DECENTRALIZATION AND PROSPECTS FOR REGIONAL GROWTH

MARIO B. LAMBERTE
ROSARIO G. MANASAN
GILBERTO M. LLANTO
WINFRED M. VILLAMIL
ELIZABETH S. TAN
FERNANDO C. FAJARDO
MAREN KRAMER

Philippine Institute for Development Studies

Decentralization and Prospects for Regional Growth

Decentralization and Prospects for Regional Growth

Mario B. Lamberte
Rosario G. Manasan
Gilberto M. Llanto
Winfred M. Villamil
Elizabeth S. Tan
Fernando C. Fajardo
Maren Kramer

Philippine Institute for Development Studies

Please address all inquiries to:

Philippine Institute for Development Studies
4th Floor, NEDA sa Makati Building
106 Amorsolo Street, Legaspi Village
1229 Makati, Metro Manila
Fax No. (632) 816-1091
Tel. Nos. 865-705 and 884-059

ISBN 971-128-021-3
RP - 3-93 - 500

PREFACE

This volume provides a comprehensive view of regional development in the Philippines. It includes a review of the attempts to promote balanced regional development and spatial equity in the country since the 1960s. Aside from administrative reforms like the regionalization of national administration and planning, the study also assesses macroeconomic and sectoral policies in terms of their contribution to balanced regional development. It likewise identifies opportunities and constraints faced by various regions in the country.

The first complete draft of this book was finished in 1990. Since then, we have received valuable comments from several individuals, notably Dr. Cayetano W. Paderanga, Jr. and Dr. Ponciano S. Intal, Jr. who were then serving as Director-General and Deputy Director-General, respectively, of the National Economic and Development Authority, and Dr. Gelia T. Castillo of the University of the Philippines at Los Baños, and have accordingly incorporated them in the final draft. Although the study does not explicitly discuss the economic implications of the Local Government Code of 1991, it nonetheless analyzes extensively some closely-related issues like the capability of local government units (LGUs) to mobilize resources through the banking and fiscal system.

We are grateful to many individuals who have assisted us, one way or the other, in the preparation of the drafts. In addition, we wish to thank Suzy Ann Taparan for her superb editorial assistance.

The preparation of this book has been made possible through the financial assistance of the Asian Development Bank and the constant encouragement of Dr. Khaja Moinuddin.

The Authors

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

LIST OF CHARTS

1

BACKGROUND AND OBJECTIVES

For a number of years, the Philippines has adopted regional development policies in an effort to rectify its unbalanced interregional and intraregional development. This conscious effort dates back to the sixties. Based on the government's experiences during this era, the thrusts of succeeding economic plans were refocused on more specific areas in this economic structure.

BACKGROUND

In the sixties, the government drew up the 1963 Integrated Socio-Economic Plan, articulating regional development as one of its major thrusts. This Plan was further reinforced by the industrial dispersal incentives provided for in the 1967 Industrial Incentives Act and the creation of administrative regions as mandated by the Integrated Reorganization Plan of 1972 (Presidential Decree No. 1).

Throughout the 1970s and 1980s, regional development became a major theme in all the subsequent medium-term development plans.

The 1974-1977 Development Plan included regional development and industrialization as one of the six major objectives. Its Integrated Area Development (IAD) approach required the integration of physical, economic, social, administrative and financial plans into a common plan per location. Hence, the Plan contained a listing of proposed programs and projects for each region.

In reality, however, the proposed regional projects were nothing more than a consolidation of independently conceptualized projects of the various national line agencies for each region.

Also during the period, Muslim Mindanao was experiencing a resurgence in dissident activity, leading the government to put emphasis on Mindanao's development.

By the time the successor 1978-1982 Plan was formulated, the planning machinery at the regional level—i.e., the Regional Development Councils (RDCs) and the NEDA Regional Offices (NROs)—were in place. Henceforth, the National Plans contained specific plans for each region. Attempts were made to ensure that the proposed programs and projects of the regions were consistent with the framework for each region's development as articulated in the regional plan.

The 1978-1982 Plan contained the same basic approach to regional development as the prior Plan although it focuses this time on lagging regions. The Integrated Area Development approach of developing specific lagging areas was maintained and the program area expanded. Credit and fiscal incentives policy took into consideration regional development as one important criterion. A new element in the Plan, however, was the move to promote greater industrial dispersal by establishing industrial estates in the regions and developing alternative urban growth centers.

The third successor, the 1983-1987 Development Plan, contained regional policies and programs not unlike those of the previous medium-term Plan. Nevertheless, the new one aimed to substantially increase investments in the cities of Cebu, Iloilo, Bacolod, Cagayan de Oro and Davao, thus developing infrastructure and encouraging industrial location to these areas. The *Kilusang Kabuhayan at Kaunlaran* (KKK), a program which aimed to mobilize private enterpreneurs to establish livelihood projects throughout the country, was identified as the major support program that could reduce regional disparities.

Also, the Regional Development Investment Program (RDIP) was institutionalized. The RDIP, a document prepared by the RDCs, contained a listing of programs and projects consistent with the regional development plans for the planning period. It was to serve as the primary basis for public resource allocation in the regions.

The 1983-1987 Plan, later updated to emphasize balanced agro-industrial development, called for policy reforms which recognize agriculture's full potentials and, through linkage effects, promote the development of industries which provide agricultural inputs and are agro-based.

The fourth and latest (1987-1992) Plan considered an employment-oriented rural development strategy as the principal means to achieve greater regional balance. Thus, priority was given to small- and medium-sized cities to strengthen linkages of rural resource areas with urban centers. The primary aim, however, was to strengthen regional institutions through greater decentralization. Hence, the government strengthened RDCs and provided them with broader powers to influence public resource allocation in the respective regions. It also implemented policy reforms (i.e., tariff reforms, the elimination of price controls, the disman-

tling of agricultural monopolies, proper exchange rate management to correct the peso overvaluation, etc.), to reduce the policy bias against agriculture.

The government, as summarized here, has long been attempting *to promote balanced regional development* and *spatial equity*. Yet, no study has ever been made to assess such experience. This study therefore tries to fill this gap.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. Review the literature and research publications on regional development in the Philippines to provide a background on its issues and the perceptions on why such issues need to be resolved;

2. Evaluate the socioeconomic development in the country's 13 regions (including the National Capital Region and excluding the Cordillera and Mindanao autonomous regions) with reference to socio-economic indicators that measure Gross Regional Domestic Product, poverty, employment, health and sanitation, nutrition, literacy rates, and infrastructure availability;

3. Assess the levels of infrastructural investment in the various regions using historical data and examine whether the levels of socioeconomic development, poverty, and private investment can be correlated to the past levels of infrastructure investment;

4. Rank the various regions according to the level of socioeconomic development and compare and reconcile (if necessary) the ranking with the results of other studies;

5. Examine the structural factors constraining development in the various regions. These will include cultural, geographic and natural resource-base constraints;

6. Review the government's past fiscal, monetary and industrial policies and programs and assess their impact on the promotion (or discouragement) of regional development;

7. Analyze the central and local government budgets in the post-1980 period and assess the adequacy of funds alloted for public expenditures, particularly in infrastructure;

8. Review the programs and policies on regional development in the Updated Medium Term Philippine Development Plan (1988-1992), the Philippine Assistance Program and other relevant documents, including those on the Omnibus Investment Code and the Investment Priorities Plan;

9. Discuss the policies and programs needed (a) to decentralize the administration and financial authority, such as NALGU devolutions and Regional Development Fund; and (b) to strengthen Regional Development

Councils as well as evaluate their impact on promoting regional development;

10. Evaluate the incentives available to private industry for dispersing investment and discuss the efficiency of such incentives;

11. Assess the areas and directions where the government's present policies and programs for promoting regional development need to be strengthened;

12. Prepare a socioeconomic profile of the Eastern, Central and Western Visayas regions, which will include the following areas:

a) finances of local government bodies and their adequacy;
b) economic growth potential;
c) local and central government plans and programs for development, in particular, infrastructure strengthening;
d) Philippine Assistance Program elements in the proposed investment plans (if any) and their expected contribution to regional development;
e) areas needing more investment and technical assistance for the regions' full growth potential; and
f) possible projects for the three Visayas regions requiring financial and technical assistance.

A specific part of the assessment will focus on: the growth potential and prospects of the Cebu metropolitan area as the epicenter for Central Visayan development; the factors inhibiting the growth of the Cebu metropolis and the three Visayan regions; the deficiencies in the infrastructure development programs for the Visayas; and the need to formulate master plans for the Visayas' socioeconomic infrastructure requirements.

13. Examine the programs and contributions of major international donor agencies (World Bank, Overseas Economic Cooperation Fund [OECF], Asian Development Bank [ADB], and United States Agency for International Development [USAID]) in promoting regional development and summarize the important lessons from their experiences.

2

GOVERNMENT POLICIES ON REGIONAL DEVELOPMENT

This chapter gives an overview of the major strategies and policies adopted by the government to promote regional development and spatial equity. It contains the following sections: (a) institutional framework for regional development; (b) trade and industrial policies; (c) fiscal policies; (d) monetary, banking and credit policies; and (e) special programs and projects.

INSTITUTIONAL FRAMEWORK FOR REGIONAL DEVELOPMENT

Decentralization aims to enable the affected public, who are the beneficiaries of the development effort, to participate actively in the decisionmaking and development processes. It is more effective and efficient because it enables those who belong in the local government units or organizations, that are better informed and more familiar with actual conditions in the grassroots to make decisions. Time and resources, too, are saved because decentralization reduces red tape.

Concepts

Decentralization occurs where there is geographical dispersal of power and authority from the center. Decentralization may take place through either or both of the following forms:

(a) *Deconcentration* is a process where authority from the central headquarters of a department or similar agency are delegated to its subordinate units and officials in the field, empowering them to decide on problems and issues within their jurisdiction. An example of deconcentration is the delegation of authority from the central office of the Department of Agriculture (DA) to its regional offices.

The process is also sometimes described as the *sectoral approach* to regionalization where the central offices of line agencies retain direct control and supervision over their field offices. The main structure adopted within the region is essentially a coordinative approach among the field offices of the various departments/agencies, where cooperation is effected more by persuasion rather than by superior-subordinate relationship. The Philippine government is predominantly organized along such sectoral lines.

(b) *Devolution* is the process of transferring power for the performance of specified functions from the national or central government to lower levels of government, including local government or special statutory bodies. An example would be the transfer of authority from the central government to the autonomous regions.

This second form is sometimes described as an *areal approach*, where the regional structure has greater direct supervision and control over the field offices of the departments in the region. The central offices channel all the services through the regional structure, and retain technical supervision over its field offices. Its main characteristic is integration rather than coordination, and the relationship between the regional structure and the field offices of line agencies are closely similar to a superior-subordinate relationship.

Regionalization: The Early Years

As early as the 1960s, the Philippines had actively pursued regionalization as a strategy to attain national development goals. It was, however, only when the Integrated Reorganization Plan was adopted in 1972 that full commitment to regional development was manifested. This was further stressed in the first Five-Year Philippine Development Plan (1978-1982), where regional planning and development were both considered as goals and instruments of the national government. Through the years, regionalization has moved toward two directions: (a) regionalization of the national administration to bring the government closer to the people; and (b) regionalization of planning to provide a more rational framework for regional development.

In 1956, the Congress approved the Reorganization Plan 53-A, dividing the country into eight administrative regions. The regional delineation was based on such factors as contiguity of provinces and geographical features, transportation and communication facilities, cultural and language groupings, and population and area. Some agencies, however, modified their regional boundaries according to the peculiar needs of their operations and established field offices in different regional centers. Although the Plan intended substantial activities to be accomplished at the regional

level, major functions continued to be performed at the center while only minor tasks were delegated to the regional offices.

The government also created regional development authorities at the regional and sub-regional levels in the 1960s as a strategy to decentralize planning, implementation and public investment decisionmaking functions to the regions. Among these were the Mindanao Development Authority, Bicol Development Company, Central Luzon-Cagayan Valley Authority and a number of provincial development authorities which were never activated due to funding constraints. The authorities later failed primarily because of the lack of financial support from the national government.[1]

The Commission on Reorganization, created in 1968 per Republic Act No. 5434, undertook a thorough study for the revamp of the government's executive branch with focus on the improvement of then existing regional delineations. In determining the new regional delineations, the following factors were considered: (a) contiguity and geographical features; (b) transportation and communication facilities; (c) cultural and language groupings; (d) land area and population; (e) existing regional centers commonly adopted by several agencies; (f) socio-economic development programs in the regions; and (g) number of provinces and cities. An additional study, however, was undertaken to provide a more solid base for modifying regional groupings. The following criteria were used in selecting regional boundaries:

a) physical characteristics or geographical features, e.g., terrain, climate, soil fertility, topography, land area, and population;

b) administrative and plan implementation factors, e.g., number of provinces and cities, commonality of administrative and planning regions, conformity of proposed regional boundaries with political boundaries, capability of the regional area to render various services to the people as basis for approximating the optimum size of the region, availability of fiscal resources to support the creation of regions;

c) economic development factors, e.g., on-going and planned large-scale development programs/projects in the area, transportation and communication facilities; and

d) ethnic and socio-cultural factors, e.g., cultural and ethnic homogeneity, literacy, existence of adequate number of schools.

On the basis of the preceding criteria, 11 regional areas were proposed as against the 10 originally recommended by the Commission on Reor-

[1] For details, see Samonte (1968).

ganization in its first study. The Integrated Reorganization Plan (IRP), which became Presidential Decree (PD) No. 1 on 24 September 1972, adopted the second proposal.

The IRP institutionalized regional development. It provided for the policy framework for regional development as well as the administrative structure for development planning at the regional level. Its most significant feature was the creation of the Regional Development Councils (RDCs) that would undertake regional planning in each region.

The RDC was to be the extension of the NEDA Board in the region. Unlike the NEDA Board, however, the RDCs had virtually no control over plan implementation since they had no direct authority over the regional offices of national agencies.[2] They also did not have any control over financial resources for the regional plans. All budgetary appropriations were determined by the central offices of the line agencies and coursed through the local governments.

The RDCs also had to compete with more powerful offices and institutions involved in planning, program coordination and implementation at the regional level. Among them were the Presidential Regional Officer for Development (PROD) and the Presidential Regional Action Officer (PRAO) whose functions were to monitor and implement important development programs carried out by national agencies in the region. Apart from these, offices for Integrated Area Development projects (IAD) were operating in some regions and mobilizing the regional offices of national line agencies.

Starting 1975, however, a number of reforms were instituted to strengthen the RDCs. Letter of Instructions (LOIs) Nos. 447, 448, 542 and 542-A vested the RDCs with powers to coordinate program and project implementation and to recommend budgetary priorities for the region.[3] These orders required regional offices of line agencies to formulate their budgets in conformity with the priorities established by the RDCs. Only then could the RDCs review the budget proposals of the regional offices and submit their recommendations to the national offices.

In April 1980, the role of the RDCs was further strengthened through Executive Order 589, which mandates that a Regional Development Investment Program (RDIP) be adopted. The RDIP translated the objectives and strategies of the regional plan into a package of proposed programs and projects which, in turn, became the basis for public sector resource

[2] The NEDA Board is composed of the President and the heads of the major national departments/agencies. Hence, the decisions by the body tend to carry more clout. In the case of the RDC, its resolutions have to be concurred with the central office of the concerned line agency.

[3] See Section C of Chapter V for a related discussion.

allocation in the regions. The five-year RDIP were prioritized annually to determine the projects to be implemented each year. Then, the resulting Annual Investment Program (AIP) was linked to the national budget. Since the budget constituted only a portion of potential RDIP funding, some of the approved projects were submitted to the Development Budget Coordinating Committee (DBCC) for possible financing from external multilateral or bilateral financing agencies.

Institutional Reforms Under the Aquino Administration

At present, there are 13 regions in the country. The two new regions were created per PD No. 742 issued on 7 July 1975 and amended on 21 August 1975. The decree was further amended by PD 879 (issued on 26 January 1976) and by PD No. 1396 (issued on 2 June 1978). The present regionalization scheme is as follows: (1) National Capital Region (Metropolitan Manila Area); (2) Region I-Ilocos; (3) Region II-Cagayan Valley; (4) Region III-Central Luzon; (5) Region IV-Southern Tagalog; (6) Region V-Bicol; (7) Region VI-Western Visayas; (8) Region VII-Central Visayas; (9) Region VIII-Eastern Visayas; (10) Region IX-Western Mindanao; (11) Region X-Northern Mindanao; (12) Region XI-Southern Mindanao; and (13) Region XII-Central Mindanao.

Because the RDCs in these regions were still perceived as weak and ineffective institutions for regional development despite the innovations, the Aquino administration committed itself to pursue greater decentralization. The importance attached to decentralization is evident in the Medium-Term Philippine Development Plan (MTPDP) of 1987-1992. This Plan recognized that effective development administration requires the decentralization of significant and relevant government functions to regional and local institutions to encourage more meaningful people participation in the development effort.

Earnest efforts to deconcentrate and devolve authority to the regional and local levels marked the first three years of the MTPDP (1987-1992). It will be recalled that one of the basic objectives behind the reorganization in the government was to attain improved responsiveness characterized by devolution of powers, resources, and capabilities. In line with this aim, regional offices of national line agencies were given more power to dispense line functions, thus limiting the central offices to policy-setting functions. Moreover, the flow of resources to the regions was hastened by allowing treasury warrants to be released directly to regional offices. Local government capabilities have been harnessed by giving them greater responsibility in program implementation and funds management.

The Pilot Projects (1988). On 30 May 1988, Memorandum Circular No. 63 created, among others, the Pilot Decentralization Project to be implemented in four provinces, namely, Tarlac, Laguna, Negros Occidental, and Davao del Norte. Six national line agencies (Department of Public Works and Highways [DPWH], Department of Transportation and Communication [DOTC], Department of Labor and Employment [DOLE], Department of Education, Culture and Sports [DECS], Department of Science and Technology [DOST], and Department of Agriculture [DA]) were asked to draw a list of their specific powers and functions that could be devolved to the pilot provinces.

A year after the Pilot Decentralization Project was launched, the province of Batanes was included as one of the pilot provinces. Each of the first four provinces was allocated a so-called decentralization fund amounting to P120 million (P100 million alloted for infrastructure projects and P20 million for livelihood projects), while Batanes was authorized to use P5 million only. Funds were released directly by the Department of Budget and Management (DBM) to the concerned Provincial Treasurer's offices. Non-government organizations (NGOs) and people's foundations in the area also assisted the pilot provinces in the allocation of the P120 million decentralization fund by identifying priority areas and monitoring the implementation of the various projects.[4]

To effect decentralization, each line agency operating in the province had to sign a Memorandum of Agreement (MOA) which decentralized or delegated specific functions and responsibilities to the provincial government. The MOA was supposed to be the clearest manifestation of the agency's willingness to identify the basic functions that were to be devolved to the local units. Based on the latest report made to the Cabinet Action Committee on Decentralization (CACD), however, only two MOAs were signed, namely: between the Governor of Negros and the Secretary of Department of Environment and Natural Resources (DENR); and between the Governor of Tarlac and the Secretary of Department of Education, Culture and Sports (DECS).[5]

On the whole, the experience from the Pilot Project illustrates the importance of a concrete framework and of well-founded guidelines, factors which were, unfortunately, not totally developed in the pilot provinces. There is also a need to evaluate the implemention process itself and to institutionalize the consultation mechanism. Likewise, the role of

[4] Under the New Disbursement Scheme (NDS), treasury warrants for all projects emanating from and to be implemented by any local government unit (LGU) are issued directly to them.

[5] The signing of the MOA with the provincial governments is not a necessary condition for releasing treasury warrants directly to the provincial government.

Congress in the formulation and implementation of meaningful decentralization should never be overlooked.

New Disbursement Scheme . The New Disbursement Scheme (NDS) that was implemented as per Memorandum Order No. 12 dated 10 June 1986 mainly streamlined the accounting system and disbursement operations of the government through the issuance of funding treasury warrant (FTW). Based on the agency Work and Financial Plan and the Advice of Allotment (AA) covering the release of the National Assistance to Local Government Units (NALGU) funds to local government units (LGUs), the FTWs were correspondingly issued monthly by the Department of Budget and Management (DBM). After the FTWs were released to agency central offices (ACOs), funds were accordingly sub-allocated to each regional/ sub-regional unit.

Another feature of the NDS was the common fund scheme (CFS), which allowed funds of different activities/projects to be included among similar expense classes so that irregular cash disbursements could be minimized/eliminated.

By the start of the nineties, the Modified Disbursement System (MDS) that was implemented (pursuant to Memorandum Order No. 279 dated 12 January 1990) bore changes in the process. Under the MDS, the DBM issues a notice of Monthly Cash Allocation (MCA), in place of the FTWs, directly to the agencies' central and regional offices and to specific provincial offices. This process differs from the NDS, wherein FTWs were released to the central office which, in turn, sub-allocated funds to regional/sub-regional offices. The MDS further allows the regional and local offices to directly submit disbursement and liquidation reports to the DBM. The NDS, in contrast, required the said offices to submit all reports to their central level for its consolidation/reconciliation. The MDS, thus, enhance the decentralization efforts of the government.

To ensure that government services are accessible to those in the grassroots level and that problems at that level will be immediately addressed, the Cabinet Officer for Regional Development System (CORDS) was created. Cabinet Secretaries were designated to represent the President in the different regions of the country and to provide a direct link between the President and the various regional and local levels.

Meanwhile, as the department in charge of local government administration, the Department of Local Government (DLG) initiated a number of activities to strengthen the capabilities of LGUs and their employees in the delivery of basic services and to elicit the participation of their constituents in development efforts. The following is a description of the measures adopted to strengthen regional and local institutions.

Regional Development Councils and the Budgeting Process

As the leading institution for economic and social development in the regions, the RDCs were reorganized by virtue of EO 308 on 5 November 1987. The reorganization of all RDCs provided for: (a) a stricter definition of the council membership and functions; (b) institutionalization of private sector participation; and (c) greater interaction through the creation of a consultative body composed of the members of the house of representatives, members of the RDC and its sectoral committees, heads of other national government agencies in the region, and representatives of NGOs and the academe.

EO 308 was further amended by EO 366, which created a Regional Development Assembly (RDA) in place of the Regional Consultative Assembly (RCA). This Executive Order signed on 8 August 1989 sought to resolve the problem raised by members of Congress on their lack of meaningful involvement in the selection and allocation of funds for projects under the infrastructure program. The Order thus allowed the Congress to participate in the appropriation of such funds. In fact, the RDA now included Congressmen as well as Senators, the local officials, the RDC Chairman, and non-government organizations' (NGOs) representatives, all of which had a hand in project selection and fund allocation of infrastructure projects.

The RDC budget for 1989 was also enhanced by P5 million on top of its operational funds. The amount was released directly to each RDC for capital outlay projects such as purchase of equipment (e.g., IBM/PC compatible computers, fax machines, office desks, and chairs), and vehicles, and the construction, repair and expansion of the RDC building.

The following year, the DPWH initiated the "block grant" scheme in the budgeting exercise. This new scheme gave the RDC the discretion to sub-allocate agency funds to the provincial and municipal/city levels. A P5 million feasibility studies fund was also directly released to the RDC by the Project Facilitation Committee (PFC) so that each RDC could later provide assistance to agencies in need of additional funding. The fund was meant to accelerate project preparation, particularly the formulation of feasibility studies, and to build up pipeline projects.

Under the block grant scheme, the NEDA Regional Offices (NROs) evaluate all project proposals. Then, as the technical secretariat of the RDC, the NROs forward these proposals to the RDC. The RDC, in turn, endorses approved projects to the DBM Regional Office for processing and release of funds.

Local Development Councils (LDCs)

EO 319 dated 4 March 1988 reorganized and strengthened the Provincial Development Councils (PDCs), Municipal Development Councils (MDCs), City Development Councils (CDCs), and Barangay Development Councils (BDCs) and promoted the active participation and support of various government agencies, and the private sector in the various local levels. These councils thus became the main development advisory arm of the local chief executive, coordinating and setting the direction of economic and social development efforts in their respective areas.

Autonomous Acts of the Cordillera and Muslim Mindanao

President Aquino signed into law on 1 August 1989 and on 23 October 1989 RAs 6734 and 6766, otherwise known as the Organic Acts for the Autonomous Region in Muslim Mindanao and the Cordillera Autonomous Region, respectively.

Comelec Resolution No. 2231 dated 8 January 1990 again declared the creation of the Autonomous Region in Muslim Mindanao. In the first regular elections for Governor, Vice-Governor and members of the Regional Assembly (RA), 10 representatives to the RA out of the required total of 21 were proclaimed by the Comelec. The proclamation of the Governor, Vice-Governor and other representatives, on the other hand, were withheld due to pending protest cases. Thus, even the recognized winners could not hold office until these cases were settled.

Meanwhile, the Commission on Elections, in its Resolution No. 2259, declared the Organic Act for the Cordillera Autonomous Region (CAR) as approved and/or ratified only in the province of Ifugao after a plebiscite was held in the provinces and city comprising the Cordillera Administrative Region on 30 January 1990.

On 8 March 1990, Republic Act No. 6861 postponed the holding of the first regular elections for Governor, Deputy Governor and members of the Regional Assembly of the CAR to March 1991. Meanwhile, until the Organic Act is ratified, the Cordillera Executive Board (CEB) and Cordillera Regional Assembly (CRA)—the equivalent of the RDC and RDA, respectively—as well as all offices and agencies created under Executive Order No. 220 (an order signed in 1987 creating the Cordillera Administrative Region) could not be abolished. According to Administrative Order No. 160 signed on 30 March 1990, the Cordillera Administrative Region should continue to exist until the Cordillera Autonomous Regional Government has been organized. Thus, so as not to impede the government's operations, the integrity of the Cordillera Administrative Region (as composed of Abra,

Benguet, Ifugao, Kalinga-Apayao and Mountain Province and the chartered city of Baguio) shall be maintained until then.

Private Sector Participation in Regional and Local Development

As partners in the development efforts, the NGOs and PVOs have served as financial conduits, assisted in the monitoring of government projects, served as discussants in fora involving issues of national/sectoral concern, and participated in development councils at all levels of government. NGO membership was institutionalized in the following: (a) reorganized regional, provincial, municipal, city and barangay development councils, to constitute up to one-fourth of the membership; (b) Agricultural and Fishery Councils instituted at the national, regional, provincial, and municipal levels where private sector participation is up to 60 percent; and (c) People's Economic Councils which continue to rely on heavy sectoral NGO participation.

Stronger Planning-Programming-Budgeting Linkages

The NEDA and DBM drew up the conceptual framework of a synchronized planning-programming-budgeting system (SPPBS), an evolutionary rather than a radical approach to decentralization. The SPPBS minimizes the chances of resorting to adjustment programs by adopting a systems approach to planning and budgeting linkage.

Planning and budgeting activities are properly coordinated through a careful definition of objectives and establishment of institutional network, process, and schedule that, in turn, govern the preparation and coordination of the content, form and manner of implementing the plans, investment programs and budgets at sub-national and national levels.

One of the system's main objectives is to decentralize planning, programming and budgeting powers as well as authority to agencies, RDCs, and LGUs. Ultimately, RDIPs which emanated from the LGUs as endorsed by municipal, city, and provincial development councils will no longer be reviewed at the central office but will merely be incorporated in the MTPIP. Also, regional budget proposals confirmed by the RDCs will only be consolidated with the central office estimates, as a matter of policy, provided that RDCs comply with agreed-on ceilings.

The SPPBS also implies multi-year budgeting to make it relevant. Hence, a major output is the Medium-Term Fiscal Plan which reflects the government's revenue and deficit targets for the next five years. The overall, sectoral, departmental and regional ceilings have to be consistent with the budget constraints over the medium-term, and the level of "uncommitted funds" available for new programs after taking into account

commitments for multi-year projects, debt service and recurring agency expenditures.

To ensure the prompt release of the budget, the Plan and other investment programs are prepared or updated two years prior to the budget year in question. The budget, on the other hand, is prepared one year before the budget year. The system also provides opportunities for feedback and allows modifications arising from the changes in the budget levels and other significant developments.

The SPPBS was pilot tested on January 1991 for the Fiscal Year 1992 budget.

Stronger Regional Plan Monitoring

A comprehensive and decentralized project monitoring and evaluation system called the Regional Project Monitoring and Evaluation System (RPMES) was formally established with the signing on 2 November 1989 of EO 376. The RPMES was to be implemented by the development councils at the various levels, i.e., RDC, PDC, CDC, and MDC to enable immediate action on problems impeding the implementation of projects at the lowest level.

Coordination and Administration of Integrated Area Development (IAD) Projects

EO 363 signed on 17 July 1988 decentralized the coordinative and management mechanisms for the implementation of IAD projects. That is, the overall direction, coordination, and supervision of existing IAD projects and similar projects that may be established were transferred from the National Council on Integrated Area Development (NACIAD) to the respective RDCs and LGUs concerned.[6] In the case of IAD projects which cover only one province, the responsibility was vested in the concerned offices of the Provincial Governor. In the case of IAD projects that cover more than one province, the RDC concerned was responsible.

In the same manner, EO 374 signed on 30 October 1989 provided for the disposition and abolition of five IAD Project offices, namely: Bicol River Basin Development Project Office (BRBDPO), Bohol Integrated Area Development Project Office (BIADPO), Cagayan Integrated Area Development Project Office (CIADPO), Mindoro Integrated Rural Development Project Office (MIRDPO), and Samar Integrated Rural Development Project Office (SIRDPO). The functions of these offices were transferred to RDC V, the Governor of Bohol, the Governor of Cagayan, RDC IV, and RDC VIII, respectively.

[6] With the abolition of the NACIAD, all existing and proposed IAD projects shall be administered by the RDC or the concerned LGU.

For the multi-provincial IADPs, Project Management Units (PMUs) were formed to oversee the implementation of the project in each participating province. The Project Governing Board (PGB) was likewise formed to coordinate the activities of the PMUs. Both the PMUs and the PGB are composed of representatives from concerned agencies and LGUs.

Decentralized Project Evaluation

NEDA Office Order No. 1-89, or the Policy Guidelines for Regional and Decentralized Evaluation signed on 27 February 1989, prescribed the evaluation procedures to be followed by the NEDA Secretariat, specifically of the NROs, on all region-based, interregional and nationwide projects proposed for national government and/or external funding. Also, per the Revised Investment Coordination Committee (ICC) Procedures and Guidelines which was approved by the NEDA Board in April 1989, an RDC endorsement is one of the requirements in project approval and funding for region-based projects.

Remaining Issues/Concerns

Although some gains were achieved in terms of actual transfer of a wider range of powers and responsibilities to LGUs, the programs that can effect greater local autonomy have not been pursued vigorously.

(The Local Government Code that shall provide the framework for local politics and central and local relations, particularly on improving accountability, responsiveness, and allocation of powers and responsibilities to LGUs, has been filed in Congress and passed into a law.[7]) First, the revision of the local governments' classification system that shall take into account relevant criteria aside from income, and the rationalization of the allocation system for national assistance to LGUs—both important programs to guarantee transfer of commensurate financial resources—are being pursued at a relatively slow pace.

Also, despite the government policy to enhance the fiscal autonomy of LGUs, the taxing powers of these units remain limited. The LGUs continue to be largely dependent on the national government for financial assistance and aid.[8]

Second, the failure to grant substantive powers, authorities and requisite resources to regional institutions and LGUs stem from the ambivalent attitude of some agency heads toward decentralizing their powers and prerogatives.

[7] Refer to Chapter V for some of the important features of the bill.
[8] See Section C of Chapter V for a detailed discussion on this.

Third, some projects (i.e., those supported by congressional funds) do not pass through the RDCs for prioritization. Also, most agency central offices still have influential powers in determining priority regional projects and their funding allocation and releases. On the other hand, Agency Regional Offices (AROs) are constrained to limit their selection on the priority projects determined by their central offices rather than on those favored at the regional level.

Moreover, the appointment of local government financial functionaries such as assessors, treasurers and budget officers, which is a legitimate function of LGUs, is still exercised by officials of central offices. Central departments compete with local governments for the delivery of basic services such as police and fire services.

Fourth, other critical activities in preparation for the transfer of commensurate financial resources, such as training programs for local government employees on fiscal management and project development, need to be rationalized and accelerated. There has been no determined and concerted effort among government departments to train local governments in these areas.

TRADE AND INDUSTRIAL POLICIES

In the early 1980s, the government started a major five-year structural adjustment program with the Tariff Reform Program (TRP) of 1981. The TRP of 1981 sought to bring down and even-off levels of assistance among and within sectors by reducing the highest tariff rates to 50 percent and setting a floor rate of 10 percent by 1985.[9] The TRP, however, was found to be ineffective if imports were not liberalized because it would simply reallocate government revenues to individuals as monopoly rents. This was true in cases where non-tariff measures (NTMs) were more binding than tariffs. Thus, hand in hand with the TRP, the Import Liberalization Program (ILP) was implemented.

In 1983, the ILP was postponed for about three years because of a balance of payments crisis. Import restriction actually became more pronounced until 1986 through a series of increasing ad valorem taxes on imports and a virtual ban on luxury goods and non-essentials. By mid-1986, the ILP was pursued again as part of the recovery program of the new government. Phase I of the ILP (January 1981-April 1988) liberalized a total of 2,159 PSCC lines.

There were numerous tariff adjustments due to the ILP from 1986 to 1989. Phase II of the ILP involves 673 items broken down into three

[9] See EO 609, 624, 632-A, 684, and 706.

categories: list A for immediate liberalization, list B for review, and list C for continued regulation. Restrictions on 94 items under list A were lifted in December 1989 while there has been no item liberalized under list B yet.

Some studies (e.g., Bautista and Power 1979; Tan 1979; and Medalla 1986) have shown that past trade regimes had a strong bias against agriculture and/or export-oriented and or labor-intensive industries in favor of import-substituting industries producing finished goods. The biases in favor of or against an industry or group of industries were found to be more pronounced in industries that possessed a combination of these characteristics.

Table 1 shows the average effective protection rates (EPRs) by major sectors for 1979 and 1985. The TRP of 1981 lowered the level of protection but failed to change the structure of protection: agriculture and the primary sectors remained penalized while manufacturing continued to receive higher protection. Considering exportable versus importable sectors, the unfavorable bias against the former remained.

Table 2 shows the EPR structure for 1985 and 1988. Agriculture, as a whole, received positive EPRs but its export sector remained penalized. On the whole, manufacturing received higher positive but declining EPR relative to agriculture. The overall bias against the export remained uncorrected, whether in agriculture or manufacturing.

Trade policy after the TRP of 1981 and Phase I of the ILP became more transparent and moved toward freer trade; nevertheless, it preserved the past protection structure. It continued to penalize agriculture relative to manufacturing, and export relative to import sectors.

Table 3 shows the shares of three major sectors in real gross regional domestic product (GRDP) for 1980, 1985 and 1988. On the average, all regions depended on agriculture, fishing and forestry for at least 40 percent (excluding NCR), industry for 20 percent, and service for 30 percent of GRDP in any year mentioned. Since the trade regime in the 1980s remained bias against agriculture, it did not encourage regional growth through the growth of their respective primary sectors. This is to say the least. The regions that were least affected by this bias would obviously be NCR, which had practically no primary sector; and Region VII, whose share of the primary sector among the twelve regions was the lowest (20-23 percent of its GRDP). Regions IX and VIII were most vulnerable since some 60 percent and 54-59 percent, respectively, of their GRDP came from the primary sector. Such bias against regional growth were worse in cases where their respective primary sectors were net exporters.

Using a computable general equilibrium model (CGE) consisting of 25 sectors, Clarete (1989) simulated five different tariff regimes: the tariff reform program previously discussed, a 20 percent uniform tariff rate, a 30 percent uniform tariff rate, higher agricultural tariffs and lower industrial

Table 1
AVERAGE EFFECTIVE PROTECTION RATES
(In percent)

	A		B		C	
	1979	1985	1979	1985	1979	1985
All Sectors	19	9	26	14	24	12
Exportables	-3	-3	-4	-4	-3	-3
Importables	37	20	46	27	44	25
Primary & Agriculture	0	-2	2	-1	1	-1
Manufacturing	35	20	43	25	40	23
Exportables	1	1	1	1	1	1
Importables	51	39	60	15	50	33

WEIGHTS USED:

A. FTVA (Q/1 + Tj) where FTVA = free trade value-added
Q = value of production
T = implicit tariff

B. 1. Mixed Sector = FTVA ((Q/1+Tj)+M-X)
2. Exportables = FTVA ((Q/1+j)-X)
3. Importable = FTVA ((Q/1+Tj)+M)

C. 1. Mixed Sector = FTVA ((1.5Q/1+Tj)+M-X)
2. Exportables = FTVA ((1.5Q/1+j)-X)
3. Importable = FTVA ((1.5Q/1+Tj)+M)

Source: Medalla, 1986.

tariffs. Clarete produced at least three findings which are of interest to this study. One, the highest real income gain to society is when current agricultural tariffs are maintained while industrial tariffs are lowered. Two, relative to their present levels, farm and agricultural incomes will increase if industrial tariffs are lowered and the post-tariff reform's agricultural tariffs are maintained. Three, outputs of agricultural exportables increase while those of agricultural importables decrease in all tariff policy regimes.

Clarete's central policy recommendation, therefore, was to maintain agricultural tariffs and lower industrial tariffs since it is the trade regime that corrects the anti-agricultural bias. In the absence of more detailed data on the regional agricultural economy, the quantitative impact of this recommendation cannot be evaluated with certainty. Nevertheless, the

Table 2
EFFECTIVE PROTECTION RATES, BY MAJOR SECTORS

SECTOR GROUP	1985	SD	1988	SD	1985	1988
	(In percent)				(1 + EPR)*	
03-96 All Sectors	0.4904	1.1655	0.3649	0.7084	123.45	118.58
Exportables	-0.0691	0.0594	-0.0414	0.0327	77.11	83.28
Importables	1.0226	1.4507	0.7514	0.8806	167.53	152.16
03-22 Agriculture, Fishing & Forestry	0.0900	0.3737	0.0521	0.2632	90.28	91.41
Exportables	-0.0849	0.0967	-0.0570	0.0967	75.80	81.93
Importables	0.7962	0.2088	0.4928	0.2627	148.78	129.70
28-96 Manufacturing	0.7335	1.5895	0.5549	1.0080	143.58	135.09
Exportables	-0.0445	0.1113	-0.0128	0.0994	79.14	85.77
Importables	1.0727	1.8010	0.8024	1.1194	171.68	156.59

* Agriculture = 100

Source: Medalla, 1990.

Table 3
REGIONAL GROSS DOMESTIC PRODUCT
(In percent shares)

SECTOR / YEAR	1980	1985	1988
I. Agri, Fishery & Forestry			
Region I	37.22	46.90	42.89
Region II	44.11	57.05	55.06
Region III	26.80	29.07	28.47
Region IV	27.70	30.29	29.70
Region V	52.94	58.56	55.19
Region VI	39.24	42.16	42.30
Region VII	23.43	23.22	21.84
Region VIII	53.83	59.15	58.49
Region IX	59.14	64.67	62.54
Region X	39.84	44.34	40.46
Region XI	43.64	49.69	46.46
Region XII	57.30	57.64	53.56
NCR	0.00	0.00	0.00
Average	42.10	46.90	44.75

Table 3 (continued)

SECTOR / YEAR	1980	1985	1988
II. Industry			
Region I	24.56	19.21	23.80
Region II	25.81	10.60	11.32
Region III	37.00	34.91	34.81
Region IV	41.60	36.97	39.19
Region V	14.46	8.85	9.85
Region VI	27.64	21.24	17.19
Region VII	34.15	30.48	31.78
Region VIII	14.23	9.61	10.19
Region IX	9.68	6.90	9.17
Region X	24.85	23.01	27.35
Region XI	19.39	15.37	18.60
Region XII	20.77	20.01	26.41
NCR	52.24	51.37	47.36
Average	24.51	19.76	21.64
III. Service Sector			
Region I	38.22	33.89	33.31
Region II	30.09	32.35	33.62
Region III	36.20	36.02	36.73
Region IV	30.70	32.74	31.11
Region V	32.60	32.60	34.96
Region VI	33.11	36.60	40.51
Region VII	42.42	46.29	46.38
Region VIII	31.94	31.23	31.32
Region IX	31.18	28.43	28.30
Region X	35.31	32.65	32.19
Region XI	36.97	34.94	34.94
Region XII	21.94	22.34	20.03
NCR	47.76	48.63	52.64
Average	33.39	33.34	33.62

Source: National Income Accounts, LINK Series, NEDA

regions that will benefit most from this policy recommendation are those whose agricultural sectors are net exporters.

The impact of tariff policies on the Philippine terms of trade will be very small, if not nil, since the country is a small open economy with a relatively inelastic domestic demand for imports and elastic world demand for its exports. A small country (i.e., its supply of exports and demand for imports are only a small fraction of world trade), the Philippines is unable to influence world prices because it has neither monopoly nor monopsony power in world trade. Its imports consist largely of capital goods, essential raw materials and intermediate goods and crude oil, while consumer goods never took more than 10 percent of total imports (see **Table 4**).

However, the structure of imports has changed over the last two decades, showing a larger share of raw materials and intermediate goods relative to capital goods. On the other hand, the structure of exports has changed dramatically from one that depended only on four traditional commodities to one with an increasingly larger share of non-traditional exports. In 1970, the country's exports were mainly traditional (91.5%). As a result of an intense export drive started in the early seventies, the share of non-traditional exports increased from eight percent in 1970 to 72 percent in 1989, with a heavy concentration on garments and electronics

Table 4
PHILIPPINE IMPORTS BY COMMODITY GROUPS
1970, 1975, 1980-1988
(In percent)

	1970	1975	1980	1985	1986	1987	1988
I. Capital goods	38.0	33.2	25.7	15.4	17.1	18.0	21.3
II. Raw materials & intermediate goods	41.5	33.7	36.9	43.0	53.0	50.9	51.2
III. Mineral fuels, lubricants	10.9	22.3	29.1	28.4	17.2	18.5	13.4
petroleum, crude	9.4	20.5	24.0	25.0	14.4	15.8	11.3
IV. Consumer goods	9.2	8.4	6.0	8.6	7.9	8.1	9.1
V. Special transactions	0.5	2.5	2.2	4.5	4.8	4.5	5.1
Total	100	100	100	100	100	100	100
($ millions)	1090	3459	7727	5111	5044	6737	8159

Source: Basic data - Department of Economic Research, Central Bank of the Philippines.

(Table 5). However, the demand for these non-traditional products has remained elastic because of competition from other Asian countries.

Tariff policies affect investment inasmuch as resources get allocated to the most profitable areas of production. Interestingly, these are areas where effective protection rates are highest, and where industries are generally import-substituting ones producing consumer goods or finished goods with relatively little value-added. Specifically, tariff policies cause investments to concentrate in the NCR and in Regions III, IV and VII.

Table 5
PHILIPPINE TRADITIONAL AND NON-TRADITIONAL EXPORTS, 1970-1989 [1]
(In percent)

Commodity Group	1970	1975	1980	1985	1986	1987	1988	1989
I. Traditional exports	91.5	77.0	53.0	28.1	26.3	23.9	22.7	27.2
Coconut products	19.7	20.3	14.0	9.9	9.7	9.8	8.2	6.9
Sugar and products	18.5	26.8	11.4	4.0	2.1	1.2	1.0	1.4
Forest products	26.2	9.8	7.3	4.3	4.2	4.2	3.7	2.5
Mineral products	20.4	14.5	15.9	5.2	5.5	3.9	5.4	10.6
Fruits and vegetables	2.4	1.9	1.9	2.9	2.8	2.6	2.0	4.1
Abaca fibers	1.4	0.6	0.5	0.4	0.3	0.2	0.2	0.2
Tobacco unmanufactured	1.3	1.5	0.5	0.5	0.4	0.3	0.3	0.2
Petroleum products	1.6	1.6	1.6	0.8	1.3	1.5	1.9	1.2
II. Non-traditional products	8.0	22.0	45.8	70.7	71.2	73.4	75.8	71.7
Non-traditional manufactures	6.8	16.0	34.6	59.7	59.5	63.7	66.0	66.4
Elec. & elec. eqpt./parts & telecom.	0.0	2.0	11.6	22.8	19.0	19.6	20.9	22.4
Garments	0.0	4.4	8.7	13.5	15.5	19.2	18.6	20.1
Others	6.8	9.6	14.4	23.5	25.0	24.9	26.5	23.9
Non-traditional unmanufactures	1.2	6.0	11.1	11.0	11.7	9.7	9.8	5.4
III. Special transactions	0.0	0.9	0.6	0.3	0.2	0.1	0.4	0.1
IV. Re-exports	0.5	0.1	0.6	0.9	2.3	2.6	1.1	0.9
Total	100	100	100	100	100	100	100	100
($ millions)	1062	2294	5788	4629	4842	5720	7074	7821

[1] There has been a re-classification for many products falling under Others beginning 1989.

Source: Basic data - Department of Economic Research, Central Bank of the Philippines.

FISCAL INCENTIVES FOR REGIONAL DEVELOPMENT

In the late 1960s the government's concern for the spatial dimensions of development began to be manifested in its basic economic policies. After the change in government in 1986, renewed efforts toward regional development became increasingly evident. This section reviews fiscal incentives for regional development from the sixties thereon.

BOI Incentives

The original Investment Act of 1967 was amended to include regional dispersal of industries as one of the criteria in the preparation of the Investment Priorities Plan and in the evaluation of projects by the BOI. In the 1980s three major incentives acts were passed: the Omnibus Investment Code (OIC) of 1981, 1983 and 1987. The OIC of 1981 (PD 1789) consolidated all the provisions of the Export Incentives Act of 1970 (RA 6135) and the Investment Incentives Act of 1967 (RA 5186) without any major changes.

Today, BOI incentives are granted to registered firms on an incremental basis. At first, a set of minimum basic incentives are granted to registered firms; then additional incentives are given if a firm expands, or exports a certain proportion of its output, or locates in a less developed area. An expansion project will mean that a firm has already been in existence; an exporting firm will have to start with a considerable strong domestic base because of very competitive world market conditions; most firms are not likely to locate in a less developed area. At this juncture, the effectiveness of BOI incentives on the targeted activity will depend on how firms assess the significance of marginal benefits against the marginal costs. Though the net marginal benefits are positive, the effectiveness can still be minimal if these benefits are perceived by firms as small or negligible.

Registered enterprises with production, processing or manufacturing plants in areas designated for the dispersal of industry are allowed to deduct in full from their taxable income the cost of the necessary and major infrastructure works undertaken within 10 years from commercial operation. Multinationals are likewise extended tax incentives to encourage greater investments in preferred areas.

To fully enhance the country's exports, incentives are also granted to export processing zone enterprises. Imported items of enterprises registered with the Export Processing Zone Authority (EPZA), when sold or used in production inside the zone, are exempt from customs duties and internal revenue taxes. Such enterprises also enjoy the incentives provided to BOI-registered enterprises. In addition, EPZA-registered enterprises are

exempt from local government impositions on construction, operation or production inside the zone and under certain conditions.

Using data on tax incentives availed by 30 firms in 1974, Tan (1979) calculated the equivalent subsidy rates and analyzed their effects on the EPR structure. The 30 firms corresponded to 52 BOI industries and 74 I/O sectors, which is two-thirds of the number of tradable sectors in the input-output table. The actual subsidy rate was 1.4 percent of the total output of the 52 industries: 18 industries have less than one percent, 11 at no more than six percent, and one at 100 percent. The actual subsidy rate would be 15 percent if only BOI registered firms were considered.

The effect of BOI subsidies on EPRs, estimated using the 1974 Input-Output Matrix, was minimal: the increase was slight, from an average EPR of 36 percent due to tariffs and indirect taxes, to around 39 percent. Industries whose relative positions improved were those producing ramie, pulp and paper, primary steel, electrical equipment and textile products. However, the effect of BOI incentives on the overall EPR structure remained the same.

BOI incentives can affect capital and labor prices through its subsidy effect. Gregorio (1979) evaluated the impact of BOI incentives on the internal rate of return and relative factor use (cf. 1979, 1986 and 1990 studies). The Omnibus Investment Code (OIC) of 1981 granted incentives that made capital relatively cheaper than labor through the use of accelerated depreciation, tariff and tax exemptions on imported capital equipment and tax credit on domestic capital equipment. This capital cheapening effect was removed upon the passage of the OIC of 1983 (BP 391); thus, a more neutral policy toward capital and labor was achieved. However, this neutrality was lost upon the passage of the OIC of 1987 (EO 226), bringing back the bias against labor, considering that the Philippines is a labor surplus country.

Table 6 shows the capital-labor (K/L) ratio of BOI approved projects from 1980 - 1988. The table indicates that capital- intensity was not region specific. From 1980 to 1988, the most capital-intensive projects were not consistently pursued in any region and were never attempted in the NCR. Thus, such bias against regional growth is the overall bias against labor since a more capital-intensive process uses labor in a smaller proportion. Employment effects could have been greater had labor-intensive policies been promoted.

The 1981 OIC granted two forms of incentives for industries to locate in less developed areas. First, a tax credit equivalent to 100 percent of necessary and major infrastructure costs was offered to registered enterprise. Second, an additional reduction in income tax equivalent to the direct labor cost was granted to export firms provided such deductions did not exceed 25 percent of total export revenues.

Table 6
PROJECTS APPROVED BY BOARD OF INVESTMENTS BY REGION, 1980 - 1989 CAPITAL-LABOR RATIO

REGION	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
PHILIPPINES	127	67	149	69	33	17	12	16	28	45
NCR	137	53	204	37	17	17	8	11	25	31
Region I	70	47	41	182	62	1	22	59	10	89
Region II	-	89	-	8	-	22	-	-	-	13
Region III	80	27	46	170	18	33	-	27	83	52
Region IV	78	21	74	34	5	18	24	38	24	67
Region V	-	254	-	22	70	77	3	31	27	22
Region VI	-	99	39	243	160	10	36	14	20	41
Region VII	191	52	9	23	6	9	16	5	23	47
Region VIII	-	1237	-	45	-	-	-	-	22	664
Region IX	-	33	33	151	0	5	3	41	31	25
Region X	692	81	181	76	20	690	88	14	12	26
Region XI	65	119	9	41	-	24	13	48	37	23
Region XII	-	70	686	69	-	-	201	57	-	96

Notes:
GDP deflator used is for nationwide since figures are very close to regional deflators.
K/L = Project Cost in constant 72 prices per worker.

Source of basic data: Board of Investments.

Table 7 shows the projects approved by the BOI by region. From 1980-1983, Region IV had the largest number of projects approved, followed by the NCR. The third position went to either Region XI or III. These relative positions shifted in 1983 in favor of NCR and remained unchanged until 1989, with the NCR bagging most projects, followed by Regions IV and III, respectively. Only in 1986 did Region VII supplant Region III in rank. In the overall, this ranking would not change significantly even if the analysis for the 1983-1989 period was based on project cost or employment. Thus, both analyses show that the two BOI incentives granted to firms failed to disperse industries and private investments.

Table 8 which shows the overall distribution of private investment from 1975-1987 using the National Income Accounts data, bears the same findings. This data set captures all private capital formation whether or not promoted by the BOI. It shows that private investment had remained concentrated in the NCR. The region's share reached its highest in 1979 (63.8%) and its lowest in 1977 (40%). Regions IV and VII were consistently in the second and third top positions, respectively, starting 1978 and (except in 1983 when the two regions switched ranks) remained in their slots until 1987.

The failure of past incentives to disperse private investment was due to the difference in the objective functions of the economic agents involved. Moreover, the incentives for dispersal were insufficient to compensate for the efficiency pull of agglomeration economies (Louis Berger International 1986). After all, every firm will aim to maximize profit or minimize cost and will locate in a certain area to attain either of these objectives.

Using data from 100 firms in the top 1,000 corporations, Herrin and Pernia (1986) found that out of the 34 factors that can possibly affect location decision, only seven are considered decisive by majority of the sample firms. Their replies can be grouped into four critical location factors: access or transport, power, information and communication, and physical plant requirements. The first three, purely a function of urban concentration, can be translated into market terms through supply price, transport cost, wages, and rent (Louis Berger International 1986). The contention is that these factors increase efficiency, hence, enhancing profitability.

The government has two objectives in industrial dispersal and/or regional development policy: *environmental protection* and *spatial equity*, respectively. The incentives granted to firms for infrastructure expenditures in less developed areas, however, are not enough to attain the objectives. Here, there is a divergence between private and social costs. That is, industrial locational concentration brings about negative externalities such as noise, water, and air pollution and congestion. The lack of an industrial dispersal policy only aggravates such externalities. Society, moreover, bears most of the cost because there is no explicit compensation

Table 7
PROJECTS APPROVED BY BOARD OF INVESTMENTS
BY REGION, 1980 - 1989
Ranked by Distribution Shares

REGION	1980 # OF PROJECTS	1980 PROJECT COST (real terms)	1980 TOTAL EMPLOYMENT	1981 # OF PROJECTS	1981 PROJECT COST (real terms)	1981 TOTAL EMPLOYMENT	1982 # OF PROJECTS	1982 PROJECT COST (real terms)	1982 TOTAL EMPLOYMENT
	32	1,589,263	12,551	193	3,581,663	53,110	146	4,213,841	28,274
PHILIPPINES	100	100	100	100	100	100	100	100	100
Region IV	34	21	34	40	13	40	45	21	43
NCR	22	21	19	21	13	17	20	16	12
Region X	13	22	4	6	8	7	5	2	2
Region VII	9	21	14	4	2	2	5	0	4
Region XI	9	10	19	9	18	10	5	1	13
Region I	6	5	9	2	1	2	2	0	1
Region III	6	1	2	8	4	10	12	3	8
Region VI	0	0	0	2	5	4	4	1	5
Region V	0	0	0	2	6	1	0	0	0
Region IX	0	0	0	2	1	3	1	0	1
Region VIII	0	0	0	1	25	1	0	0	0
Region II	0	0	0	1	0	0	0	0	0
Region XII	0	0	0	3	2	2	1	55	12

Source: Board of Investments.

Table 7 (continued)

REGION	1983 # OF PROJECTS	1983 PROJECT COST (real terms)	1983 TOTAL EMPLOYMENT	1984 # OF Projects	1984 PROJECT COST (real terms)	1984 TOTAL EMPLOYMENT	1985 # OF PROJECTS	1985 PROJECT COST (real terms)	1985 TOTAL EMPLOYMENT
	152	1,934,715	27,980	124	1,251,903	37,830	143	404,043	23,961
PHILIPPINES	100	100	100	100	100	100	100	100	100
NCR	44	26	49	52	25	48	48	55	54
IV	19	9	19	19	5	34	12	18	17
III	10	13	5	5	4	8	10	7	4
VII	7	1	3	5	0	1	11	5	9
X	6	7	7	3	2	3	2	4	0
VI	5	24	7	2	4	1	3	1	2
V	2	0	1	3	5	3	3	2	0
XI	2	0	1	6	4	0	3	5	3
I	2	15	6	3	2	1	3	0	3
VIII	1	1	1	2	48	0	0	0	0
IX	1	2	1	0	0	1	3	2	6
II	1	0	1	0	0	0	1	1	1
XII	1	0	0	0	0	0	1	0	0

Source: Board of Investments.

Table 7 (continued)

REGION	1986 # OF PROJECTS	1986 PROJECT COST (real terms)	1986 TOTAL EMPLOYMENT	1987 # OF Projects	1987 PROJECT COST (real terms)	1987 TOTAL EMPLOYMENT	1988 # OF PROJECTS	1988 PROJECT COST (real terms)	1988 TOTAL EMPLOYMENT
	118	318,695	26,201	429	1;326,643	82,101	647	3,526,048	128,052
PHILIPPINES	100	100	100	100	100	100	100	100	100
NCR	51	51	74	59	46	66	47	46	50
IV	15	20	10	14	28	12	17	16	18
VII	11	5	4	5	2	6	8	4	5
VI	7	13	4	5	4	4	9	2	3
I	5	5	3	1	0	0	1	0	1
XI	4	1	1	2	1	0	3	3	2
X	3	3	0	1	0	1	2	4	10
IX	2	1	3	1	2	1	1	1	1
V	1	0	1	0	2	1	1	0	0
XII	1	2	0	1	0	0	1	0	0
VIII	0	0	0	0	0	0	0	0	0
III	0	0	0	9	14	8	9	23	8
II	0	0	0	0	0	0	0	0	0

Source: Board of Investments.

Table 7 (continued)

REGION	# OF PROJECTS	1989 PROJECT COST (real terms)	TOTAL EMPLOYMENT
	921	6,349,103	140,203
PHILIPPINES	100	100	100
NCR	48	33	48
IV	20	39	26
VII	6	5	5
VI	6	2	3
I	2	3	2
XI	2	1	2
X	2	1	2
IX	1	0	1
V	0	0	1
XII	1	1	1
VIII	0	2	0
III	8	8	7
II	0	0	0

Source: Board of Investments.

