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Do Barangays Really Matter in Local Services Delivery?: Some Issues and Policy Options

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ABSTRACT

This paper is borne out of the need to address the scarcity of evidence-based studies on barangay financing. It analyzes and evaluates key issues on financing of devolved functions at the barangay level, with particular focus on fund utilization and program allocation, and proposes some policy options addressing the issues. Its key findings show: (a) a mismatch between financial capabilities and devolved functions owing to limited funds being spent mostly on personal services, with little money left to finance these functions; (b) different priorities of barangays mean different utilization of their barangay development fund (BDF), with some of them failing to spend on important basic services such as education and health, as well as on economic development sector; (c) like other barangays, those in the study areas in Agusan del Sur and Dumaguete City are found to be highly dependent on internal revenue allotment (IRA), which comprises 85 to 97 percent of their total income; and (d) barangays are not addressing the misalignment of revenue and expenditure assignment, as well as the counter-equalizing and disincentive effects of IRA, by not raising enough own-source revenues in their localities and optimizing their use of corporate powers (as evidenced, for example, by zero borrowings).

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As a policy intervention to help barangays financially and eventually matter in local service delivery, this paper proposes three major options, namely: (a) giving the barangays the option of allowing the higher LGUs to deliver development-enhancing services such as education and health that they themselves cannot deliver effectively and sustainably; (b) pursuing a paradigm shift in understanding and practicing barangay economic development by spending their BDF mostly on economic-enhancing activities aimed at increasing their coffers, which would eventually enable them to fund other sectoral responsibilities; and (c) giving incentives to barangays that excel in their own-source revenue performance and creative use of corporate powers.

INTRODUCTION

How should barangays[2] deliver basic services in the most efficient, responsive, and sustainable manner if policy, institutional, and financial problems constrain their abilities and willingness to fulfil their role as frontline service providers? Can they really deliver basic services in the first place? Do barangays really matter in local service delivery (LSD)? These are some important questions that this paper will try to answer.

This paper, culled as a development topic from the recently concluded LSD study by the Philippine Institute for Development Studies (PIDS) and United Nations Children's Fund (UNICEF), is important for two reasons: (1) it contributes to the dearth of studies on barangays by providing evidence-based analysis of their financial performance and problems vis-a-vis LSD; and (2) it offers policy proposals intended to help higher-level LGUs provide services barangays are incapable of delivering given their limited capabilities and limited resources; reconceptualizes economic development based on an inclusive and entrepreneurship-based model requiring rational spending for high-impact development; and proposes the use of performance and poverty indicators to grant incentives to barangays and address inequity in barangay IRA allocation.

Background

In late 2008 to early 2009, PIDS and UNICEF conducted a study on the delivery of basic services from the provincial down to the barangay level. The province of Agusan del Sur and the city of Dumaguete were selected for this study.

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[2] 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).

The study covered two phases: household surveys on service utilization and interviews with key providers of basic local services such as maternal and child health, primary and secondary education, and potable water. Data gathering included interviews with local officials, local finance committees (LFCs), and regional directors of the Department of Interior and Local Government (DILG), as well as collection of relevant documents such as financial reports, resolutions and ordinances, among others.

The barangays in the study areas included Barangay Afga in Sibagat, Barangay Poblacion (Bahbah) in Prosperidad, and Barangays Bucac, Taglatawan and Poblacion[2] in Bayugan City, all in the province of Agusan del Sur; and Barangays Tinago (Poblacion 1), Batinguel, Buñao and Daro, all in Dumaguete City. Most of these barangays in the study areas are urban, except for Barangay Bucac in Bayugan, and Barangay Afga in Sibagat, both in Agusan del Sur.

For Agusan del Sur barangays, population varies from 3,010 in rural Bucac in Bayugan to 16,913 in urban Poblacion (Bahbah) in Prosperidad. Major sources of livelihood for these barangays are farming, business, and employment. Since data on poverty incidence at the barangay level was not available, the type of shelter occupied by respondents was used as a proxy method of determining household wealth status. The majority of the households live in semi permanent and temporary shelters, made of wood and galvanized iron sheets, bamboo, sawali[3], and nipa/cogon, implying that residents of these barangays are near or below the poverty line (Appendix 1).

As for the urban Dumaguete City, population ranges from 2,569 in Tinago to 7,664 in Batinguel in 2007. In a socioeconomic survey conducted by the City Planning and Development Office in 2002–2003, results show that almost half of the population aged 15 and up are employed. Among the employed sector, the majority are self-employed. The average monthly income for the households in the study areas is at PHP 8,400, which mainly comprises wages and salaries, as well as profit from businesses. A portion of the household income also comes from pensions and other forms of monetary support.

Barangay's LSD-related devolved functions

Under Section 17 of the Local Government Code (LGC) of 1991, or Republic Act (RA) 7160, each barangay is mandated to provide the following services and facilities:

[2] Barangays Taglatawan and Poblacion in Bayugan were enumeration areas for the LSD survey. However, the team was not able to conduct interviews with their LFCs. But sufficient documents were made available to the team, thus facilitating financial analysis of these barangays.

[3] Sawali is interwoven bamboo strips usually used in rural Philippines to construct walls and other structures.

- Agricultural support services, which include planting material distribution system, and operation of farm produce collection and buying stations;
- Health and social welfare services, which include maintenance of barangay health centers and day care centers;
- Services and facilities for general hygiene and sanitation, beautification, and solid waste collection;
- Maintenance of katarungang pambarangay or barangay justice system;
- Maintenance of barangay roads and bridges and water supply systems;
- Infrastructure facilities such as multipurpose halls, multipurpose pavement, plaza, sports center, and other similar facilities;
- Information and reading center; and
- Satellite or public market, where viable.

How barangays are able to fulfil these devolved functions at least for those poorest of the poor barangays that are usually located in rural areas demands closer scrutiny. How they finance them despite limited, nay nil, funds, invites critical analysis and policy interventions.

The following sections tackle issues on barangay finances extracted from the LSD study, with particular focus on fund utilization and program allocation, and some policy options addressing the issues. Despite the limited sample of barangays studied in this paper, it is hoped that it could provide a snapshot of the financing patterns, issues, and challenges confronting barangays.

Finance follows functions

Each barangay receives an IRA as a share in the proceeds from national internal revenue taxes in the fulfilment of its functions.[4] Barangay share in IRA is determined as follows: First, the total IRA for LGUs at year *t* is 40 percent of the total national internal revenue collections at year *t*-3. For instance, an IRA amounting to PHP 210,730 million in 2008 was 40 percent of the total collections in 2005 (Table 1). Second, after this share is determined, the IRA shall be divided among various political units, such that 23 percent goes to provinces, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays. Third, the allotment of each province, city, and municipality shall be based on the following criteria: population (50%), land area (25%), and equal sharing (25%). Fourth, the 20 percent allocated to barangays shall be distributed accordingly: (a) barangays with a population of less than 100 inhabitants shall be given a guaranteed IRA share of not less than PHP 80,000 each per annum; and (b) after subtracting the

[4] National internal revenue taxes include income tax, estate tax and donor's tax, value-added tax, other percentage taxes, and taxes imposed by special laws such as travel tax.

