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### Investment Performance in Local Government Units: An Analysis of Local Economic Enterprises in the 1<sup>st</sup> District of Rizal

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#### ABSTRACT

Local Economic Enterprises are government entities created through fiscal autonomy to generate revenues and become self-reliant. This paper attempts to establish linkages between local public investments performance through Local Economic Enterprises (LEEs) in achieving immediate outcomes indicating socio-economic development. Likewise, the study tested if there is significant associations between the presence of LEEs and three (3) indicators of socio-economic development; job creation, revenue generation and business proliferation. Using mixed-methods and archival data, the study was able to arrive at significant findings. Based on the results of the study, job creation, revenue generation and business proliferation are the immediate outcomes of LEEs. The second major finding was that there is significant association between the LEEs and the three (3) indicators. However, it was found that there was a low correlation between LEEs effectiveness and sustainability as local investments for socio-economic development.



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#### Introduction

This paper attempts to establish linkages between local government investments through Local Economic Enterprises (LEEs) and socio-economic development at the local level under the decentralized structure of the Philippines. In 1991, the Local Government Code (LGC) was enacted by the Philippine Congress to decentralize the government into its sub-states as mandated by the Article 10 Section 3 of the 1987 Constitution. The Code paved the way for the creation of territorial and political subdivisions of the state which benefits local autonomy. The Local Government Code empowered local government units not only political powers but also corporate powers. This reflects the dual nature of local government units in the Philippines, one as a political subdivision of the State and the other being a public corporation as stated in the Sec. 15 of the Code (Pimentel A. J., 2011).

The Local Government Code has also made it a policy that local government units (LGU) have the power to create their own sources of revenue to enable them to become self-reliant communities. Therefore, aside from mandated just share of the local government from national

taxes, it is also their duty to create other sources of revenue under the law. Because of this provision, a thorough local fiscal administration is necessary to secure those resources and revenues earned by different LGU's as a corporate entity will face lesser tendencies for bankruptcy and debts. According to Reyes (2010, p. 2), Local fiscal administration refers to the rational, effective and efficient conduct of the fiscal functions and operations of the local government units which embrace the systems, structures, processes, and human resources involved in revenue generation, revenue allocation and utilization. Since then, different LGU's throughout the Philippines have ventured into different Local Economic Enterprises (LEE) that provides public goods and services while at the same time earning revenue for the local government. Different LEEs established throughout the Philippines varies from conventional public enterprises specified in the LGC and other innovative public enterprises which are created by the Sanggunian (local legislative council) for various reasons but mainly economic.

While there is a growing number of LEEs in the country, there is no certainty for their continuous existence. Earlier study says that although LEEs are established to be self-sustaining and revenue generating, several of them lack continuity because of several factors that such as wrong appreciation, lacks transparency and accountability (Manasan & Castel, *Improving the Financial Management of Local Economic Enterprises*, 2010). Likewise, Samonte (1967) has observed that the role public enterprises in the Philippines is widely varied through the years because of the changing political atmosphere and socio-economic conditions.

For this reason, the focus of this research is on the assessment of investments performance of LGUs through selected Local Economic Enterprises in providing help not only to income stability of Local Governments as well as the socio-economic status of the locality. The study will review the contribution of the LEEs to socio economic development in the municipalities involved in this study. One of the emerging trends in local governance in the Philippines is the establishment of Local Economic Enterprises wherein delivery of public services are made in an entrepreneurial manner. According to Manasan there was an enormous increase in the number of LEEs in the country since the time the LGC of 1991 took effect. Local governments made use of their fiscal autonomy to create these public enterprises (Manasan & Castel, *Improving the Financial Management of Local Economic Enterprises*, 2010).

In addition, when LGUs invest on economic enterprises they are guided by market ideologies; therefore, the more the LGUs operate like real corporations or enterprises, they become more efficient and viable (Del Castillo & Gayao, 2010). As a result, these LEEs will gain more revenue for the LGU, thus increasing their capacity to deliver public services better and in the long term, improving the socio-economic welfare of their constituents. However, there have been very limited empirical studies done on the effectiveness of LEEs in contributing to economic development in the context of the Philippines. It is therefore worth revisiting what we know about LEEs to understand how and under what circumstances they can be beneficial to socio-economic development. A study by Holmes (2011) found that decentralization was seen as an essential ingredient to democratization as fiscal autonomy liberated local governments from whimsical distribution of funds from the national government while allowing them to create their own sources of revenue (Holmes, 2011). Along with this growth of interest in fiscal decentralization, there is an increasing concern over its significant contribution to local social and economic development.

This paper examined the case of fiscal decentralization in the Philippines. Local governments in the Philippines follows a mandate that articulates their fiscal autonomy in creating sources of revenue. In this paper the researcher argues that Local Economic Enterprises as a product of fiscal autonomy, can be an effective way to stimulate socio-economic development in provinces, cities and municipalities other than Metro Manila. Thus, this study considered four (4) municipalities,

all of which are 1st class municipalities according to Philippine Statistics Authority in the province of Rizal as focus points to give assertion to this claim.

