Philippines: Urban Sector Assessment, Strategy, and Road Map

This publication documents the current assessment and strategic investment priorities of the Government of the Philippines and the Asian Development Bank (ADB) in the country’s urban sector. It highlights sector performance, priority development constraints, government plans and strategies, past ADB support and experience, support of other development partners, and future ADB support strategy.

The road map covers four main support areas: (i) preparation of a loan for the Philippine Solid Waste Management Sector Project in 2012 or 2013; (ii) future technical assistance (TA) and lending activities—to be discussed with the government—that may include a sector project for markets and transport terminals, which could further include land and sea transport facilities; (iii) projects of the Urban Development and Water Division of ADB’s Southeast Asia Department, which may support flood control and the efforts of communities to mitigate the effects of climate change; and further (iv) stand-alone policy and advisory TA or capacity development TA, to promote performance-oriented governance and overall strengthening of urban sector agencies, depending on requests from the government.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.
Philippines

Urban Sector Assessment, Strategy, and Road Map

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Currency Equivalents
(as of 30 March 2012)

Currency Unit - Philippine peso (P)
P1.00 = $0.0232
$1.00 = P43.00

Abbreviations

ADB - Asian Development Bank
ASR - assessment, strategy, and road map
BRT - bus rapid transit
GDP - gross domestic product
HUDCC - Housing and Urban Development Coordinating Council
JFPR - Japan Fund for Poverty Reduction
LGU - local government unit
MBUSSP - Mindanao Basic Urban Services Sector Project
MTPDP - Medium-Term Philippine Development Plan
NUDHF - National Urban Development and Housing Framework
SETC - Southeast Asia Department Transport and Communications Division
SEUW - Southeast Asia Department Urban Development and Water Division
STEP-UP - Strategic Private Sector Partnerships for Urban Poverty Reduction
SWM - solid waste management
TA - technical assistance
1. This report outlines the Philippine urban sector assessment, strategy, and road map as the basis for a future partnership between the Government of the Philippines and the Asian Development Bank (ADB). The paper starts by assessing the urban sector in the Philippines, and the needs and challenges cities face in their efforts to achieve sustainable economic growth and development. It then describes the urban development strategies and priorities of the Government of the Philippines and ADB, which build on experiences and lessons learned in the sector. Drawing on the sector assessment and development strategies, the paper presents a road map for possible ADB support over the medium term (2010–2015), which centers on the three core themes of urban competitiveness, sustainable communities, and performance-oriented governance. Besides providing sector-level input into ADB’s country partnership strategy for the Philippines, this document serves as a basis for further dialogue and cooperative action by ADB and the government to tackle the complex challenge of managing rapid urban growth and development in the coming years.
II  Sector Assessment

A. The Urban Context

2. **Rapid urban growth.** The Philippine population grew in excess of 2% in 2001–2010 and reached 94 million in 2010. The urban population has been growing at an even faster rate as people migrate from rural to urban areas in search of better employment opportunities (Appendix 1). It is estimated that more than 60% of the total population of the Philippines is now urban. As a result of this rapid urbanization, urban sprawl and extensive peri-urban development is evident in virtually all cities across the country.

3. **Proliferation of urban settlements.** Greater Metro Manila, the largest metropolitan region in the country, contains 33 million people; other large urban areas include Metro Cebu and Davao City (Appendix 2). Overall, there are about 326 cities and urban municipalities. Because the country is an archipelago, nearly all of these urban centers are along or near the coast and a huge segment of the population (as well as much of the country’s economic infrastructure) is therefore exposed to risks associated with climate change.

4. **City-driven economic growth.** Urban areas are centers of economic growth, accounting for 75%–80% of the country’s gross domestic product (GDP) since 2000, with Metro Manila alone contributing nearly a third of total GDP. Until the financial crisis that began in 2008, the Philippine economy was growing at 5% yearly, with the service sector making up over half of GDP. Services, trade, and communications have been the fastest-growing subsectors in the urban areas (Appendix 3).

5. **Vulnerability of the urban poor.** The incidence of poverty in urban areas has been decreasing and is estimated to be below 10% in Metro Manila. However, a very large segment of the urban population is just above the poverty line and extremely vulnerable to slipping back into poverty because of loss of employment, prolonged illness, natural disasters, and other factors (Appendix 4). According to the Housing and Urban Development Coordinating Council (HUDCC), urban households with limited or no access to basic services, security of tenure, and affordable housing have reached 3.6 million. Informal settlements are a growing problem in larger urban areas, with many families residing in dangerous locations such as along railroad tracks and riverbanks.

6. **Widening demand–supply gap in urban infrastructure services.** Expenditures for urban infrastructure and the delivery of municipal services have not kept pace with urbanization. Such expenditures are estimated to be 3% of GDP yearly, compared with estimated needs of at least 5%–10% of GDP per year in Southeast Asian cities. Consequently, the urban environment in most cities is deteriorating rapidly. The urban services sector will require a total investment of $42 billion (in constant 2008 prices) over the next 18 years to address deficiencies in the delivery of basic services and to expand facilities (Appendix 5). Of this total, some $14 billion will be required to satisfy the shortfall in the delivery of basic urban services. Another $27.9 billion will be required to construct new infrastructure facilities and to expand networks.1

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7. **Limited sources of local government financing.** As noted, public financing of urban infrastructure is limited. While there is an official national government–local government cost-sharing policy for the financing of development subprojects, the availability of national and local government funds is often unpredictable. Capital investment planning is therefore difficult and the backlog of projects continues to grow. Furthermore, resources for the operation and maintenance of infrastructure are woefully inadequate in most cities.

8. Government financing institutions, principally the Land Bank of the Philippines and the Development Bank of the Philippines, are the major source of medium-term loans for local government units (LGUs). They have maintained a competitive advantage over the private sector in lending rates mainly because of their access to concessional official development assistance funds. Private financial institutions are hesitant to lend to LGUs because of their poor creditworthiness, which stems from (i) their unsecured and unpredictable asset and revenue base, (ii) insufficient information about their own financial operations, (iii) weak resource mobilization capacity, (iv) poor cost recovery record due to political intervention and poor collection procedures and systems, and (v) lack of capacity to plan, package, and implement projects.

9. **Growing responsibilities, but inadequate resources and capacities.** The role of LGUs has been increasing since the 1991 Local Government Code was first implemented. Some 1,700 LGUs are mandated to plan, manage, and implement local development. However, many do not have the resources to carry out these responsibilities. Also, full decentralization of functions of LGUs has not yet taken place and many national agencies are still engaged in what should be local concerns (shelter is one example). Decentralization and coordination are further complicated by the presence of ad hoc regional bodies and development agencies, such as the Bases Conversion Development Authority and the Export Processing Zone Authority. Given the similar and often-overlapping issues, there is much scope for LGUs to cooperate, but cooperation is often hampered by political considerations; further, many LGUs have not yet developed effective policies and guidelines and reliable data for strategic urban planning; and some do not have a clear, long-term vision for growth.

10. **Fragmented and incomplete institutional framework.** At the macro level, urban development in the Philippines has been hampered by the absence of a strong national agency to assume the urban mandate. Many institutions are involved in urban management and development, resulting in lack of coordination and focus, and overlapping roles, responsibilities, and programs. The political cycle, with national elections every 6 years and local government elections every 3 years, also complicates the development of a long-term vision or strategies for urban development. There is a need to move away from the prevailing tendency to plan for short-term development projects and ensure that the necessary policies, institutions, and capacities are in place to support a more focused and strategic approach toward sustainable urban growth and development (Appendix 6).

**B. Urban Challenges**

11. Limits to economic growth in the urban sector are seen as the key constraint and the core problem, as described in the problem-tree diagram for the sector (Appendix 7). Inadequate infrastructure to attract investment, lack of incentives to promote growth in regional centers, weak capacity for local

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2 The Municipal Development Fund Office of the Department of Finance maintains a small portfolio of lending operations as well, and is channeling government subsidies to local government units (LGUs) through a mix of loan and grant assistance.

3 ADB. 2000. *Technical Assistance to the Republic of the Philippines for Institutional Strengthening of Housing and Urban Development Sector of the Government of the Philippines.* Manila (TA 3475-PHI). This technical assistance (TA) project recommended the strengthening of the Housing and Urban Development Coordinating Council (HUDCC), and its ultimate conversion into a full-fledged department.
development planning and implementation, uncoordinated government response, and unpreparedness of LGUs for natural disasters and climate change are the main contributors. In turn, the effects of this problem are inadequate employment opportunities for urban residents and poorly competitive urban areas because of underinvestment in urban infrastructure and services. In the overall policy, regulatory, and institutional context of urban development in the Philippines (Appendixes 11 and 12), some key subsector issues are:

(i) **Weak capacity for local economic development planning and implementation.** There is insufficient knowledge and tools at the local level to formulate and implement strategic and local economic development plans.

(ii) **Lack of incentives to promote growth in regional centers.** Public investments outside the greater Metro Manila area have been insufficient to stimulate an increase or expansion in the economic activities of other regions.

(iii) **Inadequate physical, economic, and social infrastructure to attract investments.** Water supply, energy, and transport systems are inadequate compared with demand, and relatively inefficient.

(iv) **Rising risks from natural disasters and climate change due to inadequate central and local disaster risk management.** This inadequacy has resulted in frequent disruptions and chaos from natural disasters, which will undoubtedly increase as climate change intensifies.

C. **Subsector Issues**

12. Key subsector issues relate to economic and environmental infrastructure—water, sanitation, drainage, solid waste management, urban transport, and growth of informal settlements and the need for urban redevelopment. The performance of these subsectors and related investment needs is affected by remaining and unaddressed policy issues; institutional coordination, management, and technical capacity; and public and private financing needs and arrangements. Subsector issues and problem trees related to urban development are in Appendix 8. Appendixes 9 and 10 contain a summary of the issues; government’s response, as well as its policy, institutional, and investment actions; and resource gaps.

1. **Acute Shortage of Potable Water**

13. Local water resources are dwindling in the face of a massive increase in demand. In many urban areas, water quality is poor, supply is often interrupted, and access is limited. Less than 50% of the urban population and only 20% of the rural population have access to piped water or individual household connections. Many water supply systems are inefficient because of obsolescence, poor maintenance, and water theft. Contaminated drinking water and waterborne diseases remain a major public health concern.

2. **Inadequate Sanitation Coverage and Poor Services**

14. The absence of communal sewer systems in urban areas means that storm-water drains are often also used for wastewater disposal. Seldom is there any treatment of wastewater. Septic tanks are widely used, but rarely de-sludged until they overflow. Although septage is collected, generally by private

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collectors, there is little or no treatment in the absence of appropriate facilities, and septage is dumped in an uncontrolled manner. Service providers are responsible by law for wastewater treatment, but regulation and monitoring are inefficient; thus, investment is seldom undertaken and proper treatment is rare. There are clear health implications, especially in the incidence of waterborne diseases: the poor generally live in the most polluted situations and lack access to sanitation and water supply, worsening already unhealthy conditions.

3. Frequent Flooding and Rising Flood Damage

15. Recurrent urban flooding stems from the poor management of storm and surface water runoff, which increases in volume as urbanization intensifies. Flooding continues to be aggravated by uncontrolled building, informal settlements, and lack of appropriate building codes and enforcement of regulations. Encroachments onto river rights-of-way, indiscriminate dumping of solid waste, sedimentation, and the lack of maintenance of watercourses have reduced the capacity of natural drainage systems. Most towns have poor drainage networks and inadequate coverage, and many do not have drainage or flood control master plans. Problems include undersized drains, clogged waterways, deteriorating networks, and lack of integration of subdivision or local drainage with main drainage channels. Related issues are the need for improved competencies and practices in disaster risk management and land-use planning.

4. Poor Solid Waste Disposal

16. The core problem where solid waste management is concerned is poor disposal of collected and uncollected waste. Indiscriminate dumping of solid waste onto open areas and watercourses, and the unsanitary method of final disposal are the major factors behind the deterioration of the urban environment. Two-thirds of disposal sites are open dumps. LGUs generally have little capacity to plan, develop, operate, and maintain sanitary landfills and have difficulty complying with the Ecological Solid Waste Management Act of 2000. LGUs do not prioritize investments in disposal facilities because such facilities are not perceived to be revenue generating. Recovery and recycling of solid waste through formal and informal materials recovery operations have become a popular alternative to the more expensive sanitary landfills, but some informal recovery activities, such as burning to retrieve copper from electric cables, contribute to air pollution and endanger waste pickers.

