



Republic of the Philippines
Department of Environment and Natural Resources
Visayas Avenue, Diliman, Quezon City
Tel. Nos. (632) 920-4301 * (632) 928-0691 to 93
924-2540 * 928-8592
929-6626 loc. 2012 - 2014

MEMORANDUM FROM THE SECRETARY

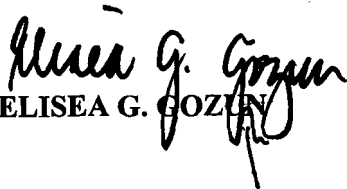
TO : All USECs and ASECs
All Bureau Directors

SUBJECT : REPORT ON THE STUDY "GOVERNANCE OF
NATURAL RESOURCES IN THE PHILIPPINES:
LESSONS FROM THE PAST, DIRECTIONS FOR THE
FUTURE"

DATE : JAN 12 2004

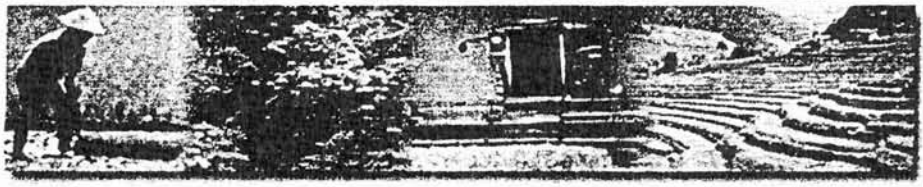
We are forwarding herewith a copy of the above study conducted by the Rural Development and Natural Resources Sector Unit, East Asia and Pacific Region of the World Bank Group.

Review the attached subject report and submit all your comments to Undersecretary Demetrio Ignacio, Jr. not later than 15 January 2004 for consolidation and finalization.


ELISEA G. GOZUN

EASRD

RURAL DEVELOPMENT &
NATURAL RESOURCES
EAST ASIA & PACIFIC REGION



**Governance of Natural
Resources in the Philippines:**
*Lessons from the Past,
Directions for the Future*

Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region

November 2003



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ABBREVIATIONS AND ACRONYMS



ADB	Asian Development Bank	JBIC	Japan Bank for International Cooperation
CBFMA	Community Based Forest Management Agreement	LGU	Local Government Unit
CENRO	Community Environment & Natural Resources Officer	NCIP	National Commission for Indigenous People
CSC	Community Stewardship Contract	NEDA	National Economic and Development Authority
DA-BFAR	Department of Agriculture Bureau of Fisheries and Aquatic Resources	NGO	Nongovernmental organization
DAO	Departmental Administrative Order	NIPAS	National Integrated Protected Areas System
DENR	Department of Environment and Natural Resources	PACBRMA	Protected Areas Community Based Resource Management Agreement
DILG	Department of Interior and Local Government	PAWB	Protected Area Wildlife Bureau
DOF-BLGF	Department of Fisheries-Bureau of Local Government Finance	PENRO	Provincial Environment & Natural Resources Officer
EO	Executive order	PO	People's Organization
FASPO	Foreign Assisted Projects Office	SIFMA	Socialized Industrial Forest Management Agreement
GNI	Gross National Income	UNEP	United Nations Environment Programme
IFMA	Industrial Forest Management Agreement	UNDP	United Nations Development Programme
IPRA	Indigenous People's Rights Act	USAID	United States Agency for International Development
		WB	World Bank



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This report analyzes natural resource management and governance in the Philippines, identifying recent trends, current challenges, and future goals. The first half of the report summarizes the status of the country's natural resources, describes sector policies, institutions, and budget mechanisms, and identifies impediments to improvements. The second half focuses on three crucial issues for natural resource governance: property rights, institutions, and financing. As part of its analysis of these three overarching issues, the report considers cross-cutting governance concepts such as participation, accountability, transparency, corruption, and service delivery. The report's final section offers conclusions and recommendations.

The primary audience for this report is the government of the Philippines—particularly national and local agencies and officials with mandates for natural resource management. For academics and researchers the report provides an overview of problems in natural resource management and governance. For civil society the report might create opportunities to engage in dialogue with other stakeholders. And for donors it sheds light on the challenges involved in developing and implementing natural resource management projects in the Philippines.

