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Toward a Strategic Urban Development and Housing Policy for the Philippines

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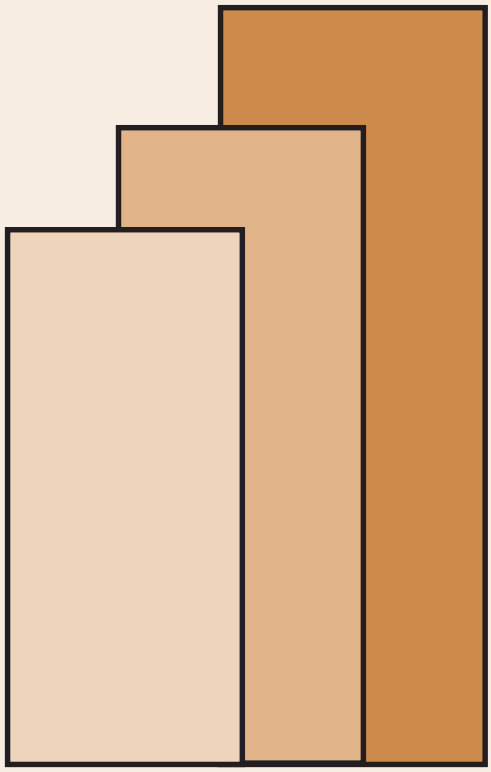

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ABSTRACT

Philippine cities provide the highest levels of service and living standards in the country. Much of what happens to the country in terms of production and employment, income and consumption, and access to basic services and amenities will continue to be determined by the performance of its urban system. Overall, however, the Philippines is characterized by its lack of urban competitiveness. Although its urban areas account for an overwhelming majority of national economic growth, they have also been underperforming relative to their potentials and other cities in East Asia. In particular, the urban system is plagued by high transaction costs and production inefficiencies; lack of infrastructure and service facilities; inability to attract significant amounts of investments; outmigration of talent; diminishing competitiveness of its primary international gateway and service center (Metro Manila); lack of financial resources; g) high poverty incidence; deteriorating urban environment; and weak governance. Addressing these problems is not easy or simple. Invariably, however, it is rooted in (1) improving the competitiveness of the urban system, (2) addressing urban poverty and (3) housing problems, (4) building sustainable communities and (5) improving governance specifically, strengthening the role of local governments in managing the environment and in ensuring the sustainability of communities.

Keywords: Urban development, Housing Policy, Philippines

Towards A Strategic Urban Development and Housing Policy for the Philippines[1]

Benjamin Cariño[2] and Arturo Corpuz[3]

I. Introduction

One of the significant phenomena that has characterized the development process in the Philippines has been the explosive and unabated growth of urban areas. In the early part of the post-war period in 1950, just a little more than 5 million or about one-fourth (27.1 percent) of Filipinos were residing in urban areas. Four decades later, the country's urban population surged to well over 29 million, or almost one-half (48.8 percent) of the country's total population. By 2005, the urban population totalled more than 53 million, or over 60 percent of the country's population. It has been projected that about 117 million or 84 percent of Filipinos will be residing in urban areas by 2050.

The urbanization levels of the country by region show the continuing primacy of Metro Manila or the National Capital Region (NCR). The other regions that have high levels of urban populations are those adjacent to Metro Manila (Regions III and IV), which reflects a process of suburbanization and expansion of economic activities from the metropolis (Figure 1.1). Relatively high levels of urbanization can also be seen in Regions XI, X and VII where growing metropolitan areas (Davao, Cagayan de Oro and Cebu, respectively) are located.

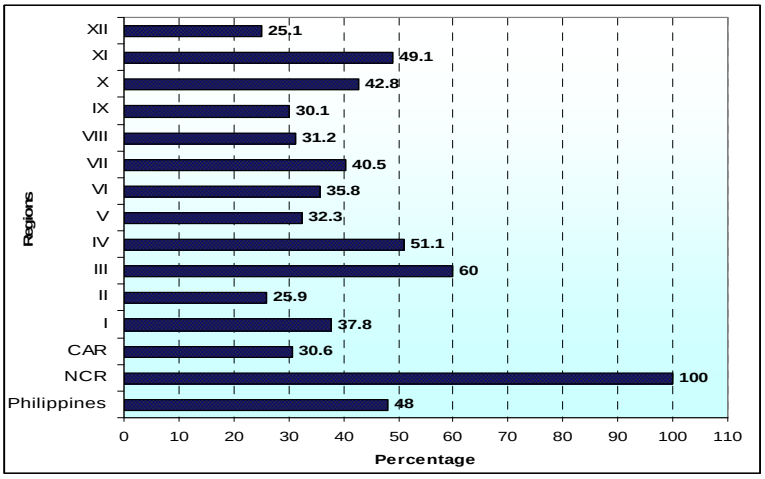

Figure 1.1: Urbanization Levels by Region, 2000
Source: National Framework for Physical Planning 2001-2030 (2002)
Note: The 2000 Census is the latest available data on urbanization levels by region in the country.

[1] This paper is based on the National Urban Development and Housing Framework written by the same authors. Research assistance of Kristine Follosco and Jasmine Egana is gratefully acknowledged.
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These trends strongly support the idea that the future well-being of Filipinos will depend largely on the performance and efficiency of urban areas. In the words of a related study, urban areas in the Philippines are “beacons of opportunity” (Webster, Corpuz and Pablo 2003). For instance, incomes in urban areas have been estimated to be 2.3 times that of rural areas. Available data also suggest that urban areas are the engines of the country’s growth, accounting for a large proportion of the country’s economic output (about 75 percent) and household expenditure (about 67 percent) (Webster, Corpuz and Pablo 2003). In 2007, Metro Manila alone accounted for 33 percent of GDP. The massive and continuing rural-urban migration flows can obviously be attributed to the fact that urban areas offer opportunities for the rural poor.

It is largely in urban areas where job opportunities are sought, socio-economic mobility is achieved, and where most innovations are introduced. The Philippines has been transformed into an urban economy where most economic activity now emanates from the service and industry sectors. At the same time, agricultural employment (including the forestry and fisheries sectors) is in absolute decline and, in recent years, employment has largely been generated by the non-agricultural sector. Thus, the prospects for overall economic growth and employment creation would seem to rest, increasingly, on the productivity, efficiency and performance of the urban areas.

And yet, the performance and efficiency of the Philippine urban system in the past several decades have not been very encouraging especially when compared with other countries in the region. There appear to be critical issues and problems that hamper the performance and competitiveness of urban areas in the Philippines. These problems relate to inadequate infrastructure, overcrowding and congestion, strained basic urban services such as health and sanitation, water and air pollution, slums and squatter settlements, poor urban land management, etc. Such problems have been compounded by weak governance and financial capacities that undermine efforts at coping with the problems associated with urban growth. At the same time, previous initiatives to enhance private sector participation and sustainability in financing urban infrastructure and services have generally produced less than satisfactory results.

The challenge for the future is to squarely address these issues and problems through a greater efficiency of the urban economy. The objective of the paper is to assess the Philippine urban economy and provide strategic recommendations to improve the functioning of the urban sector and the livability of cities. This paper is organized as follows. Section II discusses the Philippine urban system focusing on its performance and factors that drives the urban economy in the country. Section III presents the institutional environment which governs the urban economy. The last section provides recommendations and strategic action plan in the medium term.

II. The Philippine Urban System: Performance and Drivers

A. Population Growth and Regional Distribution

a. Rapid population growth and migration

Philippine urbanization trends described earlier are partly fuelled by rapid population growth. The Philippines has a total population of 89 million based on the 2007 census. The average annual growth rate declined to 2.04% in 2000-2007 from 2.34% in 1990-2000. Given the later rate, however, total population will still double in about 33 years. Table 2.1 below shows comparable population data for other countries in the region (2000-2005).

Table 2.1. Comparative Population Data

Country/ Region	2005 Pop (Mil)	2000-05 AGR	2005 Urban Pop (Mil)	2005% Urban	2000-05 Urban AGR	2000-05 Rural AGR
World	6,500	1.24	3,200	48.6	2.07	0.48
Dev Regs	1,200	0.36	900	74.0	0.61	-0.34
SE Asia	560	1.40	245	44.1	3.47	-0.10
Philippines	**85**	**2.07**	**53**	**62.7**	**3.45**	**-0.04**
Thailand	63	0.76	20	32.3	1.49	-0.42
China	1,300	0.67	530	40.4	3.10	-0.83
India	1,100	1.62	325	28.7	2.35	1.33
Indonesia	226	1.31	109	48.1	4.04	-0.92
Vietnam	85	1.45	22	26.4	3.13	0.88
Malaysia	26	1.95	17	67.6	3.69	-1.26

As shown, the Philippines has the highest annual total population growth rate (2.07%), which is well above the world's growth rate, and more than double those of developed countries as well as several countries in Asia namely, China and Thailand. The Philippines is also one of the most urbanized (62.7% urban). Its urban growth rate is also very high (3.45%), exceeded only by Indonesia in the above list.

The high growth rate of the Philippines is worrisome because it means that the number of jobs and amount of services needed annually are much greater compared to other countries. To illustrate, if the Philippines had the growth rate of Thailand, then the number of classrooms, hospital beds, length of roads, and other services and infrastructure needed to address the annual increase in demand would be less than half required by its current growth rate. In other words, an increase from 1% to 2% in the growth rate translates to a 100% increase in demand.

Together with economic growth rates, population growth is a major determinant of poverty reduction. With population growth rates in the order of 2%-3%, economic growth will have to be in the range of 7% if substantial poverty reduction is to take place. The latter is unlikely to happen in the short-medium term given the global financial crisis as well as the lack of various reform components

(fiscal, governance, planning, etc.) required to sustain significant economic growth. In any case, significant improvements in the overall quality of life in both the urban and rural areas are unlikely to take place in the absence of a continued reduction in the rate of population growth (Webster, Corpuz, Pablo 2003).

The high urban growth rate of the Philippines is similar to other countries of East Asia, which reflects both a strong natural growth pattern and rural-urban migration. It also supports the idea that while poverty is largely a rural phenomenon, cities serve to improve overall welfare and act as agents of poverty reduction. Unfortunately, the country's poor economic performance over the past decades suggests that the cities are also strained to provide job opportunities and relief to migrants notwithstanding the welfare improvements enjoyed by the latter.

As a whole, the Philippines continues to experience substantial rural-urban migration. As noted in NEDA (2002), in-migration is expected to accelerate especially in Metro Manila and its surrounding regions (Region III and Region IV), at least to the year 2020. Large urban areas in these regions have reached population and density levels that reflect significant scale and agglomeration economies. Consequently, they are expected to attract an increasing number of rural-urban migrants in the years to come.

