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TOWARDS FISCAL SUSTAINABILITY

*An Income and Expenditure Review among the Local Government
Units in the Bangsamoro Autonomous Region in Muslim Mindanao*



ACKNOWLEDGEMENT

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We are equally grateful to the Bangsamoro Treasury Office for their insights that have significantly contributed to the depth and accuracy of our analysis.

Lastly, we appreciate the cooperation of all the parties involved, whose collective input has been vital in enhancing the fiscal understanding of the LGUs in the BARMM. Your contributions are deeply appreciated.

ABOUT THIS BRIEFER

This document provides an analytical review of the financial performance of Local Government Units (LGUs) within the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM). Utilizing the Statement of Receipts and Expenditures (SRE), it offers an in-depth examination of the LGUs' fiscal trends over time, exploring the composition and trends of both income and expenditures.

The analysis encompasses local and external revenue sources, operational and capital expenditures, and the resulting fund balances, all of which paint a picture of the region's fiscal health and sustainability. The briefer aims to inform policy makers, stakeholders, and the public about the financial stewardship of the BARMM LGUs, highlighting areas of progress, emerging challenges, and opportunities for enhancing fiscal management and regional development.



INTRODUCTION

The Statement of Receipts and Expenditures (SRE) is a key financial report used by local government units (LGUs), including those in the BARMM, to document and manage their financial activities. It provides a detailed and transparent account of the LGU's financial transactions over a specific period, usually a fiscal year.

The SRE serves several pivotal roles in local governance. Primarily, it assists LGUs in budgeting and financial planning by providing a historical view of income and expenditure patterns, enabling them to make more informed projections for future budgets. It also plays a critical role in ensuring transparency and accountability by offering a clear and detailed view of financial transactions, thus ensuring the responsible use of public funds.

Furthermore, the SRE is instrumental in policy formulation and decision-making processes, as it serves as a foundational basis for making informed decisions regarding resource allocation and fiscal policies. In essence, the SRE stands as a vital tool in local governance, underpinning financial transparency and accountability, and facilitating informed decision-making and effective management of public resources.

Overview of the Contents of the Statement of Receipt and Expenditure	
LOCAL SOURCES	Revenue generated from within the LGU's jurisdiction.
TAX REVENUE	Monies collected from taxes imposed by the LGU.
NON-TAX REVENUE	Income that the LGU earns which does not come from taxes.
EXTERNAL SOURCES	Funds received that are not classified as regular income.
TOTAL CURRENT OPERATING INCOME	The total income earned from regular operations before expenses.
LESS: CURRENT OPERATING EXPENDITURES (PS + MOOE+FE)	Regular expenses for the day-to-day operation of the LGU, including Personnel Services (PS), Maintenance and Other Operating Expenses (MOOE), and Financial Expenses (FE).
NET OPERATING INCOME/(LOSS) FROM CURRENT OPERATIONS	The surplus or deficit from the LGU's operational activities.
ADD: NON INCOME RECEIPTS	Funds received that are not classified as regular income.
NON OPERATING EXPENDITURES	Expenses not related to the LGU's primary operations.
NET INCREASE/(DECREASE) IN FUNDS	The net change in the LGU's funds over the period.
CASH BALANCE, BEGINNING:	The LGU's cash on hand at the start of the period.
FUNDS AVAILABLE	Total funds available for use by the LGU.
LESS: PAYMENT OF PRIOR YEAR ACCOUNTS PAYABLE	Funds that are carried over for continuing
CONTINUING APPROPRIATION	Payments made towards obligations from previous years.

OPERATING INCOME

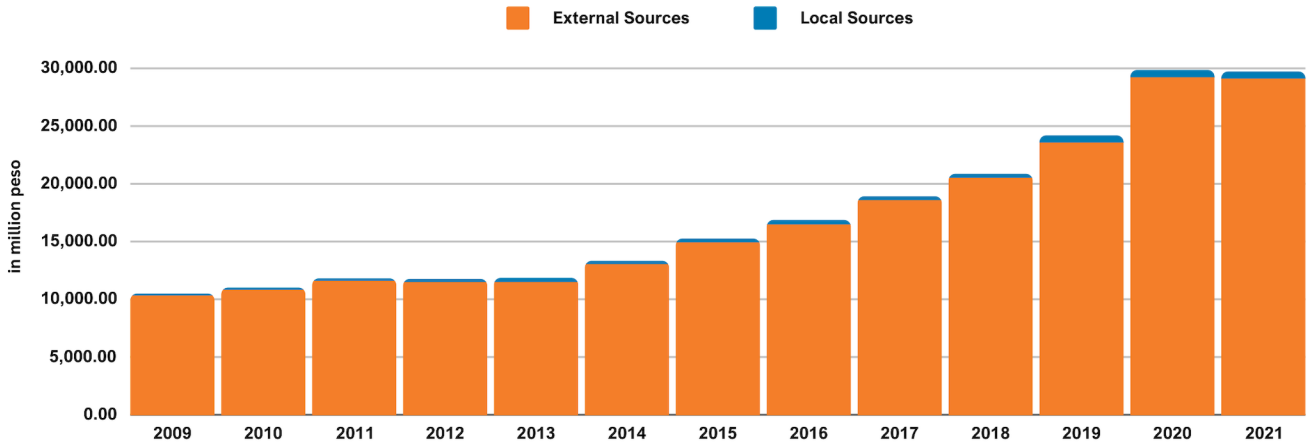


Figure 1. External vs Local Sources of Income among LGUs in BARMM

The reliance of LGUs in the BARMM on external funding sources forms a significant part of their annual operating income, with local sources contributing a smaller, yet important, share. This balance highlights the essential support provided by external funds for LGU operations. Notably, in 2020, the integration of Cotabato City into BARMM marked a significant event, which likely bolstered the collective fiscal performance of LGUs within BARMM.

Local Sources

Local sources have shown a strong growth over the years, indicating an improvement in the region's ability to generate revenue independently, which is critical for self-sustainability and fiscal autonomy.

