

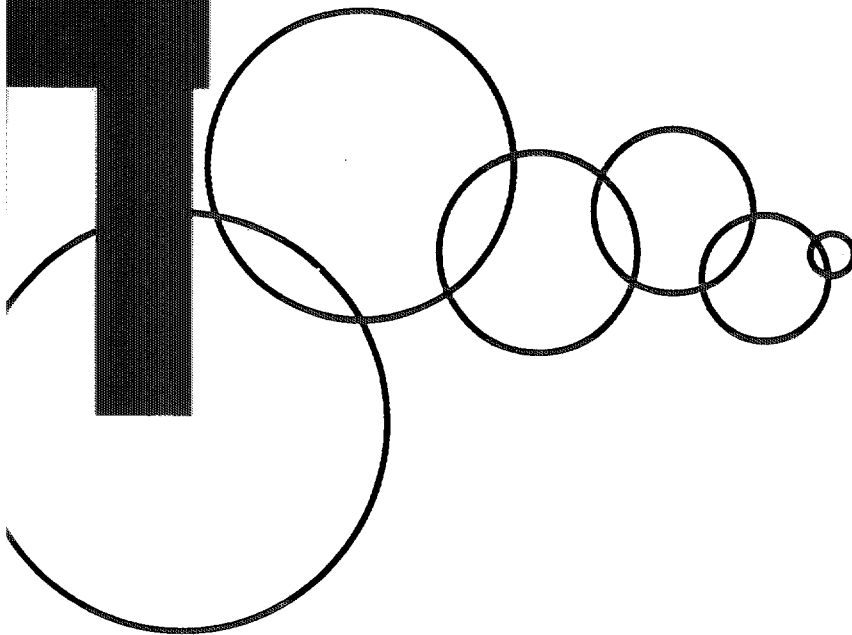


ASEDP No. 16

# DECENTRALIZATION AND ECONOMIC DEVELOPMENT IN THE PHILIPPINES

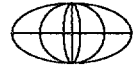
Edited by

Joseph Y. Lim  
Katsumi Nozawa



INSTITUTE OF DEVELOPING ECONOMIES

TOKYO 1992



ASEDP No. 16

**DECENTRALIZATION  
AND ECONOMIC DEVELOPMENT  
IN THE PHILIPPINES**

Edited by

Joseph Y. Lim  
Katsumi Nozawa

**INSTITUTE OF DEVELOPING ECONOMIES**

**TOKYO 1992**

© Copyright in 1992 by Institute of Developing Economies  
42 Ichigaya-Hommura-cho, Shinjuku-ku, Tokyo, Japan  
All rights reserved.

*No part of this publication may be reprinted by any means without written permission from the Institute.*

ISBN: 4-258-55011-6-C3033

*Printed in the Philippines*

## AUTHORS

Joseph Y. Lim  
Associate Professor  
School of Economics  
University of the Philippines  
Diliman, Quezon City

Wilfredo G. Nuqui  
Deputy Director-General  
National Economic and Development Authority  
Amber Avenue, Pasig  
Metro Manila

Mario B. Lamberte  
Vice-President  
Philippine Institute for Development Studies  
Makati, Metro Manila

Rosario G. Manasan  
Research Fellow  
Philippine Institute for Development Studies  
Makati, Metro Manila

Katsumi Nozawa  
Senior Overseas Research Officer  
Institute of Developing Economies  
Tokyo, Japan

Ramon L. Clarete  
Associate Professor  
School of Economics  
University of the Philippines  
Diliman, Quezon City

Leonor M. Briones  
Professor  
College of Public Administration  
University of the Philippines  
Diliman, Quezon City

## TABLE OF CONTENTS

Authors .....	iii
Introduction .....	v

### **Chapter I. The Macro Aspect and the Political Economy of Decentralization by Joseph Y. Lim .....**

1. Introduction .....	1
2. Why We Inherited a Centralized Bureaucracy .....	1
3. The Drawbacks of Overcentralization .....	2
4. The Goals of Decentralization .....	6
5. The Local Government Code .....	8
5-1. The Extent of Devolution .....	8
5-2. Some Questions Concerning the Devolution Process.....	10
5-2-1. The Lack of Buildup of Local Capabilities Prior to Devolution .....	10
5-2-2. National-Local Interlinkage .....	10
5-2-3. The Macro-Micro Linkage .....	11
5-2-4. The IRA Allotment .....	12
5-3. The Capabilities of the Local Units .....	13
5-4. Decentralization and Power Play .....	15
6. Summary and Conclusion .....	17
7. References .....	18