Table 1. IRA share in million pesos (nominal)

	IRA in million pesos (total)	Province (23%)	City (23%)	Municipality (34%)	Barangay (20%)	Barangay 1985=100
1992	18,078	4,157	4,157	6,146	3,615	1,923
1993	37,072	8,526	8,526	12,604	7,414	3,691
1994	46,753	10,753	10,753	15,896	9,350	4,232
1995	51,925	11,942	11,942	17,654	10,385	4,371
1996	56,594	13,016	13,016	19,241	11,318	4,425
1997	57,094	13,131	13,131	19,411	11,418	4,202
1998	80,990	18,627	18,627	27,536	16,198	5,397
1999	96,780	22,259	22,259	32,905	19,356	5,969
2000	111,778	25,708	25,708	38,004	22,355	6,483
2001	111,778	25,708	25,708	38,004	22,355	6,094
2002	134,442	30,921	30,921	45,710	26,888	7,014
2003	141,000	32,430	32,430	47,940	28,200	7,089
2004	141,000	32,430	32,430	47,940	28,200	6,681
2005	151,623	34,873	34,873	51,551	30,324	6,748
2006	151,623	34,873	34,873	51,551	30,324	6,418
2007	183,937	42,305	42,305	62,538	36,787	7,573
2008	210,730	48,467	48,467	71,648	42,146	8,050

SOURCE: IRA – General Appropriations Act, DBM

Number of Barangays – Field Health Service Information System (FHSIS) demographic data, Department of Health (DOH)

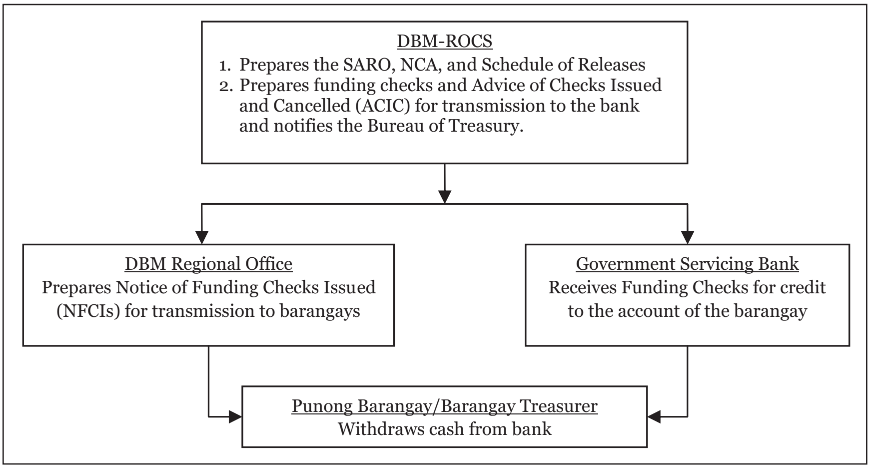
NOTE: For years 1992–1996, the IRA was divided by the number of barangays in 1997 due to unavailability of data. FHSIS started reporting the number of barangays in 1997 only. For 2008, IRA was divided by the number of barangays in 2007.

IRA for barangays with less than 100 inhabitants, the remaining amount shall be distributed to other barangays using a formula where population accounts for 60 percent and equal sharing accounts for 40 percent. Fifth, barangays created after the implementation of 1991 LGC shall derive their incomes from their parent LGUs, not from the IRA. However, parent LGUs take into consideration the economic and financial viability of the barangay to be created so they will not be financially burdened as they assume the financial needs of a newly created barangay (Sections 285 and 295, 1991 LGC; Ursal 2001). Figure 1 illustrates how IRA is released to the barangays.

Table 1 shows that on the aggregate, substantial amounts of IRA were allocated to all barangays, that is, from PHP 3.6 billion in 1992 to PHP 42 billion in 2008. In real terms, the IRA allocated to barangays has increased by 319 percent in 17 years.

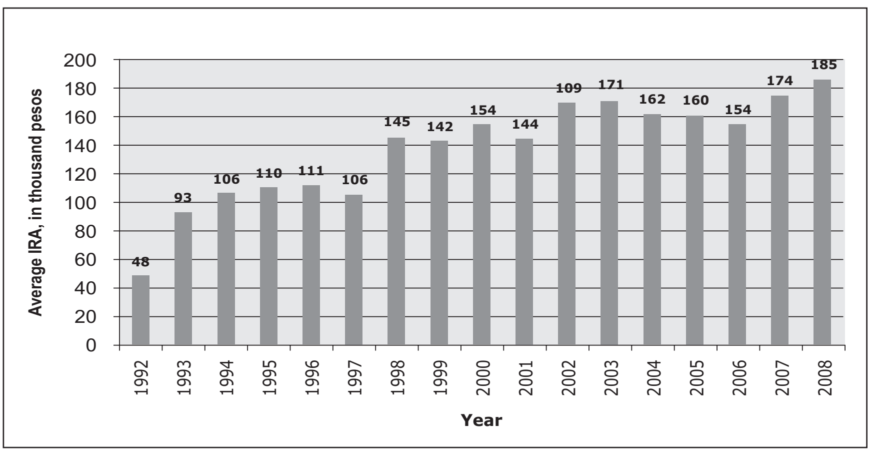
On average, each barangay received PHP 48,000 in 1992 and PHP 185,000 in 2008. Figure 2 shows that there had been three major increases in IRA shares in 1998, 2002, and 2007.

Figure 1. Process flow: release of IRA



DBM-ROCS: Department of Budget and Management-Regional Operations and Coordination Service
SARO: Special Allotment Release Order
NCA: Notice of Cash Allocation
Source: Primer on Barangay Budgeting, DBM.

Figure 2. Average IRA per barangay, 1985 prices



Source: IRA – General Appropriations Act, DBM
Number of Barangays –FHSIS demographic data, DOH
Note: For years 1992–1996, IRA was divided by the number of barangays in 1997 due to the unavailability of data. FHSIS started reporting the number of barangays in 1997 only. For 2008, the IRA was divided by the number of barangays in 2007.

Aside from the IRA, the barangay's income is augmented by own-source revenues (OSR) such as operating and miscellaneous income, capital revenues, grants, extraordinary receipts, and borrowings. Tables 2 and 3 show

Table 2. 2006 revenues, case study areas, Agusan del Sur

	Bucac, Bayugan	Taglatawan, Bayugan	Poblacion, Bayugan	Bahbah, Prosperidad	Afga, Sibagat
Income	1,116,899	3,808,431	4,608,176	3,207,456	1,275,638
IRA	1,063,430	3,411,463	4,162,539	2,822,676	1,232,643
Own Source Revenue	53,469	396,967	445,636	384,780	32,994
✦ Tax Revenue	41,523	320,695	371,996.	316,180	10,000
✦ Operating and Miscellaneous Revenue	11,946	76,271	73,640	68,600	22,994
✦ Capital Revenue	0	0	0	0	0
✦ Grants	0	0	0	0	0
✦ Extraordinary Receipts	0	0	0	0	0 0
IRA dependency	95.21%	89.58%	90.33%	88.00%	96.63%
Percent of OSR	4.79%	10.42%	9.67%	12.00%	2.59%

Source: Statement of Income and Expenditures (SIE), Barangay Case Study Areas

Table 3. 2006 revenues, case study areas, Dumaguete City

	Tinago, Dumaguete City	Batinguel, Dumaguete City	Buñao, Dumaguete City	Daro, Dumaguete City
Income	1,077,663	2,069,837	969,809	2,257,309
IRA	923,651	1,870,796	876,959	1,921,548
OSR	154,012	199,041	92,850	335,761
✦ Tax Revenue	114,986	162,861	55,150	264,638
✦ Operating and Miscellaneous Revenue	14,026	11,180	12,700	46,123
✦ Capital Rev-enue	0	0	0	0
✦ Grants	25,000	25,000	25,000	25,000
✦ Extraordinary Receipts	0	0	0	0
IRA dependency	85.71%	90.38%	90.43%	85.13%
Percent of OSR	14.29%	9.62%	9.57%	14.87%

Source: SIE, Dumaguete City Barangay Affairs Office

the other sources of income in the two study areas. As the tables show, the barangays surveyed are highly IRA-dependent, with the allotment comprising 85 to 97 percent of their total incomes. Even barangays in a relatively urban area such as Dumaguete City showed IRA dependency ratios of 88 percent on average. In contrast, the OSR ranges from 3 to 15 percent of the total income.

