

Manasan, Rosario G.

Working Paper

Financing and Delivery of Urban Services in the Philippines: An Overview

PIDS Discussion Paper Series, No. 1998-37

Provided in Cooperation with:

Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Manasan, Rosario G. (1998) : Financing and Delivery of Urban Services in the Philippines: An Overview, PIDS Discussion Paper Series, No. 1998-37, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/187379>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Financing and Delivery of Urban Services in the Philippines: An Overview

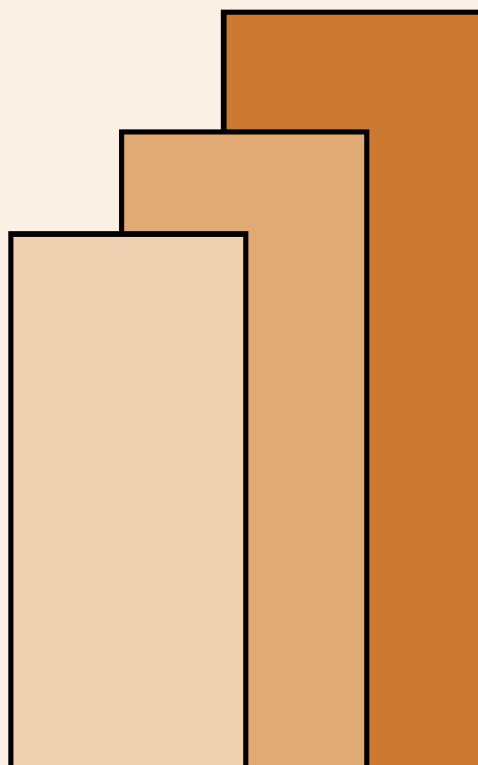
Rosario G. Manasan

DISCUSSION PAPER SERIES NO. 98-37

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



October 1998

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: publications@pidsnet.pids.gov.ph
Or visit our website at <http://www.pids.gov.ph>

**FINANCING AND DELIVERY OF URBAN
SERVICES IN THE PHILIPPINES:
AN OVERVIEW**

Rosario G. Manasan

October 1998

Table of Contents

1.	INTRODUCTION	1
2.	FRAMEWORK	2
3.	EXPENDITURE AND REVENUE STRUCTURE OF CITIES	4
	3.1 Revenue Structure	4
	3.2 Expenditure Structure	6
4.	THE URBAN FISCAL PROBLEM	8
	4,1 Determinants of Revenue Performance of CLGUs	8
	4.2 Determinants of CLGU Expenditures	12
5	CLOSING THE URBAN FISCAL GAP	18
	5.1 Increasing Local Revenue Effort	18
	5.2 Increasing LGU Taxing Authority	20
	5.3 Improving Efficiency and Effectiveness in Service Delivery	20
	5.4 Issues for Further Research	23
	BIBLIOGRAPHY	24

List of Tables

Table 1	Linear Regression of Per Capita Tax Revenue of CLGUs	10
Table 2	Ratio of Revenue to Expenditure from LGU Business Enterprises, 1991-1995	12
Table 3	Ratio of Revenue to Expenditure from LGU Business Enterprises of Selected CLGUs, 1995	13
Table 4	Cost Recovery in Hospitals, 1995	14
Table 5	Linear Regression of Per Capita Expenditure of CLGUs	17

List of Figures

Figure 1	Share of CLGUs in Total General Government Revenue	4
Figure 2	Share of Externally Sourced Income in Total Receipts of CLGUs	5
Figure 3	Revenue Performance of CLGUs	5
Figure 4	Share of CLGUs in Total General Government Expenditure	6
Figure 5	Importance of CLGUs in Total LGU Expenditure, Total Population & Total Land Area	6
Figure 6	Growth Rate of Real Per Capita Expenditure and Real Capita Local Source Revenue	7
Figure 7	Distribution of CLGU Expenditures by Service Category	8

FINANCING AND DELIVERY OF URBAN SERVICES IN THE PHILIPPINES: AN OVERVIEW

Rosario G. Manasan

1. INTRODUCTION

Urbanization has certain advantages. Agglomeration economies result in higher productivity than in rest of the economy. As urbanization proceeds, cities are better able to capture the benefits from economies of scale which may bring about reductions in unit cost of delivering certain types of services. Scale economies are more likely in public utilities like sewerage treatment plants, public transportation, and the like. Urbanization also induces increases in taxable capacity of cities such that more revenues can be mobilized from the same jurisdiction.

However, urbanization also tends to be associated with a good number of problems. Congestion which tends to increase with city size leads to agglomeration diseconomies that may offset the positive effects of technological economies of scale on input costs. These diseconomies may take the form of air and water pollution, increased need for disease control and fire/police protection, and slum settlements. Moreover, one observes that basic services like potable water supply, solid waste collection, telephones, health and education facilities are critically inadequate in many large cities.

Worldwide, there have been two types of responses to these problems. One way is to impose controls on rural-urban migration and rapid population growth. The other way is to find efficient ways to manage and finance the urban sector.

This paper takes the accommodationist view and focuses on the question of how to finance and deliver adequate public services in urban areas. This question then becomes, in large part, a fiscal question. However, it cannot be denied that improvements in resource allocation and in service delivery mechanisms/arrangements at the local government level are also extremely important.

The immediate cause of the shortage and, sometimes near absence, of basic public services in large cities is the inability of governments to fund the delivery of the right quantity and quality of these services. At the national level, central governments may be so pre-occupied with stabilization issues and the need to deal with the problem of large central government fiscal deficits to have enough time and resources to address unmet needs in the urban sector. Moreover, central governments may not be in the best position to levy and/or collect taxes and user charges that are suitable at mobilizing public resources from the growth in urban fiscal capacity. At the local level, the growth of local government revenues may be limited by centrally-imposed constraints on their revenue raising powers, by low revenue effort, and inappropriate inter-governmental fiscal relations.

How can cities and other urban areas capture the fiscal benefits of urbanization so that they can then increase supply of public services in their respective jurisdiction? For this to happen, cities should be empowered to levy and collect taxes and fees that can better exploit the gains in taxable capacity arising from urbanization. There should be no disincentives arising from the grant system against improvements of local government revenue effort. Also, there should be appropriate credit institutions and mechanisms that will enable sub-national governments to finance investments of a relatively large scale.

In the conduct of any study on urban management, one is always confronted with the difficulties of delineating which areas are “urban areas.” This study tried to finesse this issue by defining its coverage to include all cities plus non-city regional growth centers.¹ This decision was borne more out of convenience than out of rigorous analysis. Admittedly, some cities will not qualify as “urban” under most of the generally accepted ways of identifying urban areas. However, we found this a convenient way of including most urban areas without getting bogged down by the definition problem. Also, the focus on city local government units (CLGUs) is motivated by desire to study urbanization in the context of the more decentralized governance framework that is engendered with the passage of the Local Government Code (LGC) of 1991. We note that the fiscal gap (the difference between expenditure requirements/needs and revenues) of urban LGUs tend to be magnified by the recent devolution of functions previously discharged by national government agencies.

In the next section, the conceptual framework that defines the urban fiscal gap problem is presented. Section 3 presents an overview of the expenditure and revenue structure of CLGUs in the Philippines in order to provide some overall perspective on the size of the urban sector. Section 4 looks at the determinants of CLGU revenue performance and expenditure behavior in an attempt to validate the existence of the urban fiscal gap in the Philippines while Section 5 presents some of the various ways the said gap may be closed.

2. FRAMEWORK²

Local government units (LGUs) in urban areas typically face a financing problem. The problem may be defined by the existence of a “fiscal gap,” a gap between perceived service needs and available financial resources. It should be noted that the fiscal gap is different from the actual fiscal deficit which reflects the shortfall of actual revenue collections relative to actual LGU expenditure. This distinction is very important in the Philippine context where LGUs are not allowed to engage in deficit financing of recurrent expenditures.

¹The municipal regional growth centers included in this study are Santiago in Isabela, San Fernando in La Union and San Fernando in Pampanga.

²This section draws heavily from the work of Bahl and Linn (1992).

To gain some understanding of how urbanization impacts on the fiscal gap, it helps to look at how urbanization and population growth affects the expenditure requirements as well as the revenue collections of urban LGUs. On the one hand, the growth in the demand for public services is most often driven by the growth in population. The growth in population may arise from its natural growth and from migration. Some would argue that LGU expenditures have to increase at a rate that is at least proportional to the rate of population growth in order to sustain a given level of service. In cases where service provision entail increasing marginal cost, the response of expenditure needs to population growth is even more pronounced. This may be relevant, for instance, when rapid rural-urban migration tends to lead migrants to settle in hard-to-service (and, therefore, costly-to-service) areas like shorelines, mountainsides and flood plains.