5. Inefficient Urban Transport

17. Insufficient and ineffective transport planning and traffic management is evident in most Philippine towns and cities. Traffic control devices, such as traffic signs, signals, and road markings, often do not conform to official standards or meet needs. Road networks are poor and inadequate as a result of underinvestment and lack of attention to proper road maintenance. Road traffic accidents are increasing and are among the leading causes of death, with children the most at risk. In large urban areas, air pollution has become a serious concern. Nationwide, urban public transport is dominated by jeepneys, motorbike taxis (with side cars), and tricycles providing door-to-door service. Unfortunately, they contribute to severe traffic congestion, particularly around transit terminals and public markets, because of ineffective franchising and enforcement practices. Buses are common in Metro Manila but not in smaller urban centers. Urban light rail transit is confined to Metro Manila and is heavily subsidized. New public transport terminals that integrate different modes of public transport are in great demand and could help reduce the high logistic costs, and thereby improve the economic productivity and competitiveness of urban areas.

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5 Explanatory Note, Senate Bill 1688, 4th Congress of the Republic of the Philippines: An Act to Make Road Traffic Safety Rules and Signs a Separate Subject and Compulsory at Grade 6 and 4th Year High School Level.
A. Government Strategy, Policy, and Plans


18. The government’s urban development policy is set out in its National Urban Development and Housing Framework (NUDHF), 2009–2016, which describes its vision of urban development as a system that facilitates economic growth, develops and strengthens local competitive advantage, and significantly improves the quality of life of residents (Appendix 11). The approach recognizes urban competitiveness and the need to build on strengths, identify strategic priorities, and emphasize short-term actions in the context of strategic objectives. It recognizes the need to work with a decentralized bureaucracy and local autonomy to enhance coordination and encourage participatory governance. It sees the need to reorient political leaders.

19. The five elements of the framework and the recommendations for each element are as follows.

(i) **Urban competitiveness.** Increase the productivity and efficiency of urban industrial regions, build on existing strengths of manufacturing and producer services, and focus on export-oriented activities in globally competitive, core export areas (e.g., greater Metro Manila, Cebu, and Davao City).

(ii) **Poverty reduction.** Enhance rural–urban linkages to improve labor mobility and connectivity among rural producers and urban consumers; manage population growth by encouraging smaller families; and implement livelihood, entrepreneurial, and human resource programs aimed at poverty alleviation.

(iii) **Housing affordability and delivery.** Link development plans with local economic investment programs, unlock land for affordable housing, increase funding of proven programs and institutions, and streamline housing development transaction processes.

(iv) **Sustainable communities.** Use market-based incentives and disincentives to ensure that public amenities support urban land-use objectives, encourage sustainable planning and green building, and integrate climate change adaptation and disaster risk management into community and regional development.

(v) **Performance-oriented governance.** Provide incentives for LGUs to become less dependent on the internal revenue allotment; strengthen their capacity for strategic planning, investment programming, budgeting, and implementation; improve vertical coordination; increase transparency and accountability; support public–private partnerships; encourage performance-based local governance; and support metro (interlocal) jurisdictional cooperation.

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20. The framework is intended to guide the government's efforts to improve the performance and efficiency of the country's urban system. It addresses key sector issues and recognizes the role of the private sector and the need to improve the capacity of government. Resource requirements are not included and the inherent institutional challenges that could affect its full adoption are not addressed. However, the framework's recommendations provide a solid basis for further dialogue on the policy reforms, institutions, capacity building, and investments that are needed to support sustainable urban growth and development.


21. The Medium-Term Philippine Development Plan (MTPDP), 2004–2010, prepared by the National Economic and Development Authority, was largely sector based. It had little direct focus on the urban sector but cited and discussed policies for basic urban services and local governments. The MTPDP promoted economic growth and, by implication, urban development. An MTPDP for 2011–2016 was released in 2011. Approaches to urban development in the new MTPDP reflect the main features of the NUDHF.

B. Development Partner Support and Lessons Learned

1. Asian Development Bank

22. ADB has provided $828.73 million in assistance to the Philippine urban sector since 1995, with 12 loans totaling $808.47 million, 23 advisory and project preparatory technical assistance (TA) projects worth $13.66 million, and four Japan Fund for Poverty Reduction (JFPR) projects totaling $6.6 million (Appendix 12). Several ADB urban infrastructure projects\(^\text{7}\) have contributed significantly to the institutional strengthening and capacity development of the participating agencies, although not all have been rated successful.\(^\text{8}\) Specific lessons are presented below:

   (i) \textbf{LGU willingness and ability to borrow requires careful assessment.} A review of ADB's urban projects\(^\text{9}\) provides several lessons regarding the willingness and ability of LGUs to borrow for development projects.\(^\text{10}\) The demand for subprojects and loan funds has often been overestimated, with many local governments unwilling to borrow, especially for non-revenue-generating projects. More rigorous assessment of subproject demand and risks is essential. Because there are competing sources of funds available to LGUs, the demand for funds from institutions such as ADB is often unclear and unpredictable. LGU

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\(^{7}\) The Metropolitan Cebu Water Supply Project, the Municipal Water Supply Project, the Manila South Water Distribution Project, the Angat Water Supply Optimization Project, and the Subic Bay Municipal Development Project.


\(^{10}\) ADB. 2009. \textit{Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for the Subprogram 2: Local Government Financing and Budget Reform Program}. Manila (Loan 2387-PHI). It focused on fiscal aspects of LGU reform, targeting (i) improved shares, timeliness, and transparency in the release of local government revenues and grants; (ii) deepened reforms in fiscal management, planning, and public expenditure management by enhancing efficiency and accountability; (iii) enhanced effectiveness and transparency in the delivery of critical public services at the local level through performance measurement. The Local Government Financing and Budget Reform Program supported policy reforms to help overcome binding constraints on revenue mobilization, improve intergovernmental fiscal relationships and the regulatory framework for access to private sources of financing, and stimulate own-source revenue generation. This reform agenda was intended to provide the framework for supporting public infrastructure investments at the LGU level.
borrowing capacity needs proper assessment and should take into account project-related revenues and enhanced creditworthiness. Many LGUs are unwilling to finance feasibility studies because costs are difficult to recover. Securing strong support from local mayors is essential and designs must take into account the 3-year terms of locally elected officials and encourage longer-term commitments through investment strategies that have the support of future leaders.

(ii) **Interagency issues impede implementation.** The 2005–2009 country partnership strategy indicated mixed results for ongoing urban development and environment projects. The development impact of the Clark Area Municipal Development Project, originally designed to reduce poverty in eight LGUs by providing basic urban services, was at best marginal because of a large reduction in scope following the withdrawal of more than half of the original participating LGUs. ADB’s most recent urban development projects in Metro Manila included two sector development project loans—the Pasig River Environment Management and Rehabilitation Project, and the Metro Manila Air Quality Improvement Project. Under both projects, the policy components were satisfactory but the investment components suffered implementation delays because of shifting priorities, changes in scope, slow recruitment of consultants, disagreements on relending policies, and slow release of funds or insufficient budget cover. Under the Pasig River project, the large-scale resettlement of 6,500 families proved difficult but was ultimately successful. Urban redevelopment activities in prime locations, such as Makati, were hindered by interagency disagreements, and demonstrated that scaled-up urban redevelopment requires consensus on the use of prime land.

(iii) **Sector loans outperformed project loans.** For other projects, including water supply and sanitation, achieving the expected development impact has been hampered by a low level of budget provision for both loan proceeds and counterpart financing. The design of the more recent Mindanao Basic Urban Services Sector Project (MBUSSP) incorporated some of the lessons learned from the Philippine Regional Municipal Development Project, the Subic Bay Area Municipal Management Project, and the Clark Area Municipal Development Project. The MBUSSP, as a sector loan, allowed more flexibility in the selection of participating LGUs than previous project loans. It financed the construction not only of basic urban infrastructure and services, including public markets, transport terminals, and water supply infrastructure, but also of less critical facilities, such as gymnasiums and town halls. Many were one-off interventions that had too little development impact, and the absence of multiyear investment planning has been detrimental and could diminish the effectiveness of the investments.

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11 There were problems with rights-of-way and involuntary resettlement, prolonged process and time-consuming procedures for procurement, inexperienced executing agencies, and serious lack of project preparation and implementation facilities and capacity at both national and LGU levels.


16 Serious conflicts between the Land Bank of the Philippines and the Department of the Interior and Local Government under the MBUSSP were not conducive to project implementation.
(iv) **Meeting the needs of the urban poor is not easy.** The Development of Poor Urban Communities Sector Project\(^{17}\) set out to provide shelter financing and microcredit facilities for urban poor families. It was marked by low overall take-up of development loans by LGUs and slow microcredit operation for home improvement because microfinance institutions hesitated to participate. Work with the private sector on the implementation of the socialized housing program was more successful, though it did not target the urban poor working and living in the informal sector, and instead benefited salaried employees who were members of the Home Development Mutual Fund. From 2003 to 2007, ADB supported the Strategic Private Sector Partnerships for Urban Poverty Reduction (STEP-UP)\(^{18}\) through a JFPR grant of $3.6 million. The goal was to reduce urban poverty in 23 post-Community Mortgage Program areas using an integrated development approach driven by strategic public–private partnerships. The STEP-UP project promoted public–private partnerships in providing housing, livelihood, and basic services to 9,126 urban poor households in eight selected cities in Metro Manila. Lessons indicated the strong capacity of organized communities and their home-owners’ associations, working jointly with LGUs and local neighborhood (barangay) offices, to supervise and implement their own settlement development and upgrading projects.

(v) **Few loans are available to the urban poor.** Since the early 2000s, ADB, with the HUDCC and local governments, has been engaged in the preparation of the Metro Manila Urban Services for the Poor\(^{19}\) program of slum rehabilitation or redevelopment. None of these efforts has resulted in a loan project, mainly because the Department of Finance, fearing payment defaults and insufficient capacity of Social Housing Finance Corporation—the borrower—to collect loan arrears, withdrew its support in June 2009. The Department of Finance indicated its preference for direct loans to LGUs for slum rehabilitation.

(vi) **Multiple executing agencies complicate implementation.** Project implementation experience shows that appointing only one executing agency is best.\(^{20}\) Where the mode is direct subsovereign lending, the local borrowing entity must be in charge. It is probably better to have two loans if two distinct financing facilities or components are proposed.

(vii) **Many loans have been canceled.** Almost all ADB-funded urban projects have had loan cancellations largely because of inability to disburse funds according to schedules. Weak project design, inflexibility during implementation, and incorrect targeting appear to explain

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The STEP-UP project had three components: (i) strategic partnership building to promote corporate involvement and public–private partnerships for site-specific urban poverty reduction initiatives; (ii) funds for housing improvement, livelihood, and community infrastructure; and (iii) risk reduction and management including physical design of houses, small infrastructure projects to protect communities from floods and typhoons, and education activities. The project was implemented by Philippine Business for Social Progress, a nongovernment organization representing a conglomerate of corporate social responsibility programs of 158 Filipino corporations supporting business sector involvement in social development. STEP-UP was preceded by two other JFPR-assisted projects: On-Site Urban Upgrading for Vulnerable Slum Communities in Payatas (2000); and Off-Site and Off-City Relocation for Vulnerable Slum Communities of Muntinlupa City (2001).


why many previous ADB-funded urban projects could not be completed on time. Local project ownership was weak, participating governments had low capacity, and there was little continuity or follow-through. Experience with government financing institutions has been mixed, with delays experienced in disbursement by the Development Bank of the Philippines and its unwillingness to borrow for TA. However, the Land Bank of the Philippines is willing to borrow to fund the TA and institutional-strengthening needs of its LGU customers.