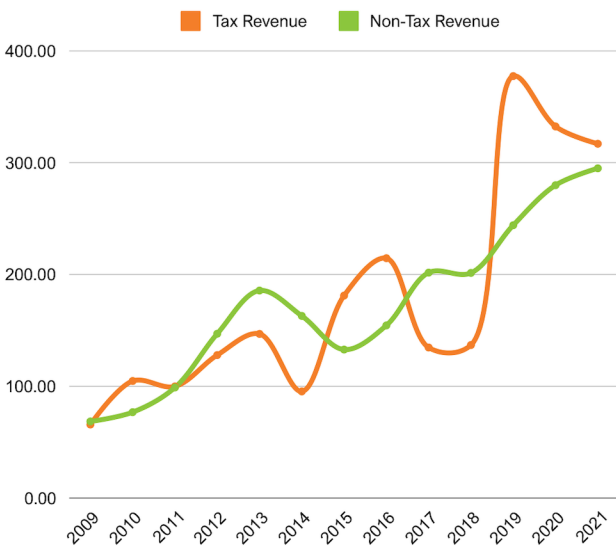


Figure 2. Tax Revenue vs Non-Tax Revenue Collection of BARMM LGUs

Despite the global economic downturn caused by the pandemic, the BARMM LGUs demonstrated resilience in their revenue collection, with tax revenue reaching 332.43 million and non-tax revenue growing to 279.88 million. This resilience can be attributed to adaptive fiscal measures and possibly the expanded tax base and increased non-tax revenue sources following the incorporation of Cotabato City. The pandemic's impact, however, did lead to a decrease in tax revenue compared to the peak in 2019, underscoring the economic strains but also highlighting the importance and potential of diversifying revenue streams beyond traditional taxation to mitigate financial shocks.

Tax Revenue

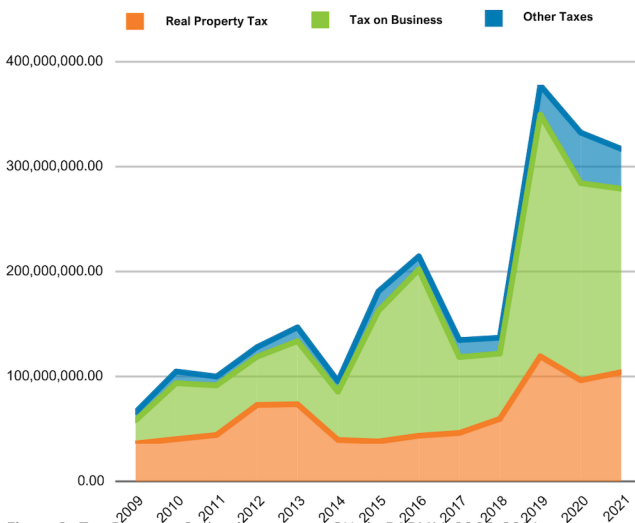


Figure 3. Tax Revenue Collection among LGUs in BARMM, 2009-2021

The observed trends in tax revenue from 2009 to 2021, notably the significant increase in 2020, reflect the collective tax revenue from the LGUs within the BARMM. This increase, particularly in business tax revenue during the global economic downturn caused by the COVID-19 pandemic, can be partially attributed to the strategic inclusion of Cotabato City into the BARMM. This administrative expansion has indeed broadened the tax base by incorporating the economic activities and business taxes from Cotabato City into the collective revenues of the LGUs in the region.

However, it's crucial to recognize that this rise in business taxes and other tax revenues is influenced by a complex interplay of factors beyond just the inclusion of Cotabato City. Economic and fiscal policies, enforcement measures, and possibly the economic resilience or growth within specific sectors or LGUs in the region during the pandemic have also played significant roles. The overall economic conditions, policy responses to the pandemic, and the diversification of revenue sources across the LGUs significantly impact these figures. Hence, while the administrative expansion of including Cotabato City is a strategic move that positively impacts the region's fiscal capacity, the broader economic activities within the BARMM, shaped by various factors, also contribute to the observed trends in tax revenue, especially the notable increase in 2020 amidst challenging global conditions.

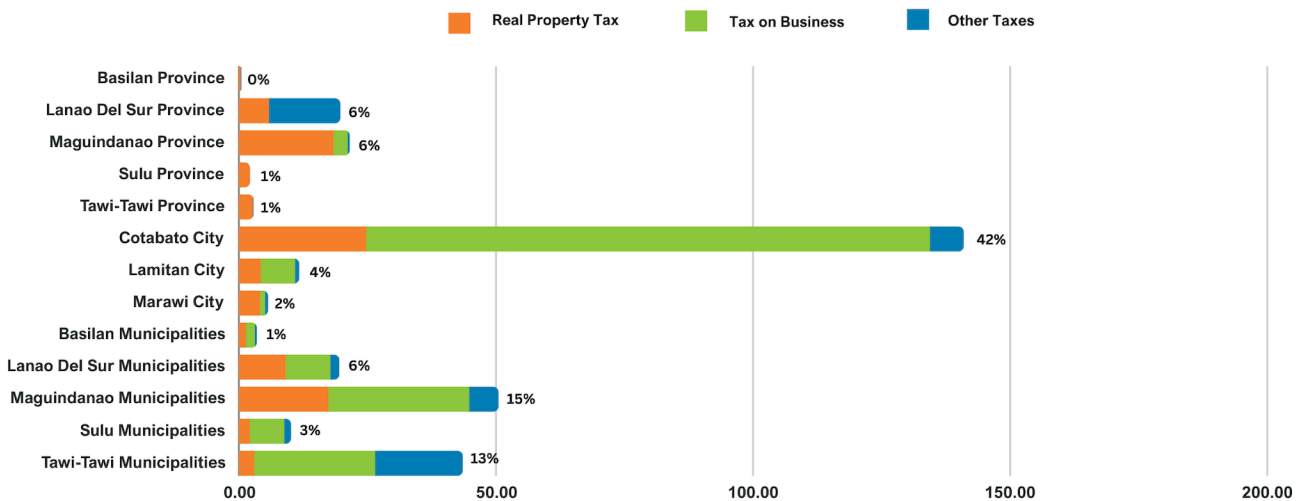


Figure 4. Tax Revenue Collection by LGU, 2020

In 2020, Cotabato City (42%) stands out as a significant contributor of tax revenue in the region, particularly in business taxes, highlighting its economic importance and the strategic advantage of its inclusion in the BARMM. Other areas within BARMM show varied tax contributions, reflecting the economic diversity and different levels of administrative efficiency. The data points to the need for fiscal policies and support mechanisms that are tailored to the unique economic and administrative contexts of each LGU, emphasizing the role of strategic decisions like Cotabato City's inclusion in enhancing regional fiscal capacity and promoting balanced economic growth and effective tax collection across the BARMM.