Clearly, rural-urban migration is a major contributor to the explosive growth of urban areas. This is readily apparent in the fact that while natural increase has, over the years, been generally higher for rural areas, urban populations as a whole have increased much faster than rural populations, a trend that seems to characterize most countries in East Asia. From 1950 to 2000, urban populations in the Philippines grew at an average of about 3% compared to a much lower 1% for rural populations.

b. Hierarchy of settlements

Metro Manila remains the largest urban center in the country. In 1980, the population of Metro Manila was recorded at 5.9 million. This grew rapidly to 7.9 million in 1990, about 9.9 million in 2000, and more than 11.5 million in 2007, or easily over 13 percent of the Philippines' total population (Table 2.2). Latest figures in 2007 show that the population density of Metro Manila is more than 18,000 people per square kilometer, three times that of the city-state of Singapore and more than 60 times the national average.

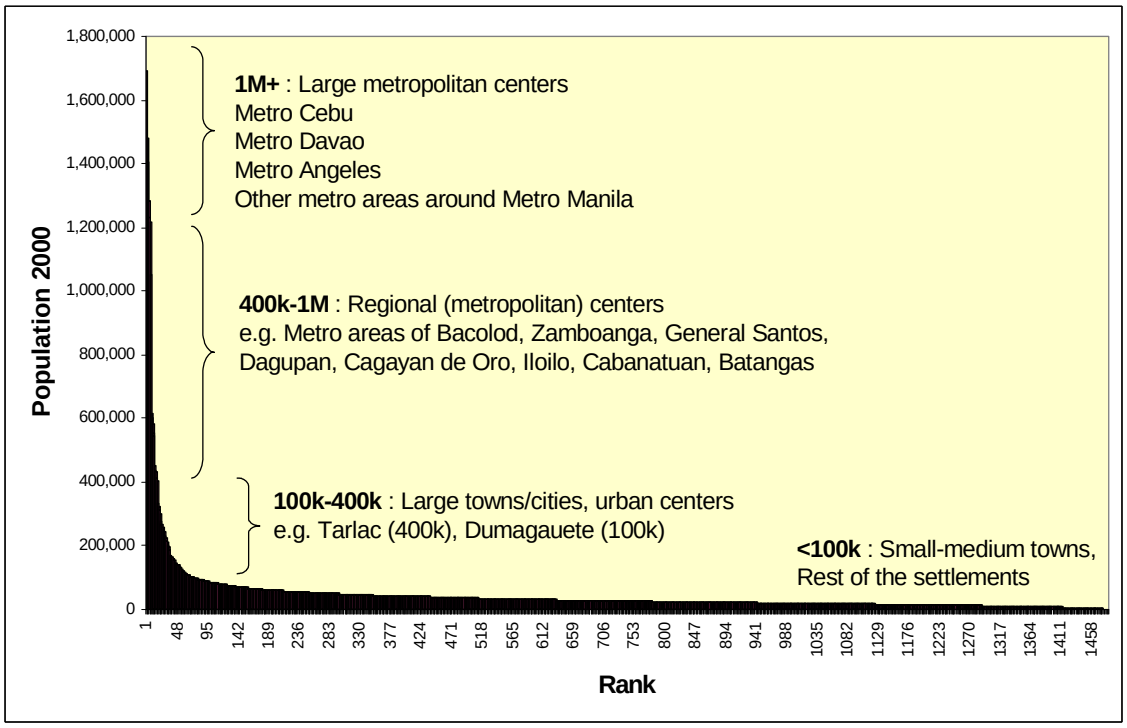
The primacy of Metro Manila is consistent with the hierarchical distribution of settlements in the country. This distribution is typical throughout the world, and although the "steepness" of the hierarchy may vary, its basic characteristic—one or a few dominant metropolitan centers, several large urban centers, and many small cities and municipalities—will not change for decades to come (Figure 2.1). This is a fundamental characteristic of the urban system which should be recognized and

accepted, and should dispel any notion that spatial equity, which refers to the equal distribution of population and other resources in space, can be achieved or should even be an objective (Corpuz 2003). For as it has been previously demonstrated, and as concurred recently by mainstream economic analysis, there is no congruence between social equity and spatial equity; i.e., growth is likely to take place more efficiently if it is unbalanced spatially but it can, at the same time, be socially inclusive (World Bank 2009).

Table 2.2. Comparative Population Growth and Density, Philippines and Metro Manila

Year	Philippines		Metro Manila		
	Total Pop	Density	Population	% Share to Total Pop	Density
1980	48,098,460	141	5,926,000	12	9,565
1985	54,668,332	161	6,942,204	13	11,206
1990	60,703,206	178	7,948,392	13	12,830
1995	68,616,536	201	9,454,040	14	15,260
2000	76,504,077	225	9,932,560	13	16,032
2007	88,574,614	260	11,553,427	13	18,650

Source: Philippine Yearbook (NSO), various years



The development of the settlement hierarchy has been paralleled by the formation of an unprecedented number of large metropolitan and urban centers. Out of 72 major urban centers and clusters in 1990, only 4 were larger than one million (Metro Manila, Metro Cebu, Metro Angeles and the Malolos-Meycauayan corridor).

By 2007, this number had doubled (including Davao City, the Bacoor-Dasmariñas corridor, the Calamba-San Pedro corridor, and the greater Antipolo area).

During the same period, the number of urban centers between 500,000 and one million had increased from six to ten, and those between 100,000 and 500,000 from 41 to 54. (Figure 2.2) This is consistent with the findings of an earlier study that current growth trends will lead to a larger number of urban centers even as the population share of Metro Manila and the top quintile cities will tend to decline in the future (Corpuz 2000).

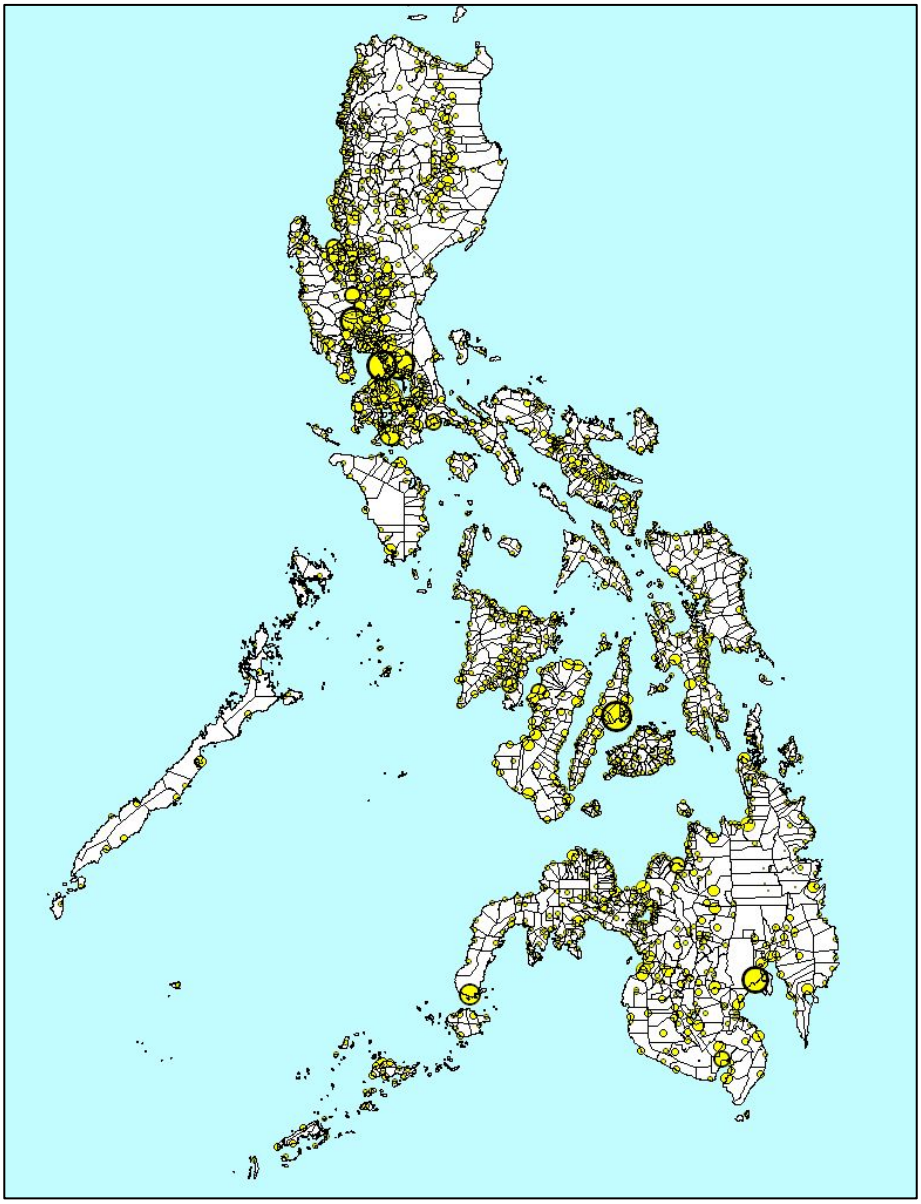


Figure 2.2. Urban Centers in the Philippines, 2007

The emergence of additional large urban centers means that there is now a larger number of areas that can support services and markets which were previously feasible only in the larger cities. Individually and as regional or subregional clusters, these cities offer greater economies of scale that can attract new investments and lead

to the introduction of various transportation, medical, educational, retail and other commercial services. The extent of these investments will also be determined by household incomes and affordability but clearly, new market opportunities will be there. (Likewise, however, the larger cities imply larger scale environmental impacts that need to be managed and suggest the urgency of sustainability and disaster mitigation measures.)

To a large extent, and despite periodic policy rhetoric about urban dispersal and decongestion, the growth of large urban centers did not involve explicit or purposeful planning intervention. Along with the rest of the urban system, these were products of demographic and economic trends, physical characteristics and constraints of the archipelago, and the decentralized institutional environment. As a whole, growth patterns may be characterized as rapid but incremental, largely influenced by the availability or lack of infrastructure, and by key catalytic investments of the private sector—in transportation projects, industrial zones, regional shopping centers, and business districts to name several.

It is also important to note that there are close to 1,700 municipalities and cities in the Philippines. The total number of cities in the Philippines has reached 120 (as of November 2008)[4]. But the official population threshold to become a city is 150,000, although "urban" continues to be defined, in part, as localities having populations of only over 50,000. In this regard, studies have shown that there could be as many as 600 urban areas by the year 2020 (ADB 1999). All in all, however, the current spatial distribution of the urban system is unlikely to be altered, especially in the short-medium term.

B. Industry, Service Sector and Tourism

Overall, the Philippine economy has fared poorly compared to its Asian neighbors. This is reflected in GDP per capita numbers since the 1970s, where the Philippines has been regularly overtaken, almost every decade, by Malaysia, Thailand, Indonesia and China (Figure 2.3).

