

# **Local Regulatory Governance in the Philippines: Focus on Quezon City**

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*The 1987 Constitution and the Local Government Code of 1991 have transferred regulatory powers of national government agencies to the local governments, for a more responsive and accountable local government. This study traces developments of this change, through a discussion of the present regulatory framework at the local level, the local government role in facilitating economic development, and the issues and concerns in regulating business or economic activities in the local area. The research cites Quezon City, a premier local government authority in the Metropolitan Manila area: examining its regulatory system and focusing on its business licensing system. It also looks into the issues, problems and concerns in regulating the operations of business establishments and enterprises in the city. Lastly, the study showcases changes and reforms introduced, as well as, the effects of the regulatory system on the promotion of business or economic activities in the city.*

## **Introduction**

The emergence of a global economy has considerably affected the role of local government in the governance of communities. Environmental changes and complex demands from the community require the local government to be not only a service provider but also an enabling authority which would provide the right kind of environment to facilitate the economic development of the community. This means that local government should take a proactive stance in leading the planning and development of the local economy by providing the necessary framework for the promotion of economic enterprises and activities.

The enabling role of local government in economic development emphasizes a two-way relationship between the private sector and the local government in addressing the concerns in economic promotion. For instance, the local government negotiates with the private sector in coming up with planning agreements on how to develop the community. In areas where the private sector is hesitant to come in as investor, the local government takes

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the initiative and risk in developing and diversifying the economic base of the locality. It has to provide the necessary support mechanism such as infrastructure facilities, efficient services and better goods, and policy support for the attraction of more investments into the area and to encourage the spirit of enterprise to pave the way for the generation of more economic activities in the locality.

Given its two-way relationship with the private sector, local government is placed at a focal point of relationships and linkages with the private sector (Legaspi 2001). It is in this context that the local government role on regulation is given focus and emphasis. It is important that the activities of the private sector and other nongovernment bodies be regulated and monitored to level the playing field as well as to encourage the development and establishment of more economic enterprises and activities in the local area. This role then gives rise to a number of questions, which have to be answered to improve on the regulatory governance at the local level and thus facilitate the economic development of the community. First, what is the state of the regulatory framework at the local level? Second, does the regulatory framework facilitate or hinder economic development? What are the issues and concerns in regulating business or economic activities in the local area?

This study attempts to respond to the above queries. It showcases Quezon City, a premier local government authority in the Metropolitan Manila area by examining closely its regulatory system, focusing on its business licensing system. It also looks into the issues, problems and concerns in regulating the operations of business establishments and enterprises in the city. The actual practices, changes and reforms in the licensing system are documented by the study as well as the effects of the regulatory system on the promotion of business or economic activities in the city.

There are six interrelated parts in this article. The first section is the conceptual framework where the concepts of regulation and regulatory governance are defined. The second part presents the legal framework for local regulatory governance. It discusses the constitutional and the Local Government Code provisions relevant to the regulation and promotion of economic development. The third section focuses on the national regulatory systems. It first presents the various laws and executive orders pertinent to economic regulation and development. It then discusses at length, the roles and functions of the national government agencies which influence or affect the operations of local governments. The fourth part presents the local regulatory systems. It dwells on the structural or economic, and legal or administrative systems at the local level. Special discussion is given the business licensing system of local government. The fifth section focuses on

the case study on Quezon City and the last part summarizes the key issues and concerns in local regulatory governance. It draws some concluding remarks based on the discussions in all the sections.

### **Conceptual Framework**

The new public administration paradigm emphasizes the shift from government to governance. As broadly defined, governance is the “system of values, policies and institutions by which a society organizes collective decisionmaking and action related to political, economic and sociocultural and environmental affairs through the interaction of the state, civil society and the private sector” (Work 2003: 5). This definition points out the key actors in governance: the state, civil society and the private sector. In local governance parlance, the local government as the state is the principal actor in the local development arena. It is seen as the authority that wields power and influence over the other elements of society. As such, it plays an active role in enabling and facilitating the participation of these elements. It thus provides the legal and regulatory framework within which the organizations and institutions plan and implement their programs and activities (Cariño 2000).

The civil society and the private sector also wield influence on the decisionmaking processes in the local community. They are seen as partners of the local government in policy formulation, service delivery, program implementation, and monitoring and evaluation. The local government is no longer the sole source of policies and information and resources. Thus, it becomes imperative for the local authority to share with the civil society groups information, resources, technologies and even personnel to attain development objectives in the community. And it does this through the processes of networking and partnership.

In the pursuit of local economic development goals, the local government takes a backseat role as it gives the primary role to the private sector, the so-called “engine of growth.” This implies that the local government views the market as the most efficient and economical mechanism in the provision of goods and services. This does not mean however, that the local government abdicates its role of providing a level playing field for those organizations or groups, which may not be able to compete because of certain disadvantages and structural disabilities. In other words, the local authority should be able to provide the “safety nets” for those disadvantaged groups to enable them to compete in the external market.

The state of governance thus stresses a new and added role of the local government, that of enabling and facilitating the participation of the civil society and the private sector through partnerships and networks. It is in these processes that the regulatory role of the local government is given focus.

### *Defining Regulation*

The concept of regulation has varied meanings. According to Baldwin and Cave (1999: 2), the term can be viewed as a “specific set of commands; as deliberate state influence; and as all forms of social control or influence.” In the first sense, regulation involves a set of promulgated rules applied by a body created for this purpose. An example of this would be the set of environmental protection rules implemented by the Environment Management Bureau of the Department of Environment and Natural Resources (DENR). The second sense of the term covers all actions of the state or local government as used in this research, that are designed to restrict or influence activities of the various social and economic groups in the community. For instance, the policies formulated by the local government on economic incentives for the business sector definitely influence the decisions regarding the expansion or establishment of new businesses in the area. The third sense of the concept involves all those mechanisms affecting behavior, whether these are derived from the local government or from other sources such as the market.

The above definitions seem to point out the negative implication of the concept, which restricts or constricts activities or behavior of individuals or groups. It implies the occurrence of negative consequences (such as sanctions) if an individual or groups do not follow the given rules. But then, what appears to be important in the state of governance is the facilitative or enabling aspect of regulation. As stated, the local government formulates policies and lays down the ground rules for the operations of individuals and groups, most especially the business sector, to promote public order and safety.

### *The Regulatory Instruments*

There are two main forms of regulatory instruments as explained by Ogus (2001). These are the economic and social regulations. Economic regulation “applies to markets which are insufficiently competitive” (Ogus 2001: 10). This means that there is a need to come up with measures to make or enhance the competitiveness of the market, such as the formulation of a law on competition and the passage of legal measures on controlling the price and quality of products and services. On the other hand, social regulation deals more with the promotion of public welfare, health and safety. This further implies that rules are applied to the operations of the business firms to control their activities for loss abatement. The activities related to this are: 1) prior approval, where the firms are required to first secure a license or permit to operate from an authorizing agency; 2) mandatory standards, where the companies have to meet certain standards, both performance and specification, set by the agency tasked to formulate the standards;

3) information disclosure, where the establishments are required to disclose to the public information regarding harms and risks that may arise from the operational activities and the product; and 4) economic instruments where the local government can offer incentives to the firms in the form of a tax or charge (Ogus 2001). This could also be seen as a policy instrument, such as for instance where the local government adopts a policy of tax holiday for business firms for a certain tax payment period to encourage more investments into the area.

Nevertheless, the more important aspect of social regulation in governance is the control of certain operational activities of the firm for the health and safety of the general public. Thus, the enabling role of the local government puts premium on the social aspect of regulation primarily because of the need to protect the interest of the public and to promote more economic activities in the community for the people's general welfare and well-being. The following sections of the article will then explore the operationalization of the concept of social regulation in local governance in a developing economy like the Philippines.

### **The Legal Framework for Local Regulatory Governance**

Local regulatory governance in the country has its basis in the Philippine Constitution and the Local Government Code of 1991. The regulatory and interventionist role of the state is clearly enunciated in the declaration of state policies of the 1987 Constitution while the regulatory powers of the local governments are spelled out by the Local Government Code.

#### *The 1987 Constitution*

Article II, Section 9 of the 1987 Constitution declares: "The state shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all." This declaration is followed by Sections 14 to 18, which underscore the duty of government to:

- Ensure the fundamental equality of men and women;
- Protect and promote the right to health of the people;
- Protect and advance the right of the people to a balanced and healthful ecology;

- Give priority to education, science and technology, arts, culture, and sports to foster patriotism and nationalism, accelerate social progress, and promote total human liberation and development; and
- Protect the rights of workers and promote their welfare.

