View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Research Papers in Economics

PIDS

Philippine Institute
for Development Studies

Surian sa mga Pag-aaral
Pangkaunlaran ng Pilipinas

Policy Notes

ISSN 1656-5266

No. 2009-11 (December 2009)

Focus on barangay economic development

Rouselle F. Lavado, Allan S. Layug, and Ida Marie T. Pantig

One of the findings of the recently concluded study on local service delivery by the Philippine Institute for Development Studies (PIDS) and the United Nations Children's Fund (UNICEF) is that barangays are missing the development opportunity to practice fiscal governance and good financial management. Why and how? Because they are not efficiently and effectively spending their limited funds for programs, activities, and projects (PAPs) with high economic development impact.

Noting the significance of this finding, this *Policy Note* focuses on this issue as it presents data on how and where the barangays in the study's two case sites, namely, the province of Agusan del Sur and the city of Dumaguete, allocate their limited funds; examines the implications of such allocation; and proposes measures on how barangays can be more effective in spending their limited funds in order to harness the economic capabilities of their communities and entrepreneurial spirit of their people for development outcomes.

Benefits of economic-enhancing PAPs

Among the local government units (LGUs), the barangay[1] is considered to be the level closest to the people in terms of access and proximity. Because of this, it would be easy to understand why focusing its synergy, commitment, and limited resources on economic development via

[1] In the Philippines, a barangay is the equivalent of a village. It is the basic political unit as enshrined in the 1987 Constitution and the 1991 Local Government Code (LGC).

PIDS Policy Notes are observations/analyses written by PIDS researchers on certain policy issues. The treatise is holistic in approach and aims to provide useful inputs for decisionmaking.

This *Note* is culled from the soon-to-be-released PIDS Discussion Paper No. 2010-03 titled "Do barangays really matter in local services delivery? Some issues and policy options" by A. Layug et al. and PIDS Discussion Paper No. 2009-34 titled "Improving local service delivery for the MDGs in Asia: the case of the Philippines." It refers to data that are more complete in said Discussion Papers. The authors are Research Fellow, Supervising Research Specialist, and Research Analyst II, respectively, at the Institute. The views expressed are those of the authors and do not necessarily reflect those of PIDS or any of the study's sponsors.

economic-enhancing PAPs would allow a barangay to reap benefits that would eventually be of advantage to its constituents as well as to the barangay itself as a political unit. At the same time, the constituents themselves may be tapped by the barangay as partners in the implementation of these endeavors.

Specifically, the benefits that may be gained are: *One*, a barangay would be able to raise own-source revenues (OSR) for development priorities. *Two*, a barangay would be able to institutionalize economic governance, thus, fulfilling its function not just as a political unit of government but also as an economic one. And *three*, a barangay would be able to create self-sufficient entrepreneurial communities that are able to cash in on economic empowerment, demand better services, and practice democratic governance, thereby realizing the promise of decentralization.

Table 1. Economic development as percentage of the 20 percent Barangay Development Fund, Agusan del Sur

Sector	Bucac, Bayugan	Taglatawan, Bayugan	Poblacion, Bayugan	Bahbah, Prosperidad
Health	11.78		14.28	2.92
Education	28.52	1.36		5.83
Water	8.74		7.14	2.92
Public safety	11.40	2.73	9.52	12.83
Economic development	24.33	75.48	31.53	53.61
Environmental/Sanitation		20.44	30.4	18.96
Others	15.20		7.14	2.92

*Afga, Sibagat – no data.
Source: Barangay Development Council Resolution on 20 percent Economic Development Fund, 2008.