The strong and positive correlation between urbanization and per capita personal income in developing countries is well documented. At the same time, higher per capita income tends to be associated with higher per capita demand for public services (which implies that most types of public services are normal goods). The increment in service requirements would be larger as the income-elasticity of demand for public services goes up. Positive income elasticities have been observed for water/power supply, telephone services, and for solid waste disposal and also urban highway infrastructure (because the demand for motor vehicles is highly income-elastic). Similarly, the demands for educational services and health care are positively linked with rising incomes.

While it is clear that urbanization exerts an upward pressure on local government budgets, it is not so clear that LGU revenues will respond as quickly and as strongly to rapid population growth. Undoubtedly, population growth, urbanization and the associated growth in per capita income all tend to expand the revenue capacity of urban governments. However, the growth in LGU revenue is held back by the limited taxing authority of LGUs and their lagging revenue efforts. For instance, while property values tend to rise with urbanization, this is not immediately reflected in the statutory tax base unless assessment values are automatically indexed.

Also, inflation is usually higher in larger cities. However, government expenditures are more automatically responsive to inflation than are government revenues. Inflation will drive up government spending requirements almost instantaneously as the cost of materials and supplies rise and because of pressure to increase government employees' salaries to take into account the associated escalation in the cost of living. LGU revenues are not as responsive to inflation. This is because in many places there is no automatic indexation of the assessed values of real property for real property tax purposes. Moreover, many local taxes are imposed on specific rather than an ad valorem basis.

The evidence on the relation between city size and cost recovery is mixed. On the one hand, some large cities (especially those which operate public business enterprises) are able to fully recover cost of service delivery and they may sometimes generate a surplus. Some countries like South Korea and Colombia impose betterment levies (or special assessment) in order to charge affected landowners for the benefits they get from certain improvements in infrastructure. On the other hand,

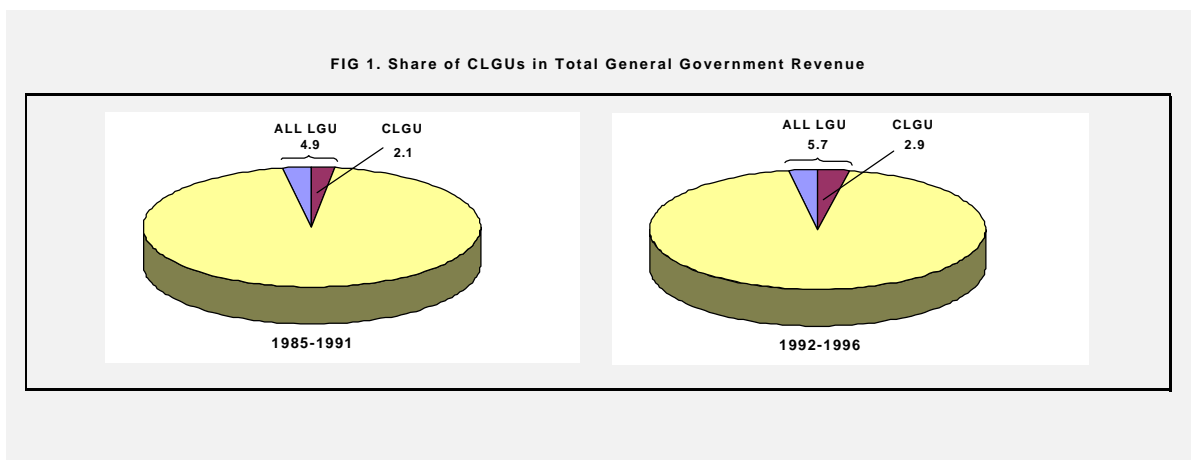
it may be difficult to generate enough revenue from user charges to cover full costs from services like transportation, housing, health and education which have a large social component.

Lastly, the direction of the relationship between inter-governmental grants and urbanization can go either way. “If grants are distributed on a straight per capita basis then urbanization may generate an increased inflow of external resources. The same will hold if grants are made on a cost reimbursement basis. External resource flows may increase or decrease in response to increases in per capita personal income in the city depending on the structure of the grant system. A tax-sharing scheme will channel more funds to local governments as urbanization proceeds, whereas formula-equalizing grants may have just the opposite effect” (Bahl and Linn 1992).

3. EXPENDITURE AND REVENUE STRUCTURE OF CITIES

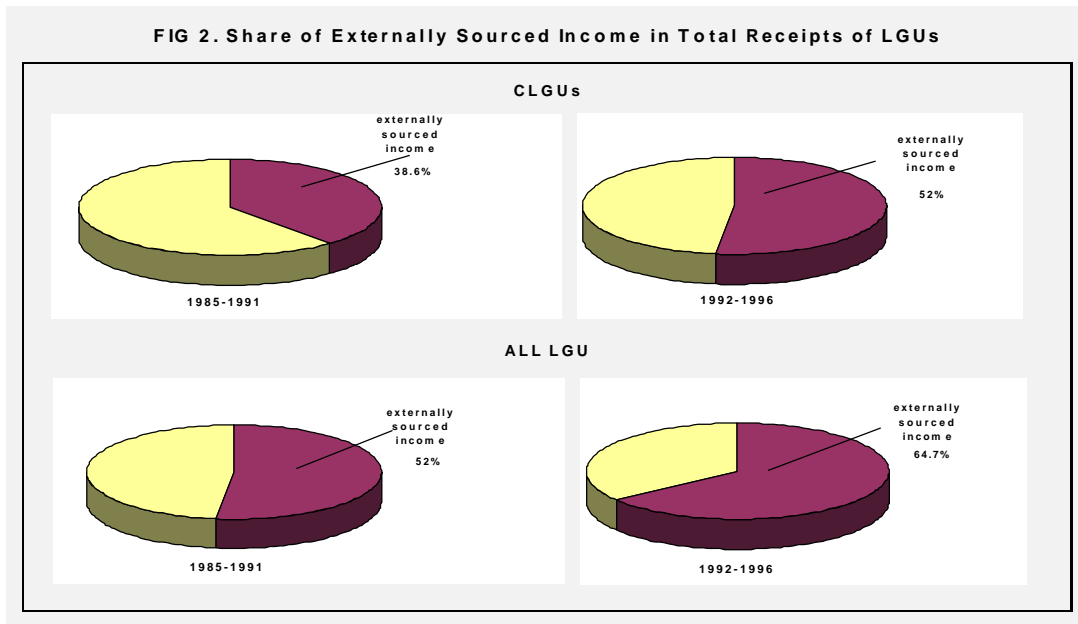
3.1. Revenue Structure

All local government units in the aggregate accounted for 4.9 percent of total general government revenue in 1985-1991 and 5.7 percent in 1992-1996 (**Figure 1**). Thus, the degree of fiscal decentralization when measured in terms of revenue decentralization has not been altered significantly by the passage of the Local Government Code.

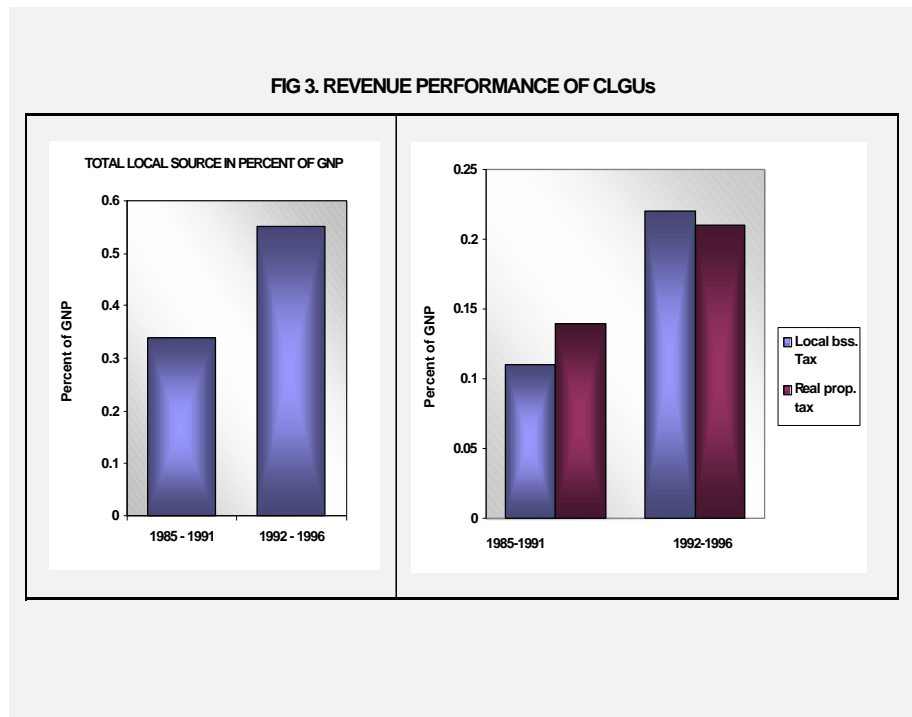


In comparison, the share of city local government units (CLGUs) in total general government revenue in the country rose significantly from 2.1 percent in 1985-1991 to 2.9 percent in 1992-1996. In a sense, the increment in the share of all LGUs in total general government revenues is accounted for solely by the increase in the share of CLGUs. Moreover, CLGUs’ share in the total local source revenue of all sub-national governments has expanded from 43.0 percent to 50.2 percent during the period under study.