The above provisions clearly indicate the role of the government as a protector of human rights and promoter of welfare. In terms of economic policies, the nationalistic orientation of the Constitution can be seen in Section 19 which states: "The State shall develop a self-reliant and independent national economy effectively controlled by Filipinos." This economic policy is further underscored by the provisions of Article XII (National Economy and Patrimony) which make it the duty of the State to:

- Protect Filipino enterprises against unfair foreign competition and trade practices;
- Enact measures that will encourage the formation and operation of enterprises whose capital is wholly-owned by Filipinos;
- Give preference to qualified Filipinos in the granting of rights, privileges, and concessions covering national economy and patrimony;
- Regulate and exercise authority over foreign investments in accordance with its national goals and priorities; and
- Promote the preferential use of Filipino labor, domestic materials and locally-produced goods, and adopt measures that help make them competitive.

While the above provisions tend towards a very nationalistic mode, the spirit of free enterprise is also ordained in the Constitution. Section 20 thus states: "The State recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments." However, there are some limitations imposed. These are found in the provisions of the Article on National Economy and Patrimony, which stress the duties of the State to:

- Ensure the right to own, establish, and operate economic enterprises, subject to the duty of the State to promote distributive justice and to intervene when the common good so demands; and

- Regulate or prohibit monopolies when the public interest so requires, and prohibit combinations in restraint of trade or unfair competition.

Apparently, the Constitutional provisions highlight the role of the government in social regulation. They provide the basis for the facilitative or enabling role of government in protecting the public interest and promoting the general welfare of the community.

### *The Constitution of 1987*

The 1987 Constitution devotes an entire article on local governments (Art. X), which includes some significant provisions such as the following:

- The territorial and political subdivisions of the State shall enjoy local autonomy (Sec. 2);
- Congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization (Sec. 3); and
- 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 (Sec. 5).

Further, the State grants the local government police power through the General Welfare Clause of the Code, which gives them as much power “as necessary, appropriate, or incidental for their efficient and effective governance and those which are essential in promoting the general welfare” (Tabunda and Galang 1992: II-7). The local governments then have more flexibility in exercising their powers to ensure the attainment of the objectives of the following:

- Preservation and enrichment of culture;
- Promotion of health and safety;
- Right of the people to a balanced ecology;
- Development of appropriate and self-reliant scientific and technological capabilities;
- Improvement of public morals;
- Economic prosperity and social justice;
- Full employment among the residents;
- Peace and order; and
- Comfort and convenience of the inhabitants.

### *The Local Government Code of 1991*

Based on the principle and policy of local autonomy, the Code transferred certain regulatory powers of national government agencies to the local governments. This Act serves to enhance the police power conferred on the local governments by the general welfare clause. These powers include the power to reclassify agricultural lands, enforce environmental laws, and the Building Code, process and approve subdivision plans, inspect food products, and regulate the operation of tricycles. Aside from these expressly devolved powers, the local governments may also regulate the provision of health, social welfare, agriculture, public works, and other services already devolved to them.

The power of the local governments to tax and to impose levies, fees and charges can be seen likewise as part of their regulatory powers. In terms of economic concerns, they issue business licenses and permits to establishments or enterprises before they can operate in their respective local jurisdictions. The collection of business taxes can also be viewed as an economic instrument, a form of social regulation imposed by the local governments.

### **The National Regulatory Systems**

The power and functions to regulate are lodged with both the national and local governments. There are national laws and executive orders which form part of the regulatory regime; thus, they influence the operations of local governments particularly the business licensing system at the local level.

#### *Some National Laws and Executive Orders on the Conduct of Business*

*Republic Act (RA) 8799, the Securities Regulation Code*, vests on the Securities and Exchange Commission (SEC) the powers and functions to:

- Have jurisdiction and supervision over all corporations, partnerships or associations which are grantees of primary franchises and/or a license or permit issued by the government;
- Approve, reject, suspend, revoke or require amendments to registration statements, and registration and licensing applications;
- Regulate, investigate or supervise the activities of persons to ensure compliance;

- Impose sanctions for the violation of laws and the rules, regulations and orders issued pursuant thereto; and
- Prepare, approve, amend or repeal rules, regulations and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations and orders.

*RA 3720* ensures the safety and purity of foods and cosmetics, and the purity, safety, efficacy and quality of drugs and devices being made available to the public. It vests in the Bureau of Food and Drugs (BFAD) the authority to administer and enforce laws pertaining thereto.

*RA 8179, the Foreign Investment Act*, serves to attract, promote and welcome foreign investments in activities which significantly contribute to national industrialization and socioeconomic development consistent with the Constitution and relevant laws.

*RA 8762, the Retail Trade Liberalization Act*, prescribes major qualifications for a foreign retailer before being allowed to do business in the country.

*Executive Order (EO) No. 226, the Omnibus Investments Code of 1987*, sets the rules and parameters within which foreign investments may be made in the country, with emphasis on the grant of incentives to certain sectors, under conditions that will encourage competition and discourage monopolies. EO 226 established the Board of Investments (BOI), vested with powers and functions to:

- Prepare the investment priorities plan annually, as defined by the Code;
- Promulgate such rules and regulations as may be necessary to implement the intent and provisions of the Code;
- Process and approve applications for registration, imposing such terms and conditions as it may deem necessary to promote the objectives of the Code; and
- Cancel the registration or suspend the enjoyment of incentives and benefits of any registered enterprise for failure to maintain the qualifications required by this Code for registration with the Board or for any violation of any provision of this Code.

*RA 7394, the Consumer Act of the Philippines*, protects the interests of the consumers, promotes their general welfare, and establishes standards of conduct for business and industry.

*RA 7581, the Price Act*, protects the consumers by stabilizing the price and supply of basic necessities and prime commodities without denying legitimate business a fair return on investment and by prescribing measures against undue price increases especially during emergency situations and similar occasions.

*RA 6977* promotes, develops, and assists small and medium scale enterprises through the creation of a Small and Medium Enterprise Development Council, and rationalizes the government assistance programs and agencies concerned with the development of small and medium enterprises.

*RA 9178* complements *RA 6977* by promoting the establishment of the Barangay Micro Business Enterprises and by providing incentives and benefits such as the availability of credit from government financial institutions. It further mandates that the Office of the Treasurer of each city or municipality shall register the said enterprises and issue a Certificate of Authority to enable them to avail themselves of the benefits under this Act. The Municipal or City Mayor may appoint a Registration Officer for these enterprises who shall be under the Office of the Treasurer. The local government may issue the Certificate free of charge or it may charge a fee not exceeding P1,000 to defray the administrative costs of registering and monitoring the enterprises. All of these enterprises shall be exempt from income tax for income arising from the operations of the enterprise. The local governments are encouraged either to reduce the amount of local taxes, fees and charges imposed or to exempt the enterprises from local taxes, fees and charges. The government financing institutions such as the Land Bank of the Philippines, the Development Bank of the Philippines, the Small Business Guarantee and Finance Corporation, and the People's Credit and Finance Corporation shall set up a special credit window that will service the financing needs of the enterprises registered under this Act.

*EO 133* reorganizes the Department of Trade and Industry (DTI) and its attached agencies. Under this Executive Order, the DTI is mandated to be the primary coordinative, promotive, facilitative and regulatory arm of the government for the country's trade, industry, and investment activities. The line operating units for domestic trade and commerce of the Department are the following:

- Bureau of Trade Regulation and Consumer Protection. The functions of this bureau include, among others, the formulation and monitoring of the correct interpretation and adoption of policies on monopolies and restraint of trade, mislabeling, product misrepresentation and other unfair trade practices; monitoring the registration of business names and the licensing and

accreditation of establishments and practitioners; and, protection and safeguarding of the interest of consumers and the public, particularly the health and safety implications of intrinsic product features, product representation, and the like.

- Bureau of Domestic Trade Promotion. This prepares and monitors the implementation of the plans and programs directed at the promotion and development of domestic trade, particularly in the area of efficiency, fairness and balance in the distribution of essential products and services and the strengthening of the domestic base for export activities.
- Bureau of Patents, Trademarks, and Technology Transfer. This examines applications for grant of letters, patent for inventions, utility models and industrial designs, and the subsequent grant or refusal of the same; registers trademarks, tradenames, service marks and other marks of ownership; hears and adjudicates contested proceedings affecting rights to patents and trademarks; receives and processes for registration and evaluates technology transfer arrangements.
- Bureau of Product Standards. This establishes standards for all products for which no standards have as yet been fixed by law, executive order, rules and regulations and which products are not covered by the standardization activities of other government agencies.
- Videogram Regulatory Board. This regulates videogram establishments; prevents unfair practices, unfair competition, pirating of legitimately produced video products, and other deceptive, unfair and unconscionable acts and practices to protect the viewing public and the general public.

*Presidential Decree No. 1185, the Fire Code of the Philippines*, provides for fire safety measures on construction, protection, and warning systems for owners, occupants or administrators of buildings, structures and their premises or facilities.