Notwithstanding, and within approximately the same period, the Philippine economy transformed from a predominantly agricultural to an urban economy. This is

[3] On November 18, 2008, the Supreme Court of the Philippines ruled unconstitutional the Cityhood Laws (which has explicitly exempted them from the increased income requirement from PhP20 million to PhP 100 million in sec. 450 of the Local Government Code (LGC), as amended by RA 9009) converting the following 16 municipalities into cities: Baybay City in Leyte, Bogo City in Cebu, Catbalogan City in Samar, Tandag City in Surigao del Sur, Lamitan City in Basilan, Borongan City in Samar, Tayabas City in Quezon, Tabuk City in Kalinga, Bayugan City in Agusan del Sur, Batac City in Ilocos Norte, Mati City in Davao Oriental, Guihulngan City in Negros Oriental, Cabadbaran City in Agusan del Norte, El Salvador City in Misamis Oriental, Carcar City in Cebu, and Naga City in Cebu. The Court held that the City Laws are unconstitutional since Section 10, Article X of the Constitution requires that such exemption must be written into the LGC and not into any other laws (Supreme Court of the Philippines website).

evident in the increasing GDP shares of the service and industry sectors, which are primarily urban-based, expanding from 28 percent in the 1980s to 77 percent in the 1990s, and to well over 80 percent in 2000. By 2007, these sectors already accounted for 85.9% of GDP. Further, the contribution of the service sector significantly exceeded that of the industry sector, accounting for about 55% in the same year (Table 2.3). This deviates from the experience of many industrialized and industrializing countries of the world, where the share of the service sector dominated only after substantial industrialization took place.

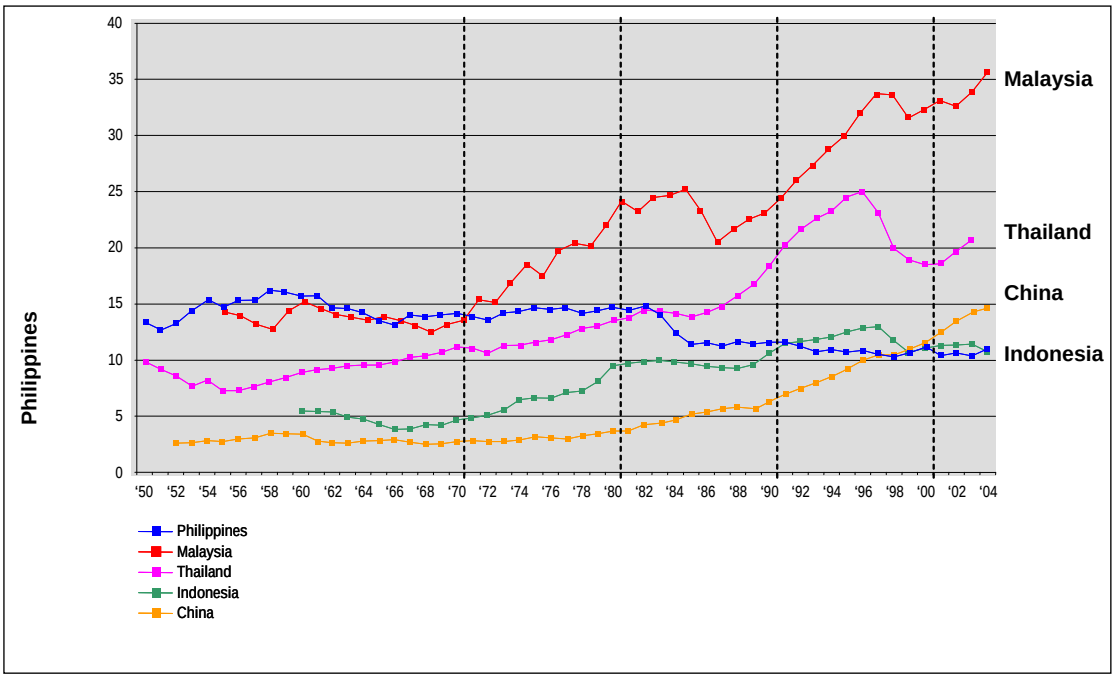


Figure 2.3: Comparative Real Per Capita GDP, 1950-2003
Source: Pernia (2008)

Table 2.3. Gross Domestic Product by Industrial Origin at Current Prices (in millions pesos)

Year	Agri., Fishery, Forestry		Industry Sector		Service Sector		GDP
	Amount	% Share to GDP	Amount	% Share to GDP	Amount	% Share to GDP	
1997	457983	18.9	779786	32.1	1188974	49.0	2426743
1998	451645	16.9	838367	31.5	1375048	51.6	2665060
1999	510494	17.1	911074	30.6	1555337	52.2	2976905
2000	528868	15.8	1082431	32.3	1743428	52.0	3354727
2001	549113	15.1	1149120	31.6	1933241	53.2	3631474
2002	598849	15.1	1261635	31.8	2103388	53.1	3963873
2003	631970	14.6	1378870	31.9	2305562	53.4	4316402
2004	734171	15.1	1544351	31.7	2593032	53.2	4871555
2005	780072	14.3	1735148	31.9	2922685	53.7	5437905
2006	855452	14.2	1907980	31.6	3269192	54.2	6032624
2007	937342	14.1	2082735	31.3	3631243	54.6	6651320

Data Source: Economic and Social Statistics Office, National Statistical Coordination Board

It is also important to note that the manufacturing and service sectors in the country continue to be dominated by small and medium size enterprises (SME), in contrast to the economic experience of more advanced countries where relatively large industries dominate. In fact, the SME sector is considered to be the backbone of the Philippine economy since SMEs account for 99.6% of all registered firms nationwide, and employ about 70% of the country's labor force (DTI 2008). A major constraint in respect to SMEs is the small volume of credit financing available. Moreover, although a number of credit facilities for SMEs exist there appear to be problems associated with the disbursement of funds. Credit utilization is relatively low, and innovative mechanisms must be considered by the government (including disbursement through non-government organizations) to facilitate and encourage access to credit.

The most promising and rapidly growing economic activities in the country are associated with the Information (and Communications) Technology (IT) sector. There are now 129 IT parks/buildings in the country. Earnings from selected IT sectors grew from US$249 million in 2001 to more than US$2.1 billion in 2005 with customer contact centers accounting for more than three-fourths of these earnings (Table 2.4). As of 2005, there were 223,500 persons employed in the IT sector, with customer contact centers accounting for the overwhelming majority (Table 2.5).

Table 2.4. Earnings from Selected IT Sectors, 2001, 2004-2005 (million dollars)

ICT Sector	2001	2004	2005
Customer Contact Center	173	864	1,600
Medical Transcription	40	483	70
Software Development	115	268	204
Animation	21	40	54
BPO			180
Total	249	1,655	2,108

Source: Philippine Strategic Roadmap for the Information & Communications Sector (2006)

Table 2.5. Number of Firms and Employees per IT Sector

ICT Sector	No. of Firms	No. of Employees
Animation*	40	4,500
BPO	60	22,500
Customer Contact Center	112	179,000
Medical Transcription	50	5,500
Software Development	300	12,000
Total	562	223,500

Source: Philippine Strategic Roadmap for the ICT Sector (2006)
*Note: 1st quarter of 2006 data, all else are as of 2005

The Philippines competitive advantage in information technology and business process outsourcing sector, is anchored on its skilled labor force, English language proficiency, competitive costs, and other factors. In 2007, the Philippine IT-BPO industry earned close to US$5 billion in export revenues, representing a world market

share of about 8% (a distant second to India's 51%), and employing about 430,000. By 2010, revenues are expected to grow by 40% to about US$13 billion, increasing market share to 10%, and employing 900,000. And while 80% of IT-BPO activities take place in Metro Manila (with Makati absorbing much of the available talent), Cebu and Angeles also have sizable IT-BPO workforces and, together with other "next wave" cities, are well poised to absorb a larger share of future growth. (Virata 2008)

The latest global financial crisis threatens to dampen demand for IT-BPO services but this may be addressed by shifting from, for example, sales support to collection services or to health care, engineering, gaming and non-voice BPO in general. Improving marketing and continued development of human resources will be key objectives. (Business World 2008; PDI 2008) Another biggest constraint to further growth is the availability of skilled personnel and this is why "next wave" cities are typically those with universities and colleges and thus have high potentials for supplying the manpower requirements of the industry. And while short term measures to improve labor skills have been initiated—English language competency training, for example—longer term prospects require major intervention in the broader structure of education in the country. This concern runs across all fields and courses of education, given that only 45% of children of schooling age finish high school and that 55% of those entering the labor force will have at most only one year of college education (Corpuz 2004). The amount and quality of education has a major impact on the quality of the urban labor force and on poverty reduction. Skills training programs need to be complemented by programs to upgrade school facilities, improve physical access to school and to keep students in school through food aid, scholarships and other forms of direct support.

The potential contribution of the IT sector to poverty reduction is, very promising. It is also useful to point out that IT-BPO activities are primarily urban-based activities and therefore reinforce the key role of cities in economic growth and poverty reduction.

Another promising sector is tourism. Tourism is the world's largest industry. In 2008, the direct and indirect impacts of the industry accounted for of 8.8% of GDP. It also provided 3.5 million jobs (10.3% of total employment) and generated about 9.9% of total export earnings (World Travel and Tourism Council 2008).

International tourist arrivals grew by an average of 7 percent per year during the past four years with international tourism receipts exceeding $900 million in 2007 (People and Planet 2008). By end 2007, a new peak was reached with over three million tourist arrivals (Figure 2.4). Inter-Asian travel is expected to remain strong despite the downturn brought about by the global financial crisis. While tourist arrivals in the Philippines have failed to keep pace with its neighbors, the potentials of the industry to drive the local economy remains strong given the leisure demands of the rapidly growing middle classes of Asia's emerging countries and the high

propensity to travel by Europe's and North America's baby boomers. In 2007, 70 million Japanese, 40 million Chinese and 6 million Koreans travelled across Asia (China Daily 2008).