Link between barangay planning and budgeting

In the same way that the budget of other levels of local government is formulated, the barangay budget cycle starts with the preparation of the barangay development plan (BDP).[5] This is in accordance with the budgeting principle that "local government budgets shall operationalize the approved local development plans," as mandated under Sec. 305 of the 1991 LGC. This BDP contains the priority areas of services and the targets and accomplishments. The budget then provides the available resources needed to finance the programs, activities, and projects (PAPs) required to achieve the targets. The Barangay Development Council, headed by the *punong barangay,* or barangay chairperson, and composed of *Sanggunian* members, representatives of nongovernment organizations operating in the barangay, and a representative of the congressman, prepares and approves the BDP.

The barangay carries out the BDP through the annual investment plan (AIP). As a component of the medium-term BDP, the AIP serves as the basis for preparing the annual barangay budget. "It contains the specific programs, projects, and activities with corresponding project costs, including the necessary fund flows to approximate the reasonable timing in the release of funds" (Ursal 2001).

The barangay budget is prepared by the barangay chair, with the assistance of the barangay treasurer. It consists of estimates of income and total appropriations covering current operating expenditures and capital outlays (CO), to be determined based on the barangay's SIE. Also, it is subject to the General Limitations in the use of local funds, as provided for in Section 325 of the 1991 LGC. Further, it is subject to mandatory obligations, as provided for in the 1991 LGC, namely:

- Appropriations for development projects of not less than 20 percent of the total IRA of the barangay for the budget year (Development Fund);
- Appropriations for Sangguniang Kabataan (SK) or youth council programs, projects, and activities equivalent to 10 percent of the general fund of the barangay for the budget year (SK Fund);
- Appropriations for unforeseen expenditures arising from the occurrence of calamities at 5 percent of regular income for the budget year (Calamity Fund); and
- Provision for the delivery of basic services pursuant to Section 17 of RA No 7160 and effective local governance (Ursal 2001).

[5] There are two types of barangay budget, i.e. annual budget and supplemental budget. The former is a "financial plan embodying the estimates of income certified as reasonably collectible by the city/municipal treasurer, and appropriations covering the proposed expenditures for the ensuing fiscal year." The latter is a "supplementary financial plan embodying changes during the year in the estimates of income and/or appropriations, as reflected in the approved Annual Budget" (Ursal 2001).

The barangay budget is authorized by the *Sangguniang Barangay* (SB) or barangay council, which serves as the barangay legislative body, by passing the barangay budget through the enactment of an appropriation ordinance, the legislative instrument authorizing the annual, and the supplemental budget.

Within 10 days after the enactment of the appropriation ordinance, the barangay budget is submitted for review to the legislative bodies of the higher LGUs (*Sangguniang Panlunsod* for the city and *Sangguniang Bayan* for the municipality), through the City/Municipal Budget Officer. The budget should be reviewed within 60 days upon receipt, otherwise it becomes in full force and effect. The budget review ensures that: "(a) budgetary requirements and limitations provided in the Local Government Code are complied with; (b) the budget does not exceed the estimated receipts and/or income of the barangay; and (c) the items of appropriations are not more than those provided by existing laws" (Ursal 2001).

The *punong barangay* is responsible for the execution of the barangay budget. The budget execution is done by disbursing funds and implementing PAPs as appropriated in the budget and in accordance with the following procedures: (a) preparation of a simple cash program for the quarter; (b) disbursement of funds per cash program; (c) preparation of requests for obligation of allotment (ROA); (d) preparation of disbursement voucher based on approved ROA; and (e) issuance of checks.

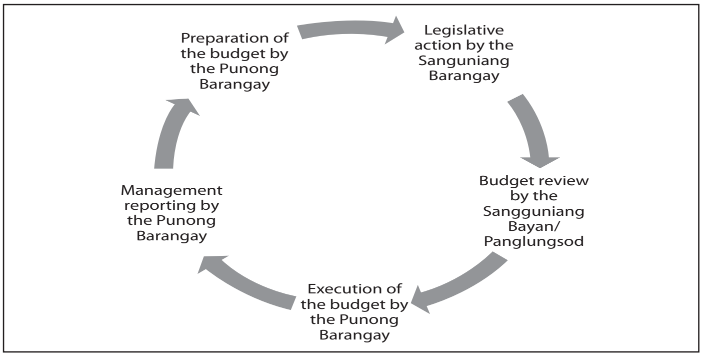
The *punong barangay,* chairperson of the Committee on Appropriations of SB, barangay treasurer, and the city/municipal treasurer/accountant are responsible for reporting the budget performance of the barangay, as mandatory requirement of budget accountability, the last stage of the budget process. The barangay needs to prepare a quarterly report of actual income (Barangay Budget Accountability [BBA] Form No. 300) and a quarterly financial report of operations (BBA Form 301) as accountability reports. In more specific terms, the barangay officials should report to the general public on "income actually realized for the quarter, expenditures actually spent for the quarter, and accomplishments for the quarter." Figures 3 and 4 summarize the budget cycle and the budget process, respectively.

There are cases, however, where the prescribed procedures are not followed to the letter. Interviews with the local finance committees[6] of the selected barangays of Agusan del Sur and Dumaguete City yielded some deviations from the recommended budgeting and planning procedures.

First, only one barangay (i.e., Barangay Bucac of Bayugan City in Agusan del Sur) specifically mentioned BDP as the starting point of their budgeting, as shown in Figure 5. The budgeting procedure that Barangay Bucac follows,

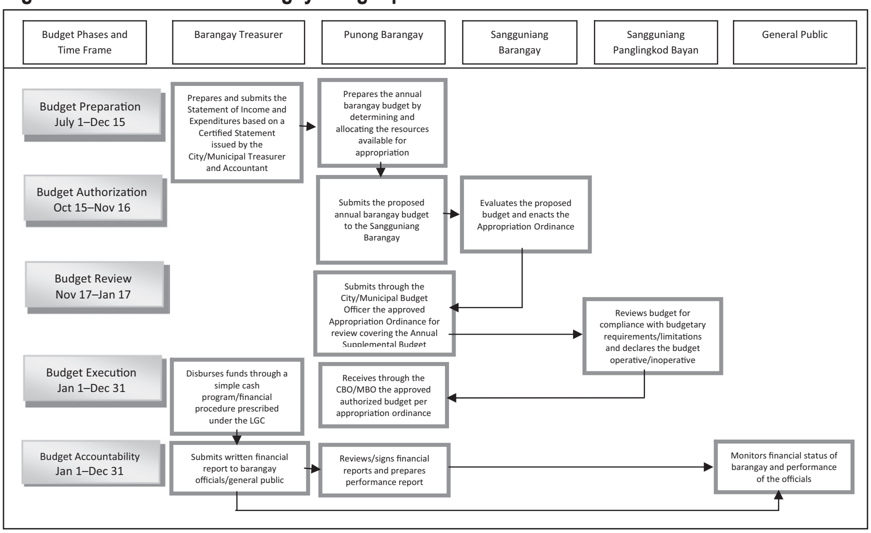
[6] A barangay local finance committee is usually composed of the *punong barangay,* treasurer, secretary, and some members of the *Sangguniang Barangay*.

Figure 3. The budget cycle



Source: Primer on barangay budgeting, DBM.