Nonetheless, there appears to be a trend towards increasing reliance on external sources of finance among CLGUs. The contribution of externally sourced income to the total receipts of CLGUs was magnified, reaching 52.0 percent in 1992-1996 from 38.6 percent in 1985-1991. However, CLGUs continue to be less reliant on external sources of finance relative to the average LGU where the share of externally sourced income to total receipts rose from 52.0 percent to 64.7 percent (Figure 2).



Despite these developments, the overall revenue performance of CLGUs was creditable during the period under study with total local source revenue rising from 0.34 percent of GNP in 1985-1991 to 0.55 percent of GNP in 1992-1996 (Figure 3). Thus, per capita local source revenue of CLGUs grew at a decent pace of 11.4 percent in 1991-1996 compared with the 8.9 percent growth of local

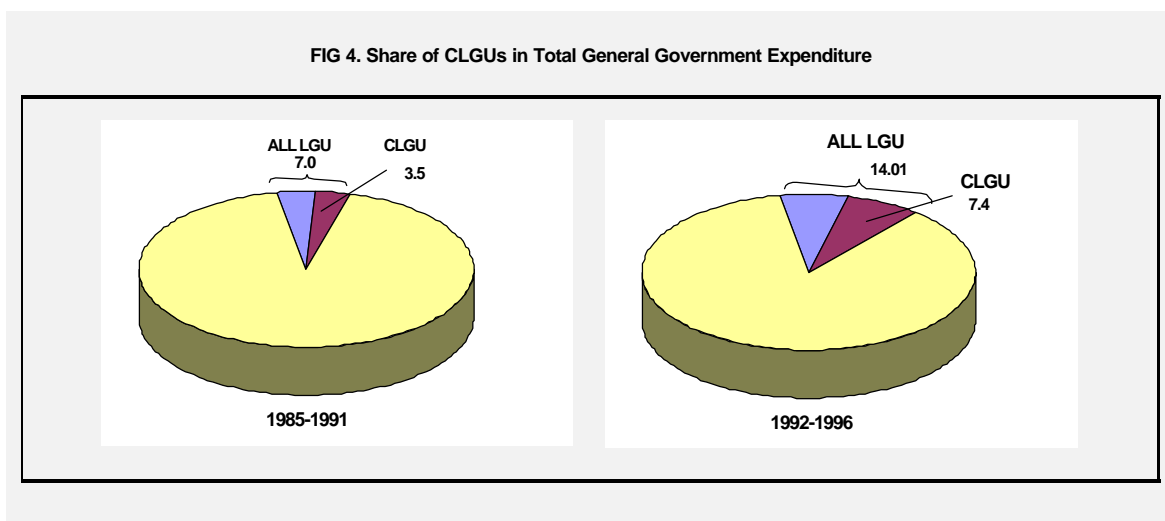


source revenues of the average LGU during the same period and the 2.4 percent growth in CLGU local source revenue in 1985-1991.

The biggest increase was posted by local business taxes which doubled from 0.11 percent of GNP to 0.22 percent of GNP. This was followed by real property taxes which increased from 0.14 percent of GNP to 0.21 percent of GNP. However, operating income of CLGUs remained steady at about 0.1 percent of GNP. Consequently, the local business tax came to dominate the real property tax after the implementation of the Local Government Code.

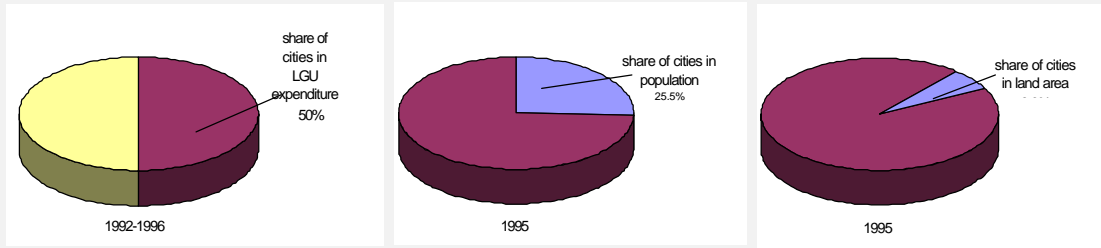
3.2. Expenditure Structure

In the Philippines, local government units (LGUs) in the aggregate contributed 7.0 percent of total general government expenditure in 1985-1991 and 14.0 percent in 1992-1996 (**Figure 4**). This implies that the degree of fiscal decentralization when measured in terms of expenditure decentralization has doubled in the post-LGC era. The latter figure is roughly equal to the 15 percent share of sub-national governments in general government expenditure in a sample of less developed countries (Bahl and Nath 1986).



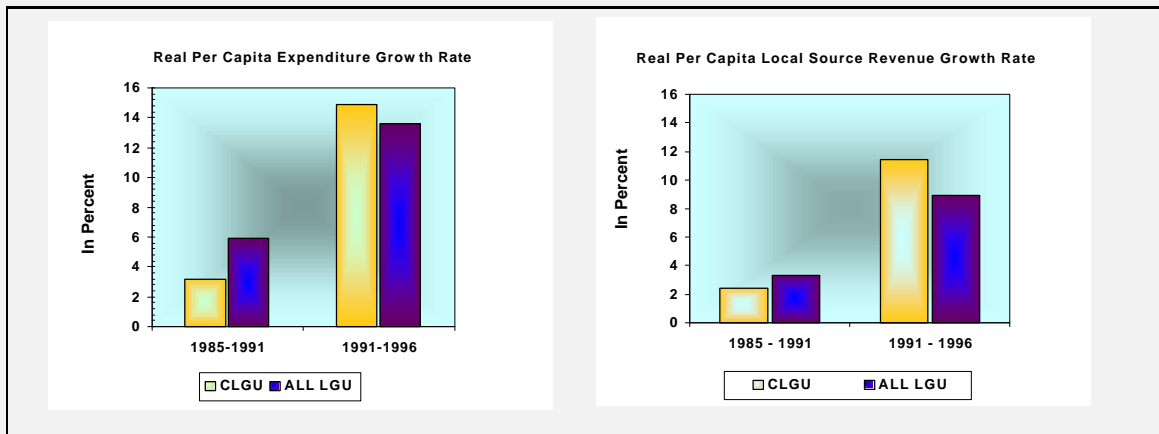
In like manner, the share of city local government units (CLGUs) in total general government expenditures in the country doubled from 3.5 percent in 1985-1991 to 7.4 percent in 1992-1996. Thus, CLGUs' share in the total expenditure of all sub-national governments has remained fairly stable at approximately 50 percent throughout the period under study even as their jurisdictions include 25.5 percent of total population and 6.0 percent of total land area (**Figure 5**).

FIG 5. Importance of CLGUs in Total LGU Expenditure, Total Population & Total Land Area



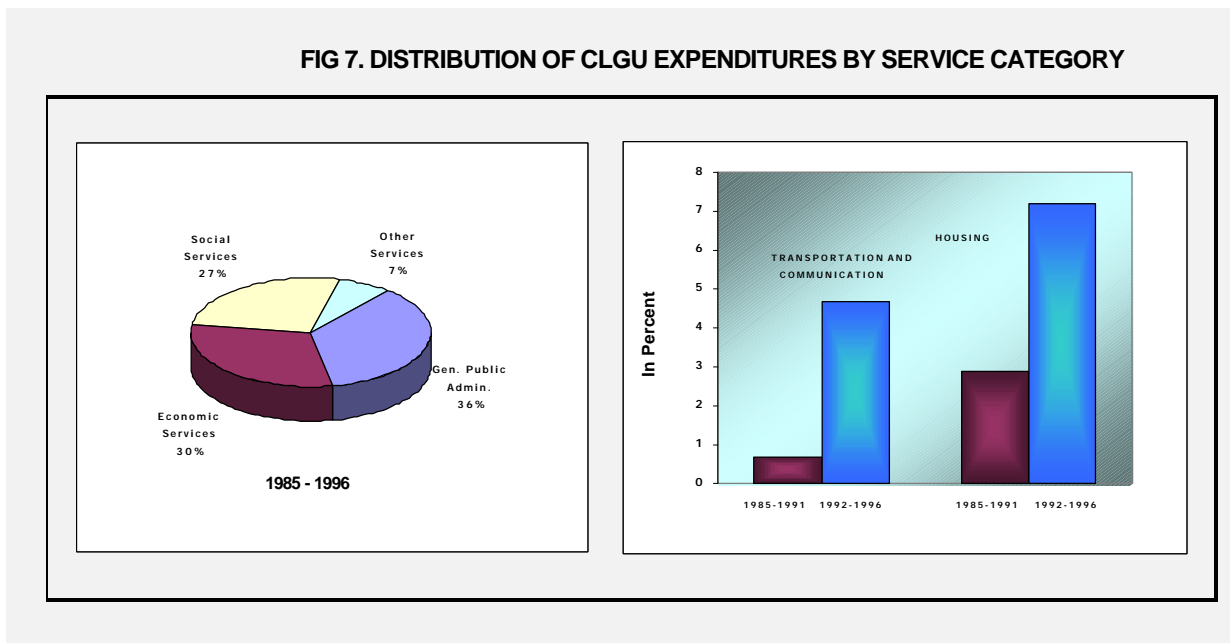
Real per capita expenditures of CLGUs grew by an average of 3.2 percent annually in 1985-1991 and 14.9 percent in 1991-1996. In comparison, real per capita expenditure of all LGUs expanded by 5.9 percent in the first period and 13.6 percent in the latter period (**Figure 6**). The faster than average growth in real per capita expenditures of CLGUs in the latter period was supported not only by the rapid growth in their IRA as a result of the implementation of the LGC but was also a result of their above-average performance in generating revenues. As already noted, per capita local source revenue of CLGUs expanded nominally by 2.4 percent in 1985-1991 and 11.4 percent in 1991-1996 compared to the 3.3 percent and 8.9 percent yearly rate of increase in per capita local source revenue of all LGUs.

