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TAXING PROPERTIES AND MANAGING LAND: THE MANY PATHWAYS ON A LONG JOURNEY IN THE PHILIPPINES

HIGHLIGHTS

- Land management and real property tax reform have at least a forty years' history in the Philippines, underlining the immense political, social, technical and institutional challenges of reforms in this area.
- The ADB-financed REGALA project and its predecessor, the AusAID-financed Innovation Support Fund (ISF), adopted an approach that combined land management, and real property tax reforms.¹ This enabled the local government units (LGUs) to generate increased revenues including from land management reforms, such as titling, that were not directly supported under the project.
- REGALA and ISF have demonstrated that reforms are doable at the local level when local and national government are committed and working in partnership. Land management and revenue generation can be strengthened by emphasizing locally-led development, technical capability building, use of integrated ICT systems, and opportunities for networking between national agencies and LGUs and between LGUs.
- Development partner support has provided momentum and rigour. Linking technical assistance with a series of policy-based loans helped to incentivize necessary policy reforms and re-enforced national government leadership as well as coordination between oversight agencies.² A consistent government-led approach was flexibly supported by a series of different development partners over several years. However, disruptions occurred between project interventions supported by different development partners. Currently, long-term technical support to roll-out the successful pilots is not available hampering sustainability and wider impact.

FAIR PROPERTY TAXES AND EFFECTIVE LAND MANAGEMENT: CHANGING THE DEEPEST OF STATE-CITIZEN RELATIONS

The if and how you pay real property taxes to local and national authorities defines some of the most basic relations between citizens and the state. Whether the tax system is seen as unequitable and arbitrary, determined by position or connections – or as a reasonably fair system, funding worthwhile social services, is describing two contrasting states of affairs in many developing countries. Despite various reform efforts, 46% of the country's 24.2 million land parcels remain untitled, land management institutions are fragmented, there is no unified land information system, all of which opens the existing land management system to abuse and weakens security of tenure. Similarly, the tax administration is less than efficient, 70% of cities have outdated property values, and 55% of the LGUs have outdated land use plans. In 2014, revenues from real property taxes only contributed to 2,4% (0,36% of GDP) of all national level revenues, and 11.4% of LGU revenues. The Department of Finance found in 2013 that challenges included multiple taxes on property ownership and transfers, relatively high transfer taxes, which discourage formal transactions; weak enforcement of property-related taxes; lack of uniform property valuation systems and

¹ The approach was piloted from 2005-2010 with support from the Government of Australia (AUD 34 million) and later continued with ADB support for the 2011-2013 period (US\$1.6 million, extended from 2013-2015 with additional US\$0,75 million). The projects included outputs related to (i) improved collaboration between relevant national government agencies and participating LGUs; (ii) unified land information systems in participating LGUs and partner agencies; (iii) updated property valuation policies and practices in participating LGUs; (iv) participatory updating of zoning plans and comprehensive land use plans in participating LGUs; and (v) assessment of land tenure status and preparation of appropriate land tenure improvement and financing strategies and plans in participating LGUs.

² To give an example for the policy provisions agreed under the policy-based loan, the Bureau of Local Government Finance (BLGF) of the Department of Finance committed to improve the collection performance of the property tax by (i) issuing guidelines for BLGF regional offices' assessment of the revised LGU Schedules of Market Values for technical compliance with Philippines Valuation Standards and Mass Appraisal Guidebook; and by (ii) conducting training for BLGF regional offices to ensure capacities to review revised LGU Schedules of Market Values.



methodologies, outdated real property values; political intervention in property valuation; and limited use of information technologies in the appraisal process.³

DEMAND-DRIVEN, WHOLE-OF-GOVERNMENT APPROACH AT LOCAL LEVEL

In this difficult context, a strongly demand-driven and partnership-oriented approach to local government revenue generation and land management has emerged. Considering the multi-faceted dimensions and complexities of land management, ISF and REGALA sought to introduce, pilot and adapt specific technologies (including a Geographic Information Systems); property valuation standards and process-based solutions. Capability building included a focussed, iterative, hands-on approach through “learning by doing” and network building. Simulation exercises, immersion sessions, cross visits, and on-site training were introduced and found to be effective. Mature LGUs served as “big-brother” to other LGUs in the project network with the trained and more experienced local trainers tapped to provide practical training. Understanding the political context, strong project ownership, collective action coupled with development partner flexibility were prime factors in making the interventions work. Importantly, the process included public hearings to get support of communities for the revised property values and land use plans. The project also sought active participation of the private sector and landowners in sectoral committees for land use planning. The parcel-based spatial land information systems served as platform for the various databases of the LGU including the revenue system, tax mapping, land tenure mapping, and disaster risk planning. Strengthening of inter-related and mutually reinforcing local processes (i.e., budgeting, investment planning, local revenue generation, spatial planning, access to land) was part a “whole of government” or systems approach. LGUs were offered technical assistance support based on a competitive selection of more pro-active and committed LGUs that also factored in political economy dimensions. The project tapped the synergies of reform-oriented and committed local leaders, trainable and dedicated LGU staff and, flexible external support to achieve substantial progress within a given context. One of the encouraging results is substantive increase in local revenues with more citizens complying with tax obligations as improved service delivery is associated with public spending.

THE UPS AND DOWN OF SHORT-LIVED PROJECTIZING OF SUPPORT

ADB and other development partners have supported land and/or local governance reform for extended periods. Still, in the perspective of 50 years of effort, even a series of technical assistance projects spanning 10 years is only a small part of a longer journey. Within the short term, projects can focus on the low-hanging fruits to demonstrate success for possible replication. On the other hand, projectizing oftentimes does not fully consider the complex political context, so a lot of flexibility is required, and short project durations are unhelpful. The challenges in this area are too big, and too complex for a single project and a single national agency to handle, and quick wins need to be sustained.

Maintaining and strengthening the stakeholder alliances and partnerships that can lift various aspects of the complex reform process over time – in often fast changing political environments - are thus essential, and development partners can play an important role to nudge and honestly broker and sustain these partnerships. The government remain committed to further reform work, prioritizing ‘doable’ operational/executive actions, scale-up proven models and pilots – while still, within such an adaptive approach, pursuing the overall policy agenda.

National government agencies led by BLGF think that the projects achieved a lot. Fair and transparent governance through comprehensive local planning that links valuation, taxation and land management serves as a good foundation to increase opportunities for investments for job opportunities and to spur economic growth. Further, the competition among LGUs for donor support is healthy to ensure the essential commitment to the reforms.

For more information about ADB’s support, see <http://www.adb.org/projects/43205-012/main>, or contact the Bureau of Local Government Finance in the Department of Finance; Ma. Lourdes Reyes ([lulu_reyes <lulutreyes153@gmail.com>](mailto:lulu_reyes@lulutreyes153@gmail.com)) or former ADB project officers Claudia Buentjen (cbuentjen@adb.org) and Joven Balbosa (jbalbosa@adb.org).

³ Department of Finance, 2013: Property Tax Reforms in the Philippines. Presentation at Fourth IMF-Japan High-Level Tax Conference April 2-4, 2013, Tokyo.

