



Cities in the Philippines At A Glance



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In the last 35 years, there has been a spate of conversion of municipalities to cities. Studies have shown that while fiscal inequities in the distribution of the internal revenue allotment (IRA) has been the main driver for the rush to cityhood, political incentives played out as well. Several reform measures are now being proposed in Congress to address the said inequity as well as to further restrict the requirements for cityhood.

Cities in the Country. The number of cities in the Philippines has substantially grown from 61 in 1977 to 143 cities in 2012, or an increase of 134 percent. Almost half of the cities is in Luzon, 27 percent in Visayas and the rest is in Mindanao (Table 1).

Converting into City. A city can only be created by an act of Congress and subject to approval by a majority of the votes cast in a plebiscite to be conducted by the Commission on Elections (COMELEC) in the local government units (LGUs) directly affected. The creation will only be allowed if it complies with the requisites stated in Republic Act No. 9009, which amended the Local Government Code of 1991 (RA No. 7160) by particularly increasing the income requirements for prospective cities. A municipality or a cluster of barangays may be converted into a component city if it has an average annual income of at least Php100 million in the last two consecutive years based on 2000 constant prices and either a population of at least 150,000 inhabitants or a contiguous territory of 100 square kilometers.

Twenty-five (25) municipalities have been converted into cities in the past three Congresses. Seventeen (17) municipalities became cities in the 13th Congress, two (2) in the 14th Congress, and six (6) in the 15th Congress.

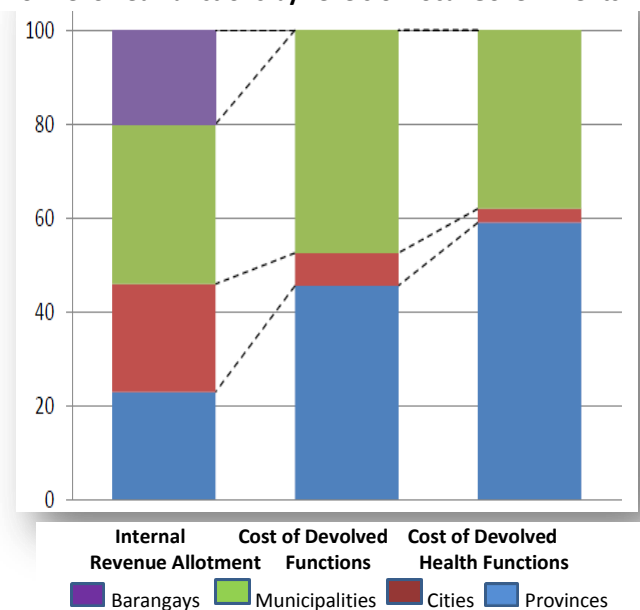
Why Convert? Municipalities aspire for cityhood mainly for the effectual changes in their fiscal status. According to Capuno (2013),¹ there seems to be an inequity in the distribution of the IRA, the country's most important fiscal transfer program, vis-à-vis to the burden of the devolved functions of LGUs. Under the Local Government Code, the IRA is apportioned as follows: 20 percent to provinces, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays (Figure 1). However, the cost of devolution is being shared mainly by the provinces (46%) and municipalities (47%).

Table 1. Number of Cities, by Major Island Group

Regions	Cities		
	1977	2007	2012
TOTAL	61	136	143
Luzon	24	64	71
NCR	4	16	16
CAR	1	2	2
I (Ilocos Region)	3	9	9
II (Cagayan Valley)	0	3	4
III (Central Luzon)	5	13	14
IV-A (Calabarzon)	7	12	17
IV-B (Mimaropa)	1	2	2
V (Bicol Region)	3	7	7
Visayas	20	39	39
VI (Western Visayas)	8	16	16
VII (Central Visayas)	9	16	16
VIII (Eastern Visayas)	3	7	7
Mindanao	17	33	33
IX (Zamboanga Peninsula)	5	5	5
X (Northern Mindanao)	6	9	9
XI (Davao Region)	1	6	6
XII (Soccsksargen)	2	5	5
XIII (Caraga)	2	6	6
ARMM	1	2	2

Source: DILG

Figure 1. Percentage Distribution of the IRA and of the Cost of Devolved Functions by Levels of Local Governments



Source: Capuno (2013)

¹ Joseph Capuno. University of the Philippines School of Economics Discussion Paper No. 2013-04. *Fiscal transfers and gerrymandering under decentralization in the Philippines*. June 2013.

The study furthered that there are far fewer cities sharing in their 23-percent IRA share than the 1,500-odd municipalities sharing in their 34-percent IRA share. As such, cities have much bigger revenues than municipalities, and in turn, can spend more on essential services compared to municipalities (Table 2). It is observed that health and education which are vital indicators of development are overlooked and not prioritized as much at the municipal level. Cities, on the other hand, are able to fully operationalize their functions given their resources.

Aside from the fiscal factor, political payoffs have also motivated the creation of new cities. Because recent court decisions have defined a city that converted from a municipality to be essentially a different LGU from the latter, municipalities with mayors facing term limit appear to be more likely to convert to cities. Moreover, mayors who oversaw the city conversion are likely to be succeeded by another member of the same political clan, which is why they spend their time, effort and political capital to advocate for cityhood (Capuno, 2013).

City Classification. Cities are classified into three categories: 1) Highly Urbanized Cities (HUCs)² with a minimum population of 200,000 and latest annual income of Php50 million;³ 2) Independent Component Cities (ICCs) which are those whose charters prohibit their voters from voting for provincial elective officials; and 3) Component Cities which do not meet the requirements for HUCs and ICCs.

