Fiscal Decentralization and Health Service Delivery: The Philippine Case

JANET S. CUENCA

04 JUNE 2020

Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

PIDS Discussion Papers (DPs)

- Health Devolution in the Philippines: Lessons and Insights (PIDS DP No. 2018-36)
- Fiscal Decentralization and Health Service Delivery: An Assessment (PIDS DP No. 2020-04)
- Efficiency of Local Governments in Health Service Delivery: A Stochastic Frontier Analysis (PIDS DP No. 2020-06)

Research Questions

1. What has been the experience of the Philippines in health devolution? What lessons and insights can be drawn from this experience which may have implications for crafting future public policies in the country?
2. Has health devolution improved service delivery in the Philippines?
3. Has fiscal decentralization engendered efficiency in health service delivery in the Philippines?

Objectives of the Study

- To document the country's experience in health devolution and draw lessons and insights that are critical in assessing the country's decentralization policies and also, in informing future policymaking
- To propose an analytical framework that examines the effects of fiscal decentralization on health service delivery using difference-in-differences (DID) analysis
- To analyze the efficiency implications of fiscal decentralization using Stochastic Frontier Analysis (SFA)

Outline of Presentation

1. Introduction
2. Implications of Health Devolution: Issues and Challenges
3. Lessons and Insights from the Health Devolution Experience
4. Effects of Health Devolution on Health Service Delivery
5. Efficiency of LGU Health Spending
6. Policy Recommendations

1. Introduction

- Enactment of the Local Government Code of 1991 changed the way basic government health services are delivered at the local level.

From a highly centralized system of health service delivery (DOH as the sole provider) *to* a devolved system (LGUs as providers of health services)

* to achieve efficiency and effectiveness of health service delivery by reallocating decision-making capability and resources to LGUs

1. Introduction (2)

Table 1. Devolved Functions by Level of Government

LGU	Devolved Health Services	Reference
Barangay	Maintenance of barangay health center	Section 17.b.1.ii.
Municipality	Implementation of programs and projects on primary health care, maternal and child care, and communicable and non-communicable disease control services; Access to secondary and tertiary health services Purchase of medicines, medical supplies, and equipment needed to carry out the said services	Section 17.b.2.iii.
Province	Hospitals and other tertiary health services	Section 17.b.3.iv.
City	All the services and facilities of the municipality and province	Section 17.b.4.

Source: Local Governmnet Code of 1991

1. Introduction (3)

Primary health services in RHUs and BHS include:

- health education
- control of locally endemic diseases such as malaria, dengue, and schistosomiasis
- immunization against TB, polio, measles, and tetanus, among others
- maternal and child health and family planning
- environmental sanitation and provision of safe water supply
- nutrition
- treatment of common diseases
- supply of essential drugs

1. Introduction (4)

- Secondary health services - medical services accessible in some RHUs, infirmaries, district hospitals, and outpatient departments of provincial hospitals
- Tertiary health services - medical and surgical diagnostics, treatment, and rehab care provided by medical specialists in a hospital setting

NB. DOH takes on the residual powers and functions:

i. oversight or general supervision of the health sector
ii. monitoring and evaluation functions
iii. formulation of standards and regulation
iv. provision of technical and other forms of assistance

1. Introduction (5)

Section 17.f. of the Code states that…

“the national government or the next higher level of local government unit may provide or augment the basic services and facilities assigned to a lower level of local government unit when such services or facilities are not made available or, if made available, are inadequate to meet the requirements of its inhabitants.”

2. Implications of Health Devolution: Issues and Challenges

Before health devolution, DOH recognized many LGUs might be facing resource constraints.

Policy dilemma: whether or not to devolve health services to LGUs

But there's wisdom in doing it - the urgency of local action in providing health services without seeking top-level intervention (DOH 1997)

2. Implications of Health Devolution: Issues and Challenges (2)

NB.1. Fact remained - many LGUs not ready for devolution; fiscal capacity of LGUs & managerial capability of LCEs not considered prior to devolution

NB.2. No sufficient preparation to enable those affected by health devolution to cope with tremendous change it brought

NB.3. Strategic plan for intro of health devolution lacking

2. Implications of Health Devolution: Issues and Challenges (3)

NB.4. Dangers associated with decentralization (e.g., political capture within lower tiers of gov't, decentralizing corruption, and increasing inequality/disparity, among others)

1. Spending in health and education improves politicians' chances of winning (Solon et al. 2009).
2. Re-election objectives of politicians can be aligned with health sector objectives (Capuno et al. 2012).
3. Opportunistic political leaders employ some elements of decentralization for their own gain (Carada and Oyamada 2012).