Non-Tax Revenue

A consistent increase in regulatory fees underscores the expanding regulatory environment and the corresponding rise in business activities requiring oversight, suggesting an overall economic expansion within the LGUs. Similarly, the growth observed in service and user charges, despite some fluctuations, indicates an increased reliance on and valuation of public services provided by LGUs. The significant upward trend in receipts from economic enterprises, particularly pronounced in recent years, points to effective management and growth of LGU-operated businesses, contributing increasingly to the local economy.

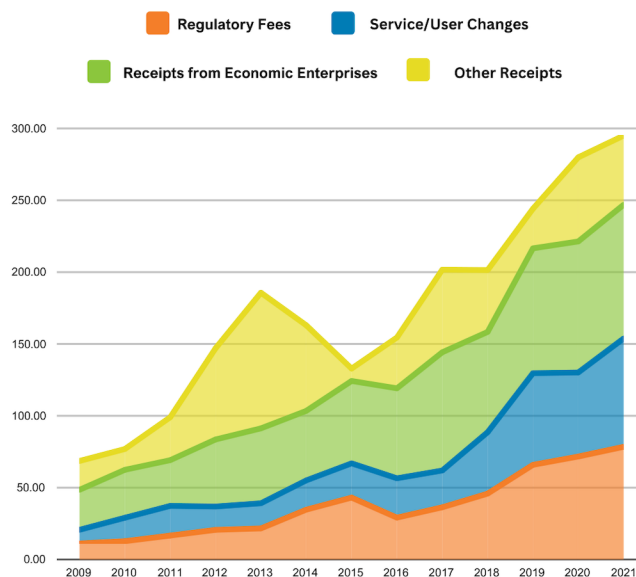


Figure 5. Non-Tax Revenue Collection among LGUs in BARMM, 2009-2021

The other receipts' category, while variable, follows an overall growth trajectory, capturing a wide array of non-tax revenue sources from fines and penalties to miscellaneous income, reflecting the diversity and complexity of LGU revenue streams. The distinct landscape of 2020, marked by the pandemic and Cotabato City's entry into the region, did not uniformly affect these revenue categories, highlighting the varied sensitivities of non-tax revenue streams to external shocks and administrative changes. While regulatory fees and service/user charges may react more directly to shifts in economic activity and regulatory landscapes, receipts from economic enterprises and other receipts demonstrate the potential for strategic adaptation and resilience among LGU-operated entities

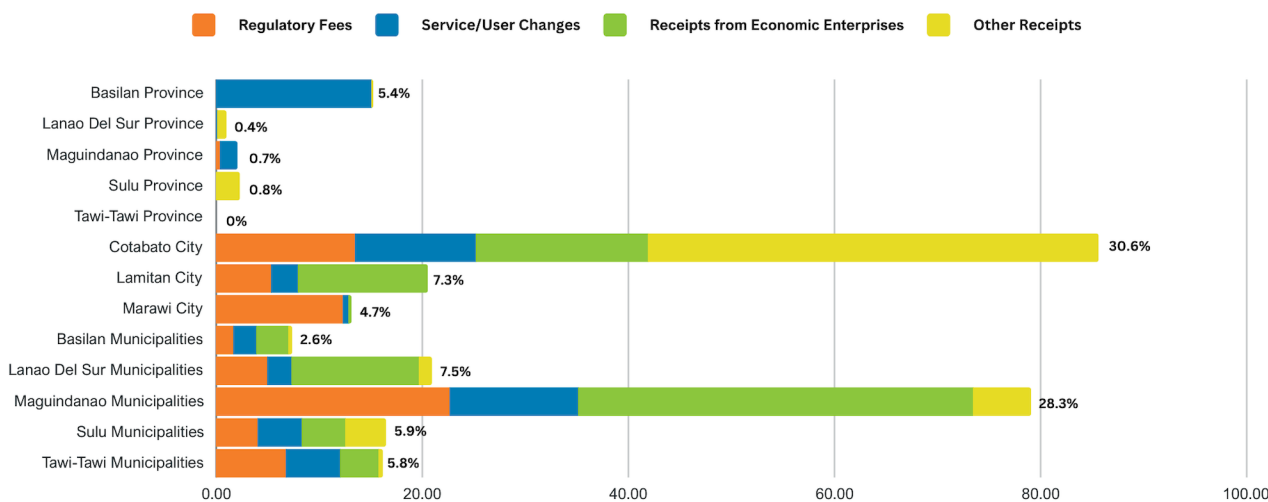


Figure 6. Non-tax Revenue Collection by LGU, 2020

The 2020 breakdown of non-tax revenue across BARMM LGUs highlights Cotabato City (30.6%) as a predominant contributor in all categories, underscoring its vibrant economy and strategic inclusion in the BARMM. Maguindanao municipalities also demonstrate notable contributions, especially in regulatory fees and economic enterprises, indicating active local economies. Other regions show varied levels of revenue, with some areas also reporting minimal contributions, reflecting disparities in economic development and revenue collection capabilities. This diversity underscores the need for tailored economic and fiscal strategies to bolster non-tax revenue generation across the BARMM, leveraging the strengths of areas like Cotabato City while addressing the developmental challenges of less contributing LGUs.