Table 8
PRIVATE INVESTMENT*, BY REGION
PERCENT DISTRIBUTION
1975 - 1987

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
(P 000)	12678417	13182242	13272201	14629308	16258215	17877016	18298773	18328253	18637143	12609436	9483933	7896115	9341294
PHILIPPINES	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National Capital Region	53.5	44.0	39.5	60.1	63.8	60.5	63.1	55.5	61.3	52.5	57.5	57.6	56.3
Region I	2.1	8.3	9.2	1.9	1.7	1.7	2.3	3.0	1.7	2.6	4.3	3.2	3.1
Region II	2.2	0.8	0.9	0.8	0.7	0.8	1.3	1.2	0.8	1.1	0.8	0.8	0.7
Region III	6.0	8.8	16.7	4.6	3.8	3.8	3.9	8.0	3.4	5.1	4.2	4.9	5.1
Region IV	15.5	6.5	8.0	8.7	10.8	8.3	8.1	10.3	7.9	16.1	15.4	17.2	16.6
Region V	1.6	1.6	3.1	3.7	1.1	1.3	1.7	1.1	1.1	1.7	1.7	1.5	1.8
Region VI	3.9	3.0	2.9	2.7	3.0	7.6	2.9	4.8	4.5	3.6	3.0	2.7	3.2
Region VII	3.9	3.6	8.2	4.7	5.8	7.8	8.0	9.3	8.7	9.4	8.8	11.1	5.6
Region VIII	1.5	0.7	0.9	1.5	0.6	0.6	0.7	0.7	0.8	2.2	2.4	1.0	0.8
Region IX	0.8	0.9	0.8	1.4	0.8	0.8	0.8	0.8	1.1	1.3	0.5	0.8	0.8
Region X	3.9	2.5	2.9	2.2	4.1	5.1	5.2	4.8	5.8	3.6	1.5	1.8	2.2
Region XI	4.1	2.9	2.8	4.6	2.6	3.9	4.8	2.3	5.9	3.1	2.4	2.4	2.8
Region XII	1.0	1.1	4.2	2.9	1.1	1.7	1.6	3.4	0.9	1.5	0.9	1.6	1.1

* Private Investment = Durable Equipment + Private Construction

Source: National Income Accounts, LINK Series, NEDA

to the affected parties nor is there deliberate tax or other policies allowing firms generating these externalities to internalize the cost. At best, the government through the Environment Protection Agency (EPA) levies lump sum fines on few erring firms. Private costs are also lower through the efficiency provided by the agglomeration economies.

The second incentive for dispersal granted exclusively to export firms is also found to be ineffective because its condition is to set the ceiling for the additional tax deduction at 25 percent of export revenues. In this scheme, an export firm is granted a tax deduction incentive equal to its direct labor and raw material costs; when it locates in a less developed area, it can avail of an additional tax deduction equal to its direct labor cost. This means an export firm that locates in a less developed area is entitled to an income tax reduction twice the amount of its direct labor cost. Export firms, however, cannot avail of the marginal tax reduction if its direct labor cost has already reached the 25 percent ceiling. Obviously, only firms whose labor costs are low can avail of this second dispersal incentive (Gregorio 1979).

The amendments incorporated in the 1988 Investment Priorities Plan included an explicit Industrial Location Policy. It gradually reduced the incentives to firms that locate in the NCR starting 1989. Yet, the distribution projects locating in the NCR appear to be an overwhelming 48 percent (see **Table 7**). There are still no available information to evaluate the effectiveness of reduced incentives on regional dispersal.

The 50-kilometer radius ban on the NCR instituted in 1973 was equally ineffective because exceptions were granted and grace periods extended (Louis Berger International 1986).

From all these results, one can therefore conclude that the industrial dispersal program failed.

The 1986 Tax Reform Package

One of the reforms in the 1986 package with regional implications is the abolition of the export tax to enhance the production of and investment in what used to be taxed commodities. Such export taxes have disincentive effects on production and investments. From 1980-1985 (except in 1984), the value of the country's exports declined (**Table 9**). Likewise, the share of the agro-based traditional exports to total exports exhibited a downward trend. From a share of 39.75 percent in 1982, its share declined to 28.38 percent in 1985.

Beginning 1986, export trends began to improve with total value rising from US$4,841.7 million in 1986 to US$5,720.2 million in 1987, or an increase of 18.1 percent. However, the value and percentage of traditional

Table 9
TOTAL EXPORTS, 1980 -1987
(F.O.B in thousand US dollars)

YEAR	TOTAL VALUE	TRADITIONAL EXPORTS	PERCENT OF TRADITIONAL EXPORTS TO TOTAL
1980	578,788	n.a.	
1981	5,720,397	n.a.	
1982	5,020,593	1,955,563	39.75
1983	5,005,291	1,893,458	37.83
1984	5,390,646	1,739,796	32.27
1985	4,628,954	1,313,645	28.38
1986	4,841,780	1,299,289	26.83
1987	5,720,238	1,296,815	22.67

Source: *Philippine Statistical Yearbook*, 1989.

exports to total exports continued to decline, showing that eliminating export taxes is not sufficient to increase export revenues if there is no corresponding move to adjust exchange rates and relax supply constraints.

Also, the tax reform package rationalized tax incentives through Executive Order No. 93 dated 7 December 1986. This measure withdrew the various tax incentives which distorted the equity of the tax system and deprived the government of much needed revenues. The executive order, however, explicitly retained the incentives provided under the Omnibus Investments Code.

Kalakalan 20

The most recent measure undertaken to promote development in rural areas was the passage of RA No. 6810 in 1989, establishing the Magna Carta for Countryside and Barangay Business Enterprises (CBBE): the Kalakalan 20. A CBBE is defined as any business entity, association or cooperative with (a) number of employees not exceeding 20; (b) assets at the time of registration not exceeding P500,000; and (c) principal office and business operation located in the countryside.

RA No. 6810 grants to all CBBEs registered under such law an exemption from all national and local taxes, license and building permit fee,

and other business taxes except real property and capital gains taxes, import duties and other taxes on imported articles. The law further allows all income, receipts and proceeds accruing from the business operations of CBBEs to be excluded from the gross income computed for the purpose of the individual income tax of the owner or member. These benefits are given for a period of five years from the date of registration of the CBBE provided that it register within five years from the effectivity of the Act.

As of 1990, however, there were already indications that Kalakalan 20 might fail. One, guidelines drafted by the Department of Trade and Industry contain many unclear provisions. For example, it is not clear whether registered firms were exempted from the minimum wage law. Two, those that were in the underground economy did not find any advantages in the program at all. After all, they neither paid any taxes nor dealt with any government agency. Three, firms knew that all incentives will be withdrawn after five years from the date of registration.

MONETARY, BANKING AND CREDIT POLICIES

Ideally, the effects of monetary policy on the local economy should be location-free. That is, the effects should be felt uniformly in all areas or regions of the country. Otherwise, the effectiveness of monetary instruments will be weakened. However, whenever other macroeconomic policies, such as trade, industrial and fiscal policies have differential impacts across regions, monetary policies could reinforce such bias. After all, it cannot be denied that monetary policies have a direct bearing on regional development. Credit allocation pattern to policy-preferred areas is an example. This, however, strongly assumes that funds are not fungible. This assumption, which was used as one of the bases of selective credit controls applied by several governments in LDCs, has not gone unchallenged (Lamberte and Lim 1987).

The low interest rate policy pursued by the government from 1950 to 1980 supported the inward-looking industrialization strategy of the country. Its capital-cheapening effect partly tend to establish capital-intensive, import-substituting industries that mostly located themselves in the NCR, where government basic services and infrastructure as well as economic activities were concentrated.

Despite the low interest policy, banking remained a profitable business concern because of the wide margin between rediscounting and lending rates, and between deposit and lending rates which were then set administratively by the Central Bank. Thus, the number of commercial and thrift banks grew rapidly up until the late 1960s when the Central Bank placed a moratorium on the establishment of new commercial and thrift

banks. Understandably, most of these banks located themselves in the NCR. It is in this sense that monetary and banking policies helped produce and magnify regional imbalances in favor of the NCR.

This bias was not left unnoticed by policymakers. Measures were then taken to redress the negative impact of monetary and banking policies and other macroeconomic policies on the development of regions other than the NCR. But these measures hardly produced any positive results insofar as increasing the flow of funds toward the regions is concerned since trade, industrial and fiscal policies continue to remain in favor of the NCR.

In the early 1950s, the government established the rural banking system to counteract the urban bias of private commercial banks. Rural banks were meant to be small, unit banks catering only to small farmers and non-farm entrepreneurs in rural areas. To encourage potential investors to engage in rural banking, the government provided rural banks with substantial subsidies including tax exemptions, cheap equity funds from the government that earned only two percent per annum, reserve requirement ratio on deposit liabilities that was lower than those on commercial banks, and rediscounting rates lower than those of other bank types. Moreover, the law gave rural banks some monopolistic power by allowing only one rural bank to be established per town.

Concerned about the concentration of funds in the NCR and the meager funds flowing into the rural sector in general, and into the agricultural sector in particular, the government created several special credit programs. The scheme was intended to redirect resources to the rural sector. Many government non-financial and financial agencies, including the Central Bank, were involved in the implementation of these programs. Some programs were funded by donor countries and multilateral agencies with rural banks and government banks tapped as the major conduits of such funds.

Since the gross margins realized by rural banks in these funds were very attractive, the banks later became comfortable acting as conduits of such funds instead of mobilizing deposits. The repayment rates of these special credit programs were very low, which eventually caused their funds to dry up. Consequently, rural banks that heavily depended on the funds from special credit programs met financial difficulties.

The establishment of rural banks and the creation of several *special credit programs* were thus complemented by other measures designed to improve the flow of funds. Starting 1972, the Central Bank encouraged banks to open up branches in remote areas of the country by requiring every new branch to purchase low-yielding, special five-year government securi-

ties, the minimum amount of which depended on the banking density of the area where the branch was located. The schedule was as follows:

a) Service Area I (Heavily overbranched areas)	P 20M
b) Service Area II (Overbranched areas)	P 25M
c) Service Area III (Ideally branched areas)	P 10M
d) Service Area IV (Underbranched areas)	P0.5M
e) Service Area V (Encouraged)	

The policy, in effect, raised the cost of opening more branches in the NCR, which was by then classified as a heavily overbranched area. However, available evidence suggests that this policy was ineffective. In particular, the number of offices in the NCR increased by 41 percent (from 756 in 1978 to 1,069 in 1985) whereas the number of offices in the 12 other regions grew by 18 percent only (from 2,132 in 1978 to 2,525 in 1985). The profitability of a banking office in the NCR, therefore, could have been several times higher than that of a banking office outside the region judging from these banks' willingness to shoulder higher entry costs.

The *deposit retention scheme* was another complementary measure. This regulation required all branches and extension offices of commercial banks and thrift banks operating outside the NCR to allot at least 75 percent of the total deposits generated in a particular region or service area for investment in the same area. This was designed to stop usual bank practice of transferring funds from regional branches to the NCR. This was, however, also ineffective since banks were able to circumvent the regulation by booking loan accounts in their branches located outside the NCR. To date, no bank was ever penalized for violating this particular regulation.

A third complementary measure was the *agricultural loan quota scheme* in which all banking institutions were mandated to set aside 25 percent of their net incremental loanable funds for agricultural lending, ten percent of which was to be lent to agrarian reform beneficiaries and 15 percent alloted for general agricultural lending. This scheme had minimal impact on the flow of credit to the agricultural sector. Most NCR-based banks that did not

have the capability to lend to the agricultural sector complied with the requirement by buying eligible government securities (TBAC 1985).

Ironically, while the national government exerted efforts to increase the flow of funds to regions outside the NCR, its bank (namely, the Development Bank of the Philippines [DBP]) continued its lending policy, thus possibly contributing to the disparities in levels of economic development across regions. This is reflected in **Table 10.**

Although the number of loans approved from January 1947 to December 1980 were more or less fairly distributed across regions, the distribution in the amount of loans was highly skewed in favor of the NCR. The adjacent regions (Regions III and IV) also obtained a larger share of the total amount of loans approved for the same period. Together, the three regions received 55 percent of the total amount of loans approved during the period.

By 1980, the government begun the process of financial liberalization by deregulating interest rates and reducing the functional differentiation among various bank categories. The steps taken were meant to minimize the fragmentation of the financial markets.

Today, the branching policy is more liberal than in the past. The required investment in government securities for purposes of establishing branches and other banking offices was eliminated in 1988, thus, significantly reducing the cost of expanding banking services in rural areas. However, it may take some time before the effects of this policy can be felt.

The deposit retention scheme has also been liberalized since 1988. Although the 75 percent retention scheme is still enforced, regional groupings was reduced from 12 to three; namely, Luzon, Visayas, and Mindanao. Thrift and rural banks can expand their branches to a wider area and do funds transfer operations without being hampered by restrictions.

Starting November 1985, the Central Bank has used its rediscounting window for stabilization purposes rather than for allocation of credit to priority sectors. The rediscounting rate has been made uniform and aligned with the market rate. This, in effect, ended the Central Bank's selective credit control, which it has used to direct the flow of credit to regions other than the NCR. All special credit programs managed by the Central Bank are now being charged at market rate, except in the case of the Industrial Guarantee Loan Fund (IGLF).

Under the IGLF program, borrowers located in the country's underdeveloped areas are charged a rate that is two percentage points below the market rate. The lower rate is based on the assumption that borrowers in depressed areas usually incur higher transactions cost in accessing the IGLF facility due to distance, and poor infrastructure and transportation facilities. The IGLF encourages banks to follow the policy by differentiating

Table 10
GEOGRAPHICAL DISTRIBUTION OF ALL LOANS APPROVED, DBP JANUARY 2, 1947 TO DECEMBER 31, 1980
(In thousand pesos)

REGION	TOTAL NO.		TOTAL AMOUNT	
NCR	38,053	(7.32%)*	8,012,795	(30.31%)*
I	27,796	(5.35)	1,752,415	(6.63)
II	41,959	(8.07)	1,127,854	(4.27)
III	63,603	(12.18)	2,791,412	(10.56)
IV	48,928	(9.41)	3,684,638	(13.94)
V	32,915	(6.33)	900,931	(3.41)
VI	62,506	(12.03)	1,574,549	(5.96)
VII	27,906	(5.37)	1,076,318	(4.07)
VIII	24,278	(4.67)	428,661	(1.62)
IX	31,274	(6.02)	567,130	(2.15)
X	44,025	(8.47)	2,212,647	(8.37)
XI	26,895	(5.17)	957,627	(3.62)
XII	49,948	(9.61)	1,348,089	(5.10)
GRAND TOTAL	520,086	100.00%	26,435,066	100.00%

* Figures in parenthesis are percent to total.

Source: Development Bank of the Philippines Annual Report 1980.

its lending rate to banks located in various regions of the country (see **Table 11**). This is the only lending program that has an explicit regional dimension.

The Department of Agriculture, meanwhile, manages 46 lending programs. Of these, 20 have been consolidated to form the new guarantee program called Comprehensive Agricultural Loan Fund (CALF). Most of the CALF-supported lending programs carry the market rate. Other lending programs managed by various government agencies and intended for beneficiaries in rural areas have been maintained. New ones have also been created. But most of the existing programs carry the market rates. This is in line with the Aquino government's general policy of avoiding interest rate subsidies.

While it will be worthwhile to ascertain whether some programs have a bias toward certain regions of the country (i.e., programs that allocate a significant proportion of their resources to these regions and less to other regions) or not, it is still difficult to do so because few credit programs report the distribution of the loans by region. Thus, the proceeding discussion narrows down its focus to three such credit programs, starting with the latest.

The *Tulong sa Tao, Self-Employment Loan Assistance (TST-SELA)* program of the Department of Trade and Industry was introduced in 1987. Operating through NGOs which act as conduits for credit to small borrowers for microenterprises and livelihood projects, the program has so far lent out P68 million to 173 NGOs. With additional US$8 million support from ADB, it was able to lend an additional P35 million to 47 NGOs as of October 1989. **Table 12** shows that the amount of loans was fairly distributed across regions of the country. The highest share was obtained by Region II; the lowest, by Region IX. Note that the latter had the second lowest underemployment rate as of 1988.

The *Guarantee Fund for Small and Medium Enterprises (GFSME)* began its actual operations only in 1984, with agriculture as its exclusive market area. **Table 13** shows the distribution of GFSME's approved accounts by region as of 1985 and 1988. The amounts are on a cumulative basis as of the dates indicated.

In 1985, loan accounts were highly concentrated in the NCR and Regions III, IV, and VI. By 1988, the great concentration of loan accounts was narrowed only to three regions: Region III, IV and VI. Region VI's share increased substantially between 1985 and 1986 with most of these loans alloted for fish and prawn farming. Apparently, the amount was meant to support sugar farmers who shifted to fish and prawn farming. Note that Regions III and IV, which had been favored by DBP's industrial lending program, were also highly favored by GFSME's agricultural lending programs.

Table 11
INTEREST RATES ON IGLF AVAILMENTS OF PARTICIPATING FINANCIAL INSTITUTIONS
(For the period 23 January to 30 June 1989)

LOCATION OF PROJECT	INTEREST RATE PER ANNUM (%) FIXED	VARIABLE
National Capital Region	14.1	12.1
Region I	12.1	10.1
Region II	12.1	10.1
Cordillera Autonomous Region (CAR)	11.1	9.1
Region III	14.1	12.1
Region IV (except Quezon, Aurora, Romblon, Marinduque, Palawan, and Mindoro)	14.1	12.1
Region V	11.1	9.1
Region VI (except Antique, Aklan and Capiz)	13.1	11.1
Region VII (except Bohol, Negros Oriental and Siquijor)	14.1	12.1
Region VIII	11.1	9.1
Region IX	11.1	9.1
Region X (except Camiguin)	13.1	11.1
Region XI	13.1	11.1
Region XII	12.1	10.1
Quezon, Palawan, Capiz and Aklan	12.1	10.1
Bohol, Antique, Siquijor, Mindoro, Aurora, Romblon, Marinduque, and Camiguin	11.1	9.1
Negros Oriental	13.1	11.1

Source: CB Circular No. 89-01 (January 1989).

Table 12
TST-SELA/NGO-MCP APPROVALS BY REGION
(As of October 23, 1989)

REGION	TST-SELA AMOUNT	NO. OF BENEFICIARIES	NO. OF NGOs	NGO-MCP AMOUNT	NO. OF BENEFICIARIES	NO. OF NGOs
I	7,075,000	283	17			
CAR	7,216,000	289	21			
II	13,333,000	533	16			
III	3,125,000	125	11	9,050,000	362	9
IV	5,666,000	227	14			
V	2,570,000	103	12	1,625,000	65	6
VI	2,685,000	107	9			
VII	4,101,000	164	12	5,412,000	216	7
VIII	2,255,000	90	6	5,780,000	231	8
IX	1,700,000	68	12			
X	3,540,000	142	8	6,719,000	269	8
XI	3,302,000	132	12	6,350,000	254	9
XII	4,188,000	168	12			
NCR	4,970,000	199	11			
TOTAL	65,726,000	2,630	173	34,936,000	1,397	44

Note: CAR = Cordillera Autonomous Region.

Source: Bureau of Small Scale Industries, Department of Trade and Industry.

Table 13
GFSME APPROVED ACCOUNTS, BY REGION
(In thousand pesos)

REGION	AS OF DECEMBER 1985 NO.	AMOUNT		AS OF DECEMBER 1988 NO.	AMOUNT	
NCR	2 (7.69 %)*	15,500,000	(21.36 %)*	7 (3.87%)*	13,176,000	(4.81%)*
I	2 (7.69)	2,900,000	(4.00)	8 (4.42)	14,625,000	(5.34)
II	0 -0-	0	-0-	0 -0-	0	-0-
III	8 (30.77)	19,750,000	(27.22)	27 (14.92)	40,977,500	(14.96)
IV	5 (19.23)	8,293,000	(11.43)	53 (29.28)	64,939,000	(23.71)
V	1 (3.85)	2,500,000	(3.45)	1 (0.55)	500,000	(0.18)
VI	5 (19.23)	15,369,000	(21.18)	68 (37.57)	108,533,165	(39.63)
VII	2 (7.69)	6,750,000	(9.30)	7 (3.87)	11,250,000	(4.11)
VIII	0 -0-	0	-0-	0 -0-	0	-0-
IX	0 -0-	0	-0-	1 (0.55)	3,360,000	(1.23)
X	0 -0-	0	-0-	3 (1.66)	2,850,000	(1.04)
XI	1 (3.85)	1,500,000	(2.07)	6 (3.31)	13,645,000	(4.98)
XII	0 -0-	0	-0-	0 -0-	0	-0-
TOTAL	26 100.00%	72,562,000	100.00*	181 100.00%	273,855,665	100.00%

(0) = no GFSME-approved account for the region on said period.
* Figures in parenthesis are percent to total.

Source: The Guarantee Fund for Small and Medium Enterprises (List of Approved Accounts per Region).

The *Industrial Guarantee Loan Fund (IGLF)*, established in 1952, is the oldest among the three lending programs reviewed in this section. Table 14, which gives the distribution of IGLF loan releases by region for the years 1980, 1985, and 1988, shows that the program highly favored the NCR both in terms of the number and volume of loans. This bias has remained throughout the period of analysis. The NCR's share in the total amount of loans further increased in 1988. In contrast, the poorer regions (in terms of per capita income), i.e., Regions VIII, V, II, I, and IX, received practically none from the program. Thus, the program's interest rate subsidy to poorer regions would be rendered useless if no changes in the pattern of distribution of loans were made.

SPECIAL PROJECTS AND PROGRAMS

This section briefly reviews the government's National Industrial Estate Program (NIEP) and assesses its impact on regional development and industrial dispersal. The analysis covers only one industrial estate (IE), the Phividec Industrial Estate-Misamis Oriental (PIE-MO); and four export processing zones (EPZs), namely, the Bataan Export Processing Zone (BEPZ), Mactan Export Processing Zone (MEPZ), Baguio City Export Processing Zone (BCEPZ), Cavite Export Processing Zone (CEPZ).

The Industrial Estates Program was one of the mechanisms that promoted regional development through industrial dispersal. It started in 1969 with the creation of the Foreign Trade Zone Authority (RA 5490), which subsequently became the Export Processing Zone Authority (EPZA - PD 66) in 1972. Its objective was to redirect the forces of urban and industrial concentration away from the NCR and toward other regions of the country. To achieve the program's objective, industrial sites were identified and constructed with basic infrastructure to serve as an alternative plant site for firms. Table 15 shows some basic facts about the existing Export Processing Zones/Industrial Estates (EPZs/IEs).

The IE/EPZ is an improvement over the BOI incentives for dispersal because the former provides basic infrastructure and related services such as technical advice within the industrial estate. It should be noted that in the late 1960s, EPZs and IEs mushroomed in developing countries, and reached their height by 1985. By then, 96 zones were established in 35 countries (Louis Berger International 1986).

In the Philippines, a firm located inside an EPZ/IE enjoys a range of tariff and tax exemptions, income tax deductions, waivers on local taxes and simplified export procedures quite similar to incentives granted to BOI-registered firms (Appendix A). Thus, the effects on the internal rate of return as well as the factor intensity on these firms do not differ substantially from those on BOI-registered firms.

Table 14
IGLF LOAN RELEASES BY REGION
(In thousand pesos)

REGION	1980 NO.		1980 AMOUNT		1985 NO.		1985 AMOUNT		1988 NO.		1988 AMOUNT	
NCR	77	(45.29%)*	1,360,000.00	(55.64 %)*	179	(44.75%)*	2,211,030.00	(51.09%)*	372	(64.47%)*	1,071,227	(71.09%)*
I	2	(1.18)	13,793.10	(0.56)	7	(1.75)	57,241.30	(1.32)	6	(1.04)	9,950	(0.66)
II	-	(0.00)	-	(0.00)	15	(3.75)	195,172.00	(4.51)	2	(0.35)	5,500	(0.36)
III	9	(5.29)	123,448.20	(5.05)	107	(26.75)	1,182,060.00	(27.31)	67	(11.61)	130,190	(8.64)
IV	2	(1.18)	256,551.70	(10.50)	14	(3.50)	137,931.00	(3.19)	42	(7.28)	88,130	(5.85)
V	4	(2.35)	31,724.13	(1.30)	5	(1.25)	19,310.30	(0.45)	3	(0.52)	3,205	(0.21)
VI	24	(14.12)	188,965.50	(7.73)	28	(7.00)	154,482.00	(3.57)	11	(1.91)	18,850	(1.25)
VII	18	(10.59)	346,206.80	(14.16)	20	(5.00)	171,034.00	(3.95)	38	(6.59)	82,880	(5.50)
VIII	-	(0.00)	-	(0.00)	5	(1.25)	47,586.20	(1.10)	-	(0.00)	-	(0.00)
IX	-	(0.00)	-	(0.00)	-	(0.00)	-	(0.00)	-	(0.00)	-	(0.00)
X	7	(4.12)	71,034.48	(2.91)	14	(3.50)	113,793.00	(2.63)	23	(3.99)	52,645	(3.49)
XI	6	(3.53)	47,586.20	(1.95)	5	(1.25)	37,931.00	(0.88)	9	(1.56)	28,029	(1.86)
XII	1	(0.59)	4,827.59	(0.20)	1	(0.25)	-	(0.00)	3	(0.52)	16,100	(1.07)
CAR	0	(0.00)	0.00	(0.00)	0	(0.00)	0	(0.00)	1	(0.17)	200	(0.01)
TOTAL	170	100.00%	2,444,137.70	100.00%	400	100.00%	4,327,570.80	100.00%	577	100.00%	1,506,906	100.00%

(-) = none or negligible
(0) = no data available
* Figures in parenthesis are percent to total.

Source: Industrial Guarantee and Loan Fund.

Table 15
PROFILE OF PHILIPPINE INDUSTRIAL ESTATES

YEAR OF OPERATION	INDUSTRIAL ESTATES	LOCATION	AREA (HECTARE)			TOTAL PUBLIC INVEST'T. (P000) (1972 = 100)	TOTAL NO. OF MFG. FIRMS IN OPERATION (Dec. 1986)	TOTAL NO. OF MFG. WORKERS (AVERAGE FOR 1986)
			TOTAL	DEVELOPED*	OCCUPIED			
	EXPORT PROCESSING ZONE AUTHORITY							
1972	Bataan Export Processing Zone	Mariveles, Bataan	1,600	172	90	160,701	32	15,794
1979	Mactan Export Processing Zone	Mactan, Cebu	119	35	10	11,327	7	3,458
1980	Baguio City Export Processing Zone	Baguio City, Benguet	66	16	13	13,469	10	3,522
1982	Cavite Export Processing Zone	Rosario, Cavite	275	40	0	5,930	1	82
	PHIVIDEC Industrial Authority							
1974	PHIVIDEC Industrial Estate-MO	Tagoloan, Mis. Or.	3,000	273	258	nda	7	1,443

* Developed = represents Net Developed Industrial Area, i.e., the aggregate area designated for industrial use excluding road right of way, open spaces, etc. at full development.

Source: Annual Report of Nationwide Industrial Estate Program, 1984, 1986, 1987.

The impact of EPZs/IEs on the regional economy may be assessed based on its employment contribution and extent of backward linkages. The employment contribution of IEs/EPZs to the regional labor market has been meager (Table 16). Even assuming that the workers hired by the EPZs/IEs were previously unemployed, labor absorption was in no instance more than 1.5 percent of the regional labor force. The figure could even be lesser for workers who were previously employed. In the absence of more detailed information, however, it can be argued that some of the workers were either previously employed and had merely shifted jobs, or were migrants from other regions.

The extent of forward linkages offered by EPZs/IEs is almost nil because most firms produce finished products, except fabricated metal products and transport equipment. Moreover, forward linkages are reduced because the government require firms to export a certain proportion of their output before they could avail of the incentives.

Backward linkages remain to be the least of the reasons for these firms' concerns. A cursory look at the sectoral breakdown of firms inside the five EPZs/IEs shows that only paper and paper products, rubber products and wood have some backward linkages, though not necessarily in the regional economy (see Table 17).

Wearing apparel can provide extensive backward linkages for the textile, polyester fiber and spinning industries and local talent for design. Yet, this has not been the case, since the textile and downstream industries are heavily protected (Mercado 1986). By using inputs from heavily protected industries, a firm unnecessarily increases its cost and loses some of its competitive edge in the world market. Most of these firms are then compelled to import materials of better quality at full tariff and tax exemptions to be competitive. One encouraging note, though, is that wearing apparel is labor-intensive and relies heavily on sub-contracts.

Wood products (furnitures), footwear, paper and rubber products offer relatively more prospects for backward linkages. Yet, the backward linkages in wood to lumber industry; footwear to leather tannery; paper to pulp industry (short fibers only); and rubber products to rubber tree plantation involved only 10 out of 60 firms in 1985, and five out of 57 firms in 1986.

Plastic products, basic iron and steel and electrical machinery are import-substituting industries and relatively import-dependent. The backward linkage offered by plastic products is in the use of polyvinylchloride (PVC), which has only two manufacturers in the Philippines. Other types of resin used are all imported.

The backward linkage offered by basic iron and steel is in iron ore mining; there are no local capabilities for pig iron. Their forward linkages,

Table 16
EMPLOYMENT CONTRIBUTION OF INDUSTRIAL ESTATES/EXPORT PROCESSING ZONES
1981 - 1986

	1981	1982	1983	1984	1985	1986
1. BEPZ (III)						
Employment (N)	20,350	18,659	19,871	22,866	15,426	15,794
Labor Force (LF)	1,693,208	1,651,010	1,771,005	1,853,476	1,923,825	2,016,492
(N) / (LF)	1.2	1.1	1.1	1.2	0.8	0.8
2. MEPZ (VII)						
Employment (N)	1,211	1,778	2,088	3,785	3,243	3,458
Labor Force (LF)	1,545,720	1,533,896	1,715,868	1,747,041	1,745,421	1,787,030
(N) / (LF)	0.1	0.1	0.1	0.2	0.2	0.2
3. BCEPZ (I)						
Employment (N)	753	1,175	1,571	2,551	3,270	3,522
Labor Force (LF)	1,327,975	1,299,200	1,408,176	1,406,196	1,344,816	1,456,728
(N) / (LF)	0.1	0.1	0.1	0.2	0.2	0.2
4. CEPZ (IV)						
Employment (N)	0	0	0	0	0	82
Labor Force (LF)	2,347,455	2,220,778	2,201,100	1,896,020	2,679,336	2,737,488
(N) / (LF)	0.0	0.0	0.0	0.0	0.0	0.0
5. PIE-MO (X)						
Employment (N)	2,173	1,720	1,807	1,425	1,388	1,443
Labor Force (LF)	1,140,412	1,056,330	1,303,568	1,320,926	1,311,252	1,318,876
(N) / (LF)	0.2	0.2	0.1	0.1	0.1	0.1

Source: *Philippine Statistical Yearbook*, 1988, page 11-4.
Annual Report of NIEP.

Table 17
SECTORAL DISTRIBUTION OF FIRMS IN THE INDUSTRIAL ESTATES
(Number of Firms Operating)

	1985	1986
BEPZ (Region III)		
Textiles	2	2
Wearing apparel	13	13
Footwear	1	1
Paper and paper products	1	1
Rubber products	1	1
Plastic products	2	2
Electrical machinery	6	5
Transport equipment	2	1
Other equipment & instruments	2	1
Others	5	5
Sub-Total	35	32
MEPZ (Region VII)		
Food	0	1
Wearing apparel	2	3
Wood and wood & cork products	0	1
Electrical machinery	1	1
Other equipment & instruments	1	1
Sub-Total	4	7
BCEPZ (Region I)		
Textiles	1	1
Wearing apparel	3	3
Footwear	1	0
Plastic products	2	2
Fabricated metal products	1	0
Electrical machinery	3	3
Others	1	1
Sub-Total	12	11
CEPZ (Region IV)		
Wearing apparel	1	2
Sub-Total	1	2

Source: Annual Report of Nationwide Industrial Estate Program 1984, 1986, 1987.

Table 17 (continued)

	1985	1986
PIE-MO (Region X)		
Food	0	2
Wood and wood & cork products	5	2
Paper & paper products	1	1
Industrial chemicals	0	0
Other chemical products	1	0
Iron & steel basic industries	2	2
Sub-Total	9	7
ALL		
Food	0	3
Textiles	3	3
Wearing apparel	18	20
Footwear	2	1
Wood and wood & cork products	5	3
Paper and paper products	2	2
Other chemical products	1	0
Rubber products	1	1
Plastic products	4	4
Iron & steel basic industries	2	2
Fabricated metal products	1	0
Electrical machinery	10	9
Transport equipment	2	1
Other equipment & instruments	3	2
Others	6	6
TOTAL	60	57

Source: Annual Report of Nationwide Industrial Estate Program 1984, 1986, 1987.

Table 18
LOCAL PURCHASES
(At constant 1972 prices)

IE	1981	1982	1983	1984	1985	1986
BEPZ (Region III)	-	4,835.86	6,409.40	5,460.79	4,157.36	5,756.13
MEPZ (Region VII)	-	27.91	142.14	379.16	138.22	600.55
BCEPZ (Region I)	-	-	430.91	972.45	1,410.33	1,955.17
CEPZ (Region IV)	-	-	-	-	-	0.00
PIE-MO (Region X)	-	-	-	-	-	624.24
TOTAL	-	-	6,982.45	6,812.39	5,705.91	2,562.97

RATIO OF LOCAL PURCHASES TO INDUSTRIAL GROSS REGIONAL DOMESTIC PRODUCT

IE	1981	1982	1983	1984	1985	1986
BEPZ (Region III)	-	0.0015	0.0020	0.0019	0.0016	0.0023
MEPZ (Region VII)	-	-	0.0001	0.0002	0.0001	0.0003
BCEPZ (Region I)	-	-	0.0001	0.0002	0.0003	0.0004
CEPZ (Region IV)	-	0.0000	0.0000	0.0000	0.0000	0.0000
PIE-MO (Region X)	-	-	-	-	-	0.0006
TOTAL	-	0.0000	0.0005	0.0006	0.0005	0.0002

Note: (-) = no available data.
Source: Annual Report of Nationwide Industrial Estate Program 1984, 1986, 1987.

on the other hand, are extensive. Unfortunately, the iron and steel industry is also heavily protected under the existing trade regime.

Table 18 shows the value of local purchases and the ratio of local purchases to industrial gross regional domestic product. Clearly, the contribution of the different EPZs/IEs was never over three percent.

The EPZs/IEs have not been very successful either in dispersing firms. **Table 15** confirms that EPZs/IEs have fallen short of their goal. In assessing dispersal in an area, a rule of thumb is to look at the total land area of the EPZs/IEs against the developed industrial area and the occupied area. In the table, developed areas constituted around 10 to 30 percent only of the total area in 1986. This can indicate too much optimism in planning or an inability to attract the projected number of firms.

The Mactan Export Processing Zone is perhaps one exception. The latest available information indicate that almost all of the 119 hectares in the zone are already occupied.[10] The overall incentive package, such as low land lease/sale rates, cheap utilities, low wages (**Appendix A** for more details) increases a firm's profitability by an average of seven percent. This is in contrast to the case of the NCR. Apparently, the package was not enough to compensate for the locational advantage of the NCR (Louis Berger International 1986).

Overall, it can be concluded that the industrial estate program's effect on industrial dispersal has been ineffective, despite the provision of basic infrastructure. The sufficient conditions to effect dispersal are more complex to identify and difficult to influence.

In 1987, the NIEP was abolished. Although there was no conscious effort to ensure its continuity, the old concept resurfaced with a new strategy and name: the Department of Trade and Industry's program on Regional Industrial Centers (RICs). These RICs are included in the MTPIP 1988-1992. Their objectives are: (a) to provide sufficient and balanced infrastructure necessary in bringing investment in at least one area per region; and (b) to serve as an instrument for rural development and to distribute the gains across regions. It is also obvious that the RIC program has industrial dispersal and regional development objectives quite similar to that of the NIEP.

The RIC program calls for the identification and development of areas into alternative industrial centers by decentralizing and beefing-up trade- and industry-related services and facilities; improving infrastructure, utilities and credit delivery system; and adopting a more competitive and rational

[10] See Part II for a related discussion on this.

pricing of transport and utilities to overcome the locational advantage of the NCR. The criteria for the selection of RICs are:

1. Market size to include exports;
2. Availability of labor;
3. Manufacturing base;
4. Business services;
5. Social amenities;
6. Infrastructure and utilities;
   a. Port
   b. Airport
   c. Power
   d. Telecommunications
7. Other considerations
   a. Availability of raw materials.
   b. Peace and order situation.
   c. Availability of prime industrial land.
   d. Road system.
   e. Water system.
   f. Role as trade or shipping center.
   g. Internodal linkages.
   h. Distinct comparative advantage (unique characteristics and internal conditions of a city/municipality).
   i. Proximity to market.
   j. Proximity to other ports and facilities.
   k. Business dynamism of the province.

These criteria include all factors that can induce firms to locate in a certain area. But the areas where government policy has a strong influence are in items 6 and 7 *d,e, i,* and *j*.

Below are the areas identified as RICs:

Region I - San Fernando, La Union
CAR - Baguio EPZ
Region II - Cauayan, Isabela
Region III - Bataan EPZ
Region IV - Cavite EPZ/Batangas
Region V - Legaspi City
Region VI - Pavia, Iloilo
Region VII - Mactan EPZ
Region VIII - Tacloban City
Region IX - Zamboanga City
Region X - PHIVIDEC, Misamis Oriental
Region XI - Davao City/General Santos City
Region XII - Iligan City /Parang, Maguindanao

Table 19 presents the profile of nine new RICs.[11] Perhaps after acknowledging the weak results of the two industrial dispersal incentive programs, the government now incorporated the on-site and off-site costs—important infrastructure considerations in firms' locational decisions—in the new program.

In the new program, the implementation of the off-site infrastructure is a priority over work on the onsite. It also calls for the development of some 657 hectares of new industrial land in nine regions of the country. This requires funds for the P4,580.71 million off-site infrastructure cost. Seventy-four (74) percent of the off-site project components are already programmed—i.e., either there is an ongoing activity or specific activities had been programmed for implementation in 1990—with Regions VI and I having the highest (93 percent) and lowest allotment (38 percent) from the program funds, respectively.

Region VI had the highest percentage of programmed off-site infrastructure projects because Pavia, Iloilo is one of the Special Development Programs (SDPs) of the Coordinating Council of the Philippine Assistance Program (CCPAP). All off-site infrastructures will be fully operational in 1995.

On-site infrastructures are still in the pre-investment study stage. Some of the RICs are being promoted to foreign government, multinationals and other private developers. There are at present five EPZs in operation while four of the RICs (i.e., Batangas, General Santos City, PHIVIDEC, along with the Cagayan-Iligan Corridor, and Pavia in Iloilo) are part of the SDPs.[12] The RICs are expected to attract 263 firms and generate 43,211 jobs.

Recent experiences on industrial estates suggests some caution in promoting the RIC program. With so much unoccupied space at the existing EPZs/IEs, off-site infrastructure should at least be provided to the existing industrial centers to improve the latter's attractiveness. On-site infrastructure projects should wait until there is a demand for more industrial space based on factors such as the rising occupancy rate in the existing industrial centers. The experiences with the Mactan Export Processing Zone is one case in point. The other regions, of course, offer a different attraction based on their respective resources and climate. Beyond that, regional comparative advantage is man-made.

[11] The four EPZs are actually part of this program but are excluded from this discussion.

[12] These projects are discussed in Chapter VI.

Table 19
PROFILE OF REGIONAL INDUSTRIAL CENTERS

	I	II	V	VI	VIII	IX	XI-D	XI-GS	XII-I	XII-P	TOTAL
A. Area (ha)	100	100	100	80	40	40	52	400	105	40	1057
B. Off-site cost[1]											
Total	220.15	31.63	154.32	275.46	479.57	265.89	2264.95	1384.95	446.81	441.93	5965.66
% Programmed	38	62	58	93	66	88	79	1	92	43	74
% Unprogrammed	62	38	42	7	34	12	21	99	8	57	26
C. On-site cost	243	126	161	213	58	149	408	236	293	81	1968
D. Distances from (in km)											
CBD	4	2	5	9.6	15	13	14	4	5	20	
Airport	5	10	9	7.5	20	12	6	8	15	20	
Seaport	7	140	5	14	14	15			5	adjacent	
Highway	2 along highway		3.5 along highway			10 along highway	adjacent	along highway		0.1	
F. Targets											
No. of firms	60	40		40		80	24	-	19		263
Employment	15000	7092		3009	11496	4867	1747	-			43211
No. of years to 100 % Occupancy	5	5	5	3	2	3	3	-	3		

Note: All cost are in million pesos.
XI-D refers to Davao City; XII-I to Iligan City; XII-P to Parang, Maguindanao.
The locations of the rest are explained in the text.
[1] Details in Annex B.
Source: Department of Trade and Industry.

3

AN OVERVIEW OF REGIONAL DEVELOPMENT

Since the effort to address the issue of regional development dates back to the late sixties, how have the regions fared today? Was the economic dominance of the National Capital Region (NCR) reduced in favor of other less prosperous regions? Are the rest of the regions catching up?

To answer these questions, this study analyzes regional data covering the years 1975, 1980, 1985 and 1988. 1975 is chosen as the benchmark year for two reasons: one, regional statistics starting 1975 are more reliable; and two, it is reasonable to presume that the policies and programs for regional development in the early seventies have not produced substantial impact by 1975. The situation then reflected the trend during the earlier years.

ECONOMIC DEVELOPMENT

Table 20 shows the indices of per capita Gross Regional Domestic Product to compare economic development across regions and over time.

The NCR continues to dominate all the other regions with a per capita product more than twice that of the second more developed region (Southern Tagalog) and about six times more than that of the least developed region (Bicol). The large decline in the NCR's index between 1975-1988 shows that its dominance waned over time. However, this is due to heavy in-migration rather than to any significant fall in the region's contribution to national output, as indicated in **Tables 21 and 22.**

The two tables show the regional shares to national output and net migration rates, respectively, for the same period. Here, the NCR's share to national output of 30 percent has almost remained unchanged while net migration rates were highest in the region throughout the period.

Table 20
INDICES OF PER CAPITA, GROSS REGIONAL DOMESTIC PRODUCT
1975, 1980, 1985 and 1988
(At constant prices)

REGION/YEAR	1975	1980	1985	1988
PHILIPPINES	100	100	100	100
Luzon	118	118	116	116
NCR Metro Manila	267	257	234	239
I Ilocos Region	53	51	62	63
II Cagayan Valley	58	61	57	52
III Central Luzon	83	83	85	82
IV Southern Tagalog	113	109	111	112
V Bicol Region	45	47	48	45
Visayas	78	78	74	73
VI Western Visayas	95	87	79	73
VII Central Visayas	84	94	91	96
VIII Eastern Visayas	44	42	45	42
Mindanao	78	81	98	87
IX Western Mindanao	53	63	69	66
X Northern Mindanao	76	84	92	94
XI Southern Mindanao	104	91	102	100
XII Central Mindanao	70	81	82	84

Source: ESSO-National Statistical Coordination Board.

Table 21
PERCENT SHARES, GROSS REGIONAL DOMESTIC PRODUCT
1975, 1980, 1985 and 1988
(At constant prices)

REGION/YEAR	1975	1980	1985	1988
PHILIPPINES	100.00	100.00	100.00	100.00
Luzon	64.19	63.75	63.13	63.62
NCR Metro Manila	31.60	31.67	29.67	30.78
I Ilocos Region	4.08	3.78	4.46	4.43
II Cagayan Valley	2.65	2.82	2.64	2.39
III Central Luzon	8.32	8.26	8.53	8.14
IV Southern Tagalog	14.03	13.83	14.37	14.67
V Bicol Region	3.51	3.40	3.47	3.20
Visayas	18.88	17.96	16.84	16.42
VI Western Visayas	9.34	8.17	7.32	6.78
VII Central Visayas	6.80	7.37	6.99	7.29
VIII Eastern Visayas	2.74	2.42	2.53	2.34
Mindanao	16.93	18.29	20.03	19.96
IX Western Mindanao	2.58	3.31	3.63	3.43
X Northern Mindanao	4.20	4.81	5.36	5.47
XI Southern Mindanao	6.72	6.33	7.14	7.06
XII Central Mindanao	3.43	3.83	3.91	3.99

Source: ESSO-National Statistical Coordination Board.

Table 22

NET INTERNAL MIGRATION RATE OF POPULATION 5 YEARS OLD AND OVER BY REGION, 1970, 1975 AND 1980 -1987

(In percent)

YEAR/REGION	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1970-1975	1.50	(1.31)	(0.23)	0.69	0.42	(1.02)	(0.41)	(1.20)	(0.20)	(1.17)	1.69	1.12	(0.93)
1975-1980	7.51	(3.42)	(3.2)	(0.09)	2.97	(4.43)	(3.89)	(4.11)	(6.12)	(0.99)	3.39	2.16	1.98
1980-1981	4.53	(1.21)	(0.05)	(0.05)	1.53	(1.54)	(1.77)	(1.36)	(1.72)	(0.20)	0.79	0.65	0.42
1981-1982	4.53	(1.22)	(0.05)	(0.05)	1.56	(1.57)	(1.79)	(1.37)	(1.73)	(0.20)	0.81	0.66	0.42
1982-1983	4.50	(1.23)	(0.05)	(0.05)	1.60	(1.59)	(1.80)	(1.37)	(1.75)	(0.20)	0.83	0.67	0.44
1983-1984	4.46	(1.25)	(0.05)	(0.05)	1.64	(1.61)	(1.82)	(1.38)	(1.77)	(0.20)	0.84	0.68	0.44
1984-1985	4.41	(1.26)	(0.05)	(0.05)	1.67	(1.63)	(1.83)	(1.38)	(1.79)	(0.20)	0.86	0.70	0.45
1985-1986	4.37	(1.26)	(0.05)	(0.05)	1.71	(1.65)	(1.85)	(1.39)	(1.80)	(0.20)	0.87	0.71	0.46
1986-1987	4.33	(0.75)	(1.64)	(2.02)	1.98	(1.15)	(0.91)	(0.57)	(0.70)	0.10	1.84	2.00	1.84

Note: Net Internal Migration Rate = The difference between the in-migration and out-migration rates.

Source: National Statistics Office.

In Luzon, only Region I increased its per capita Gross Regional Domestic Product and its share to the National Gross Domestic Product. In Regions II and III, both indicators declined. There was hardly any change in Regions IV and V during the 13-year period.

Region VI's dismal performance highlighted the development of the rest of the Visayas. The Visayas' index of per capita GRDP dropped substantially when Region VI's population decreased due to out-migration during the period. The contribution to national output also declined.

Region VI's dependence on the sugar industry contributed to the Visayas' fate. The collapse of the sugar industry after its export demand and prices plummeted brought a concomitant slump in this region's performance. Meanwhile, Region VIII's development was moderate, although there was a notable increase in its per capita GRDP. This was due to out-migration, too, since its contribution to national GDP increased by only 0.2 percentage points.

Yet, it is Region VII's development which was comparatively encouraging. It managed to increase its index of per capita income and its contribution to national output by 2.5 percentage points during the period.

In Mindanao, all regions except Region XI managed to increase their per capita GRDP and contribution to national GRDP. The slight decline in the index of per capita product in Region XI, however, can be attributed more to in-migration to the region as evidenced by the increase in its share to national output in 1988 as compared to its performance in 1975 (**Table 22**).

To determine if these wide disparities across regions have significantly changed over time, the standard deviation of per capita GRDPs for each of the four-year period was calculated. Also, this study used a one-way analysis of variance test to determine if the changes were significant or not.

Table 23 shows an increase in the standard deviation during the period 1975-1980, indicating that the disparities worsened. The variance fell in 1985 and increased again in 1988.

Some insights at this point can already be gathered from the trend. For one, the disparities worsened during times when the industrial sector was performing better than the agricultural sector, as was the case from 1975 to 1980 and during the period of industrial recovery (1986-1988). In contrast, an industrial recession and a relative improvement in the performance of the agricultural sector characterized the period 1980-1985 (also the time when regional disparities narrowed). Since most regions are predominantly agricultural, it is therefore reasonable to expect disparities to narrow down with improvements in agricultural sector performance.

Nevertheless, the F- value obtained for the analysis of variance does not reject the null hypothesis (i.e., that there is no difference in the observed changes in the variance of per capita GRDPs during the four periods). One can only conclude that the changes in the disparity across regions, as

Table 23
STANDARD DEVIATION AND ANALYSIS OF VARIANCE PER CAPITA, GROSS REGIONAL DOMESTIC PRODUCT 1975,1980,1985 and 1988

1975	1980	1985	1988
911.4	1008.2	755.2	836.8
Sum of Squares	DF	Mean Square	F Ratio
557873.462	3	185957.821	0.220
40536280.308	48	844505.840	
41094153.769	51		

measured by the standard deviation during the periods under study, are not significant. This implies that the policies and programs to promote regional development have either been ineffective or have yet to take effect, or both.

Table 24 shows the regional distribution and per capita index of gross value added (GVA) in manufacturing. In 1975, the NCR accounted for over half of the country's GVA in manufacturing. The NCR, together with the adjacent regions of Southern Tagalog and Central Luzon, accounted for almost 80 percent of the manufacturing output. Region VI was the only other region with a significant manufacturing base in 1975.

Starting 1980, the NCR experienced a decline in its share in manufacturing activity while that of Southern Tagalog expanded. This indicates that the spillover of manufacturing activity to the metropolitan periphery started in the eighties and involved Region IV more than it did Region III. The study shows that there was only a slight decline in Region III's share to manufacturing activity during the period. Only Region I experienced a significant increase in manufacturing activity.

In the Visayas, Region VI experienced a precipitous decline in its share to the manufacturing GVA as a consequence of the fall of the sugar industry. The decline was so steep that the overall share of the Visayas regions dropped despite the significant increases in manufacturing activity in Region VII and the modest gain in Region VIII.

Table 24

PERCENT SHARE AND INDEX, GROSS VALUE ADDED IN MANUFACTURING, BY REGION
1975, 1980, 1985 and 1988
(At constant prices)

REGION/YEAR	1975 %	1975 INDEX	1980 %	1980 INDEX	1985 %	1985 INDEX	1988 %	1988 INDEX
PHILIPPINES	100.00	100	100.00	100	100.00	100	100.00	100
Luzon	79.78	604	79.28	705	79.73	576	77.15	604
NCR Metro Manila	52.10	441	53.19	432	51.73	407	46.87	364
I Ilocos Region	0.88	11	0.97	13	1.37	19	2.16	31
II Cagayan Valley	0.49	11	0.48	11	0.35	8	0.39	8
III Central Luzon	8.66	86	8.29	83	8.18	82	8.09	81
IV Southern Tagalog	17.27	139	15.99	126	17.74	137	19.23	147
V Bicol Region	0.39	5	0.36	5	0.37	5	0.41	6
Visayas	12.18	208	12.28	256	10.45	182	9.39	180
VI Western Visayas	7.75	79	7.05	75	4.75	51	2.79	30
VII Central Visayas	4.06	50	4.91	62	5.42	71	6.17	82
VIII Eastern Visayas	0.36	6	0.32	5	0.28	5	0.42	8
Mindanao	8.04	152	8.44	179	9.81	169	13.46	252
IX Western Mindanao	0.48	10	0.47	9	0.70	13	0.92	17
X Northern Mindanao	2.49	45	2.54	44	3.45	59	5.13	88
XI Southern Mindanao	2.99	46	3.31	48	3.30	47	4.03	57
XII Central Mindanao	2.07	42	2.12	45	2.37	50	3.39	71

The Mindanao regions once more managed to increase their share of manufacturing activity during the period. The most notable performance records were those of Regions X and XII.

Taken as a whole, note that the distribution of manufacturing activities remains highly skewed up to the present, with the NCR and Regions III and IV accounting for almost three-fourths of the total value-added in manufacturing. This bias in favor of these three regions persisted in spite of the encouraging achievement manifested by other regions.

Nevertheless, by comparing **Table 24** with **Table 20**, one can immediately discern a strong correlation between the performance of the region in terms of per capita GRDP and its performance in terms of manufacturing activity. Since manufacturing is often the more dynamic sector of the economy, regions with a significant manufacturing base tend to attain relatively higher growth rates. The government, thus, should seriously pursue a more balanced development between the agricultural and industrial sectors of all regions.

POVERTY

A major policy thrust of regional development during the mid-1970s was *poverty alleviation*, apparently a response to the deteriorating poverty situation in the early 1970s.

Table 25 shows *poverty incidence* data covering four time periods. Figures on regional poverty incidence became available only in 1985. The 1975 and 1980 figures were estimated by deflating the 1985 regional poverty thresholds using the 1975 and 1980 consumer price indices, while the 1988 poverty thresholds were adjusted for inflation. Because of these considerations, comparisons over time had to be treated with caution. The table provides a rough approximation of the changes in the poverty situation within and among regions.

In 1975, the regions with the highest incidence of poverty, i.e., higher than the national average, were Region X (81.7%), Region IX (79.9%), Region V (79.2%), Region VI (76.9%), Region II (75.3%), Region I (74.8%), and Region VIII (74.6%). By comparing **Table 20** with **Table 25**, one notes that regions with relatively lower per capita output generally have the highest incidence of poverty.

During the 1975-1988 period, national poverty incidence declined by 24.4 percentage points. The biggest improvements were posted by the NCR, Region X, Region III, Region IX, Region II, and Region I. Region V and all of the Visayas regions, in contrast, experienced relatively lower improvements. In Mindanao, the regions were able to achieve considerable success in reducing poverty despite its high incidence of poverty relative to the national rate.

Table 25
REGIONAL POVERTY INDICATORS
1975, 1980, 1985 and 1988

	1975*		1980*		1985		1988		1988/1975
	TOTAL POVERTY THRESHOLD (PESOS)	POVERTY INCIDENCE (%)	TOTAL POVERTY THRESHOLD (PESOS)	POVERTY INCIDENCE (%)	TOTAL POVERTY THRESHOLD (PESOS)	POVERTY INCIDENCE (%)	TOTAL POVERTY THRESHOLD (PESOS)	POVERTY INCIDENCE (%)	POVERTY INCIDENCE (% DIFFERENCE)
PHILIPPINES	524	73.9	938	73.2	2,381	59.0	2,709	49.5	24.4
NCR	768	69.3	1,320	66.8	3,282	43.9	4,037	31.8	37.5
Region 1	516	74.8	921	84.9	2,389	52.8	2,597	48.6	26.2
Region 2	539	75.3	937	90.4	2,201	56.3	2,576	48.6	26.7
Region 3	514	69.0	928	77.8	2,552	43.5	2,881	39.6	29.4
Region 4	559	66.1	994	83.9	2,471	55.2	2,832	49.3	16.8
Region 5	455	79.2	881	86.7	2,143	73.5	2,443	65.3	13.9
Region 6	528	76.9	932	82.9	2,453	73.4	2,654	61.8	15.1
Region 7	444	69.1	763	59.2	1,987	69.9	2,173	54.6	14.5
Region 8	463	74.6	836	89.3	2,015	70.2	2,263	60.5	14.1
Region 9	482	79.9	817	77.8	2,119	63.0	2,289	52.0	27.9
Region 10	467	81.7	917	81.4	2,249	65.6	2,439	51.5	30.2
Region 11	515	72.8	959	69.9	2,389	60.2	2,763	52.2	20.6
Region 12	463	69.0	870	80.0	2,212	63.6	2,468	47.1	21.9

* 1975 and 1980 figures were computed by deflating 1985 thresholds with 1975 and 1980 CPI.

Source for 1985 and 1988 figures: Interagency Working Group on Poverty Determination, - NEDA, FNRI, NSO.

SOCIAL DEVELOPMENT

To evaluate the social development of the regions, the following impact indicators were analyzed: literacy rates, average life expectancy at birth, and infant mortality rates.

The *literacy rate* is the proportion of the population 15 years old and over who can read, write and understand a simple message. It is a general measure of the educational well-being of the population. The only data available on literacy rates during the last two decades are those in 1970 and 1980. The figures are shown in **Table 26.**

The table shows a slight improvement in literacy rates for the country as a whole. Regions III, IV, V, IX, and XII experienced a drop in the proportion of literates during the 10-year period. Regions IX and XII continued to post the lowest literacy rates in the country.

Life expectancy is the average number of additional years a person will live if current mortality trends are held constant. In **Table 27,** the average life expectancy for the country increased from 59.9 years in 1975 to 64 years in 1988. While all regions in Luzon and the Visayas had an increase in their average life expectancy, all the Mindanao regions experienced a decrease despite the relatively better economic performance during the period. This seems to indicate that there is no correlation between the regions' economic development and the improvement in the population's health.

The *infant mortality rate (IMR)* is another gauge of the population's health condition. **Table 28** shows data on the IMR covering the periods 1975 to 1988. For the country as a whole, the ratio of deaths among children under one year of age per 1000 livebirths declined from 74.6 in 1975 to 52.8 in 1988. Although all regions managed to decrease their IMR, Regions V, VIII, IX, XI and XII achieved minor improvements only. The Mindanao regions had the highest infant mortality rates.

The study indicates very little relationship between the economic performance of the regions and their performance in social development. However, since it is possible that government's social services were directed primarily toward the country's poorer regions, then the level and quality of government services in health and education have a strong and more direct impact on the region's social development.

RANK ANALYSIS

Table 29 ranks the regions based on poverty, social, and economic development indicators for two time periods: 1975 and 1988.

In terms of economic indicators, the NCR, Region IV, Region XI, Region VII and Region X registered highest in per capita GRDP while the

Table 26
LITERACY RATE OF POPULATION 15 YEARS OLD AND OVER BY REGION
1970 and 1980

	PHIL	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1970	82.6	96.2	81.5	77.3	89.5	87.4	86.0	81.3	76.2	76.4	64.7	83.4	81.0	65.9
1980	83.3	97.3	84.5	79.4	88.7	85.8	85.1	81.8	76.3	79.2	65.7	84.6	81.1	64.1

Source: National Statistics Office, Census of Population and Housing.