### **Chapter II. Public Policy and Decentralization for Regional Development with Poverty Alleviation by Wilfredo G. Nuqui .....**

1. Introduction .....	19
2. Regional Growth and Poverty Incidence Trends .....	20
3. Government Intervention for Regional Development.....	24
4. Evolution of Regional Planning Efforts .....	26
4-1. Limited Regional Development Planning up to 1971 .....	27
4-2. Organization of the Bureaucratic Framework, 1972-76 .....	27
4-3. Comprehensive Regional Development Planning, 1977-82 .....	28
4-4. Politicized Regional Development Planning, 1983-present.....	29
5. Recent Regional Development Initiatives .....	29
5-1. Institutional and Procedural Arrangements .....	29
5-2. Priority Development Strategies and Programs.....	30
5-2-1. Countryside Agro-Industrial Development Strategy (CAIDs) .....	31
5-2-2. The Strategy for Sustainable Development (SSD).....	32
5-2-3. Comprehensive Agrarian Reform Program (CARP) .....	33
5-2-4. Medium-Term Public Investment Program (MTPIP) .....	35

5-2-5. Poverty Alleviation Programs .....	38
6. The Local Government Code .....	40
7. Conclusion .....	44
8. References .....	45

**Chapter III. Fiscal Decentralization and The Financial Sector**

**by Mario B. Lamberte .....** 47

1. Introduction .....	47
2. LGU's Access to the Financial Markets .....	48
3. Monetary, Banking and Credit Policies .....	52
3-1. Pre-Liberalization Period .....	52
3-2. Financial Liberalization Period .....	60
4. Regional Resource Mobilization and Allocation .....	63
4-1. Regional Banking Offices and Resources .....	63
4-2. Deposit Mobilization .....	65
4-3. Factors Affecting Deposits .....	70
4-4. Lending Operations of Banks .....	73
5. Concluding Remarks .....	79
6. References .....	80

**Chapter IV. Fiscal Decentralization and the Local Government Code of 1991**

**by Rosario G. Manasan .....** 83

1. Introduction .....	83
2. Internal Revenue Allotment (IRA) .....	84
2-1. Share of IRA in National Internal Revenue Taxes .....	84
2-1-1. Provisions .....	84
2-1-2. Implications .....	84
2-2. Allocation Ratios to Different Levels of LGUs .....	87
2-2-1. Provisions .....	87
2-2-2. Implications .....	87
2-3. Distribution Formula to Specific LGUs .....	89
2-3-1. Provisions .....	89
2-3-2. Implications .....	89
3. Real Property Taxation (RPT) .....	91
3-1. Basic RPT Rates and the Sharing Formula .....	91
3-1-1. Provisions .....	91
3-1-2. Implications .....	92
3-2. Assessment Levels .....	96
3-2-1. Provisions .....	96
3-2-2. Implications .....	99
3-3. Additional 1% Tax for the Special Education Fund (SEF) .....	100
3-3-1. Provisions .....	100
3-3-2. Implications .....	100

4. License and Business Tax (LBT) .....	108
4-1. Provisions .....	108
4-2. Implications .....	108
5. Other Taxes, Charges and Fees .....	115
5-1. Provisions .....	115
5-2. Implications .....	117
6. A Summing Up .....	119
7. References .....	124

