

## **CHAPTER 8**

# **INCONGRUITIES IN ESPOUSED GOVERNANCE VALUES AND ACTIONS IN LOCAL ECONOMIC DEVELOPMENT (LED): THE CASE OF LOCAL GOVERNMENTS OF THE PHILIPPINES**

Aser B. Javier

### **INTRODUCTION**

A set of enduring requirements for good governance has surfaced again for both the public and private sectors in the 21<sup>st</sup> century in developing countries. There is a continuing emphasis to developing the soft assets of organizations and its members in the search for good governance of the public sector. Innovations, capacity development, convergence, collaboration, multiple engagements, outcome focused, results-based, among others, have become governance requirements in the public sectors at all levels. These institutional strengthening requirements emerged from the 1980s as a result of questions on the public sector inefficiencies and the private sector efficiencies as benchmarks. Thus, the principles embedded into the public sector, recognizing the value-driven organization approach of corporate governance slowly crept into public governance values. The corporate governance approach paved the way for emergence of entrepreneurial governments in practice, new public management (NPM) and new institutional economics (NIE) in theories. The values in action set forth for local governments were that of “striking the balance” between public service organizations and as managerial entities.

Governance values thus have been given a continuing importance in developing countries and have been the theoretical foundation of good governance. Jabeen (2007) states that the governance values of formal institutions are of two kinds: 1) espoused values; and 2) values in action. Espoused values are values that are manifested in formal rules, policies, and

structure of formal institutions and organizations. Values in action are values that are actually reflected in institutional, organizational, and individual programs.

This paper analyzed the espoused governance values of national government agencies (NGAs) and the values in action of local government units (LGUs) from the context of LED. Espoused governance values refers to national policies in LED and values in action refers to the programs or results of its implementation through LED of LGU, both of which were both carefully inventoried. Both the NGAs and the LGUs formulate, implement and evaluate LED in the local governments in the Philippines.

## **1. HISTORICAL PERSPECTIVES OF ESPOUSED GOVERNANCE VALUES ON LED IN THE PHILIPPINES**

In the Philippines, governance value on LED has been given a new direction in terms of the priority accorded by the government. The current administration of President Benigno C. Aquino III has established a Public Private Partnership (PPP) Center through Executive Order (EO) Number 8. The Center is expected to extend assistance to all local government units and other government instrumentalities in the implementation of projects, provide advisory services in project preparation and development, recommend policies with regard to program implementation, monitor all projects and programs, and manage and administer the revolving fund to be called the Project Development and Monitoring Facility. PPP is a tool in LED.

On April 24, 2009, the President issued EO No. 793, making “Go Negosyo, Sagot sa Kahirapan and Entrepreneurship” (literally translated, go business as answer to poverty and entrepreneurship) as the banner program of the administration of Gloria Macapagal Arroyo. It expanded the composition of the Small Medium Enterprise Development (SMED) Council. The SMED Council formulates SME promotion policies and provides guidance on implementing SME programs. It is a multi-agency group of eight persons who represent concerned government agencies, and four private sector representatives. The EO No. 793 provides a holistic approach to entrepreneurship starting from developing an entrepreneur mindset (Go *Negosyo*), market orientation and access, product innovations/technology design, and financing support. Networking and mentoring shall be made available to MSMEs. The LGUs thru the governors and mayors are encouraged to be *negosyo* champions (business champions).

Historically, in the Philippines, part of the governance values of LED during the post-war era espoused by national and supra-national governments was that of catch-up and industrialization. During this period community and rural development were the focus of poor countries and transitioning to industrialization. The belief then was that large economic hubs would continue to succeed more than small, rural locales. Rostow's (1960) stages of economic growth where the theory of leapfrogging to industrialization initially did bring hope in the rural countryside but did not yield much result in terms of macroeconomic development. The values in action adopted by local governments were that of selling the locale and its industrial sites to investors looking for sites for relocation or expansion or seeking investments that will create jobs. These values generated an increase in local government incomes especially within those declared economic zones but in general failed to create the expected results of community economic development.

The 1980s saw an attack on rent-seeking and patronage. It did yield result in terms of removing dictators in power, especially in Asia, but the transitioning to economic development was disastrous. Thus, from an Industrialization espoused governance value, the Philippines went back to poverty alleviation side by side with indignation against government, albeit disastrous democratic consequences of dictatorships.

The 1990s governance values were that of adopting a decentralization framework where shifts in power distribution occurred with the bringing together of multi-actors in development. It was during this time that a continuing struggle in terms of strategic steering of both policy and action alongside with the promotion of general welfare was the values in action. This was the period where the LGUs were seen as both political and development managers consistent with the global trend of NPM.