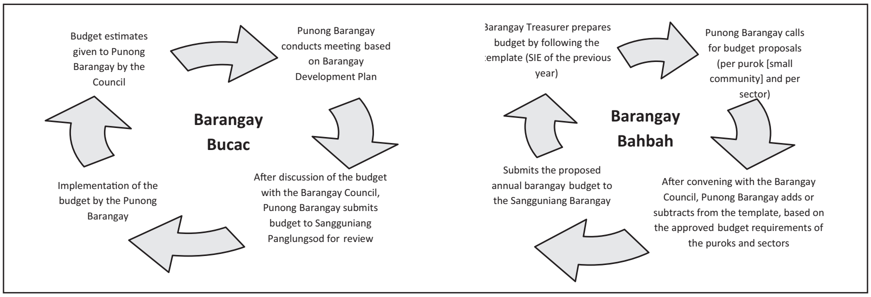
Figure 4. Flow chart of barangay budget process



Source: Primer on barangay budgeting, DBM.

based on what was described by its local finance committee, is the closest to the budget cycle diagram in Figure 3. Also, according to its finance committee, they try as much as possible to use the BDPs as the blueprint in formulating the AIP to ensure that their present PAPs are still in line with the barangay's medium-term plan. Other barangays interviewed begin their budgeting and planning by following what they call the "template," which is actually their SIEs. For example, respondents from Barangay Bahbah of Prosperidad, Agusan del Sur, said they prepare their budget by adding or subtracting from the template (i.e., their SIE of the previous year), depending on their projected fixed expenditure

Figure 5. The budget processes of Barangay Bucac and Barangay Bahbah[7]



and other allocations in meeting the current needs of the barangay (Figure 5). With this practice, most barangays tend to overlook, if not deliberately disregard, what they plan to carry out in their BDPs.

Second, the "bottom-up approach" in barangay budgeting is encouraged where the BDPs are prepared and submitted before the preparation of the City/ Municipal Development Plan to ensure that priority projects of the barangay are integrated into the said development plan of the city or municipality.

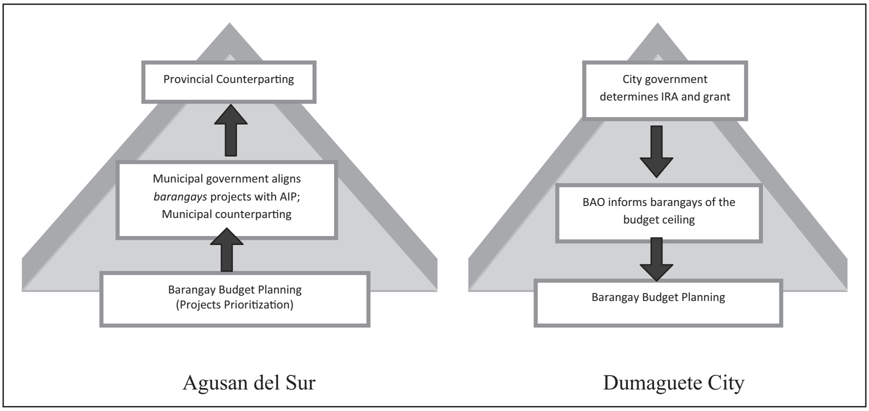
This approach was observed in Agusan del Sur, as illustrated in Figure 6. The barangays deliberate on the projects/programs to be included in their AIPs and then transmit their budget proposals to their municipal government. The municipal government in turn reviews the proposals and then aligns them with the municipality AIP, together with counterparting of funds on approved projects. In cases of big projects, the municipal government forwards the proposals to the provincial government for additional counterpart funds.

Dumaguete City's practice runs counter to Agusan del Sur's. The barangays in this study area first wait for the confirmation of the IRA that they will receive before they prepare their budgets. Upon receipt of the confirmation of their IRA share from the Barangay Affairs Office (BAO),[8] the barangays prepare their budgets based on their IRA share and other funds in accordance with the budget ceiling. From the amount specified by the BAO, plus the barangay grant given by the City Development Office[9], the barangays conduct regular barangay sessions to plan how they will use the budget as predetermined by the city government.

In a nutshell, the main difference between the budget processes being practiced by the barangays in the two study areas lies on how the barangay funds are allocated by the Municipal/City Development Councils of Agusan del Sur

[7] The budget process diagrams were documented verbatim during the interviews.
[8] The Barangay Affairs Office (BAO) is mainly tasked to provide bookkeeping services to all the barangays of Dumaguete City. It also assists in the accomplishment of the barangay's financial reports and records all of its financial transactions (e.g., purchase orders) made by the barangays.
[9] During the interviews, the city finance committee said that all barangays received an equal amount of PHP 25,000. See also Table 3.

Figure 6. Bottom-up versus top-down approach to local development planning



and Dumaguete City. Agusan del Sur follows the counterparting scheme, where the municipal government reviews and determines which barangay PAPs can be included in their local development plan and then determines how much can be allocated as counterpart funds to the chosen barangay PAPs. In contrast, in Dumaguete City, the funds for barangays are first divided equally and then the barangays decide on what PAPs they can undertake based on the allocated amounts.

Third, the interviews yielded other significant observations. There is the adoption of incremental budgeting by all barangays, where they increase line items by 5–10 percent. The remainder, if any, is apportioned to sectoral expenditures such as day care center operations and medicines for the barangay health station (BHS). Funds are normally enough only for payments of honoraria to barangay officials, *barangay tanod* (watchmen), and to some extent, barangay healthworkers (BHW). Their maintenance and other operating expenses (MOOE) are mostly spent for office supplies, official travels, and utility costs incurred by the barangay office, multipurpose center, and health station. Also, many barangays were still confused with the New Government Accounting System rules implemented in early 2009. Most of them believed that the BDF could only be spent for infrastructure projects so that basic services such as those involving health, education, and agriculture were normally not allocated funds in the BDF. Still, the barangay heads lamented that the BDF was sorely limited for an infrastructure project, prompting them to use it for what they believe to be its intended purpose only upon securing counterpart funds from their congressional representatives or higher-level LGUs. They said there were also many instances when they realigned SK funds for other purposes.

KEY ISSUES ON BARANGAY FUNDS

Following are the key issues on financing the devolved functions of barangays.

Issue one: Mismatch between desired and observed functions

There is a mismatch between barangays' observed functions and the devolved functions mandated by the 1991 LGC. This is evidenced by the financial handicap experienced by barangays in terms of expenditure assignments, where most of their money is spent on personal services (PS), leaving little for the MOOE (such as travelling expenses, supplies and materials, water and other utilities, etc.) and the CO. In both study areas, there were barangays that did not spend or had nothing to spend on the CO. Tables 4 and 5 show expenditure assignments of the two study areas.

With the bulk of the barangay income being spent on the PS (except for Barangay Bahbah and Barangay Tinago, which spent more on MOOE than PS in 2006), little money is left for fulfilling the devolved functions of barangays, with most of them failing to finance these functions. Tables 6 and 7 show the mismatch between the financial capabilities (not to mention the institutional and governance capabilities) and devolved functions of the barangays in the study areas.

To further analyze how barangays spend their limited funds, barangay expenditures, minus their stipulated appropriations, were disaggregated according to functions, as stipulated in the 1991 LGC. In all study areas, no amount was spent on agricultural activities, public market, and information and reading centers. Expenditures on health and social welfare comprised mainly of payments for the BHS utilities, while counterpart funds (in Agusan del Sur) went to BHW and teachers' honoraria, medicines, and day care center supplies. One case study area, Barangay Tinago, only had expenditures for two LSD sectors: hygiene and sanitation and infrastructure facilities.

Issue two: Use of the 20 percent barangay development fund (BDF)

Another issue has to do with the use of the 20 percent BDF.[10] How exactly do barangays spend the fund? But the bigger question still is, how do they prioritize the use of the 20 percent BDF from their IRA, as mandated in Section 287 of the 1991 LGC? Tables 6 and 7 show that LSD sectors where the BDF was spent mostly involved roads, bridges, and infrastructure maintenance. What is worrisome is the fact that some barangays such as Barangay Poblacion and Barangay Tinago, did not spend at all on basic services, like health and/

[10] Due to space constraints, the misuse/use of the 10 percent *Sangguniang Kabataan* Fund and the 5 percent Calamity Funds are not tackled here. Spending patterns for these funds are nonetheless worth investigating.