2. Other Development Partners

23. The World Bank has been involved in the urban sector much longer than ADB. From 1961 to 2007, World Bank lending to the sector totaled $2.6 billion, including $878 million in loans to Metro Manila. World Bank experience indicates that an appropriate level of cost-sharing incentives can encourage LGU investments in critical sectors, such as solid waste management, environmental protection, and revenue generation as well as support for informal communities affected by proposed subprojects. However, a corresponding level of TA needs to be extended to increase the capacity of the LGUs to operate and sustain the infrastructure built. Financial assistance to private sector proponents for subprojects that support local development has brought in private capital and management experience to enhance the delivery of services that have traditionally been undertaken by LGUs.

24. Other multilateral agencies involved in the urban sector are the European Commission (through the European Investment Bank), the Cities Alliance, the United Nations Agency for Human Settlements (UN-HABITAT), and the United Nations Children’s Fund (UNICEF). Bilateral contributions have come from Australia, Japan, and the United States. Appendixes 12 and 13 summarize the major interventions of these aid agencies in the Philippine urban sector.

C. The Way Forward: ADB’s Operational Strategy

25. The strategic purpose of ADB’s urban operations in the Philippines will be to support sustainable urban economic growth and development. This operational strategy is consistent with and supportive of Strategy 2020, ADB’s long-term strategic framework.21 Of the five core areas of ADB operations identified in Strategy 2020, infrastructure and environment are the two areas that are directly relevant to the urban challenges facing the Philippines.22 To support sustainable urban economic growth and development, ADB will align its future operations with three of the five elements of the NUDHF: urban competitiveness, sustainable communities, and performance-oriented governance.

26. To support urban competitiveness, ADB will focus on economic infrastructure.23 To promote sustainable communities, its emphasis will be on environmental infrastructure.24 Performance-oriented governance will be a crosscutting theme in all ADB operations in the sector, an integral part of loan projects, and a central element of stand-alone TA projects. The core elements of ADB’s operational strategy for the urban sector in the Philippines are illustrated in Figure 1.

22 In line with Strategy 2020, ADB will employ its financial and institutional resources in the five core areas: infrastructure, environment, regional cooperation and integration, financial sector development, and education.
23 Economic infrastructure, broadly defined, comprises investments that are revenue generating, such as transport terminals, municipal markets, and public transit systems.
24 Environmental infrastructure comprises infrastructure and services that have a positive impact on the environment and human health and welfare, such as water supply and sanitation, solid waste management, and flood control and drainage.
Figure 1  ADB’s Operational Strategy for the Urban Sector in the Philippines

Strategic Purpose

Support for Sustainable Urban Economic Growth and Development

Consistent with three Strategic Recommendations of NUDHF 2009–2016

Urban Competitiveness

Sustainable Communities

Performance-Oriented Governance

NUDHF = National Urban Development and Housing Framework.

Figure 2  Principal Approaches to Structuring Urban Sector Projects

Subsector Approach
Support single subsector interventions in multiple cities or local government units

Common Objective
Support sustainable urban economic growth and development
• Urban competitiveness
• Sustainable communities
• Performance-oriented governance

Single-Agency Approach
Support multiple subsector interventions in a single city or local government unit

27. In structuring future investment projects in the urban sector, ADB will adopt two principal approaches: the subsector approach, and the single-agency approach (Figure 2). In the subsector approach, ADB will support single subsector interventions in multiple cities or LGUs. In other words, projects will be designed to support investments and capacity building involving a single subsector, such as solid waste management, in more than one city. This approach seeks to avoid the problems of earlier integrated urban development projects involving multiple executing agencies, subsectors, and cities. Concentrating on the investment needs and associated policy, institutional, and regulatory reforms in a single subsector will allow cumulative local development impact to contribute to long-term and sustainable results at the national level.

28. In the single-agency approach, ADB will seek partnerships with large cities and develop long-term investment and capacity-building programs in multiple subsectors. This approach will be driven by subsovereign lending, whereby ADB will lend directly to cities or urban development authorities. Both approaches will be linked to the common strategic objective of supporting sustainable urban economic growth and development through the three core themes of urban competitiveness, sustainable communities, and performance-oriented governance.

29. In addition to ADB’s strategic purpose, the three core themes of support, and the two principal approaches to structuring projects, five main principles will underlie the identification and prioritization of ADB’s activities in the urban sector:

(i) **Selectivity and focus.** Interventions should be limited to one subsector with several participating LGUs, or to a single LGU.

(ii) **Ownership and commitment.** Cost-sharing principles—proportions of grants, loans, and equity—should promote local ownership, with commitment demonstrated through well-defined strategic development plans and with clear investment priorities.

(iii) **Interagency coordination.** Projects should be managed by a single coordinating agency and carried out by the smallest possible number of implementing agencies.

(iv) **Sustainable development impact.** The single-subsector and single-agency approaches, in combination with capacity-building support, should be used to promote sustainable development impact.

(v) **Demand-driven projects.** Investment projects and capacity-building initiatives must be demand driven and must represent priorities defined by the LGUs and their respective communities.

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25 While a single subsector focus is intended, there may be scope to design projects that include interrelated subsectors, such as water supply and sanitation, or municipal markets and public transport terminals.
A. Core Thematic Areas

ADB’s road map for urban sector operations in the Philippines is based on the provision of TA and financing for projects that support the three core themes of urban competitiveness, sustainable communities, and performance-oriented governance. In accordance with the NUDHF, these core themes are also national priority sector outcomes. This close alignment between ADB’s operational focus and the government’s prioritized outcomes in the urban sector provides the necessary foundation for a medium-term results framework. Potential activities in each of the three core thematic areas are described below and illustrated in Figure 3.

Figure 3  Road Map for ADB's Urban Sector Operations

<table>
<thead>
<tr>
<th>Urban Competitiveness</th>
<th>Sustainable Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Infrastructure Projects</td>
<td></td>
</tr>
<tr>
<td>• Municipal Markets</td>
<td></td>
</tr>
<tr>
<td>• Public Transport Terminals</td>
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<td>• Public Transport</td>
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<tr>
<td>Environmental Infrastructure Projects</td>
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<tr>
<td>• Solid Waste Management</td>
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</tr>
<tr>
<td>• Water Supply and Sanitation</td>
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</tr>
<tr>
<td>• Flood Control</td>
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</tr>
</tbody>
</table>

Support for Sustainable Urban Economic Growth and Development

Performance-Oriented Governance

Capacity-Building Support for Local Government Units

• Economic Development Planning
• Investment Programming
• Interagency Coordination
• Infrastructure Operation and Maintenance
• Cost Recovery and Revenue Generation
• Promotion of Private Sector Investment

ADB = Asian Development Bank.
Source: ADB.
1. Urban Competitiveness

31. Economic activity in urban areas contributes 75%–80% of the country’s GDP; however, the ability to sustain or even increase this contribution requires that cities remain productive, efficient, and attractive to investors. Promoting the competitiveness of urban areas requires a multifaceted approach that helps to create an environment that is conducive to private investment and sustainable economic growth. ADB’s support for urban competitiveness in the Philippines will concentrate on economic infrastructure, primarily through investments in municipal markets and public transport terminals (for both land and sea transport) in secondary cities.26 With the fiscal autonomy provided to LGUs under the Local Government Code of 1991, the concept of economic infrastructure has evolved to become more a means of increasing employment opportunities and promoting local economic growth than simply a source of direct revenue for LGUs. The focus on municipal markets and public transport terminals stems mainly from their importance in supporting and sustaining economic activity in secondary cities as well as neighboring rural communities. Furthermore, ADB’s experience with urban sector projects in the Philippines has shown strong demand from secondary cities for the construction, improvement, or expansion of municipal markets and public transport terminals.

2. Sustainable Communities

32. ADB will promote the development of sustainable communities through environmental infrastructure projects in secondary cities that encompass solid waste management, water supply and sanitation, and flood control.27 In solid waste management, the central issue is improving disposal practices and ensuring compliance. In this subsector, ADB will consider providing financing to LGUs for sanitary landfills and related infrastructure, materials recovery facilities, solid waste transport equipment, and better management systems. In water supply and sanitation, the focus on secondary cities suggests relatively moderate interventions to assist local governments in (i) improving and expanding water supply systems, (ii) enhancing the financial and operational performance of water utilities, (iii) expanding coverage, (iv) improving service quality, and (v) supporting the financial and managerial autonomy of water utilities. ADB will also consider flood control projects aimed at improving drainage systems, widening rivers and canals, and strengthening embankments in secondary cities. These projects will be selected and prioritized on the basis of their ability to mitigate future large-scale flooding and consequent critical infrastructure damage and socioeconomic dislocation.

3. Performance-Oriented Governance

33. The crosscutting core theme of performance-oriented governance will be fully integrated into projects that address urban competitiveness and sustainable communities, and will be supported with stand-alone TA and capacity-building efforts. In the context of both urban competitiveness and sustainable communities, the capacity building of LGUs will center on the preparation of strategic local economic development plans, investment programming, and the improvement of interagency coordination. The design of ADB investment projects will also explore innovative and sustainable financing channels. For non-revenue-generating projects, there remains a need to determine the appropriate loan–grant mix for different subsectors. In addition to strategic development planning and infrastructure investment programming, capacity building to strengthen performance-oriented governance will include operating and maintaining new urban infrastructure and municipal services, maximizing cost recovery and revenue generation, and marketing potential investment opportunities to the private sector.

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26 This document defines ADB support for urban competitiveness as consisting of investments in economic infrastructure. However, ADB will also support urban competitiveness through economic infrastructure investments in roads, bus rapid transit systems, and energy. ADB’s interventions in these subsectors are described more fully in the assessment, strategy, and road map (ASR) for the transport and energy sectors.

27 ADB’s support for sustainable communities, as described in this document, concentrates on solid waste management, water supply and sanitation, and flood control, primarily in secondary cities. ADB’s operational strategy for large-scale water supply, sanitation, and flood control projects is described in the ASR for the water sector.
B. Planned and Proposed Operations

34. Two operational divisions in ADB’s Southeast Asia Department are responsible for the urban sector: the Urban Development and Water Division (SEUW) and the Transport and Communications Division (SETC). These two divisions have prepared a separate assessment, strategy, and road map (ASR) for each of the following sectors: (i) urban development, (ii) water supply, and (iii) transport (including urban transport).

35. The full scope of ADB’s operations in the urban sector, broadly defined, is captured in the country partnership strategy. This ASR focuses on operations in the urban subsectors (described in Sections III and IV above), which will be managed and implemented by SEUW. An indicative road map of SEUW’s urban sector operations is outlined below. The full scope of the proposed interventions is summarized in Figure 4.

![Figure 4: ADB’s Urban Sector Work](image)

ADB = Asian Development Bank, LGU = local government unit.
Source: ADB.

1. Near-Term Operations

36. In the coming years, SEUW’s support under the strategic theme of sustainable communities will focus primarily on solid waste management (SWM).

   (i) Under RETA 7450: Support for Livable Cities in Asia Project, SETC assisted the Subic Bay Metropolitan Authority in 2010 in formulating a comprehensive solid waste management plan dealing with the closure of a sanitary landfill, the creation of a new materials recovery facility, and the eventual establishment of a new sanitary landfill that might be shared with other LGUs.

---

28 The Transport and Urban Development Division (SETU) handled this ASR in 2009–2010. SETU was restructured in 2011 and renamed the Transport and Communications Division (SETC). Since then, the urban development and water supply and sanitation portfolio has been handled by the Urban Development and Water Division (SEUW).

(ii) Subsequently, SEUW started to work with the Department of Environment and Natural Resources and the Municipal Development Fund Office in pilot-testing innovative SWM by developing materials recovery facilities in highly urbanized areas of Luzon. This will be financially supported through ADB’s Urban Financing Partnership Facility (UFPF).

(iii) The two foregoing activities is expected to lead to a project preparatory TA for the Philippine Solid Waste Management Sector Project and a loan. The approximate loan amount is $40 million.

37. Consistent with the strategic theme of urban competitiveness, ADB’s support for economic infrastructure projects over the near term will include TA and possible lending for bus rapid transit (BRT) projects.