Table 8.1. shows the summary perception of LED through the years.

Achieving good governance through these governance values has been identified as a pre-condition to development and not necessarily LED.

**Table 8.1.** LED Perception Through the Years

Timelines	Framework	NGA/LGU Roles
1960s	Agricultural development Community development	Bureaucrat Livelihood creation
1970s	Large economic hubs would continue to succeed more than small, rural locales (move outside Metro Manila) Growth through industrialization	Sought investments that will create jobs Sold the locale and its industrial sites to investors looking for sites for relocation or expansion.
1980's	Structural changes Poverty reduction Indignation and demand for governing changes	Technocrat/service provider Promotion of general welfare
1990's	Adoption of decentralization framework Exploration of managerial approaches to development Dual nature of LGUs	Steering strategic changes in political landscape Promotion of general welfare Local economic transformation
21 <sup>st</sup> Century	Acceleration of local development No clear separation between politics and management	Political Manager Public entrepreneurs

**2. GOVERNANCE ESPOUSED VALUES IN LED**

Literature indicates that there is disagreement as to what constitutes local economic development (Woltzman and Spitzley, 1996 as cited by Rowe, 2009). The discipline of LED is a complex mix of concepts, practice, and rhetoric. Rowe (2009) argues that local economic development lacks a dedicated coherent body of theory. However, Bingham and Mier (1993) disagree and maintain that the theoretical underpinnings of local economic development are a compilation of numerous theories derived from a wide variety of disciplines.

From a practice perspective, according to the World Bank, LED is a process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all.<sup>1</sup> The Canadian International Development Agency (CIDA) Local Governance Support Program (LGSP) offers a more contextual definition of LED

<sup>1</sup> Definition of the World Bank ([www.worldbank.org](http://www.worldbank.org)) accessed October 2010.

in the Philippines. It defines LED as the process by which actors within the LGUs (*barangays*, municipalities, cities and provinces) work collectively with the result that there are improved conditions for economic growth, employment generation and quality of life for all (LGSP 2009). The CIDA-LGSP definition provides the scope in terms of the geography, of being entrepreneurial and holistic. The International Labor Organization (ILO) defines LED as a participatory process which encourages social dialogue and public-private partnerships in a defined geographical area. LED enables local stakeholders to jointly design and implement a development strategy which fully exploits local resources and capacities, and makes best use of the area's comparative advantages.<sup>2</sup> The three major international organizations emphasize LED as collective and multi-stakeholder process within a geographical area using local resources for economic development.

In the Philippines, there is no specific policy solely for LED. The policies are diverse and are usually mandate-related for national government agencies. These policies are under the umbrella of the Medium Term Philippine Development Plan (MTPDP) 2004-2010 and from the State of the Nation Address (SONA) delivered by President Gloria Macapagal Arroyo on July 23, 2001.

The MTPDP is a detailed roadmap towards achieving the country's goal of reducing poverty through job creation and enterprise. During this period, President Gloria Macapagal Arroyo envisioned the MTPDP as the strategy to spur economic growth for the Philippines.

In the SONA, the President said, "The basic task of the MTPDP for the period 2004-2010 is to fight poverty and build prosperity for the greatest number of the Filipino people. We must open up economic opportunities, maintain socio-political stability, and promote good stewardship—all to ensure a better quality of life for all our citizens. We will focus on strategic measures and activities that will spur economic growth and create jobs. This can only be done with a common purpose to put our economic house back in working order."

The first part of the MTPDP covers nine chapters devoted to measures to accelerate growth and job creation. These are trade and investment, agribusiness, environment and natural resources, housing/construction, tourism, infrastructure, fiscal strength, financial sector, and labor. Support for micro, small and medium enterprises and agribusiness is emphasized, as the most efficient job generators in terms of jobs to investment ratio (NEDA, 2005).

---

<sup>2</sup> <http://www.ilo.org/led>. Accessed last July 2010.

The SONA is where she declared that her administration's policy is to "sustain an economic philosophy of free enterprise by attracting investments to create jobs and employment; modernization of agriculture founded on social equity; a social bias to balance economic development through micro-finance and upholding moral standards and the rule of law." Thus, each government agency has established its own policies and programs anchored on these two policies and declaration of the President.

Article 10, Section 5 of the Philippine Constitution maintains, "Each local government unit shall have the power to create its own sources of revenues and to levy taxes, fees, and charges subject to such guidelines and limitations as the Congress may provide, consistent with the basic policy of local autonomy." Further in Section 13, it is stated that "Local government units may group themselves, consolidate or coordinate their efforts, services, and resources for purposes commonly beneficial to them in accordance with law." This defines the LCEs entrepreneurial role as local economic development managers.