Hence, the researcher observed that these municipalities generate huge amount of revenues and in effect these LGUs can further promote development in their localities given the abundant fiscal capacity they possess. The paper attempts to show that municipalities with enough capacity to create their own sources of revenue can invest in both public serving and income generating facilities such as local economic enterprises to accelerate socio-economic development in their locality. This thesis intends to determine the extent of the contribution made by local economic enterprises to the development of social and economic state of their communities. While the study only attempts to substantiate only three (3) aspects of development, the researcher agrees with the perspective that Japanese scholars had on their study on socio-economic development which stated that:

*Development is an overall process of social change bracketing together a number of more basic sub processes of change, and that these constituent process tend to proceed reinforcing each other in the same direction, but they proceed at different paces in different stages of development (Takamori & Yamashita, 1973, p. 113).*

### **Research Objectives**

The main objective of the study was to know how beneficial LEEs are to socio-economic development in terms of local investment performance in the 1st District of Rizal province,

The specific objectives of the study are:

1. To determine how LEEs as local investments achieve immediate outcomes (job creation, revenue generation, and business proliferation) indicating socio-economic development
2. To determine whether job creation, revenue generation, and business proliferation have significant associations with the presence of LEEs

### **Literature Review**

Decentralization happens when state power is transferred to local governments to increase the efficiency and effectiveness of local government units in responding to the needs and welfare of their constituents (Porio, 2012). In addition, a Filipino scholar defined decentralization in reference to his observation that it has become one of the major trends in the world today which organizes the “opening up and loosening of formal institutions and processes of centralized governments within the context of redemocratization” (Brillantes, 2003, p. 1)

This study finds support on two (2) main theories under the New Public Management phenomenon namely, Fiscal Decentralization by Wallace Oates (2006) and Public Entrepreneurism by David Osborne (2007). Furthermore, theories in Political Economy and

Economics which in this study served as sub-theories. These theories are the strength of this study which will serve as main reference in the analyzing parallel phenomena observed in this study.

Fiscal Decentralization theory falls under the New Public Management phenomenon in Public Administration which features several theories on how the bureaucracy can be more effective through economic and enterprise management mechanisms. In the United Kingdom where NPM was predominant among PA scholars, it was emphasized that:

*The superiority of private-sector managerial techniques over those of PA with the assumption that the application of such techniques would automatically lead to improvements in efficiency and effectiveness of these services (Thatcher, 1995 as cited in Osborne S. , 2006 p.379)*

Fundamentally, NPM is an innovation of the traditional theory on public administration; the primary objective is the improvement allocation of public goods and services in the public sector through private-sector management techniques. One of the essential concepts of this study is decentralization because the main focus of this study are local government units with emphasis on their fiscal affairs. According to Wallace Oates (2006), Fiscal Decentralization as a theory is explained as:

*For a public good-the consumption of which is defined over geographical subjects of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government-it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions (Oates, 2006, pp. 3- 4).*

As Oates mentioned, the central government tends to provide generic and standardized public service to the people despite geographical divisions. Therefore, it can be understood that Pareto Efficiency can be achieved if resources from the central government are instead given to local governments because resources can be optimized because public goods and services will be more fitted to the needs of the people. University of the Philippines professor Capuno explained that the theory of fiscal federalism (other scholars refer to fiscal decentralization as such) suggested that efficient delivery of public goods under a decentralized structure leads to development however it demands local government officials' commitment to their constituent's welfare (Capuno, 2005, p. 3).

Another theory that supports the study is Public Entrepreneurism theory by David Osborne initially published in 1993. This theory explains that the traditional bureaucratic organizational structure delivers standardized services which are ineffective. In order for governments to be effective in delivering public goods and services, "an organization must lean, fast on its feet, responsive to its customers, capable of adjusting to constant change, able to improve productivity continually. In other words, it needs to be entrepreneurial rather than bureaucratic" (Osborne, 1993, p. 351). Still, Osborne disputes that entrepreneurial does not necessarily mean "for profit" but according to him: *An entrepreneur shifts resources out of an area of low productivity and minimal yield into an area of higher productivity and greater yield (p. 351)*

Osborne formulated the theory in response to fiscal problems faced in the United States during the recession wherein according to him, spending went out of control. Public

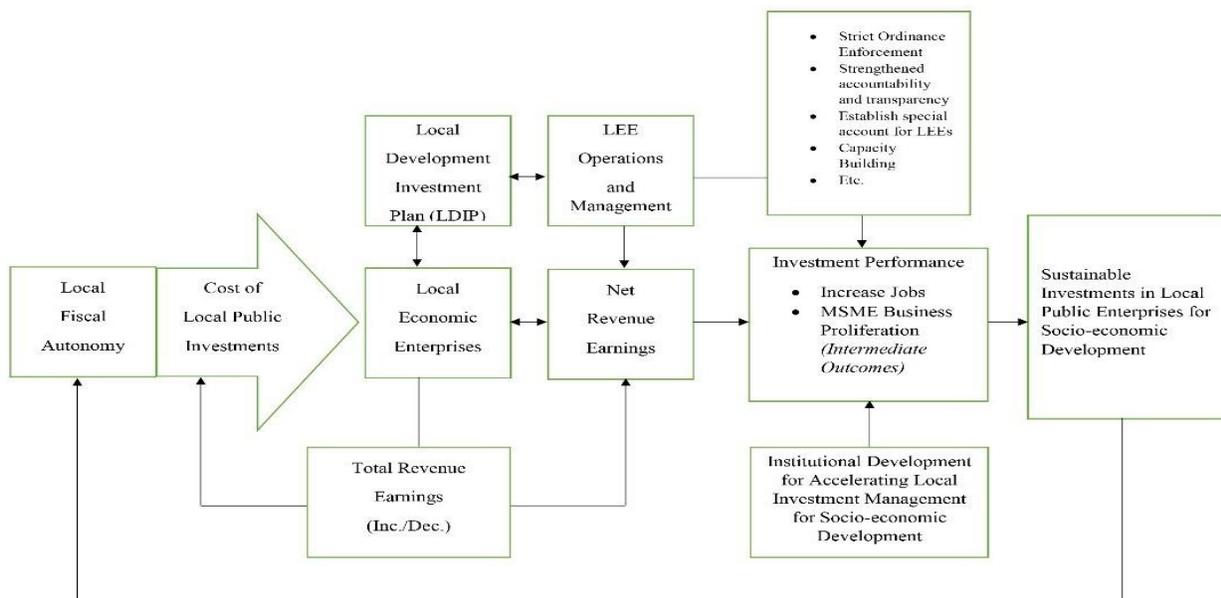
entrepreneurism is tasked to make governments productive again, doing more with less without reducing the size of the bureaucracy. Osborne observed that governments in times of fiscal problems tend to cancel services that are politically vulnerable. Moreover, theories discussing budget and investments in public sector also find relevance to the study. Economics play an important role in explaining the phenomenon at hand especially on the budget and government spending perspective. John Maynard Keynes, a renowned economic theorist conceptualized the so-called "Keynesian Economics". This theory discussed the relationship of total spending in the economy and its effect on output and inflation (Blinder, 2011). This study investigates on local investments specifically local economic enterprises, in the Keynesian perspective, consumption, investments, and government expenditures are components of spending which affect government outputs.