Table 4. 2006 Expenditure by economic class, Agusan del Sur

	Bucac, Bayugan	Taglatawan, Bayugan	Poblacion, Bayugan	Bahbah, Prosperidad	Afga, Sibagat
in pesos					
PS	512,220	1,508,245	1,518,892	1,517,500	642,908
MOOE	153,525	832,387	981,200	1,825,299	183,348
Non-office	385,431	478,474	1,171,818	no data	380,928
CO	11,964	449,988	3,851	0	0
in percent					
PS	48.18%	46.14%	41.32%	45.40%	36.29%
MOOE	14.44%	25.46%	26.69%	54.60%	10.35%
Non-office	36.25%	14.64%	31.88%	no data	21.50%
CO	1.13%	13.76%	0.10%	0.00%	0.00%
per capita					
PS	170	123	89	129	203
MOOE	51	67	58	156	58
Non-office	128	39	69	no data	120
CO	3	36	0	0	0

Source: SIE, barangay case study areas

Notes: Non-office includes 20 percent BDF, 10 percent SK Fund, and 5 percent Calamity Fund. Aside from the standard expense items such as utilities, the MOOE also includes, aid to Lupon, aid to BHW, aid to barangay nutrition scholar, aid to general revision, aid to market collection, and support to DILG.

Table 5. 2006 Expenditure by economic class, Dumaguete City

	Tinago, Dumaguete City	Batinguel, Dumaguete City	Buñao, Dumaguete City	Daro, Dumaguete City
in pesos				
PS	316,065	1,288,232	1,280,742	1,511,868
MOOE	456,797	1,019,938	436,221	987,311
Non-office	331,980	651,780	316,217	689,811
CO	0	0	0	0
in percent				
PS	28.61%	43.52%	62.99%	47.41%
MOOE	41.35%	34.46%	21.46%	30.96%
Non-Office	30.05%	22.02%	15.55%	21.63%
CO	0.00%	0.00%	0.00%	0.00%
per capita				
PS	123	168	465	224
MOOE	177	133	158	146
Non-Office	129	85	114	102
CO	0	0	0	0

Source: SIE, barangay case study areas

Notes: Non-office include 20 percent BDF, 10 percent SK Fund, 5 percent Calamity Fund and 2 percent IRA aid to bookkeeper of the Barangay Affairs Office. Aside from the usual MOOE such as utilities, among others, this figure includes aid to Lupon, aid to BHW, aid to barangay nutrition scholar, aid to general revision, aid to market collection, and support to DILG.

Table 6. Sectoral allocation, Agusan del Sur

LSD Sector	Amount Spent On				Source of Funds (%)	
(Sec. 17, LGC)	Total	Operating Expenses	Maintenance and Rehabilitation	Capital Outlay	MOOE	BDF
Brgy. Bucac, Bayugan City (2008)						
Agriculture	–	–	–	–	–	–
Health and social welfare	148,052	62,000	46,052	40,000	28	72
General hygiene and sanitation	20,000	20,000	–	–	–	–
Katarunangang Pambarangay	–	–	–	–	–	–
Roads and bridges maintenance	43,000	–	33,000	10,000	–	100
Infrastructure facilities maintenance	54,030	–	54,030	–	–	100
Information and reading center	–	–	–	–	–	–
Public market	–	–	–	–	–	–
Brgy. Taglatawan, Bayugan						
Agriculture	–	–	–	–	–	–
Health and social welfare	230,800	25,000	205,800	–	96	4
General hygiene and sanitation	150,000	150,000	–	–	–	100
Katarunangang Pambarangay	108,000	–	108,000	–	100	–
Roads and bridges maintenance	42,000	–	42,000	–	–	100
Infrastructure facilities maintenance	551,864	–	40,000	511,864	4	96
Information and reading center	–	–	–	–	–	–
Public market	–	–	–	–	–	–
Brgy. Poblacion, Bayugan						
Agriculture	–	–	–	–	–	–
Health and social welfare	310,000	230,000	–	80,000	61	39
General hygiene and sanitation	361,090	135,490	105,600	120,000	29	71
Katarunangang Pambarangay	114,000	–	114,000	–	100	–
Roads and bridges maintenance	140,000	–	140,000	–	–	100
Infrastructure facilities maintenance	225,000	–	225,000	–	–	100
Information and reading center	–	–	–	–	–	–
Public market	–	–	–	–	–	–

or education. There was limited, if not outright lack, of spending on economic development programs that have high economic rate of returns.[11]

The expenditure assignments for Barangay Bucac and Barangay Tinago are presented in Tables 8 and 9 to illustrate BDF expenditures among barangays. With a BDF allocation of PHP 263,082, the former was able to appropriate funds for almost all sectors except for environment/sanitation (Table 8). In contrast, with a total BDF outlay of PHP 277,000 the latter was able to spend on public safety and environment/sanitation, particularly on construction and repair of drainage canal, without spending on other sectors, especially on basic services (Table 9).

[11] For a discussion on the problematic barangay spending on economic development sector, see Lavado, et al. (2009).

Table 7. Sectoral Allocation, Dumaguete City

LSD Sector (Sec. 17, LGC)	Amount Spent On: Total	Operating Expenses	Maintenance and Rehabilitation	Capital Outlay	Source of Funds (%): MOOE	BDF
Brgy. Tinago, Dumaguete City						
Agriculture	–	–	–	–	–	–
Health and social welfare	–	–	–	–	–	–
General hygiene and sanitation	260,000	–	170,000	90,000	–	100
Katarunangang Pambarangay	–	–	–	–	–	–
Roads and bridges maintenance	–	–	–	–	–	–
Infrastructure facilities maintenance	17,000	–	–	17,000	–	100
Information and reading center	–	–	–	–	–	–
Public market	–	–	–	–	–	–
Brgy. Batinguel, Dumaguete City						
Agriculture	–	–	–	–	–	–
Health and social welfare	115,000	50,000	65,000	–	43	57
General hygiene and sanitation	125,000	–	–	125,000	–	100
Katarunangang Pambarangay	–	–	–	–	–	–
Roads and bridges maintenance	50,000	–	50,000	–	–	–
Infrastructure facilities maintenance	177,834	–	177,834	–	–	100
Information and reading center	–	–	–	–	–	–
Public market	–	–	–	–	–	–

Table 8. Distribution of the 20 percent BDF, by expenditure item, Barangay Bucac

Sector	Barangay Bucac, Bayugan = PHP 263,082: Program	Amount	percent total BDF
Health	Purchase of medicines	20,000	7.60
	Barangay health center improvement	11,000	4.18
Education	P2, P3, P6 day care improvement	35,052	13.32
	Flooring of Bucac Elem. School stage	40,000	15.20
Water	Water system	23,000	8.74
Public safety	Barangay street lighting project/maintenance	30,000	11.40
Economic development	Barangay beautification project	20,000	7.60
	Barangay road gravelling maintenance	10,000	3.80
	Electrical installation of basketball court	4,030	1.53
	Barangay Administration Office improvement	20,000	7.60
	Provincial gravelling (in Brgy. Bucac)	10,000	3.80
Environment/sanitation	–	–	–
Others	Aid to purok or sitios	40,000	15.20

Table 9. Distribution of the 20 percent BDF, by expenditure item, Barangay Tinago

	Barangay Tinago, Dumaguete City = PHP 277,000		
Sector	**Program**	**Amount**	**percent total BDF**
Health	–	–	–
Education	–	–	–
Water	–	–	–
Public safety	Installation of interior lighting	17,000	6.14
Economic development	–	–	–
Environment/sanitation	Construction of drainage canal	90,000	32.49
	Improvement and repair of interior canal	170,000	61.37
Others	–	–	–

The manner by which barangays spend their 20 percent BDF has a human development impact, especially when basic services are not delivered. Although the mode of spending is based on the barangay's local autonomy as a political unit, as guaranteed in the constitution and the 1991 LGC, it is still worthwhile to analyze their spending patterns and recommend spending on basic services.