### **3. LOCAL ENABLING POLICIES ON LED**

The Local Government Code, or Republic Act No. 7160, establishes the system and powers of provincial, city, municipal and barangay governments in the Philippines (LGC 1991). It is the governing law on local governments enacted in 1991. It is the primary policy that enables LED for LGUs. The sections 14 to 18 and 22 of the code detail the beginning of corporate existence of LGUs political powers. It states the goal of LGUs as self-reliant entities with powers to generate own source of revenues. It also details some of the enterprises that the LGUs may venture into, such as public markets, slaughterhouses, public cemeteries and tourism facilities among others. This explains the literal value in action of the LGUs to go into economic enterprises. Section 35 is explicit in the modes of LED the LGU may venture and foremost among them is joint venture. Section 36 is the enabling assistance by LGUs for economic, social and cultural development of key organizations in the community.

The LGUs in the Philippines are both political and corporate entities (Sec. 16 of LGC 1991). As political entities they are public service organizations and as corporate entities they are proprietary entities. An irony exists in that the values as public service organizations is poverty alleviation while as proprietary entities is to create wealth. This is where the organizational con-

fusion begins as far as understanding LED is concerned. As a poor country, LED is literally understood from an enterprise perspective where it is the LGU generating revenues rather than enabling markets for business to flourish. This is on top of the LGUs awareness as proprietary entities.

At the executive level, national policies that enable LED from a local governance perspective in the DILG evolved from a Minimum Basic Needs Approach in the mid-1990s to the current local economic transformation program. Memorandum Circular (MC) 1996-118 instructed all LCEs, DILG Regional Directors and Field Officers to adopt the Social Reform Agenda Convergence Policy through the Minimum Basic Needs Approach. The Social Reform Agenda as embodied in RA 8425 of 1997 spell out the role of LGUs in addressing the three sets of the minimum basic needs (MBN) approach. These are: survival needs (food, nutrition, health, water and sanitation); security needs (shelter, peace and order, public safety, income and livelihood); and enabling needs (basic education and literacy, participation in community development, family and psychosocial care).

In August 21, 2001 the MC 2001-109 was issued in identifying the Initial Areas for Action to implement the programs on Poverty Reduction and Local Economic Transformation. Eventually, there was a directive to establish a One-Stop-Shop Investment Promotion Center in each province, city, and municipality and several activities which included an inventory of existing small and medium enterprise in each province, city and municipality; identification of priority needs of the locality on SME development, cluster development, establishment of economic zones (ecotourism, eco-industrial, or eco-agricultural); formulation of a local economic transformation program agenda (LETPA); utilization of various tools in needs identification (for the Comprehensive Land Use Plan (CLUP), the build operate and transfer (BOT) guidelines, urban management); and identification of external and internal sources of assistance to implement LETPA.

On January 22, 2002, DILG MC 2002-09 was issued as part of the LGU Cluster Development Approach Project. The circular highlights the concept of inter-local partnerships where clustered municipalities are given better access to develop their local resources, improve their production, through appropriate technology, marketing and investments and consequently increase their income. Overall the circular aimed to effect self reliance in implementing development initiatives especially at the lower income municipalities.

The DILG supported both the President's SONA and the mandates of the Code on LED through the establishment of the Local Economic Trans-

formation Program (LETP). MC No. 2002-48, establishing the LETP for local governments, highlights the need for a change in perspective to realize good local governance. It highlights the roles of LCEs as the local economic managers along with the other local officials and personnel. The LETP is a package of interventions, which enables the LGUs to harness their local potential to achieve local economic growth with equity.

Then on June 9, 2009, the President signed EO 809, *Implementing the Financing Policy Framework for local government units by identifying new sources of funding for first tier local government units under RA 7160*, that allows the LGUs to directly contract loans not only with government financial institutions (GFIs) and the Municipal Development Funds Office (MDFO) but also with multilateral financial institutions created by multilateral treaties or agreements to which the Philippines is a signatory (Section 1, EO 809).

#### **4. GOVERNANCE INCONGRUITIES IN LED**

The identified governance incongruities determined the kind of LED practice in the Philippines. These incongruities in return determine the local governance tracks of both the NGAs and LGUs in LED. Incongruities as argued by Jabeen (2007) state that institutions espoused values may lead to divergence in values in action resulting in a gap between structure and behavior, rules and implementation, promises and results, form and substance, and, goals and results. As applied to governance, in its current usage, where multi-stakeholdership is the key, incongruity should not have existed between national and local institutions (Jabeen, 2007) primarily because of the espoused values in good governance for LED. In addition, how these NGAs espoused values translate into programs and services is what shapes the LGUs in its espoused values.