Table 2. Economic development as percentage of the 20 percent Barangay Development Fund, Dumaguete City

Sector	Tinago	Batiguel	Daro
Health		3.59	11.27
Education		15.56	8.45
Water		11.97	3.38
Public safety	6.14	42.56	8.45
Economic development			41.40
Environment/Sanitation	93.86	26.32	27.05
Others			

* Bunao, Dumaguete – no data.
Source: Barangay Development Council Resolution on 20 percent Economic Development Fund, 2008

The practice of economic misgovernance

If the allocation of limited funds is a measure of the prioritization of barangays, it would be fiscally interesting to ask: How much does a barangay currently allocate for economic development as a percentage of its Barangay Development Fund (BDF)?[2] Tables 1 and 2 provide the answer, highlighting the differences in allocation of the barangays in the two study areas and, hence, the priorities given by these barangays to economic development.

What is disturbing in the figures is not that barangays differ in their allocations, with, for instance, Barangay Taglatawan in the municipality of Bayugan in Agusan del Sur having the biggest allocation of 75 percent and Barangay Bucac in the same municipality having only 24 percent, but the fact that some

[2] Like other LGUs, the barangay is mandated by the 1991 LGC to allocate at least 20 percent of its Internal Revenue Allotment (IRA) as a share from the proceeds of national taxes for development purposes. This 20 percent fund equivalent of barangay IRA allocation is called Barangay Development Fund (BDF).

barangays do not even allocate any amount for economic development. Barangays Tinago and Batiguel in Dumaguete City are examples of such. This goes to prove that some barangays do not consider economic development as a priority. Hence, it is not considered as an important component of human development that must have a share in the expenditure pie.

Table 3. Program allocation on economic development as percentage of BDF (detailed), Agusan del Sur

Sector	Program	Pesos	% Total BDF
Bucac, Bayugan BDF = P263,082.40			
Economic development	Barangay beautification project	20,000.00	7.60
	Barangay road gravelling maintenance	10,000.00	3.80
	Electrical installation of basketball court	4,030.00	1.53
	Barangay Administration Office improvement	20,000.00	7.60
	Provincial gravelling (within Brgy. Bucac premises)	10,000.00	3.80
Taglatawan, Bayugan BDF = P733,836.60			
Economic development	Installation of billboards and barangay street signs	20,000.00	2.73
	Construction of new barangay hall phase 1	341,863.60	46.59
	Concrete fencing of barangay site perimeter	100,000.00	13.63
	Repair, gravelling, and road maintenance	42,000.00	5.72
	Barangay Pangkabuhayan Project, rent a tent	50,000.00	6.81
Poblacion, Bayugan BDF = P840,490.40			
Economic development	Assistance to entrepreneur, trainings, orientation and other activities to livelihood	40,000.00	4.76
	Road maintenance	80,000.00	9.52
	Installation, repair, improvement of purok building and others	145,000.00	17.25
Bahbah, Prosperidad BDF = P685,657.40			
Economic development	Construction of agri-booth	15,000.00	2.19
	Acquisition of solar dryer	35,000.00	5.10
	Improvement of ecotourism project	35,000.00	5.10
	Improvement of barangay office partition	30,000.00	4.38
	Purchase of lot (barangay site)	100,000.00	14.58
	Building construction	152,657.40	22.26

Source: Barangay Development Council Resolution on 20 percent Economic Development Fund, 2008.

The picture becomes even more problematic when these economic development allocations are disaggregated into PAPs, which raises questions on whether or not barangays really understand what economic development means and what development outcomes it should achieve. For some barangays allocate funds for PAPs that have nothing to do with economic development (Tables 3 and 4). Examples of these in some barangays in Agusan del Sur and Dumaguete City are: (a) electrical installation of the basketball court and barangay administration office improvement in Barangay Bucac, Bayugan; (b) construction of a new barangay hall, phase 1, and concrete fencing of the barangay site perimeter in Barangay Taglatawan, Bayugan; (c) installation, repair, improvement of purok building, and others in Barangay Poblacion, Bayugan; (d) improvement of the barangay office partition and building construction in Barangay Bahbah, Prosperidad; and (e) fabrication of concrete slabs in Daro, Dumaguete City.