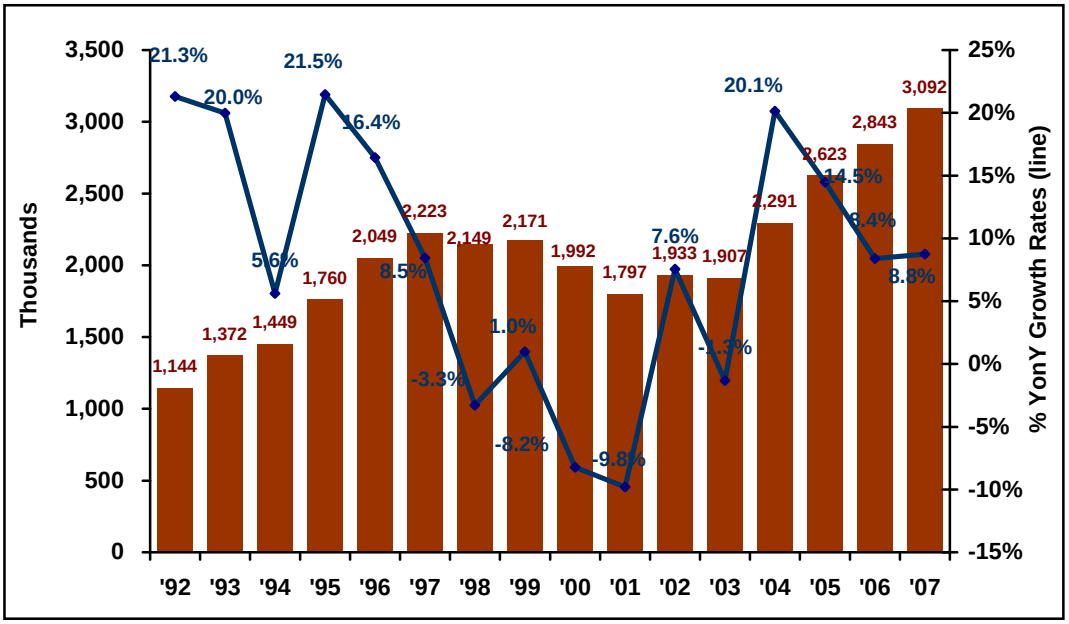


Figure 2.4. Tourist Arrivals in the Philippines, 1992-2007
Source: NSCB Economic Indicators

The Philippine government originally targeted to increase annual foreign tourist arrivals from two to five million by 2010 with an annual growth of 8%-10% but has since scaled this back to a more modest 5%-6%, targeting 3.4 to 3.6 million arrivals for 2009 (TTG Asia 2009). Whether this can be achieved remains to be seen; by end-2008 tourist arrivals from Japan, Korea and US balikbayans—the country's top tourism markets—had already declined sharply (Philippine Star 2008). In the longer term, however, as the global crisis recedes, tourism growth will be fueled by increasing global affluence, especially in China, India and most of East Asia. Major policy initiatives and investments will be required to support such growth and to address existing constraints including limited airport and hotel/accommodation capacities, land and sea travel infrastructure and services, destination upgrades, and lingering security concerns.

There is yet a lot that can be done to improve competitiveness but these will have to be done in an environment where other countries in the region have become more efficient or have surpassed the Philippines in terms of infrastructure or service support or governance and thus in attracting investments.

C. Urban Poverty and Housing

Poverty reduction in the Philippines has been modest at best with the proportion of poor families declining from 44.2 percent in 1985, to 33.7 percent in

2000 (Table 2.6) From an absolute point of view, however, the number of poor families increased from 4.6 million in 1985 to 5.1 million in 2000. Also noteworthy is the fact that following the 1997 Asian economic crisis, poverty incidence in the country rose slightly to 33.7 percent in 2000.

Table 2.6. Poverty Incidence in the Philippines

Year	Philippines	Urban	Rural
1985	44.2	33.6	50.7
1988	40.2	30.1	46.3
1991	39.9	31.1	48.6
1994	35.5	24.0	47.0
1997	31.8	17.9	44.4
2000	33.7	19.9	46.9

Source: ADB, Poverty in the Philippines: Income, Assets and Access (2005)

On the whole, the Philippines does not compare favorably with neighboring countries in so far as poverty reduction is concerned. Using the US$1 a day threshold, the data presented in Table 2.7 reveal that the number and proportion of people in poverty declined rather slowly for the Philippines from 1975 to 1995. During the same period, other countries in Asia (China, Thailand, Malaysia and Vietnam) reduced the magnitude and percentage of people in poverty at a much faster rate.

Table 2.7. Poverty in Selected Asian Countries, Summary Statistics, 1975-95

	People in poverty (million)			Head-count Index (percent)			Poverty Gap (percent)		
	75	**85**	**95**	**75**	**85**	**95**	**75**	**85**	**95**
China	568.9[a]	398.3	269.3	59.5 [a]	37.9	22.2	n.a.	10.9	7.0
Indonesia	87.2	52.8	21.9	64.3	32.2	11.4	23.7	8.5	1.7
Malaysia	2.1	1.7	0.9	17.4	10.8	4.3	5.4	2.5	<1.0
Philippines	15.4	17.7	17.6	35.7	32.4	25.5	10.6	9.2	6.5
Thailand	3.4	5.4	<0.5	8.1	10.0	<1.0	1.2	1.5	<1.0
Vietnam	n.a.	44.3[b]	31.3	n.a.	74.0 [b]	42.2	n.a.	28.0 [b]	11.9

Notes: All numbers are based on the international poverty line of US$1/person/day at 1985 prices

a. Data relates to 1978 and applies to rural China only.

b. The figures refer to 1984. "Vietnam Household Welfare in Vietnam's Transition" in Macroeconomic Reform and Poverty Reduction, edited by D. Dollar, J. Litback and P. Glewwe. World Bank Regional and Sectoral Study 1988

Source: Everyone's Miracle? World Bank, 1997, Table 4 (Orbeta, 2002)

The poverty situation is reflected in the limited access to housing of the low-income sector specifically in urban areas. The number of families living in informal settlements (or squatter) has risen to 658,080 households, 38.57% increase from the 2000 level. Most informal settlers are located in Metro Manila and in the regions with high poverty incident (e.g. Western Visayas, ARMM).

Table 2.8 Number of Families Living in Informal Settlements[a]

Place	2000		2006	
	Number	Percentage	Number	Percentage
Philippines	474919	100	658080	100
NCR	95033	20	225931	34
CAR	372	0	2256	0
Region I	5496	1	13715	2
Region II	10103	2	3241	0
Region III	24588	5	43966	7
Region IVA	28474	6	37934	6
Region IVB	17539	4	13843	2
Region V	39806	8	23871	4
Region VI	51008	11	75333	11
Region VII	35108	7	44047	7
Region VIII	32993	7	26461	4
Region IX	17433	4	30758	5
Region X	18896	4	23845	4
Region XI	28725	6	9663	1
Region XII	30286	6	32950	5
CARAGA	20027	4	16200	2
ARMM	19031	4	34065	5

Note: a. Households living in houses or lots without consent from the owners.
Source: FIES, NSO

The housing problem of the country can be appreciated by considering the total annual housing need (2005-2010 backlog plus new requirement) of approximately 625,000 units. (Table 2.9)

First, about two-thirds of the housing need comes from new requirements (natural increase plus net immigration). This means that the high population growth rate is a key contributing factor.

Second, addressing this backlog will roughly require about 3,000 hectares of land if designed to accommodate detached housing units, a prospect that suggests the need for a higher density housing strategy if the housing deficit is to be effectively addressed.

Third, there is a severe shortage in government funding to adequately address the housing requirement. At PhP200,000 per unit (as per the MTPDP), a total of PhP125 billion per year, for six years, is needed. This is a conservative amount given that about 50% of the housing requirement is in urban Metro Manila, Calabarzon and Central Luzon where the cost of land and labor is much higher than in the rest of the country. This annual amount already represents about ten percent of the total national government appropriations for 2008. (In contrast, NHA, the government agency tasked with housing production, was only allocated PhP3.5 billion or only 2.8% of the

PhP125 billion requirement. In fact, the combined 2008 GAA of all the housing agencies—HUDCC, HLURB, NHA, HGC, NHMFC—amounted to only PhP4.9 billion. Notably, the budgeted debt service payment for interest alone can cover more than twice the annual housing requirement.) The severe funding limitation of government for housing along with the rapid population growth, explains, in part, why the housing need gets bigger and bigger every year.

Fourth, the lack of government resources for housing also explains why the private sector dominates housing production in the country. Government housing accomplishment targets are only about 30% of the housing need; actual accomplishment, however, is only about 69% of target or 23% of total need (Senate Economic Planning Office 2006). Given continued limitations in government housing funds, increasing private sector participation in the housing sector is necessary if any headway is going to be made in reducing the country's housing need. And in this case, effective demand, not supply, is critical because without substantial government subsidies, the private sector will be responding primarily to housing market affordability.

Table 2.9. Housing Need Per Region, 2005-2010

Region	Annual Backlog	Backlog + New Households						
		2005	2006	2007	2008	2009	2010	Total
NCR	58,412	82,182	82,434	82,689	82,946	83,206	83,469	**496,928**
CAR	1,309	6,494	6,589	6,685	6,783	6,882	6,984	**40,416**
I	5,556	25,027	25,446	25,874	26,310	26,757	27,212	**156,626**
II	4,078	17,725	18,032	18,346	18,667	18,995	19,330	**111,094**
III	12,569	71,938	73,837	75,798	77,821	79,909	82,064	**461,368**
IV	23,827	127,872	131,742	135,757	139,920	144,239	148,718	**828,248**
V	12,267	28,288	28,557	28,830	29,109	29,392	29,679	**173,855**
VI	16,816	36,941	37,255	37,574	37,898	38,227	38,561	**226,455**
VII	10,578	45,880	46,865	47,877	48,918	49,988	51,087	**290,616**
VIII	7,281	18,766	18,940	19,116	19,294	19,476	19,660	**115,252**
IX	7,642	21,824	22,133	22,449	22,772	23,101	23,438	**135,717**
X	5,912	18,880	19,164	19,455	19,751	20,054	20,364	**117,668**
XI	11,158	41,922	42,722	43,542	44,384	45,248	46,134	**263,952**
XII	6,661	18,033	18,270	18,511	18,758	19,009	19,266	**111,847**
ARMM	5,126	22,800	23,482	24,190	24,926	25,691	26,484	**147,574**
CARAGA	5,942	12,791	12,902	13,016	13,131	13,248	13,367	**78,456**
Total	**195,133**	**597,362**	**608,370**	**619,708**	**631,389**	**643,422**	**655,821**	**3,756,072**

Source: HUDCC

D. Physical Development and Transport

a. Urban Transportation and Infrastructure

One of the most critical problems of large urban areas has to do with traffic congestion and the high cost of moving people and commodities. In Metro Manila, for instance, there were more than 1.5 million registered vehicles in 2006, representing close to 30 percent of the total number of registered vehicles in the country as a whole (Table 2.10). In the meantime, in Metro Manila as well as in the other metropolitan centers of Cebu, Davao, Cagayan de Oro, Iloilo, Bacolod, etc., no new high capacity

transit facilities (e.g. LRT, MRT, BRT) have been added to the system since the 1990s and road construction has been limited and, generally, has not kept pace with the number of vehicles. For this reason, traffic congestion has become chronic in these cities. As observed in another study (Webster, Corpuz and Pablo 2003), for example, traffic in Metro Manila moves at an average of 12 kph at peak hours, much slower when compared to such cities as Jakarta (26 kph), Shanghai (25 kph) and Bangkok (21 kph). Overall, efforts to improve public transportation service in the country's largest urban centers have been insufficient and sporadic.