FIG 6. GROWTH RATE OF REAL PER CAPITA EXPENDITURE AND REAL PER CAPITA LOCAL SOURCE REVENUE



The ability of CLGUs to raise per capita local source revenues and expenditures despite rapid increases in population, limited resource bases, inflation and constraints placed upon them by the central government is a remarkable achievement. It indicates that urban governments can play a significant role in local resource mobilization. This development is very important considering that despite the increase in per capita expenditures in many cities in recent years the deficiency in urban services continue to be substantial.

Throughout the years, the distribution of CLGU expenditures by service categories have remained fairly stable. The biggest share goes to general public administration (36.0 percent) followed by economic services with 30.1 percent and social services with 26.7 percent (**Figure 7**). Within these service categories, CLGU expenditures on transportation and communication expanded rapidly with its share rising from 0.7 percent in 1985-1991 to 4.7 percent in 1992-1996. Similarly the share of housing rose from 2.9 percent to 7.2 percent.



4. THE URBAN FISCAL PROBLEM

In this section, we attempted to validate empirically the urban fiscal gap discussed in Section 2 using Philippine data. To do this, the determinants of the CLGUs' revenue performance and expenditure behavior were evaluated.

The analysis reveals that while the local business tax effort and the real property tax effort are positively linked with population growth and/or urbanization, the urban fiscal gap still exists (and is

manifested in reduced levels of public service delivery). This may have arisen because other sources of CLGU finance (which account for some 75 percent of total CLGU receipts) do not exhibit a similar relationship with either population growth or degree of urbanization.

It is also worrisome that the present IRA distribution formula tends to have a disincentive effect on local business tax effort. A similar cause for concern is the apparent disregard for cost recovery practices in many CLGUs when experience elsewhere in the world suggests that this is one area where urban governments are better able to generate additional revenue as urbanization proceeds.

On the expenditure side, we found that relative gainers in the devolution process allocated higher IRA at the margin on education and economic services but not on health services. This implies that the provision of health services is not a priority sector for most CLGUs.

4.1. Determinants of Revenue Performance of CLGUs

The paper assessed the determinants of the revenue performance of CLGUs in 1991-1995. LGU revenue performance was measured in terms of per capita total LGU income and two components of per capita locally generated revenues: per capita local business tax revenue (PCLBT) and per capita real property tax revenue (PCRPT). Per capita LGU revenue is then regressed against the variables listed below for each of the years 1991, 1993, 1994 and 1995.

Per capita personal income (PCPY) is used as a proxy for the taxable base of the CLGU.

Per capita IRA (PCIRA) is included as one of the major determinants of CLGU tax effort in order to assess whether central government transfers to CLGUs substitute for locally generated taxes. On the one hand, there is concern among some policy analysts that intergovernmental grants may provide a disincentive to local resource mobilization efforts of LGUs. On the other hand, other analysts argue that central government transfers may stimulate LGUs to increase local revenue generation to the extent that said grants allow LGUs to breach the threshold income that is associated with the provision of more and higher quality services. In this case, higher allotments from the central government may encourage LGUs to generate more revenues locally to complement what they receive from the center.

Degree of urbanization (URB). Earlier studies have shown that LGU revenue performance is not only determined by the economic base but also by other economic variables indicating the overall level of development like the degree of urbanization (Bahl and Schroeder 1983). In these studies, a high degree of urbanization is hypothesized to allow LGUs to derive more revenue from a given economic base because tax collection is facilitated by the fact that the informal sector is relatively smaller in more urbanized areas. Moreover, urbanization is also associated with the expansion of market-based activities which makes these activities easier to reach tax-wise.

Population growth rate (POPGR) is yet another proxy for changes in the economic base.

Two alternative functional specifications were tried: linear and double logarithmic. The results of the double logarithmic equations are largely consistent with those of the linear equations in terms of signs of coefficients and their statistical significance but the linear form was found to have better fit.

White's (1980) test was used to detect heteroscedasticity. This test is deemed to be important considering that the regressions were run using cross section data. The test is based on the regression of the squared residuals from the original regression on the original set of explanatory variables plus the squares of said variables. Where heteroscedasticity was present, the procedure suggested by White was used to correct the standard errors and t-statistics.

Per Capita Local Business Tax Revenue

The results presented in **Table 1** show that per capita local business tax revenue is, as expected, positively related with per capita personal income. The relationship is not statistically significant for all years under study with the exception of 1995. Moreover, the relationship is weak with the increase in PCLBT estimated to be P0.26 at the maximum for every P100 increase in PCPY. This may be indicative of the CLGUs' inability to fully capture the revenue potential of their economic base.

TABLE 1. LINEAR REGRESSION OF PER CAPITA TAX REVENUE OF CLGUs

DEPENDENT VARIABLE	INDEPENDENT VARIABLE					R2	White Chi-Square
	Constant	PCPY	PCIRA	URB	POPGR		
PCLBT							
1991	-4.143 (-0.293)	0.001 (1.004)	-0.040 (-1.449)	0.620 (4.162) **	0.619 (0.310)	0.522	2.483 *
1993	-1.030 (-0.059)	0.001 (1.013)	-0.148 (-1.532)	0.760 (2.896) **	2.339 (0.657)	0.441	2.394 *
1994	14.898 (0.604)	0.002 (1.610)	-0.030 (-3.055) **	0.609 (2.271) *	5.833 (1.446)	0.459	1.986 *
1995	15.172 (0.515)	0.003 (1.664) *	-0.034 (-2.765) **	0.748 (2.343) **	7.418 (1.552)	0.477	2.596 **
PCRPT							
1991	-1.480 (-0.048)	0.006 (2.123) *	-0.039 (-0.742)	0.032 (0.068)	7.269 (1.108)	0.247	2.147 *
1993	7.606 (0.149)	0.005 (1.952) *	0.020 (0.794)	0.078 (0.170)	0.876 (0.106)	0.098	0.257
1994	-23.915 (-0.326)	0.005 (1.332)	0.043 (1.198)	-0.111 (-0.140)	18.830 (1.709) *	0.120	2.646 *
1995	-17.000 (-0.200)	0.005 (1.741) *	0.007 (0.163)	0.076 (0.089)	21.458 (1.936) *	0.142	2.740 **
PCLGUY							
1991	1802.223 (1.330)	0.003 (1.220)	1.172 (6.549) **	1.465 (1.796) *	-1740.106 (-1.295)	0.429	1.575
1993	630.444 (0.461)	0.009 (1.633) *	1.134 (20.288) **	2.987 (2.954) **	-731.572 (-0.539)	0.851	3.406 **
1994	20.638 (0.008)	0.026 (2.112) *	0.859 (8.765) **	1.197 (0.677)	88.274 (0.035)	0.625	8.082 **
1995	-2241.926 (-0.667)	0.021 (1.068)	0.935 (7.185) **	2.583 (0.866)	2320.627 (0.695)	0.432	8.068 **

* statistically significant at 5%

** statistically

Note: Numbers in parenthesis refer to t-values. When the White chi-square is significant, the t-values are derived from White chi-square heteroskedasticity-consistent covariance matrix.

At the same time, PCLBT is found to be negatively related with PCIRA. While the relationship is not statistically significant for 1991 and 1993, it is highly significant for 1994 and 1995.

