

## About the Index

**Overview.** The Cities and Municipalities Competitiveness Index is an annual ranking of Philippine cities and municipalities developed by the National Competitiveness Council through the Regional Competitiveness Committees (RCCs) with the assistance of the United States Agency for International Development.

The CMCi local competitiveness Framework adopted the framework developed by Michael Porter, which is also being used in a number of global surveys on competitiveness. Porter's definition of competitiveness focused on the idea of productivity. Productivity is defined as output per unit of input. Effectively, it attempts to measure how many final products can be produced using a limited number of inputs. Productivity also requires that efficient outputs command value in the local up to the global marketplace. Porter defined competitiveness as based on location and is essentially the productivity that companies located there can achieve (Porter,2004). He explains location as a country's underlying source of its resources and productivity as how the country uses these resources. Using the same lens, local competitiveness is how a city or municipality knows its resources and how it uses these to improve its standard of living.

This is critical because Porter's definition encompasses all sectors of society. According to him, "almost everything matters for competitiveness – schools, roads, financial markets, the consumer." He also cautioned that to make all of these work for competitiveness, people and culture must also catch up with the mindset. Hence, improving competitiveness takes time.

Improving productivity allows firms, cities, municipalities and countries to improve their standards of living and thereby give prosperity to its citizens.

**Competitiveness Rankings.** Cities and municipalities are ranked on their competitiveness based on an overall competitiveness score. The overall competitiveness score is the sum of scores on five main pillars which pool data from several sub-indicators. The five main pillars are: economic dynamism, government efficiency, infrastructure, resiliency, and innovation. Scores are determined by the values of the actual data, as well as the completeness of the submitted data. The higher the score of a city or municipality, the more competitive it is.

## Pillars

### 1. Economic Dynamism

- Economic Dynamism creates stable expansion of businesses and industries and higher employment. The pillar matches the output and productivity of the local economy with the local resources. Localities are centers of economic activities, and due to this, business expansion and job creation are easily observable in local settings.

### 2. Government Efficiency

- Government Efficiency refers to the quality and reliability of government services and government support for effective and sustainable productive expansion. Conceptually, this factor looks at government as an institution that is generally not corrupt; able to protect and enforce contracts; apply moderate and reasonable taxation and is able to regulate proactively (La Porta et al, 1999). This represents the people and culture factor that Porter alluded to in understanding the process of competitiveness and making locations productive.

### 3. Infrastructure

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### 4. Resiliency

- Resiliency applies to the capacity of a locality to build systems that can absorb change and disturbance and being able to adapt to such changes. It spans frameworks that bind LGUs and their constituents to prepare for possible shocks and stresses; budgeting for disaster risk reduction; hazard/risk identification mechanisms; resilience-related infrastructure; and resilience-related mechanisms.

### 5. Innovation

- Innovation refers to the ability of a locality to harness its creative potential to improve or sustain current levels of productivity. It hinges mainly on the development of creative capital which are human resources, research capabilities, and networking capacities.

## **Economic Dynamism**

### **1. Local Economy Size**

- The size of the economy approximates the level of economic activity in the LGU, which, at the national level, is measured by gross domestic product. At the local level, the proxies for local economic activity include gross sales, which can be a measure of local production, and the number of business registrants and total capitalization of newly registered business enterprises, which indicate the level of new investment in the locality.

### **2. Local Economy Growth**

- The dynamism of the local economy can also be gauged by the rate of expansion of production activities, number of establishments and investment in the area. Hence, the growth of the proxy indicators for local production described above can approximate the economic expansion in the LGU. At the national level, this indicator is similar to the growth of gross domestic production.

### **3. Active Establishments in the Locality**

- Total Number of Business Registrations.

### **4. Safety Compliant Business**

- Number of occupancy permits approved vs Number of approved fire safety inspection.

### **5. Employment Generation**

- The dynamism of the local economy can be gauged by the rate at which new jobs are created.

### **6. Cost of Living**

- Cost of living (COL) is usually defined as "the basic cost of the food, clothing, shelter, and fuel necessary to maintain life, especially at a standard regarded as basic or minimal." The COL is a usual measurement that allows comparison of expenses of basic commodities across locations. An investor may opt to go to place with low prices of goods and services since it may imply lower costs of production. Lower cost of goods and services may also mean adequate basic resources, since cost of goods is a function of supply and demand conditions. Generally, places with low cost of living may be more attractive, though across locations, higher cost of living is observed in highly urbanized areas compared to lower-income classed LGUs.