Table 2.10. Number of Registered Vehicles

	2005	2006
Philippines	**5,059,753**	**5,331,574**
New	760,580	781,741
Renewal	4,299,173	4,549,833
Metro Manila	**1,580,753**	**1,555,174**
New	217,890	209,923
Renewal	1,362,863	1,345,251
% to National Total	31	29

Culled from 2007 Philippine Statistical Yearbook

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, as a whole, penalized the productivity, efficiency and competitiveness of the country relative to other countries in East Asia. Further, 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 rather than the rule during this extended period of time. Expansion of transport capacity along the northern and southern corridors to northern Luzon and towards the Bicol region, respectively, has been minimal or has actually declined with respect to rail transport.

In addition to causing higher transport costs (effectively imposing a tax on producers) and thus penalizing competitiveness, shortcomings in the regional transportation system have also caused urban growth to sprawl from Metro Manila, incrementally filling up land regardless of suitability and thus compromising environmental integrity. Opportunities to disperse development efficiently to the north and the south, similar to what has taken place along Thailand's eastern seaboard, have not been realized.

Similar development patterns have been taking place in many other areas of the country's urban system in the Visayas and Mindanao, although lesser in scale and thus attracting less attention.

b. Water Supply and Sewerage

The supply of potable water in urban areas is likewise lamentable. In 2004, only about 58 percent of households in urban areas had access to drinking water (World Health Organization, 2006). Nationally, just over 20 percent of urban households have piped water. The situation in urban areas, however, has improved in recent years. Piped water system coverage has increased from 44 percent in 1993 to 51 percent in 2003 (World Health Organization and UNICEF, 2006).

The percentage of urban households with connections to wastewater facilities is even smaller. In 2004, only about 7 percent of urban households were linked to a central sewerage collection system (World Health Organization, 2006). The overwhelming majority of the urban population rely on septic tanks which are often improperly constructed, or otherwise poorly maintained. In many cases as well, industrial establishments in urban areas have no wastewater treatment resulting in water pollution problems in many parts of the country.

E. Urban Environment Problems

a. Air and Water Pollution

Partly because of the high number of vehicles, air pollution has become a problem, at least in some parts of Metro Manila. Data from the Ambient Air Monitoring of the Environmental Management Bureau reveal that as of June 2008, NCR, on the average, registered a total suspended particulates (TSP) level of 170ug/Ncm (Table 2.11). It is important to note that while NCR's average as well as each of the city's average seem to be within the standard of 230ug/Ncm, certain parts (monitoring stations) of Pasay, Valenzuela, Manila and Makati show TSP levels that are above the acceptable standards.

Table 2.11. Pollution Levels in Metro Manila Cities

Cities	Jun '06	Jan '07	Jun '07	Jan '08	Jun '08
Pasay	326	226	277	277	276
Valenzuela	198	243	231	179	263
Manila	102	178	127	122	198
Mandaluyong	122	142	175	119	175
NPO	166	135	130	119	122
Makati	157	143	87	207	120
Quezon City	135	111	94	139	113

Pasig	82	72	144	102	96
Average	**161**	**156**	**158**	**158**	**170**

Data Source: Ambient Air Monitoring, Environmental Management Bureau

Air quality has generally deteriorated, particularly from the period June 2006 to January 2008, (Figure 2.5) despite some initiatives to counter it like the implementation of the Biofuels Act of 2007 (RA 9367), which mandated a one percent blending of coco-biodiesel. Although the Asian Institute of Petroleum Studies Inc. (Aipsi) noted that as DENR records show, there has been a 17% reduction in TSP and PM10 levels during the second quarter of 2007, and a 24.2% drop during the third quarter, more recent data from the EMB reveal that NCR's average pollution level increased by 7 percent between January 2008 and June 2008. This emphasizes that the use of biofuels is not the only aspect to consider in addressing air pollution and that other measures are necessary.

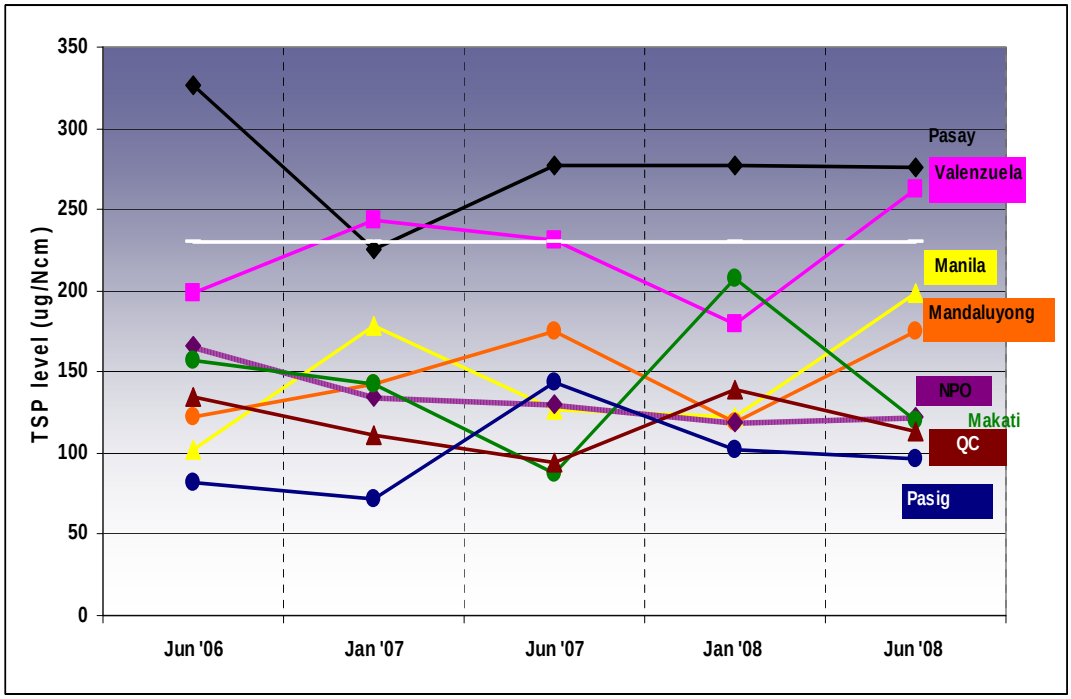


Figure 2.5. Pollution Levels in Metro Manila (June 2006 – June 2008)
Data Source: Ambient Air Monitoring, Environmental Management Bureau

A related study (Krupnick, Morgernstern, et. al, 2003) observed that the location of the Philippines makes it impervious from emissions from the western countries as well as emissions from the so-called yellow sands (loess) that affects other East Asian countries like Japan and Korea (2003). Air quality problems in the country, they deduced, are generated domestically, either from stationary (industrial plants) or mobile (vehicles) sources.

Water pollution is very evident in Metro Manila. It has been reported as early as the 1990s that all four water bodies in the metropolis (Pasig-Marikina, Navotas-Malabon-Tullaban-Tenejeros, Manila Bay, and Laguna Lake) are polluted and considered biologically dead except for the upstream portion of Marikina River. All pollutants generated in Metro Manila eventually drain into Manila Bay which has shown signs of ecological distress. Similar problems have been noted in other urban centers of the country.

b. Solid Waste Disposal

Solid waste management is a pervasive problem in most urban areas. While solid waste collection is generally more efficient in urban areas than in rural areas, waste generation also tends to be higher in cities (0.5-0.7 kg per capita versus 0.3 kg in rural areas). An extremely inadequate solid waste management program contributes to a very serious environmental problem in Metro Manila. On a daily basis in 2008, about 7,000 tons of solid wastes are generated in the capital region (National Solid Waste Management Commission). Of these, only about 700 tons per day are recycled or composted. The balance of around 6,000 tons are either (a) hauled to the city's dump sites, (b) dumped into creeks, canals and rivers, (c) burned thereby contributing to air pollution, or (d) otherwise left on streets, creating considerable health hazards.

Proper disposal of medical wastes is another challenge. ADB reported that of the estimated 47 tons of medical wastes being generated each day by health care facilities (about 3,700) in Metro Manila, more than half of it, or 26 tons are considered potentially infectious (ADB 2004). The danger lies in the fact that a considerable portion of these wastes (e.g., used syringes, infected bandages) form part of the heap of garbage one sees in open dump sites, hence posing danger to those who may come in contact.

c. Ecological Footprint

Sustainability and global climate change are increasingly becoming visible components of the mainstream development agenda to the extent that many development policies, investment portfolios and strategies of public and private sector agencies, organizations and companies recognize and support the triple bottom line—simultaneously targeting economic, environmental and social objectives—and give priority to investments in sustainable initiatives. (The ADB, for example, in its latest strategy document (Strategy 2020) has decided to refocus its operations on five core areas, one of which is "environment, including climate change") (ADB 2008). Green buildings and communities now topbill many urban and regional planning discussions and real estate fora. And various markets, especially in the developed economies, now place a premium on green products and technologies.

Sustainability and climate change are no less significant for the urban areas of developing countries such as the Philippines. There is no question that sustainable urban development makes sense, especially from a longer term, life-cycle perspective. Further, sustainability is directly relevant to the poor environmental conditions of many urban areas in the Philippines, particularly the large metropolitan areas, low-lying cities threatened by global warming and rising sea levels and other disaster-prone regions. The increasing deterioration of urban air quality, depletion of energy and water resources, inadequate waste management, worsening traffic congestion in Philippine cities, demand urgent attention and action not only for personal well being but also in support of the country's global competitiveness.

As shown in Table 2.12 below, the Philippines already has a deficit ecological footprint of about 27 million global hectares (gha). The average Filipino is consuming 61% more than its present biocapacity (measured relative to average land carrying capacity), which is higher than the worldwide per capita consumption of 31%.

Table 2.12. Ecological Footprint, Selected Countries, 2005

Ecological Footprint, 2005				
Country/Region	**Population (million)**	**Biocapacity (gha/person)**	**Ecological deficit-reserve (gha/person)**	**Ecological deficit-reserve (million gha)**
World	6,475.63	2.06	-0.63	-4,082.67
High income countries	971.82	3.67	-2.71	
Mid income countries	3,097.93	2.16	-0.03	
Low income countries	2,370.63	0.88	-0.12	
China	1,323.35	0.86	-1.25	-1,654.13
United States	298.21	5.02	-4.40	-1,313.32
Japan	128.09	0.60	-4.29	-549.39
India	1,103.37	0.41	-0.48	-534.24
S Korea	47.82	0.70	-3.04	-145.51
Thailand	64.23	0.98	-1.15	-73.97
Philippines	**83.05**	**0.54**	**-0.33**	**-27.00**
Singapore	4.33	0.03	-4.13	-17.86
Malaysia	25.35	2.67	0.25	6.45
Indonesia	222.78	1.39	0.44	98.84
Australia	20.16	15.42	7.62	153.49
Canada	32.27	20.05	12.98	418.79
Source: Global footprint Network, 2008				

III. Institutional Environment: Issues and Problems

There are a number of fundamental issues and problems that characterize the institutional environment of urban development and housing that hamper the implementation of critical programs and projects. These issues may be classified into: (1) the incongruence of sectoral and area-based orientation; (2) weak governance capacity of

LGUs; (3) weak coordinative mechanism for urban development and housing services; (4) weak participatory mechanisms and difficulty of doing business; and (5) political interference.

