

Local Government Finance: It's Relationship to the Socio-Economic Development in the Municipalities of Northern Samar, Philippines

RICABETH ANABE-ADUCON

<https://orcid.org/0000-0002-6832-3426>

ricaaducon@gmail.com

University of Eastern Philippines Laoang Campus
Laoang Northern Samar

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ABSTRACT

Local government units are recognized as viable organs for the performance of local functions; they are challenged to use their limited resources for delivering better services. Hence, the grant of local fiscal autonomy is considered necessary for the effective local government system and to achieve the objective of alleviating the economic conditions of the locality and efficient delivery of essential services to the populace. This paper has examined the financial management skills of local chief executives and the local government finance regarding social services, economic services and socioeconomic development in the twenty-four municipalities of Northern Samar. It also looked into the significant relationship between the financial management skills and local government finance of the local chief executives. Questionnaire and interview guide were used, utilizing a descriptive correlation method of research. The analysis concludes that the local chief executives are much skilled in financial management, have a high level of performance in local government finance in terms of social and economic services

while an average level of performance in terms of socioeconomic development, it was also shown that the financial management skills of the local chief executive are related to local government finance.

Keywords — Local Government Finance, Financial Management Skills, Social Services, Descriptive Correlation Method, Philippines

INTRODUCTION

The way public finance is organized in a country depicts how local authorities run their activities. While the national government has the responsibility to design and supervise a system that works, the local government is challenged to deliver better local services. Thus, most of the countries, decentralized the functions of the national government through delegation to the local government of some of the administrative powers including fiscal autonomy, to ensure their development as self-reliant communities and an effective partner in the pursuit of national development. Walker and Andrews (2013) postulated that local governments play a critical role in delivering services to the public. However, Lessmann and Markwardt (2010) pointed out that the majority of theoretical and empirical studies on the relationship between decentralization and corruption argue that the devolution of power might be a feasible instrument for use in keeping corruption at bay. He claimed that this result crucially depends on the effectiveness of monitoring bureaucrats' behavior. Yushkov (2015) conducted an empirical analysis of Russian regions for 2005-2012 shows that excessive expenditure decentralization within the region, which is not accompanied by the respective level of revenue decentralization, is significantly and negatively related to regional economic growth. In contrast, regional dependence on intergovernmental fiscal transfers from the federal center is positively associated with economic growth.

Ghuman and Singh (2013) claimed that the impact of decentralization on public service delivery is mixed. In particular, decentralization has resulted in improvements in the delivery of local services where devolution as a mode of decentralization is accompanied by sound financial resource base of local governments, full autonomy to local governments in HRM matters, the regular capacity building of local officials, performance-based incentive structures and involvement of the community in decision making through public consultations. In contrast, the proliferation of corruption in the decentralized bodies has hindered the development of most of the local governments and the equitable distribution

of services. Yoshino and Morgan (2017) assumed that sustainable and inclusive growth in emerging economies like Asia requires continued high levels of public sector investment in infrastructure, education, health, and social services. As a response to these needs, fiscal decentralization has been implemented in many Asian economies.

In the Philippines, the 1987 Constitution recognized the value of the local government units as viable organs for the performance of local functions. Hence, the Local Government Code of 1991 (Republic Act 7160) was enacted; through this law, the Local Government Units (LGUs) were granted local fiscal autonomy, they are vested with the authority to create their source of revenue, levy taxes, fees to finance government activities for their localities, they are conferred with the autonomy on deciding the composition of local spending to achieve their development objectives. LGUs are encouraged to explore alternative sources of revenue by exercising their corporate powers through a partnership with private sectors. Despite the almost limitless possibilities for local development guaranteed by the Local Government Code, Northern Samar is among the provinces with the highest poverty incidence in the Philippines (PSA, Official Poverty Statistics, 2015).

Many LGUs cannot still lack the capability to generate or raise their income and revenue; hence, they are highly dependent on the Internal Revenue Allotment (IRA). Thus, these impede socioeconomic development which leads to the higher poverty incidence among local government units, particularly those in the rural areas like the municipalities in Northern Samar. Local Government Units face a range of challenges from spending limited resources on the expectation of better service delivery. Hence, the local populace demands competent and skilled local chief executive that is expected to possess the skills and competency needed to perform quality public service. With this observation, the researcher, aimed to look into the financial management skills and performance of the local chief executives in local government finance, with the hope that the outcome would provide a way in crafting a better strategy in the delivery of public services and improving the socioeconomic conditions of the people in Northern Samar and of the country as a whole.