*If government spending increases, for example, and all other components of spending remain constant, then output will increase. Keynesian models of economic activity also include a so-called multiplier effect; that is output increases by a multiple of the original change in spending that caused it (Blinder, 2011 p.1).*

The Keynesian perspective of the economic aspect of local investments suggests that if government spends on infrastructures or entities such as economic enterprises, output will increase provided that the components of spending remain constant. Local economic enterprises have different objectives why they were created by the local government units. Primarily they have been created to increase revenue and achieve sustainable benefits for the community. Local government units invest on LEEs to gain more resources that could increase their services to the people. In economics, LEEs as local public investment may be generally considered necessary for the provision of certain vital goods and services that are either impossible for the private sector to efficiently supply or are such that only one supplier could invest in them economically. In politics, local public investments are necessary to achieve a variety of political objectives such as local security and protection of property rights, maintenance of the rule of law, local economic development and full employment, a greener environment, and greater equality in the distribution of local income and wealth.

The aim of the paper is to provide a conceptual theoretical framework based on local economic enterprises as they operate as local government investments in achieving sustainable public investments for LEEs to accelerate development. Investment decisions come from local government officials wherein the decision on what to invest on lies on the decision of mainly the local chief executive. This can be part of his flat form of development or just one of his political agendas. Politics aside, LEEs are established to provide for a certain need like infrastructures, goods, or services that are deemed to local demand of development. Likewise, LEEs are created because of local industrialization to facilitate growth of urbanizing communities.

To realize this goal, municipalities and cities follow the Local Development Plan. Each municipality or city has a different plan that conforms to their capacity as an LGU and the need of their constituents. Local investments are part of the overall local development plan of each LGU. Local investments are needed to provide additional local income in compliance with the fiscal decentralization system provided by the LGC of 1991.



markets and commercial spaces where people rent their spaces and sell their goods, LGUs earn from the lease agreements of the stalls and the business that operates from these stalls. Therefore, these contributes to local income and then it will be spent for other goods and services by the LGUs all of which contributed to local socio-economic development thus achieving the planned investments.

In the operation and management of LEEs, there are numerous ways to ensure that the local investment perform to achieve intermediate outcomes. Strict enforcement of the ordinance that created and legalized the operation of LEEs, strengthened accountability among local officials, a transparent system of finances, a special account for LEEs as mandated in Sec. 313 of the LGC of 1991, and capacity building of work force are keys toward achieving sustainable local development investments in LEEs. Similarly, development strategies within the institution is necessary to accelerate results of local investments in LEEs. Once all these strategies and mechanisms were part of the Local Development Plan and were applied by local government officials, socio-economic development is within reach through sustainable local investments in local economic enterprises.

The LGC has also provided guidelines in local fiscal administration. The LGC mandates LGUs to maintain special accounts for their economic enterprises as cited in Section 313. This provision orders how the profits from LEEs should be allocated.

Profits or income derived from the operation of public utilities and other economic enterprises, after deduction for the cost of improvement, repair and other related expenses of the public utility or economic enterprise concerned, shall first be applied for the return of advances or loans made thereof. Any excess shall form part of the general fund of the local government unit concerned. (Local Government Code, 1991)

The section ensures that the profits of LEEs should sustain first its operation before it becomes profitable to the LGUs. Similarly, in the United States, this regulation is also practiced in the form of Tax Increment Financing (TIF). The TIF method is a widely used tool among local governments in the United States, according to this theory:

*...the revenue growth generated territorially defined district is earmarked, for a period of years, for physical infrastructure and other expenditures designed economic growth within that district. By generating new growth, improvements and expenditures produce the incremental that are used to pay for the program which sparked the growth. Typically presented as self-financing, with its expenditures the increased revenues resulting from TIF-financed growth, tax increase (Briffault, 2010, p. 66)*

This section of the LGC also provided security for LEEs not to be taken advantage of by come and go politicians. In addition, it can be said that the law has provided enough safeguards for LEEs not to fall into bankruptcy especially on the initial years of its operation by allotting a share of the profits to fund maintenance repairs and other liabilities. Likewise, this will be key for earning LEEs to expand their facilities and services that will cater to more constituents and eventually become a self-financing government entity.