The coefficients for PCIRA indicate that an increase of P100 in PCIRA results in a P3.01-P3.36 reduction in PCLBT, other things being equal. These suggest that while intergovernmental transfers had a neutral effect on local business tax effort prior to the implementation of the LGC, CLGUs tended to substitute central government grants for local business taxes with Code implementation.

Lastly, PCLBT of CLGUs exhibits a positive and significant relationship with degree of urbanization in all years under study. In contrast, the coefficients for population growth rate yield negative signs but they are not statistically significant. These suggest that CLGUs are able to capture only some of the fiscal benefits of urbanization and population growth.

Per Capita Real Property Tax Revenue

In contrast, PCIRA appears to have a neutral effect on per capita real property tax revenue in all years under study. While the coefficients for PCIRA are positive, they are not statistically significant. Again, PCPY has a positive and significant link with PCRPT (except in 1994). The relationship is slightly stronger than that with respect to PCLBT. A P100 increase in PCPY results in a P0.48-P0.55 increase in PCRPT.

The coefficients for population growth rate have positive signs and they are significant in 1994 and 1995. However, while the coefficients for degree of urbanization are also positive they are not significant. Apparently, CLGUs' real property tax systems have not been able to fully capture the positive effects on land values that urbanization usually entail.

Per Capita CLGU Total Income

Per capita LGU total income (PCLGUY) is found to be largely driven by increases in per capita IRA. This is expected given the fact that IRA accounts for approximately half of total CLGU income during the period. The regression results also confirm expectations that PCLGUY is positively and significantly associated with per capita personal income. This is the case in 1993 and 1994. However, on the whole, both the urbanization and the population growth rate variables are not found to be statistically significant explanatory variables for PCLGUY (with the exception of the 1991 and 1993 equations where the coefficient for degree of urbanization is found to be positive and statistically significant).

User Charges

This study also assessed the performance of CLGUs in recovering the costs of provision of certain types of services through user charges. Specifically, cost recovery in the provision of public utilities (like waterworks, power supply, and telephone services) and of general urban services like markets and slaughterhouses was studied.

Table 2 indicates that in the aggregate CLGUs' cost recovery ratios (i.e., revenue to expenditure ratio) in the activities enumerated above were consistently below unity in 1991-1995.³ Moreover, contrary to the experience in other countries, the cost recovery ratios of CLGUs are even lower than those of the average LGU.

TABLE 2. RATIO OF REVENUE TO EXPENDITURE FROM LGU BUSINESS ENTERPRISES, 1991-1995

	In Percent									
	ALL LGUs					CITIES				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
Total Public Enterprise	53.66	97.33	90.55	78.61	68.02	49.71	90.01	78.86	77.00	68.08
<i>Waterworks System</i>	-	72.95	48.18	55.69	54.72	-	72.06	33.00	42.59	36.63
<i>Electric Light & Power</i>	-	69.28	84.56	78.27	86.76	-	18.42	92.59	93.75	94.01
<i>Telephone System</i>	-	94.72	98.55	227.04	151.84	-	37.78	-	0.27	-
<i>Transportation system</i>	-	16.02	10.70	50.77	3.66	-	6.87	0.84	3.06	1.48
<i>Operation of Market</i>	119.09	109.23	106.71	75.50	66.12	118.12	92.19	97.07	76.94	71.73
<i>Operation of Slaughterhouse</i>	-	197.61	165.69	111.42	83.97	-	227.39	136.28	85.31	77.98
<i>Oper. of Toll Rds, Bridges & Ferries</i>	1.76	14.25	39.28	38.02	32.47	2.52	112.83	3,380.90	425.02	534.69
<i>Operation of Cemeteries</i>	184.10	94.75	177.00	126.12	90.98	453.26	299.79	263.40	404.87	180.37

Source of data : AFR 1991-1996

For instance, using 1995 data, it was also found that none of the 20 CLGUs which were providing water supply services had a cost recovery ratio greater than unity. Moreover, it appears that only 4 of these CLGUs were charging for water (**Table 3**).

CLGU cost recovery performance in markets and slaughterhouses was relatively better but still problematic. Only 9 out of 42 CLGUs were able to recover the recurrent cost of the operation of their public markets fully while only 5 out of 24 CLGUs (or 21 percent) were similarly situated with regards to slaughterhouses (**Table 3**).

Lastly, the hospital-revenue to hospital-expenditure ratio of CLGUs in 1995 varies from a low of 0 to a high of 36 percent (for Olongapo City). Moreover, 7 out of 17 CLGUs in our sample posted ratios higher than 11 percent average for all CLGUs. This result is not quite expected because many LGUs regard hospital care services as a public good that should be given free of charge (**Table 4**).

4.2. Determinants of CLGU Expenditures

To study the determinants of the expenditures of CLGUs, total per capita LGU expenditures (PCTLGUEXP) and per capita expenditures on economic services (PCECON), health services (PCHE), and education (PCED) were regressed against the variables listed below.

³Here, we limited our analysis to recovery of recurrent costs only because of data inaccessibility for capital costs.

TABLE 3. RATIO OF REVENUE TO EXPENDITURE FROM LGU BUSINESS ENTERPRISES OF SELECTED CLGUs, 1995

Name of Cities	RATIO OF INCOME TO EXPENDITURE (%)			
	Water	Markets	Slaughterhouse	Transport
Laoag, Ilocos Norte		93.31	116.42	
Dagupan, Pangasinan		96.26	336.68	
San Carlos, Pangasinan				
Baguio, Benguet				
Santiago, Isabela		99.32	12.75	
Cabanatuan, Nueva Ecija		65.70	46.69	0.00
Palayan, Nueva Ecija				
San Jose, Ecija		150.38		
Angeles, Pampanga		54.68	120.77	0.00
Olongapo, Zambales		14.68		
Batangas, Batangas		106.98		0.00
Lipa, Batangas		114.03		
Cavite, Cavite		201.82		
Tagaytay, Cavite		99.92	216.71	
San Pablo, Laguna		149.96	38.05	
Lucena, Quezon		270.25	81.17	0.00
Legaspi, Albay		59.96		
Iriga, Camarines Sur		98.27	84.22	
Naga, Camarines Sur	0.00	100.66	84.10	
Roxas, Capiz		77.94	30.46	
Iloilo, Iloilo	0.00	96.29		
Bacolod, Negros Occ.	0.00	40.47		
Bago, Negros Occ.		8.55		
Cadiz, Negros Occ.	0.00	77.06		
La Carlota, Negros Occ.		58.35		
San Carlos, Negros Occ.				
Silay, Negros Occ.	0.00	18.41		
Tagbilaran, Bohol				
Danao, Cebu	27.60	69.41	97.41	
Lapulapu, Cebu	0.00	44.65		
Mandaue, Cebu	0.00	63.01	72.90	155.42
Toledo, Cebu	21.54	37.04	33.46	
Bais, Negros Oriental				
Dumaguete, Negros Oriental				
Ormoc, Leyte	38.24	65.66		
Tacloban, Leyte	0.00	19.43	0.00	0.00
Calbayog, Western Samar	0.00	21.95		
Dapitan, Zamboanga Del Norte	0.00	17.96	30.26	0.00
Dipolog, Zamb. Del Norte	0.00	0.00	0.00	0.00
Pagadian, Zamb. Del Sur				
Zamboanga, Zamb. Del Sur	0.00	55.88	53.27	
Ozamis, Misamis Occ.				
Tangub, Misamis Occ.		214.10		
Cagayan de Oro, Misamis Or.	0.00	38.44		
Surigao, Surigao Del Norte	0.00	68.66	98.81	0.00
Davao, Davao Del Sur		29.26	15.17	0.00
General Santos, S. Cotabato	0.00	93.51	136.73	384.13
Iligan, Lanao Del Norte	30.97	63.48	2.03	
Marawi, North Cotabato		28.16		
Cotabato, N. Cotabato	0.00	34.49	15.89	0.00
Caloocan				
Pasay		131.83		
Quezon			2.42	
# of cities w/ ratio > 100	0 out of 20	9 out of 42	5 out of 24	2 out of 12
% to Total #	0	21.43	20.83	16.67

LGU income. Obviously, LGU expenditure will be limited by LGU income because of the budget constraint. By tradition, Philippine LGUs do not finance recurrent expenditures by issuing debt. In the analysis that was done for this study, two major components of LGU income (namely, per capita IRA [PCIRA] and per capita local source revenue [PCLSR]) were considered as distinct explanatory variables. It is important to distinguish between these two variables in order to evaluate the impact of intergovernmental transfers on CLGU spending.