External Sources

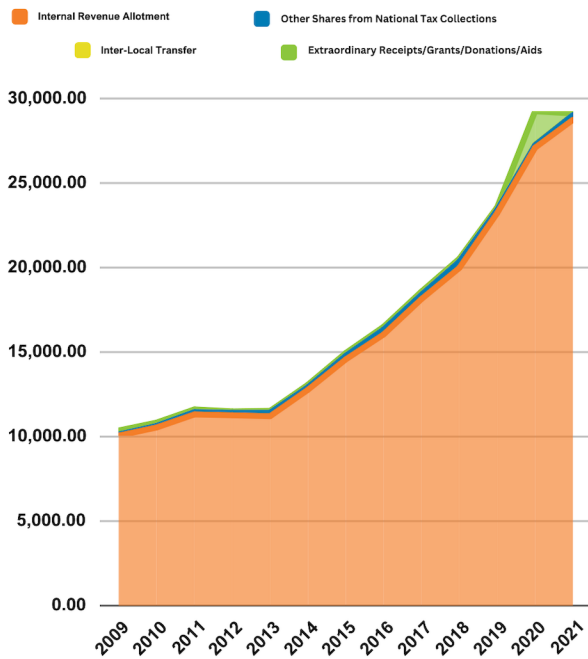


Figure 7. External Sources of Income among LGUs in BARMM, 2009-2021

The Internal Revenue Allotment (IRA), now called National Tax Allotment (NTA), plays a pivotal role in the fiscal structure supporting LGUs, showing a consistent upward trajectory that underscores its significance in the redistribution of national tax revenues. This steady rise is crucial for supporting local governance, enabling development projects, and enhancing service delivery, thereby highlighting the essential role of national redistribution mechanisms in ensuring local fiscal health. The prominence of the IRA in the external revenue sources, with its substantial and predictable growth, reflects the central government's commitment to empowering LGUs, thereby enabling them to meet community needs and foster local development.

Despite the advantages of the IRA, its overwhelming share in LGU revenues fosters an over-dependence on central government allocations, potentially discouraging LGUs from maximizing local revenue sources. This reliance can make local budgets vulnerable to shifts in national fiscal policies or economic downturns, directly impacting the stability and predictability of IRA allocations. Furthermore, the formula-based distribution of the IRA may not fully capture the specific needs or development priorities of each LGU, leading to concerns about equitable funding distribution across different regions.

Other Shares from National Tax Collections complement the IRA but exhibit more fluctuation, reflecting variances in national tax collection performance and changes in revenue-sharing policies with LGUs. Although generally maintaining a positive trend, these funds underscore the dependency of LGU finances on broader national economic conditions.

Inter-Local Transfer, though smaller in magnitude, signifies the financial collaboration between localities for joint projects or mutual support, highlighting the importance of inter-local cooperation in addressing specific needs or challenges.

Extraordinary Receipts/Grants/Donations/Aids, marked by significant variability, experienced a notable spike in 2020. This increase is likely attributed to emergency funding, international aid, and grants in response to the COVID-19 pandemic, alongside the fiscal implications of integrating Cotabato City into the BARMM. Such extraordinary revenues play a crucial role in bolstering LGU capacities during crises, although they underscore the need for LGUs to have more predictable and stable funding mechanisms to manage unforeseen challenges effectively.

The expected effect of the Mandanas ruling further complicates this financial landscape. By increasing the share of national taxes allocated to LGUs, the ruling is anticipated to significantly boost local government revenues, potentially enhancing local autonomy and the capacity for self-governance. This landmark decision is expected to shift the balance of fiscal responsibility, empowering LGUs to take on a broader range of services and development projects previously managed by the central government.

While this presents an opportunity for more localized decision-making and development, it also places a greater onus on LGUs to manage these additional resources effectively and equitably. The Mandanas ruling, therefore, stands as a critical juncture in the evolution of local fiscal management, posing both opportunities and challenges for LGUs in the Philippines.

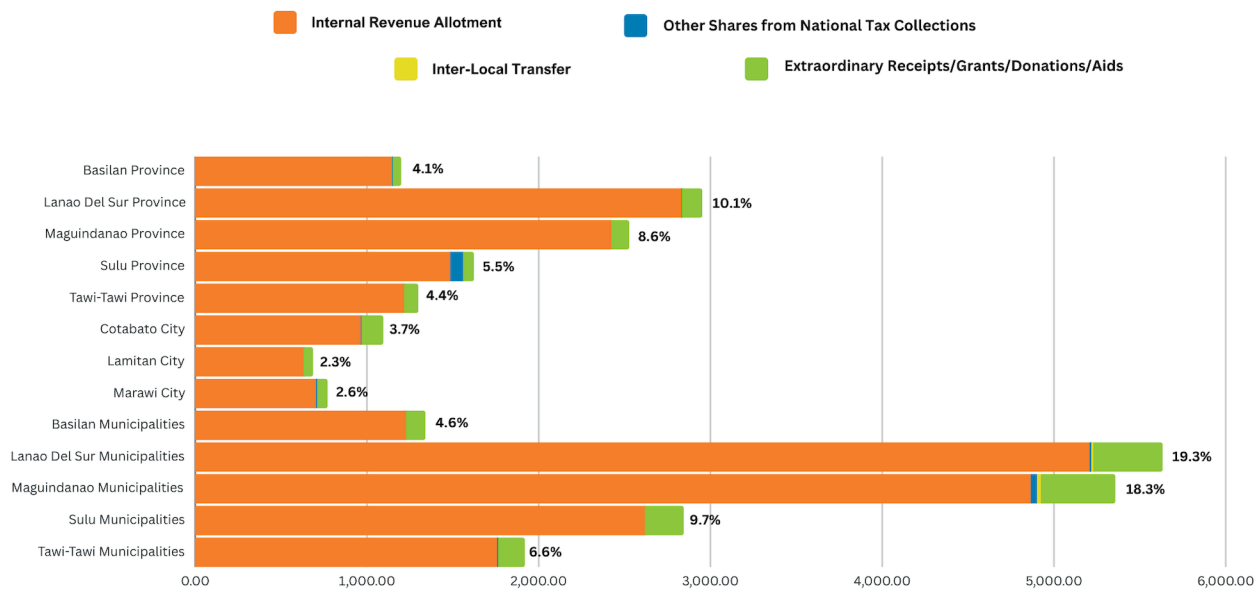


Figure 8. External Sources of Income by LGU, 2020

In 2020, IRA emerges as the cornerstone of support, especially significant for Lanao Del Sur Province and its municipalities, illustrating its crucial role in local administration and development efforts. While Other Shares from National Tax Collections and Inter-Local Transfers highlight national support and the potential for local cooperation, their relatively minor contributions compared to the IRA point to underutilized opportunities for regional collaboration. The notable variability in Extraordinary Receipts/Grants/Donations/Aids, particularly in Lanao Del Sur and Maguindanao Municipalities, underscores the critical role of these funds in enhancing LGU resilience to crises and emphasizes the need for more stable funding mechanisms to support effective governance and development in the face of fluctuating external aid.

