M	3
No updated inventory of ISF and tenure status of lands occupied, making it difficult to adequately plan and support formalization of growing number of ISF	Issue an Executive Order to implement a program on integrated land and ISF information system for NCR (for ISF and other related programs); and eventually, for the rest of the country.	H	HUDCC (w/ DILG, LGUs)	S	2
	In support of above, undertake systematic or city wide approach to tenure improvement of ISF.	H	LGUs (w/ DENR, LRA, SHFC)	M	3
	Pilot test alternative tenure options.	H	HUDCC (w/ DILG, LGUs)	S	3
	Implement a shelter program to help ISFs secure property rights and provide serviced land with core houses – through a systematic “citywide community upgrading strategy”.	H	HUDCC (w/ SHFC, NHA, LGUs)	M	2
Limited tenure options for securing tenure for ISF					

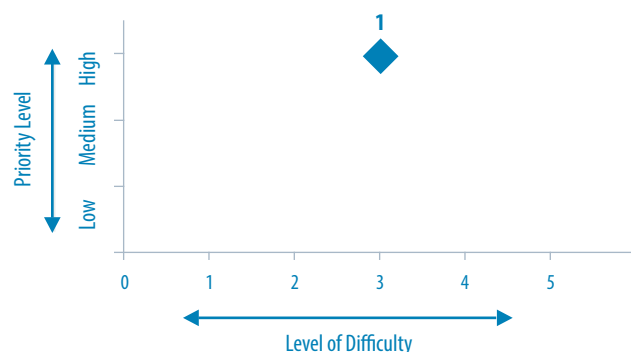
Issue	Recommendations and Priority Level (H, M, L)	Priority (H, M, L)	Leading Institutions (Primary/Secondary)	Time Horizon (S, M, L)	Level of Difficulty (1-5)
Limitations and gaps in existing settlements planning and building standards (BP 220) *(Does not apply to on site development and self help initiatives, does not take into account alternative and affordable housing solutions)	Formulate new planning and building guidelines and standards that will strengthen a more holistic approach to planning and implementation of shelter and settlements development for ISF communities.	M	HLURB	M	3
Problematic Proclamations that cannot be enforced to formalize ISF	Executive Order to establish an Interagency Presidential Task Force to resolve Issues in enforcement of Proclamations.	H	HUDCC (w/ NHA, SHFC, LGUs)	S	4
Absence of clear guidelines on administration and disposition of lands proclaimed for ISF	Standardize guidelines for administration and disposition of proclaimed lands for ISF, through an Executive Order.	M	HUDCC (w/ NHA, SHFC, LGUs)	S	3
Poor performance of LGUs in real property taxes collection	Establish and maintain a unified land information system at the LGU in order to have complete and updated information base for tax assessment and collection.	H	LGUs (w/ LRA-RoD, DENR)	M	3
	Strengthen BLGF oversight and monitoring of LGU Treasurers to ensure the administrative and judicial remedies are utilized, to improve tax collection and collect delinquent payments.	H	BLGF	M	2
	Review IRA formula to incentivize local revenue generation.	M	DILG (w/ BLGF)	L	5
Outdated Schedule of Market Values (SMVs) and SMVs do not reflect market prices	Strengthen LGU capacities on property valuation and taxation.	M	BLGF	S/M	2
	Review options obliging LGUs to update SMVs based on market values: (i) provision of incentives to those who will abide by the mandatory general revision; and (ii) establishment of a National Valuation Authority (NVA) which will be responsible for approving the values.	M	BLGF (w/ DILG)	M	4
	In the long term, work towards the establishment of central mass valuation system that provides fair and timely estimates of property and taxation values.	M	BLGF (w/ DILG)	L	5

Graphic Representation of Policy Recommendations

Managing Urbanization for Efficiency and Growth

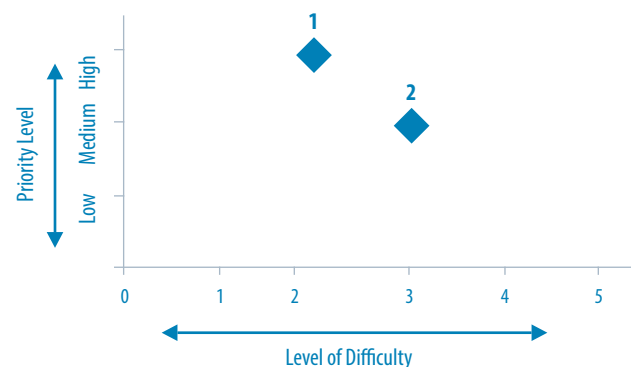
Short-Term Policy Recommendations

1. Key data gaps, such as the absence of a national database of local roadways, needs to be addressed to promote evidence based planning



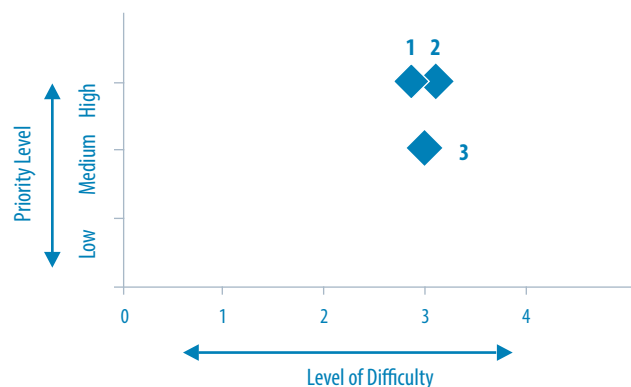
Medium-Term Policy Recommendations

1. Increase investments in inter-city connectivity infrastructure
2. Coordinate infrastructure development, especially public transport, with land use planning as an integrated urban strategy that can cater to various user groups and anticipate long-term needs

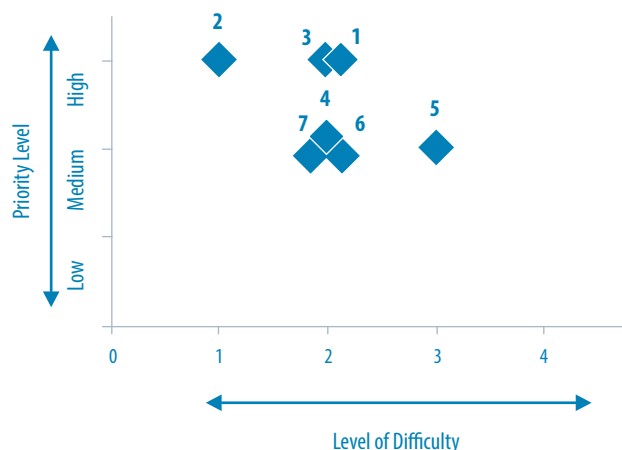


Long-Term Policy Recommendations

1. Give policy priorities to managing the urban density and preparing for further concentration, facilitating market driven urbanization and make the productive factors more efficiently allocated within cities
2. Improve the land administration and management and strengthen the land use planning to make the land market function for growing urban density
3. New investments should be considered under an integrated transport framework and assessed based on their impacts on the entire existing transport network and respective overall and spatial economic development

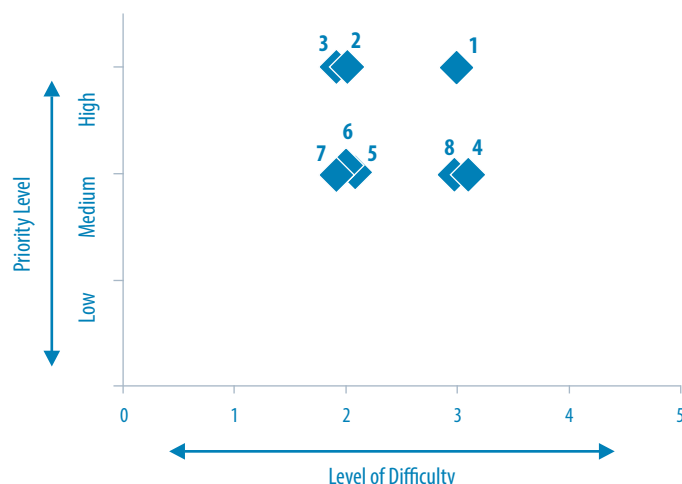


Improving City Competitiveness to Generate Local Economic Development and Foster Job Creation



Short-Term Policy Recommendations

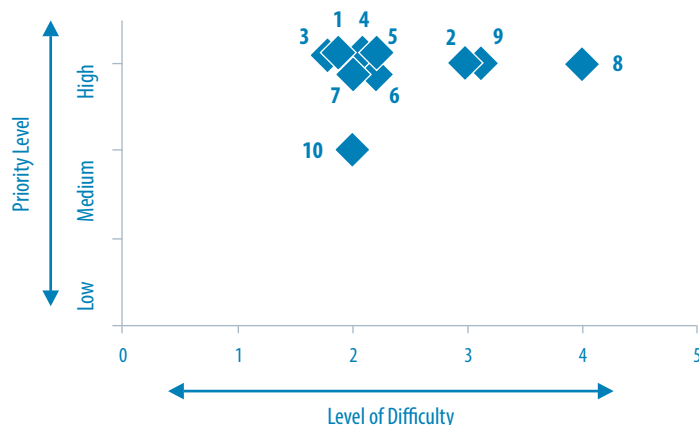
1. Further simplify business registration, licensing and business permit renewal based on international and domestic good practice
2. Improve transparency of business regulations by publishing all regulations and processes online
3. Expand incentives for collaboration between universities and business by reforming funding for public universities and increasing funding for applied, commercial research
4. Create a public fund to support the development of a private seed and venture capital market to finance startups
5. Introduce innovation-oriented public procurement to support innovative SMEs
6. Encourage cities to leverage national support programs by providing small grants to prepare and submit applications for funding to national support programs ("grants for grants")
7. Modify the structure of the local planning system and guidelines for LGUs to give priority to economic development targets



Medium-Term Policy Recommendations

1. Introduce a simplified tax regime for micro enterprises to enhance compliance with tax laws, reduce the size of the informal sector and increase tax revenue
2. Consolidate the business support system; and introduce a monitoring and evaluation framework to track its effectiveness
3. Increase transparency and accountability of local governance to strengthen incentives for reforms by expanding access to online information and raising rewards for top performers
4. Harmonize regulatory requirements and processes across metropolitan areas to reduce compliance burden on enterprises
5. Expand the use of city rankings on the business environment to enhance transparency and accountability and strengthen incentives
6. Attract diaspora and global talents by expanding on the existing programs for attracting diaspora and creating new programs to attract global talents
7. Address the skills mismatch by facilitating city-level dialogue between universities and business, adjusting curricula to business needs, and monitoring the job market performance of university graduates
8. Enhance the mandate and capacity of Local Economic and Investment Offices (LEIPOs) to identify economic development priorities and programs and coordinate activates of various departments

Promoting Inclusive Growth by Creating Opportunities for the Urban Poor

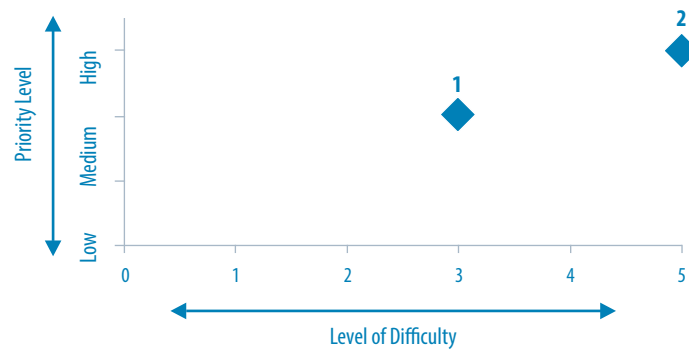


Short-Term Policy Recommendations

1. Help the urban poor access formal wage employment by providing skills training and placement services in close collaboration with the private sector
2. Establish an integrated land and ISF information system through citywide participatory mapping
3. Provide grants in the form of serviced land, help secure property rights, and provide home improvement grants for low-income informal communities
4. Provide infrastructure and site development for formal but blighted communities and informal communities that are in the process of securing land tenure
5. Provide hands-on facilitation, capacity building, and engaging them in community-driven mapping and slum upgrading, and providing opportunities to engage with LGU officials
6. Provide TA funds to help organize urban poor communities around collective priority issue of housing
7. Strengthen support for the LGUs to allow them to fulfill their mandate to plan and implement housing programs
8. Review and streamline the roles and responsibilities of key shelter agencies need to be refined, and an authoritative body that oversees overall urban development needs to be identified or created
9. Continue to support to develop and implement key policy reforms in the areas of urban development planning, housing finance, land use management and administration, disaster risk management etc
10. Expand cash-for-work programs to provide income support to the unskilled poor to smooth the income variability

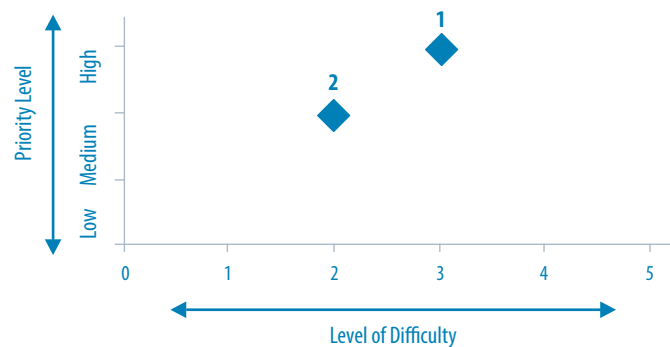
Medium-Term Policy Recommendations

1. Help rental housing market grow
2. Work to establishing an authoritative body that oversees overall urban development and housing needs



Long-Term Policy Recommendations

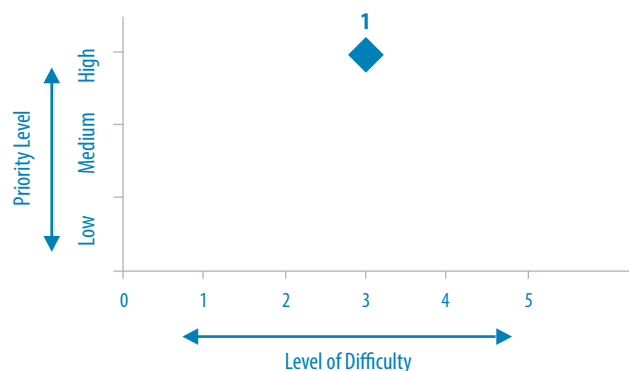
1. Expand connective infrastructure to allow neighboring areas to benefit from urbanization, including off-city resettlement sites
2. Provide financial support through conditional cash transfer to facilitate secondary education completion



Strengthening Institutions and Metropolitan Governance for Better Delivery of Infrastructure, Services and Urban Planning and Management

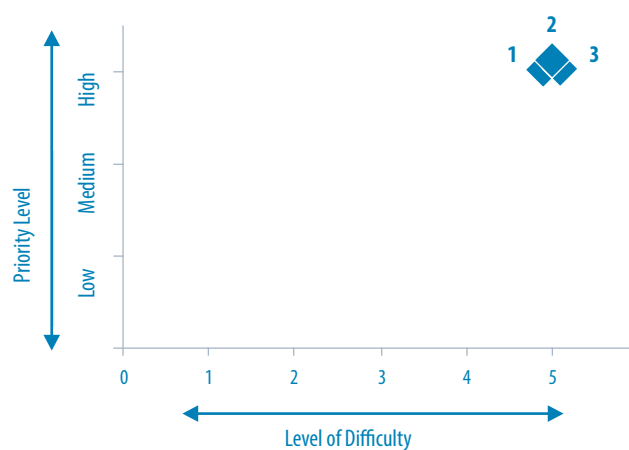
Short-Term Policy Recommendations

1. Short-term reforms to support the capacity building of cities for local revenue administration and to improve the institutional environment for debt financing

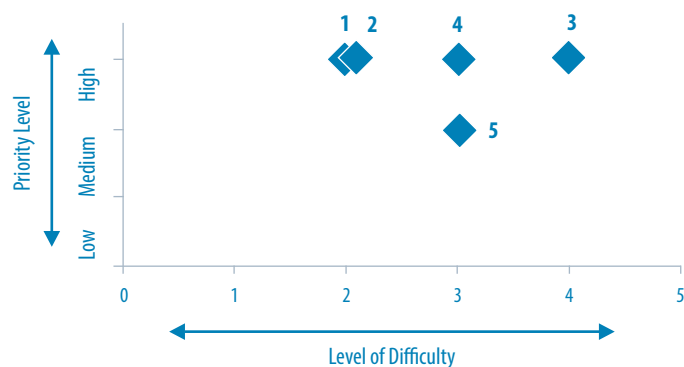


Medium-Term Policy Recommendations

1. 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
2. Strengthen metropolitan governance and service delivery through the reform of metropolitan governance arrangements in Metro Manila and secondary urban areas
3. Strengthen accountability systems for local service delivery through fiscal decentralization reforms

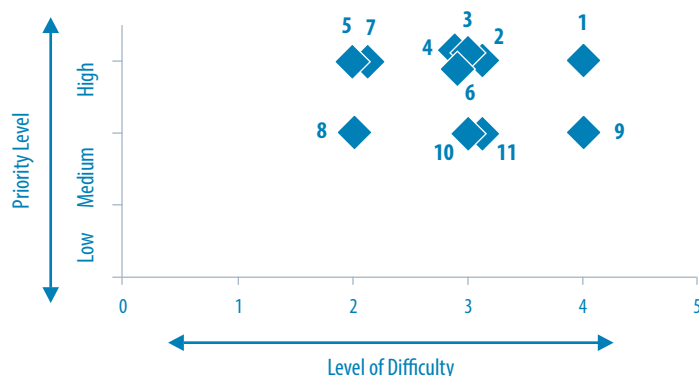


Strengthening Institutions and Metropolitan Governance for Better Delivery of Infrastructure, Services and Urban Planning and Management



Short-Term Policy Recommendations

1. Issue an Executive Order to implement a program on integrated land and ISF information system for NCR (for ISF and other related programs); and eventually, for the rest of the country
2. Prepare implementing rules for section 209 of Local Government Code mandating RoDs to provide annual abstracts of Registries to LGUs
3. Executive Order to establish an Interagency Presidential Task Force to resolve Issues in enforcement of Proclamations
4. Pilot test alternative tenure options
5. Standardize guidelines for administration and disposition of proclaimed lands for ISF, through an Executive Order

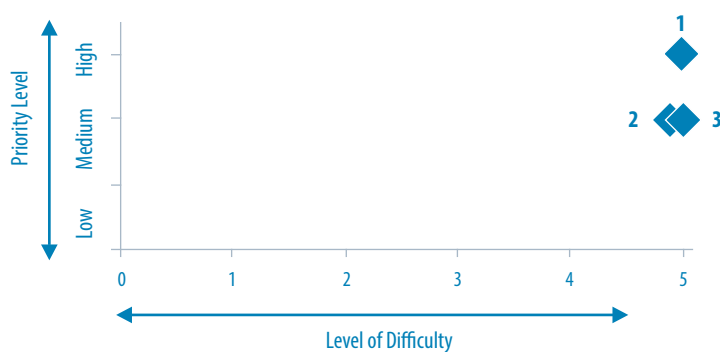


Medium-Term Policy Recommendations

1. Establish unified land information system (ULIS) at the LGU
2. Develop a metropolitan wide land use physical planning framework that takes into account future requirements for space, economic activities, and function and incentives for updating of CLUPs
3. The national government, should develop a metro wide plan to support implementation of projects aimed at maximizing agglomeration, for transport, environmental management, sewage, and other urban infrastructure
4. In support of above, undertake systematic or city wide approach to tenure improvement of ISF
5. Implement a shelter program to help ISFs secure property rights and provide serviced land with core houses – through a systematic “citywide community upgrading strategy”
6. Establish and maintain a unified land information system at the LGU in order to have complete and updated information base for tax assessment and collection
7. Strengthen BLGF oversight and monitoring of LGU Treasurers to ensure the administrative and judicial remedies are utilized, to improve tax collection and collect delinquent payments
8. Strengthen LGU capacities on property valuation and taxation
9. Develop a national spatial data infrastructure (NSDI) or data interoperability system that will facilitate exchange and sharing of land records among agencies and make these more accessible to the public
10. Formulate new planning and building guidelines and standards that will strengthen a more holistic approach to planning and implementation of shelter and settlements development for ISF communities
11. Develop and implement Citywide Land Tenure Improvement Plans

Long-Term Policy Recommendations

1. Support earlier moves to establish a single agency integrating the functions of LRA, and DENR-LMB
2. Review IRA formula to incentivize local revenue generation
3. Work towards the establishment of central mass valuation system that provides fair and timely estimates of property and taxation values.



Chapter 1

Urbanization in the Philippines



1.1 Introduction and Context

The benefits of urbanization for growth and poverty reduction are well known. Over 80 percent of global economic activity is concentrated in cities, and cities are essential for lifting millions of people out of poverty. Through their density, they make it easier and cheaper to deliver basic public services and contribute to increasing productivity. That being said, if not carefully managed and planned for, the benefits of urbanization are not realized and can result in congestion, slums, pollution and inequality. This is particularly true in rapidly growing cities where services are not able to keep up with demand and land located near jobs is often constrained. In the Philippines while urbanization is closely associated with increasing productivity, economic growth and poverty

reduction, the country has not benefited from urbanization gains as much as other countries.

City competitiveness is an important part of successful urbanization. A competitive city successfully facilitates its firms and industries to create jobs, raise productivity, and increase the incomes of citizens over time.⁵ At the same time, it is not possible to achieve these objectives without good urban governance, social inclusion, resilience, and environmental sustainability. While urbanization policies are important at the national level, many urban issues are best handled by local governments. Good urban governance ensures transparency, accountability, equity and local participation. Social inclusion, which allows all

⁵ World Bank, 2016, "Competitive Cities for jobs and growth: what, who and how"



people to share in and contribute to rising prosperity, is particularly important in urban areas where inequalities are highly visible. Resilience refers to a city's ability to adapt to a variety of shocks and stresses while still providing essential services to its residents, especially the poor and vulnerable. Environmental sustainability is affected by urban form and thus trade-offs with regard to spatial

efficiency and infrastructure investments are important to carefully consider now as such investments are likely to be locked in for decades. Cities that make investments that are green and resilient, ultimately generate higher economic returns and improve quality of life for residents. These core elements affecting city competitiveness are critical for current and future urbanization in the Philippines.

This policy report aims to analyze key issues related to urbanization in the Philippines and provide a set of recommendations for improving the competitiveness of cities in the Philippines to better address job creation, economic development and poverty reduction. The report draws on a number of existing data sets, extensive consultations with Government, the private sector, researchers and civil society groups. It also draws on international experience on urbanization from around the world.⁶

Following this Introductory Chapter (1), Chapter 2 covers analysis of urbanization and productivity in the Philippines, Chapter 3 analyzes city competitiveness for economic development and job creation, Chapter 4 provides an analysis of urban poverty including a focus on ISFs in Metro Manila, Chapter 5 outlines the key constraints related to institutions for urban development and metropolitan governance; and Chapter 6 covers land administration management in urban areas. Background technical papers for each section have also been prepared and cover much more analysis and detail. These are available as a companion to this policy report.

⁶ Data sets include the Family Income and Expenditure Survey (National Statistics Authority), the Urban Expansion Dataset and shapefiles 2000-2010 (World Bank), Metro Manila Slum Survey, 2016 (World Bank)

1.2 Urbanization Performance in the Philippines

Cities are the key engines of growth, job creation and poverty reduction in the Philippines. Cities represent more than 70 percent of the country's GDP and the seven largest urban areas host 54 percent of formal jobs.⁷ In line with the increasing urbanization, the share of largest cities in GDP increased from 38 percent to 40 percent between 2005 and 2012 (Figure 1.1). The share of Metro Manila, the country's dominant economic center, increased from 33 percent to 36.5 percent.⁸ Given the ongoing urbanization trends, the share of cities in GDP is likely to continue to grow. Overall poverty in urban areas (13.2%) is significantly lower than in rural areas (39.4%). Urban Philippines, with almost twice the average per capita income as rural areas, accounts for 44% of the total population but 58% of total income.

Population and employment in Philippine cities have grown at a fast pace in recent years. The Philippines is one of the fastest urbanizing countries in the East Asia and Pacific region. In the past five decades the urban population grew by over 50 million people, and by 2050, approximately 102 million people (more than 65 percent of the country's total population) will reside in cities.

Over the ten-year period from 2000 to 2010, the population of urban areas in the Philippines expanded at a faster rate compared to its peers in East Asia (World Bank 2015). For 21 urban areas identified in the Philippines with at least 100,000 inhabitants, the average annual increase in population was greater in the Philippines (3.3 percent) compared to the regional average (3.0 percent). Excluding the largest urban area (Metro Manila), the average annual increase in population in urban areas was even higher at 3.9 percent.

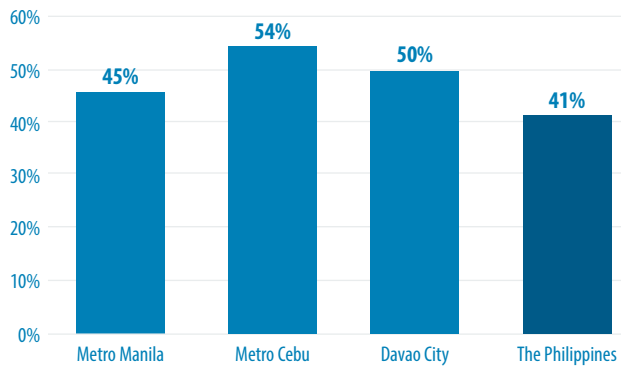
Table 1.1 Urban Growth in the Philippines

POPULATION SIZE CATEGORY (MILLIONS)	PHILIPPINES – URBAN POPULATION (MILLIONS)				EAST ASIA – URBAN POPULATION (MILLIONS)			
	NUMBER OF URBAN AREAS	2000	2010	AVE. ANNUAL EXPANSION RATE	NUMBER OF URBAN AREAS	2000	2010	AVE. ANNUAL EXPANSION RATE
10 or more	1	12.20	16.52	3.1%	8	132.72	182.58	3.2%
5-10	0	-	-	-	17	88.98	119.83	3.0%
1 – 5	1	1.01	1.53	4.1%	106	154.65	211.89	3.2%
0.5 – 1	3	1.37	2.05	4.1%	166	88.93	117.44	2.8%
0.1 – 0.5	16	2.24	3.18	3.6%	572	114.05	145.78	2.5%
Total	21	16.83	23.28	3.3%	869	579.33	777.51	3.0%

Source: World Bank 2015

⁷ Data from the Philippines Business and Industry Survey 2012 (PBSI 2012). The seven largest metropolitan areas include the National Capital Region, Metro Cebu (Including Cebu City, Mandaue City and Lapu-Lapu), Davao City, Bacolod, Cagayan de Oro, General Santos, and Zamboanga.

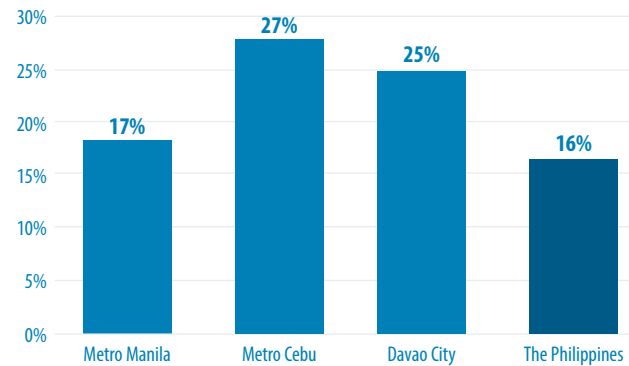
⁸ Unless noted otherwise, all data are based on a proprietary dataset developed by Oxford Economics, which includes data on the main development parameters for 750 cities around the world.

Figure 1.1 Change in Real GDP, 2005-12

Source: Oxford Economics

While the country has more than 200 urban areas, Metro Manila would continue to dominate (with 50 % of GDP being generated by the greater Metro Manila area alone⁹) and absorb more people around its periphery. During the 2000-2010 period, Metro Manila added an additional 4.3 million people. GDP and employment growth in recent years has been faster than the national economy (Figure 1.1 and 1.2). Fast growth helped produce more than a million new formal sector jobs in the seven largest urban areas, and probably more given that many jobs created in the informal sector were not reported by the national statistics.

Fast growth has been driven by bigger and more productive firms in cities than in rural areas. According to the results of the 2012 business and industry census, the formal firms in cities are 50% larger than firms in the rest of the country. They are also more productive, both in output per worker and in total factor productivity (TFP) (Figure 1.3). This suggests that cities are a conducive place to do business and represent a large potential for further growth and job creation.

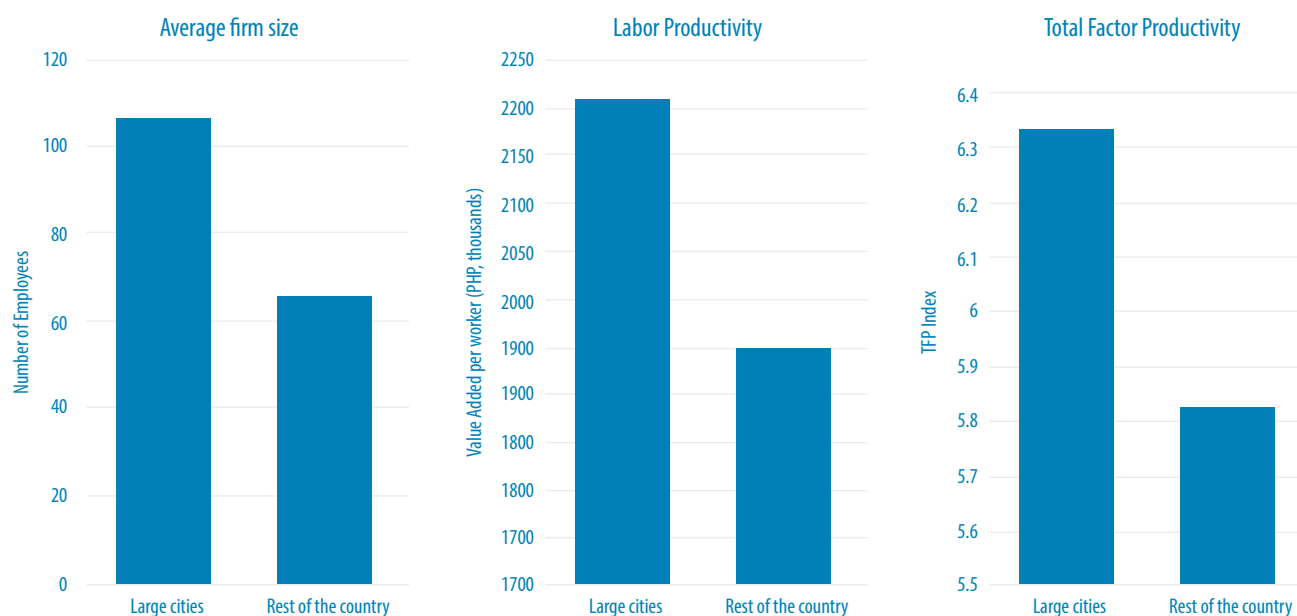
Figure 1.2 Change in Employment, 2005-12

Despite these achievements, the Philippines has not benefitted from urbanization gains as much as other countries. The country has had lower economic growth during the urbanization process compared to regional neighbors: for the period 1970 to 2006, China and India demonstrated an average 6% increase in per capita GDP for every 1% increase in urban population while Vietnam and Thailand exhibited 8% and 10%, respectively. The Philippines, however, showed less than a 2% increase (World Bank 2015)¹⁰. More recent data at the city level shows for example, that while Metro Manila's economic growth outpaced the national average, it grew at a slower pace than its regional and global peers between 2008 and 2012. Cities with a similar (Jakarta, Mumbai and Lima) or even higher GDP per capita (Kuala Lumpur, Buenos Aires) were growing substantially faster in 2008-2012 than the Filipino capital (Figure 1.4). Secondary tier cities of Cebu and Davao have also performed less well than their peers.¹¹(Figure 1.5).

⁹ Webster, Corpuz and Pablo, 2003

¹⁰ Calculation based on data from World Development Indicators, World Bank

¹¹ Cities focused on BPO and tourism were selected as comparators for Metro Cebu and Davao City. Cities specialized in BPO/IT activities include Pune and Coimbatore, two successful BPO centers in India, Georgetown – an IT and electronics manufacturing center in Malaysia, Recife – one of the most dynamically growing IT hubs in Brazil, Cordoba – second largest city in Argentina and a center of software and electronics. Cities specialized in coastal tourism include Da Nang – one of the fast growing tourist destination in south-east Vietnam, Padang – a major tourist destination in Indonesia, Denpasar – the largest city on Bali Island and one of the world's top sea-side resorts, Kota Kinabalu – a regional center and a resort in Malaysia located on Borneo island, Acapulco – a well known resort in Mexico, Natal – a resort in Northern Brazil known for some of the best beaches in the world.

Figure 1.3 Size and Productivity of Firms in the Large Cities and the Rest of the Country

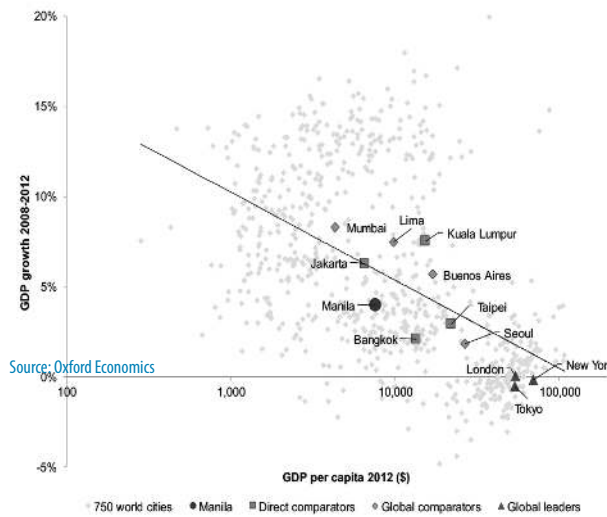
Source: The World Bank based on PCBI 2012.

Several underlying structural problems have affected the Philippines ability to fully harness the benefits of urbanization. Urbanization patterns and the competitiveness of cities in the Philippines have historically been affected by, among other factors, its archipelagic geography which makes access to markets more complex, its bypassing the industrialization process (i.e., the country shifted from agriculture to service sector dominance), and a stagnating manufacturing sector due to uncompetitive practices and a small consumer base, which has not resulted in high quality jobs and, in turn, has negatively affected urban led growth. In all known cases

of high and sustained growth, urban manufacturing and services led the process while increases in agricultural productivity freed up the labor force that moved to the cities and manned factories.¹² Though labor productivity in Metro Manila is higher than in Jakarta, Mumbai and Lima, and at a similar level with Bangkok, it is much lower than in Kuala Lumpur, Taipei or Seoul. Productivity gaps are even larger for Cebu, Davao and other secondary cities. Other key structural problems relate to highly fragmented institutional arrangements for urban development, weak governance particularly in metropolitan areas, and major deficiencies in land administration.

¹² Spence, M. Annez, P. and Buckley, B. eds, 2009, Urbanization and Growth, World Bank.

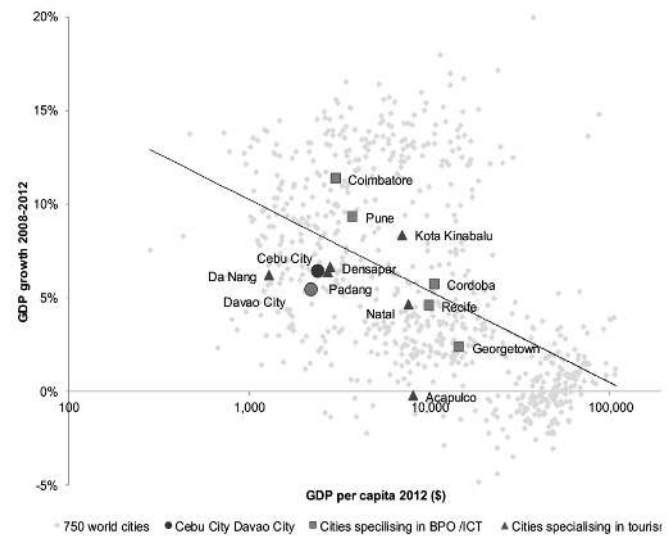
Figure 1.4 GDP Growth in Manila and Regional and Global Peers, 2008-2012



Source: The World Bank based on PCBI 2012.

The resulting impacts have greatly hampered city competitiveness. The rapid urbanization coupled with the problems mentioned above has resulted in infrastructure and affordable housing deficiencies, traffic congestion, environmental pollution and high levels of exposure to natural hazards.¹³ Investment in physical infrastructure declined to about 20 percent of GDP in the last decade. In the public sector, a low tax base and weak public investment management limited public infrastructure spending to less than 2.5 percent of GDP annually.¹⁴ Maintenance

Figure 1.5 GDP Growth in Cebu and Davao and Regional and Global Peers, 2008-2012



of existing infrastructure was likewise constrained. Investment in human capital also suffered major setbacks. The country's public education and health systems remain underfunded and have held back the development of the country's labor force. Other key challenges include a poor business environment, weak infrastructure and access to markets, low demand and weak support for innovation, and a lack access to financing and business support. All of these issues have affected city competitiveness, poverty reduction and livability.

¹³ World Bank (2014), Country Partnership Strategy for the Republic of the Philippines for the Period FY2015-2018.

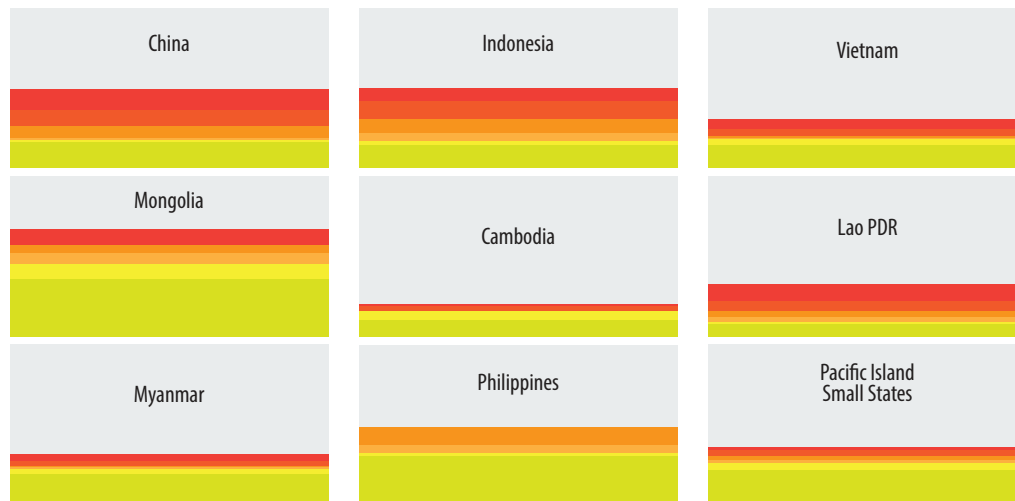
¹⁴ World Bank (2014), Philippine Economic Update, Philippines: Accelerating investment in infrastructure, health, and education to sustain growth that benefits the poor.

Chapter 2

Managing Urbanization for Efficiency and Growth

Figure 2.1 The Philippines is One of the Early “Urbanizers” in Asia

Percentage urban population (each square is 100%)



Source: World Development Indicators, World Bank

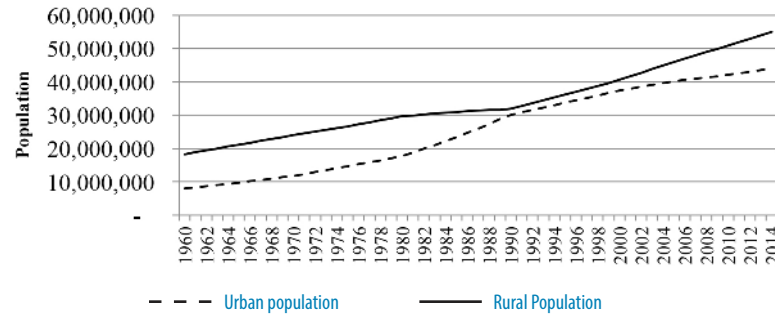
2.1 Introduction

The Philippines is one of the early “urbanizers” in the East Asia and Pacific region. Tracing development in the Philippines, urbanization in the country took off principally in the 1960s, making the country an early and rapid-growing urban participant in the region (Figure 2.1). However, just before the country’s urban and rural populations reached parity, urbanization began to slow in the 1990s. Since then urban growth has remained positive, but slower than in the previous three decades and the share of the country’s population living in urban areas has overall been declining

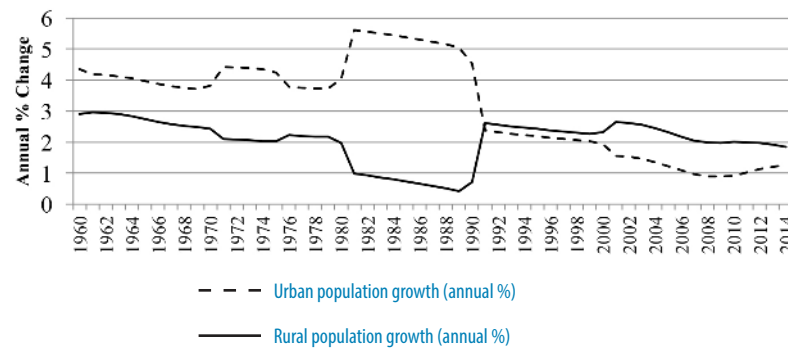
while the rural population has grown (Figures 2.2- 2.4). Despite the 20 years of slower growth, urbanization rates in the past five years have seen strong increases and the country’s urban population is now forecast to reach 102 million (approximately 65% of the total population) by 2050.¹⁵ Partly due to the archipelago geography of the country, urbanization has concentrated primarily in a just a handful of regions; only the National Capital Region (which is entirely urban) and four other regions where urbanization levels above the national rate.¹⁶

¹⁵ Cariño, B., & Corpuz, A. (2009). Toward a strategic urban development and housing policy for the Philippines (No. DP 2009-21). Philippine Institute for Development Studies.