Table 27
AVERAGE LIFE EXPECTANCY AT BIRTH, 1975 -1988

YEAR/REGION	PHIL	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1975	59.9	59.8	59.3	59.3	58.8	59.2	59.8	58.8	59.6	59.5	61.7	60.1	59.9	63.1
1976	60.4	60.1	59.7	59.6	59.3	59.8	60.3	59.2	60.1	60.0	62.2	60.7	60.4	63.6
1977	60.8	60.0	60.0	59.7	60.3	60.3	60.7	59.6	60.7	60.4	62.7	61.2	60.8	64.0
1978	61.2	60.4	60.3	60.1	60.6	60.8	61.1	60.0	61.2	60.8	63.2	61.7	61.3	64.4
1979	61.6	60.7	60.6	60.5	60.8	61.2	61.5	60.4	61.7	61.1	63.7	62.1	61.7	64.8
1980	61.6	66.1	63.0	58.3	65.1	64.3	61.2	62.2	63.9	58.3	51.5	55.0	54.4	51.5
1981	61.9	66.3	63.3	58.0	65.3	64.5	61.5	62.5	64.2	58.6	51.8	55.3	54.7	51.8
1982	62.2	66.5	63.6	58.9	65.6	64.8	61.8	62.8	64.5	58.9	52.0	55.7	55.0	52.0
1983	62.5	66.1	63.9	59.2	65.9	65.1	62.1	65.5	66.7	60.9	53.9	57.5	56.9	53.9
1984	62.8	67.0	64.2	59.2	66.2	65.4	62.4	65.7	67.0	61.2	54.2	57.8	57.2	54.2
1985	63.1	67.2	64.5	59.8	66.5	65.7	62.6	65.9	67.3	61.5	54.5	58.1	57.5	54.5
1986	63.4	67.4	64.8	60.1	66.8	65.9	62.9	66.1	67.6	61.8	54.8	58.4	57.8	54.8
1987	63.7	67.7	65.1	60.4	67.1	66.2	63.2	66.3	67.9	62.1	55.1	58.7	58.1	55.1
1988	64.0	67.9	65.4	60.7	67.4	66.5	63.5	64.4	66.3	60.7	53.8	58.0	56.8	53.8

Notes: 1. Data from 1975-1979 were based on the 1975 Census of Population and the use of South Mode Life table.
2. 1980 data was based on the 1980 Census of Population and the other years were based on the population projections.

Source: National Statistics Office, Population Studies Division.

Table 28
INFANT MORTALITY RATE (Per 1,000 livebirths)
1975 - 1988

YEAR/ REGION	PHIL	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1975	74.6		83.4	98.1	62.3	69.2	63.4	73.2	65.6	75.3	116.0	112.1	91.9	112.1
1976	74.0													
1977	72.0													
1978	70.0													
1979	68.0													
1980	63.2	44.0	57.0	78.3	48.2	51.6	64.8	60.5	53.3	78.3	112.8	94.5	97.6	112.8
1981	61.9	42.9	55.7	76.9	47.0	50.3	63.5	59.3	52.0	76.9	111.1	92.4	96.0	111.1
1982	61.4	42.1	54.5	75.5	45.7	49.1	62.4	59.1	50.8	75.5	109.5	90.6	94.5	109.5
1983	59.2	41.0	53.2	74.1	44.7	48.2	61.0	56.7	49.5	74.1	108.3	88.6	93.0	108.3
1984	57.9	40.2	52.0	72.7	43.4	47.0	60.0	55.6	48.2	72.7	106.6	86.8	91.4	106.6
1985	56.6	39.1	50.7	71.3	42.1	45.7	58.6	54.4	46.9	71.3	105.0	84.8	89.9	105.0
1986	55.3	38.0	49.4	69.9	40.9	44.4	57.3	53.4	45.7	69.9	103.4	82.8	88.5	103.4
1987	54.2	37.2	48.2	68.5	39.6	43.2	56.3	52.3	44.4	68.5	101.9	81.1	87.0	101.9
1988	52.8	36.3	46.9	67.2	38.5	42.2	55.1	51.0	43.2	67.2	100.6	79.3	85.5	102.2
% DECREASE			0.44	0.31	0.38	0.39	0.13	0.30	0.34	0.10	0.13	0.29	0.07	0.09

Notes: 1. The figures for 1975 were taken from Flieger and Abenoja,"Philippine National and Regional Mortality Estimates for the Year 1975", Office of Population Studies,San Carlos University. Data for 1976-1979 were based on mortality estimates.
2. The 1975 figure for the National Capital Region was combined with Region IV.
3. Figures for 1980-1988 were based on population projections.

Source: National Statistics Office, Population Studies Division.

Table 29

TWO-PERIOD REGIONAL RANKINGS BASED ON ECONOMIC AND SOCIAL DEVELOPMENT INDICATORS

REGION/INDICATOR	ECONOMIC DEVELOPMENT						SOCIAL DEVELOPMENT			
	POVERTY INCIDENCE		PER CAPITA GRDP		AVE. FAMILY INCOME		INFANT MORTALITY RATE		LITERACY RATE	
	1975	1988	1975	1988	1975	1988	1975	1988	1970	1980
NCR	5	1.	1	1	1	1	1	1	1	1
I	8	4.5	11	10	5	7	8	5	6	6
II	9	4.5	9	11	9	8	10	8.5	9	9
III	2.5	2	6	7	3	2	2	2	2	2
IV	1	6	2	2	7	3	5	3	3	3
V	11	13	12	12	12	12	3	7	4	4
VI	10	12	4	8	6	10	6	6	7	7
VII	4	10	5	4	8	11	4	4	11	10
VIII	7	11	13	13	11	13	7	8.5	10	11
IX	12	8	10	9	4	9	13	12	13	12
X	13	7	7	5	13	6	11.5	10	5	5
XI	6	9	3	3	2	4	9	11	8	8
XII	2.5	3	8	6	10	5	11.5	13	12	13

* The higher the rankings, the lower the incidence of poverty.

NCR, Region III, Region IV, Region XI and Region XII were highest in average family income. NCR, Region IV and Region XI hardly changed their ranks between the two periods. Regions X, XII, I, VII, and IX made a remarkable improvement in their ranking in terms of per capita GRDP while Regions VI, II and III did otherwise. These slots occupied by all regions, except for Regions VII and IX, were reflected in the ranking based on the populations' average family income.

In the assessment of poverty incidence, the NCR and Regions I, II, IX, and X declined in their ranks, implying that they were relatively less successful in alleviating poverty in their regions. Regions IV, V, VI, VII, and XI were more successful. The positions of the rest of the regions hardly changed.

On the other hand, with the social development indicators as bases, the NCR, Region III and Region VII registered the lowest infant mortality rates for both periods. Regions III, VIII, and XII descended from their positions during the years 1975 to 1988, while Regions II, III, IV, IX, and X were better off than the others by 1988. The ranking in terms of literacy rate hardly changed, with Regions VII, VIII, IX, and XII often outranking each other for the top slots.

The correlation analysis shows that while there was no significant difference in rank over time in terms of economic and social development, there had been a great change in poverty incidence and average family income (Table 30).

Though the regions made remarkable economic progress between 1975 and 1985, others performed better than the rest. Those areas with better performance records were also those which outranked the rest in terms of lower poverty incidence and higher average family income. This significant inverse relationship between economic development and poverty indicators confirmed the undeniable role of economic development in poverty alleviation.

However, the insignificant relationship between infant mortality rate and economic development confirmed that no significant relationship existed between the level of social development and economic progress.

A composite ranking was also done to compare regions based on their present levels of economic development by using poverty incidence and per capita GRDP as basic indicators. Raw data on poverty incidence by region and GRDP were transformed into standard scores (Appendix B). Then, scores for each region were averaged and ranked by decreasing order. The results in Table 31 show that NCR continued to lead the other regions, followed by Regions III and IV. On the other end were the lagging regions, which included Region V, and the two Visayas regions, VIII and VI. Interestingly, Region VII also occupied a relatively low rank due mainly to its high poverty incidence.

Table 30
RANK CORRELATION MATRIX OF POVERTY, ECONOMIC AND SOCIAL DEVELOPMENT INDICATORS AND TWO-PERIOD REGIONAL RANKING

INDICATOR	r (t1 - t2)	PCGRDP	AFI	IMR	LR	PI	GMAN
Per Capita GRDP (PCGRDP)	.91209	1.00000					
Average Family Income (AFI)	.57692	.91676	1.00000				
Infant Mortality Rate (IMR)	.88154	-.33069	-.35512	1.00000			
Literacy Rate (LR)	.98901	.53547	.66750	-.85191	1.00000		
Poverty Incidence (PI)	.46281	-.72279	-.85347	.20356	-.06598	1.00000	
GVA in Manufacturing (GMAN)	.79121	.96172	.92612	-.47173	.63898	-.70933	1.00000

Table 31
RANKING OF REGIONS BASED ON STANDARD SCORES ON POVERTY INCIDENCE AND PER CAPITA GRDP

REGION	POVERTY INCIDENCE	* PER CAPITA GRDP	AVE. SCORE	RANK
NCR	71.5	80.0	75.7	1
I	52.7	45.8	49.2	4
II	52.7	43.1	47.2	7
III	62.8	49.4	56.1	2
IV	51.9	59.0	55.4	3
V	34.0	44.2	39.1	13
VI	38.0	48.8	43.4	11
VII	46.0	49.5	47.7	9
VIII	39.3	43.0	41.1	12
IX	48.9	44.5	46.7	10
X	49.4	47.1	48.2	6
XI	48.7	49.2	48.9	5
XII	50.5	45.2	47.8	8

* The higher the score, the lower the incidence of poverty.

4

REGIONAL ECONOMIC PERFORMANCE

This chapter is divided into three major sections. The first section examines in detail the economic performance of the country's 13 regions through shift analysis. The second part assesses the structural constraints of each region. The third section discusses government spending in infrastructure.

Control Charts 1, 2, 3 and 4 on GRDP growth rates covering the periods 1975-1980, 1981-1985, 1986-1988 and 1975-1988, respectively follows. Note those regions that performed better than average, on the average, and less than average.

SHIFT-ANALYSIS

Differences in the rate of growth among regions is the proximate cause of their uneven economic development. To identify some reasons why a region grows faster than others, *shift analysis* was used.

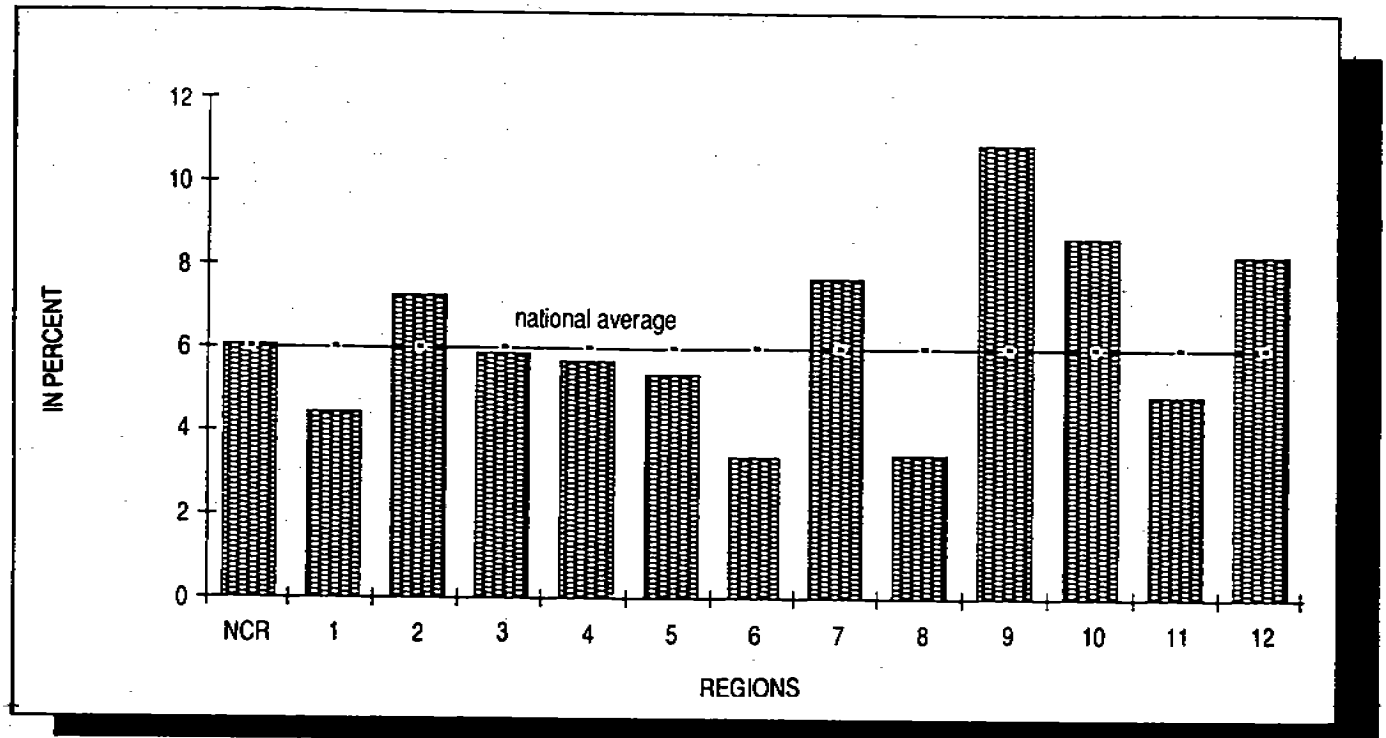
Shift analysis is a method of quantifying differences in regional growth by comparing each region's performance with the national average. Actual regional development is compared to an estimated regional growth that would have happened if the region had grown as fast as the national growth rate. The difference between the actual and estimated development is called the Total Net Shift (TNS). If the TNS value of a region is positive (negative), regional development was above (below) the national average.

The TNS can be divided into two components: the Net Differential Shift (NDS), and the Net Proportionality Shift (NPS).

NDS is the difference between the actual regional performance and the development that would have occurred if the region's sectors had grown at the same rate as the national sectoral growth rates. Thus, if the growth of specific sectors within a region was higher (lower) than the national average, NDS values will be positive (negative) and indicate that

Chart 1

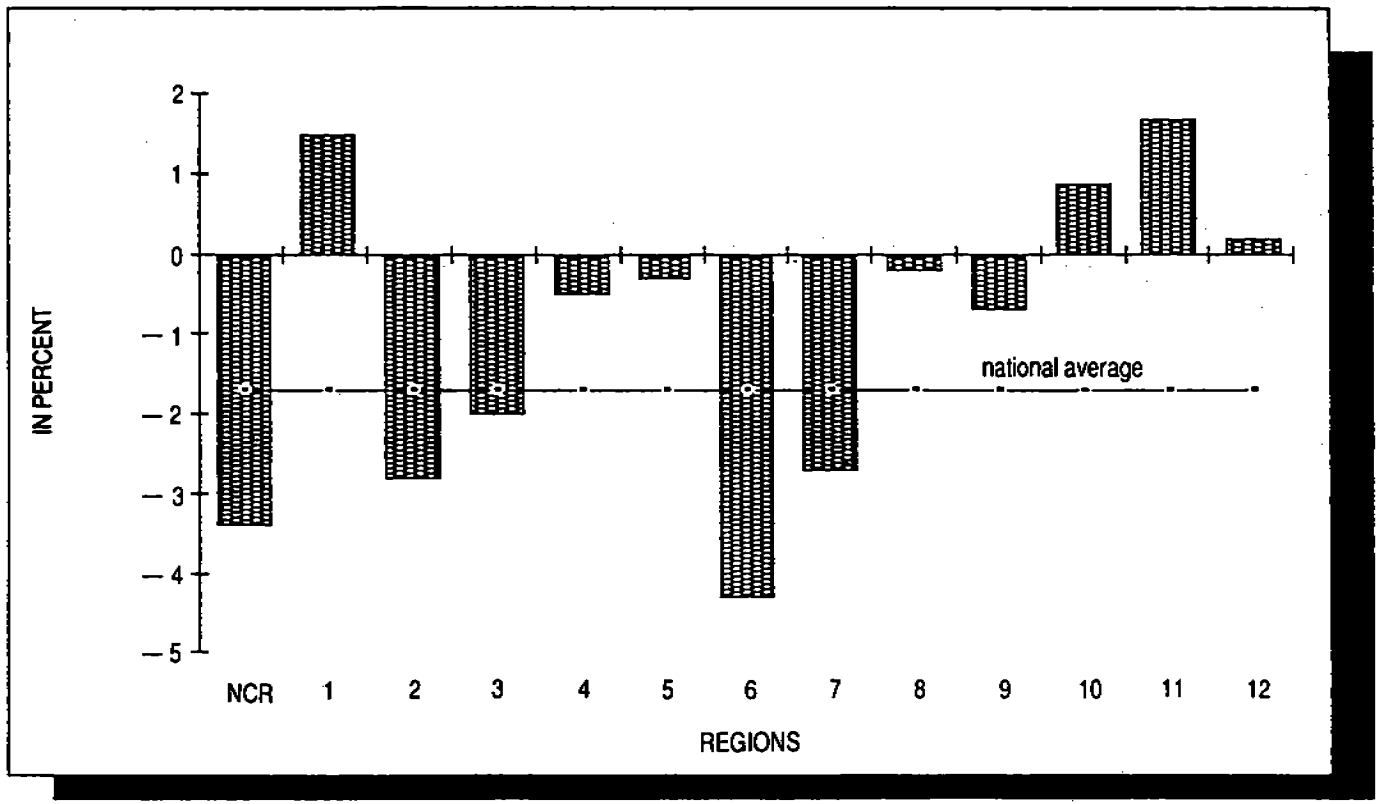
AVERAGE ANNUAL GROWTH RATES OF GRDP 1975 - 1980



Source: National Statistical Coordination Board, as of January 1989.

Chart 2

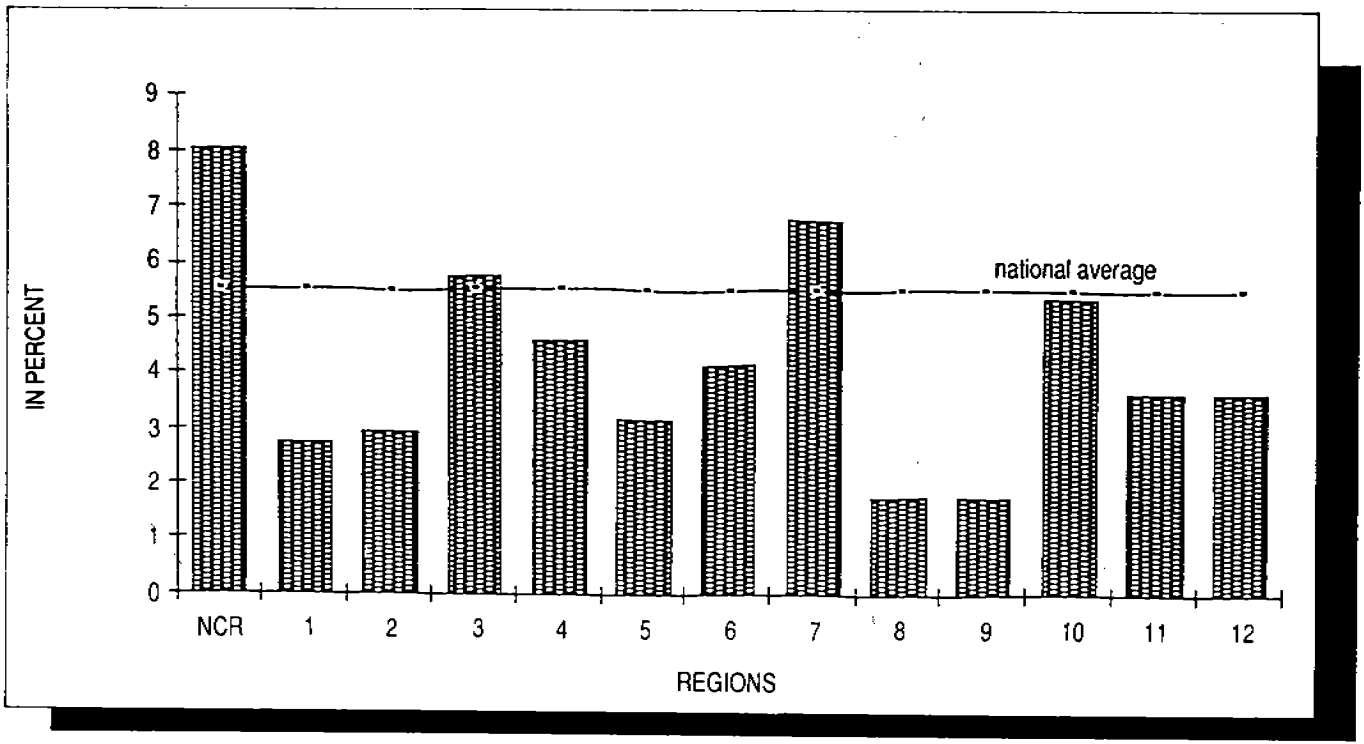
AVERAGE ANNUAL GROWTH RATES OF GRDP 1981 - 1985



Source: National Statistical Coordination Board, as of January 1989.

Chart 3

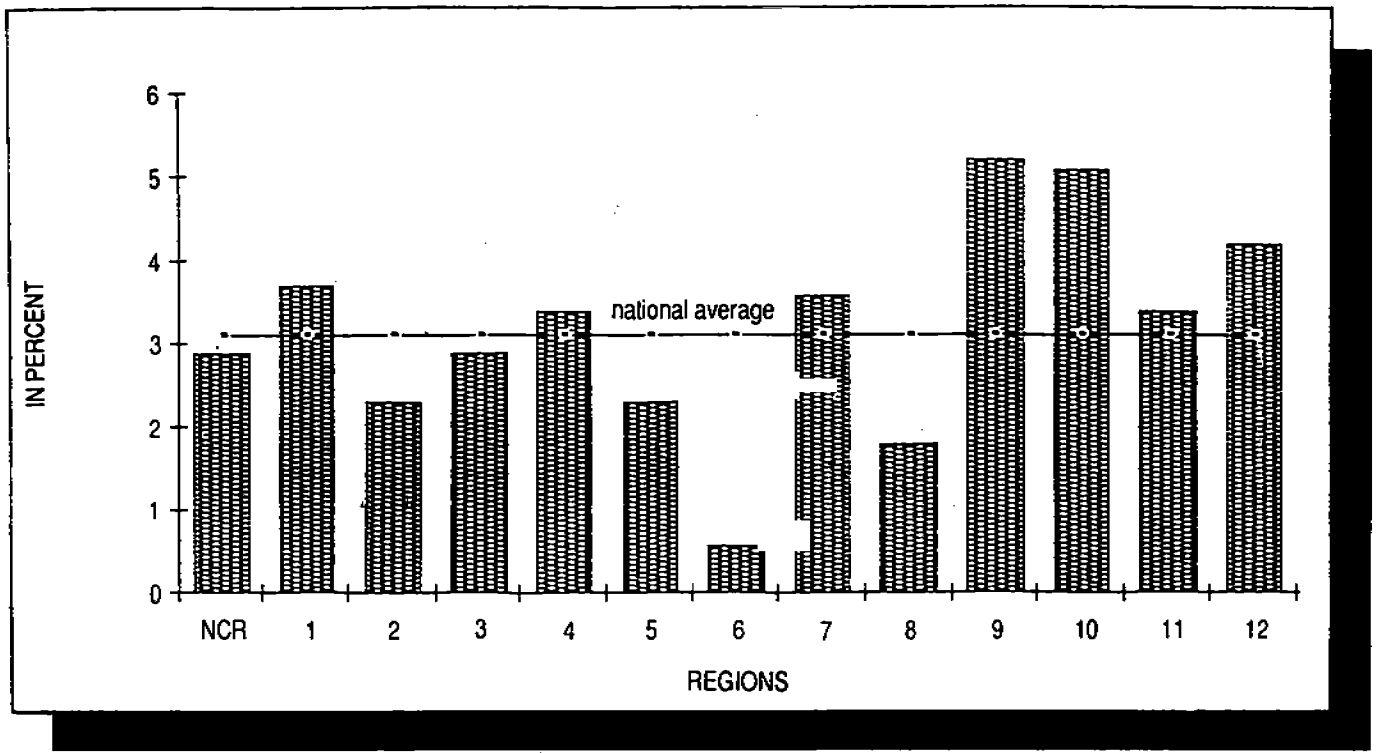
AVERAGE ANNUAL GROWTH RATES OF GRDP 1986 - 1988



Source: National Statistical Coordination Board, as of January 1989.

Chart 4

AVERAGE ANNUAL GROWTH RATES OF GRDP 1975 - 1988



Source: National Statistical Coordination Board, as of January 1989.

the region possesses localization advantages (disadvantages) that are favoring (hindering) the development of specific sectors.

NPS is the difference between the TNS and the NDS and refers to the structural composition of the regional economy. For example, if the aggregate regional growth rate is higher than the national growth rate (positive TNS value) but the growth rates of some regional sectors are lower than the national sectoral growth rates (negative NDS value), then the fast growing sectors of the region have a stronger impact on the regional economy (positive NPS value) than on the national economy. High (low) NPS values indicate structural advantages (disadvantages) for a region.

In developing countries, however, the analysis of the TNS results should include the possibility that the national average is strongly influenced by one region (the NCR in the case of the Philippines). That is, a region can dominate the country's economic development.

The analysis in this section covers the years 1975-1988, which is divided into three sub-periods: 1975-1980, a period characterized by a generally favorable external environment that enabled the country to achieve relatively high growth rates; the 1981-1985, the period of severe recession; and 1986-1988, the period of economic recovery.

Charts 5, 6, 7, and 8 show the results of the analysis for each of the four periods in percent and in absolute terms. Tables 32 and 33 provide an overview of the regional sectoral structure and the sectoral development within the regions, respectively. More detailed figures for actual shares and average growth rates are found in Appendices C to E.

1975-1980 Period

Philippine economic growth rates of six percent during the 1975-1980 was spurred primarily by industrial growth averaging 7.2 percent per year. The sectoral growths of both agriculture (5.1%) and services (5.6%) were relatively slower. In general, the Philippine economy experienced balanced sectoral development with only slight shifts in the sectoral composition of GDP. In 1980, agriculture accounted for 25.6 percent, industry for 36.2 percent, and service for 38.3 percent of GDP. Among the more important subsectors, agricultural crops, accounting for 16.5 percent of GDP in 1975, grew faster (5.6%) than the primary sector in general; manufacturing developed below the sectoral average of industry while construction, mining and quarrying were the fastest growing subsectors; growth in the service sector was induced mainly by the increase in trade.

The analysis shows high positive TNS and NDS values for Regions II, VII, IX, X, and XII. These regions achieved growth rates of more than 7.3 percent per year during the period. The NCR grew slightly higher than the national average although its sectoral growth rates in industry and services

were below the national average. Nevertheless, its manufacturing sector, which constituted over 40 percent of its GRDP, grew faster than the national average.

Region II's above average performance can be attributed to the high growth rate of its industrial sector during the period. However, such improvement in the industrial activities merely reflected heavy government construction expenditure in the region rather than localization advantage.

Region VII, on the other hand, possessed localization advantages in both the industrial and services sectors. Industrial growth was significantly influenced by growth in manufacturing (9.6%). Its localization advantage in services was due primarily to trade, which accounted for over 22 percent of its GRDP. In comparison with other areas, only Region VII enjoyed a competitive advantage in manufacturing. Its structural disadvantage resulted from the relatively low share of its fastest growing sector (industry) in GRDP.

Only in Central Visayas was industrial growth significantly influenced by growth in manufacturing (9.6%). Hence, the region could only boast of localization advantages in industries. Region VII also had localization advantages in services, which was significantly represented in the regional economic structure (42.4% of GRDP in 1980). Its structural disadvantages resulted from the relatively low share of industries in 1975 (29.7%). Although increasing until 1980 (34.2%), the industrial sector's growth remained slightly below the national level (36.2%).

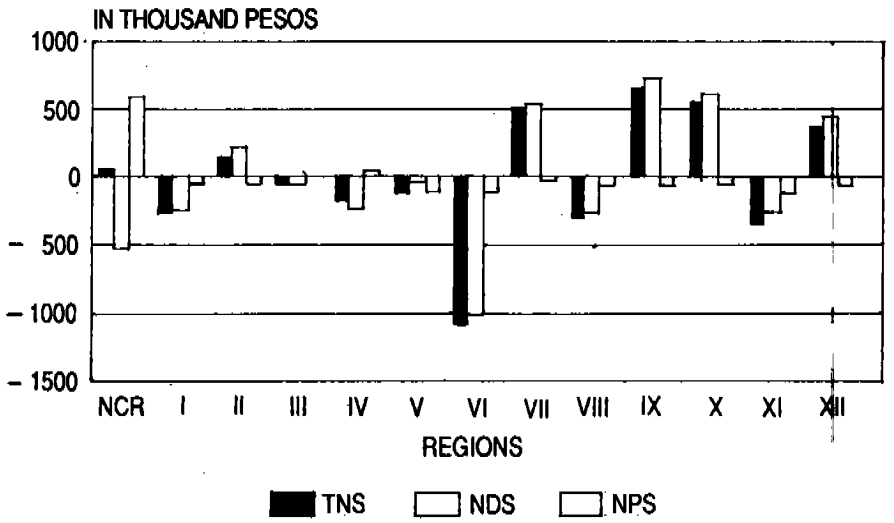
All Mindanao regions (except Southern Mindanao) experienced sectoral growth rates above the national level. On the other hand, Western Visayas experienced the highest regional growth rate of 11 percent because of growth in agriculture (10.4% per year), especially fisheries (34.0% per year). The region experienced a structural shift toward agriculture (48.9% of GRDP in 1975 to 59.1% of GRDP in 1980) and had localization advantages in agricultural crop production and in fisheries.

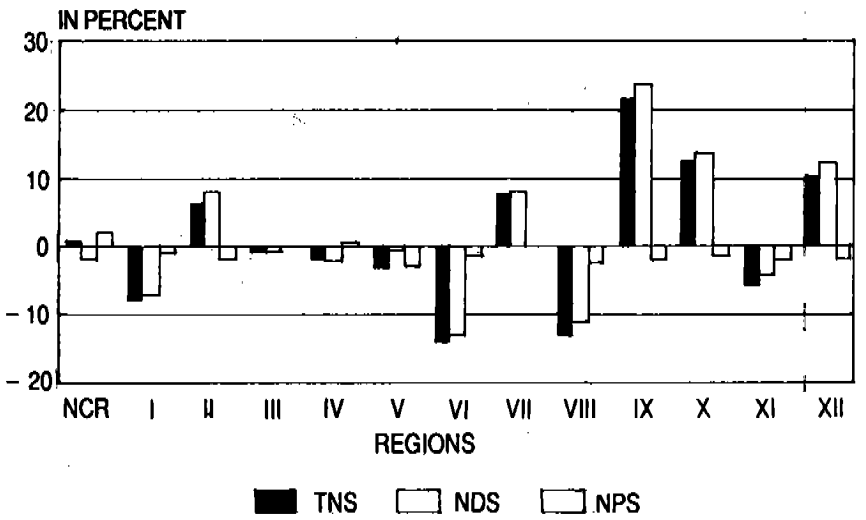
Northern Mindanao possessed the second highest TNS and NDS values in relative terms due to high growth rates in all the three major sectors, especially in industry. Its average industrial growth of 12.1 percent per year slightly increased the industrial share of GRDP. Agricultural growth was heavily dominated by crop production, which increased at 12.6 percent per year and accounted for 33.2 percent of GRDP in 1980. Industrial growth was led by mining, quarrying and construction. There were, therefore, localization advantages in crop production, mining and quarrying. Northern Mindanao's structural disadvantages, on the other hand, stemmed from the industry's low share in the GRDP.

Central Mindanao experienced high growth rates of nine to 10 percent in agriculture and industry. Agricultural production (55.1% of GRDP in

Chart 5

SHIFT-ANALYSIS 1975 - 1980
GROSS REGIONAL DOMESTIC PRODUCT

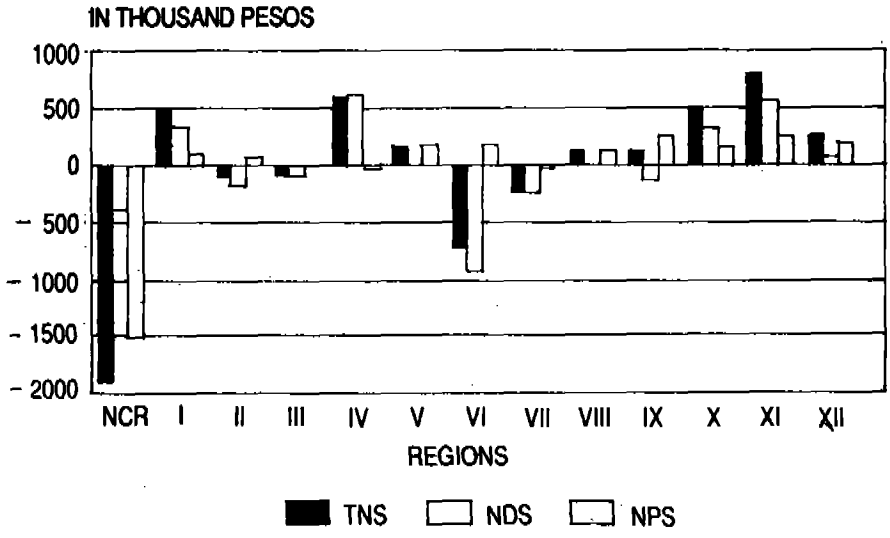


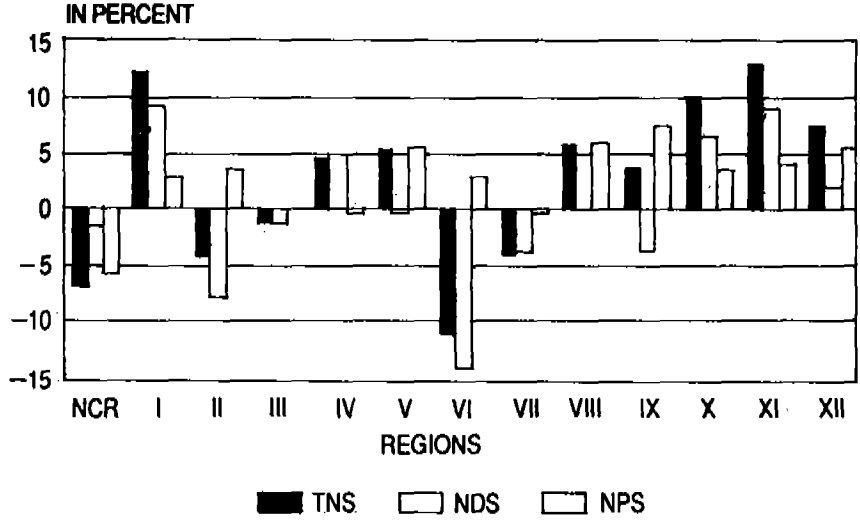


Source: National Statistical Coordination Board, 1986, GRDP Linked Series.

Chart 6

SHIFT-ANALYSIS 1981 - 1985
GROSS REGIONAL DOMESTIC PRODUCT

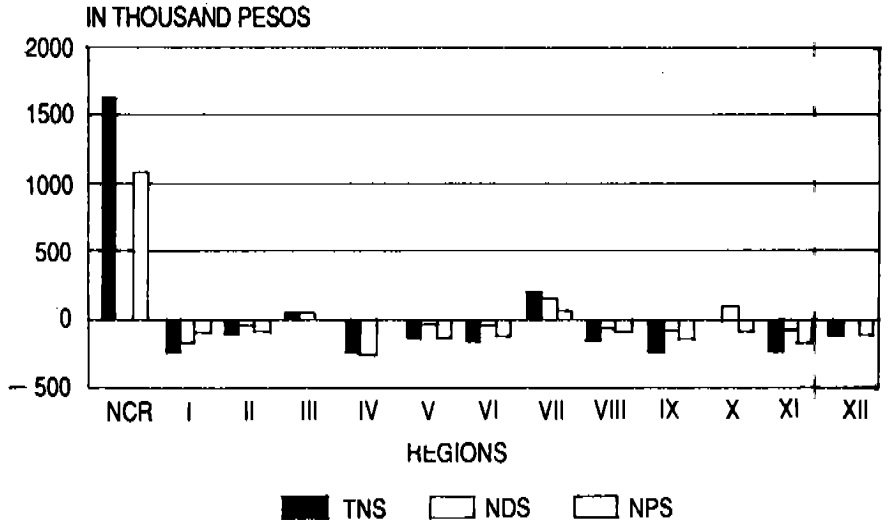


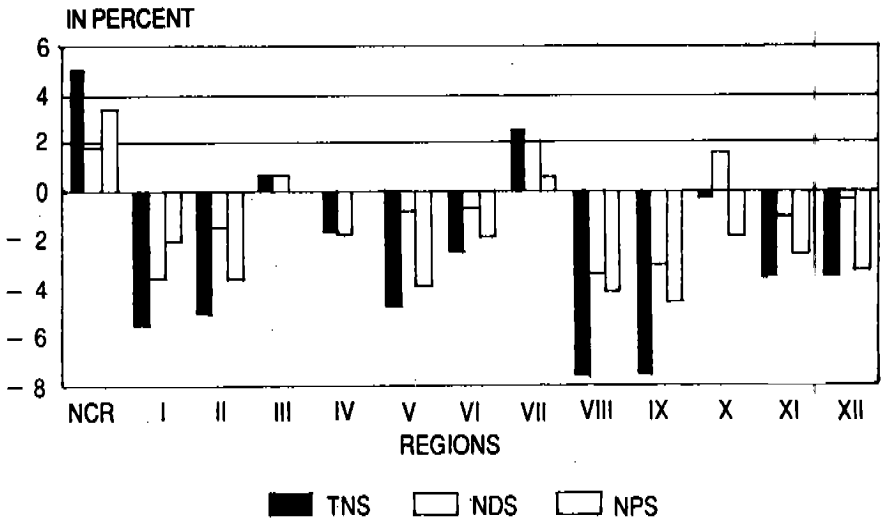


Source: National Statistical Coordination Board, 1986 and 1988.

Chart 7

SHIFT-ANALYSIS 1986 - 1988
GROSS REGIONAL DOMESTIC PRODUCT

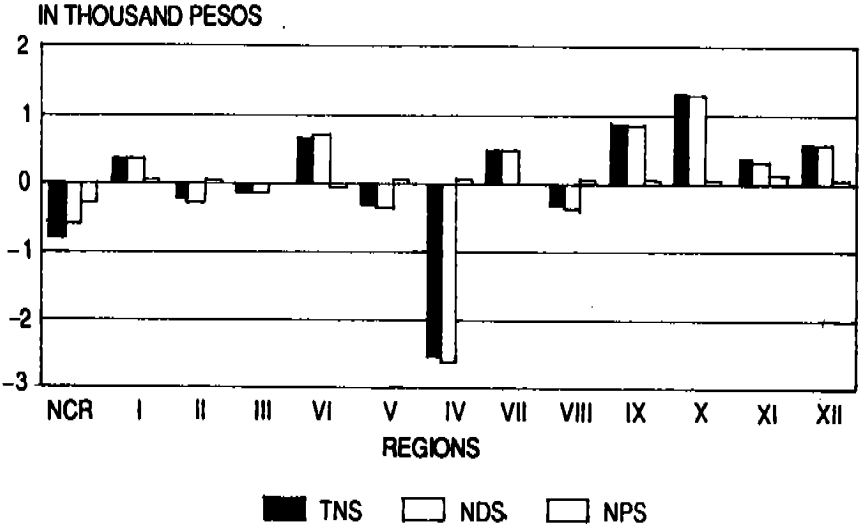


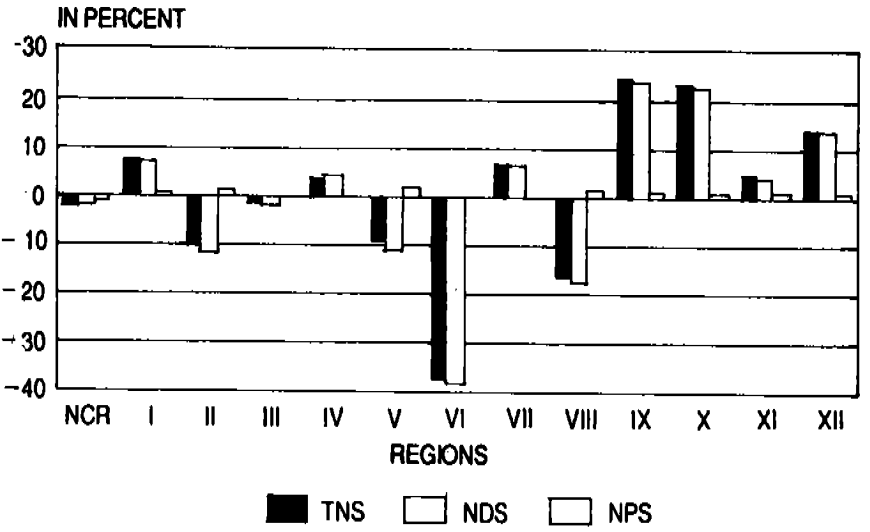


Source: National Statistical Coordination Board, 1988.

Chart 8

SHIFT-ANALYSIS 1975 - 1988
GROSS REGIONAL DOMESTIC PRODUCT





Source: National Statistical Coordination Board, 1988.

Table 32
STRUCTURE OF GROSS REGIONAL DOMESTIC PRODUCT, BY SECTOR
(In percent)

A. 1975

SECTOR	REGION													
	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
Agriculture, Fishery, Forestry	0.0	37.0	50.2	28.9	30.2	59.3	44.5	24.2	53.0	48.9	41.2	46.0	55.1	26.8
Industry	50.9	24.9	16.0	34.4	39.6	9.4	25.7	29.7	16.6	11.0	21.1	16.5	19.2	34.1
Service Sector	49.1	38.1	33.8	36.7	30.3	31.3	29.8	46.0	30.4	40.2	37.8	37.5	25.7	39.1
TOTAL	100.0	100.0	100.0	100.0	100.1	100.0	100.0	99.9	100.0	100.1	100.1	100.0	100.0	100.0

B. 1980

Agriculture, Fishery, Forestry	0.0	37.2	44.1	26.8	27.7	52.9	39.2	23.4	53.8	59.1	39.8	43.6	57.3	25.6
Industry	52.2	24.6	25.8	37.0	41.6	14.5	27.6	34.2	14.2	9.7	24.8	19.4	20.8	36.2
Service Sector	47.8	38.2	30.1	36.2	30.7	32.6	33.1	42.4	31.9	31.2	35.3	37.0	21.9	38.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	99.9	100.0	99.9	100.0	99.9	100.0	100.0	100.1

Source: National Statistical Coordination Board, as of January 1989.

Table 32 (continued)

C. 1985

SECTOR	REGION													
	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
Agriculture, Fishery, Forestry	0.0	46.9	57.0	29.1	30.3	58.6	42.2	23.2	59.2	64.7	44.3	49.7	57.6	29.2
Industry	51.4	19.2	10.6	34.9	37.0	8.8	21.2	30.5	9.6	6.9	23.0	15.4	20.0	32.3
Service Sector	48.6	33.9	32.3	36.0	32.7	32.6	36.6	46.3	31.2	28.4	32.7	34.9	22.3	38.6
TOTAL	100.0	100.0	99.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	99.9	100.1

D. 1988

Agriculture, Fishery, Forestry	0.0	42.9	55.1	28.5	29.7	55.2	42.3	21.8	58.5	62.5	40.5	46.5	53.6	27.3
Industry	47.4	23.8	11.3	34.8	39.2	9.9	17.2	31.8	10.2	9.2	27.4	18.6	26.4	32.7
Service Sector	52.6	33.3	33.6	36.7	31.1	35.0	40.5	46.4	31.3	28.3	32.2	34.9	20.0	40.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.1	100.0	100.0	100.0	100.0	100.1	100.0	100.0	100.0

Source: National Statistical Coordination Board, as of January 1989.

Table 33
AVERAGE ANNUAL GROWTH RATES OF GROSS REGIONAL DOMESTIC PRODUCT (GRDP)

A. 1975-1980

SECTOR	REGION													
	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
Agriculture, Fishery, Forestry	0.0	4.6	4.7	4.4	4.0	3.1	0.9	7.0	3.8	14.8	8.1	3.8	9.1	5.1
Industry	6.6	4.3	16.8	7.3	6.7	14.0	4.8	10.4	0.5	8.6	12.1	8.1	9.8	7.2
Service Sector	5.5	4.5	5.0	5.6	6.0	6.2	5.5	6.0	4.5	5.9	7.4	4.6	5.1	5.6
TOTAL	6.1	4.5	7.3	5.9	5.7	5.4	3.4	7.7	3.5	11.0	8.7	4.9	8.3	6.0

B. 1981-1985

Agriculture, Fishery, Forestry	0.0	6.1	4.5	-0.1	0.9	2.7	-1.9	-1.4	2.5	0.9	2.0	4.7	0.8	1.6
Industry	-3.9	-4.3	-25.9	-4.5	-2.9	-14.2	-12.0	-6.5	-10.0	-8.9	1.3	-3.1	-0.4	-4.7
Service Sector	-2.9	-0.5	-1.3	-0.9	1.2	-0.3	-1.6	-0.6	-1.2	-1.8	-0.7	0.1	-0.7	-1.4
TOTAL	-3.4	1.5	-2.8	-2.0	-0.5	-0.3	-4.3	-2.7	-0.2	-0.7	0.9	1.7	0.2	-1.7

Source: National Statistical Coordination Board, as of January 1989.

Table 33 (continued)

C. 1986-1988

SECTOR	REGION													
	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
Agriculture, Fishery, Forestry	0.0	-0.3	1.4	3.2	2.3	-0.1	2.5	2.9	0.2	0.6	-0.4	0.4	0.0	1.2
Industry	7.0	5.8	10.8	7.9	7.0	14.9	1.2	10.3	8.6	7.6	16.1	13.4	13.1	8.0
Service Sector	9.2	4.8	3.3	5.9	3.9	5.6	7.4	6.4	3.0	2.7	4.9	3.5	2.8	6.6
TOTAL	8.1	2.8	3.0	5.8	4.6	3.2	4.2	6.8	1.8	1.8	5.4	3.7	3.7	5.5

D. 1975-1988

Agriculture, Fishery, Forestry	0.0	4.8	3.0	2.8	3.3	1.8	0.2	2.8	2.6	7.1	5.0	3.5	4.0	3.2
Industry	2.3	3.3	-0.4	3.0	3.3	2.7	-2.5	4.1	-1.9	3.9	7.1	4.4	6.7	2.7
Service Sector	3.4	2.6	2.2	2.9	3.6	3.2	3.0	3.6	2.1	2.5	3.9	2.9	2.3	3.2
TOTAL	2.9	3.7	2.3	2.9	3.4	2.3	0.6	3.6	1.8	5.2	5.1	3.4	4.2	3.1

Source: National Statistical Coordination Board, as of January 1989.

1975) heavily depended on agricultural crops (46% of GRDP in 1975), which grew at eight percent per year. Industries in general (19.2% of GRDP in 1975) increased at a rate more than the national average, although primarily due to the construction subsector. Regional localization advantages for this period were in crop production and fishery.

Southern Mindanao lagged behind the national trend because of the sluggish performance of its agricultural sector. Sharp reductions in fishery and forestry and the below average output of the services sector (especially trade, which accounted for 20 percent of its GRDP) all contributed to the region's slowdown. Crop production, accounting for around 30 percent of GRDP in 1980, grew at 7.3 percent per year. Industrial growth was relatively high and mainly based on manufacturing. However, there were still structural disadvantages in manufacturing, which constituted only 11.7 percent of its GRDP.

Central Luzon possessed the same economic structure as the Philippines. Hence, its NPS values were nearly zero. Regional growth (5.9%) lagged slightly behind the national trend due to a slower agricultural development. Fishery and forestry posted negative growth, while agricultural crop production was sluggish. Both the industrial and service sectors kept up with the national trend because of high growth rates in all subsectors except manufacturing. The results indicate localization disadvantages for production in agriculture, despite the region's localization advantage in livestock and poultry production.

Regional growth in the Southern Luzon was below the national trend (only 5.7%) because both agriculture and industry grew at a meager four percent and 6.7 percent of their annual GRDP, respectively. Services, which accounted for only 30 percent, grew faster than the national average. Thus, TNS and NDS values were negative because of low growth rates in agriculture and industry, while NPS was slightly positive because of the bigger share of industry in the region's economic structure.

Regions I and V, and especially VI and VIII are predominantly agricultural regions. The shares of their agricultural sectors to regional output were 37 percent, 59.3 percent, 44.5 percent and 53 percent, respectively, in 1975. Such below-average performance in agriculture during the 1975-1980 period brought forth negative TDS and NDS values.

1981-1985 Period

From 1981 to 1985, all national economic sectors experienced a decline in performance because of both domestic economic and political problems, and the world recession. Industrial output fell by 4.7 percent per year, services by 1.4 percent per year, and agricultural growth, although positive, slowed down to 1.6 percent per year. The decline in industrial performance

was a consequence of a slump in all subsectors except electricity, gas, and water. Agricultural crop production grew at 1.6 percent annually but forestry output declined by 12.7 percent per year. Only trade as a service-sector posted a positive growth of 2.5 percent per year.

This adverse development caused a shift between agriculture and industry in the national economy and affected the economic development of the more industrialized regions. Hence, the decline in the average growth rates of the NCR and Central Visayas—regions with a strong industrial base—were more than the decrease in the national average. Regions whose primary sector constituted more than 50 percent of their GRDP such as Western Mindanao, Central Mindanao, Bicol and even Eastern Visayas, experienced either (a) positive growth rates or (b) growth rates which, although declining, were still better than that of the national trend mostly because of their structural advantages in agriculture during this period. All regions experienced a structural shift toward agriculture. In Western Mindanao particularly, the share of agriculture to GRDP increased to 64.7 percent in 1985.

Ilocos also benefited from its agricultural growth of 6.1 percent, spurred by crop, and livestock and poultry production. The share of agriculture in its GRDP increased from 37.2 percent in 1980 to 46.9 percent in 1985. The decline in the industrial and service sector growth rates were lower than the national average. Manufacturing still grew at 3.3 percent per year but accounted for only 7.4 percent of the regions' GRDP in 1985. High NDS values indicate strong localization advantages for agricultural production within the region from 1981 to 1985.

Southern Tagalog grew at a rate beyond the national average because the decline in its industries (only -2.9% per year) was lesser than the fall in the national average and services managed to grow at 1.2 percent per year. The region, in fact, remained the second biggest contributor to the GDP and to the GVA of all sectors (about 14%). High NDS values indicated regional localization advantages for industries, especially for manufacturing which, in this case, still grew at 0.1 percent in the region while that of the whole country's industrial sector declined by 2.7 percent.

The above average performance of the Bicol and Eastern Visayas regions was due to the relatively better showing in agriculture (their dominant sector). Both regions experienced localization advantages in crop, and livestock and poultry production during the period.

All the Mindanao regions also performed above the national average during the crisis years. In Western Mindanao, economic development heavily depended on the growth of the primary sector, which accounted for 64.7 percent of GRDP in 1985. The most important subsectors were fishery (31.2% of GRDP) and agricultural crops (26.4%). Region IX, though less industrialized (only 6.9% of GRDP in 1985) than the other Mindanao

regions, benefited during this period because of its structural advantage in agriculture.

Northern Mindanao developed better than the average because of both localization and structural advantages in agriculture and manufacturing. Manufacturing increased at the relatively high level of 4.9 percent per year and expanded its share to the regional economy from 13.2 percent in 1980 to 15.4 percent in 1985. Even industries grew at 1.3 percent per year.

Southern Mindanao performed best during the recession, wherein its TNS and NDS values in relative terms were the highest. Regional growth was about 1.7 percent per year. Its primary sector, the main contributor of its growth, increased by 4.7 percent per year. NDS values indicate localization advantages for agriculture in Region XI.

In Central Mindanao, agriculture accounted for around 57 percent of the GRDP in 1980 and 1985 and was heavily concentrated on crop production (44.5%). Industries declined by 0.4 percent per year but manufacturing still grew by 3.1 percent per year and constituted 14.6 percent of GRDP in 1985. The analysis indicates the region's structural and localization advantages in agriculture and manufacturing.

The recession adversely affected the NCR. Hardest hit was the service sector (especially the finance and housing subsectors) which accounted for almost half of the region's share to GRDP. Manufacturing, which constituted 42 percent of GRDP, also suffered. The decrease in the sector's annual average (-3.5%) was larger than the national average. Nevertheless, it still managed to account for 41.8 percent of the GRDP, almost 50 percent of the country's GVA in manufacturing. The NCR, thus, maintained its dominance in the industrial sector.

Cagayan Valley's industrial decline (-25.9%) was due to the sharp reduction in construction. This subsector has grown rapidly at 20 percent a year during the 1975-1980 period but declined by -36.6% a year thereafter. Such slump in the industrial sector's performance could not be offset by the region's above average showing in manufacturing from 1981 to 1985 as brought about by the latter's structural advantages.

Central Luzon was slightly hit by the recession thus its agricultural sector's performance declined. As in the previous analysis, the region experienced localization disadvantages in agriculture.

On the other hand, the recession's effect on Western Visayas was substantial. A reduction in both crop production (-6.0%) and forestry (-186.2%) caused its agricultural performance to decline. The region's economic development was hindered more by localization disadvantages than structural restraints.

Central Visayas' development also lagged behind the national average because of the decline in all its industries. An exception, however, is its electricity, gas and water subsector.

The industrial share of Central Visayas' GRDP shrank from 34 percent in 1980 to 30.5 percent in 1985. Agriculture's decline was more than the national average, and the service sector fared better than the national average. This fall in the industrial share brought forth a localization disadvantage as reflected by the large negative NDS. Nevertheless, the manufacturing subsector continued to enjoy localization advantages as evidenced by its decline to 0.5 percent, a smaller dip compared to the national average of -2.7 percent.

1986-1988 Period

The years 1986 to 1988 saw the recovery of the industrial and service sectors. The economy grew at an average rate of 5.5 percent per year. Industrial activities, comprising 32.3 percent of GDP in 1985, grew at eight percent per year while services increased at 6.6 percent per year. Agriculture slowed down to 1.2 percent per year.

Differences in sectoral growth caused a slight shift in the economy's sectoral structure. The contribution of both industries and services increased because of the growth in manufacturing and other services. The development of the agricultural sector, however, was affected by a sharp reduction in agricultural crop production, its main subsector.

The results of the shift analysis again reflect differences in sectoral development. Besides the NCR, only Regions III and VII, which were less dependent on agricultural production, showed a positive TNS. All other regions whose primary sector contributed more than 30 percent of GRDP lagged behind the national growth trend. Regions I, II, V, VIII, and IX, being predominantly agricultural, were the most affected.

In **Ilocos**, economic growth was lower than the national average. All sectoral growth rates also fared worse than the national average, which explains its negative NDS. The fall in agricultural crop production (-3.3%) affected the agricultural sector. During this period, Region I did not have any localization or structural advantages.

Cagayan Valley, on the other hand, posted negative TNS and NDS values because its service sector grew at a rate lesser than the national average, notwithstanding its average performance in agriculture and its above average performance in industry. The shift analysis indicates that structural constraints (only 11% of GRDP was of industrial origin) hindered the region's development despite its localization advantages (i.e., industrial and agricultural growth rates were above the national average).

The results of the shift analyses for **Region II** and **Bicol** are alike since both areas had similar economic structure. However, Bicol experienced a bigger decline in agricultural production (-0.1%), especially in agricultural crops (-3.9%) such that the setback could not be compensated by the high

growth rate of its industrial sector (14.9%).

Southern Tagalog's below average performance can be traced to the relatively poor showing of its dominant area, the industrial sector. Industrial growth was seven percent per year as compared with the national yearly average of eight percent.

Western Visayas also performed below the national development rate (4.2%) because industrial growth was relatively low (only 1.2%). Although agriculture's performance rate of 2.5 percent per year fared better than the 1.2 percent national average, this could not compensate for the poor showing of its industrial sector.

Eastern Visayas and Western Mindanao posted the lowest growth rates at 1.8 percent per year. In Eastern Visayas, agricultural growth fell below the national average. Although industrial growth rates were higher than the national average, its industrial sector accounted for only arbund 10 percent of the region's GRDP. Furthermore, its service sector grew at a rate below the national average.

On the other hand, a decline in agricultural crop production set the fate of Western Mindanao's economy during the period. Growth in all its sectors was below the national average.

Economic development in Northern Mindanao was slightly lower (5.4% per year) than the national average. As in Regions II, V, and VIII, its development was affected by the sluggish growth of the primary sector, especially in crop production. Industries' contribution to GRDP of 23 percent grew relatively faster at 16.1 percent per year due to the manufacturing sector's annual growth of 17.5 percent. The analysis indicates that although there was localization advantages for its industries, Northern Mindanao remained structurally constrained by the sector's below average share to the region's economy.

Stagnation in the primary sector, marked especially by the decline in crop production, also hounded Southern Mindanao and Central Mindanao's economy. Industrial development and growth in manufacturing (around 14.0%) in both regions were above the average (7.4%) but only increased slightly (15% and 20%, respectively, of GRDP) by 1985.

The NCR—the region whose contributions still constituted 30 percent of total GDP, 47 percent of industrial GDP and 37 percent of services GDP in 1985 remained unaffected by the decline in agriculture and experienced the highest growth rate (8.1%) among all the regions in the country. Its high TNS values indicate that the region was dictating the pace of national development during this time.

Although growth rates in the NCR's industrial sector (7.0%) and in the manufacturing subsector (5.1%) were lower than the national average, they were offset by the above average performance of the service sector. Services' ability to grow at 9.2 percent per year, in turn, can be attributed to

the relatively high annual growth rate of the finance and housing subsectors (23.0%).

Central Luzon, as the third biggest contributor to GDP, grew at a rate slightly faster than the national average. Similarly, its annual agricultural production of 3.2 percent was higher. Its crop production increased slightly faster despite the negative growth of this sector on the national scale. Industrial activities which had a significant impact on the region's economy rose at the national average's pace. Growth in the manufacturing subsector was significantly higher than the national average (13.3%), while that of mining, quarrying and construction declined. Thus, the analysis indicates localization advantages for manufacturing as well as for primary sector production.

