THE IMPACT OF LOCAL GOVERNMENT AUTONOMY ON LOCAL ECONOMIC GROWTH, DEVELOPMENT, AND FISCAL SUSTAINABILITY

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Abstract
This study examines how fiscal, administrative, and political autonomy influence economic growth, human development, and fiscal sustainability across 82 LGUs from 2010–2023 using mixed methods. Results from fixed-effects, instrumental variable, and dynamic panel models show that greater fiscal autonomy particularly own-source revenue capacity drives stronger growth, higher HDI, and improved fiscal health, with effects persisting over time. Qualitative insights reveal autonomy enables targeted investments and responsive services, though gains are uneven due to capacity gaps, political interference, and central transfer reliance. Findings suggest well-structured decentralization, supported by institutional capacity and accountability, can foster sustainable and equitable local development.

Keywords: Fiscal decentralization, Governance capacity, Local government autonomy, Regional development, Public finance management, Socio-economic disparities

1. Introduction

Local government autonomy has become a central focus in governance and development debates, especially in the context of decentralization reforms intended to improve public service delivery, stimulate economic growth, and enhance fiscal sustainability. The underlying principle is that local authorities, being closer to their communities, are better positioned to understand local needs and priorities. This proximity allows them to design and implement policies that are more responsive, context-specific, and effective in addressing local challenges. In pursuit of these goals, many governments have adopted decentralization policies that expand fiscal, administrative, and political powers for local government units (LGUs). These reforms are expected to strengthen governance, promote socio-economic development, and encourage more equitable growth [1]. Over recent decades, decentralization has been promoted globally as a means to improve resource allocation efficiency, stimulate innovation in service delivery, and increase citizen participation in governance. Advocates argue that granting autonomy enables LGUs to make faster decisions, tailor solutions to unique local conditions, and mobilize resources more effectively. Empirical evidence from various contexts supports the idea that, when equipped with adequate fiscal resources and managerial capacity, LGUs can use autonomy to achieve significant improvements in infrastructure, social services, and overall economic performance. Fiscal autonomy, in particular, allows local governments to generate and control their own revenues, providing flexibility to invest in priority sectors such as transportation, education, and healthcare. Administrative autonomy further facilitates the adaptation of programs and services to specific community needs, while political autonomy ensures that decision-making power rests with locally elected leaders who are accountable to their constituents. However, the relationship between autonomy and development outcomes is complex and not always positive. Critics warn that decentralization without strong institutional capacity, fiscal discipline, and accountability mechanisms can lead to inefficiency, corruption, and widening regional inequalities. In areas with weak revenue bases, limited administrative skills, or high levels of political interference, greater autonomy may fail to produce the desired results. Such risks are particularly evident in countries with substantial socio-economic disparities between regions, where differences in resource endowments and governance capacity can shape how autonomy is exercised and its eventual impact. This disparity highlights a critical challenge: while autonomy can empower local governments to deliver better outcomes, it can also exacerbate inequalities if not accompanied by targeted measures to strengthen capacity and ensure equitable resource distribution. Without adequate oversight and transparency, decentralization may instead concentrate benefits in wealthier or better-governed areas, leaving poorer LGUs behind. Given these complexities, it is essential to assess the real-world impacts of local government autonomy beyond economic growth alone, incorporating broader development and fiscal sustainability considerations. Understanding how different forms of autonomy fiscal, administrative, and political interact with local conditions can help identify the circumstances under which decentralization is most effective. Against this backdrop, the present study investigates the impact of local government autonomy on economic growth, human development, and fiscal sustainability [2]. Using a mixed-methods approach, it integrates panel econometric analysis with qualitative insights from 82 LGUs between 2010 and 2023. The research aims to determine whether autonomy translates into measurable socio-economic benefits and to pinpoint the conditions that enhance its positive effects. By doing so, the study contributes to ongoing policy debates on how to design and implement decentralization frameworks that are both effective and equitable.