##### **Incongruity 1: NGA Espoused Values as Determinants of LGU Action**

The issue of LED policy and program harmonization is highlighted as a result of the varied and numerous programs that NGAs have that are LED-related for LGUs. Key among the issues is on the lack of collaboration among the NGAs for similar services resulting to fragmented and incomplete services. As a consequence, the LGUs are dealing, relating and coordinating with a set of national agencies for specific services. Further, the LGUs still



have to balance LED demands with the various actors within the LGUs and their community including the private sector.

Each of the national government agencies operate based on their mandates, including those for LED related programs and services. As a result the LGUs view the execution of these programs, polices and services as fragmented as the LGUs will have to deal with each of the NGAs on an agency to agency basis. For example, each of the NGAs has technical assistance on capacity building for the LGU actors, which maybe one and the same person attending the various concomitant LED interventions. NEDA emphasizes another issue which is the disconnection between the planning and policy priorities of the national government and the LGUs. This is particularly apparent in the areas of food production, irrigation, and agribusiness development (WBI-DOF, 2007). Thus, LGUs being cash strapped will shape their local development programs to match donor or funder priorities, whether NGAs or ODAs. Further, the challenge is also on how the NGAs can influence local development plans towards national priorities matching.

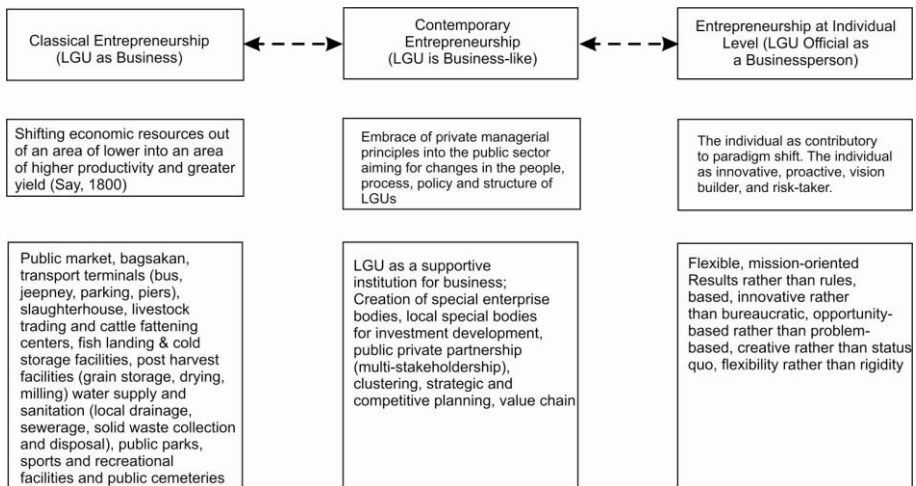
President Benigno C. Aquino III in his first State of the Nation Address emphasized that “in the first six years prior to 2010, the Philippine government expenditure exceeded revenues. Deficit further increased to PhP196.7 billion. The Philippines collection targets, which lack PhP23.8 billion, were not fully met, while we went beyond our spending by PhP45.1 billion. The Philippines has so many needs from education, infrastructure, health, military, police and more, and funds will not be enough to meet them. No matter how massive the deficit is that may keep us from paying for this list of needs, I am heartened because many have already expressed renewed interest and confidence in the Philippines. Our solution: public-private partnerships. Although no contract has been signed yet, I can say that ongoing talks with interested investors will yield fruitful outcomes” (State of the Nation Address, 2010).

Earlier, Cabanilla (2006) argued that the agribusiness situation in the Philippines can be gleaned from a general picture of the agriculture situation itself where there exists a national government institutional bias for staple crops such as rice and corn. This is where the dilemma of national priority programs based on commodities structuring will be biased towards priority staple commodities like rice and corn to the detriment of other geographical areas not suited for rice and corn. This contradicts the role of the LGUs in the spirit of autonomy where their familiarity with what is best in the respective communities become the roles they have to play for LED.

As a result, LGUs values in action in LED as a result of NGA espoused values are LGUs as business, LGUs as business-like and LGUs officials as businesspersons. The LGUs as business refers to LGUs venturing into economic enterprise by themselves. The common enterprises developed by the LGUs are transportation terminals, agricultural trading posts, fish ports, cold storage, hotels and others. This is largely as a result of NGA espoused values of assisting LGUs to earn income for their constituents. The LGUs as business-like refers to the LGUs improving their systems to be conducive for businesses. The common values in action are establishing a one-stop-shop business assistance center in the LGUs, streamlining of the business registration systems, establishing citizen’s charter or the simplification of administrative procedures and others. The LGUs officials as businesspersons refer to establishing capacity development programs that will promote innovations and an entrepreneurial mindset in the LGUs among its officials and staff.