(i) SETC and the Regional and Sustainable Development Department have started work on an urban transport project in Davao, which aims to improve public transport services and coverage area through a BRT system. A small project preparatory TA is being provided under the Preparing the Implementation of Asian City Transport Project. The expected loan amount is $20 million.

(ii) Future TA and lending activities, yet to be determined in conversations with the government, may include a sector project for markets and transport terminals, which could include land as well as sea transport facilities.

38. Support for performance-oriented governance will be fully integrated into SETC’s and SEUW’s operations involving SWM, BRT, and local government economic infrastructure investments. Performance-oriented capacity development is intended to cover economic development planning, investment programming, interagency coordination, infrastructure operation and maintenance, cost recovery and revenue generation, promotion of private sector investment, and local asset management.

2. Medium-Term Operations

39. In the medium term, SEUW may also engage in the development of other environmental infrastructure and in capacity development:

(i) SEUW support may cover flood control and support for the efforts of communities to mitigate the effects of climate change.

(ii) On the capacity-development side, some stand-alone policy and advisory TA or capacity development TA to promote performance-oriented governance and overall strengthening of urban sector agencies, may also be considered, depending on requests from the government.

40. Also over the medium term, ADB will explore the possibility of working directly with a single agency (for instance, the Metro Manila Development Authority or the Subic Bay Metropolitan Authority) to prepare a multiyear development program of TA and infrastructure investments. Such a long-range program could encompass multiple subsectors and possibly provide sovereign financing to a single borrower.
## Appendix 1

### Projected Population, by Region

<table>
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<tr>
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</table>

CALABARZON = Cavite, Laguna, Batangas, Rizal, Quezon; CARAGA = Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur; MIMAROPA = Mindoro, Marinduque, Romblon, Palawan; SoCCSKSarGen = South Cotabato, North Cotabato, Sultan Kudarat, Sarangani, General Santos.

Appendix 2

Urban Settlements in the Philippines, 2010

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.
# Appendix 3

## Changes in Economic Structure, by Region, 1980 and 2005

<table>
<thead>
<tr>
<th>Region</th>
<th>GRDP–GDP Ratio</th>
<th>Percentage Share of GRDP</th>
<th></th>
<th></th>
<th></th>
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<td>Cordillera Administrative Region$^a$</td>
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<td>63.5</td>
<td>23.6</td>
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CALABARZON = Cavite, Laguna, Batangas, Rizal, Quezon; CARAGA = Agusan del Norte, Agusan del Sur, Saraguro del Norte, Surigao del Sur; GDP = gross domestic product; GRDP = gross regional domestic product; MIMAROPA = Mindoro, Marinduque, Romblon, Palawan; SoCCSKSarGen = South Cotabato, North Cotabato, Sultan Kudarat, Sarangani, General Santos.

For 1987 and 2005 only.

For 2002 and 2005 only.

For 1995 and 2005 only.

Source: National Statistics Coordination Board.
### Incidence of Poverty, 2000, 2003, and 2006

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<tr>
<th>Region/Province</th>
<th>Annual Per Capita Poverty Threshold (P)</th>
<th>Estimated Poverty Incidence among Population (%)</th>
<th>Estimated Number of Poor Population</th>
<th>Estimated Poverty Incidence among Families (%)</th>
<th>Estimated Number of Poor Families</th>
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<td>NCR</td>
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<td>1,032,123 1,163,867 1,400,417</td>
<td>36.4 39.9 43.7</td>
<td>162,668 199,485 238,489</td>
<td></td>
</tr>
<tr>
<td>Region V</td>
<td>11,375 12,379 15,015 52.6 48.5 51.1</td>
<td>2,540,660 2,332,719 2,643,799</td>
<td>45.3 40.6 41.8</td>
<td>407,176 383,625 422,278</td>
<td></td>
</tr>
<tr>
<td>Region VI</td>
<td>11,314 12,291 14,405 44.5 39.2 38.6</td>
<td>2,773,352 2,374,772 2,491,535</td>
<td>36.7 31.4 31.1</td>
<td>444,172 397,073 425,571</td>
<td></td>
</tr>
<tr>
<td>Region VII</td>
<td>9,659 9,805 13,390 36.2 28.3 35.4</td>
<td>2,016,910 1,652,316 2,213,167</td>
<td>31.5 23.6 30.3</td>
<td>348,154 266,478 391,484</td>
<td></td>
</tr>
<tr>
<td>Region VIII</td>
<td>9,530 10,804 13,974 45.1 43.0 48.5</td>
<td>1,649,582 1,619,731 1,947,323</td>
<td>37.6 35.3 40.7</td>
<td>276,878 266,423 331,426</td>
<td></td>
</tr>
<tr>
<td>Region IX</td>
<td>9,128 10,407 13,219 44.8 49.2 45.3</td>
<td>1,257,210 1,427,722 1,404,098</td>
<td>38.6 44.0 40.2</td>
<td>209,842 258,497 250,696</td>
<td></td>
</tr>
<tr>
<td>Region X</td>
<td>10,509 11,605 14,199 43.8 44.0 43.1</td>
<td>1,582,225 1,567,963 1,663,283</td>
<td>38.0 37.7 36.1</td>
<td>261,501 278,538 285,054</td>
<td></td>
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<tr>
<td>Region XI</td>
<td>10,278 11,399 14,942 33.3 34.7 36.6</td>
<td>1,231,277 1,346,269 1,450,542</td>
<td>27.9 28.5 30.6</td>
<td>202,121 231,068 257,554</td>
<td></td>
</tr>
<tr>
<td>Region XII</td>
<td>10,458 11,328 14,225 46.8 38.4 40.8</td>
<td>1,595,474 1,319,563 1,482,130</td>
<td>40.7 32.1 33.8</td>
<td>264,301 227,093 253,009</td>
<td></td>
</tr>
<tr>
<td>CAR</td>
<td>13,071 14,033 16,810 37.7 32.2 34.5</td>
<td>537,975 445,036 506,823</td>
<td>30.8 25.8 28.8</td>
<td>84,717 72,084 87,050</td>
<td></td>
</tr>
<tr>
<td>ARMM</td>
<td>12,199 12,733 15,533 60.0 52.8 61.8</td>
<td>1,652,890 1,373,620 1,778,262</td>
<td>53.8 45.4 55.3</td>
<td>255,879 228,970 295,220</td>
<td></td>
</tr>
<tr>
<td>CARAGA</td>
<td>10,903 11,996 15,249 51.2 54.0 52.6</td>
<td>1,076,395 1,111,901 1,168,569</td>
<td>43.8 47.1 45.5</td>
<td>179,226 195,622 201,929</td>
<td></td>
</tr>
</tbody>
</table>

ARMM = Autonomous Region of Muslim Mindanao; CAR = Cordillera Autonomous Region; CARAGA = Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur; NCR = National Capital Region.

## Appendix 5

### Indicative Investment Requirements of the Basic Urban Services Sector in the Philippines

*(In constant 2008 prices)*

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P million</td>
<td>$ million</td>
<td>P million</td>
<td>$ million</td>
<td>P million</td>
</tr>
<tr>
<td>Water Supply</td>
<td>22,256</td>
<td>445</td>
<td>33,674</td>
<td>673</td>
<td>36,770</td>
</tr>
<tr>
<td>Septage Management</td>
<td>75,375</td>
<td>1,507</td>
<td>114,021</td>
<td>2,280</td>
<td>124,503</td>
</tr>
<tr>
<td>Sanitation</td>
<td>38,846</td>
<td>777</td>
<td>58,763</td>
<td>1,175</td>
<td>64,166</td>
</tr>
<tr>
<td>Urban Drainage</td>
<td>69,724</td>
<td>1,394</td>
<td>105,472</td>
<td>2,109</td>
<td>115,169</td>
</tr>
<tr>
<td>Public Market</td>
<td>5,801</td>
<td>116</td>
<td>8,775</td>
<td>175</td>
<td>9,582</td>
</tr>
<tr>
<td>Trading Post</td>
<td>392</td>
<td>8</td>
<td>593</td>
<td>12</td>
<td>648</td>
</tr>
<tr>
<td>Urban Road</td>
<td>76,152</td>
<td>1,523</td>
<td>115,196</td>
<td>2,304</td>
<td>125,787</td>
</tr>
<tr>
<td>Slaughterhouse</td>
<td>1,107</td>
<td>22</td>
<td>1,674</td>
<td>33</td>
<td>1,828</td>
</tr>
<tr>
<td>Bus / Jeepney Terminal</td>
<td>1,376</td>
<td>28</td>
<td>2,082</td>
<td>42</td>
<td>2,273</td>
</tr>
<tr>
<td>Solid Waste Collection Equipment</td>
<td>1,992</td>
<td>40</td>
<td>3,013</td>
<td>60</td>
<td>3,291</td>
</tr>
<tr>
<td>Sanitary Landfill</td>
<td>53,953</td>
<td>1,079</td>
<td>81,615</td>
<td>1,632</td>
<td>89,119</td>
</tr>
<tr>
<td>Heavy Equipment</td>
<td>9,052</td>
<td>181</td>
<td>13,693</td>
<td>274</td>
<td>14,952</td>
</tr>
<tr>
<td>Health Care Center</td>
<td>666</td>
<td>13</td>
<td>1,007</td>
<td>20</td>
<td>1,100</td>
</tr>
<tr>
<td>School Building</td>
<td>1,270</td>
<td>25</td>
<td>1,922</td>
<td>38</td>
<td>2,098</td>
</tr>
<tr>
<td><strong>Total Investments Required</strong></td>
<td>357,962</td>
<td>7,159</td>
<td>541,502</td>
<td>10,830</td>
<td>591,286</td>
</tr>
</tbody>
</table>

Appendix 7

Philippine Urban Sector Problem Tree

**Effects**
- Inadequate employment opportunities for urban residents
- Limited competitiveness of urban areas because of underinvestment in urban infrastructure and services
- Limited private sector investments

**Core Problems**
- Constrained economic growth in the urban sector

**Causes**
- Inadequate infrastructure to attract investments
  - Lack of resources to fund infrastructure projects
  - Weak capacity of LGUs to plan and implement infrastructure projects
  - Rapid urbanization, causing demand to outpace supply

- Lack of incentives to promote growth in regional centers
  - Lack of investments in identified regional growth poles

- Weak capacity for local economic development planning and implementation
  - Lack of knowledge and tools for effective local economic development planning
  - Inadequate data and resources to properly assess LGU competitive advantage(s)

- Uncordinated government response
  - Overlapping functions of concerned agencies
  - Absence of a clear urban sector leader

- Unpreparedness of LGUs for natural disasters and climate change
  - Limited LGU knowledge of disaster preparedness and climate change adaptation
  - Unclear government champion and policies for comprehensive and strategic disaster preparedness and climate change