A. Sectoral vs. Area-based Orientation

Although area-based planning at the national level gained some prominence in the 1970s (mainly through the Integrated Area Development approach and the Human Settlements concept), it remains largely a special case and an exception to the traditional sectoral plans formulated by the national government. Indeed, the Philippine government bureaucracy is largely structured along sectoral concerns, clearly evident in the Medium Term Philippine Development Plan (MTPDP) which is the official national plan document for the country. In the MTPDP, the chapters are organized along the traditional sectors (e.g., agriculture, health, education, tourism, natural resources, etc.) and define clearly the functional jurisdictions of various national government agencies. In principle, the direct correspondence between the sectors and the national agencies responsible for them allows for a smooth transition from planning to implementation. However, although a long-term National Framework for Physical Planning (NFPP) is now likewise formulated by the NEDA, the linkage between the NFPP and the MTPDP is not clearly established.

A critical issue is the need to synchronize area-based programs and projects at the local level, on one hand, with national sectoral priorities, on the other. Even in the absence of budget constraints, the MTPDP does not deal squarely with intersectoral prioritization which is the essence of local and sub-national area-based planning. The Comprehensive Land Use Plans (CLUPs) and the Comprehensive Development Plans (CDPs), of LGUs, and plans formulated at the metropolitan level (e.g., the Metro Manila Development Agency or MMDA plan) are area-based and geographic in orientation. At the same time, they have to reckon with a budgeting and implementation system that is heavily sectoral in character. This problem has, to some extent, been resolved by the devolution of some sectoral functions to LGUs under the 1991 Local Government Code. However, substantial service delivery functions and programs remain with, and controlled by, National Government Agencies (NGAs). For this reason, it is not surprising that sectoral programs and projects respond more to the imperatives of NGAs which, in many cases, are not viewed by LGUs as being consistent with local development priorities.

There is little accountability to local governments if NGAs place a higher premium on development activities and programs that are typically articulated by their central offices. At the same time, investment priorities identified by LGUs often have no concrete and reliable connections to national sectoral policy concerns and priorities. Since national funds get allocated through the sectors, and cascaded down to regional and local sectoral offices, large, strategic investment proposals identified by the LGUs have little chance of being implemented.

It is probably even more difficult to set priorities and implement programs and projects that cut across LGU boundaries (e.g., metropolitan or sub-regional). These programs and projects have to reckon with a "fractionated" implementation structure composed of politically independent LGUs. For this reason, these areas have no inherent political champions especially in the absence of a metro-wide authority that has substantial resource allocation and budgeting functions. Even though a number of metropolitan areas have already been identified, and development plans have been prepared for quite a few (e.g., Metro Manila, Metro Cebu, Metro Davao, CALABARZON, etc.) implementation has been spotty. In metropolitan areas, most projects that are implemented are those that are initiated by the private sector, foreign-funded, or otherwise those that coincide with an approved sectoral budget.

B. Weak LGU Governance and Planning Capacity

As previously noted, the 1991 Local Government Code is a dramatic and far-reaching piece of legislation that has thrust the LGUs into the limelight of carrying out programs in urban development and housing. This is an advantage that must be utilized in dealing with sectoral biases. The LGU is not sector bound and has an area and geographic orientation. Indeed, the institutional responsibilities for plan formulation, financing and implementation are clearly prescribed by the LGC:

- The Local Development Plan (LDP) shall be prepared by the Local Development Council (LDC);
- The LDP will be approved by the Sanggunian;
- Funds for the LDP shall be allocated by the Local Finance Committee (LFC); and
- The Local Chief Executive, together with the executive departments, will implement the development plan.

Although the legal mandates are clear and straightforward, there is, in reality, a wide gap between mandate and actual practice. First of all, many LDCs are inactive and largely ineffective. As noted elsewhere, it is a huge and unwieldy body that is moribund for long periods during the fiscal year (Cariño, Corpuz and Manasan 2004). It meets infrequently, in many cases only twice a year: once to launch the plan preparation process, and a second time to approve the plan document (Cariño 1999). It is for this reason that many LGUs have no plan documents despite the requirements set out in the 1991 Local Government Code. Data from the Regional Field Offices Report show that 228 cities and municipalities are without approved CLUPs and another 368 have outdated CLUPs (Table 3.1).

Table 3.1. Status of CLUP Preparation (as of December 2007)

	Cities	Municipalities	Sub-total	Total
LGUs with Approved CLUPs				1381
▪ New Plan*	3	171	174	
▪ Updated CLUPs**	99	723	822	
▪ CLUPs for Updating***	17	368	385	
LGUs without approved CLUPs (but with ongoing planning activities)	1	228		229
Total number of LGUs	120	1490	1381	1610

* First Plan; ** Updated CLUPs with old plan; *** CLUPs for updating with old plan
Source: HLURB-DILG Regional Field Offices Report

There are other reasons that have been cited for the failure of LGUs to comply with the requirements of the Local Government Code on the preparation of plan documents. A major constraint is that the overwhelming majority of the personnel of the City/Municipal Planning and Development Office lack formal planning education and have a poor appreciation of the planning logic. Consequently, the quality of most plan documents is poor, i.e., they are not internally consistent and lack sufficient consideration of external demands and conditions and other critical factors that make an impact on local development. In particular, they could be significantly improved by targeting specific gaps in plan content and format, projecting future conditions, and building up basic planning logic by linking analysis of existing situations to planning goals and targets and finally to specific strategies, programs and projects (Cariño, Corpuz and Manasan 2004; Cariño 2008).

Also generally ignored in local planning is the important role that the private sector and entrepreneurship can play in the local development process. This comes as a surprise given the universal recognition of the critical role that the private sector, including the business sector and civil society as necessary partners of the public sector in the development process especially in the implementation of specific programs and projects. And yet, such a partnership is obscure in many plan documents, probably explaining the lack of prominence given to such schemes as joint venture, other forms of public-private partnerships, and to Build-Operate-Transfer (BOT) modalities and its variants (Cariño 2008).

Perhaps, even more critical is a recurrent theme emphasized in the local finance literature: the mismatch between revenue means and expenditure needs of LGUs. As noted elsewhere, the fiscal gap between the cost of devolved functions and the additional revenues generated from new revenue sources provided for in the LGC is huge. Although the situation across LGUs varies, some of the major reasons for this fiscal gap include the limitations on the taxing powers of LGUs under the 1991 Local Government Code, and the retention of many types of taxes by the national government (Manasan 1992 and Bird 1999).

At the same time, LGUs still have a lot of room to improve their own-source revenues. In many LGUs, the internal revenue code is outdated and non-traditional fund sources (e.g., borrowing, bond flotation, BOT schemes, etc.) are hardly tapped (ADB 2004; Manasan 1992). Consequently, many LGUs remain heavily dependent on the Internal Revenue Allotment (IRA), or the allocations of the national government to LGUs, and on the Local Development Fund (20 percent of the IRA) as the main sources of funding for urban development and housing programs and projects (Table 3.2). Given that the Local Development Fund (LDF) is relatively meager, only small, often non-strategic projects are implemented by the LGUs. At the same time, large, strategic projects have no clear connections to national and external sources of funds.

Table 3.2. IRA as Percentage of Total LGU Revenue

	All LGUs	Provinces	Municipalities	Cities
1991	39.8	42.3	43.4	37.5
1995	61.9	74.5	68.5	43.7
2000	64.5	80.2	77.2	44.6
2002	66.2	81.5	86.0	50.1
Average				
1985-1991	36.4	38.3	40.3	35.6
1992-2002	62.5	77.7	73.7	44.7

Source: Cariño, Benjamin; Corpuz, Arturo; and Manasan, Rosario. Preparatory Work for the Proposed Technical Assistance on Strengthening Provincial Planning and Expenditure Management. July, 2004.

The fiscal gap and the continuing dependence on the IRA have combined to produce a lack of real fiscal economy among LGUs, weak accountability and political economy issues in the formulation of the budget (Loehr and Manasan 1999). Unless LGUs are able to significantly upgrade their own-source revenues, as well as tap non-traditional sources of revenues, they will remain dependent on the small LDF for implementing local projects. In turn, reliance on the LDF could significantly affect their ability to finance more strategic projects that are critical to the achievement of local and urban development goals and objectives.

C. Weak National Coordinative Mechanisms

The coordinative mechanisms for the housing and urban development services are generally weak. At the national level, this is particularly critical for housing services given the huge backlog in housing and the proliferation of colonies of informal settlers in urban areas. As clearly evident in large urban areas in the country, even danger zones like areas along railroad tracks, banks of rivers, etc. are transformed into areas of settlement for the poorer segments of Philippine society.

There are currently numerous shelter agencies that are tasked to address different aspects of the housing sector. These include, among others, the following:

- Home Guaranty Corporation
- Housing and Land Use Regulatory Board
- National Housing Authority
- National Home Mortgage Finance Corporation
- PAG-IBIG (Home Development Mutual Fund)
- Social Housing Finance Corporation

However, the activities of these agencies are not always coordinated or have a clear strategic focus. Even more critical is that "housing" is often seen simply as a shelter phenomenon and unrelated to urban development. Such a simplistic concept of housing is not appropriate in responding to the need for other services attached to housing (e.g., infrastructure, transportation, etc.) Strong sectoral biases of various agencies similarly aggravate the problem of coordination.

Recognition of this issue has, in the past, led to the creation of Councils/Committees, although most of them have largely been ineffective in achieving coordination and synchronization of various housing and urban services. There is obviously a need to institute a stronger mechanism for the harmonization of all shelter and urban development policies, guidelines and standards at the national level. Such a mechanism should also provide for the extension of technical and other forms of assistance to LGUs to ensure that land use plans and zoning ordinances conform with prescribed national standards and policies, and other legal issuances.

D. Weak Participatory Mechanisms and Difficulty of Doing Business

The Philippines is known for its popular democracy, clearly manifest in the large number of non-government organizations (NGOs), peoples' organizations and other community-based organizations that are active. However, the main channels for participatory governance, although formally in place, do not seem to function well. As previously noted, the Local Development Council (LDC), a multi-sectoral group intended to be the central planning body of the LGU, is moribund for much of the year.