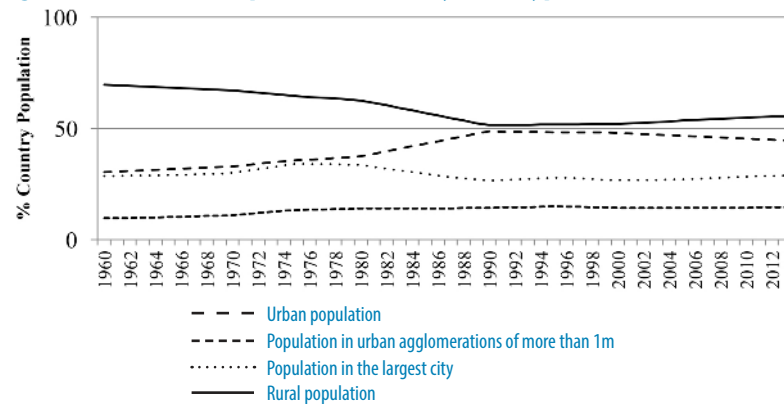
¹⁶ Asian Development Bank (2014), “Republic of the Philippines National URBAN Assessment”, Asian Development Bank

Figure 2.2 Urban vs. Rural Populations

Source: World Development Indicators, 2016

Figure 2.3 Urban vs. Rural Population Annual Growth Rates

Source: World Development Indicators, 2016

Figure 2.4 National Population Shares by Land Type

Source: World Development Indicators, 2016

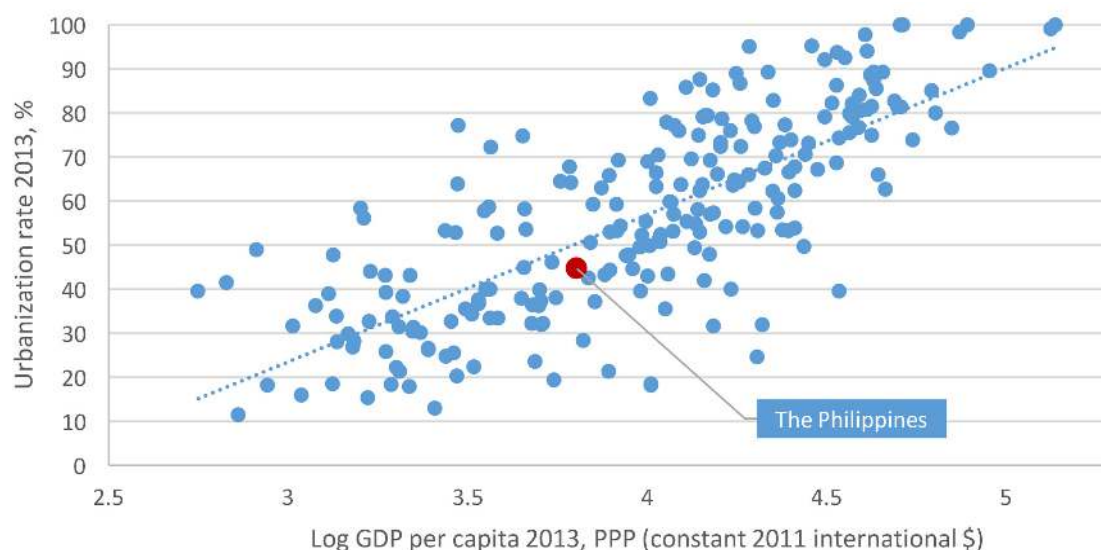
2.2 Urbanization Presents Much Opportunity for the Philippines

Urbanization and Economic Opportunity

International experience suggests that well-managed urbanization can be an important driver of productivity increases and growth. Evidence from today's developed countries and rapidly emerging economies shows that urbanization is a source of dynamism that can lead to enhanced productivity – in fact, no country in the industrial age has sustained economic development without rapid urbanization, and there exists a strong association between per capita income and urbanization (Figure 2.5). The Philippines is very close to the overall trend for all countries, with a very slightly less urbanization level than

this average relationship would suggest given its income level (Figure 2.5). In member countries of the Organization for Economic Co-operation and Development (OECD), regions with a higher share of urban population are generally linked to a per capita GDP higher than the national average; a 3.5–8 percent increase in total factor productivity¹⁷ can be expected for every doubling of the size of a city-region. A recent survey concludes that such phenomena are not limited to OECD countries¹⁸, and indeed agglomeration economies apply equally strongly in developing countries. Estimates for China suggest a 10 percent increase in productivity for every doubling of city size.¹⁹

Figure 2.5 Urbanization and Economic Development



Source: Author's calculation based on WDI data. Graph based on data for all countries.

¹⁷ In economics, total-factor productivity (TFP), also called multi-factor productivity, is a variable which accounts for effects in total output growth relative to the growth in traditionally measured inputs of labor and capital. If all inputs are accounted for, then total factor productivity (TFP) can be taken as a measure of an economy's long-term technological change or technological dynamism.

¹⁸ Asian Development Bank (2012), "Philippines: Urban Sector Assessment, Strategy, and Road Map." Asian Development Bank; Rosenthal and Strange 2003; Black and Henderson 1999; Lucas 1993.

¹⁹ World Bank and Development Research of the State Council, People's Republic of China (2014), Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization. Washington, DC: World Bank.



In the Philippines, urbanization is correlated with economic efficiency and growth as has been found in other countries. Using intensity of nighttime light per square kilometer of land as a measure of the density of economic activity²⁰, the empirical evidence indicates urban areas are associated with higher economic efficiency than non-urban areas.²¹ Analysis on the changes in nighttime light intensity between the years 2000 and 2010 shows that the increases in urban land and urban population is related to the national GDP growth over that 10-year period.²²

Empirical evidence also suggests that connectivity is correlated with the efficiency of urbanization. Global evidence suggests that efficiency of urbanization is largely influenced by the level of connectivity and

respective transport infrastructure. Empirical analysis for the Philippines provides some preliminary evidence that supports this relationship.²³ For inter-city connectivity, higher levels of overall road infrastructure is correlated with increased economic efficiency, although that correlation is absent when only the highway is considered.

The economic benefits of urbanization are realized through agglomeration economies based on the high density of cities. The benefits of being around other people and other businesses are typically labeled agglomeration economies, the starting point for understanding the sources of urban success (Glaeser and Joshi Ghani 2015). By enabling agglomeration economies, cities enhance productivity and spur innovation and economic diversification. The underlying reason is density. Rising population and economic densities enable savings in transport and communication costs, lead to frequent interactions, enable finer specialization and knowledge spillovers, and heighten competition in product and labor markets. Cities create viable markets for specialized business services, freeing firms to focus on their core competencies and take creative ideas to commercial scale. Cities are also instrumental in matching skills with job opportunities, and density allows for an integrated “thick” labor market.²⁴ With higher concentrations of economic activities in cities, firms can exploit economies of scale arising from being near other producers of the same or similar products (localization economies) and from being close to producers of a wide range of products and services (urbanization economies).²⁵ Box 2.1 below provides a more detailed description on agglomeration economies.

²⁰ The analysis follows the methodology developed in Ellis, Peter, and Mark Roberts. 2016. *Leveraging Urbanization in South Asia: Managing Spatial Transformation for Prosperity and Livability*. South Asia Development Matters. Washington, DC: World Bank.

²¹ Empirical research shows that measures of economic density correlate strongly with productivity (Ciccone and Hall 1996; Ciccone 2002; Roberts and Goh 2011).

²² See the Background Paper and its Annex for the full analysis

²³ See the Background Paper and its Annex for the full analysis

²⁴ World Bank; Ministry of Planning and Investment of Vietnam. 2016. *Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy*. Washington, DC: World Bank.

²⁵ World Bank (2009), *Reshaping Economic Geography*. World Development Report. Washington, DC: World Bank.

Box 2.1 Urban Density and Agglomeration Economies

Global evidence shows that density rises with the level of development, and the densest places in the world are in the richest countries. In 2005, Dublin, London, Paris, Singapore, and Vienna ranked at the top, with more than USD 200 million in gross product per square kilometer. Likewise, Tokyo-Kanagawa, New York-New Jersey, Oslo-Akershus-Vestfold, and Vienna-Mödling were the densest grid cells of 1° longitude by 1° latitude, generating more than USD30 million of gross product per square kilometer (Figure 1). 50 percent of world gross domestic product (GDP) is produced on just 1.5 percent of the world's land, almost all of it in cities.

Box Figure: The richer a country, the more concentrated its economic mass.



Source: WDR team estimates based on World Bank, 2007, and databases from www.citymayor.com and www.gecon.yale.edu.

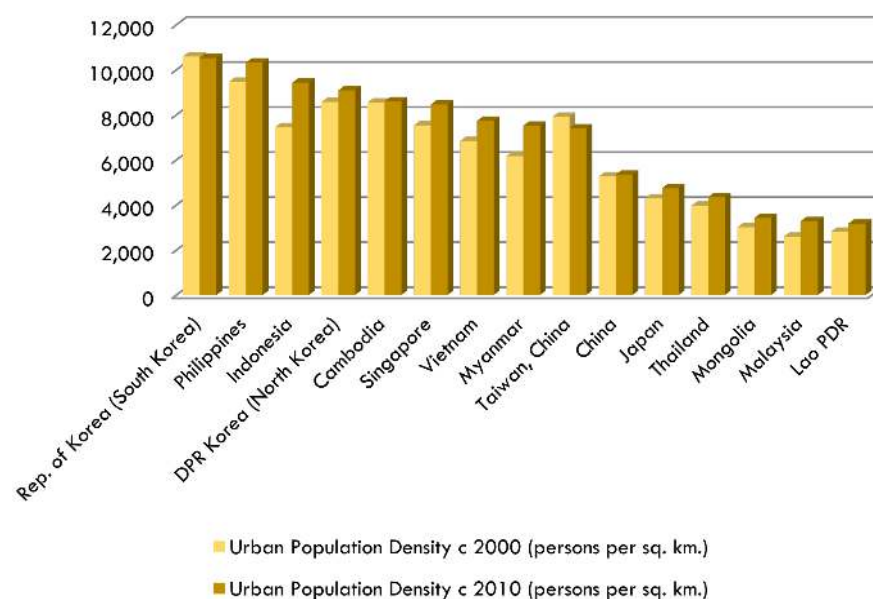
On New York's Wall Street and in the City of London, financial firms, insurance companies, and banking syndicates benefit from being close to one another. Co-location stimulates the growth of other specialist services, such as legal, software, data processing, advertising, and management consulting firms. These clustered firms, by providing a thicker market for highly educated individuals, benefit from drawing on the same large pool of human capital. They also gain from the generation and diffusion of knowledge amongst one another. Agglomeration effects can also occur in smaller cities with sufficient specialization and transport linkages to larger urban areas.

Agglomeration economies depend not just on size (a big city or industry) but also on urban interactions. They are traditionally classified as localization economies arising from within-industry economic interactions, and as urbanization economies, arising from between-industry interactions. The reasons for producers to gain from proximity to others depend on the sharing of capital inputs, information, and labor. They also depend on improving the matches between production requirements and types of land, labor, and intermediate inputs—and learning about new techniques and products.

Localization economies arise from a larger number of firms in the same industry and the same place. Spatial proximity helps because immediate access to competitors in the same sector allow firms to stay abreast of market information in negotiating with customers and suppliers. Clustered firms can also share a larger and more dependable pool of specialized labor.

Urbanization economies arise from a larger number of different industries in the same place. A management consulting company can benefit from locating near business schools, financial service providers, and manufacturers.

Source: WDR 2009

Figure 2.6 Urban Population by Country

Source: World Bank 2015²⁷

High and Increasing Urban Density in the Philippines Provides Much Opportunity for Structural Transformation of the Economy

The average urban population density was the second highest in East Asia. Due to the above mentioned dynamics of agglomeration economies, the relatively high and increasing urban density presents a great opportunity for the Philippines with 10,300 people per sq. km. in 2010, density is second only to the Republic of Korea's. And unlike the Republic of Korea's urban population density, which has stabilized, that of the Philippines increased from 9,500 people per sq. km. in 2000.²⁶

Within the Philippines, the Metro Manila urban agglomeration is one of the densest in the country and is becoming even denser.²⁸ Land use analysis (Figure 2.7) shows that a clear densification process in Metro Manila where the shares of high density areas increased drastically from 1990 to 2014, particularly for the period of 2010-2014. In 1990 the high dense areas were accounting for only 4.93% of the total area. In 2000 these areas increased their surface to 11.16%, in 2010 to 20.86% and finally in 2014 ended up covering 34.75% of the total surface (Box 2.2).²⁹

²⁶ World Bank (2015), "East Asia's Changing Urban Landscape: Measuring a Decade of Spatial Growth." Urban Development Series, 93877 V2, Washington, DC: World Bank.

²⁷ Ibid.

²⁸ Metro Manila's population density increased from 11,900 to almost 13,000 people per sq. km. between 2000 and 2010.

²⁹ World Bank and European Space Agency/Earth Observation for Development. 2015. Slums Analyses in Metro Manila (SLAMM) Operational Documentation: Technical Note.

Box 2.2 Urban Density and Agglomeration Economies

Geo-spatial analysis on the extent and spatial distribution of the 15 Land Use Land Cover classes (as illustrated in Figure 2.7 below) defined on the basis of the European Urban Atlas nomenclature provides a picture of the urban growth pattern of Metro Manila, showing a clear densification trend from 1990 to 2014:

1990-2000 – conversion of 17% of very low density urban fabric directly to very high dense urban fabric;

2000-2010 – serious densification involving the loss of 35.54% of areas covered by low and medium density classes to higher density classes;

2010-2014 – The low and medium density classes lost an important part of their surface to the benefit of higher density classes. 41.13% of the total internal artificial changes belong to this specific process.

Figure 2.7: Distribution of Land Use Land Cover (LULC) in Metro Manila

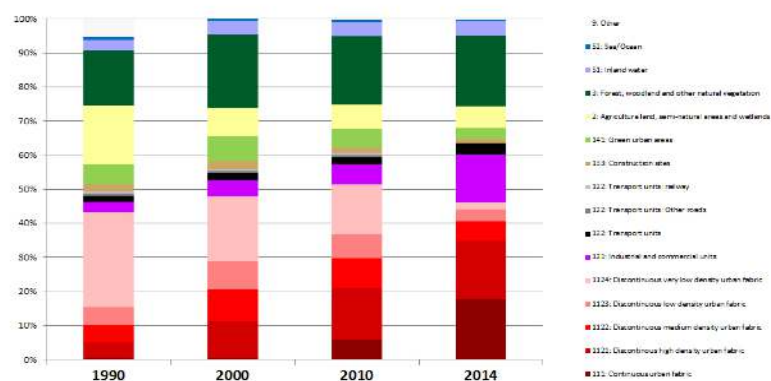
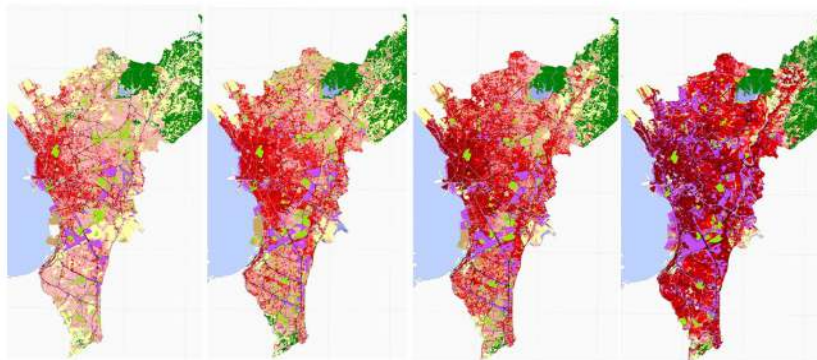


Figure 2.8 Time series of LULC classification over Metro Manila



Source: World Bank and European Space Agency/Earth Observation for Development, 2015

This densification process is associated with a structural transformation of the urban economy. Starting in the 1990s, manufacturing industries have been moving out of the central urban areas of Metro Manila, leading to the growth of industrial estates in the borders of the Metro and then in 2000s, along the fringes in Cavite, Batangas and Laguna, with the former industrial sites in the urban center giving way to high-rise residential and commercial buildings and mixed-use high-density enclaves, which are further spurred by the booming BPO services in recent years.³⁰ According to international experience, such a

transformation is essential for a more efficient system of cities: as experienced by many developed countries such as U.S., Japan and Republic of Korea (Box 2.3), the largest/primary cities tend to be more diversified and service oriented: they innovate, invent, breed new firms, and expel mature industries; secondary/smaller cities tend to be industrially specialized: they produce or manufacture and receive relocated industries from diversified cities; aiding this decentralization were transport infrastructure investments, which made trade cheaper.³¹

Box 2.3 The Shifting Role of Major Cities in Korea

In the Republic of Korea, as rural-urban migration accelerated between 1983 and 1993, the share of national manufacturing employment in large cities like Seoul, Busan, and Daegu fell from 44 percent to 28 percent, while the share in small cities and rural areas rose from 26 percent to 42 percent. Rising labor and land costs drove labor- and land-intensive manufacturing industries out of central Seoul. As manufacturing's share in employment in Seoul fell from 32 percent in 1980 to 11 percent in 2010, the share attributable to the service sector rose from 58 percent to 81 percent. A tax credit for manufacturing firms that moved factories from Seoul to its suburbs and other cities incentivized the regional development plan.

Source: World Bank and Development Research Center of the State Council 2014

³⁰ See Chapter 5 for more details

³¹ World Bank (2009), Reshaping Economic Geography. World Development Report. Washington, DC: World Bank.

2.3 Benefits from Urbanization are Yet to be Fully Harnessesd — A 3D Perspective on the Key challenges

Despite the achievements highlighted above, the economic benefits from urbanization in the Philippines could be greater. As indicated by lower economic growth during the urbanization process compared to regional neighbors, the country has not benefited from urbanization gains as much as other countries (also see Introduction). For the period 1970 to 2006, China and India demonstrated an average 6% increase in per capita GDP for every 1% increase in urban population while Vietnam and Thailand exhibited 8% and 10%, respectively; the Philippines, however, showed less than 2% increase for every 1% increase in urban population over the same time period.³² Over the last 3 decades, the Philippines' aggregate labor productivity increased by only 10% (annual average growth rate was only 0.3%), while that of Indonesia, Malaysia, and Thailand more than doubled in the same period. While the Philippines' growth and job creation have mainly been led by services, productivity of the services labor, which is concentrated in large cities, has persistently been less than half of that of industry.³³

International experience suggests that cities do well when they focus transformation on three dimensions (D's) which emphasize Density, Division and Distance.³⁴ Increased density is reflected in the growth of cities; shorter distances are important for the time and cost of commuting; and fewer divisions are needed to consolidate knowledge and the skills base and to bring people and firms closer to the institutions that support economic growth. These key issues are analyzed for the Philippines.



Density – If Not Well Managed, High Density Generates Congestion Diseconomies

If not well managed, density generates congestion diseconomies associated with land scarcity and lack of basic services such as clean water and sanitation, and housing, increases in natural hazard risk and pollution, and rising commuting costs. Bigger city size and increasing density bring their own problems. Congestion and living costs for housing, food, and public services can quickly grow as cities become larger; poverty and unemployment often increase and become spatially concentrated in certain areas; and infrastructure can become overburdened as too many residents and firms locate in a single area.³⁵ To be truly competitive, cities need to find the right balance between the costs and benefits of density.

³² World Bank. 2012. Indonesia - The rise of metropolitan regions: towards inclusive and sustainable regional development. Washington, DC: World Bank; World Bank. 2014. Philippines - Country partnership strategy for the period FY2015-2018. Washington DC; World Bank Group. These are indicative statistics based on simple correlation analysis. It is important to consider that each country's patterns of urbanization and economic growth have been unique and contingent on a wide range of variables.

³³ Usui, Norio (2012), "Taking the Right Road to Inclusive Growth: Industrial Upgrading and Diversification in the Philippines." Asian Development Bank.

³⁴ World Bank, 2009, Shaping Economies

³⁵ Muth 1969; Fujita and Ogawa 1982; Henderson 2002



These issues have most clearly manifested in Metro Manila. Incomes, productivity, and development levels are higher in Metro Manila area compared to elsewhere in the country, but the region also suffers from congestion, high unemployment, and stress on infrastructure.³⁶ Urban population growth in Metro Manila continues at a very high rate in terms of both internal growth and in-migration. The combination of high population density and rapid urbanization resulted in environmental degradation and poor quality of life. A lack of affordable housing force many to live in poor environment, if not settle in areas where disaster risk is high, such as along waterways. In these blighted areas, access to public facilities such as electricity, water and sanitation are also inadequate. LGUs, on the other hand, are unable to cope with the burden of providing for their needs. It was estimated that traffic congestion costs PHP2.4 billion per day (close to US\$50 million) in Metro Manila plus another PHP1.0 billion (approximately US\$20 million) in the adjoining areas of Bulacan, Rizal, Laguna and Cavite. This translates to PHP1.1 trillion pesos per year in the greater Metro Manila region.³⁷ These “dis-economies of

agglomeration” can seriously constrain productivity gains from urban density. This can be reflected by the low service productivity that has persistently been less than half of those of industry and manufacturing in the Philippines.³⁸

A key underlying reason for these problems is insufficient management and investment by the public sector. To get the most from density induced human and economic interactions, the public sector has a strong role in managing cities, balancing congestion diseconomies and agglomeration economies through urban planning (including public regulations) and infrastructure investment. Different to some other countries such as China and Vietnam where the state’s control and involvement in factor markets can be excessive,³⁹ the role of public sector in the urban development is excessively weak for the Philippines. The growing urban population and urban density were not accompanied by commensurate investments in infrastructure. Infrastructure spending was minimal (less than 1 percent of GDP annually), new road projects numbered less than 10,⁴⁰ and the last completed major mass rail transport project was in 2004. In recent years, train congestion has also worsened significantly. For the same distance, time spent commuting by train more than doubled due to long queues and slower trains (the result of under-maintenance).⁴¹ Regarding the land market, the most important factor for urban development, weak land administration and management system combined with outdated and ineffective land use planning and regulations lead to urban growth in an ad hoc manner. New developments take place on a discretionary and piece meal basis without coordination with infrastructure development or basic service provision, which are associated with unaffordable land and housing price and growth of ISFs.⁴² This is exacerbated by the weak and fragmented institutions and governance for urban and metropolitan management and service delivery.⁴³

³⁶ Corpuz, Arturo G., National Spatial Strategy. Government of the Philippines.

³⁷ JICA 2014, Roadmap for Transport Infrastructure Development for Metro Manila and Its Surrounding Areas (Region III and Region IV-A)

³⁸ Usui, Norio (2012), “Taking the Right Road to Inclusive Growth: Industrial Upgrading and Diversification in the Philippines.” Asian Development Bank.

³⁹ World Bank and Development Research of the State Council, People’s Republic of China (2014), Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization. Washington, DC: World Bank. World Bank; Ministry of Planning and Investment of Vietnam. 2016. Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy. Washington, DC: World Bank.

⁴⁰ Completed projects are the i) elevated portion of SLEX, ii) Libis-Katipunan flyover, iii) Quezon Avenue-Araneta Avenue underpass, iv) C5 extension, v) Mindanao NLEX connector, vi) LRT line 2, vii) LRT line 1 extension, viii) Diosdado Macapagal Highway, and ix) the C5-NAIA ramp. Ongoing projects are the i) NLEX-SLEX connector, ii) NAIA expressway, iii) Daang Hari highway, and iv) rehabilitation of the PNR commuter railway.

⁴¹ World Bank (2015), Philippine Economic Update: Making Growth Work for the Poor. Report No. 93530-PH. Macroeconomics and Fiscal Management Global Practice, Philippines, East Asia and Pacific Region, World Bank.

⁴² The issues with the land market are analyzed in details in Chapter 5

Distance - Inadequate Inter-City Connectivity Infrastructure Increases Economic Distance, Limits Market Access and Specialization

The Philippines faces significant connectivity challenges from infrastructure bottlenecks. The inadequacy of urban and regional transportation in the Philippines remains a major constraint in the movement of people and commodities between production and consumption centers as well as between urban centers. This has led to high domestic transport costs relative to some international routes and has, as a whole, penalized the productivity, efficiency, and competitiveness of the country relative to its neighbors in East Asia. For example, the rate to move a container from the Philippines to a foreign country (e.g., Davao to Singapore) on a foreign flag carrier is often less than moving a container within the archipelago on a domestic carrier (e.g., Davao to Manila).⁴⁴ It has limited opportunities for urban growth and regional development, sometimes at the expense of environmentally-constrained areas, because of the lack of access to other areas better suited to absorb additional or new developments. The effective urban-industrial heartland of Luzon, for example, has remained essentially unchanged since the late 1970s, confined to the Angeles-Metro Manila-Batangas corridor. Recent road extensions to Subic and improvements in the port of Batangas have extended commercial traffic but these have been exceptions. Expansion of transport capacity along the northern and southern corridors to northern Luzon and towards the Bicol region, respectively, has been minimal or has even declined with respect to rail transport.⁴⁵

Spatial analysis shows the inter-city connectivity infrastructure is inadequate with very uneven distribution

(Maps 2.1). The maps show that road infrastructure (as measured by the length of built lines) is heavily concentrated in the National Capital Region and, to a lesser extent, the Cebu and Davao metro areas. A histogram analysis shows that not only do the largest urban areas have the most infrastructure, but also that outside of those areas, infrastructure provision is too low: for 85% of all city/municipality level units, the road length volume is less than 10% of that for the unit with the highest volume. Many areas are still not served by roadways and there are many places where roadway networks do not intersect with each other (e.g., provincial and local roads do not connect to national roads). As a result, mobility and access to and between roadways remain problematic and underscore the need for an integrated transport network.⁴⁶



⁴³ The issues with the institutions and governance are analyzed in details in Chapter 4

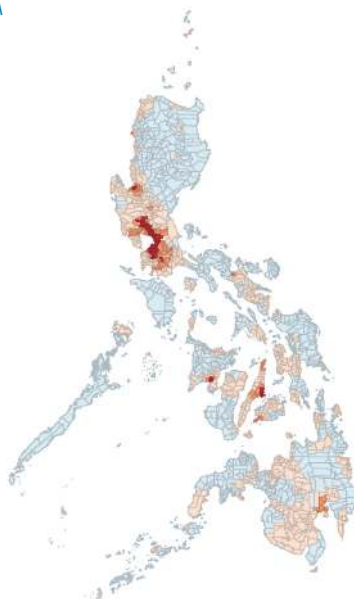
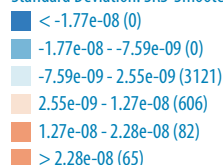
⁴⁴ World Bank. 2015. Final report Vol. 2 of Philippine transport infrastructure development roadmap framework plan. Washington, D.C.: World Bank Group.

⁴⁵ Cariño, B., & Corpuz, A. (2009). Toward a strategic urban development and housing policy for the Philippines (No. DP 2009-21). Philippine Institute for Development Studies.

⁴⁶ World Bank. 2015. Final report Vol. 2 of Philippine transport infrastructure development roadmap framework plan. Washington, D.C.: World Bank Group.

Map 2.1 Concentration and Distribution of Road Infrastructure in the Philippines

Standard Deviation: SRS-Smoothed road_In over AREA



Source: World Bank. 2015. Final report Vol. 2 of Philippines transport infrastructure development roadmap framework plan. Washington, D.C.: World Bank Group.

Division – Economic, Social and Spatial Exclusion in Urban Areas

The internal division in urban areas, including economic, spatial and social exclusion, present another key challenge to harnessing the economic benefits from urbanization in the Philippines.⁴⁷ The multiple dimensions of exclusion are most prominent with the informal settlers, the number of which has been increasing due to large scale of migrants into cities in pursuit of jobs and better lives. In 2012, 5.4% of the urban population or about 2.2 million people lived in informal settlements. In Metro Manila alone, an estimated 1.3 million people lived in informal settlements. These informal settlers often lack access to basic infrastructure and services, secure land tenure, have limited access

to capital, productive and stable employment and livelihood opportunities, and are vulnerable to natural hazards especially floods. Furthermore, ISFs suffer from social discrimination and are seldom integrated into the broader communities, facing higher incidence of crime and violence (See Chapter 4). Not only does this division worsen living standards for informal settlers, it also stymies the development of a vibrant urban middle class whose consumption patterns can further spur the economy. More inclusive urbanization is critical for realization of agglomeration economies as it will expand the urban middle class, which will demand better services and lifestyles, in turn boosting domestic demand and a more service based urban economy.

⁴⁷ Detailed analysis and recommendations are presented in Chapter 4.

2.4 Recommendations

Encourage Policies that Facilitate Market Driven Urbanization and Manage Urban Density

Policies should focus on managing the existing urban density and preparing for further concentration in cities. The evidence linking density and productivity validates the importance of urbanization for growth in the Philippines. Yet current challenges reflect the fact that spatial planning, land use, infrastructure development and service delivery have not been progressing commensurately with rapid urbanization. In order to maximize the economic gains from urbanization, policy measures should be focused on facilitating market forces that drive urbanization and make the productive factors, specifically, land, people and capital, more efficiently allocated within cities.

Based on international evidence this implies facilitating workers (and their families) to move to and live where they produce and get the highest returns, and letting city governments finance investments (including infrastructure) more effectively and transparently by setting local taxes and allocating capital more productively, with better alignment between revenues and expenditure responsibilities at each level. Moreover, the functioning of output markets, through transportation, logistics and trade facilitation, affect economic activity, and its geographic concentration. When factor and output markets work effectively, economic density will increase, leading to higher productivity and the sharing of public amenities. Corresponding to the Philippines' circumstances, several areas should be considered as priority for policy interventions and are discussed further in Chapter 6.⁴⁸

- Land market needs to function better for more efficient allocation of land through improvement in land administration and management (LAM) with better coordination and integration between national agencies involved in LAM
- Land use planning needs to be strengthened through updating and improved implementation of the CLUP and Zoning Ordinance by city/municipality government, balancing the private development needs and overall urban spatial pattern
- Infrastructure development needs to be coordinated with land use planning and addressed as an integrated urban strategy that can cater to various user groups and anticipate long-term needs based on better coordination between the leading national agency, relevant line ministries, metropolitan authority and city/municipality governments

Promote Better Public Transport Within Cities

Within cities, investments should be focused on increasing the capacity of existing road networks and promoting better public transport. Urban mobility determines the actual distance between people and jobs and is particularly important for the poor. Broadly speaking, cities should look toward mass transit to increase productivity, such as higher capacity bus systems (e.g. Cebu City's Bus Rapid Transit system) or in the case of Metro Manila transit rail. There is an urgent need to expand and modernize the country's mass

⁴⁸ More specific policy recommendations in these areas are provided in the chapter of Land, Competitive Cities and Governance chapter in this review

transport system. Enhancing urban concentration would require multimodal public transport planning. Effective use of and connectivity between different transport modes such as rail, road, expressway, water, air as well as car, bus, jeepney, and others to satisfy diversified transport demands and provide choices for users is important.⁴⁹

Efficient land use through transit-oriented development (TOD) has been demonstrated to be a high-value

complement to mass transit development in many other countries (Box 2.4). Compact, mixed-use, high density development integrated into a walkable neighborhood and located within a short distance key mass transit stations can have the dual benefits of creating a ridership base that enhances the economic and financial viability of the mass transit investment and compounding the accessibility benefits a mass transit system can bring to a city's residents.

Box 2.4 Copenhagen 1946: A Regional Framework that Anticipated Transit-Oriented Development

A vision depicted by a memorable analogy. The regional plan for Greater Copenhagen was prepared on behalf of the Danish Town and Planning Institute. Under the plan, (known as the Finger Plan), urban growth would be concentrated along five corridors or “fingers” oriented toward historical villages in the periphery, while central Copenhagen, the palm of the hand, would remain the principal regional center. The “wedges” – the areas in between the “fingers” – were to remain as green areas. The intent of the Plan was to prevent sprawl, guiding growth along fingers, which would have a radial S-train line (the first opened in 1934) running through them. Small independent communities of 10,000 inhabitants were planned for each “finger” with commercial space, schools, and other facilities built around stations, connected to the city core by the S-train. The regional scale was remarkable at a time when planning was not geared toward such cross-municipal reach. Equally remarkable is that although the Finger Plan was a non-binding and initially private document the government's role was critical to ensuring its success. The government safeguarded the principle of coordinated land use and transport and ensured its application in municipal plans. It also created the conditions for land markets to develop along the axes established in the plan.

A precursor of coordinated land and transport planning. The Finger Plan has guided growth in the Copenhagen region for more than 60 years. The use of rail infrastructure investment to steer growth to desired areas can be considered a precedent for TOD. During the 1950s-1960s, the population of Greater Copenhagen doubled and the built-up area expanded dramatically. The principles of the Finger Plan were followed by other planning instruments, including the Outline Plan of 1960, which first introduced the concept of multiple centers in the metropolitan area. In the 1970s, policies were included to ensure the conservation of the green wedges. The 1972 Structure Plan identified four new nodal towns and the 1989 Regional Plan refined the concept of a multi-center structure by increasing investment to link the nodes. The “fingers” have grown longer and wider than what was anticipated originally, but it has been largely successful in absorbing the growing population and continues to be relevant in the city's highly functional structure today. The Danish government has been involved in developing a 2007 update of the Finger Plan, already enacted into a national directive. The principles have been incorporated into national spatial planning with local authorities in charge of compliance

Source: Galland, 2013⁵⁰



⁴⁹ JICA 2014, Roadmap for Transport Infrastructure Development for Metro Manila and Its Surrounding Areas (Region III and Region IV-A)

⁵⁰ Galland, D. (2013). The historical evolution of planning and metropolitan governance in the Greater Copenhagen Region. In Society of American City & Regional Planning History : 2013 Paper Abstracts. (pp. 118-119). Society of American City and Regional Planning History.

Improve Inter-City Connectivity to Foster Specialization and a More Efficient Urban System

Low inter-city transport cost is essential for an efficient urban system under which different cities can diversify or specialize based on their own urbanization level and comparative advantage and trade with each other. Global experience suggests that an efficient urban system can be formulated through policies that treat cities as a set of assets (a portfolio of places), each differentiated by characteristics such as size, location, and density of settlement. As experienced by many developed countries such as U.S., Japan and Republic of Korea, the largest/primary cities tend to be more diversified and service oriented: they innovate, invent, breed new firms, and expel mature industries; secondary/smaller cities tend to be industrially specialized: they produce or manufacture and receive relocated industries from diversified cities (Box 2.2). Clustering of industries in secondary cities enables cost saving for firms due to relatively cheap land and labor and lead to “localization economies” (Box 2.1). Improved transport infrastructure and low transport costs are essential conditions for standardized industries to move out of high-rent centers and cluster in smaller cities. This is because firms can trade the high rents within the cities for lower rents in other locations without offsetting those gains through higher shipping costs. Improved transport links between cities can enable firms to access local, regional, and global markets—both for buying inputs and selling outputs, reinforce agglomeration effects and generate complementary and specialized functions.

For the Philippines, growth of secondary cities would also help absorb surplus labor from rural areas and alleviate migration pressures on Manila. With larger and more productive regional cities, there will be less pressure, and thus less cost, for migrant workers to travel to Manila and access to urban labor markets will increase throughout the country. Consequently, within Manila, congestion, poverty concentrations, and other diseconomies should also become more manageable. The importance of secondary cities is already recognized by the national government in its National Spatial Strategy.⁵¹



51 Corpuz, Arturo G., National Spatial Strategy. Government of the Philippines.



Given its natural geography and infrastructure bottlenecks, policy measures to improve inter-city connectivity should be prioritized based on an integrated transport framework that takes into account selectivity, sequencing and prioritization. Prioritization of the transport modes and selection of locations for investments have important consequences. As mentioned above, the analysis shows that while productivity increases with higher levels of overall road infrastructure, local roads can contribute to productivity and growth more effectively compared to highways. This is consistent with evidence from China that investments in low class roads have much larger benefit/cost ratios for national and urban GDP than the benefit/cost ratios for high class roads.⁵² Transport markets display network externalities, meaning that improvements to one segment can affect the whole network. Spatial tools can help identify the network improvements that will bring the highest positive externalities. And that, in turn, can help city leaders identify and understand the complex tradeoffs between efficiency and equity in decisions about transport infrastructure.⁵³ Any new connective infrastructure projects should not only be assessed based on their own cost and

benefit but also based on modeling and understanding of their impacts on the entire existing transport network and respective overall and spatial economic impacts. Unfortunately, the absence of a national database of local roadways means that there is limited ability to conduct network analysis of the entire roadway network in the Philippines.⁵⁴ There is thus a need to generate Digital/GeoSpatial Comprehensive Local Road Network Maps, which would both improve the identification of infrastructure gaps and promote evidence based planning.

Areas of Future Analysis

The scope of empirical analysis that has been done is limited by constraints in data availability, especially the difficulty in accessing economic data at the city/municipality level and the full set of firm-level data⁵⁵ from the national statistical authority. There are two areas for the future analysis to explore. The first areas is to select and zoom down to several individual cities to substantiate the causal relationship between urbanization and economic growth in these particular cities as well as diagnose the key binding constraints in the factor market, such as land, labor and capital, that limit the economic gains from urbanization, leading to recommendations on either broader factor market reforms or specific targeted interventions. The second area is to further analyze the relationship between connectivity and the system of cities through construction of market access measures incorporating the country's economic geography, and identify key bottlenecks in infrastructure investments, multimodal complementarity, and market regulations etc. that impede a more efficient network of cities, under which low transport costs allow cities to diversify or specialize based on their own comparative advantage and trade with each other.

⁵² Fan, Shenggen & Chan-Kang, Connie, 2004. "Road development, economic growth, and poverty reduction in China," DSGD discussion papers 12, International Food Policy Research Institute (IFPRI).

⁵³ World Bank. Planning, Connecting, and Financing Cities—Now: Priorities for City Leaders. 2013. Washington, DC: World Bank.

⁵⁴ World Bank. 2015. Final report Vol. 2 of Philippine transport infrastructure development roadmap framework plan. Washington, D.C.: World Bank Group.

⁵⁵ Census of Philippine Business and Industry (CBI)

Chapter 3

Improving City Competitiveness for Economic Development and Job Creation

3.1 Introduction and Approach

City competitiveness can be defined as the ability of city to support job creation, economic growth and productivity growth. City competitiveness is affected by multiple factors, a number of which are outside of control of the city government and by nature are the prerogative of the national government. The analysis on this chapter draws on the competitive city framework which includes four pillars: “institutions and regulations”, “infrastructure and land”, “skills and innovation” and “enterprise support and finance.”⁵⁶ It analyzes factors that constrain city competitiveness, the role that city governments can play, and provides policy recommendations based on both the Filipino and international good practices in promoting city competitiveness. Analysis also looks at the enabling environment provided at the national level to foster city competitiveness. Literature reviews, analysis of national level data and the results of firm level surveys and focus group meetings inform the analysis.

As discussed in previous chapters, in recent years cities have emerged as the key drivers of economic growth in the Philippines. Growing competitiveness of cities is most

comprehensively illustrated by the rapid rise of the BPO industry. In less than a decade Metro Manila, Cebu city, Iloilo have emerged as the most attractive places for foreign direct investment (FDI) in this sector. This story illustrates how local endowments can be utilized to become drivers of economic growth. But rise of BPO wouldn't have been possible without an enabling national policy, proactive and well organized private sector and growth-minded local governments. While the story of BPOs is an unquestionable example of success – a lot of issues persist that will require a commitment by all key actors to reform in support of the emergence of new growth industries in Filipino cities.

This chapter discusses 5 key challenges which affect economic development and job creation at the city level. These include; 1) poor business environment; 2) weak infrastructure, land management and access to markets; 3) low demand for innovation and skill match; 4) access to finance and business support; and 5) inefficient economic planning, unclear mandate and weak governance. The analysis of these challenges is followed by a discussion of recommended priority actions.

56 Source: World Bank (2015) “Competitive Cities for Jobs and Growth: What, Who and How”

3.2 Key Challenges

3.2.1 Business Environment: Recent Successes and Need for Further Improvements

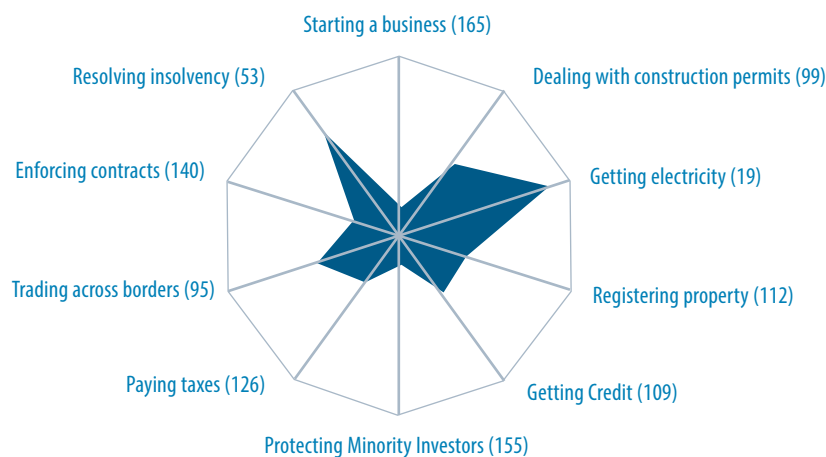
A healthy business environment is essential for growth and poverty reduction. There is abundant evidence that cumbersome and costly regulations, excessive taxation, lack of fair competition, and an unstable policy environment restrict business operations, undermine investment, constrain the development of markets, and stifle entrepreneurship.⁵⁷ Better business environment contributes to better growth and job outcomes.

In the last 5 years the Government of the Philippines has recognized the importance of simplifying and streamlining business regulations. A number of reforms implemented at local and national level have made it easier to do business.

Some cities such as Cagayan de Oro and Barangays have achieved incredible progress in simplifying some aspects of the regulatory environment. However, despite local successes – broader problems persist.

Philippine business regulations remain among the most complex in East Asia and present big hurdles to job creation. The World Bank Doing Business 2016 report ranks the Philippines at only a 103rd place among 189 economies in the overall ease of doing business. Among major economies in the ASEAN region, only Indonesia ranks lower (109). Across the ten topic areas covered by the ranking, the country scores in the bottom half of the ranking for more than half of the indicators. Starting a business, paying taxes, dealing with construction permits and registering property are especially daunting. (Figure 3.1).