### **7. Cost of Doing Business**

- Investors are usually attracted to areas with low prices of critical inputs to production. For purposes of computing for the competitiveness index, there are six cost sub-indicators included in the sub-factor on the cost of doing business, i.e. water, electricity, petroleum, rent, land and labor.

### **8. Financial Deepening**

- The number of financial institutions operating in a locality is usually a good measure of financial deepening. Progressive LGUs in highly urbanized areas will have more banks and financial institutions than the secondary or lower classed

LGUs. Hence the more financial institutions in different forms are available in a locality, the more liquid and financially facilitative business activities will be.

9. Productivity

- Productivity of firms in a locality is an important aspect of competitiveness. According to the Global Competitiveness Report, The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to sustain growth.

10. Presence of Business and Professional Organizations

- The number of business and professional organizations is indicative of dynamism in the local economy. Having more of these organizations available in a city or a municipality is indicative of a favorable outlook from private organizations.

## **Government Efficiency**

### **1. Compliance to National Directives**

- The responsiveness of LGUs is assessed in relation to compliance to national directives. Locational preferences and decisions of investors at the local level are influenced by zonal classifications, which in turn are dependent on the LGUs' Comprehensive Land Use Plan (CLUP). Hence, Local Chief Executives, who are forward looking, will usually be up-to-date in revising their CLUP, which is required to be done every ten years. With the adverse impact of climate change these days, which can destroy localities, the revision of CLUPs has become more important and so with the need to formulate Disaster Risk Reduction and Management Plans (DRRMP).

### **2. Presence of Investment Promotion Unit**

- The presence of an investment promotions unit highlights the obligation of local government to provide a conducive business environment and attract investments. This implies putting in place efficient business permitting processes that grants permits and licenses at the shortest possible time and with reasonable documentary requirements from business applicants. At the same time, LGUs that set up investment promotion offices reflect their seriousness in taking care of investor interest and are favorably looked upon by investors.

### **3. Compliance to ARTA Citizens Charter**

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### **4. Capacity to Generate Local Resource**

- Revenue generation, especially from LGU's own resources, is an indicator of the capacity of the local government to implement investment-related programs and projects. Most LGUs depend heavily on Internal Revenue Allocation (IRA); hence the Department of Finance recognizes LGUs that are least dependent on IRA and can generate resources from its own set of taxes and fees. Consistent with this stance of the government, the capacity to generate resources is assessed based on the share of own-source revenues to the LGUs' total revenue collection. LGUs with high own-source revenue shares are associated with better fiscal management.

### **5. Capacity of Health Services**

- Number of doctors, nurses, midwives in both PUBLIC and PRIVATE health institutions in the LGU.

### **6. Capacity of School Services**

- Number of teachers in both PUBLIC and PRIVATE secondary schools in the locality. Population of secondary school going age in the locality at the end of every school year.
7. Recognition of Performance
- Giving of awards to local governments to recognize good performance has been an accepted practice by both National Government agencies like the DILG and private sector organizations like the Philippine Chamber of Commerce and Industry. These awards systems have been an excellent motivator for LGUs. Hence, the number of awards, especially those that promote competitiveness, is a good indicator of good performance of LGUs. Good governance promotes economic growth and is a critical ingredient to attracting investors in a given locality. Good governance, however, requires transparency and accountability in public services. These two principles are included in DILG's LGU performance monitoring and management system called Local Government Performance Management System.
8. Getting Business Permits
- This indicator measures the speed and effectiveness of LGUs' business registration processes as well as their Compliance to the BPLS Standards set on the issuance of Mayor's Permits.
9. Peace and Order
- Total number of police in the locality.
10. Social Protection
- Number of Local Citizens with PhilHealth Registration.