Some sectors view the large representation of NGOs in the LDC as a welcome innovation that increases community awareness of the council's activities. However, the performance record of NGO representatives has been less than satisfactory. In many occasions, NGO representatives seem to contribute little to the formulation of local development plans and are more preoccupied with seeking support (a share of the LDF) for specific projects of their own organizations. In summary, participation of the private and business sectors, while mandated, is often perfunctory or confined to specific vested interests in local planning and development activities.

Private sector participation has long been recognized as a vital ingredient of development, particularly in generating investments in industry and infrastructure. But private sector participation should also be tapped to improve the efficiency of local business and other regulatory processes—such as the issuance of business permits, licenses and the imposition and collection of business taxes—which currently serve as disincentives to many businesses. Typically, these processes involve numerous procedures that are not only inefficient but also create opportunities for corruption. (Doing Business in the Philippines, 2008)

Notably, the Philippines ranks very low among East Asian countries in terms of ease of doing business; it only ranked higher than Cambodia, Lao PDR and Timor-Leste. Singapore followed by Hong Kong, Thailand, Malaysia, Taiwan, Mongolia, Brunei, Vietnam, and Indonesia ranked higher. The Philippines also requires a much larger number of entry procedures (15) to start a business compared to other East Asia countries and consequently entails higher transaction costs (Figures 3.1, 3.2, 3.3).

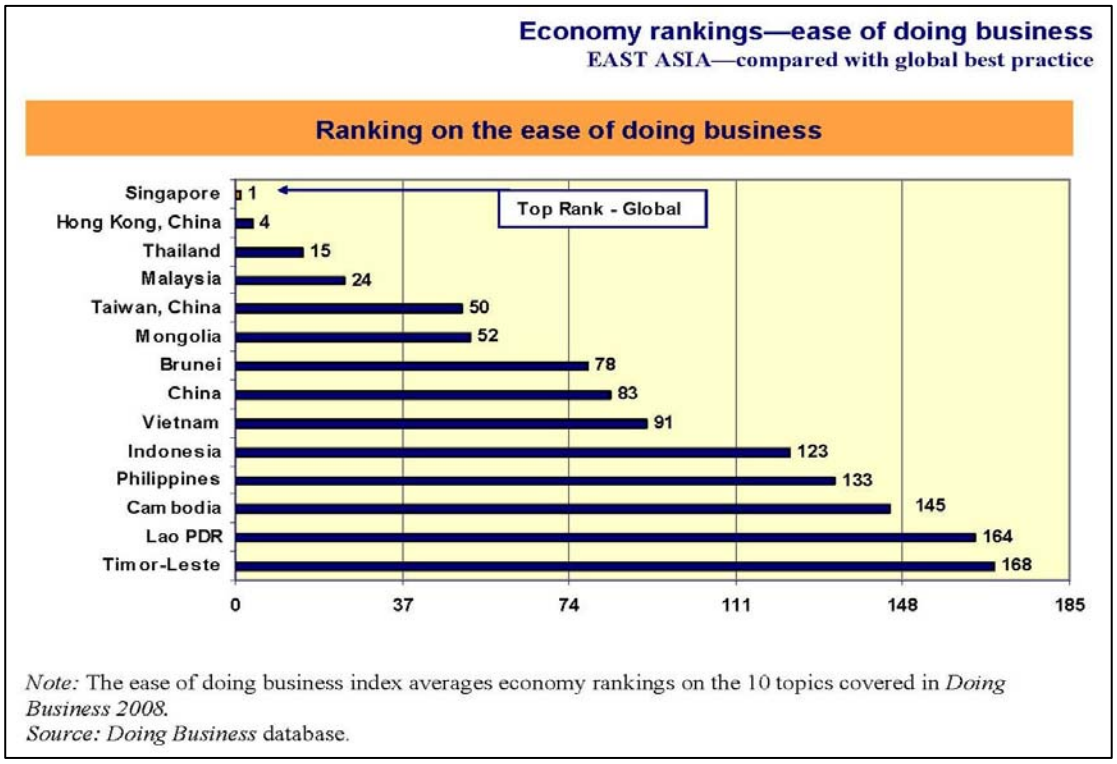


Figure 3.1: Ranking on the Ease of Doing Business Among Asian Countries
Source: Doing Business 2008

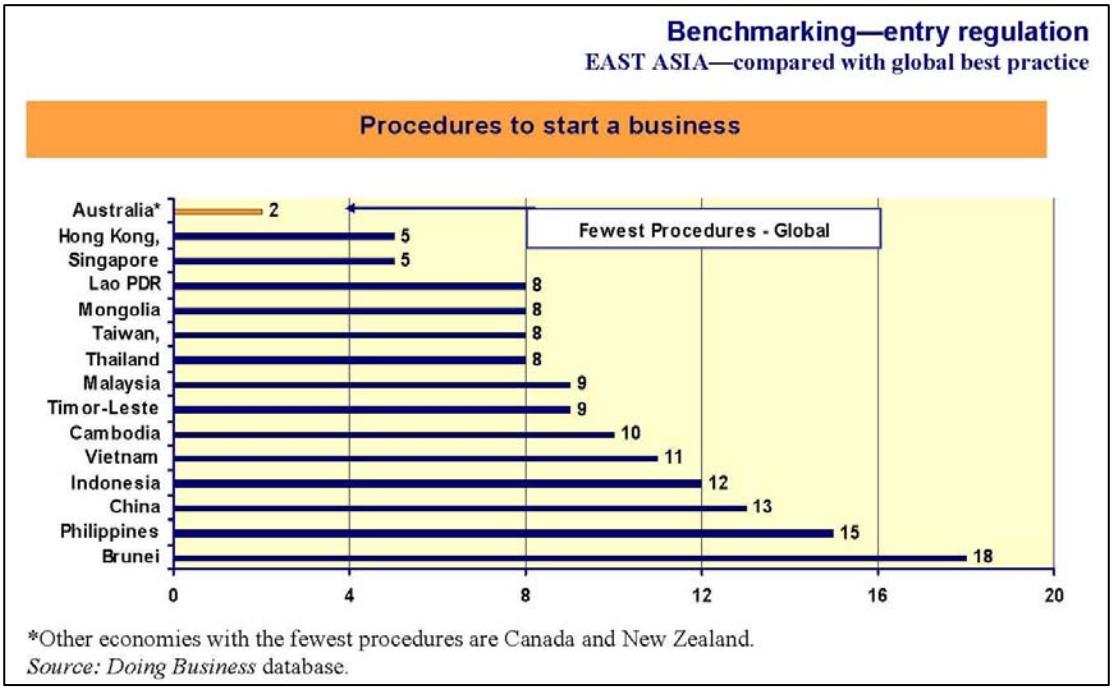


Figure 3.2: Ranking on the Number of Procedures to Start a Business Among Asian Countries
(Source: Doing Business database)

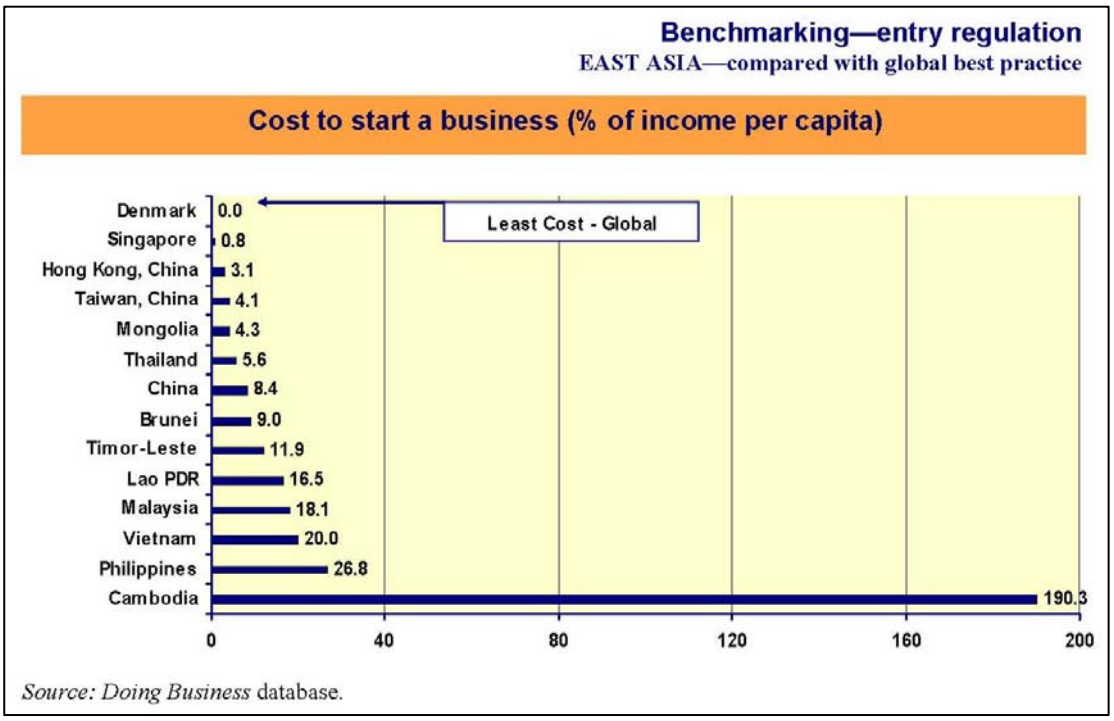


Figure 3.3: Ranking on the Cost to Start a Business Among Asian Countries
(Source: Doing Business database)

In a 2008 survey among Japanese firms engaged in international operations, to cite another example, the Philippines placed last or second to the last in the list of countries or regions where the firms had expansion plans with respect to sales operations, production, and research and development. Further, among firms engaged

in manufacturing and trade (wholesale and retail), the Philippines was also among the least preferred for expansion. Together with inadequate infrastructure and lack of clustering of related industries, the surveyed firms identified the underdeveloped legal system or problems with legal operation as the most serious business risks of the country. (JETRO 2009)

E. Political Interference

Finally, planning and investment prioritization are difficult to achieve because budgets are often driven by political motives. Political pressures influence project lists and prioritization. The total cost of projects listed in the MTPDP is often beyond the capacity of the national government to finance. Consequently, the MTPDP serves less as a plan of action and more as a wish list of projects, subject to further refinement (Webster, Corpuz and Pablo 2004). Indeed, political pressure often manifests itself in terms of the incongruence between plans and budgets, and in terms of resources being spread too thinly across many concerns to satisfy many patrons and interests.

Political interference at the national level is mimicked at the LGU levels. In an earlier study, political interference in the formulation of the Annual Investment Program (AIP) which serves as the basis for annual budgetary allocations for capital expenditures is well documented (Cariño, Corpuz and Manasan 2004). It is noteworthy that the AIPs in most LGUs are put together to comply with the requirement of the Department of Budget and Management that no appropriation chargeable against the Local Development Fund can be made if the project is not listed in the local plan. In other words, the AIP inappropriately serves as the local plan to comply with the legal budgetary requirement. In many LGUs as well, there is a limited view of the AIP with the list of projects being confined to those that can be funded out of the LDF.