Issue three: Limited revenue generation capacity

Compounding the financial handicap of barangays to deliver goods and services for improved LSD is the limited, if not total lack of, capacity to raise their OSR. There are a number of underlying reasons for this, three of which are paramount: (1) lack of entrepreneurial activities resulting in limited, if not lack of, levying of taxes, fees, and charges, especially for resource-poor barangays; (2) limited power of taxation,[12] and (3) lack of political will among barangay officials to innovate alternative modalities of revenue generation or optimal use of corporate powers. Tables 10 and 11 provide evidence of the small percentage that OSR contributes to barangay incomes and their IRA dependency, ranging from 3 percent in Barangay Afga to 17 percent in Barangay Daro. Moreover, the absence of borrowing by all barangays in the study areas attests to the fact that they are not utilizing their corporate powers to create indebtedness and access necessary credit facilities, among others.

[12] According to Senator Aquilino Pimentel (2007), the principal author of the LGC, during the public hearings for the then proposed LGC, the barangays could have been given substantive taxing powers had they not had problems on barangay boundaries and had set criteria to determine the number of people residing on their territories. "In effect, the development of the barangay as a political unit appears to be seminal... It is for that reason that despite the broad devolution of power and resources to LGUs under the Code, the barangays may only exercise limited powers," he said.

Table 10. Percentage of own source revenues, case study areas, Agusan del Sur (2006)

	Bucac, Bayugan	Taglatawan, Bayugan	Poblacion, Bayugan	Bahbah, Prosperidad	Afga, Sibagat
Income	1,116,899	3,808,431	4,608,176	3,207,456	1,275,638
IRA	1,063,430	3,411,463	4,162,539	2,822,676	1,232,643
IRA dependency	95.21%	89.58%	90.33%	88.00%	96.63%
Own Source Revenue	53,469	396,967	445,636	384,780	32,994
Borrowing	–	–	–	–	–
Percent of OSR	4.79	10.42	9.67	12.00	2.59

Source: SIE, barangay case study areas.

Table 11. Percentage of own source revenues, case study areas, Dumaguete City (2006)

	Tinago, Dumaguete City	Batinguel, Dumaguete City	Buñao, Dumaguete City	Daro, Dumaguete City
Income	1,077,663	2,069,837	969,809	2,257,309
IRA	923,651	1,870,796	876,959	1,921,548
IRA dependency	85.71%	90.38%	90.43%	85.13%
Own Source Revenue	154,012	199,041	92,850	335,761
Borrowing	–	–	–	–
Percent of OSR	14.29	9.62	9.57	14.87

SOURCE: SIE, Dumaguete City Barangay Affairs Office

The perceived failure of barangays to use their corporate powers to create indebtedness and access credit facilities may be viewed as unfair in view of three major reasons cited above for their limited capacity to raise their OSR. However, if these in fact are the problems underlying the low OSR and absence of borrowings, resulting in their poor fiscal conditions, then they should be addressed. This paper hopes to be instrumental in achieving this goal. More specifically, it hopes to either (a) help them to first create entrepreneurial activities out of IRA, grants, and donations, and then help them create indebtedness and access credit facilities; or (b) enable them do both at the same time, whichever suits them best, namely, creating entrepreneurial activities plus using corporate powers such as creating indebtebness, etc. This therefore highlights the fact that there is a mutual causation between the alternative modalities of revenue generation or optimal use of corporate powers and the need for entrepreneurial activities in barangays.

POLICY OPTIONS

The following are some of the policy interventions that can be pursued to address the foregoing issues and eventually help barangays perform better LSD:

Option one: Let the city/municipality deliver the basic services which barangays cannot provide

Since not all barangays are capable of delivering development-enhancing services, particularly education and health, owing to resource gaps, this all-important devolved function may well be devolved to higher LGUs such as the city or municipality, which are deemed capable of delivering better services. From a development perspective, the pros outweigh the cons for this option. On the one hand, the pros are: First, the barangays will not be saddled anymore with the provision of education and health services, which they cannot deliver in the first place. Instead, they can just fulfil their other LGC-assigned functions more effectively, efficiently, and sustainably. Although the administering and monitoring of health centers in every barangay, for example, would incur huge administrative costs for the cities/municipalities, such costs would be outweighed by developmental dividends in the long run. That most, if not all barangays, have not been able to deliver effectively on health and education services for almost 20 years should be sufficient reason to try the alternative of having the higher-level LGUs do the job.

Second, based on the principle of economies of scale, the city or municipality is better suited to come up with rational plans, which in general cannot be said of barangays, whose perceived irrational planning, often centered on infrastructure such as roads, is often prompted by political expediency, if not hodgepodge prioritization. This is not intended as a sweeping generalization, as a number of municipalities may be guilty of the same mistake as the barangays. All this notwithstanding, the inability of many barangays to come up with sound planning may be addressed with the involvement of higher LGUs in helping the former put together a well thought-out and carefully crafted barangay plan. The issue of equity, where cities/municipalities may favour their political bailiwicks or those barangays with bigger voting populations in the provision of certain services or infrastructure, can be addressed either (1) by helping the barangays opt out of the arrangement, or (2) by strengthening the oversight functions of national government agencies, civil society groups, the private sector, and international donors to guarantee compliance and effective implementation.

Third, relinquishing these devolved functions until such time that barangays are capable of delivering basic services would be a wise human capital investment for the future, and is expected to benefit even the poorest of the poor. This would address the problem of "abrupt" devolution of powers, authorities, and resources to lower LGUs—the oft-cited perennial problem of decentralization among developing countries.

On the other hand, there are costs-cum-drawbacks to this proposed arrangement. First, the barangays would have diminished autonomy in fulfilling their functions, or worse yet, would be converted from political units into administrative units. In reality, however, relinquishing the function of providing basic services would be their own choice, without any higher LGUs or the national government dictating it to them. By all means, they can reassume the task of providing their constituents with basic services any time they feel ready to do so.

Second, cities or municipalities would not want to be overloaded with additional functions, especially if these entail financial costs that they are not capable of providing. The national government (say, the Department of Health, Department of Education, or the Department of Social Welfare and Development) can allocate funds for these additional functions to higher LGUs. It may well be assumed that the higher LGUs and national government agencies would understand the need to unburden barangays of responsibilities they cannot shoulder in the first place, and therefore they can source the needed funds to finance specific undertakings and overcome potential bottlenecks and resistance from barangays.

Third, this paper's recommendation could defeat the very purpose of devolution, since it is tantamount to stripping barangays of the power to provide basic services to their constituents and freeing them from any accountability in this regard. From a decentralization perspective, autonomy, empowerment, and accountability would only matter if barangays and their officials are capable of fulfilling those responsibilities. Without the commensurate resources for devolved functions—financial, organizational, and human—accountability for results becomes farce. This highlights the necessity of reviewing the system of accountability in addition to the many contentious provisions of the LGC needing amendment.