### **Methodology**

In order to meet the objective of this study, the researcher employed a case study design on the experience of the Local Economic Enterprises in improving the socio-economic status of their locality. It analyzed the changes in revenue generation, job creation and employment, and the increase of businesses (SMEs) after the existence of the involved LEEs. Survey method was used in gathering the quantitative data while for the qualitative data, Key Informants Interview method was employed. Both findings from quantitative and qualitative data were combined and then analyzed in order to arrive at conclusions that could validate or invalidate the research questions based on substantial empirical evidence.

The study also utilized existing secondary data coming from both national and local governments to support the veracity of the findings from the qualitative and quantitative data. Findings from

these data formed the study's initial results on the socio-economic condition of the locality. Furthermore, for numerical data gathered, this research used Descriptive Statistics in analyzing collected data set from a sample group. This will include the mean, median, mode, variance and standard deviation which are typical statistics necessary to form the foundation for deeper analysis. In search for significant relationships, the study used Inferential Statistics which is a higher level of statistical analysis which will be key in testing the hypothesis or set of probability levels.

The following personalities were selected for the Key Informants Interview:

- a) Municipal Tourism Officer
- b) Municipal Budget Officer / Municipal Treasurer
- c) Public Employment and Service Office Manager
- d) Local Economic Enterprise Manager
- e) Municipal Councilor who chairs the Local Legislative Committee on Ways and Means / Committee on Appropriations

The researcher was able to survey two hundred (200) participants selected using purposive sampling technique. The sampling technique was used to allow the selection of appropriate participants for inclusion in the sample. The researcher was able to have fifty (50) participants per municipality having a fair and equal representation for the data. They are in the best position to respond to the investigative research, and they compose as credible and authoritative resources for this study.

The study was conducted in the four (4) municipalities that compose the first legislative district of Rizal province. These municipalities were chosen because they have been considered by the National Competitiveness Council (NCC) to be four of the Most Competitive Municipalities in the country. Thus, it can be assumed that these municipalities have been actively promoting economic development through different programs and projects. In this research, the selected local economic enterprises will be the non-traditional LEEs. Non-traditional LEEs as categorized by the LGC of 1991 are other economic enterprises than basic utilities, public market, and slaughterhouses etc. The study is backed by Public Entrepreneurism theory wherein entrepreneurial character of governments are considered as key to boosting the economy and sustaining development. Therefore, the researcher looked at the innovative LEEs that are possible to be assessed from the perspective of Public Entrepreneurism. The researcher chose two (2) economic enterprises that are of the same nature, sports and recreation infrastructures and public goods and retail establishments. The assumption was these LEEs are compliant to the financial, organizational and management purposes for which individual LEEs are established.

The following Local Economic Enterprises were selected among the municipalities considered in this study. First is Binangonan Recreation and Conference Center (BRCC) located in Barangay Batingan, Binangonan, Rizal. This multi-purpose sports and recreation facility was inaugurated in 2013 which features a gymnasium, bowling center, hotel, water park, basketball, volleyball courts. Next is Angono People's Market, an innovative public market by the Municipality of Angono wherein the municipality earns a substantial revenue from stall rents and commercial lease. Third is the widely popular Taytay Municipal Tiangge, which is a local government initiative to restimulate the local garments industry. To date, the Taytay Municipal Tiangge has grown to other private counterparts and has earned huge amounts of revenues for the municipality that boasts itself now as the "Garments Capital of the Philippines. Last on the list of the LEEs is Cainta One Arena. Although less size and amenities compared to BRCC, Cainta One Arena has been a multi-purpose events place for the people of Cainta. Known to be a flood-prone area, aside from being utilized in sports and public events, the arena also serves as an emergency relocation for residents displaced by floods and other natural calamities. These LEEs are all within the first legislative

district of the Province of Rizal, who is represented by a common congressman at the Philippine House of Representatives. Known to be first class municipalities, it is also worth noting that compared to other lower-class municipalities in the country, these municipalities have the privilege to invest their financial resources to other types of revenue generating infrastructures where they can earn aside from the constitutionally granted Internal Revenue Allotment (IRA).

## Results and Discussion

The following data presented are related to socio-economic factors as primary results of local investments efforts of LGUs through LEEs are presented on Table 2.

*Table 1 Three (3) year averages of results and annual growth rates of Local Economic Enterprises 2014-2016 (source: collected documents from LGUs)*

MUNICIPALITY	LOCAL ECONOMIC ENTERPRISE	JOB CREATION	EMPLOYMENT	BUSINESSES (MSMEs)	REVENUES
<b>BINANGONAN</b>	BINANGONAN RECREATION AND CONFERENCE CENTER	-10.94%	100%*	33.88%**	↑ 55.29%
- 2014-2015		↑ 5.88%	100%	↑ 35.52%	-48.32%
- 2015-2016		↓ 27.77%	100%	↑ 32.24%	↑ 158.09%
<b>ANGONO</b>	ANGONO PUBLIC MARKET	↑ 11.61%	80.20%	100%**	Php 3,320,660.90
- 2014-2015		7.77%	↓ 17.88%	100%	↑ 28.14%
- 2015-2016		15.46%	↓ 2.49%	100%	↑ 14.68%
<b>CAINTA</b>	CAINTA ONE ARENA	100%	100%*	↑ 13.05%	Php 34,675
- 2014-2016		NDA	100%	↑ 11.11%	NDA
- 2016-2017		100%	100%	↑ 15%	↑ 21.01%
<b>TAYTAY</b>	TAYTAY MUNICIPAL TIANGGEE	50%	81.89%	-34.94%	Php 3,472,034.74
- 2014-2015		↔ 0%	↑ 24.56%	↑ 24.56%	↓ 66.51%
- 2015-2016		↓ 50%	↑ 75%	↓ 59.50%	↑ 365.46%

\*\*Combined businesses created directly and indirectly related to BRCC  
\* Government mandated job items necessarily filled

Overall, the highlighted texts on the table represents the (three) 3 year average measure of performance according to the documents secured from the participating LGUs. Whereas, the rows below each three (3) year performance measure average for each municipality represents the growth or decline rates for each year.

