Meeting Urban Development Challenges

Its importance for both growth and poverty calls for a coherent national framework toward urbanization. The objective of such a framework should be to develop the Philippine urban areas into livable and globally competitive regions which can truly serve as engines of growth. Key elements of the framework include: urban and metropolitan management, urban poverty alleviation, urban competitiveness, migration management, and infrastructure development. The framework would require joint efforts at both the national and local level

Background

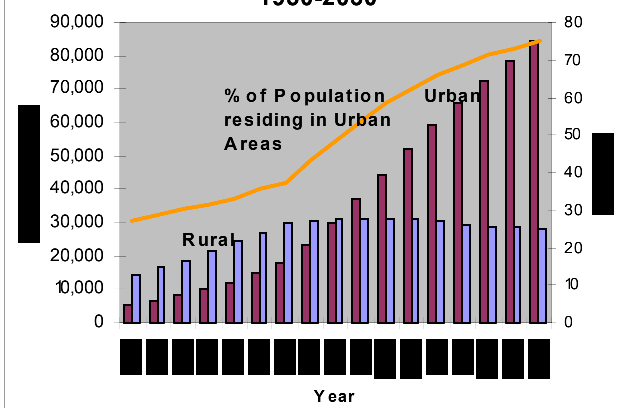
The future of the Philippines will largely depend on the performance of its urban areas. Already, most people, 40 million, live in urban areas. Urban areas are beacons of opportunity; urban incomes are 2.3 times rural incomes. They already account for the vast majority (70%) of economic output. The contribution of urban areas to economic growth is even greater. For example, in 2000, the largely urbanized Philippines heartland (NCR + Regions III and IV) alone accounted for 60% of economic growth.

Philippines has experienced one of the highest urbanization rates in the developing world, registering 5.1% annual urban population growth from 1965 to 1995. Though expected to slow down, urban population will continue to increase much faster than average population growth, and will account for 75% of the total population by 2030.[1] *The increase of the country's fast population growth will all occur in the urban areas*, as rural population is actually projected to decrease slightly over the next 30 years. According to UN projections, close to 1.4 million people will be added into the urban system each year in the next 10 years.

High rural-urban migration feeds urban growth, adding to the high natural growth rates in urban areas themselves. The continuing rural-urban transition is rooted in the fact that urban areas, as engines of growth, offer opportunities for the rural poor. The urban areas are where localization and globalization forces intersect, innovation occurs, new jobs are created, and lifestyles are largely set.

The Philippine economy has already been successfully transformed to an urban economy where most of the economic activity emanates from the services and industry sector[2]. Agricultural employment

Figure 1. Urban and Rural Population 1950-2030



Source: UN Population Division (2002)

has been in absolute decline, and non-agricultural employment (manufacturing, services) has accounted for all employment creation. The future of economic growth and employment generation, thus will largely depend on the competitiveness and productivity of the urban areas.

Nevertheless, the performance of the Philippine urban system over the last two decades has been below par relative to most other East Asian countries. Improving urban area performance, in terms of poverty alleviation, as engines of economic development, and as attractive living environments, is one of the major challenges facing the Philippines.

The stakes are high. If not properly managed, urbanization could exacerbate environmental damage, congestion, lack of basic services, ill health and insecurity especially among the poor. Sound policies to manage urbanization are therefore critical. The role of city governments in developing and implementing key policies that affect quality of life has grown in scope and importance and perhaps become even more vital than that of national government.

Key Issues

Meeting the challenges brought by urbanization will be a daunting task. The following areas of concern should be addressed to be able to enhance the productive capacity and the quality of life of urban dwellers:

Competitiveness and employment creation. Creating enough jobs, especially in urban areas where population is growing fastest, is *the single most important task* that needs to be accomplished in order to significantly improve the quality of life of Filipinos.

Urban unemployment have risen in the last few years, from 11.6% in 1994 to 13.1% in 2001, Unemployment rates are even higher in Metro Manila (or NCR) where unemployment levels in 2001 stands at 16.5%.

Aside from the high population growth, chronic weaknesses in investment attractiveness of the Philippines relative to other countries, and the complexities and rapid shifts in competitive advantage within the global and East Asian economies, adds to the challenge of creating more jobs for its productive population.

Philippine urban areas have their *competitive strength* which needs to be fully utilized. These include: continued English language competency; relatively high education level (though the advantage is being eroded quickly with low performance in the last decade); advanced decentralization with considerable power now vested in LGUs; endowment of natural resources, particularly for tourism; and continued active civil society participation in governance.