Cotabato City

Among the local government units in BARMM, Cotabato City boasts the highest tax collection rate.



OPERATING EXPENDITURE

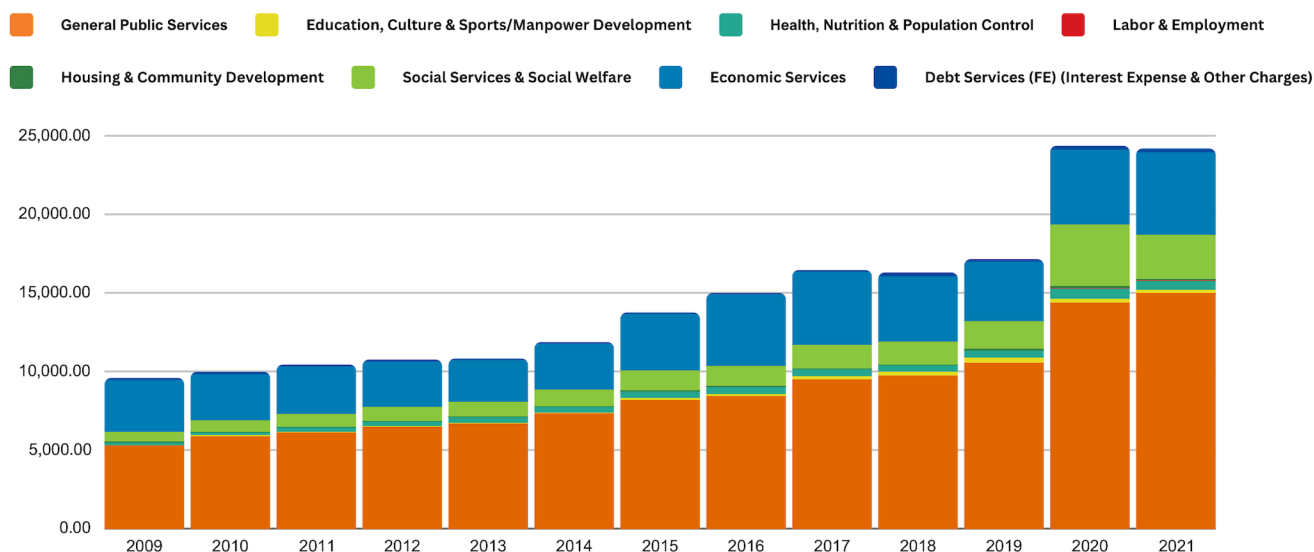


Figure 9. Operating Expenditure of LGUs in BARMM, 2009-2021

The operating expenditure data of LGUs in BARMM from 2009 to 2021 shows a significant and consistent increase across various sectors, reflecting the evolving priorities and growing administrative capacities of the region. Notably, the largest expenditure consistently falls within the General Public Services category, indicating a substantial investment in the foundational aspects of governance, such as administration, public safety, and regulatory functions. This sustained focus underscores the importance of a strong administrative framework to support overall regional development.

Below are the expenditure trends across sector with its Compound Annual Growth Rate (CAGR). CAGR provides a quick insight into expenditure trends across sectors, highlighting government priorities and societal advancement, shaping regional development and governance.



GENERAL PUBLIC SERVICES (CAGR: 8.86%)

The growth in this sector is robust and consistent, slightly below the overall expenditure growth. It indicates a steady increase in government spending on administrative and other public services, which is vital for maintaining the machinery of government and providing essential public goods.



EDUCATION, CULTURE & SPORTS/MANPOWER DEVELOPMENT (CAGR:14.29%)

This sector has experienced the most significant growth rate, which signifies a pronounced emphasis on developing human capital through education, culture, and sports. Such investment can have long-term benefits for productivity and social development.



HEALTH, NUTRITION & POPULATION CONTROL (CAGR: 12.18%)

A substantial annual growth rate reflects increasing prioritization of healthcare services and population control measures. This trend indicates a focus on improving the general health and well-being of the population, which is crucial for a productive society.



LABOR & EMPLOYMENT (CAGR: 6.03%)

This sector shows the highest growth rate, although from a very low base, suggesting a significant escalation in efforts to enhance employment opportunities and working conditions, which is fundamental for economic growth and reducing unemployment and underemployment.



HOUSING & COMMUNITY DEVELOPMENT (CAGR: 2.96%)

The minimal growth in this sector suggests that while there has been some focus on housing and community development, it has not been a major priority in terms of budget allocation compared to other sectors.



SOCIAL SERVICES & SOCIAL WELFARE (CAGR: 13.27%)

The growth rate here is substantial, reflecting an active commitment to social safety nets and welfare programs. This investment is key to addressing inequality and providing support to the most vulnerable segments of the population.



ECONOMIC SERVICES (CAGR: 5.34%)

A moderate growth rate in this sector, which includes expenditures related to agriculture, infrastructure, and commerce, may indicate a measured approach to economic investment, focusing on steady and sustainable development.



DEBT SERVICE (FE) (INTEREST EXPENSE & OTHER CHARGES) (CAGR: 6.12%)

The growth rate in debt service suggests a careful approach to managing debt obligations. While the region is taking on more debt, the moderate growth rate implies efforts to keep debt service manageable within the broader fiscal strategy.

The operating expenditures of LGUs in BARMM demonstrate a clear commitment to addressing the administrative, social, health, and economic needs of the region. However, the increasing expenditures across all sectors, especially amid crises like the COVID-19 pandemic, underscore the need for efficient resource management and sustainable fiscal strategies to support continued development and welfare improvement in the region.