Figure 3.1 Philippines Detailed Rankings in Doing Business 2016



Source: Doing Business 2016

⁵⁷ See, for instance, the annual World Bank Doing Business reports for a useful summary of the literature on the importance of business environment for growth.

Starting a business in the Philippines is among the most cumbersome in the world. Doing Business 2016 ranks the country at 165 out of 189 economies on starting a business. The average firm spends 29 days securing licenses required to start a business and spends around PHP 20,000 (equivalent to 16.1 percent of the country's per capita income). Up to 18 licenses, permits, and forms have to be approved before a business can commence. In addition, the Philippines still requires a relatively high paid-in minimum capital and a minimum of five incorporators, a practice that many countries have abolished. In many cases, firms report that they need to pay bribes or give gifts to obtain various permits and government services. Procedures for setting up unincorporated businesses (sole proprietorships), which make up the majority of businesses in the country, are simpler, especially in cities with one-stop shops, but nonetheless remain cumbersome.

Cities impose additional constraints on national level regulations. For instance, out of 16 steps and 29 days to incorporate a limited liability company, 13 steps and 21 days are processed by or at national agencies and 3 steps and 8 days are within the control of the LGU or city (Table 3.1). Additionally local governments are responsible for the organization of application processing. Local BPOs can become major sources of delays, or on the opposite can make it easier for business to deal with multiple requirements and agencies, as has been proven by the examples of cities that have established one-stop shops (Cagayan de Oro, Batangas etc.) LGUs also impose additional requirements on the already complex national rules on the construction process.⁵⁸ As recorded in World Bank Group's 2011 Sub-national Doing Business survey, Taguig City required 25 procedures to get a construction permits while Cebu City and Pasig City required 36 procedures. The time needed to get the permit ranged from 46 days in



Zamboanga to 169 days in Manila. In Mexico, for instance, the most efficient secondary cities such as Culiacan, Colima or Hermosillo, required only 7-9 procedures and 10-40 days to grant a construction permit.⁵⁹

Renewing the annual business permit is especially costly, slow and inefficient. All firms in the country need to renew their local business permits every year, an unusual practice for more developed countries. As part of the annual renewal process, businesses must pay local business tax and fees, as prescribed by the Local Revenue Code, and then show proof of multiple licenses and certificates. Firms in the Philippines also need to provide more licenses than their counterparts in neighboring countries such as Vietnam and Indonesia (The World Bank Enterprise Survey 2009). The example of Batangas, where until recently the annual business permit renewal process required 31 different steps, shows how complicated, costly and cumbersome the business permit process can be (Box 3.1). Similar and often even more complicated process is still the norm around the country.

⁵⁸ Before going ahead with a construction project, an entrepreneur must obtain zoning clearance and other requirements from the LGU and other clearances from DPWH, ATO, HLURB, DOT, DENR, DOTC, DILG, PPA, Dep Ed, DOH, PHIVOLCS, LLDA, MWSS, NWRB, DAR, DA, DOLE, NHA and NCWDP. Section 302, NWR IRR.

⁵⁹ World Bank "Doing Business in Mexico 2014".

Table 3.1 Procedures for Starting a Corporation: Average Cost and Time

STEPS	DAYS	COST (PHP)	NAT'L OR LGU**
1. Verify and reserve the company name with the Securities and Exchange Commission (SEC).	1	40	N
2. Deposit the paid-in minimum capital at the bank.	1	0	N
3. Notarize articles of incorporation and treasurer's affidavit at the notary.	1	500	N
4. Register the company with the SEC and receive pre-registered Taxpayer Identification Number (TIN).	2	3,065*	N
5. Obtain barangay clearance.	1	500	LGU
6. Pay the annual community tax and obtain the community tax certificate (CTC) from the City Treasurer's Office (CTO).	1	500	LGU
7. Obtain the Mayor's business permit to operate from the Business Permit Licensing Office (BPLO). ⁵	6	5,353*	LGU
8. Buy special books of account at bookstore.	1	400	N
9. Apply for Certificate of Registration (COR) and TIN at the Bureau of Internal Revenue (BIR).	1	115	N
10. Pay the registration fee and documentary stamp taxes (DST) at the authorized agent bank (AAB).	1	5,665*	N
11. Obtain the authority to print receipts and invoices from the BIR.	1	0	N
12. Print receipts and invoices at the print shop.	7	3,500	N
13. Have books of accounts and Printer's Certificate of Delivery (PCD) stamped by the BIR.	1	0	N
14. Register with the Social Security System (SSS).	2	0	N
15. Register with the Philippine Health Insurance Company (PhilHealth).	1	0	N
16. Register with Home Development Mutual Fund (Pag-ibig).***	1	0	N
TOTAL	29	19,638	

Source: Doing Business 2016

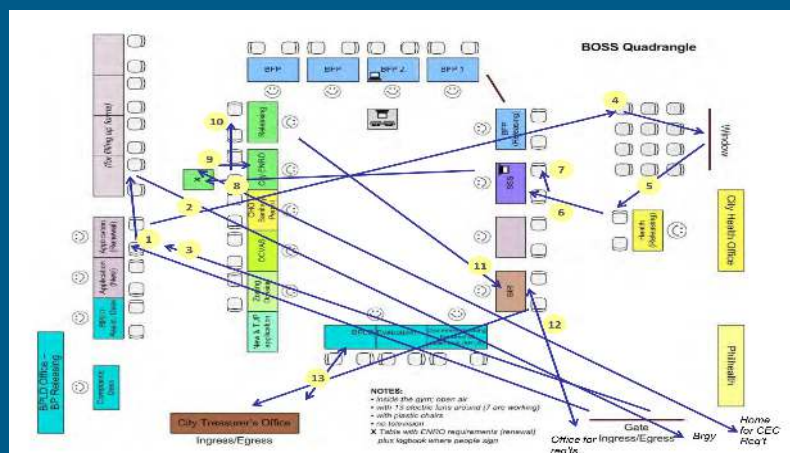
* See Doing Business 2016 methodology for details, found in <http://www.doingbusiness.org/data/exploreeconomies/philippines/starting-a-business>

** Processed by National Agency (N) or Local Government Unit (LGU/city/municipality)

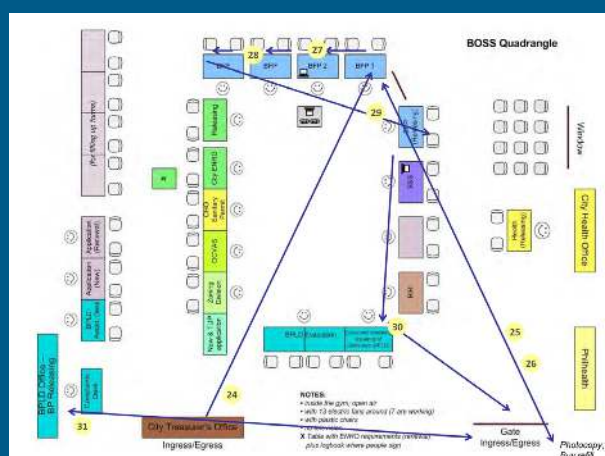
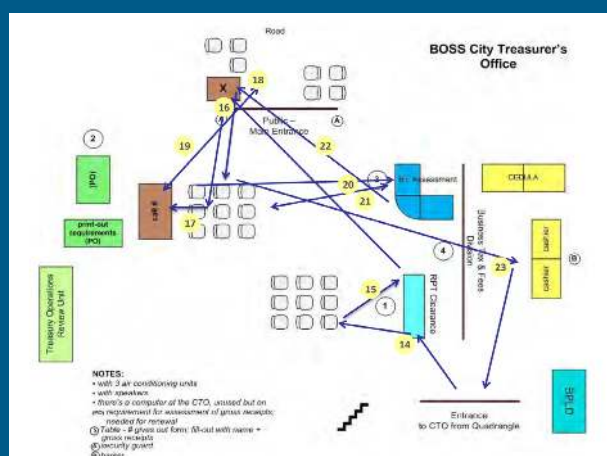
*** Simultaneous with step 15

Box 3.1 Annual Business Permit Renewal Process in Batangas in 2012: An Applicant Firm's Perspective

Until 2012, the process of renewing the annual business permit in Batangas required 31 different procedural steps. First, an applicant firm had to first visit the City Hall and go through 13 steps (as in the chart below).



Subsequently, the applicant firm had to visit the City Treasurer's Office and complete additional 9 steps (chart below). Finally, he had to go back to the City Hall to complete the remaining 7 steps (chart below).



Source: USAID (2014) "Investment Enabling Environment (INVEST) Project", final report.

Property registration is burdensome. Property registration is managed at the national level by the Land Registration Authority, which has regional offices around the Philippines. The regional level offices, however, vary in their degree of efficiency, especially with regard to local registry of deeds and regional district offices of the Bureau of Internal Revenue. Registration costs also differ considerably across cities due to variations in the property transfer tax and notarization fees, both of which are assessed as a percentage of the property value.

Paying taxes is complex, especially as tax regulations make no concession to business size. Micro, small and medium firms (MSMEs) face high cost of compliance with tax regulations, which do not differentiate with regard to business size or the capacity to comply. Value Added Tax, for instance, needs to be declared on a monthly basis even by firms that do not have any revenues for certain periods (such as consultants or part-time lawyers). Most micro and small firms do not have the resources to employ accountants or to maintain full accounts required by the tax agency. Businesses must also pay local government taxes and regulatory fees, which add to the complexity, especially as cities apply different thresholds and tax rates. Anecdotal evidence suggests that the tax payments are also prone to corruption, as the tax due is “negotiated” between a firm and a tax inspector, the official tax rates notwithstanding.

A burdensome tax regime, business registration process and a plethora of other regulations deter MSMEs from entering or staying in the formal sector.⁶¹ It is often easier to leave the system completely than to comply with the red tape, especially as the risk of being caught and penalized is low. Many firms choose to remain informal, non-transparent and small.⁶² Worse, the impact of these

regulations is reflected in the low rate of formal business entry: the Philippines is among the bottom 15 percent of countries with the lowest rate of newly registered firms as the Filipinos establish only two limited liability companies per 10,000 working age people per year. In Malaysia, it is 10 times higher.⁶³

The current business environment also contributes to the stunted growth of SMEs. The country seems to be challenged by a relative dearth of medium and large size enterprises, as micro and small firms fail to grow: for instance, the share of more productive medium size SMEs, which produce 10 percent of GDP,⁶⁴ represented only 0.4 percent of all SMEs and has not changed since 2006.⁶⁵ It seems that firms prefer to stay small than to grow to avoid taxes, onerous regulations and corruption. Given that larger firms are more productive, failure of small firms to grow undermines productivity, exports and job creation.

The government has taken steps to simplify business registration and licensing process, while the first results are positive more needs to be done. In 2010, the government launched a national initiative, the “Nationwide Streamlining of Business Permits and Licensing Systems Reform (BPLS)” and the follow up “Reform Simplification for Local Governments” (RS4LG) to encourage cities to improve business environment. Following the implementation of both initiatives, cities and municipalities were expected to process and release new business permits within 10 days and business renewals in 5 days. As a result compliance costs for firms were cut in some cities, which increased firm registration.⁶⁶ However many LGUs and municipalities failed to achieve sufficient progress. According to USAID, many cities around the country were not compliant with the program targets, likely because of a combination of low capacity, lack of resources and weak leadership.⁶⁷

⁶¹ Aside from regulations covered by the Doing Business indicators, as evidenced by the results of the World Bank led focus groups, companies also need to grapple with obtaining importer licenses, clearing customs, complying with fire regulation, receiving sanitary permits, and complying with food and drug administration product registration.

⁶² A World Bank firm-level study in Africa (Ingram, Ramachandran, and Desai, 2007, “Why do Firms Choose to Be Informal? Evidence from Enterprise Surveys in Africa”, September) found that firms’ decision to be formal is “positively correlated with perceptions regarding the availability of electricity supply, access to finance and access to land, and negatively correlated with the rate of taxation and corruption”.

⁶³ World Bank Doing Business Entrepreneurship database: <http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

⁶⁴ <http://www.dti.gov.ph/dti/index.php/resources/sme-resources/sme-statistics>

⁶⁵ Rafaelita M. Aldaba and Fernando T. Aldaba (2014). Toward Competitive and Innovative ASEAN SMEs: Philippine SME Policy Index 2012.

⁶⁶ Project Completion Report of IFC’s DB Plus Phil Project number 553125, October 2014.

⁶⁷ USAID (2014) “Investment Enabling Environment (INVEST) Project”, final report.

There have also been reforms at the city level. Within Metro Manila, a number of cities introduced business registration and licensing reforms, which helped cut red tape and improve business registration. Quezon City, in particular, has streamlined the business registration process to only three steps. Other cities--Batangas, Cagayan de Oro and Ilollo--also modernized its business registration and permit renewal system. As a result, in Batangas, for instance, registering a new business now takes only 2 steps and

two hours to complete, as opposed to 17 steps before (Box 3.2). This example also illustrates that despite only directly controlling 3 steps of business registration of 16, city governments have a very important role to play in streamlining registration procedure. While national reforms would be required to fix a number of business environment issues, simply replicating local best practices across all cities can deliver substantial improvements.

Box 3.2 Good Practices in Business Registration: The Case of Batangas, CDO, Ilollo and Quezon City

In collaboration with the USAID, the city of Batangas, CDO and Ilollo streamlined its business registration and business permitting process. In Batangas, for instance, the steps needed to receive a new business permit were cut from 17 in 2012 to only 2 in 2014 (see the Table below).

Comparison of Baseline and Streamlined BPLS for Applications for New Business Permits in Partner Cities, 2012-2014

BPLS INDICATORS	BATANGAS			ILOILO			CAGAYAN DE ORO		
	BASELINE (2012)	2013	2014	BASELINE (2012)	2013	2014	BASELINE (2012)	2013	2014
Steps	17	3	2	27	18	4	17	5	3
Forms	11	1	0	8	2	1	10	5	1
Signatories	22 (manual)	2	2 (digitized)	27	4	1	27	7	4 (digitized)
Required Documents	7	3	0	6	5	5	14	7	5
Elapsed/Processing Time	Around 11 days	3 hours, 21 mins	1 hour, 30 mins	About 2-3 days	17 days	Walk in: 1 hour	19 days	Less than 1 hour	30 mins - 1 hour

Another project supported by the IFC/World Bank Group, helped Quezon City to reduce the registration process 3 steps: application, assessment and payment. The basic documents needed for the new business include DTI / SEC Registration, Barangay Clearance and Locational Clearance. QC opened a one-stop shop, where all the regulatory departments are located. In other cities in Metro Manila, including Pasig City and Taguig, business registration continues to require 6 steps.

Source: USAID 2013 and the World Bank

3.2.2 Improving Infrastructure, Land Management and Access to Markets to Support Growth

Access to international markets and trade connectivity in the Philippines is weak. In the 2016 Doing Business report, the Philippines is ranked only in the 95th place in the world in trading across borders, behind most regional peers. Bilateral trade costs are also high: the Philippines' trade costs with Indonesia are almost twice as high as costs between Indonesia and Malaysia. In trade with China, the key regional trade partner, export costs in the Philippines are 20 to 40 percent higher than in the region.⁶⁸ Corruption adds to the costs of exports.⁶⁹ The Philippines also fares the worst on overall logistics performance and shipping connectivity.⁷⁰ Anecdotal evidence suggests that internal shipping costs can be so prohibitive, that it is often cheaper to send cargo from Davao to Singapore than to Manila. This leads to fragmentation of internal markets and complicates development of local supply chains.

Telecommunication services, especially the Internet, are expensive and difficult to access even in major cities. The 2010 study of broadband quality has ranked Philippines digital infrastructure in the bottom ten among 80 countries. The cost of the Internet in Cebu, for instance, is more than 30 times higher than in Vietnam (Table 3.2). It costs 15,000 pesos or more than \$300 to secure a slow and unreliable 5MB Internet connection in the PEZA economic zone in Pampanga.⁷¹ Telephone services are similarly expensive. The high costs and poor connectivity result from an oligopolistic structure of the telecom sector, where two major players control most of the market and the backbone infrastructure. The potential entrance of a third market player has already encouraged two incumbent players to cut prices and improve service, but much more needs to be done.

Table 3.2 Cost of the Internet Connection in Selected Cities and Countries

CITY/COUNTRY	COST OF THE INTERNET CONNECTION PER MBPS, IN US\$
Manila	25-45
Cebu	70
The Philippines	20.35
Indonesia	16.83
Malaysia	10.29
Vietnam	2.25
USA	0.35-2.0

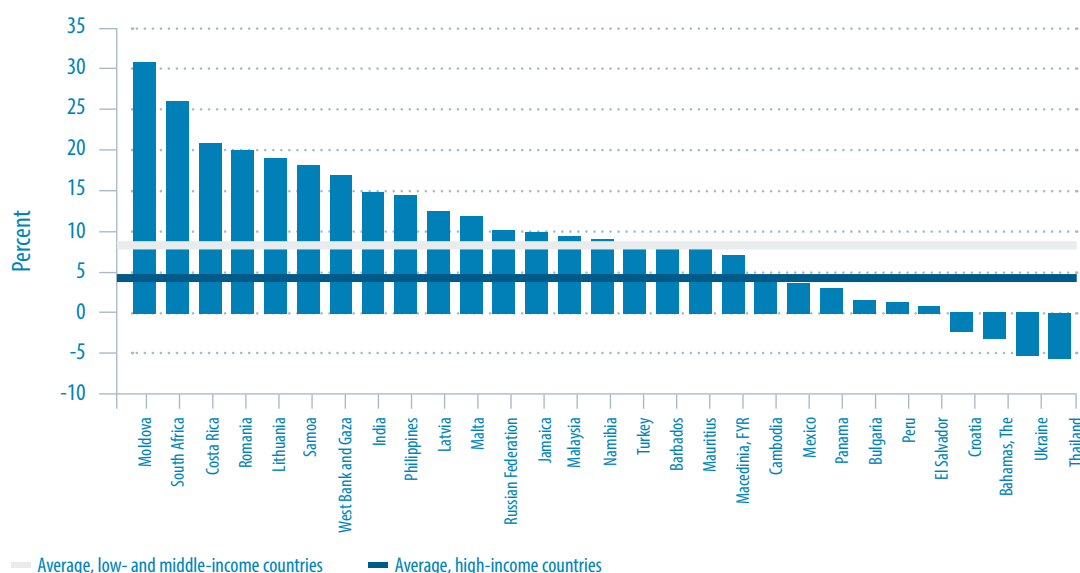
Source: Miradilla-Santos, M.G. (2014) Competition Issues in the Philippines Telecommunications Sector

⁶⁸ Based on World Bank (2016). "Export Transaction Costs in the Philippines", Special Focus 2, The Philippines Economic Update, October 2015.

⁶⁹ In 2014, the Export Development Council (EDC) conducted a survey on the cost of exporting and found that many exporters have to pay grease money to facilitate faster transactions.

⁷⁰ Based on the World Bank's Logistics Performance Index (LPI) and the Liner Shipping Connectivity Index (LSCI).

⁷¹ World Bank interviews with firms in the Pampanga Economic Zone.

Figure 3.2 Change in ICT Intensity of Employment, 2002-12

Note: ICT intensity of employment is based on an index between 0 (no use of technology at work) and 19 (most of technology at work), averaged by occupation and weighted by employment.

Source: WDR 2016

Poor access to the Internet undermines firm productivity and job creation.⁷² There is large international evidence that poor Internet access undermines firm growth, productivity and job creation. In the Philippines, as a result of poor Internet connectivity, growth in e-commerce has been slow: only 20 percent of retail firms sell online.⁷³ Internet-driven expansion of digital technologies is important for employment: since 2000, the ICT intensity of employment has increased by 15 percent in the Philippines, above the average for low and middle income economies (Figure 3.2).

Cheap and accessible Internet will be key to promoting further growth of the city-based BPO sector. Over the last decade, thanks to the universal use of English and relatively high quality of human capital, the Philippines has become a global hub for BPO. Its share of the global BPO market more than doubled from 5 percent in 2006 to 11 percent in 2013. At the same time, employment grew from zero in

early 2000s to one million employees today (Box 3.3). All jobs are based in urban areas, especially in Metro Manila, but also in secondary cities such as Cebu (120,000 in 2015) and Davao (more than 20,000 workers in 2013), Iloilo (40,000) and are rapidly starting to move to smaller cities and towns. BPO jobs are well paid: in 2012, an average salary in the BPO sector amounted to almost \$9,000, three times higher than the country's GDP per capita. However, 85 percent of the BPO revenues are generated by low-value added, routine jobs, mostly servicing call centers, which are susceptible to automation. To move to more high-value added, nonroutine and nonvoice jobs it will require a substantial upgrading of the telecommunications infrastructure to lower costs, improve quality and ensure reliability, alongside substantial investment in skills development programs to meet growing demands of the industry.

⁷² World Bank (2016). "World Development Report 2016. Digital Dividends", p. 79.

⁷³ Ibid. Data for firms with at least 5 employees.

Box 3.3 BPO and Jobs in the Philippines: Opportunities and Challenges from Technological Change

The information technology (IT) and BPO industry in the Philippines has been a driver of economic growth and job creation in the last decade having grown at an average of 24 percent annually. Direct employment reached 1 million full-time employees in August 2014 from virtually zero in 1999, accounting for around 2.3 percent of the country's total employment. The industry has a robust voice sector (primarily call centers), accounting for 64 percent of the industry's revenue. Health care information management employment grew by 47 percent from 2012 to 2013. IT outsourcing revenues also grew by 52 percent from 2012 to 2013, while knowledge process outsourcing grew by 18 percent. Earnings and skill requirements vary across these sectors. Industry-specific jobs tend to be higher skilled than those that cut across industries (such as human resources business processing), as they require more technical knowledge.

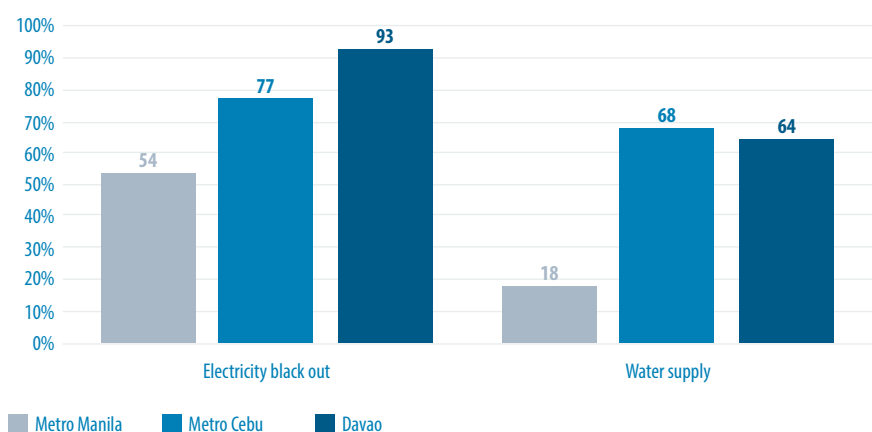
In 2012, average annual compensation per employee in the industry was around US\$8,849, with the highest average compensation in software development (US\$17,383). It was US\$8,301 for contact centers and US\$7,687 for other BPOs. High-skilled, high-paid occupations—as are most research and development-related jobs in knowledge process outsourcing (such as market research and medical transcription), IT outsourcing (such as software and application maintenance), engineering services (such as engineering design and digital mapping), and creative processes (such as art production and game testing and support)—are intensive in non-routine cognitive and interpersonal tasks. Middle-skilled occupations are intensive in routine cognitive tasks, mostly in non-voice BPO (such as back-office finance and accounting or human resources), but can also include many of the jobs in voice business processing (such as customer service and technical support).

Source: World Bank (2016). World Development Report. Digital Dividends. P. 109, and Capili, Miro. 2015. "The BPO Industry in the Philippines: An Overview." Background paper for the World Development Report 2016, World Bank, Washington, DC

Access to water and electricity is expensive and unreliable. More than half of businesses in Metro Manila from a sample report having experienced systematic power blackouts.⁷⁴ The situation is even worse in Cebu and Davao: in Davao,

practically all surveyed firms experienced blackouts (Figure 3.3). Electricity is also expensive, undermining competitiveness.⁷⁵ Water supply is also a challenge for secondary cities, although less so for Metro Manila.

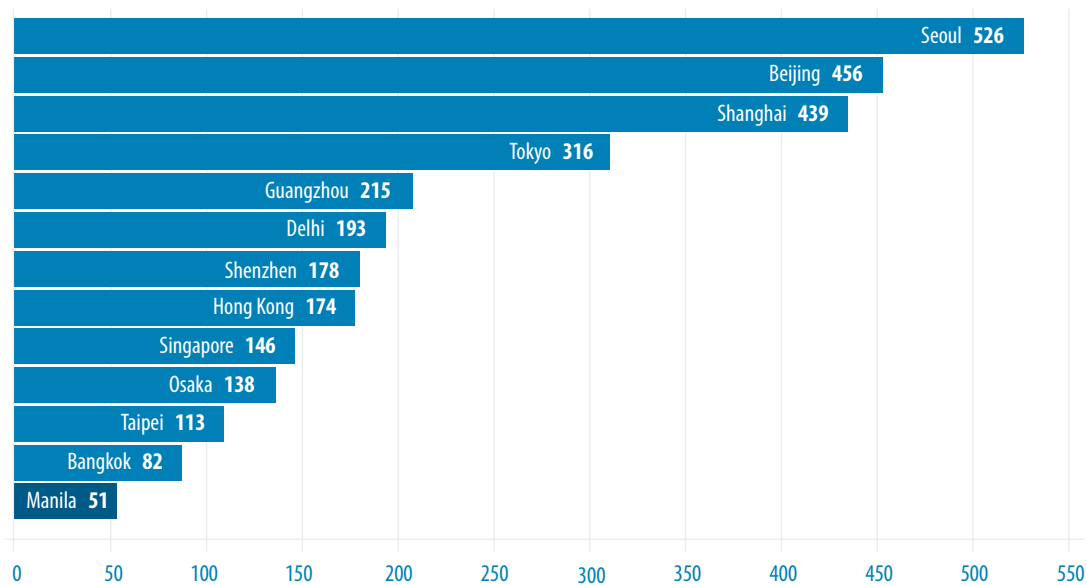
Figure 3.3 Percentage of Companies that Experienced Either Electricity Black Out or Water Supply Problems



Source: The World Bank

⁷⁴ The World Bank surveyed almost 100 firms in Metro Manila, Cebu and Davao. The online questionnaire is available at <http://goo.gl/forms/odPr2GsKiFdwSVk1>

⁷⁵ <http://www.philstar.com/business/2013/10/07/1242233/phil-power-rates-among-highest-asia>

Figure 3.4 Metro Manila Rail Transit Network Compared to Other Asian Cities

Source: Boquet Y (2013) Battling Congestion in Manila: The EDSA Problem

Major cities are crippled by traffic problems. Metro Manila's public transport is the least developed among peer cities (Figure 3.4). This is a result of many years of underinvestment and the overall weakness of the Department of Transportation and Communication. Policies to reduce congestion have been ineffective: the car number coding scheme in Metro Manila has little effect on traffic.⁷⁶ Highway truck bans in Manila and Cebu have made access to port difficult for manufacturing firms, and have contributed to declining throughput volumes in Manila port.⁷⁷

Commutes in Manila are longer than in other cities in the region. According to the Numbeo Quality of Life index, the average car commute in Manila is 58 minutes long. This is similar to Jakarta and longer than Bangkok both of which are also notorious for bad traffic, while commutes in Taipei and Kuala Lumpur are half as long.⁷⁸ However, anecdotal evidence suggests that commute times can be much longer: for instance, driving from Quezon City to Makati during the morning and afternoon rush hour often takes more than 2 hours. Cities have taken measures to lower the commute times, through for instance, producing more reliable maps and monitoring traffic congestion (Box 3.4), but the impact so far has been limited.

⁷⁶ Rey Gamboa, B. (2015) "Is Metro Manila traffic headache unsolvable?", The Philippine Star.

⁷⁷ Based on business interviews in Metro Manila and Metro Cebu cities

⁷⁸ <http://www.numbeo.com/traffic/>

Box 3.4 Good practice in Using ICT to Improve Urban Transport: Cases of Manila and Cebu

Urban transport is a complex system where newly cheap information unlocks possibilities for greater efficiency. A good starting point is with the most basic foundation of planning: of the 25 largest low- and lower-middle-income cities, 92 percent do not have complete maps of their transit networks. Compiling these maps used to be time-consuming and expensive.

Recently, though, Manila developed and applied a mobile phone-based application to survey and map routes, using an open-source data standard. The map powers a consumer trip-planning app and is being used by city planners to reduce redundant routes and plan a new mass transit corridor.

Cebu, in turn, was able to ingest real-time taxi data to generate speed and congestion maps for the entire city. This reduced the time to analyze travel time for a bus corridor from two weeks to two seconds.

Source: World Bank's "World Development Report 2016".

The national land information system is underdeveloped and prone to fraud. Information about land ownership, location, boundaries, and land values are not systematically available and is often incorrect as discussed in depth in Chapter 6. As a result, fraud abounds, which has also led to land ownership conflicts. All title disputes must go to the courts, and this has resulted in delays and abuse. These issues deter investors and complicate implementation of investment projects.

LGUs do not coordinate management of land, which deters investors. As discussed in Chapters 4 and 5, the constituent cities in Metro Manila do not coordinate their land use and investor attraction policies, which result in inefficient use of land resources and failure to build business clusters across administrative boundaries. Marikina, for example, is aiming to rebuild its shoe-making cluster, based on strong traditions in the industry, access to skills locally and growing demand for high quality garments in the Philippines. However, the city does not have industrial land that could attract large investors and has failed to agree an access to industrial land in the neighboring cities, undermining the growth prospects of the cluster.

3.2.3 Low Demand for Innovation and Skill Mismatch

R&D, technology absorption and innovation drive productivity. There is a large economic literature, which shows that innovation and R&D are one of the mains source of productivity, economic growth, quality of life and environmental sustainability. Innovation is critical for developed countries to sustain productivity growth, while technology transfer is key for developing economies to catch up with developed countries.⁷⁹ Innovation can increase the quality of life in developing countries by improving access to preventive health care, financial services and information. It can also help make growth more inclusive by reducing information asymmetries in the markets, helping indigent producers to better respond to changing market prices and introducing new, more productive technologies, especially in agriculture. Finally, given the vulnerability of many developing countries such as the Philippines to natural disasters and climate change, innovation can help mitigate risks by sharing information, promoting green competitiveness and developing new, anti-fragile agricultural production.

⁷⁹ World Bank (2010) "Innovation Policy: A Guide for Developing Countries" for a useful summary of the literature; World Bank/OECD (2014) Innovation and Growth: Chasing a Moving Frontier; World Bank (2008) Global Economic Prospects. Technology Diffusion in the Developing World" for a useful summary.

Box 3.5 What is Innovation? The Role of Governments

Innovation can be defined as a process of transforming an idea or invention into a new good or a service that creates value to customers and helps resolve existing problems. Innovation involves product (good or service), process, marketing and organizational innovation. Each of the four types of innovation can be divided into innovation new to the firm or new to the market or a society called technology absorption; or innovation new to the world, which represents innovation in the most explicit sense. New-to-the-world innovation shifts a notional technological frontier outward, while absorption moves a firm closer to the frontier. Most innovation requires spending on research and development (R&D), but can also occur without it. Innovation is thus a broader concept than R&D only.

Governments play a key role in supporting innovation. The government's main role is to reduce market failure resulting from the divergence in private and social returns on innovation: private investors tend to underinvest in innovation because they receive only a small portion of the benefits of a new product or service, while the society at large appropriates the rest of value added through imitation. As a result, spending on R&D and innovation is lower than socially optimal.⁸⁰ The government can also help firms mitigate other market failures such as on coordination failures, threshold effects or knowledge spillovers.⁸¹ The state can also drive innovation directly by funding critical technologies such as the Internet, GPS and other general purpose technologies and taking the lead in adopting new technologies.⁸²

Source: Own definition based on <http://www.businessdictionary.com/definition/innovation.html#ixzz3IfwrvGT> and OECD/Eurostat (2005) "Oslo Manual – Guidelines for Collecting and Interpreting Innovation Data", OECD, Paris. From: <http://www.oecd.org/sti/inno/2367580.pdf>

Cities are the hubs of innovative activity. Most of the global innovation activity takes place in cities. This is because they provide the key elements of the innovation ecosystem, including people, knowledge, infrastructure, economic assets and the enabling environment. Given the falling costs of ICT and easier access to IT skills, including for the unskilled, young and unemployed, cities in less developed countries can leverage human capital to create innovation communities that generate growth and create jobs

Filipino cities have high potential to foster innovative activity. High level of human capital, a well-established university system, and vibrant BPO industry indicate that larger cities in the country have the talent and the basic infrastructure required for innovation to happen. However, in practice, Filipino cities underperform in innovation. Metro Manila, Cebu and Davao have been unable to leverage the substantial human capital potential to enhance innovation (Figure 3.5) and are struggling to create a thriving community of young, innovative firm start-ups. This seems to be driven by the combined negative impact of poor business environment, lack of access to early-stage finance and weak access to domestic and global markets.

Innovation is weak also at the national level, undermining prospects for sustained long-term growth. The Philippines spends only 0.1 percent of GDP on R&D, behind all regional peers with the exception of Indonesia. It is also behind others in innovation inputs and outputs, as measured by, for instance, the Global Innovation Index (Figure 3.7).⁸³ Finally, it lags peers in research outputs, patents and intellectual property rights. In line with international experience, over time a growing share of productivity growth will need to be driven by innovation.⁸⁴

⁸⁰ For a summary of the theoretical and empirical literature, see, for instance, Hall, Bronwyn H. and Lerner, Josh. (2009). "The Financing of R&D and Innovation". NBER Working Paper No. w1532. September.

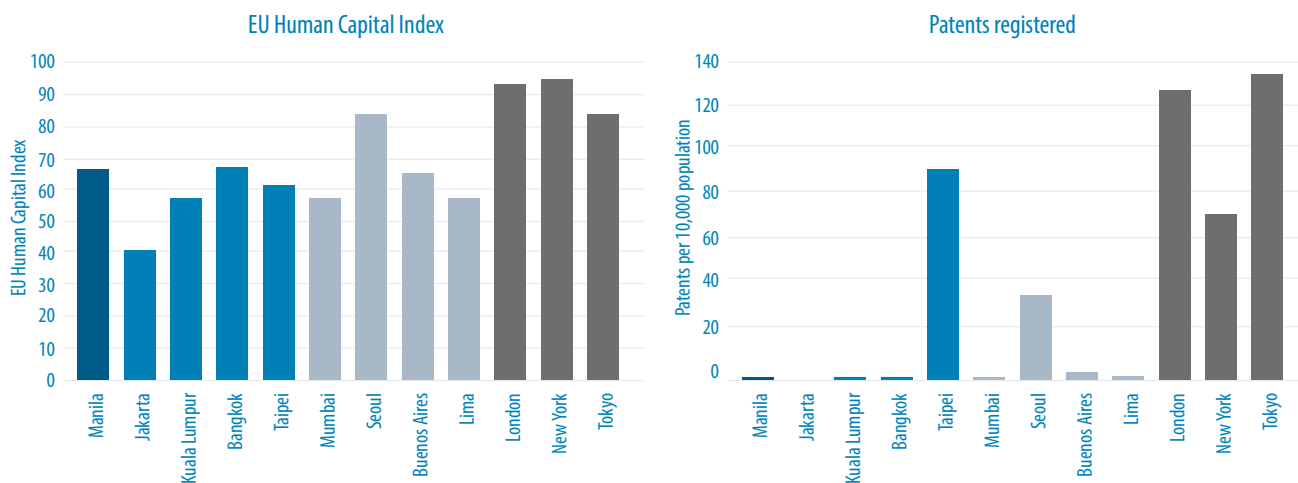
⁸¹ World Bank (2008) Global Economic Prospects.

⁸² Mazzucato, Mariana (2013) The Entrepreneurial State: Debunking Public vs. Private Sector, Anthem Press.

⁸³ The Global Innovation Index focuses on five pillars that encourage innovation: institutions, human capital and research, infrastructure, market sophistication, and business sophistication. Two additional pillars capture actual evidence of innovation outputs: knowledge and technology outputs and creative outputs, <https://www.globalinnovationindex.org/content/page/framework/>

⁸⁴ OECD (2015). The Future of Productivity; Rahul Anand, Kevin C. Cheng, Sidra Rehman, and Longmei Zhang. 2014. "Potential Growth in Emerging Asia". IMF Working Paper WP/14/2,

Figure 3.5 Contrast Between Strong Performance of the Metro Manila on Human Capital, and Poor Innovation Outcomes



Source: EIU Human Capital Index, Science's Global Urban Competitiveness Report (GUCR) (2012)

Figure 3.6 R&D Expenditure, % of GDP, 2011-12, Versus TFP Growth 2002-12

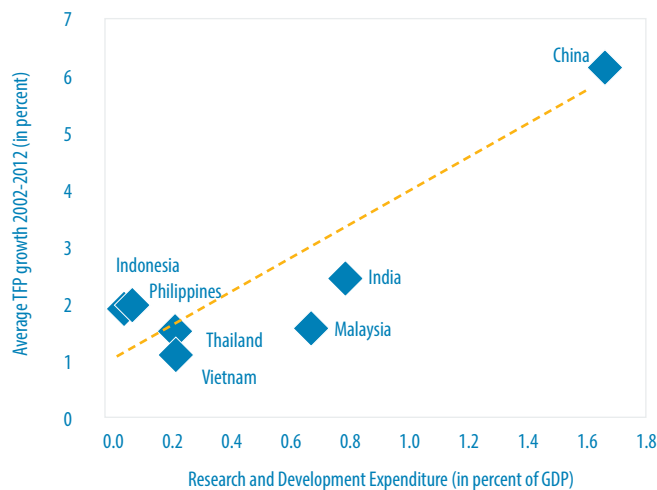
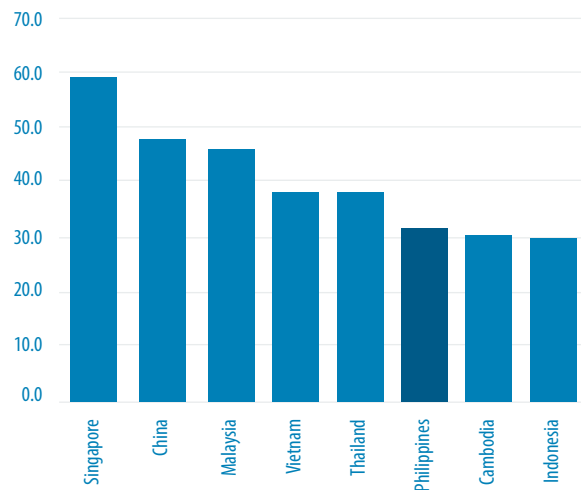


Figure 3.7 Global Innovation Index score, 2015

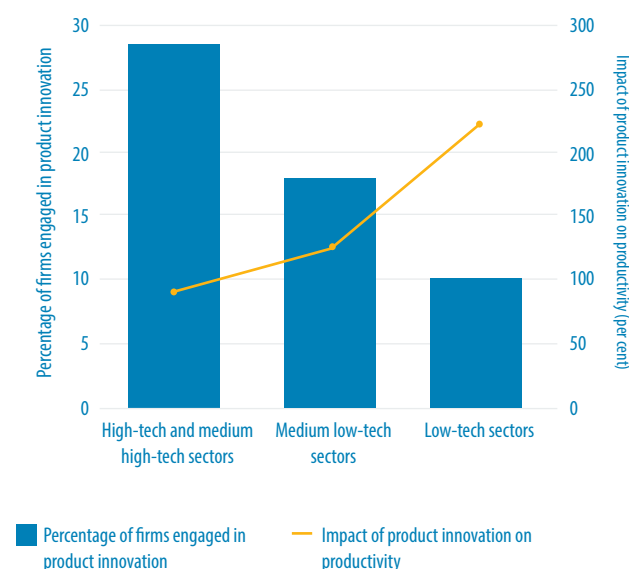


Source: Rahul Anand, Kevin C. Cheng, Sidra Rehman, and Longmei Zhang. 2014. "Potential Growth in Emerging Asia". IMF Working Paper WP/14/2, January; The Global Innovation Index 2015 Effective Innovation Policies for Development.