Figure 8.1 shows the summary of LED practice in the LGUs of the Philippines.

**Figure 8.1.** Summary of LGU Values in Action as a Result of NGA Espoused Values



**Incongruity 2: NGA Action as Determinants of LGU Espoused Values**

Almost all NGAs have LED programs and services in their departments that are usually implemented with the LGUs. This is what constraints

school theorist generally asserts that national governments while no longer the central focus of power would not simply retreat and surrender its loss of effective political power. This consequentially is a result of the loss of control due to the numerous actors already at play in governance (Held and McGrew 1998; Rosenau 2000 as cited by Weiss 2003), in this context the LGUs. In the case of LED, all NGAs implement LED programs in parallel with the LGUs which implement also their own LED programs. This leads to what Gera (2008) refers to as two-track implementation scheme of decentralization. This “short cut” process to development leads to unfortunate outcomes, such as the “filling in of the state” (Jessop 2004), where there are institutional and political settlements of “holding on to power and authority” by the state and the “yielding in” of local governments. The yielding of the LGUs is in the form of accessing the funds that go with the LED programs either from the NGAs or its international partners.

Thus, the business or entrepreneurial programs of NGAs suffer difficulties in implementation. This is a major reason for NGAs searching for other local partners in implementing national programs within the local communities. Also, the LED policies, programs and services of various NGAs to LGUs have provided wider responsibilities for LGU officials. In general, the NGAs programs and services are geared towards improved transparency and accountability and organizational efficiency. However, it has not increased local public investments. Thus the LGUs look up to the institution as the investor itself, looking at LED from a project perspective rather than a way of governance in the LGU.

### **Incongruity 3: LGUs Institutional Capacity to Function as Corporate Entities**

The dynamic view of good local governance includes the effective management of organizations and its key components—planning, budgeting, and financial management. In 2006, only 4.8% of all the 1,696 local government units in the Philippines have been awarded with best practice in good financial management (Galing Pook Awards, as cited by Mendoza and Javier, 2006). The Galing Pook Awards was launched in 21 October 1993 as a pioneering program that searches and recognizes innovative practices by the LGUs. This is because revenue generation and resource mobilization at the local level is hampered by complex tax structures, poor systems and procedures, and weak local capabilities. Further, planning and budgeting at the local level is bedeviled by the short political tenure of local officials, and

the lack of a clear mandate supporting the linkage between the Local Development Plan, the Local Development Investment Program, and the Annual Investment Program. Consequently, there is a need to help LGUs to develop strategies and systems that will enable them to increase their financial resources and to allocate their resources in a manner that is consistent with their goals and objectives as articulated in their medium term development plans (Manasan and Villanueva, 2006).

Internally, the role of politics within the LGU as a political organization will overrun its corporate functioning if the *Sanggunian Bayan* or *Panglungsod* or the City and Provincial Legislative Council is not allied with the incumbent LCE. This executive-legislative dichotomy and/or conflict is recognized as a constraining factor causing LED and other national programs to suffer as a result of perceived intense and actual political bickering internal to the LGUs and their communities. This explains why LGUs venture into LED as an LGU alone and without multiple engagements especially from the business sector. The high mistrust of the private sector towards the public sector and the extreme difficulty of raising revenues through enterprise development caused the LGUs to focus only on LED from an enterprise development perspective.

Further, the issue of having an entrepreneurial and corporate mindset was raised as a major concern for LED. The call for an entrepreneurial mindset is also embodied in the Magna Carta for MSMEs and the Sixth SONA of President Gloria Macapagal Arroyo. The entrepreneurial mind works within the premise that nothing happens unless you make things happen. Structure, support, rules and rigidity which often accompany bureaucracy are seldom found in entrepreneurship. This challenge is further evidenced by the continued use of traditional modes of LED on public enterprise primarily as part of the LGU's social services. Thus many of the public enterprises are losing financially and the LGUs end up subsidizing these enterprises (DILG Learning Forum 2008). With majority of LGU bureaucrats having an employee mind orientation but working as entrepreneurs for the LGU's proprietary function, is not working for LED.

The issue on enhancing local business climate is given importance as a major issue for LED in the LGUs. The four forums emphasized that the LGUs, as a matter of policy, should not be venturing into business but rather should only be enablers for business development and retention. However, there is an empirical body of reference which shows that successful local economic policies consisted of a balanced mix of traditional instruments (consulting, real estate management, investment in infrastructure) and mo-

dem, competition-oriented activities (LGU marketing, new public management, local cooperation and public-private partnerships) (Blume, 2006). Thus a right and balanced mix of Section 15 of the Local Government Code of a politic-corporate entity functioning of the LGU is seen as the major challenge for LED.