LGU = local government unit.
Appendix 8

SWOT Analysis of the Urban Sector

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Urban sector driving national economic growth</td>
<td>• Serious underinvestment in urban infrastructure</td>
</tr>
<tr>
<td>• Metro Manila influence expanding to other regions in Luzon</td>
<td>• Pervasiveness and multidimensionality of urban poverty</td>
</tr>
<tr>
<td>• Abundant freshwater resources in the country</td>
<td>• Insufficient knowledge and tools to foster inclusiveness and competitiveness</td>
</tr>
<tr>
<td>• Superior taxing powers of cities</td>
<td>• Improper disposal and treatment of wastewater</td>
</tr>
<tr>
<td>• Existing rationalized framework for local government financing</td>
<td>• Jeepney- and tricycle-based public transportation</td>
</tr>
<tr>
<td>• Basic coordination and management framework in place</td>
<td>• Insufficient road space</td>
</tr>
<tr>
<td>• Framework for devolved governance in place</td>
<td>• Use of open dumping to dispose of collected municipal solid waste</td>
</tr>
<tr>
<td>• Available and well-tested enabling framework for PPPs</td>
<td>• High dependency of local governments on central transfers</td>
</tr>
<tr>
<td>• IRA-intercept mechanism guaranteeing high repayment of LGU loans to GFIs</td>
<td>• Underutilization of local governments’ revenue-raising powers</td>
</tr>
<tr>
<td>• Creditworthy LGUs authorized to fund revenue-generating projects through GFIs, PFIs, the bond market, or PPP arrangements</td>
<td>• Poorly designed property taxation and land valuation systems</td>
</tr>
<tr>
<td>• Marginally or less creditworthy LGUs have access to loans from GFIs or the MDFO with matching grants from the national government</td>
<td>• Low levels of local government borrowing</td>
</tr>
<tr>
<td>• Variety of contractual arrangements allowed by PPP enabling framework and local government code</td>
<td>• Significant national government involvement in local and urban governance</td>
</tr>
<tr>
<td>• Lessons learned from urban infrastructure programs and projects can be used to design new programs and projects</td>
<td>• Multiple agencies and overlapping functions</td>
</tr>
<tr>
<td>• LGUs allowed to consolidate resources and pursue joint undertakings, programs, and projects</td>
<td>• Weak capacity for program and project planning, implementation, and management</td>
</tr>
<tr>
<td>• Serious underinvestment in urban infrastructure</td>
<td>• Lack of knowledge of and appreciation for PPPs</td>
</tr>
<tr>
<td>• Pervasiveness and multidimensionality of urban poverty</td>
<td>• Lengthy and highly bureaucratic program and project development, approval, and implementation processes</td>
</tr>
<tr>
<td>• Insufficient knowledge and tools to foster inclusiveness and competitiveness</td>
<td>• Lack of interagency coordination and inter-LGU cooperation</td>
</tr>
<tr>
<td>• Improper disposal and treatment of wastewater</td>
<td>• Limited number of qualified and technically skilled urban professionals</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Further urbanization</td>
<td>• Global recession and fluctuating oil and increasing food prices</td>
</tr>
<tr>
<td>• Urbanization driven by the service sector</td>
<td>• Uncontrolled rate of growth of urban population</td>
</tr>
<tr>
<td>• Opportunities to build on the world city status of the Metro Manila extended urban region</td>
<td>• Political uncertainties and risks at national and local levels</td>
</tr>
<tr>
<td>• Urban regeneration of run-down areas</td>
<td>• Growing urban poverty and income inequality</td>
</tr>
<tr>
<td>• Peri-urbanization, stimulating economic growth in smaller towns and cities near major growth centers</td>
<td>• Deteriorating urban environment</td>
</tr>
<tr>
<td>• Continuing access of GFIs to cheaper official development assistance funds</td>
<td>• Increasing domestic and international interest rates to counter inflation increases</td>
</tr>
<tr>
<td>• Willingness of PFIs and international financial institutions to provide urban infrastructure finance to LGUs</td>
<td>• Insufficient public fiscal resources to answer the growing demand for investment, including matching grants, in urban infrastructure programs and projects</td>
</tr>
<tr>
<td>• Multilateral and bilateral donor support for improved urban governance</td>
<td>• Lack of transparency and difficulties in dealing with LGUs</td>
</tr>
<tr>
<td>• Developments in information and communication technology promoting more cost-effective program and project design, management, and implementation</td>
<td></td>
</tr>
</tbody>
</table>

Figure A8.1  Problem Tree for Water Supply

EFFECTS
- Deteriorating Health Conditions
- Increased Costs to Consumers

CORE PROBLEM
- SHORTAGE OF POTABLE WATER

CAUSES
- Deteriorating Water Quality
  - Contamination of leaking pipes
  - Ineffective wastewater treatment
- Ineffective Systems
  - Lack of operation and management capacity
  - High levels of nonrevenue water
  - Power outages
  - Nonoptimized systems operations
- Inadequate Supply and Coverage
  - Lack of developed water sources
  - Rapid urban growth
  - Lack of capital funding
  - Poor cost recovery
  - Lack of capital funding

Figure A8.2 Problem Tree for Drainage

**EFFECTS**
- Deteriorating Health Conditions
- Poor Living Conditions
- Deteriorating Environment

**CORE PROBLEM**
- INAPPROPRIATE DRAINAGE

**CAUSES**
- Significant Backflow
  - High water levels at outfalls
  - Poorly designed systems
  - Removal of vegetation
  - Encroachment onto riverbanks and drainage canals
- Ineffective Systems
  - Undersized drains
  - Weak enforcement against indiscriminate dumping
  - Poor maintenance
  - Erosion within watersheds
- Inadequate Coverage
  - Weak planning
  - Lack of resources
  - Roads built without proper drainage
  - Fragmented systems

Figure A8.3  Problem Tree for Solid Waste Management

- **EFFECTS**
  - Deteriorating Health Conditions
  - Poor Living Conditions
  - Deteriorating Environment

- **CORE PROBLEM**
  - POOR DISPOSAL OF SOLID WASTE

- **CAUSES**
  - Unsaneitary Method of Disposal
    - Lack of LGU planning to comply with ESW Act
    - Low priority given by LGUs to improving method of disposal
    - Weak capacity to plan, design, operate, and maintain disposal facilities
    - Low acceptance by communities of locations of disposal facilities
  - Indiscriminate Dumping
    - Inadequate collection
    - Inefficient or irregular collection
    - Weak enforcement of ordinances prohibiting illegal dumping
    - Insufficient waste segregation at source
    - Poorly managed or absent transfer stations

ESW = ecological solid waste, LGU = local government unit.
Appendix 8

Figure A8.4  Problem Tree for Transport

EFFECTS
- High Economic Costs, Reduced Productivity
- Increased Air and Noise Pollution
- Higher Vehicle Operating Costs
- Travel Delays
- Higher Levels of Anger and Frustration

CORE PROBLEM
- INEFFECTIVE CONTROL OF TRAFFIC

CAUSES
- Ineffective Traffic Management
- Inadequate and Poor Road Networks
- Increasing Traffic Volume
- High Incidence of Traffic
- Not Enough Good-Quality Public Transport
- Vehicle Overloading

Ineffective Traffic Management
- Weak enforcement of traffic and parking rules and regulations
- Undisciplined drivers and pedestrians
- Ineffective planning and implementation of traffic management schemes
- Lack of off-street parking facilities
- Inadequate facilities for pedestrians
- Encroachments on road right-of-way

Inadequate and Poor Road Networks
- Poor integration of land use and transport planning
- Lack of investment in strategic roads
- Lack of investment in public transport systems
- Poor maintenance of roads
- Poor quality of road construction and design

Increasing Traffic Volume
- Uncontrolled urban sprawl
- Poorly maintained vehicles
- Uncontrolled vehicle registration
- Encroachments on road right-of-way

High Incidence of Traffic
- Poorly trained drivers
- Inadequate licensing
- Inadequate street lighting
- Poorly disciplined drivers and pedestrians

Not Enough Good-Quality Public Transport
- Jeepney- and tricycle-based public transport system
- Lack of alternative public transport modalities
- Unregulated franchising of public utility vehicles and routes
- Lack of planning for public transport

Vehicle Overloading
- Weak enforcement of regulations
- Lack of functioning weighbridges

Figure A8.5  Problem Tree for Urban Social Development

**EFFECTS**
- Growing Number of Informal Settlements
- Increasing Unemployment
- Limited Income Growth

**CORE PROBLEM**
- Urban population growth in excess of resources available for urban services

**CAUSES**
- **Lack of Employment Opportunities**
  - Skills–jobs mismatch
  - Lack of investment in job creation for the poor
  - Gender imbalance in employment
  - Inadequate infrastructure, high transaction costs

- **Inadequate Access to Basic Services**
  - Limited financial resources
  - Misguided subproject prioritization
  - Poor targeting of investment toward programs for urban poor

- **Lack of Access to Financial Services**
  - Rigorous collateral requirements of the formal banking sector
  - Inflexible and complex procedures for loans
  - Limited availability of microfinance
  - Low financial literacy among the urban poor

- **Lack of Access to Affordable Shelter**
  - Inadequate end-buyer finance available
  - Insufficient involvement of private sector in low-income housing development
  - Limited government production of low-income housing

Figure A8.6  Problem Tree for Shelter

**EFFECTS**
- Many Vacant and Unproductive Lots
- Overcrowding of Housing Stock
- Increasing Number of Informal Areas
- Poor Quality of Low-Income Housing

**CORE PROBLEMS**
- Lack of Affordable Shelter for Low- and Lower-Middle-Income Households

**CAUSES**
- Scarcity of Land for Low- and Middle-Income Housing
- Insufficient End-Buyer Finance Available
- Inadequate Supply of Appropriate Housing
- Low Incomes of Many People
- Inadequate Policy and Institutional Support

- Ineffective land valuation and taxation systems
- Land held as long-term investment by many
- Complex and ineffective land delivery mechanisms
- Inadequate land valuation and taxation systems
- Land held as long-term investment by many
- Complex and ineffective land delivery mechanisms

- Low returns on low-income mortgage instruments
- Public interest rate subsidies distorting the mortgage market
- Insufficient home improvement microfinance

- Weak capacity of public housing institutions
- Minimal participation of private developers
- Housing standards are too high, housing products too expensive

- Rapid growth in urban population
- Lack of employment opportunities
- Weak capacity of sector institutions
- Inappropriate subsidy system and poor cost recovery

Figure A8.7  Problem Tree for the Financing of Basic Urban Services

EFFECTS

Inability of Many LGUs to Deliver Basic Infrastructure

Inadequate Economic Infrastructure and Social Services at the Local Level

Insufficient Operation and Maintenance Expenditures on Basic Infrastructure

CORE PROBLEM

LIMITED FINANCING AT THE LOCAL LEVEL

CAUSES

Poor Resource Mobilization

Difficulties in Gaining Access to Long-Term Development Financing

Failure to Gain Access to Private Resources

Underutilization of local revenue-raising powers

Limited borrowing capacity of LGUs

Insufficient incentives for private sector participation

Overreliance on central transfers

Poor information on the financial operations of LGUs

Inability of private banks to become depository banks of LGUs

Weak tax administration capacity

Inadequacy of credit enhancements for LGU financing

Lack of capacity for bond flotation and PPP processes

Unwillingness to borrow

Weak capacity of LGUs for project planning and implementation

Perceived political risks of lending to LGUs

LGU = local government unit, PPP = public–private partnership.
**EFFECTS**
- Low Economic Growth and Increasing Urban Poverty
- Deteriorating Urban Environment
- Urban Sprawl, Unplanned Growth, and Proliferation of Blighted Areas
- Unbuilt Strategic Infrastructure

**CORE PROBLEM**
- INEFFECTIVE URBAN PLANNING AND LAND MANAGEMENT

**CAUSES**
- Unclear Urban Planning and Policy Mandate
- Uncoordinated Management of Urban Infrastructure and Service Provision
- Inadequate Capacity of National and Local Governments
- Proliferation, Duplication, and Overlapping Functions of Agencies
- Inefficient Management of Urban Land

- Incapacity of HUDCC to drive urban policy and urban development programs
- Complex process of vertical and horizontal coordination and approval of plans
- Weak strategic and regional planning capacity
- Urban policy making and urban planning and management diffused among national and local agencies
- Lack of an overall urban land management policy

- Unclear national urban development plan and policy
- Poor coordination between local governments in urban development, planning, and management
- Weak enforcement and regulatory capacity of LGUs and NGAs
- Involvement of national agencies in local concerns
- Fragmented responsibilities in land management and administration

- Little supporting urban legislation
- Poor coordination between local governments in urban development, planning, and management
- Reluctance to outsource expertise and services not found in-house
- Presence of ad hoc regional bodies
- Unresponsive land classification and conversion system

- Ad hoc urban policy making and planning
- Weak coordinating role of provincial governments in urban development and management
- Weak planning, design, and implementation of urban regeneration programs and projects
- Unclear definition of responsibilities between national and local governments
- Multiple systems of land valuation in use

- Weak links between land use and transport planning
- Disparity between LGU boundaries and functional urban areas
- Various sector plans and agencies
- Property taxation system discouraging development

**Source:** Asian Development Bank.
Figure A8.9  Problem Tree for Local Governance

**EFFECTS**
- Slower Economic Growth
- Corruption
- Citizens Feeling Disenfranchised
- Poor Public Services
- Inadequate and Poor-Quality Infrastructure
- Unpreparedness for Emergencies