Central Visayas experienced above average growth rates in all subsectors of the industry (10.3%). In 1988, industries spurred regional economic growth and contributed 31.8 percent to GRDP, although such figure was still below the national average. Moreover, the primary sector grew at a rate higher than the national average (2.9%), and growth in services kept up with the national trend. Localization advantages for industries and services, therefore, accounted for Region VII's development.

1975-1988 Period

From 1975 to 1988, the Philippine economy grew by 3.1 percent annually on the average. Industry, adversely affected by the recession, grew annually at 2.7 percent only, while the primary and secondary sector rose at 3.2 percent per year. Agricultural crop production and manufacturing increased at 2.9 percent.

The economy experienced only slight structural changes. The share of agriculture, forestry, and fishery increased from 26.8 percent to 27.3 percent. Services also increased from 39.1 percent to 40 percent, while industry's share declined from 34.1 percent to 32.7 percent.

Chart 9 is a pie chart of the regions' share to GDP for 1975 and 1988. In general, each region's shares did not change during the period although there was a slight expansion in the collective share of the Mindanao regions.

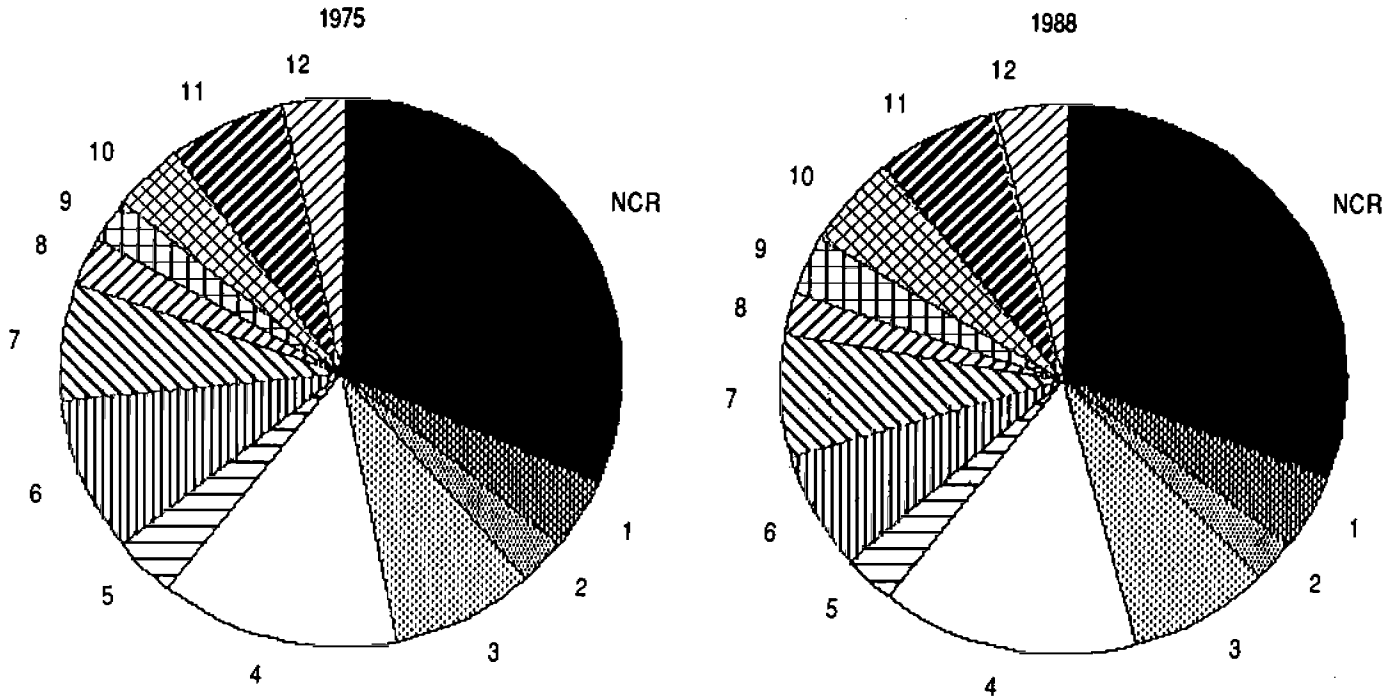
Chart 10 shows the regions' share to the total national GVA in agriculture for the same periods. One can immediately observe the large decline in Region VI's share to total GVA in agriculture and the increased shares of Regions I, IX and X.

Chart 11 illustrates the regions' share to total GVA in manufacturing for the same periods. Again, all Mindanao regions and Region VII gained in their shares while NCR and Region VI incurred a decrease.

Finally, Chart 12 shows the regions' share to total GVA in services for the same periods. In this case, the difference was slight.

Chart 9

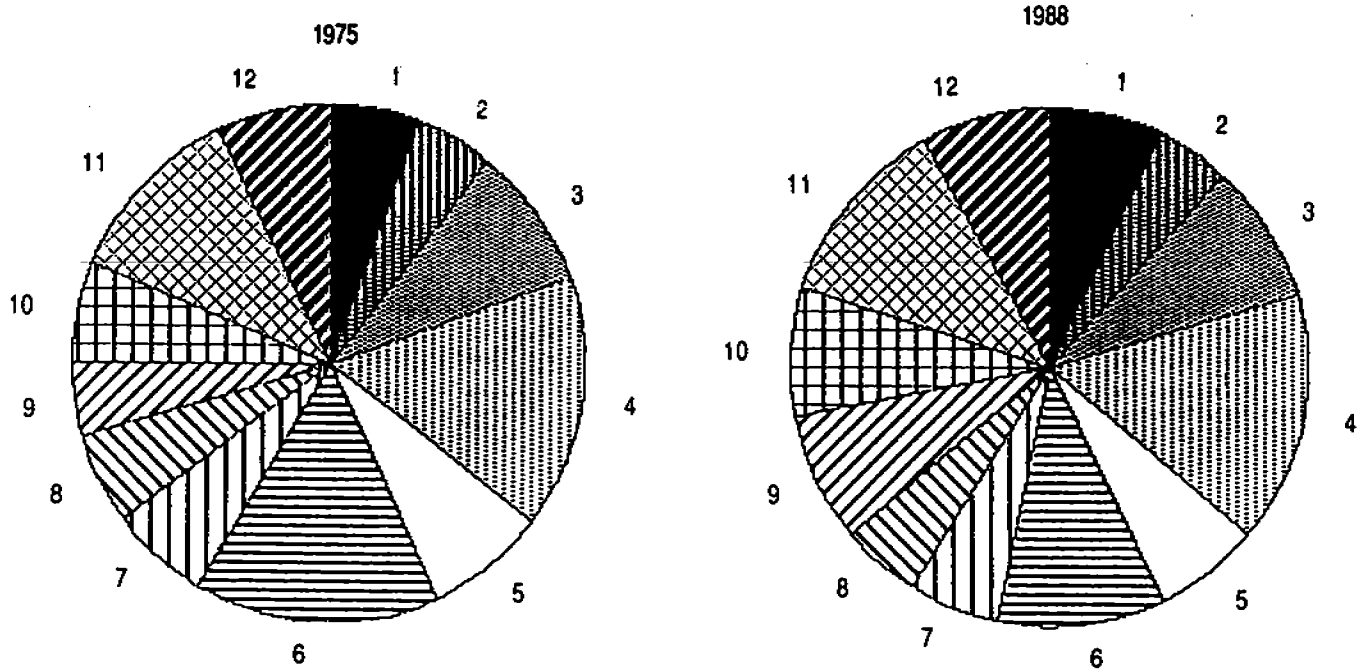
GROSS DOMESTIC PRODUCT BY REGION 1975 - 1988
(Share in %)



Source: National Statistical Coordination Board, as of January 1989.

Chart 10

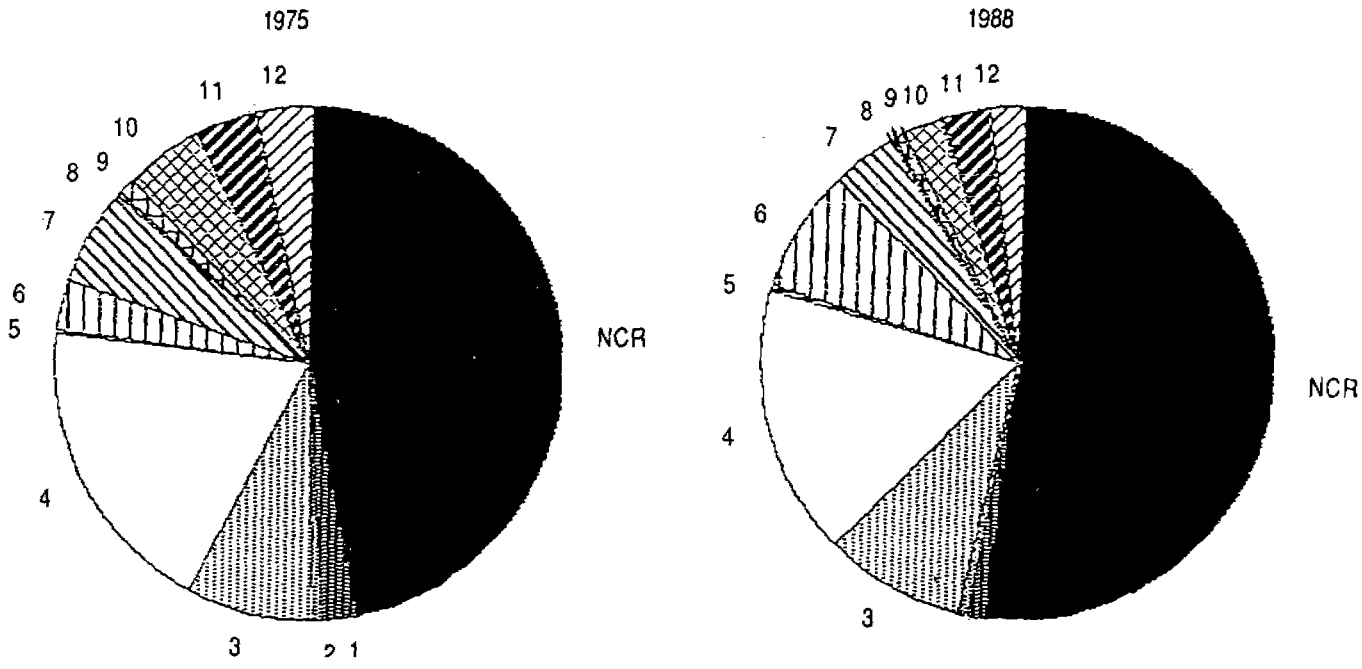
GROSS VALUE ADDED IN AGRICULTURE BY REGION 1975 - 1988
(Share in %)



Source: National Statistical Coordination Board, 1986, 1989.

Chart 11

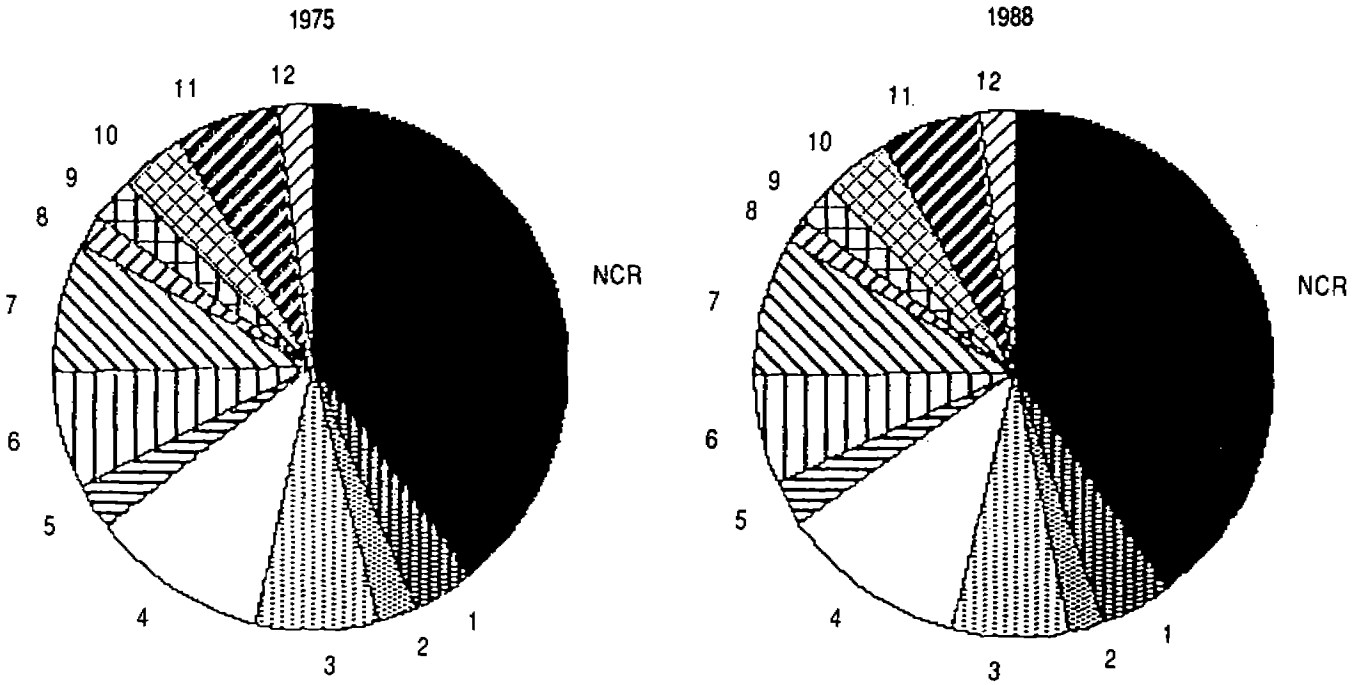
GROSS VALUE ADDED IN MANUFACTURING BY REGION 1975 - 1988
(Share in %)



Source: National Statistical Coordination Board, 1986, 1989.

Chart 12

GROSS VALUE ADDED IN SERVICES BY REGION 1975 - 1988
(Share in %)



Source: National Statistical Coordination Board, 1986, 1989.

The regions' contribution to the national GDP shifted during the periods. However, the NCR remained dominant. It constituted 44.6 percent of the industrial GVA and 31.6 percent of the total GDP in 1988.

The Mindanao regions increased their contribution to all sectoral GVAs and to GDP. While Mindanao's contribution to agricultural GVA was only 20.7 percent in 1975, it increased to 35.8 percent by 1988. In 1985, its regions' share constituted 20 percent of the total GDP.

The Visayan regions, on the other hand, had reduced contributions to GDP and to sectoral production. Their GDP share of 18.8 percent in 1975 declined to 16.4 percent in 1988.

In Luzon, Regions I, II, and V did not change their collective contributions (10%), while Regions III and IV increased their shares to GDP (22.8%) and to industrial GVA (26.3%) in 1988.

During the entire period, Ilocos, Central Luzon, Central Visayas and all the Mindanao regions gave better performances. In fact, these regions grew at least 3.4 percent per year faster than the national average. Ilocos, in particular, experienced above par growth in the primary and secondary sectors and in manufacturing and, because of localization advantages, in agricultural crop production.

In **Southern Tagalog**, all sectoral growth rates were slightly higher than the national average. Although the region's growth was in pace with the national growth during 1975-1980 and 1986-1988, Southern Tagalog succeeded to achieve positive values in the longer term. The analysis shows localization advantages for manufacturing.

Central Visayas' performance in the industrial and service sectors was significant enough to spur regional development. The region's localization advantages were in manufacturing and trade.

All Mindanao regions grew at a rate faster than the national average because of the positive contributions of both their agricultural and industrial sectors. In Region X, for example, the growth of services was slightly above the average. On the overall, the regions' performance was only marred by a decline in agriculture from 1986 to 1988.

During the whole period, Regions IX and X recorded the best performance.

Western Mindanao experienced a structural change toward the primary sector (48.9% of GRDP in 1975; 62.5% in 1988). It relied more on its fishery sector (about 30% of GRDP) rather than specialize in agricultural crop production. As previously noted from the results for the different periods, Region IX bore strong localization advantages in fishery and agricultural crop production.

Northern Mindanao became more industrialized than the other Mindanao regions while experiencing higher industrial growth rates during the period. Manufacturing had grown rapidly since 1980 and its

contribution to GRDP in 1988 was only slightly lower than the national level. The region's gains stemmed from its specialization in manufacturing (since 1981) and agricultural crop production. These sectors seemed to have been strongly linked, because around 60 percent of manufacturing output were food products.

Southern Mindanao only experienced a slight shift in its economic structure. The shares of industries and agriculture increased while that of services declined. Primary sector production concentrated on agricultural crops while forestry lost its impact on the GVA of the primary sector. Regional localization advantages (as in Region IX) were in manufacturing and crop production.

The **Central Mindanao** region, like Region X, became more industrialized during the period. Industries in general and in all its subsectors grew faster than the national average. This sector's share to the GRDP increased from 19.2 percent in 1975 to 26.4 percent in 1988, while that of agriculture (53.6% in 1988) and services (20%) declined. Manufacturing (21% of GRDP in 1988) and crop production (40.9%) were the dominant subsectors which seemed to be strongly linked and the areas where the region enjoyed localization advantages.

Thus, from this analysis one notes the sluggish development of the NCR and Regions II, III, IV, VI, and VIII.

The NCR's below average performance throughout the period can be traced to the relatively poor performance of its industrial sector, especially in manufacturing, which alone constituted almost 40 percent of the region's GRDP.

Cagayan Valley similarly lagged behind on the average because of the relatively slow growth in agriculture and the general decline in its industries (-0.4%). The primary sector, constituting 55.1 percent of GRDP in 1988, grew sluggishly because of the region's low performance in agricultural crop production. As in all the previous shift analyses, the results do not indicate any localization advantages for the region.

For Bicol, the below average performance can be attributed to the slow growth in agriculture, the region's dominant sector.

Central Luzon performed slightly below the national trend because growth in manufacturing and in the primary sector was below the average. Although the values do not indicate localization advantages, the region probably has localization advantages for manufacturing.

Western Visayas exhibited the worst performance throughout the period. Its development strongly lagged behind the national growth in this analysis. Agricultural growth was a low two percent because sugar cane production declined by 50.6 percent from 1975 to 1988. Hence, the share of sugar cane production to agricultural GVA in the region fell from 30.7 percent in 1975 to 14.8 percent in 1988. Industries, especially manufactur-

ing, experienced negative growth rates, i.e., -2.5 percent and -5.0 percent, respectively. The share of manufacturing to GRDP declined from 21 percent in 1975 to ten percent in 1988. The secondary and primary sectors also had reduced contributions to GRDP. The share of services increased from 29.8 percent in 1975 to 40.5 percent in 1988.

Eastern Visayas' economy was characterized by a slow agricultural performance and a negative industrial growth, especially in the manufacturing subsector. Its service sector also increased at a rate lower than the national average.

Summary

What are the relevance of these findings? In the case of the NCR, the relatively poor performance could have been brought about by the country's industrial recession in the early eighties. Moreover, the growth in its manufacturing subsector was relatively slow, indicating that manufacturing activity has began to spill over to Region IV and its periphery.

On the other hand, Region VII's sound performance can be attributed to the rapid growth of its industrial (especially manufacturing) and service sectors, indicating that the region is rapidly becoming a private investors' popular alternative to the NCR.

For Regions II, III, V, VI, and VIII, the inferior showing of their primary sectors contributed to their below average performance. The regions in Luzon and the Visayas predominantly raised commercial crops such as sugar, abaca, coconut, tobacco, etc., items characterized by low productivity and low international demand during the period.

The contrast in the state of these regions with that of Mindanao can nowhere be more striking. The Mindanao regions diversified into higher-valued products with high export demand such as coffee, fishery products, fruits, palm oil, cacao, etc. Since there existed a strong linkage between agricultural and manufacturing activities which were mostly resource-based in the regions, the favorable developments in the agriculture sector was accompanied by a growth in the manufacturing sector.

There are still other explanations for the variations in the regions' economic performance. Two other possible reasons are structural constraints and the varying levels of infrastructure development in the regions.

STRUCTURAL CONSTRAINTS

The various regions can be compared with respect to their structural endowments, namely, climate, water resources, topography and soil types.

Based on the last two factors, the region's land capability and land use opportunity can be determined.[13]

Table 34 presents a brief summary of the structural constraints/ variables of the regions. In terms of climate, Type I is prevalent in Regions I, III, and VI while Type II characterizes Regions VIII, IX, X, XI, and XII. Regions II and VII experience a combination of Types III and IV. Region IV is of Types I, III, and IV while Region V is a combination of Types II and IV.

As regards the level of storage of groundwater, Regions VI, III, IX and XII possess the highest while Regions VII and I have the least.

The regions' predominant topography ranges from 0-8 percent to 30-50 percent slope. Region III is generally flat land with 0-8 percent slope while Regions I and II, on the other hand, are predominantly 30-50 percent in slope. Soil types in the regions are either the well-drained, highly fertile or the well-drained and deep acid soil with low fertility.

Table 35 presents the agricultural land capability and utilization as of 1987. One should note that most of the regions have utilized more than 100 percent of their agricultural lands. In fact, most of the regions have even used non-agricultural lands for agricultural purposes. Such was the case for all regions except Regions II, IV, VIII and X. As can be gleaned from the same table, regions which had exceeded their agricultural land capability expanded their agricultural activities mostly in their forestlands and wetlands.

A table on the agricultural crop production (**Table 36**) reveals that Regions XI, XII, VI, X, IV, and III dominated all other regions in terms of the volume of crop production. Food crops produced in Regions XI, XII, and X far exceeded the supply of other regions, while commercial crop produced was highest in Regions VI, XI, and IV.

In **Table 37**, an index of agricultural crop production and land utilization is computed to determine production based on actual area utilized. In general, crop production per hectare was highest in Regions XI and I and lowest in Regions V and IV.

These differences in the level of production may be attributed to peculiarities in the regions' structural endowments.

Region I

In spite of an excess in land utilization, Region I does not seem to enjoy any advantage in crop production. This shortcoming can be attributed to the climate and the absence of a river basin that can provide the region enough groundwater. Two other factors affecting the region's production are: soil

[13] Appendix F provides a definition of the various technical terms used in this section.

Table 34
SUMMARY OF STRUCTURAL CHARACTERISTICS, BY REGION

REGION	TYPES OF CLIMATE*	ESTIMATED STORAGE OF GROUNDWATER**	TOPOGRAPHY (% Slope Predominance)	SOIL TYPES* Percent of (a)	Percent of (c)
I	I	4,620	0-8/30-50	21	77
II	III, IV	11,850	0-8/30-50	8	83
III	I	54,700	0-8	56	8
IV	I, III, IV	37,700	0-8/30-50	23	66
V	II, IV	8,625	8-18/30-50	33	61
VI	I	55,242	0-8	18	66
VII	III, IV	2,053	0-8/18-30	47	53
VIII	II	8,400	18-30/30-50	16	59
IX	II	14,700	0-8/8-18	14	86
X	II, III	15,950	18-30	17	82
XI	II	12,635	18-30/30-50	18	75
XII	II	36,000	0-8/18-30	25	55

Note: * a) Well drained, high fertility
b) Well drained, deep low fertility soils
** In Million Cubic Meters

Sources of basic data: PAGASA, Bureau of Soils and Water Management, and National Water Resource Council.

type, which is deep, of low fertility and acidic; and the presence of a relatively hilly and mountainous slope. Nevertheless, the region's advantage lie in the production livestock and poultry and various economic trees.

Region II

Although the region has a relatively low level of agricultural land utilization, Region II was able to keep pace with other regions in the production of food crops. It is blessed with a wet climate conducive for food crops production, and a river basin with a high storage capacity for groundwater.

The region ranked sixth in total production of agricultural crops. It, however, lagged slightly behind the national average due to low produc-

Table 35
LAND CAPABILITY AND EXISTING LAND USE, BY REGION, 1987
(In hectares)

REGION	AGRICULTURAL			FOREST			WET		
	CAPABILITY	EXISTING	% UTIL.	CAPABILITY	EXISTING	% UTIL.	CAPABILITY	EXISTING	% UTIL.
I	398,378	534,500	134.17	1,625,659	1,567,000	96.39	7,729	43,700	565.40
II	916,678	678,300	74.00	2,692,764	2,845,300	105.66	20,264	30,800	151.99
III	734,136	777,300	105.88	1,045,288	954,700	91.33	43,658	66,300	151.86
IV	1,504,714	1,477,500	98.19	1,709,007	2,967,500	173.64	93,337	159,900	171.31
V	392,670	1,085,000	276.31	1,333,900	656,200	49.19	32,970	18,200	55.20
VI	460,594	807,300	175.27	1,515,182	1,137,700	75.09	43,982	58,400	132.78
VII	244,690	506,600	207.04	1,218,050	970,100	79.64	21,040	9,700	46.10
VIII	1,030,150	578,400	56.15	764,990	1,557,200	203.56	28,250	4,500	15.93
IX	641,646	741,900	115.62	1,118,333	839,600	75.08	79,583	25,200	31.67
X	744,892	702,900	94.36	1,979,361	2,083,900	105.28	51,291	35,500	69.21
XI	676,697	921,900	136.24	2,287,979	2,228,600	97.40	204,599	8,300	4.06
XII	554,746	935,100	168.56	1,657,527	1,251,700	75.52	116,300	135,200	116.25
TOTAL	8,299,991	9,746,700	117.43	18,948,040	19,059,500	100.59	743,003	595,700	80.17

Source of basic data: Department of Agriculture.

tion of commercial crops. Maximization of its land potential for agriculture can increase production since around 239,000 hectares of potential agricultural land in the region can still be cultivated.

Region III

Among the regions which have exceeded 100 percent utilization of their agricultural land capability, Region III registered the lowest. Its total agricultural crop production was unimpressive despite its fertile soil, topography, and large river basin, partly due to floods and typhoons.

Region IV

Region IV gave a very low performance in total crop production, particularly in food crops. There are, however, 28,000 hectares of unused agricultural land. By developing these, the region can improve its crop production although, like Region III, it faces the frequent onslaught of destructive typhoons.

Table 35 (continued)

REGION	MISCELLANEOUS			TOTAL		
	CAPABILITY	EXISTING	% UTIL.	CAPABILITY	EXISTING	% UTIL.
I	125,079	11,500	9.19	2,156,845	2,156,700	99.99
II	10,594	7,200	67.96	3,640,300	3,561,600	97.84
III	0	24,700	ERR	1,823,082	1,823,000	100.00
IV	1,448,958	59,500	4.11	4,756,016	4,664,400	98.07
V	3,659	4,000	109.32	1,763,199	1,763,400	100.01
VI	2,553	6,400	250.69	2,022,311	2,009,800	99.38
VII	11,362	8,700	76.57	1,495,142	1,495,100	100.00
VIII	319,779	2,000	0.63	2,143,169	2,142,100	99.95
IX	28,592	3,800	13.29	1,868,154	1,610,500	86.21
X	57,230	6,000	10.48	2,832,774	2,828,300	99.84
XI	0	9,900	ERR	3,169,275	3,168,700	99.98
XII	750	4,500	600.00	2,329,323	2,326,500	99.88
TOTAL	2,008,556	148,200	7.38	29,999,590	29,550,100	98.50

Source of basic data: Department of Agriculture.

Region V

Although agricultural land utilized for agricultural production exceeded the region's land capability, Region V failed to register a high level of agricultural crop production. Again, the failure may be primarily because the region is occasionally visited by typhoons.

Region VI

As a region blessed with a high storage capacity for groundwater, a vast flat land and well-drained soil, Region VI accounts for a high percentage of the country's total crop production. It ranks first in commercial crop production and still possesses some potential to compete with other regions in terms of food crop production because of its natural endowments.

Table 36
VOLUME OF PRODUCTION, BY KIND OF CROP, 1987
(In metric tons)

REGION	FOOD	COMMERCIAL	ALL
I	1,690,035	161,048	1,851,083
II	1,811,711	41,572	1,853,283
III	1,887,853	207,365	2,095,218
IV	1,805,031	893,886	2,698,917
V	1,470,851	302,195	1,773,046
VI	1,771,050	1,087,319	2,858,369
VII	967,856	336,476	1,304,332
VIII	1,171,411	320,595	1,492,006
IX	1,187,464	405,118	1,592,582
X	2,442,812	304,442	2,747,254
XI	4,498,550	1,081,221	5,579,771
XII	3,053,783	313,781	3,367,564
TOTAL	23,758,407	5,455,018	29,213,425

Source of data: Bureau of Agricultural Statistics.

Table 37
INDEX OF AGRICULTURAL CROP PRODUCTION, 1987

REGION	EXISTING AGRI. LAND UTILIZATION (In hectares)	CROP (In metric ton)			INDEX		
		Food	Commercial	All	Fi	Ci	Ai
I	534,500	1,690,035	161,048	1,851,083	3.16	0.30	3.46
II	678,300	1,811,711	41,572	1,853,283	2.67	0.06	2.73
III	777,300	1,887,853	207,365	2,095,218	2.43	0.27	2.70
IV	1,477,500	1,805,031	893,886	2,698,917	1.22	0.60	1.83
V	1,085,000	1,470,851	302,195	1,773,046	1.36	0.28	1.63
VI	807,300	1,771,050	1,087,319	2,858,369	2.19	1.35	3.54
VII	506,600	967,856	336,476	1,304,332	1.91	0.66	2.57
VIII	578,400	1,171,411	320,595	1,492,006	2.03	0.55	2.58
IX	741,900	1,187,464	405,118	1,592,582	1.60	0.55	2.15
X	702,900	2,442,812	304,442	2,747,254	3.48	0.43	3.91
XI	921,900	4,498,550	1,081,221	5,579,771	4.88	1.17	6.05
XII	935,100	3,053,783	313,781	3,367,564	3.27	0.34	3.60
TOTAL	9,746,700	23,758,407	5,455,018	29,213,425	2.44	0.56	3.00

Source of basic data: Department of Agriculture.

Region VII

In spite of its high land utilization rate, Region VII only ranked ninth in total crop production as a result of its low food crop output. One of its major constraints is the inadequate surface water and storage capacity for groundwater due to the low rainfall intensity and the absence of a river basin.

Region VIII

Region VIII provides great promise given its good soil and topography. However, as in Regions III, IV, and V, its crops are often ravaged by strong typhoons.

Region IX

Region IX's total crop production level can be characterized by its low food crop production. Like Region VI, the area possesses great potential to increase its food crop produce because of its flat topography and fertile soil.

Region X

Although it ranked seventh in the production of commercial crops, Region IX's total crop production was relatively high because more than 75 percent of its output constituted food crops. The region enjoys climatic conditions (Type I and II) favorable to the growth of food crops des its predominantly hilly and mountainous slopes.

Region XI

Region XI reigned over the rest of the archipelago in both food and commercial crop production. Some of the comparative advantages are its favorable climate; its larger storage capacity for groundwater, both of which are conducive for food crop production; and its topography, ...ich also favors commercial crop production.

Region XII

Although Region XII ranked third in total agricultural production, its volume of commercial crops was below the national average. Ho...ver, since it has similar structural endowments as Region XI, the region still has a great potential for increasing food and commercial crop production.

The preceding analyses underscore the important role structural factors play in agricultural production. That is, because the regions possess varied natural endowments, there are accompanying interregional differences in their volume of agricultural production.

Of course, there remain cases where regions facing similar structural constraints still exhibited wide difference in their performance, particularly in the agricultural sector. Several reasons can be cited, one of whi the difference in the methods each region used to physically modify its land and manage the inputs—especially in irrigation development and other capital investments—for higher land productivity.

Another reason can be the difference in land utilization rates. One can observe that regions with a high volume in crop production are those with high utilization rates for their agricultural land. However, this relationship does not hold true for Regions V, VII, X, and II.

INFRASTRUCTURE AND REGIONAL PERFORMANCE

Regional allocation of infrastructure projects and the provision of public services are often considered important determinants of the regions' economic and social development. Table 38 starts off the analysis in this

section. It lists the indicators of infrastructure development in all regions.

The table shows that the NCR had the highest road density (4.71), followed by Regions III and VII. Regions VI and I had road densities above the national average, while that of Regions IX and X were within the average. The figures for Regions II, IV, V, VIII, XI, and XII were lower than the national average. Regions II and VII had the lowest.

In 1985, the NCR also had the largest proportion of households with electricity, followed by Regions III, I, and IV. The rest had percentages below the national average. Regions II and VIII had the lowest proportion of households with electricity.

Region VIII, nevertheless, ranked first in terms of irrigation development with 73.9 percent of its potentially irrigable land already irrigated. Next in rank were Regions III, I and IV. Regions X, XI, and XII occupied the lowest rungs.

Table 39 shows the indicators of public expenditures which may have an impact on the regions' social development. Results show that the NCR composes the biggest proportion of households using water from faucets. In rank, the NCR was followed by Regions X, IV, and VIII. The lowest proportion was recorded in Region II, with only 6.7 percent of its households having tap water.

The hospital bed-to-population ratio was this time lowest in the NCR, followed by Regions XI, X, and VII. Only Regions VI, VIII, and IX had the highest bed-to-population ratio. The NCR also had the lowest medical manpower-to-population ratio while Regions XI, VII, and X achieved the highest proportion.

Regions I, II, and VIII, on the other hand, had the highest ratio of rural health units and barangay health stations to population. This reflected the government's priority to provide direct social services to the less economically developed regions.

To test whether there is any significant relationship between the regions' economic development and their level of infrastructure development, a simple correlation analysis between the region's economic development indicators and some infrastructure indicators was performed. The results shown in Table 40 strongly suggest that government spending for infrastructure had a positive net effect on regional incomes. Gross Regional Domestic Product and Average Family Income were highly correlated with road density, percentage of households energized and percentage of households with Level III water supply.

The correlation procedure between the regions' health indicators and the indicators on government health expenditures was also done to test for any significant relationship between the regions' social development and government spending on health services in the region. Table 41 reveals a significant positive relationship between the percentage of severely mal-

Table 38
ECONOMIC INFRASTRUCTURE

REGION/INDICATOR	ROAD DENSITY[1]	% OF HOUSEHOLDS ENERGIZED	% OF IRRIGATION[2] DEVELOPMENT
PHILIPPINES	0.52	57.0	49.15
NCR	4.71	97.8	-
I	0.56	64.7	61.18
II	0.30	50.2	50.63
III	0.71	79.9	61.67
IV	0.39	62.0	57.79
V	0.49	44.8	48.25
VI	0.68	34.6	55.47
VII	0.71	39.0	40.24
VIII	0.39	26.4	73.94
IX	0.52	34.4	48.60
X	0.52	55.4	30.51
XI	0.50	48.9	36.81
XII	0.49	40.3	28.19

[1] Over the region's total land area.
[2] Over potentially irrigable land and NIA.

nourished children and hospital bed-to-population ratio. Similarly, a significant relationship existed between infant mortality rate and life expectancy, and the ratio of barangay health stations to population.

The difference among the regions' economic performance can be explained not only by the level but also by the adequacy and quality of the infrastructure expenditure of government in the regions. To evaluate this, one should measure the impact of government spending on the decision of private entrepreneurs to invest in the region (the crowding-in effect). In a developing country, it is reasonable to presume that its government spending on infrastructure would, in general, tend to encourage private investment. The extent of the private sector's response to government spending will, in turn, depend on whether these public investments are deemed relevant and sufficient for the requirements of private investors.

To test the "crowding-in" effect or the responsiveness of the private sector to government spending on infrastructure in the regions, we re-

Table 39
SOCIAL INFRASTRUCTURE

REGION/ INDICATOR	% OF HOUSEHOLDS[1] W/ LEVEL III WATER SUPPLY	HOSPITAL BED POPULATION RATIO	MEDICAL MANPOWER[2] POPULATION RATIO	REGIONAL HEALTH UNITS-POPULATION RATIO	BARANGAY HEALTH STATIONS TO POPULATION RATIO
PHILIPPINES	36.3	1:629	1:1203	1:28129	1:6870
NCR	78.6	1:246	1:1479	1:29160	1:6729
I	26.9	1:815	1:731	1:19407	1:4725
II	6.7	1:806	1:863	1:22275	1:4969
III	29.8	1:877	1:1264	1:31228	1:5540
IV	39.5	1:812	1:952	1:28690	1:6063
V	35.4	1:805	1:1104	1:34890	1:5979
VI	21.7	1:1104	1:1354	1:41001	1:6312
VII	30.4	1:705	1:2186	1:31001	1:5766
VIII	37.2	1:1044	1:1827	1:20857	1:5826
IX	22.2	1:950	1:1204	1:33660	1:19523
X	49.7	1:638	1:1877	1:26319	1:5686
XI	25.4	1:637	1:2351	1:47973	1:6205
XII	17.6	1:774	1:1239	1:29610	1:6729

[1] Level III water supply refers to water directly supplied to households through pipes.

[2] Medical manpower includes all medical personnel including doctors, nurses, paramedics, etc.

Source: NEDA, *Philippine Statistical Yearbook*

Table 40
CORRELATION MATRIX OF ECONOMIC DEVELOPMENT INDICATORS AND INFRASTRUCTURE

INDICATOR	PCGRDP	AFI	RD	%HH EN	%HH WS
Per Capita GRDP (PCGRDP)	1.00000				
Average Family Income (AFI)	.87454	1.00000			
Road Density (RD)	.90639	.86298	1.00000		
% of Households Energized (% HH EN)	.73617	.93229	.71213	1.00000	
% of Households with Level III Water Supply (% HH WS)	.77883	.65486	.79089	.61548	1.00000

gressed government construction with total private investment per region using annual data covering the 1975-1987 period. The government construction variable is lagged up to three years. Table 42 summarizes the results of the regressions.

Government spending on infrastructure in Region I significantly affected private investment after a two-year lag, and the private sector response was highly positive. This implies that government spending was relatively effective in the region. As shown in the earlier analysis, Region I was one of the areas that performed fairly well.

In Region II, government spending in infrastructure became significant after a one-period lag. The response of the private sector is minimal, however, as represented by the small coefficient. Region II lagged behind the other regions in terms of economic performance, partly because infrastructure spending by the government failed to adequately encourage private investment. Such government spending also had no significant impact on private investment in Region III.

Region IV, one of the better performing regions, showed a significant relationship between the two variables after a two-period lag, although the impact was small. Much of the growth in this region can be explained by the spillover of manufacturing activity from the metropolis rather than by any

Table 41
CORRELATION MATRIX OF SOCIAL DEVELOPMENT INDICATORS AND INFRASTRUCTURE

INDICATOR	% CH	ALE	IMR	% HH WS	HBPD	RHUS	MMCHP	BHUS
% of Children Severely Underweight (% CH)	1.00000							
Average Life Expectancy (ALE)	-.33392	1.00000						
Infant Mortality Rate (IMR)	.29953	-.98474	1.00000					
% of Households with Level III Water Supply (% HH WS)	-.23895	.39832	-.41548	1.00000				
Hospital Bed - Population Ratio (HBPD)	.51017	-.12150	.17202	-.68015	1.00000			
Ratio of Regional Health Units to Population (RHUS)	-.21722	-.10547	.17647	-.08609	-.02701	1.00000		
Medical Manpower Complement for Health Population Ratio (MMCHP)	-.32195	-.07669	.17906	.22946	-.24246	.44157	1.00000	
Ratio of Barangay Health Stations to Population (BHUS)	-.11716	.48940	.51766	.11201	.18448	.20134	.07366	1.00000

increase in government construction. Region V, which lagged behind in terms of economic development, showed no significant relationship between government spending in infrastructure and private sector investment.

In the case of Region VI, private investment and government investment were positive and highly correlated despite the region's dismal performance during the period. The collapse of the sugar industry, rather than any inadequacy or inefficacy of infrastructure spending by the government, mainly contributed to the lukewarm investment climate in this region.

In Region VIII, another lagging region, no significant relationship existed between the two variables even up to a three-period lag.

In Regions IX, X, and XI—three areas that performed well—the private sector responded significantly to government spending. On the other hand, despite Region XII's credible performance, its investors' response to government spending was insignificant, indicating that there were other factors, aside from effective infrastructure support, influencing the region's development.

The NCR, which gave an unimpressive performance during the period, showed a high response of private investment to government construction expenditure. Note that the NCR was most affected by the economic crisis of the eighties and by the spillover effects of investments to Region IV during this period.

For most regions, however, the adequacy and effectiveness of government spending on infrastructure (as manifested by the response of the private sector to these expenditures) partly explain the differences among their economic performance. From the results in this section, one can glean a few lessons. Foremost among which is the importance of right government infrastructure projects for each region.

Table 42
REGRESSION RESULTS:
PRIVATE INVESTMENT ON GOVERNMENT INVESTMENT

REGION	NO LAG	ONE LAG	TWO LAGS	THREE LAGS
I	0.288	-0.425	2.271	1.844
	(-0.099)	(-1.706)	(2.192)	(2.137)
	(-0.090)	(0.418)	(0.913)	(0.284)
	(0.010)	(4.949)	(53.256)	(4.569)
II	0.087	0.173	0.18	0.004
	(1.238)	(4.763)*	(3.786)*	(0.107)
	(0.042)	(0.663)	(0.571)	(0.287)
	(1.532)	(22.686)	(14.336)	(2.813)
III	1.159	0.415	-0.996	-0.245
	(1.7428)	(0.493)	(-2.260)	(-0.476)
	(0.142)	(-0.074)	(0.750)	(-0.094)
	(2.987)	(0.243)	(15.967)	(0.227)
IV	-0.372	-0.711	0.934	0.393
	(-0.566)	(-1.080)	(3.161)*	(1.049)
	(-0.060)	(0.015)	(0.474)	(0.011)
	(0.320)	(1.166)	(9.995)	(1.010)
V	0.369	0.393	0.427	-0.283
	(1.599)	(1.517)	(1.263)	(-1.875)
	(0.115)	(0.106)	(-0.105)	(0.630)
	(2.557)	(2.301)	(0.526)	(8.673)
VI	3.134	4.530	3.729	2.813
	(2.395)*	(4.035)*	(2.067)*	(1.030)
	(0.283)	(0.581)	(0.247)	(0.007)
	(5.736)	(16.282)	(4.275)	(1.061)
VII	2.484	2.267	2.220	0.517
	(2.915)*	(2.230)*	(1.937)	(0.370)
	(0.384)	(0.265)	(0.386)	(-0.106)
	(8.498)	(4.975)	(4.140)	(0.137)

Table 42 (continued)

REGION	NO LAG	ONE LAG	TWO LAGS	THREE LAGS
VIII	-0.163	0.089	0.437	0.355
	(-0.734)	(0.350)	(1.557)	(0.792)
	(-0.040)	(-0.087)	(0.125)	(-0.043)
	(-0.539)	(0.123)	(2.424)	(0.628)
IX	0.713	0.826	0.68	-0.057
	(2.99)*	(3.157)*	(1.533)	(-1.452)
	(0.399)	(0.449)	(0.059)	(0.260)
	(8.961)	(9.967)	(1.316)	(2.583)
X	5.673	6.897	7.664	6.957
	(2.350)*	(3.611)*	(2.828)*	(1.322)
	(0.528)	(0.523)	(0.412)	(0.077)
	(7.110)	(13.041)	(8.000)	(1.749)
XI	1.490	2.454	2.715	2.487
	(1.657)	(2.925)*	(2.549)*	(1.475)
	(0.127)	(0.407)	(0.355)	(0.116)
	(2.744)	(8.557)	(6.496)	(2.176)
XII	0.644	-0.152	-0.343	-0.326
	(0.839)	(-0.187)	(-0.832)	(-0.427)
	(-0.025)	(-0.096)	(0.121)	(-0.100)
	(0.703)	(0.035)	(1.687)	(0.182)
NCR	10.533	17.038	15.088	-0.143
	(1.367)	(2.907)*	(1.762)	(-1.537)
	(0.455)	(0.404)	(0.174)	(0.448)
	(5.603)	(8.449)	(3.105)	(4.653)

Note: Figures in parenthesis below the coefficients are T-Statistics, Adjusted R Squared values and F Statistics, respectively.

* Significant at the 5 percent level.

5

REGIONAL MOBILIZATION AND ALLOCATION OF FINANCIAL RESOURCES

As the previous chapters show, the issue of regional development is a hard nut to crack. For one, such development depends on each region's (a) resources, which are the binding constraints, and (b) ability to efficiently mobilize and allocate such resources. In this chapter, the second factor will be given some focus. Chapter V is divided into three major sections. The first part presents a framework for analyzing regional resource mobilization and allocation. The second and third sections discuss mobilization and allocation of regional resources through the banking and fiscal systems, respectively.

ANALYTICAL FRAMEWORK

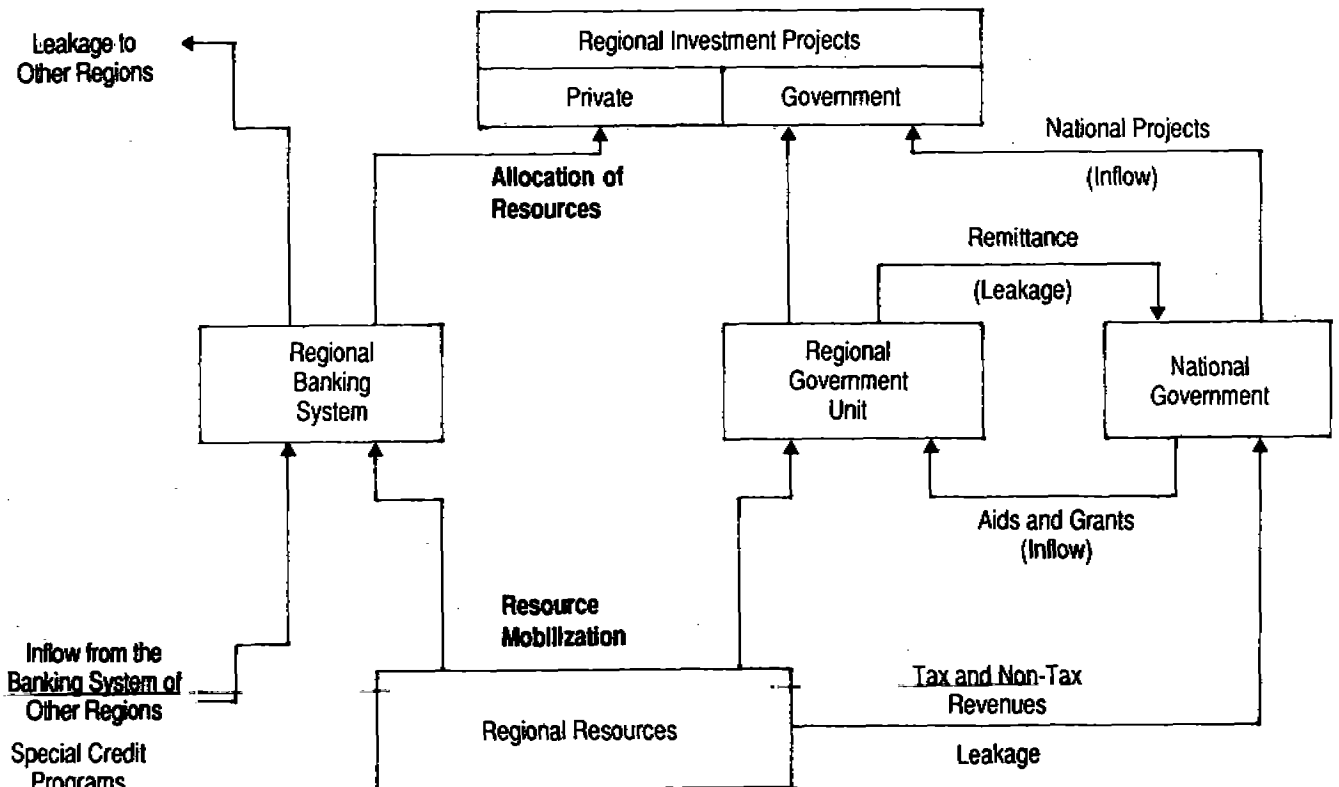
Mobilization and allocation of financial resources at the regional level may be effected through the banking and fiscal systems, as shown in Chart 13. Under this framework, the existence of the underground economy is ruled out. This does not mean, however, that the underground economy is small and unimportant.

Ideally, a great proportion of the region's resources is mobilized by the banking system, which lends them to the private sector. This ability of the banking system to mobilize funds may be weakened by inappropriate policies. For example, a restrictive bank entry policy hinders competition. Protected banks usually do not have any incentive to introduce innovative services that can generate more deposits. Low ceilings on deposit rates, especially during high inflationary periods, also weaken intermediation.

Whenever funds mobilized by the banking system in a certain region and under a freer environment are inadequate to meet the demand for loans, funds from banks in surplus regions are often expected to be redirected into the region in need. If still inadequate, then additional funds

Chart 13

REGIONAL RESOURCE MOBILIZATION AND ALLOCATION



from the Central Bank's rediscounting window and special credit programs may be resorted to by the region. These funds could substitute, instead of complement, mobilized deposits if priced cheaply as the Philippines had experienced in the past (see Lamberte and Lim 1987).

In the same manner, the efficiency of the banking system in allocating resources could be undermined by inappropriate policies.

Ceilings on lending rates tend to misallocate resources since banks may be obliged to accommodate projects with low rates of return. Deposits mobilized in the region may leak out if there are inadequate investment opportunities or bankable borrowers in the said region. In the past, the government responded to such situation by regulating the outflow of funds through the deposit retention scheme, instead of improving the bankability of borrowers and profitability of projects by providing adequate infrastructure, such as farm-to-market roads, post-harvest facilities, etc.

On the fiscal side, the government mobilizes financial resources through tax and non-tax sources and allocates them according to its priorities. The system of mobilizing and allocating financial resources in the region is admittedly more complicated since both the local and the national government are involved in those activities.

Each region's ability to mobilize resources partly depends on the authority vested on it by the national government. For example, its taxing power may be limited, and therefore, revenues it can generate will be small. On the other hand, a region's ability to mobilize resources can also be hindered by its own inefficiency in raising funds despite the taxing power and adequate tax base granted to it.

Fiscal resources in each region may be augmented by aids and grants from the national government. Here, the issue of equity versus efficiency in the allocation of aids and grants to regions becomes crucial in devising a system of allocation.

As in the case of banks, a region's efficiency in allocating its resources can be undermined by certain regulations or impositions by the national government. For example, the region may be forced to share the cost of putting up a certain physical infrastructure that brings very little benefits to the region. Or the national government may require the local government to allocate a certain proportion of their revenues to certain projects/ activities. This is akin to the loan portfolio requirement of banks.

Resources mobilized for a region can also leak out of the system. There are at least two mechanisms for this. One is when the local units are required to remit a certain proportion of their revenues from particular sources. The other is when the national government directly mobilizes resources from the region. The various loan portfolio requirements discussed in Chapter II are examples of such policies. Unless sufficiently compensated by aids and

grants from the national government, these leakages can hinder the region from attaining its optimal level of expenditure.

THE BANKING SYSTEM

A region's ability to mobilize and allocate resources through the banking system is partly determined by the presence and number of banking institutions in the region. In his study using a combination of time series and cross-section regional data, Lamberte (1987) found that the "institution" elasticity is significantly greater than one. That is, more financial savings can be mobilized in the region by increasing the number of financial institutions. Tables 43 to 45 give information on the number of bank offices per region for three selected years: 1980, 1985 and 1988.

The growth in the number of banking offices has been uneven among regions. In fact, some regions experienced a decline in the number of banking institutions during the indicated periods. It should be noted that several banks failed in the mid-1980s, when the economy experienced its worst crisis.

The density ratio tells the extent of banking services available per municipality/city. As the tables show, banking services have been concentrated in the NCR and further increased in 1985 and 1988. The NCR's density ratio was 22 times higher than the next highest ratio (that of Region III). In contrast, the absence of banking services was evident in poorer regions. For instance, not all municipalities/cities in Region VIII had a bank.

The ratio of total bank assets to the total number of banking offices per region serves as a rough indicator of bank efficiency in resource mobilization (Tables 43 to 45 for 1980, 1985, and 1988, respectively). The tables show that the ratio was highest in the NCR: at least six times more than the next highest ratio. In 1980, the efficiency in resource mobilization among the remaining 12 regions did not significantly vary from each other. But over time, the variation has widened. The banking system in some regions in the Visayas and Mindanao were more efficient than those in Regions III and IV, areas adjacent to the NCR. For instance, the average bank asset in Region VIII in 1988 was higher than that in Region IV. Interestingly, banks in poorer regions were not necessarily inefficient resource mobilizers.

Determining whether resources mobilized by the banking system in each region are sufficient to meet the credit requirements of the region is indeed very difficult due to inadequate information on, say, the optimal credit requirement by a region. A rather rough indicator of self-financing—that is; the ratio of loan portfolio to total bank deposits for each region—was used instead. The ratios for the 13 regions are also shown in Tables 43 to 45 and are depicted in Chart 14.

Table 43
RESOURCE MOBILIZATION THROUGH THE BANKING SYSTEM
DECEMBER 1980
(Amounts in million pesos)

REGION	(1) BANKING OFFICES	(2) RESOURCES	(3) LOAN PORTFOLIO	(4) DEPOSITS	(5) DENSITY RATIO*	(6) (2)/(1)	(7) (3)/(4)
NCR	932	174,223	94,710	69,847	106.4	186.93	1.36
I	273	3,127	1,624	2,059	1.8	11.45	0.79
II	111	1,625	1,150	579	1.1	14.64	1.99
III	400	5,966	3,729	3,050	4.3	14.92	1.22
IV	476	4,533	2,434	2,944	2.8	9.52	0.83
V	156	1,625	1,110	792	1.7	10.42	1.40
VI	264	5,985	4,233	2,122	2.9	22.67	1.99
VII	212	4,599	3,621	2,542	2.2	21.69	1.42
VIII	95	1,000	661	510	0.7	10.53	1.30
IX	71	1,039	615	588	1.0	14.63	1.05
X	155	2,128	1,442	1,097	1.5	13.73	1.31
XI	188	2,852	1,989	1,585	3.0	15.17	1.25
XII	78	1,192	800	536	0.9	15.28	1.49

* Ratios of the number of financial offices to total municipalities and cities per region.

Sources: *Fact Book Philippine Financial System*, 1980.
Fact Book Philippine Financial System, 1988.

Table 44
RESOURCE MOBILIZATION THROUGH THE BANKING SYSTEM
DECEMBER 1985
(Amounts in million pesos)

REGION	(1) BANKING OFFICES	(2) RESOURCES	(3) LOAN PORTFOLIO	(4) DEPOSITS	(5) DENSITY RATIO*	(6) (2)/(1)	(7) (3)/(4)
NCR	1075	403,264	149,991	121,887	125.0	375.13	1.23
I	274	6,461	2,190	4,766	1.9	23.58	0.46
II	112	2,829	1,614	1,261	1.1	25.26	1.28
III	398	11,042	4,445	7,442	4.8	27.74	0.60
IV	512	9,828	3,496	6,831	3.5	19.20	0.51
V	148	3,009	1,601	1,640	1.6	20.33	0.98
VI	257	11,175	7,030	4,929	2.9	43.48	1.43
VII	221	8,814	3,481	6,478	2.5	39.88	0.54
VIII	93	2,016	979	1,193	0.8	21.68	0.82
IX	74	2,262	880	1,596	1.0	30.57	0.55
X	163	3,984	1,970	2,330	1.6	24.44	0.85
XI	184	6,088	2,926	3,916	2.9	33.09	0.75
XII	86	2,352	1,085	1,306	0.9	27.35	0.83

* Ratios of the number of financial offices to total municipalities and cities per region.

Sources: *Fact Book Philippine Financial System*, 1985.
Fact Book Philippine Financial System, 1988.