2. Implications of Health Devolution: Issues and Challenges (4)

NB.4. Dangers associated with decentralization… (cont.)

4. Jurisdictions of political dynasties are characterized by lower standards of living, lower human development, and higher level of deprivation, and inequality (Mendoza et al. 2012).
5. Evidence from the Philippines of the strong negative correlation between voter reports of receipt of private transfers (i.e., vote buying) and provision of community health services (Khemani 2015)
6. Politicization of health is a major concern raised by respondents. Politics is inevitable in health care (Liwanag 2019).

2. Implications of Health Devolution: Issues and Challenges (5)

(i) Financing for health

- Mismatch between IRA and cost of devolved functions (CODEF)
- Cost of implementing Magna Carta for public health workers/PHWs (RA 7305 of 1992) not factored in CODEF estimation → more strain on LGUs' limited budget

(ii) Health personnel

- Resistance from devolved DOH personnel and LGUs (i.e., to absorb the cost of devolved staff)
- Geographical job displacement due to political differences between LCEs and health personnel, at the early stage of health devolution
- Magna Carta for PHWs has perverse impact on the relationship between LGU health office and the rest of LGU personnel.

2. Implications of Health Devolution: Issues and Challenges (6)

(iii) Organization/structural change

- Issue on whether the LHBs and ILHZs are functional
- Issue on fragmentation of health services

NB. Admin of health facilities was transferred from provinces to diff. jurisdictions (e.g., brgys, munis, and cities) → disintegration of the chain of health care delivery system, or separation of admin control between primary health care and secondary/tertiary health care

3. Lessons and Insights

1. ”In restrospect, the present reality in the health sector is brought by several factors affecting the delivery of health services. One of these is the devolution of health services to the LGUs. Passing on the big responsibility of health care to LGUs was done with noble intentions, but unfortunately, with inadequate preparation resulting in inappropriate and ineffective health service implementation (DOH 1999a, p.i).”

NB.1. Importance of a well-planned and well-designed government policy to minimize, if not avert, unintended consequences

NB.2. “Hasty and unplanned decentralization, sometimes purely in response to political pressures, can create new problems (World Bank 1993, p.12). This insight is deemed useful in crafting any public policy in the future.

3. Lessons and Insights (2)

2. “A highly decentralized public delivery system brought about by the devolution of health services” is regarded as a structural weakness based on Solon and Herrin (2017, p. 87). The implementation of the various health reforms has been “challenged by the decentralized environment… (Romualdez et al. 2011. p.xvii).”

NB.1. One cannot help but wonder whether health devolution was the right thing to do. Solon and Herrin (2017) clarify that it is **the way health devolution was implemented** that fragmented public health service delivery and financing. This concerns the design of health devolution.

NB.2. “The most appropriate level of decentralization in the health system is an important unresolved policy debate (Regmi 2014, p.4-5).”

3. Lessons and Insights (3)

3. Some LGUs are better able to reap the benefits of health devolution.

NB.1. Success stories or good practices

Interesting questions to ask:

i. Why is this so?

ii. What are the factors that make health devolution work for these LGUs?

NB.2. Insights/lessons can be drawn from their experience and thus, it would be useful to take a closer look at their experience and find out how good practices can be replicated in other LGUs, with modifications to adapt to specific LGU context, if necessary.

4. Effects of Health Devolution

- Difference-In-Differences (DID) method to infer causal effect of degree/extent of fiscal decentralization on health service delivery

Units of observations – LGUs (i.e., about 1,491 municipalities, 143 cities, and 81 provinces) consolidated at the province level in the period 2001-2013 (except 2005 due to data unavailability); total of 74 x 12 = 888 observations

NB.1. Excluding (i) ARMM provinces such as Basilan, Sulu, Tawi-Tawi, Lanao del Sur, Maguindanao, and Shariff Kabunsuan because ARMM because it follows a different organizational and governance structure as mandated in Republic Act 6734 of 1989; and (ii) highly urbanized cities and independent component cities
NB.2. Dinagat Islands was integrated with Surigao del Norte because it was part of the province until December 2006.