FRAMEWORK

Fiscal autonomy is one of the key concepts in decentralization. It suggests that revenue and expenditure responsibilities are transferred from the national to the local government.

The study was anchored in Wagner's law of expanding state expenditures (1835-1917) he propounded an empirical law to analyze and explain the trends in the growth of public spending. According to Wagner's law, the expenditure of public authorities has a continuous increasing trend due to three reasons; they are an expansion of traditional functions, coverage of new functions and expanding the sphere of public goods. Almost all modern democratic governments have increasingly recognized the need to provide and expand the sphere of public goods. The modern state increasingly recognized the need and necessity to provide social and merit goods through budgetary allocation. The state was trying to shift the composition of national product more in favor of public goods. Wagner theorized a positive relationship between government spending and economic activity in the long run. Which implies that the government must expand its spending in connection with the increasing social progress and such expansion does not only indicate the quantitative expansion of publicly provided goods and services but also qualitatively increases as well.

The theoretical framework of this study was based on the principle that the role of the local government units is not only limited to the delivery of fundamental basic services, but more importantly, but to play a vital role in the economic development of the locality and the country, as a whole.

OBJECTIVES OF THE STUDY

The study determines the local government finance and socio-economic development in the municipalities of Northern Samar of local chief executives. Specifically, the study seeks to describe the (1) financial management skills of the local chief executives, (2) their performance in local government finance and (3) the significant relationship between their financial management skills and performance in local government finance.

METHODOLOGY

Research Design

The descriptive correlation research design was utilized in this study. The method was used to correlate the financial management skills and performance in local government finance of the local chief executives. The results and findings of this study were used as a point of reference in proposing a strategic design for strengthening local government capabilities to address the challenges of limited

government resources and promoting a range of social opportunities and overall living conditions of the people.

Research Site

This study was conducted in the twenty-four municipalities of the province of Northern Samar.

Participants

Two groups of respondents were involved in this study, the internal stakeholders which were identified through complete enumeration composed of the 24 municipal mayors, municipal accountants, municipal budget officers, the chairman of the budget and appropriation committee of the Sangguniang Bayan; and the external stakeholders which were identified through multi-stage sampling composed of barangay captains, barangay treasurers, elementary school principals and elementary school teachers. The number of barangays and elementary schools in the municipality were first identified and sampled. Thereafter, one barangay and elementary school were chosen at random. The barangay captain and barangay treasurer from the chosen barangay and the principal of the chosen elementary school were considered as respondents. Teachers from the elementary school chosen were also sampled and the selected teachers were considered as respondents.

Instrumentation

The researcher first sought the permission of the municipal mayors. Upon approval, questionnaires were handed to the identified respondents. The purpose of the study and how the instrument should be accomplished was explained to ensure reliability. The researcher further ensures the respondents that their response will be treated with utmost confidentiality; they were assured of their anonymity information will not be revealed nor be stated in this paper. Further, signed informed consent from the respondents was obtained by the researcher.

Questionnaires were retrieved after they were accomplished. The data obtained were tallied, tabulated, analyzed and interpreted using appropriate statistical tools. Weighted mean was used in analyzing the data on the financial management skills of local chief executives in terms of financial planning, fund sourcing, budgeting, control and utilization of funds and their performance in local government finance in terms of economic services, social services and socio-economic development; the relationship between the financial management

skills and performance in local government finance of the local chief executives were analyzed using multiple regression.

Validity and Reliability

The instrument used in this study was subjected to validation process by three (3) experts in the field of public administration. After that, preliminary testing was made in Calbayog City a local government unit not covered by the study, having the same characteristics as the target respondents of the study.

The analysis of the variables (financial management skills in terms of financial planning, fund sourcing, budgeting, control and utilization of funds and performance in terms of economic services, social services and socio-economic development) was conducted. The results of the reliability analysis are shown in table 1.

Table 1. Results of Reliability Test

Variables	Number of Items	Cronbach's Alpha
Financial Management Skills Financial Management Skills fund sourcing, budgeting, control and utilization of funds)	40	.815
Performance (in terms of economic services, social services and socio-economic development)	30	.863

Cronbach's alpha reliability coefficient for financial management, with forty (40) items is .815, while on performance with thirty (30) items is .863. According to Sekaran (2010) reliabilities less than 0.60 are considered to be poor, those in the 0.7 range are deemed acceptable, and those over 0.8 are considered good. The Cronbach's alpha of this study ranged from .815 to .863 which is above 0.60. Hence, all items of the measurement of this study can be considered as acceptable to provide consistent and reliable results.