Generally, the data showed that each LEE performed differently in all aspects. There was no LEE that consistently performed positively which may be associated with the difference in nature of each LEE. On the Job Creation column, there are noticeably more decline than growth in job creation. This decline is associated with the cost-cutting in operation of BRCC and the privatization of the half of the Taytay Municipal Tianggee in 2015, therefore affecting the number of jobs that these LEEs used to provide. The same story is observed for the employment aspect. Since lesser jobs were made available then correspondingly the number of people employed also decreased. For the proliferation of businesses here referring to micro, small, and medium enterprises, positive developments are observed as each LEE contributed to increase the number of businesses registered in their municipalities. Similarly, it was observed that all LEEs earned revenues for their municipalities with Angono Public Market and Taytay Municipal Tianggee earning more than an average of three million pesos (Php 3,000,000+) in three years. Hence, the growth in number of businesses (MSMEs) and annual revenues are positive immediate results of local investments through LEEs.

Looking at the socio-economic developments of the selected municipalities, Table 4.2 revealed the perceptions of the respondents on socio-economic factors attributed to the LEEs. According to

the data, the respondents were aware of their respective LEEs (all Medians=8.0). On the overall, the LEEs were frequently accessible (Median=3.0).

*Table 3 Socio-economic perceptions of respondents among Local Economic Enterprises (source: Author's Survey Results)*

Factors	LEEs				Overall (N=200)
	Angono Public Market (n=50)	BRCC (n=50)	Cainta One Arena (n=50)	Taytay Tiangge (n=50)	
Awareness	8.0 (1.0)	8.0 (3.0)	8.0 (2.0)	8.0 (2.0)	8.0 (3.0)
Accessibility	3.0 (3.0)	2.0 (3.0)	2.0 (3.0)	3.0 (3.0)	3.0 (3.0)
Availability	3.0 (1.0)	3.0 (1.0)	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)
<b>Job Creation</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>4.0 (1.0)</b>	<b>3.0 (2.0)</b>
<b>Income Generation</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (3.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (3.0)</b>
<b>Business Proliferation</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>	<b>3.0 (2.0)</b>
Effectiveness	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)
Sustainability	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)	3.0 (2.0)
Sufficiency	3.0 (1.0)	3.0 (2.0)	3.0 (2.0)	3.0 (3.0)	3.0 (3.0)
Level of Satisfaction	7.0 (3.0)	6.0 (4.0)	6.0 (4.0)	6.0 (4.0)	6.0 (4.0)

*Notes: Values are Median (Range).*

*The following are the interpretations for the Median values:*

*Awareness: 1.0-2.0 No Idea, 2.1-4.0 Unaware, 4.1-6.0 Moderately Aware, 6.1-8.0 Aware*

*Accessibility: 1.0-1.8 Rarely, 1.9-2.6 Sometimes, 2.7-3.4 Frequent, 3.5-4.0 Very Frequent*

*Level of Satisfaction: 1.0-2.0 Strongly Disagree, 2.1-4.0 Disagree, 4.1-6.0 Agree, 6.1-8.0 Strongly Agree*

*All other factors: 1.0-1.8 Strongly Disagree, 1.9-2.6 Disagree, 2.7-3.4 Agree, 3.5-4.0 Strongly Agree*

However, BRCC and Cainta One Arena were sometimes accessible (Median=2.0). Likewise, the constituents agreed that the LEEs were available for use, created jobs for them, generated revenues to their municipalities, helped in the proliferation of businesses, effective, sustainable, and sufficient (all Medians=3.0). Also, according to the respondents in Taytay, they strongly agreed that the municipal tiangge created jobs to its people (Median=4.0). Meanwhile, the overall level of satisfaction showed that they agreed to the socio-economic developments contributed by the LEEs to their respective municipalities (Median=6.0). Illustrated below are the distribution tables for each indicator of socio-economic development measured in this study.

This study also aimed to determine whether there were significant associations between LEEs and the socio-economic developments in the area. Table 4.3 below showed the results of the analysis. Based on the data, awareness (P-value=0.006), accessibility (P-value<0.001), job creation (P-value<0.001), income generation (P-value<0.001), business proliferation (P-value<0.001), sufficiency (P-value=0.003), and the overall level of satisfaction (P-value<0.001) have statistically significant associations with the presence of these LEEs. However, availability (P-value=0.086),

effectiveness (P-value=0.341), and sustainability (P-value=0.3121) were not significantly related to the LEEs.

*Table 4. Association analysis between socio-economic factors and Local Economic Enterprises.*

Factors	P-value
Awareness	0.006*
Accessibility	<0.001*
Availability	0.086
Job Creation	<0.001*
Income Generation	<0.001*
Business Proliferation	<0.001*
Effectiveness	0.341
Sustainability	0.3121
Sufficiency	0.003*
Level of Satisfaction	<0.001*

Note: \*Significant at 0.05 level of significance.