Tables 3 and 4 also show that most of these economic cum infrastructure programs get the bigger chunks of allocation. The construction of

Table 4. Program allocation on economic development as percentage of BDF (in detail), Dumaguete City

Sector	Program	Pesos	% Total BDF
Tinago, Dumaguete City BDF = P277,000.00			
Batinguel, Dumaguete City BDF = P417,834.40			
Daro, Dumaguete City BDF = P887,397.60			
Economic development	Fabrication of concrete slabs	35,000.00	3.94
	Improvement and repair of kiln dryer	75,000.00	8.45
	Rehabilitation of multipurpose hall	257,397.60	29.01

Source: Barangay Development Council Resolution on 20 percent Economic Development Fund, 2008

a new barangay hall, phase 1, for example, gets as high as 47 percent of the BDF or PhP341,863 in absolute value while an economic-enhancing project such as the construction of an agribooth gets as low as only 2 percent of the BDF or PhP15,000.

Still, one should perhaps also consider the possible justifications of the barangays in lining up programs and projects for allocation under the economic development category. Because for some, they have hopes that said projects will lead to economic-enhancing activities. Among these are: (a) barangay beautification project, barangay road gravelling maintenance, and provincial gravelling (within the barangay premises) in Barangay Bucac; (b) repair, gravelling, and road maintenance in Barangay Taglatawan; (c) road maintenance in Barangay Poblacion; (d) purchase of lot (barangay site) in Barangay Bahbah; and (e) rehabilitation of the multipurpose hall in Barangay Daro. The economic rationale could be that (a) the beautification project could lead to ecotourism; (b) the repair, gravelling, and road maintenance could lead to better access to farm-to-market roads; (c) the purchase of a lot could serve as a location for small and medium enterprises (SMEs); and (d) multipurpose halls could generate rental income.

However, unless and until these are the economic justifications given by the barangays for their spending on these infrastructure projects, then such spending patterns simply become fiscally suspect. On the other hand, there are some PAPs that barangays in the study areas can continue to finance without inviting unnecessary and undue suspicion because their economic impacts are very clearly seen. These include: (a) assistance to entrepreneur, trainings, orientation, and other activities on livelihood in Barangay Poblacion; (b) construction of agri-booth, acquisition of solar dryer, improvement of ecotourism project in Bahbah, Prosperidad; and (c) improvement and repair of kiln dryer in Barangay Daro. In other words, barangays can spend on infrastructure-related projects under the economic development sector on the condition that these would yield economic dividends in both the short and long terms. At the same time, though, they must never sideline any spending on economic-enhancing activities that really create wealth and contribute to inclusive economic growth in their localities. And if there is a trade-off, barangays must see the wisdom of spending more on economic-enhancing activities.

What could be done?

In light of the foregoing, it becomes imperative to focus on barangay economic development. In order to ensure this, the following policy corrections and interventions need to be done.

Redefine economic development. The first policy intervention that needs to be done is for responsible government institutions to help barangays redefine economic development and the PAPs that must comprise it. Barangays, especially in the rural areas, need to understand that economic development is about increasing per capita output as well as eliminating human poverty, unemployment, inequality, and deprivation in order to raise the standard of living and contribute to national development. Defined and understood this way, barangays would then know the key role that economic development plays in the overall national development agenda and their crucial role in realizing it.

Barangays should be made to understand that economic development includes PAPs that can really create wealth, and promote entrepreneurship and sustainable development such as, among others, “food security program, poverty eradication, cooperatives development, livestock dispersal, fishery development, pre-investment studies for investment projects, and other economic development undertakings supportive of job generation and livelihood activities” (Ursal 2001).