*Presidential Decree No. 856, the Code on Sanitation of the Philippines*, provides for the structural requirements for food establishments and prescribes standards for the construction of markets and abattoirs. Sanitary requirements for the operation of industrial establishments are also included, such as waste disposal program and abatement program for vermin control. The local health office has been mandated to enforce the provisions of the Code and to issue sanitary permits to food establishments and health certificates to employees of such establishments.

*RA 6541, the National Building Code of the Philippines*, provides for all buildings and structures, a framework of minimum standards and requirements by guiding, regulating, and controlling their location, siting, design, quality of materials, construction, use, occupancy, and maintenance, including their environment, utilities, fixtures, equipment, and mechanical, electrical, and other systems and installations. The building official is mandated to issue a building permit and certificate of occupancy.

### *Agencies in the Local Regulatory Regime*

A number of national government agencies forms part of the local regulatory regime, most especially in the business licensing system, by virtue of their mandated functions as defined by national laws or executive orders creating them. They grant certificates, licenses, or clearances to the business firms or enterprises before they can engage in a business activity in the locality. Among the more important agencies are the Bureau of Fire Protection (BFP) of the Department of the Interior and Local Government (DILG), the DTI, SEC, BFAD of the Department of Health (DOH), and the DENR. The other government agencies are outlined in the succeeding sections of the article.

The BFP has a fire station in every municipality or city in the country. The head of the station is designated as the Fire Marshal of the locality and forms the team of the mayor in safeguarding the community against conflagration; however, the head of the station is under the administrative supervision and control of the Secretary of the DILG. In other words, the mayor does not exercise administrative control over the fire station, though it operates in the locality. By virtue of the provisions of the Fire Code, the station is responsible for fire safety inspection and certificate issuance to business establishments prior to the issuance of business permits or license.

As mandated by EO 133, DTI practically covers all aspects of the country's economy through its attached agencies and its line operating bureaus. The DTI has regional offices in all the administrative regions of the country and provincial and city offices. As a requirement, business corporations or partnerships should register with the SEC, an attached agency of the DTI. For single proprietorship type of business, proprietors must register the tradenames of their businesses with the local offices of the Department.

BFAD is one of the bureaus of the DOH. As provided for by RA 3720, BFAD issues licenses to business establishments engaged in the manufacture of food, drugs, and cosmetics. It can also revoke said licenses in case of violations of the promulgated rules and regulations pertaining to the implementation of the said law.

EO 192 mandates the DENR as the primary government agency responsible for the conservation, management, development and proper use of the country's environment and natural resources, including those in reserves, watershed areas and lands of public domain, as well as the licensing and regulation of all natural resources utilization as may be provided by law. Among its powers and functions are to:

- Promulgate rules and regulations in accordance with laws governing the exploration, development, conservation, extraction, disposition, use, and replenishment of the country's resources;
- Exercise supervision and control over forest lands, alienable and disposable lands, and mineral resources and impose appropriate payments, fees, charges, rentals and any such form of levy and collect such revenues for the exploration, development, utilization or gathering of such resources;
- Implement measures for the regulation and supervision of the processing of forest products, grading and inspection of lumber and other forest products and monitoring of the movement of timber and other forest products; and
- Promulgate rules and regulations for the control of water, air, and land pollution; promulgate ambient and effluent standards for water and air quality including the allowable levels of other pollutants and radiations.

Based on the above mandate and functions, the DENR requires business establishments, particularly manufacturing companies, to come up with waste disposal and antipollution programs before they are issued an environmental compliance certificate (ECC). This certificate indicates that the firm has complied with all the rules and regulations pertaining to the protection of the environment. In fact, one of the requirements for the firms is to appoint or designate a pollution officer who would be responsible for overseeing the waste disposal and anti-pollution programs of the company.

### **The Local Regulatory Systems**

The local government is the principal institution at the local level which provides basic services to its constituency and regulates the establishment and operations of business enterprises. The executive branch, headed by the mayor, executes policies and implements laws passed by the legislative council, which is presided over by the vice-mayor. There are various departments and offices under the administrative supervision and control of

the mayor who serves as the local chief executive. These include the offices on health, agriculture, engineering, social welfare and development, planning, environmental management and protection, treasury, accounting, budget, assessment, and business permit and licensing. All of these offices and departments are mandated to provide basic services and functions to the community.

As pointed out earlier, the Local Government Code grants the local government some regulatory powers to enhance its police power conferred by the general welfare clause of the Code. These include the power to reclassify agricultural lands into residential, commercial, or industrial through the passage of an ordinance; enforce environmental laws via the creation of an office for this purpose; enforce the Building Code through the Office of Engineering where the City or Municipal Engineer acts as the building official of the local unit; process and approve subdivision lands based on the zoning ordinance and approved land use plan of the local unit; inspect food products in accordance with the Sanitation Code; and regulate the operation of the tricycle (a local mode of transportation similar to the rickshaw).

The local government derives its income mainly from real property taxes, business taxes, and internal revenue allotment share from the proceeds of taxes imposed by the national government. In particular, the city and municipal governments, most especially the urban centers and the urbanizing ones, derive a large amount of income and revenues from business taxes. This makes the office on business permit and licensing responsible for issuance of business permits and licenses to business establishments, a very important unit in the organizational setup of the local government. Usually, the office is placed directly under the Office of the Mayor for purposes of regulating the issuance of permits to operate, and for monitoring the operations of business enterprises to promote public welfare and safety, and encourage more business activities in the local area.

#### *Requirements for the Issuance of Business Permit and License*

Business establishments are categorized into new and old. For the new ones, business proprietors have to get a building permit from the Engineering Office to be able to construct their offices or buildings; *barangay* (the smallest political unit) clearance (to indicate that the village government approves the operation of the business in the area); locational clearance (whether business location is within the approved zone area based on the land use plan of the local government) from the Planning and Development Office; certificate of electrical inspection from the Engineering Office; fire safety inspection certificate from the Fire Station of the DILG; contract of lease (if business place is rented) or proof of ownership (if place of business is owned);

occupational permit of employees from the Office of Business Permit and License; and health and sanitary permit from the Health Office. Except for the building permit required of new businesses, the other clearances are also required of old businesses renewing their licenses to operate.

In the case of corporations or partnership type of business, the following are required to be submitted to the Office of Business Permit and License: (1) Securities and Exchange Commission registration; (2) articles of incorporation; and (3) corporate community tax. For single proprietorship, the trade name from the DTI must be submitted.

There are other required licenses, certificates, and clearances from various government agencies that are availed of in addition to those listed above. These would depend on the type of business as shown in Table 1.

#### *The Process of Securing the Business Permit or License*

Generally, a business proprietor goes to the Office of the Mayor for application of a business permit or license to operate annually. This is usually done on the first month of the year. If the proprietor has yet to construct the building or facility where the business will operate, then the proprietor has to apply for a building permit from the Office of the Engineer. The building permit to be issued includes the electrical, plumbing or sanitary, excavation, and mechanical permits based on the building plan. If the building already exists, the proprietor has to submit either a copy of the lease contract, if the place of business is rented, or proof of ownership if it is owned. The proprietor also has to obtain clearances or licenses from the various agencies depending on the type of business as shown in Table 1.

Aside from the above listed licenses or clearances, the proprietor has to secure first the following before the permit is issued: 1) barangay clearance from the barangay where the business is located including payment of the clearance fee; however, if such clearance is not acted upon by the barangay within seven days after filing thereof, then the municipal or city government may issue the permit applied for; 2) locational clearance from the Office of the Planning and Development Coordinator to ensure that the place of business is within the approved zoning or land use plan of the municipality or city; 3) certificate of electrical inspection from the Office of the Engineer; 4) fire safety inspection certificate from the Fire Station; and 5) health certificates for all employees of the establishment, and sanitary permit for the business place.