### **Conclusion**

At the beginning of this paper, the researcher established the need for an academic investigation on how local government units at present use fiscal decentralization power in becoming self-reliant communities under the Local Government Code of 1991. The code enabled all local government units in the Philippines to create their own sources of revenue in pursuit of sustained development. The researcher found that one of the emerging trends in the practice of fiscal decentralization among local government units in the Philippines is the creation of local economic enterprises. According to Manasan and Castel (2010) one of the pioneering researchers of Local Economic Enterprises in the Philippines, the number of LEEs in the Philippines has been significantly increasing throughout the years. However, contrary to how the legislators of the Local Government Code envisioned the role of LEEs, LEEs became ineffective entities to help realize development because of wrong appreciation, lack of transparency and accountability and changing roles due to changing socio-political environment. The researcher believed that the assumption of

LGC legislation proponents demanded further verification particularly because at present, local governments become more entrepreneurial and innovative in creating Local Economic Enterprises. In this paper the researcher attested that Local Economic Enterprises as an entity created out of fiscal autonomy, can be an effective way to achieve immediate outcomes in socio-economic development of provinces, cities and municipalities other than Metro Manila.

The researcher chose four (4) 1st class municipalities clustered as a Legislative District in the Province of Rizal. These are municipalities of Cainta, Taytay, Angono and Binangonan. These municipalities over the last 5 years moved up to the rankings and by 2016 they were already part of the Top 10 Most Competitive Municipalities (1st Class) according to the National Competitiveness Council. This observation motivated the researcher to consider this phenomenon as the basis of how fiscal decentralization through LEEs can be significant in the development of municipalities outside Metro Manila.

The main objective of the study was to determine how effective is fiscal decentralization manifested through local investments in terms of the creation and operation of Local Economic Enterprises in achieving immediate outcomes indicating socio-economic development. Based on the findings, combining the results of the documentary and statistical analyses, the respondents' assessment of LEEs performance based on the three (3) indicators of socio-economic development which are job creation, income generation and business proliferation, the researcher can conclude that LEEs contribute to the acceleration of socio-economic development. Similarly, this research confirmed that there are statistically significant relationships between LEEs and these three (3) factors. However, this research found out that there is a low correlation or definite but small relationship between the presences of LEEs sustainability of its benefits as well as the effectiveness of the LEEs as a government entity in delivering public goods or services to the people. This can be attributed to the entrepreneurial nature of LEEs which are also businesses that are also vulnerable to risks and other market behavior that can be a threat to its existence. In the earlier part of this research, it was explained that while LEEs are owned and managed by the Local Government Units (LGUs) they are investments that are targeted to achieve certain objectives towards sustainability and socio-economic development. Hence, the income coming from these LEEs are used for its operation first before the surplus goes to the general fund. If LEEs continued to fail and will not earn, local governments can let go of these LEEs since they are not benefiting from such anymore. Given the limitations of this research, the researcher believes that this study has investigated on three (3) critical factors indicating immediate outcomes of socio-economic development that are very relevant to the people living in the municipalities. Likewise, the conclusions of this research will contribute to the better appreciation and application of the Local Government Code among local government units and their leaders.

### **Recommendations**

There are several gaps from the researcher's knowledge about decentralization and local governments, performance assessment and the dynamics of socio-economic development which are not covered by this study. For future researchers, the researcher recommends ways to improve and further verify the hypotheses used in this study. Also, this study offers a number of practical recommendations for policymakers, national and local government officials that will help improve the operation and management of local economic enterprises.

### **Theoretical Recommendations**

The study covered a whole legislative district composed of four (4) municipalities, all of which are 1st class municipalities which means they have enough financial resources. Also, the study only covered one (1) LEE per municipality, these are categorized into two kinds of LEEs; 1) sports and recreation facility and 2) public or flea market. The researcher suggests to cover other classes of municipalities or cities for example lower class municipalities, component cities (CC), independent component cities (ICC) highly urbanized cities (HUC) and investigate how fiscal decentralization through LEEs are utilized depending on the financial standing of these municipalities. Similarly, in comparing LGUs, the type of LEEs can be homogenous so that research findings can be more specific to a type of LEE. This research also only covered three (3) fiscal years in consideration of a single term of a local chief executive.

Future research could cover as long as nine (9) years or a full term of a local chief executive and conduct an in-depth analysis of how a local chief executive's leadership affect the operation and management of LEEs in achieving its objectives. Other options of looking into other factors affecting the performance of LEEs such as financial accountability, human resources, marketing strategies and the like. These other underlying factors which are not thoroughly discussed in this paper will bring about new perspectives in local government administration.

To robustly capture the outcomes and effects of LEEs, there are more methodological work that are needed aside from the methods used in this research. Future researchers can do Focus Group Discussions in gathering primary data especially in capturing in full detail the experiences of direct beneficiaries of LEEs. Also, there is more room for socio-economic analysis and exploration of impact to local governments when LEEs objectives are not met. The study only used three (3) indicators of socio-economic development, and these are insufficient to totally understand socio-economic development. And so, to further probe into this interdisciplinary concept, other factors such as education, health, and culture which are fundamental issues that relate to socio-economic conditions. Although methodically challenging, this research recommends having a full Cost-Benefit analysis of local governments' spending on Local Economic Enterprises. This would be beneficial in studying if LEEs are already becoming a liability instead of an asset for the local government. It is also recommended to use as main references the Local Development Plan and Local Investment Plans of each local government unit as they will be significant in forming the context of research of the same nature. These documents will provide more substance to a more technical analysis in Local Fiscal Administration since this will allow researchers to have a perspective on how local governments allocate their resources to local investments such as local economic enterprises and how much do local government units spend in the improvement of the facilities, goods, and services these entities offer.