Spend more on economic development than on other sectors. Based on the findings of the PIDS-UNICEF study and on the ensuing discussion paper on the barangay’s role in local service delivery, barangays have very limited funding because most of it is spent on personal services, with little money left for other devolved responsibilities. With no prospect of an increase in both external sources of revenues (since the national government has yet to craft effective policies to effect such an increase) and internal sources (considering that most barangays are resource-poor), barangays continue to suffer from financial difficulties. They make do with what little revenue they have for their expenditure assignments, spending a measly amount on different sectors just to make both ends meet.

A good policy intervention would be to help barangays make use of their limited funds on economic-enhancing PAPs that would guarantee long-term development gains. In the short run, say for a decade, a barangay may allocate most of its meager resources on economic development programs than on infrastructure programs that do not reap immediate economic yields. In the long run, when the barangay is already economically empowered and capable of spending on other responsibilities, it could revert back to allocating its resources on programs, including infrastructure and human development projects, that it deems would be economically beneficial.

Evaluate spending patterns on infrastructure development programs. Most barangay officials interviewed for the PIDS-UNICEF study lament the fact that the BDF is mostly about infrastructure projects. According to them, their compliance in spending more on infrastructure programs is based on a Joint Memorandum Circular being prescribed by the Department of Budget and Management (DBM) and the Department of the Interior and Local Government (DILG) which mandates them to spend their BDF mostly on infrastructure development. With the limited BDF funds being earmarked mostly for infrastructure programs, barangays are left with skimpy resources at their disposal for other development priorities. As a consequence, some of them resort to seeking assistance from their Sangguniang Kabataan (SK) to finance other development programs, which they justify as youth-related programs, through the SK Fund.

Compounding this problem is the barangay's penchant for spending on infrastructure projects regardless of their impact on allocative and operational efficiency and delivery of basic services. For almost 20 years of decentralization, barangays have been constructing, repairing, gravelling, and maintaining roads; building barangay halls and refurbishing them; and building basketball courts and maintaining them, among others. The rationale is that this infrastructure-based spending reaps political benefits for the incumbent barangay officials by making them more popular to their constituents who equate good performance with visible infrastructure projects. Thus, economic efficiency is sacrificed for political expediency.

The needed policy reforms should therefore include the evaluation of barangay spending patterns on infrastructure development and the shift of such allocations to economic development. This will address the problem, on the one hand, of interference in the autonomy of barangays in obligating them to spend most of their BDF on infrastructure development and the corollary problem, on the other hand, of the barangays' penchant for spending on the same. Meanwhile, augmenting allocations for entrepreneurship-based economic development programs will not be viewed by barangays as violating their fiscal autonomy but rather as enhancing it because of the short- and long-term economic benefits that would accrue to their populace. This will henceforth also result in a political advantage for them because once their constituents are economically empowered, then they would equate good performance with economic-enhancing spending and accomplishments.

The next steps

The key role of institutions. The institutions responsible for focusing on barangay economic governance are tasked to find strategic ways of balancing local fiscal autonomy and economic development priorities among barangays. More concretely, national government agencies (e.g., Department of Trade and Industry [DTI], Bangko Sentral ng Pilipinas [BSP], DBM, Department of Finance [DOF], Commission on Audit [COA], National Economic and Development Authority [NEDA], and DILG), all LGUs and their Leagues, civil society organizations, which include the academe, media, nongovernment organizations (NGOs) and people's organizations, private sector (e.g., Chambers of Commerce, Civic Clubs such as the Rotary Club, Lions Club, and Jaycees), and international organizations (e.g., World Bank, Asian Development Bank [ADB], and United Nations Development Programme [UNDP]) must work together in effectively crafting the policy interventions mentioned in this *Policy Note*. This will ensure the practice of economic efficiency with huge economic payoffs for the local populace and high political rate of returns for the local political officials and aspirants.

Harmonization and effective implementation of policies and laws related to barangay economic development. The national government and LGUs can make headway in focusing on barangay economic development by harmonizing the different implementation of the policies and laws aimed at spurring economic development in the rural areas, most especially barangays. Three major laws govern the economic development of barangays, namely: Republic Act (RA) 6977, or the Magna Carta for Small Enterprises, as amended by RA 8289, RA 9178, better known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002, and RA 9509 or Barangay Livelihood and Skills Training Act of 2008.