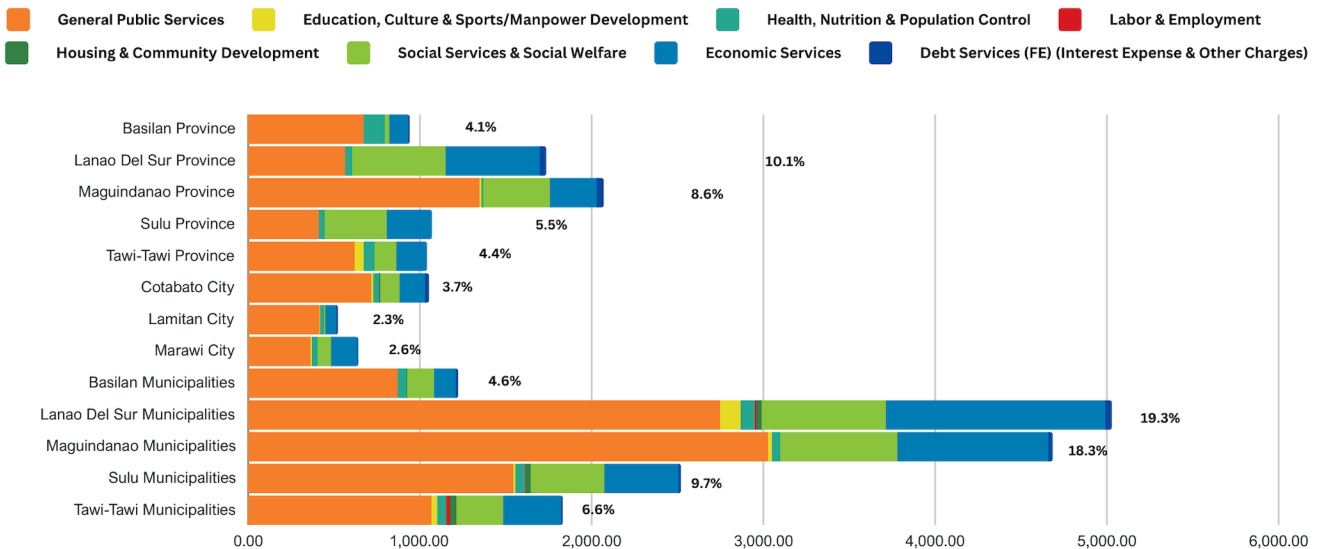


Figure 10. Operating Expenditure by LGU, 2020

The operating expenditure across BARMM LGUs for various sectors illustrates a focused allocation towards General Public Services, emphasizing a strong governance foundation across the region. Education, Health, and Social Services also receive significant attention, highlighting a commitment to human capital development and public welfare, with notable investments in Lanao del Sur and Tawi-Tawi for education and health, and in economic services in areas like Lanao del Sur and Maguindanao Municipalities to stimulate growth. Debt service varies, indicating differing fiscal health and management strategies among LGUs. The minimal expenditure on Housing, Community Development, and Labor & Employment across several LGUs suggests a strategic prioritization of sectors deemed most critical for immediate and long-term development, or a reliance on broader national initiatives for these areas, showcasing a nuanced approach to regional development through targeted resource allocation.

NON-INCOME RECEIPTS

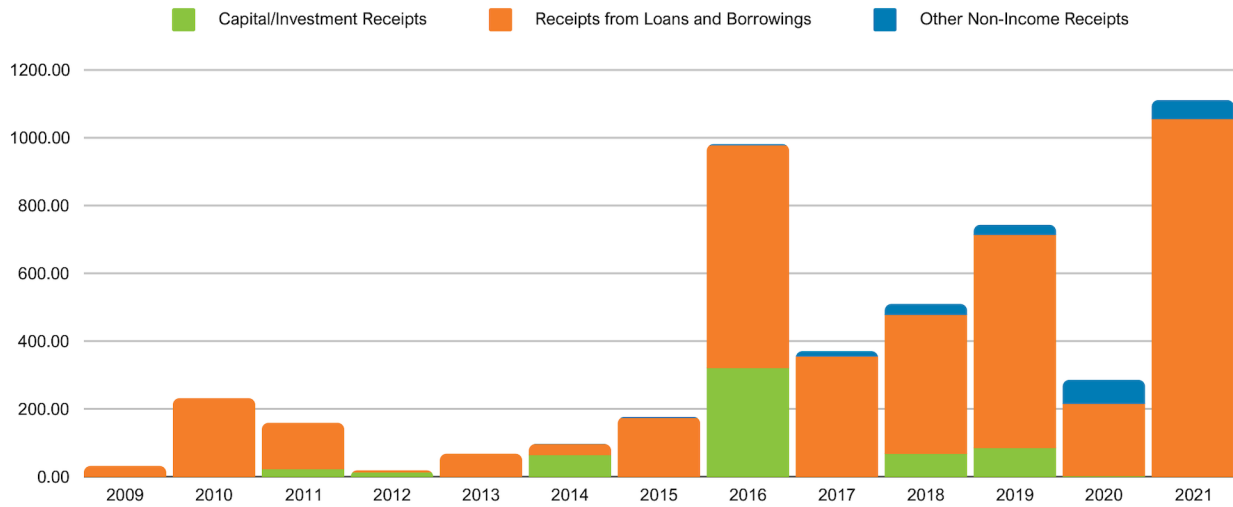


Figure 11. Collection of Non-Income Receipts among LGUs in BARMM, 2009-2021

From 2009 to 2021, LGUs in BARMM have reported a total of approximately 4781.14 million in non-income receipts. The majority of these funds, about 3996.32 million, were sourced from 'Acquisition of Loans', which indicates a significant reliance on borrowing as a primary source of non-operational revenue. This trend suggests that LGUs may be financing major projects or covering budgetary shortfalls through loans. It's important to note that this approach can be sustainable if the loans are used for revenue-generating projects or essential capital investments that will yield long-term benefits for the community.

The proceeds from the sale of assets and debt securities have been minimal, which highlights that asset liquidation and leveraging through financial instruments do not constitute major contributions to the capital funds of the LGUs. Such minimal figures could also imply prudent management of assets and liabilities or potentially a lack of opportunities to generate revenue through these means.