Net resource transfer as a result of the LGC. While the increase in the IRA (as a result of the implementation of the 1991 Local Government Code) is sufficient to cover the cost of devolved functions in the aggregate, it cannot be denied that there is a mismatch, at the LGU level, between the financial resources and the expenditure responsibilities that were transferred to LGUs. Thus, the increase in the IRA share of some LGUs is not enough to finance the functions devolved to them.⁴ Although only a few CLGUs had negative per capita net resource transfer in 1993 and 1994 there is considerable variation in said variable across individual CLGUs.⁵ A dummy variable, D1, (which takes on the value of 1 when the per capita net resource transfer to the CLGU is above the median and 0 otherwise) was thus included as one of the explanatory variables in the regression analysis. This variable was included in order to verify whether the budget allocation behavior of the relative gainers from the devolution program differ significantly from that of the relative losers.

Table 4. Cost Recovery in Hospitals, 1995

Name of Cities	Hospitals		
	Income	Expenditure	Ratio (%)
Laoag, Ilocos Norte	156,828.00	2,629,419.25	5.96
Cabanatuan, Nueva Ecija	1,332,862.00	17,023,515.28	7.83
Angeles, Pampanga	5,192,228.95	21,294,692.23	24.38
Olongapo, Zambales	6,650,576.88	18,439,639.32	36.07
Cavite, Cavite	0.00	904,259.40	0.00
San Pablo, Laguna	0.00	3,000,000.00	0.00
Naga, Camarines Sur	1,554,701.98	7,828,976.22	19.86
Bago, Negros Occ.	994,943.60	5,262,267.73	18.91
Toledo, Cebu	626,989.21	9,700,013.91	6.46
Ormoc, Leyte	0.00	989,567.05	0.00
Tacloban, Leyte	1,425,510.81	6,507,776.27	21.90
Pagadian, Zamb. Del Sur	40,380.27	1,581,451.01	2.55
Ozamis, Misamis Occ.	1,165,910.83	7,868,676.15	14.82
Cagayan de Oro, Misamis Or.	2,805,178.40	26,728,446.48	10.50
Iligan, Lanao Del Norte	2,865,949.62	21,650,876.09	13.24
Caloocan	652,647.16	12,298,011.22	5.31
Pasay	1,915,413.85	18,103,726.19	10.58
All Cities	71,219,000.00	623,173,000.00	11.43
All LGUs	291,086,000.00	2,783,245,000.00	10.46

⁴The IRA increment in 1991 is defined as the difference between the 1993 IRA and the 1992 IRA. The IRA increment in 1994 is analogously computed.

⁵The net resource transfer is defined as the difference between the IRA increment and the cost of devolved functions.

Human development index. The analysis also tested whether or not lagged (or contemporaneous) values of the composite human development index, HDI, and its various components (life expectancy [LE] and functional literacy rate [FLR]) influence the budget allocation of CLGUs for the social sectors in the current year. This is an attempt to determine if CLGUs' spending on the social sectors is responsive to objective indicators of need. In the 1993 equations, 1990 HDI values were used while 1994 HDI values were used in 1994 and 1995 regressions.

Population growth rate (POPGR). The growth in the demand for public services is most often associated with population growth. *A priori*, it is expected that LGU expenditures grow more or less proportionately with respect to population so as to maintain a constant level of service.

Degree of urbanization (URB). A strong and positive relation between urbanization and per capita personal income is well established (Bahl and Linn 1992). At the same time, rising per capita personal income would tend to lead to an increase in the demand for public services if such demand is income-elastic.

Dummy variables for the presence of city/provincial/regional hospital within CLGU jurisdiction. Three additional dummy variables were introduced. D2 takes on the value of 1 if the CLGU operates its own hospital and is set at zero otherwise. On the other hand, D3 is given a value of 1 if there is a provincial government-operated hospital while D4 takes on the value of 1 if there is a DOH-operated hospital within the premises of the city.

Given the high cost of operating hospitals, the presence of city-operated hospitals is expected to impact significantly on per capita CLGU health expenditures. On the other hand, since most of the patients of province-operated and DOH-operated hospitals located within the jurisdiction of any given city are typically residents of the said city their presence usually implies an effective subsidy to the city in the form of lower health spending requirements (Capuno and Solon 1996)

Again, two alternative functions specifications were tried: linear and double logarithmic. The results of double logarithmic equations are largely consistent with those of the linear equations in terms of signs and significance of the coefficients. Generally, the linear specifications were found to have better fit. White's (1980) test was again used to detect heteroscedasticity and White's correction was implemented where needed.

Per Capita Total LGU Expenditure

In all years, a strong, positive and significant link is established between per capita LGU total expenditure and per capita IRA. However, while there appears to be some evidence that relative net gainers tend to have different marginal propensities to spend out of the IRA compared with relative

net losers in the devolution process, the coefficient of the D1*PCIRA variable switch sign from negative in 1994 to positive in 1995.⁶

The results of the expenditure regressions presented in **Table 5** show that the degree of urbanization and PCLGUEXP are negatively and significantly related in 1995. In the other years, the sign of the coefficient of the urbanization variable is positive but not significant (except in 1994). These results tend to show that while CLGUs were able to adjust their aggregate expenditure level in line with the increasing demands of urbanization in 1991-1994 (when the IRA share of LGUs increased substantially following the implementation of the LGC), they were largely unable to do the same in 1995 (when the increase in IRA share of LGUs have started to taper).

In contrast, the population growth rate variable did not turn out to be a good explanatory variable in all years.

Per Capita Health Expenditures

The analysis reveals that the population growth rate is negatively and significantly associated with per capita health expenditures (PCHE) for all years except 1991. Similarly, the coefficients of the urbanization variable are also negative and statistically significant in 1994 and 1995.

The negative sign of the POPGR and URB variables is contrary to initial expectations. However, it is possible that actual CLGU per capita health expenditures (as opposed to required level) will decline with higher population growth rates and higher degree of urbanization as their revenues do not increase commensurately. This is so because Philippine LGUs are generally unable to go into deficit finance. Consequently, these results might be an indication of the urban fiscal gap problem.

In line with initial expectations, CLGUs which operate their hospitals tend to spend more on health on a per capita basis compared with other CLGUs. This is manifested by the positive and highly significant relationship between D2 and PCHE. However, our results do not suggest that the presence of province-operated or DOH-operated hospitals within city premises leads to a reduction in per capita health expenditures of the host cities.

The coefficients for PCIRA have the expected signs but are not significant in 1994 and 1995. Moreover, while the coefficients of the D1*PCIRA variable are negative in the PCHE regressions⁷, they are not significant except in 1993. This is in sharp contrast with the results of similar regressions made for provincial governments. The difference may be explained by the fact that only 1 of the CLGUs was a net losers in the devolution process in an absolute sense.

⁶Note that IRA share of LGUs rose from 11 percent of BIR revenues in 1991 to 20 percent in 1992, 25 percent in 1993 and 40 percent from 1994 onwards.

⁷The negative relationship between D1*PCIRA and PCHE indicates that relative net gainers in the devolution process tend to spend less on health at the margin compared with the relative net losers.

TABLE 5. LINEAR REGRESSION OF PER CAPITA EXPENDITURE OF CLGUS

DEPENDENT VARIABLE	INDEPENDENT VARIABLE											R 2	White Chi-Square	
	Constant	PerCapita IRA	D 1 * Per Capita IRA	PerCapita LocalSource Revenue	POPGR	URB	FLR	LE	D 2	D 3	D 4			
Total Economic Service Expenditure														
1991	-730.049 (-0.864)	-0.055 (-0.551)		-0.086 (-1.203)	277.422 (0.380)	606.189 (-0.803)							0.039	1.532
1993	-1184.642 (-0.421)	-0.013 (0.165)	0.254 (2.730) **	0.014 (0.066)	1454.827 (.529)	-0.018 (-2.100) *							0.269	0.620
1994	1007.693 (0.440)	-0.034 (-0.550)	0.185 (3.150) **	-0.148 (-1.133)	-513.475 (-0.228)	-0.005 (-0.644)							0.270	0.484
1995	1230.176 (0.531)	-0.028 (-0.474)	0.179 (3.082) **	-0.029 (-0.259)	-789.413 (-0.348)	-0.005 (-0.634)							0.256	0.523
Health Expenditure														
1991	188.804 (1.073)	0.041 (1.731) *		0.075 (3.560) *	-169.439 (-1.075)	0.096 (1.080)		-0.196 (-0.212)	25.767 (4.610) *	-8.072 (-1.374)	-2.406 (-0.380)		0.573	0.815
1993	858.392 (1.842)	0.052 (1.906) *	-0.040 (-2.310) *	0.030 (1.235)	-779.980 (-2.248) *	-0.257 (-1.390)		-0.320 (-0.129)	23.113 (2.363) *	3.186 (0.290)	3.386 (0.275)		0.390	0.514
1994	1681.907 (3.286)	0.012 (0.644)	-0.006 (-0.382)	0.034 (1.450)	-1188.585 (-2.936) *	-0.051 (-2.258) *		-5.314 (-1.826) *	49.690 (3.929) **	-26.586 (-1.810) *	-6.288 (-0.369)		0.631	0.460
1995	2297.884 (2.430)	0.007 (0.220)	-0.014 (-0.561)	0.073 (1.962) *	-1959.870 (-2.604) *	-0.735 (-1.725) *		-2.689 (-0.509)	26.445 (1.148)	8.692 (0.328)	12.738 (0.406)		0.313	1.195
Education Expenditure														
1991	300.593 (1.950) *	0.035 (1.748) *		0.071 (3.416) *	-348.517 (-2.095) *			0.674 (2.492) **					0.309	2.655 **
1993	492.210 (0.749)	-0.076 (-0.750)	0.087 (2.094) *	0.008 (0.177)	-172.717 (-0.312)			-2.625 (-1.054)					0.370	0.359
1994	-20.823 (-0.046)	-0.044 (-2.065) *	0.023 (1.113)	0.035 (.835)	39.411 (0.095)			0.726 (0.424)					0.109	2.486 *
1995	792.943 (0.783)	-0.033 (-0.913)	0.175 (2.921) **	-0.009 (-0.157)	-518.690 (-0.565)			-1.609 (-0.363)					0.513	0.115
LGU Expenditure														
1991	1771.263 (0.763)	1.035 (3.319) **		0.303 (1.276)	-1696.750 (-0.735)	1.113 (0.768)							0.199	0.301
1993	-1181.542 (-0.373)	0.842 (7.345) **	0.044 (0.404)	0.686 (2.720) **	1006.102 (0.322)	2.307 (1.157)							0.615	1.123
1994	3517.623 (1.502)	1.037 (10.280) **	-0.106 (-1.653) *	-0.068 (-1.006)	-3344.294 (-1.469)	3.430 (1.967) *							0.755	2.765 **
1995	-84.800 (-0.017)	-0.443 (-2.680) **	0.531 (2.792) **	-0.040 (-0.191)	2162.204 (0.435)	-10.903 (-3.004) **							0.308	2.836 **