2. Literature review

Decentralization literature highlights that local government autonomy fiscal, administrative, and political can enhance economic growth, service delivery, and fiscal sustainability when paired with strong governance capacity. Studies emphasize fiscal autonomy as a key driver, enabling resource mobilization for targeted investments in infrastructure, education, and healthcare. Administrative autonomy supports tailored service delivery, while political autonomy ensures accountability through elected leadership. However, weak institutional capacity, political interference, and reliance on central transfers can undermine benefits, particularly in resource-poor regions. Evidence suggests that well-structured decentralization, supported by capacity-building and accountability measures, fosters sustainable development and reduces regional disparities, though outcomes vary across contexts

3. Methodology

3.1. Research Design

This study adopts a mixed-methods approach, integrating quantitative econometric analysis with qualitative assessments to provide a comprehensive understanding of the relationship between local government autonomy and its effects on economic growth, development, and fiscal sustainability. The quantitative component focuses on examining the statistical association between autonomy and key performance indicators, while the qualitative component seeks to uncover contextual factors that influence these dynamics. A panel data framework is employed to capture both temporal and regional variations across multiple local government units (LGUs), enabling the analysis to account for changes over time and differences between regions [6].

3.2. Data Sources

The analysis draws on secondary data compiled from multiple credible sources. Economic and development indicators, including regional GDP, per capita income, employment rates, and human development indices, were obtained from the National Statistics Office and the World Bank Development Indicators. Fiscal data such as local revenue generation, fiscal transfers, expenditure patterns, and debt levels were sourced from the Ministry of Finance and LGU annual budget reports. Measures of administrative, fiscal, and political autonomy were derived from the Local Autonomy Index and legislative documents relevant to local governance. In addition, qualitative information was gathered from policy documents, local development plans, and semi-structured interviews conducted with key local government officials and community stakeholders. The dataset spans 2010 to 2023 and covers 82 local Government units, ensuring both breadth and depth in the analysis [3].

3.3. Variable Measurement

The dependent variables in this study include three primary dimensions: economic growth, measured by the annual change in real GDP per capita; development, assessed through the composite Human Development Index (HDI) at the LGU level; and fiscal sustainability, evaluated using the ratio of own-source revenue to total expenditure and the debt service ratio. The independent variable, local government autonomy, is operationalized as a composite index that combines fiscal autonomy measured by the share of own-source revenue in total income administrative autonomy capturing decision-making authority over service delivery and political autonomy represented by the presence of an elected local executive authority. To control for potential confounding factors, variables such as population size, urbanization rate, education attainment, infrastructure availability, and regional fixed effects are incorporated into the models.

3.4. Analytical Techniques

The methodological framework begins with descriptive statistical analysis to present an overview of trends and patterns in local autonomy, economic growth, and fiscal performance among LGUs. Econometric modelling is then employed to examine causal and correlational relationships. A panel fixed-effects model is used to control for time-invariant characteristics specific to each LGU, while instrumental variable (IV) regression addresses potential endogeneity between autonomy and development outcomes. Furthermore, dynamic panel models using the Generalized Method of Moments (GMM) are applied to capture lagged effects and dynamic relationships over time. Complementing the quantitative analysis, thematic content analysis of interview transcripts and policy documents provides qualitative insights, allowing for a richer interpretation of the statistical results.

3.5. Validity and Reliability

To enhance validity, the study employs multiple indicators for each construct and applies robustness checks through alternative model specifications. Triangulation between quantitative datasets and qualitative findings ensures a more reliable interpretation of results. Diagnostic tests for multicollinearity, heteroskedasticity, and serial correlation are conducted, with robust standard errors applied to mitigate potential estimation biases.

3.6. Ethical Considerations

The research adheres to institutional ethical guidelines governing data collection and analysis. All interview participants provided informed consent prior to participation, and confidentiality was maintained throughout the study. Sensitive fiscal data were anonymized to prevent the identification of specific LGUs, thereby protecting the privacy of institutions and individuals involved.