The impact of increased innovation on the Filipino firms would likely be substantial. Evidence from a survey of firms in Europe and Central Asia suggests that innovation in firms that innovate the least and that are in traditional sectors such as food processing, is likely to more than double labor productivity. (Figure 3.8). Given the low economic complexity of the Philippines' production structure and exports (Figure 3.9) and their low productivity, it is

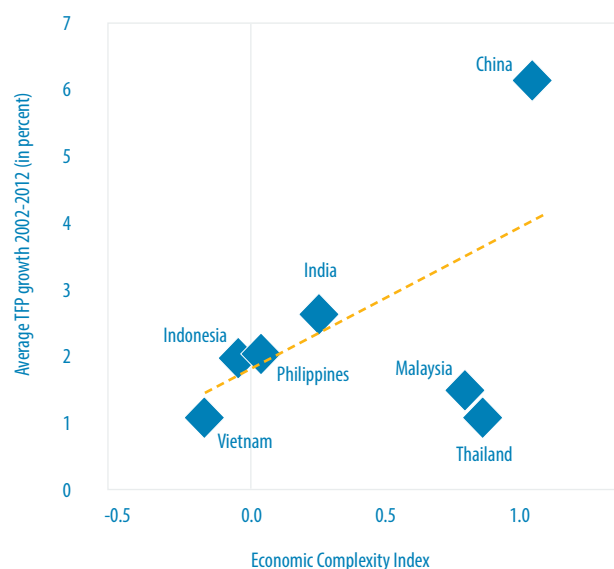
likely that innovation can have a strong impact on firm productivity, especially in the cities, which host the majority of companies. Given the country's level of development and the still significant distance to the global technological frontier, highest returns are likely to result from technology absorption, i.e. innovation new to the firm and the country ("imitative innovation") rather than innovation new to the world ("frontier innovation").⁸⁵

Figure 3.8 Innovation Can Have the Biggest Impact on Low Innovation-Intensive Firms



Source: EBRD (2014). Transition Report. Chapter 2 "Innovation and Firm Productivity". Chart 2.3; Rahul Anand, Kevin C. Cheng, Sidra Rehman, and Longmei Zhang. 2014. "Potential Growth in Emerging Asia". IMF Working Paper WP/14/2;

Figure 3.9 Economic Complexity of the Filipino Production and Exports is Low

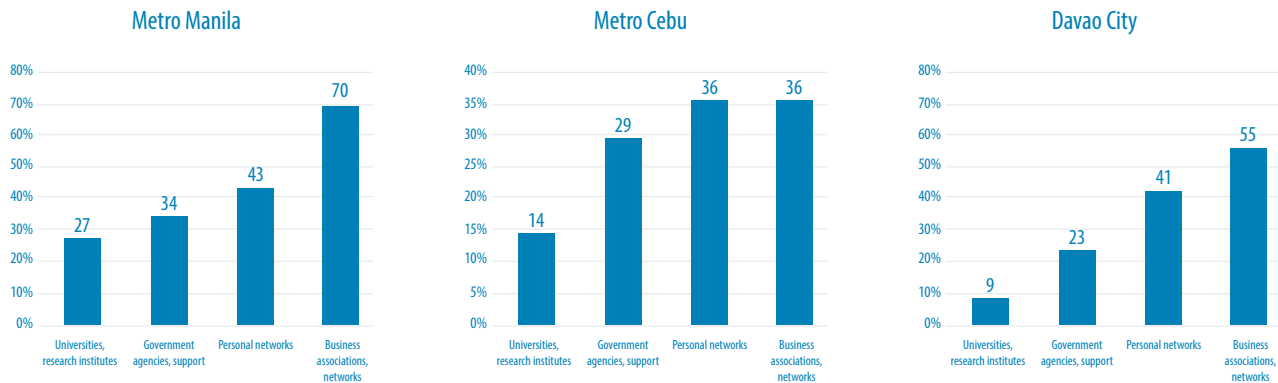


Source: EBRD (2014). Transition Report. Chapter 2 "Innovation and Firm Productivity". Chart 2.3; Rahul Anand, Kevin C. Cheng, Sidra Rehman, and Longmei Zhang. 2014. "Potential Growth in Emerging Asia". IMF Working Paper WP/14/2;



Weak collaboration between business and science is one of the reasons for weak innovation at the city and national level. The university system seems to lack incentives for academics to focus on research, especially commercially oriented, and produce high quality outputs. The on-line survey of business has found that in all of the major cities businesses rely on personal networks and business associations as sources of information required for innovation, but rarely reach out to academic institutions. (Figure 3.10) Most universities have little to do with the private sector. The public financing for research lacks volume, clear priorities and critical mass. There are also weaknesses in protection of intellectual property rights, startup environment and strength of social capital. As a result, research outcomes are insignificant and cooperation with the private sector is negligible.

Figure 3.10 Key Sources of Information for Business Innovation

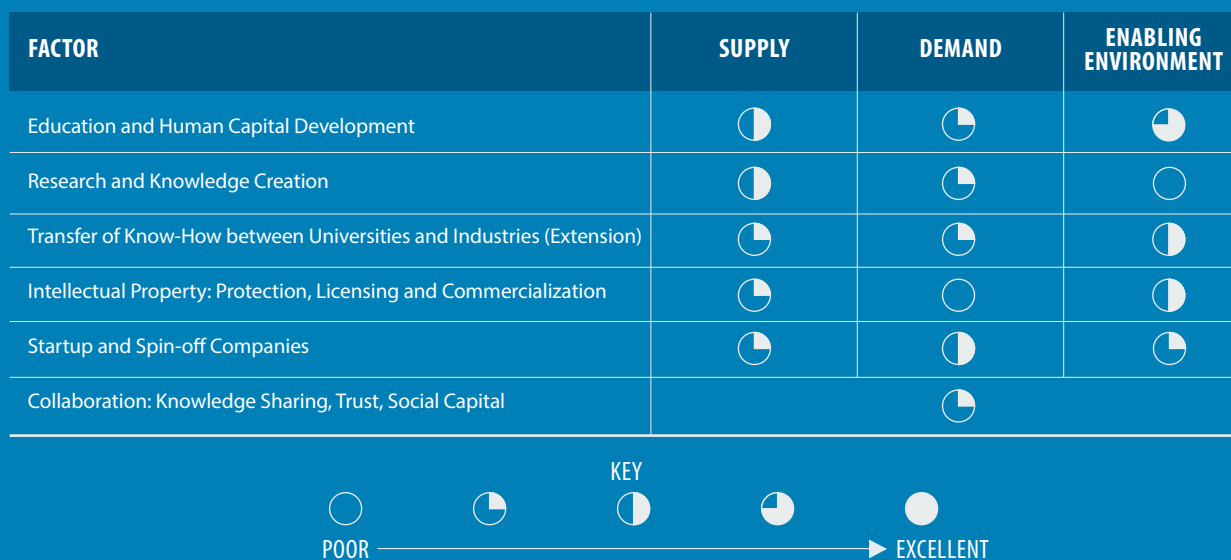


Source: The World Bank

Box 3.6 Assessment of the Philippines's Research Capacity and Innovation Ecosystem

In 2014, USAID-funded project assessed the quality of the university research and innovation ecosystem based on a survey of stakeholders. It found that there has been an ongoing progress in improving the research ecosystem, but also that there were substantial weaknesses that needed to be addressed for the innovation support system to function efficiently and produce results.

Specifically, assessed across six pillars of the report's definition of an innovation ecosystem, the Philippines does relatively well on general education and human development, but is weak across the remaining five pillars, including intellectual property rights, startup environment and social capital (see Figure below).



Source: World Bank's "World Development Report 2016".

Access to high-risk finance is also limited. High-risk capital helps to finance start-ups, nascent technologies and new business models. Business angels, seed funds and venture capital funds are one of the key driving factors of the success of Silicon Valley and other leading innovation ecosystems in the world. However, high-risk financing in the Philippines is largely missing. While there are no official data, anecdotal evidence suggests that there are only a few venture capital funds in the country, with a total annual investment of less than \$[20] million dollars, a negligible fraction of the country's total banking sector assets and the country's nominal GDP of more than \$330 billion in 2015.

Public support system for innovation seems to be fragmented and lacks critical mass of skills and resources. The Philippine government supports innovation mostly through fiscal incentives (reduced tax rates, tax deductions and income tax holidays) and grant programs offered by a myriad of public institutions.⁸⁶ Currently there are 28 institutions providing innovation support programs.⁸⁷ Yet, the system seems fragmented, without a critical mass and grossly underfunded. For instance, the largest R&D program managed by DOST had a budget of only around \$30 million in 2009, raising questions about its impact; an R&D budget of another governmental agency, DOH, amounted to only \$0.6 million.⁸⁸

⁸⁶ There are many institutions involved in innovation policy: for instance, the Presidential Coordinating Council for Research and Development founded in 2007 coordinates work of DA, DBM, DOE, DENR, DFA, DOH, DND, NEDA, DTI, CHED, CICT, NAST and NRCP.

⁸⁷ DTI (2015) Programs and Services for Micro, Small and Medium Enterprises. <https://drive.google.com/file/d/0B0iIL7KAK3i5MUeTWDNRmNrSEk/view>

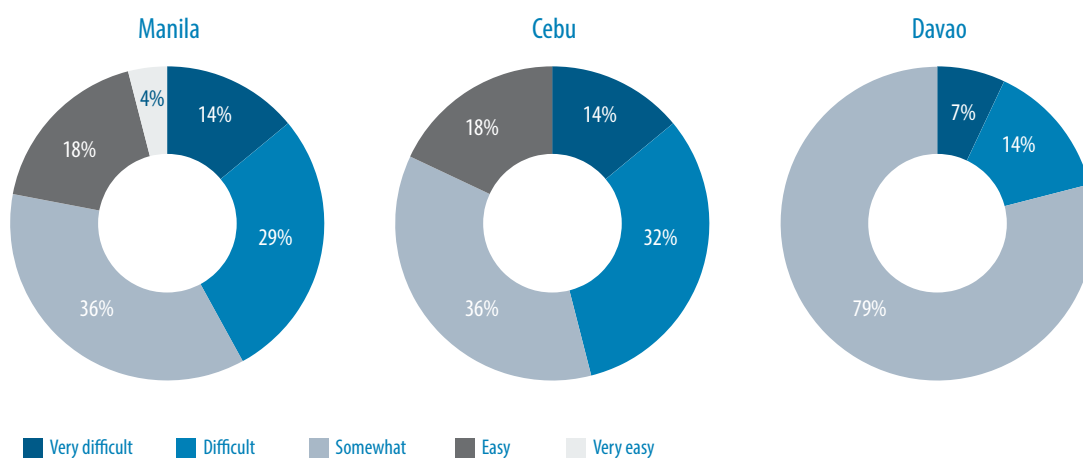
⁸⁸ Estrella Alabastro, "R&D in the Philippines: Issues and Recommendations", Powerpoint presentation.

There is also little policy prioritization and coordination. Each government agency seems to have its own R&D policy, priorities and instruments and be focused basic science rather than enterprise innovation. There is also no framework for impact evaluation, including of the effects of the substantial tax expenditures resulting from tax breaks and tax privileges. Finally, there seems to be a low level of awareness among the policy makers of the critical importance of innovation for long-term growth: the government's last innovation strategy dates back to 2007.

Despite relatively high educational attainment, there is also a mismatch of skills. The Philippines has a well-developed educational system, which produces

substantial numbers of high quality graduates. However, almost half of companies surveyed by the Bank across the three largest cities report difficulties in finding quality workforce, suggesting a mismatch between graduates' skills and the needs of the business community (Figure 3.11). The survey results and anecdotal evidence confirms that the skills mismatch can be observed in all major cities, even though specific issues and skills shortages vary.⁸⁹ This finding is corroborated by other studies⁹⁰. The country also produces relatively few graduates in science, technology, engineering and mathematics (STEM) and there are particular shortages in subjects critical for innovation, including IT. Finally, despite several support programs, the large Filipino diaspora is hardly leveraged for technology transfer, knowledge sharing and global networks.

Figure 3.11 Share of Firms Identifying Problems with Finding Quality Workforce



Source: The World Bank

⁸⁹ Refer to the full background paper on city competitiveness for further details.

⁹⁰ World Bank (2010) Philippines Skills Report: Skills for the Labor Market in the Philippines.

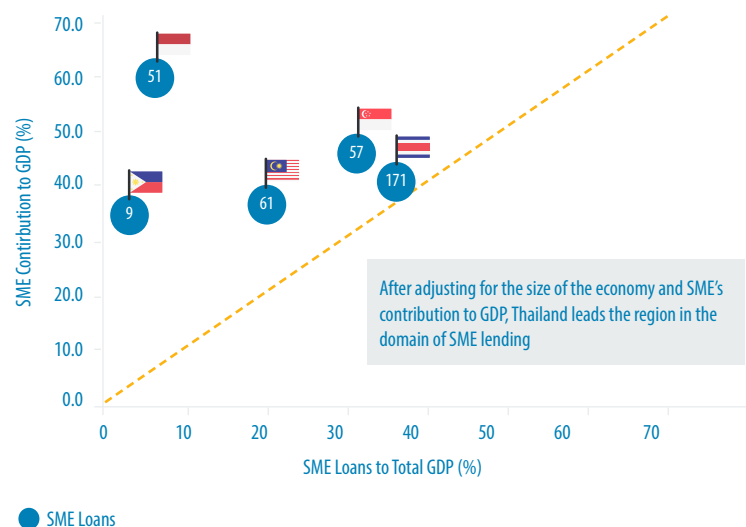
3.2.4 Limited Access to Finance and Business Support

Access to finance is key to economic growth and development. There is large literature that highlights the casual relationship between access to finance and growth.⁹¹ Poor access to finance weighs especially heavily on MSMEs, preventing the majority of micro and small rural enterprises from growing.⁹² Because MSMEs often lack acceptable forms of collateral and transparent accounting practices, they are considered too risky for lending. Cities often lack leverage to improve the banking and financial system, however they can run small grant programs and help businesses with accessing information about their financing options. Cities can also play an important role in providing other targeted forms of business support.

The banking sector in the Philippines is stable, profitable and well capitalized. This creates an important base for private sector growth. The Filipino banks have high capital ratios, high ROE and comfortable liquidity.⁹³

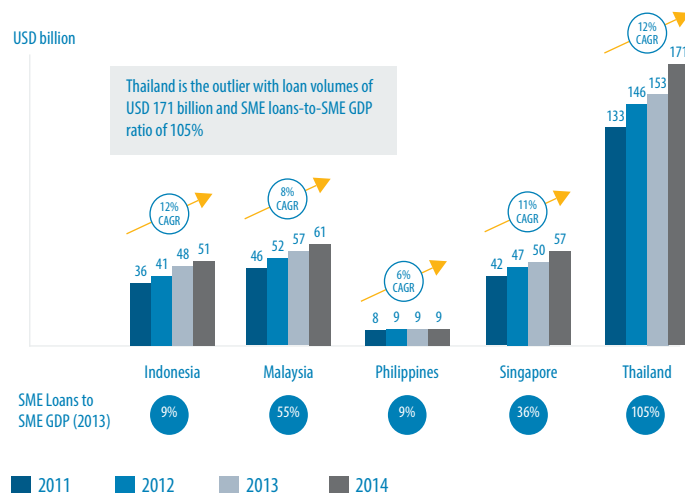
But banks hardly lend to MSMEs. Lending to MSMEs represented only 3 percent of GDP in 2013, behind all regional peers. In Thailand, the regional leader, SME financing represented 34 percent of GDP. SME lending in the Philippines also grew slower during 2011-2014 than in the region, increasing by only 6 percent a year. In Thailand, it increased at a pace twice as fast. (Figures 3.12 and 3.13)

Figure 3.12 SME Loans to GDP and Contribution to GDP, 2014



Source: Deloitte (2015) "Digital banking for small and medium-sized enterprises: Improving access to finance for the underserved".

Figure 3.13 SME Loans Growth Rate 2011-2014, CAGR in %



Source: Deloitte (2015) "Digital banking for small and medium-sized enterprises: Improving access to finance for the underserved".

⁹¹ For a useful summary of literature, see, for instance, Demirgüç-Kunt, Asli and Levine, Ross (2008). "Financial Sector Policies, and Long-Run Growth". World Bank Policy Research Working Paper Series.

⁹² See, for instance, Stein, Peer; Ardic, Oya Pinar; Hommes, Martin. 2013. Closing the credit gap for formal and informal micro, small, and medium enterprises. Washington, DC: International Finance Corporation.

⁹³ Llanto, G. M. 2015. Financial Inclusion, Education, and Regulation in the Philippines. ADBI Working Paper 541. Tokyo: Asian Development Bank Institute, SME finance forum. <http://www.smefinanceforum.org/data-sites/ifc-enterprise-finance-gap>



The largest banks are wary of lending to MSMEs. Among the largest and most-established banks, loans to micro and small enterprises represented only 4 percent of their overall lending portfolio. The predominant part of the lending is channeled to low-risk large domestic and international companies. Many large banks do not meet the legal target for the MSMEs portfolio to represent at least 8 percent of the loan portfolio. The share of MSMEs lending is much higher among the cooperative banks, amounting to 23 percent of the portfolio, but the cooperative banks are much smaller and limited in their capacity to ramp up lending.⁹⁴ There is also a need to reform the existing guarantee instruments to refocus it on providing guarantees to micro and small enterprises.

Limitations in bank supervision framework and lack of adequate bankruptcy and debt resolution framework undermine credit growth for SMEs. Lack of legal protections for bank supervisors and an inadequate bank resolution

framework result in an overly conservative stance of the regulators in setting guidelines for credit operations. The bankruptcy process is slow (it takes around 6 years to complete a bankruptcy case), bankruptcy administration costs are high (38 percent of assets), and expected creditor recoveries are at around 21.4 cents to a dollar. Despite the 2013 revision of the bankruptcy framework⁹⁵, bankruptcy procedures continue to be so inefficient that creditors hardly ever use it. These factors make SME financing risky in the Philippines.

Lack of comprehensive credit information system add to limited supply of credit. The scope, accessibility, and quality of credit information through public or private bureaus in the Philippines is limited.⁹⁶ Significant legal reforms have recently been implemented but their impact will depend on the quality of implementation.⁹⁷ Financial sector groups within the banking industry have set up their own private credit bureaus, but they have a limited capacity to share data across different banking groups and data are generally only for negative credit performance records. The fragmented nature of the credit information industry prevents lenders from obtaining reliable and complete credit history on existing and potential borrowers.

There are also deficiencies in registration of collateral. Registration of both movable and immovable (land and property) collateral legal framework and registration system also pose a significant obstacle. Registration of moveable collateral is time-consuming and costly and financial institutions often cannot verify if a particular collateral is registered because various Registry of Deeds offices are not centralized. Land registration and titling are fragmented into different registries, making debtor searches and financing difficult, and property rights insecure (see Chapter 6).

⁹⁴ Deloitte (2015) "Digital banking for small and medium-sized enterprises: Improving access to finance for the underserved".

⁹⁵ An up-to-date bankruptcy framework, Republic Act 10142 "Financial Rehabilitation and Insolvency Act," which aimed for a faster and more orderly rehabilitation or liquidation of financially distressed companies and individuals was passed in 2010 and implemented in 2013.

⁹⁶ Deloitte (2015) "Digital banking for small and medium-sized enterprises: Improving access to finance for the underserved".

⁹⁷ Credit Information Corporation established by Republic Act 9510, also known as the "Credit Information System Act," passed in 2008 began operations in 2015

The national-level system of public support for SMEs is grossly fragmented. There are more than 60 national-level institutions mandated to support SME development, including more than 30 institutions supporting technology and production, 10 institutions supporting SME marketing, and more than 10 supporting regulations and incentives.⁹⁸ In addition, there is a newly established nationwide network of Go Negosyo centers, which aim to help SMEs by (i) informing about business registration, (ii) providing business advisory services on product development and investment promotion, market linkages and access to technology, financing, and management training, (iii) and serving as a support sharing facility and a one-stop shop for MSME services.⁹⁹

Cities also provide business support services, but their impact is not clear. Quezon City, Pasig and Davao City all have agencies and departments responsible for various types of business support provision (Table 3.3). Many of them seem to respond to the real needs of the SMEs (see Box 3.7). However, the program budgets are small, the penetration of services among SMEs is low, and the awareness about the support programs is weak, as confirmed by focus group discussions with the private sector. Given the lack of monitoring and evaluation frameworks, it is not clear how effective the services are and whether city level offer complements the national support system or duplicates it.

Table 3.3 Business Support Services at the National Level and in Selected Cities

THEMATIC SUPPORT	NATIONAL LEVEL SUPPORT	LOCAL LEVEL SUPPORT		
	PUBLIC AND PRIVATE INSTITUTIONS ¹⁰⁰	QUEZON CITY	PASIG CITY	DAVAO CITY
Marketing	12	-	-	1
Regulations / Incentives	14	1	-	-
Institutional Development	12	1	1	1
Finance Program/ Credit Facility ¹⁰¹	22	1	1	1
• Micro-financing				
• SME financing				
Microfinance-oriented rural/ cooperative banks ¹⁰²	472	NCR = 75		Davao and Cebu = 1

Source: The World Bank

⁹⁸ <https://drive.google.com/file/d/0B0iIL7KAK3i5MUeWtWDNRmNrSEk/view>

⁹⁹ By early 2016, 152 Go Negosyo centers were established across the country and serviced more than 30,000 SMEs. Yet, it is not clear yet whether the new centers will be able to materially help MSMEs development.

¹⁰⁰ List of Institutions/Agencies providing business support. Link: <https://drive.google.com/file/d/0B0iIL7KAK3i5MUeWtWDNRmNrSEk/view>

¹⁰¹ Source: Financing Programs for MSMEs, <https://drive.google.com/file/d/0B0iIL7KAK3i5bGlbw1V2b2dvS1U/view>

¹⁰² Micro-finance oriented rural banks (331). Cooperative banks (143). Source: BSP Report 2015. http://www.bsp.gov.ph/downloads/Publications/2015/StatRep_2Sem2015b.pdf

Box 3.7 Examples of Local Business Support Programs: Quezon City

In 2012, Quezon City created a Business Development and Promotion Office and adopted a Magna Carta for Micro and Small Business Enterprises to provide a wide framework of policy and services support for small businesses in the city. QC also created the Sikap Buhay Entrepreneurship and Cooperative Office (SBECO). The SBECO conducts business trainings and consultations for city's small and medium enterprises, and assists the city in the development of an SME Roadmap to guide the SME's plans for growth and expansion.

SBECO manages an entrepreneurship and micro-finance program known as the Puhunan Pangkabuhayan ng Sikap Buhay (PPSB), which is a non-collateral interest loan facility for small entrepreneurs in partnership with several cooperatives. The program has a budget of around 5 million USD a year and over the last 11 years it has supported more than 64,000 entrepreneurs. SBECO partners with Go Negosyo centers to provide additional trainings for micro entrepreneurs. While the headline loan repayment rate of 95% seems impressive, the effectiveness of the program and its impact is not clear.

Source: World Bank interviews with the city, <http://quezoncity.gov.ph/index.php/news/61/446-puhunan-pangkabuhayan>

3.2.5 Inefficient Economic Planning, Unclear Mandate and Weak Governance

City level actors can play a decisive role in promoting competitiveness. Global experience shows that cities can improve private sector performance by focusing strategic planning on economic outcomes, striving to improve efficiency in policy implementation. Even if powers of city governments are limited, they can expand their ability to influence growth outcomes through building partnerships with the private sector or collaborating across administrative boundaries.¹⁰³ (See Annex Box 1. The city wedge framework)

The Philippines has a relatively decentralized form of governance with significant powers given to LGUs. Highly urbanized cities in the Philippines are a strongly

empowered second tier of government. (See full discussion section 5). The cities are the most self-sufficient LGUs when it comes to revenue collection. In 2014, more than half of city budgets came from their own revenue, while other LGUs collected less than a quarter of their budgets and had to rely heavily on the Internal Revenue Allocation (IRA) transfers.¹⁰⁴ That said, despite substantial revenue independence, the overall city revenues are low in line with the nationwide overall tax intake.¹⁰⁵ As a result, many city-level economic development programs, with a possible exception of a few most developed cities in Metro Manila, are under-resourced and fail to reach a critical mass to tangibly support the private sector.

A lack of clarity on the economic development functions among government levels undermines efficiency. De jure and de facto regulations do not clearly delineate the role of national and city governments in promoting private sector

¹⁰³ "City Wedge" framework helps understand how cities can improve governance to achieve better economic outcomes. See World Bank, 2015, City Competitiveness.

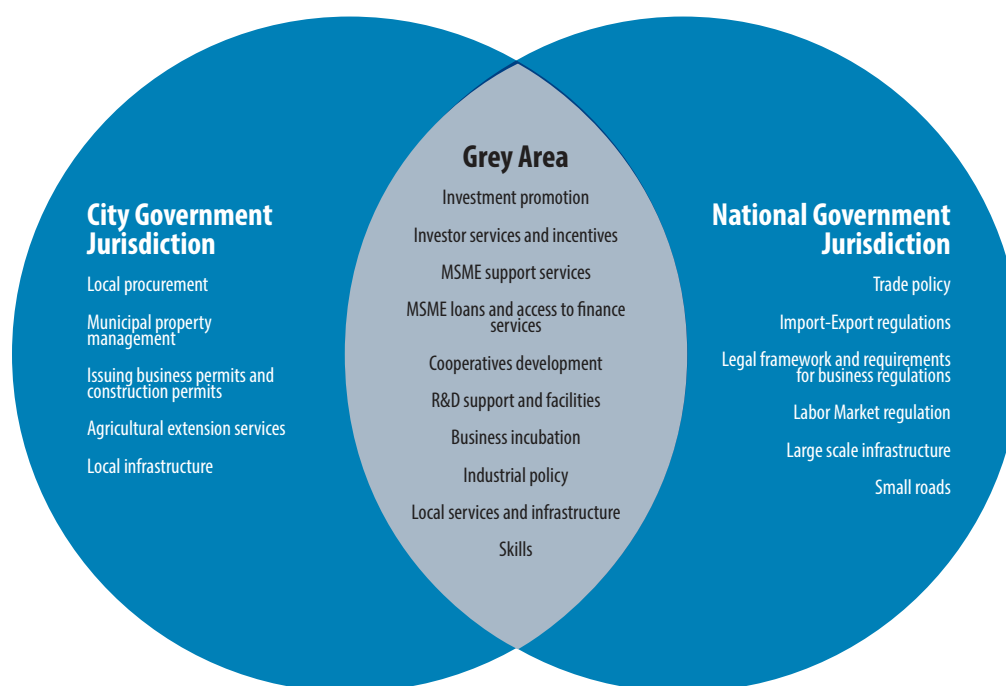
¹⁰⁴ Source: National Resource Government Institute (2016) Philippines Revenue Sharing, Case Study

¹⁰⁵ In 2014, the Philippines collected only 13.7% of GDP in tax revenue, as opposed to, for instance, [25%] of GDP in Malaysia.

growth and job creation. There are a large grey zone of functions, which are often duplicated between the city and national government agencies. This issue cuts across many sectors as discussed in Section 5. In the case of economic development, the duplication in functions include investment promotion, investor services, MSME support services, skills and even industrial policy (Figure 3.14). For instance, in Davao, investment promotion activities of the local branch of branch of the national Department of trade and Industry overlap with the functioning of the Davao Investment Board and there is little coordination. There are many other examples across the country.

Cities delivery models for economic development are fragmented. Multiple departments deliver services and projects that contribute to economic development, but lack coordination. (see Box 3.8) Global best practice suggests that the best results for economic development can be achieved by, inter alia, introducing “transversal management”, when key economic development targets are translated into objectives for various government departments, lined to budget allocation and coordinated by delivery units. Baltimore city stat and PEMANDU delivery unit offer examples of global best practice.

Figure 3.14 The Distribution of Economic Development Functions between Local and National Authorities



Source: World Bank based on analysis of local government code and public sector interviews

Box 3.8 Examples of Local Business Support Programs: Quezon City

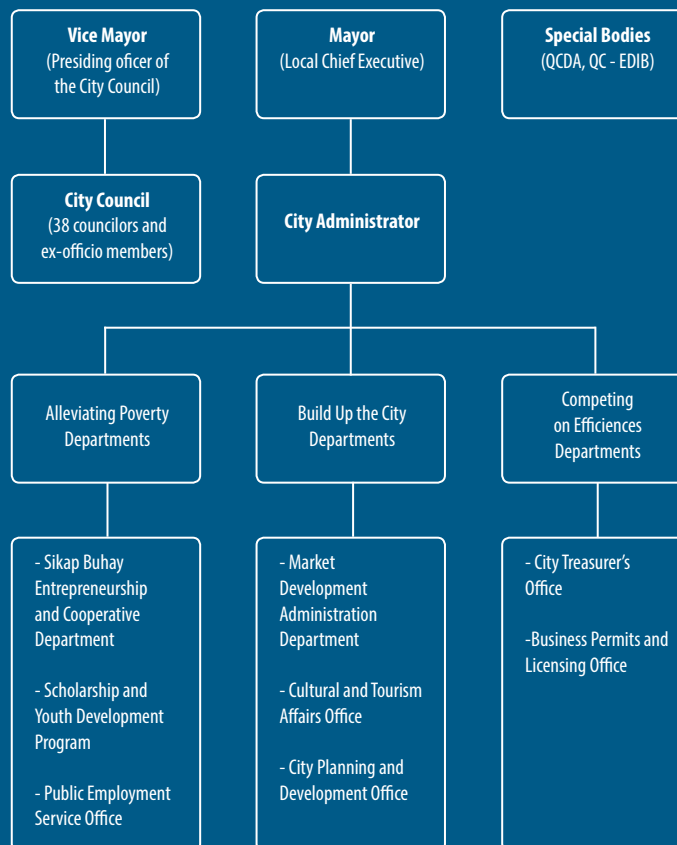
City hall structure is complex and economic development functions are fragmented. There are 48 departments in the QC city hall, which are broken down into 3 clusters (see figure below). Economic development and business support functions are spread across various branches without obvious means of coordination. Skills development and MSME support are under alleviating poverty departments; economic development planning and tourism promotion is under building up the city branch, and business permitting and incentives implementation is within competing on effectiveness branch. Additional investment promotion and development investment functions are given to special bodies that are not integrated into the governance structure. A 29 people strong LEIPO will also be established soon and will complicate the landscape even further.

The special economic development bodies need better coordination with the rest of the city hall. Quezon City has two special economic development bodies that sit outside the regular city structure and report exclusively to the Mayor. Both of them present interesting innovations in economic government for the Philippines, but it is unclear to what extent their activities will follow key priorities for the city,

Quezon City Development Authority (QCDA), a government-owned and controlled corporation with an authorized capital stock of PhP 1 billion, primarily serves as the enterprise vehicle and investment arm of the city. It will provide the Quezon City government with a vital entity for providing additional investments that will enable the city to generate employment opportunities for its residents focused on proprietary investments.

Economic Development Investment Board (QC-EDIB) was initiated after adoption of the new city investment incentives code in 2013. Its task is to develop policies to enhance the business climate, attract investors and promote existing businesses in the city.

Source: World bank based on review of Quezon City official web site and report documents



Cities also lack capacity and often willingness to take charge of economic development. Until recently the cities were not required to have an economic development office. Cities still implemented certain economic development projects and offered business support services, but they tended not to have a systematic approach that tied it to core development objectives. In 2010, a new law made it mandatory for cities to establish Local Economic and Investment Promotion Offices (LEIPOs) to plan and coordinate economic and investment promotion policy.¹⁰⁶ However, the implementation of the law has been slow: some cities have yet to establish LEIPOs, while in other cities the capacity of the newly established offices is limited.¹⁰⁷

Finally, corruption remains a major concern at the local government level. In 2012, 68% of respondents of the local government perception survey reported that they thought that their government was corrupt. Around 15% of respondents have experienced corruption, while 66% have heard of it.¹⁰⁸ Focus group discussions have also confirmed that businesses perceive corruption to be widespread and inimical to their development prospects.

Inefficient Planning for Economic Development

Effective strategic planning is an important element of city competitiveness. Good strategies help cities organize their efforts around key priorities, streamline allocation of resources and galvanize public-private coalitions.¹⁰⁹ While the strategic planning system in the Philippines has

recently been streamlined and offers an improvement from previous approaches, economic development planning remains ineffective as the new strategic planning model does not encourage prioritization. The approach encourages development of a long list of projects covering each of thematic areas, rather than clear priorities.¹¹⁰

Economic development plans do not seem to be the key priority for cities. According to the current structure of local planning documents, Comprehensive Land Use Plan (CLUP) is at the top of the local planning hierarchy, while the Comprehensive Development Plan is of a lower priority (Annex 3). The CDP itself includes a plan for five different sectors, among which only one focuses on economic development. Global best practice suggests various local plans should inform and reinforce each other, rather than exist in a predefined hierarchy.¹¹¹ On many occasions understanding of future trajectory of economic development of the city is required for making land use decisions. For example New York has made a decision to allocate land on Roosevelt Island to a university on the basis of a strategic decision to support development of high-tech economy in the city.¹¹²

Lack of transparency of planning limits accountability of local governments. The development plans are not published on LGU websites and are difficult to obtain by stakeholders and the local public. As a result, it is difficult for the public to hold government accountable for implementation of programs listed in the plans and for achieving the objectives.

¹⁰⁶ Memorandum Circular 2010-113

¹⁰⁷ USAID (2013) Rapid Training Needs Assessment of LEIPOs of the Cities of Batangas, Iloilo and Cagayan de Oro

¹⁰⁸ Social Weather Station (2012) Survey on Good Local Governance

¹⁰⁹ World Bank (2015) "What makes a good city strategy?"

¹¹⁰ Bureau of Local Government Development (2008) Rationalizing the Local Planning Process

¹¹¹ World Bank (2006) Local economic development: A Primer. Developing and implementing local economic development strategies and action plans.

¹¹² Mulas, V. (2015) New York city: transforming a city into a tech innovation leader

Public-Private Collaboration and the Role of Business Associations

Business associations are well positioned to engage in productive coalitions with the government. Each of the cities analyzed in this report has several active business association, including local chapters of the Philippines Chamber of Commerce, Chinese Philippine Chamber of Commerce and a wide range of sector specific associations, including IBPAP. These associations vary in the level of sophistication and size: most of them have at least several hundred members in each respective city and offer a wide range of services to the members, including trainings, business advice, lobbying and others. In most cases, these associations are independent, self-funded and sufficiently staffed, which puts them in a great position to represent the business community in collaboration with city officials.

There is still much scope for local governments and business communities to collaborate effectively. Business associations in Metro Manila cities seem not be strongly involved in city governance. In most cases of cities around the country, engagement of private sector is limited to consultations, while the private sector representatives maintain a rather negative view of the local government. Metro Cebu is a positive example even beyond the example of CEDF-IT. Level of collaboration between private and public actors appears to be much higher. For instance, Mandaue Chamber of Commerce has played a role in initiating the introduction of Performance Governance System in the city hall (Box 3.10). In addition, business chambers are now playing a leading role in promoting and lobbying the establishment of Mega Cebu Authority for greater horizontal coordination.

Box 3.9 Good Practice: Cebu Education Development Foundation for Information Technology: Business Associations can Play a Pivotal Role

One of the most striking examples is CEDF-IT (Cebu Education Development Foundation for Information Technology). When the association was established Cebu had minimal presence of the IT industry. However the association foresaw the opportunity and invested into improving quality of tertiary IT education, early IT skills development and ensuring job prospects for IT graduates. CEDF-IT played a major role in attracting key international BPO and IT companies to the city over the last 15 years leading to development of a cluster employing 800,000 people in Metro Cebu area. Today CEDF-IT is working to promote innovative entrepreneurship in the city. This example illustrates the extraordinary high potential of private sector institutions as drivers competitiveness improvements.

Box 3.10 Performance Governance System (PGS) can Help Address Challenges of Accountability

PGS is a management tool for local governments designed by Institute for Solidarity in Asia (ISA). PGS uses a balanced scorecard methodology to link key development targets of a local government into target indicators for each of the employees and hold them accountable for delivering.

First adopters of the PGS (San Fernando City, Ilollo City and Marikina City) have substantially improved revenue collection and efficiency of service delivery. Ilollo reduced time required for business registration by 86%, and built a healthier economic environment that helped city quadruple its manufacturing output.

Source: Morrel, J (2010) The Performance Governance System in the Philippines: Building the Capacity of Local Institutions; Centre for International Private Enterprise.

Coordination between LGUs and its Effect on Economic Development

Fragmented metropolitan governance undermines productivity. An OECD study has shown that metropolitan areas with fragmented governance structures tend to have lower levels of productivity: For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity.¹¹³

Government in metropolitan areas in the Philippines is deeply fragmented, limiting the benefits of agglomeration. As discussed further in Chapter 4, Metro Manila is a key example of inefficient administrative fragmentation. Across Metro Manila businesses need to abide by different registration requirements and processes in each of the constituent cities, different business support

instruments, different investment strategies and different land management strategies. As a result, costs of scaling business across Manila are high, which creates a disincentive to growth. Additionally, spatial fragmentation of the metro area limits the potential for development of industrial clusters that could become drivers of innovation and productivity growth. Without a common economic development and investment promotion strategy, cities in Metro Manila often compete against each other for attracting businesses by offering costly tax incentives and discounts on land prices.

While the five broad constraints discussed in this chapter apply to most of the cities in the country, the conditions of each city are intrinsically unique. Table 3 shows the expert judgment of the main constraints to private sector development in the three selected cities.

Table 3.4 “Traffic Light Signal” Overview of Key Constraints in Major Metropolitan Areas of the Philippines

	GOVERNANCE FOR ECONOMIC DEVELOPMENT			LOCAL INSTITUTIONS AND REGULATIONS	LOCAL INSTITUTIONS AND REGULATIONS INFRASTRUCTURE AND LAND			INNOVATION AND SKILLS		ACCESS TO FINANCE AND BUSINESS SUPPORT	
	GOVERNMENT EFFICIENCY	PUBLIC-PRIVATE COLLABORATION	CROSS-BOUNDARY COLLABORATION		TRANSPORT	ELECTRICITY AND WATER	LAND	SKILLS	INNOVATION SYSTEM	ACCESS TO FINANCE	BUSINESS SUPPORT SERVICES
Metro Manila	Yellow	Red	Red	Yellow	Red	Green	Yellow	Yellow	Red	Green	Yellow
Metro Cebu	Yellow	Green	Green	Yellow	Red	Green	Green	Yellow	Yellow	Green	Yellow
Davao City	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Yellow	Red	Yellow	Yellow	Yellow

Source: The World Bank

3.3 Recommendations



While a number of issues discussed in this chapter are already being addressed through multiple reforms, the persistence of the problems indicates that more needs to be done both at local and national level to improve the business environment, access to land and markets and upgrading of infrastructure, strengthening innovation systems and addressing skills mismatch, improving access to finance and business support services, and strengthening local institutions for economic development. The background paper on City Competitiveness offers policy recommendations in all of these areas, and discusses priority areas of action in the biggest cities of the Philippines. In this report the recommendations focus on areas which are most likely to offer quick results in terms of improving city competitiveness and where cities themselves have a very important role to play as they are less dependent national reforms. These include improving the business regulatory environment, strengthening

business support and innovation, and reforming institutions for economic development. But before offering detailed recommendations in each of these areas it is important to stress three key conditions for promoting city competitiveness in the Philippines.

Local economic development efforts should aim to leverage competitive advantages of cities. While discussion of sectoral compositions of city economies is outside of the scope of this report, it is critically important that local economic development efforts should be informed by understanding of the structure of the city economy, the trend of structural transition and the core competitive advantages of the city. Filipino cities reveal clear patterns of economic specialization. Metro Manila seems to have a comparative advantage in advanced business services, including in financial, professional and ICT services. In particular, the BPO sector (“administrative and support services”) has been growing at a fast pace in the recent years and now accounts for more than a third of formal employment (see Box 1 on the growth of the BPO industry). Manila could maximize spillovers by moving up the value chain in the BPO industry to provide more and better jobs, especially in high value added services such as accounting, reporting and remote process management. The same applies to Metro Cebu (and specifically Cebu City) where BPO is one of the two sectors of specialization, which in 2015 accounted for 120,000 jobs. Private sector reforms would also help promote manufacturing in Metro Cebu and help new competitive sectors to emerge in Davao, which does not seem to have a clear industrial specialization.¹¹⁴

Involvement of the private sector can ensure much more effective and fast competitiveness reforms in cities. Examples from Philippines and elsewhere around the world show that private sector can play a critical role in boosting local competitiveness. Private associations can provide training to entrepreneurs and potential employees, attract investors to the city, provide services to entrepreneurs and start-ups, lobby national government on behalf of the city. The well-organized private sector associations in Filipino cities have all that it takes to complement and even drive the reform efforts of local governments. The critical element is overcoming animosity between public and private actors, identifying shared goals for city development and coordinating efforts.

National government should strengthen incentives for local governments to promote economic growth. While there are many examples of successful reforms to improve the business environment address skills challenges or increase transparency of local government, only a limited number of cities around the country have followed the good practices. This raises questions about the political economy of the process and the possible lack of incentives. This may be due to the short, 3-year electoral cycle, insufficient public pressure driven by a relatively weak civil society as well as large political and economic rents resulting from sustaining the status quo. National authorities should apply tools available to them to push and incentivizes local authorities. The immediate actions may include strengthen national indexes and designations. The introduction of private sector respondents would strengthen the existing Cities and Municipalities Competitiveness Index, while the profile of the national “Seal of Good Local Governance (SGLG)”



would be enhanced by increasing the rewards for the best performing cities from 3 million peso to, for instance, 100 million peso. In the longer term following measures should be considered: introducing further revenue sharing from growth of national business taxes, requirements of greater transparency through publication of strategic plans and progress reports, and possibly extension of political cycle.

Improving the Business Environment

There are a number of ways through which cities can improve the business environment. Domestic and international examples suggest that cities have a key role to play in optimizing the processing of business permits, streamlining inspections, improving access to information about business regulations and enhancing communication with the private sector. The Philippine cities could learn from best practices developed by other cities in the country and abroad. (see Box 3.11)

114 Metro Cebu refers to Cebu City, Mandaue City and Lapu-Lapu City; Cebu City refers to Cebu City LGU and Davao City refers to Davao City LGU. Metropolitan areas are used as a unit of analysis in this report. Oxford Economics data used for descriptive statistics and international benchmarking only includes Cebu City, and excludes Mandaue and Lapu-Lapu. For structural analysis of Metro Cebu, PSBI data aggregated from firm level for all three LGUs is used. While the PSBI sample of firms is not representative at the LGU level, it is still the best approximation. However the three LGUs considered combined account for 75% of jobs in the Central Visayas region, for which sampling is representative, which limits the possible margin of error.