The government needs to quickly take actions to address *weakness* in the urban areas to enable them to be competitive in a global economy. These include: poor infrastructure service conditions; deteriorating urban environment; urban security concerns; low capacity at local government level in economic development; and serious national and local government fiscal constraints.

International best practice points to a series of actions that national and local governments can take to bolster the local investment climate and improve productivity and competitiveness. Many of these require cooperation across levels of government, among different local jurisdictions, and between government, civil society and local business.

Urban Poverty. Poverty rates in urban areas are typically well below those in rural areas, consistent with the fact that productivity and incomes are generally much higher in urban areas. About 29% of the urban population live below the $2 a day poverty line in Philippines compared to 60% in rural areas. People migrate from the countryside to the city precisely because of better opportunities for escaping from poverty.

However, while urban income and productivity is high on average*, inequality* is also higher. This is not only socially problematic but raises questions about the sustainability of current development patterns. Furthermore, because the urban population is increasing much more quickly than the rural, *the share of urban poverty in national poverty is rising sharply*. The urban share of national poverty in the Philippines increased from 23.5% in 1988 to 31% in 2000. Also of considerable concern is the fact that official data indicate that the incidence of poverty in urban areas has increased from 17.9% in 1997 to 20.4% in 2000.[3]

Therefore, policies targeted at the specific problems of the urban poor have become more important. Significant proportions of the urban poor live in communities which lack access to basic services like piped water, sanitation, drainage, paved footpaths, electricity, etc. It is commonly held that lack of income is the reason why the poor lack basic services. However, this is not the case. Surveys indicate that *low income slum and squatter communities have the resources and would be willing to pay for basic services if government programs and policies were better designed to provide such services in these communities*. In fact, they often have to pay high prices for alternatives to these services, for example by buying water from vendors who can charge many times the price of water from a municipal tap.

The Millennium Development Goals include targets "*halve by 2015 the proportion of people without sustainable access to sanitation and safe drinking water", and "By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers."* Meeting urban residents' needs for access to basic services, land tenure and environmental quality is a fundamental challenge for the Philippines.

Urban Governance and Management. The fact that decentralization, which empowered LGUs, took place earlier than most of its neighbors is a competitive strength of the country's urban system. However, much of this strength is negated by strong countervailing forces that need to be addressed.

Local governments have yet to fully rise to the challenge of development as mandated under the Local Government Code. Ironically, LGUs have become more dependent on the national government for funding because of IRA. Provinces are the most dependent, exhibiting a *financial autonomy ratio* of only 18% in 1999 (versus 36% in 1990), compared with 23% for municipalities (48% in 1990) and 49% for cities (68% in 1990).[4] This increasing dependence on the IRA, untied to performance, acts as a disincentive to local governments to raise local revenues and to deliver more effective governance.

Also, there are few incentives for local governments to raise own revenues to deliver services more efficiently. Better performing LGUs are not rewarded fiscally, nor are poor performers sanctioned. Of most concern in terms of economic performance is the fact that very little LGU expenditure is for capital improvements or development related. LGUs spend almost invariably less than 10% of their budgets on real capital spending. The result is that LGUs do not have money available for *catalytic projects*, e.g., infrastructure.

Even when local governments embark on critical infrastructure projects, their capacity in designing and implementing these projects has often been limited. Under the leadership of the League of Cities, close to 40 cities have successfully undertaken participatory *City Development Strategies*, and these initiatives need to be enhanced, mainstreamed and the results need to be implemented.

Regional and Metropolitan Scale Infrastructure. Beyond individual LGUs, there is a *crisis in governance of larger urban-regional scale infrastructure networks which require inter-jurisdictional coordination and collaborations*. Many government functions, e.g. regional transportation, solid waste, economic development planning and promotion, need to be coordinated at the extended urban-regional level, beyond any individual LGUs. This is not only critical for large metropolitan regions such as Metro Manila (including Regions III and IV), Cebu and Davo, but also important for even medium and small sized urban areas because of the generally small size of cities and municipalities in the country.

Because of the inability to effectively plan and implement infrastructure expansion in and around cities to accommodate growth, the price of scarce land that does have infrastructure services is bid up, thus raising the cost of business investment as well as housing. Unplanned development that takes place without infrastructure has caused severe pollution and environmental damage. Retrofitting infrastructure after development is always much more expensive to governments than planning and implementing infrastructure in line with development.