Table 45
RESOURCE MOBILIZATION THROUGH THE BANKING SYSTEM
DECEMBER 1988
(Amounts in million pesos)

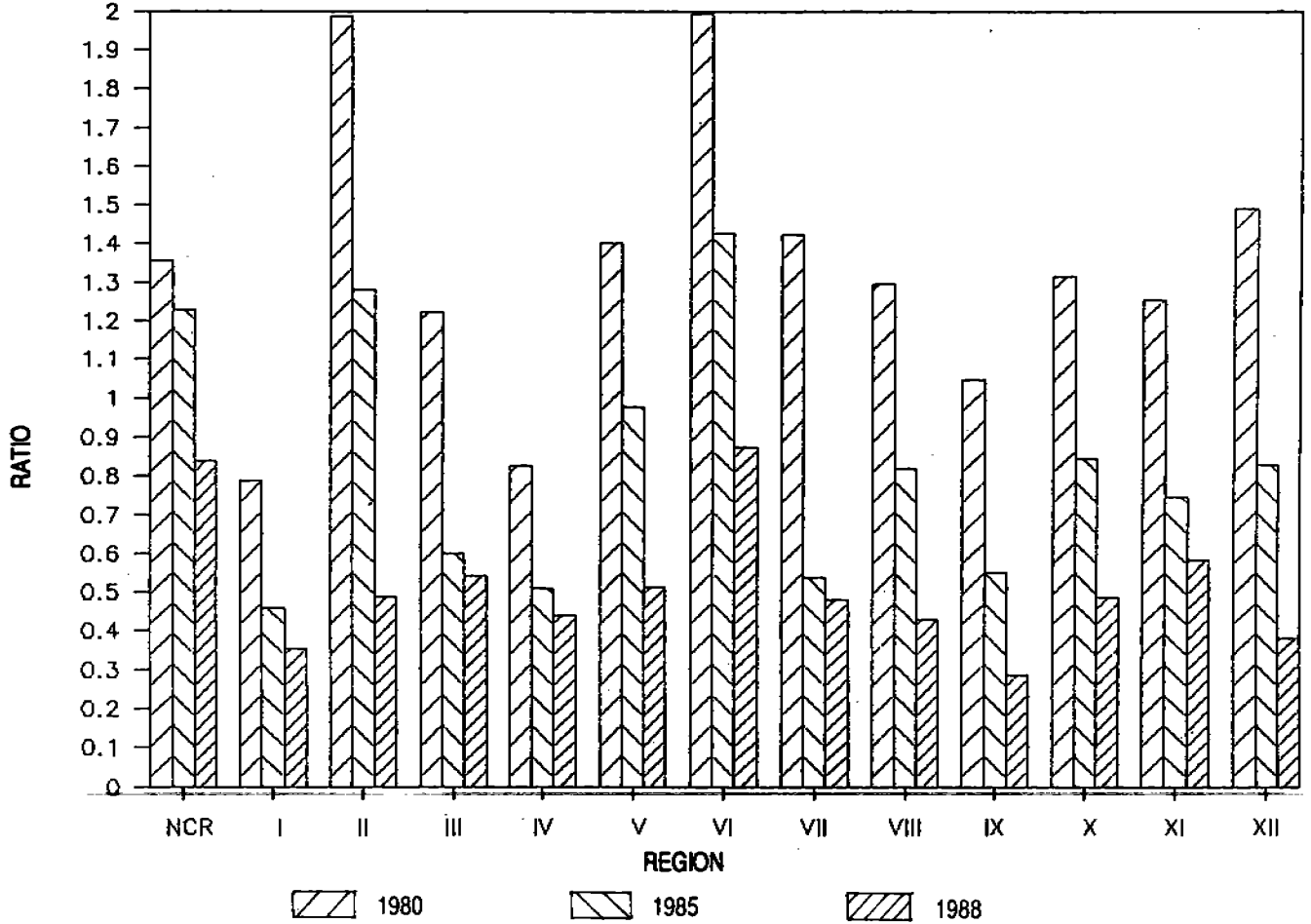
REGION	(1) BANKING OFFICES	(2) RESOURCES	(3) LOAN PORTFOLIO	(4) DEPOSITS	(5) DENSITY RATIO	(6) (2)/(1)	(7) (3)/(4)
NCR	1083	391,592	132,670	158,247	147.1	361.58	0.84
I	270	9,435	2,792	7,926	2.2	34.94	0.35
II	109	3,071	1,135	2,322	1.3	28.17	0.49
III	369	15,658	6,465	11,971	6.6	42.43	0.54
IV	516	15,377	5,208	11,852	4.6	29.80	0.44
V	141	4,270	1,621	3,149	1.9	30.28	0.51
VI	253	14,023	7,567	8,658	2.2	55.43	0.87
VII	213	14,565	5,723	11,933	2.9	68.38	0.48
VIII	85	3,148	1,038	2,412	0.9	37.04	0.43
IX	74	3,376	822	2,855	1.3	45.62	0.29
X	155	5,692	2,093	4,228	1.9	36.72	0.49
XI	184	9,281	3,776	6,490	3.6	50.44	0.58
XII	86	3,234	916	2,390	1.2	37.60	0.38

* Ratios of the number of financial offices to total municipalities and cities per region.

Source: *Fact Book Philippine Financial System*, 1988.

Chart 14

RATIO OF LOAN PORTFOLIO TO DEPOSITS



In 1980, all regions except for two, obtained ratios greater than one. It means that external resources could have been used to augment the deposits mobilized by banks in the regions and thus meet their respective credit requirements. Borrowings from the Central Bank accounted for a larger portion of externally-sourced funds. It is to be noted that the rediscounting policy in 1980 was very generous. The ratios in all regions only fell in 1985 as a result of the economy-wide crisis. They declined further in 1988 as banks preferred to remain liquid in the light of continuing political uncertainties. It is difficult to interpret the ratios since the economy went through different states during the years included in the analysis. However, if the ratios in 1980, which was a better year than 1985 and 1988, were to serve as a benchmark, then it can be said that deposits mobilized by banks were insufficient to meet the credit requirements of each region.

Nevertheless, there remains a great potential for mobilizing deposits in the regions. Table 46 shows estimates of the marginal propensity to save (MPS) out of current income of households by region. The estimates were obtained using the 1985 Family Income and Expenditures Survey. It can be observed that household saving propensities widely differed across regions. Interestingly, all regions except for one obtained estimated MPS greater than that of the NCR. This savings potential could be mobilized by the banking system if proper monetary and banking policies were effected.

THE FISCAL SYSTEM

The national government encourages local autonomy of the regions because local governments can also become effective partners in development. This, however, can only happen when they are self-reliant. To be deemed autonomous, a local government must have the power to raise a substantial portion of its revenue from sources it controls, and its offices must be independent of external administrative regulations. Conversely, a region is said to be dependent when it subsists on grants from the national government and is administratively controlled and supervised by it (Bird 1978).

The Fiscal System of Local Governments

The local governments in the country are composed of provinces, municipalities, cities and barangays. Each has roles detailed in the Local Government Code (Batas Pambansa Blg. 337, 10 February 1983). Provinces are tasked to coordinate local services in the municipalities within their respective jurisdictions. Municipalities, on the other hand, perform basic services for their residents such as maintaining markets and slaughter-

Table 46

ESTIMATED SAVINGS EQUATIONS, CURRENT INCOME MODEL: ALL HOUSEHOLDS BY REGION

REGION	CONST.	Y	R^2	CONST.	Y	DR	R^2
I	-7353	0.438	0.70	-6389	0.438	-1418	0.70
	(-18.6)*	(53.4)*		(-6.3)*	(53.4)*	(-1.0)	
II	-3460	0.334	0.48	-2074	0.335	-2233	0.48
	(-7.0)*	(27.9)*		(-2.0)**	(28.0)*	(-1.5)	
III	-13289	0.493	0.66	-12411	0.493	-1272	0.66
	(-27.7)*	(58.0)*		(-10.3)*	(58.0)*	(-0.8)	
IV	-9387	0.465	0.66	-8008	0.466	-2104	0.66
	(-29.9)*	(68.2)*		(-10.7)*	(68.2)*	(-2.0)**	
V	-5966	0.399	0.54	-4194	0.400	-2733	0.54
	(-16.8)*	(35.5)*		(-5.0)*	(35.6)*	(-2.3)*	
VI	-10419	0.558	0.77	-8562	0.557	-2934	0.77
	(-24.6)*	(71.8)*		(-7.8)*	(71.7)*	(-1.8)	
VII	-5019	0.456	0.72	-2525	0.458	-4100	0.73
	(-17.5)*	(58.8)*		(-3.9)*	(59.3)*	(-4.3)*	
VIII	-5052	0.421	0.60	-4066	0.422	-1569	0.60
	(-15.8)*	(36.2)*		(-5.7)*	(36.3)*	(-1.5)	
IX	-11600	0.698	0.86	-9697	0.699	-2744	0.87
	(-29.9)*	(70.8)*		(-8.5)*	(71.0)*	(-1.8)	
X	-15266	0.775	0.95	-13612	0.775	-2497	0.95
	(-32.7)*	(128.1)*		(-9.3)*	(128.1)*	(-1.2)	
XI	-13664	0.673	0.86	-10788	0.673	-4244	0.86
	(-30.7)*	(82.4)*		(-8.1)*	(82.5)*	(-2.3)**	
XII	-10954	0.563	0.75	-8944	0.563	-2853	0.75
	(-22.9)*	(47.1)*		(-5.9)*	(47.2)*	(-1.4)	
NCR	-12352	0.380	0.73	-7194	0.380	-7354	0.74
	(-16.2)*	(82.1)*		(-2.8)*	(82.0)*	(-2.1)**	

Notes: Numbers in parentheses are t-values. R^2 denotes adjusted coefficient of determination.
*Significant at the 1% level; **Significant at the 5% level;
Y=Household disposable income in pesos; S=Household savings in pesos;
DR=Dependency ratio

Source: Lamberte, Mario B. and Romeo M. Bautista. "Comparative Saving Behavior of Rural and Urban Households: The Philippines, 1985." (November 1989).

houses, municipal high schools, or public utilities such as waterworks and irrigation systems. Cities, which are administratively independent from their respective provinces, are also responsible for coordinating and delivering basic services as defined in their charters (de Guzman 1983). Barangays were created primarily to provide a forum for citizen participation although they have recently become the primary planning and implementing units of government programs (Yoingco and Guevara 1989).

Local governments' taxing powers have been defined by the central government through the enactment of the Real Property Tax Code (PD 464, 20 May 1974) and the Local Tax Code (PD 231, 28 June 1973). The other revenue-raising powers of local governments are also provided for in the Local Tax Code.

Their non-tax revenues consist of receipts from economic enterprises such as markets, slaughterhouses and public utilities, and other fees and charges. Apart from the locally-derived revenues, local governments also receive a share in the revenues of the national government in the form of aids and allotments.[14] They have also been authorized under PD 752 (25 July 1975) to obtain credit and loans from the national government and government financial institutions.

The national government exercises control and supervision over these local governments' finances through the Department of Finance. It prescribes the manner in which the national allotments and aids are to be used. Yoingco and Guevara (1989) noted that all local governments are required to spend 20 percent of their internal revenue allotment to development projects as defined and approved by the Department of Local Government, an office under the Philippines' executive branch. This office fixes the criteria used by local governments to allocate even the locally-generated funds.

In other instances, local governments are compelled to implement national programs and bear certain financial statutory obligations. De Guzman (1983) claimed that these practices result to virtual control of local fiscal policy, destroying LGUs' responsibility for autonomy or self-government.

The Real Property Tax

The real property tax is imposed on lands and their improvement. For provinces and municipalities, the tax rate has been set at one-fourth of one percent to one-half of one percent of real properties' assessed value. For cities, the tax rate may range from one-half of one percent to two percent.

[14] National allotments are discussed in the proceeding section.

To determine the assessed value, the Code provides the following schedule of assessment levels according to actual use:

Land	*Assessment Level* (Percent of Market Value)
Residential	30
Agricultural	40
Industrial and Commercial	50
Building and Improvements	
Residential	15 to 80
Agricultural	40 to 80
Commercial and Industrial	50 to 80

The proceeds from the tax accrue entirely to local governments. The national government formulates the policies and standards for the real property tax. Special Education Fund Tax (SEF), a tax of one percent on the same taxable assessed value, is added. Prior to EO 189 (10 June 1987), 80 percent of the SEF tax collections accrued to local governments while 20 percent was remitted to the national treasury. EO 189 reversed the sharing scheme with 80 percent accruing to the national treasury and 20 percent to local governments. Problems of non-remittance of the national share by local governments have prompted some quarters to consider the possibility of giving the entire proceeds of the SEF tax to local governments.

Local Taxes

The national government fixes the rates of local taxes. Local governments, on the other hand, collect permits and regulatory fees for the operation of markets and public utilities. Their taxing powers are allocated to provinces, municipalities, and cities. Barangays are assigned minimal taxing powers although there are views that they should not be given any at all.

The powers of provinces include, among others, the imposition of tax on transfer of real property ownership, the franchise tax, the occupation tax and the amusement tax. Municipalities are empowered to impose a tax on business based on gross receipts. Among the three tiers of the local government, cities have the broadest taxing powers. A city may impose provincial and municipal taxes at higher rates subject to the limitations provided in the Code.

The Fiscal Performance of Local Governments

Revenue effort is an indicator of local governments' fiscal performance. It is defined as the ratio of local government revenues to gross domestic product. The local governments' low revenue effort indicates the ineffectiveness of the local fiscal system. For the period 1985-1989, the revenue effort of local governments averaged at only 0.78 percent. This means that for the period considered, the local governments were able to collect only 0.78 in local taxes for every one hundred pesos produced by the economy. In prior years, local revenue effort fared better (Table 47).

Because local governments were unable to finance their expenditures, they had to depend on the aids and allotments from the national government. For the past five years, national aids and allotments accounted for an average of 43 percent of the total income of local governments (Table 48). These aids and allotments explain the surpluses reported in the consolidated income and expenditure accounts of local governments (Table 49). The LGUs would have been unable to meet their expenditure requirements had they relied on their own resources only.

A breakdown of the local revenue efforts of all regions is given in Table 50. The NCR led other regions as the most revenue productive, although its revenue effort of 1.17 in 1987 compared poorly with its 1.57 revenue effort in 1983. Region I, with its 1.08 performance, was the second most productive area in 1987 although the rate was lower than its revenue effort of 1.31 in 1983. Region III experienced the same decline: 1.01 in 1987 and 1.04 in 1983.

In general, revenue efforts in all regions except Regions II and V declined between 1983 and 1987. While the intention to develop the region—notably, those outside the NCR-Region III and IV axis—was strong, adequate revenues were not raised to finance local development expenditures. Computation of the buoyancy of local taxes for 1987 (Chart 15) gives the same information.[15]

Available data (1983 - 1987) on the incomes and expenditures of local government units (LGUs) by region are given in Tables 51 to 55. These data tell the same story: the LGU's dependence on the national government's revenue allotments for a large share of their income.[16-17] To illustrate, there were only two regions, namely, NCR and Region III, whose allotments from the national government were less than 30 percent of their income, i.e., 15.5

---

[15] Buoyancy is the percent change in local revenues divided by percent change in gross regional domestic product.

[16-17] Tables 51 and 52 have a slightly different reporting format compared to Tables 53 to 55.

Table 47
REVENUE EFFORT OF LOCAL GOVERNMENT UNITS
1985 - 1989

YEAR	LOCAL REVENUE[1] (₱ M) (1)	GROSS DOMESTIC PRODUCT[2] (₱ M) (2)	REVENUE EFFORT (%) (₱ M) (3)
1975	1,350	114,697	1.18
1976	1,399	135,272	1.03
1977	1,980	154,226	1.28
1978	2,230	177,669	1.26
1979	2,525	217,543	1.16
1980	2,779	264,650	1.05
1981	3,454	305,258	1.13
1982	3,658	340,597	1.07
1983	4,245	384,096	1.12
1984	4,902	540,466	0.91
1985	5,373	612,684	0.88
1986	5,706	624,429	0.91
1987	6,067	708,368	0.86
1988	6,657	825,707	0.81

[1] Source: Department of Finance.
Excludes national aids and grants.

[2] Source: National Income Accounts.

Table 48
SOURCE OF LOCAL GOVERNMENT INCOME, 1975 - 1989

ITEM/YEAR	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL INCOME	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Local source	60.99	59.95	66.24	68.14	63.13	64.45	63.58	58.86	59.54	61.39	57.50	58.88	62.86	53.54	51.98
Revenue from taxation	35.01	34.24	36.47	39.44	38.43	36.29	34.02	31.60	34.97	36.40	31.86	34.45	38.02	30.75	29.30
Real property taxes	15.63	15.77	19.61	20.56	19.98	19.04	19.66	18.10	21.60	23.48	17.25	20.29	13.34	15.12	14.52
Business taxes	19.38	18.47	16.86	18.88	18.45	17.25	14.36	13.50	13.37	12.92	14.61	14.16	24.68	15.63	14.78
Non-tax revenues	25.98	25.71	29.77	28.70	24.70	28.16	29.56	27.26	24.57	24.99	25.64	24.43	24.84	22.79	22.68
Receipts from economic enterprises	6.96	7.33	7.69	7.38	6.35	6.38	7.97	8.16	7.91	7.92	7.99	8.82	8.50	15.03	13.76
Fees, charges & other receipts	19.02	18.38	22.08	21.32	18.35	21.78	21.59	19.10	16.66	17.07	17.65	15.61	16.34	7.76	8.92
Grants and allotments	39.00	40.06	33.75	31.97	36.86	35.55	36.42	41.15	40.45	38.60	43.18	41.09	37.15	46.96	48.03
Allotments	28.47	28.92	25.79	23.61	29.66	28.71	30.38	35.45	35.33	33.52	37.06	36.16	32.48	36.99	40.64
National aids	10.53	11.14	7.96	8.36	7.20	6.84	6.04	5.70	5.12	5.08	6.12	4.93	4.67	9.97	7.39

Source: Local Revenue Enforcement Division and Bureau of Local Government Finance.

Table 49
CONSOLIDATED INCOME AND EXPENDITURES OF LOCAL GOVERNMENT UNITS (LGUs)
(In billion pesos)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Prelim.	1990 Projection
INCOME																
Local source	1.350	1.399	1.980	2.234	2.525	2.779	3.454	3.658	4.245	4.902	8.373	5.706	6.087	6.657	9.093	9.984
Revenue from taxation	0.775	0.799	1.090	1.293	1.537	1.565	1.848	1.964	2.493	2.907	3.155	3.524	3.665	4.084	5.998	6.674
Real property taxes	0.346	0.368	0.586	0.674	0.799	0.821	1.068	1.125	1.540	1.875	1.951	2.258	2.375	2.670	3.678	4.081
Business taxes	0.429	0.431	0.504	0.619	0.738	0.744	0.780	0.839	0.953	1.032	1.204	1.266	1.290	1.414	2.320	2.593
Non-tax revenues	0.575	0.600	0.890	0.941	0.988	1.214	1.606	1.694	1.752	1.995	5.218	2.182	2.402	2.573	3.095	3.310
Receipts from economic enterprises	0.154	0.171	0.230	0.242	0.254	0.275	0.433	0.507	0.564	0.632	0.691	0.788	0.822	0.911	1.100	1.244
Fees, charges and other receipts	0.421	0.429	0.660	0.699	0.734	0.939	1.173	1.187	1.188	1.363	4.527	1.394	1.580	1.662	1.995	2.066
Grants and allotments	0.863	0.935	1.009	1.048	1.474	1.533	1.978	2.557	2.884	3.082	3.735	3.670	3.594	4.488	6.661	7.412
BIR allotments	0.630	0.675	0.771	0.774	1.186	1.238	1.650	2.203	2.519	2.676	3.205	3.229	3.142	3.974	6.100	6.846
National aids	0.233	0.260	0.238	0.274	0.288	0.295	0.328	0.354	0.365	0.406	0.530	0.441	0.452	0.514	0.561	0.566
TOTAL INCOME	2.213	2.334	2.989	3.282	3.999	4.312	5.432	6.215	7.129	7.984	12.108	9.376	9.661	11.145	15.754	17.396
EXPENDITURES																
Current expenditures	1.881	2.027	2.528	2.847	3.332	3.148	4.419	5.131	5.684	6.505	7.48	8.018	8.535	9.517	11.345	12.182
General government	0.447	0.483	0.597	0.687	0.824	0.916	1.315	1.460	1.545	1.760	2.041	2.327	2.659	2.902	3.337	3.578
Public welfare and internal safety	0.539	0.616	0.722	0.758	0.872	0.718	0.859	1.014	1.238	1.449	1.753	1.930	2.080	2.296	2.640	2.824
Economic development	0.395	0.384	0.497	0.655	0.852	0.982	0.829	1.025	1.241	1.374	1.673	1.676	1.695	2.016	2.720	2.977
Other charges	0.500	0.544	0.712	0.747	0.784	0.532	1.416	1.632	1.660	1.902	2.013	2.085	2.101	2.303	2.648	2.803
Capital outlays	0.321	0.361	0.386	0.390	0.449	0.532	0.659	0.697	0.829	0.891	0.868	0.608	0.587	0.733	3.660	4.363
TOTAL EXPENDITURES	2.202	2.388	2.914	3.237	3.781	3.680	5.078	5.828	6.513	7.396	8.348	8.626	9.122	10.250	15.005	16.545
SURPLUS	0.011	-0.054	0.075	0.045	0.218	0.632	0.354	0.387	0.616	0.588	3.760	0.750	0.539	0.895	0.749	0.851

Source: Local Revenue Enforcement Division and Bureau of Local Government Finance.

Chart 15

TAX BUOYANCY OF REVENUES, 1987

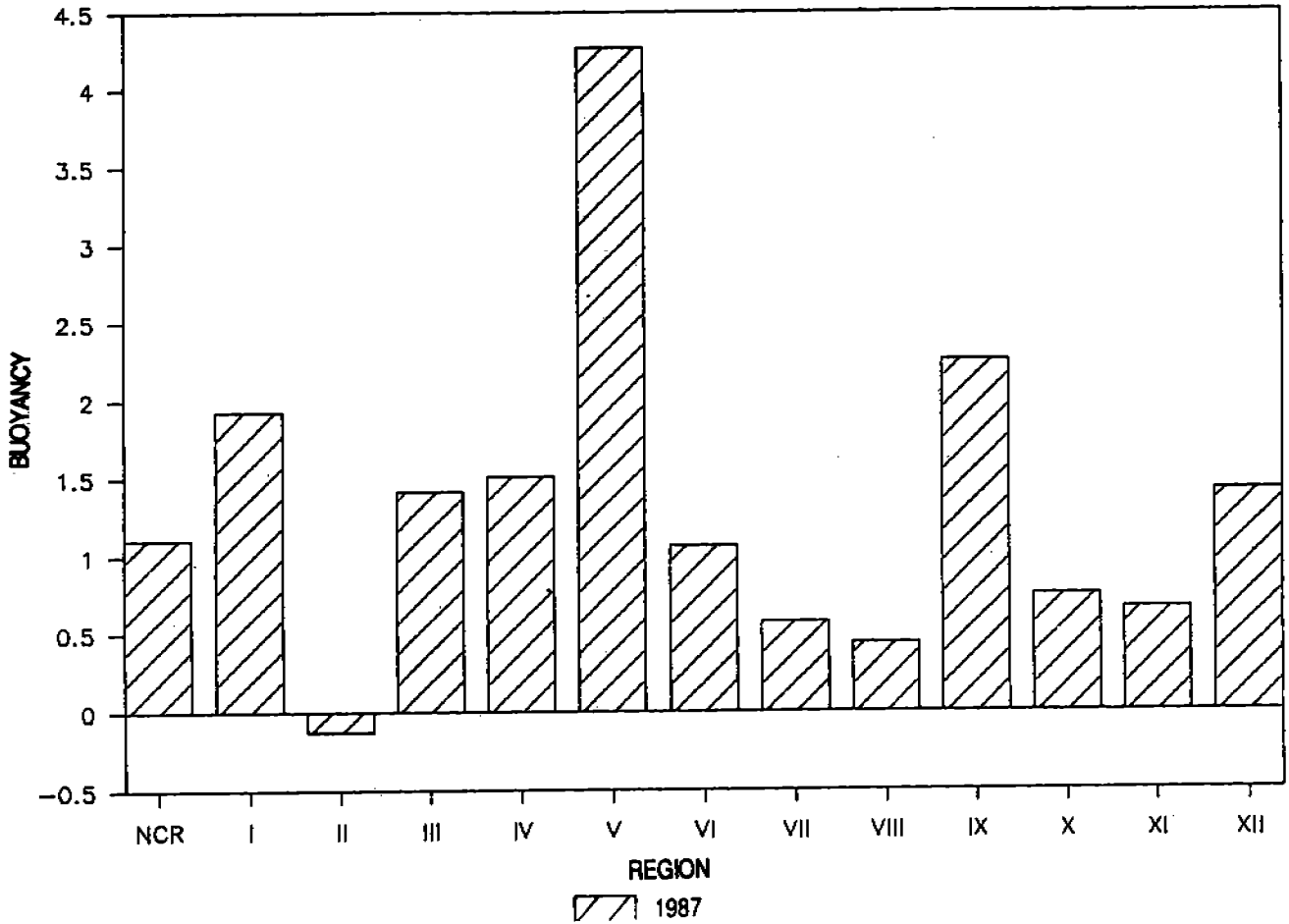


Table 50
REVENUE EFFORT, BY REGION 1983 - 1987

	1983			1984			1985		
	LOCAL REVENUE[1] (P M) (1)	GROSS DOMESTIC PRODUCT[2] (P M) (2)	REVENUE EFFORT (%) [(1)-(2)] (3)	LOCAL REVENUE (P M) (1)	GROSS DOMESTIC PRODUCT (P M) (2)	REVENUE EFFORT (%) [(1)-(2)] (3)	LOCAL REVENUE (P M) (1)	GROSS DOMESTIC PRODUCT (P M) (2)	REVENUE EFFORT (%) [(1)-(2)] (3)
I	202	15,475	1.31	199	22,378	0.89	256	27,452	0.93
II	75	10,763	0.70	79	15,448	0.51	99	16,723	0.59
III	377	36,072	1.04	418	52,009	0.80	508	58,663	0.86
IV	493	56,847	0.87	497	81,291	0.61	555	92,707	0.60
V	100	12,525	0.80	106	17,739	0.60	115	20,991	0.55
VI	266	28,830	0.92	275	40,760	0.67	285	42,676	0.67
VII	218	25,525	0.85	267	36,936	0.72	298	41,174	0.72
VIII	75	8,431	0.89	80	11,659	0.69	107	16,525	0.65
IX	90	13,185	0.68	122	18,546	0.66	134	21,516	0.62
X	151	18,046	0.84	171	27,736	0.62	199	32,858	0.61
XI	224	24,947	0.90	191	38,944	0.49	293	45,018	0.65
XII	84	12,826	0.65	106	18,967	0.56	107	22,675	0.47
NCR	1,890	120,626	1.57	1,798	158,053	1.14	1,958	173,686	1.13
OVERALL	4,245	384,098	1.11	4,309	540,467	0.80	4,914	12,665	0.80

[1] Source: Department of Finance, excludes national aids and grants.
[2] Source: *Philippine Statistical Yearbook*, 1989.

Table 50 (continued)

	1986			1987		
	LOCAL REVENUE (P M) (1)	GROSS DOMESTIC PRODUCT (P M) (2)	REVENUE EFFORT (%) [(1)-(2)] (3)	LOCAL REVENUE (P M) (1)	GROSS DOMESTIC PRODUCT (P M) (2)	REVENUE EFFORT (%) [(1)-(2)] (3)
I	284	28,149	1.01	331	30,577	1.08
II	119	14,276	0.83	117	16,152	0.72
III	547	56,424	0.97	632	62,638	1.01
IV	568	94,491	0.60	661	104,713	0.63
V	167	20,511	0.81	228	22,265	1.02
VI	288	40,719	0.71	326	45,805	0.71
VII	347	42,924	0.81	375	48,846	0.77
VIII	119	16,652	0.71	125	18,553	0.67
IX	97	21,901	0.44	119	24,106	0.49
X	210	33,644	0.62	231	38,116	0.61
XI	261	45,354	0.58	286	51,939	0.55
XII	113	23,377	0.48	131	26,002	0.50
NCR	2,141	186,008	1.15	2,517	215,753	1.17
OVERALL	5,260	624,430	0.84	6,078	705,467	0.86

[1] Source: Department of Finance, excludes national aids and grants.
[2] Source: *Philippine Statistical Yearbook*, 1989.

percent for NCR and 28.8 percent for Region III during the three-year period (1985-1987). Allotments comprised more than 50 percent of total income for Regions VI, VIII, IX and XII. For Regions I, II, IV, V, VII, X, and XI, allotments ranged from 38 percent to 48.0 percent of total income.

Revenue Performances of the Real Property Tax

The real property tax is a major revenue source for local governments. From 1985 to 1989, its contribution to local income averaged around 16 percent. The comparable figure for 1975 - 1984 was 19.3 percent (**Table 48**).

Given the importance of the property tax to local finance, it is sad to note that its potential to generate revenues has not been fully tapped. This is indicated by the low collection efficiency of local governments (see **Table 56**).[18]

[18] Collection efficiency is defined as the ratio of real property tax collection to real property tax collectible or due.

Table 51

CONSOLIDATED INCOME AND EXPENDITURES OF LOCAL GOVERNMENT UNITS - BY REGION
CALENDAR YEAR 1983

(In million pesos)

INCOME	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
1. Real property taxes	51	13	78	135	24	90	55	17	13	40	48	23	587
2. Local taxes	32	15	69	74	20	54	55	19	14	36	49	20	459
3. Operating & service income	15	3	22	19	6	14	8	7	11	10	8	8	131
4. Government business oprns.	44	21	126	109	15	44	42	13	19	30	31	16	508
5. BIR allotments	187	105	208	303	147	246	219	144	138	173	194	113	2,175
6. Loans and borrowings	0	0	7	5	0	3	4	0	0	8	1	1	30
7. National aids	24	17	73	65	29	30	24	16	11	28	32	14	363
8. Others	61	23	74	151	35	61	53	20	33	28	87	17	641
TOTAL INCOME	414	197	657	861	276	542	460	236	239	353	450	212	4,894
Aids & grants (5&7)	210	122	281	368	176	276	243	160	149	201	226	127	2,538
Local revenue	203	75	376	493	100	266	217	76	90	151	225	85	2,356
EXPENDITURES													
1. General administration	76	40	92	138	52	84	65	38	40	49	56	34	764
2. Government finance	48	26	47	82	35	52	46	29	27	41	42	28	503
3. Adjudication	6	2	5	26	3	7	8	4	2	5	7	3	77
4. Protective service	17	6	29	34	7	25	26	8	5	14	11	6	190
5. Social improvement	28	15	62	69	18	81	32	22	15	23	47	14	426
6. Economic development	90	54	111	193	82	112	85	51	59	86	92	65	1,079
7. Operation of eco. enterprises	23	10	102	73	9	32	26	13	8	14	13	8	330
8. Inter-government aids	23	8	24	47	13	36	29	13	12	18	27	12	263
9. Loans, advances & transfers	27	12	56	58	17	32	40	16	15	21	43	9	346
10. Real property	25	16	53	80	17	43	32	14	18	34	61	12	407
11. Equipment	8	5	9	17	5	9	6	4	2	11	18	3	98
12. Others	31	2	12	20	7	10	25	6	4	9	9	8	142
13. National projects	2	0	0	1	0	0	0	0	0	1	0	0	5
TOTAL EXPENDITURES	404	196	602	838	265	523	420	218	207	326	426	202	4,630

Table 52
CONSOLIDATED INCOME AND EXPENDITURE OF LOCAL GOVERNMENT UNITS - BY REGION
CALENDAR YEAR 1984
(In million pesos)

ITEM/YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	TOTAL
INCOME													
Local source	199	79	418	500	105	275	267	81	122	17	191	105	2,513
Revenue from taxation	92	31	166	237	46	142	117	36	32	90	106	50	1,144
Business taxes	36	16	77	89	23	53	60	17	18	41	53	23	508
Real property taxes	56	15	88	148	22	89	57	19	14	48	54	27	637
Non-tax revenue	107	48	253	263	59	132	150	45	90	81	84	55	1,368
Receipts from economic enterprise	48	22	170	111	18	41	50	14	25	33	28	19	578
Fees, charges and other receipts	59	26	83	153	42	91	100	31	65	48	56	36	790
Aids and allotments	201	133	313	367	185	292	254	171	154	227	249	140	2,686
National aids	32	1,919	92	56	23	24	23	11	10	39	40	19	388
Internal revenue and specific allotments	169	113	221	311	163	269	232	160	144	188	209	120	2,298
TOTAL INCOME	400	212	731	867	291	567	521	251	276	398	439	245	5,199
EXPENDITURES													
Current expenditures	404	185	660	760	254	517	417	226	219	329	399	213	4,584
General government	143	73	172	249	100	156	125	77	75	106	110	74	1,461
Public welfare and internal safety	57	25	112	118	32	98	78	34	28	50	74	23	728
Economic development	106	34	227	240	47	136	114	53	49	74	107	48	1,235
Other charges													
Capital outlay	33	17	75	84	19	48	89	18	24	48	61	29	546
TOTAL EXPENDITURES	437	202	735	844	273	565	506	244	243	377	460	243	5,130

Table 53
CONSOLIDATED INCOME AND EXPENDITURES OF LOCAL GOVERNMENT UNITS - BY REGION
CALENDAR YEAR 1985
(In million pesos)

ITEM/YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	TOTAL
INCOME														
Local source	256	99	508	555	114	285	298	108	133	199	293	107	1,958	4,914
Revenue from taxation	106	40	187	254	53	131	138	40	45	97	118	53	1,432	2,696
Business taxes	44	22	89	97	25	56	73	19	30	48	66	26	608	1,204
Real property taxes	62	18	98	157	28	75	65	21	15	49	52	27	824	1,492
Non-tax revenue	150	59	321	301	61	154	160	68	88	102	175	54	526	2,218
Receipts from economic enterprises	50	23	198	123	19	48	43	16	21	35	35	19	61	691
Fees, charges and other receipts	100	36	123	178	42	106	117	52	67	67	140	35	465	1,527
Aids and allotments	256	183	375	475	231	365	256	214	182	262	312	171	451	3,735
Internal revenue and specific allotments	228	135	264	403	199	337	240	188	169	223	241	148	428	3,205
National aids	28	48	111	72	32	28	16	26	13	39	71	23	23	530
TOTAL INCOME	512	282	883	1,030	345	650	554	322	315	461	605	278	2,409	8,649
EXPENDITURES														
Current expenditures	459	243	799	866	331	580	474	268	238	379	489	241	2,113	7,480
General government	163	95	196	285	114	175	145	84	95	123	131	87	348	2,041
Public welfare and internal safety	69	31	138	146	39	112	89	41	28	66	94	26	875	1,753
Economic development	111	66	316	205	103	130	104	70	56	107	106	71	227	1,673
Other charges	116	51	149	230	75	163	136	73	59	83	158	57	663	2,013
Capital outlay	26	21	87	90	20	53	30	35	8	52	105	34	306	868
TOTAL EXPENDITURES	485	264	886	956	351	633	504	303	246	431	594	275	2,419	8,348
SURPLUS (DEFICIT)	27	18	(3)	74	(6)	17	50	19	69	30	11	3	(10)	301

Source: Bureau of Local Government Finance, August 1, 1988.

Table 54
CONSOLIDATED INCOME AND EXPENDITURES OF LOCAL GOVERNMENT UNITS - BY REGION
CALENDAR YEAR 1986
(In million pesos)

ITEM/YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	TOTAL
INCOME														
Local source	285	120	546	569	166	288	347	119	97	210	261	113	2,141	5,259
Revenue from taxation	115	46	230	311	83	166	156	47	42	105	135	65	1,578	3,077
Business taxes	49	25	98	108	25	62	75	20	22	41	67	25	649	1,265
Real property taxes	66	21	132	203	58	104	81	27	20	64	68	40	929	1,812
Non-tax revenue	170	74	316	258	83	122	191	72	55	105	126	48	563	2,182
Receipts from economic enterprises	69	27	201	145	21	53	60	17	20	45	39	21	71	788
Fees, charges and other receipts	101	47	115	113	62	69	131	55	35	60	87	27	492	1,394
Aids and allotments	302	162	322	489	221	365	275	230	194	267	282	164	397	3,670
Internal revenue and specific allotments	257	144	267	428	201	333	247	198	165	213	249	151	376	3,229
National aids	45	18	55	61	20	32	28	32	29	54	33	13	21	441
TOTAL INCOME	587	282	868	1,058	387	653	622	349	291	477	543	277	2,538	8,929
EXPENDITURES														
Current expenditures	529	246	818	952	328	606	562	283	257	429	460	264	2,283	8,018
General government	187	100	233	346	130	199	172	102	105	137	149	102	386	2,347
Public welfare and internal safety	73	37	173	157	40	146	104	43	31	67	95	33	955	1,954
Economic development	134	52	262	179	96	136	129	77	70	137	107	70	239	1,690
Other charges	135	57	150	270	62	125	157	61	51	68	109	59	703	2,027
Capital outlay	24	14	51	94	14	22	30	22	11	39	74	20	193	608
TOTAL EXPENDITURES	553	260	869	1,046	342	628	592	305	268	468	534	284	2,476	8,626
SURPLUS (DEFICIT)	34	22	(1)	12	45	25	30	44	23	9	9	(7)	62	303

Source: Bureau of Local Government Finance.

Table 55

CONSOLIDATED INCOME AND EXPENDITURES OF LOCAL GOVERNMENT UNITS - BY REGION
CALENDAR YEAR 1987

(In million pesos)

ITEM/YEAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	TOTAL
INCOME														
Local source	331	117	632	661	228	326	375	125	119	231	286	131	2,517	6,078
Revenue from taxation	154	50	247	379	65	198	197	71	46	122	157	69	1,922	3,677
Business taxes	93	27	161	270	42	137	118	50	26	80	90	51	1,242	2,387
Real property taxes	61	23	86	109	23	61	79	21	20	42	67	18	680	1,290
Non-tax revenue	177	67	385	282	163	128	178	54	73	109	129	62	595	2,402
Receipts from economic enterprises	47	27	215	120	25	65	63	19	19	52	53	25	92	822
Fees, charges and other receipts	130	40	170	162	138	63	115	35	54	57	76	37	503	1,580
Aids and allotments	302	107	337	450	174	368	300	224	187	278	287	157	421	3,592
BIR allotments	261	92	251	388	140	337	271	207	168	213	251	147	414	3,140
National aids	41	15	86	62	34	31	29	17	19	65	36	10	7	452
TOTAL INCOME	633	224	969	1,111	402	694	675	349	306	509	573	288	2,938	9,671
EXPENDITURES														
Current expenditures	574	181	882	978	365	635	614	304	278	478	485	281	2,479	8,534
General government	211	78	256	372	148	231	196	121	117	166	161	108	493	2,658
Public welfare and internal safety	80	27	194	159	48	139	187	48	40	112	97	57	892	2,080
Economic development	165	33	264	159	63	140	125	67	77	137	81	75	309	1,695
Other charges	118	43	168	288	106	125	106	68	44	63	146	41	785	2,101
Capital outlay	22	14	54	78	27	22	57	20	25	23	60	7	178	587
TOTAL EXPENDITURES	596	195	936	1,056	392	657	671	324	303	501	545	288	2,657	9,121
~~SURPLUS (DEFICIT)~~	~~37~~	~~29~~	~~33~~	~~55~~	~~10~~	~~37~~	~~4~~	~~25~~	~~3~~	~~8~~	~~28~~	~~0~~	~~281~~	~~550~~

Source: Local Revenue Enforcement Division,
Bureau of Local Government Finance.

Table 56
COLLECTION EFFICIENCY OF THE REAL PROPERTY TAX
By Local Government, 1976 - 1978

LGU	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	AVERAGE
Provinces	48.74	43.97	46.21	46.15	50.36	44.22	44.42	46.62	46.06	40.34	41.8	41.67	44.4	42.05
Cities	52.6	54.25	50.41	48.16	46.8	52.07	47.92	50.71	50.46	43.88	44.90	43.32	52.30	46.50
NCR	51.30	63.95	51.10	65.24	67.95	66.22	70.65	71.88	71.84	65.43	61.05	70.77	67.94	66.30
Overall	50.54	55.02	48.90	57.22	58.58	56.44	57.50	59.40	59.29	52.93	51.33	55.57	57.36	54.27

Source: Department of Finance

On the average, local governments were able to collect only around half of what is due from the real properties. From 1985 to 1988, provinces and cities had an average collection efficiency of only 42 percent and 46 percent, respectively. The national average for the given period registered at only 54 percent. On the other hand, the NCR averaged 66 percent.

Note that the increase in collection efficiencies in 1987 and 1988 is hardly indicative of an improved collection machinery. The real property tax amnesty granted back in 1986 generated additional revenues which were reflected in the collection in the later years.

A breakdown of the collection efficiency of the real property tax per region for the years 1976-1987 is given in Table 57. By comparing the last two years (1987 and 1988) with the preceding years (say, 1985 and 1986) one notes an increase in collection efficiency in most of the regions.

Nevertheless, one should also note the revenue potential of the real property tax. For instance, by comparing 1986 and 1988 collection efficiencies, one notices how the NCR, Regions I, II, VI, VII, VIII, and X increased their collections from the real property tax. In sum, although the LGUs were aware of the potentials of this form of tax, they still failed to fully exploit its opportunities.

Tax delinquency continues to beset local governments in their administration of the real property tax. In a 1986 survey, respondents from provinces and municipalities in particular, ranked tax delinquency as their most important local problem.[19] Reasons for the low collection efficiency have been cited by several studies. For instance, a 1975 survey by the National Tax Research Center identified (a) poverty of taxpayers; and (b) the lack of trained personnel in the office of the local treasurer as causes of tax delinquency. Despite the relatively low tax rates, some landowners ignored their tax obligations in favor of basic needs such as food and education. In a later survey, collectors' hesitance to resort to legal means in the collection of delinquent taxes was found to compound the problem.

Under the Real Property Tax Code, local governments are empowered to collect delinquent taxes through the following means:

a) Distraint of personal property;
b) Sale of real property at public auction;
c) Collection of tax through the courts.

However, the local government failed to effectively exercise these options.

---

[19] See Prantilla, *et al.*, 1986.

Table 57

COLLECTION EFFICIENCY OF THE REAL PROPERTY TAX, BY REGION 1976 - 1988

REGION/YEAR	1976	1977*	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
I	52.38		48.90	46.91	66.97	50.45	47.34	49.24	50.68	57.56	53.98	58.73	57.31
II	30.11		25.69	25.41	43.81	32.33	34.02	32.86	34.95	32.46	29.24	34.59	39.10
III	43.94		45.51	43.58	50.87	32.75	43.79	44.32	42.91	40.05	41.23	40.59	42.81
IV	65.06		57.70	57.12	78.01	37.90	54.73	56.33	53.09	47.33	52.58	45.12	46.00
V	32.06		39.50	39.32	49.62	30.55	34.40	34.56	37.32	29.90	38.90	30.79	37.13
VI	54.99		56.33	54.59	64.58	63.15	60.29	59.81	56.97	39.60	42.78	49.08	57.02
VII	42.40		37.76	41.87	66.32	51.24	44.83	45.98	45.70	34.04	36.73	37.40	57.62
VIII	46.44		41.73	42.26	39.13	40.98	41.39	46.95	40.80	37.40	30.86	38.70	45.75
IX	42.73		32.26	32.89	37.43	34.39	32.87	32.39	35.65	31.20	34.13	31.65	31.04
X	52.01		52.13	48.69	64.86	39.98	47.04	49.66	45.28	46.73	45.67	46.36	47.73
XI	51.44		49.46	49.51	62.81	52.53	41.29	46.12	45.00	41.82	44.15	41.71	40.36
XII	50.05		44.22	38.67	41.75	40.61	34.12	32.80	31.95	36.32	30.23	14.20	38.71
NCR	51.27		50.86	65.24	61.09	66.22	65.21	66.58	65.57	65.43	61.05	84.44	67.94
CAR	-		-	-	-	-	-	-	-	-	-	-	52.43
Overall	50.54		49.32	57.22	58.58	56.44	50.81	59.47	59.29	52.83	51.33	59.32	57.36

CAR : Cordillera Autonomous Region.
Source : Department of Finance.

The difficulty in establishing ownership of properties poses another problem in tax collection. Such problem arises when properties are sold or transferred without the assessor's knowledge of the change in ownership. Cases where the assessment rolls contained names of deceased property owners have also been reported. Worse, collectors have to deal with inefficient record management. Records are often maintained manually, making it very difficult to create a systematic monitoring system.

Corollary to this is the problem of underassessment. This is largely due to the LGUs' lack of basic tools, like tax maps which link the real property in the field with the tax record at the assessor's office. Furthermore, inadequate local personnel trained in tax assessment and valuation plagues the LGUs.

The other factors behind the delinquency problem are related to a taxpayer's so-called tax ethics. This refers to the attitudinal and behavioral orientation of the taxpayers with respect to tax compliance (Vogel 1979).

In a study by Guevara[20], delinquency was found to be conversely related with (a) education; (b) tax ethics; and (c) the perception of equity. Thus, delinquency existed more among the less educated and those who were less disposed toward tax compliance. It was also noted among those who viewed that the tax system is inequitable. All these perceptions stemmed from the public's belief that there are more tax evaders among the rich and individuals with political backing.

Guevara's study indicated that not all delinquent taxes can be collected through legal remedies. Legal remedies can only be successful when applied on delinquent properties with high assessed values. This conclusion concurs with a statement made in another study, to wit: "when one or two delinquents account for the vast proportion of largest delinquents, legal remedies are likely to be the most effective approach to alleviate the problem. On the other hand, where even the largest of delinquents is quite small, extra-legal remedies may be a more effective solution."[21] Tax campaigns at the barangay level and publication of the list of delinquent taxpayers are examples of extra-legal remedies.

The apparent control by the national government (through the Department of Finance) on certain aspects of property tax administration has likewise limited the revenue-raising capacity of local governments from this source. The national government has set the revaluation of properties for purposes of the real property tax to once every three years. Hence, for three consecutive years following a revaluation, the tax is pegged at the same schedule of market values.

---

[20] See Guevara (1981).

[21] See Maxwell School, Syracuse University (1981).

This scheme is not even realistic. Note, for instance, that the schedule of market values that are currently used by assessors is based on the revaluation done back in 1981-1982. Because of several postponements by the national government, the revised 1981-82 schedule of market values was only allowed to take effect on 1 July 1987 as part of the 1986 Tax Reform Package. **Table 58** has an inventory of the laws relating to the revaluation of properties.

Moreover, the use of partial assessments has further narrowed the base of the real property tax.[22] The adoption of the full assessment system has been suggested in the past. National government is likewise likely to define—hence, limit—the coverage of the real property tax. The Code enumerates a number of exempt properties such as those owned or operated by government corporations. A review of these exemptions is in order.

Revenue Performance of Local Taxes

The revenues from local business taxation as shown in **Table 48** amounted to around 16.8 percent of the total income during the years 1985 to 1989. In the previous years, business taxes accounted for around 16.1 percent of total income.

In 1987, only the NCR was able to generate as much as 23 percent of income from local business taxes. Three other regions (Regions II, VII, and XI) generated two-digit figures while the rest (Regions I, III, IV, V, VI, VIII, IX, X, and XII) had business tax collections of around 7.7 percent of their total local income. Region V had the lowest share at 5.7 percent, while NCR garnered the highest, at 23.1 percent.

Note in **Table 59** that non-tax revenues (i.e., those generated mostly as fees, charges, permits and other local impositions) was sizeable for local governments in the various regions. In Region V, proceeds from regulatory fees and other local charges constituted 40.5 percent of local income, while those in Region VIII had a 15.5 percent share of local income. For the other regions, the non-tax revenues ranged from 18.4 percent (Region VI) to 39.7 percent (Region III) share of total income. In the NCR, non-tax revenues accounted for 20.2 percent of local income.

Local governments that wish to increase their revenues by increasing certain tax rates cannot do so because such power is beyond their discretion. The Local Tax Code defines the nature of taxes and fixes the rates of the taxes assigned to local governments. These tax rates have not been amended since the Code was enacted in 1973. Even the rates of fees and charges that local

[22] Partial assessment is a form of assessment in which the assessed value on which the tax rate is imposed is computed as a percentage of the total market value of the taxable property.

Table 58
LAWS RELATED TO THE GENERAL REVISION OF PROPERTY ASSESSMENTS

PD 1621	Effective January 1, 1983, the decree mandated that the general revision of property assessments be done once in every three years from July 1, 1981 to June 30, 1982.
EO 812	Starting January 1, 1985, the order extended the period for the 1981-1982 general revision of property assessments to June 30, 1984.
Assessment Regulation	
I-84	Ordered the gradual implementation of the revised assessments of real property in CYs 1985, 1986 and 1987.
EO 1019	Reset the start of collection of real property taxes based on the revised real property assessments on January 1, 1988 instead of 1985.
EO 73	Reset the effectivity of the revised values on January 1, 1987 instead of 1988.
Memorandum Order	
No. 77	Suspended the implementation of EO 73 until June 30, 1987.

Table 59
COMPONENTS OF LOCAL INCOME OF LGUs, BY REGION, 1987
(In percent)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR
INCOME	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
– Real property tax	14.7	12.0	16.6	24.3	10.4	19.7	17.5	14.3	8.5	15.7	15.7	17.7	42.3
– Business tax	9.6	10.3	8.9	9.8	5.7	8.8	11.7	6.0	6.5	8.2	11.7	6.2	23.1
– Non-tax revenues	27.9	29.9	39.7	25.4	40.5	18.4	26.4	15.5	23.8	21.4	22.5	21.5	20.2
– Aids/Allotments	47.7	47.8	34.8	40.5	43.3	53.0	44.4	64.2	61.1	54.6	50.1	54.4	14.3

Source: Table 55.

governments may collect have been fixed by the national government. Similarly, the allowable net profit that local governments may realize from investments and public utilities has been limited to ten percent of the capital invested. The government, furthermore, pre-empted the LGUs from using the more productive taxes such as the income tax, the sales tax, and the customs duties (Yoingco and Guevara 1989). Because of these limitations on the revenue capabilities, local governments face difficulties in coping with the rising cost of administration and the demands of delivering basic services.

Central control or limitation extends as well to the *scope* or *coverage* of the taxes, further constricting the already narrow local tax base. In the case of provinces, for instance, the Code has exempted broadcast stations, television firms and electric utilities from paying the franchise tax. The same is true with the provincial tax on business of printing and publication. Under the Code, the tax cannot be imposed on persons engaged in the printing of newspapers and magazines that appear at regular intervals.

In other cases, the failure to use taxing powers stemmed from the absence of tax bases, a problem more pronounced in the provinces and municipalities. The business taxes of municipalities and the amusement tax of provinces have no tax bases since most of the business activities take place in the urban areas. Thus, areas such as Region IV and the NCR realize relatively bigger revenues.

Local governments are equally responsible for their poor fiscal performance because of their own administrative inefficiencies. For instance, they have been quite lax in imposing the business tax. The common practice has been to simply require taxpayers to file a sworn declaration of their gross business receipts. Yet, not all taxpayers declare their true or correct gross receipts. Hence, there is a need to countercheck the declarations.

Then again, the public's knowledge about tax may simply be inadequate. In a survey done by Guevara (1981), taxpayers wrongly presumed that their income was the tax base to be used in assessing their real property tax, and that such tax was collected and administered by the national government.

Because of the preceding factors, local governments' ability to maximize their present revenue sources is weakened, thus, making the possibility that they will be granted additional taxing powers more remote than ever.

National Allotment for LGUs

Local government units often face a fiscal gap (defined as the difference between the revenues raised and spending responsibilities). Regional

expenditures usually exceed the region's taxable and other revenue-raising capabilities. To fill the fiscal gap and offset the low taxable capacity of some regions, the national government transfers funds to the local government units in the form of allotments and aids.

The following are the reasons for the allotment (Caoili 1972):

1. To standardize the provision of services in the regions;
2. To provide financial support to national government projects implemented through the local governments;
3. To exercise more effective control over local governments.

This section now reviews the allotment system and determines the impact of national allotments on regional development.

Review of the Allotment System to Local Government

Before 1973, revenues were transferred or allotted to local government units through separate legislations. There were two internal revenue allotments: the regular and special allotments. The *regular allotment* was a portion of the total internal revenue taxes after deducting shares of special funds. On the other hand, the *special allotment* was composed of shares from certain national taxes collected by local units within their boundaries. The arrangement resulted in a complex system of revenue sharing.

Of the taxes collected by the national government, the biggest amount shared to local governments came from the proceeds of the excess income tax. RA 2443 (20 June 1969) provided local units 30 percent of the current year's proceeds over those of 1959 from the income tax collected within their jurisdictions.[23] In 1970, out of the total of 82.6 million the cities received from the excess income tax collections, the national government alloted 69.3 million or 84 percent to cities, and 13.1 million or 16 percent to provinces. Moreover, out of the total share of cities and provinces, a large portion went to a few favored local units.[24]

PD 144, promulgated in 1973, revised the allotment system. It integrated into a single simplified scheme the two allotment methods for internal revenue taxes. The local government units' share was pegged at 20 percent of the national internal revenue collections based on the third preceding fiscal year.

---

[23] R A 6110 enacted on 1 September 1969 changed the 1959 base year to the immediately preceding 10-year period.

[24] See National Tax Research Center, (1979).

PD 114 underwent several amendments.[25] PD 1741 (31 October 1980), the latest amendment, provides that the allotment of local government units shall be a maximum of 20 percent of the net general fund collection[26] of the national government during the third year preceding the year the allotment is given. From the total amount, 10 percent is alloted to the barangays. The remainder is allocated as follows:

30 percent to provinces;
45 percent to municipalities; and
25 percent to cities

The share of each local government unit is based on weighted factors: population, 70 percent; land area, 20 percent; and equal sharing, 10 percent. The total allotment of any local government unit cannot be increased by more than 25 percent of, nor set less than, its actual allocation for the preceding year.

No less than 20 percent of the allotment received by a local government unit under the decree can be apportioned and used by the recipient local government for development purposes.

In addition to the regular (integrated) internal revenue allotment, an additional specific tax allotment is provided for under PD 436 (13 April 1974) as amended. It granted local government units a share in the specific taxes levied on certain petroleum products. These shares were in lieu of the additional gasoline tax that would have been collected by cities and municipalities had PD 426 (30 March 1974) not repealed it.

The specific tax allotment is based on the collection from the specific taxes on petroleum products during the second year immediately preceding the current year the allotment is given. The share of local governments is as follows:

20 percent to provinces;
30 percent to municipalities; and
50 percent to cities.

[25] Amendments to PD 144 are PD 559, issued on April 21, 1974; PD 898, issued on 3 March 1976; PD 937, issued on 27 May 1976; PD 2231, issued on 4 November 1977, and PD 1741, issued on 31 October 1980.

[26] This is defined as revenues collected less share of special funds. The latter refer to budgetary funds which are created by law to facilitate the planning and the execution of particular activities by earmarking specific tax and non-tax earnings for their use.

However, before the allotment is given, 25 percent of the aggregate amount is set aside for the barangays. Each local unit gets its share based on weighted factors specified earlier in this section.

In 1987, an additional amount was given to local government units to supplement the specific tax allotment. Known as the Local Government Revenue Stabilization Fund, the amount was provided to compensate for the shortfall in the specific tax allotment at the 1986 level. The said fund was provided in the General Appropriations Act for 1987. Since that year, local units receive such amount regularly through the yearly General Appropriations Act.

Contribution of the Allotment to Local Revenues

National allotments are substantial portions of the local government finance. More than one-third of the total local government revenues come from national allotments as shown in **Table 48**. In absolute terms they increased by more than six times from P630 million in 1975, two years after PD 144 was enacted, to P3.9 billion in 1988 (**Table 49**).

The figures indicate that except for the NCR, the allotment substantially and regularly contributed to the total income of each region. From 1985 to 1987 for example, more than 50 percent of the total revenues of Regions VIII, IX, and XII came from national allotments (**Tables 51-55**). The local governments generally depended on the allotments for their operation.

The tables also indicate the extent by which local units were unable to raise revenues from their own sources. Note that the greater the LGUs' ability to raise local revenues, the smaller the allotments from the total revenues, and vice-versa.

Chart 16 shows the LGU's revenue dependence on allotments in 1983, 1985, and 1987.[27] In general, LGUs' degree of dependence was lower in 1987 than in prior periods. The decline was sharp in some regions, such as in Regions II and V.

In 1987, the NCR had a mere 14.3 percent dependence while Regions III and IV had 34.8 percent and 40.5 percent, respectively. The worst cases were in Regions VI (53 percent), VIII (64.2 percent), IX (61.1 percent), X (54.6 percent), XI (50.1 percent), and XII (54.4 percent).

Regions that generated revenues from local sources were areas where businesses were mostly concentrated. On the other hand, other regions were alloted sizeable amounts because they failed to raise adequate revenues from their own sources. It must be reiterated that while there were indeed constraints in raising local revenues, the regions did not maximize their

[27] Revenue dependence = total grants and allotments/total income.

Chart 16

REVENUE DEPENDENCE PER REGION

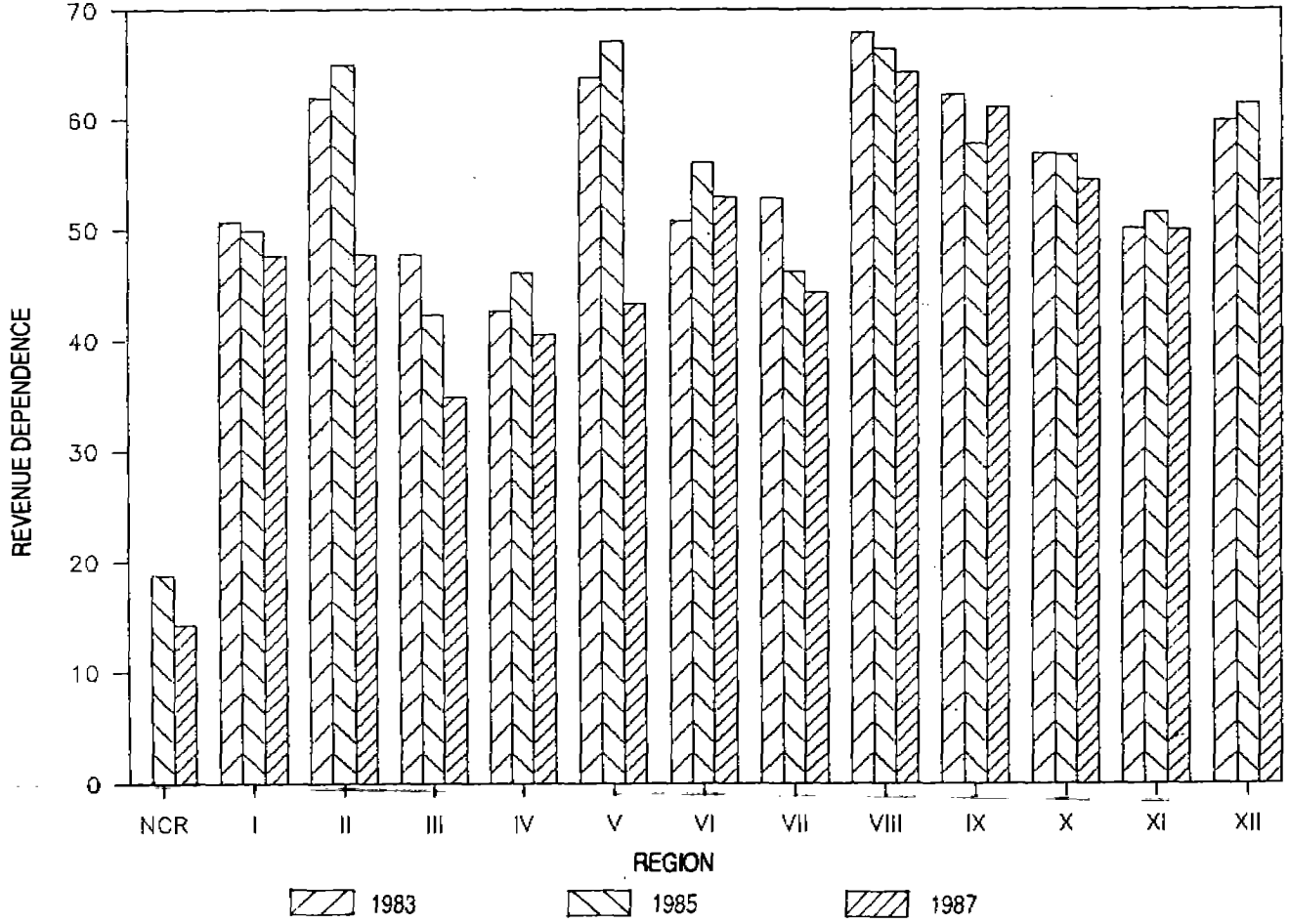


Table 60

NATIONAL ALLOTMENTS COMPARED WITH TOTAL INCOME AND EXPENDITURES OF LOCAL GOVERNMENTS

CY 1987

REGION	ALLOTMENT	TOTAL INCOME (P M)	TOTAL EXPENDITURES (P M)	ALLOTMENT TO TOTAL INCOME (%)	ALLOTMENT TO TOTAL EXPENDITURES (%)
NCR	414	2,938	2,657	14.1	15.6
I	261	633	596	41.2	43.8
II	92	224	195	41.1	47.2
III	251	969	936	25.9	26.8
IV	388	1,111	1,057	34.9	36.7
V	140	402	392	34.8	35.7
VI	337	694	657	48.5	51.3
VII	271	674	671	40.2	40.4
VIII	207	349	324	59.3	63.9
IX	168	306	303	54.9	55.4
X	213	509	501	41.8	42.5
XI	251	573	544	43.8	46.1
XII	147	288	288	51.0	51.0

* Total income = Local tax and non-tax revenues plus allotments and aid.