In the same manner that national legislators are given countryside development fund (CDF) allocations from the national government, the local development fund (LDF) is a source of CDF-like allocations to key political actors at the LGU level: the chief executive officers, the vice governors/mayors, and members of the Sanggunian. Recipients of allocations from the LDF are the main contributors to the project listings of the AIP. Since the allocations are relatively small, and most local leaders are likewise politically motivated, the project listings in the AIP are often a “mixed-bag” of small, unrelated projects that have no clear connections to the longer term plan and development strategy for the locality. In short, the AIP is at the core of local politics which effectively shortens the planning horizon to one year, and transforms the local development plan into a mere compliance document.

F. Continued dissipation of national and local resources

Capital resources are not only limited but are also dissipated by inefficiencies in the planning-investment programming-budgeting-implementation process. Described as a "Divide by N" syndrome, (Cariño, Corpuz, Manasan 2004) where resources are scattered throughout various political initiatives and geographical areas, this results in a dearth of catalytic investments that have sufficient scale to provide strategic focus and meaningful development impacts.

A case in point is the formation of state universities and colleges (SUCs). There were 111 SUCs all over the country as of 2002. This number represents an increase of more than 150% since 1990 (from 138 to 348), considering main and satellite campuses. (Webster, Corpuz, Pablo 2003) Created by legislation, SUCs are typically justified based on the argument that they increase accessibility to education and allow a larger number of students to be served in a wider geographical area. SUCs can also have positive multiplier impacts on host communities. What is not mentioned, however, is that given budget limitations and current deficiencies in school facilities, faculty and other personnel, it is more efficient to build up existing educational institutions—construct more classrooms, increase library facilities, hire and train more teachers and provide more scholarships—than to disperse resources to more locations that result in the creation of more inadequately supported universities and colleges. In other words, having several good quality educational institutions that can also serve a large number of students through scholarships is better than many mediocre institutions. (Webster, Corpuz, Pablo 2003; Canlas and Fujisaki)

IV. Conclusions and Policy Recommendations

Philippine cities provide the highest levels of service and living standards in the country and account for the majority of national economic growth. Much of what happens to the country in terms of production and employment, income and consumption, and access to basic services and amenities will continue to be determined by the performance of its urban system. This will be influenced significantly by its competitiveness with other cities in East Asia and the rest of the world—by its efficiency and the extent to which it can attract investments, for example, in the BPO, electronics, and medical tourism sectors, vis-à-vis the cities of India, Vietnam, and Thailand, respectively.

Because they form the largest concentrations of economic activity, metropolitan regions are at the forefront of the country's global competition. But urban competitiveness is important to the entire hierarchy of settlements within the country's urban system.

First, investments cascade throughout the hierarchy. For example, while IT developments are attracted primarily to the large labor forces and amenities of the metropolitan regions of Manila, Cebu and Davao, other regional cities with similar manpower resources and services, even if smaller in scale, are increasingly attracting the same type of investments. It is important to point out that the investments attracted to this type of producer services in any city of the urban system are influenced by the competitiveness of the largest city—that the attraction of provincial or regional cities is affected by how Metro Manila can compete globally.

Second, the primacy of Metro Manila does not prevent an individual city from competing directly with other cities in the hierarchy. This is particularly true for products and services that are based on natural resources, culture, educational facilities or any other attraction that is unique to a specific locality and which therefore is not dependent primarily on the competitiveness of large metropolitan areas. In this case, however, domestic and international access is important. Given that international and even regional gateways are limited to metropolitan centers, transportation and communication linkages with these centers are critical for other cities of the urban system.

Third, large metropolitan centers, by their very nature, interact substantially with their adjacent areas. This can be a positive sum relationship, forming a regional cluster of urban areas anchored by a core metropolitan center. Peripheral areas of this cluster can benefit from the economies of agglomeration catalyzed by the metropolitan center, integrating into a network of markets and production that would have been otherwise inaccessible.

Overall, however, as manifested by its inability to undergo consistent, breakthrough economic growth, the Philippines is characterized by its lack of urban competitiveness. Although its urban areas account for an overwhelming majority of national economic growth, they have also been underperforming relative to their potentials and other cities in East Asia.

In particular, the urban system is plagued by the following problems: a) high transaction costs and production inefficiencies; b) lack of infrastructure and service facilities; c) inability to attract significant amounts of investments; d) outmigration of talent; e) diminishing competitiveness of its primary international gateway and service center (Metro Manila); f) lack of financial resources; g) high poverty incidence; h) deteriorating urban environment; and i) weak governance.

Addressing these problems is not easy or simple. Invariably, however, it is rooted in (1) improving the competitiveness of the urban system, (2) addressing urban poverty and (3) housing problems, (4) building sustainable communities and (5)improving governance.

To address competitiveness of the urban system the primary strategies are the following:

- Provide strategic infrastructure and services in support of urban-industrial regions.

- Support national competitiveness at the local government level through local development planning, investment in catalytic infrastructure, promotion and investment support programs.

- Increase Metro Manila's attractiveness as a global service center and visitors destination by improving basic urban functions, addressing traffic congestion, mobility, pollution, etc.—essentially taking immediate steps to demonstrate that the city works.

- Support IT-enabled services to further enhance the country's competitive advantage in the sector.

- Support tourism sector and its regional/urban-rural linkages.

Poverty reduction, on the other hand can be addressed through: broad-based labor-intensive and inclusive growth, good governance and accountability, human and social development (strategies that target basic social services for the poor), social protection, and special poverty alleviation policies or direct anti-poverty interventions (Deolalikar 2002). Economic growth that benefits the poor is a necessary prerequisite. And this is why urban competitiveness is important—because it is the primary urban-based strategy towards economic growth.

Comprehensive approaches to poverty reduction need to deal with the urban and rural dimensions of poverty. Some activities are more rural-oriented such as agrarian reform, land productivity investments (e.g. irrigation), and improvement of agricultural terms of trade, while others are common to both urban and rural sectors (e.g. enhanced credit access for SMEs, reduced corruption, increased and sustained access to education and health services). But urban areas are especially suited to serve as agents of poverty reduction because of the concentration of employment and economic activities in cities. Specific strategies include:

- Support human resource and livelihood programs aimed at poverty alleviation.

- Recognize and enhance rural-urban linkages of poverty alleviation to improve labor mobility and increase the sharing of market information among rural producers and urban consumers.

- Increase entrepreneurial opportunities for the poor.

In the case of housing, the fundamental problem is affordability and it can be addressed only through the creation of jobs and subsequent increases in household income. In short, the problem with low-income housing is not of housing but of low income. As with the issue of poverty, economic growth that lifts households out of their impoverished situation is key. Notably, financial schemes to aid the provision of housing for this sector cannot succeed if full recovery is required. In addition to the affordability problem, government should also be concerned with providing funding, reducing housing cost and protecting housing consumers.

Development trends in urban areas are not sustainable in terms of current overall ecological footprint estimates for the country as well as with respect to location specific service performance standards. Zoning regulations continue to be the primary way to establish and enforce development controls but the extent to which they incorporate sustainability practices and standards are minimal based on current environment indicators, especially in large urban centers. Further, implementation and enforcement of zoning ordinances are irregular at best. There is also a conspicuous lack of public amenities.

The role of local governments in managing the environment and enhancing the sustainability of communities is critical because of the decentralized structure of government, but close coordination with national and regional level initiatives is also necessary.

Decentralization has provided local governments with several ways to promote sustainability. They can utilize their powers to regulate (zoning), to influence the direction of growth through infrastructure and other utility projects, and to provide incentives (or disincentives) through taxation and other fiscal measures. Possible strategies are as follows:

- Review and revise traditional zoning and encourage sustainable and private sector initiatives through performance and service standards.

- Anticipate and encourage sustainable development and building practices in local and metropolitan development plans and zoning ordinances.

- Improve urban air quality and address the solid waste and sewerage problems.

- Encourage pedestrianization and transit and mixed use community development, in part to reduce emissions resulting from tidal commuter flows.

- Continue to build capacities of LGUs in development and land use planning.

- Prioritize updating of A&D vs forest land and environmentally constrained land information (including maps) to match development priorities of LGUs.

- Integrate disaster risk management into community and regional development.

While the performance of the urban system will determine much of what happens to the country, the performance of local governments will be a major factor in how the urban system functions. And despite significant improvements in some areas, service deliveries in cities have substantial room for improvement in terms of efficiency, coordination and quality. The Philippines still ranks low globally, even within East Asia, in terms of the ease and cost of doing business, the process of starting a business, and the strength of legal rights, to cite several examples. (World Bank 2007) Addressing these issues requires, among others, more efficient revenue generation, investment and expenditure, as well as performance-oriented reforms in the processes involved.

Actual and the perception of political interference and corruption deter private sector participation and investments. Preventing or substantially controlling them will increase the amount of development resources available for housing, infrastructure and other urban developments.

Planning and implementation systems are often disconnected and inefficient; vertical (national-local, provincial-city/municipal, public-private) and horizontal linkages (inter-sectoral and planning-investment programming-budgeting-implementation) remain weak. The Joint Memorandum Circular of 2007 (involving DILG, NEDA, DBM and DOF) is a landmark agreement towards improving national-local planning and implementation and can serve as a guide to improve vertical coordination. Continued capability building, improvement of horizontal linkages, and benchmarking are also needed.

Inter-jurisdictional coordination among housing and other support agencies also need to be strengthened in light of their individual mandates and changing characteristics of the housing market and the requirements of intended beneficiaries.

Finally, the incongruence between sector- and area-based institutions and organizations hamper effective governance. This is particularly evident in inter-local (metropolitan) management and service systems, which are increasingly important given the continued growth of cities and the formation of de facto metropolitan areas. Very few of these systems are in place. But they are essential requisites of a competitive urban system. Governance can be improved through the following strategies:

- Encourage and create performance-based local governance.

- Strengthen LGU capacity building in strategic planning: planning, investment programming, budgeting and implementation linkages.

- Improve vertical coordination.

- Explore ways to institutionalize the discussion of urban development issues at the Cabinet level (as opposed to simply being a component of individual sectoral cluster discussions).

- Enhance national-local interface, e.g. allowing NGA representatives to participate in LDC deliberations.

- Improve coordination among agencies involved in the provision of shelter services.

- Increase accountability of LGUs and private sector; increase process transparency to minimize opportunities for corruption; support private-public partnerships in project implementation.

- Support metro (inter-local) jurisdictional cooperation; provide real incentives to inter-local cooperation; harmonize legal and service management mechanisms among metropolitan LGUs.

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