**CORE PROBLEM**
WEAK PLANNING, MANAGEMENT, AND ENFORCEMENT

**CAUSES**
- Lack of Vision (Failure to Look Beyond Tomorrow)
- System and Mandate not Conducive to Change
- Poor Values and Standards of Behavior and Lack of Transparency
- Insufficient Coordination and Knowledge Dissemination
- Limited Engagement with Stakeholders
- Inadequate Mix of Skills and Use of Available Tools
- Limited Local Revenues

- Ineffective urban planning
- Strong dependence on performance and dynamism of mayor
- Too-short terms for elected officials (3 years)
- Inappropriate organizational structure for urban management
- Inaction on findings of irregularities
- Noninclusivity of development programs
- Poorly informed electorate
- Weak performance management
- Lack of Vision (Failure to Look Beyond Tomorrow)
- Strong dependence on performance and dynamism of mayor
- Too-short terms for elected officials (3 years)
- Inappropriate organizational structure for urban management
- Inaction on findings of irregularities
- Noninclusivity of development programs
- Poorly informed electorate
- Weak performance management

**FACILITATORS**
- Lack of Vision (Failure to Look Beyond Tomorrow)
- Strong dependence on performance and dynamism of mayor
- Too-short terms for elected officials (3 years)
- Inappropriate organizational structure for urban management
- Inaction on findings of irregularities
- Noninclusivity of development programs
- Poorly informed electorate
- Weak performance management

**INHIBITORS**
- Lack of Vision (Failure to Look Beyond Tomorrow)
- Strong dependence on performance and dynamism of mayor
- Too-short terms for elected officials (3 years)
- Inappropriate organizational structure for urban management
- Inaction on findings of irregularities
- Noninclusivity of development programs
- Poorly informed electorate
- Weak performance management

IRA = internal revenue allotment, IT = information technology, LGC = local government code, PPP = public–private partnership.
Figure A8.10  Problem Tree for Public–Private Partnerships in Basic Urban Services

**EFFECTS**
- Poor and Inefficient Service
- Unmet Demand due to Underinvestment
- Deteriorating Infrastructure
- Poor Living Conditions

**CORE PROBLEM**
LIMITED PRIVATE SECTOR PARTICIPATION IN THE PROVISION OF BASIC MUNICIPAL INFRASTRUCTURE AND URBAN SERVICES

**CAUSES**

**National: Lack of Policy Support**
- Lack of national urban sector development, strategy, policy, investment

**National: Ineffective Sector Regulation**
- Stringent national government approval requirements for local PPP projects costing more than P2 billion
- Fragmented regulatory systems for key services at the national level
- Lack of performance and service level standard

**Private Sector: Reluctance to Embark on PPPs at the Local Level**
- Unmitigated local political risks (short term of local officials, local chief executives, local legislative)
- Perceived lack of transparency and difficulty in dealing with local government

**Local: Short Pipeline of Viable and Good-Quality PPP Projects**
- LGU preference for fast-track projects coinciding with terms of local officials
- Unclear PPP strategy for urban services in investment planning
- Inadequate asset and revenue base, poor resource mobilization

**Local: Uncreditworthy LGUs as Off-Takers**
- No inter-LGU cooperation and therefore no economies of scale

**Local: Uneconomical Size of Infrastructure Systems and End-User Markets**
- Low cost recovery due to poor collection procedures and systems
- Low household incomes limited

**Local: Uncreditworthy LGUs as Off-Takers**
- Inadequate project cash flows adversely affecting cost recovery and investment returns

*Source: Asian Development Bank.*
## Appendix 9

### Existing Donor Support for the Urban Sector

<table>
<thead>
<tr>
<th>Core Issue</th>
<th>Government Action</th>
<th>Other Development Partner Support</th>
<th>ADB Support</th>
<th>Main Lessons</th>
</tr>
</thead>
</table>
| 1. Uncoordinated government response | The Philippine Development Forum, which provides the venue for discussing issues and identifying policies related to development, serves as the venue for coordinating the efforts of NGAs, LGUs, and development partners, civil society, and the private sector. There are also several councils that have been established to facilitate coordination and development of a common agenda such as the regional development councils, the National Disaster Coordinating Council, the National Competitiveness Council, and the Housing and Urban Development Coordinating Council. | Government of Australia–WB assistance for the operation of the Philippine Urban Consortium | - MWSS Operational Strengthening  
- MWSS Privatization Support  
- National Urban Policy Framework  
- Institutional Strengthening of Housing and Urban Development Sector  
- Capacity Building for Regulatory Office of MWSS  
- Metro Manila Solid Waste Management Project  
- Capacity Building for Housing Microfinance Project  
- Capacity Building for Housing Microfinance Project (Supplementary)  
- Capacity Building, eASIA (Supplementary) | Coordinating councils should have technical expertise in the sector they are charged with. The limited resources allocated to coordinating councils affect their performance and capacity to address the needs of the concerned sectors. Given their limited resources, the creation of coordinating councils needs to be more strategic so that these are just key councils. Possible functional overlaps between councils and regular agencies should be addressed. |
| 2. Inadequate physical, economic and social infrastructure to attract investments | The national government continues to finance national infrastructure. LGUs, on the other hand, undertake the financing and construction of facilities that have been devolved based on the Local Government Code. | • Local Government Finance and Development Project (WB)  
• Support for Strategic Local Development Investments Project (WB)  
• North Rail and South Rail Projects (Government of PRC)  
• LGU Urban Water and Sanitation Project (WB)  
• Cordillera Road Improvement Project (JICA)  
• Mindanao Sustainable Settlement Area Development Project (JICA)  
• Laguna de Bay Institutional Strengthening and Community Participation Project (WB)  
• Municipal Water Supply Project  
• Small Towns Water Supply Sector Project  
• Subic Bay Area Municipal Development Project  
• Clark Area Municipal Development Project  
• Metro Manila Air Quality Improvement Sector Development Program  
• Pasig River Environmental Management and Rehabilitation Sector Development Program  
• Mindanao Basic Urban Services Sector Project  
• MWSS New Water Source Development Project  
• Development of Poor Urban Communities Sector Project  
• SME Development Support  
• Microfinance Development Program  
• Private Sector Participation in Urban Development (ADTA)  
• On-Site Urban Upgrading for Vulnerable Slum Communities of Payatas (JFPR)  
• Off-Site and Off-City Relocation of Vulnerable Slum Communities of Muntinlupa (JFPR)  
• Strategic Private Sector Partnerships for Urban Poverty Reduction in Metro Manila (JFPR) | The identification of infrastructure investments should be strategic and should respond to both needs and development direction. Planning and provision of LGU infrastructure investments should consider the development trends in its wider locality and beyond its political jurisdiction. Links between national projects and LGU projects should be clearly established to ensure full functionality and complementation. The involvement and commitment of LGUs in the planning stage of national projects is critical. |

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### Appendix 9 continued

<table>
<thead>
<tr>
<th>Core Issue</th>
<th>Government Action</th>
<th>Other Development Partner Support</th>
<th>ADB Support</th>
<th>Main Lessons</th>
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</thead>
<tbody>
<tr>
<td>3. Lack of incentives to promote growth in regional centers</td>
<td>The DILG has been promoting the One Cluster, One Vision for Local Development Project. LGUs have also established development clusters such as the Metro Iloilo–Guimaras Economic Development Council.</td>
<td>Local Governance Support Program for Local Economic Development (CIDA) Accelerating Economic Development through LGU Clusters (GTZ)</td>
<td>Philippines Regional Municipal Development Project</td>
<td>The RDCs need to be strengthened. There should be an enhanced mechanism for interaction between the RDC, LGUs, and NGAs.</td>
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<tr>
<td>4. Weak capacity for local economic development planning and implementation</td>
<td>DILG, Department of Finance, Department of Budget and Management, and National Economic and Development Authority have issued Joint Memorandum Circular No. 1 Series of 2007 to all LGUs providing for the harmonization of local planning, investment programming, revenue administration, budgeting, and expenditure management.</td>
<td></td>
<td>Strengthening Provincial and Local Planning and Expenditure Management</td>
<td>The consolidation and integration of LGU development plans into a regional development plan should be enhanced such that strategic investments are focused on regional growth centers, which could spur higher growth and promote economies of scale, compared with the traditional approach of dispersing investments across all LGUs.</td>
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<tr>
<td>5. Local governments unprepared for natural disasters and climate change</td>
<td>Government has passed the Climate Change Act, creating the Climate Change Commission, a policy-making body attached to the Office of the President that will coordinate, monitor, and evaluate programs and action plans relating to climate change. • Disaster Preparedness and Response Facility (AusAID) • Philippines: Strengthening Climate Change Resilience in the Integrated Natural Resources and Environmental Management Sector Development Program</td>
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<td></td>
<td>The capacity of LGUs to plan for and address natural disasters and climate change should be enhanced. Traditionally, NGAs and LGUs have taken a reactive stance to calamities. A more proactive and anticipatory approach needs to be pursued. The use of the LGU calamity fund for disaster preparedness should be explored. Local development planning should consider identification and mapping of investments for disaster preparedness and climate change adaptation.</td>
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</tbody>
</table>

*List is not exhaustive because of the limited information available.


Source: ADB.
Appendix 10

The National Spatial Strategy

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.
## Future Donor Support Required for the Urban Sector

### Subsector Issues

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<tbody>
<tr>
<td>1. <strong>Water:</strong> Acute shortage of potable water in urban areas</td>
<td>Assure supply of water; jumpstart the Laiban Dam Project.</td>
<td>Expand and support the provision of essential services by providing potable water to the entire country (among others).</td>
<td>Integrated and comprehensive approach to watershed management is necessary to recharge water aquifers.</td>
<td>Will require significant investments and capacity building</td>
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<td>LGU-run water supply systems often operate at a subsidy; hence, systems upgrades suffer from lack of financial resources.</td>
<td>Monitoring and evaluation system needs to be developed, together with designated data capture points</td>
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<td>There are some initiatives to encourage private sector investments in the water sector, such as the Philippine Water Revolving Fund, but progress is minimal.</td>
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<td>LGUs have limited technical and financial capability to undertake regular maintenance and upgrading of water systems to ensure efficiency.</td>
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<tr>
<td>2. <strong>Sanitation:</strong> Poor sanitation services, deteriorating water quality, and poor health</td>
<td>Address solid waste and sewerage problems.</td>
<td>Promote pollution and hazard control to mitigate health and environmental problems brought about by urbanization and increased human activities.</td>
<td>More effective coordination among NGAs with responsibility for sanitation is needed. LGUs also have responsibility for sanitation planning, implementation, and monitoring.</td>
<td>Will require significant investments, capacity building, advocacy, and enforcement of law</td>
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<td></td>
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<td>A national sanitation policy that provides for effective enforcement, regulation, and monitoring should be pursued.</td>
<td>Executive order may be required to address overlapping agency mandates</td>
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<td>The Clean Water Act gives responsibility for wastewater treatment to water service providers, but compliance is low.</td>
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<td>Innovative financing schemes to encourage investments in sanitation should be developed.</td>
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### Subsector Issues

3. **Drainage:** Frequent flooding

- **NUDHF Strategic Recommendations:**
  - Review and revise traditional zoning and encourage sustainable private sector initiatives through performance and service standards.
  - Use market-based incentives and disincentives to provide public amenities and to support urban land use objectives.
  - Anticipate and encourage sustainable development and building practices in local and metropolitan development plans and zoning ordinances.
  - Integrate disaster risk management into community and regional development.

- **MTPDP Strategic Recommendations:**
  - Promote pollution and hazard control to mitigate health and environmental problems brought about by urbanization and increased human activities.
  - Support concerted efforts to address pollution and disaster in major cities and industrial zones across the regions, particularly the Luzon Urban Beltway.\(^\text{b}\)

- **Policy, Institutional, Investment Action, and Resource Gaps:**
  - National government agencies and LGUs have overlapping mandates and unclear jurisdiction.
  - Residential and subdivision drainage systems are inadequately integrated with LGU drainage systems because of the absence of drainage master plans.
  - LGUs have limited technical and financial capacity to maintain existing drainage systems and construct new ones.