* statistically significant at 5%
 ** statistically significant at 1%

Note: Numbers in parenthesis refer to t-values. When the White chi-square is significant, the t-values are derived from White chi-square heteroskedasticity-consistent covariance matrix.

Similarly, there is no strong link between per capita local source revenue and PCHE. While the coefficients of the PCLSR variable are positive, they are not significant except in 1995.

It is noted that while CLGU allocations on the health sector are consistent with health need indicators like life expectancy (with high life expectancy CLGUs budgeting less for health services), the relationship between these variables is not statistically significant except in 1994.

Per Capita Education Expenditure

The coefficients of POPGR in the PCED equations have negative signs as in the PCHE equations. However, these coefficients are not statistically significant. The same result holds for the URB variable. These results lending some support to the existence of an urban fiscal gap.

The D1*PCIRA and the PCIRA variable are the only statistically significant explanatory variable in the PCED regressions.⁸ The sign of the coefficient of the D1*PCIRA variable is positive indicating that relative net gainers in the devolution process tend to allocate their windfall resources to the education sector. However, the negative sign of the coefficient of the PCIRA variable suggests that on the whole per capita education expenditure of CLGUs tend to fall with higher per capita IRA.

Per capita local source revenue does not appear to be a good explanatory variable for PCED. Its coefficients in the PCED regressions are not significant except in 1991.

Per Capita Expenditure on Economic Services

The D1*PCIRA variable is the only variable that is consistently significant in the PCECON regressions. Similar to the PCED equations, the sign of the D1*PCIRA coefficients are positive suggesting that relative net gainers in the devolution process tend to allocate a larger portion of their IRA on economic services compared with relative losers.

The coefficients of the POPGR and the URB variables are both negative tending to support the urban fiscal gap hypothesis. However, they are not statistically significant.

At the same time, both the PCIRA and the PCLSR do not register statistically significant relationships with PCECON.

5. CLOSING THE URBAN FISCAL GAP

The problem of the urban fiscal gap can in principle be addressed in four different ways: (1) increased local revenue effort with unchanged revenue authority, (2) increased LGU revenue authority; (3) increased transfers from central government; and (4) more efficient use of existing financial resources in service delivery.

⁸The former is significant in 1993 and 1995 while the latter is significant in 1991 and 1994.

5.1. Increasing Local Revenue Effort

One of the more important findings of this study is the substitutive effect of the IRA distribution formula on local source revenue. To counteract this tendency, tax effort may be taken into account explicitly in the IRA allocation formula. Alternatively, the IRA distribution formula may also be allocated to the different LGUs on the basis of equalization of net fiscal capacities, i.e., revenue capacity net of expenditure needs (Shah 1994).

At the same time, the results outlined in **Section 4.1.** indicate that CLGUs' real property tax systems have apparently not been able to fully capture the positive effects on land values that urbanization usually entail. In this regard, the amendment of the LGC in favor of automatic indexation of the schedule of fair market value in between general revisions will greatly help compensate for this weakness in the system. Such a move will protect the RPT base from being eroded by inflation during the years when no general revision is undertaken. By avoiding the need to make lumpy adjustments in the schedule, it will also make it easier to narrow the gap between the "official" schedule of fair market values and the true market values of real property in the medium term. Moreover, to counter the tendency of local assessors to value real property below its true market value, the use of the zonal values of real property (on which the BIR bases its assessment of transfer taxes) should be considered. Tan (1993) found from a sample of areas in Metro Manila that the local assessors' estimate of the fair market value was at best 30 percent of the true fair market value of real properties.

On the collection side of RPT, Fisher (1996) recommends that current collectibles should be monitored separately from delinquent accounts. He further recommends that a more aggressive collection/enforcement stance be taken such that at the close of each quarter each account is issued notices of delinquencies; at the end of the second quarter when an account becomes delinquent, warrants of levy should be issued; at the end of the third quarter when an account becomes delinquent, auction notice should be issued.

In comparison, the biggest problem with regards to the local business tax is the under-reporting of gross receipts of establishments. Requiring taxpayers to submit income tax returns (ITRs) filed with the Bureau of Internal Revenue is perhaps the most direct way of obtaining information. Given the present tax calendar, this implies that local business tax is initially assessed on the basis of previous year's ITR subject to final adjustment later in the year as the current ITR becomes available. In addition to the ITRs, local treasurers may require large establishments to submit supplementary accounting records. In large/urban areas, local treasurers should be trained in the conduct of field examination to check veracity of reported gross receipts. The use of presumptive income levels, particularly for small establishments, should be explored. Anecdotal evidence suggests that this worked very well in Naga in the late 1980s and early 1990s.

To improve collection/enforcement of the non-RPT, ARD (1992) noted that the required improvements are simple. They only need consistency in practice. These include: (1) the establishment of a tax roll for each type of tax (the conduct of a tax census and the development of a revenue data bank are key steps in this regard); (2) maintenance of systematic and organized records where payments of all taxpayers are automatically entered as they occur; (3) the sending of tax bills; and (4) conscientious monitoring of payments of taxpayers and identification and

collection of tax delinquencies; and (5) strict implementation of sanctions and penalties on erring taxpayers.

A number of LGUs, particularly provincial governments, have adopted cost-based pricing of hospital services. Moreover, a good number of cities are already sourcing a substantial of their hospital expenditures from user charges. In addition to this innovation on the technical side, local sanggunians need to pass legislation that will remove restrictions on the retention of income generated by these hospitals. It has been found that said restrictions discourage hospital personnel from collecting user fees.

In contrast, the poor financial performance of CLGU business enterprises is worrisome. Again, a move to cost-based pricing is one way of addressing this problem. Still another way is through the award of management contracts to the private sector.

Lastly, a good number of CLGUs have large cash balances. However, the Commission on Audit has put in place certain regulations which limit the CLGUs' ability to maximize the returns on these funds. Some LGU officials (e.g., Bacolod officials) were questioned when they invested in Treasury Bills.

5.2. Increasing LGU Taxing Authority

In the medium term, the assignment of taxing powers to various levels of government must be reviewed. Existing theoretical guidance on tax assignments suggests that residence-based taxes and taxes on immobile factors like the RPT are appropriate for local taxation. At the same time, motor vehicle ownership and use is also suitable tax base for CLGUs. "The number of vehicles in any given city usually grows faster than its population. The growing number of vehicles requires more expenditures to maintain roads and imposes the cost of congestion and pollution on the urban environment" (Bahl and Linn 1992).

The imposition of betterment levies (or a tax aimed at recouping the public costs of providing urban infrastructure from the beneficiaries) should also be explored. Such charges have been tried with positive effects in Korea and Colombia.

5.3. Improving Efficiency and Effectiveness in Service Delivery

Case studies of best practices in LGU service delivery suggest that upgrading of LGU planning and fiscal management capacity, greater emphasis on participatory process, more effective coordination with other government agencies including other LGUs, ability to catalyze private sector and NGOs, use of appropriate low-cost technologies, contracting with the private sector, and elimination of corruption will all contribute to improvements in the efficiency of public service provision. This highlights the need to disseminate and encourage replication of these practices.