Future researchers can also include the use of Internal Revenue Allotment of different LGUs and how this affects or influences the operation and management of LEEs. This will be key in knowing how revenues are mobilized within a local government unit under the present local government code. It is also worth considering having an analysis on the trend for Annual Public Investment allocated to certain number of percentages to LEEs in a given period divided between Physical or tangible investment in infrastructures, capacity building or intangible investments, and consumption of goods and services like welfare benefits and pensions.

### **Practical Recommendations**

The study investigated on the role of local economic enterprises as local government investment in the achieving immediate outcomes indicating socio-economic development in municipalities. All three (3) indicators of socio-economic development were found positively related to local economic enterprises. Combining the best practices of each municipality and the results and conclusions of this study, here are some of the recommendations to consider for all government agencies concerned:

#### 1) Creation of Municipal Economic Enterprise Office

The Local Government Code of 1991 empowered local government units to create offices whenever it is necessary especially in aid of a more efficient public service delivery. Sec. 76 of the Local Government Code states:

*Every Local Government Unit shall design and implement its own organizational structure and staffing pattern taking into consideration its service requirements and financial capability, subject to the minimum standards and guidelines prescribed by the Civil Service Commission; (Local Government Code, 1991)*

There are four (4) municipalities investigated in this study, all of which are categorized as 1st class municipalities. Among the four (4) municipalities investigated, only two (2) of the four (4) municipalities have an office specifically created to supervise the creation, development, and management of their economic enterprises. The Municipality of Taytay has created the Municipal Economic Enterprise Development and Management Office (MEEDMO) which supervises the creation, operation, development, and management of existing and future economic enterprises of the Municipality of Taytay. In an interview conducted by the researcher with an administrative

officer at the MEEDMO of Taytay, prior to the creation of their office, LEEs were managed by different offices such as the Business Permit and Licensing Office (BPLO) or through appointed LEE managers directly reporting to the Office of the Mayor. It was also added by the resource person that at present, the municipal government of Taytay through the MEEDMO has experienced better coordination, monitoring, and evaluation of LEEs because of the office.

The other municipality that maintains an office for LEEs is the Municipality of Cainta. The enactment of Municipal Ordinance 2011-008 by the Municipality of Cainta paved the way for an inclusive management of LEEs in their municipality. Under the ordinance, all public markets, public cemeteries, sports, recreation, and cultural facilities will be under the Municipal Economic Enterprise Office.

The experiences of the Municipalities of Taytay and Cainta are pieces of evidence supporting the recommendation of this study for the creation of a separate department tasked to create, develop, operate and manage economic enterprises in local government units. As for the other two Municipalities investigated in this study, there are future plans to create an Economic Enterprise Office as well. At present, economic enterprises of operated and managed by the Municipalities of Binangonan and Angono Rizal are managed through appointed LEE managers directly reporting to the Office of the Mayor. The Angono Public Market for example is managed by a Market Master who's in-charge of the overall operation and management of the public market. For the case of Binangonan Recreation and Conference Center (BRCC), it is managed by an administrator who also manages the other business within the BRCC complex.

While this setting could still be effective, the researcher believes that the set-up lacks efficiency especially in the fiscal management aspect. Citing the input of the municipal councilor interviewed as one of the Key Informants of this study, there should be an office that manages all LEEs and the special accounts created for them. Most of the key informants also expressed the need for a more transparency and accountability in managing LEEs. The Local Government Code under Sec. 313 indicates the maintenance of a special account for economic enterprises separate from the general fund. If a municipality owns and operates several economic enterprises, then it is required to maintain a separate account for each of these economic enterprises. Therefore, it is more efficient for one office to manage and record the financial resources of economic enterprises as the same provision of the code mandates that revenues from LEEs shall be used to sustain its operation and only surplus revenues should accrue to the general fund. Likewise, this ensures the public that the revenues earned by the LEEs are used for the improvement of public service delivery.

## 2) Use of DBM Manual on Setting Up and Operation of Local Economic Enterprises

In 2016, the Department of Budget and Management developed a manual that will guide local government officials in creating and operating their municipality's economic enterprises. The said manual contains recommendations as to how can municipalities maximize their funds in investing for the creation of an LEE. It is a product of an in-depth and continuous work of technical working groups commissioned by the Department of Budget and Management with support coming from the European Union.

In an interview conducted by the researcher to a Municipal Budget Officer of Angono, Rizal who is also a Key Informant in this study, the officer mentioned that the municipality was chose to be one of the pilot municipalities to use the DBM Manual. When asked on how it helped the municipality in the operation and management of economic enterprises, the officer said that the manual significantly help in the management of finances of economic enterprises. In view of that, the Angono Public Market instituted computerized collection system and accounting records.

Because finances are well-managed, Angono Public Market was able to continuously earn more than it was expected to earn and has been contributing to the general fund of the municipality.

The findings of this research support the call of the Department of Budget and Management for all local government units to adopt the Manual on Setting-up and Operating Local Economic Enterprises as prescribed by the department through Local Budget Circular No.111 which was issued in 2016. This will not only be helpful in creating new LEEs but also help in the assessment or evaluation of existing economic enterprises whether these LEEs are performing, or underperforming based on their objectives.