The 'Other Non-Income Receipts' category exhibits some variability, potentially including occasional grants or donations. Notably, there was an increase in this category in 2020, which could correlate with financial adjustments made by LGUs or additional external aid received in response to the economic impact of the COVID-19 pandemic. This influx could be attributed to increased aid from national or international sources to support LGUs in managing the crisis.

Lanao del Sur

Lanao del Sur provincial government and its municipalities significantly benefit from the IRA, which emerges as a cornerstone of support.



NON-OPERATING EXPENDITURE

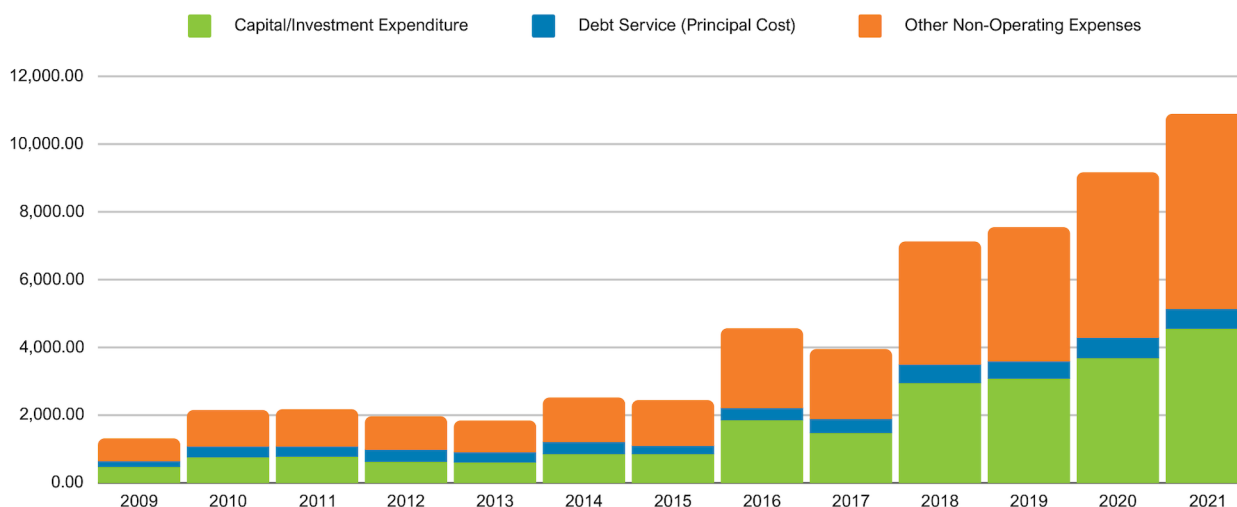


Figure 12. Non-Operating Expenditure among LGUs in BARMM, 2009-2021

Over the period from 2009 to 2021, the LGUs in BARMM have demonstrated a significant and steady increase in non-operating expenditures, indicative of a phase of substantial development and expansion. The sharp rise in Capital/Investment Expenditures, particularly noticeable from 2017 onwards and peaking in 2021, underscores an intensified focus on building and upgrading physical infrastructure, such as property, plant, and equipment. This strategic investment is essential for fostering economic growth, improving public services, and enhancing the overall quality of life for the residents of BARMM.

The Debt Service expenditures have also shown variability, with a general upward trend. This pattern suggests that the LGUs are increasingly resorting to borrowing as a means to finance their capital projects or to manage existing debt obligations. While this can be a practical approach to funding development projects, it also underscores the need for careful financial management to ensure sustainability and avoid excessive debt burdens.

Moreover, the Other Non-Operating Expenditures experienced a remarkable increase post-2015, culminating in significant amounts by 2021. This category could encompass a wide range of expenses unrelated to the core operations of the LGUs, including emergency expenditures, which likely surged due to the COVID-19 pandemic. The pandemic, alongside the administrative changes with the inclusion of Cotabato City, has undoubtedly posed challenges to the financial management and operational priorities of the LGUs, necessitating adjustments in spending patterns to address the immediate needs imposed by the health crisis and the integration process.

The year 2020 stands out as a pivotal moment marked by these significant events, potentially altering the trajectory of expenditures and investments in the region. The inclusion of Cotabato City is poised to bring about demographic, economic, and administrative changes that could influence future investment decisions and financial allocations. Simultaneously, the COVID-19 pandemic has had a profound impact, prompting a reallocation of resources towards health and emergency services, possibly affecting the planned expenditures on capital projects and other developmental initiatives.

FUND BALANCE

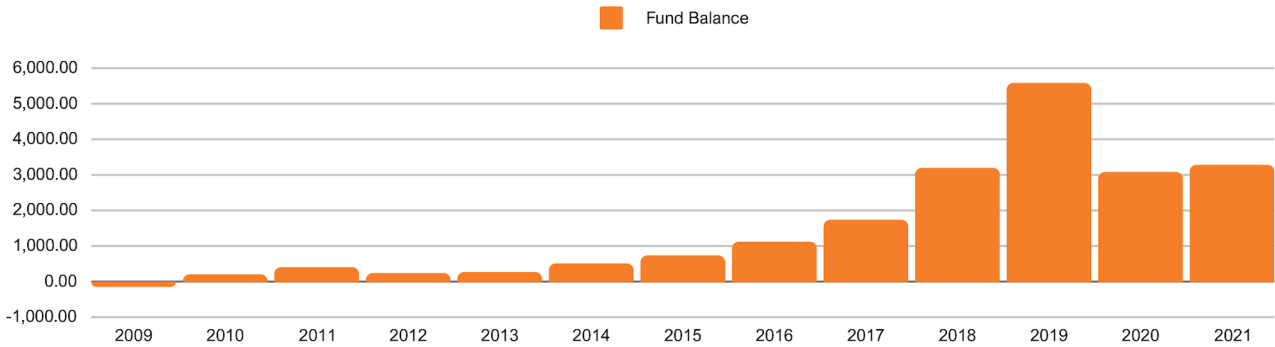


Figure 13. Collective Fund Balance of LGUs in BARMM, 2009-2021

The fund balance of LGUs in BARMM showcased a remarkable recovery from a deficit of -151.73 million in 2009 to a considerable surplus, reaching a high of 5,584.58 million in 2020 and then slightly retracting to 3,283.87 million in 2021. Coinciding with the establishment of the BARMM government in 2019, this financial resurgence underlines a period of enhanced fiscal management and economic resilience. The positive trajectory not only reflects a strengthened financial foundation allowing for strategic development investments without the reliance on debt but also emphasizes the importance of sustainable financial practices amidst dynamic economic factors, as the region charts its path of autonomy and growth.