Further, adding to this is the lack of clarity among the local governments on the important role that the market plays in LED. This is especially true in the areas of the LED development process and concomitant roles of LGUs as far as job creation vis-a-vis wealth creation comes to fore. The LGUs look at LED from a classical business sense of generating revenues rather than on being entrepreneurial and having entrepreneurs' attributes or being as businesspersons themselves. Thus, the Barangay Micro Business Enterprise (BMBE) law hardly gets implemented because of the understanding that the law actually exempts micro enterprise from paying taxes as a form of incentives thus resulting in a loss of revenues for the LGUs.

While the NGAs largely focused on strengthening the LGUs local economic enterprises (LEEs), the results are disastrous. In the study of Manasan (2009), it was identified that 77% in provinces, 63% in cities and 56% in municipalities of all local economic enterprises are losing economic enterprises. The focus of LED by the LGUs is through establishing economic enterprises. This is because a large majority of the LGUs look at LED from a fiscal constraints objective where establishing enterprises will hopefully results in increase in income. Second, LEEs are vehicles for creating livelihood that responds to constituents' needs for employment thus making the LGUs absorb labor demands. Third, is the manipulation happening in the LGU to deliberately establish LEEs as an escape from the personnel services cap as mandated by the Local Government Code. The personnel services cap is the limit set by law for the percentage of salaries vis-à-vis operating costs of local governments. A local enterprise once established as an enterprise automatically exempts the LGUs from the personnel services cap.

Table 8.2 shows the summary of LEEs operation in the Philippines.

**Table 8.2.** Results of Local Economic Enterprises Operations

	2006 (actual)	2007 (actual)	2008 (projected)
<b>Provinces</b>			
% of LEEs posting net loss	89	77	75
Net profit (loss) of LEEs in the aggregate (in million pesos)	(931)	(1,071)	(1,384)
Gross receipts as % of total losing LEEs	30	33	33
Gross receipts as % of profitable LEEs	272	113	248
<b>Cities</b>			
% of LEEs posting net loss	58	63	64
Net profit (loss) of LEEs in the aggregate (in million pesos)	(9,582)	(10,881)	(13,068)
Gross receipts as % of total losing LEEs	14	15	14
Gross receipts as % of profitable LEEs	138	144	156
<b>Municipalities</b>			
% of LEEs posting net loss	56	56	47
Net profit (loss) of LEEs in the aggregate (in million pesos)	(1,265)	1,482)	(1,380)
Gross receipts as % of total losing LEEs	36	34	32
Gross receipts as % of profitable LEEs	136	137	139

Source: Manasan, 2009.

At the local organizational level, incongruities emanated from a culture that has developed because of the practice of decentralization. Edgar Schein (1985) took it up from an organizational culture perspective where language and formal and informal actions are set up. This refers to the LGUs “the way we do things around here,” “the way we think about things around here,” or “the commonly held values and beliefs held within an organization” (Hudson, 1999 as cited by Schein, 1985), including “the overall ‘character’ of an organization” (Handy, 1988 as cited by Schein, 1985). Schein (1985) argues that these values now shape what governance will be. Thus LEEs not generating revenues are not seen as something urgent that need organizational response or action. Behaviorally speaking, this also constitutes the organizational behavior (Robbins and Judge, 2006) of LGUs in LED. The incongruities from Schein’s work shows, on a more pragmatic

sense, the governing practice of LGUs emanating from their perception of how they perceive national governments' governance of the state based on their developed capacities.

#### **Incongruity 4: Locating LED within a Political and Corporate Context**

Scholars like Llanto (1998), identified several incongruities that impede further the development of LED, specifically local financing in various arenas. Among these are: the lack of reliable information about LGUs; the possibility of political interference in project management or in debt servicing; uncertainty in the management capacity at the LGU level; uncertainty in the quality of feasibility studies; lack of an independent rating agency; lack of market for secondary trading; and lack of access to IRA as security for LGU obligations. This makes the objectives of LGU Financing Framework to accommodate the more creditworthy LGUs to private sources of capital mainly untouched.

The current LED institutional support systems by NGAs for LGUs are largely limited to technical assistance including capacity building and institutional access to financial and credit assistance. This technical assistance does not address the development of the LCEs and the LGU officials as the entrepreneurs themselves. It is specially wanting in creating the entrepreneurial mindset that will focus on alternative sourcing of revenues, enhancing economies of scale through joint venture and inter-local cooperation, and creating the business climate for business development and retention. This area of assistance is needed in the policy and programs/services. Table 8.3 provides a summary of LGUs performance in the use of their corporate powers.