The report's analysis draws on many studies conducted over the past decade—including studies commissioned for this report,

unpublished academic reports, and reports by government agencies, nongovernmental organizations (NGOs), universities, the Asian Development Bank (ADB), the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the World Bank, and bilateral donors.

The analysis for the report was carried out between September 2002 to June 2003. During this period, a new Secretary of Department of Environment and Natural Resources was appointed, and many of the recommendations proposed in the report are currently in the process of being implemented.

The Study was carried out by a team of Filipino researchers and World Bank Staff and consultants. Members of the team included: Giovanna Dore and Gilbert Braganza, Brenda Phillips and Patricia Morente from the World Bank, Arne Jensen, Charles Barber, Environmental Sciences for Social Change, Floredema Eleazar, and Paul Holtz. The overall Task was managed by Asmeen Khan. The Study benefited from comments provided by Kathy Mackinnon, William Magrath, Stephen Mink, and Ernie Guiang. The team would like to acknowledge the substantial help and assistance provided the Department of Environment and Natural Resources, particularly the Director for Foreign Assisted Projects and his staff. The Study was financed by the World Bank with additional support from the Global Environmental Facility and the Danish Government through a Trust Fund.



Although the Philippines was once one of the richest biological regions on Earth, 50 years of severe natural resource degradation have taken a catastrophic toll. As a result the country now has among the lowest forest cover per capita in the tropics, and many mangrove and coral reef ecosystems have collapsed. The main direct causes of this degradation include pollution, urbanization, sedimentation, conversion to other land uses, and—most important—overexploitation, often involving destructive approaches to resource extraction. These problems have been exacerbated by weak natural resource management, limited financial resources, and ineffective environmental institutions. (In this report *natural resources* refers to forests, coastal waters, mangroves, coral reefs, watersheds, and protected areas. Mineral resources are covered by a separate initiative between the Department of Environment and Natural Resources and the World Bank).

Over the past decade the government has tried to reverse these trends, introducing innovative institutional and legal reforms for sustainable natural resource management—including, in the early 1990s, a comprehensive decentralization program that promotes resource management by local governments, indigenous groups, and resource-dependent communities. For example, new tenurial instruments have granted a variety of property rights to local and indigenous communities—particularly for public forests—and a national system of protected areas has been created.

In addition, in recent years many donors have supported efforts to improve natural resource management by building the capacity of the Department of Environment and Natural Resources (DENR), local governments, nongovernmental organizations (NGOs), and local communities, and by supporting innovative partnerships among them.

Despite these efforts, natural resource management in the Philippines has a mixed record of performance. The main reasons for failure are:

- Unclear institutional mandates between central agencies and local governments.
- Lack of sustained financing at the national level and revenue generation at the local level to finance natural resource management.
- Delays and other problems in issuing and enforcing the new tenurial instruments for public forests.
- Lack of equivalent tenurial instruments for coastal waters and resources.
- Administrative impediments.
- Insufficient capacity, accountability, and transparency in public and private institutions responsible for managing natural resources.

This report focuses on three crucial aspects of natural resource governance and the extent to which they explain failures in improving it:

- *Property rights*—tenurial and use rights for natural resources have not been fully implemented, hindered by rigid bureaucratic procedures.
- *Institutions*—a profusion of underfunded, centralized institutions have unclear and overlapping mandates, ineffective processes for stakeholder participation, and inadequate mechanisms to ensure accountable performance and service delivery.
- *Financing*—an inefficient, erratic system sets budgets for natural resource management, leading to a multitude of underfunded policies and programs for protected areas, community-based forest management, rights of indigenous peoples, and so on.

This report draws on the extensive literature on natural resources and governance in the Philippines, and complements it with data from the DENR and National Economic Development Authority (NEDA). In addition, case studies from resource-rich provinces are used to provide local perspectives that illuminate overall problems—and offer examples of how to improve institutional performance in resource management. The report's main messages are summarized below.



reverse the current open access situation and provide incentives for sustainable community-based coastal resource management.

Although the 1991 Local Government Code and 1998 Fisheries Code devolved control over coastal waters up to 15 kilometers from the shore to municipal and city governments, there is no system of tenurial instruments for coastal waters equivalent to those for forestlands. As a result most of the country's coasts remain de facto open access areas—with attendant over-exploitation and use of destructive fishing methods.