Before these certificates and permits are issued to the business proprietor, the establishment has to be inspected by the representatives of the Office of the Engineer, Fire Station, and Health Office, respectively. This is to

**Table 1. Type of Business and the Corresponding Agencies Requiring Licenses and Clearances**

<i>Type of Business</i>	<i>Agency</i>
1. Retailer/wholesaler/manufacturing of veterinary products, feeds and veterinary clinics	Bureau of Animal Industry
2. Retailer/wholesaler/manufacturing of pharmaceutical and food products (including importation)	Bureau of Food and Drugs
3. Business corporations with foreign investors having big shares of stocks, 100% foreign investors	Board of Investment
4. Customs broker, real estate broker, insurance broker	Broker's license
5. Foreign exchange dealer, lending investor, money changer/shop	Central Bank Accreditation or License
6. Drug test center	Dangerous Drugs Board
7. Auto repair shop, electronic repair shop, telecommunication repair shop, and other repair shops except shoe repair shop and upholstery and furniture shop	Department of Trade and Industry Certificate of Accreditation
8. Private Schools (elementary and secondary) and Preparatory Schools (nursery to kindergarten)	Department of Education
9. Hospitals, clinical, dental, and x-ray laboratory Drug rehabilitation centers	Department of Health
10. Local employment agency	Department of Labor and Employment
11. Gasoline station	Energy Regulatory Commission
12. Pest control services; importers/retailers/fertilizer and whosalers of fertilizers and pesticides	Pesticide Authority license
13. Insurance agency, insurance broker	Insurance Commission license
14. Retailer of liquor; wholesaler/importer of local and imported wines and liquor	Liquor Licensing Regulatory Board
15. Franchise for taxi/jeepney/bus operators	Land Transportation Franchise Regulatory Board
16. Smoke emission test centers; driving school	Land Transportation Office
17. Movie theaters, movie producers, radio and TV stations	Movie and Television Review and Classification Board; <i>Kapisanan ng mga Brodkaster ng Pilipinas</i>
18. Retailer and wholesaler of rice	National Food Authority
19. Telecommunication site; repair of telecommunication equipment; internet provider	National Telecommunication Commission

**Table 1 (continued)**

20. Retailer/wholesaler/contractor in the repair of firearms and ammunition; retailer/wholesaler of firecrackers and other polytechnic items	Philippine National Police— Firearms and Explosives Office
21. Overseas recruitment agency; ship manning agency	Philippine Overseas Employment Agency
22. Manufacturers of plastic, chemical; industrial, pharmaceutical and food (meat and fish products); fabrication of glass, steel and aluminum products	Department of Environment and Natural Resources- Environment Compliance Certificate
23. Training centers for: caregivers, dancers/singers, skilled workers	Technical Education and Skills Development Authority
24. Retailer/wholesaler of video, CD, DVD, and cassette tapes	Videogram Regulatory Board
25. Bingo games in shopping malls	Games and Amusements Board
26. Security agency, security guard and training school	Philippine National Police— Supervisory Office for Security Investigation Agency
27. Vocational school	Unified Technical Vocational Education Training Program Registration and Accreditation System

Source: BPLO.

ensure that the establishment has complied with all the sanitation and safety standards and requirements imposed by the said offices, based on the national codes passed. After submission of said permits, the representative of the BPLO makes the final visit to the establishment to make sure that the facility is located in the proper place in accordance with the zoning ordinance of the local unit.

The last stage of the process is the payment of permit fees. The fees to be paid would be based on the revenue code or tax ordinance of the local government unit, which specifies the rate of payment depending on the kind of business or the aggregate area utilized by the business.

As part of the regulatory or police powers of the local government, it is imperative for the local unit to conduct ocular inspections of all business establishments even after they are granted the permit to operate, to ensure the promotion of the health, moral, peace, good order and safety, and general welfare of the people.

## **The Business Licensing System of Quezon City**

To show how the business licensing system operates at the local level, the case of Quezon City is presented below. Data and information were gathered from documents, annual reports, accomplishment reports, and financial statements from the city government. Interviews with the city officials concerned and other key informants were conducted. Perceptions from the business community, particularly some members of the manufacturing sector, were also gathered through interviews.

### *A Brief Profile of the City*

Located at the northern part of Metro Manila, the city is bounded on the north by Caloocan City and San Jose Del Monte; on the south by Pasig, Mandaluyong and San Juan; on the west by Manila, Caloocan, Valenzuela; and on the east by Rodriguez, San Mateo and Marikina. Comprising of 142 barangays, it has a total land area of 16,112.12 hectares, representing about 25 percent of the total land area of Metro Manila. Its population is considered to be the largest in the metropolitan area with 2,173,831 people (2000 census) and an average growth rate of 1.92 percent (1995-2000).

Based on actual use of land, a large portion of the area is devoted to commercial and industrial uses with 33.74%; followed by government uses, 31.44%; residential, 23.77%; and other uses, 11.05%. With a big portion of the area used for commercial and industrial purposes, there is a great potential for the increase in the number of business establishments in the city, most particularly the manufacturing type of business. A look at the number of business permits newly issued and renewed in CY 2001 shows that there are 52,245 establishments. The major types are: retailers, 35%; wholesalers, 18%; restaurants, 11%; small-scale service providers, 11%; manufacturers, 10%; and contractors, 10%.

The total income of the city was placed at P3.64 billion (General Fund) in CY 2001 with the following major sources: (1) Internal Revenue Allotment, 35%; (2) Business Taxes, 28%; (3) Real Property Taxes, 24%; (4) Non-Tax Revenues, 7%; and (5) Other Taxes, 6%. In terms of the income from business taxes, the manufacturing sector contributed the biggest, about 28 percent to the total business tax revenues of the city government.

The city government expenditures totaled P3.83 billion in CY 2001. Most of the expenditures went to public welfare and safety, getting 60% of the total amount; general government, 20%; loan amortization, 3%; economic development/operation of economic enterprises, 4%; and other charges, 13%. The figures indicate that the city government had given priority to the concerns regarding the promotion of public welfare and safety. This further

implies that part of the amount was spent for the exercise of its regulatory or police powers over business establishments in the local area.

### *The Structure for the Issuance of Business Permit or License*

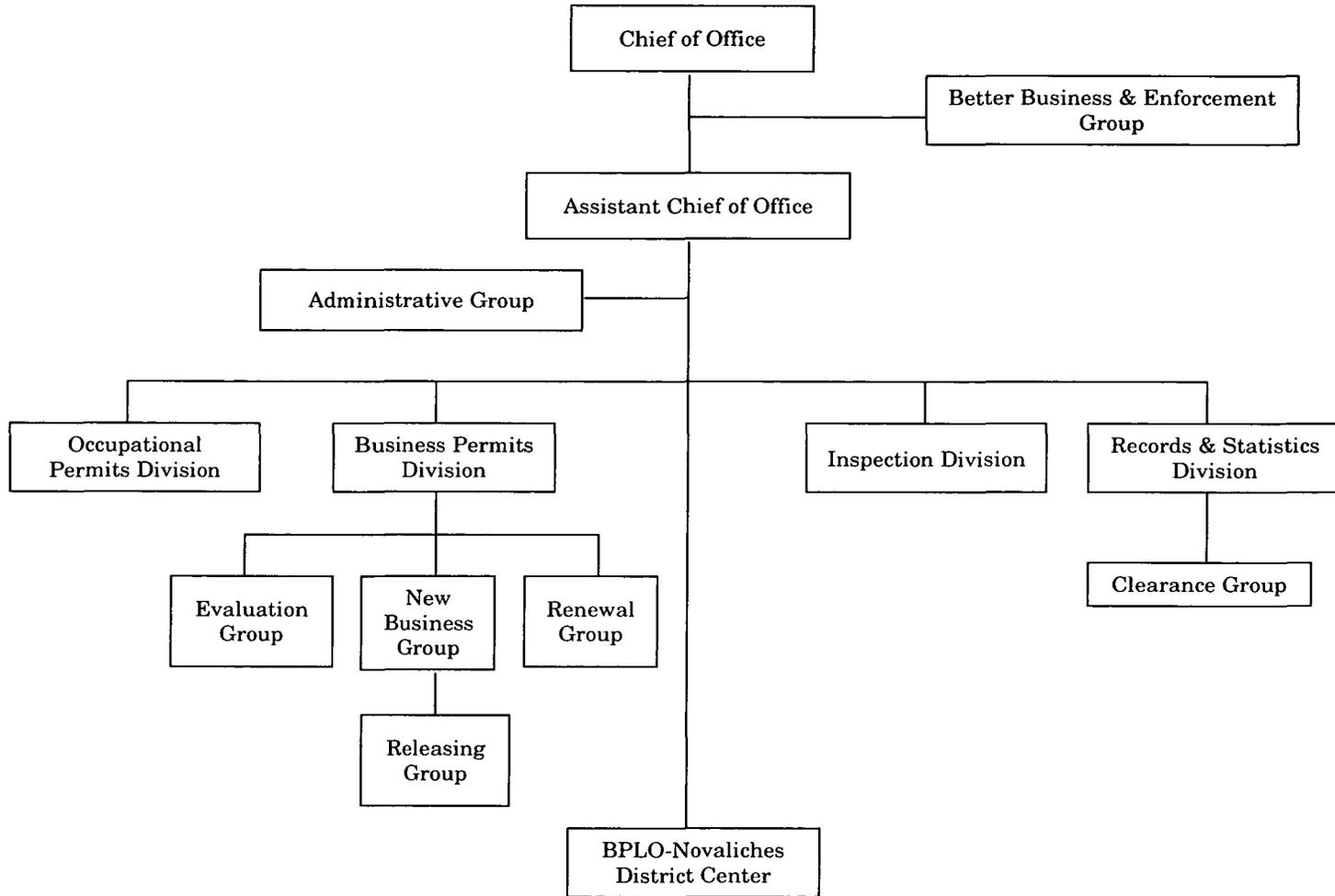
The Business Permit and License Office (BPLO) under the Office of the City Mayor is the organizational unit in charge of the issuance of mayor's or business permit. Headed by the Chief of Office and assisted by an Assistant Chief, the Office has four divisions for operations, namely: Business Permit Division, Inspection Division, Occupational Permit Division, and Records and Statistics Division. Providing administrative support to the whole office are two groups: the Better Business and Enforcement Group, and the Administrative Group. To respond to the need to make the office accessible to the business establishments in the area where most of the manufacturing firms are located, the city government put up a district office in Novaliches, one of the biggest districts of Quezon City. (See Figure 1 for the Organizational Chart of BPLO.)