### 3) Creation of Business One-Stop-Shops

The Local Government Code recognizes the role of the private sector to as partners of LGUs in the provision of basic services (Local Government Code, 1991, pp. Sec. 3-L). In this study, one of the three main indicators of socio-economic development is business proliferation. In Chapter 1.5 the researcher assumed that LEEs contribute to the increase of local businesses and was affirmed by the findings of this research as discussed in Chapter 4.4. Thus, it established the fact that local business increase as an effect of local economic enterprises. According to the key informants, one of the problems in terms of Local Fiscal Administration is poor collection. This can be attributed to the bureaucratic of municipal governments which are vulnerable to red tape and other forms of corruption. Throughout the course of data gathering for this research, the researcher has observed that only the Municipalities of Taytay and Angono have a permanently functioning facility for Business One-Stop-Shop while Municipalities of Binangonan and Cainta still settles for the Business Permit and Licensing Office. Business One Stop Shops are established to reduce bribery in the bureaucracy and to have a more systematic and convenient environment for the people while transacting with the government. Business One Stop Shop is defined by law under Republic Act 11032 or the “Ease of Doing Business and Efficient Government Service Delivery Act of 2018” as:

Sec. 4 (B) Business One Stop Shop — a single common site or location, or a single online website or portal designed for the Business Permit and Licensing System (BPLS) of an LGU to receive and process applications, receive payments, and issue approved licenses, clearances, permits or authorizations; (Ease of Doing Business and Efficient Government Service Delivery Act, 2018, p.

2). The presence of this kind of facility in the municipal government will enhance and accelerate the process of business-related transactions without the inconvenience of bureaucratic practices in the government. It will be an advantage for private entrepreneurs to easily register their businesses and in effect the fees and charges from these business-related transactions will accrue to the general fund of the municipalities. Therefore, it will be advantageous for both parties, for the people and the government to have this kind of facility that enhances government efficiency and encourages entrepreneurs to legally operate their businesses.

### 4) Organizing Tourism or Marketing Promotions for LEEs

Local economic enterprises are created to provide basic goods and services to the people as well as generate income for local government units. But LEEs are also business entities that are vulnerable to different market behaviors. Thus, LEEs can also underperform or miss the set objectives for the year. This research then recommends for LEE managers to employ different marketing strategies especially for economic enterprises that are categorized as “other economic enterprises” under the Local Government Code which means these are out of the “basic services” category.

Four (4) out of the five (5) key informants of this study cited “competition with bigger companies” as one of the problems encountered by LEEs in relation to socio-economic condition of their municipalities. Bigger companies have long established a reputation and better branding and marketing strategies for the people to continuously patronize them. Thus, the presence of these big companies poses a threat to local economic enterprises who are limited by the budget appropriated to them by the LGU.

In this study, the LEEs investigated on this study are identified into two (2) categories which are public market and sports and recreation facility. Among the four (4) LEEs, only Angono Public Market did not use any marketing strategy because according to their officials they believe the public market is also a “basic need” for the people. True enough, Angono Public Market was continuously earning over the last years despite the competition from large supermarkets present in their Municipality. But for the other three (3) LEEs investigated on this study, the researcher has observed that these LEEs use tourism and marketing strategies to proliferate the income of their respective LEEs. In the case of Binangonan Recreation and Conference Center (BRCC), the municipal government of Binangonan registered as an Adventure and Ecotourism Facility duly accredited by the Department of Tourism. Also, as a sports and recreation facility, the BRCC management also offered discounts on the rental and usage fees during the summer season as part of their promotions. Same promotion activities were done by Cainta One Arena during peak season including sports clinics sponsored by the municipal government.

The municipal government of Taytay also implements various marketing strategies and tourism promotion activities to boost the business environment of Taytay Municipal Tiangge. Interviewing the Municipal Tourism Officer of Taytay, the officer said that because Taytay does not have any natural scenery or bodies of water that they can be used for tourism, they are now promoting Taytay Tiangge as a tourist site of the municipality. An increase in the popularity of Taytay Tiangge is the multiplying videos of shoppers sharing their experiences on different social networking sites. The Garment’s Capital of the Philippines has been successful in promoting the LEE as it was the biggest earner for the municipality for the last five (5) years.

#### 5) Review of the Local Government Code of 1991

One of the pillars of this study is the Local Government Code of 1991. It has been expressed by the researcher in Chapter 1.3.2 that the study will be significant in the mandated review of the code which was not done in almost thirty (30) years. The researcher echoes the necessity for the review of the code as mentioned in Section 521 to update the fundamental law on local governments and decentralization to the present socio-political and economic condition of the country. For example, the study mainstreamed LEEs and there are only few provisions on how LEEs should be created, operated and managed. There should also be a provision penalizing local government officials; elected or civil servants who violate or conspires to violate the provision of maintaining a special account for LEEs. Similarly, Furthermore, it will be better to institutionalize the recommendations of the DBM in setting-up and operating LEEs by incorporating them in the Local Government Code as a separate chapter in the code. This will make necessary feasibility studies, cost-benefit analyses, and other precautionary studies that will anticipate problems were local investments through LEEs may fail. If only the review of the code was done regularly every five (5) years substantial amendments and reforms could have been done and local governments can maximize on devolved powers and decentralized functions in the interest of developing the social and economic conditions of their localities. Since local authorities change especially with changes in political leadership, the law should be kept updated with the changes in political environment, culture, economic conditions, and other socio-political circumstances that may affect local governance.

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