Option two: Paradigm shift in barangay economic development[13]

With scarce resources and limited funds at their disposal, barangays should practice fiscal discipline and economic governance by prioritizing spending on economic

[13] One may even counter-argue that it is better to develop the capabilities of barangay LGUs to undertake development planning rather than make the blanket suggestion that barangays should spend "on economic development programs," which may be considered a tall order even by most economists. There are at least two responses to this counter-argument (other than that they are complementary or two sides of the same coin and are both important). First, providing skills to barangay LGUs for effective development planning is indeed empowering, but it is only so if it is mainly about "economic development planning," that is, creating economic opportunities for people to engage in entrepreneurial activities as a means to human development. Second, focusing on economic development is *good politics*, since the people, once economically empowered, would be able to politically demand better services and opportunities, and hopefully, become productive participants (through nongoverment organizations (NGOs) or people's organizations) in political activities such as barangay development planning. Needless to say, for development planning to be effective and empowering, it should be anchored on a method with economic bias.

development programs with high development impact for local communities. This by no means argues that economic development is the end of development. Far from it, economic development is only a means to human development, which, if done right by barangays, would enhance human lives and enlarge human freedoms. This requires a paradigm shift in the barangays' approach to economic development. Its pros outweigh the cons. First, it will enable barangays to understand that economic development is about raising income per capita and ending human poverty, inequality, and disempowerment to achieve quality of life, realize human potentials, and help the nation attain progress. Viewed as a poverty-reduction and human development strategy, barangays would then redefine economic development as inclusive and entrepreneurship-based, that is, one that creates economic opportunities for micro-, small- and medium-scale enterprises (MSMEs) in rural barangays, where the poorest of the poor reside.

Second, having understood what economic development really means and its potential development outcomes, barangays would then be able to practice allocative and operational efficiency. This is by allocating more of their limited funds only for economic development PAPs that are economic-enhancing in the short and long terms. Allocations for other sectors such as infrastructure development can then be justified mainly by their economic-enhancing or entrepreneurial potential.

Third, convinced of the necessity of practicing an inclusive, entrepreneur-based economic development, barangays would then be able to function effectively not just as a political unit but also as an economic one. They will then be able to create an enabling environment and facilitative conditions for realizing the economic and political potential of local communities, for working on the equitable distribution of resources, income, and wealth, and empowering the people to end the poverty of politics that has plagued the country for so long and address the deep-seated institutional problems that have retarded its progress. In summary, barangays would be self-sufficient communities and economic catalysts able to effect positive institutional change through economic and political empowerment.

Admittedly, mandating a reconceptualization of barangay economic development has its apparent disadvantages. First, it would impinge on, if not violate, local fiscal autonomy of barangays by telling them how to manage their scarce resources and allocate their limited funds. In other words, their fiscal autonomy to allocate financial resources would be diminished, if not totally taken away from them, under the guise of empowering them as potentially self-sufficient communities. However, this is a total misreading of this paper's proposal to help barangays reconceptualise an inclusive entrepreneurship-based economic development. Empowering barangays means enabling them to make proper use of their fiscal autonomy for their own and their constituents' long-term well-being. Local fiscal autonomy has no use if it does not enhance the well-being and freedom of the people. In fact, empowering barangays and their constituents is a way of enhancing their fiscal autonomy, not circumscribing it in any way.

Second, since barangays have different priorities, focusing on economic development would misalign allocations and relegate other equally important development priorities to the side lines. What is important is to practice fiscal discipline and sound economic governance so that limited funds can be used efficiently to ensure high economic returns that can be enjoyed by the constituents. In the process, this would augment limited barangay coffers that could eventually finance these other development priorities more effectively and sustainably.

Third, economic empowerment, it seems, is all about false hopes. The perceived economic benefits would only redound to local elite capture. Given the elite-driven status quo, this seems to hold water. But on closer scrutiny, it underrates the economic potential and political capabilities of the people. From a realpolitik perspective, the local political and economic elite will always benefit from any institutional change as they would always protect and promote their own interests. The challenge is to make the people mutually benefit from the paradigm shift, in hopes that they would eventually benefit more once economically and politically empowered. Put somewhat differently, the overarching goal is to empower the people economically so that they would become catalysts for political change. For example, MSMEs would hold greater promise of expanding people's capabilities for economic productivity and political empowerment, thus capacitating them to eventually harness their collective power in ending elite capture.

Option three: Getting incentives right vis-a-vis OSR and optimal use of corporate powers

One way to address the IRA dependency of all LGUs, not only barangays, is to provide incentives for barangays that are maximizing their corporate powers and raising their OSR instead of simply being dependent on the proceeds of national taxes. Bills pending in both chambers of Congress proposing to amend the IRA formula to account for performance-based and poverty indicators may provide insights on how to correctly give incentives to barangays. Instead of the IRA formula, the key variables would be increased OSR and optimal use of corporate powers. Barangays meeting these criteria despite development constraints, and institutionalizing replicable best practices in the process, should get incentives like increased IRA, more grants from private and international donors, and access to low-interest loans and other financing arrangements such as build-operate-transfer schemes.

Barangays can raise income internally, that is, within their jurisdictions, as well as externally,[14] as provided by law. Internally, they can augment their OSR by levying taxes, fees, charges, and other impositions such as the following:

- ✦ Taxes on stores or retailers located within the barangay;
- ✦ Service fees and charges for services rendered, or for the use of barangay-owned properties or service facilities;
- ✦ Barangay clearance fees;
- ✦ Other fees and charges, such as on commercial breeding of fighting cocks, cockpits, places of recreation, billboards, signboards and other outdoor advertisements;
- ✦ Public utility charges for the use of barangay-operated public utilities, such as public markets, slaughterhouses, and waterworks systems;
- ✦ Toll fees and charges for the use of barangay public road, wharf, bridge, or ferry funded and constructed by the barangay;
- ✦ Fund-raising activities intended for specific barangay projects as well as the solicitation of monies, materials, or labor from barangay residents; and
- ✦ Authorizing the solicitation of grants-in-aid, subsidies, and contributions from the national, provincial, city, or municipal funds, as well as from private agencies and individuals for specific barangay projects or purposes (Ursal 2001).

To optimize the use of corporate powers, and pursuant to Section 296 of 1991 LGC, barangays can create indebtedness and access credit facilities such as the following:

- ✦ Loans from banks and lending institutions to finance the construction, installation, improvement, expansion, operation or maintenance of economic enterprises and public facilities, housing projects; the acquisition of real property; and the implementation of other capital investment projects;
- ✦ Loans and advances against security or real estate or other acceptable assets for the establishment, development, or expansion of agricultural,

[14] Following are external sources of income or those incomes that are due to the barangay as statutory shares from the national, provincial, city/municipal governments: (1) share in the national internal revenue tax allotment; (2) share in the proceeds of basic real property tax collected within the municipality; (3) share in the proceeds derived from the development and utilization of national wealth within the barangay; (4) share from the proceeds of tax on sand, gravel, and other quarry resources extracted within the barangay; (5) share from community tax collections when collected by the barangay within its jurisdiction; (6) share from the tobacco excise tax pursuant to RA 7171, "An Act to Promote the Development of Farmers in the Virginia Tobacco-Producing Provinces;" and (7) proceeds from grants-in-aid, subsidies, and contributions from the national, provincial, city or municipal funds (Ursal 2001).

industrial, commercial, house finance projects, livelihood projects, and other economic enterprises;

- ✦ Deferred payment, supplier's credit, or other financial schemes to acquire property, plant, machinery, equipment, and such other necessary accessories; and
- ✦ Loans from funds secured by the national government from foreign sources to be re-lent to LGUs for the construction, improvement, and operation of public activities and facilities, infrastructure and housing projects, acquisition of real property, and implementation of other capital investment projects (Sections 297, 298, 301, 1991 LGC; DBM Primer on Barangay Budgeting).

The benefits of institutionalizing an effective incentive system outweigh the drawbacks. First, performance being the main criterion for incentive delivery would force barangays to be fiscally independent by optimizing their corporate powers and raising OSR. This would put an end to their fiscal dependency on IRA as well as address its disincentive and substitutive effects. This would also end their fiscal complacency as they would have to fend for themselves in excelling in their OSR performance and in accessing credit financing to earn more incentives.