RESULTS AND DISCUSSION

Financial management skills of local chief executives

Table 1 presents the financial management skills of the local executives regarding financial planning, fund sourcing, budgeting, control and utilization of funds. The two groups of respondents have a common assessment that the local chief executives are much skilled in financial management regarding planning, fund sourcing, budgeting, control and utilization of funds. This

suggests that the local chief executives in Northern Samar are competent in financial management. These findings support Salam (2018) who determined the best practices on financial management and found out that the financial management of the local community was managed as evidenced by the award of the seal of good housekeeping. But negates Waqas (2013) who pointed out that the poor performance of local government is due to lack of specialized education and training regarding local government system managing local government efficiently is essential for the improved performance of local government. Management of local government is of unique characteristics. It includes the use of existing resources efficiently and effectively in meeting legitimate demands for public services.

Table 2. Financial Management Skills of Local Chief Executives in Northern Samar

Financial Management Skills	Grand Mean	Interpretation
Financial management skills regarding financial planning	3.40	Much skilled
Financial management skills regarding of fund sourcing	3.56	Much skilled
Financial management skills in budgeting	3.99	Much skilled
Financial management skills regarding control and utilization of funds	3.87	Much skilled

Performance of local chief executives in local government finance

Table 2 presents the performance of local executives in local government finance regarding economic services, social services, and socio-economic development; the local chief executives performed high in local government finance regarding financial services and social services while they have an average level of performance regarding socio-economic development. Wang, Van Wart, and Lebreo (2014) contended sustainability in local context involves not only environmental practices such as energy conservation but also policy efforts to affect communities develop organizational capacity and encourage widespread adoption. It revealed that administrators have a significant role in sustainability leadership by involving his/her constituents and enhancing their capability. Active administrators help overcome dispersed public perspectives, organizational constraints, and technical challenges in local sustainability, which can result in the better organizational performance of sustainability

policies. Afonso and Fernandes (2008) assess the relative efficiency of local municipalities using Data Envelopment Analysis and parametric analysis. The results suggest that most municipalities could improve performance without necessarily increasing municipal spending. These findings disaffirm the results of the study of Bratton (2012) that focuses on political relationships between citizens and local government in sub-Saharan Africa, with particular attention to leadership responsiveness. Cross-national survey data provide essential insights into performance. Citizens regard local councils as weak institutions with limited functions (rarely performed well) and elected councilors as largely unresponsive.

Table 3. Performance of Local Chief Executives in Local Government Finance

Performance of local chief executives	Grand Mean	Interpretation
Economic service	3.53	High
Social services	3.68	High
Socio-economic development	3.36	Average

The relationship between the financial management skills and performance in local government finance of the local chief executives

Table 3 presents the relationship between the financial management skills and performance in local government finance of the local chief executives; the findings show that the performance in government finance of the local chief executives was dependent on their financial management skills. This suggests that the success in the delivery of local government services and socio-economic development of the local government units generally rely on the financial management ability of the local chief executives. This supports Walker, Damanpour, and Devece (2010) who underpinned that the impact of management innovation on performance is not direct; performance management mediates it. It also found out that performance management positively affects organizational performance.

Table 4. The Relationship between the Financial Management Skills and Performance in Local Government Finance of the Local Chief Executives

Variables	B	Std. Error	Beta	Sig.	Int.
Financial Planning	0.634	0.124	0.732	0.001	significant
Fund Sourcing	0.330	0.074	0.385	0.035	significant
Budgeting	0.723	0.204	0.689	0.004	significant
Control and Utilization of funds	1.093	0.132	0.787	0.020	significant

CONCLUSIONS

The respondents shared a collective observation that the local chief executives are proficient and adept in financial management which denotes that they are competent in affecting ways in which financial objectives can be achieved which means that they appropriate local funds by their legal mandates and ensure that funds are appropriately utilized for the public purpose.

The local chief executives are equipped with the knowledge and capabilities to boost the local government socially and economically, but their programs which are focused on socio-economic development are needs to be improved.

TRANSLATIONAL RESEARCH

The findings of this study could be translated into a strategic design for strengthening local government capabilities to address the challenges of limited government resources and promoting a range of social opportunities and overall living conditions of the people. The competence and skills of the local chief executives on financial management as well as on local government finance is an indispensable tool in socio-economic development.

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