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**EXAMINING THE CONSISTENCY OF INCOME CLASSIFICATION OF MUNICIPALITIES WITH THEIR EXISTING SOCIO-ECONOMIC CONDITIONS:
A STUDY OF LEYTE'S MUNICIPALITIES,
LEYTE PROVINCE, PHILIPPINES**

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Abstract:

Over the last four years, the Department of Finance (DOF) has been classifying LGUs (Local Government Units) according to their average annual income. This classification is used by national government agencies to determine the LGUs' financial capacity based on the assumption that the higher the income class of an LGU, the higher is its ability to fund its development projects and the better the socio-economic conditions of its residents.

Given that this income classification scheme depends solely on one variable, which is the average annual income of an LGU, this study therefore intended to examine whether this classification method reflects the real socio-economic conditions existing in the respective LGUs.

The objectives of the study were: (a) to understand what is meant by the income classification of a municipality and how it is defined; (b) to examine the municipalities classified, what their characteristics are, and what are the perceived causes of their being classified as poor or rich; (c) to examine how consistent the income classification is with the size of the poor population in the municipalities and to discover explanations for the proven inconsistency; and (d) based on the findings, to propose modified measures for the classification of municipalities in order to better reflect the real socio-economic situation of the municipality.

This study will be useful for assessing the appropriateness of using income classification in determining who gets what and how much, i.e., for national grants allocation and for determining priority areas for development efforts.

The study covered the municipalities of Leyte province only, and relied mostly on secondary data gathered from the different government offices. It is worth noting here that despite the wide use of this income classification of LGUs for most of the programs, allocation of resources, and responsibilities of the different LGUs, no literature could be found that questions the precision of this method in identifying the areas in need of financial assistance.

The research is divided into two types of analysis. The first type consists of cross section analysis which is done by correlating and comparing Income Classification and the different analytical categories of indicators across the 41 municipalities of Leyte. The Composite Poverty Index is computed as a summary (combined) measure of the individual socio-economic indicators examined through correlation analysis. The mean value of this simple index is then used to identify which among the Leyte municipalities have the highest percentage of poor households among the different income classification groups.

The second type of analysis consists of case studies, in which 2 low income ranked and 2 high income ranked municipalities were chosen from the 41 municipalities of Leyte. Problem analysis was the main analytical tool used for assessing the situation in the case study areas.

The major findings from the cross section analysis are as follows:

- The low income class municipalities had higher per capita income than the high income class municipalities.
- Many low income class municipalities had lower percentage of malnourished children than in high income class municipalities.
- The percentage of households with access to safe water level I was higher in the high income class municipalities.
- High income class municipalities did not necessarily have higher percentages of households with access to safe water level III.
- There was no consistent pattern between the municipalities' income classification and their location.
- There were inconsistencies between the computed mean composite poverty index and the municipalities' income class.
- The inequality analysis (Lorenze Curve) showed that the distribution of poor households among the income groups of municipalities is nearly equal to the distribution of income.
- There is a significant number of poor households in high income ranked municipalities as much as there are in low income ranked ones.

As for the major findings from the case study analysis, the following were derived:

- The residents were mainly from the low to middle income classes in all of the 4 study areas.
- The residents in the 4 municipalities were mainly consumers.
- The farmers were mostly poor and were victims of loan sharks.

From the analysis, the researcher concluded that the income classification scheme should not be used in allocating financial grants, since it: (a) failed to consider the distribution of income of LGU households; (b) failed to consider the poor in high income LGUs; and, (c) also failed to consider LGU performance.

Therefore, the study recommends the use of other factors such as the LGUs' per capita income and per capita expenditure in addition to the formula of determining income class.

Another measure can be the ranking of the LGUs on the basis of achieving certain minimum values set for each income class in terms of: (1) access to different public; and, (2) private services, mainly health and sanitary facilities.

Futhermore, attention and financial grants from the national government should be given to those municipalities with low achievements in socio-economic indicators, regardless of their income classes.