- **Remarks:**
  - Will require significant investments, capacity building, advocacy, and enforcement of law.
  - Executive order may be required to address overlapping agency mandates.
  - The recently created Climate Change Commission is likely to be involved and could be a subsector champion.

4. **Solid waste management:** Poor disposal

- **NUDHF Strategic Recommendations:**
  - Address solid waste and sewerage problems.

- **MTPDP Strategic Recommendations:**
  - Promote pollution and hazard control to mitigate health and environmental problems brought about by urbanization and increased human activities.

- **Policy, Institutional, Investment Action, and Resource Gaps:**
  - There is low compliance with the Ecological Solid Waste Management Act among LGUs because of limited technical and financial capacity.
  - There is a need for stronger regulation and enforcement by NGAs and LGUs.
  - The NGA-LGU cost-sharing arrangement for solid waste management projects provides larger grants for higher-income-class LGUs to encourage this type of investments, but the source of the grants has not yet been determined. The grants are likely to come from an ODA loan.
  - The National Solid Waste Management Commission has limited capacity to provide technical assistance and review the solid waste management plans submitted by LGUs as a prerequisite for the closure of open dumpsites.
  - A mechanism for the establishment of a common sanitary landfill serving several LGUs has yet to be established.

- **Remarks:**
  - Will require significant investments, capacity building, and enforcement of law.

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### Government Plans

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<tr>
<td>5. Urban transport: Ineffective movement of people and goods</td>
<td>Extend the NLEX to La Union, STAR tollway to Batangas City, and SLEX to Quezon; rehabilitate and maintain the Maharlika Highway. Protect infrastructure rights-of-way. Improve efficiency and reduce cost of nautical transport. Improve transport and traffic between airports and ports, on the one hand, and service and industrial zones, on the other. Ensure security to and from industrial zones. Establish scientific traffic and transport planning systems; formulate and disseminate a medium- to long-term transport development plan based on international standards. Assure the completion of the LRT Line 1 extension to complete the EDSA loop with MRT 3 and support the growth of a central business district at the North Triangle in Quezon City. Build more cost-efficient BRT lines along major corridors to replace proposed LRT lines 6 and 7. Support local initiatives to develop BRTs and other dedicated transit lines with priority given to integration and connection of central business districts. Continue to develop a “user-pays” culture to cover, at the very least, the maintenance cost of related public facilities. National government to continue to pave and asphalt all national roads. Encourage LGUs to allocate funds for local road improvement and maintenance and institute systems for local road management. Implement a road safety action plan and harmonize motor vehicle standards. Tap the private sector to provide investments in land transport sector modernization. Establish a national railway system and an integrated urban rail-based mass transport system through the Metro Manila urban rail network. Present initiatives to encourage the role of LGUs and the private sector in developing and implementing railways in partnership with the national government. Pursue a prioritized program of airport development and deregulate and liberalize civil aviation.</td>
<td>There is a need to develop integrated transport and traffic planning and management for LGU clusters and to make this a primary feature of local development plans. NGAs and LGUs have overlapping mandates, unclear jurisdiction, and uncoordinated programs. Transport and traffic planning standards are outdated. Transport and traffic regulations are ineffective and weakly enforced. Financing and investment programming should be provided for strategic transport investments, together with mechanisms for operation and maintenance.</td>
<td>Will require significant investments, capacity building, advocacy, and enforcement of law. Executive order may be required to address overlapping agency mandates.</td>
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<td></td>
<td>Encourage pedestrianism, and transit and mixed-use community development</td>
<td>Develop the Nautical Highway using the roll-on, roll-off (RORO) system to link the Luzon Urban Beltway, Central Philippines region, and Mindanao super region.</td>
<td>Establish new government centers to decongest Metro Manila and facilitate the entry of new investments and other economic activities.</td>
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<td>Encourage integration of urban peripheries into metro regions through local planning and inter-local transport</td>
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<td>Reduce the cost of transporting goods and address social development concerns in the North Luzon Agri-business Quadrangle through the development of roads, airports, and seaports.</td>
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<td>Develop the Clark-Subic Corridor, the Southern Luzon Corridor, and Metro Manila by addressing critical infrastructure bottlenecks along national roads and bridges; develop rail systems and airports to speed traffic out of Metro Manila.</td>
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<td>Develop roads, airports, and seaports in Central Philippines to support its development as a tourism center.</td>
<td>Establish roads, airports, and seaports to establish an efficient food logistics system that links Mindanao super region to Metro Manila.</td>
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<td>Build roads, airports, seaports, and related infrastructure to support MSMEs and spur countryside development.</td>
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<td>6. Financing: Limited finance at the local level</td>
<td>Provide incentives for LGUs to be less IRA dependent and to mobilize own-source revenues; encourage LGUs to tap innovative financing schemes.</td>
<td>Present initiatives to encourage the role of LGUs and the private sector in developing and implementing railways in partnership with the national government.</td>
<td>LGUs have limited financial capacity because of their underutilized local revenue generation powers and substantial IRA dependence. \nLGU access to external financing is limited by their borrowing capacity. \nThere are limited models and unproven mechanisms and arrangements for private sector partnerships with LGUs. \nOptions for establishing shared and common facilities to serve LGU clusters are not yet fully developed and are often subject to local politics. \nLGUs have competing financing windows.</td>
<td>Option of defining a sector focus for each financing window could be explored to minimize competition and address the needs of unserved sectors. \nHarmonization of financing windows for LGUs will require an executive order.</td>
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<tr>
<td>7. Management, coordination, and capacity development: Ineffective urban planning and land management, and weak local governments</td>
<td>Integrate local economic development (city development) strategy and other means of enhancing competitiveness into local planning. \nStrengthen LGU capacity building for strategic planning, investment programming, budgeting, and implementation. \nImprove vertical coordination. \nEncourage and create performance-based local governance. \nSupport the development of Mega Manila by creating effective metropolitan-region-scale management for planning, investment programming, budgeting, and implementation of key projects.</td>
<td>Urban development mandates are allocated to different NGAs and LGUs, but the urban planning and management capability of HUDCC needs to be strengthened. There are overlaps and unclear functions. \nA national agency for urban development, with an enhanced policy, technical, coordination, and enforcement mandate, must be established or designated. \nCapacity for strategic development planning and more effective mechanisms for monitoring of LGU development plans and their integration with provincial development plans and regional development plans must be enhanced and updated to provide a basis for financial and physical resource allocation and programming. \nTechnical capacity of LGU technical staff for urban planning and management should be enhanced.</td>
<td>Will require significant investments, capacity building, and advocacy. \nAn incentive system for good performance in identified areas should be developed and institutionalized, possibly through an executive order.</td>
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<td>Support national competitiveness at the LGU level through local development planning, investment in catalytic infrastructure development, and investment support programs.</td>
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<td>enhanced through a more structured and curriculum-based learning program rather than through ad hoc training.</td>
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<td>Support the development of strategic clusters to diversify the economic base; enhance value addition within existing clusters; orient developmental planning, research, and data collection to clusters.</td>
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<td>Institutionalizing the technical capacity of both the technical staff and the LGU is necessary, given the likely change in LGU personnel with each new administration.</td>
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<td>Continue to build LGU capacity for development and land-use planning.</td>
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<td>Support metro (inter-local) jurisdictional cooperation and provide real incentives; harmonize legal and service management mechanisms of metropolitan LGUs.</td>
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8. Urban renovation: Growth of deprived areas

- Support human resource and livelihood programs aimed at reducing poverty.
- Recognize and enhance rural–urban poverty reduction links to improve labor mobility and increase the sharing of market information among rural producers and urban consumers.
- Increase entrepreneurial opportunities for the poor.
- Encourage smaller families.
- Improve coordination among agencies involved in the provision of shelter services.

- Sustain efforts to meet the housing requirements of the formal and informal sectors, particularly socialized and low-cost housing.
- Expand PPPs in socialized housing finance and construction efforts.
- Continue to strengthen the housing policy, finance, production, and regulation capacity of key shelter agencies.
- Enhance the capacity of LGUs and community associations for housing and urban development.

- Development planning in urban areas needs to be more strategic, given the extended area of socioeconomic influence and demand for services from both internal and external (transit) constituents.
- Rapid urbanization requires addressing the basic needs of the urban poor while at the same time providing opportunities for poverty reduction and graduation to constituents.
- There is a need to provide more affordable shelter programs and instruments, possibly in partnership with the private sector.
- More responsive resettlement policies involving the relocation of residents of calamity-prone urban areas need to be developed and enforced.

- Strengthening of HUDCC will require an executive order. The option to pursue the creation of a DHUD will require legislation and is not likely to happen in the short term.
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<tr>
<td></td>
<td>Increase funding and other resources for proven and key housing programs and institutions.</td>
<td>Prioritize the implementation of projects for low-cost housing for resettled families, core housing, medium-rise housing, and resettlement in the North Luzon Agribusiness Quadrangle, Luzon Urban Beltway, Central Philippines, and Mindanao Agribusiness super regions.</td>
<td>Given the limited land in urban areas, physical resources should be allocated and managed more effectively. Possible urban clustering arrangements could pave the way for cities to have complementary services and economies (e.g., sub-urban arrangements) to address this resource limitation. Preservation of cultural and historical infrastructure and heritage should be considered part of urban renovation in inner-city areas.</td>
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<td>Streamline the housing development transaction process; reduce transaction costs and protect consumers.</td>
<td>Develop new centers for government, business and housing in the Luzon Urban Beltway to decongest Metro Manila.</td>
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<td>Provide incentives to unlock land for affordable housing.</td>
<td>Pursue implementation of housing projects in Central Philippines to support its development as a tourism hub.</td>
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<td></td>
<td>Provide and promote access to land for affordable housing.</td>
<td>Protect and empower vulnerable members of society through policy and program reforms, to improve outcomes of social welfare and development services, improve governance of assistance and delivery through integrated national and local government reforms, and build capacity of DSWD and associated agencies for performance-oriented budgeting and management.</td>
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<td>Link local land-use, physical, and community development plans with industry and local employment-generating investment programs.</td>
<td>Support asset reform by accelerating the distribution of land and pursuing strategies to improve the tenurial status of agrarian reform beneficiaries.</td>
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<td></td>
<td>Explore promising financing sources and schemes.</td>
<td>Expand the reach of microfinance and livelihood services to benefit the poor in unserved and far-flung areas.</td>
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## Appendix 11 continued

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<tr>
<td>9. Public–private partnerships: Limited private sector participation at the local level</td>
<td>Increase accountability of LGUs and private sector; increase process transparency to minimize opportunities for corruption; support public–private partnerships in project implementation.</td>
<td>Tap the private sector to provide investments to modernize the land transport sector.</td>
<td>A national urban sector development strategy, policy, investment program and road map is needed for private entities to understand the potential growth and direction of the urban sector and for them to participate. Current PPP guidelines need to be further enhanced to address stringent requirements and procedures, provide models for PPP at LGU levels, and enhance gaps in regulation. The political risks associated with partnering with LGUs and the perception of corruption discourage private sector investments. There is a need to pursue inter-LGU projects of sizable amount to encourage private sector interest. There is limited capacity for identifying and developing potential PPP projects responding to and aligned with local development priorities.</td>
<td>Review of the BOT Law is necessary. In the short term, possible enhancements could be introduced in the implementing rules and regulations.</td>
</tr>
</tbody>
</table>

