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ASSESSING FINANCIAL VIABILITY ON INCOME GENERATING PROJECTS IN THE LOCAL GOVERNMENT UNIT OF MONKAYO

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Abstract

This study sought to evaluate the viability and financial performance of the income-generating projects (IGPs) of the Local Government Unit of Monkayo, Davao de Oro. Further, this study utilized descriptive-evaluative research design to analyze and interpret data through the consolidated detailed - financial data from the government offices involved in the operation of the IGPs. The projects focused on this study includes the Tabo, Night Market and Terminal. The results revealed that there is significant fluctuations in both revenue and expenses over the five-year period from 2019-2023. The revenue and expenses from the projects varies annually, with some years showing an increase and others showing a decrease, affecting the net income and profit margin. Subsequently, the IGPs profit margin reached its peak in year 2019 of 79.08%, decreased to 69.50 in year 2020; increased to 74.52% in year 2021; decreased to 71.95% in year 2022; and decreased to 69.53% in year 2023. These fluctuations were notably influenced by the COVID-19 pandemic, leading to changes in consumer behaviour, operational disruptions and increased expenses related to health and safety measures, inflation, and increased charges in utilities. Overall, the findings of this study will provide valuable insights for LGU Monkayo and policymakers, highlighting the need for a systematic approach to enhance resiliency and managing resources efficiently and effectively, especially in the face of unprecedented challenges.

Keywords: *Income-generating projects, Local Government Unit of Monkayo, Tabo, Night Market, Terminal, financial performance*

INTRODUCTION

Background of the Study

Local government units (LGUs), under the Local Government Code of 1991 (also known as R.A. 7160) are mandated to manage their resources efficiently and effectively in delivering services to their residents. The Code has also authorized the LGUs to generate their own revenues and manage their fiscal operations—financial and fiscal management. But despite these powers, many of the LGUs' priority projects are still implemented through the national government funds and locally-generated income contributes significantly to the total LGU funds.

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With the ever increasing number of economic difficulties and community demands, the LGU's are strongly challenged to improve their financial capabilities to augment their inadequate resources through IGPs or generation of local revenue by way of tax and non-tax revenue (Ozarraga, 2022).

Income-generating projects (IGPs) have become an essential method for local government units (LGUs) because it helps in increasing the budget and promote long-term development. In the Philippines, specifically in Monkayo, a first class municipality in Davao de Oro province, IGPs not only help reduce poverty but also encourage economic growth and self-reliance at the local level. Monkayo, which has a mostly rural economy, faces specific financial and administrative challenges. Majority of its economic activities are focused on agriculture, social services, education, natural resources and environment, security peace and order, and opportunities in tourism, businesses, and infrastructure, making it essential for the local government to develop well-planned income-generating projects.

The LGU of Monkayo has initiated several income-generating projects in the past, particularly the local market establishments, tabo, motor and bus terminal, water system, public cemetery, slaughterhouse, community-based agricultural programs, etc. However, the financial success and sustainability of these projects have been inconsistent. Some projects have provided steady income streams, while others have encountered financial hurdles, leading to underperformance or termination. This inconsistency highlights the need for a comprehensive and systematic approach to evaluating the financial viability of these projects.

Given this context, the study aims to assess the financial viability of income-generating projects in the LGU of Monkayo. This will involve an in-depth analysis of the IGPs particularly the *Night Market, Tabo and Terminal,* examining their financial structures and revenue models for the past five (5) years. The study also seeks to identify potential areas for improvement and propose strategic recommendations. By doing so, the LGU of Monkayo can ensure that its IGPs are not only financially viable but also aligned with its long-term goals of economic development, poverty reduction, and improved public service delivery.

Purpose of the Study/Research Objectives

This study aims:

1. To conduct a detailed financial analysis of Tabo, Night Market, and Terminal.
2. To assess the revenue-generating capabilities of each project and identify opportunities for enhancement.

METHODOLOGY

Participants/ Respondents/ Informants/ Subjects

The researchers used secondary data—mostly from financial records of the municipality. Among the official documents reviewed for this research were the following: (a) Revenue Tax Ordinance 2018-01 from the Sangguniang Bayan; b) Socio Economic Profile and List of Market Vendors from the Municipal Business Permit and Licensing Unit; c) Annual Detailed Statement of Financial Performance from the Municipal Accounting Office; d) Abstract of Collection from the Municipal Treasurer's Office and e) Monthly Terminal Collection from Municipal Economic Enterprise Management Office.

Data Gathering Method

The study used a descriptive-evaluative research design as it enabled obtaining an in depth information on the financial performance of the IGPs (Tabo, Night Market and Terminal). A permit to conduct study was distributed to the involved municipal offices. Secondary data were collected and were mostly income and expenditures of the mentioned IGPs of the municipality from 2019-2023. The data were tabulated and analyzed through determining the annual net income and net profit margin. The data were also plotted on graphs to better illustrate trends.

Moreover, secondary data collection with the respective offices complied with the Data Privacy Policy. Ethical considerations, such as confidentiality and research approval, were considered while obtaining the data. The offices were informed about the study through a permit letter. The researchers also anticipated the possibility of severe and intimate information disclosed during the data collection process. In analyzing the data, the researchers reported the full range of findings, including those that may contradict the results.