The forest-related tenurial instruments show that while tenure is insufficient to ensure sustainable natural resource management, it is an important foundation for sustainable management in situations where poor and growing populations depend on local resources for their livelihoods. The same dynamic applies to fisheries, coral reefs, and other coastal resources—as has been well documented by sites where local governments and communities have instituted de facto tenurial regimes over coastal waters.

Devolution of natural resource governance and tenurial rights to local governments and communities must be complemented by a strong governing hand from the DENR—to facilitate and enforce observance of the responsibilities that accompany devolution

Neither devolution of governance under the Local Government Code nor creation of local tenurial rights over forestlands was driven by evidence that such measures would improve natural resource management. Rather, both largely resulted from the democratization of Philippine society since the fall of Ferdinand Marcos' in the 1980s—and, in the case of community-based forestry, from the failure of top-down, state-led forest management to provide ecological sustainability or social equity.

But local management and control do not necessarily lead to sustainable natural resource management. Devolution of rights to natural resources must be accompanied by devolution of re-

sponsibilities to manage them sustainably, in accordance with national and local standards and priorities. The DENR should enforce these responsibilities and standards—and provide local governments and communities with the services and tools they need to observe them.

Thus the DENR needs to evolve in three directions. First, it needs to complete the devolution of natural resource management functions mandated by the Local Government Code and other legislation. Second, the DENR needs to recast its role—becoming the guardian of national minimum standards for natural resource management and building its capacity to ensure that local governments and communities observe them. Finally, the DENR needs to strengthen its capacity to help local governments and communities meet those standards. To fulfill these new roles, the DENR needs to restructure, redefine its programs, and re-orient its staff.

The DENR's budget management process needs to be overhauled

Between 1998 and 2002 just 5 percent of the DENR's budget went to development expenditures—that is, actual investments in natural resource management. During the same period the DENR's overall budget dropped 43 percent. The department's limited budget is spread across too many programs and projects, and is fragmented among the DENR's four bureaus—significantly limiting any bureau's ability to effectively implement natural resource policies.

"Banner programs"—created by DENR secretaries to put their personal and political mark on the DENR's overall program—are one reason that resources are allocated inefficiently across too many programs. (The fast turnover of DENR Secretaries is also a problem: there were four during 1998–2002.) Banner programs are supposed to provide focused budget resources to environmental and natural resource management challenges requiring special attention and immediate intervention. New banner programs are adopted each year without DENR evaluations of existing ones—which tend to take on bureaucratic



EXECUTIVE SUMMARY

RECOMMENDATIONS FOR IMPROVING NATURAL RESOURCE GOVERNANCE

<i>Problem/issue</i>	<i>Envisaged solution</i>	<i>Agency responsible</i>	<i>Specific action</i>	<i>Timing</i>
Property rights				
Tenurial instruments for community-based forest management have strengthened local rights, but bureaucratic complexity and lack of enforcement are causing conflicts on the ground	The DENR needs to review and simplify its procedures	DENR Office of the Secretary	DENR undersecretary for policy and planning to develop draft administrative order simplifying procedures	6 months
Unclear territorial jurisdiction of local governments for natural resource management	Develop tenurial instruments for local governments to set aside areas that will be entirely managed by them, set standards for their use or development, and establish mechanisms to review performance	DENR Office of the Secretary; Department of Interior and Local Government; local governments	Create a working group to study different models (such as forest co-management) and make recommendations to the DENR, Department of Interior and Local Government, and mayors of local governments	6 months
Devolution of control over coastal waters to local governments needs to be complemented with effective community-based property rights	Department of Interior and Local Government, Bureau of Fisheries and Aquatic Resources, and the DENR need to develop policy and legal instruments	Secretary of Department of Interior and Local Government	Department of Interior and Local Government, with Bureau of Fisheries and Aquatic Resources, DENR, and civil society to assist LGUs with policy guidelines	18 months
The DENR and local governments need to jointly review and decide on resource use permits in a transparent, accountable, participatory manner	The DENR needs to work with local governments on technical oversight and rule enforcement. The DENR should build local governments' capacity to carry out devolved responsibilities for natural resource management and ensure that department staff are oriented toward this new role	DENR Office of the Secretary	DENR undersecretary for technical services to review organizational arrangements and make changes to increase technical oversight and support to local governments	12 months
Institutions				
Incomplete decentralization of DENR staff and functions; overstaffing in DENR centralized offices	Further devolve DENR staff to provincial and municipal governments (especially in resource-rich provinces). Review personnel distribution in all bureaus and at all administrative levels	DENR Office of the Secretary	DENR Secretary—to review options and prepare a policy paper on reducing and devolving staff	12 months