Given the emergence of growing metropolitan regions, corresponding growth in infrastructure and capital investments will be vital in ensuring a livable and competitive urban system. Access to basic infrastructure is already a problem (see Policy Notes on Infrastructure). The need for both urban competitiveness and poverty alleviation would require significant improvement in urban infrastructure such as urban transportation, water supply, sanitation, solid waste, air quality improvement, and IT infrastructure.

Recommendations

The importance of urbanization for both growth and poverty alleviation calls for a coherent *national framework toward urbanization* in the next Medium Term Development Plan, as has been proactively done in other East Asian countries such as China and Thailand. The objective of such a national urbanization framework should be *to develop the Philippine urban areas into livable and globally competitive areas which can truly serve as engines of growth for the country*. Such a framework should include the following key elements: (a) improving urban and metropolitan governance and management; (b) enhancing competitive-ness of urban regions; (c) alleviating urban poverty; (d) developing infrastructure; and (e) managing migration. The framework would call for a comprehensive set of actions and policies both at the national and local levels.

National government plays a critical role in creating an incentive structure for local officials to improve the efficiency of urban service delivery. The priorities actions at the national government level include:

- *Setting up performance standards and independent monitoring and ratings systems* that permit benchmarking different urban local governments against national and international indicators, including, for example, services, regulation, licensing, land policy, environment regulations, public safety, tax policy, cultural opportunities, and trade logistics;

- *Revising intergovernmental fiscal transfer formula* to promote regional equity with incentives for increasing LGU own source revenues. In the short run, while IRA formula is understandably difficult to change, the use of other source of fiscal transfers (such as the allocation of national government project or investment grants to LGUs) should be optimized to provide such incentives;

- *Fostering new forms of institutional management to govern the metropolitan regions* and ensure much better inter-jurisdictional cooperation. Quite a wide range of models used in other countries can be studied and adapted locally;

- *Revitalize and scale up national programs to upgrade and regularize slums*, through provision of basic services and secure tenure to slum residents. Such improvement will increase community pride, reduce crime, and significantly reduce illness and child mortality. In order to be scaled up, the design of such a program should be constrained to fit within specific overall budget limits that are affordable for governments (both national and local) and program beneficiaries.

- *Reforming local government financing,* to allow wider access by urban local governments to tap the capital market for *infrastructure development.* Key actions under the reform program include allowing selected private financial institutions to take deposits from LGUs, operationalizing the reform of MDFO, and further strengthening of the municipal bond market (details in LGU Financing Policy Note);

- *Reform land administration and property registration* to facilitate a functioning property market (see Land Administration Note).

- *Institutionalizing, in coordination with local academia, training programs for urban local officials*. A national certification program may be considered for urban management specialists (urban managers, urban planners, assessors, etc).

Urban local governments across the country can also take actions to make their cities more competitive and livable. The priority actions to be taken at local level include:

- *Increasing accountability* through wider citizen participation and transparency in public processes;

- *Increase local resource mobilization* to meet financing gaps (see Decentralization Note)

- *Develop and implement broad-based, participatory development strategies and plans* for local economic development and poverty alleviation. *Realistic land use plans* supported by infrastructure development should be formed and enforced in urban areas;

- *Adapting local institutional structure,* including, for example, reducing municipal workforce, unbundling services to allow outside providers, and modernizing management structure.

- *Implement programs to upgrade and regularize all slums in the entire cities;*

- *Improving the efficiency of local service delivery* through coordinated capacity building of LGU officials, professionalization of local staff, and performance benchmarking among cities.

- Setting comprehensive marketing strategies to *market city's products* nationally and globally.

[1] UN World Urbanization Prospects, 2001 Revisions (2002)

[2] GDP share from the service and industry grew from 28% in 1965, to over 84% in 2001. The share of GDP derived from services crossed the 50% mark in 2000 and continued to climb over 53% in 2001 (NSCB, 2001)

[3] Poverty lines are set separately for urban and rural areas, and by region, but the differentials are not large. Data on poverty must be treated cautiously in comparing rural and urban areas. Urban poverty lines may too low to reflect urban needs, rural people have access to subsistence goods and services that are difficult to measure.

[4] The financial autonomy ratio is the ratio of locally raised revenues to total local expenditures.