## Infrastructure

1. Road Network
  - This indicator measures interconnectivity and the level of mobility in the locality. The road network is estimated by getting the total length of roads in the locality (including bridges) as a proportion of the LGU's total land area.
2. Distance to Ports
  - This indicator provides guidance on how near the center of government is to its entry points, such as airports, land transport (bus/jeep/UV express) terminals and seaports/local PUBLIC wharfs.
3. Availability of Basic Utilities
  - Business environment needs consistency of and regularity of water and electricity services.
4. Transportation Vehicles
  - This indicator represents the mobility of the local population. PUBLIC transportation includes all types of motorized vehicles duly recognized by the LGU.
5. Education
  - The quality of the workforce, which is an important factor in productivity and competitiveness, is partly dependent on the availability of health and education services in the locality. The latter, in turn, depends on the manpower in these sectors as well the available related infrastructure. In the case of education, both the lack of teachers and schoolrooms have been the excuse for the deterioration in literacy rate. The importance of manpower in health and education has been addressed in the component on government efficiency in earlier sections (sub-factor on basic government services); the corresponding social infrastructure requirements are addressed in this sub-factor.
6. Health
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7. LGU Investment
  - Represents actual resources allocated by LGU for its infrastructure requirements. Measures the prioritization of LGU for infrastructure.
8. Accommodation Capacity
  - This indicator focuses on the available facilities in the LGU for accommodations based on the existing Department of Tourism accreditation standards and the corresponding number of rooms in each of the facilities.

9. Information Technology Capacity

- The ability of the local government to effectively apply IT to achieve desired ends

10. Financial Technology Capacity

- As stated earlier, the number of financial institutions, which is a measure of financial deepening, is highly correlated with a robust local economy. It facilitates the mobilization of financial resources for use in the production of goods and services. The simplest measurement of financial development in an area would be the number of automated teller machines.



## Resiliency

1. Land Use Plan
  - Observation of the presence of the following: a) actual comprehensive land use plan; b) physical office; c) staff d) executive order of the mayor or resolution of the Sanggunian; e) year of last update.
2. Disaster Risk Reduction Plan
  - This validates LGU compliance to RA 10121 on having a DRRMC Plan.
3. Annual Disaster Drill
  - Physical Record of the conduct of disaster drills in the LGU.
4. Early Warning System
  - Presence of an early warning system that integrates professional responders and grassroots organizations.
5. Budget for DRRMP
  - Contingency fund for disaster as % of total LGU budget (from Governance Pillar).
6. Local Risk Assessments
  - Availability of local geohazard maps and LGU risk profile.
7. Emergency Infrastructure
  - Actual number of designated Emergency Vehicles available in the LGU. This indicator represents the capacity to extend service by providing Emergency Vehicle during disaster.
8. Utilities
  - Presence of water source, power source, generator sets, and redundancies, and their distances to the LGU.
9. Employed Population
  - Share of gross number of employees to total population of LGU.
10. Sanitary System
  - Presence of sanitary landfill and it's distance to the LGU, frequency of garbage collection, waste segregation practices, and presence of recycling or material recovery facility.

## Innovation

1. Start Up and Innovation Facilities
  - As any person or entity registered in the PH including those in the Philippine Start-up Development Program, which aims to develop an innovative product process or business model from ideation, product development, marketing and expansion (Companies operating in LGUs offering new products or services)
  - The law defines innovative products as "a good or service that is new or significantly improved," whether in terms of technical specifications, component materials, or product software. On the other hand, innovative processes include improvements in production or delivery methods, whether through technique, equipment, and/or software. Lastly, an innovative business model is defined as "a new organizational method in business practices, workplace organization, or external relations."
2. Innovation Financing: R&D Expenditures Allotment
  - Represents actual resources allocated by LGU for its Research and Development requirements. Measures the prioritization of LGU for R&D, particularly focused on the STEM sector.
3. STEM graduates
  - Number of Graduates for Science, Technology, Engineering, Arts, Mathematics coming from private or public tertiary school.
4. Intellectual Property Registration
  - Number of intellectual property registrations made in the LGU.
5. ICT Use: E-BPLS Software
  - This indicator measures the speed and effectiveness of LGUs' business registration processes as well as their Compliance to Business One-Stop-Shop and Online e-BPLS Standards set by DICT from registration, payment and release, on the issuance of Mayor's Permits.
6. Internet Capability
  - This indicator reflects the ICT readiness of a locality, which is measured by the internet speed and availability of free internet service facilities in the locality.
7. Availability of Basic Internet Service
  - Business environment needs consistency of and regularity internet services. Percentage of households with internet connection per LGU.
8. Online Payment Facilities
  - This indicator measures the speed and effectiveness of LGUs' to any of the transactional processes to its client by providing online payment facilities.
9. ICT Plan
  - LGUs recognizing the need to innovate have on their own developed a kind of Information Technology (IT) Plan. While there is no directive for such, the initiative is one that can be considered as a foundational element for innovation in the locality.
10. New Technology

- New Technology means any invention, discovery, improvement, or innovation, that was not available, whether or not patentable, including, but not limited to, new processes, emerging technology, machines, and improvements to, or new applications of, existing processes, machines, manufactures and software.