Data Analysis Plan

This study utilized descriptive-evaluative research design. The data collected for research objectives were analyzed using financial ratio (profit margin). According to Rashid (2021), financial performance ratios are effective performance indicators for comparing results over several periods. It became an important financial decision support information used by management and organizations to evaluate financial stability and growth potential. The data analyzed was presented in form of tables. To evaluate the financial performance of IGPs in the Municipality, the study employed the financial ratios and accounting formulas in the following equations:

Net Income = Annual Revenues – Expenses

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Total Revenue}} \times 100$$

RESULTS AND DISCUSSION

The analysis of the financial data from 2019 to 2023 revealed significant trends and issues that should be carefully considered and strategically planned for the future of the project. A thorough analysis of the conclusions drawn from the data interpretation is presented in this section.

Table 1. Summary of Revenue and Expenses of IGPs: Night Market, Tabo and Terminal

Year	REVENUE		EXPENSES	Net Income	Profit Margin (%)
	Night Market / Tabo	Terminal			
2019	40,561,470.56	41,102,077.62	17,082,470.53	64,581,077.65	79.08
2020	35,609,513.27	19,978,951.02	16,955,028.10	38,633,436.19	69.50

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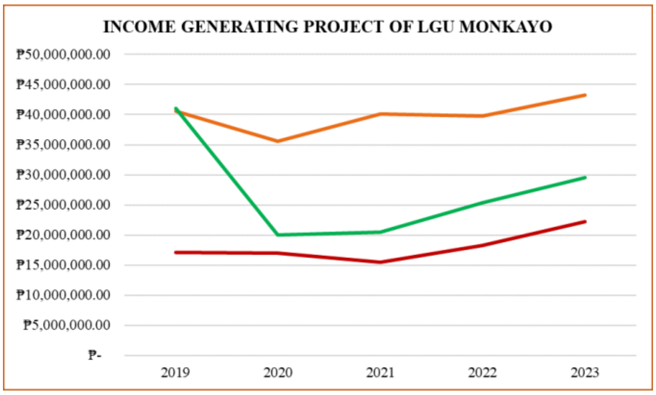
2021	40,166,232.66	20,439,264.79	15,440,248.85	45,165,248.60	74.52
2022	39,726,283.36	25,391,332.50	18,266,310.07	46,851,305.79	71.95
2023	43,261,744.00	29,501,569.25	22,171,053.19	50,592,260.06	69.53
TOTAL	**228,826,813.10**	**136,413,195.18**	**89,915,110.74**	**275,324,897.54**	**75.38**

Table 1 shows that the revenue and expenses for the income-generating projects (Tabo, Night Market and Terminal) in LGU Monkayo fluctuated from 2019 to 2023. The revenue of Tabo and Night Market in year 2019 was Php 40,561,470.56; Php 35,609,513.27 in 2020; Php 40,166,232.66 in 2021; Php 39,726,283.36 in 2022; and Php 43,261,744.00 in 2023. The revenue of Terminal in year 2019 was Php 41,102,077.62; Php 19,978,951.02 in 2020; Php 20,439,264.79 in 2021; Php 25,391,332.50 in year 2022; and Php 29,501,569.25 in 2023. The basis of revenue data for the Night Market and Tabo was the receipts from market operations while the basis for Terminal revenue was the transportation system fee, road network fee and parking fee.

The combined expenses of the concerned IGPs for year 2019 was Php 17,082,470.53; Php 16,955,028.10 in 2020; Php 15,440,248.85 in 2021; Php 18,266,310.07 in 2022; and Php 22,171,053.19 in 2023. The expenses covered on this portion consists of the salaries and wages, water expenses, electricity expenses, janitorial services and other general services.

After deducting the expenses to the total revenue earned for each IGP, net income will be determined. The net income earned for year 2019 was Php 64,581,077.65; Php 38,633,436.19 in year 2020: Php 45,165,248.60 in year 2021; Php 46,851,305.79 in year 2022; and Php 50,592,260.06 in year 2023. It shows that year 2019 has the highest income generated compared to the next years of operation.

Graph 1. Income Generating Project Revenue Trend in Monkayo LGU, 2019-2023



Legend: Night Market/Tabo Income
Terminal Net Income
Expenses

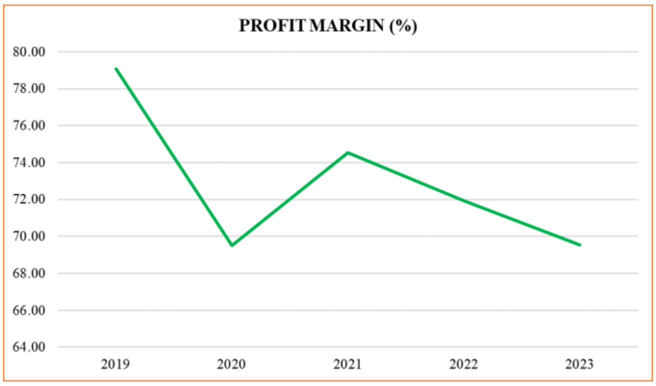
As shown in graph 1, the revenue varied annually, showing both increases and decreases, while the expenses also fluctuated. These fluctuations influenced the net income and profit margin of the projects. The net income of the projects increased and decreased over time due to various factors. One reason for the fluctuation in net income could be changes in revenue and expenses. For instance, an increase in revenue and a decrease in expenses would lead to a higher net income, while the opposite would result in a lower net income.