**Table 8.3.** The LGUs Financing Framework Practice Today

1996 LGU Financing Framework Objectives	Current Financing Framework Practice
Number of LGUs practicing their corporate powers	Less than 10% of all LGUs exercise their new financing mandate (Amatong, 2005)
Develop the LGU bond market	Only 21 of 1,696 or 1.24% of all LGUs have issued bonds (BLGF, 2005)
Increase LGU use of BOT (build-operate-transfer) arrangements	Only 15 of 1,696 or .88% of all LGUs have BOT projects (BOT Center, 2005)
Improve the capacity of LGUs to raise their own revenues (Excellence in Corporate Practice)	Only 8 of 171 or 4.8% of all LGU awardees of Galing Pook are LFPM-related (Galing Pook Foundation, 2006)

(continued)

**Table 8.3.** The LGUs Financing Framework Practice Today (*continued*)

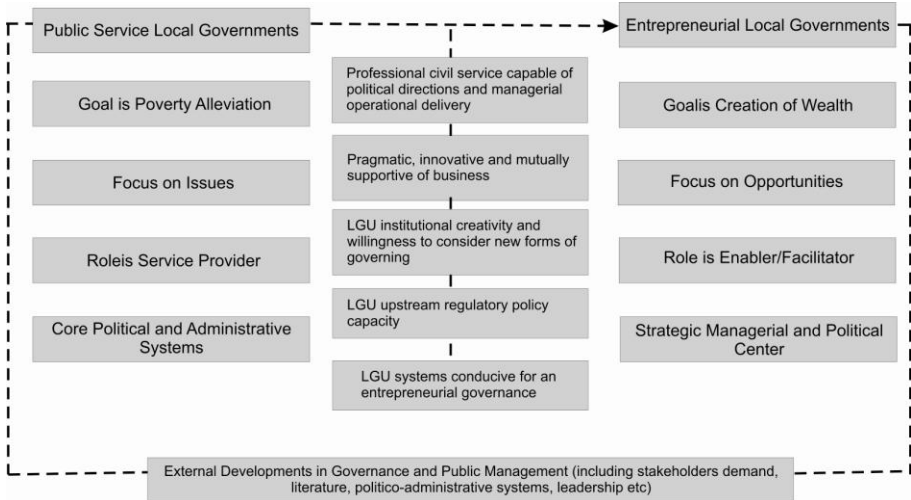
1996 LGU Financing Framework Objectives	Current Financing Framework Practice
Promote LGU access to private banks	Private banks are not encouraged to provide LGU financing schemes and arrangements

Source: Javier, Aser B. and Rufo R. Mendoza. 2007. Organizational Assistance to Local Financial Planning and Management in the Philippines.

Legally, the major incongruity in espoused values is the dual entity character of LGUs in the Philippines. Section 22 of the Local Government Code (RA 7160) states that LGUs are both political and corporate entities. As political entities the LGUs are public service organizations, and as corporate entities the LGUs are entrepreneurial organizations.

This is where the incongruity exists in terms of goals, focus and roles of the LGUs in its dual character. As public service organization the LGUs goal is poverty alleviation, while as entrepreneurial organizations the LGUs goal is creation of wealth. They are also opportunity seeking organizations, while as public service organization they are problem solvers. In terms of roles, one is as provider and the other as enablers. How to strike the balance in these two entity characters is the challenge.

**Figure 8.2.** LED within a Political and Corporate Entity Structure of LGUs in the Philippines



Source: Javier, 2009. Corporate Powers of LGUs in the Philippines.



## CONCLUSIONS

Actions in LED through strategies and activities are likely to be more successful within an environment that has positive governance values through policies and mechanisms that enable local governments to facilitate LED activities. For indeed, while LED is a local endeavor, there are a number of national agencies that are responsible for creating this environment favorable to LED (Javier 2010).

The policies, programs and services of the National Government Agencies (NGAs) especially for the small and medium enterprises (MSME) provide the necessary triggers for LED. However, sources of LED programs and services are varied and usually related to the mandate of these institutions. The various agencies roles are as regulator, facilitator, and provider of financing but all have technical assistance programs and are usually centered on institutional strengthening of capabilities of LGUs, viewing LED as an enterprise. What is generally missing is the conceptualization of LED towards making LGUs more entrepreneurial and the LCEs acquiring an entrepreneurial mindset.

The research shows the need for the LGUs to link the national and the private sector policies, programs, and services to its community. This is where the local knowledge becomes important with the LCEs as entrepreneurs. This is on top of creating the business/entrepreneurship climate in support of existing national policies and for business development or retention in their local communities. This provides the seamless possibilities of the needed local entrepreneurial competencies and legitimacy for a local entrepreneurial mindset to be created. Further, there is a need to rethink the NGAs approach at the regional and provincial levels vis-à-vis the role of the province, the municipalities, and the cities.