Source of data: Local Treasury Operations Division,
Bureau of Local Government Finance,
Department of Finance.

revenue-raising potential. Rather, they relied too much on national allotments to cover the fiscal gap. For as long as local governments are unable to raise adequate local tax and non-tax revenues, they will continue to be dependent on (and to some extent, controlled by) the national government.

Yoingco and Guevara (1989) claimed that instead of stimulating local governments to raise more tax revenues, the grants have had a substitutive effect. That is, local governments substituted grants for what would have been higher tax revenues.[28] Laureta (1982) later contested Yoingco and Guevara's view, believing that intergovernmental transfers do not substitute for local tax effort.

The allotment's impact on regional development can be further gauged by comparing its magnitude with the regions' total expenditures. **Table 60** shows that for the year 1987, the allotments covered a substantial proportion of total expenditures that varied from 16 percent to 64 percent across regions. In Regions VI, VIII, IX, and XII, more than 50 percent of expenditures depended on allotments. In the other regions except the NCR, allotments ranged from 35.7 percent (Region V) to 47.2 percent (Region II) of total local expenditures.

Interestingly, the National Assistance to Local Government Units (NALGU) has been more than adequate to cover the regions' economic development expenditures. In 1987, for instance, only one region had a NALGU lower than its development expenditure (**Chart 17**).

Local Fiscal Administration

The decree on Local Fiscal Administration (PD 447 issued in 3 June 1974) directs the conduct and management of the financial affairs, transactions and operations of LGUs, with the Secretary of Finance as the supervising agency. Thus, the Department of Finance formulates and executes fiscal policies affecting LGUs and provides them with policy guidelines in the preparation of local budgets.

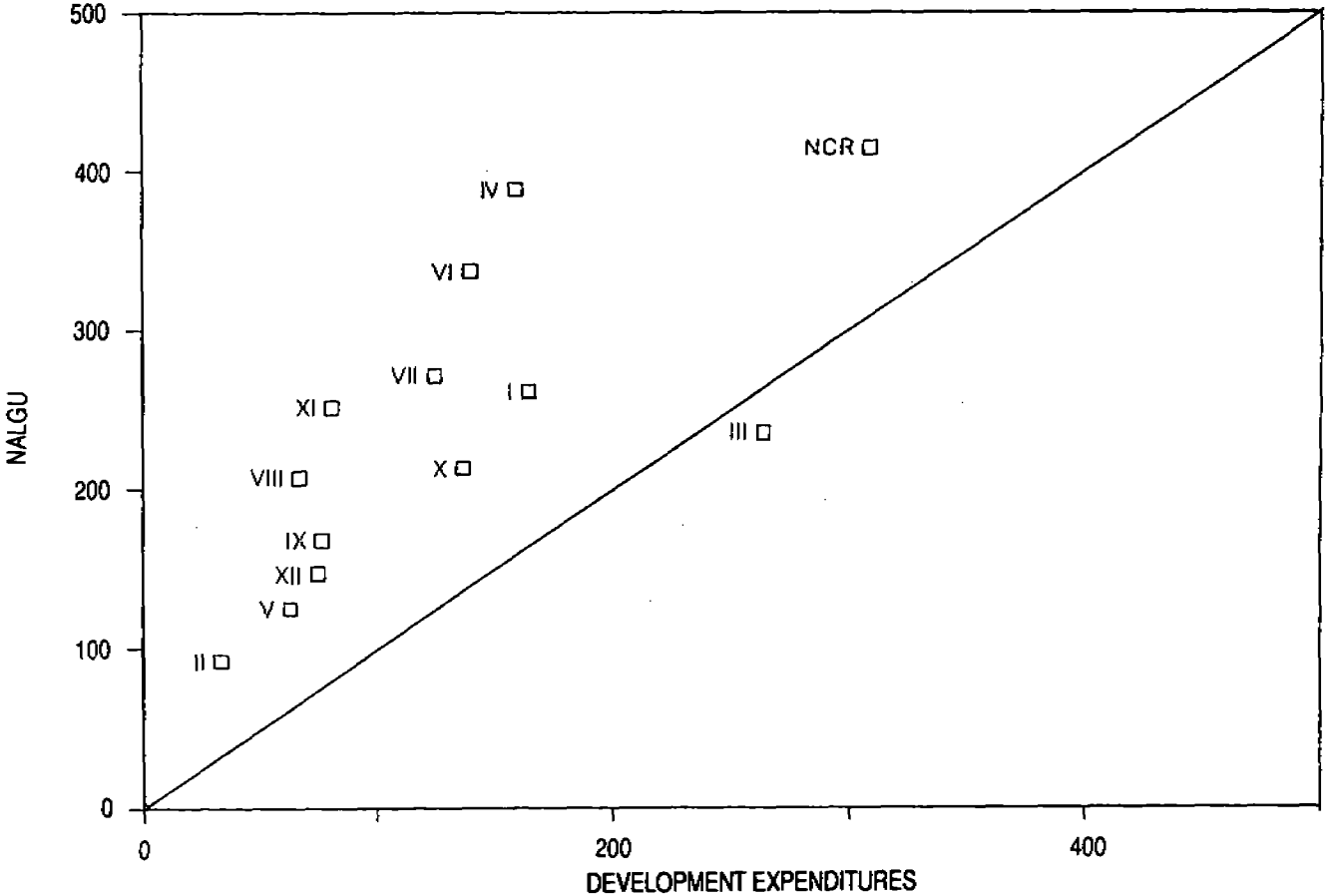
In the early stage, the local executive is tasked to prepare the budget and to submit it to the legislative council for approval. The local treasurer (provincial, city or municipal) then provides technical and staff services to the Chief Executive in budget preparation, authorization, execution and accountability. The BP Blg. 337 (Local Government Code) specifically rules that municipal treasurers are to be appointed by the Minister of Finance, while the city and provincial treasurers are to be chosen by the President of the Philippines.

---

[28] Hence, to the pre-determined criteria for allocation of grants and aid (i. e., population, land area, and equal distribution) must be added the *de facto* "need" to fill the fiscal gap in the regions.

Chart 17

DEVELOPMENT EXPENDITURES AND NALGU, 1987



There are some restrictions in the preparation of local budgets. Some of these constraints are:

1. *Mandatory contributions* to certain funds:
   a. Aid to government hospitals: five percent to seven percent of LGU income;
   b. Aid to Integrated National Police: 18 percent of LGU income;
   c. Aid to barangays: not less than 500 per barangay.

2. *Statutory reserves*
   a. For unforeseen expenditures: two percent of estimated revenue from regular sources;
   b. For election expenses: one-fourth of their total expenditures incurred in the last preceding local elections.

3. *Statutory obligations* to social security benefits, retirement gratuities, reserve for money value of leave credits, subsistence of prisoners, premium payments for insurance of government properties and others.

Another set of restrictions concerns the actual use of resources. For example, in the case of allotments, the national government requires LGUs to set aside 20 percent for development projects.

Note that performance budgeting has been used by LGUs since PD 447 was issued in 1974. However, the administrative machinery to make it operational has not been successfully installed. As a case in point, local treasury personnel are incapable of preparing realistic revenue and expenditure estimates. These personnel often use the incremental budgeting procedure, which relies on the past year's level of revenues and expenditures and adds a mark-up to arrive at the projected budget. The result is an unrealistic budget which eventually drives LGUs to seek supplemental budgets (Yoingco and Guevara 1989).

The National Government's Expenditure Policy Institutional Arrangements

As mentioned in Chapter II, the Integrated Reorganization Plan as embodied in Presidential Decree No. 1 (1972) marked a turning point in the devolution of government planning, programming and budgeting functions. It mandated the subdivision of the country into 13 (originally from 11) regions for government administration purposes. Accordingly, government departments were authorized to set up regional offices. A Regional Development Council (RDC) was created in each region and

charged with the coordination of planning activities in the regions. Later, the RDCs' role was expanded to include monitoring the implementation activities and providing recommendations on budgetary priorities (Bacani 1983).

With the issuance of Letter of Instructions 447 and 448 in 1976, a regional budgeting system was instituted. Under this scheme, the budgeting process may be divided into three stages. First, regional offices of the various departments are required to prepare their regional budgets according to the priorities identified by the RDC in its Regional Development Investment Program. The Department of Budget and Management (DBM) then holds budget hearings at the regional level to review and evaluate the budget proposals of the regional offices of various agencies.

Second, the sectoral activities of the different government agencies nationwide are prioritized.

Finally, after the sectoral (i.e., inter-agency/intersectoral) ranking of budgetary demands are determined, the regional dimension of agency budgets are ferreted out to yield a regionalized national budget. Thus, "though regionalized, the national government budgeting system is yet in essence more agency-based rather than area-based" (Manuel 1981).

Some RDCs criticized this system for failing to reflect the regions' priorities as evidenced by the great disparity between the level and composition of actual and proposed budget allotments (Manuel 1981). Also, despite the delegation of administrative powers to the regional offices, decentralization of substantial powers were more limited (Bacani 1983), partly due to (a) an inadequate supply of capable workforce at the regional level; and (b) bureaucratic inertia. Nevertheless, "the determination of the regional breakdown of agency budgets is still essentially a central office prerogative" (Manuel 1983).

Even after the seventies, gaps persisted for quite a while despite the attempts to increase regional participation in the planning and budgeting process. For example, before the New Disbursement Scheme (NDS) was institutionalized, the funds release process, following legislative authorization, involved two stages: (a) the issuance of the "advice of allotment" by the DBM which authorized government agencies to enter into contracts; and (b) the issuance of "cash disbursement ceiling" (CDC) which authorized agencies to issue warrants drawn against the national treasury so as to pay for the obligation incurred. All government agencies with regional units receive regionalized advice of allotment from the DBM.

On the other hand, other agencies with regional units, like the Department of Education and Culture, Department of Health, Department of Public Highways, etc., were funded via central office releases. Such practice caused delays in the implementation of regional projects and, at times, in the flow of funds originally intended for particular regions.

When the NDS was implemented, the CDC was replaced by the "notice of cash allocation" (NCA). Unlike the previous scheme, the NCA is issued directly by the DBM to the regional offices/units of national government agencies to ensure that funds allocated to the regions are actually received by them.

Analysis of Regional Distribution of Government Expenditures

The Commission on Audit (COA) records regional distribution of national and local government expenditures on an obligation basis. The Commission lumps both the allotment to the central office of agencies with no regional offices, and those with regional offices but for some reason do not receive their expenditure obligations on a regional basis, under "government expenditures" in the NCR (where the central offices are usually located).

On the other hand, the National Accounts Staff of the National Statistical Coordination Board (NSCB) combines (a) information on the regional allotments of expenditures of agencies (which have regional units that receive their funding at the central office) obtained from the DBM, and (b) the COA data to arrive at the distribution of government outlays based on where they are spent.

Thus, while the COA data include outlays to both the departments with no regional offices and to the regions through the central office of departments with regional offices under the NCR, the NSCB data only include outlays directed toward the former group. The national income accounts may be more appropriate if government expenditures are viewed solely as a component of aggregate demand. However, it should be noted that the expenditures of agencies with no regional offices like the Office of the President, the Departments of National Defense, Justice, Tourism, Foreign Affairs, and others, benefit the other regions outside the NCR.

Against this backdrop, this section considers two types of regional government expenditures: *direct* and *indirect*. Outlays of government agencies with no regional allotments constitute indirect regional expenditures and are assigned to the various regions based on allocation ratios. Expenditures on agencies providing economic services are distributed based on the contribution of the region to national gross value added. On the other hand, expenditures of agencies providing social services will be allocated based on the region's share to total population. Finally, outlays of agencies providing general administration services will be distributed based on the average of the first two allocators.

The change in the regional distribution of government expenditures during the periods 1977-1979, 1983-1985, and 1987 is reviewed in this section. This, therefore, calls for a bias index which will measure govern-

ment expenditure to the different regions relative to each region's economic contribution. This index is defined as the ratio of government expenditures in region i to total government expenditures divided by the ratio of gross value added generated in region i to total gross value added in the country. It will vary, theoretically, from zero to infinity. An index value less than unity implies that region i is receiving proportionately less support from the government than what it is contributing to the economy. An index value greater than unity implies the opposite.

a) *Distribution of Government Expenditures Across Regions* **Table 61** shows that when both direct and indirect current and capital expenditures are considered, the NCR consistently constituted the lion's share in total government expenditures. In fact, this share increased from an average of 23 percent in the late seventies to an average of over 40 percent in the eighties. Regions IV and III ranked second and third in terms of their share to total government outlays in 1977-1987, with 12 percent and 11 percent of total government outlays, respectively. All the other regions received less than five percent of the aggregate public expenditures.

The government's current outlays were more unevenly distributed (as against capital expenditures), with the NCR capturing almost 50 percent of all current government expenditures. During the period, three to four regions each received more than 10 percent of the aggregate government capital outlays: These were NCR and Regions II, III and IV with the last two regions alternating in the top slots. Region XII obtained more than five percent of all government capital expenditures since 1979.

b) *Bias Index for Regional Government Expenditures* The partiality toward the NCR and Regions III and IV in the government's expenditure policy becomes less pronounced when one uses the bias index rather than the percentage share of the region in total government expenditures (**Table 62 and Chart 18** for the indices). The bias index estimates for Regions I, II, III, V, VIII, and XII were consistently greater than unity in 1977-1987. In 1983-1987, the NCR likewise obtained a bias index with a value above unity.

Such regional disparity with respect to the bias index is more glaring when one looks at the relative distribution of capital outlays.

Thus, in terms of capital outlays to regions, Region II was the perennial topnotcher during the entire period under study, followed by Regions VIII and XII in second and third place, respectively.

Since the top recipients of capital, Regions II and VIII, have consistently occupied the lowest rungs of the per capita income ladder in the last 20 years, a few analysts perceive such findings as a proof that the government has, in fact, made serious attempts to redress the existing regional

Table 61

PERCENTAGE DISTRIBUTION OF GOVERNMENT EXPENDITURES ACROSS REGIONS
1977 - 1979; 1983 - 1985 and 1987

	1977			1978			1979			1983		
REGIONS	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
NCR	23.23	30.46	12.92	22.80	30.99	10.39	23.84	34.10	10.94	39.86	59.68	12.11
I	4.62	5.71	3.08	4.68	5.55	3.35	4.83	5.86	3.52	3.99	4.27	3.60
II	7.63	3.67	13.29	7.64	3.73	13.55	8.96	3.78	15.46	6.70	2.79	12.18
III	13.20	8.35	20.13	12.63	7.95	19.71	10.76	7.34	15.06	11.28	4.99	20.08
IV	13.46	11.39	16.42	13.34	11.48	16.15	12.75	10.53	15.54	12.27	6.79	19.94
V	5.52	4.49	7.00	5.39	4.23	7.15	5.78	4.43	7.48	4.27	3.11	5.89
VI	6.06	7.98	3.32	6.16	7.85	3.60	5.66	7.01	3.97	3.94	4.70	2.87
VII	5.25	6.14	3.97	5.54	6.16	4.60	5.38	5.87	4.77	3.00	2.53	3.67
VIII	4.52	3.70	5.69	4.55	3.83	5.63	4.65	3.98	5.49	3.26	2.31	4.58
IX	2.90	3.32	2.30	3.09	3.29	2.80	3.33	3.47	3.15	2.21	1.98	2.53
X	4.43	4.87	3.79	4.45	4.83	3.88	4.24	4.65	3.74	2.84	2.27	3.64
XI	5.58	5.85	5.20	5.78	6.04	5.38	5.30	5.10	5.54	2.82	2.32	3.52
XII	3.59	4.08	2.90	3.96	4.07	3.80	4.53	3.87	5.35	3.57	2.28	5.38

Table 61 (continued)

REGIONS	1984			1985			1987		
	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
NCR	39.83	53.88	14.60	44.21	57.83	14.53	43.41	52.83	17.00
I	3.92	4.23	3.37	3.97	3.87	4.21	4.47	4.63	4.00
II	3.93	2.76	6.04	3.87	2.67	6.47	3.70	2.85	6.10
III	11.68	5.07	23.56	11.48	4.67	26.32	9.28	5.17	20.80
IV	12.22	6.84	21.88	11.13	6.27	21.71	11.72	6.99	25.00
V	3.26	3.25	3.27	2.91	3.01	2.68	3.40	3.52	3.05
VI	4.00	4.86	2.47	3.45	4.25	1.73	4.22	4.95	2.19
VII	4.14	3.77	4.80	3.57	3.35	4.05	3.74	3.70	3.85
VIII	2.95	2.94	2.98	2.66	2.79	2.39	3.04	3.12	2.80
IX	2.56	2.65	2.41	2.22	2.38	1.88	2.18	2.50	1.29
X	3.89	3.16	5.21	3.18	2.93	3.73	3.47	3.23	4.15
XI	3.09	3.35	2.62	2.81	3.06	2.26	3.28	3.47	2.76
XII	4.51	3.23	6.80	4.53	2.92	8.04	4.08	3.04	7.00

Table 62
BIAS INDEX FOR REGIONAL GOVERNMENT EXPENDITURES
1977 - 1979; 1983 - 1985; and 1987

REGIONS	1977			1978			1979			1983		
NCR	0.78	1.02	0.43	0.76	1.04	0.35	0.79	1.13	0.36	1.27	1.90	0.39
I	1.22	1.50	0.81	1.25	1.49	0.90	1.23	1.49	0.90	0.99	1.06	0.89
II	2.73	1.31	4.76	2.62	1.28	4.65	3.14	1.33	5.42	2.39	0.99	4.35
III	1.46	0.92	2.22	1.50	0.94	2.34	1.23	0.84	1.72	1.20	0.53	2.14
IV	0.98	0.83	1.19	0.91	0.78	1.10	0.90	0.74	1.10	0.83	0.46	1.35
V	1.50	1.22	1.90	1.54	1.21	2.04	1.76	1.35	2.28	1.31	0.95	1.81
VI	0.68	0.90	0.37	0.73	0.94	0.43	0.70	0.87	0.49	0.52	0.63	0.38
VII	0.78	0.91	0.59	0.82	0.91	0.68	0.75	0.82	0.67	0.45	0.38	0.55
VIII	1.80	1.47	2.26	1.79	1.51	2.22	1.96	1.68	2.31	1.48	1.05	2.09
IX	0.98	1.12	0.77	0.97	1.03	0.88	0.98	1.02	0.92	0.64	0.58	0.74
X	0.92	1.01	0.79	0.91	0.99	0.79	0.84	0.92	0.74	0.60	0.48	0.77
XI	0.75	0.79	0.70	0.78	0.82	0.73	0.75	0.72	0.78	0.43	0.36	0.54
XII	1.01	1.14	0.81	1.05	1.08	1.01	1.21	1.04	1.43	1.07	0.68	1.61

Table 62 (continued)

		1984			1985			1987	
NCR	1.36	1.84	0.50	1.56	2.04	0.51	1.42	1.73	0.56
I	0.95	1.02	0.81	0.89	0.86	0.94	1.03	1.07	0.92
II	1.38	0.97	2.11	1.42	0.98	2.37	1.62	1.24	2.66
III	1.21	0.53	2.45	1.20	0.49	2.75	1.05	0.58	2.34
IV	0.81	0.45	1.45	0.74	0.41	1.43	0.79	0.47	1.68
V	0.99	0.99	1.00	0.85	0.88	0.78	1.08	1.12	0.97
VI	0.53	0.64	0.33	0.50	0.61	0.25	0.65	0.76	0.34
VII	0.61	0.55	0.70	0.53	0.50	0.60	0.54	0.53	0.56
VIII	1.37	1.36	1.38	0.99	1.03	0.88	1.16	1.19	1.07
IX	0.75	0.77	0.70	0.63	0.68	0.54	0.64	0.73	0.38
X	0.76	0.62	1.01	0.59	0.55	0.70	0.64	0.60	0.77
XI	0.43	0.46	0.36	0.38	0.42	0.31	0.45	0.47	0.37
XII	1.28	0.92	1.94	1.22	0.79	2.17	1.11	0.83	1.90

imbalance. If such is the case, one cannot help but wonder why, despite the decade-long attempt, said inflow of fiscal resources into these regions failed to provide them with some positive impact.

There are two possibilities to the puzzle: either (a) the benefits of the massive public investments in these regions, like the dams and the irrigation projects, were not wholly localized but instead generated positive externalities in the neighboring regions; or (b) some of the capital outlays in said regions were unproductive and/or not economically viable. For instance, the flood control components of the Chico River and the Magat Multi-Purpose Projects benefited regions beyond the boundaries of Region II, in which said projects are located. Also, the government investments in PASAR Leyte in Region VIII proved to be ill-advised.

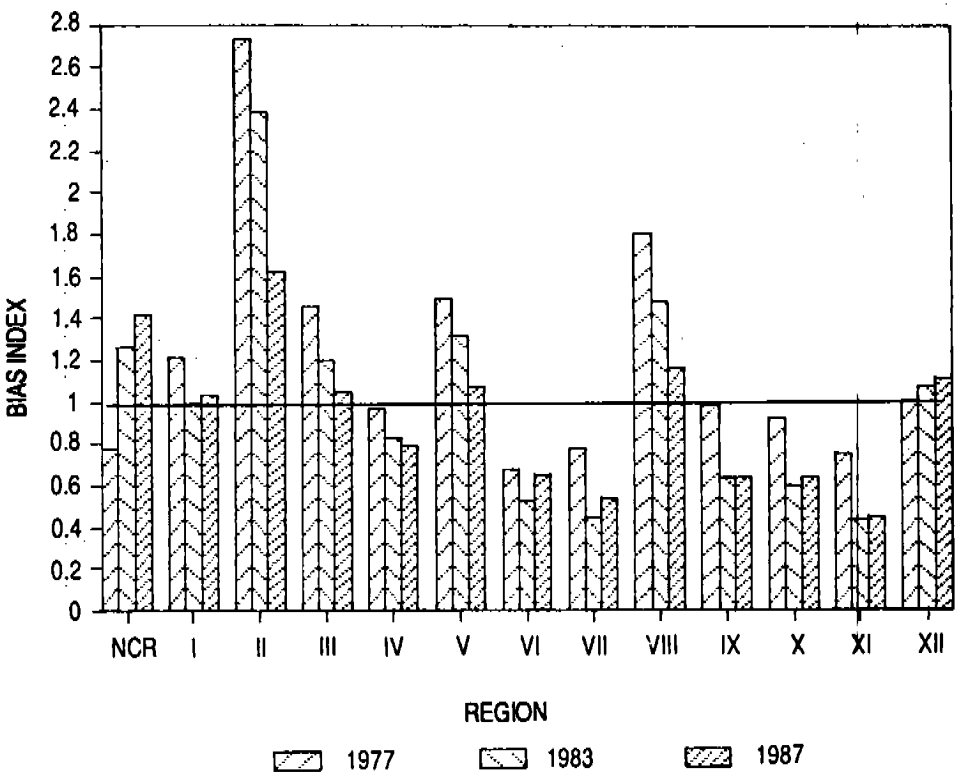
Finally, there appears to be some truth to the oft repeated complaint that government expenditure policy has favored the Luzon provinces and, with the exception of Regions VIII and XII, discriminated against the Visayas and Mindanao regions. After all, when compared to other regions, Regions IX, X, and XI were consistently "cellar-dwellers" with respect to the bias index estimates for 1977-1987.

Attempts at Consolidation

The laws affecting the taxing powers (Real Property Tax Code and Local Tax Code) and fiscal administration (The Local Government Code and the Local Fiscal Administration) are contained in separate local

Chart 18

BIAS INDEX FOR REGIONAL GOVERNMENT EXPENDITURES 1977, 1983, 1987



Note: Those that lie above 1 on the Bias Index axis show that the allocation of government expenditures are biased toward the concerned regions.

legislations. At present, there are several attempts to consolidate these diverse areas into one code, such as Senate Bill No. 155 filed by Senator Aquilino Pimentel. Aside from its aim to consolidate the separate laws, the bill's more substantial amendments are the following:

a) To establish a local government organizational structure that is responsive to local needs;
b) To create sources of revenues which shall accrue *exclusively* for the use and disposition of the LGUs;
c) To have a just share in national taxes which shall *automatically* be retained by the LGUs;
d) To course the general supervision of the President over the LGUs through the appropriate department;
e) To assure substantive participation in national projects, the national government offices and corporations located in the cities and provinces shall submit monthly reports which include budgetary releases and expenditures to the Governor and City Mayors;
f) To require consultation with and approval by the LGUs before any national projects or programs will be implemented;
g) To vest on each local political subdivision the power to implement a progressive system of taxation;
h) To increase the rates of local fees, charges, permits and levies. The Bill categorically states the manner and amount by which the collections will accrue to the LGUs;
i) To broaden the local tax bases by identifying new tax bases, e.g., business of breeding cocks, exercise of various professions or occupations;
j) To require that 35 percent of the general fund not otherwise accruing to special funds be set aside and directly released to LGUs. This will be in lieu of internal revenue allotments, specific tax allotments and budgetary aid from the national government.

It is encouraging to note that there are serious attempts to remedy through legislation some of the more serious local fiscal policy gaps. This reflects the government's understanding of the constraints faced by LGUs, which are expected to be the frontline agencies in the regions. However, policymakers and implementors must realize that their best intentions have to be paired with a sincere commitment to decentralization and real fiscal autonomy. While government's effort to provide LGUs with more direct financial assistance may be laudable, a better and more rational form of assistance is to give LGUs real power in mobilizing their own resources and to require that they be directly accountable to the local populace.

6

FUTURE PATTERN OF REGIONAL DEVELOPMENT

This chapter describes the likely pattern of regional development in the future based on the current plans and specific programs of the government. Lessons learned are also discussed since they will influence the design of future projects/programs.

REGIONAL OBJECTIVES AND POLICIES

The updated Medium Term Philippine Development Plan (MTPDP) 1989-1992 contains the objectives and policy strategies of the 1987-1992 program, with modifications to incorporate the 1987 performance, a larger than expected external financing requirement, and new priorities specified in the 1987 Constitution. Plans affecting the regional level were also revised because of major institutional developments, such as the reorganization and strengthening of the Regional Development Councils (RDCs) and the creation of the Cordillera Autonomous Region (CAR).[29]

The short-run concern expressed in the MTPDP is the economic recovery of individual regions. Its long-run objectives are, first, to accelerate the growth of less developed regions and achieve a more balanced spatial development; and second, to promote the efficient development and sustainable use of land and other physical resources.

The specific regional development policies adopted are:

1. Rural development and rural employment.
   a) Promotion of off-farm employment;
   b) Adoption of labor-based construction methods;

[29] Institutional developments were extensively discussed in Section A of Chapter II.

   c) Support to the implementation of the Comprehensive Agrarian Reform Program (CARP);
   d) Promotion of rural electrification and power tariff rationalization;
   e) Minimum technical support services.
2. Support to Integrated Area Development (IAD).
3. Promotion of peace and security.
4. Assistance to low-income communities.
5. Pursuit of desirable regional population distribution and patterns of urbanization.
6. Dispersal of industries to the region.
7. Strengthening decentralization efforts.
8. Implementation of the Regional Development Investment Program (RDIP) and development of regionwide projects.
9. Promotion of optimum and sustained utilization of land and other physical resources.
   a) Formulation of regional physical framework plans;
   b) Rationalization and strengthening of existing institutional or administrative machineries for land disposition, acquisition and regulation;
   c) Conservation of natural resources and protection of the environment.

The Plan concretizes its policy statements by drawing up specific target levels and growth rates for four key variables: *gross regional domestic product (GRDP), per capita income, employment* and *population growth.* This study will review only the first two variables (**Table 63**).

The regional development policies listed here are translated into specific programs by the RDCs in coordination with local government units and different line agencies. The result of the collaboration, the Regional Development Investment Programs (RDIPs), are then submitted to the National Economic and Development Authority (NEDA) for project evaluation, prioritization and programming. NEDA consolidates all RDIPs and the consolidated version becomes the government's *public investment program.*

THE MEDIUM TERM PUBLIC INVESTMENT PROGRAM

The first consolidation of public investment program of different government entities began in 1986. This gave birth to the Medium Term Public Investment Program (MTPIP) 1987-1992.

Table 63

GROSS REGIONAL DOMESTIC PRODUCT TARGETS AND PER CAPITA GRDP: 1988 - 1992

BY REGION

(In million pesos at 1972 prices)

GROSS REGIONAL DOMESTIC PRODUCT TARGETS (In million pesos at 1972 prices)				PER CAPITA GRDP (pesos/worker at 1972 prices)		
		TARGET	GROWTH RATES (in %)		TARGET	GROWTH RATES (in %)
REGION	1988	1992	1988-1992	1988	1992	1988-1992
Philippines	101,856	130,737	6.44	1,735	2,035	4.07
NCR	30,993	39,100	5.98	4,099	4,666	3.29
I	4,279	5,249	5.24	1,035	1,179	3.31
II	2,631	3,391	6.55	970	1,138	4.07
III	8,648	11,770	8.01	1,472	1,833	5.58
IV	14,647	19,218	7.03	1,904	2,255	4.32
V	3,294	3,982	4.86	785	869	2.57
VI	7,561	9,717	6.47	1,390	1,646	4.32
VII	7,302	9,444	6.64	1,642	1,973	4.7
VIII	2,425	3,057	5.96	748	878	4.09
IX	3,530	4,497	6.24	1,153	1,350	4.02
X	5,134	6,591	6.44	1,494	1,736	3.82
XI	7,467	9,662	6.65	1,807	2,129	4.18
XII	3,945	5,059	6.42	1,408	1,640	3.89

Note: Preliminary estimates as of June 17, 1988. No breakdown yet for the Cordillera Administrative Region (CAR).

Sources of basic data: National Statistical Coordination Board (NSCB) for actual 1987; NEDA Regional Offices for targets, 1988-1992.

The MTPIP emphasizes regional development and recognizes, among others, a spatial and interpersonal equity. The equity issue has long been neglected by past industrialization policies, obviously more concerned with growth and efficiency only.

Growth without any attempt to improve equity, however, is not tenable in the long-run because, in one way, it reflects society's moral bankruptcy as well as lack of discipline. Meanwhile, equity is a difficult issue to tackle because its promotion may have some concomitant inefficiency implications, and the question of how far it should be pursued remains unanswered.

Thus, the MTPIP is a compromise between the *efficiency* and *equity* objectives of national development policy. It addresses the issue of equity when it allocates more funds to the regions by incorporating their respective Regional Development Investment Programs (RDIPs) and adopting a "bottom-up" planning, but only after evaluating and prioritizing the RDIPs based on certain economic and social criteria. One of these criteria is economic profitability.

Spatial equity is promoted in the MTPIP through the distribution of physical infrastructure, e.g., energy, roads, and communications, to effect regional dispersal of industries. *Interpersonal equity* is promoted through integrated area development projects and social services. Public investments by sector will show the uneven distribution between spacial and interpersonal equity (see **Table 64**). However, this should not be construed as entirely promoting one more than the other, because physical infrastructure expenditures are generally more lumpy and are known to generate externalities (i.e., other regions may also benefit from them) than social infrastructure expenditures.

The 1989-1992 MTPIP also identifies and defines the financial resources necessary to achieve the MTPDP targets. Sectoral and regional distributions of public investment are shown in **Tables 64 and 65**, respectively. The regional distribution of public investment, excluding those identified as nationwide and interregional and, therefore, cannot be appropriated to a particular region, still favors the National Capital Region (NCR), which has nine percent of total public investment for the years 1989-1992. It is followed by Region IV (7.5%) and Region III (6.3%), while Region VI receives the smallest share (0.4%).

Regional development priorities may be gleaned from intra-regional distribution of public investment by sectors. (**Table 66**). If inter-regional and nationwide projects are excluded, six regions (IV, V, VII, VIII, XI and XII) put top priority on energy, power and electrification projects by allocating the largest share of their respective 1989-1992 public investment to these projects; three regions (I, III, VI) on water resources; two regions (NCR and CAR) on transportation; one region (X) on industry, trade and tourism; one

TABLE 64
1989 - 1992 MEDIUM TERM PUBLIC INVESTMENT PROGRAM, BY SECTOR
(In percent)

	NO. OF PROJECTS	1989	1990	1991	1992	TOTAL 1989-1992	LATER YEARS
Agriculture and agrarian reform	138	4.03	5.43	10.08	9.30	8.00	6.47
Environment and natural resources	94	2.89	4.00	2.73	3.31	3.00	5.42
Industry,trade and tourism	41	1.17	2.60	3.19	3.25	3.00	1.36
Social	83	6.58	9.82	4.65	5.02	6.00	3.39
Transportation	142	24.39	19.57	21.95	22.78	22.00	19.12
Water resources	108	18.60	20.28	19.82	20.15	20.00	21.18
Social infrastructure	20	4.92	4.07	3.79	3.68	4.00	0.59
Energy, power and electrification	141	33.37	30.05	25.78	24.56	28.00	38.41
Communications	27	2.58	2.96	5.31	6.07	5.00	3.54
Science and technology	3	-	0.00	0.04	0.04	0.00	0.00
Other projects	20	1.46	1.16	2.66	1.84	2.00	0.50
TOTAL	817	100	100	100	100	100	100
(P 000)		51507882	76165274	87738610	98848272	314260040	319058925

Source: Public Investment Staff (PIS), NEDA.

Table 65
MEDIUM TERM PUBLIC INVESTMENT PROGRAM
1989 - 1992
(In percent shares)

REGION	1989	1990	1991	1992	1989-92	LATER YEARS
I - Ilocos	1.41	0.79	0.41	0.65	0.74	2.45
II - Cagayan Valley	0.44	0.41	0.70	0.96	0.67	0.99
III - Central Luzon	4.57	5.89	7.76	6.34	6.34	7.90
IV - Southern Tagalog	4.40	7.44	10.20	6.72	7.48	16.68
V - Bicol	3.44	3.60	3.38	2.81	3.26	2.72
VI - Western Visayas	0.23	0.34	0.38	0.44	0.36	2.43
VII - Central Visayas	1.65	3.50	2.29	1.03	2.08	0.84
VIII - Eastern Visayas	1.42	1.72	2.87	8.10	4.00	9.94
IX - Western Mindanao	0.17	0.66	2.50	1.26	1.28	0.91
X - Northern Mindanao	0.85	1.18	1.17	1.19	1.13	1.14
XI - Southern Mindanao	1.16	1.45	1.17	1.65	1.39	1.14
XII - Central Mindanao	0.78	1.02	2.72	3.69	2.29	3.43
National Capital	10.33	11.20	7.94	7.66	9.04	4.83
Cordillera Autonomous	0.36	0.44	0.70	0.76	0.60	1.27
Inter-regional	11.97	8.85	10.03	11.94	10.66	6.82
Nationwide	56.84	51.51	45.78	44.79	48.67	36.53
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00
	51507882	76165274	87738610	98848272	314260040	319058925

Source: Public Investment Staff (PIS), NEDA.

Table 66
REGIONAL DEVELOPMENT PRIORITIES IN PUBLIC INVESTMENT, 1989-1992
(In percent)

PRIORITY SECTORS	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	CAR	INTER-REGIONAL	NATION-WIDE
Energy, power and electrification				40.68	78.43		59.24	66.51			45.92	48.74			42.49	
Water resources	21.02		59.46			37.45										
Agriculture and agrarian reform									34.83							
Environment and natural resources		40.95														
Industry, trade and tourism										40.40						
Transportation													35.13	40.35		30.99

LEAST-PRIORITY SECTORS*	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	CAR	INTER-REGIONAL	NATION-WIDE
Environment and natural resources			7(0.08)		7(0.03)	6 (1.58)			9(0.03)							
Industry, trade and tourism													11(0.16)		10(0.11)	
Transportation										8(1.77)						
Social											7(0.57)					
Communications				10(0.83)										8(0.33)		
Science and technology							9(1.08)									
Other projects	7(6.65)	6(6.53)										6(1.66)				
TOTAL (1989-1992) in billion pesos	2,333	2,100	19,916	23,521	10,250	1,146	6,550	12,565	4,033	3.542	4,360	7,205	28,397	1,884	33,504	152,956

Table 66 (continued)

NEGLECTED SECTORS	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	NCR	CAR	TOTAL	INTER-REGIONAL
Science and technology	0	0	0	0	0	0		0	0	0	0	0		0	12	0
Communications	0	0	0		0	0	0	0		0	0	0			10	
Social infrastructure	0	0	0			0	0	0			0	0			8	
Agriculture and agrarian reform														0	1	
Environment and natural resources								0				0			2	
Industry, trade and tourism	0				0	0					0				4	
Transportation			0												1	
Social		0			0			0				0			4	
Water resources								0	0						2	
Energy, power and electrification						0				0				0	3	
Other projects																
TOTAL	4	4	4	1	4	5	2	6	2	3	4	5		3		

Note: Figures outside brackets are rankings and figures inside are percent shares.
Source of basic data: Public Investment Staff (PIS), NEDA

region (IX) on agriculture/agrarian reform; and one region (II) on environment and natural resources. These shares range from a low 21 percent of Region I for water resources, to a high 78 percent of Region V for energy, power and electrification.

The regions neglect science/technology and communications. For the period 1989-1992, 12 regions are not allocating any amount of public investment to science/technology, while ten regions ignore communications. To a lesser extent, the regions have been neglecting social infrastructure. Eight regions have no public investment in this area. Interestingly, it has never been a top priority in any region.

Only a few regions have a highly concentrated public investment program. Based on the 11 sectors of NEDA (but excluding other sectors), Region V allocates 78 percent of its total funds to energy, power and electrification, with the remaining 22 percent spread over five sectors since there are no funds for four sectors. Similarly, Region VIII gives 67 percent of its total funds to power, energy and electrification, alloting the remaining 23 percent to three other sectors, and no funds at all for six sectors.

The emphasis on energy, power and electrification by certain regions does not imply that the benefits will only accrue exclusively to these regions. In fact, electrical power has to be shared with other regions especially if a group of regions has one grid only.[30] For instance, Regions IV and V have placed top priority on power projects, but since Luzon has only one grid, the additional generating capacity of Regions IV and V should flow into other areas with a huge demand for power.

Similarly, the investments in Regions XI and XII may benefit the entire Mindanao, which has only one grid. All of these regional delineations can lose part of their distributive implications only if all the grids are connected. In fact, there is a proposed project toward such direction. The power project in Tongonan, Leyte will attempt to connect the Leyte-Samar grid to the Luzon grid by submarine cables.

The regional distribution of public investment presents a different picture if one studies the top five proposed/pipeline projects. Regional concentration of future public investment is shown in **Table 67.** The total public investments allotted to the top five projects in each region from 1987 to 1992 amount to P245 billion, representing 89 percent of all public investment (assuming that each respective project are complete). Excluding nationwide and inter-regional projects, the top five priorities in Region IV gets the most allotment (15.5% of 5 billion), followed by the projects in Region VIII (13.8%). The NCR receives only 4.2 percent while Region II gets the least (1.5%). The single biggest project is the Tongonan A & B

[30] One grid means plants located in different areas are connected to each other.

Table 67
TOP 5 PROPOSED/PIPELINE PROJECTS OF THE MTPIP 1989 - 1992, BY REGION

REGION	TOTAL PROJECT COST OF TOP FIVE PROJECTS (000)	% OF TOTAL
I – Ilocos	8,110,946	2.95
II – Cagayan Valley	4,138,735	1.50
III – Central Luzon	23,627,711	8.59
IV – Southern Tagalog	42,740,449	15.54
V – Bicol	11,198,696.00	4.07
VI – Western Visayas	7,999,878.00	2.91
VII – Central Visayas	5,180,622	1.88
VIII – Eastern Visayas	38,007,349	13.82
IX – Western Mindanao	4,806,198.00	1.75
X – Northern Mindanao	4,324,031.00	1.57
XI – Southern Mindanao	4,792,755	1.74
XII – Central Mindanao	14,171,048	5.15
National Capital Region	11,691,981	4.25
Inter-regional	13,338,789	4.85
Cordillera Autonomous Region	5,281,272	1.92
Nationwide	45,515,427	16.55
TOTAL	244,925,887	89.04

Source: Public Investment Staff (PIS), NEDA

Geothermal plant in Region VIII which will cost P14.7 billion and be implemented after 1992. The second biggest is the Luzon Coal D in Region IV with a project cost of P12.1 billion. It will also start after 1992.

In terms of the sectoral distribution of public investment (Table 64), the top public investment priority is energy, power and electrification, which constitutes 28 percent of the 314.3 billion public investment program during the period 1989-1992. The second priority goes to Transportation (22%) and the third, to Water Resources (20%). Obviously, Science and Technology remains neglected.

The proceeding paragraphs discuss briefly the MTPIP's performance in 1987 and 1988. Yet, note beforehand that the future pattern of public investment as articulated by the 1989-1992 MTPIP is only indicative. The pattern may change or differ substantially in practice either for better or for worse. Moreover, spatial equity promotion of the MTPIP may be frustrated by, on top of other constraints, the inability of the respective regions to effectively absorb more public investment.

The actual MTPIP for 1987-1988 fell short of its programmed amount by only eight percent owing to delays and problems in project funding and preparation. This is indeed an impressive accomplishment. However, the regions achieved varying degrees of performance (Table 68). Six regions (i.e., Regions III, IV, IX, X, XI, XII) had upward revisions in their public investment expenditures, varying from a high 263 percent for Region II to a low six percent for Region XI. The remaining regions revised their public investment expenditures downward, with Region IV taking the largest cut (58%).

Only around 44 percent of planned investment was actually spent in 1987-1988. Three regions (i.e., Regions II, X, and XII) realized more than 90 percent of their planned investment while two regions (i.e., Regions IV and VI) realized only around 20 percent. The actual program was scheduled to be implemented and completed within a year but was snagged by problems, e.g., delay in releases of funds, during project initiation and implementation.

Of course, to identify and implement projects require rich and diverse technical skills. The regions' wide difference in performance, after accounting for external conditions and constraints, reflect the relative lack of manpower of such skills needed to handle the implementation in the regions concerned. This aspect of regional development, i.e., investment in human capital, is not included in the MTPIP but is contained in a different government program on technical assistance, the Medium-Term Technical Assistance Program (MTTAP).

THE PHILIPPINE ASSISTANCE PROGRAM

The medium term objectives of the Philippine Assistance Program (PAP) is to achieve the primary goals of the 1987-1992 MTPDP. The policies and strategies of PAP are the same as those adopted by the MTPDP but focus specifically on special development projects (SDPs). The Coordinating Council for the Philippine Assistance Program (CCPAP) was specifically created to coordinate all activities on official development assistance and to oversee the SDPs.

Table 68
ACTUAL PUBLIC INVESTMENT, BY REGION

1987 - 1988

REGION	(1) PER MTPIP	(2) ACTUAL PROGRAM	(3) RELEASES	(4) EXPENDITURES	(5) (2)/(1)	(6) (4)/(1)	(7) (4)/(3)	(8) (4)/(2)
TOTAL	72539.725	66923.991	39424.499	32127.767	92.3	44.3	81.5	48.0
CAR	302.805	297.243	199.026	191.573	98.2	63.3	96.3	64.4
Region I	926.522	806.124	478.059	328.891	87.0	35.5	68.8	40.8
II	219.954	579.447	435.273	201.245	263.4	91.5	46.2	34.7
III	878.607	719.745	606.050	489.448	81.9	55.7	80.8	68.0
IV	4653.065	1957.994	1209.608	980.834	42.1	21.1	81.1	50.1
V	867.415	995.247	587.589	455.014	114.7	52.5	77.4	45.7
VI	1042.160	910.754	200.370	205.786	87.4	19.7	102.7	22.6
VII	1326.428	990.163	796.866	634.284	74.6	47.8	79.6	64.1
VIII	1163.589	869.865	487.193	460.671	74.8	39.6	94.6	53.0
IX	60.918	68.793	40.155	32.368	112.9	53.1	80.6	47.1
X	924.126	1157.618	906.546	857.113	125.3	92.7	94.5	74.0
XI	1188.108	1262.409	851.549	642.643	106.3	54.1	75.5	50.9
XII	834.187	917.140	815.219	781.937	109.9	93.7	95.9	85.3
NCR	7645.211	5953.327	3952.344	2967.075	77.9	38.8	75.1	49.8
Interregional/ Nationwide	50486.631	49438.122	27858.656	22898.885	97.9	45.4	82.2	46.3

Note: (1) to (4) are in P millions; (5) to (7) are in percent.
Source: Project Monitoring Staff, NEDA.

There is no explicit regional development policy embodied in the PAP. However, under "Part IV - Program and Policy Priorities, A.2h Demonstration Areas and Projects," the PAP identifies five special development projects (SDPs)—pilot activities which will demonstrate to foreign donors that the government is committed to alleviate poverty and generate employment. This may be considered as the PAP's regional program. The idea is to accelerate industrialization and growth in identified areas by providing basic physical infrastructure needed to induce private investment. To address the issue of poverty alleviation, target income groups are identified and non-government organizations (NGOs) and the private sector are tapped to participate in the projects.

The five SDPs are:

a) Samar Livelihood and Infrastructure Project Area;
b) Cavite-Laguna-Batangas-Rizal Industrial Area (CALABAR);
c) South Cotabato/General Santos SDP;
d) Metro Cagayan de Oro SDP; and
e) Panay Island SDP.

In choosing the five SDPs, the criteria are: project preparedness (i.e., feasibility studies, or in some cases detailed engineering studies have already been made), and the likelihood of success and desirability to investors. It appears, however, that most of the project components under each SDP are actually part of the MTPIP. In the future, a new set of criteria in selecting new SDPs will be formulated. As of May 1990, the CCPAP was still in the process of drawing and formulating the new criteria.

The Samar Livelihood and Infrastructure Project

The Samar Island Development Program (SIDP) is the first project launched by the CCPAP in January 1990, and focuses on poverty alleviation. It is located in Samar Island in Region VIII. Its specific objectives are: (a) to provide immediate assistance to identified families, particularly those in the bottom 30 percent; (b) to accelerate the implementation of development programs and projects for 1990-1991; and (c) to identify, develop, and implement programs and projects which will sustain the development expected during the first two years of the Program. The CCPAP is responsible for coordinating all livelihood and infrastructure projects involving a P1 billion investment requirement for 1990-1991 (**Appendix G.1**). At present, there are some P600 million worth of ongoing projects in Samar Island. Many government line agencies which have been implementing livelihood and infrastructure projects prior to the implementation of the SIDP are now under its umbrella.

From 1989-1992, P1.1 billion worth of ongoing and proposed projects are/will be financed primarily by foreign creditors and donors. Japan, the biggest donor, will contribute around 38 percent (Appendix G.2) of the cost. Below is a list of some proposed/pipeline projects for SIDP.

a) Buenavista-Balanga-Lawaan-Bassey Road
b) Ports rehabilitation (Guiuan, Catbalogan and Borongan)
c) National Telephone Project
d) Agriculture Development and Promotion Project
e) Catubig Valley Comprehensive Development Project
f) 69 KV Taft-Onas (35 km), Catarman-Catubig (39 km)

Two institutions have been inaugurated to serve as the backbone of SIDP: the Samar Island Development and Management Institute, and the Samar Enterprise Development Institute. The former will help build up local capability for community organizing efforts, while the latter will assist the development of indigenous enterprises.

To provide direction, coordination, and supervision over the implementation of SIDP, EO 398 (April 1990) established the Samar Island Development Project Office (SIDPO). The SIDPO is run by a seven-man governing board: three governors of Samar Island, the Calbayog City mayor, two private sector representatives and an executive director of the program management unit, all appointed by the President.

The CALABAR SDP

CALABAR SDP is composed of four contiguous provinces namely: Cavite, Laguna, Batangas and Rizal, all in Region IV. The project aims to create an alternative industrial center that will disperse industries away from the NCR. Its main attraction is its proximity to the capital region and the fact that Region IV benefits from the phenomenon called agglomeration economies.

Although established primarily for industrial development, the CALABAR SDP also incorporates within its design and strategy the role of agricultural development and of social cultural institutions. Its project components in Appendix G.3 show the government's massive support for the CALABAR area.

Total investment requirements for the CALABAR SDP amount to P17.3 billion. All components, except the one on "regional skills training," are for physical infrastructure. The CALABAR program has the largest investment cost among the five SDPs, and is the most ambitious. It has provisions, among others, for mass low cost housing and a rail line, and allots P5.8 billion for power generation and distribution, the single largest

project component. There are no definite cost estimates for the mass low-cost housing and the Cavite Export Processing Zone (CEPZ) since most of the sub-components are supposed to be initiated by the private sector.

The OECF is the CALABAR SDP's main and leading foreign funding source. It will provide funding for all components, except two sub-components on road infrastructure and the component on regional skills. Most of the projects that have ongoing or completed detailed engineering study are ready to be implemented.

South Cotabato/General Santos SDP (SCSDP)

The SCSDP aims to optimize the value of agricultural resources that are traditionally produced and/or traded in the region and to accelerate the agro-industrial development of General Santos City and South Cotabato (Region XI) by encouraging private investment inflow through the provision of post-harvest and support service facilities. SCSDP will entail an investment outlay of P2.1 billion for the period 1990 to 1996.

The Project has six major components (**Appendix G.4**). Components II,III, IV, and V are physical infrastructure, while the Agro-Processing Center (Component I) provides support service facilities such as livestock meat, crops and fruits processing, freezing and cold storage, and boat repair. The sixth component is a livelihood project. Its specific objectives are to promote the general well-being of the people of South Cotabato; achieve equitable distribution of wealth; and attain an ecologically balanced environment through the formation of self-reliant communities. Its target beneficiaries are farmers, fishermen, upland settlers and urban slum dwellers. The participation of the private sector and non-government offices is sought to supplement government's assistance.

The fourth component, i.e., the Buayan Airport improvement, is the only project nearing its completion. The rest are still in the project preparation stage. USAID funds four of the components.

The Metro Cagayan de Oro SDP

The Metro Cagayan de Oro SDP will complete the development of an existing industrial estate, PHIVIDEC, and improve complementary facilities in Misamis Oriental. This SDP is located in Region X and has four components. It will entail a total investment cost of around P5.4 billion, second only to CALABAR (**Appendix G.5**). The first component is the development of the PHIVIDEC Industrial Estate (P669 million). The second, the largest among the four components, is infrastructure development (P4.4 billion), mainly consisting of improvement of existing facilities. The third is a social development program (P83.5 million) spread over five

years to prepare the people for the project and the effects of accelerated agro-industrial development. It will benefit 34 out of 80 barangays in Cagayan de Oro City and 84 barangays in the municipalities of Misamis Oriental. The Area Development Planning Project (P10.3 million) constitutes the fourth component.

Funding for this SDP will come from various sources: PAP loan facility and support projects, line agencies such as the Department of Transportation and Communications (DOTC), Local Water Utilities Agency (LWUA) and Philippine Industrial Authority (PIA), the World Bank, and Italian and Korean governments. Provided plans push through, the Italian government stands to become the biggest donor, providing P4 billion out of the total investment cost of P5.9 billion for the national telephone program.

Most of the port improvement projects are ongoing. The telecommunications portion is still under its planning stage while the last two components are under project preparation.

The Panay Island SDP

The Panay Island SDP in Region VI has four major components, namely: the regional agro-industrial center (RAIC); the district agro-industrial centers (DAIC); poverty alleviation through micro-enterprise programs; and the ecological balance program. It has a total investment requirement of about P492 million from 1990 to 1992 (**Appendix G.6**), 48 percent of which is unprogrammed. While the programmed amount is funded by the General Appropriations Act, the unprogrammed portion is to be funded by the Philippine government and the Official Development Assistance.

Among the four components, the RAIC entails the biggest investment cost. It is seen as the center of Panay's agro-industrial development and the site of medium- to large-scale factories processing and manufacturing agricultural, fishery, forestry and mining products. The private sector will initiate the development of on-site component, while the government provides the off-site infrastructure facilities such as air and seaports, power and water supply and roads.

The second component, the DAIC, is envisioned to further disperse agro-industrial development in Panay. It caters mainly to cottage and small-scale enterprises. Government support is given through equity lending, thereby providing, if not improving, accessibility of small enterprises to the formal capital market. Lending programs will be directed to four industries, namely: metal working and fabrication; food processing; ceramics; and gifts/toys and housewares.

The third component is designed to alleviate poverty and has two programs: building the capability of non-government development organization (NGDO) and the *Tulong sa Tao Self-Employment* program (TST-SELA).[31] The first program is designed to allow NGDOs to help people organize income generating projects; the second program is a financial and technical assistance package intended for the establishment and development of micro-enterprises.

The ecological balance program, the only one of its kind in the five SDPs of the PAP, has three sub-programs, namely: resource management and allocation, resource replenishment/maintenance and pollution control and management. In 1990 and 1991, two of these maintenance projects will be implemented. These are the research/information/communication project and the community-based monitoring project.

THE REGIONAL DEVELOPMENT PROGRAMS OF MAJOR DONOR INSTITUTIONS

This section summarizes the experiences and lessons of major donor institutions in promoting regional development in the Philippines. Of particular emphasis are the major programs that have direct significance on the future design of regional development projects. Unfortunately, only very few of these programs/projects contain detailed documentary reports. In fact, none of these reports discusses the process of designing the programs/projects nor the difficulty encountered by donor institutions in working with the government on specific programs/projects. Instead, the reports—especially those that were done by external auditors—analyzed only the accomplishments of the programs/projects and the problems encountered in the implementation process. Thus, the summary will center on these aspects only. The major programs/projects included in this report are those of the World Bank, USAID, and ADB.

World Bank Projects

One of the most prominent regional programs undertaken by the Philippine government and co-funded by the World Bank is Region VII's Central Visayas Regional Project (CVRP). The program is the first project conceived, initiated, planned and implemented at the regional level. It aims (a) to raise the incomes and living standards of poor, small-scale producers in the rural areas, particularly upland farmers, forest occupants and

[31] See Section D of Chapter II for a related discussion on the TST-SELA Program.

artisan fishermen; (b) to improve the management of the region's forest, upland and marine resources by arresting their rapid degradation and improving this resource base; and (c) to reinforce the government's plan to increase administrative and budgetary autonomy in facilitating regional development and creating more effective mechanisms for development programs.

The following are the major technical components of the project:

1. *Upland Agriculture.* This component addresses the problems of declining productivity and rural poverty caused by continuing degradation of the region's natural resources. It aims to increase productivity of upland farms, to implement community-based resource management and to increase the capacity and capability of LGUs and RLA's to plan, implement and support community-based resource management projects.

2. *Nearshore Fisheries.* The Nearshore Fisheries component addresses the problems of declining productivity and rural poverty caused by the continuing degradation of the region's natural resources, specifically its coastal areas. It aims (a) to establish and allocate user's rights to an extensive system of artificial reefs; (b) to establish effective coral reef management; (c) to replant and manage existing mangrove timberlands and allocate user's rights to these areas; (d) to strengthen participating regional line agencies; and (e) to undertake special related studies and general surveys as bases of replication.

3. *Social Forestry (SF).* The SF component addresses the problems of declining productivity and rural poverty caused by the continuing degradation of the region's natural resources. It is designed (a) to ameliorate the living conditions of rural poor families occupying government timberland by creating employment and increasing income; (b) to conserve forests by stopping further destruction of logged-over areas; (c) to increase wood supplies and arrest soil erosion by implementing reforestation and to develop through "hands-on" experience a forest-management approach based on labor-intensive, smallholder operations that can be replicated nationwide.

4. *Infrastructure.* The biggest component in terms of actual investments, Infrastructure aims to provide access to goods and services from project sites to markets and input sources. It includes road construction, trails, water supply and some road improvements.

The other support components include:

5. *Research.* Research is designed to develop regional research capability and management in both regional line agencies and private institutions.

6. *Training and Manpower Development.* The Training and Manpower Development support component aims to improve the skills of project staff beneficiaries, line agency personnel, local government units for effective project implementation; to mobilize and strengthen capabilities of RLAs, SMUs and LGUs; and to provide external training opportunities.