Box 3.11 Business Registration Reform Options: International Best Practice

There is a wide range of business registration reform options that are available for countries seeking to improve their business registration systems. These include:

1. **Standardizing incorporation documents.** Without standardized registration documents and clear guidance on how to complete them, the registration process can be discretionary, cumbersome, and costly and result in high rejection rates. In Estonia in 2006, processing time at the registry fell from 15 days to 1 with the introduction of standardized documents. Approximately 65 countries now have standardized incorporation forms.
2. **Reducing or eliminating minimum capital requirements.** Minimum capital requirements generally do not achieve any of their underlying objectives. Far from being beneficial, some studies find that minimum capital requirements have counterproductive effects on entrepreneurship. Consequently, since 2005, 57 economies have reduced or eliminated this requirement.
3. **Making the registration process transparent and accountable.** The easier it is to access information about a regulation, the easier it will be to comply with the regulation. In more than 90 percent of high-income economies, fee schedules can be obtained from agency websites, notice boards, and brochures.
4. **Integrating registration systems and introducing unique identification.** In most countries, in addition to registering with the business registration authority as a business entity, an entrepreneur must also obtain tax and VAT registrations from the tax administration, social security or pension authority, or municipal authority. A number of countries have therefore moved toward integrated registration systems that allow entrepreneurs to complete one application form for all authorities and introduced a unique identification denomination (UID), which is then used for all transactions with the authorities.
5. **Creating a one-stop shop.** The one-stop shop (OSS) provides a single interface for business start-ups, a mechanism that has gained popularity in many economies. Today about 83 economies around the world have some kind of OSS for business registration, including 53 economies that established or improved their OSS in the past eight years.
6. **Introducing ICT.** Today, 110 economies use information and communication technology (ICT) for business registration services ranging from online name search to online business registration, annual returns filing, and electronic transmission. Use of ICT makes the registration system faster and more cost-effective, it also enhances data integrity, information security, transparency of the registration services.

SOURCE: World Bank (2013) "Reforming Business Registration. A Toolkit for Practitioners".

At the National Level

Further simplify business registration, licensing and business permit renewal. Reform areas include (i) standardizing requirements and procedures, (ii) reducing or abolishing the paid-in minimum capital requirement, (iii) making the use of notaries and lawyers optional for

company startups, (iv) moving toward a fixed registration fee that covers only administrative costs, and (v) removing antiquated mandatory practices of having the BIR stamp the company's invoice and account books. International good practice has also favored disassociating business tax collection from business permit renewal.

Introduce a simplified tax regime for micro enterprises. The tax exemptions offered by the Barangay Business Enterprise 2003 Act provide a foundation from which to further simplify the tax regime including such measures as replacing the value-added tax (VAT), percentage tax, and income tax with a single business tax on turnover and offering a simplified system of accounting and reporting. Introducing online tax filing and payments would also help to streamline the process.¹¹⁵

At the City Level

Improve the efficiency of BPOs and strengthen e-government. City-level business and property registration procedures can be streamlined by adopting one-stop shops for business registration and renewal, (following the examples of, for instance, Quezon City and Cagayan de Oro) and gradually introducing a comprehensive online system. In addition, training staff, expanding performance-based incentives, and introducing on-line applications and payments can all improve the capacity of BPOs as can posting updated information about registration requirements, cost and processing time online. Many of these measures can be achieved by fully implementing the Philippine Business Registry (PBR) and linking all cities to it. The local governments should aim to implement the recommendations developed by the BPLS project of DILG and DTI. One way for DILG to improve incentives is by linking compliance with BPLS monitoring indicators with access to the Performance Challenge Fund for LGUs.

Coordinate regulatory requirements and processes across metropolitan areas. In the long run the Department of Interior and Local Government (DILG) should aim to

develop the BPLS into a single nationwide approach to business registration and licensing. It should lobby for changes in national legislation whenever necessary would allow for a more coordinated and consistent regulatory environment. In the medium run coordination of regulatory environments within metropolitan areas should be made a priority. Metropolitan development authorities (after they are established and empowered) should harmonize requirements for business registration, construction permitting and property registration in metro areas (primarily Metro Manila and Metro Cebu) so that business permits issued by one of the LGUs within a metro area allows for operation across the metro area. For example, opening a second shop in a different LGU within a metro area should be a matter of a one-step process. There is also an opportunity to harmonize local business tax rates across metro areas and for DILG to work with BIR to create a system for LGU business tax revenue sharing within the metro area that would allow for such simplified regime.

Strengthening Innovation Systems and Business Support

Cities have a big role to play in enhancing innovation and harmonizing business support. International evidence suggests that in some instances locally provided services are more accessible for businesses and can help address specific needs of firms, however national programs can be more efficient at providing basic services due to scale effects. Cities can also play an important role of helping businesses navigate and access services that are provided by national agencies. The challenge is in striking the right balance between national and local provision to

¹¹⁵ For good practices on paying taxes, see <http://www.doingbusiness.org/data/exploretopics/paying-taxes/good-practices>

maximize accessibility and effectiveness.¹¹⁶ The cities can help develop the community of entrepreneurs, strengthen access to high-risk finance and improve collaboration between universities in city-level business. They can also use procurement to support innovative startups and SMEs.¹¹⁷

At the National Level

Consolidate the business support system and introduce a monitoring and evaluation framework to track its effectiveness. The government should consider establishing a flagship entrepreneurship agency, which would consolidate most or all of the national level support programs managed by multiple agencies. It should continue to expand the network of Go Negosyo centers as one stop shops for business support, but upgrade the scope and quality of services available to enterprises. Finally, DTI should develop a robust M&E framework to improve government's ability to evaluate effectiveness of support.

Expand incentives for collaboration between universities and business. Measures include the recently announced Commission on Higher Education (CHED)'s secondment program between science and the business community, strengthening the role of cooperation with business in the funding algorithms for public universities, and increasing funding for applied, commercial research.

At the City Level

Leverage national support programs and introduce additional programs to address specific local needs. Cities can leverage the Negosyo center as a single point of access to national and local support programs. By focusing on informing local firms about national government's support programs, providing small grants to prepare and submit applications for funding to these programs ("grants for grants"), and adding extra funding to national grants obtained by local firms, cities can avoid the cost of duplicating national-level programs. Additional programs should only be developed to address specific local needs, for which national programs are not available.

Expand technology infrastructure, networking, and access to high-risk finance. By creating networking spaces, accelerators, incubators and shared services facilities to leverage the large pool of qualified labor, cities can spur innovative startups and expand technology absorption. Upgrading skills and attracting talents through skill bootcamps, "rapid trainings", mentorship programs, collaboration with universities and attraction of diaspora, as well as strengthening access to high-risk finance by supporting business angels and co-financing seed and VC funds can all serve to promote entrepreneurship. Additional support and conditional co-funding to cities for such initiatives might be available from such agencies as DTI. (See box 3.10 for an example of comprehensive innovation support at city level)

116 Centre for Cities (2013) *Support for Growing Businesses*, London

117 Mulas et al. (2015) argue that "coding and hardware skills that previously took years to learn can now be taught in weeks"; Mulas, Victor; Minges, Michael; Applebaum, Hallie Rocklin. 2015. *Boosting tech innovation ecosystems in cities: a framework for growth and sustainability of urban tech innovation ecosystems*. Washington, D.C.: World Bank Group.

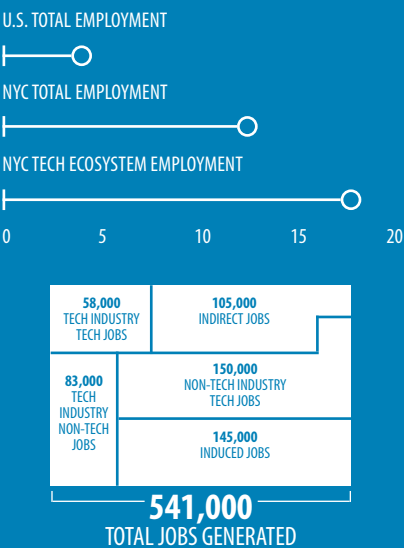
Box 3.12 Developing Ecosystem for Startups:
The Case of New York

New York is an example of a global city and a financial center that has developed a thriving digital technology entrepreneurship ecosystem, now the second-largest tech startup ecosystem in the United States (after Silicon Valley) with US\$ 4.5 billion venture capital investment in startups in 2014. The ecosystem created over 2,200 tech companies, US\$ 18.1 billion in successful startup exits, and 50,000 jobs (around one percent of the city’s workforce) in the startups and ten times more in the supporting industries (Figure X).

The City of New York government has been heavily involved in the development of the ecosystem that has underpinned this growth. It has deliberately taken an ecosystem approach to address four main areas of weakness: (i) lack of technology-specialized talent, (ii) insufficient sources of seed capital for startups, (iii) lack of physical space for entrepreneurs, and (iv) a limited and uncoordinated community of tech-led innovators and entrepreneurs. In addressing all of these areas its philosophy has been to act as an enabler and to build the market (Table 7).

EMPLOYMENT GENERATED IN NEW YORK CITY BY THE
TECH STARTUP ECOSYSTEM (2003-13)

PERCENT GROWTH IN EMPLOYMENT
2003 - 2013



Comparison of Baseline and Streamlined BPLS for Applications for New Business Permits in Partner Cities, 2012-2014

KEY GAPS		TARGETED POLICIES	
Lack of tech talent	City universities did not produce engineers and technical graduates	STEM Education and Tech Campus	Introduce STEM academies, and Cornell-Technion Innovation Institute
Lack of seed capital	Seed capital funds did not invested in NYC companies	NYC Seed Fund	Seed Capital fund to invest in NYC based tech startups
Lack of affordable space	Office space too expensive for startups	Network of Incubators	Network of co-working spaces with accelerators and network of mentors
Small and disorganized tech community	Tech community was small and atomized	Competitions and Promotions	Open Data and Big App Competitions, promotion Campaigns for building role models, support of Mayor to community

Source: Mulas, Victor; Minges, Michael; Applebaum, Hallie Rocklin. 2015. Boosting tech innovation ecosystems in cities: a framework for growth and sustainability of urban tech innovation ecosystems. Washington, D.C. : World Bank Group.

Use procurement to support innovative startups and SMEs. Cities can use annual procurement budgets to support the growth of city-level innovation and entrepreneurship by expanding the importance of technology in procurement specifications and expanding the use of firm size limits in procurement tenders. They could also experiment with pre-commercial procurement to fund new ideas and technologies and organize competitions for the most technology intensive and efficient solutions to city-level problems.

Strengthening Local Institutions for Economic Development

At the National Level

Promote metropolitan governance. “UK city deals” a model which encourages city councils to work together more effectively provides an example of combining prescriptive measures with incentives for collaboration that the national government (DILG) could apply to promote collaboration between neighboring LGUs. Additionally, by supporting bottom up collaboration initiatives, like the Mega Cebu Metropolitan Development Agency, the national government can help promote better metropolitan governance.

Modify the structure of the local planning system and guidelines for LGUs to give priority to economic development targets. The CLUP and CDP should have equal weight in LGUs planning. Local economic development targets should become top priority in the CDP along with social development and poverty reduction targets. Guidelines for development of effective plans should focus on introducing best proactive practices: detailed analytics, prioritization, SMART goals and clear M&E frameworks.

At the City Level

Strengthen the LEIPOs. LEIPOs should be given more power and capacity to identify economic development priorities and programs and coordinate activities of various department.

Facilitate systematic dialogue with the private sector. Cities can leverage the global best practice in conducting public-private dialogue to engage in a systematic policy-oriented, transparent and inclusive dialogue with business associations.¹¹⁸ Box 3.11 below shows best practice examples of structuring local governance to promote cross departmental thinking and engage private sector for improving private sector growth.

118 World Bank (2015) Public Private Dialog for City Competitiveness. Washington DC: The World Bank.

Box 3.13 Organizing for Economic Development

Cities around the world have used various institutional structures to develop economic development strategies, pursue a competitiveness agenda, engage private sector in policy delivery and facilitate successful implementation.

Economic Development Agencies

Economic development agencies (DAs) can be defined as, “legal, non-profit structures, generally owned by the public and private entities of the territory.”⁶⁶ DAs are usually given a range of clearly defined functions that may include branding and international promotion; investment attraction and retention; business start-ups and growth; human capital development; real estate, urban and infrastructural development; social or green development initiatives and others. DAs are accountable to a group of actors that is broader than the city government. DAs help establish economic development at the key objective for the city and attract private sector talent and knowhow to carrying out economic development functions. Economic development agencies have proven themselves efficient at delivering transformative change. Barcelona Activa (the economic development agency of Barcelona Municipality) helps set up over 700 companies employing over 1500 a year. New York Economic Development Corporation activities have facilitated \$22.9 million of private investment in 2008 alone.⁶⁷

Delivery Units

Delivery Units (DUs) are implementation structures established at the center of government in order to drive improvements in performance. DUs have a mandate to use the authority of the chief executive—the center of government—to lead “the political and technical coordination of government actions, strategic planning, monitoring of performance and implementation, and communication of the government’s decisions and achievements.”⁶⁸ Such units usually do not have a narrowly defined focus, rather they are given authority to deliver on a set of priority targets or indicators. DUs help design clear responsibility and accountability structures, and link different public sector interventions to the key development priorities through transparent monitoring and evaluation and improved coordination. DUs have a potential to drive innovation and efficiency improvements in policy implementation. Baltimore’s CitiStat has changed the performance paradigm in the city governance by introducing clearer performance objective, a robust monitoring system and a performance based budgeting system.

Public-Private Boards for Economic Development

Public-private boards serve as a platform for information sharing and consultation, but depending on the context they can have a strong influence in defining development priorities and implementation.⁶⁹ Additionally public-private boards can help surpass the geographic or functional limitations of typical local government agencies. Experience of Local Enterprise Partnerships in the UK reveals that while this units can be very efficient at leading and coordinating local economic development efforts, in other cases they can fail lack of clearly defined purpose, shortage of resources and leadership.⁷⁰

Source: Gashi, D., Atkinson, J (2015) Guide to implementation of city competitiveness interventions. Background paper to World Bank (2015) Competitive Cities for Jobs and Growth: What? Who? & How?

119 Clark et. al., Organizing Local Economic Development, 2010:28.

120 Ibid.

121 Shostak et. al., When Might the Introduction of a Delivery Unit Be the Right Intervention, 2014: 3; Watkins, Center of Government Reforms, 2014: 1.

122 OECD, Governing the City: Policy Highlights, 2015: 4.

123 Bolton T. (2011) Sink of Swim? What next for local enterprise partnerships?, Centre for Cities, London

Chapter 4

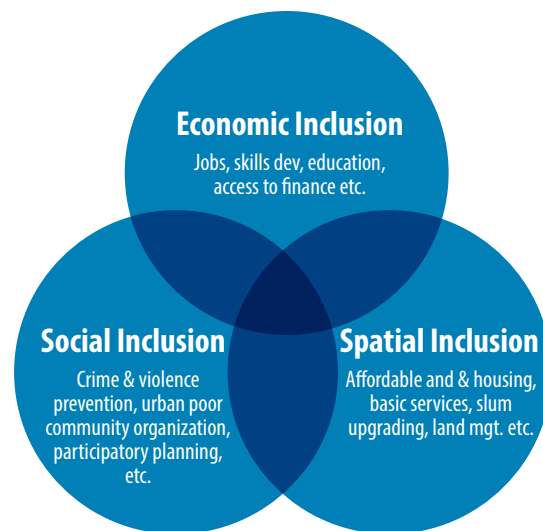
Promoting Inclusive Growth by Creating Opportunities for the Urban Poor

4.1 Introduction and Context: Urbanization and Poverty in the Philippines

Urbanization is one of the most significant drivers of development. It can provide a pathway out of poverty and act as an engine of growth. High urban densities can reduce transaction costs, make public spending on infrastructure and services more economically viable, and act as an economic hub that attracts investments and talents. But if not well managed, urbanization can give rise to inequality and exclusion which affects a city's competitiveness and opportunities for growth.

Inclusive urbanization, where everyone can reap the benefits, is critical to city competitiveness and growth. Policies to recognize the rights of the poor to the city and allows them to participate in, contribute to, and enjoy the benefits of urbanization are important for inclusion.¹²⁴ Inclusive urbanization requires an integrated multi-dimensional approach that addresses three key dimensions of inclusion – economic, spatial, and social. Economic inclusion relates to addressing poverty and providing economic opportunities such as jobs, sources of livelihood, and access to finance. Spatial inclusion refers to improved access to land, housing, infrastructure and basic

Figure 4.1. Analytical Framework for Inclusive Urbanization¹²⁵



services. Social inclusion relates to fundamental principles of equal rights and participation of the marginalized in the development process. The three dimensions of inclusion are interrelated and mutually reinforcing. Policies must therefore address all three aspects.

¹²⁴ M. Watanabe (2016). Closing the Gap in Affordable Housing in the Philippines: Experience of the National Summit on Housing and Urban Development” Presidential Commission for the Urban Poor (PCUP) Newsletter (forthcoming)

¹²⁵ World Bank (2015).

Today, half of the Philippine's population lives in cities. The proportion will continue to increase to reach 84% by 2050.¹²⁶ Philippine cities generate 70% of the GDP, of which 36% is generated in Metro Manila alone.¹²⁷ Urbanization has often helped reduce poverty by providing new job opportunities and raising incomes of the poor. Indeed, poverty incidence for urban areas (12.5%) was less than half of the national poverty incidence (25.2%) in 2012.¹²⁸

Yet as cities fail to keep pace with the rapid urbanization in the Philippines, multi-dimensional poverty in urban areas is deepening and widening. With in-migration of those aspiring for better lives from rural areas to urban centers came surges in demand for jobs, housing, infrastructure and basic services in major cities. Yet, the Government has been unable to address the increased demand given the accelerated pace. The result has been proliferation of informal settlers in urban areas without adequate access to decent living conditions. The number of informal settlers in the Philippines has increased gradually, from 4.1% of total urban population in 2003 to 5.4% in 2012.¹²⁹ In 2012, 5.4% of the urban population or about 2.2 million people lived in informal settlements in the Philippines. In Metro Manila alone, an estimated 1.3 million people, or close to 11% of the population in the region, lived in informal settlements.¹³⁰



Not all informal settlers are income poor, but many are vulnerable to external shocks that can easily push them below the poverty line. An estimated 25% of the informal settlers in the country are income poor based on 2012 Family Income and Expenditure Survey (FIES).¹³¹ The rest are living above the poverty line but residing in poor living conditions. But this data needs to be interpreted with caution. Informal settlers are usually minimum wage earners and contractual workers whose incomes vary based on seasonality or job availability with no protection. Those engaged in small businesses suffer from unsteady

126 UN Habitat (2015), *Achieving Sustainable Urban Development Philippines Project Brief*. Manila.

127 Oxford Economics.

128 FIES (2012).

129 FIES 2003, 2006, 2009, 2012.

130 FIES (2012). Informal settlers are defined in this chapter as households that responded that they are living in "own house, rent-free lot without consent" or "rent-free house and lot without consent".

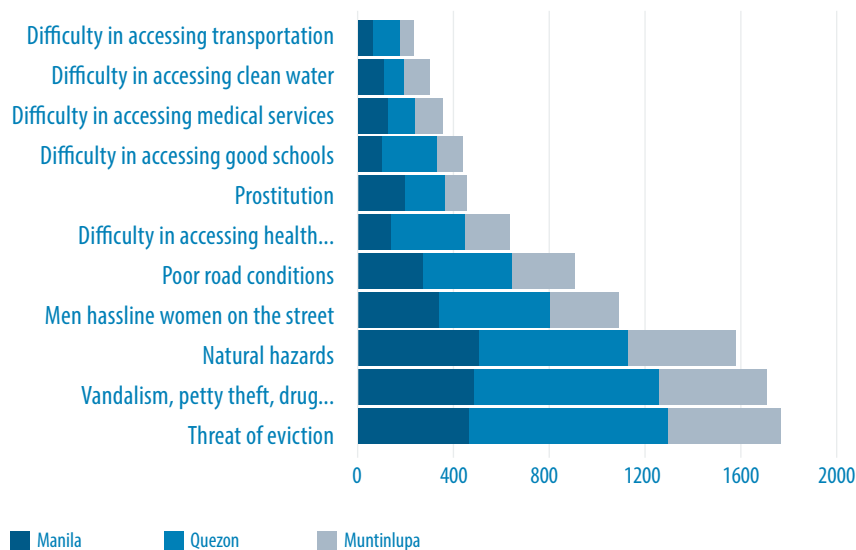
131 WB staff calculations based on FIES (2012).

levels of income. Many of them have limited savings that are exhausted in the event of any external shocks such as natural disasters. Informal settlers are therefore highly vulnerable to experiencing episodes of income poverty especially with external shocks.¹³²

Informal settlers also suffer from multiple forms of exclusion. They often lack access to basic infrastructure and services, secure land tenure, have limited access to capital, productive and stable employment and livelihood opportunities, and are vulnerable to natural hazards especially floods. The

Government estimates that over 104,000 informal settler families (ISFs), or about 520,000 people equivalent to 40% of the ISFs in Metro Manila, live in danger areas, exposing themselves to recurrent flooding. Furthermore, ISFs suffer from social discrimination. They are seldom integrated into the broader communities, perceived as “problems,”¹³³ are rarely involved in official decision-making and face higher incidence of crime and violence. The figure below shows that ISFs’ perceived problems include threat of eviction, crime and violence, natural hazards, and access to services.

Figure 4.2 Issues Faced by Informal Settlers in Metro Manila



Source: World Bank (2016). Metro Manila Urban Slum Survey

¹³² Ballesteros (2010).

¹³³ “Change the paradigm!” Opinion piece by Mary Racelis, Philippine Daily Inquirer (2015).

4.2 Key Challenges

4.2.1 Economic Exclusion

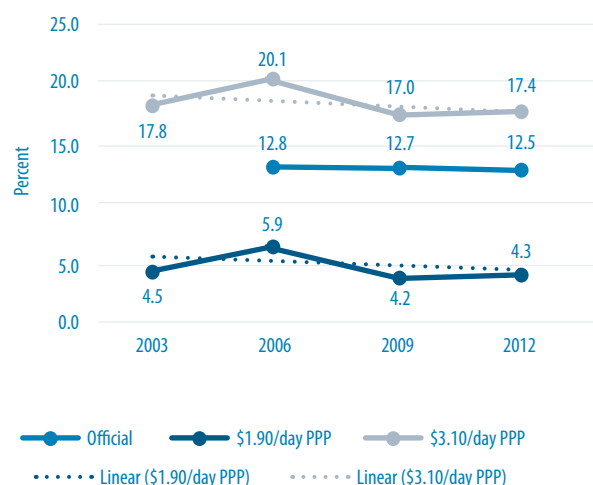
Aspects of economic inclusion relate to addressing income poverty and providing economic opportunities through employment.

a. Urban Poverty

Between 2003 and 2012, urban poverty in the Philippines remained largely unchanged, while national poverty decreased slightly.¹³⁴ Urban poverty incidence has remained relatively stagnant over the past decade regardless of which poverty lines are used.¹³⁵ However, once population growth is taken into consideration, there is a slight increase (1 percentage point) in the share of the urban poor.¹³⁶ Among the urban poor, 9% reside in Metro Manila or NCR, Luzon (excluding NCR) and the Visayas account for close to a quarter each, and Mindanao alone accounts for more than 43%.

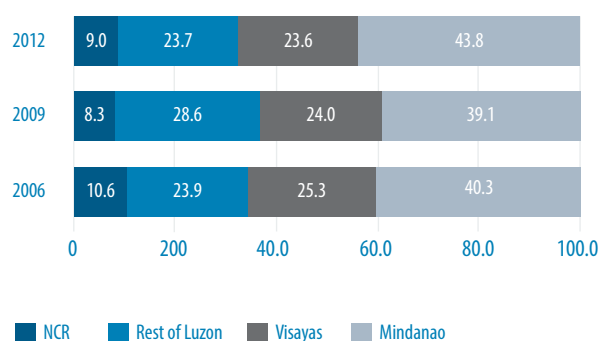
While urban poverty incidence may be relatively low, disparities in living conditions are most evident in urban areas compared with rural areas. With no or low paying jobs, migrants are unable to afford decent housing and adequate access to services, resulting in prevalence of informal settlements. Shelter inequalities depict significant polarization in the distribution of wealth and resources in cities. In most cities, but most pronounced in Metro Manila, informal settlement communities with no security of tenure and inadequate access to basic services coexist with exclusive, fully serviced, and gated communities.

Figure 4.3 Urban Poverty Trend



Source: FIES 2003, 2006, 2009, and 2012, WB staff calculations

Figure 4.4 Share of Urban Poor (%)



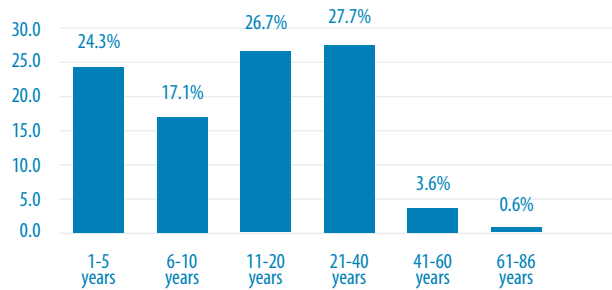
Source: FIES 2003, 2006, 2009, and 2012, WB staff calculations

¹³⁴ World Bank (2016).

¹³⁵ The following poverty lines have been used for analysis in the Philippines, US\$1.90/day international poverty lines at 2011 PPP, \$3.10/day in 2011 PPP, and the national poverty lines which are set broadly following the cost of basic needs approach. The total poverty line (computed for each domain or rural/urban area per province) is the minimum cost to meet 1) basic food needs that satisfy the nutritional requirements set by the Food and Nutrition Research Institute (FNRI) and 2) basic non-food needs such as clothing, housing, transportation, health and education expenses.

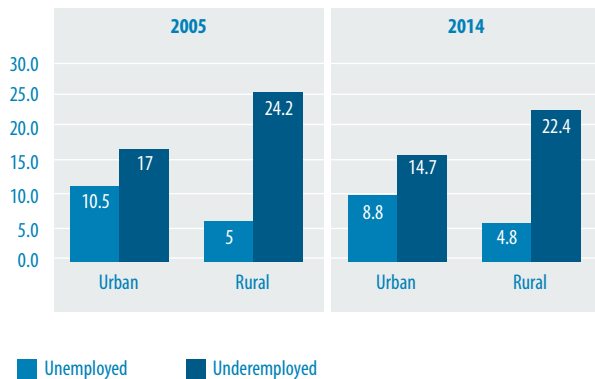
¹³⁶ FIES (2003, 2006, 2009, 2012).

Figure 4.5 Number of Years Living in Informal Settlements



Source: World Bank (2016). Metro Manila Urban Slum Survey

Figure 4.6 Unemployment and Underemployment (Urban vs. Rural)



Source: LFS 2005 and 2014

Majority of the people are forced to remain in informal settlements for decades given the lack of affordable housing options. A survey on ISFs in three cities of Metro Manila shows that 54% have been living in the informal settlements between 11 and 40 years, whereas 24% responded that they moved within the last five years.¹³⁷ This implies that while there is new influx of migrants, majority remain in informal settlements for decades. The main reason for staying is because they are income poor or not, they have no other affordable housing options near their jobs and thus remain stuck in informal settlements for a long time.¹³⁸

b. Jobs

Unemployment rate remains relatively low but underemployment rate is high in urban areas. Unemployment and underemployment rates in the Philippines were at 6.8% and 18.4% in 2014, respectively, while in urban areas, they were at 8.8% and 14.7%.¹³⁹ Unemployment and underemployment rates in urban areas have improved over the years, as have those in rural areas, but the improvement has been modest. For both rural and urban areas, males, workers with higher educational attainment, and the youth have the highest incidences of unemployment, while the poor have the highest incidence of underemployment.¹⁴⁰

¹³⁷ World Bank (2016). Metro Manila Slum Survey. (Mimeo)

¹³⁸ Ballesteros (2010)

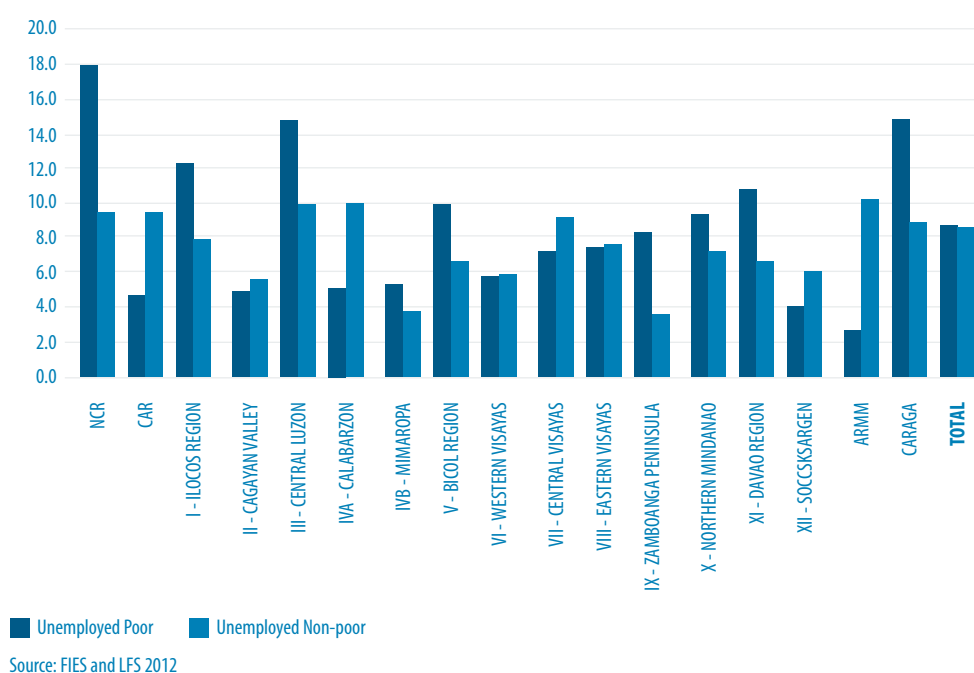
¹³⁹ Labor Force Survey (2014)

¹⁴⁰ World Bank (2013). Philippine Development Report (2013).

Urban poor suffer from high underemployment, though significant regional variation exists. Based on 2012 Labor Force Survey (LFS) and FIES data, both urban poor and urban non-poor have an average unemployment of 8.7%. The gap between the two groups is the highest in NCR at 17.8% for urban poor compared to 9.4% for urban non-poor. Underemployment is high for both urban poor and urban non-poor groups, but particularly so for the urban poor whose underemployment rate is twice as much (29%) as that of urban non-poor (14.7%). In NCR, the difference is even starker, where underemployment of the urban poor (37%) is almost three times that of urban non-poor (13%).¹⁴¹ High underemployment rates among urban poor are also more noticeable in Regions IV-B, V, VI, and CARAGA. This signifies that many urban poor work but they are predominantly engaged in part-time or

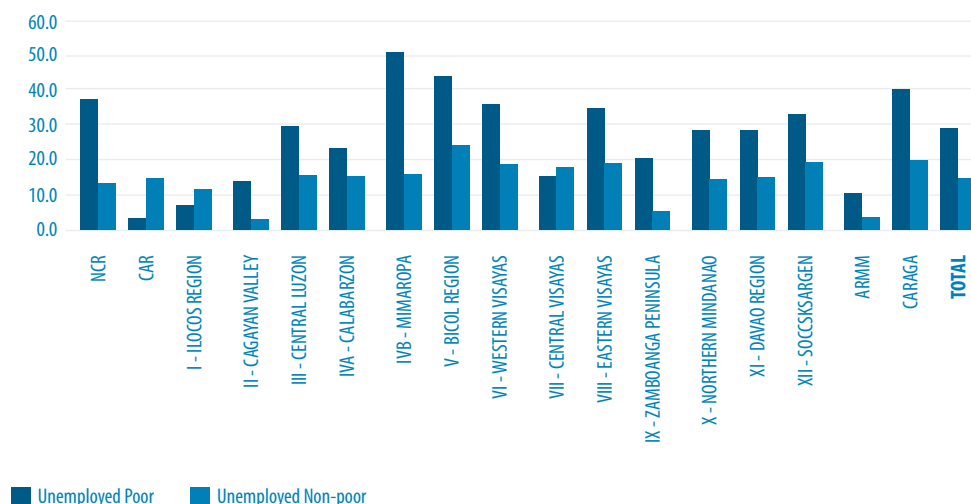
casual labor, which is informal by nature, and suffer from unstable income. This is consistent with the overall finding in the World Bank Philippine Development Report 2013 that due to long history of policy distortions, agricultural productivity has remained depressed, manufacturing has failed to grow sustainably, and a low-productivity, low-skill service sector such as petty retail trade and public transportation has emerged as the dominant sector of the economy.¹⁴² While actual reasons for the regional variation in unemployment and underemployment are unclear, one possible explanation could be that underemployment rates tend to be higher in regions that are relatively more urbanized because there tend to be more job opportunities, despite their informality. NCR does not fit this explanation, however, and merits further analysis in the future.

Figure 4.7 Unemployment Rates (Poor vs. Non-Poor) among Urban Population per Region



¹⁴¹ LFS (2012) and FIES (2012).

¹⁴² World Bank (2013)

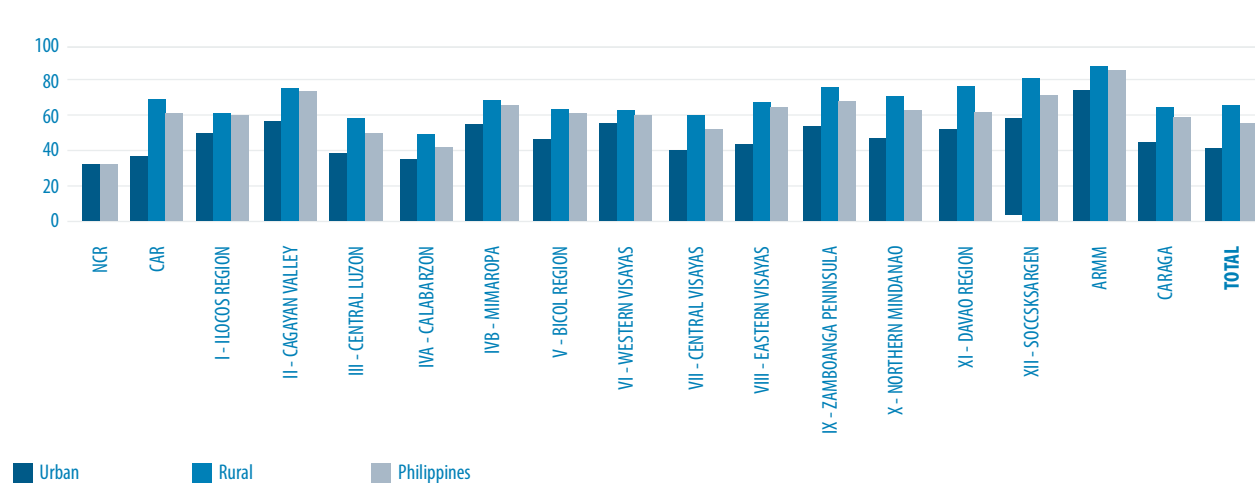
Figure 4.8 Underemployment Rates (Poor vs. Non-Poor) among Urban Population per Region

Source: FIES and LFS 2012

Many urban poor are trapped in low-wage and low-productivity jobs in the informal service sector. More than 75% of the Filipino workers nationwide are informally employed, as defined as self-employed workers (not including employers), unpaid family workers, and wage workers with no written contract, social insurance, or protection from dismissal. Two thirds of urban jobs are informal, and among wage workers, 6 out of 10 are hired informally.¹⁴³ The informal service sector has become the dominant source of employment for the majority of the urban poor who cannot find work in formal service

sector such as in the BPO industry, which caters to highly educated workers, or manufacturing sector which only employs about 8% of the total labor force.¹⁴⁴ Informal wage workers lack employment contracts and social insurance, and are not protected against unfair dismissal. Wages tend to be significantly lower than formal jobs and often below minimum wage. For example, a majority of workers (56%) are low-paid in the informal sector, with only a minority (7%) in the formal sector. These informally employed people face high degrees of vulnerabilities to income fluctuation and external shocks.

¹⁴³ Rutkowski (2015).¹⁴⁴ World Bank (2013).

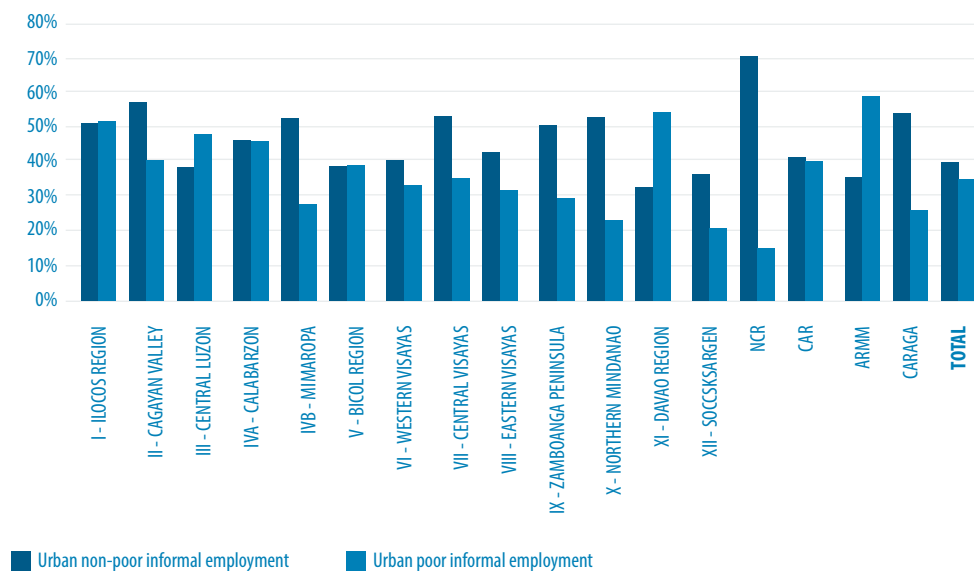
Figure 4.9 Shares of Informal Employment to Total Employment (Rural vs. Urban)

Source: FIES and LFS 2012

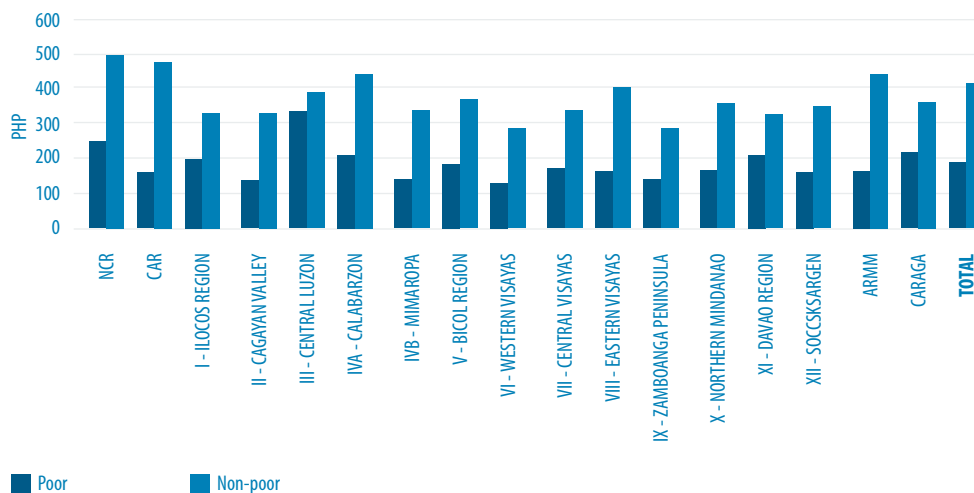
The urban poor are affected by informality and low wages due to low levels of education compared with urban non-poor. Low levels of education are clearly correlated with urban poverty with 35% of the urban poor belonging to households with heads with less than primary education compared to 20% of urban near-poor and 7% of urban non-poor.¹⁴⁵ Workers with less than secondary education face substantially worse labor market prospects than those who complete high school. Their earnings are significantly lower, and the risk of poverty is much higher. Based on a survey of 3,000 ISFs in Metro Manila, 67.7% of the surveyed ISFs have less than secondary education, limiting their job

opportunities.¹⁴⁶ Those without secondary education face a significant employment challenge as they are not eligible to join vocational skills training offered by Technical Education and Skills Development Agency (TESDA) accredited institutions, and many employers require a minimum of high school completion. Share of informal employment among urban poor is significantly higher than urban non-poor's informal employment in NCR and CALABRAZON, while in other Regions, it is the other way round. Average daily wage for the urban poor is less than half of that of the urban non-poor across all regions.

¹⁴⁵ World Bank (2016).¹⁴⁶ World Bank (2016).

Figure 4.10 Shares of Informal Employment among Urban Poor vs. Urban Non-Poor

Source: FIES and LFS 2012

Figure 4.11 Average Daily Wage of Urban Poor vs. Urban Non Poor

Source: FIES and LFS 2012

The low levels of income result in urban poor having higher total expenditure than total income, suggesting that they borrow to finance their day-to-day expenses.¹⁴⁷ Factoring in all possible sources of income such as incomes from interest and dividends, as well as remittances from abroad, urban poor's total expenditure is higher than their total income as shown in figure 4.12 below¹⁴⁸, suggesting that they are permanently in the red and are borrowing to finance their expenditures. This makes them extremely vulnerable to external shocks. The urban poor also spend less – a combined 3.3% of the total expenditure on human capital investments such as health and education compared to the non-poor (7.9%), partly due to their low levels of income and partly as they have more access to free health and education.

Figure 4.12 Total Household Income and Expenditure of the Urban Poor (in Php, 2012)



Source: FIES and LFS 2012

Research shows that most urban poor prefer formal wage employment should there be opportunities. In a qualitative study conducted by the World Bank on livelihoods for the ISFs, majority of the respondents noted that they preferred stable regular wage labor in the formal sector rather than engaging in risky micro-enterprise development, and that many poor are engaged in self-entrepreneurship “out of necessity”.¹⁴⁹ The challenge is that most of the formal, well-paid jobs are taken by well-educated, high-skilled workers, and urban poor face a significant hurdle in landing any formal jobs without high school degrees.

Much of the livelihood support provided for the ISFs has focused on micro-enterprise development that has been designed without sufficient market analysis, leading to suboptimal results. Various livelihood interventions have been provided in the past to ISFs by different actors including the Government, NGOs, and development partners. Yet not many of them have been successful. This is partly because many livelihood interventions have focused on microfinance supported micro-enterprise development. Studies show that without a sound market analysis, business management skills, and appropriate personal characteristics, it is difficult to sustain a profitable micro-enterprise.¹⁵⁰ Furthermore, many interventions have been “labor supply-driven”, focusing primarily on what the ISFs want to do, or what skills they already possess, rather than focusing on what the market needs. This approach has resulted in mismatches between the supply of skills and the demands of the economy.¹⁵¹ For example, TESDA has been providing free or subsidized livelihood skills training to many ISFs on bead accessory making, rug making, or cosmetology without any market assessment. This has resulted in many trainees unable to sell their products or services upon completion of the training.¹⁵²

¹⁴⁷ World Bank staff calculations based on FIES 2012.

