3

Health Development in the Decentralized Health System of the Philippines: Impact of Local Health Expenditures on Health

Hiroko Uchimura

Introduction

In the Philippines, the enactment of the 1991 Local Government Code (the 1991 Code) led to further fiscal decentralization; in addition, it brought about significant devolution of the provision of public services. One of the most affected sectors was the health sector. The responsibility for providing health services was devolved in a drastic manner to the lower tiers of government following the enforcement of the 1991 Code. A considerable number of personnel were transferred from the central to local governments in the health sector, and local responsibility for providing health services was significantly expanded. Provincial governments became responsible for secondary and tertiary services, including the management and maintenance of hospitals, whereas municipal governments became responsible for public health services, i.e., the promotion of health care and the prevention of diseases.

In order to financially support the expanded local responsibilities, fiscal transfers from the central to local governments were increased in the Philippines. In addition, local governments were empowered to charge some user fees for the services provided in the health sector; however, those fees were not major financing sources for their health expenditures. Therefore, fiscal transfers, called internal revenue allotments (IRAs), became the major financial source used by local governments to meet their expanded responsibilities. The peculiarity is that almost all of the IRAs are unconditional transfers,
which means that the purpose of the transfers is not specified by the central government. Local governments, therefore, have discretion in allocating their fiscal resources among the sectors. In this sense, local health expenditures to carry out the devolved health responsibilities may vary among local governments.

Local finance is one of the most critical issues, not only for the Philippine health system but also for decentralized health systems in general. This study focuses on the issue of local finance in decentralized health systems, taking the Philippines as a case study. In particular, this study examines the impacts on health output and the outcome of the level of local health expenditure as well as the disparities in the local health expenditure between localities.

The next section reviews arguments and experiences of health sector decentralization. Section 3.2 summarizes decentralization in the health sector as well as the trend of fiscal health expenditure in the Philippines. Following this, section 3.3 presents an empirical analysis that examines the impact of local health expenditures on the health output and health outcome. The final section summarizes the conclusion.

3.1 Decentralization in the health sector

Vis-à-vis the central government, it is the lower tiers of government that have the authority and responsibility for providing health services in decentralized health systems. The common view in favor of decentralized health systems is that decentralization improves the efficiency and effectiveness of service delivery in the health sector (Vujicic et al. 2009; WHO 2008; Oates 1999). This view is generally based on the following argument. Since the lower tiers of government are closer to the localities than the central government, they have better information on local needs and preferences than the central government and can provide the necessary services based on local conditions. In this sense, local governments will be expected to provide responsive services efficiently in their localities.

In contrast, others argue that decentralization of health systems will put adequate provision of health services at risk (Mosca 2006; Dorotan and Mogyorosy 2004; Collins and Green 1994). For instance, because some health services, such as immunization, have externality, each local government will have little incentive to provide such health services.