Based from the results, the revenue of the projects varied annually due to the occurrence of pandemic. During the pandemic, restrictions on public gatherings and mobility could have led to reduced foot traffic and patronage at the Night Market/Tabo and Terminal, affecting their revenue streams. Conversely, as restrictions eased or consumer confidence improved, revenue have shown signs of recovery, particularly in year 2023.

Fluctuations in expenses, including salaries and wages, water, electricity, janitorial services and other general services, have influenced the net income. During the pandemic, additional expenses related to health and safety measures, such as sanitation and protective equipment, have affected the overall expenses of the projects. Additionally, expenses have increased over time due to inflation and increased fees for the utilities. Conversely, cost-saving measures or operational adjustments during the pandemic have contributed to lower expenses in certain periods.

Changes in market conditions and competitive setting could have affected the net income. Increased competition or changes in consumer preferences might have affected the projects' ability to generate revenue. The pandemic have altered consumer behavior and preferences, leading to shifts in demand for goods and services offered at the Night Market/Tabo and Terminal.

Graph 2. Profit Margin



The profit margin for the IGPs - Night Market, Tabo and Terminal ranged from 69.50% to 79.08% over the years 2019 to 2023. This indicates that a significant percentage of the revenue generated by the Night Market/Tabo project translated into profit. The relatively high profit margins suggest that the project was able to effectively manage its expenses and generate healthy profits from its revenue streams.

The Night Market/Tabo consistently maintained higher profit margins compared to the Terminal, indicating potentially better operational efficiency and profitability. However, both projects experienced fluctuations in profit margins over the years.

The COVID-19 pandemic likely had a significant impact on the profit margins of the projects. The decrease in profit margins over the years may be attributed, at least in part, to the challenges posed by the pandemic, such as reduced consumer spending, operational

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disruptions, and increased expenses related to health and safety measures. Analyzing the profit margins in the context of the pandemic can reveal the resilience and adaptability of the projects in the face of unprecedented challenges.

CONCLUSION

With the results of the study, it is evident that the financial performance of income-generating projects (IGPs) in the Local Government Unit of Monkayo, presents both opportunities and challenges. The study focused on the Night Market, Tabo, and Terminal projects, revealing significant fluctuations in revenue and expenses over the five-year period from 2019 to 2023. One of the key findings from the data is the significant decline in income and profit margin in 2020, which can be directly attributed to the pandemic. The outbreak led to changes in consumer behaviour, restrictions and disruptions in economic activities, resulting in reduced revenue for the IGPs.

Through the conduct of a detailed financial analysis of the IGPs, it is obvious how the financial performance of year 2019 is stronger compared to subsequent years of operation. There is indeed significant changes in the economic sector brought by the prolonged effect of COVID-19 pandemic. However, the pandemic's impact on the profit margins highlighted the need for resilience and adaptability in the face of unforeseen challenges.

RECOMMENDATIONS

Adaptability and Resilience. Given the impact of the COVID-19 pandemic on the fluctuating profit margins and financial performance of the projects, it is essential for the local government to prioritize adaptability and resilience. This includes developing contingency plans to address operational disruptions and increased expenses related to health and safety measures.

Operational Efficiency. The consistent higher profit margins of the Night Market/Tabo compared to the Terminal project suggest potentially better operational efficiency and profitability. It is recommended to conduct a detailed analysis of the operational processes of each project to identify areas for improvement and cost-saving measures.

Financial Planning and Forecasting. The significant fluctuations in revenue and expenses highlight the need for strong financial planning and forecasting. This includes developing strategies to mitigate the impact of changes in consumer behavior, market conditions, and competitive settings on the revenue streams of the projects.

Long-Term Goals Alignment. The income-generating projects should be aligned with the long-term goals of economic development, poverty reduction, and improved public service delivery. It is recommended to assess the revenue-generating capabilities of each project and identify opportunities for enhancement to ensure that the projects are not only financially viable but also contribute to the overall development of the municipality.

Resource Management. Given the mandate for local government units (LGUs) to manage their resources efficiently and effectively, it is essential to develop a systematic approach to managing resources, especially in the implementation of priority projects through locally-generated income. This includes exploring innovative revenue models and cost-effective strategies to enhance the financial viability of the projects.

Organized Record Keeping. Maintain detailed documentation of financial transactions, including receipts, invoices, and expenditure records. This will provide a clear audit trail and support the accuracy of financial reporting. Additionally, there is a need to conduct regular financial audits to verify the accuracy and completeness of the recorded revenues and expenses. This will help identify any discrepancies or irregularities that require attention.

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