An impact assessment of the implementation of these laws would make the gaps in implementation more transparent and thereby make the process of policy corrections easier. As it stands, the fact that barangays are still spending on economic development programs that are not economic-enhancing endeavors is evidence enough that these laws are toothless when it comes to practice. Success stories and best practices as counter-evidence for the effective implementation of these laws prove to be more helpful and should therefore be replicated for multiplier effects. Otherwise, even good bills lodged in Congress such as the "Philippine Fund for Progress Act of 2007" (HB00380), "Senior Citizens Technology and Livelihood Centers Act" (HB00578), and "The Barangay Development Act of 2007" (HB01018) would suffer the same fate of not being able to impact on entrepreneurship-based financing at the barangay level. The crux of the matter is that effective implementation is much more difficult than the design of policies and programs.

Advocacy for an enabling economic-enhancing environment. It is high time that civil society organizations link up with government and nongovernment institutions in creating economic opportunities at the barangay level. Economic empowerment must be viewed as a stepping stone to political empowerment—the rationale for strong civil society participation in ensuring democratic governance. Lobbying for more barangay spending on economic development programs is a step in the right direction. Monitoring and evaluation of policies and programs on rural economic development for effective implementation and replication would be another. In the same vein, private sector has a bigger role to play in realizing the economic potential of barangays and their people by investing on entrepreneurship training and skills enhancement, market development, product development and technology intervention, network linkages, and access to capital.

Financing barangay economic development-related studies. International donor organizations can help a lot by funding studies on barangay economic development which could provide a good financing framework in establishing priorities for a country poverty reduction strategy/program. These organizations can partner with government think tanks like the PIDS in undertaking such studies.

Capacity development for entrepreneurship. The crucial institutional actors are the barangays themselves. Capacitating them for entrepreneurship-based economic development must therefore start with barangay officials having the political will, commitment, and economic sense in fulfilling the mandate of spending more on economic development as a good practice of fiscal discipline, in particular, and of economic governance, in general. The higher-level LGUs and national government can then strategically intervene through clear policy prescriptions and guidelines. Since the people are at the heart of development, their capacity development for entrepreneurial activities must be institutionalized in conjunction with those of their barangays.

For further information, please contact

The Research Information Staff
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, 1229 Makati City
Telephone Nos: (63-2) 894-2584 and 893-5705
Fax Nos: (63-2) 893-9589 and 816-1091
E-mail: rlavado@mail.pids.gov.ph; jliguton@mail.pids.gov.ph

The *Policy Notes* series is available online at http://www.pids.gov.ph. Reentered as second class mail at the Business Mail Service Office under Permit No. PS-570-04 NCR. Valid until December 31, 2009.

Concluding remarks

At the end of the day, meaningful and genuine local autonomy would mean the economic empowerment of the people as contributors to inclusive economic growth in their localities and catalysts of positive change in the country. It is hoped that economic empowerment would translate into political empowerment in order for Filipinos to be able to end their human poverty and address the root causes of the country's institutional problems. Thus, it is imperative for barangays to provide an enabling environment and facilitative conditions to realize such economic and political potential.

References

Layug, A., I. Pantig, L. Bolong, and R. Lavado. 2010 (forthcoming). Do barangays really matter in local services delivery? Some issues and policy options. PIDS Discussion Paper No. 2010-03. Makati City: Philippine Institute for Development Studies.

Philippine Institute for Development Studies (PIDS). 2009. Improving local service delivery for the MDGs in Asia: the case of the Philippines. PIDS Discussion Paper No. 2009-34. Makati City: PIDS-United Nations Children's Fund (UNICEF).

Ursal, S. 2001. *How to manage barangay finances*. Quezon City: Good Governance Books.