Second, because performance-based incentivism would require them to engage in economic-enhancing activities, they will have to institutionalize economic governance and motivate people to become entrepreneurial. As proposed in policy option two, this would raise economic productivity of barangay communities and their constituents and reap economic and political benefits for themselves and the country at large. Spending on economic development programs to help the constituents harness their full economic potentials would be a measure of good performance of local leaders. In other words, people would be demanding economic-enhancing activities from their barangay officials, who in turn would be forced to deliver lest they fail to win another term in office come next election. Thus, the supply-demand side nexus of economic governance would be guaranteed.

Third, getting incentives right vis-à-vis the OSR and optimal use of corporate powers would be a good practice of fiscal governance, which in turn would be a measure of an effective fiscal decentralization—the missing link in decentralization work for the people. Literature abounds on the mixed results of decentralization owing to the LGUs' generally poor track record in decentralization. Mandating performance-based incentivism among barangays to excel in their OSR performance and full use of corporate powers for improved LSD and better development outcomes would guarantee improved fiscal decentralization at the barangay level.

Certain disadvantages must be taken into account. First, barangays are not a homogenous political unit with equal and uniform human and economic resources, fiscal capacities, geography, socioeconomic status, and political history. Disregarding their heterogeneity owing to contextual factors differentiating them from one another and mandating them to follow one blueprint for economic empowerment would be discriminatory, if not economically imperialistic.

For example, resource-poor barangays located in mountainous and conflict-zone areas would be hard pressed to follow the recipe for performance-based incentivism. But treating barangays in a myopic perspective and pigeonholing them through one-size-fits-all OSR-augmenting approach and optimal use of corporate powers would be far-fetched considering the overarching objective of empowering them. Simply put, for the resource-poor barangays, for example, that cannot yet leverage their corporate powers because of scarcity of entrepreneurial activities to levy taxes, fees, and charges, poverty indicators should be the measure of IRA allocation, thus factoring in some contextual indices in the computation of incentives and further addressing inequity in the distribution of national revenues. Until such time that they can optimize their corporate powers and can be subjected to performance-based indicators, poverty indices would suffice.

Second, improving fiscal performance would require not just barangay initiative but also national government intervention, which may be elusive given the lack of national incentives to push for local fiscal reforms. The numerous bills that have been filed in both chambers of Congress since the passage of the 1991 LGC attest to the binding political constraints underlying the nonpassage of important fiscal reform bills into laws. But waiting for the national government to do its part is a waste of time and would only perpetuate the existence of IRA-dependent and complacent barangays. Providing barangays with the necessary incentives will imbue them with the political will, initiative, and economic sense to empower themselves toward a self-help poverty-reduction strategy through economic-enhancing activities even before the national institutions and leaders get their act together. Also, the binding political constraints need not spell doomsday. There are certain areas for fiscal reforms that national government can seize upon, with substantial help from civil society groups, private sector, and international donor organizations.

For example, instead of changing the IRA formula, which is politically difficult as it would create losers and winners, stakeholders can just focus on legislations that could enhance the corporate powers of LGUs (i.e., increasing tax powers, tax collection efficiency, access to credit, and public-private partnerships, among others). And if tinkering with the IRA formula is deemed imperative, its reformulation would only be applied on its increments in order to avoid reducing the IRA shares that LGUs currently receive.

The other area of reform could be the passage of economic-related bills that will further enhance the socioeconomic conditions of barangays. To date, certain laws have been passed toward this end: RA 6977, or the Magna Carta for Small Enterprises, as amended by RA 8289; RA 9178, better known as the Barangay Micro Business Enterprises Act of 2002; and RA 9509 or Barangay Livelihood and Skills Training Act of 2008. Effective implementation would be needed to make these laws work for barangays.

Third, although barangays may work hard to become economically self-sufficient, their efforts could be stifled by lack of investments, especially in rural areas. But this is exactly the reason other institutional actors, i.e., national agencies, civil society organizations, private sector, and international donor organizations, must come to play. Since rural areas are keys to improved service delivery and local development, these institutional actors must generate public and private investments for rural economic development, thus addressing urban-rural development disparity by ensuring a more equitable distribution of economic opportunities, income, and wealth.

CONCLUSION

Decentralization has been in existence for almost two decades in the Philippines. Yet, barangays mostly in the rural areas are still stuck in the quagmire of incompetence and inefficiency, unable to deliver better basic services, if at all, and complacent about the status quo because of policy, institutional, and financial constraints undergirded by political, economic, social, and cultural factors. Until barangays perform better in the provision of basic services, decentralization defeats its purpose, that is, to devolve powers to barangays in order to empower them so they can deliver goods and services and empower their constituents. Based on this paper's findings, most barangays are failing expectations, mainly because of financial constraints. Policy interventions, therefore, are an imperative.

The policy interventions or options proposed in this paper—higher LGUs taking responsibility for services barangays cannot deliver; making a paradigm shift in understanding and practicing economic development; and getting incentives right for fiscal governance and economic advancement—may take a while before they can achieve their desired ends. For change is incremental, that is, it does not happen overnight, and the agents of change (i.e., local elites, barangay officials, local communities) have to be convinced of the causal logic behind such change, of their anticipated benefits in the long run, and of the development opportunities they are likely to miss should they choose the status quo. The important point is that barangays have the option of either remaining as one of the IRA-dependent LGUs unable to deliver basic services or struggling to be self-sufficient economic and political communities able to effect positive change in the lives of their people and be an engine of inclusive growth for the country at large. From a development perspective, and as the foregoing discussions have proven, barangays must choose the latter if they are to play a major role in LSD.

APPENDIX: BARANGAY PROFILE

Appendix Table 1. Agusan del Sur

	Bahbah, Prosperidad	Bucac, Bayugan	Afga, Sibagat
Type	Urban	Rural	Rural
Population (2007)	11,683	3,010	3,160
Land area (ha.)	1,877	682	–
Number of households (HH) (2007)	2,213	583	–
Average number of persons/HH	5	8	–
Average income/HH (PHP)	5,000	n/a	–
Kind of shelter (%)			
Permanent	30	16	–
Semi permanent	50	26	–
Temporary	20	58	–
Major source of livelihood	1 – farming	1 – farming	–
	2 – business	2 – employment	–
	3 – employment	3 – business	–

*Taglatawan and Poblacion in Bayugan, and Afga, Sibagat – no barangay profile

Source: Barangay Profile, for Bahbah, Prosperidad and Bucac, Bayugan; population data from National Statistics Office, www.census.gov.ph; type of barangay from Philippine Standard Geographic Codes, www.nscb.gov.ph.

Appendix Table 2. Dumaguete City

	Daro	Tinago	Buñao	Batinguel
Type	Urban	Urban	Urban	Urban
Population (2007)	6,721	2,569	2,750	7,664
Average income (PHP)	10,762	5,977	9,225	7,469
Number of HH	840	358	343	1,010
Land area (ha)	176		52	
Status of employment%				
Government	9.33	8.51	11.15	8.04
Private	18.09	11.02	16.73	16.84
Self-employed	17.26	26.88	20.20	22.62
Unemployed	21.78	26.21	16.45	18.95
Nongainful occupation**	33.59	27.38	34.37	33.56
Percent population employed	44.68	46.41	48.43	47.5
Main source of income (%)	59 wages and salaries 33 profit 8 support/ pension	47 wages and salaries 49 profit 3 support/ pension 1 none/not stated	54 wages and salaries 38 profit 7 support/ pension 1 none/not stated	53 wages and salaries 43 profit 4 support/ pension

**Composed of: retired, housewife, handicapped, pensioner, and student

Source: Socioeconomic Household Survey 2002–2003, City Planning and Development Office, Dumaguete City; population data from National Statistics Office, www.census.gov.ph; type of barangay from Philippine Standard Geographic Codes, www.nscb.gov.ph.

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