Complementarily, international relations theories identify parallel constraints through the conception of the politics in the field. This is characterized as the “politics of yielding in”. It is argued that politics from below maybe transformative or dependent in nature because of the domination of politics from above. This hegemony causes the eventual yielding in of local institutions, thus creating the constraints of “local economic development.” Often this view is disregarded due to globalization, which all states or countries for that matter have to contend with (Boggs, 1986; Yauval-Davis, 1997; Fraser, 1997; Hamel, 2001; Harding, 1992; Keck and Sikkink, 1998; and Woods, 1995 as cited by Maignashca, 2003). This result in the shaping of new forms of national-local institutional arrangements at

play, where powers are shared as a result of financial difficulties through the Internal Revenue Allotment (IRA) vis-à-vis the increasing demand for social services at the local government level.

This situation highlights the need for a hand-in-hand development/evolution of both political and corporate functioning of LCEs as a mandate of the LGC of 1991. There is a compelling need to evolve organizational and individual entrepreneurial competencies at this point to ensure the effectiveness of LGUs and improved performance of NGAs in LED.

While this may be considered as role differentiation, the current LED national policies do not exactly meet current local demands. Right now, many of the LGUs are highly dependent on the IRA, donor assistance, and government-sourced credit financing and national grants because these are the most convenient ways of accessing funds for development, operational and even LED purposes.

The two-track system of implementation where both the NGAs and the LGUs implement LED is a tension in national-local relations and the inability of the NGAs to completely hand-over power autonomously in terms of both finances and policies. On the one hand, the LGUs inability to be able to maximize their LED powers beyond taxation and their dismal LEEs performance are hindrance to the NGAs hand-over of power as well. Second, given the current implementation mechanism of LED policies, there exists the inability of various NGAs implementing LED to harmonize and focus on a LED bundled service for LGUs. This results in the LGUs to be very political in accessing LED programs and services of NGAs which eventually defeats LED purpose of the LGUs to be managerial. It also provides the limits to attaining good governance of local governments in the Philippines.

## **BIBLIOGRAPHY**

- Clingermayer James C. and Richard C. Feiock. 2001. *An Analysis of Political and Administrative Adaptations Institutional Constraints and Policy Choice: An Exploration of Local Governance*. SUNY Press.
- Gera, Weena Jade. 2008. Institutionalization in Political Decentralization: The Influence of Devolution Architecture in Bureaucratic Quality. Doctoral Research Presentation Seminar. Graduate School of International Development. Nagoya University.

- Goldratt, Eliyahu M. 1984. *Theory of Constraints*. [Great Barrington, MA]. North River Press.
- Javier, Aser B. 2002. Public Entrepreneurship as a Local Governance Strategy in Decentralizing Polity: Exemplary Initiatives from the Philippines. *Forum of International Development Studies*, Vol. 21: 17-42. ISSN 1341-3732.
- Javier, Aser B., 2009. Corporate Powers of LGUs in the Philippines. Powerpoint presentation. LGSP-LED.
- . 2011. The Constraints School Toward Good Local Governance: Local Governments of the Philippines circa 2001-2010. *Silliman University Journal*. (forthcoming).
- Jabeen, Nasira. 2007. Good or good enough governance in South Asia: constraints and possibilities. Professorial Chair Lecture, Prince Claus Chair in Development and Equity 2006-2007. Utrecht University.
- Manasan, Rosario. 2007. IRA Design Issues. Paper presented to the National Conference on Strengthening Local Government Finance in the Philippines. Department of Finance and World Bank Institute. Heritage Hotel Manila.
- Maiquashca, Bice. 2003. Governance and Resistance in World Politics. *Review of International Studies*, 29, 3–28.
- Mendoza, Rufo R. and Aser B. Javier. 2006. Institutional Mapping of Organizations Assistance to Local Financial Planning and Management in the Philippines. Economic Policy and Reform Advocacy-Ateneo de Manila University. Manila.
- Rostow, W. 1960. The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: Cambridge University Press,), Chapter 2. *The Five Stages of Growth—A Summary*, pp. 4-16.
- Rowe, James, 2009. *Local Economic Development: Linking Theory to Practice*. Ashgate.
- Schein, Edgar. 1985. Organizational Culture and Leadership. <http://www.tnellen.com/ted/tc/schein.html>. Accessed June 2010.
- Weiss, Linda, eds. 2003. *States in the Global Economy: Bringing Domestic Institutions Back*. Cambridge University Press. United Kingdom.
- Weiss, Linda. 2003. *The Myth of the Powerless State*. Cornell University Press. USA.