The Business Permit Division supervises the processing, preparing and encoding of all business permits. It has four sections or groups: the Evaluation Section, New Business Section, Renewal Section, and Releasing Section. It must be noted that for the purpose of facilitating the issuance of permits, applications of new businesses are acted upon separately from those coming from the old establishments, or those which only need to renew their permits; hence, the two separate sections. The Evaluation Section takes charge of issuing the application form and assisting the applicant in accomplishing it. It also receives and reviews duly accomplished application forms, and refers them to the different city departments or offices concerned. As the name implies, the Releasing Section releases the approved business permits and issues the business plates and stickers.

The Inspection Division is responsible for verification of the operations of business establishments and other occupational undertakings. It also investigates complaints received by the Office. Meanwhile, the Occupational Permit Division processes, prepares and records the occupational permits of employees of establishments.

The Records and Statistics Division receives, sorts, records, and files all copies of business and occupational permits issued. These include the new and renewed business permits. Under this division is the Clearance Section which receives, sorts, records, and updates violation reports from the Inspection Division. An important function of this section is to verify whether the business firm applying for a permit has any pending case of violation of rules and regulations, and laws with the BPLO.

**Figure 1. Organizational Chart of the Business Permit and Licensing Office**



The Better Business and Enforcement Group is tasked to handle all legal matters pertaining to business operations. It also refers cases to the City Attorney or the City Prosecutor's Office for evaluation and action.

The BPLO has a total number of 126 personnel distributed as follows: Business Permit Division, 32; Inspection Division, 29; Occupational Permit Division, 9; Records and Statistics Division, 17; Better Business and Enforcement Group, 7; Office of the Chief, 14; Administrative Group, 8; and the Novaliches District, 9. It can be noted that the number of staff assigned to do inspection before and after the issuance of the permit is not adequate considering the big number of establishments (more than 50,000) in the City.

### *The Process of Securing Business Permits*

The procedure for getting a business permit is not the same for new and old business establishments. For a new establishment, the business proprietor fills up an application form from the BPLO. The Evaluation Section checks whether the form is properly filled up and advises the proprietor to secure all the required documents for the processing of the permit. These include the following: barangay clearance, locational clearance from the Office of the Zoning Officer; sanitary permit from the City Health Officer; certificate of electrical inspection from the City Engineer; certificate of mechanical inspection from the City Engineer; fire safety inspection certificate from the Office of the City Fire Marshall; certificate of accreditation from the Head of the Cultural and Tourism Affairs Office; and all other clearances required from other national government agencies and offices listed previously, depending on the kind of business to be put up in the city.

Specific types of businesses need the approval of the city council such as telecommunication site center, contractor for the installation of telecommunication equipment and cabling, wholesaler/retailer of telecommunication equipment, gasoline stations, bingo games, off-track betting, *peryahan* (community carnival), private markets, shopping malls, and slaughterhouses.

Aside from the sanitary permit required by the City Health Officer, employees of the establishment must also secure a health certificate to ensure that they are in the best of health. Likewise, a copy of the safety inspection certificate must be submitted to the office before the release of the sanitary permit to the business proprietor.

If the place of business is yet to be constructed, then the proprietor must secure a building permit from the City Engineer. After the completion of the construction, an occupancy permit must be obtained from the same office;

however, before the issuance of the said permit, the proprietor must present a copy of the health and sanitary permit and the certificate of fire safety inspection. On the other hand, if the place is rented, then the contract of lease is required to be presented to the BPLO, or the proof of ownership if the place is owned by the proprietor.

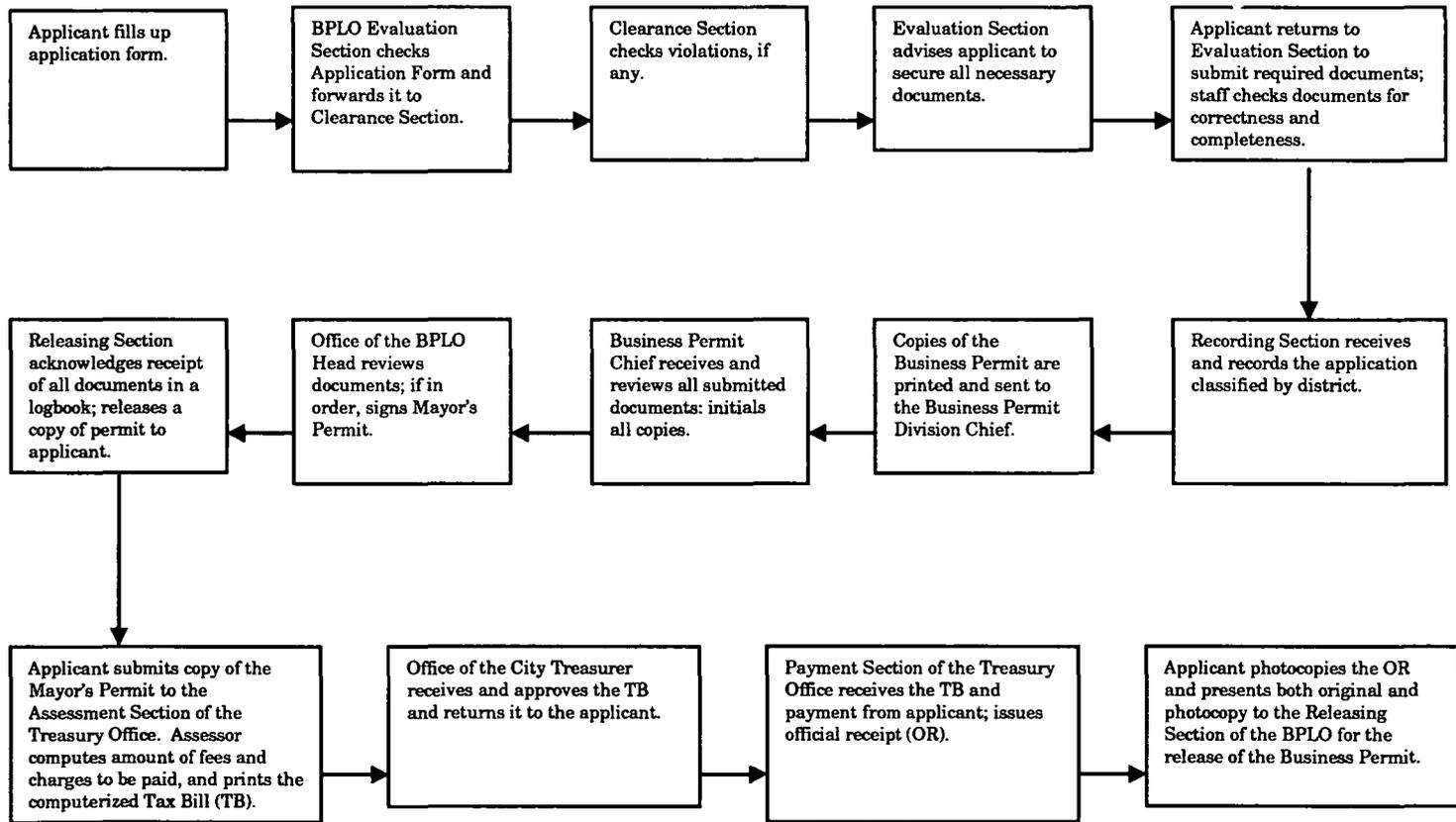
For corporations or partnership type of business, copies of the SEC registration, articles of incorporation and corporate tax payment must be submitted to the BPLO. For single proprietorship, trade registration from the Department of Trade and Industry is required.

The issuance of the above permits from the different city offices requires ocular inspections by representatives of the offices concerned. This takes some time considering that there are many establishments in the City.

After securing all the necessary documents, the business proprietor submits them to the Evaluation Section for another review. If everything is in order, then the evaluator prepares the claim stub and writes on it, the date the business applicant should return to pay the fees and charges. The papers are then forwarded to the Records Section for encoding of the applicant's data on to the database. Copies of the mayor's or business permit are generated from the computer and forwarded to the Chief of the Business Permit Division for his initials. The copies of the permit are submitted to the Chief of the BPLO for his final signature. The proprietor goes to the Assessment Section of the City Treasurer's Office for an assessment of the fees and charges to be paid after getting a copy of the signed permit. A computerized tax bill is generated for the review and approval of the City Treasurer. The proprietor pays the fees and charges upon approval of the tax bill, and presents to the Releasing Section of the BPLO the official receipt of payment and the copy of the tax bill for the final release of the business permit. Figure 2 shows the flow chart on the process of securing a business permit.