7. *Development Communications.* The main objectives of this component are to implement communication strategies that will increase knowledge on CBRM approaches and technologies and to generate and distribute extension materials to primary resource managers/beneficiaries, field units, RLAs and LGUs.

8. *Monitoring and Evaluation.* Monitoring and Evaluation is designed and installed to make project implementation effective and efficient through timely flow of information on all aspects of implementation, including field activities, research, training and organization of beneficiaries, administration and management.

The project started in June 1984 and was expected to end in December 1989. However, due to some delays in the release of funds, the operation of the project has been extended up to 1991.

The major accomplishments as of the end of 1989 (over the five-year target) are as follows:

1. Upland Agriculture
   a) Microwatershed development
      - Microwatershed development plans - 88.2%
   b) Soil conservation & soil fertility improvement
      - on-farm conservation measures established - 59.4%
   c) Agroforestry and reforestation
      - agroforestry projects - 104.8%
      - off-farm reforestation - 42.7%
      - issuance of CSC - 22.3%
   d) Livestock integration and upland fisheries
      - Livestock dispersal - 44.5%
      - Livestock redispersal - 86.9%

2. Nearshore fisheries		
a) Project coverage (No. of barangays)	-	84%
b) Targetted beneficiaries (No.)	-	122.1%
c) AR clusters construction (No.)	-	60.7%
d) Mangrove reforestation (Ha)	-	86%
e) Coral reef management (Ha)	-	68.8%
3. Social forestry		
a) Agroforestry farms developed (ha)	-	120.3%
4. Infrastructure		
a) New road construction	-	62.1%
b) Roads improvement	-	70.7%
c) Trail construction	-	29.2%
d) Water supply	-	38.1%

There are several lessons learned from the CVRP experience.[32] First, local immersion can hasten the transfer of technology and community participation in all aspects of planning and implementation. Second, simple but appropriate technologies can meet real needs in the barangay. Certain technologies introduced were readily accepted due to their familiarity, simplicity, flexibility, adaptability to traditional work group situations, thus, did not entail additional burden. And third, the devolution of many decision-making power and financial control to the site level greatly facilitates the development process.

USAID Projects

USAID, on the other hand, has funded many projects in the country, some of which have implications on regional development. This report, however, discusses only the lessons learned from two USAID-funded projects, namely the Bicol River Basin Development Program (BRBDP) and the Local Resource Management (LRM) Project.[33]

The BRBDP is one of the first few pilot projects on integrated area development (IAD) in the Philippines and has been used as a case study on the application and refinement of an IAD strategy. Its objectives are: to rural families' per capita income, agricultural productivity and employment opportunities for the majority of farm population; to provide for a more equitable distribution of wealth; and to promote agro-industrial and industrial development in the area.

---

[32] These are culled from an external report prepared by the Asian Institute of Journalism (1988) and from briefing materials of the World Bank.

[33] Note that in the case of the BRBDP, there were other donors such as ADB and EEC.

The first few IADs, of which BRBDP is one, encountered several problems.

First, too much emphasis was placed on physical infrastructure (because of the premise that infrastructure is the first link in the chain of development) despite the limited development capability build-up of implementing agencies and local government units. Programs centered more on the prompt and efficient accomplishment of work with a strong emphasis on physical or quantitative performance. Thus, between 70 and 80 percent of total project cost of most IAD projects go to infrastructure as demonstrated in the case of the BRBDP.

Second, it was difficult to effect the smooth and efficient transfer of completed IAD projects to the concerned line agencies because IAD project components are special projects which normally require higher level of funding for personnel and operations, and for technology application and maintenance.

Third, the failure to conduct immediate baseline studies had prevented planners from designing plans and programs on a fuller scale (Limcaoco 1989).

The BRBDP experience, in particular, brought up several lessons on IAD programming and management. *First*, problems can arise when there is a difference between what the full scope of IAD programs (objectives, activities and participating agencies) and what the existing management systems can effectively manage. It is, therefore, important to understand the distinction between the two.

Second, to facilitate and enhance learning by the participating entities, the program's coordinating bodies need to build on positive as well as negative experiences that have broad learning values.

Third, if an IAD program shifts from big projects to programs, efforts to integrate both organization and management should focus on the accumulation of developmental rather than administrative capacities, missions and objectives. Inflexible and complex management, participation and coordination arrangements should be avoided because they discourage initiative. The sustainability of a program depends not only on administrative and technical resources but political resources as well, i.e., the capacity to secure others' commitments is required.

Thus, commitment is necessary. Since program results have a considerable gestation period and if an IAD strategy is to be pursued, planners, implementors and funding institutions must not waver in their commitments to see the program through (Koppel *et al.* 1985).

Another joint undertaking between the USAID and the government is the LRM Project. Started in 1982, the Project has a programmed life span of 10 years. To date, it has a total project cost of $9,477,000.00. It has been implemented in three regions, namely, Regions V, VI and VIII.

The project is an institution-building program designed to re-orient local governments to the needs of the rural poor. On the long term, it aims to promote greater self-reliance, productive employment, and real income among members of this disadvantaged group.

The LRM concept supports the government's efforts to achieve a bottom-up, decentralized and optimally responsive planning and services delivery system. To operationalize the concept, LRM clients are provided with technical assistance, research, and training, enabling them to effectively undertake poverty-focused planning, community organizing, entrepreneurship, and project development and management.

The project also provides funding assistance for anti-poverty projects. This is in the form of the Provincial Subproject Fund (PSF) that is administered by the provincial governments, and the Community Projects Funds (CPF), which is managed by private volunteer organizations. To date, the project has released P15,124,792.00 for a total of 39 support infrastructure and livelihood subprojects. Also, P4,299,732.42 in CPF has also been released to assist the livelihood efforts of 958 members of LRM's 135 organized poverty groups.

Now in its last year of operation, the project is in the process of setting up systems, procedures and structures that would institutionalize successful LRM learnings in the regions concerned. In the end, the LRM will leave behind functional local development councils engaged in poverty-focused planning; functional and self-reliant people's organizations and non-government organizations which will assist in the project's expansion activities.

The project is also producing training and community organization manuals aimed at helping non-LRM areas to cost-effectively replicate the LRM planning and community organizing processes on their own.

Again, there are lessons to be learned from this project. *First*, the LRM project is too complex. Multiple objectives, a large number of organizational participants, and excessive reporting requirements, combined with traditional bureaucratic constraints, all have hindered innovation and learning, and reduced the project's impact.

Second, decentralization, one of the goals, was not fully realized. NEDA and USAID have retained an inordinate degree of control over key decisions and actions, yet neither is involved in project implementation. Thus, organizational and management responsibilities need to be simplified and decentralized so that the project can generate direct and measurable impact on rural beneficiaries. This calls for the assignment of responsibility at lower levels. Also, the performance disbursement system developed for LRM as implemented through the Municipal Development Fund (MDF) is a significant step toward matching incentives with project objectives and has contributed to the development of participants' strategic

planning capability. The concept may be changed, refined or redesigned to link incentives with institutional behavior.

Third, experimental, learning-oriented projects are susceptible to policy shifts of donor agencies and the host government, as was the case of the LRM project. Projects that cannot be insulated from such changes should have built-in arrangements to ensure that the benefits from innovative programs are sustained. Learning-oriented projects also require flexible mechanisms to support innovation, trial-and- error, and localized operations free from rigid hierarchical control (Alabanza *et al.* 1987).

Asian Development Bank Projects

Among the ADB-assisted projects, only three irrigation projects and one each on roads, ports and water projects, are included in this report. The information here are culled from the Bank's various project completion reports (PCR).

Angat-Magat Integrated Agricultural Development. The Angat-Magat project was implemented to increase rice production, promote crop diversification, create job opportunities, save foreign exchange and increase farmers' incomes.

The project was generally successful. Some of its lessons from the experiences on on-farm facilities were: (a) Planners should recognize the importance of water management and agricultural support services; (b) Water and agricultural facilities should be integrated into the irrigation project; (c) There should be effective coordination between the Philippine government and the donor in providing agricultural support services to increase production yields; and (d) All the implementing parties should engage in close consultation with farmer-benefiaries and involve them in the construction of such facilities.

Davao Del Norte Irrigation Project. The Davao del Norte Irrigation project was implemented to increase paddy production and improve farm incomes. The project components included two irrigation systems, and integrated agricultural development program with support from consultant services.

The project was also generally successful. Some of its important lessons and experiences were: (a) an improved engineering criteria for irrigation development must be stressed in project design; and (b) an adaptive approach based on actual experience with the project and beneficiaries for irrigation development should be adopted to introduce progressive improvements. The results also showed that the experiment and first attempt at implementing an institutional system involving ben-

eficiaries and staff of the irrigation scheme at all levels have a positive impact on cost recovery, increased agricultural production and community development.

Pulangi River Irrigation Project. The Pulangi River Irrigation project aimed to increase paddy production and improve farm incomes and to prepare feasibility studies for priority irrigation projects in Mindanao.

The project was partially successful. In the course of its implementation, the following lessons were drawn: (a) The use of an appropriate technology and design incorporating local conditions are needed to increase irrigation effectiveness and agricultural production; and (b) The development of communal irrigation systems in conjunction with major systems will improve the economic outcome of composite projects.

Tarlac-Santa Rosa and Feeder Project. The objectives of the Tarlac-Santa Rosa project were to provide (a) an all-weather road and well-constructed feeder roads so that the population living within the road influence area will have year round access to markets; and (b) better inter-provincial and national transportation capability.

The project was generally successful. The need for complementary investment in agriculture which will lead to increased production and marketable surpluses was pointed out. Consequently, the markets should be able to absorb increased production. The need for a feeder road network to facilitate the transport of agricultural products in the road influence area has also been noted.

Cotabato Port Development Project. The Cotabato Port Development Project aimed to develop a port and related facilities at the city's Polloc harbor.

The project was partially successful. The utilization of project facilities at the time the post-evaluation was conducted was disappointing because the hinterland traffic has been diverted to competing ports on historical rather than economic grounds. The government should have been requested to adopt appropriate measures that will generate traffic for the port. In general, the results suggest that an integrated transport system scheme, rather than a composite of separate plans exclusively for each port, must be adopted.

Provincial Cities Water Supply Project. The project was created to provide the most economical, safe, reliable, piped water supplies for the water districts of Misamis Occidental, Butuan City, Zamboanga City, Camarines Norte and Cebu.

The project was generally successful. Some of its findings were:

(a) to sustain water district viability, there must be strategies formulated to prevent negative consequences of ecological damage;
(b) institutional autonomy encourages financial self-sufficiency;
(c) the water supply system cost must lie within the capacity to pay of the water district community;
(d) to enhance social impact, accountability at the consumer level must be improved through consultative mechanisms existing with local organizations; and
(e) the application of properly designed water prices can improve resource allocation within and between urban areas by limiting demand to efficient levels; and promoting self-sufficiency and social equity.

The plethora of experiences seemed to have common and recurring themes. *First*, development cannot occur without the active involvement and participation of the beneficiaries in the program design. Programs that recognized this aspect often achieve more success in effecting these desired changes. *Second*, development involves a process of choosing a suitable and appropriate technology through trial and error because while past experiences teach one to prevent future mistakes, the future beneficiaries of such development projects are possibly a different group. *Third*, development should avail of consultative mechanisms. *Fourth*, project implementation should center around decentralization, flexibility and responsibility. *Fifth*, to sustain the process of development, projects should take into account local capability to initiate, identify, decide, plan and implement programs. *Sixth*, the government's political will is also a major factor in development.

7

PLANS AND PERFORMANCE OF THE VISAYAS REGIONS

TOWARD A BALANCED REGIONAL DEVELOPMENT

Despite many efforts in promoting countryside and rural development in the 1950s and 1960s, most of the country's regions were still left behind by progress. To correct the imbalance, the government designed a regional development program wherein the various parts of the country were delineated into specific planning and administrative regions.[34] As noted in the earlier chapters, each region had a Regional Development Council (RDC) and was given greater responsibility to chart its own future.

First Five Year Regional Development Plans: 1978-1982

Most RDCs were organized in 1974. After three years of data-gathering and intensive studies, all the regions were able to prepare their first Five Year Regional Development Plans for CY 1978-82. Plans for Regions VI, VII, and VIII were geared toward improving the well-being of their people by increasing their income through various agro-industrial development programs and providing basic infrastructure and social services facilities. The Visayas area had a combined economic growth target of 7.4 percent per year from 1978 to 1982. Because of its very low starting per capita GRDP, Region VIII intended to increase its GRDP by 9.2 percent per year, while Region VI, which was relatively better off at that time, placed its annual target growth at 6.3 percent only. Region VII had a target growth rate of 8.1 percent per year in the same period. The national target was 7.7 percent growth rate per year (**Table 69**).

---

[34] This was discussed in greater detail in Chapter II.

Table 69
GRDP PLAN TARGET BY REGION 1978 - 1982
(In million pesos at constant 1972 prices)

REGION	1978	1982	ANNUAL GROWTH RATE
Region VI	8,196	10,467	6.3
Region VII	5,271	7,201	8.1
Region VIII	2,833	4,035	9.2
Visayas	16,300	21,703	7.4
Philippines	83,250	112,214	7.7

Source: NEDA Regional Offices No. 6, 7 and 8.
Five-Year Regional Development Plans, 1978-1982.

The Plans included investment programs for the economic, social and infrastructure development of each region. Most important among these investments were those in infrastructure wherein a total of P26.3 billion was released throughout the country from 1982 - 1987 (**Table 70**). Of these, P21 billion was allotted directly to the different regions. From this allotment for the regions, the Visayas received only P3.4 billion, representing 15.9 percent of the total. It was a relatively miniscule amount considering the needs of the Visayas area. From this amount given to the Visayas regions, 43 percent went to Region VI, 37 percent to Region VIII, and the remaining 20 percent to Region VII.

Like the rest of the country, the three Visayas regions failed to achieve their respective targeted annual economic growth rates. For the Visayas as a whole, its GRDP grew by a mere 4.0 percent annually from 1978 to 1982. Region VIII registered the lowest performance, achieving an annual growth rate of only 3.4 percent during the period. Region VI had 3.8 percent as its annual growth rate. Region VII, on the other hand, grew at a relatively higher rate of 4.4 percent per year (**Table 71**) despite little support from the national government.

In the same period, the country grew at a rate of 4.6 per year. As a result, the overall share of the Visayas from the country's GDP declined from 18.1 percent in 1978 to 17.7 percent at the end of 1982. Despite the low economic growth rate of the Visayas as compared to the national performance, its per capita GRDP as a fraction of the national per capita GRDP slightly increased from 77.2 percent in 1978 to 77.4 percent in 1982 due to a lower annual population growth rate.

The period 1978-1979 saw an annual increase of 6.5 percent in the Visayas economy, slightly higher than the national growth rate of 6.3

Table 70
FUND RELEASES FOR INFRASTRUCTURE DEVELOPMENT BY REGION
1978 - 1982
(In million pesos)

REGION	PUBLIC WORKS ACT	GEN. APPROPRIATIONS ACT	TOTAL RELEASES
Region VI	1,165.90	269.70	1,435.60
	7.23	5.53	6.84
Region VII	408.70	248.70	657.40
	2.53	5.10	3.13
Region VIII	823.10	432.70	1,255.80
	5.11	8.86	5.98
Visayas	2,397.70	951.10	3,348.80
	14.87	19.49	15.95
All regions	16,121.20	4,880.90	21,002.10
	100.00	100.00	100.00
Nationwide/Inter-regional	4,535.20	773.70	5,308.90
TOTAL	20,656.40	5,654.60	26,311.00

Source: Department of Budget and Management.

percent. Note that the performance was achieved despite Region VIII's low growth of 1.2 percent in 1979. Between 1980 and 1982, however, the Visayas' growth turned sluggish, typical of the country's trend around this period. The rising cost of imported energy and the deteriorating terms of trade for most of the country's export crops brought about the downward trend. Among the affected crops were sugar and copra, the Visayas' main export commodities.

While all regions were similarly affected by the oil price hike, the deteriorating demand for sugar and copra greatly affected only those sugar- and copra-producing regions. Hence, the Visayas' economy grew at a slower pace than the rest of the country. This was aggravated by the lack of investment support from the government. As a consequence, the per capita GRDP for the Visayas grew annually by 2.0 percent only, from 1,395 in 1978 (at 1972 prices) to 1,508 in 1982.

Table 71
GROSS REGIONAL DOMESTIC PRODUCT, 1978 - 1982
(In million pesos at constant 1972 prices)

REGION	1978	1982	ANNUAL GROWTH RATE 1978-82	PER CAPITA GDP 1978	1982
Region VI	7,084.60	8,218.20	3.78	1,616.00	1,728.00
	8.60	8.30		89.40	88.70
Region VII	5,865.90	6,969.80	4.41	1,613.00	1,764.00
	7.10	7.00		89.20	90.50
Region VIII	2,043.40	2,336.70	3.42	750.00	803.00
	2.50	2.40		41.50	41.20
Visayas	14,994.00	17,524.70	3.98	1,395.00	1,508.00
	18.10	17.70		77.20	77.40
Philippines	82,783,931.00	98,999.70	4.60	1,808.00	1,949.00
	100.00	100.00		100.00	100.00

Source: National Statistical Coordination Board.
Gross Regional Domestic Product Summary
(Link Series: 1975-1984).

The Period of Turmoil: 1982-1985

The first half of the 1980s was the most trying months for the country. Greatly dependent on imported oil, the Philippines continued to bleed as more funds meant to finance infrastructure and other socio-economic development programs were now used for oil importation. Worse, foreign funds in terms of grants, loans or investments now came in trickles. At this juncture, most donor or lending countries needed funds themselves to pay for their own increasing import bills for oil.

Meanwhile the country's foreign funds dried up and the terms of trade deteriorated, thus contributing to the continued economic slump from 1982 to 1985. Highlighting this period was the brewing political upheaval and the ensuing capital flight from the country. The results were negative growth rates in 1984 and 1985, with the three Visayas regions suffering the same fate.

Because of the national turmoil, the Visayas ended the first half of the 1980s with a dismal performance. As of 1985, its average family income was equivalent to 69.4 percent of the national average. Also, its poverty

incidence reached 71.1 percent, a rate surpassed only by Bicol (Region V). The poverty groups in the Visayas consisted of 1.6 million households in 1985, or 27.4 percent of the total for the country. Most of these poor households, numbering 645,600, were located in Region VI. Meanwhile, Regions VII and VIII had 548,000 and 398,000 poor households, respectively.

The Recovery Period: 1986-1989

With a new government in 1986, the Philippine economy was finally resuscitated. In 1987, a new People-Oriented Plan was finalized as a blueprint for the country's reconstruction under the new administration. The Plan intended to alleviate poverty, increase employment opportunities and promote social justice.[35] These were to be achieved through a two-pronged, rural-based, employment-oriented development strategy, and through policies designed to promote freedom of enterprise and a more market-oriented economy. Given this general direction, each region was allowed to chart its future path. The new development plan also called for the mobilization and effective use of local resources and the participation of the widest segment of society in the development process.

The general plan of the three Visayas regions called for an increase in productivity in agriculture and the promotion of rural-based, labor-intensive small- and medium- scale industries. Also given emphasis was the conservation and proper management of limited resources so that both the present and the future generations would be assured of continued income.

Alongside this production-oriented schemes were government programs designed to generate income and employment opportunities in the rural areas, such as small-scale rural infrastructure and livelihood activities. Likewise, the delivery of basic social services was integrated with the other programs to help the poor and the disadvantaged groups.

Several major projects were also started, continued or expanded to provide an overall push for development especially in the rural areas. Among these were the expedient implementation of the Central Visayas Regional Projects - Rural Component, a project based on the concept of resource management, conservation and development; the implementation of the Local Resource Management Project in Regions VI to Region VIII; the continuation of the Samar and Bohol Integrated Area Development Projects; the installation of the privately initiated Economic District Management System in Negros and the Cebu Upland Project. Over and above these was

[35] This was also discussed in Chapters II and VI.

the continued expansion and improvement of local infrastructures that will help expand agro-industrial activities.

Over the years 1987 to 1989, the Visayas continued to receive less than its expected proportionate share in the national budget[36] but managed to attain a creditable performance. From a level of P16.6 billion (at 1972 prices) in 1987, its combined GRDP increased by 5.7 percent annually between 1987 and 1989. Still, it was slightly lower than the 6.1 percent average annual growth achieved by the whole country in the same period (Table 72). Region VII led the recovery in the Visayas, growing by 7.7 percent annually.

As a consequence of the improvement in the overall performance of the Visayas area, average family income increased in real terms by 18.4 percent from 1985 to 1988. More importantly, its overall poverty incidence declined from 71 percent in 1985 to 59 percent in 1988. This means that a

Table 72
GROSS REGIONAL DOMESTIC PRODUCT
1987 - 1989
(In million pesos at 1972 prices)

REGION	1987	1988	1989	ANNUAL GROWTH RATE 1987-88	1988-89	1987-89
Region VI	6,617.80 6.90	6,909.90 6.80	7,214.90 6.70	4.46	4.41	4.43
Region VII	7,002.40 7.30	7,530.80 7.40	8,127.40 7.60	7.55	7.92	7.73
Region VIII	2,976.60 3.10	3,086.10 3.00	3,185.30 3.00	3.68	3.21	3.45
Visayas	16,593.80 17.40	17,526.80 17.30	18,527.60 17.20	5.62	5.71	5.67
Philippines	95,482.80 100.00	101,398.20 100.00	107,466.60 100.00	6.20	5.98	6.09

Source: National Statistical Coordination Board,
Regional Accounts of the Philippines, 1987 to 1989.

[36] This was confirmed by the analysis of percentage distribution and bias index for regional government expenditures (Tables 61 and 62).

total of 185,200 households received incomes above the poverty line during the indicated period.

Thus, the Visayas area was on the road to recovery by 1989. Its per capita GRDP increased from P1,289 (at 1972 prices) in 1987 to P1,384 by 1989. Note that the 1989 figure is the same as that in 1978, the year when the regional plan was first implemented.

However, because of their variant growth rates, the three Visayas regions were differently situated in 1989 than in 1978. In the case of Region VI, per capita GRDP was equivalent to 89.4 percent of the national average in 1978. By 1989, the proportion declined to 77.6 percent. Region VII, in contrast, experienced a marked increase from 89.2 in 1978 to 100 in 1989. Region VIII also improved its standing with respect to the whole country. From 1978 to 1979, it increased its per capita GRDP from 41.5 to 53.9 percent of the national average.

REGIONAL DEVELOPMENT INVESTMENT PROGRAM

Investment Program Preparation

By the time the first Five-Year Regional Development Plan was implemented, it became clear that the Plan could not be made effective and meaningful if it would not be translated into specific programs and projects. Thus, the Regional Development Investment Program (RDIP)[37] was born.

For the initial preparation of the RDIP, Region VII was chosen as a pilot region. Based on the existing regional development plan and using the concept of the Integrated Area Development (IAD), the government prepared the first Five-Year RDIP for Region VII for CY 1980 to 1985. Later, following the example of Region VII, other regions prepared and completed their respective RDIPs. Each RDIP consisted of programs and projects that were time-bound and location-specific.

As experienced initially by Region VII and later, by other regions, the preparation of the RDIP started with the identification of projects at the municipal level. Locally identified projects were then integrated and prioritized at the IAD or provincial level and later on, at the regional level. Bigger projects were added at each higher level. All projects to be implemented by either the local government units, the national government, or the private sector were recognized irrespective of funding source; that is, whether they were funded by the government or the private sector, or local, national or foreign sources.

---

[37] See Chapters II and VI for a related discussion on RDIP and IAD.

Implementation Method and Limitations

To facilitate implementation, all the projects listed in the RDIP were classified under certain sectors and sub-sectors. They were also identified according to their implementing agency, since every agency was deemed responsible for its projects. Concerned regional offices were then required to include the RDIP in the preparation of their respective regional offices' budget and present these budget to the RDC in a hearing before submitting them to their respective central regional offices in Manila.

The system, however, had limitations. *First,* not all the identified projects included in the RDIP qualified for implementation by government agency, such as the case of projects that were multi-sectoral in character and therefore required multi-agency participation. Other projects simply could not be categorized under any of the approved or authorized lines of programs and projects for implementation by the different government agencies.[38]

Second, almost all government agencies were already busy implementing the regular programs and projects that were prepared at the national level. These regular programs and projects already consumed most of their respective budget and occupied most of their manpower, thus giving many of the locally and regionally identified programs and projects lesser chances of being implemented.

The question, therefore, was how to implement the RDIPs. Part of the answer was for the region to package a set of programs and projects that were multi-sectoral and cut across all provinces in the region, and could be prepared and submitted for foreign assistance. Again, Region VII was used as the pilot area.

The end-product of the ensuing exercise was the preparation of the Central Visayas Regional Projects (CVRP) which had two major components: the rural component or CVRP-I and the urban component or CVRP-II. With the completion of the project preparation for Region VII, two other regions, Region II and Region X, were to follow. The rest were to be considered later on.

To date, however, only the CVRP-I has been successfully packaged and implemented with funding from the World Bank. The project was started in 1984 and supposed to end in 1989, but because of the inadequate amount of funding released in its first three years, the project failed to meet its target by the end of the year. The project was thus given up to 1991 to complete. Meanwhile, the CVRP-II loan negotiation with the World Bank was aborted following the institution of the new government in 1986. Its

[38] This was discussed in greater detail in Chapter II.

funds was transferred to another donor agency. Later, the project's components was reduced to include Metro Cebu only, and CVRP-I was renamed the Metro Cebu Development Project (MCDP).

Under this new arrangement two packages of projects had been prepared: the MCDP I and MCDP II, both funded by OECF under the 15th and 16th Yen Loan Agreements between the Philippines and Japan. A third package had just been approved by the Regional Development Council of Region VII and endorsed for funding to the OECF under the 17th Yen Loan Program.

Impact of the RDIP

It is difficult at this point to give a summary statement on the impact of RDIPs in the three Visayas regions. To do so will require an actual evaluation of each of the RDIP projects implemented by concerned agencies in the region as in the case of single agency projects, or implemented by separate project offices as in the case of multi-sectoral projects such as the CVRP and MCDP.

The evaluation process might in fact begin with a question: How many of the projects listed in the RDIPs since 1980 were actually implemented? The existing information, unfortunately, cannot yet shed light on this question with finality. As a recourse, one can list down all the major programs and projects implemented so far in a region and attempt to determine their impact irrespective of whether they were in the RDIP or not. One can cite several projects for this purpose, such as the CVRP in Region VII, the Local Resource Management (LRM) project in Regions VI and VIII, and the rural electrification program carried out in all the regions.[39]

However, in the absence of a program or project specific data, it is hard to determine the impact or results of these projects. In fact, most projects already implemented in the Visayas were recognized not so much for their impact but, ironically, for their inability to fully meet the needs of the people. Some of their drawbacks were the perennial lack of power and water supply in Metro Cebu and the inadequate number of hospitals and irrigation systems elsewhere.

Instead of a rigorous study on the impact of the RDIP, the previous sections of this paper merely measured the overall movement of the economy in the three Visayas regions, particularly the changes in their GRDP level and other related indicators, such as household, poverty incidence, etc. It was assumed that the changes in the level of the GRDP and the other related measures were the end-product of all activities either done

[39] Details about CVRP, IAD and LRM projects were discussed in Section D of Chapter VI.

or not done in the Visayas as well as of the disturbances from within and without the area.

METRO CEBU EXPERIENCE

The Metro Cebu Area

The Metro Cebu area referred in this study covers the set of municipalities and cities in Cebu province, inclusive of the municipalities of Naga from the South and Compostela in the North as well as the city of Lapulapu and the municipality of Cordova in the island of Mactan. As of 1980, Metro Cebu had a population of 945,253 with an annual intercensal population growth rate of 3.8 percent from 1970 to 1980. By-mid 1990, the population was estimated to reach 1,238,606 persons with an annual growth rate of 2.7 percent from 1980 to 1990, assuming a moderately declining mortality and fertility. Using the same assumption, the population of Metro Cebu will be about 1,543,486 by year 2000, with an annual growth rate of 2.2 percent from 1990 to 2000.

Metro Cebu is strategically located. Its good harbor facilities make it easily accessible to all kinds of vessels servicing other islands of the Visayas, Mindanao and the port of Manila for domestic trade and the rest of the world for international trade. Even before the Spanish period, Cebu has already been a trading area.

With the establishment of the Cebu International Airport in Mactan Island, Metro Cebu's growth potential further expanded. Now, it is directly connected with all the airports in the Visayas, Mindanao, Manila and some of the cities in other countries.

The airport has also contributed to the development of the nearby export processing zone. At present, the zone has 29 firms producing various light but valuable exportable products such as watches and electronic components. More firms are coming in or already under construction within the zone. In fact, almost all of its 119 hectares are already taken.

Within the metropolis, business, commercial and industrial establishments are concentrated in Cebu City. Toward the North is Mandaue City, haven of locally owned small- and medium-scale industries producing for both domestic and export markets. The known exports from the area are the Cebu rattan furnitures, handicrafts, and fashion accessories and stonecraft products. The area is also known for seaweeds processing.

Most of the business and commercial firms in Cebu City are servicing not only the local populace but the commercial traders and businessmen from other islands in the Visayas and Mindanao regions as well. Mandaue City, on the other hand, links with the rest of the Visayas and Mindanao for

trade because of its need for raw materials such as seaweeds, rattan, seashells, kenaf, fiber, etc. for its factories and processing plants.

Small- and medium-size firms characterize the industries in Metro Cebu. Of its many producers, only a few are directly exporting. These large direct exporters, on the other hand, sub-contract small producers.

Some of these local export industries to this day are still affected by the vagaries of world demand for their seasonal and fashion-oriented products. The same changing world demand pattern affects the industries at the export processing zone in Mactan.

Major Export Products

The following are the major export items from Metro Cebu and their corresponding export values (In $ million FOB):

Item	*1987*	*1988*	*1989*
Electronic watches	76.78	92.16	20.03
Rattan furniture	66.07	86.78	31.34
Copper concentrates	13.76	63.43	360.90
Semiconductor	35.95	37.78	5.08
Marine production	30.04	37.76	25.68
Handicraft	15.77	21.75	37.97
Raw sugar	29.27	18.56	-36.60
Coconut oil	33.24	21.29	-35.96
Buri furniture	12.46	12.97	4.13
Foodstuff	6.71	12.01	79.00
Shellcraft	11.95	11.84	-0.92
Stone furniture	2.36	10.32	337.61
Cocoshell charcoal	6.89	7.82	13.50
Wooden furniture/components	3.19	7.20	125.81
Footwear	5.97	5.44	-8.75
Garments	1.72	4.41	156.83
Copra solvent	6.09	3.74	-38.55
Copra	6.02	2.76	- 54.19
Lumber	3.67	3.05	-16.87
Amonium Nitrate	3.49	3.64	4.28
Molasses	3.27	3.96	20.95
Dehydrated fruits	-	1.15	-
Dolomite ore	2.37	2.96	24.73
Basketwares	1.35	2.63	95.45
Abaca fiber	2.66	2.53	-4.65

Because many of these are export-oriented, they did not suffer as much as industries in Metro Manila did during the 1984-1985 crisis. Since the effect on the supply of raw materials and financial resources was not drastic, Cebu's production was not adversely hampered. In contrast, most of the firms in Metro Manila were oriented toward the local market. Therefore, when the country experienced an economic bust which invariably translates into falling real incomes and increased cost of production, the Metro Manila-based firms are immediately hurt.

In fact, the nature of Metro Cebu's economy and its linkage with the rest of the Visayas and Mindanao both made Region VII the fastest growing region when economic recovery started in 1987 and 1988. For example, while Region VII grew by 7.5 percent in 1988 and by another 7.9 percent in 1989, the source of growth actually came from Metro Cebu through its construction activities and other service and commercial activities, as well as through its export-oriented manufacturing sector. In fact, until 1989, Region VII's growth was buoyed by the expansion of commercial, industrial and commercial activities in the Metro Cebu area.

Growtn Indicators

The following are important indicators of Metro Cebu's development in the last three years:

Indicators	*1987*	*1988*	*1989*
BIR Collection (PM)	861.1	1,105.6	1,675.1
Customs Collection (P)	448.3	614.0	1,071.0
Equity of BOI registered firms (P)[40]	158.0	850.0	2,149.0
Initial capital for new firms applying for 41 business names (P)	321.6	531.1	941.0
Paid up capital of firms registered with SEC (PM)[41]	67.0	145.4	199.9
Exports (US$ M)	344.4	456.5	488.9[41]
Imports (US$ M)	723.2	1,179.6	1,141.4
No. of firms MEPZ Cebu	10	16	29
MEPZ investments (PM)	4.5	51.8	570
Foreign tourist arrival	99,279	110,185	130,194

[40] Data includes whole region but most of the firms are located in Metro Cebu area.

[41] Excluding fourth quarter exports of Mactan International Airport.

Latest and Forthcoming Developments

Recent activities in Metro Cebu further strengthen its leading role as the growth center of the South. Among these projects are:

a) The development of the 44-hectare golf course in uptown Cebu into a new business-commercial park;
b) The construction of the Cebu transcentral highway which connects Cebu City to the West thus opening more lands for development especially for future residential and recreational uses;
c) The approval of the transfer of Lahug Airport General Aviation service to Mactan Island, thus paving the way for the development of more areas for commercial purposes in the old Lahug airport area in Cebu City;
d) The ongoing Mandaue City foreshore reclamation project which will open up more lands in Mandaue City for business and commercial purposes;
e) The resumption of the widening activity of the Metro Cebu arterial road system and the provision of basic urban facilities such as bus terminals, public markets, garbage collection, and traffic systems under the two OECF loans (MCDP I and II) packages;
f) The construction of a new Mactan Airport Terminal with funding from the Philippine Tourism Authority; and
g) The development of first class tourist beach resorts in Mactan Island and the nearby towns of Cebu province.

On the drawing board are the following major projects initiated by the local government units of Cebu:

a) Proposed second Mactan Bridge or underwater tunnel to ease the flow of traffic between mainland Cebu and Mactan Island where the export processing zone, airport and first class beach resorts are located;
b) Proposed Cebu South and Mactan-Cordova Reclamation Projects;
c) Further widening of Metro Cebu arterial roads and rural roads proposed for additional OECF funding;
d) Continuing expansion of the Mactan International Airport to include the provision of more airport facilities, runway and bigger airport terminal;
e) Proposed expansion of the Mactan Export Processing Zone to twice its present size;
f) Proposed Cebu Free Port; and
g) Other numerous government and private sector projects.

TOWARD A SUSTAINED GROWTH AND DEVELOPMENT

Current Problems and Issues

The specter of poverty continues to hound the Visayas. While only 49.5 percent of the nation's total households fell below the poverty line, the rate was 59 percent in the Visayas region. The greatest concentration of the bottom 30 percent of the country's population is also found in the area.

The Visayas is inadequately served with infrastructure support and social services facilities as indicated by its low road-population ratio, bed-population ratio, books-pupil ratio, and lack of electrification services and potable water supply. The recurring typhoons in Region VIII compounded these problems. Any attempt to integrate economic activities and extend infrastructure/utilities and social services facilities to Region VIII is hampered because the area is separated into islands.

Other problems include forest denudation, soil erosion, and destruction of fishing habitats as observed in Region VII; the limited available land for cultivation because most, especially those in Region VII, have higher slopes; concentration of production in crops which are highly vulnerable to the vicissitudes of world demand, like sugarcane for Region VI and coconut for Region VIII; the high level of underemployment and seasonality of rural labor; and the continuing bias of the national budget against the Visayas regions.

Proposed Development Strategy

The socio-economic future of the Visayas regions depends on three basic factors. These are: (a) the extent through which the three regions are able to overcome their natural and man-made limitations; (b) the degree to which each of the three regions can fully use its distinctive capabilities and comparative advantages; and (c) the extent to which the Visayas area can achieve integration at three levels: (i) the local economy, into a unified regional economy; (ii) the three regional economies of Regions VI, VII and VIII, into a unified Visayas economy; (iii) and the linkage of the Visayas economy with the rest of the country and the world.

At the first level, each of the three regions is required to overcome its specific regional constraints. In Region VI, its heavy dependence on sugarcane, which is almost a monocrop, in one of its provinces; in Region VII, it is its high man-land ratio and the destruction/overuse of its scarce land, forest, and fishery resources; and in Region VIII, it is the lack of basic rural and social infrastructures and the absence of a strategic industry as its lead sector.

For Region VI, there is a need to introduce alternative major sources of income as well as employment opportunities other than sugarcane production. For Region VII, it is the conservation, proper management and rehabilitation of its rapidly diminishing forest, land and fishery resources. Like Region VI, Region VIII has to finally develop its own economic base and at the same time, continue to get the much needed funds for its local infrastructure, utilities support, social facilities, and services.

At the second level, each of the region has to identify its own distinctive capabilities and comparative advantages and fully use them. Region VI has rich arable land, grazing areas and fishing grounds which up to now (and despite its problem with falling demand for and low prices of sugar), have enabled the region to produce around half of the gross value added for crop production, livestock and poultry raising and fishing for the whole Visayas. In Region VII, its strategic location, good port and airport facilities and its advanced level of commercial and industrial growth all serve as a strong base for future development. In Region VIII, its rich arable land and relatively cheap geothermal power supply are two of its major advantages. Given the right product choices and agricultural development schemes, together with the emphasis on heavy and power-intensive industries, Region VIII has the potential for a strong agro-industrial economy in the near future.

The success at the first two levels will eventually depend on how far the local planners and policymakers, on one hand, and the regional and national policymakers, on the other hand, can work together and complement each other's work in planning, and mobilizing and allocating resources. Both groups must be willing to submit to the influence/requirements of higher order economies of scale as well as the call for area specialization. For example, local and regional officials should agree on what role their provinces or specific localities should play in terms of (a) what to specialize in production, (b) where processing plants can best be located and (c) where infrastructure and support utilities and services, including social infrastructure and services, shall first be concentrated to achieve local economies of scale and gain externalities.

The same principle and decision making process will have to be applied among regional officials in the Visayas to arrive at better decisions on major issues, such as where and when to place the international airport and trading port, how to allocate power supply, how to provide crucial transport links among the different islands in the Visayas, where to locate large scale industries, who shall be the main supplier of the food requirements of the area, and where to locate the bulk of agro-industrial processing activities.

At the third level, the same principle and decision making process will also be applied to determine the specific roles of the different regions/

areas of the country and thus, achieve an inter-active and unified national economic system. For example, will the Cebu-Iligan-Cagayan de Oro triangle be the center of future industrial-commercial activities in Southern Philippines and act as a counterbalance to Metro Manila? What will the rest of Visayas and Mindanao do? How can the developments in Luzon and Metro Manila be complemented by those in the Visayas and Mindanao? While the regional officials in the Visayas have no effective control in this level of policy decisionmaking, it will be useful if indications or directions from the top are relayed to the regions in advance.

8

POSSIBLE AREAS FOR ASSISTANCE

This chapter suggests some areas where assistance can be accorded the government in promoting regional development and spatial equity.

MACROECONOMIC POLICY REFORMS

Present macroeconomic policies still preserve the bias in favor of the NCR. A case in point is the present trade regime. Although trade liberalization has been introduced by the government in the last few years, the structure of protection remained biased against agriculture. Thus, the present trade regime has not encouraged regional growth through the development of the respective regional primary sectors. This is unfortunate since there is a strong linkage between agriculture and most resource-based manufacturing activities; that is, positive developments in their agricultural sector favor the growth of the manufacturing sector.

Special programs, such as the export processing zones and industrial states and a host of incentives offered to industries to induce them to locate in areas outside the NCR have failed. The few firms that avail of the programs' facilities and incentives give little contribution to the regional economy since their backward and forward linkages are thin and their absorptive capacity is small. Most firms, especially large ones, are still attracted to the NCR and its adjacent regions where the level and additional infrastructure support given by government is highest. All the incentives to move firms away from the NCR are possibly inadequate enough to compensate firms for the extra cost incurred due to the lack of basic infrastructure such as roads, ports and warehouses, communications, transport, business information system, and electricity, in the less developed regions.

Thus, the NCR is now finding difficulty in absorbing its rapidly growing labor force.

The development of the NCR has spilled to the adjacent regions, particularly Region IV. Because this region has advanced in its growth, development projects like the CALABAR should perhaps be reviewed. It may be worthwhile to reallocate resources intended for the development of the CALABAR area to Region VII or Region XI. Redirecting the project to such regions will bring about the development of either of these regions.

As regards monetary, banking and credit policies, reforms initiated by the government in 1986 must be continued and supported. The recent move to relax regulations on bank entry and branching (e.g., removal of the requirement that banks purchase a certain amount of government securities for every branch opened, ending the moratorium on the granting of a commercial banking license, etc.) is a welcome development. In fact, the reforms have already produced some positive results. Banks—including rural banks—are now intensively mobilizing deposits rather than depending on the Central Banks' rediscounting window, as they used to do in the past when cheap rediscounting policy was pursued by the Central Bank (Lamberte and Relampagos 1990). The reduction in the functional differences among various bank categories has also improved competition. Banks became more innovative to survive.

Meanwhile, proposals to strengthen the supervisory and examination capability must be supported to prevent fraud (World Bank Report 1988). This will further improve the people's confidence in the banking system and facilitate the banks' task of mobilizing deposits.

At present, there are threats of policy reversals from the legislative branch. For instance, several bills that recommend the reimposition of interest rate ceilings have been filed in Congress. Another bill proposes to create Regional Universal Banks (RUBs) as an answer to the problem on the flow of funds from rural areas to urban centers, specifically in the NCR. However, incentives such as lower intermediation taxes, rediscounting privileges with government banks, higher single borrower's limit, higher maximum amount of insured deposits, etc., to be granted to RUBs will give them unfair advantages over the existing thrift banks and rural banks. Thus, policies along these lines will only continue to segment the financial markets and stifle competition. Policy reversals should be resisted.

Special credit programs, on the other hand, also need to be reviewed. Although most of them carry the market rates, they remain small, fragmented, uncoordinated and grossly overlap each other. Moreover, the bigger ones, like IGLF and GFSME, tend to allocate more of their loanable funds to regions, such as NCR and Region IV, that have been considerably favored by other macroeconomic policies. Perhaps the government should slowly move away from direct lending programs and concentrate instead on

strengthening the credit guarantee system.[42] The credit guarantee system, after all, has the following advantages over direct lending programs:

(a) The government has limited resources. Thus, given a higher gearing ratio, the resources used in the credit guarantee program can be more widely spread than in the other strategy. If the gearing ratio is 5, for instance, P1 can support P5 worth of loans.
(b) The credit guarantee system does not discourage savings mobilization since banks will be using their resources for on-lending.
(c) Most of the projects in the rural areas will certainly benefit from a strong credit guarantee system since they need it most. Banks, in contrast, usually perceive projects or borrowers in rural areas to be riskier than their urban counterparts.

Finally, the government's effort to decentralize substantial functions to regional and local institutions must be sustained since its reforms encourage more meaningful people participation in the development effort. For example, the national government's plan to extend the Pilot Decentralization Project to eight additional provinces representing the remaining regions has many positive implications. The plan will allow the rest of the provinces within a region to learn from the experiences on say, the new budgeting procedure, of one of the Project's provinces.

INSTITUTIONAL STRENGTHENING

The regions' development hinges largely on the strength of the regional institutions responsible for formulating and implementing plans. Despite the government's efforts to reshape regional institutions, much remains to be done in strengthening them.

Strengthening requires some changes on policy and development of human resources. This is one area where training and technical assistance can be provided. The assistance envisioned should include the following components:

[42] IGLF is really not a credit guaratee program since almost all of its funds are used for on-lending. Although a significant proportion of its resources are used for its guarantee program, GPSME also heavily engages itself in direct lending activities.

Policy Framework

a) Local governments should be given greater and more autonomy in exercising initiative, making decisions, and taking action in the conduct of community affairs.
b) The national government shall deconcentrate[43] more of its operations from central to regional level to complement the devolution process and to improve the effectiveness of national development and service programs. By pursuing this policy, departments and other national offices with field operations will: i) adopt a more common form and rate of regionalization for their field units; ii) delegate more substantial and administrative authority to their regional offices and field services, including the authority to initiate identification of programs and projects; iii) earmark an increasingly greater proportion of their budgets for regional operations and provide for more direct budgetary releases to regional and field offices; and iv) decentralize decisionmaking and deploy more of their financial resources, manpower, and other resources to the regions so as to facilitate transactions with field units, local governments, and nongovernmental groups. The General Appropriations Act for succeeding years should include detailed regional and local breakdowns of agency budgets.
c) The RDCs and the LDCs should ensure the adoption of the *bottom-up approach* in the planning process. The RDC must set the direction of the region's economic and social development. It must also adhere to prescribed planning documents such as the AIP and coordinate with LDCs to guarantee consistency between the local development plans, and the regional plans and priorities.
d) The RDC, granted with substantial functions, powers and responsibilities by EO 308, should strengthen the coordinative nature of the regional development process and use the new regional structure specified in the Order. The relationship that exists between the legislative and the executive branches of the government should be replicated at the regional level. That is, the RDC should optimize the presence of congressmen in the RCA by consulting the assembly on major policies, programs, and projects planned for the region.

[43] This concept was discussed in Chapter II.

Training Programs

The technical capabilities of the RDC and the LDC as planning organizations, their individual members, and their component LGUs shall continuously be upgraded and honed to give such groups greater capabilities in formulating, implementing and monitoring development projects. These will provide faster administrative decentralization and political devolution.

Two short-term training programs are envisioned: one, that which will equip RDCs and LDCs members with some skills for formulating policies; and two, a program that will equip the technical staff of RDCs and LDCs with skills comparable to those of the staff of line agencies' central offices. The training programs may be handled by a local training institution with some assistance from foreign experts, if required.

Acquisition of Equipment

The Philippines has some edge over other nations in its human resources. However, Filipinos' performance is hindered by the lack of proper equipment. Thus, any technical assistance provided to Filipino trainees should include a program for the purchase of office equipment, specially micro computers that can store reasonable amount of database and process simple statistical analysis.

RESOURCE MOBILIZATION

Since bank entry and branching, especially in the countryside, has also been encouraged, the attention now shifted toward strengthening the supervisory function of the Central Bank. This is perhaps one area where multilaterals such as the Asian Development Bank (ADB), the World Bank and the United States Agency for International Development (USAID) can help design and implement short-term training programs for the Central Bank staff.

Similarly, regions must be able to improve their ability to mobilize and allocate financial resources through the fiscal system. Here, training programs for local government employees on fiscal management and project development are necessary. However, such programs will be rendered ineffective unless policy reforms in the fiscal system are first initiated. The fiscal system must be more decentralized to grant LGUs the concomitant fiscal autonomy. All reforms in this aspect, should complement the efforts in strengthening regional institutions. Among the reforms that should be considered are those on:

Real Property and Local Taxes

In the area of real property taxation, the following specific measures may be considered:[44]

a) Review the exemptions enumerated in the Real Property Tax Code to broaden the taxable base of the property tax.
b) Provide local units with greater flexibility in setting the tax rates by allowing a wider range between the minimum and maximum ceilings. To date, only provinces and municipalities impose the maximum rates allowed under the law.

With respect to the taxing and other revenue-raising powers of local governments under the Local Tax Code, the following recommendations may be considered:

c) Rationalize the taxing powers of local governments by assigning to them functional taxes. Functional taxes refer to those taxes which LGUs can effectively impose and collect revenues from. For this to take effect, there must be an identifiable tax base for every local tax.
d) Review the revenue sharing system with primary consideration given to the functions and responsibilities of local governments.
e) Allow local governments to set their own tax rates in contrast to the present practice where rates have been fixed at a certain amount or percentage.
f) Simplify the schedule of business tax rates based on the income classification of local government units.

A review of statutory obligations imposed on LGUs is also needed since these erode local revenues. Among these are: (i) mandatory contribution to the Integrated National Police (PD 623); (ii) remittance of alien registration fee and livestock development fee; and (iii) contribution to legal research fund.

With respect to local tax administration, the following measures should be considered:

g) Undertake tax mapping operations or cadastral surveys which are critical for effective real property tax enforcement.
h) Adopt a more aggressive approach to tax collection by: (i) applying the legal remedies allowed by law to collect delinquent taxes; (ii) developing more efficient record management that will facilitate monitoring of tax compliance; and (iii) conducting information and education campaigns in certain respective areas to raise the people's level of tax consciousness.

[44] Note that Senator Pimentel merely consolidates the present Real Property Tax Code into his proposed SB No. 155, whereas the recommendations given here are designed to improve/enhance the revenue-raising capability of the real property tax.

On National Allotment

The national allotment scheme needs to be reviewed, too. The following are the weaknesses of the present scheme:

a) The present allotment scheme consisting of: the regular internal revenue allotment provided for under PD 144 as amended by PD 1741; the specific tax allotment under PD 436, as amended; and the local government revenue stabilization fund included in the Appropriation Act for 1987 (RA No. 6642) are unduly fragmented.
b) The regular internal revenue allotment, which is 20 percent of the national internal revenue collections for the third preceding year, is not entirely and regularly released to local governments. Similarly, the barangays' 10 percent share is irregularly released. That is, the share is given only on a per project basis in accordance with LOI 636.
c) The specific tax allotment is the local governments' share from specific taxes collected on four petroleum products during the second preceding year. A local government's share is based on fixed amounts per liter of volume capacity and is not responsive to changes in specific tax rates. The share increases only if the volume of removals of the petroleum products rises. Of the total amount available for allotment, only 75 percent is regularly released to local governments. The remaining 25 percent accruing to the barangays is released in accordance with LOI 636.
d) The local government revenue stabilization fund is allotted to local governments to compensate for their shortfall in specific tax allotment beginning CY 1987. This stop gap measure could have been avoided if the necessary reforms had been undertaken.

The present allotment system should be rationalized to give more meaning to the Constitution's local autonomy provision. Moreover, this will also give substance to the constitutional mandate that "local government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them" (Sec. 6, Art., 1987 Constitution). The following are specific recommendations:

a) Consolidate the different schemes into one national internal revenue allotment. Both the specific tax allotment and the local government revenue stabilization fund should be integrated with

the regular allotments.[45] The national government has to consult the LGUs regarding government's "reasonable" share in total revenues, given the varying local needs and costs of delivering basic services. There is therefore a need to review the basis and method of revenue allotment.

b) Corollarily, consider the revenue allotment vis-a-vis the amount of local taxes raised. To reward LGUs for their tax effort, a counterpart or equivalent allotment may be given. In this way, the local tax effort becomes a component of the formula for distribution of allotments.

c) Abolish all mandatory contributions to the national government to improve the local governments' financial condition. At present, the national government requires certain (mandatory) contributions from the LGUs but, in turn, bestows on them grants and aids to cover the local fiscal gap. This roundabout way of supplementing LGU resources can be eliminated or avoided once such resources are efficiently allocated. For example, based on the 1989 preliminary figures, the mandatory contributions to the Integrated National Police by LGUs was P215 million.[46] Hence, what is the financial implication of this proposal? It is the revenues foregone of at least P215 million annually.

On Local Budgeting

Obviously, there is a need to streamline the budgeting process. The first task will be to install an efficient administrative machinery. The LGUs will also have to negotiate with the national government for a removal of many major restrictions on the local budgeting process. Because LGUs have a clearer perspective on development needs in their areas, they can provide more realistic budgets.

REGIONAL AND SECTORAL FOCUS OF ASSISTANCE

Giving the LGUs more responsibility to mobilize and allocate resources will certainly benefit all regions in the end. However, it will benefit the economically advanced regions which used to be favored by government policies and programs more than the lagging ones because the former

[45] This has not yet been accomplished in the 1990 budget.

[46] Unfortunately, data on aid to government hospitals and to barangays could not yet be obtained at the time of writing this book.

already have broader and more diverse economic activities. This, therefore, calls for greater government intervention to help lagging regions catch up with the more progressive areas.

Based on the previous analysis, Regions V, VIII, and VI ranked lowest in terms of the levels of their development relative to other regions. Interestingly, Region VII ranked ninth among the 13 regions and, together with Region VI, consistently obtained lower bias index for regional government expenditures from 1977 to 1987. That is, both regions had been receiving proportionately less support from the national government than what they had been contributing to the economy compared to other regions. The Visayas regions therefore deserve some attention from the national leadership.

There are several advantages in directing the assistance to the Visayas regions. *First*, among the five regions with the lowest level of development, three come from the Visayas area. Thus, the assistance is needed to address their underdevelopment. *Second*, the Visayas has a lead region, i.e., Region VII, that can help hasten the development of the other two Visayas regions. They are already linked in various ways, such as in trade and production. Metro Cebu of Region VII is also linked with regions in northern Mindanao and has a larger base of export-oriented industries. And *third*, the Visayas area can serve as a counter magnet to the NCR-Region III-Region IV axis.

The absence of a relationship between the regions' economic performance and performance in social development is possibly due to the concentration of government services on other poorer regions. Such thrust in the national government's support is expected to continue in the future; hence, the need to search for additional assistance for economic projects/ programs in the Visayas regions.

Assistance is thus needed for the following projects:

1. Provision of basic infrastructure and utilities to serve as the backbone for the area's development. More specifically:
   a) The immediate interconnection of the island-province of Cebu with the source of geothermal power in Negros island and Leyte;
   b) The development of an inter-modal transport system between the major island of the Visayas by land and sea to facilitate the flow of goods, raw materials and semi-finished or completely finished products from the different island of the Visayas to Metro Cebu, and vice versa;
   c) The opening of Cebu as the gateway to the world outside of Manila for communication purposes and the improvement of the area's telephone system;

d) Expansion of Mactan International Airport and other neighboring airports;
e) Solution of Metro Cebu's water supply problem and the development of water supply systems in all the other urban centers in the Visayas.
f) Creation of a second bridge or underwater tunnel connecting Cebu Island with Mactan Island.

2. Rural upliftment and development
   a) Completion of rural water supply requirements and promotion of sanitation. An example of projects in this area is the Australian (grant) Funded Central Visayas Water Supply and Sanitation Project.
   b) Implementation of a well-coordinated and accelerated rural development program. Presently, the existing integrated rural development programs—such as the Integrated Area Development Projects in Bohol and Samar; the Local Resource Management Project in Region VIII and to Region VI, the Central Visayas Regional Project I - Rural Component, and the Cebu Upland Project—are of different versions;
   c) Completion of rural electrification;
   d) More programs on local natural resources management, conservation and rehabilitation which will take off from the experiences of the World Bank-funded Central Visayas Regional Project; and
   e. Agro-forestry and reforestation.

3. For agro-industrial development
   a) Establishment of provincial and/or district level people's industrial centers in areas where processing plants exist along with necessary facilities and infrastructure to help increase agricultural production and rural development; and
   b) Improvement of local road and transport networks serving agricultural production areas to link the latter with processing centers and urban settlements.

APPENDICES

Appendix A

FISCAL INCENTIVES GRANTED BY INDUSTRIAL ESTATE AUTHORITIES

EXPORT PROCESSING ZONE AUTHORITY	PHIVIDEC INDUSTRIAL AUTHORITY
1. Net operating loss carry-over 2. Accelerated depreciation 3. Exemption of capital equipment, raw materials and supplies from custom duties and internal revenue and local taxes 4. Exemption from export tax 5. Exemption from local taxes and licenses, except real estate taxes 6. Exemption from contractor's tax 7. Exemption from wharfage dues 8. Exemption from real property tax of export production equipment or machineries 9. Deduction of labor-training expenses 10. Deduction of organizational and pre-operating expenses 11. Tax credit in taxes paid on supplies and raw materials	1. Exemption of capital equipment, raw materials and supplies from custom duties and internal revenue and local taxes 2. Exemption from local taxes and license 3. Exemption from wharfage duties 4. BOI's incentives if qualified for promotion under its law

Source: Export Processing Zone Authority, BOI.

Appendix B
METHODOLOGICAL NOTES

The use of standardizing scores is a very useful statistical trial in comparing and combining two or more different data sets. To arrive at a standard score, we use the formula:

$$Z_{ij} = \frac{X_{ij} - \overline{X}_i}{S_i} (10) + 50$$

where: Z_{ij} = standard score
X_{ij} = indicator raw score of a region
$\overline{X}$ = sample mean
S_i = standard deviation where

$$S_i = \left[\frac{1}{13} \sum_j (X_{ij} - X_j)^{2\text{-}1/2}\right]^{1/2}$$

For each region, the average standard score is determined by taking the standard score on each of the indicator, adding these and dividing by 2. In symbols,

$$\frac{Z_1 + Z_2}{2}$$

where: Z_1 = standard score on indicator 1

Z_2 = standard score on indicator 2

(Please refer to Section D of Chapter III.)