**Source:** National Economic and Development Authority; and MTPDP, 2004–2010.

**Note:**
- BOT = build–operate–transfer,
- BRT = bus rapid transit,
- DHUD = Department of Housing and Urban Development,
- DSWD = Department of Social Welfare and Development,
- EDSA = Epifanio de los Santos Avenue,
- HUCC = Housing and Urban Development Coordinating Council,
- IRA = internal revenue allotment,
- LGU = local government unit,
- LRT = Manila Light Rail Transit System,
- MRT = Manila Metro Rail Transit System,
- MSME = micro, small, and medium enterprise,
- MTPDP = Medium-Term Philippine Development Plan,
- NDA = national government agency,
- NLEX = North Luzon Expressway,
- NUDHF = National Urban Development and Housing Framework,
- ODA = official development assistance,
- PPP = public–private partnership,
- SLEX = South Luzon Expressway,
- STAR = Southern Tagalog Arterial Road.
- To be composed of the National Capital Region (NCR), Region IV-A, the provinces of Bulacan, Bataan, Pampanga, Mindoro, Marinduque, and the southern parts of the provinces of Tarlac, Zambales, Aurora and Nueva Ecija, to serve as a globally competitive industrial and service center as mandated by Executive Order No. 561 of former President Gloria Macapagal Arroyo.
- Efficient and shorter way to travel to the Visayas and Mindanao regions plying the western seaboard.
- Also known as Tourism Super Region. It includes MIMAROPA or Region 4-B (IV-B) (excluding the provinces of Marinduque, Occidental and Oriental Mindoro, Romblon, Palawan, Bicol Region or Region 5 (V), Western Visayas or Region 6 (VI), Central Visayas or Region 7 (VII), Eastern Visayas or Region 8 (VIII), Camiguin of Northern Mindanao or Region 10 (X), and Sibugay Island of Caraga or Region 13 (XIII). Also known as “Agricultural Mindanao” Super Region. It includes the Zamboanga Peninsula or Region 9 (IX), Northern Mindanao or Region 10 (X), except Camiguin, Davao Region or Region 11 (XI), SOCCSKSARGEN or Region 12 (XII), Caraga or Region 13 (XIII), except island of Siargao, and Autonomous Region in Muslim Mindanao or ARMM. To be composed of Regions I, II, Cordillera Administrative Region (CAR), and the northern part of the provinces of Aurora (north of baler), Tarlac (north of Tarlac City), Nueva Ecija (north of Cabanatuan City), and Zambales (north of Subic); as mandated by Executive Order No. 561 of former President Gloria Macapagal Arroyo.
- To be composed of Regions I, II, and III, Cordillera Administrative Region (CAR), and the northern part of the provinces of Aurora (north of baler), Tarlac (north of Tarlac City), Nueva Ecija (north of Cabanatuan City), and Zambales (north of Subic).
- Transport logistics system that will facilitate the decongestion of Metro Manila by ensuring efficient linkages between its business centers and nearby provinces.
- Term used for the regions of Central Luzon, CALABARZON, MIMAROPA and Metro Manila.
## Appendix 12

### ADB Assistance to the Philippine Urban Sector, July 1993–June 2008

<table>
<thead>
<tr>
<th>Title</th>
<th>Date Approved</th>
<th>Amount ($ million)</th>
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<tbody>
<tr>
<td><strong>A. Loans</strong></td>
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<tr>
<td>Municipal Water Supply</td>
<td>25 Nov 1993</td>
<td>72.00</td>
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<td>Small Towns Water Supply Sector Project</td>
<td>30 Sep 1996</td>
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<tr>
<td>Regional Municipal Development Project</td>
<td>30 Aug 1995</td>
<td>198.20</td>
</tr>
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<td>Subic Bay Area Municipal Development Project</td>
<td>08 Dec 1997</td>
<td>37.00</td>
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<tr>
<td>Clark Area Municipal Development Project</td>
<td>15 Dec 1998</td>
<td>41.80</td>
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<tr>
<td>Metro Manila Air Quality Improvement Sector Development Program</td>
<td>1 Mar 1998</td>
<td>71.00</td>
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<tr>
<td>Pasig River Environmental Management and Rehabilitation Sector</td>
<td>20 Jul 2000</td>
<td>75.00</td>
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<td>Development Program</td>
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<td>Mindanao Basic Urban Services Sector</td>
<td>27 Sep 2001</td>
<td>22.68</td>
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<td>MWSS New Water Source Development</td>
<td>14 Oct 2003</td>
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<td>Development of Poor Urban Communities</td>
<td>18 Dec 2003</td>
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<td>SME Development Support</td>
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<td>Microfinance Development Program</td>
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<td><strong>Subtotal</strong></td>
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<td>Institutional Strengthening Housing and Urban Development Sector</td>
<td>2000</td>
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</tr>
<tr>
<td>Capacity Building for Regulatory Office of Metropolitan Waterworks and Sewerage System</td>
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<td>Metro Manila Solid Waste Management</td>
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</tr>
<tr>
<td>Capacity Building for Housing Microfinance</td>
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</tr>
<tr>
<td>Capacity Building for Housing Microfinance (Supplementary)</td>
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<tr>
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</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>6.13</strong></td>
</tr>
<tr>
<td><strong>C. Project Preparatory Technical Assistance Grants</strong></td>
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<tr>
<td>Manila North-East Water Supply (Supplementary)</td>
<td>1993</td>
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<td>MWSS Water Supply Improvement Study</td>
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<tr>
<td>Small Towns Water Supply and Sanitation Sector</td>
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<td>Infrastructure Improvement of Subic Bay Area Municipalities</td>
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<td>Pasig River Environmental Management and Rehabilitation</td>
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<td>Metro Manila Air Quality Improvement</td>
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<tr>
<td>Mindanao Urban Planning and Basic Services Sector</td>
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</tr>
<tr>
<td>Development of Poor Urban Communities</td>
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<tr>
<td>Metro Manila Urban Services for the Poor</td>
<td>1999</td>
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</tr>
<tr>
<td>Development of Poor Urban Communities (Supplementary)</td>
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<td>Metro Manila Urban Services for the Poor/Cities Alliance</td>
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<td>Philippine Basic Urban Services Sector Project</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<tr>
<td><strong>D. Japan Fund for Poverty Reduction Grants</strong></td>
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<tr>
<td>On-Site Urban Upgrading for Vulnerable Slum Communities of Payatas</td>
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<tr>
<td>Off-Site and Off-City Relocation of Vulnerable Slum Communities of Muntinlupa</td>
<td>2000</td>
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<td>Strategic Private Sector Partnerships for Urban Poverty Reduction in Metro Manila</td>
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<td>Social Protection for Poor Women Vendors in Mindanao Cities</td>
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<td>1.00</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
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<td><strong>6.60</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>828.73</strong></td>
</tr>
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</table>

ADB = Asian Development Bank, MWSS = Metropolitan Waterworks and Sewerage System, SME = small and medium-sized enterprise.

Source: ADB.
**Appendix 13**

**Urban Development Program Interventions: International Financial Institutions**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>Assists national and local governments in developing sustainable cities—cities that are livable, competitive, well governed and managed, and bankable. Four main activities in the urban sector: (i) formulation of national urban strategies, (ii) support for city development strategies, (iii) scaling up of programs of services for the poor, and (iv) enhanced assistance for capacity building. The aim of its urban and local government strategy is to promote sustainable cities and towns by improving the lives of the poor and promoting equity, while contributing to the progress of the country as a whole. Urban development programs support four major themes: access to urban services for the poor, municipal finance, municipal governance and institution building, and other urban development.</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>Supports the growth of infrastructure and the attraction of private investment by providing investment and advisory services to the private sector. Eligible for infrastructure financing are airlines, airports, buses, logistics, ports, port services, power, railways, shipping, toll services, water, and gas. Also helping local banks explore energy efficiency financing as part of its response to climate change. Through its small and medium enterprise (SME) banking initiative, developing strategic partnerships with local banks to give SMEs greater access to credit.</td>
</tr>
<tr>
<td>KfW German Development Bank</td>
<td>Financial cooperation focused on social and economic infrastructure, financial systems and resource protection. Three priority areas have been identified: (i) sustainable economic development, including the development of the financial sector, the private sector, and vocational training; (ii) environmental and resource protection, including forest development, sewage and waste disposal, and renewable energy; and (iii) health care, family planning, and HIV/AIDS prevention.</td>
</tr>
<tr>
<td>Australian Agency for International Development</td>
<td>Overall strategy is to improve prospects for economic growth, poverty reduction, and national stability. Support for infrastructure development is focused on (i) improving poor people’s access to essential infrastructure, such as water supply and sanitation, transport, and energy; (ii) assisting in the creation of enabling environments for private and public financing and management of infrastructure; and (iii) supporting human resources development, institutional strengthening, and capacity building in the infrastructure sector. Programs for infrastructure involve financing infrastructure maintenance and upgrading in poor areas; supporting communities’ effective participation in and monitoring of infrastructure investments; and providing technical and systems support to governments in planning, financing, building, and maintaining infrastructure.</td>
</tr>
<tr>
<td>United States Agency for International Development</td>
<td>Five main programs: (i) economic development and governance (improvements in judicial efficiency and in government policy and administration, and promotion of innovations in trade and investment); (ii) energy and environment (energy sector performance, environmental governance, and urban environmental management); (iii) family health (capacity of provinces, cities, municipalities, and the private sector to provide good-quality health services); (iv) conflict reduction (consolidation of peace in Mindanao through the development of needed economic infrastructure, expansion of economic opportunities in conflict-affected areas, and improvement of governance and social services); and (v) education (access to education and livelihood).</td>
</tr>
<tr>
<td>Canadian International Development Agency (CIDA)</td>
<td>Technical assistance to local governments to improve the delivery of services to the poor and enhance the participation of local communities in setting development plans in areas such as investment, taxation, and social services. The objectives of CIDA’s strategy are to (i) foster efficient, responsive, transparent, and accountable governance at all levels; and (ii) support the development of sustainable SMEs that create more, better, and decent jobs for both men and women. A major technical assistance initiative is the local government support program (local economic development component).</td>
</tr>
<tr>
<td>Swedish International Cooperation Agency</td>
<td>Development cooperation focused on democratic governance and greater respect for human rights, and natural resources and the environment. Support is provided mainly through major multilateral donors, including the World Bank and United Nations bodies, and through Swedish agencies and institutions in contract-financed technical cooperation. No infrastructure projects in the Philippines have been funded except for technical assistance and policy reforms relating to water and sanitation, and environmental management.</td>
</tr>
</tbody>
</table>

*continued on next page*
## European Union
Development cooperation covers broad-based equitable growth, capacity and institution building, private sector development, social services, environment, good governance, and human rights. There is no specific strategy for urban development, and development cooperation policy. International action generally supports the attainment of the Millennium Development Goals.

## Japan International Cooperation Agency
Official development assistance loans supporting economic growth focused on (i) strengthening economic structures and helping overcome bottlenecks to sustainable economic growth (transport projects, such as roads and bridges, railways, air transport, ports, maritime and shipping projects; energy sector projects; and development finance); (ii) reducing poverty and regional disparities (regional development activities, agriculture, irrigation, fishing industry, fishing ports, water supply and sewerage); (iii) environmental protection and disaster mitigation, including flood control; and (iv) human resource development (elementary and secondary education). Policy-based financing is provided in five thematic areas: environment, energy and natural resources, international business development, international finance, and education. Eligible sectors are roads and bridges, railways, ports and maritime shipping, air transport, power and energy, development finance, regional and industrial special economic zones, agriculture, water and sanitation, environment, flood control, and education.

## Korean Export-Import Bank
Targets projects to reduce poverty and promote economic development, specifically rural development, education, infrastructure (roads, bridges, power plants, airports, and railways), health, and environment projects.

## Government of the People’s Republic of China (PRC)

## Asian Development Bank
Improving the urban environment through capacity development and financing focused on water and sanitation, solid waste management, urban transport, urban renewal and basic services for the poor, and multisector interventions.

Philippines: Urban Sector Assessment, Strategy, and Road Map

This publication documents the current assessment and strategic investment priorities of the Government of the Philippines and the Asian Development Bank (ADB) in the country’s urban sector. It highlights sector performance, priority development constraints, government plans and strategies, past ADB support and experience, support of other development partners, and future ADB support strategy.

The road map covers four main support areas: (i) preparation of a loan for the Philippine Solid Waste Management Sector Project in 2012 or 2013; (ii) future technical assistance (TA) and lending activities—to be discussed with the government—that may include a sector project for markets and transport terminals, which could further include land and sea transport facilities; (iii) projects of the Urban Development and Water Division of ADB’s Southeast Asia Department, which may support flood control and the efforts of communities to mitigate the effects of climate change; and further (iv) stand-alone policy and advisory TA or capacity development TA, to promote performance-oriented governance and overall strengthening of urban sector agencies, depending on requests from the government.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.