4. Effects of Health Devolution (2)

To ensure balanced panel data, the study employs two datasets:

- 54 provinces, including their respective component cities and municipalities – to examine the effect of fiscal decentralization on:

(a) access to hospital inpatient services (i.e., hospital bed capacity standardized to per 10,000 population); and
(b) health facility-based delivery (i.e., proportion of facility-based deliveries or percentage of births attended in health facilities)

4. Effects of Health Devolution (3)

To ensure balanced panel data, the study employs two datasets: (cont.)

- 37 provinces, including their respective component cities and municipalities – to examine the effect of fiscal decentralization on:

(a) access to hospital inpatient services;
(b) access to safe water (i.e., proportion of HHs with access to safe water); and
(c) access to sanitation (i.e., proportion of HHs with access to sanitation)

4. Effects of Health Devolution (4)

- Difference-In-Differences (DID) method to infer causal effect of degree/extent of fiscal decentralization on health service delivery

Hypothesis: Greater fiscal decentralization → better health service delivery.

- Baseline period: 2001-2004, which is ten years after (i) passage of the Code; (ii) the changeover phase (1992-1993); and (iii) start of transition phase of health devolution in 1994
- Post-intervention period: after 2004, wherein LGUs are expected to have developed adequate capabilities; but DOH incurred huge spending for HFEP and deployment of health personnel to LGUs, both of which are devolved functions

4. Effects of Health Devolution (5)

HEDR - ratio of local government (LG) health spending to general government (GG) health spending

GG = national government/NG (i.e., DOH) + LG

Concept of autonomy explained in terms of:

Subnational expenditure expressed as a percentage of total expenditure

- fiscal impact exercised by lower governments as opposed to that exercised by the central government
- "the most appropriate way to gauge fiscal decentralization" because "a larger proportion of expenditures spent by lower level governments indicate that fiscal impact has shifted away from the central government.

Schneider (2003, p. 37).

4. Effects of Health Devolution (6)

Control variables

(i) Financial autonomy ratio - ratio of LGU own-source revenue to LGU income, which indicates the independence (autonomy) of the LGU from the national government (Loehr and Manasan 1999);

(ii) Financial autonomy ratio - ratio of LGU own-source revenue to LGU expenditures (El Mehdi and Hafner 2014);

(iii) Share of health spending to total LGU spending (Khaleghian 2003); and

(iv) Per capita LGU income (in 2000 constant prices) is also used following (Asfaw et al 2008)

4. Effects of Health Devolution (7)

1. Health devolution has negative impact on level of access to hospital inpatient services

- Consistent with narrative in literature on effect of health devolution on hospitals

Lower province-level spending on hospitals due to the mismatch between the cost of devolved hospitals and IRA (DOH 1999)

- Such negative effect has remained over the years; DOH AO No. 2010-0036 points out neglect of public hospitals and health facilities due to inadequate health budget.

4. Effects of Health Devolution (8)

Lower province-level spending on hospitals due to the mismatch between the cost of devolved hospitals and IRA (DOH 1999) (cont.)

- LGUs failed to maintain and upgrade devolved health facilities (Solon and Herrin 2017).

2. Other indicators (i.e., ratio of OSR to LGU spending or to LGU income) also have negative effect on the level of access to hospital inpatient services.

- It is counterintuitive as economic literature on fiscal federalism identifies improved service delivery as one of the potential benefits of fiscal decentralization.

5. Efficiency of LGU Health Spending

- The findings provide empirical evidences on the efficiency implications of health devolution.

- Health devolution, as measured by the HEDR, has positive effect on the mean of the inefficiency distribution, thus adding unnecessary cost.

- Such findings are not as expected because one of the theoretical benefits of fiscal decentralization (or health devolution) is efficiency.

- However, findings are consistent with what the literature says about health devolution experience in the country.