Appendix C
GROSS DOMESTIC PRODUCT, BY INDUSTRIAL ORIGIN
1975 to 1988 (shares in %)

1. THE PHILIPPINES

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	26.8	25.6	29.2	27.3
a. Agricultural crops	16.5	16.1	18.3	16.2
b. Livestock & poultry	3.7	3.8	5.2	5.6
c. Fishery	4.7	4.2	4.9	4.8
d. Forestry	1.8	1.5	0.8	0.7
2. INDUSTRY	34.1	36.2	32.3	32.7
a. Mining and quarrying	2.1	2.4	2.0	1.6
b. Manufacturing	25.3	25.0	24.0	24.8
c. Construction	5.8	7.7	4.7	4.4
d. Electricity, gas, water	0.9	1.0	1.6	2.0
3. SERVICE SECTOR	39.1	38.3	38.6	40.0
a. Transportation	5.3	5.2	5.5	5.5
b. Trade	12.8	13.2	15.6	15.6
c. Finance and housing	7.8	7.7	4.8	6.2
d. Other services	13.3	12.2	12.6	12.7
GROSS DOMESTIC PRODUCT	100.0	100.0	100.1	100.0

2. THE NATIONAL CAPITAL REGION

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	0.0	0.0	0.0	0.0
a. Agricultural crops	0.0	0.0	0.0	0.0
b. Livestock & poultry	0.0	0.0	0.0	0.0
c. Fishery	0.0	0.0	0.0	0.0
d. Forestry	0.0	0.0	0.0	0.0
2. INDUSTRY	50.9	52.2	51.4	47.4
a. Mining and quarrying	0.0	0.0	0.0	0.0
b. Manufacturing	41.7	42.0	41.8	37.7
c. Construction	7.3	8.3	6.6	5.8
d. Electricity, gas, water	1.9	1.9	3.0	3.9
3. SERVICE SECTOR	49.1	47.8	48.6	52.6
a. Transportation	6.8	7.0	8.0	7.9
b. Trade	9.6	9.9	13.6	13.3
c. Finance and housing	10.0	11.3	4.7	9.0
d. Other services	22.8	19.6	22.3	22.4
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

3. REGION I

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	37.0	37.2	46.9	42.9
a. Agricultural crops	28.4	29.5	34.0	30.3
b. Livestock & poultry	6.0	4.9	10.5	10.5
c. Fishery	2.4	1.9	2.2	1.9
d. Forestry	0.3	0.9	0.3	0.2
2. INDUSTRY	24.9	24.6	19.2	23.8
a. Mining and quarrying	14.6	11.7	6.9	6.1
b. Manufacturing	5.4	6.4	7.4	12.1
c. Construction	4.3	5.5	3.5	4.2
d. Electricity, gas, water	0.5	0.9	1.5	1.4
3. SERVICE SECTOR	38.1	38.2	33.9	33.3
a. Transportation	5.3	5.2	4.8	4.9
b. Trade	9.2	10.4	10.4	10.1
c. Finance and housing	10.2	9.1	6.8	6.9
d. Other services	13.4	13.6	11.9	11.4
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	99.9	99.9

4. REGION II

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	50.2	44.1	57.0	55.1
a. Agricultural crops	37.0	29.5	39.6	38.7
b. Livestock & poultry	5.9	5.0	10.4	11.9
c. Fishery	0.8	0.6	0.7	0.8
d. Forestry	6.5	8.9	6.3	3.7
2. INDUSTRY	16.0	25.8	10.6	11.3
a. Mining and quarrying	0.0	0.3	1.3	0.8
b. Manufacturing	4.7	4.3	3.1	4.0
c. Construction	11.0	20.8	5.4	5.6
d. Electricity, gas, water	0.3	0.4	0.8	0.9
3. SERVICE SECTOR	33.8	30.1	32.3	33.6
a. Transportation	2.1	1.7	1.9	2.0
b. Trade	13.1	11.1	13.0	13.1
c. Finance and housing	8.1	6.6	6.0	6.7
d. Other services	10.5	10.7	11.5	11.8
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

5. REGION III

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	28.9	26.8	29.1	28.5
a. Agricultural crops	18.0	15.8	18.0	16.6
b. Livestock & poultry	7.1	9.1	8.8	9.3
c. Fishery	2.9	1.8	2.3	2.6
d. Forestry	0.9	0.0	0.0	0.0
2. INDUSTRY	34.4	37.0	34.9	34.8
a. Mining and quarrying	1.5	2.9	2.4	1.5
b. Manufacturing	26.3	25.1	23.0	24.6
c. Construction	5.9	7.9	7.8	6.6
d. Electricity, gas, water	0.7	1.0	1.7	2.1
3. SERVICE SECTOR	36.7	36.2	36.0	36.7
a. Transportation	5.1	4.7	5.0	5.0
b. Trade	16.4	17.1	18.4	18.6
c. Finance and housing	6.7	6.1	4.7	5.1
d. Other services	8.4	8.2	8.0	8.1
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	100.0	99.9

6. REGION IV

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	30.2	27.7	30.3	29.7
a. Agricultural crops	14.5	13.1	15.1	13.0
b. Livestock & poultry	7.9	9.2	9.4	10.9
c. Fishery	6.9	4.9	5.5	5.5
d. Forestry	0.9	0.4	0.3	0.3
2. INDUSTRY	39.6	41.6	37.0	39.2
a. Mining and quarrying	2.2	3.2	1.5	1.2
b. Manufacturing	31.1	29.0	29.6	32.4
c. Construction	6.0	9.0	5.2	4.8
d. Electricity, gas, water	0.3	0.4	0.7	0.7
3. SERVICE SECTOR	30.3	30.7	32.7	31.1
a. Transportation	5.6	5.8	6.4	6.1
b. Trade	11.3	12.8	16.1	15.1
c. Finance and housing	6.4	6.0	4.3	4.0
d. Other services	6.9	6.1	6.0	5.9
GROSS REGIONAL DOMESTIC PRODUCT	100.1	100.0	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

7. REGION V

INDUSTRY	1975	1980	1985	988
1. AGRI., FISHERY, FORESTRY	59.3	52.9	58.6	55.2
a. Agricultural crops	32.9	33.9	33.9	29.2
b. Livestock & poultry	4.5	3.0	7.1	8.6
c. Fishery	21.1	15.4	17.4	17.4
d. Forestry	0.8	0.6	0.1	0.0
2. INDUSTRY	9.4	14.5	8.8	9.9
a. Mining and quarrying	0.2	0.3	0.7	1.2
b. Manufacturing	2.8	2.6	2.6	3.2
c. Construction	5.7	10.7	4.3	3.8
d. Electricity, gas, water	0.7	0.8	1.3	1.6
3. SERVICE SECTOR	31.3	32.6	32.6	35.0
a. Transportation	3.4	3.5	3.8	4.0
b. Trade	7.0	7.6	8.8	9.9
c. Finance and housing	8.5	8.3	6.8	7.4
d. Other services	12.4	13.2	13.2	13.7
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	100.0	100.0

8. REGION VI

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	44.5	39.2	42.2	42.3
a. Agricultural crops	28.0	27.5	24.3	23.0
b. Livestock & poultry	3.2	4.0	7.7	8.5
c. Fishery	12.7	7.0	10.1	10.8
d. Forestry	0.6	0.7	0.0	0.0
2. INDUSTRY	25.7	27.6	21.2	17.2
a. Mining and quarrying	2.1	1.3	2.5	4.0
b. Manufacturing	21.0	21.6	15.5	10.2
c. Construction	2.3	4.3	2.3	2.2
d. Electricity, gas, water	0.3	0.4	0.9	0.9
3. SERVICE SECTOR	29.8	33.1	36.6	40.5
a. Transportation	2.3	2.4	2.7	3.0
b. Trade	14.5	16.6	19.5	21.4
c. Finance and housing	5.3	5.3	4.4	5.1
d. Other services	7.7	8.9	9.9	10.9
GROSS REGIONAL DOMESTIC PRODUCT	100.0	99.9	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

9. REGION VII

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	24.2	23.4	23.2	21.8
a. Agricultural crops	12.0	10.7	8.9	8.1
b. Livestock & poultry	7.5	5.9	6.9	6.5
c. Fishery	4.3	6.6	7.4	7.2
d. Forestry	0.5	0.2	0.0	0.0
2. INDUSTRY	29.7	34.2	30.5	31.8
a. Mining and quarrying	10.3	11.3	8.2	7.2
b. Manufacturing	15.1	16.7	18.6	20.9
c. Construction	3.8	5.6	2.6	2.6
d. Electricity, gas, water	0.6	0.6	1.1	1.1
3. SERVICE SECTOR	46.0	42.4	46.3	46.4
a. Transportation	7.2	6.5	6.4	6.1
b. Trade	22.7	20.5	25.7	26.6
c. Finance and housing	5.3	5.1	3.9	4.2
d. Other services	10.8	10.3	10.4	9.5
GROSS REGIONAL DOMESTIC PRODUCT	99.9	100.0	100.0	99.9

10. REGION VIII

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	53.0	53.8	59.2	58.5
a. Agricultural crops	33.5	33.8	36.3	33.6
b. Livestock & poultry	3.7	3.6	6.4	8.2
c. Fishery	13.9	13.7	15.2	15.2
d. Forestry	1.9	2.8	2.1	1.5
2. INDUSTRY	16.6	14.2	9.6	10.2
a. Mining and quarrying	4.4	0.7	2.4	0.3
b. Manufacturing	3.4	3.3	2.7	4.5
c. Construction	8.5	9.4	3.3	3.6
d. Electricity, gas, water	0.3	0.8	1.3	1.7
3. SERVICE SECTOR	30.4	31.9	31.2	31.3
a. Transportation	3.1	3.3	2.7	2.7
b. Trade	6.5	7.6	8.0	7.5
c. Finance and housing	9.6	9.0	8.5	8.8
d. Other services	11.1	12.1	12.1	12.3
GROSS REGIONAL DOMESTIC PRODUCT	100.0	99.9	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

II. REGION IX

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	48.9	59.1	64.7	62.5
a. Agricultural crops	29.1	22.9	26.4	25.5
b. Livestock & poultry	4.7	2.6	5.1	5.2
c. Fishery	9.3	29.2	31.2	30.5
d. Forestry	5.8	4.5	2.0	1.3
2. INDUSTRY	11.0	9.7	6.9	9.2
a. Mining and quarrying	1.1	0.3	0.4	0.7
b. Manufacturing	4.7	3.5	4.6	6.6
c. Construction	4.8	5.5	1.6	1.6
d. Electricity, gas, water	0.3	0.3	0.4	0.3
3. SERVICE SECTOR	40.2	31.2	28.4	28.3
a. Transportation	8.7	6.7	5.5	5.6
b. Trade	12.2	10.5	10.1	9.5
c. Finance and housing	9.0	6.3	5.5	5.7
d. Other services	10.3	7.7	7.4	7.6
GROSS REGIONAL DOMESTIC PRODUCT	100.1	100.0	100.0	100.0

12. REGION X

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	41.2	39.8	44.3	40.5
a. Agricultural crops	24.8	30.0	35.0	31.1
b. Livestock & poultry	4.2	2.2	4.8	5.0
c. Fishery	5.7	1.3	1.4	1.3
d. Forestry	6.5	6.3	3.1	3.2
2. INDUSTRY	21.1	24.8	23.0	27.4
a. Mining and quarrying	0.6	4.9	3.9	0.6
b. Manufacturing	15.0	13.2	15.4	23.2
c. Construction	5.1	5.9	2.5	2.2
d. Electricity, gas, water	0.4	0.8	1.2	1.3
3. SERVICE SECTOR	37.8	35.3	32.7	32.2
a. Transportation	3.1	2.5	2.1	1.8
b. Trade	19.0	19.7	19.5	19.7
c. Finance and housing	6.7	5.1	3.9	3.9
d. Other services	9.0	8.0	7.2	6.8
GROSS REGIONAL DOMESTIC PRODUCT	100.1	100.0	99.9	99.9

Source: National Statistical Coordination Board as of January 1989.

Appendix C (continued)

13. REGION XI

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	46.0	43.6	49.7	46.5
a. Agricultural crops	29.4	33.2	41.5	37.3
b. Livestock & poultry	2.9	2.7	4.0	4.7
c. Fishery	3.0	1.3	1.3	1.3
d. Forestry	10.7	6.3	2.9	3.2
2. INDUSTRY	16.5	19.4	15.4	18.6
a. Mining and quarrying	0.0	1.0	1.9	1.4
b. Manufacturing	11.3	13.1	11.1	14.1
c. Construction	5.0	5.1	2.0	2.4
d. Electricity, gas, water	0.2	0.2	0.4	0.7
3. SERVICE SECTOR	37.5	37.0	34.9	34.9
a. Transportation	4.4	4.4	4.1	4.0
b. Trade	20.4	20.5	20.7	21.0
c. Finance and housing	5.3	4.7	3.6	3.6
d. Other services	7.5	7.3	6.6	6.3
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	99.9	100.1

14. REGION XII

INDUSTRY	1975	1980	1985	1988
1. AGRI., FISHERY, FORESTRY	55.1	57.3	57.6	53.6
a. Agricultural crops	46.0	45.4	44.5	40.9
b. Livestock & poultry	2.7	2.0	4.8	5.0
c. Fishery	2.0	6.4	6.8	6.3
d. Forestry	4.3	3.4	1.6	1.4
2. INDUSTRY	19.2	20.8	20.0	26.4
a. Mining and quarrying	0.1	0.1	0.2	0.2
b. Manufacturing	15.3	13.8	14.6	21.0
c. Construction	3.2	5.8	4.0	3.9
d. Electricity, gas, water	0.6	1.0	1.3	1.3
3. SERVICE SECTOR	25.7	21.9	22.3	20.0
a. Transportation	2.7	2.2	2.0	1.8
b. Trade	8.5	6.9	8.0	6.8
c. Finance and housing	7.0	5.4	4.8	4.5
d. Other services	7.4	7.4	7.5	6.9
GROSS REGIONAL DOMESTIC PRODUCT	100.0	100.0	100.0	100.0

Source: National Statistical Coordination Board as of January 1989.

Appendix D
AVERAGE ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT, BY INDUSTRIAL ORIGIN

1. THE PHILIPPINES

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	5.1	1.6	1.2	3.2
a. Agricultural crops	5.6	1.6	-1.6	2.9
b. Livestock & poultry	6.1	4.7	8.3	6.1
c. Fishery	3.9	1.7	3.0	3.2
d. Forestry	1.8	-12.7	2.6	-4.7
2. INDUSTRY	7.2	-4.7	8.0	2.7
a. Mining and quarrying	8.7	-5.2	1.6	0.8
b. Manufacturing	5.8	-2.7	7.4	2.9
c. Construction	11.8	-15.2	13.9	0.9
d. Electricity, gas, water	8.4	9.0	7.7	9.2
3. SERVICE SECTOR	5.6	-1.4	6.6	3.2
a. Transportation	5.8	-0.4	4.4	3.3
b. Trade	6.7	2.5	5.2	4.6
c. Finance and housing	5.8	-12.1	13.2	1.3
d. Other services	4.3	-1.2	6.4	2.7
GROSS DOMESTIC PRODUCT	6.0	-1.7	5.5	3.1

2. THE NATIONAL CAPITAL REGION

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	0.0	0.0	0.0	0.0
a. Agricultural crops	0.0	0.0	0.0	0.0
b. Livestock & poultry	0.0	0.0	0.0	0.0
c. Fishery	0.0	0.0	0.0	0.0
d. Forestry	0.0	0.0	0.0	0.0
2. INDUSTRY	6.6	-3.9	7.0	2.3
a. Mining and quarrying	0.0	0.0	0.0	0.0
b. Manufacturing	6.2	-3.5	5.1	2.1
c. Construction	8.8	-9.9	19.1	1.1
d. Electricity, gas, water	5.8	8.2	9.2	8.4
3. SERVICE SECTOR	5.5	-2.9	9.2	3.4
a. Transportation	6.7	-0.1	5.3	4.0
b. Trade	6.8	3.8	5.1	5.4
c. Finance and housing	8.5	-23.2	23.0	2.1
d. Other services	3.1	-0.7	8.4	2.7
GROSS REGIONAL DOMESTIC PRODUCT	6.1	-3.4	8.1	2.9

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

3. REGION I

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	4.6	6.1	-0.3	4.8
a. Agricultural crops	5.2	4.0	-3.3	4.2
b. Livestock & poultry	0.8	17.3	8.8	8.0
c. Fishery	0.6	2.6	3.6	2.0
d. Forestry	29.1	-18.0	3.9	1.0
2. INDUSTRY	4.3	-4.3	5.8	3.3
a. Mining and quarrying	0.0	-9.4	0.9	-3.0
b. Manufacturing	7.9	3.3	4.1	9.8
c. Construction	9.6	-10.8	21.0	3.6
d. Electricity, gas, water	16.1	11.1	4.6	11.0
3. SERVICE SECTOR	4.5	-0.5	4.8	2.6
a. Transportation	3.8	0.7	5.2	3.0
b. Trade	6.9	2.6	3.8	4.4
c. Finance and housing	2.1	-3.8	6.1	0.6
d. Other services	4.8	-1.4	4.7	2.5
GROSS REGIONAL DOMESTIC PRODUCT	4.5	1.5	2.8	3.7

4. REGION II

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	4.7	4.5	1.4	3.0
a. Agricultural crops	2.8	5.2	-0.9	2.6
b. Livestock & poultry	4.2	11.9	8.7	7.7
c. Fishery	1.3	1.0	3.9	1.7
d. Forestry	13.8	-7.0	3.0	-2.0
2. INDUSTRY	16.8	-25.9	10.8	-0.4
a. Mining and quarrying	41.1	0.9	63.4	24.0
b. Manufacturing	5.6	-10.5	11.4	1.1
c. Construction	20.0	-36.6	7.6	-3.0
d. Electricity, gas, water	14.6	11.1	-0.2	11.5
3. SERVICE SECTOR	5.0	-1.3	3.3	2.2
a. Transportation	2.5	-0.6	4.0	1.7
b. Trade	4.0	1.1	1.2	2.3
c. Finance and housing	3.2	-5.0	6.5	0.9
d. Other services	7.7	-2.0	3.7	3.2
GROSS REGIONAL DOMESTIC PRODUCT	7.3	-2.8	3.0	2.3

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

5. REGION III

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	4.4	-0.1	3.2	2.8
a. Agricultural crops	3.3	1.4	0.9	2.3
b. Livestock & poultry	11.0	-3.5	8.4	5.0
c. Fishery	-3.7	3.3	1.2	2.0
d. Forestry	-57.4	-51.2	4.1	-32.0
2. INDUSTRY	7.3	-4.5	7.9	3.0
a. Mining and quarrying	19.3	-7.5	-20.7	2.7
b. Manufacturing	4.9	-2.6	13.3	2.4
c. Construction	12.0	-10.7	-0.9	3.8
d. Electricity, gas, water	12.5	11.4	6.4	11.3
3. SERVICE SECTOR	5.6	-0.9	5.9	2.9
a. Transportation	4.2	0.1	3.1	2.6
b. Trade	6.8	0.9	7.0	3.9
c. Finance and housing	4.0	-6.3	6.7	0.7
d. Other services	5.4	-2.1	4.6	2.6
GROSS REGIONAL DOMESTIC PRODUCT	5.9	-2.0	5.8	2.9

6. REGION IV

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	4.0	0.9	2.3	3.3
a. Agricultural crops	3.8	2.1	-2.2	2.6
b. Livestock & poultry	8.8	-1.1	7.9	5.9
c. Fishery	-1.1	1.8	3.0	1.6
d. Forestry	-8.5	-5.4	2.8	-5.2
2. INDUSTRY	6.7	-2.9	7.0	3.3
a. Mining and quarrying	13.4	-9.1	-9.3	-1.4
b. Manufacturing	4.3	0.1	6.9	3.7
c. Construction	14.0	-15.2	12.9	1.8
d. Electricity, gas, water	13.5	10.1	4.4	10.9
3. SERVICE SECTOR	6.0	1.2	3.9	3.6
a. Transportation	6.5	1.3	3.0	4.0
b. Trade	8.2	4.9	3.4	5.6
c. Finance and housing	4.3	-6.7	6.2	-0.2
d. Other services	3.1	-1.4	4.9	2.2
GROSS REGIONAL DOMESTIC PRODUCT	5.7	-0.5	4.6	3.4

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

7. REGION V

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	3.1	2.7	-0.1	1.8
a. Agricultural crops	6.0	1.6	-3.9	1.4
b. Livestock & poultry	-2.7	14.5	8.2	7.3
c. Fishery	-0.9	1.9	2.9	0.9
d. Forestry	0.0	-40.8	7.4	-32.2
2. INDUSTRY	14.0	-14.2	14.9	2.7
a. Mining and quarrying	14.9	-9.3	22.7	16.3
b. Manufacturing	4.2	-2.5	16.1	3.4
c. Construction	17.8	-23.0	15.0	-0.7
d. Electricity, gas, water	8.9	7.4	8.1	8.9
3. SERVICE SECTOR	6.2	-0.3	5.6	3.2
a. Transportation	5.8	0.5	4.1	3.5
b. Trade	6.8	4.9	8.1	4.9
c. Finance and housing	4.9	-4.1	5.5	1.2
d. Other services	6.7	-1.6	4.4	3.1
GROSS REGIONAL DOMESTIC PRODUCT	5.4	-0.3	3.2	2.3

8. REGION VI

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	0.9	-1.9	2.5	0.2
a. Agricultural crops	3.0	-6.0	0.5	-0.9
b. Livestock & poultry	7.9	10.0	7.8	8.2
c. Fishery	-8.4	3.7	3.1	-0.6
d. Forestry	6.2	-186.2	22.1	-56.1
2. INDUSTRY	4.8	-12.0	1.2	-2.5
a. Mining and quarrying	-6.3	-1.4	-0.5	5.5
b. Manufacturing	3.9	-12.5	0.2	-5.0
c. Construction	16.1	-21.4	10.5	0.2
d. Electricity, gas, water	7.9	11.1	-0.6	7.8
3. SERVICE SECTOR	5.5	-1.6	7.4	3.0
a. Transportation	4.0	-0.6	5.8	2.8
b. Trade	6.0	-0.2	8.0	3.6
c. Finance and housing	3.5	-7.0	8.9	0.4
d. Other services	6.3	-1.9	6.0	3.3
GROSS REGIONAL DOMESTIC PRODUCT	3.4	-4.3	4.2	0.6

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

9. REGION VII

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	7.0	-1.4	2.9	2.8
a. Agricultural crops	5.4	-3.9	-0.9	0.6
b. Livestock & poultry	2.9	1.3	7.7	2.4
c. Fishery	16.2	-0.3	3.2	7.6
d. Forestry	-5.4	-37.8	3.3	-15.4
2. INDUSTRY	10.4	-6.5	10.3	4.1
a. Mining and quarrying	9.5	-12.1	12.3	0.8
b. Manufacturing	9.6	-0.5	9.0	6.1
c. Construction	15.5	-23.1	16.9	0.6
d. Electricity, gas, water	7.9	11.5	6.7	8.7
3. SERVICE SECTOR	6.0	-0.6	6.4	3.6
a. Transportation	5.4	-2.9	4.7	2.3
b. Trade	5.6	2.5	7.5	4.8
c. Finance and housing	6.6	-7.6	10.1	1.7
d. Other services	6.8	-3.0	3.2	2.6
GROSS REGIONAL DOMESTIC PRODUCT	7.7	-2.7	6.8	3.6

10. REGION VIII

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	3.8	2.5	0.2	2.6
a. Agricultural crops	3.7	2.9	-2.5	1.9
b. Livestock & poultry	2.9	9.7	6.8	8.0
c. Fishery	3.2	1.0	3.0	2.5
d. Forestry	10.9	-2.3	0.7	0.2
2. INDUSTRY	0.5	-10.0	8.6	-1.9
a. Mining and quarrying	-32.2	33.2	-44.3	-18.0
b. Manufacturing	3.0	-5.6	7.4	4.0
c. Construction	5.5	-26.4	20.1	-4.7
d. Electricity, gas, water	22.9	9.6	8.1	15.5
3. SERVICE SECTOR	4.5	-1.2	3.0	2.1
a. Transportation	4.7	-4.8	2.5	0.8
b. Trade	6.4	0.7	1.8	2.9
c. Finance and housing	2.3	-2.3	4.6	1.2
d. Other services	5.2	-0.7	2.6	2.6
GROSS REGIONAL DOMESTIC PRODUCT	3.5	-0.2	1.8	1.8

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

11. REGION IX

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	14.8	0.9	0.6	7.1
a. Agricultural crops	6.2	-0.2	-3.8	4.2
b. Livestock & poultry	-0.6	11.9	8.9	6.1
c. Fishery	33.9	1.7	3.3	14.4
d. Forestry	5.9	-14.2	0.9	-6.0
2. INDUSTRY	8.6	-8.9	7.6	3.9
a. Mining and quarrying	-11.4	-5.2	71.4	1.6
b. Manufacturing	5.2	7.3	4.8	7.8
c. Construction	13.8	-32.3	6.7	-3.4
d. Electricity, gas, water	6.2	5.1	-1.2	5.4
3. SERVICE SECTOR	5.9	-1.8	2.7	2.5
a. Transportation	5.9	-4.2	3.2	1.8
b. Trade	8.0	-0.4	0.3	3.3
c. Finance and housing	4.0	-3.5	5.3	1.7
d. Other services	5.1	-0.6	3.4	2.9
GROSS REGIONAL DOMESTIC PRODUCT	11.0	-0.7	1.8	5.2

12. REGION X

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	8.1	2.0	-0.4	5.0
a. Agricultural crops	12.6	2.1	-2.2	6.8
b. Livestock & poultry	-4.1	16.6	8.5	6.4
c. Fishery	-21.1	2.2	2.8	-6.4
d. Forestry	8.1	-11.6	3.1	-0.5
2. INDUSTRY	12.1	1.3	16.1	7.1
a. Mining and quarrying	50.9	12.1	7.7	5.4
b. Manufacturing	6.3	4.9	17.5	8.5
c. Construction	11.9	-21.7	12.0	-1.2
d. Electricity, gas, water	21.5	10.1	4.2	13.9
3. SERVICE SECTOR	7.4	-0.7	4.9	3.9
a. Transportation	4.6	-3.0	1.7	1.1
b. Trade	9.5	0.9	5.3	5.4
c. Finance and housing	3.2	-5.6	6.1	0.9
d. Other services	6.4	-1.5	3.8	2.9
GROSS REGIONAL DOMESTIC PRODUCT	8.7	0.9	5.4	5.1

Source: National Statistical Coordination Board as of January 1989.

Appendix D (continued)

13. REGION XI

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	3.8	4.7	0.4	3.5
a. Agricultural crops	7.3	6.6	-1.0	5.3
b. Livestock & poultry	3.4	7.3	10.0	7.1
c. Fishery	-10.9	0.2	2.9	-3.0
d. Forestry	-5.7	-13.7	3.0	-5.9
2. INDUSTRY	8.1	-3.1	13.4	4.4
a. Mining and quarrying	71.5	43.5	-6.3	31.6
b. Manufacturing	7.9	-2.7	13.6	5.2
c. Construction	5.4	-20.4	26.2	-2.2
d. Electricity, gas, water	6.3	16.9	19.4	13.5
3. SERVICE SECTOR	4.6	0.1	3.5	2.9
a. Transportation	5.0	-0.6	3.6	2.7
b. Trade	5.0	1.9	3.8	3.7
c. Finance and housing	2.6	-5.4	5.1	0.5
d. Other services	4.3	-1.3	1.7	2.1
GROSS REGIONAL DOMESTIC PRODUCT	4.9	1.7	3.7	3.4

14. REGION XII

INDUSTRY	1975-80	1981-85	1986-88	1975-88
1. AGRI., FISHERY, FORESTRY	9.1	0.8	0.0	4.0
a. Agricultural crops	8.0	0.5	-1.6	3.3
b. Livestock & poultry	2.9	17.9	9.9	9.0
c. Fishery	31.5	-0.1	2.8	13.0
d. Forestry	3.4	-15.4	1.3	-4.7
2. INDUSTRY	9.8	-0.4	13.1	6.7
a. Mining and quarrying	14.8	-2.7	35.5	10.1
b. Manufacturing	6.2	3.1	14.7	6.7
c. Construction	20.3	-10.8	9.4	5.8
d. Electricity, gas, water	16.8	3.7	-1.2	9.6
3. SERVICE SECTOR	5.1	-0.7	2.8	2.3
a. Transportation	3.8	-2.4	1.6	1.2
b. Trade	4.1	2.5	0.8	2.5
c. Finance and housing	3.0	-3.8	4.5	0.7
d. Other services	8.5	-1.5	3.9	3.7
GROSS REGIONAL DOMESTIC PRODUCT	8.3	0.2	3.7	4.2

Source: National Statistical Coordination Board as of January 1989.

Appendix E

REGIONAL SHARES TO SECTORAL GROSS VALUE ADDED AND TO GROSS DOMESTIC PRODUCT

(In percent)

1. 1975

REGIONS	SECTORS I	II	III	GDP
NCR	0.0	47.2	39.6	31.6
I	5.6	3.0	4.0	4.1
II	5.0	1.2	2.3	2.6
III	9.0	8.4	7.8	8.3
IV	15.8	16.3	10.9	14.0
V	7.8	1.0	2.8	3.5
VI	15.5	7.1	7.1	9.3
VII	6.2	5.9	8.0	6.8
VIII	5.4	1.3	2.1	2.7
IX	4.7	0.8	2.7	2.6
X	6.5	2.6	4.1	4.2
XI	11.5	3.2	6.4	6.7
XII	7.0	1.9	2.2	3.2
TOTAL	100.0	99.9	100.0	99.8

2. 1980

REGIONS	SECTORS I	II	III	GDP
NCR	0.0	45.8	39.5	31.7
I	5.5	2.6	3.8	3.8
II	4.9	2.0	2.2	2.8
III	8.7	8.4	7.8	8.3
IV	15.0	15.9	11.1	13.8
V	7.0	1.4	2.9	3.4
VI	12.5	6.2	7.1	8.2
VII	6.8	7.0	8.2	7.4
VIII	5.1	1.0	2.0	2.4
IX	7.7	0.9	2.7	3.3
X	7.5	3.3	4.4	4.8
XI	10.8	3.4	6.1	6.3
XII	8.6	2.2	2.2	3.8
TOTAL	100.1	100.1	100.0	100.0

Appendix E (continued)

3. 1985

REGIONS	SECTORS I	II	III	GDP
NCR	0.0	47.2	37.4	29.7
I	7.2	2.7	3.9	4.5
II	5.2	0.9	2.2	2.6
III	8.5	9.2	8.0	8.5
IV	14.9	16.5	12.2	14.4
V	7.0	1.0	2.9	3.5
VI	10.6	4.8	7.0	7.3
VII	5.6	6.6	8.4	7.0
VIII	5.1	0.8	2.0	2.5
IX	8.0	0.8	2.7	3.6
X	8.1	3.8	4.5	5.4
XI	12.2	3.4	6.5	7.1
XII	7.7	2.4	2.3	3.9
TOTAL	100.1	100.1	100.0	100.0

4. 1988

REGIONS	SECTORS I	II	III	GDP
NCR	0.0	44.6	40.5	30.8
I	7.0	3.2	3.7	4.4
II	4.8	0.8	2.0	2.4
III	8.5	8.7	7.5	8.1
IV	16.0	17.6	11.4	14.7
V	6.5	1.0	2.8	3.2
VI	10.5	3.6	6.9	6.8
VII	5.8	7.1	8.5	7.3
VIII	5.0	0.7	1.8	2.3
IX	7.9	1.0	2.4	3.4
X	8.1	4.6	4.4	5.5
XI	12.0	4.0	6.2	7.1
XII	7.8	3.2	2.0	4.0
TOTAL	99.9	100.1	100.1	100.0

Note: Data in this appendix are discussed in Chapter IV.

Appendix F
TECHNICAL NOTES ON STRUCTURAL CONSTRAINTS

1. CLIMATE

The Philippine climate is characterized by *uniformity of temperature, diversity of rainfall, high humidity, low solar radiation and frequency of typhoons.*

a) **Temperature.** Temperature differences in the archipelago are slight (26 C to 28 C).

b) **Rainfall.** There are generally two pronounced seasons: wet and dry. The rainfall is classified as follows:

i) *Type I.* Two pronounced seasons: One dry from November to April, the other wet during the rest of the year.

ii) *Type II.* No dry seasons, but with a very pronounced maximum rain period from November to January.

iii) *Type III.* Seasons not very pronounced, relatively dry from November to April and wet during the rest of the year. Maximum rain periods are not very pronounced with the dry season lasting only from one to three months.

iv) *Type IV.* Rainfall is more or less evenly distributed throughout the year.

2. WATER RESOURCES

Sources of water supply can be classified as surface water or groundwater.

The 1976 inventory of surface water shows that the country has about 421 principal river basins, 59 lakes and numerous individual streams. Total annual water run-off in the river basin is estimated at about 454,291 million cubic meters.

The country's groundwater storage is estimated at 261,775 million cubic meters with gross inflow of around 66,197 million cubic meter per year in 1980.

3. TOPOGRAPHY

The archipelago has a complex and diversified terrain. Coastal plains, valleys, rolling uplands and plateaus are found in all of the main islands. Numerous mountain ranges divide the islands into small watersheds with usual short rivers.

The distribution of the land mass can be classified according to its slope. Slope is considered one of the basic indicators of land use potential.

The first category is the 0 to 8 to 18 percent slope, or *flat lands.* These are irrigable and highly suitable for agricultural urban and industrial, and other related uses.

The second category is the 8 to 18 percent slope, referring to the *upland regions.* These lands have wide variety of uses, with options ranging from seasonal to permanent crops.

The third category includes areas with slope range of 18 to 30 percent. These include *hilly to mountainous areas* and are generally considered marginal lands for most of the agricultural crops requiring tillage. Some have deep friable soil which can be productive to many economic trees, given the best environmental conditions.

The fourth category consists of those with 30 to 50 percent slope and of rough, hilly, disserted mountainous areas. These areas are reserved for forest trees to attain required balance between forest and agriculture.

The last group covers areas with slopes of more than 50 percent. Extraction of trees is difficult and/or uneconomical in these very steep and extremely rough mountainous areas.

4. SOILS

Soil types prevalent in the country may be grouped into seven based on *moisture storage capacity, soil fertility, acidity,* and related physical and chemical characteristics.

a) *Well-drained, high fertility soil.* This type of land is generally suitable for diversified crops, fruit trees and other economic tree crops, and intensive agriculture.
b) *Well-drained, generally acid, high fertility volcanic soil.* This type has the same potentials as the preceding group but requires special management for soil acidity.
c) *Well-drained, deep, low fertility, acid soil.* This is best for rootcrops and agro-forestry and also suitable for many seasonal crops but will require special soil fertility and soil conservation management practices.
d) *Poorly drained, flood-prone soil.* This type is suitable for wetland or irrigated agriculture. Swampy areas falling under this group can be utilized for aquaculture.
e) *Poorly drained, moderate to high fertility soil.* This type is good for rainfed rice-based farming with varying combination of seasonal crops.
f) *Heavy texture soil with high shrink-swell potential.* The land is best for irrigated rice and fairly suitable to a wide range of rainfed crops. The land, however, still need good soil moisture and tillage practices.
g) *Droughty, low fertility sandy soil.* This type is good for many rootcrops, a wide range of fruit trees and tree crops but will require good soil moisture conservation practices.

5. LAND CAPABILITY

Land capability is another suitable classification derived from soil types and slope analyses. This scheme groups the soil units according to set soil conservation measures and with reference to general land use, namely:

a) *Class A* (*Very good land*). Land can be cultivated safely and requires only simple but good management practices.
b) *Class B* (*Good land*). Land can be cultivated safely and requires easily applied conservation practices.
c) *Class C* (*Moderately good land*). Land must be cultivated with caution. It requires careful management and intensive conservation practices.
d) *Class D* (*Fairly good land*). Land must be cultivated with extra caution and requires very carely management and complex conservation practices for safe cultivation. This is more suitable for pasture and forest.
e) *Class L* (*Level to nearly level land*). The location for this type of land is too storm-ridden. The land is too wet for cultivation; thus, is limited to pasture or forest use provided accompanied with good soil management.
f) *Class M* (*Steep land*). Land is easily eroded and too shallow for cultivation and therefore requires careful management to be used for pasture or forest.
g) *Class N* (*Very steep land*). This land is shallow and rough, or dry for cultivation and very easily eroded. It can be used for grazing or forestry with very limited management required.
h) *Class X (Level land).* This land is often wet and suitable for fishponds. Examples are mangrove swamps and fresh marshes.
i) *Class Y (Very hilly and mountainous).* Land is generally barren and rugged and suitable for recreation or wildlife.

6. LAND USE OPPORTUNITY

Evaluation of the country's land resources provides direction for the maximum use and development of agriculture and forestry resources.

Of the total land resources today, around 14.7 million hectares or 49 percent are suitable for agricultural uses and available for expansion purposes. The remaining 15.3 million hectares, on the other hand, are used for forestry (which includes preservation and rehabilitation areas) and other related uses.

About 79 percent of the suitable agricultural land is fully utilized while the remaining 21 percent is either idle or, although it has agricultural potentials, requires proper soil management.

Over-utilized land areas due to extensive logging and shifting cultivation comprise 22 percent of the total while forestland represents 39 percent of the country's land resources. Forestlands are being preserved to maintain ecological balance.

7. LAND CLASSIFICATION

Land classification identifies the public domain areas useful for forest purpose and classifies such areas according to their various land uses. When specifically utilized for their natural purposes, forestlands produce maximum benefits than when used for other purposes such as agriculture, settlements, and other uses.

Under the present land classification systems, land for public domain with slopes of more than 18 percent (approximately 10 degrees) are to be retained for permanent forest purposes. Those with 18 percent slope and below are classified as alienable or disposable (A & D) lands. These types of land may be released for non-forest purposes (agriculture, industrial, residential) subject to additional conditions such as continuity of the area and environmental consideration.

Appendix G. 1
SAMAR ISLAND DEVELOPMENT PROGRAM
INVESTMENT REQUIREMENTS
(In P million)

	WESTERN SAMAR	EASTERN SAMAR	NORTHERN SAMAR	TOTAL
I. Immediate Assistance (First 6 months)	4.05	27.64	24.96	56.648
II. Two-Year Development (1990-1991)	329.47	256.19	362.20	947.81
TOTAL	333.47	283.83	387.16	1004.468
% Shares	33.2	28.3	38.5	100

Source: Coordinating Council for Philippine Assistance Program (CCPAP).

Appendix G. 2
FOREIGN FUNDING FOR THE
SAMAR ISLAND DEVELOPMENT PROJECT
(1989 - 1992)

FOREIGN SOURCE	COST (IN MILLION PESOS)	% DISTRIBUTION
1. OECF	71.760	6.73
2. PJHL	298.994	28.04
3. ADB/OECF	35.290	3.31
Sub-total	406.044	38.08
4. WORLD BANK	25.088	2.35
5. AIDAB/AUSTRALIA	39.847	3.74
6. UNICEF	48.943	4.59
7. OECF/WB	87.284	8.19
8. FRENCH TREASURY LOAN, BANQUE PARIBAS	215.910	20.25
9. UNITED KINGDOM	17.300	1.62
10. No definite source	225.830	21.18
GRAND TOTAL	1066.246	100.00

Source: Coordinating Council for the Philippine Assistance Program.

Appendix G.3
CALABAR: PROFILE OF PROJECT COMPONENTS

COMPONENT	PROJECT COST	FUNDING	IMPLEMENTING AGENCY	STATUS (April 30, 1990)
I. Batangas Port Development	P2.0 billion	17th OECF	DOTC	1. Feasibility study for Phase I completed and detailed engineering underway, under 14th OECF, to end July 1990. Construction to be completed December 1992. 2. Phase II: No activity yet.
II. Roads				
1. Carmona-Ternate-Nasugbu Road	P295 million	15th OECF	DPWH	1. Feasibility study completed in 1988. Detailed engineering completed. Tendering of documents ongoing. 2. Right of way acquisition for first 6 months of 1990. 3. Construction to begin in 2nd quarter of 1990 up to late 1991.
2. Gen. Trias-Rosario Road	P62 million	—	DPWH	1. Feasibility study completed March 1989. 2. Detailed engineering study ongoing. 3. Right-of-way acquisition and construction to run 15 months ending in early 1991.

Appendix G.3 (continued)

COMPONENT	PROJECT COST	FUNDING	IMPLEMENTING AGENCY	STATUS (April 30, 1990)
3. Cavite Coastal Road	P1.3 billion	—	DPWH/PEA	1. Phase II feasibility study ongoing, under consideration for technical assistance from Korean government. 2. Detailed engineering targetted for 12 months in 1991. 3. Detailed engineering and civil works still to be funded.
4. Calamba-Sto. Tomas Expressway Extension	—	OECF special rehab loan	DPWH	1. Feasibility study completed. 2. Detailed engineering completed.
Sto. Tomas-Batangas Expressway Extension	P1.8 billion	17th OECF	DPWH	1. Feasibility study completed 1985. 2. Contract for DE studies completed and awarded; DE contract approved; funding for DE costs requested from DBM. 3. DE to commence 3rd quarter 1989 to 3rd quarter 1990.

Appendix G.3 (continued)

COMPONENT	PROJECT COST	FUNDING	IMPLEMENTING AGENCY	STATUS (April 30, 1990)
III. Rehab of PNR South Commuter Line	P575 million	ESPL	DOTC/PNR	1. 1984 feasibility study prepared to be validated; proposed for inclusion in 17th OECF. 2. Approved by NEDA ICC; endorsed for ESPL funding in 1989. 3. Rehabilitation of diesel cars was approved for funding under the loan savings of railcar and main depot construction project in March 1990.
IV. Telecommunications (NTP-1)	P4.6 billion	14th OECF	DOTC	1. DE for NTP-1 ($4.9 MM and P21.2 MM) completed under 14th OECF. 2. Preparation of tender documents for implementation phase are ongoing. Simultaneously, the contract for consulting services for construction supervision to be finalized in May 1990. 3. Construction expected to begin 3rd quarter of 1990.

Appendix G.3 (continued)

COMPONENT	PROJECT COST	FUNDING	IMPLEMENTING AGENCY	STATUS (April 30, 1990)
V. Power Generation and Distribution	P5.79 billion	—	NPC	Calacca II: Y 40.4 billion through special OECF credit. 1. Bidders' pre-qualification evaluation completed. 2. Opening of bids for construction contract was held in 1st week of March 1990. Amount to be contracted is P401 million and $189 million forex component. 3. Contract implementation targetted from March 1991 to end of 1993.
VI. Regional Skills	P300 million	—	—	1. NMYC submitted a project proposal for provincial skills training centers in identified sites in CALABAR. 2. NEDA has forwarded its comments to NMYC which involve revisions in project proposal that need to be made by NMYC.
VII. Mass Low-cost Housing	—	—	NHA	To be a private sector-led venture.
VIII. Cavite Export Processing Zone	—	17th OECF	DTI	1. SAPROF currently being undertaken; approved by NEDA ICC.
TOTAL	P17.28 billion			

Source: Coordinating Council of the Philippine Assistance Program.

Appendix G. 4

SOUTH COTABATO/GENERAL SANTOS SPECIAL DEVELOPMENT PROJECT PROFILE OF PROJECT COMPONENTS

	PROJECT (PM)	FUNDING	TIMETABLE	STATUS (May 1990)
I. Agro-Processing Center (APC)	645	FS-Singapore; DE/construction-USAID	1990-1993	DE work on the APC fishing port to be completed in two months.
II. Upgrading of economically critical road components	902	USAID	1990-1993	Total $30 M in MAI funds confirmed; $20 M has been approved and $10 M will be requested.
III. Makar Port Development	239	USAID	1990-1993	PPA preparing pre-feasibility study; requested TA for the FS for bulk corn handling facilities.
IV. Buayan Airport Improvement	268	USAID	1990-1996	74% complete as of April 1990.
V. Telecommunications Improvement	85	WB or USAID (for negotiation)	1990-1993	Negotations with WB or USAID.
VI. People Centered Development	*	Various NGOs	1990-1995	P6 M for institution building was granted; P4.1 M for micro-lending project approved by USAID; DBP will set P60 M for micro-lending for South Cotabato entrepreneurs.
TOTAL	2139			

Note: Implementation cost only indicative and have not been included in cost required for infra based components.

Source: Coordinating Council for the Philippine Assistance Program.

Appendix G. 5

METRO CAGAYAN DE ORO SPECIAL DEVELOPMENT PROJECT
PROFILE OF PROJECT COMPONENTS

COMPONENT/SUB-COMPONENT	TOTAL COST (P)	TIMETABLE	FUNDING SOURCE	STATUS
1. Development of the PHIVIDEC Industrial Estate in Tagoloan, Misamis Oriental (PIE-MO)	669.00 million	1990-1994		
a. Capital Outlay	461.48 million		PAP Loan Facility	For site preparation, on-site infrastructure, transportation system, office equipment/ furniture & fix.
b. Technical Assistance	15.90 million		PAP Support Project	For architectural & engineering designs and business development.
c. PIA Participation	221.62 million		PIA Equity	For land acquisition and rehabilitation of port facilities.
2. Infrastructure Development	4,390.4565 million			
a. Improvement of the Cagayan de Oro Airport	120.50 million ($5 million)	1990-1994	DOTC-ATO	This is ongoing locally-funded project that is

Appendix G. 5 (continued)

COMPONENT/SUB-COMPONENT	TOTAL COST (P)	TIMETABLE	FUNDING SOURCE	STATUS
				being proposed for alternative funding under the PAP. There is already a local funding release for 1990 while an amount of about P35 million is programmed for 1991. Local funding for the project will be discontinued once funding from PAP becomes available.
b. Improvement of the Cagayan de Oro Port Facilities	33.74 million	1989-1991	DOTC-PPA	The project is currently ongoing under the 4th IBRD Ports Project, which is expected to be completed in February 1990.
c. Improvement of the Mindanao Telephone System				
1) National Telephone Program, Phase I, Tranche 1-3	4,000.60 million ($1.66 million)	1989-1993	Italian Government	The project involves the provision of 45,800 telephone

Appendix G. 5 (continued)

COMPONENT/SUB-COMPONENT	TOTAL COST (P)	TIMETABLE	FUNDING SOURCE	STATUS
				lines to 25 municipalities in Mindanao and the establishment of a digital transmission backbone network for the Mindanao portion of the nationwide transmission backbone.
2) MISORTEL Telephone Expansion and Modernization Program	140.0165 million ($6.639 million)	1990-1994	Korean Government with Local Counterpart	The project involves the installation of 6,150 digital lines by June 1990 and is targetted for completion within 1 1/2 years.
d) Phase II of City Water Water System Improvement	95.6 million		CDWD/LWUA	The project is currently ongoing under the ADB-assisted Water Supply Sector Project. The project commenced in April 1989 and is expected to be completed in December 1990.

Appendix G. 5 (continued)

COMPONENT/SUB-COMPONENT	TOTAL COST (P)	TIMETABLE	FUNDING SOURCE	STATUS
3. Social Development Program	834.650 million	1990-1994	PAP	
a. Community Organization Human Resource Development and Resource Mobilization	362.272 million			
b. Augmentation of Basic Social Services	470.370 million			
c. Coordination and Monitoring Activities	2.000 million			
4. Cagayan de Oro-Iligan Area Development Planning Project (CIADPP)	10.331 million	1990-1991	PAP Support Project	
GRAND TOTAL	11,828.536 million			

Source: Coordinating Council of the Philippine Assistance Program.

Appendix G. 6

TOTAL INVESTMENT COST FOR PANAY ISLAND SPECIAL DEVELOPMENT PROJECT: THREE-YEAR TOTAL

(In million pesos)

COMPONENT	TOTAL (1989-1991) (PM)	UNPROG. AMOUNT
I. REG'L AGRO-IND'L CENTER (RAIC)		
A. Off-site Infrastructure	395.805	140.380
B. Site Development	6.500	6.500
TOTAL FOR RAIC	402.305	146.880
II. DISTRICT AGRO-IND'L CENTER		
A. Small Enterprise Financial Program	21.100	21.100
III. POVERTY ALLEVIATION THROUGH MICRO-ENTERPRISES		
A. Capability Building for NGOs	5.157	5.157
B. Capability Building for People's Organizations	15.140	15.140
C. Financing Program for Micro Enterprises	—	—
TOTAL FOR POVERTY ALLEVIATION	20.297	20.297
IV. ECOLOGICAL BALANCE PROGRAMS		
A. Research, Information, Education and Communication	5.200	5.200
B. Community-Based Monitoring and Enforcement	18.000	18.000
TOTAL FOR ECOLOGICAL BALANCE PROGRAM	23.200	23.200
GRAND TOTAL	491.652	236.227
% of Unprogrammed Amount/Total	48%	

Note: 1. Phasing is equivalent to year of implementation.
2. Programmed portion is equivalent to the difference between total less unprogrammed funds.
3. Total amount for RAIC Off-site Development does not tally with RDC resolution 137 (s. 1989) due to changes in estimates and project phasing.

Source: Coordinating Council of the Philippine Assistance Program.

GLOSSARY OF TERMS

AA	Advice of Allotment
ACO	Agency Central Office
AIP	Annual Investment Program
ARO	Agency Regional Office
BCEPZ	Baguio City Export Processing Zone
BDC	Barangay Development Council
BEPZ	Bataan Export Processing Zone
BIADPO	Bohol Integrated Area Development Project Office
BP	Batas Pambansa
CACD	Cabinet Action Committee on Decentralization
CALF	Comprehensive Agricultural Loan Fund
CAR	Cordillera Autonomous Region
CBBE	Countryside and Barangay Business Enterprises
CCPAP	Coordinating Council of the Philippine Assistance Program
CDC	City Development Council
CDC	Cash Disbursement Ceiling
CEB	Cordillera Executive Board
CEPZ	Cavite Export Processing Zone
CFS	Common Fund Scheme
CGE	Computable General Equilibrium model
CIADPO	Cagayan Integrated Area Development Project Office
COA	Commission on Audit
CORDS	Cabinet Officer for Regional Development System
CRA	Cordillera Regional Assembly
DA	Department of Agriculture
DBCC	Development Budget Coordinating Committee
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DECS	Department of Education, Culture and Sports

DENR	Department of Energy and Natural Resources
DLG	Department of Local Government
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Highways
EO	Executive Order
EPA	Environment Protection Agency
EPR	Effective Protection Rates
EPZA	Export Processing Zone Authority
FTW	Funding Treasury Warrant
GFSME	Guarantee Fund for Small and Medium Enterprises
GRDP	Gross Regional Domestic Product
GVA	Gross Value Added
IAD	Integrated Area Development
ICC	Investment Coordination Committee
IE	Industrial Estates
IGLF	Industrial Guarantee Loan Fund
ILP	Import Liberalization Program
IMR	Infant Mortality Rate
IRP	Integrated Reorganization Plan
KKK	Kilusang Kabuhayan at Kaunlaran
LDC	Local Development Council
LGU	Local Government Unit
LOI	Letter of Instruction
LRM	Local Resource Management
MCA	Monthly Cash Allocation
MDC	Municipal Development Council
MDS	Modified Disbursement System
MEPZ	Mactan Export Processing Zone
MIRDPO	Mindoro Integrated Regional Development Project Office
MOA	Memorandum of Agreement
MTDP	Medium-Term Development Plan
NACIAD	National Council on Integrated Area Development
NALGU	National Assistance to Local Government Units
NCA	Notice of Cash Allocation
NCR	National Capital Region
NDS	Net Differential Shift
NDS	Net Disbursement Scheme
NEDA	National Economic and Development Authority
NGOs	Non-Government Organizations
NIEP	National Industrial Estate Program
NPS	Net Proportionality Shift

NRO	NEDA Regional Office
NSCB	National Statistics Coordination Board
NTM	Non-Tariff Measures
OECF	Overseas Economic Coordination Fund
OIC	Omnibus Investment Code
PAP	Philippine Assistance Program
PD	Presidential Decree
PDC	Provincial Development Council
PFC	Project Facilitation Committee
PGB	Project Governing Board
PHIVIDEC	Philippine Veterans Investment Development Corporation
PIE-MO	Phividec Industrial Estate-Misamis Oriental
PMU	Project Management Unit
PRAO	Presidential Regional Action Officer
PROD	Presidential Regional Officer for Development
PVC	Polyvinylchloride
PVO	Private Voluntary Organization
RA	Regional Assembly
RCA	Regional Consultative Assembly
RDA	Regional Development Assembly
RDC	Regional Development Council
RDIP	Regional Development Investment Program
Revenue-Dependence	total grants and allotments divided by total income
RIC	Regional Industrial Center
RPMES	Regional Project Monitoring and Evaluation System
RA	Republic Act
SDP	Special Development Program
SIRDPO	Samar Integrated Rural Development Program Office
SPPBS	synchronized planning-programming-budgeting system
TBAC	Technical Board for Agricultural Credit
TNS	Total Net Shift
TRP	Tariff Reform Program
TST-SELA	Tulong sa Tao, Self-Employment Loan Assistance
USAID	United States Agency for International Development

BIBLIOGRAPHY

Alabanza, Joseph M. *et al. Local Resource Management Project External Evaluation: Final Report.* 1987.

Bacani, Ramon. "Framework of Regional Development Policies in the Philippines." *Philippine Budget Management,* 1983.

Bautista, R.M., J.H. Power and Associates. *Industrial Promotion Policies in the Philippines.* Manila: Philippine Institute for Development Studies, 1979.

Bird, Richard. "Intergovernmental Fiscal Relations in Developing Countries." World Bank Staff Working Paper No. 304, October 1978.

Caoili, Manuel. "Central Government Grants to Local Governments: A Comparative Study of England and Wales, the Netherlands and the Philippines, Local Government Center." U.P. College of Public Administration, 1972.

Chadwick, George. *Models of Urban and Regional Systems in Developing Countries: Some Theories and Their Application in Physical Planning.* Great Britain: Pergamon Press, 1987.

De Guzman, Paul. "Local Government and National Development: Towards a Match Between Responsibilities and Resources." Philippine Budget Management, 1983.

Five-Year Philippine Development Plan 1977-1982. Manila: National Economic and Development Authority, September 1977.

Five-Year Philippine Development Plan 1983-1987. Manila: National Economic and Development Authority, May 1982.

Four-Year National Development Plan (1974-1977). Manila: National Economic and Development Authority, September 1973.

Gregorio, Rosario S. "An Economic Analysis of the Effects of Philippine Fiscal Incentives for Industrial Promotion," in R.M. Bautista, J.H. Power and Associates, *Industrial Promotion Policies in the Philippines*. Makati: Philippine Institute for Development Studies, 1979.

Guevara, Milwida. "The Dynamics of Real Property Tax Delinquency, A Case Study." Unpublished thesis. University of Bath, 1981.

Herrin, A.N. and E.M. Pernia. "Factors Affecting the Choice of Location: A Survey of Foreign and Local Firms in the Philippines." PIDS Working Paper Series No. 86-03. Makati: Philippine Institute for Development Studies, 1986.

Koppel, Bruce, M. *et al. Bicol Program Impact Evaluation*. May 1985.

Lamberte, Mario B. "Comparative Bank Study: A Background Paper." PIDS Working Paper Series No. 87-04. Makati: Philippine Institute for Development Studies, 1987.

_____ and Romeo M. Bautista. "Comparative Saving Behavior of Rural and Urban Households: The Philippines, 1985." PIDS Working Paper Series No. 90-14. Makati: Philippine Institute for Development Studies, 1989.

_____ and Julius P. Relampagos. "An Assessment of Policies Affecting the Financial Sector, 1986-1988." PIDS Working Paper Series No. 90-05. Makati: Philippine Institute for Development Studies, 1990.

_____ *et al.* "A Study of the Export Financing System in the Philippines." PIDS Working Paper Series No. 89-12. Makati: Philippine Institute for Development Studies, 1989.

Laureta, Amancia. "The Impact of Intergovernmental Transfers on Local Government Finance." Unpublished thesis. University of Bath, 1981.

Louis Berger International, Inc. *Industrial Dispersal in the Philippines*. Asian Development Bank T.A. No. 527. East Orange, New Jersey: 1986.

Limcaoco, Andres J. *Integrated Rural Development: Philippines*. Centre on Integrated Rural Development for Asia and the Pacific. New Delhi: Sterling Publishers Privates, 1989.

Manasan, Rosario G. "Impact of BOI Incentives on Rate of Return, Factor Prices and Relative Factor Use: A Comparative Analysis of Incentives Under the Omnibus Investments Code of 1981 (P.D. 1789) and the Investment Incentive Policy." PIDS Staff Paper Series No. 86-01. Makati: Philippine Institute for Development Studies, 1986.

_____. "An Assessment of Fiscal Policy in the Philippines, 1986-1988." PIDS Working Paper Series 90-06. Makati: Philippine Institute for Development Studies, 1990.

Medalla, Erlinda M. "Assessment of the Tariff Reform Program and Trade Liberalization." Tariff Commission-PIDS Joint Research Project Staff Paper Series No. 86-03. Makati: Philippine Institute for Development Studies, 1986.

Mercado, Rafaelita. "A Study of the Effects of the Tariff Reform and Import Liberalization in the Textile Industry." Tariff Commission-PIDS Joint Research Project Staff Paper Series No. 86-14. Makati: Philippine Institute for Development Studies, 1986.

National Tax Research Center. *An Act Providing for the Allocation of the National Internal Revenue Allotments to the Local Governments and for Other Purposes*. March 12, 1979.

Prantilla, Ed *et al.* "Problems and Strategies of Financing Subnational Development: The Case of the Philippines and the Republic of Korea." *Regional Development Dialogue*. Autumn 1986.

Rosario-Braid, Florangel *et al. Export Evaluation of Central Visayas Regional Project.* Asian Institute of Journalism, 1988.

Samonte, Abelardo. "Regional Development Authorities: Role, Structure and Feasibility." *Philippine Journal of Public Administration* Vol. 2, No. 2 (April 1968).

School, Maxwell. "Strengthening the Fiscal Performance of Philippine Local Governments: Analysis and Recommendation: Revenue Administration." *Local Revenue Administration Project.* Syracuse University, 1981.

Tan, Norma A. "The Structure of Protection and Resource Flows in the Philippines." in R.M. Bautista, J.H. Power & Associates, *Industrial Promotion Policies in the Philippines.* Makati: Philippine Institute for Development Studies, 1979.

Updated Philippine Development Plan, 1984-1988. Manila: National Economic and Development Authority, September 1984.

Vogel, Joaquin. "Taxation and Public Opinion in Sweden: An Interpretation of Recent Survey Data." *National Tax Journal* (1979): 499-2513.

World Bank. *Philippine Financial Sector Study.* August 23, 1988.

Yoingco, Angel and Milwida Guevara. "Fiscal Decentralization, Resource Mobilization and Effective Use of National Resources for Development: The Case of the Philippines." Unpublished paper, 1989.