3. Result and discussion

Between 2010 and 2023, the 82 local government units (LGUs) in the study showed marked differences in economic and fiscal performance. Average annual real GDP per capita growth was 3.8%, with urban LGUs outperforming rural ones (4.5% vs. 3.1%). HDI values ranged from 0.612 in the lowest-performing rural LGU to 0.824 in the highest-performing metropolitan LGU, reflecting substantial regional disparities. Fiscal sustainability averaged 42.6%, varying from 18% in transfer-dependent LGUs to 68% in financially autonomous ones. Fiscal autonomy scores ranged from 0.32 to 0.78, highest in economically diversified urban LGUs; administrative autonomy was stable, while political autonomy was uniformly high due to national legislation. Panel fixed-effects regression revealed a significant positive relationship between local government autonomy and economic growth ($\beta = 0.47$, $p < 0.01$), with similar though smaller effects on HDI ($\beta = 0.038$, $p < 0.05$). Fiscal sustainability was strongly linked to fiscal autonomy ($\beta = 0.29$, $p < 0.01$). Instrumental variable regressions confirmed these findings, showing autonomy's effects on growth ($\beta = 0.52$) and fiscal sustainability ($\beta = 0.31$) were robust to endogeneity. Dynamic panel (GMM) estimates indicated that these benefits persisted over time, with lagged growth remaining a significant predictor, suggesting sustained performance advantages for LGUs with higher autonomy [5]. Qualitative evidence supported the econometric results. LGUs with strong fiscal autonomy invested strategically in infrastructure and services, boosting private sector activity and improving education and health outcomes. Administrative autonomy enabled tailored service delivery, but LGUs with high political autonomy but weak fiscal bases struggled to convert decision-making power into tangible gains. Challenges included capacity gaps in financial management, political interference in budgets, and dependence on intergovernmental transfers, particularly in rural areas with low revenue bases. Robustness checks using alternative models and excluding outliers yielded consistent results, with low multicollinearity and stable estimates [4]. Overall, the analysis demonstrates that local government autonomy especially fiscal autonomy can drive higher economic growth, improved human development, and more sustainable fiscal positions. These benefits are strongest where LGUs have the capacity, governance strength, and revenue diversification to fully utilize their autonomy. Political autonomy alone is insufficient without financial resources and institutional capacity. The persistence of positive effects over time underscores the long-term potential of well-structured decentralization when paired with accountability and fiscal discipline. This suggests that decentralization reforms should focus not only on devolving powers but also on building the fiscal and managerial capacity necessary to ensure equitable and sustained local development.

Dimension	**Key Findings**	**Qualitative Insights**
Economic Growth	Average annual real GDP per capita growth: **3.8%** (Urban: 4.5%, Rural: 3.1%). Positive and significant relationship with autonomy (**$\beta = 0.47$, $p < 0.01$**).	High-autonomy LGUs invest in infrastructure and services, boosting private sector activity.
Human Development	HDI range: **0.612 to 0.824**. Positive but smaller effect from autonomy (**$\beta = 0.038$, $p < 0.05$**).	Improved education and health outcomes where autonomy is strong.
Fiscal Sustainability	Average fiscal sustainability: **42.6%** (18% in transfer-dependent LGUs to 68% in financially autonomous LGUs). Strongly	Dependent LGUs face challenges due to reliance on central transfers.

	linked to fiscal autonomy (**β = 0.29, p < 0.01**).	
Fiscal Autonomy	Scores range from **0.32 to 0.78**, highest in economically diversified urban LGUs. Key driver of economic growth and fiscal sustainability.	Strategic investments possible where revenue bases are strong.
Administrative Autonomy	Stable over time; enables tailored service delivery but effectiveness depends on fiscal capacity.	Tailored service delivery possible; capacity gaps limit outcomes.
Political Autonomy	Uniformly high due to national legislation, but insufficient alone without financial resources and capacity.	Decision-making power without resources yields limited results.

4. Conclusion

Analyzing data from 82 LGUs between 2010 and 2023, this study shows that greater autonomy especially fiscal enhances local economic performance, development outcomes, and fiscal health. Autonomy enables LGUs to design policies suited to local needs, but its effectiveness relies on strong institutional capacity, sound financial management, and fiscal discipline. To maximize benefits, policy reforms should focus on improving revenue generation, strengthening governance structures, and ensuring robust accountability mechanisms. These measures can help translate autonomy into long-term, equitable socio-economic gains. Future studies should incorporate citizen perspectives and conduct cross-country comparisons to provide deeper insights into the varied impacts of decentralization.

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