## **Chapter V. Decentralization and Regional Industrial Development in the Philippines**

<b>by Katsumi Nozawa</b> .....	125
1. Introduction .....	125
2. Dispersal of Industries and Regional Development .....	126
2-1. Need for Regional Industrial Development .....	126
2-1-1. Population and Poverty Incidence .....	126
2-1-2. Economic Development Indicators .....	129
2-2. Investment Incentives Scheme .....	129
2-2-1. Nature of Incentives .....	129
2-2-2. Less Developed Areas .....	133
2-2-3. Minimal Effect of Incentives on Dispersal .....	133
2-3. Credit and Financial Incentive Scheme .....	139
2-4. Zoning Regulations .....	140
3. Establishment of Industrial Estates .....	140
3-1. Export Processing Zones .....	143
3-1-1. Regular Export Processing Zones .....	143
3-1-2. Special Export Processing Zones .....	147
3-2. Regional Industrial Center Program .....	148
3-2-1. Brief History .....	148
3-2-2. Preferred Industries .....	149
3-2-3. RIC Site Selection .....	149
3-2-4. Land Conversion/Land Aquisition/Relocation Problems .....	150
4. Decentralization of Government Services .....	151
4-1. Decentralization Under the Marcos Regime .....	151
4-2. Decentralization under the Aquino Administration .....	151
4-3. The 1991 Local Government Code and Regional Industrial Development .....	152
4-3-1. LGU Bond and Regional Development .....	153
4-3-2. Decentralization of the BOI Services .....	155
4-3-3. Decentralization of Other DTI Services .....	156
5. Conclusions and Recommendations .....	157
6. References .....	157
7. Annexes .....	159

<b>Chapter VI. Government Decentralization: Opportunity and Dangers for Agricultural Development</b> <b>by Ramon L. Clarete</b> .....	179
1. Introduction .....	179
2. Aspects of the Local Government Code Pertinent to Agriculture .....	181
2-1. Financial Resources .....	182
2-2. Regulatory Powers .....	183
3. Public Investments and Growth in Agriculture .....	184
4. Transactions Costs and Public Infrastructure Investments .....	190
4-1. Market Transactions Costs .....	190
4-2. Public Investment Allocation .....	193
5. Effects of Alternative Investment Allocation Schemes .....	195
5-1. Overall Welfare Impact .....	196
5-2. Effect on Agriculture: A Preliminary Empirical Evidence .....	197
6. Possible Benefits and Problems of Decentralization .....	199
6-1. Decentralization as a Corrective Mechanism .....	199
6-2. Lower Information Costs and More Efficient Government Intervention .....	200
6-3. Rent Seeking .....	200
6-4. Lack of Technical Expertise .....	202
6-5. Interregional Spillovers .....	203
7. References .....	204

**Chapter VII. Decentralization, Participatory Development and the Role of Non-Government Organizations**  
**by Leonor M. Briones** .....

.....	207
1. Introduction .....	207
2. Concepts of Participation, Decentralization and Non-Government Organizations .....	207
2-1. Participation .....	207
2-2. Decentralization .....	208
2-3. What are NGOs? .....	209
2-3-1. From Grassroots Concern to Public Policy .....	210
2-3-2. People's Organizations (POs) and NGOs .....	211
2-3-3. What Organizations are not NGOs? .....	212
3. Participatory Development: The Philippine Experience .....	212
3-1. The Fifties and Sixties: Focus on the Barrio .....	213
3-2. The Marcos Years: Lip Service to Participation .....	214
3-3. The Aquino Years: Constitutional Support for Participation .....	214
4. Decentralization: Participation and Bureaucracy .....	215
4-1. Decentralization, Marcos Style .....	215



4-2. Decentralization under Aquino .....	216
4-3. Some Reservations: Decentralization and Privatization.....	217
5. The Lost Decade of the Eighties and the NGO Phenomenon .....	218
5-1. Factors which led to the Proliferation of NGOs .....	218
5-2. Recent Developments on NGOs .....	219
5-3. From Community Development to Advocacy .....	222
6. The Aquino Administration and Non-Government Organizations .....	223
6-1. Formal Policy Support for NGOs under Aquino.....	223
6-2. Constraints to NGO Participation under the Aquino Administration.....	224
6-2-1. IMF-Initiated Economic Stabilization Programs .....	225
6-2-2. Failure to Institute Genuine Agrarian Reforms .....	227
6-2-3. Return of Traditional Politics and Traditional Politicians .....	228
6-2-4. Further Entrenchment of Monopoly Control and the Economy .....	229
6-2-5. Resurgence of Graft and Corruption.....	229
6-2-6. Problems at the Field or Operational Level .....	230
7. The LGC and Implications for Decentralization and Participatory Development .....	231
7-1. Opportunities and Problems for LGU-NGO partnership under the LGC.....	232
8. Concluding Comments.....	234
9. References .....	235
10. Annex A – Covenant on Philippine Development.....	236
Annex B – On Government-NGO Collaboration .....	246

**ISBN 4-258-55011-6-C3033**

---