5. Efficiency of LGU Health Spending (2)

Issues on:

(i) mismatch between LG fiscal capacity and devolved functions,
(i) fragmentation of health system,
(ii) existence of two-track delivery system, and
(iii) unclear expenditure assignments

… inevitably create inefficiency.

6. Policy Recommendations

The literature on fiscal federalism offers explanation as to why fiscal decentralization fails/succeeds in delivering the expected gains.

e.g., Ghuman and Singh (2013, p.7): Impact of decentralization on public service delivery should be **"accompanied with sound financial resource base of local governments, full autonomy to local governments in HRM matters, regular capacity building of local officials, performance-based incentive structures, and participatory governance."**

6. Policy Recommendations (2)

Sound financial resource base relates to LGUs' capacity to generate revenues.

NB.1. Provinces have weak taxing power but they have the immense responsibility of maintaining and operating provincial hospitals.

→ Need to revisit and amend the taxing power of the provinces

6. Policy Recommendations (3)

NB.2. The IRA distribution formula has been criticized for (1) vertical imbalances; and (2) lack of an equalizing feature in the formula thus widening geographic disparities in human dev't outcomes (HDOs) and level of economic dev't (Manasan 2007).

→ Need to address these issues → review and revise the IRA distribution formula, especially in the light of the SC ruling on IRA

NB. If these issues are not addressed, the implementation of SC ruling on IRA starting 2022 will magnify/highlight even more the disparities in fiscal capacity and in turn, HDOs.

6. Policy Recommendations (4)

NB.3. The SC ruling on IRA is a positive development that assures LGUs of increased fiscal transfers.

→ LGUs must spend the IRA and other revenues judiciously and ensure cost-effectiveness of local programs (i.e., get more value for money), especially that it will be a huge challenge for NG to augment whatever shortfall in gov't services at the local level due to budget constraints.

6. Policy Recommendations (5)

NB.4. Huge amount of gov't funds will be transferred to LGUs in the form of unconditional block grant starting 2022.

→ Local officials should be convinced to invest more on health.

DOH will face the challenge of ensuring that LGUs' health spending is supportive of the national objectives for health (i.e., better health outcomes, more responsive health system, and more equitable health care financing).

NB. DOH may want to consider expanding its Health Leadership and Governance Program to capacitate more local officials; also, leverage the passage of the Universal Health Care Act (UHCA).

6. Policy Recommendations (6)

Under UHCA, integration of local health systems into province/city-wide health systems through a mechanism of cooperative undertaking among LGUs → ensure the effective and efficient delivery of health services (Sec. 19 of UHCA IRR).

The integrated health system shall be linked to at least one apex or end-referral hospital.

→ Need to address the deterioration in the access to hospital inpatient services; also, the need to address the disparity in access to hospital inpatient services which worsened in 2013 compared to earlier years

6. Policy Recommendations (7)

A portion of the proceeds from RA 11467 (i.e., newly enacted sin tax law) can be used to improve hospitals and other health facilities as the law mandates that:

"20% of the revenues shall be allocated nationwide, based on political and district subdivisions, for medical assistance and the Health Facilities Enhancement Program (HFEP)."

NB. The annual requirements for these programs shall be determined by DOH.

→ It would be interesting to find out how the various sin tax reforms benefitted the LGUs, particularly in terms of improving health facilities; also, the geographical distribution of HFEP fund in 2014 onwards as this has implications for addressing disparity in access to gov't health facilities

6. Policy Recommendations (8)

Issues on (i) mismatch between LG fiscal capacity and devolved functions, (ii) fragmentation of health system, (iii) existence of two-track delivery system, and (iv) unclear expenditure assignments inevitably create inefficiency.

NB. Issues should be addressed to fully reap efficiency gains from health devolution.

e.g., critical to revisit/review the Code's Section 17 (c) and 17(f), which encourage the existence of two-track delivery system, thus bringing about confusion and weak accountability between levels of government and in turn, inefficiencies in health service delivery

Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Service through policy research

Thank you!

inquiries@pids.gov.ph ; jcuenca@mail.pids.gov.ph

/PIDS.PH

@PIDS_PH

http://www.pids.gov.ph