In the case of old establishments, the City Administration has made a distinction between "low risk" and "high risk" businesses. As defined in EO 30 issued by the City Mayor, the "high risk" businesses are those that require the use of "equipment and machineries or expose individuals to risk caused by overcrowding, prolonged physical confinement, exposure to toxic, environmental hazards, or similar situations" (QC 2002a: 1). These establishments include shopping malls, hotels, motels, apartelles, inns, dormitories, theaters, auditoriums, cockpits, boxing arenas, firing ranges, convention halls, concert halls, hospitals, laboratories, junk shops, gasoline stations, cooking gas outlets, liquefied petroleum gas refilling stations, schools, manufacturing plants, assembly plants, distilleries and breweries, compound mixing plants, chemical warehouses, night clubs, sauna bath houses, beer houses, KTV bars, disco houses, and cocktail lounges.

**Figure 2. Flow Chart of the Process of Securing New Business Permits**



For renewal of business permits of low risk businesses, the minimum requirement is the submission of the barangay clearance, and if there is a change in the location of the establishment, the locational clearance. The business permit may be issued even before the submission of other clearances (i.e., fire safety and health certificates), provided these are submitted within one year from the application date. This procedure is expected to facilitate the speedy renewal of business permits; but in the case of the high risk ones, they are required to secure then submit all the clearances and permits to the BPLO, prior to the issuance of the business permit.

### **Problems in the System of Securing Business Permits**

When the present leadership took over the reins of the city government in 2001, many problems were recognized regarding the grant of business permits or licenses to business establishments operating in Quezon City. It was a common complaint among the businesses that there were too many requirements, making it too cumbersome for them to get the necessary permit. It took weeks or months to complete all the clearances needed before the issuance of the said permit. This was especially true in the case of the fire safety inspection clearance. Aside from this, the requirements were described to be inflexible which made the business proprietors easy prey to fixers. Some business proprietors commented that they tried to meet all the requirements but loopholes in the system enabled the inspectors to deny the clearance or delay the processing of the document.

The unfavorable situation above was reinforced by the physical setup or arrangement in the BPLO. There were no windows for client transactions such that people tended to crowd the premises inside the office. Transaction was more on a personal basis where an employee of the office would keep application forms or papers to himself or herself for processing. Due to the poor recording system in the office, application forms or documents could not be readily found or accessed by the business proprietor when needed. This problem became more evident on occasions when the BPLO staff was absent.

The delay in the issuance of business permits could also be traced to the delay in the conduct of ocular inspections of business firms by the Fire Station, Health, and Engineering offices. In turn, this could be attributed to the lack of staff in the said offices assigned to do inspection. At present, the Fire Station of the City has 57 inspectors; the Health Office has 50 sanitary inspectors; and the Engineering Office has 40 inspectors. With around 52,000 business establishments located in the various districts of the City, the number of inspectors in each of the said offices is not sufficient to inspect all the establishments in a month's time.

Because of the inefficient records management system of the BPLO, data on business establishments and business permits were not accurate. The list of establishments had double or multiple entries. Also, there were unrecorded permits, fake permits, and fake receipts. This situation made the function of monitoring and evaluation difficult.

Another problem cited was in the area of assessment and payment of taxes, fees and charges. The BPLO and the Treasurer's Office had their own set of data pertaining to business establishments, due to the absence of a networked system that could have allowed them to share data. This did not go well with the campaign to increase the collection of business taxes in the city. What seemed to be problematic then was the discretion given to the assessor in determining the amount of taxes, fees and charges to be paid. Although the amended revenue code of the city government provided for the schedule of minimum gross receipts or sales as basis for determining the amount of tax to be paid, still, the assessor had the leeway to adjust the presumptive income level of the business firm. This could be traced to the lack of available data and information about the operations of the firm. Moreover, business proprietors felt it was not easy for them to pay because of the lack of a systematic scheme for payment coupled with overcrowding in the offices designated as assessment and payment places. This was especially true during the first quarter of the year when businesses had to renew their permits or licenses.

### **Changes in the System**

The new City Administration has crafted the vision and mission of the city government. It envisions the city government to be a model of "effective governance and responsible leadership, working in partnership with the citizenry in building an ideal community" (QC 2002b: 9). To be able to translate this into action, the city government intends to provide a quality of life for the people in Quezon City; create a climate conducive to business and productivity; and create a climate for good governance and social responsibility. The City Administration believes that a critical foundation for effective governance consists of systems that foster honesty and efficiency in service, thereby streamlining procedures to cut down service processing time, upgrading the quality of operations so that work becomes smarter and more competent, and eliminating opportunities for graft by reducing areas where personal discretion can be exercised and by instituting automatic checks and balances (QC 2002b).

Based on the above elements of good governance, the City Administration has started introducing system changes in the area of business permit and licensing in line with the policy of making the City more business-friendly. In response to the cited problems regarding the issuance of

business permits and licenses, the City Mayor signed two executive orders to make the said process easy and more convenient for the business sector. The first, EO 12 was signed on 13 May 2002 and provided guidelines on the validity of the annual certificates and clearances issued by the different city offices. It states that the required certificates and clearances must be issued only after the required inspection and/or verification is conducted; that the certificates or clearances issued will have a one year validity to be reckoned from the date of issue; and that the prior year certificate or clearance shall be used to secure the issuance of the business permit (QC 2002c).

The second, EO 30, signed on 29 November 2002, purports to ensure the early release of renewed business permits to applicants and, at the same time, it ensures the safety of the public patronizing the business establishments. The order classifies establishments into low risk and high risk (the distinction has been made earlier in the discussion). For low-risk business firms, the minimum requirements for renewal of permits are the barangay clearance and the locational clearance (if there has been a change in location) (QC 2002a). The other required certificates and clearances can be secured within a 12-month period as spelled out in EO 12. On the part of the high risk businesses, they have to secure all the required certificates and clearances.

Complementing the above executive orders is the computerization of systems. The BPLO and the City Treasurer's Office have started developing a central data base for tax assessment and payment. The BPLO is completing the list of business establishments by categories and sharing its data with those of the City Treasurer's Office. A significant change in the system is the computerization of the assessment and payment of fees and taxes. This is to help delimit the area for the exercise of personal discretion of the assessor in determining the amount to be paid by the taxpayer.

The City Treasurer has adopted some strategies relative to the problems on the assessment and payment of business taxes. With the discovery of fake receipts, the City Treasurer issued new official receipts with security features to eliminate the issuance of fake receipts. He has also issued a directive to the business taxpayers indicating that those with gross income of P500,000 and above, shall submit their firm's financial statement for the previous year and copies of the monthly payments of value added tax and non-value added tax from the Bureau of Internal Revenue. This would be counterchecked with the declared gross income of the establishment for the year before the business permit would be renewed for another year.

To make payment of taxes a more pleasurable experience, the City Administration has renovated and opened a comfortable lounge for both assessment and payment of taxes where coffee and ice tea are served for free. Similarly, with the comfort of business sector in mind, the BPLO has initiated some physical changes in its office layout. It has provided windows for

business transactions to prevent non-employees from entering the office premises, and to discourage the proliferation of fixers. This would also avoid overcrowding which causes displeasure among clients. Moreover, during peak season (first quarter of the year), the Office deploys contractual employees who wear uniformed t-shirts to distinguish them from other people, to assist clients with directions and in filling out their application forms.

In the same vein, the City Engineer's Office has begun streamlining the procedures for securing building permits. As pointed out earlier, one of the problem areas is the long time spent in securing building permits and the certificate of electrical inspection. To shorten the processing time, the City Engineer has designated a documentary officer to be responsible for determining the completeness of documents submitted before these go to the various sections concerned, rather than the clients doing it themselves. This would lessen the opportunity for fixers to make their services available to the clients. Further, the physical layout of the Office has also been rearranged, such that all sections or units performing functions related to the grant of building permits are located in one area. This would minimize the effort spent by the client in transacting business with office units, which are located in different areas in the building.

Another measure adopted is the policy of not allowing non-employees inside the premises, except for "real" applicants (i.e., building owners, contractors and duly authorized representatives of businesses). This would prevent the use of fixers in facilitating the processing of papers. In addition, the City Engineer has instituted the use of a time frame in determining how long a staff processes documents, starting from the date of acceptance until the date of the issuance of the certificate or building permit. This would make the staff aware of their processing times and the need to shorten it accordingly.

The City Health Office has likewise started shortening the processing time for health certificates from one week to only three or four days for a fee of P20. This is in response to the problem of the issuance of fake health certificates by fixers, which can be obtained within ten minutes, in exchange for a fee of P300 to P350.