¹⁴⁸ No quantitative data on urban poor's levels of saving is available in FIES. However, qualitative studies have shown that urban poor have minimal savings.

¹⁴⁹ World Bank (2014) and Hwang, H. (2014). “Emerging Lessons from Urban Livelihoods Interventions”. (Mimeo)

¹⁵⁰ World Bank. (2014). “Supporting Self-Employment and Small-Scale Entrepreneurship”. Washington, DC: World Bank.

¹⁵¹ World Bank. (2013). “World Development Report: Jobs”. Washington, DC: World Bank.

¹⁵² Focus group discussions with ISFs residing in Pandi, Bulacan, and Trece Martires, Cavite.

4.2.2 Spatial Exclusion

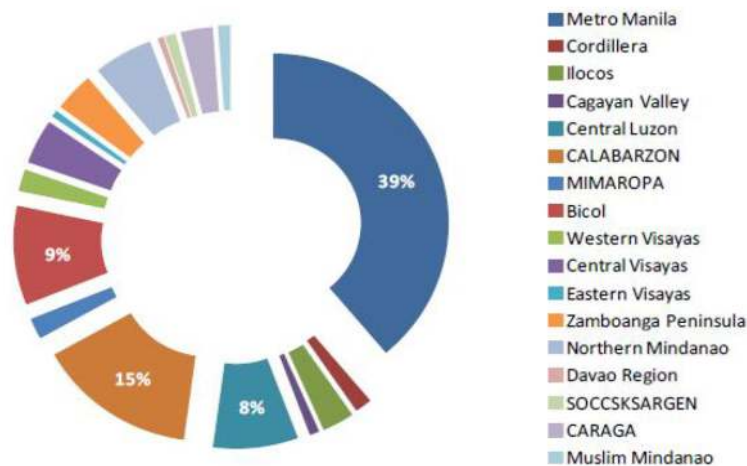
The spatial dimensions of inclusion in the context of this study refer to access to land, housing, infrastructure and basic services in cities, as well as exposure to natural hazards. These remain major challenges, affecting the living conditions of the urban poor.

a. Land and Housing

Informal settlements are the most visible manifestation of multi-dimensional poverty in the Philippines. The largest concentration of informal settlements is in Metro

Manila, which houses almost 40% of the total informal settlements in the country. Many ISFs are confronted by physical, economic, social, legal and environmental risks on a day-to-day basis. Aside from the current need, HUDCC anticipates that in 2017 the total housing needs will reach 6.3 million households.¹⁵³ The private sector also estimates that 12.5 million housing units will be needed by 2030 given the pace of urbanization in the country and the current demand-supply trends and analysis.¹⁵⁴ As with other developing countries, the pervasiveness of informal settlements in the country can be traced to low income, unrealistic and inadequate urban planning, lack of serviced land and affordable social housing, and a dysfunctional legal system.¹⁵⁵

Figure 4.13 Concentration of ISFs by Region



Source: National Housing Authority

¹⁵³ Housing and Urban Development Coordinating Council (2015). "Projected Housing Need 2011-2016." Housing Summit, Quezon City, Philippines.

¹⁵⁴ CREBA (2015). "The Philippine Housing Industry Roadmap: 2012-2030". Philippines.

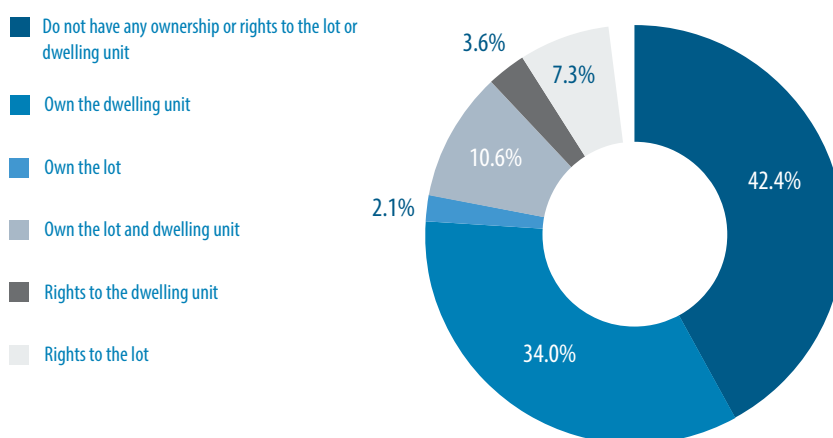
¹⁵⁵ National Informal Settlements Upgrading Strategy Comprehensive Assessment Report, 2014.

Spatial analysis on the distribution of ISFs in Metro Manila¹⁵⁶ shows that the informal settlements are not distributed evenly in Metro Manila. Quezon City has the biggest share of the total area of the informal settlements (34%) but is also the largest municipality and is followed by Taguig City which includes 10% of the area of the ISF. San Juan City, Makati City and Pateros have less than 1% of their area covered by ISFs.¹⁵⁷

Informal settlements arise due to lack of affordable accommodation available on the formal market and access to productive jobs for the new arrivals. In spite of the large tract of land currently allocated for residential use, lack of

housing is still a major problem as manifested by the large number of ISFs, increased demand for rental housing, the concomitant rise in rental rates. High land prices partly due to lack of strategic land use planning and functioning land market, as well as the low income capacity of families in the cities hinder many households to participate in government and private housing projects. Thus, about half of NCR households do not own the land they occupy.¹⁵⁸ The number of ISFs has been rising as many opt to build substandard dwellings in private and public lands so as to be close to their employment or livelihood source. ISFs list threat of eviction as their biggest concern.

Figure 4.14 Tenure Arrangement of ISFs



Source: World Bank (2016). Metro Manila Urban Slum Survey

156 The spatial analysis was conducted by GIM under the technical partnership between the World Bank and the European Space Agency. GIM used advanced semi-automated Object-Based Image Analysis to process very high resolution satellite images (i.e. Pléiades data, spatial resolution of 50 cm) on the basis of certain characteristics and identify and delineate the informal settlements. The maps are currently the most recent and detailed view on a selected number of informal settlements, as these were taken from satellite imagery in 2014.

157 GIM (2015). "Slums Analysis in Metro Manila Operational Document". Brussels.

158 World Bank (2016).

Over the years, the Government has developed a number of social housing programs for the urban poor, but they are limited and have not been very successful. Despite the magnitude of the ISFs, the Government has only allocated a staggering 0.1% of the total GDP for the housing sector between 2000 and 2014. This makes Philippine public spending on housing the lowest compared to its peers in Asia such as Singapore, Thailand, and Malaysia.¹⁵⁹ Moreover, the outcomes of social housing programs have been mixed at best. The Government has predominantly opted for off-city resettlement through National Housing Authority (NHA) due to lack of available land and high land prices in cities. However, off-city resettlement has often been implemented against the wishes of the ISFs and has resulted in perverse socio-economic impacts such as loss of livelihood, lack of adequate access to basic services, and disruption of social networks. A five-year longitudinal study that compared the bottom 30th percentile of ISFs who were resettled off-city and those that remained in-city found that after five years, the income gap between the two groups rose to more than 50%. The study also found that off-city resettlement resulted in increased costs of transportation to work, schools, and health facilities.¹⁶⁰ Social Housing Finance Corporation (SHFC) has been providing affordable financing for predominantly on-site, in-city shelter upgrading through its community mortgage program (CMP). However, the number of CMP projects are limited. Moreover, many CMP sites become blighted, as communities only manage to take out loans for land acquisition and lack the financial capacity to borrow for site development or housing, let alone set aside funds for estate management. CMP has thus been termed by some as “going from slums to slums”. SHFC has recently introduced the High Density Housing (HDH) program that aims to resettle ISFs from danger areas to medium-

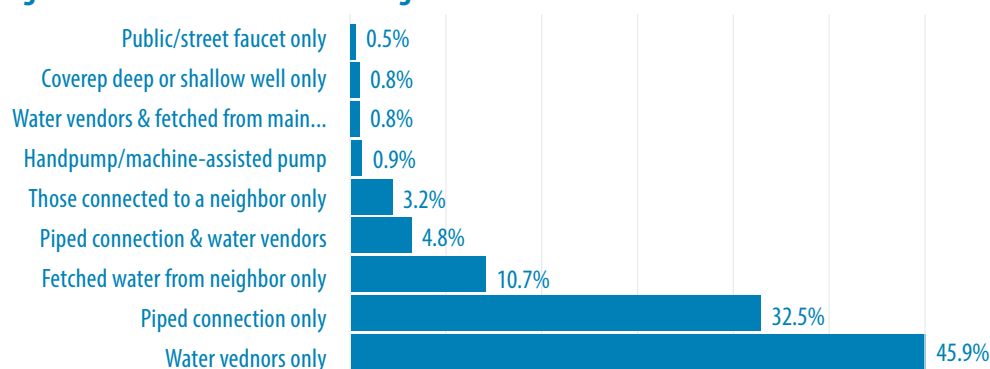
rise buildings in-city or near-city. Initial reaction from the ISFs has been positive, but outcomes remain to be seen as repayment rates are quite high and questions remain as to how affordable HDH housing are.

Many local government units (LGUs) have failed to respond to the challenges of ISFs and instead have looked to the central government to lead or worse, to relinquish their responsibilities for social housing. Many LGUs are reluctant to properly allocate adequate resources to the housing sector, except perhaps for their own employee housing. City planning and housing policy remain uncoordinated, both at the national and local levels. There have been a number of housing projects developed through engagement from different civil society organizations (CSOs) such as the Gawad Kalinga program, but they fail to achieve scale.

Key constraints to affordable housing boil down to four inter-related issues: (i) land availability; (ii) affordable housing finance; (iii) governance; and (iv) lack of inclusive urban development that optimizes land use. For urban centers in the country, availability of land is a constraint. This is further complicated by lack of accurate land information and costly and complex processes to make land available for social housing. The housing finance framework needs to be revisited to expand the reach down-market to allow lower-middle income class to access formal finance and give the low-income class access to government subsidized financing. For governance, there is a need to provide incentives and technical support to LGUs to promote their proactive role in social housing. It is also crucial to ensure that land use planning is inclusive, disaster resilient, and sustainable.

159 C. Habito (2016). “Public Housing Expenditures in Selected Asian Countries, 2000-2014”. Manila. (Mimeo) The study compared public housing expenditures as a percentage of GDP between 2000-2014 for 9 Asian countries, namely Singapore, Nepal, Mongolia, Indonesia, Sri Lanka, Thailand, Malaysia, Bangladesh, and Philippines.

160 John J. Carroll Institute of Church and Social Issues (JJCISI). (2008) “A Study of Resettled Families’ Perceptions of Vulnerability and Resilience to Disasters” (Draft Report). Manila.

Figure 4.15 Main Sources of Drinking Water for ISFs in Metro Manila

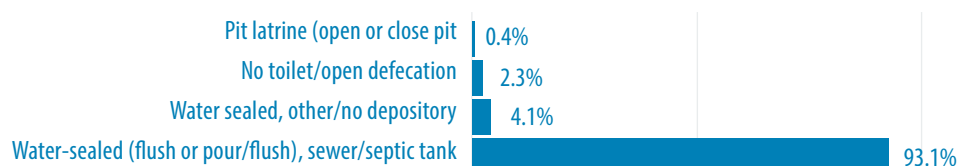
Source: World Bank, 2016. Metro Manila Slum Survey

b. Access to Basic Services and Social Safety Net

Access to clean water, among other basic services, is a serious problem for the ISFs. Almost half of ISFs get water through vendors, 11% fetch water from neighbors, and 3% share the connection with their neighbors.¹⁶¹ The major constraint that prohibits ISFs from accessing potable water is the connection fee. New connection fees are equivalent to US\$97 and US\$176 in Manila West and Manila East, respectively.¹⁶² Additionally, there are administrative requirements such as proof of land title, which prevent many households from connecting individually. In such cases, households share utilities but they are charged a higher tariff rate. Yet the cost of water from small scale service providers can be extremely high, with no quality

control.¹⁶³ In the Philippines, ISFs pay 9-13 times more for the delivery of water than households living in adjacent fully serviced neighborhoods.¹⁶⁴

ISFs' lack of access to proper sanitation aggravates water pollution causing health problems. While access to basic sanitation is high, 93% of the urban poor sampled report having access to water-sealed septic tanks¹⁶⁵, many of them are improperly designed and hardly maintained, allowing human waste to pollute the water. In Metro Manila, only about 15% of the sewage is treated, and all other pollutants are drained into rivers.¹⁶⁶ The water pollution is often a cause of gastro-intestinal problems, skin ailments, cholera, typhoid and other infectious diseases.¹⁶⁷

Figure 4.16 Access to Sanitation Facilities by ISFs in Metro Manila

Source: World Bank, 2016. Metro Manila Slum Survey

¹⁶¹ World Bank (2016). Urban Slum survey.¹⁶² ADB (2014)¹⁶³ "Baker, Judy, ed. 2009, "Opportunities and Challenges for Small Scale Private Service Providers in Electricity and Water Supply, Evidence from Bangladesh, Cambodia, Kenya and the Philippines, World Bank, Washington, D.C.¹⁶⁴ Ballesteros, M. (2010). "Linking Poverty and the Environment: Evidence from Slums in Philippine Cities". Philippine Institute for Development Studies; Manila.¹⁶⁵ World Bank (2016). Metro Manila Slum Survey.¹⁶⁶ E. Gozun (2010). "Water and Sanitation Policy Notes". Philippine Urban Consortium.¹⁶⁷ Ballesteros (2010)

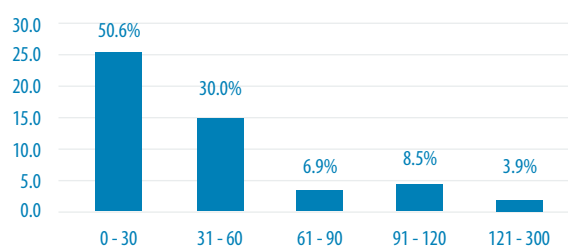
Majority of ISFs have access to electricity, but high tariffs pose a significant financial burden. The Philippines has a very high electricity rate – the fifth most expensive in the world, averaging at \$0.24 per kilowatt-hour in 2012.¹⁶⁸ The high electricity rate forces many ISFs to resort to shared connection or “jumping”, illegal connection to neighbors or public electricity. 46% of the ISFs have their own connection, 37% only have shared connection that leads to higher premium, and 14% say they are illegally connected from their neighbors or public electricity.¹⁶⁹ Some people spend as much as US\$100/month to pay for their electricity from their average monthly household income of about US\$507 (Php.22,835) in NCR in 2012.¹⁷⁰

Improper solid waste management exacerbates health issues and flooding. Water pollution is prevalent especially in Metro Manila. In Metro Manila, only 10% of the 7,000 tons of solid waste generated daily basis is recycled or composted while the rest are either hauled to the city's dumpsites (where many urban poor live and work as scavengers), dumped into nearby water bodies such as creeks and rivers, or burned on the streets. Leachate from solid waste contaminate the soil as well as both groundwater

and surface waters, resulting in health issues.¹⁷¹ When solid waste collection is difficult, such as in many cramped informal settlements, nearby water bodies like creeks and rivers become convenient dumping grounds.¹⁷² Some of the uncollected garbage on the streets also finds its way to creeks and rivers through underground and open drainage systems. All this hampers water discharge during the rainy season which in turn contributes to flooding, adversely affecting the ISFs living along waterways.

Transportation costs weigh heavily on the urban poor, being the second highest expenditure item for a household. Without any intervention, traffic demand will likely increase by 13% in 2030, and transport costs then are estimated to 2.5 times higher.¹⁷³ As it is, transportation costs accounts for 15% of the total household expenditure for ISFs. This amount is equal to about a kilo of rice or three cans of sardines, enough for a day's meal.¹⁷⁴ In addition to the financial costs, there is the time cost, as well as physical and psychological cost associated with traffic congestion especially in Metro Manila where commutes can be lengthy. Over 80% of the ISFs in Metro Manila spend 30-60 minutes one way to commute to their work.¹⁷⁵

Figure 4.17 Time Spent for Commute to Work by ISFs in Metro Manila (in Minutes)



Source: Metro Manila Slum Survey

¹⁶⁸ International Energy Consultants. (2012) “Regional Comparison of Retail Electricity Tariffs”. Meralco. Manila.

¹⁶⁹ World Bank (2016).

¹⁷⁰ FIES 2012.

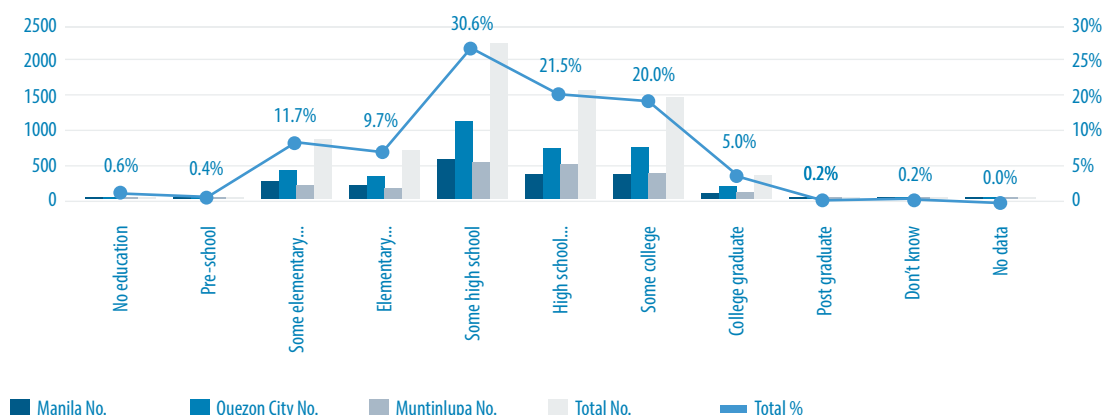
¹⁷¹ Ballesteros (2010)

¹⁷² World Bank (2016). “Philippines Metro Manila Flood Management Project” Project Appraisal Document.

¹⁷³ JICA (2014).

¹⁷⁴ Ateneo School of Government. (2014). “Inclusive Mobility Network Action Plan”. Manila.

¹⁷⁵ World Bank (2016). Metro Manila Slum survey.

Figure 4.18 Educational Attainment of ISFs in Metro Manila

Source: Metro Manila Slum Survey

Access to education is also limited due to financial constraints. As mentioned before, a survey of 3,000 ISFs in Metro Manila found that 22.4% had up to elementary school education or lower, 30.6% were high-school drop-outs, and 46.7% had completed secondary education or higher. Given that ISFs especially in urban areas responded that they have physical access to schools¹⁷⁶, the factor that limits their access to education seems to be financial. In the Philippines, public education is provided for free from kindergarten to 12th grade. However, surveyed ISFs responded that expenses for textbooks, school supplies, uniform, lunches, and transportation costs are often a burden they cannot afford.¹⁷⁷ Moreover, for the very poor families, the opportunity costs for sending children in early teens and above can be high, resulting in an elevated high school drop-out rate.

Many urban poor benefit from conditional cash transfer though the amount is relatively small. Introduced in 2007, Pantawid Pamilyang Pilipino Program (Pantawid Pamilya), which is managed by the Department of Social Welfare and Development (DSWD), provides cash in exchange for compliance with age-specific health and education conditions, such as receipt of pre- and post-natal care, immunization, and 85% attendance rate at daycare, primary, or secondary schools. Since its inception, it has reached 4.2 million households, or approximately 21% of the country's total population. It has a budget of US\$1.5 billion, equivalent to 0.5% of the GDP.¹⁷⁸ Beneficiaries are poor households with children aged 0-18 and/or with pregnant women that have permanent address, identified through Listahanan, the national household targeting system. In 2013, among poor households with children 0-14, the coverage rate was 58%. Of the program's

¹⁷⁶ World Bank (2016).¹⁷⁷ World Bank (2016).¹⁷⁸ P. Acosta and R. Velarde (2015). "An update of the Philippine Conditional Cash Transfer's Implementation Performance". World Bank Philippine Social Protection Policy Note No. 8. Manila, Philippines.



total beneficiaries, 65% are income poor and 35% are non-income poor, while ISFs only represented 4.4% of the beneficiary households. Targeting accuracy is high compared to CCT programs in other countries. Listahanan used the “pockets of poverty” methodology¹⁷⁹ to identify the poor in urban areas. This has proven a challenge, however, with inclusion errors at 37%, 15 percentage points higher than 22% in rural areas.¹⁸⁰ On average, Pantawid Pamilya beneficiary household received a monthly grant of Php.703.5 (US\$16.4) in 2013, which corresponds to 11.6% of beneficiary households’ monthly income from the poorest quintile in the same year. This is lower than the benefit level of around 23% of potential households’ income which the program intended to achieve at the time of its design in 2006, which is on par with CCT programs in other countries such as Brazil and Mexico.¹⁸¹ Nevertheless, Pantawid Pamilya has proven effective. Impact evaluation

found that the program reduced the poverty rate among the beneficiaries by 6.5 percentage points and the national income inequality as measured by Gini coefficient by 0.5 points. The program has also influenced behavioral change among beneficiaries.¹⁸² CCT beneficiary households were also offered skills training and cash-for-work assistance (\$6.60/day or 75% of the prevailing daily wage rate) or micro capital assistance for sustainable livelihoods (\$220/family) under DSWD’s Sustainable Livelihood Program as a complementary measure.

A modified conditional cash transfer (MCCT) program that targets the urban poor among others has also been piloted, though results have been mixed. To address poor households that were not included in the Listahanan, such as homeless families who were not enumerated due to lack of permanent address, as well as indigenous people and other vulnerable groups, the government piloted the Modified CCT (MCCT). As of April 2016, MCCT has benefitted 5,214 homeless families, of which 3,519 are from NCR, in addition to indigenous people and other vulnerable families.¹⁸³ MCCT offered additional support for housing in the form of balik probinsya (\$1,540) for those who want to return to their province of origin, and rental subsidies worth \$88 a month for a maximum of 6 months. Only fewer than half of the beneficiaries availed themselves of the rental assistance, and of those, only 30% were able to continue renting a house on their own accounts, and 20% returned to the streets as they were not able to sustain themselves. Only 32% accessed cash-for-work activities and 16% received skills training, facilitation of employment or capital assistance.¹⁸⁴ While a more in-depth evaluation to understand the reasons for low uptake is needed, the

¹⁷⁹ L. Fernandez (2012). “Design and Implementation Features of the National Household Targeting System in the Philippines.” World Bank Philippine Social Protection

¹⁸⁰ U. Gentilini (2015). “Entering the City: Emerging Evidence and Practices with Safety Nets in Urban Areas.” World Bank, Washington D.C.

¹⁸¹ P. Acosta and R. Velarde (2015). The relatively low transfer size is partly explained by the fact that the Government prioritized coverage of all poor households with children over updating benefits level to adjust for inflation rate to maintain a reasonable program budget.

¹⁸² For details, see A. Orbeta, et al. (2014). “Keeping children healthy and in school: Evaluation the Pantawid Pamilya using Regression Discontinuity Design. Second Wave Impact Evaluation Results”.

¹⁸³ As of April 2016, MCCT had 237,859 household beneficiaries with the following breakdown: (i) 5,214 homeless households; (ii) 182,055 indigenous people households; and (iii) 50,590 other vulnerable households such as disaster affected families.

¹⁸⁴ Gentilini (2015).

Note No. 8. Manila, Philippines.

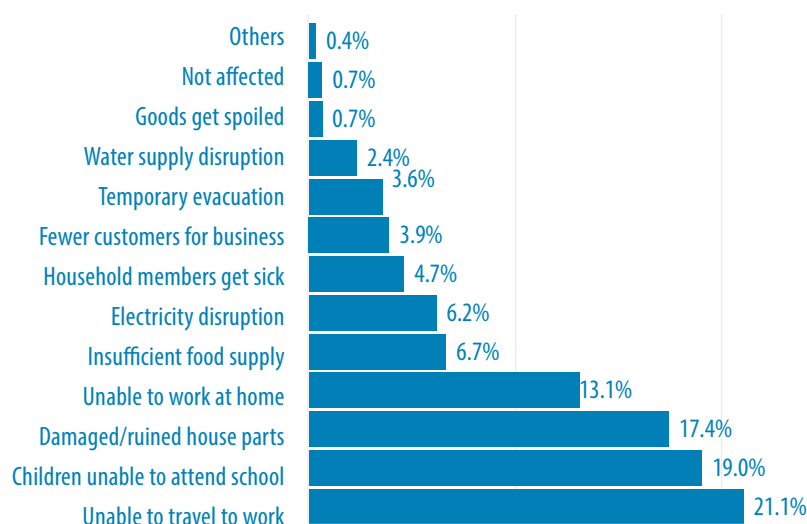
results imply that given the chronic nature of poverty the urban poor face, exposure to longer-term interventions may be more important in helping address the structural challenges of urban poverty.¹⁸⁵

c. Exposure to Hazards

Many slums have been built on river floodplains or along the shorelines, exposing ISFs to recurring floods. Due to government's poor enforcement of land use planning and regulation, many slums have developed near water bodies. This has exposed ISFs to constant flooding.

Deficient infrastructure such as lack of drainage or proper maintenance of it, as well as clogged waterways due to lack of effective solid waste management compound the problem. Almost half of the ISFs surveyed in Metro Manila report that they are affected by constant flooding.¹⁸⁶ The flooding can have significant impacts on livelihoods, cause costly damages to housing and assets, and increase health risks due to prolonged exposure to water pollution. People cope with the reduced income by: (i) taking on additional or temporary jobs where available; (ii) reducing food consumption; and (iii) taking out multiple loans. Despite these coping strategies, income remain insufficient to cover basic consumption needs in most cases.¹⁸⁷

Figure 4.19 Issues Faced with Flooding by ISFs in Metro Manila



Source: Metro Manila Slum Survey

¹⁸⁵ Gentinili (2015).

¹⁸⁶ World Bank (2016). Metro Manila Slum survey.

¹⁸⁷ Institute of Philippine Culture (2011). "The social Impacts of Tropical Storm Ondoy and Typhoon Pepeng." Manila.



Fire is one of the primary man-made disasters that affects the ISFs. While no statistics are available, fires that burn hundreds of houses in slums are quite common. Fires are usually caused by unattended candles and gasoline lamps, malfunctioning Liquefied Petroleum Gas (LPG) tanks, cooking stoves (charcoal stoves), fireworks, and faulty electrical wiring. In most cases, fire spreads throughout the community in minutes and can last for several hours before suppressed. Various factors contribute to the rapid spread of fire. First, slums are often highly congested with houses close to each other and pathways too narrow for fire fighters and trucks to enter. Second, most houses are made of light materials like scrap wood, cardboards, tin roof, and tarpaulin that are highly inflammable. Fires damage the houses and assets, and displace families, further impoverishing the urban poor and pushing the vulnerable poor below the poverty line.

4.2.3 Social Exclusion

The dimensions of social inclusion relate to fundamental principles of equal rights and participation of the marginalized in the development process. In the context of the urban areas in the Philippines, particular aspects of crime and violence and social cohesion are issues affecting social inclusion of the urban poor.

a. Crime and Violence

Crime and violence can take a heavy toll on social and economic development. Violence can incur strong, negative impacts on economic development by drastically reducing growth and producing long-lasting detrimental social impacts¹⁸⁸, creating a vicious cycle of violence and poverty. Economically, it discourages investment and diverts public resources from development toward law enforcement and support for victims. For example, in 2005 in Guatemala, the direct costs of violence, concentrated predominantly in the capital city, was estimated at US\$2.4 billion or 7.3% of the national GDP.¹⁸⁹ It is estimated that if Jamaica and Haiti reduced their crime levels to those of Costa Rica, their annual GDP growth could increase by 5.4%.¹⁹⁰ Socially, violence, or the mere fear of it, stigmatizes certain neighborhoods, erodes social cohesion, limits people's mobility, and negates citizens' trust in a state that cannot protect them.¹⁹¹

Globally, crime and violence are more pronounced in urban areas and are compounded by their rapid growth. A study estimated that 60% of urban dwellers in developing and transitional countries have been victims of crime over a five-year period, with victimization rates reaching 70%

¹⁸⁸ World Bank (2009)

¹⁸⁹ UNDP (2006).

¹⁹⁰ UNODC and World Bank (2007).

¹⁹¹ World Bank (2011). "Violence in the City: Understanding and Supporting Community Responses to Urban Violence". Washington D.C.

in parts of Latin America and Africa.¹⁹² It has also been established that even in regions with relatively low levels of urban violence, such as Western Europe, urban violence is higher than rural-based violence.¹⁹³ As centers of social, political, and economic power, cities can be hot spots for violence and conflict. The stark inequalities in cities can contribute to frustration, and rapid growth can accumulate risk factors and intensify the potential for violence. Unmanaged growth transforms power relationships and creates new social and economic opportunities (or inequalities), which, combined with weak state security presence, can foster criminality and violence. The impacts are especially pronounced in cities where institutions are fragile.¹⁹⁴ While there is still much to be learned about the relationships among different patterns of city growth, economic growth, and expression of violence, the city's growth rate appears to have a stronger relationship with homicide rates than does its size or density.¹⁹⁵

Some groups are impacted more, or differently, by urban violence than others. In most cases, areas that struggle the most with crime and violence are often areas that are the poorest.¹⁹⁶ There are also clear gender dimensions. Globally, male homicide rates are roughly double the

female rates for all age groups.¹⁹⁷ Men commit majority of violent crimes from domestic violence to homicide, although the rates of nonfatal victimization by violence are more equal by gender. Women are much more vulnerable to sexual and domestic violence.¹⁹⁸

Crime and violence in the Philippines significantly increased in 2013 compared to previous years. Philippines is not safe, but not strikingly unsafe, ranking at 62nd in the 2012 world global homicide rate ranking, which is widely considered the most accurate indicator of overall levels of violence in a country. Compared to the world average homicide rate of 6.2 per 100,000 people, homicide rate in the Philippines was 8.8, though it is much higher than the Asian average of 2.9.¹⁹⁹ Government data on homicide shows that it more than doubled in 2013 compared to the previous year. Other serious crimes, which the government terms as index crimes, also tripled while less serious non-index crimes increased by more than six-fold in 2013.²⁰⁰ Reasons for the significant increase in crime and violence in 2013 are unclear. The overall trend of crime rates follows a similar trajectory as the homicide rate. Alarming, the crime solution efficiency rate halved in the same period though the reasons are unclear.

¹⁹² Shaw, M., J. van Dijk and W. Rhombert (2003). "Determining trends in global crime and justice: An overview of results from the United Nations Survey of crime trends and operations of criminal justice systems". Forum on Crime and Society.

¹⁹³ World Bank (2011).

¹⁹⁴ World Bank (2011).

¹⁹⁵ World Bank (2011).

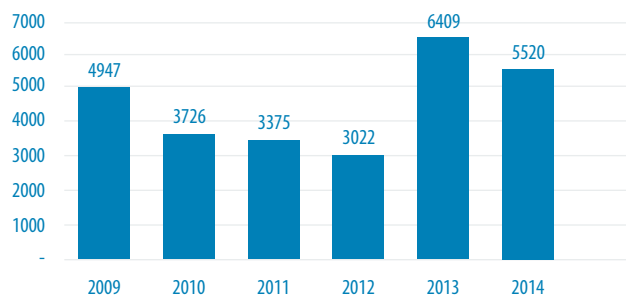
¹⁹⁶ Winton (2004).

¹⁹⁷ WHO 2008.

¹⁹⁸ WHO 2008.

¹⁹⁹ United Nations Office of Drugs and Crime (UNODC). Global Study on Homicide.

²⁰⁰ Index crimes, as defined by the Philippine National Police (PNP), include murder, homicide, physical injury, rape, and crimes against property such as robbery, theft, car-napping/carjacking and cattle rustling. Non-index crimes are violations of special laws such as illegal logging or local ordinances.

Figure 4.20 Incidence of Homicide

Source: Philippine Statistics Authority

Drug related crimes are prevalent in the Philippines, in particular in NCR. According to the Philippine Drug Enforcement Agency (PDEA), Philippines remains to be both a producing and consuming country of illegal drugs. Based on the data on drug-related arrests, shabu (methamphetamine hydrochloride) remains the most abused illegal drugs in the country. In 2015, 95.5% of drug-related arrests were linked to shabu, followed by marijuana at 4.3%.²⁰² As of December 2015, out of the total 42,036 barangays in the country, 11,321 or 26.9% were drug-affected²⁰³ or have drug-related cases irrespective of the volume. Among them, NCR remains to be the region with the highest number of “drug-affected” barangays, where an estimated 92.3% of barangays were affected in 2015, followed by the relatively highly urbanized regions of Region IV-A with 49.3% and Region VII (where Cebu city

Figure 4.21 Crime Rates (per 100,000 People)²⁰¹

Source: Philippine Statistics Authority

is located) with 48.8% of the barangays affected. Of the 19,432 drug personalities arrested in 2015, 87.6% were male.²⁰⁴ Of the minors involved, 93% are in the age bracket of 15 – 17.²⁰⁵

Yet, people’s average perception of safety has improved since 2013, possibly masking the regional discrepancy. According to Numbeo’s crime index²⁰⁶, perceptions of both safety and crime in the Philippines has improved since 2013. The discrepancy between the official data and perception data could mean that the official data is inaccurate, or that there is a representation bias in Numbeo users. Another plausible explanation could be that the national average crime rate masks the regional disparity, notably the rural-urban disparity.

²⁰¹ Index crimes, as defined by the Philippine National Police (PNP), involve crimes against persons such as murder, homicide, physical injury and rape, and crimes against property such as robbery, theft, carjacking and cattle rustling. Non-index crimes, on the other hand, are violations of special laws such as illegal logging or local ordinances.²⁰⁶ Numbeo is the world’s largest crowd-sourced database of user-contributed data about cities and countries ranging from consumer prices, perceived crime rates, quality of health care, to traffic quality. Data from Numbeo has been used as a source in hundreds of major newspapers around the world, including Forbes, The Economist, The New York Times, and BBC.

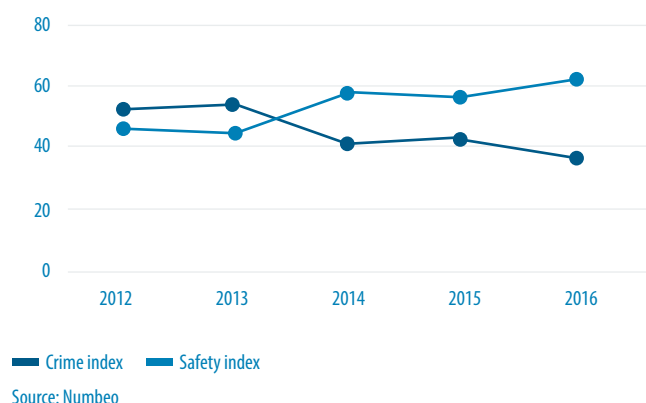
²⁰² Philippine Drug Enforcement Agency (PDEA) (2015). “2015 Annual Report.” Manila.

²⁰³ According to PDEA, a barangay is said to be drug-affected when there is a drug user, pusher, manufacturer, marijuana cultivator or other drug personality “regardless of number in the area. There are three basic degrees as to how a barangay is affected by illegal drug activities –slightly affected, moderately affected, and seriously affected. Barangays are considered slightly affected if there are identified drug users in the community but no known drug pushers or traffickers are operating in the area while moderately affected if at least a suspected drug pusher or trafficker is operating in the barangay. A barangay is seriously affected if at least a drug laboratory, den, dive or resort is suspected to exist in the community.

²⁰⁴ PDEA (2015).

²⁰⁵ PDEA (2015).

²⁰⁶ Numbeo is the world’s largest crowd-sourced database of user-contributed data about cities and countries ranging from consumer prices, perceived crime rates, quality of health care, to traffic quality. Data from Numbeo has been used as a source in hundreds of major newspapers around the world, including Forbes, The Economist, The New York Times, and BBC.

Figure 4.22 Perceptions on Crime and Safety in the Philippines

Disaggregated data shows that crime rates in NCR, which is highly urbanized, was 52% higher than the national rate in 2010.²⁰⁷ Numbeo data shows that Quezon City, Zamboanga, Bacolod, Manila, and Cebu in that order have the highest crime rates in the country. Globally, Quezon City and Zamboanga City rank 43rd and 48th unsafe cities. These two cities with the highest crime rates in the Philippines vary in population size at 2.8million and 807,000 respectively. But interestingly, both cities experienced a high population growth between 1990 – 2010 at 2.6% and 3.1%, well above the national average of 2.1%.²⁰⁸ This supports the hypothesis that the city's growth rate seems to have a stronger correlation with homicide rates than the size or the density. That is because cities that grow quickly are more likely to experience a convergence of factors that increase the risk for destabilizing levels of violence if they are not appropriately addressed.²⁰⁹

Crime and violence disproportionately affect the urban poor, in particular male youth. Despite the general

perception of improved safety, such perception is not shared among the urban poor. As shown in figure 6.16, crime and violence is cited as the second most serious threats following eviction for the ISFs. Poor children and youth who don't go to school are prone to falling prey to exploitative gangs that engage in delinquent and risky behaviors. Substance abuse claims some 1.4 million youth (15 – 30 years) who have used or sold illegal drugs. Of 700 Metro Manila street children surveyed, 40 % admit to using prohibited drugs.²¹⁰ Surveys stress that the greater number of out-of-school youths or young men without jobs had a negative impact on the overall sense of security in the community. The linkages between youth idleness include: (i) increased drug use; (ii) increased gang violence; and (iii) in isolated instances of more violent crime ("hold-ups"). People also highlighted that the living condition in their areas (such as narrow, maze-like streets, lack of street lighting) make it more difficult for police to control crime and violence.²¹¹

²⁰⁷ Philippine Statistics Authority (PSA).

²⁰⁸ PSA 2010 Census on Population and Housing.

²⁰⁹ World Bank (2011).

²¹⁰ GOP-UNICEF 1997

²¹¹ IPC (2011)



b. Social Cohesion

Urban poor communities' social networks are built around kinship, and accordingly, common issue-based community organizations work best to mobilize the broader community. Rural migrants move to cities through their social networks such as family and friends, and typically end up in homogenous communities that are from the same regions. Yet, as slums grow, many kinship-based groups come together creating a broader heterogeneous settlement. As such, primary social support networks and solidarity mechanisms for the urban poor exist mostly within smaller sub-groups, connected by kinship ties or by the fact that particular groups of households had moved into an area from the same areas at the same

time. Community-based organizations that rally members around specific issues such as home-owners' associations (HoAs) are more likely to be able to reach out to a broad spectrum of households in the bigger heterogeneous communities rather than generic community groups.²¹² Where there are no active CSOs or government assistance, many urban poor communities remain unorganized.

Social cohesion is disrupted when there is a significant influx of new settlers. It is not uncommon for a split to emerge between longer-time residents and new migrants, strengthening the notion of "us" versus "them".²¹³ Often times, deterioration in law and order is attributed to "other" sub-groups. Overcrowded schools and health facilities, and competition over customers (for service providers such as tricycle drivers) can also be sources of tension between the old and new communities.

ISFs' relationship with and influence on LGUs, especially the barangay government, critically depends on whether they are organized and whether they have any kinship ties. Formal institutions that are important for the slum dwellers include purok (ward) leaders, barangay captains, and barangay councilors. How good the relationship with these institutions is, and how much leverage the slum dwellers can have, varies greatly by how well the community is organized, whether they have any conduits such as CSOs that can act as a bridge between the community and the LGU, and whether there are any kinship ties. If they don't have any strong ties with the local governments, they are often excluded from official decision-making process.

²¹² World Bank (2011). SIM.

²¹³ World Bank (2011).

4.3 Recommendations

Inclusive urbanization is important to city competitiveness. A large number of the population in informal settlements are low-income workers that provide critical labor and contribute to the productivity and growth of cities. A key aspect of a city's competitiveness is its ability to be inclusive, ensuring that all residents are able to share in and contribute to rising prosperity. Addressing urban poverty and inequality remains an important challenge for the Philippines and will require a holistic approach that integrates all dimensions of inclusive urbanization – economic, spatial, and social.

Economic Exclusion

One of the key interventions to help alleviate the multi-dimensional poverty that urban poor face is to address the urban poor's jobs challenge. That is, to address the urban poor's high underemployment rate due to informality so as to allow higher and more stable income. The challenge is that due to low educational attainment and low levels of skills, urban poor face a significant hurdle in landing productive formal jobs. The report thus recommends a short-term approach to: (i) provide skills training and placement support for the low-educated, low-skilled urban poor tailored to the preference and profiles of ISFs but in line with market demand; and (ii) expand social protection through cash-for-work programs using a properly designed public works program to provide income support to the unskilled poor. Longer-term approach includes undertaking structural measures to generate more formal sector employment opportunities for the urban poor.

Help the urban poor access formal jobs by providing market-driven skills training and placement services in close collaboration with the private sector.

As noted above, majority of the urban poor prefer stable regular wage labor in the formal sector rather than engaging in risky micro-enterprise development, and many poor are engaged in self-entrepreneurship "out of necessity".²¹⁴ It is thus essential that government provides employment support to the urban poor. Such support, however, needs to be provided in a "market demand-driven" manner unlike the conventional "labor supply-driven" approach which has resulted in mismatches between the supply of skills and the demands of the economy.²¹⁵ Effective interventions must take into account: (i) matching of livelihoods/jobs with people's skills, interests, and mobility; (ii) presence of a steady market to buy people's services or products; (iii) quality of the end product and/or skills; and (iv) placement services for employment, with a focus on providing waged employment opportunities in formal sector to at least one household member to ensure stable household income.²¹⁶ Such endeavor should be undertaken with strong collaboration with the private sector to tailor the skills training to the employers' need and ensure access to employment post-training. A robust tracer study to track the trainees' retention and career projection is needed to shed more light on which industry yields the largest returns on investment.

²¹⁴ World Bank (2014) and Hwang, H. (2014). "Emerging Lessons from Urban Livelihoods Interventions". (Mimeo)

²¹⁵ World Bank. (2013). "World Development Report: Jobs". Washington, DC: World Bank.