In this project, eight (8) case studies in health service delivery (Butuan, Cotabato, Gingoog, Lapu-lapu, Naga, Olongapo, Puerto Princesa, Surigao), five (5) in environmental and natural resource management (Baguio, General Santos, Olongapo, Puerto Princesa, Las Pinas), and three (3) in housing (Naga, Puerto Princesa, San Carlos) were reviewed. The objective of

this exercise is to document innovative programs and highlight the key elements that have made them successful and sustainable. Many of these programs have already received awards from various bodies like the Galing Pook Awards, HAMIS (Health Management Information System), and Clean and Green Program to name a few. The value-added of this project is not so much the identification of previously unrecognized innovations but the decomposition of so-called best practices into their principal components so as to better focus attention on replicability issues.

These case studies share several common features that cut across sectors. First, greater participation of various stakeholders (local institutions and people) in the implementation process and funding help ensure efficient and effective program results and help sustain the continued implementation of the program itself. This is best exemplified by the mobilization of women's groups in the delivery of health services (as in Surigao City's Primary Health Care Federated Women's Club, Lapu-lapu City's mothers support groups), Naga City's reliance on the community organizations in identifying the beneficiaries of the housing program and in putting together the share of the beneficiaries in the financial requirements of the project, and the widespread participation of the citizenry in Puerto Princesa's Oplan Linis and also its reforestation program.

Second, the LGUs involved in these best practice cases have somehow been able to break free from the financial constraints that face most urban LGUs. The concerned LGUs took different routes in addressing the fiscal gap. Some have introduced user fees as in Olongapo City's Solid Waste Management Program while others have spent time and effort in designing a well-thought out cost recovery scheme as in San Carlos City's Lote Para sa Mahirap. Still other LGUs have focused on mechanisms/techniques that reduce the cost of service production/delivery. This is true of the Cotabato City's use of barangay halls and even private homes in the absence of Barangay Health Stations (BHSs) in some barangays; the mobilization of health volunteers in Cotabato City, Olongapo City and Naga City. Some LGUs have also mobilized additional funds from other levels of government as well as from the private sector. For instance, Olongapo City requires its barangays to allocate 5 percent of their IRA to health and welfare. Surigao City obtained P1.5 million for the construction of a training center for its PHC Women's Club from the Countrywide Development Fund (CDF) of a senator. The establishment of partnerships with the private sector as in Lapu-lapu City where 10 private companies and 5 educational institutions support 8 barangays in terms of the conduct of a monthly free clinic, and the donation of facilities and supplies. Similarly, in General Santos City's "adopt-an-island" program, business establishments, academic institutions and NGOs develop and maintain parks and road islands in the city. (4) Other LGUs have maximized the use of their own resources to finance development expenditures. San Carlos City set aside 30 percent of their IRA (instead of the mandated 20 percent) for their Local Development Fund.

Third, the better programs are those that are undertaken within an integrated, inter-sectoral development strategy that attempt to capture the synergy from program interdependencies. For example, Puerto Princesa's Low-Cost Housing Project is in reality just one component of the city's Bantay Dagat program. In like manner, Olongapo City strengthened the link between health and sanitation by integrating its environment program with health activities.

Housing

On the other hand, the case studies also address a number of sector-specific concerns. In the housing sector, both Naga's Kaantabay sa Kauswagan Housing Program and San Carlos' Lote Para sa Mahirap focus on the provision of lot and settlement upgrading in contrast to Puerto Princesa's Low-Cost Housing Project which involves the provision of a house and lot package. Experiences elsewhere in the world tend to indicate that the role of government in the housing supply is best limited to land development and investment in on- and off-site infrastructure. "Given the heterogeneity of people's preferences for a kind of shelter and the speed at which they can or want to improve its quality, it is not surprising that public housing projects often do not fit the housing preferences of the poor." In this case, public resources allotted for housing construction are better placed in complementary inputs into housing like tenure and services (Bahl and Linn 1992).

The experience in all three of this study's housing case studies is consistent with the experience in many countries which subsidize housing consumption either through the underpricing of land and the implicit subsidy on interest. Often land is valued at its acquisition cost to government. "While a first project may be able to draw on financially cheap public land, follow-up projects may have to purchase land at commercial prices from private owners. In that case, the replicability of the first project -- if it relies on subsidized land costs -- is in doubt." At the same time, experience in other countries suggests that subsidies on housing tend to result in the overconsumption of housing relative to other goods and services and in overly ambitious expectations for housing standards because full cost is not borne by beneficiaries (Bahl and Linn 1992). This lesson is most relevant in the case of Puerto Princesa which does not charge interest and which provides homelots of 99 sqm (almost double the size of lots in commercial low-cost housing projects) and where beneficiaries are still complaining about the smallness of the lot size. While both San Carlos and Naga provide some implicit subsidies in their programs, these subsidies are not as substantial.

In all three cases, the success of the programs was helped by the LGUs' ability to play a catalytic role in terms of coordinating with national shelter and shelter-financing agencies. Moreover, in Naga, the City Council passed ordinances pertaining to land conversion and gave the mayor authority to negotiate the purchase of land. Aside from the traditional way of acquiring land through direct purchase, the LGU negotiated for land sharing and land swapping schemes.

All three cities used census listing of the claimants in monitoring the legality of their claims as future beneficiaries. But most noteworthy is the local initiative in implementing strictly the ban on illegal construction in Puerto Princesa.

Environmental and Natural Resource Management

The types of environmental programs that cities can undertake may vary depending on the over-all development goals of the city as well as the features and priorities of the city environment that is to be managed. For natural resources-rich cities like Puerto Princesa and Baguio, environment and natural resource management activities (such as the Bantay Gubat and Bantay Dagat in Puerto Princesa and Eco-Walk Program in Baguio) serve as the city's main programs. For highly urbanized cities in which environment problems are associated with growth in

economic activities like Olongapo City, solid waste management program deserves greater emphasis. Environmental programs can also be non-conventional as in the case of Las Pinas and General Santos where focus is more on the aesthetics and tourism aspects and goals of the program.

In environmental and natural resource management where there is a need to change people's behavior and attitudes, a good information, education and communication program is essential. While each LGU may craft its own program for the environment, inter-LGU cooperation have to be made in many instances in view of economies of scale and externalities involved (e.g. sanitary landfill site management and maintenance). Lastly, when market based instruments are used in tandem with regulatory instruments, LGUs may be able to raise revenues while minimizing further environmental damage.

Health

Puerta Princesa's Satellite Clinic Project and Naga's Emergency Rescue Naga are aimed at providing emergency medical assistance. Naga's scheme makes use of an extensive radio network and the availability of ambulances to improve the access of residents in rural barangays to medical care in emergency situations. Making the program available metro-wide enabled the sharing of limited facilities and magnified benefits.

In contrast, Puerta Princesa (by staffing the satellite clinic with trained medical personnel on a part-time basis) not only provided emergency medical care but also improved the access of rural barangays to basic health care overall. The satellite clinics enabled early treatment of diseases before they got worse and decreased the number of patients going to hospitals. Thus, the projects highlights the importance of looking at curative and preventive health care in a more integrated manner.

5.4. Issues for Further Research

This study also attempted to collect some input/output indicators of the service delivery levels of CLGUs. The results of this exercise are rather disappointing. Input/output indicators were not available (or at the very least not easily accessible even if they are available) at the local level for most type of services with the exception of education and health care services. The absence of this information may indicate that CLGUs do not make use of this kind of data in planning and budgeting as might be expected. Moreover, simple correlation analysis between input/output indicators (when they are available), on the one hand, and per capita CLGU expenditure, on the other, suggest there is a weak relationship between said variables.

BIBLIOGRAPHY

- Bahl, Roy and Johannes Linn. *Urban Public Finance in Developing Countries*. New York: Oxford University Press, 1992
- Bahl, Roy and Shyam Nath. "Public Expenditure Decentralization in Developing Countries." *Government and Policy* 4: 405-418, 1986
- Bahl, Roy and Larry Schroeder. "The Business License Tax," in Roy Bahl and Barbara Miller, eds. *Local Government Finance in the Third World: the Case of the Philippines*. New York: Praeger, 1983
- Capuno, J.J. and O. Solon. "The Impact of Devolution on Local Health Expenditures: Anecdotes and Preliminary Estimates from the Philippines," 1996 (unpublished).
- Fisher 1996
- Shah, Anwar. "The Reform of Intergovernmental Fiscal Relations In Developing and Emerging Market Economies," *Policy and Research Series No. 23*. Washington, D.C.: World Bank, 1994.
- Tan, Edita. "Real Property Taxation and its Potential as a Major Source of Local Revenue," in Emmanuel de Dios and Associates, *Poverty Growth and the Fiscal Crisis*. Makati: PIDS and IDRC, 1993.
- White (1980).