Aside from improving the office systems, the City Administration, through the Quezon City Business Affairs Coordinating Office, has put up a One-Stop Shop for the renewal of business permits of members of the Quezon City Association of Filipino-Chinese Businessmen. This means that the representatives of the Fire Station, Health Office, Engineering Office, and the City Cultural and Tourism Office are all located in one place during the renewal period of business permits to facilitate the processing of documents. This would make it easier for the business sector to renew their permits and be able to continue operating their businesses in the City with minimal or no

hassles at all. This serves as an encouragement and promotion for more business activities in the city.

### Some Effects of the Introduced Changes

The changes introduced in the system of issuance of business permits and licenses have brought about positive effects on the city government and the business sector. The computerization of the system has cleansed the list of business taxpayers. As mentioned earlier, prior to the changes, the list of establishments was inaccurate due to double and multiple entries, fake and unrecorded business permits. With computerization, the list has become a more reliable basis for tax collection. Moreover, the improvement has brought about the efficient sharing of data between the BPLO and the City Treasurer's Office, though this has yet to be completed. So far, this had also led to better assessment of taxes to be paid by the taxpayer.

The improvement of the system has resulted in the increase of the number of new business permits issued. Table 2 shows that from CY 2001 to CY 2002, there was a growth of 69.4 percent. It must be noted that the new City Administration took over the reins of government in July 2001. As reflected in the table, there is a negative percentage growth of the number of establishments in 2001; however, the number increased considerably in 2002. The following year, from January to June 2003, the number of registered establishments totaled 9,383, almost as big as the total registered businesses in 2002. This suggests that more new establishments were registered formally, doing away with the unrecorded and fake permits.

**Table 2. Total Number of New Business Permits in Quezon City**

<i>Number of New Business Permits Issued</i>	<i>Year</i>				
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003*</i>
District 2	1,597	2,530	1,611	1,350	1,753
Districts 1, 3, and 4	3,328	3,895	4,161	8,426	7,630
<b>Total</b>	<b>4,925</b>	<b>6,425</b>	<b>5,772</b>	<b>9,776</b>	<b>9,383**</b>
Percentage Growth	--	<b>30.5%</b>	<b>- 10.2%</b>	<b>69.4%</b>	

\*Pertains to new business permits issued between January to June 2003 only.

\*\* Represents only new business license issuances for half a year but is almost as big as the total of 2002.

Table 3 also shows the increasing trend in the number of registered new businesses in three districts of the city, districts 1, 3 and 4. As indicated by the table, almost all types of business establishments have registered

**Table 3. New Business Permits Issued for Districts 1, 3 and 4 of Quezon City**

<i>Nature of Business</i>	1998	1999	2000	2001	2002	2003
Agricultural	0	0	0	1	0	0
Amusement Bar and Cocktail Lounge	10	19	40	66	47	85
Charitable Institution	0	0	0	0	0	1
Contractor	808	885	1,116	1,225	2,252	1,516
Eating Place	87	132	152	179	394	635
Exporter	21	33	21	20	29	52
Financial Establishment	99	92	85	65	69	112
Importer	88	115	96	93	78	132
Learning Institution	16	11	4	17	24	22
Manufacturer	35	56	60	61	90	98
Other business with fixed rate (administration office, warehouse)	395	529	586	609	1,721	1,972
Other Commercial Establishments	0	0	0	0	1	0
Retailer	806	942	1,141	1,273	2,310	1,770
Shopping Center	0	0	0	1	1	0
Wholesaler	385	514	594	551	1,410	1,235
<b>Number of Business Permits Issued</b>	<b>2,750</b>	<b>3,328</b>	<b>3,895</b>	<b>4,161</b>	<b>8,426</b>	<b>7,630</b>

\* This only pertains to January to June 2003, not the entire year.

increases: the manufacturer, contractor, and wholesaler. These figures are considered to be a positive result of the instituted changes in the system.

Further, with the computerization of tax assessment and payment, the opportunity to exercise personal discretion on the determination of the amount of tax to be paid has been diminished; hence, the opportunity to commit graft has been lessened. Added to this is the institution of a countercheck system, whereby the company is asked to present the previous year's financial statement plus copies of value added tax (VAT) or non-value added tax payments from the Bureau of Internal Revenue. This has given rise to increased collection of business taxes (see Table 4). The table shows that the collection of business taxes increased from P984,381,461 in CY 2001 to P2,239,281,590 in CY 2002 or an increase of 43.96%. The percentage share of business taxes relative to the total income of the city government in CY 2002 is very significant with a high of 62.44% compared with its contribution of 46.81% in 2001. It can also be seen from the same table, that real property taxes as a source of income, came a poor second to the contribution of business taxes, with a share of 27.61%.

**Table 4. Local Taxes: 1998-2002**

<i>Sources of Income</i>	<i>1998</i>	<i>%</i>	<i>1999</i>	<i>%</i>	<i>2000</i>	<i>%</i>	<i>2001</i>	<i>%</i>	<i>2002</i>	<i>%</i>
1. Real Property Taxes	956,282,022	46.43	799,629,717	42.09	941,886,299	44.65	866,338,995	41.20	990,278,966	27.61
2. Business Taxes and Licenses	809,770,850	39.31	857,137,908	45.12	908,526,762	43.07	984,381,461	46.81	2,239,281,590	62.44
3. Taxes on Delivery Trucks and Vans	770,975	0.037	892,549	0.047	809,039	0.038	775,339	0.037	193,920	0.005
4. Taxes on Peddlers/Hawkers	174,626	0.008	231,202	0.012	312,497	0.015	2,226,118	0.106	4,904,657	0.137
5. Printing and Publications	5,883,671	0.29	5,468,649	0.29	5,745,858	0.27	7,069,029	0.336	9,831,091	0.274
6. Professional Tax	3,730,073	0.18	3,852,220	0.20	4,428,671	0.21	4,397,629	0.21	4,677,996	0.13
7. Franchise Tax	13,760,129	0.67	21,930,786	1.15	21,718,172	1.03	19,381,737	0.92	52,554,769	1.47
8. Community Tax	38,696,333	1.88	38,189,687	2.01	45,657,768	2.16	45,294,442	2.15	46,408,806	1.29
9. Amusement Tax	223,565,745	10.85	154,961,438	8.16	158,836,808	7.53	146,972,903	6.99	127,857,416	3.56
10. Fines & Penalties	6,943,563	0.34	17,150,079	0.90	21,178,652	1.004	25,732,425	1.224	110,319,415	3.076
11. Other Taxes	210,181	0.01	205,171	0.011	200,812	0.010	173,967	0.008	152,821	0.004
<b>Total</b>	<b>2,059,788,168</b>	<b>100</b>	<b>1,899,649,406</b>	<b>100</b>	<b>2,109,301,338</b>	<b>100</b>	<b>2,102,744,045</b>	<b>100</b>	<b>3,586,461,447</b>	<b>100</b>

Overall, local taxes had a bigger contribution (67.85%) than the internal revenue allotment from the national government (25.34%) to the total income of the city (see Table 5). Also noteworthy is that the city government reached its revenue target of P5.2 billion, with collections totaling P5.29 billion, 68.89% more than the 2001 income of P3.64 billion (see Table 6). On this basis, the Commission on Audit declared Quezon City the richest local government, not only in Metro Manila, but in the entire country.

Perceptions about the improvements in the system from the business sector, particularly from the manufacturing sector, indicate some mixed reactions. Some have stated that they have been accorded better services. They have been assisted by a sufficient number of city employees while renewing their permits. The construction of an airconditioned lounge for the assessment and payment of taxes has made the payment of taxes a pleasurable experience. Also, the computerized system has shortened the processing time of papers and documents. However, a number of business proprietors still complain about the many requirements imposed. To them, there is still a lot of paper work. While the processing time of documents in the BPLO has been shortened, the processing time of documents in the other departments or offices has not significantly been shortened. This is particularly true in the case of the requirements pertaining to the fire safety inspection certificate, sanitary permit, and occupational permit. One business proprietor commented that it took him three months to get the sanitary permit, and another two months to get the fire safety inspection certificate.

The business sector likewise views the conduct of too many inspections by different city offices as bothersome. Although inspection is recognized to be an important tool for safeguarding public safety, this has been seen by some business proprietors as an opportunity for some inspectors to harrass them and thus delay the processing of the application for permit.

### **Issues and Concerns**

The above discussions have brought about certain issues and concerns in the business licensing system at the local level. First, is the imposition of too many requirements, which oftentimes delays business transactions. Although there is a particular office which deals directly with the business sector in the issuance of business permit, there are other requirements imposed by other offices, which have to be fulfilled first, before one can secure the permit to operate the business. In this regard, the business proprietor has to deal with a number of organizational units in the same local government unit. This makes the process more complicated and cumbersome. Second, aside from the requirements imposed by the city government, there are also certain requirements imposed by the national government which make the process doubly difficult and bothersome.