²¹⁶ Environs. (2015). "Final Report on the NHA Livelihood Program". Manila.



Expand Cash-For-Work Programs to Provide Income Support to the Unskilled Urban Poor to Smooth their Income Variability

A properly designed public works program can be an effective means to provide income support to the unskilled urban poor, especially to compensate the unstable income. The government can use Listahanan to target the right beneficiaries for such cash-for-work programs, and communities can identify public works that will benefit them. In addition to augmenting income, such a program can enhance beneficiaries' employability by providing them with labor market experience and by providing innovative technical and life skills training. These programs, however, need to ensure that: (i) wage is set below the market rate to ensure self-targeting of the poor; (ii) set a clear timeframe and exit strategies for participants; (iii) types of infrastructure are those that benefit the local urban poor communities; and (iv) work is labor-intensive.²¹⁷

Expand Formal Sector Employment while Raising the Incomes of those Informally Employed

In the longer-term, there is a need to create more formal jobs which are accessible to the urban poor. This entails some structural changes that are beyond the scope of this study. According to the World Bank's Philippine Development Report 2013²¹⁸ which looked quite extensively on this issue, some of the recommendations to generate more formal jobs include the following: (i) reinvigorate the manufacturing sector to create more formal jobs to low-skilled, low-educated urban poor; (ii) simplify regulations in business registration and licensing, tax regime, and access to finance to encourage rapid growth of businesses, especially the micro-, small and medium enterprises (MSMEs) in the formal sector that can generate more jobs; and (iii) make labor market regulations more responsive to job creation, especially for small and labor-intensive firms.

Provide Financial Support to Facilitate Secondary Education Completion

Completion of high school education is critical in securing job opportunities. Support to alleviate the financial burden of uniforms, school supplies, education materials, and transportation costs would greatly enhance the chances of more urban poor youths to complete higher education.²¹⁹ Pantawid Pamilya is already providing cash grants for education up to high school, but it may be worth considering increasing the grant amount to further encourage completion of secondary education.

²¹⁷ World Bank (2013)

²¹⁸ World Bank (2013)

²¹⁹ Environs (2016). "Briefing Paper No.2: Livelihood Interventions". Paper prepared under the World Bank TA to National Housing Authority. Manila, Philippines.

Spatial Exclusion

Urban poor suffer from inadequate access to land, affordable housing, basic services, and are vulnerable to hazards. Given the magnitude of ISFs, it is vital that opportunities for affordable housing and secure tenure are sustainably expanded, and key services and infrastructure are provided. To achieve this, a number of inter-related interventions are proposed.

Close the gap in affordable housing and provide access to basic services for the ISFs.

Housing is a basic human right as recognized in the Universal Declaration of Human Rights.²²⁰ The state, being the main institution entrusted with the responsibility of promoting the common good and rights of its people, has to make housing as broadly accessible as possible. Housing needs to be embedded in the broader goal of inclusive and sustainable urbanization. Housing should not only be about the physical structure but also the development of thriving neighborhoods and communities where capital (social, physical, and other forms) are created, making them conducive venues for people to be fully human and alive. The unit of measure in an effective and efficient shelter program therefore should not be the number of houses produced or the loans taken out but the number of communities that have improved.²²¹ Accordingly, while the recommendations below center on provision of housing and basic services, they should be implemented along with recommendations to address economic and social exclusions to provide holistic solutions.



- Establish an integrated land and ISF information system through citywide participatory mapping. Lack of a current inventory of ISFs, their locations, status of the land they occupy, as well as inventory of idle land that can be used for social housing impedes government from taking swift action and increases the transaction costs. LGUs and communities can, with adequate training, undertake citywide participatory mapping and shelter planning, systematically collecting land information and socio-economic data of all the slums in a city, and developing an integrated land information system with complete land records and overlays of relevant data (such as hazard maps) from relevant agencies such as Department of Environment and Natural Resources (cadastral information) and Land Registration Authority/Registry of Deeds (ownership information) to be managed by LGUs but available to public.²²²

²²⁰ United Nations (1948). Universal Declaration of Human Rights. New York.

²²¹ World Bank (2016). "Closing the Gap in Affordable Housing in the Philippines: Policy Paper for the National Summit on Housing and Urban Development". Washington D.C.

²²² World Bank (2016). "Closing the Gap in Affordable Housing in the Philippines: Policy Paper for the National Summit on Housing and Urban Development". Washington D.C.



- Provide grants in the form of serviced land, help secure property rights on safer grounds, and provide home improvement grants for low-income informal communities. For a fundamental overhaul of the housing finance system, the government needs to create an enabling environment to expand the housing finance system down-market to reach middle and lower-middle income households, so that they can access formal housing and do not capture subsidized housing or finance. Low income households that cannot access formal housing or financing, however, will require a more direct government intervention. This includes provision of support to secure property rights (through programs like CMP), provision of serviced land or if on-site, support to slum upgrading, and home improvement grants including for room extensions for rent.²²³
- Provide infrastructure and site development for formal but blighted communities and informal communities that are in the process of securing land tenure. Primary and secondary infrastructure development should be undertaken under the leadership of the LGU to ensure consistency with city-level planning. Tertiary infrastructure such as small-scale water supply, drainage, sanitation, solid waste management, footpaths, fire safety measures, sidewalks and street lights are also needed. Identification and prioritization of tertiary infrastructure could be carried out in a community-driven manner to empower the poor. Disaster risk reduction will be mainstreamed through design and implementation to reduce the poor's exposure to both natural and man-made disasters.
- Expand connective infrastructure to allow neighboring areas to benefit from urbanization, including off-city resettlement sites. Properly planned and managed urban development with good connectivity between economic hubs and neighboring areas will help decongest the city center and expand residential areas. Better connectivity between large-scale off-city relocation sites and economic centers will reduce attrition rate of social housing.
- Help the rental housing market grow. Home ownership is a major investment and not all households are ready to invest and may opt for rental housing. The government should conduct more research to understand the status of both formal and informal rental markets, and review rent control and any other restrictive regulations, taxes, or subsidies that discourage rental investments for different segments of the society.²²⁴

²²³ World Bank (2016).

²²⁴ World Bank (2016).

Strengthen Institutions that Underpin Affordable Housing and Inclusive Urbanization

A coherent assignment of institutional roles and functions in managing the urbanization processes at both the national and local level is absent. Local Government Code (LGC) and Urban Development and Housing Act (UDHA) spell out that LGUs have the primary responsibility for providing housing assistance and conducting an inventory of lands to identify sites for social housing. Yet multiple responsibilities coupled with limited land and institutional capacity, made more pronounced by their dependence on national government for logistics and finances, overburden a majority of them. Hence LGU constituents, most of all the ISFs wanting to be engaged in their development process, find difficulty accessing technical and logistical support from government.²²⁵ Concrete cases would show nonetheless that when given technical support, LGUs are able to effectively carry out their planning roles as demonstrated by initiatives such as the Citywide Community Upgrading Strategy piloted in three LGUs in Metro Manila.²²⁶ There is thus a need to strengthen support for the LGUs. Additionally, the mandates of key shelter agencies need to be refined, and an authoritative body that oversees overall urban development needs to be identified or created. Finally, there is a need for continued support to develop and implement key policy reforms in the areas of urban development planning, housing finance, land use management and administration, disaster risk management etc.



Social Inclusion

Identify and Design Appropriate Interventions to Address Crime and Violence Based on Robust Diagnostics

Anecdotal evidence suggests that urban poor male youth that are idle are affected by crime and violence more than others. Drug abuse is also pervasive especially in NCR. However, there is no comprehensive diagnostic on the drivers, impacts, profiles of perpetrators and victims of crime and violence in the Philippines, which allows the government to design appropriate interventions. There is

²²⁵ World Bank (2016)

²²⁶ A program spearheaded by the World Bank, the Citywide provides technical assistance to LGUs and builds multi-stakeholder partnerships at the city level toward addressing the housing needs of poor communities. The pilot LGUs are Muntinlupa City, Barangay 177 of Caloocan City, and District 6 of Quezon City.

thus a need to collect more data to better understand these issues. Such evidence will allow the government to choose from a wide range of interventions—be they sector-specific approaches such as criminal justice or cross-sectoral approaches such as social prevention interventions or environmental design²²⁷—that have proven effective in Latin America and Africa, and tailor them to the Philippine context.

Facilitate Technical Assistance to Help Organize Urban Poor Communities around Collective Priority Issue of Housing

Community-based organizations that rally members around specific issues such as home-owners' associations (HoAs) are more likely to be able to reach out to a broad spectrum of households in heterogeneous urban communities rather than generic community groups.²²⁸ Given the significance and magnitude of the need for affordable housing, organizing communities around the housing agenda is likely to gain traction from the ISFs. Benefits of organizing communities have also been proven in that while under the national resettlement program, organized communities developed a People's Plan and had a voice in their resettlement, while those unorganized ended up being resettled in large-scale off-city resettlement sites mixed with numerous communities

irrespective of their preference. There is sufficient history and experience of organizing urban poor communities into HoAs, and there are good CSOs that can assist the communities. The major challenge is who will provide TA funds to support community organizing. SHFC's HDH program has built in provisions for CSOs' TA costs, but this remains a small fraction. It is recommended that HUDCC ensures all public housing projects build in TA costs for community organization and strengthening.

Empower the Communities and Engage them in the Local Development Process through Citywide Mapping and Community-Driven Slum Upgrading

It is well established that communities can be effective if empowered to undertake planning and decision-making of their own affairs. By providing hands-on facilitation, capacity building, and engaging them in community-driven mapping and slum upgrading, and providing opportunities to engage with LGU officials, urban poor communities will be empowered and social cohesion within the community will be strengthened. Increased social cohesion can nurture mutual trust that helps mitigate crime and violence. Moreover, increased interaction between the LGU and the communities helps generate social capital which can be harnessed by LGUs toward advancing local development and housing initiatives.

²²⁷ World Bank (2011). "Crime and Violence in Central America: A Development Challenge Volume I". Washington, D.C.

²²⁸ World Bank (2011). SIM.

Chapter 5

Strengthening Institutions for Urban and Metropolitan Management and Service Delivery

5.1 Introduction and Context

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.²²⁹ 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.

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

229 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).

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 5.1 Fragmentation among Urban Areas in the Philippines

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

229 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).

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 provided 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 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.

5.2 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.

5.2.1 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.²³⁰ 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

230 The current version of the NUDHF for 2009-16 lays out a vision for “an urban system that (i) facilitates economic production; (ii) develops and strengthens local comparative advantages; and (iii) provides all urban residents with an improving quality of life” and includes recommendations in five areas: urban competitiveness; poverty reduction; affordable housing; sustainable communities; and performance-oriented governance.

and responsibilities of key 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 5.1 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

5.2.2 Absence of a Lead Agency for Urban Development

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.²³¹ 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 NGAs²³² 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.

231 These are the National Housing Authority, the National Home Mortgage Finance Corporation, the Home Guaranty Corporation, and the Home Development Mutual Fund.

232 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 5.2 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 to 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



5.2.3 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 5.2 LGU Own-Source Revenues as a Share of Total Operating Income

	2011	2012	2013	2014
Provinces	17.1%	18.8%	19.3%	18.8%
Cities	52.2%	55.7%	57.2%	55.7%
Municipalities	19.2%	19.2%	20.7%	19.2%
Total	32.1%	34.8%	36.0%	34.8%

Source: Bureau of Local Government Finance, Department of Finance

Box 5.3 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.

Table 5.3 City-Level Own-Source Revenues as a Share of Total Operating Income

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

Source: Bureau of Local Government Finance, Department of Finance

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.

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).

Table 5.4 Distribution of Provinces & Cities by Age of Real Property Values, as of June 2014

AGE OF REAL PROPERTY VALUES	PROVINCES		CITIES	
	NUMBER	SHARE	NUMBER	SHARE
Over 10 years	19	23.8%	58	40.3%
6-10 years	28	35.0%	46	31.9%
5 years or less	33	41.3%	40	27.8%
TOTAL	80	100.0%	144	100.0%

Source: Bureau of Local Government Finance, Department of Finance; 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.

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 of 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 5.4 DILG Performance Monitoring of LGUs

Since the mid-2000s, DILG has maintained the Local Government Performance Management System (LGPMS), a web-based system comprised of numerous indicators to help LGUs assess their capabilities and performance in the delivery of essential services. However, LGPMS 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 5.5 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 Petersen, 2013



5.2.4 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 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.

5.3 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

- a. 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 particular, 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.” At present, the new chair of HUDCC (who is the Vice-President of the Philippines) has begun advocating for the creation of a Department of Housing that consolidates all the key shelter agencies under one national government agency.

Given the broader and more inter-connected nature of urban development issues, the passage of a law establishing of 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.

Box 5.6 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.

Source: UN Habitat, 2015

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.

Box 5.7 Global Approaches to Metropolitan Governance

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 5.8 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 Ronderos 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 5.9 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 assigns 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.

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 5.10 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 Environs –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; OECD, 2015; Slack 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) the governance framework, organizational structures, and financing frameworks of the new metropolitan service authorities and the reformed MMDA; v) 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 be 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 ii) providing capacity and institutional development and financial incentives to support to 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 system²³³ 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

233 With technical support from the Asian Development Bank and Agence Française de Développement.



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.
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Chapter 6

Improving Land Administration and Management for Sustainable Urban Development

6.1 Introduction



Land administration and management (LAM) systems are a fundamental infrastructure for proper functioning of land markets. Land markets enable land to flow to those who are willing and able to use land well, thereby, facilitate investments and growth, improve land allocation, and develop financial markets. For land markets to work efficiently, they must be underpinned by land administration systems that define property rights; guarantee security of tenure; establish a mechanism for registering these rights within reasonable time and costs, and generate information to support property valuation and taxation. Well-defined property rights underpin security

of transactions and investments in well-functioning land markets, as these reduce conflicts, decrease transaction costs, and provide incentives for the private sector to invest. Property valuation facilitates efficient disposal and proper compensation of land, equitable land and property taxation, and proper valuation of land as collateral assets.

LAM systems are also essential in land use planning that shapes urban growth, improves efficiencies in use and allocation of limited space, and in turn, enhances the performance of land markets. In metropolitan areas, coordinated land use planning is essential to achieve efficiency in service provision, enable connectivity and maximize the potential of agglomeration for city competitiveness. Effective land use planning enables timely provision of investments to influence the shape and pattern of land development.²³⁴ The application of relevant regulations and development controls are crucial to manage urbanization patterns and achieve the desired urban form. Efficiency in land use allocation in urban areas is also instigated by a functioning land market, secure property rights, and transparent and market based valuation process. A good benchmark for efficient land use planning process entails land use plans and regulations that are justified, effectively implemented, do not drive large parts of the population into informality, and are able to cope with population growth.²³⁵

²³⁴ World Bank. 2011. Land Governance Assessment Framework Implementation Manual. (September 16, 2011). Washington DC: World Bank.

²³⁵ Ibid.

Box 6.1 Definitions

Land administration is the processes of determining, recording and disseminating information about the tenure, value and use of land when implementing land management policies. These involve regulating land and property development and the use and conservation of land, the gathering of revenues from the land through sales, leasing and taxation, and the resolving of conflicts concerning the ownership and use of land (Dale and McLaughlin, 1999; UN ECE, 1996).

Land management is the process by which the resources of land are put to good effect. It covers all activities concerned with the management of land as a resource both from an environmental and from an economic perspective. It can include farming, mineral extraction, property and estate management, and the physical planning of towns and the countryside (UN-ECE, 1996).

Well-functioning land market and efficient land use are important in creating sustainable and competitive cities. Rural to urban migration – one of the significant drivers of urbanization – is propelled partly by an efficient LAM system that provides secure property rights and well-functioning land markets in the rural areas. These enable the free movement of surplus and highly skilled labor from the rural areas – a phenomenon that triggers economic transformation from agricultural to manufacturing, and in the case of the Philippines, to a service dominated industry²³⁶. Unrestricted access to land in the urban fringes likewise facilitates a well-managed urban sprawl, to meet the growing demands for land. Finally, a well-functioning land market is supported by a good land administration and management system that improves ability to plan, attract investment, and capitalize on increasing land values to benefit the public and provide services.²³⁷

Good practices in property taxation and valuation enhances fiscal independence and capacity of local governments to finance urban development investments. Taxes on land and real property constitute one of the most stable sources of

revenues for local government units (LGUs). They are fixed, easy to detect, and their values increase with economic development. Revenues derived from real property taxes are fully devolved, which should encourage LGUs to make good in the performance of this vital function. Experience in several secondary cities in the Philippines prove that LGUs are better able to provide for serviced land and meet the investment demands of urbanization if they are able to harness the revenue potential from appropriate administration of property taxes. The efficiency by which local authorities are able to dispense with this function rest in a major way on the completeness and reliability of land inventory, good land data sets, and the application of market based valuation for property assessments. In the case of the Philippines, the resolution of LGU political boundaries is a pre-requisite to the certainty of internal revenue allotments, or national government transfers to support local development. Updated and more equitable property valuation likewise contributes to greater equity in the tax burden, thereby contributing to more inclusive urban economic growth.

236 Deininger, Klaus, Harris Selod and Anthony Burns. 2012. *The Land Governance Assessment Framework: Identifying and Monitoring Good Practice in the Land Sector*. Washington DC: World Bank. See also Hilhorst, Thea and Frederic Meunier, eds. 2015. *How Innovations in Land Administration Reform Improve on Doing Business: cases from Lithuania, the Republic of Korea, Rwanda and the United Kingdom*. Washington DC: World Bank.

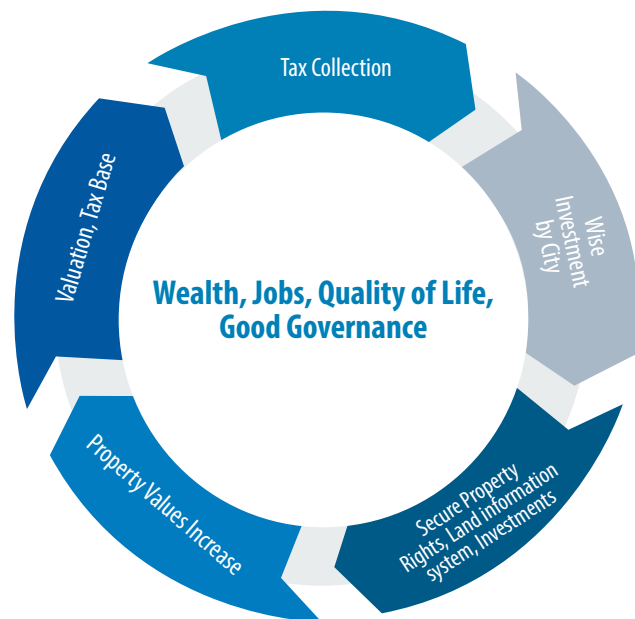
237 UN HABITAT and Urban Landmark. 2010. *Urban Land Markets: Economic Concepts and Tools for Engaging in Africa*. Nairobi, Kenya. See also Hilhorst, Thea and Frederic Meunier, eds. 2015. *How Innovations in Land Administration Reform Improve on Doing Business: cases from Lithuania, the Republic of Korea, Rwanda and the United Kingdom*. Washington DC: World Bank.

In the context of cities, well-functioning land markets, proper land use planning, and efficient and equitable property valuation and taxation, are interdependent. Secure property rights, supported by a good land information and registration system and sufficient conditions for development improves efficiency in land market activity, encourages investments in property development, and increases property values. With the use of proper valuation methods and practices, these values are captured in the city assessment roll to make the tax burden more equitable and reflective of prevailing market rates. With properly recorded property rights, and guided by participatory land use and comprehensive development planning, cities are able to harness the best use of land, allocate land to various uses, and plan investments in advance, in order to ensure that spatial development follows the desired pattern and direction of urban growth which is inclusive of all sectors. On the other hand, well prepared comprehensive land use plans (CLUPs), serving as the basis for investments by cities, increase property values. Ultimately, such increases in values should be captured in the city's valuation and taxation, which could be used to increase revenues to spur socio economic development of cities (Figure 1).

When the cycle is sustained, the overall outcomes are increased investments, more jobs, and improved overall quality of life. These are at the core of good local governance.

This chapter assesses the performance of existing LAM system in the Philippines in creating an environment for competitive cities. It looks at the influence of LAM (including property rights) in the proper functioning of land markets in urban areas; the effectiveness of land use planning and regulations in shaping urban growth, reducing informality, and improving efficiency in use of space; and the impacts of property valuation and taxation practices in generating revenues to finance local development plans.

Figure 6.1 Harnessing Economic Growth Through Local Investment: The Role of LAM²³⁸



6.2 Key Challenges

There are a number of complex challenges affecting land use in urban areas, which are binding constraints to the overall competitiveness of Philippine cities and undermine efficient and sustainable urbanization in the Philippines. These include weak LAM system, outdated and ineffective land use planning and regulations, increasing informality in major urban centers, and weak and highly politicized property taxation and valuation practices which negatively impact the financing for urban development.

6.2.1 Weak LAM System

Overall, the Philippines rates poorly compared to other middle-income countries in Asia in terms of quality of land administration, as measured by the Quality of Land Administration Index (QLAI).²³⁹ Among countries in East Asia and the Pacific, the country performs better only compared to Indonesia and Cambodia. Next to Indonesia, the Philippines has the poorest rating in terms of reliability, while it is only better than Cambodia in terms of transparency (Table 5.1).

Table 6.1 Quality of Land Administration Index by Region for Selected Asian Countries

REGION/COUNTRIES	RELIABILITY	TRANSPARENCY	COVERAGE	DISPUTES	TOTAL
Maximum Score	8	6	8	8	8
East Asia and Pacific	2.9	2.2	3.2	4.6	2.9
Philippines	1.0	3.0	4.0	4.5	1.0
Republic of Korea	8	4.5	8	7	8
Singapore	7	4.5	8	7	7
Vietnam	5	3	0	5	5
Indonesia	0	3.5	0	5	0
Cambodia	2	0.5	0	5	2
Europe and Central Asia	5.9	3.6	3.8	6.2	5.9
Latin America and Caribbean	3.2	2.5	1.1	4.6	3.2
Middle East and North Africa	3.7	1.9	2.6	4.4	3.7
High Income: OECD	6.8	3.6	6.3	6.0	6.8
South Asia	1.3	1.5	1.5	3.4	1.3
Sub-Saharan Africa	1.6	1.8	0.7	4.3	1.6

²³⁹ Hilhorst, Thea and Frederic Meunier, eds. 2015. How Innovations in Land Administration Reform Improve on Doing Business:

Table 6.2 Roles of Agencies and LGUs in Land Administration and Management

AGENCIES/LGUS	ROLES
Department of Environment and Natural Resources (DENR)	Undertakes cadastral surveys, reviews and approves subdivision plans, issues first time titles through administrative process, manages public domain, and processes proclamations on government lands
Land Registration Authority (LRA)/ Registry of Deeds (RoD)	Registers titled properties and transactions on these, reviews and approves subdivision plans, issues judicial titles; reconstitutes lost titles
National Commission on Indigenous Peoples (NCIP)	Issues Certificate of Ancestral Domain Titles (CADTs) and undertakes survey and delineation of ancestral domains
Department of Agrarian Reform (DAR)	Issues Certificate of Land Ownership Awards (CLOAs), undertakes survey; reviews and approves applications for land conversion (agricultural to urban use)
National Housing Authority (NHA)	Issues Special Patents on areas proclaimed for socialized housing
Department of Finance/Bureau of Local Government Finance (DoF/BLGF)	Issues valuation standards, monitors LGU tax collections, supervises Treasurers
LGUs	Conducts property valuation and tax mapping, collects real property taxes, prepared comprehensive land use plans, undertakes investments in land management and development, land parcel inventory, mobilization of land for informal settler families (ISF)

A number of interrelated issues affect LAM in the Philippines. First, there are multiple agencies involved in land administration with considerable overlapping of mandates and fragmentation of institutional responsibilities. There is also lack of coordination and information sharing among these agencies, which result in gaps or overlaps in land records, existence of multiple titles on the same land, and fake and spurious titles. These, in turn, increase the transaction costs in securing, registering and transferring property rights and undermine investor confidence in the titling system.

Second, incomplete cadastral surveys have resulted in many unresolved conflicts and boundary disputes among LGUs. Examples include between barangays and cities in Metro Manila as well as in other cities across the country. This has resulted in governance issues in affected areas – such as inconsistent taxation, conflicting land uses, unclear responsibilities in service provision, and erroneous computation of national government transfers.

Third, the huge backlogs in titling in the face of rising land values pose challenges for cities in proper land management and have constrained investments in

property development. Based on a 2004 study, there is an estimated 11 million untitled parcels in the country, representing some 46 percent of the total. This situation has also contributed to incomplete tax base for real property tax collection efforts; underdevelopment of high growth areas; encouraged informal transactions on land,

thereby resulting in lost capture by property owners of market values, and by the government of the appropriate levels of taxes and fees. Estimates of titled and untitled parcels in the National Capital Region, Cebu and Misamis Oriental provinces are as follows:

Table 6.3 Estimates of Titled and Untitled Parcels²⁴⁰

PROVINCE/DISTRICT	TOTAL PARCELS	TITLED PARCELS	UNTITLED PARCELS	% UNTITLED
Metro Manila/National Capital Region	1,549,636	1,389,904	159,734	11.33
District 1	233,627	210,264	23,363	10.00
District 2	569,981	536,514	33,467	5.87
District 3	306,948	245,559	61,390	20.00
District 4	439,080	397,567	41,514	9.45
Cebu province, including Cebu City	1,281,533	476,912	804,622	62.79
Misamis Oriental, including Cagayan de Oro city including Cagayan de Oro city	288,115	131,062	157,053	54.51

Source: AusAID and World Bank. Land Tenure Study

Fourth, slow registration of titles and processing times in completion of transfers, mortgages, and securing clearance from the Bureau of Internal Revenue (BIR) has affected city performance in the cost of doing business. These processes are lodged with national government agencies, and have affected city competitiveness as investment hubs. In the cities studied, these steps take up between 66 to 90 percent (24 out of 36 days and 74 out of 81 days) of the time required to complete these processes.

The issues discussed above have undermined the robustness of the land market in major cities. The presence

of disputes, imperfect rights, unclear ownership and overly bureaucratic processes have prevented the development of available lands including patches of prime lands in the city centers, encouraged illegal settlements and contributed to growing informality. Investors in search of land have to spend additional time and cost to validate ownership of properties and/or confirm titles through expensive judicial processes. There is no systematic accounting of the system failures though the economic impact is likely to be huge. Box 5.2 illustrates a few examples of how these issues affect the functioning of land markets and efficient allocation of land in urban areas.

²⁴⁰ PA-LAMP. September 2004. Land Tenure Status Report. Book 1-Results. Prepared by Land Equity International, with assistance from AusAID.

Box 6.2 Examples of Land Administration and Management Deficiencies on urbanization

In a high profile case involving several upscale subdivisions in Quezon City, investigations are ongoing regarding a dispute with the landowners claiming to have the mother title to these properties.²⁴¹ Similarly, there have been cases of duplicate and fake reconstituted titles issued after a fire at the Register of Deeds. At the National Government Center in Quezon City and nearby barangays occupied by informal settler families (ISFs), land syndicates exist, making misrepresentations about the property owner and exacting payments from poor communities for the right to stay.

In Mandaue City, the fire that gutted the Registry of Deeds has resulted in thousands of lost title records, and owners are now only relying on tax declarations as proof of ownership. The cost of reconstitution is high ranging from Php 50,000 to Php 100,000 per parcel depending on the value, which is way beyond the affordability levels of most landowners. As a rapidly developing city, land transactions are based on tax declarations, with the new owners shouldering the cost of reconstitution, which could take months or years to complete. This deprives the original owners the benefit of exacting current market values for their properties, and also result in delays and additional costs in property development.

In Cagayan de Oro city, a national developer is facing legal challenges after a claimant of Spanish title surfaced after the company started land development for a middle class subdivision. There are areas which are the subject of two surveys approved separately by LRA and DENR. There are also reported cases of multiple titles (certificate of land ownership awards, Free Patent, and transfer certificate of title) issued on the same parcel. Based on estimates of the City Assessor, about 3-5% of prime lands are problematic (interviews with City Officials). Issues like these delay development, and could cause costly legal battles, if not resolved. Based on interviews with Brokers and Property Appraisers, large developers would go to great lengths at validating the reliability of records, by tracing back the origin of titles and ownership to three past previous owners, as well as the origin of the title from the approved subdivision plans.

In Cebu City, the city government has put on hold its plans to develop part of the reclaimed property called the Campana Maritima because of the objection filed by the Cebu Ports Authority (CPA) claiming that they should have the right to the property. The property is located right at the back of the City Hall offices, near the 300-hectare South Road Properties (SRP). Its commercial value has increased following recent developments in the SRP, where mixed-use developments are ongoing. While both the CPA and City Government are interested in the development of the property as a maritime heritage museum, developments cannot proceed due to the ongoing dispute. A good portion of the property is now being used as a parking space – which is not an efficient use of this highly valuable land in the City center.²⁴²

At some point, the Philippine Exporters Confederation, Inc. of Cebu has suggested the temporary use of a portion of Campana Maritima to ease the port congestion in Cebu International Port (CIP). The situation has delayed shipments, with an estimated loss of USD 15,000 per shipment.²⁴³

²⁴¹ "Senators on land titling mess: Garbage in, garbage out". Ayee Macaraig, Rappler. Published 8:00 AM, November 01, 2011; Updated 1:29 PM, November 02, 2011.

²⁴² Michelle Joy L. Padayhag. CPA: No war with Cebu City. Cebu Daily News. July 12, 2015. (<http://cebudailynews.inquirer.net/63202/cpa-no-war-with-cebu-city#ixzz489HQ8nWr>).

²⁴³ Michelle Padayhag. Traders Losing Business Due to Port Congestion. Cebu Daily News. February 5, 2014. (<http://cebudailynews.inquirer.net/16862/exporters-cry-over-abandoned-containers#ixzz489KvvUUC>)

6.2.2 Outdated and Ineffective Land Use Planning and Regulations and Weak Implementation

Land use plans provide a set of rules concerning land use and directly affect land value, which is related to its development potential. Land use is intertwined with land property rights as the latter reflect the right to extract the value of the land based on how land can be used in economically productive and socially acceptable manner²⁴⁴.

Effective land use plans support efficient urban activities, facilitate livability of the urban environment, and direct overall city development. In the Philippines, LGUs are mandated by the Local Government Code to prepare a CLUP enacted through a zoning ordinance, and to develop a comprehensive development plan. The capacity to carry out this mandate and level of compliance vary across LGUs in the country.

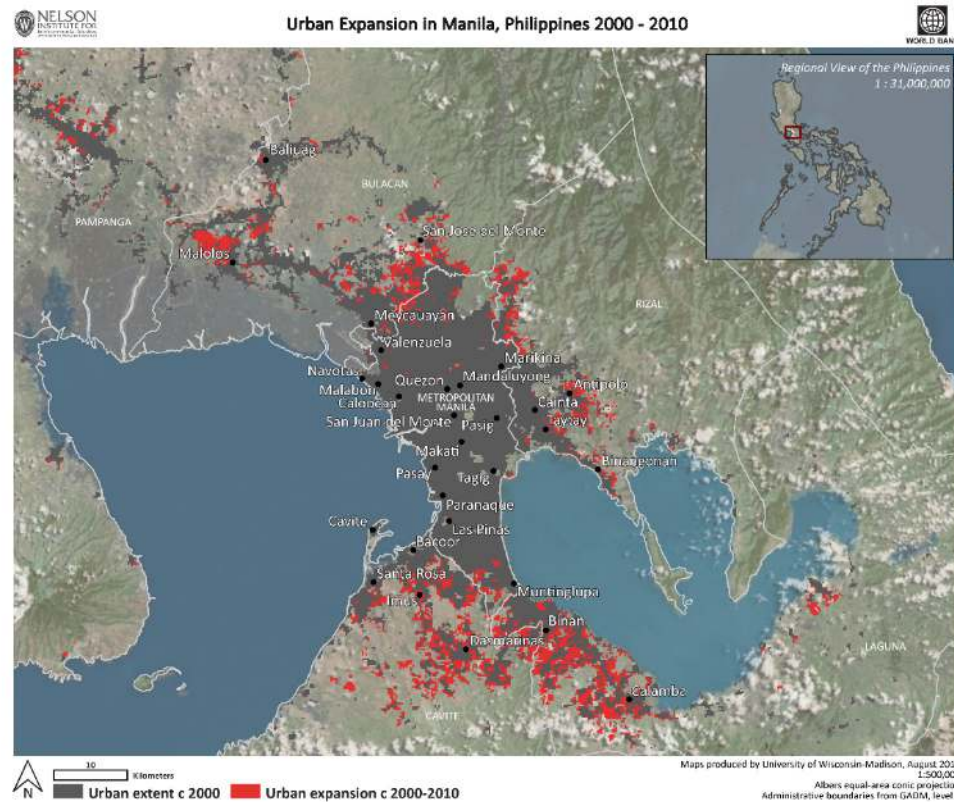
Many LGUs have not been able to update their CLUPs. For example, in Metro Manila, only five out of 17 LGUs have updated CLUPs with varying timeframes for implementation. In the case of Cebu City, the CLUP has not been updated since 1980. Many CLUPs also reflect outdated and inappropriate planning principles, approaches and parameters.

Implementation of CLUPs is likewise weak. Urban growth and spatial development are happening in an ad hoc manner and with limited regard to the CLUPs. The reality on the ground is that national government infrastructure



projects and private sector investments are providing the default lead in driving land use changes and spatial development. Thus, instead of guiding spatial development in cities, CLUPs are “updated” to accommodate changing patterns and demographics rather than the other way around. This set up makes the city residents vulnerable to private interests at the expense of general public welfare. In addition, integration of land use planning among LGUs in metropolitan areas has been lacking and this has compromised efficiencies in infrastructure and service provision across cities including transport and traffic management, and flood management, among others. In Metro Manila, the sprawl has expanded the development towards nearby provinces, thereby compromising efficiencies and optimization of benefits of agglomeration. In 2010, the built up area in Metro Manila already covered 85 municipalities and cities in seven provinces.

244 Corpuz, Arturo. Land Use Policy Impacts on Human Development in the Philippines. HDN Discussion Paper Series 2012/2013, No. 1.

Figure 6.2 Urban Expansion in Manila

In the absence of updated CLUPs as the basis for zoning, applications for land development have been entertained on a piece meal basis, resulting in the so called “spot zoning”. Review and approval of development permits have been discretionary. This has created opportunities for improper practices, as the review process has become discretionary. In some cases, the private sector has benefited from this flaw at the expense of general public interest. Needless to say, this has also resulted in haphazard development of the city without reference to any planned urban form.

Despite the above, there has been a rapid densification process in Metro Manila, mainly as a result of policies on location of industries (such as business process outsourcing (BPOs) into high rise buildings) as well as the growth of mixed use residential and commercial enclaves that replaced lands vacated by these industries. This happened, however, at the time when the sprawl had reached an extent that it has become too inefficient for the commuting public to reach their work places. Coupled with increasing demand for high-end dwellings that are near the city centers, the city has seen prohibitive land prices, set against an artificial scarcity of land.

Rationalizing urban development in Metro Manila would require the combined efforts of both city and national governments to maximize the benefits of agglomeration, and catch up with service provision.

6.2.3 Increasing Informality in Major Urban Centers

The growth of ISFs in Metro Manila and major urban centers has partly been the consequence of inadequate LAM system, weak planning and ad hoc spatial development. For the period 2007-2011, the growth rate of ISFs reached 7.3 percent, consisting of more than half a million households, representing a quarter of the Metro Manila population. In addition to governance issues in the housing sector, affordability and disconnect of ISF formalization programs with urban development, constraints in land mobilization has been identified as a major obstacle.

There is limited access to reliable land information and no up-to-date inventory of ISFs. More reliable data on ISF, their characterization, typology of land they occupy, the status of their quest for land and housing and degree of service provision hinder the development of an effective program to serve their needs. In the same way, the absence of publicly accessible information on land that is reliable and up-to-date has been a main constraint to the identification of land for possible resettlement sites, mobilization of private and government lands currently occupied by ISFs, and resolution of issues affecting already proclaimed lands.

Limited land availability, tenure options and housing rights. Rapid property development has jacked up land prices which has limited the affordability of low income ISF. There is over reliance on freehold as the only land tenure



option, due in part to absence of laws and good practice examples of alternatives.

Absence/weak implementation of planning guidelines and standards for social housing. The current guidelines, embodied in Batas Pambansa 220 (BP 220) apply to economic housing with the intent of encouraging private sector participation in housing provision. In the absence of more specific policies, this law has been employed for social housing as well, making it highly unaffordable. More specifically, the current framework is limited mainly to development of new sites (off-site) and regulatory process designed for private sector developers and government. Other emergent housing solutions and approaches do not fit within this framework. Its implementing rules do not encompass planning guidelines to encourage development of flexible and affordable solutions for and by the ISFs. Finally, the guidelines of BP 220 are not very appropriate for community-initiated/self-help housing projects, which is the usual mode of site improvement



by ISFs due to affordability issues. These factors have made it increasingly unaffordable for ISFs to comply with formalization requirements.

Difficulty in mobilizing government lands for ISFs. There are a number of associated issues here. First, the current procedures for issuance of Special Patent on government lands is very cumbersome, involving about 16 steps in many agencies and taking as long as 20 years to complete. Second, there have been many instances of Proclamations issued on government lands that cannot proceed because of issues with overlaps and inappropriate lands designated for use, among others. Many of these issues have persisted for a long time with no clear resolution in sight, affecting thousands of families. Third, the absence of clear guidelines on administration and disposition of proclaimed lands has prevented many ISFs from benefitting.

The above issues were exhaustively reviewed in the course of preparations for the Housing and Urban Development Summit in April 2016, involving many stakeholders, and where solutions have been agreed to address the issues and are incorporated in recommendations (Section 5.4).

6.2.4 Ineffective Property Taxation and Valuation Practices

Revenues from real property constitute the most secure source of income for local governments since these are stable and immovable, and increases in value over time, as assessments are kept up-to-date with increases in land values. Such incomes are important sources of revenues to improve service delivery, finance vital infrastructure projects, among others.

The average Real Property Tax (RPT) collection by all LGUs in the Philippines stood at only 31 percent of total local revenue collections in 2014. This is lower than the average RPT collection for middle income and high income countries, which stood at 35.5 percent and 37.7 percent, respectively. In terms of share in GDP, RPT collection only represents 0.35 percent in 2013. This has declined from 0.45 percent in 2000. RPT collection of LGUs as proportion of GDP is lower than those in European Union countries, which averages at 0.8 percent, but is around the average for low and middle income countries of 0.4 percent. LGU performance in this area is far below what is achieved by the United Kingdom (3.4 percent), France (2.4 percent) and Denmark (2.1 percent). This suggests the considerable potential that LGUs have in increasing revenues from property taxation, which could finance investments in local infrastructure and service delivery.

The factors behind the low RPT collection include the following:

LGU assessment rolls are not complete, undermining their ability to collect proper taxes from real property. This is due to assessors' over dependence on property owners reporting details of properties; the practice of under-reporting the value of sales transactions by the owners; weak capacities in RPT system maintenance, and lack of diligence in tax map maintenance. A related issue here is the lack of sharing the land related information among agencies and LGUs.

In many cities in Metro Manila, Metro Cebu and Cagayan de Oro, property assessment for tax purposes are not based on market prices and schedule of market values are not updated regularly. The wide gap between the recorded values and the market prices is due to the use of and reliance on the understated values submitted by property owners as the basis of valuation, the LGUs' use of outdated methodology for determining the schedule of market values (SMVs), and LGUs' poor record in regularly revising their SMVs thus rendering the recorded values outdated and obsolete.

On the other hand, regular updating of SMVs in accordance with the law is constrained by lack of LGUs' political will, fearing political backlash that may perversely impact on its tax collection. There are, however, good practices on how such impacts can be cushioned by adjusting the tax rates, particularly in ensuring more equitable tax burden among property owners.²⁴⁵

Box 6.3 Impacts of Outdated SMVs

Cities miss up to Php 20.3 Billion in RPT when they use outdated SMVs and are not aggressive in tax collection.

Of these, about Php 15.9 Billion are foregone in 51 metropolitan areas and highly urbanized cities.

The Php 20.3 Billion can fund:

- 298 sanitary landfills
- 451 transport terminals
- 1,015 satellite health centers; and
- 2,929 low cost resettlement projects

Source: BLGF. Undated. LGU Taxation and Revenue Practices. (blgf.gov.ph)

On the whole, the lack of sanctions for not following Local Government Code provisions on SMV updating does not compel local governments to perform this mandated task. The Department of Finance has found a way to fill this gap by publishing a LGU Scorecard called "Iskor ng Bayan" (Country Scorecard) which rates local governments according to their performance of financial management and revenue raising responsibilities. This has somehow encouraged some Local Executives to take action, as the campaign touches on the LGU competitiveness spirit. It has also been undertaking capacity development programs which has allowed a limited number of LGUs to update their values using international standards for valuation.

Despite these efforts, the task remains daunting as the number of cities and provinces have to have innate capacities and sufficient motivations for regular updates every three years. Clearly, the impact has been reduced opportunities for local governments, particularly rapidly growing cities, to translate increasing property values into local revenues for improved service delivery.

245 For example, among REGALA LGUs, a Tax Impact Study was conducted to determine the potential effects of updated values on RPT payments to property owners of different property classes. The results were used to develop various options for assessment so that owners of low-end properties do not necessarily share the bulk of the tax burden. In the end, the choice is left to the cities and stakeholders to determine the best combination of assessment levels that will help achieve the budgetary goals of the city, and yet is more equitable. Public support is also important, and this was sought by identifying the major programs where the proceeds of increased tax collections will be used. See Box on Tayabas City in the technical paper on Land Administration Management.