RECOMMENDATIONS FOR IMPROVING NATURAL RESOURCE GOVERNANCE

<i>Problem/issue</i>	<i>Envisaged solution</i>	<i>Agency responsible</i>	<i>Specific action</i>	<i>Timing</i>
Contributions from donor projects have become essential for the DENR to fulfill its mandates at the national and especially local levels	Strengthen the links between planning and budgeting within the DENR, DENR agencies, and DENR and local governments	DENR Office of the Secretary; Department of Budget and Management; local governments		6 months
Confusion exists on whether the DENR or local governments are to contribute to counterpart funding for donor projects	Same as above	DENR Office of the Secretary; Department of Budget and Management; local governments	Undersecretary for planning and policy to chair working group to improve planning and budgeting for donor projects	6 months



The Philippines was once one of the world's richest biological regions, with extensive and diverse tropical forests (including large coastal mangrove areas), high levels of species endemism, and 27,000 square kilometers of coral reefs containing enormous marine biodiversity. But while the country is still home to biodiversity of global importance,¹ over the past 50 years its natural resource base has undergone catastrophic degradation—a process that has accelerated in the past 20 years (box 1). Causes of this damage include overexploitation, urbanization, pollution, sedimentation, and conversion to other land uses. And despite impressive strides toward establishing a comprehensive policy, legal, and institutional framework for sustainable management of natural resources, implementation has been uneven.

Bilateral and multilateral donors have supported numerous interventions aimed at improving natural resource management and strengthening the capacity of domestic entities—including the Department of Environment and Natural Resources (DENR), local government units, nongovernmental organizations (NGOs), and local communities—to address the top natural resource priorities. Though there have been some successes, the overall outcomes of these initiatives have not been satisfactory.

Better outcomes in natural resource management are impeded by several factors:

- Unclear institutional mandates between local governments and the DENR.
- Insufficient financing at the national level and revenue generation at the local level to finance natural resource management programs.
- Delays in issuing tenurial instruments.

1. For detailed information on the current state of and trends in Philippine biodiversity, see Ong, Afuang, and Rosell-Ambal (2002).

- Administrative obstacles at the local level.
- Lack of accountability and transparency among public institutions and NGOs involved in delivering services to upland communities.
- Inadequate institutional capacity.

Together these factors point to systemic problems in natural resource *governance* that must be addressed if current and future efforts to improve natural resource management are to succeed. Governance is generally defined as “the rules under which power is exercised in the management of a country’s resources, and the relationships between the state and its citizens, civil society and the private sector” (Brown and others 2002). For the purposes of this report, natural resource governance is seen as having three main dimensions:

- *Property rights*—the allocation and enforcement of rights to ownership, access, and control over natural resources, as determined by policies and laws.
- *Institutions*—the mandates, functions, and capacities of government agencies in charge of managing natural resources, the relationships among these agencies and with civil society organizations, the processes for stakeholder participation in decisionmaking, and the mechanisms for stakeholders to hold government agencies accountable for their performance.
- *Financing*—the processes for financing, budgeting, allocating, spending, and accounting for the use of resources for natural resource management.

This report assesses the extent to which problems with these dimensions of governance explain failures in implementing natural resource management policies in the Philippines, particularly for forestry and marine resources. Emphasis is placed on local-level analysis, focusing on regions rich in natural resources but suffering from widespread poverty. The essential question that this report seeks to answer is, why are national policies and procedures for **natural** resource management **not** working at the provincial and municipal levels?



Box 1.

TRENDS IN NATURAL RESOURCES IN THE PHILIPPINES

The Philippine archipelago comprises more than 7,000 islands with a land area of 298,170 square kilometers and a coastline of 18,000 kilometers. The two largest islands—Luzon in the north and Mindanao in the south—make up the majority of the country's land area, while the Visayas is an extensive group of islands and islets in the central part of the archipelago. Much of the country is hilly or mountainous, with nearly three-fifths defined as uplands. In 2000 the country's population was 75 million, up from 36 million in 1970. Much of the population—especially rural poor people—depends directly on natural resources. At least 40 million people reside in some 10,000 coastal *barangays* (the smallest political unit), and another 12–13 million live in ecologically fragile uplands.