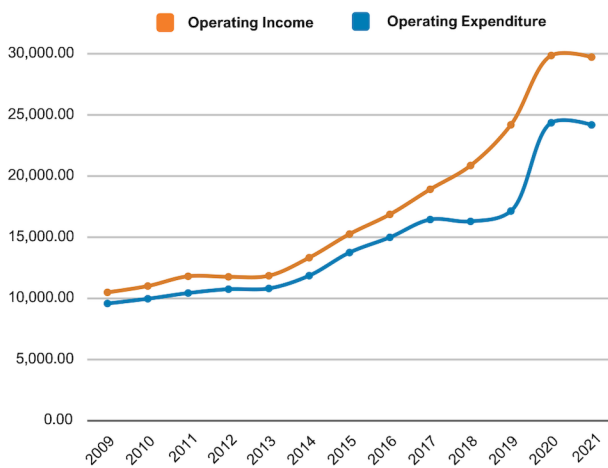


Figure 14. Operating Income vs Operating Expenditure, 2009-2021

Operating income consistently outpaced operating expenditures, contributing to a generally increasing fund balance over the years. This is a strong indicator of fiscal prudence, particularly after the establishment of the BARMM government in 2019, a year that saw a significant increase in operating income to 24,192.03 million compared to operating expenses of 17,143.93 million. The period post-establishment has been marked by robust income growth, reflective of solid financial governance and strategic revenue management.

BARMM's LGUs show an upward trajectory in non-income receipts, contributing additional financial resources beyond regular income. However, there has been a notable increase in non-operating expenditures since 2016, highlighting significant investments in capital projects and debt service. Despite operational surpluses, the rise in non-operational spending to 5,754.71 million in 2021 calls for judicious financial management to maintain fiscal health and support the region's development goals.

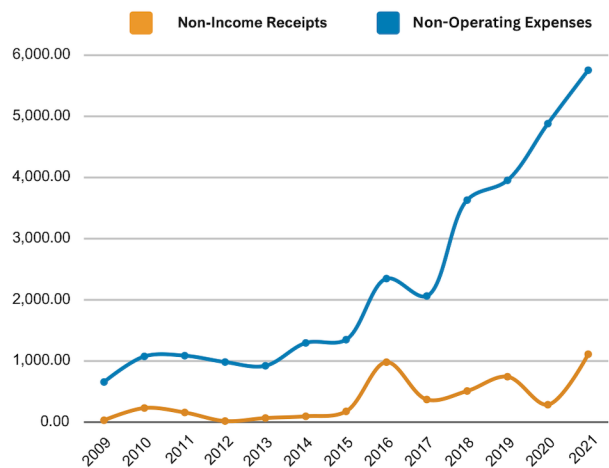


Figure 15. Non-Income Receipts vs Non-Operating Expenses, 2009-2021



CONCLUSION AND RECOMMENDATIONS

The financial analysis of the LGUs in the BARMM presents a multifaceted view of fiscal sustainability and management. Through the detailed examination of the SRE, we've gained insights into the operating income, expenditures, the critical role of external and local revenue sources, and investment in capital and non-operating expenses. The positive fund balances seen in recent years signal a commendable stride towards fiscal health and autonomy, demonstrating LGUs' ability to manage resources effectively, even amidst the challenges posed by external factors such as the COVID-19 pandemic and the integration of new territories like Cotabato City.

To further this, the following are recommended:

- 1. Enhance Local Revenue Generation.** LGUs should continue to explore and implement strategies to bolster local revenue streams, reducing dependency on national allocations. This could involve improving tax collection mechanisms, expanding the tax base, and exploring alternative sources of local income.
- 2. Optimize Expenditure Management.** Regular reviews of expenditure patterns can help identify areas for efficiency gains. LGUs should prioritize spending that directly contributes to sustainable development and social welfare, ensuring that investments yield tangible benefits for their communities.
- 3. Invest in Capacity Building.** To support the effective management of increased fiscal autonomy post-Mandanas ruling, investing in capacity building for local officials and staff in financial management, planning, and governance is crucial.
- 4. Foster Economic Resilience.** Developing strategies to enhance economic resilience will be essential, especially in facing challenges like the pandemic. This could include supporting local businesses, investing in sectors with growth potential, and establishing safety nets for vulnerable populations.
- 5. Promote Transparency and Accountability.** Continuing to improve financial reporting and transparency mechanisms will strengthen trust in local governance. Engaging with communities through public consultations and feedback mechanisms can enhance accountability and ensure that fiscal policies meet the population's needs.
- 6. Strategic Planning for Long-Term Investments.** LGUs should leverage their fund balances for strategic long-term investments in infrastructure, education, health, and economic development projects that have the potential to transform the region and uplift the quality of life of its inhabitants.
- 7. Adapt to the Mandanas Ruling.** As LGUs navigate the increased resources and responsibilities due to the Mandanas ruling, strategic planning and coordination with the national government and among LGUs themselves will be vital to harness these changes for regional development effectively.



ABOUT US

The **Economics Division** serves as the support arm to the Office of the Minister, tasked to undertake research, and examine economic data/trends for the continuing formulation of fiscal and other development policies and processes toward efficient and responsive fiscal management and resource utilization in the Bangsamoro region.



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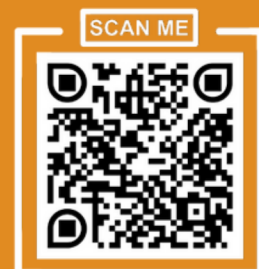
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