6.3 Recommendations



The weak LAM infrastructure including the land information system has created substantial inefficiencies in the land markets and has contributed to inefficient property valuation and taxation. These in turn limit the capacities of LGUs to finance local infrastructure investments and leads to poor land use planning that yields sub-optimal urban growth and spatial development. But the most glaring manifestation of these issues perhaps in the proliferation of informality in cities across the country. The current state of land policies, systems and processes suggests the need for fundamental reforms if the Philippines aims to optimize the benefits of urbanization for economic growth and poverty reduction. Suggested reforms include the following:

Strengthen the LAM System

- Integrate LAM functions of LRA and DENR-LMB to reduce horizontal overlaps in the delivery of LAM services. Improving institutional clarity of functions and duties would improve efficiency in service delivery, enhance access to complete, reliable and up-to-date land records, develop confidence in land registry, and reduce opportunities for improper practices.
- Establish a unified land information system within cities. This will enable a full inventory of all interests on a given parcel and “cleanse” all claims that are not properly authenticated. This system could be based on data from RoD, LMB, DAR, LGUs, and serve as the backbone of a land tenure improvement program and up to date property tax and information system, which should be pursued by LGUs to provide a source of reliable property with secure rights and data on prevailing market values of land.
- Further to recommendations 1 and 2, develop a national spatial data infrastructure (NSDI) or data interoperability system that will facilitate exchange and sharing of land records among agencies and make these more accessible to the public. This would require digitization and automation of land records, and integration of fiscal, legal, and geographic records

Box 6.4 Improving Land Administration Quality in Republic of Korea

In the Republic of Korea, lack of accurate spatial information on land undermined the ability to implement urban plans and to capture for public benefit some of the gains from enormous land value increases associated with rapid urbanization and industrialization. This led to formulation of a national master plan for GIS development, followed by open and interoperable standards to govern production and sharing of information, simplification of land use regulations that were too complex to be implemented transparently, and institutional change to eliminate duplication and include other players such as the Ministry of Justice. In view of high costs (about USD 415 million), implementation was sequenced to start in large and medium cities where demand was strong and the potential benefits highest. While meticulous checking of all the country's 37 million land plots required a huge commitment of human capital, the resulting system now provides the basis for all urban planning, land administration, public land management, valuation and taxation, and zoning in development planning. It substantially reduced corruption and increased transparency of processes. For the 2007–11 period alone, an annual cost savings of about US\$200 million was realized. The Republic of Korea is now expanding service delivery, while adapting to the growing use of mobile devices by clients, and integrating land administration in the overall e-governance program to better serve the business community and promote economic development.

on land rights with joint or linked information systems. Interoperable information infrastructure has been widely applied in OECD countries and in Eastern Europe and Central Asia region. Capacity-building and training in legal and technical procedures, information technology, business planning, and customer service, among others would be necessary to sustain the system.

- » Considering advances in digital technologies, future land administration and management systems may likely be built on 3D city models and incrementally progress towards the adoption of 3D registration, valuation, planning, and permitting, among others. Some countries such as China and Australia are now developing prototype systems and undertaking pilot trials. This may be worthwhile to explore in the future.

Update and Improve Land Use Planning and Regulations

- Develop a metropolitan wide land use physical planning framework that takes into account future requirements for space, economic activities and function. This should be accompanied by area master plans that provide more detailed analysis and guide for development of identified enclaves in the metropolis. It should also provide for complementation of roles of different cities and coherence of the overall urban form. The Manila Green Plan 2030 can be used as the starting point. The private sector should be part of this process of developing the long-term vision, as they have important roles to play in its realization. Based on the framework plan, there should be incentives for the updating of citywide CLUPs and Zoning Ordinances. In case a metropolitan governance framework is set up; land use monitoring and compliance to zoning ordinance should be part of its tasks. This work should



be independent of city LGUs, and the best institution to handle this should be a strengthened oversight metropolitan authority.

- Prepare a metropolitan- wide plan to support implementation of projects aimed at maximizing the benefits of agglomeration, in the areas of transport, environmental management, sewage, and other urban infrastructure. Such a plan could be led by the National Economic Development Authority (NEDA), through its Regional Development Council (RDC) for the National Capital Region (NCR), working with the metropolitan authority. These programs should be in support of the physical framework plan for the metropolitan areas, clearly distinguishing the projects to be implemented by the LGUs, and those to be carried out by national agencies. A review of comprehensive development plans of city LGUs should be made in order to maximize complementation between these two investment programs. The investment program

should have a private sector component, to maximize their participation in urban development, in a way that is fully aligned with the collective vision for the metropolitan.

Address Increasing Informality in Major Urban Centers

- Establish a program on integrated land and ISF information system for NCR (for ISF- and other related programs) and subsequently for the rest of the country. The intent is to establish an office with dedicated funding, resources and timetable to undertake inventory of existing tenure status of ISFs and prepare citywide land tenure improvement plans. The office shall also be in charge of identifying available land for ISFs for in-city resettlement and on-site development, establish infosystem link between government agencies and LGUs, make land information more accessible to all users, and take measures to institutionalize land data-sharing between and among LGUs and NGAs including IRR of Sec. 209 of the Local Government Code. Such an office can be established under the new Department of Housing and Urban Development (DHUD) or in relevant agencies such as DENR or HUDCC but with strong collaboration with other stakeholders involved in social housing.
- Undertake a systematic or city-wide approach to tenure improvement of ISFs, following the inventory of ISFs, the type of land they occupy, and their specific circumstance with respect to the property. On the policy side, other tenure options and forms of land

mobilization should also be pilot tested – usufruct, long term leases, land sharing – based on international best practices, and corresponding policies developed for wider application. See Box 6.5.

- Formulate new planning and building guidelines and standards that will strengthen a more holistic approach to planning and implementation of shelter and settlements development for ISF communities. It should also encourage involvement of broader range of stakeholders, especially including ISF communities, in settlements and shelter planning and implementation. The guidelines and standards should be more flexible and appropriate, in order to encourage generation of affordable housing solutions and technologies adaptive to current housing situation and existing programs. The new guidelines should also be able to : (a) guide the planning and implementation of on-site development projects; (b) allow for incremental development of sites and housing construction; (c) promote and encourage alternative technologies; (d) allow for conditional non-spatial compensatory measures in site/subdivision planning especially for on-site development; (e) consider disaster resilience and adaptation in planning and design; and (f) provide parameters that would aid ISFs and other implementers in selecting appropriate and affordable housing solutions. In parallel with the above, it is important to establish coverage and timeframe of the guidelines, especially for onsite development, so as not to encourage further illegal occupancy; hence, the need for a database and mapping of all existing ISF occupied areas.



- Implement a shelter program to systematically help ISFs secure property rights and provide serviced land with core houses – through a systematic “citywide community upgrading strategy” rather than ad hoc project-based approach that fails to reach scale. ISFs have also expressed the need for capacity-building / community development similar to the successful Community Organization Development Institute (CODI)’s Baan Mankong social housing program in Thailand, as well technical support for land use and shelter planning and financing for infrastructure development. The latter is seen as incentive for LGUs to take on the responsibility for shelter provision as provided by law.

Improve Property Taxation and Valuation Practices

The problems with the property taxation and valuation practices are severely limiting revenues for financing local investments in urban development. Addressing these would require a combination of short and long –term interventions:

- Strengthen LGU capacity on property valuation and taxation. The BLGF has issued the national valuation standards and the Manual for Real Property Appraisal, Assessment and Operations. Cost effective forms of delivery of capacity building include: (i) learning by doing through coaching and mentoring; (ii) accreditation of service providers to ensure greater coverage. Likewise, strengthen BLGF oversight and monitoring of LGU Treasurers to ensure the administrative and judicial remedies are utilized, to improve tax collection and collect delinquent
- Review options obliging LGUs to update their SMVs based on market values. These include: provision of incentives to those who will abide by the mandatory general revision; and the establishment of a National Valuation Authority which will be responsible for approving the values. In the long term, work towards the establishment of central mass valuation system that provides fair and timely estimates of property and taxation values

payments. Administrative measures include: (i) computerization of tax records to update and cleanse the system (ii) conducting regular field inspections on properties; (iii) re adjustments on assessments resulting from field inspections; (iv) monitoring of delinquencies; and (v) applying the administrative and judicial recourse in the collection of delinquent payments.

Box 6.5 Assessment of International Experience in the Use of Alternative Tenure Options for Mobilizing Land for ISFs

Category 1 - Incremental Servicing as a Key Strategy

Similar to Cordoba and Brasilia, the Philippines can adopt the incremental servicing scheme as a holistic strategy for slum upgrading within the context of urban development. Applied in the Philippine context, these could be used in idle lands, forfeited properties resulting from auction of delinquent properties, or in government owned lands that are occupied by ISF.

Tenure security in this sense is undertaken as part of the package of urban development, similar to the Sites and Services Improvement program, and the Zonal Improvement Program. These are also consistent with the UDHA and the Urban Land Reform Law. This would require strong partnerships between the LGUs, NHA and the HOAs, in order to deliver services in an incremental manner, and to allow also the incremental housing development. Flexibility in the implementation of BP 220 is therefore key, as well as the combined effort of LGUs in service provision, and the SHFC, LGUs and other sectors in financing.

Box 6.5 Assessment of International Experience in the Use of Alternative Tenure Options for Mobilizing Land for ISFs (cont.)

Category 2 - Instruments which can contribute to improvement of existing tenure arrangements.

These represent those where similar features exist in the Philippines, but which can be improved based on good practices offered by the experiences of other countries:

Communal Tenancy (Colombia) and Setting up of Community Land Trust (Kenya)

The existing CMP can be improved by having an intermediary, such as an NGO or a HOA federation to set up a CLT to buy and develop properties into socialized housing units for low income dwellers. This is currently practiced by such NGOs as Gawad Kalinga and HABITAT for Humanity. This would spare the HOA or community organization from the difficulties associated with going through the complexities of acquisition, subdivision planning and other bureaucratic procedures to avail of funds and individualize the parcel. This process however, could be long and would therefore require commitment to see through its completion.

Right now, the CAs/HOAs are left to themselves to understand the intricacies of land research, negotiations, and putting together all the requirements for loan approval and eventual subdivision. In the absence of an NGO, this role can be done by the SHFC, provided it considers broadening its mandate as facilitator for development of ISF communities.

Private land rental schemes (Anticreto of Bolivia and Private Land Market of Thailand)

Although temporary, securing formal lease agreements with owners of privately held properties could provide relief from the constant danger of eviction. These leases however, should be registered with the LGU in order to protect both parties, and ensure compliance with conditions.

The lease agreements can serve as interim instrument in the meantime that negotiations with the owner and processing of loan applications are being worked out.

Fixed Period State Grant (Botswana)

This is similar to usufruct, except that unlike the certificates of ownership (COR) that is associated with FPSG, usufructs cannot be mortgaged or used to apply for loans. Moreover, the COR is just a temporary tenure instrument that can mature into FPSG. The FPSG is then registered with the local registry, which provides an added form of security to the holders.

This scheme remains an option open to LGUs and NHA provided these are applied on government owned lands, and/or the government does not want to give up the ownership of property.

Urban Housing Permit (Burkina Faso)

This is similar to the Certificate of Land Allocation (CELA), which was issued as a form of interim tenure to occupants of publicly owned A and D lands provided they meet the minimum conditions. This form of instrument or CELA, can provide security of tenure in the meantime that the occupant has not yet fully satisfied the conditions required for the title to be issued – such as the 10 year possession.

To be a stronger instrument however, this needs to be recorded and registered at the DENR, LGU and RoD.

Box 6.5 Assessment of International Experience in the Use of Alternative Tenure Options for Mobilizing Land for ISFs (cont.)

Category 3 - Instruments that are worth testing given existing policies

This set of instruments pertain to those that have potential to improve schemes where there are existing policies, but implementing procedures are largely undeveloped. These would require pilot testing and then preparation of detailed guidelines based on experience.

Zona Especial de Interesse Social (ZEIS) and Concession of the Real Right to Use (CRRU) in Brazil

Special land development and regulations can be applied by LGUs in areas identified in APDs. Since there are no available tenure instruments that can be given to occupants of APDs similar to the CRRU of Brazil, the LGU can provide temporary administrative recognition thru certificates of occupancy, in the meantime that acquisition of privately owned portions of APDs are being worked out. In case the APD falls on government lands, the NHA can apply for Proclamation or the LGU may apply for Special Patent, and then the properties can be disposed to occupants either through usufructs or individual titles.

Housing cooperatives in South Africa

The strength of the cooperative law can be tested to develop housing cooperatives to secure titles and mobilize land. Existing HOAs can be transformed into coops provided there is joint interest to set up the entity. For the members, this could mean having their own investments in property development, which they can recover once they have the means to move out of the coop once their socio economic conditions improve. The combined support of CDA, NGOs, HOAs, LGUs and shelter agencies would be essential to pilot such a scheme.

Land Readjustment in Benin

This is similar to the reblocking scheme applied in on site development, except that under reblocking, there is minimal dislocation; and that under land readjustment, the resulting lay out and plan is more structured and conforms better to standards and provision for service areas.

This would require however, high level of commitment of the individual households and trust in the resulting land readjustment scheme. Furthermore, support from the government (LGU or NHA) should be forthcoming to facilitate surveys and development of facilities and service areas for the communities. The advantage is that the resulting lay out blends better with the urban fabric, reducing the extent of blight.

In the same vein, the operative law would be PD 1517, except that there have been no example to speak of, nor implementing rules developed for this purpose.

Source: Eleazar, et. al. June 2016. Understanding Land and Related Constraints in the Provision of Housing for ISF in Metro Manila. Final Report submitted to World Bank. (Undertaken through Land Governance, LGL, Inc.)

Annexes

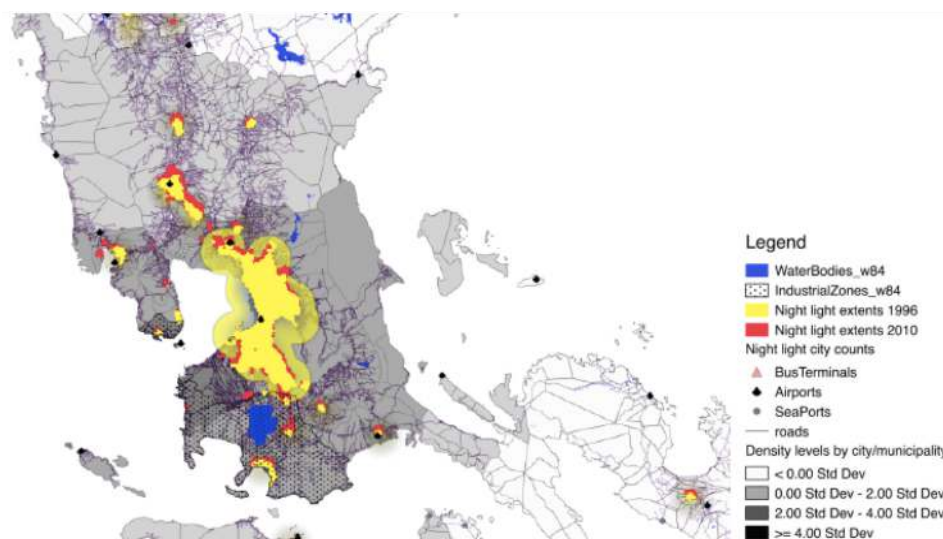
Annex 1: Methodical Details and Full Results of the Econometric Analysis

Table A1: Analytical Framework and Metrics

	LANDSCAPE	GEOSPATIAL	SPATIAL STATISTICS	ECONOMIC
Density	Night light counts	Population density Household density	Local Morans test	Night light intensity Income levels
Division	Number of neighboring (contiguous) neighbors	Port connections variable Volume of roads in boundary	Contiguity-based spatial weights	Regional economic characteristics
Distance	Smoothing using area size - Urban land expansion	Weighed avergae proximities (to neighbors, ports, major cities, highways, etc.)	Distance-based spatial weights	

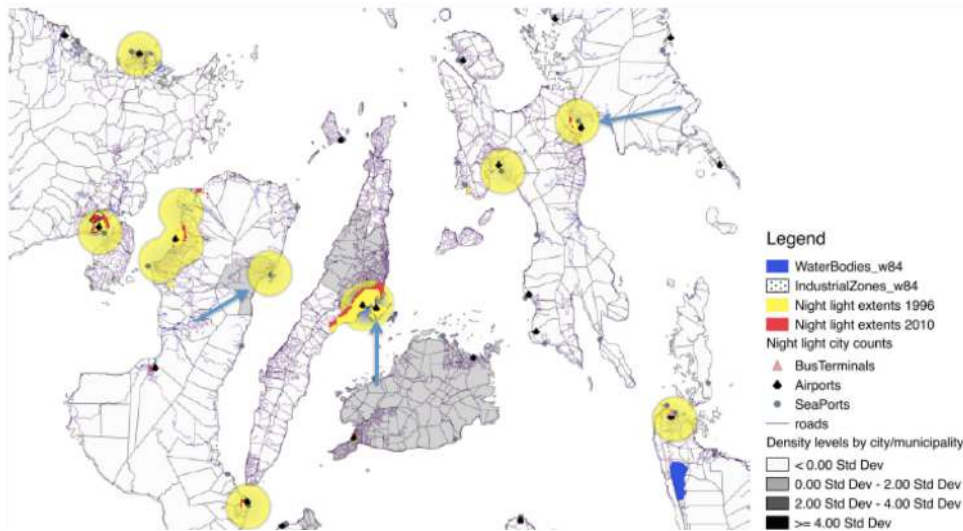
Source: Author's elaboration; metric categories from (Reis et al., 2015)

Map A1: Metropolitan Manila Agglomeration



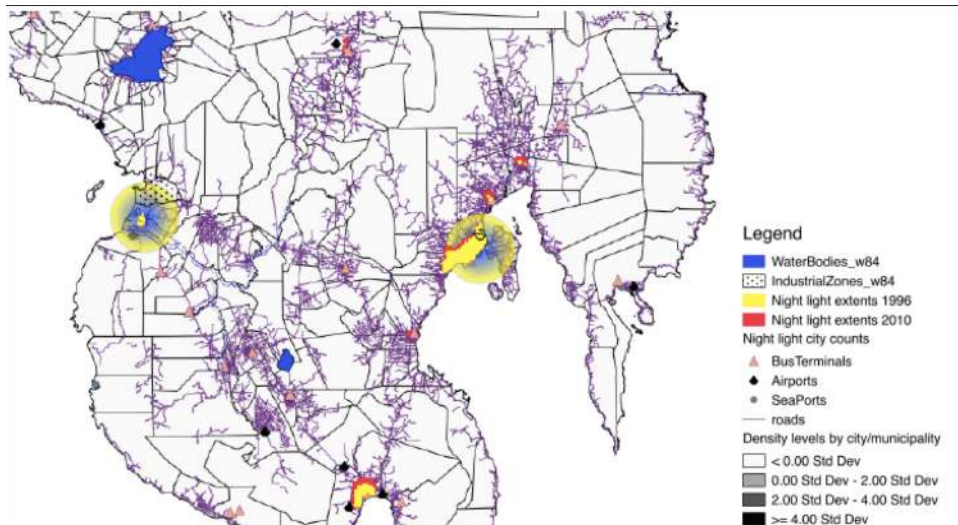
Source: Author's elaboration; data from Philippines Statistics Authority (2015) and World Bank (2015b; 2015c)

Map A2: Spatial Distribution of Economic Production Centers and Connectivity Infrastructure Near Cebu



Source: Author's elaboration; data from World Bank's "Spatial Patterns of Development in SAR" project (P153150); mapping using QGIS and ArcMap.

Map A3: Spatial Distribution of Economic Production Centers and Connectivity Infrastructure Near Davao



Source: Author's elaboration; data from World Bank's "Spatial Patterns of Development in SAR" project (P153150); mapping using QGIS and ArcMap.

Annex Box 1 The City Wedge Framework

“City wedge” analysis helps identify the capacity of the city to design and implement competitiveness policies. The extent to which cities can effect private sector development conditions varies a lot from city to city. At the highest level this can be illustrated through differences in resources available to cities in different countries: for instance in China cities account for 50% on public sector expenditure, while in Mexico they only account for 7%. However the availability of financial resources is not the only factor that define the leverage that cities have over the conditions that drive competitiveness “City Wedge” helps identify the advantage a specific city has over its development fundamentals. It help understand how city can grow it’s leverage and identify the policies that are realistic for cities within its current mandate and capacity.

“City Wedge” encompasses three elements: public-private growth coalitions, city government mandate and capacity, and inter-governmental networks. Grouping various initiatives, this way enables city leaders to understand the levers for economic development at their disposal. How a city uses these levers can vary depending on circumstances. The key is to utilize all three points of leverage to, open opportunities and avenues to strengthen cooperation in achieving common goals and tackling common problems:

- Public-private growth coalitions refers to collaboration between public sector agencies and diverse external stakeholders, including civil society, in planning and implementing interventions to foster improvements to the business climate and the strategic visioning of economic development. Public private dialogue (PPD) is one approach to structuring such public-private interactions (Sivaev and others 2015, 4, 6).
- City government refers to a city government’s ability to impact economic development, which depends on its legal mandate as well as financial autonomy, and capacity in terms of human resources and internal management processes. (Figure 1)
- Inter-governmental networks refer to the interdependent relationship cities have with national and regional governments in pursuing economic development. A city’s public and private sector leaders often need to leverage the support of higher-tiers of government or neighboring jurisdictions to approve or finance major infrastructure projects. Cities can benefit from nationally sponsored initiatives. Moreover, cities collaborate with different regions to strengthen economic linkages and collaborate in complementary industrial sectors.

Source: based on World Bank (2015). “City competitiveness”.

Figure 1 The City Wedge Framework



Source: Gashi D. Atkins J. (2015) A user's guide to Implementing City Competitiveness interventions

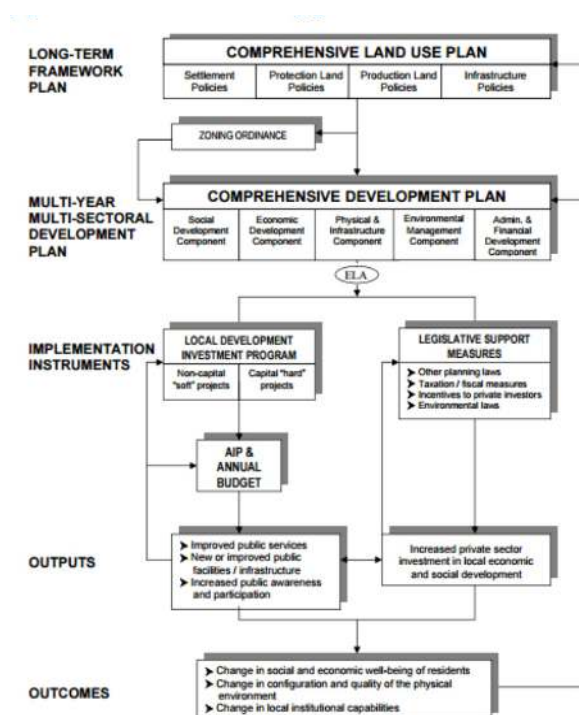
Annex 2: National vs Regional Mandate in Regulating the Business Environment

In the Philippines, subject to certain limitations prescribed under the 1991 Local Government Code and other national laws, local governments have the remit to regulate commercial activities, provide investment support and industrial research and development services. According to the Constitution, the national government can only supervise local governments to ensure that they do not exceed their powers. As a result, national government initiatives to institute uniform standards and best practices in cities cannot be imposed top-down. National initiatives should be implemented with buy-in from the local governments, which requires considerable time and effort.

National agencies retain responsibility over their local branches' procedures whereas local agencies maintain their own procedures. Thus, coordination between national and local governments is crucial to the process of reducing the burden on local entrepreneurs. For example, steps in registering a business involve obtaining clearance and certificates from local branches of national agencies as well as certificated and permits issued by the local government itself.

Source: The World Bank

Figure 2 Local Planning Process in the Philippines



Source: Bureau of Local Government Development (2008) Rationalizing the Local Planning Process

Annex 3: Bayawan and Legazpi Cities: Good Practice Examples of LGU Initiated LAM Reforms in the Philippines²⁴⁶

Bayawan City

This LGU is considered as the “poster boy” of LAMP2 ISF and REGALA. Under the second phase, its work focused on: (i) approval of SMV and preparations for general revision; (ii) preparation of area master plan based on approved CLUP; (iii) expansion of titling activities; and (iv) operationalization of its One Stop Shop (OSS).

In the process of doing the above, the City continued to strengthen its LAM interagency coordination mechanism through the Steering Committee. Its continued access to records of RoD and DENR, which was established during the first phase of REGALA, enabled it to continue its routine database build up and updating, and preparation of additional map overlays. It also shifted to Version 2.5 of eTRACS, to enable the LGU to avail of added features and functionality. These are all consistent with the LAM Medium Term Development Plan (MTDP) which was prepared and approved by the Council during ISF LAMP2.

The PMU was finally able to secure City Council approval of its revised SMV through Resolution No. 489 No. 24 series of 2015 only on June 8, 2015. This took longer than expected, as there has been a turnover of leadership due to the untimely death of the sitting Mayor, and his replacement by the Vice Mayor. It did not help that the elections are forthcoming, and there were apprehensions that there could be a backlash if RPT is increased at this time. It took several meetings and the intervention of no less than the Project Director, Grant Manager and finally

the BLGF Executive Director to explain to the City Council the difference between the technical process of valuation and the political process of taxation.

At the time of evaluation, the City is set to publish the revised SMV. The general revision, through updating of assessment levels and taxes due are also ongoing through the updated version of the eTRACS. Given the mandatory periods of generation and distribution of notices, it is expected that the notices will be sent out in 2016, and full implementation can be realized in January 2017. The LGU is also updating its GIS based tax map, to capture the adjusted values and assessment levels for the parcels.

It is estimated that implementation of the revised SMV will bring in an additional RPT income of Php 21.02 Million. Assuming however, that collection efficiency will not improve from the current rate at 40%, the incremental revenue gain is estimated at Php 8.41 Million.

The SMV was informed by a Tax Impact Study, which looked at various options to cushion the impact of updated values on net payments for RPTs. These options include:

- Policy Option 1 – Reduction in the Assessment Levels (Residential: from 20% to 8%, Commercial & Industrial: from 50% to 32%; Agricultural: from 40% to 24%)
- Policy Option 2 – Reduction of 10% in all Assessment Levels (Residential 10%, Commercial & Industrial 40%, Agricultural 30%) and Reduction in Basic Tax rate from 1.5% to 1%

²⁴⁶ Taken from sections of the Monitoring and Evaluation Report: ADB/JFPR REGALA Phase 2, by F.C. Eleazar. (prepared for Land Equity International, in association with Land and Governance Innovations, Inc.) December 2015.

- Policy Option 3 – Option 1 and Reduction in Basic tax rate from 1.5% to 1%
- Policy Option 4 – Reduction in the Assessment Levels (Residential 10%, Commercial & Industrial 45%, Agricultural 20%) and Reduction in Basic tax rate from 1.5% to 1%

The adopted option (Option 3) involved:

- Biggest reduction (60%) in assessment level was given to residential properties.
- Assessment level for agricultural properties was reduced by 40%;
- For commercial & industrial properties assessment levels were reduced by 36%;
- Lesser reduction was given to income generating properties.

The application of assessment level was across the board (same assessment level from R1-R5). The percentage increase/tax impact is higher in R1-R3 (same with C1-C3) because higher valued properties register the most increase in values based on market evidence.

Figure 2 illustrates the tax impact of the revised SMV on residential and commercial properties in Bayawan City. Note that the higher valued properties (R1-3, and C1-3), are expected to shoulder a great proportion of the tax burden compared to properties that have lower values (R4-R6, C4-C6). The impact therefore is greater equity in sharing of tax liabilities.

Table 2 Impact of the Proposed SMV on Residential and Commercial Properties' Taxes, Bayawan City

Old Sub Class	NEW sub-Class	AREA (SQ.M.)	Tax Due Under Current SMV	Tax Due Under Proposed SMV	Tax Impact	Percent Tax Increase
R-1	R-1	95,382	286,146.00	715,365.00	429,219.00	150%
R-2	R-2	220,613	606,685.75	1,378,831.25	772,145.50	127%
R-3	R-3	222,186	555,465.00	1,110,930.00	555,465.00	100%
R-4	R-4	1,821	4,097.25	6,828.75	2,731.50	67%
R-5	R-5	851,835	1,703,670.00	2,129,587.50	425,917.50	25%
R-6	R-5	1,003,441	1,505,161.50	2,508,602.50	1,003,441.00	67%
R-7	R-6	781,436.59	781,436.59	976,795.74	195,359.15	24%
			5,442,662.09	8,826,940.74	3,384,278.65	
C-1	C-1	99,634	1,793,412.00	3,985,360.00	2,191,948.00	122%
C-2	C-2	1,760	30,976.00	61,600.00	30,624.00	99%
C-3	C-2	16,875	286,875.00	590,625.00	303,750.00	106%
C-4	C-3	22,172	354,752.00	665,160.00	310,408.00	88%
C-5	C-4	16,295	228,130.00	407,375.00	179,245.00	79%
C-6	C-5	26,902	322,824.00	403,530.00	80,706.00	25%
C-7	C-6		-	-	-	
			3,016,969.00	6,113,650.00	3,096,681.00	

Source: Bayawan City Powerpoint Presentation to the TA Completion Report Workshop, September 28-29, 2015. Hotel Jen, Manila.

On DRRM and CCA, the workshop series have been completed, and thematic maps and overlay analyses undertaken. These paved the way for the identification of hazard risks and assessment of vulnerabilities, which revealed that flooding pose the highest risk. With a one meter sea level rise scenario, it is expected that a large portion of the city's existing built up area will be inundated. Thus, its updated CLUP called for the development of a new government center following the core plus ring spatial development strategy. Other elements of the CLUP consist of coastal development to also serve as seawall, expansion of commercial area away from the flood prone zone, and the creation of new residential areas in upper barangays to minimize the impacts of flooding. The strategy also considered minimizing the conversion of existing agricultural areas into residential and commercial zones, so as not to compromise agricultural development and livelihood of small farmers, who are mainly beneficiaries of agrarian reform. Copies of the plans produced by Bayawan City through the REGALA are shown in Figure 3.

On Land Tenure Improvement and OSS, the city continued its earlier SATM work, this time expanding to two teams. By the end of September, Bayawan has covered six more barangays, bringing to 16, the total number of barangays covered through titling. A total of 2,816 public land applications have been generated as a result, with 2,170 patents issued to date. The registration of patents has slowed down due to the computerization effort of the Registry of Deeds (RoD), which required the mandatory projection of deeds at the Central Office before these are released. This process took an average of two months, compared to only a few days before the computerization set in. In addition, landowners had to pay additional Php 1,200 – 2,000 for computerization fee, which counterbalanced the hard efforts made by the LGU and DENR to bring down the titling cost to minimum of Php 150 and to simply annotate the survey cost on the title.

Figure 3 Plans Produced by Bayawan City Through REGALA²⁴⁷



247 Source: Bayawan City Powerpoint Presentation to the TA Completion Report Workshop, September 28-29, 2015. Hotel Jen, Manila.

The City's effort to operationalize the OSS encountered further challenges, as it was realized that more funds would be needed to establish connectivity not only to the newly constructed building but to the entire New Government Complex. To address this, the City plans to realign its budget and rework the estimates given by the Engineering Office to ensure the commissioning of OSS in 2016. The building was designed to house the Assessors Office, the DENR Community Environment and Natural Resources Office (CENRO), and representatives from the Dumaguete RoD.

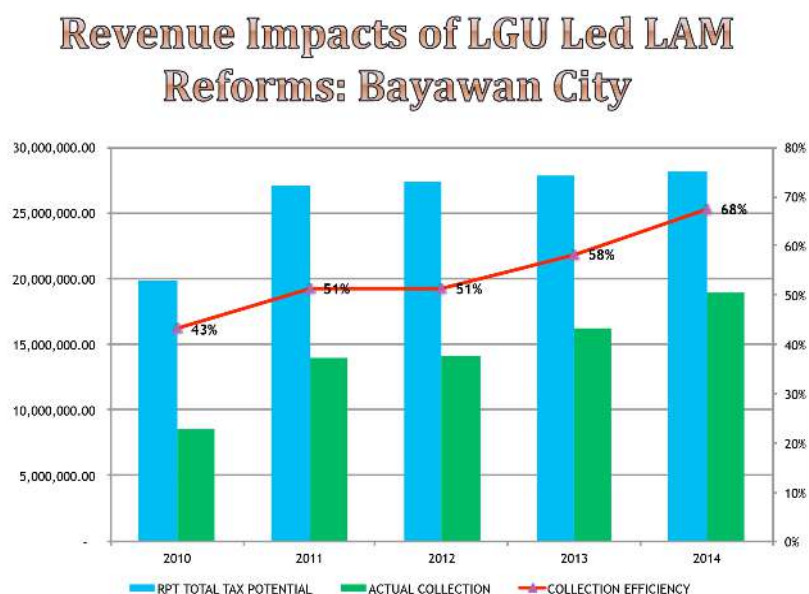
The combined results and impacts of the above LAM interventions are as follows:

- Increased RPT collections by 38% (from Php 13.8 M in 2011 to Php 19 M in 2014) due to increased valuation (2007 GR implemented), improved assessment and tax collection campaign;

- Increase in RPT collection efficiency by 25% (from 43% in 2010 to 68% in 2014) due to improved detection of delinquencies, sending of notices/ tax campaign, LGU-led land tenure improvement initiatives;
- Increased budget allocation for socio economic development programs and services in 2011-2014 (average of PhP 287 M or 48% of total budget); and
- Sustained partnerships with NGAs particularly DENR on LTI – SATM work.

In addition to the above, Bayawan City has been a frequent destination of other LGUs willing to learn more about their model of LAM governance. In Negros Oriental province, the DENR has started to roll out the DENR-LGU LAM partnership using Bayawan City as the example.

Figure 4 Revenue Impacts of LGU led LAM Reforms Bayawan City, 2010-2014²⁴⁸



²⁴⁸ Source: Bayawan City Powerpoint Presentation to the TA Completion Report Workshop, September 28-29, 2015. Hotel Jen, Manila.

Legazpi City

This LGU is also a recipient of LAMP2 ISF and REGALA support. Under the second phase, it expanded its LAM Steering Committee to include the regional offices of BLGF, BIR, DILG, NEDA and HLURB. In addition, it created an IT Division under the City Management Office to handle the growing information systems need of the LGU.

It continued the operations and maintenance of its LAM system through the enhanced eTRACS, as well as the build up of digital cadastral database at DENR for the Legazpi cadastre. It should be noted that the DENR records for the city is not complete due to misplaced records, as well as missing cadastral and subdivision plans. These information are being used to develop more attribute layers for risk mapping, tax mapping and land use planning.

Legazpi city's revised schedule of market values was approved by the Council through City Ordinance No. 0021-2014 dated 28 November 2014. Currently, there are ongoing general revision activities at the City Assessor's Office, with effectiveness targeted in 2016. (Tax effectivity of new values in Jan. 2017)

From the 2008 Revenue Code of Legazpi, they further reduced the assessment levels of residential lands from 15% to 8%, commercial lands from 40% to 15% and agricultural lands from 30% to 5%; while maintaining the 1.5% basic real property tax for residential and agricultural lands, buildings and other structures, and 2% basic RPT for industrial and commercial lands, buildings and other structures as well as on mineral lands, timberlands, special classes of real properties and machineries.

The approved SMV ordinance also provided for the gradual application of the assessed values. About 50% shall be implemented for the first three years (2017-2019), and the remaining 50% for the next three years (2020-2022).

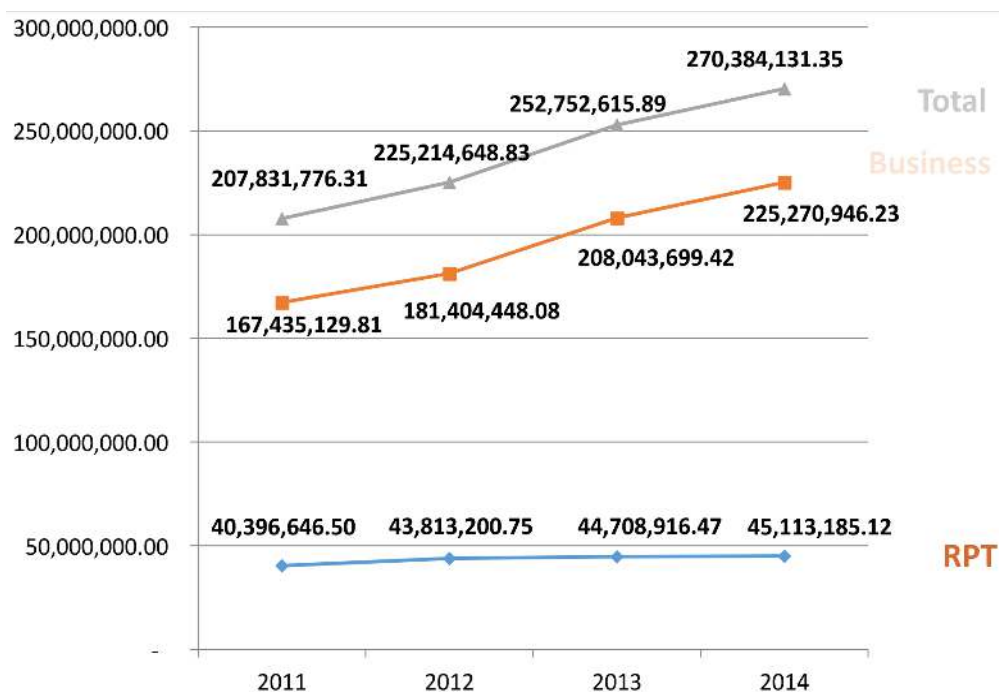
The city's area master planning was designed to deflect development concentration from locating in environmentally critical areas, in order to achieve the vision specified in the CLUP – “a new city center with richness of open public spaces and parks”. Legazpi is exposed to many forms of hazards and risks – volcanic eruption, flooding, erosion, and earthquake. Two areas were subjected to master planning: (i) greenfield development which involves eight barangays covering an area of 5,145 hectares; with a total population of 9,500 households; and (ii) brownfield redevelopment in 45 urban barangays covering an area of approximately 2,000 hectares. These areas are subject to geological hazards (liquefaction, ground subsidence), and impacts of climate change (storm surges, flooding and tsunami). The Terms of Reference (TOR) for area master planning was presented to the Mayor and the Legazpi City Planning and Development Council (LCPDC) in July 2015 and subsequently endorsed for inclusion in the City Medium Term Public Investment Plan (MTPIP) and Annual Investment Plan (AIP).

Legazpi city's land tenure improvement planning produced land tenure and titling status in two pilot barangays with information on delinquencies, gender, land use, land values, tenure and titling status and transactions. A Technical Working Group (TWG) on Land Tenure Improvement, created through an Executive Order serves as the main unit responsible for this activity.

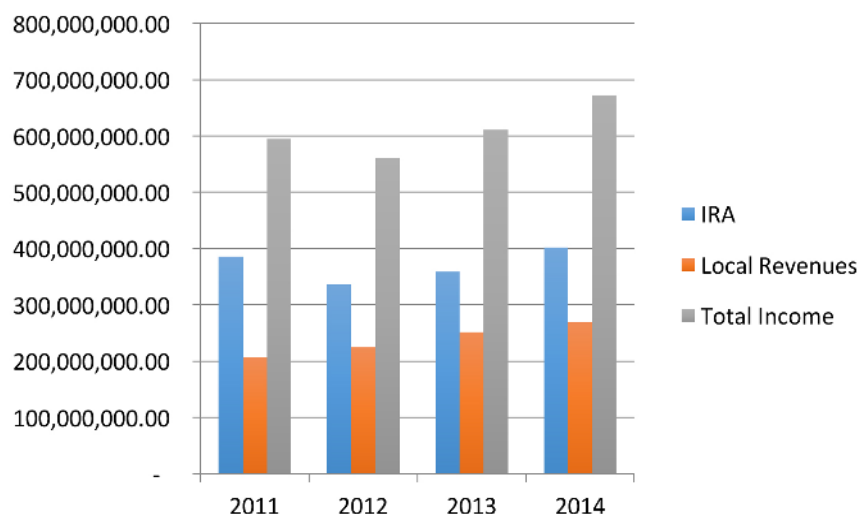
The following results and impacts were seen from the work of Legazpi over years of interventions from LAMP2 ISF to REGALA 2:

- Continued increases in city revenues from land tax and LAM agency service provision as a result of utilizing LAM technology to automate tax assessment and collection (ETRACS) & to support risk assessment, land use planning, & socio-economic development (GIS) and LAM inter-agency coordination and collaboration. From 2011-2014, there was a 4% average annual increase, while business taxes and fees increased by an annual average of 10% (Figure 5). As a result, the IRA dependency of Legazpi city declined from 65:35 in 2011 to 60:40 in 2014 (Figure 6).
- Reduction in time and cost to deliver LAM services, most notably in the issuance of new tax declaration from average of two days to two hours. This was brought about by utilization of LAM technology to automate tax assessment and collection (ETRACS)

Figure 5 Local Revenue Collection Trends in Legazpi City, 2011-2014²⁴⁹



²⁴⁹ Source: Legazpi City powerpoint presentation to the TA Completion Report. Sept 28-29, 2015. Hotel Jen, Manila.

Figure 6 Share of Local Revenues to Total Revenues, Legazpi City, 2011-2014

A notable achievement of Legazpi is its contribution in the replication of LAM technologies to other LGUs in the region. The success of Legazpi has motivated the provinces of Masbate and Catanduanes to seek their technical assistance in installing similar systems in their LGUs. It may be recalled that towards the end of ISF, Ligao city was also a recipient of technical assistance from Legazpi in training and installation of the basic version of eTRACS. The modality is to forge a MOA between the province and the city of Legazpi, which specifies the tasks and obligations

of the recipient. The City of Legazpi on the other hand, provide training and subsequent visits to provide coaching to provincial staff on installation and operation of basic e TRACS. The requesting province shoulder transportation, accommodation and honoraria to Legazpi staff during such visits, following the Budget Circular issued by the Department of Budget and Management (DBM). Coaching sessions are scheduled based on availability of Resource Persons from Legazpi City.



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