**Table 5. Statement of Income and Revenues: 1998-2002**

<i>Sources of Income</i>	<i>1998</i>	<i>%</i>	<i>1999</i>	<i>%</i>	<i>2000</i>	<i>%</i>	<i>2001</i>	<i>%</i>	<i>2002</i>	<i>%</i>
<b>I. Local Taxes</b>	<b>2,059,788,168</b>	<b>60.32</b>	<b>1,899,649,406</b>	<b>41.88</b>	<b>2,109,301,338</b>	<b>55.67</b>	<b>2,102,744,045</b>	<b>57.74</b>	<b>3,586,461,447</b>	<b>67.85</b>
1. Real Property Taxes	956,282,022		799,629,717		941,886,299		866,338,995		990,278,966	
1.1 Current	662,532,518		559,870,453		569,132,787		553,391,957		620,288,266	
1.2 Previous	176,630,835		89,994,867		207,702,796		176,978,287		193,578,089	
1.3 Penalties	6,929,308		22,570,193		17,560,103		22,473,082		-	
1.4 Transfer Tax	100,303,948		123,622,059		147,490,613		113,495,669		176,412,612	
1.5 Miscellaneous	9,885,413		3,572,145		-		-		-	
2. Business Taxes and Licenses	809,770,850		857,137,908		908,526,762		984,381,461		2,239,281,590	
3. Taxes on Delivery Trucks and Vans	770,975		892,549		809,039		775,339		193,920	
4. Taxes on Peddlers/Hawkers	174,626		231,202		312,497		2,226,118		4,904,657	
5. Printing and Publications	5,883,671		5,468,649		5,745,858		7,069,029		9,831,091	
6. Professional Tax	3,730,073		3,852,220		4,428,641		4,397,629		4,677,996	
7. Franchise Tax	13,760,129		21,930,786		21,718,172		19,381,737		52,554,769	
8. Community Tax	38,696,333		38,189,687		45,657,768		45,294,442		46,408,806	
9. Amusement Tax	223,565,745		154,961,438		158,836,808		146,972,903		127,857,416	
10. Fines and Penalties	6,943,563		17,150,079		21,178,652		25,732,425		110,319,415	
11. Other Taxes	210,181		205,171		200,812		173,967		152,821	
<b>II. Operating &amp; Miscellaneous Revenues</b>	<b>232,358,453</b>	<b>6.80</b>	<b>234,233,516</b>	<b>5.16</b>	<b>283,037,418</b>	<b>7.47</b>	<b>266,242,330</b>	<b>7.31</b>	<b>360,003,857</b>	<b>6.81</b>
<b>III. Internal Revenue Allotment</b>	<b>1,120,136,898</b>	<b>32.8</b>	<b>1,152,150,555</b>	<b>25.40</b>	<b>1,396,186,887</b>	<b>36.85</b>	<b>1,272,875,571</b>	<b>34.95</b>	<b>1,339,567,994</b>	<b>25.34</b>
<b>IV. Other Sources</b>	<b>2,330,801</b>	<b>0.07</b>	<b>363,224</b>	<b>0.008</b>	<b>162,203</b>	<b>0.004</b>	-		-	
<b>V. Borrowings</b>	-		<b>1,250,000,000</b>	<b>27.55</b>	-		-		-	
<b>TOTAL</b>	<b>3,414,614,320</b>	<b>100</b>	<b>4,586,386,701</b>	<b>100</b>	<b>3,788,687,846</b>	<b>100</b>		<b>100</b>		<b>100</b>

Source: City Accountant's Office, Quezon City.

**Table 6. Summary Statement of Income and Revenues: 1998-2002**

<i>Sources of Income</i>	<i>1998</i>	<i>%</i>	<i>1999</i>	<i>%</i>	<i>2000</i>	<i>%</i>	<i>2001</i>	<i>%</i>	<i>2002</i>	<i>%</i>
I. Local Taxes	2,059,788,168	60.32	1,899,649,406	41.88	2,109,301,338	55.67	2,102,744,045	57.74	3,586,461,447	67.85
II. Operating & Miscellaneous Revenues	232,358,453	6.80	234,233,516	5.16	283,037,418	7.47	266,242,330	7.31	360,003,857	6.81
III. Internal Revenue Allotment	1,120,136,898	32.8	1,152,150,555	25.40	1,396,186,887	36.85	1,272,875,571	34.95	1,339,567,994	25.34
IV. Other Sources	2,330,801	0.07	363,224	0.008	162,203	0.004	-		-	
V. Borrowings	-		1,250,000,000	27.55	-		-		-	
<b>TOTAL</b>	<b>3,414,614,320</b>	<b>100</b>	<b>4,536,396,701</b>	<b>100</b>	<b>3,788,687,846</b>	<b>100</b>		<b>100</b>		<b>100</b>

Source: City Accountant's Office, Quezon City

Third is the issue of the deployment of too many inspectors from different offices aside from those coming from the BPLO. Should not inspection be conducted by just one office to make the system simpler and less bothersome on the part of the business sector? Or, should the present system be maintained whereby each office granting its own clearance or certificate would be responsible for the conduct of its own inspection? Apparently, the inspectors of each office concerned have their own expertise, which are not necessarily shared by personnel from other offices. This further raises the issue of the need for generalists or specialists in field operations. With only one client, in this case, the business firm, is there a need for several inspectors with varying expertise from different offices to inspect the place of business? Could not a team of inspectors with different expertise be deployed by one office to expedite the process of granting the business permit? The answers to these questions would be dependent on the capability of the local government and the need to provide a conducive environment for the operation of businesses.

Fourth, is the exercise of local autonomy by the local governments. Seemingly, the regulation of the operations of business enterprises is not the sole responsibility of the local government authority. As shown by the case study, a number of national government agencies impose certain clearances and licenses on the business firms or companies before they can be granted their permit or license to operate in the local area. And yet, it is the local government that is held accountable for whatever incidents or disastrous events that may happen as a result of the operations of businesses in the community. In other words, the decisionmaking process at the local level is constricted by the imposition of certain requirements by the national government. Should not the responsibility of the local government authority to regulate business operations for the protection of the general public welfare and health be matched with more regulatory powers and functions to enable the local government to make good decisions relative to the grant of clearances and licenses?

### **Conclusion**

The business licensing system of Quezon City has shown how the regulatory regime works at the local level. This case study has indicated the restrictions and constraints faced by a local government authority in regulating the entry and conduct of business at the local level. Aside from the policies, laws or ordinances implemented, and the rules and regulations imposed by the local government, there are still a lot of impositions by the national government agencies which, by and large, have made the entry of establishments into the business or economic arena doubly difficult and cumbersome. Although the main objective of social regulation as a regulatory instrument is to promote the general welfare and to protect the public

interest, the imposition of too many restrictions on the entry and conduct of business does not provide a conducive environment for the operation of enterprises in the local community. This is based on the perceptions of the business sector in the case study. Moreover, while it is recognized that the imposed regulations are for the protection and interest of the community, it appears that too much restrictions may tend to gloss over the other concern of promoting more economic enterprises in the local area for local economic development. Instead of encouraging business persons to pursue more economic activities in the local community, which is also for the promotion of public welfare, the regulatory instrument may just work the opposite way.

The case study has also brought to the fore the issue of devolved regulation. As depicted by the study, the local government does not have complete autonomy in regulating the entry and conduct of business in the local area. The assumption here is that given more regulatory powers and functions, the local government would be in a better position to regulate the operations of business establishments than the national government agencies, for the simple reason that it is the closest government to the people in the community. As pointed out earlier, the local community holds the local government accountable for whatever may result from the operations of said establishments. In this regard, it becomes imperative for the local government to exercise more power and authority over the entry and conduct of business in the local area. This does not mean however, that the national government can no longer play an active role in local regulatory governance. There is still the concern for the establishment of standards, in both performance and specification of products and services, which can be done at the national level, rather than at the level of the local government. There should be uniformity of standards applicable to all enterprises concerned irrespective of their locations. Policies and laws have to be crafted by the national government for universal application, but the implementation of such policies and laws would be done by the local government for more efficiency and effectiveness.

Complementing the need for the grant of more autonomous power and authority to the local governments is the need to develop and enhance further their competencies, most especially in the area of regulatory governance. As shown by the case study, the local government should have the expertise in monitoring and evaluating the operations of business enterprises. Unfortunately, the case of Quezon City has depicted the fact that the local authority has not really gone deeply into the area of monitoring and evaluation. What has been done so far is to streamline the procedures for the issuance of business permit and license, with the end view of collecting more taxes from the business sector; not much has been done on the monitoring and evaluation of business operations.

On the whole, the case study seems to suggest the need for a single integrated scheme for licensing business operations at the local level. In other words, there should be a single licensing authority for the management and enforcement of the local regulatory regime for more efficiency and effectiveness. With the devolution of regulatory powers and functions, the local government can very well serve the role and functions of the single licensing authority. However, this envisioned role should be beefed up with capacity building efforts to make the local government a more effective regulatory instrument for the promotion of local economic development.

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