Out of the 143 cities in the country in 2012, 33 are HUCs with 16 cities belonging to the National Capital Region (NCR). Five are ICCs and the rest are still under the jurisdiction of their respective provinces (105 component cities).

Table 2. Expenditure by Function, CY 2010 (in PHP Million)

Function	City Average	Municipal Average
General Public Services	376.05	40.62
Education, Culture & Sports/ Manpower Development	94.85	1.81
Health, Nutrition & Population Control	60.79	5.94
Labor and Employment	0.48	0.09
Housing and Community Development	46.11	1.17
Social Security/Social Services & Welfare	24.05	3.56
Economic Services	111.75	11.22
Debt Service (Interest Expense & Other Charges)	13.97	0.71

Source: LGPMS

Performance of Cities. The Department of the Interior and Local Government (DILG) has created the Local Governance Performance Management System (LGPMS) as a self-assessment, management and development tool that will enable LGUs to determine their capabilities and limitations in the delivery of essential public services. In 2012, the Department of Budget and Management (DBM) also designed the Public Financial Management Assessment Tool (PFMAT) to assist the LGUs particularly in the area of Public Financial Management (PFM). The PFMAT will allow an LGU to measure aspects of its PFM that require attention, benchmark against other LGUs' performance, adopt new best practices through the development of an improvement plan, and facilitate accreditation for future donor support.⁴

Based on the 2011 LGPMS-generated data, the top five performing HUCs are San Juan, Puerto Princesa, Iloilo, Valenzuela and Makati. As for the other city classifications, Laoag, Naga, Vigan, Ligao and Tagaytay are the best performing. The ranking of said cities were based on the following indicators:

1. Administrative Governance (local legislation, development planning, revenue generation, resource allocation and utilization, customer service-civil applications, and human resource management and development);
2. Social Governance (health services, support to education services, housing and basic utilities, and peace, security and disaster risk management);
3. Economic Governance (support to agriculture and fishery sectors, entrepreneurship, business, and industry promotion);
4. Environmental Governance (forest, freshwater, coastal marine, and urban ecosystems management); and
5. Fundamentals of Good Governance (participation, transparency, and financial accountability).

² Section 452 of the Local Government Code of 1991.

³ A Component City's annual income requirement is Php100 million. Ironically, a city needs only Php50 million to be considered an HUC. This inconsistency prompted legislators to file bills increasing the income requirement for HUCs. In the Senate, SB No. 407 seeks to increase the annual income requirement to Php150 million based on 2010 constant prices.

⁴ DBM-PFMAT for LGUs, 2012.

Income and Revenue. According to the Bureau of Local Government Finance (BLGF), the top five cities with the highest income in 2011 belong to the NCR except for Davao. Table 3 also shows the cities with the highest IRA, highest and lowest tax collection.

Table 3. Cities Based on Income and Revenue, 2011

HIGHEST INCOME	HIGHEST IRA	HIGHEST TAX COLLECTION	LOWEST TAX COLLECTION
Quezon	Quezon	Makati	Dapitan
Makati	Davao	Quezon	Isabela
Manila	Manila	Pasig	Marawi
Pasig	Zamboanga	Pasay	Canlaon
Davao	Caloocan	Taguig	Sipalay

Source: BLGF

Spending and Saving. Table 4 presents the top and least borrowers among the cities, cities with the highest and lowest expenditure, and cities with the biggest and least savings. Incidentally, cities that spend more are also the biggest savers such as Pasig, Quezon and Makati. Cities that borrow, spend and save more are all HUCs except for Biñan.

Table 4. City Performance Based on Spending and Savings, 2011

TOP BORROWERS	LEAST BORROWERS	HIGHEST EXPENDITURE	LOWEST EXPENDITURE	BIGGEST SAVINGS	LEAST SAVINGS
Parañaque	Isabela	Quezon	Danao	Pasig	Meycauayan
Caloocan	Candon	Makati	Vigan	Quezon	Balanga
Biñan	Kidapawan	Davao	Bislig	Zamboanga	Isabela
Iloilo	Bayawan	Pasig	Candon	Makati	Marawi
Cabanatuan	Mandaue	Taguig	Tacurong	Baguio	Sipalay

Source: BLGF

Resource Mobilization. The top city spenders for education, health and economic services are listed in Table 5. In terms of resource mobilization, the NCR dominates the top spenders.

Table 5. Resource Mobilization of Cities, 2011

EDUCATION	HEALTH	ECONOMIC SERVICES
Makati	Makati	Pasig
Quezon	Quezon	Makati
Mandaluyong	Mandaluyong	Quezon
Pasay	Pasay	Iloilo
Parañaque	Parañaque	Mandaluyong

Source: BLGF

Issues and Proposals. Concerns have been raised that with the continuous increase in the number of city conversions, the country will eventually be full of cities and without municipalities. This will make the delivery of essential services less efficient given the number of functions devolved to municipalities that will be left to the care of only the barangays. There is also an apprehension that if the conversion was politically-motivated, it is likely entrenched with vested interests and will encourage more rent-seeking.

At present, three (3) Senate Bills (SB Nos. 1185, 1390 and 1491) are filed in the 16th Congress proposing leniency in terms of the required land area measure and number of inhabitants mandated in the Local Government Code as long as the annual average locally-generated income is way more than the minimum requirement of PhP100 million (proposals range from PhP220 million to PhP500 million).

There are also proposals (SB Nos. 986, 1591 and 1903) to amend the Local Government Code by either increasing the IRA share of LGUs in the internal revenue taxes, reallocating IRA shares according to the cost of devolved functions, and/or reevaluating the IRA formula to address the inequity of its distribution.