Changes in status

In 1900, 70 percent of the country (21 million hectares) was covered by a rich mosaic of tropical forests, including extensive commercially valuable dipterocarp forests. But by 1999 forests accounted for just 18 percent (5 million hectares) of the country's land area, with less than 1 million hectares of old-growth natural forests. A 1997 survey of Earth's frontier forests—natural forest areas that are "relatively undisturbed and big enough to maintain all of their biodiversity"—concluded that there are no such forests left in the Philippines (Bryant, Neilsen, and Tangle 1997). Moreover, the country is among the 11 poorest of the 89 countries in the tropics (Borlagdan, Guiang, and Pulhin 2001; see also DENR and UNDP 2002).

Coral reefs have also suffered extensive degradation and face ongoing threats. Just 4 percent are in excellent condition (defined as having more than 75 percent hard and soft coral cover), while 28 percent are in good condition (50–75 percent), 42 percent are in fair condition (25–50 percent), and 27 percent are in poor condition (less than 25 percent). When only hard coral cover is considered, only 2 percent of the reefs are in excellent condition (Licuanan and Gomez 2000). In addition, 70 percent of Philippine reefs are face high or very high levels of threat (Burke, Selig, and Spalding 2002).

Coastal mangroves have not fared much better, with their coverage falling from 450,000 hectares in 1918 to 288,000 hectares in 1970, 138,000 hectares in 1993 (White and Cruz-Trinidad 1998), and 112,400 hectares in 1997 (DENR and UNDP 2002). What remains is 95 percent secondary growth; most of the 5 percent that is primary or old growth is in Palawan (White and Cruz-Trinidad 1998).

Direct causes of degradation

Direct causes for the rapid degradation of natural resources and loss of biodiversity in the Philippines include:

- Overexploitation of natural resources such as timber, mangroves, wildlife, and fisheries, sometime using destructive and wasteful methods (such as blast and poison fishing on coral reefs).
- Conversion of natural ecosystems—such as forests and mangroves—to other land uses, including subsistence and commercial agriculture and aquaculture.
- Development of urban and industrial infrastructure, including roads, settlements, and mining and industrial facilities.
- Pollution and sedimentation from urban and industrial centers and agricultural expansion.

Indirect causes

Direct causes of resource degradation are driven by a complex structure of indirect causes, including:

- Limited availability of agricultural land for the fast-growing population.
- Displacement and migration due to natural disasters and insurgencies.
- Skewed distribution of rights to land and natural resources.
- De facto open-access tenure in many upland and coastal areas.
- Insufficient government capacity to manage lands, waters, and natural resources under state jurisdiction.
- An underfunded, incomplete system of protected areas, with many gaps in coverage of important ecosystems.
- Overlapping and conflicting laws and property rights for natural resources—particularly between conservation objectives and natural resource rights in protected areas.
- Overlapping institutional functions and mandates.
- Limited appreciation of and political support for natural resource conservation in government decision making.



TABLE I.
DECENTRALIZATION OF NATURAL RESOURCE MANAGEMENT
FUNCTIONS UNDER THE LOCAL GOVERNMENT CODE OF 1991

Level of government	Function
National	<ul style="list-style-type: none"> ■ Conservation, management, protection, development, and proper use of natural resources and promotion of sustainable development ■ Management of programs, projects, and activities funded by government agencies and foreign sources and of items under relevant executive orders and special laws, including the Agrarian Reform Program
Local	<ul style="list-style-type: none"> ■ Implementation and coordination of DENR policies, regulations, programs, projects, and activities ■ Enforcement of Forestry Laws related to community and social forestry projects ■ Management of communal forests with an area of less than 5,000 hectares, provided they are used for community forestry projects ■ Management, protection, and rehabilitation of small watersheds that supply local water (as identified by the DENR), including extension and research services related to water and soil use and conservation projects ■ Establishment, protection, and maintenance of tree parks, green belts, and other tourist attractions in areas delineated by the DENR (except those covered by the national protected areas system) and collection of fees for their services and the use of facilities established in them ■ Regulation of flora outside protected areas and implementation of Rehabilitation in Conservation Hotspots (RICH) and Conservation of Rare and Endangered Species (CARE) activities in areas identified by the DENR ■ Implementation of land management agreements, cadastral surveys, lot surveys, and isolated and special surveys ■ Enforcement of small-scale mining laws ■ Issuance of permits and adjudication of conflicts over fees for collection of guano and extraction of sand, gravel, and other quarry resources ■ Management of small local hydroelectric projects ■ Issuance of environmental compliance certificates for projects and businesses ■ Implementation of solid waste disposal and other environmental management systems and services ■ Adoption of adequate measures to protect the environment and conserve land, mineral, marine, forest, and other resources in their jurisdiction ■ Provision of necessary financial, technical, staffing, and other resources to ensure efficient, effective implementation of devolved functions

development in Palawan through conservation and careful use and development of natural resources. A main focus is forest conservation and protection, including a ban on commercial logging. Key features of the plan include:

- Developing a strategic environmental plan to guide local government units.
- Establishing an Environmental Critical Areas Network—

similar to the National Integrated Protected Areas System (see below)—that controls development in ancestral and other lands and in coastal and marine areas. The network is widely used in land use planning.

- Creating the Palawan Council for Sustainable Development to review applications for environmental compliance certificates and land use plans and to conduct compliance monitoring for the DENR.



The Philippines's policy and institutional framework for natural resource management has undergone sweeping changes since Ferdinand Marcos's regime was ousted in 1986. Government functions have been decentralized. Numerous mechanisms have been implemented to strengthen stakeholder participation in decisionmaking. The role of NGOs has expanded. The rights of indigenous peoples have been recognized. And a comprehensive national system of protected areas has been established. In addition, a wide variety of new and restructured institutions have been put in place to administer the new policy and legal framework.

THE POLICY FRAMEWORK— A SHIFT TOWARD DECENTRALIZATION

In 1991 the Philippines introduced the Local Government Code, among the most comprehensive decentralization policies undertaken by a developing country in the 1990s. This "revolution in governance" devolved substantial powers, responsibilities, and resources from the national to local governments (Rood 1998). The country's three tiers of local government units consist of 78 provinces in the first tier, 83 cities and 1,537 municipalities in the second, and 41,939 barangays in the third. In addition, for administrative purposes the country is divided into 16 regions that contain the deconcentrated regional offices of central departments and agencies.

The Local Government Code devolved numerous aspects of governance from the DENR to local government units—including some natural resource management functions such as community forest and communal watershed management, law enforcement through the issuance of local ordinances, and control over water within 15 kilometers of shore. The main provisions of the code affecting natural resource management are summarized in table 1. Despite the transfer of these functions, the DENR is ultimately responsible for managing forest resources, and implementation of these functions by local government units is subject to its supervision, control, and

review.² Moreover, in some areas responsibilities are blurred, and there is a need to clarify and harmonize the roles of the DENR and local governments. The DENR has taken steps to this end by issuing several administrative orders and circulars which help define roles and responsibilities for local governments in areas such as communal forests, community watersheds and reforestation areas. However, only 4 percent (895 employees) of DENR personnel were devolved to local government units—compared with the Department of Agriculture, where nearly 60 percent were devolved. As a result most local governments have insufficient capacity to carry out the decentralization mandate, and significant human resource development is required to improve matters. Local governments face challenges in securing financing, have limited capacity to deliver environmental services, and possess incomplete information for monitoring environmental performance. At the same time, it is important to have a strong core agency, and the DENR should continue to be the main agency for managing natural resources and take the lead in guiding and assisting the decentralization of environmental and natural resource management.

In addition to the Local Government Code, the 1992 Strategic Environment Plan for Palawan and the 1998 Indigenous Peoples Rights Act are de facto measures further decentralizing natural resource management in Palawan Province and territories containing indigenous peoples.

The Strategic Environment Plan for Palawan created a unique arrangement for environmental and natural resource management. This was done largely because of Palawan's reputation as the Philippines's "last frontier" of untrammelled nature, and because of the perception that special measures were needed to prevent its ecosystems from experiencing the degradation common in other parts of the country. The plan promotes sustainable

2. Elaboration of the DENR functions devolved under the Local Government Code can be found in DENR DAO 92-30, "Guidelines for the Transfer and Implementation of DENR Functions Devolved to Local Government Units."