Fiscal competition in health spending among local governments in the Philippines

Uma Kelekar

ABSTRACT

The Philippines is one of several Asian countries that has decentralized the provision of health care to its local governments in recent decades. In the context of decentralization, a few studies have previously examined the issue of fiscal competition among local governments in the developing world. This report presents a summary of a published study that examined the existence of inter-jurisdictional competition in health-care spending in the Philippines. The results indicate the presence of positive fiscal “spillovers” in health spending, consistent with municipalities/cities competing to outspend their neighbours. Several potential explanations for this finding are discussed.

* This article is based on the article “Do Local Government Units (LGUS) Interact Fiscally While Providing Public Health Services In The Philippines?” published in the World Medical & Health Policy: Vol. 4: Issue. 2.

Key words: decentralization, fiscal competition, health spending, the Philippines

INTRODUCTION

The “one-size fits-all” principle traditionally used by developing countries to provide public services has been challenged in recent decades.1 The focus of managing and financing social services such as education, health, water and sanitation is shifting from the central government to local governments in many developing countries in Asia, including China, India, Indonesia, Pakistan, the Philippines and Thailand. While supporters of decentralization believe that this has been an effective reform in terms of allowing the local community to participate in public decision-making,2 critics point to several flaws of decentralized systems.3 This report presents a summary of the empirical findings of a published study that assessed fiscal competition among local government units within the decentralized health-care system of the Philippines.4 It explores the issue of whether local governments compete, either positively or negatively, with their neighbours in determining their health spending.

Passage of the local government code in the Philippines

In 1991, the Local Government Code of the Philippines transferred several responsibilities of providing health care from the central government to subnational governments. Provinces were given the responsibility of managing provincial-level hospitals and municipalities and cities were tasked with managing district hospitals and rural or city health offices. As a result, local governments are now in charge of health programmes, including medical and dental services, nutrition, control of infectious and non-infectious diseases, and family planning programmes.5 While local governments continue to rely on funds received from the central government, they exercise a considerable degree of autonomy. In addition, local health offices report directly to their locally elected bodies instead of the central government.5

As envisioned by its proponents, decentralization has led to some innovative initiatives by local governments, in health-service delivery in the Philippines. Following the stipulation of the Local Government Code, local communities have increasingly been involved in the process of local governance in various ways – co-financing insurance programmes, managing awareness campaigns and monitoring health programmes. Indeed, some studies have shown the connection between the involvement of the community and excellence in service delivery in some local governments.6

However, decentralization in the Philippines may also have significant drawbacks. There is evidence that locally run programmes not only benefit the residents of the province but also have “spillover” effects on neighbouring provinces.6 These “spillover” effects raise some important concerns; if residents of a region travel to the neighbouring regions...
to use health services, would the neighbouring government discourage this behaviour by not providing similar services to its own residents? For example, in one study, a decline in the vaccination coverage during the post-decentralization period in the Philippines, was attributed to negative inter-jurisdictional spillovers.

On the other hand, researchers have examined whether some local governments would have incentives to out-perform their neighbouring local governments and invest in similar local programmes in a decentralized system. While this kind of competition, also called “yardstick competition”, has been observed in high-income countries, it is debatable whether it would occur in a developing country like the Philippines. A study in Benin found that local governments strategically competed with each other prior to elections, in order to be re-elected. Political competition of this nature may be undesirable if the money is being spent on unnecessary health projects that do not translate into better health outcomes.

**Competition among local governments in the Philippines**

Research was conducted to test whether municipalities of the Philippines reacted positively or negatively in response to their neighbours’ decisions in the year 2007. Per capita health expenditures of local governments were examined and a complex spatial model was developed to compare the response of a local government to their neighbours’ spending. The impacts of other socioeconomic, fiscal, demographic and political factors on per capita health spending were also assessed. Not surprisingly, the influence of per capita provincial income, per capita revenue and the percent share of internal revenue allotment on per capita health spending was clearly positive. In other words, local governments with greater income and those with grants comprising a significant share of the total revenue are able to spend more per person on health. The political variable measuring the pork barrel effect is positive and significant. The research revealed that with respect to competition, local governments were indeed found to compete positively with their neighbours. Specifically, an increase in bordering municipalities’ spending is associated with an increase in the municipalities’ spending.

What explains competition among local governments in the Philippines? One explanation is that a local scarcity of doctors is resulting in local governments bidding salaries and benefits upward, in order to attract physicians. Doctors are indeed compensated based on the income levels of different municipalities. Therefore, higher-income municipalities can afford to pay their doctors higher salaries and benefits as compared to lower-income municipalities. Furthermore, anecdotal evidence suggests that not all local government units are capable of providing the allowances under the Magna Carta for Public Health Workers, a system under which health workers are granted allowances in addition to their salary.

Further, some scholars point out “yardstick competition” among local governments, a basis for efficiency in a decentralized system. However, this seems to be less of a possibility in young democracies like the Philippines and Benin. Additionally, anecdotal evidence suggests that better health performance is not consistently observed at the regional level. Health disparities continue to persist across local governments. If some local governments indeed try to outperform their neighbours by spending more, it is not apparent that spending is translating into commensurate health outcomes. Hence, this may be plausibly explained as strategic competition among political actors prior to the election period; 2007 was an election year.

**Policy implications and recommendations**

It is quite clear that some local governments have an advantage over others in their access to resources, and, as a result, disadvantaged governments may not be able to compete for specialized personnel such as doctors. While higher-income municipalities can afford to provide their personnel with more benefits, this might also induce the doctors from neighbouring lower-income municipalities to seek positions with better benefits, or to demand better benefits from the local municipalities. In turn, this movement of personnel or increase in the health-care personnel costs may eventually contribute to disparities in the levels of health services provided, as well as health outcomes.

In order to combat competition between local governments, the central government encourages local governments to cooperate with one another through inter-local health zones, wherein local governments are encouraged to share resources. Resources ranging from personnel to equipment could be shared among municipalities by coordinating with one another. Unfortunately, these zones have not been functional thus far in the Philippines.

Finally, if higher spending among municipalities is induced by political competition, it is possible that more resources will be allocated to the health-care sector in comparison to the other sectors. However, the question that arises is whether such politically driven spending is really addressing the health needs of the residents, in either the short or long term, or whether it is merely serving to achieve the strategic political motives of politicians.

Given that several Asian countries have undertaken decentralization as a part of their reforms, the experience of the Philippines should be of interest to policy-makers in the South Asian region. Drawing from the experience of the Philippines, several lessons for policy-makers are apparent.

- **Conduct audits before elections**: it may also be useful for the central government to develop an entity to monitor the use of local and national government funds. Independent investigating bodies should hold regular audits prior to local and national elections as an attempt to prevent unnecessary politically motivated spending on health that has little long-term impact on health outcomes.
- **Encourage coordination among local governments through inter-local health zones**: the Bureau of Local Health Development, an agency of the Department of Health, provides a platform for local government units to
“collude” into inter-local health zones – by sharing ideas, experiences and resources. While this approach is ideally suited to deal with “spillover” effects, or cross-border use of resources, the central government must take more proactive steps to encourage cooperation among local governments.

- **Revise the payment structure of doctors**: the salary and benefits structure of doctors should be revised such that they do not vary significantly across local governments. This might indeed be one of the steps in reducing intergovernmental competition.

**CONCLUSIONS**

To conclude, every government system has its flaws, and a decentralized system of public-service delivery is no exception. Although decentralization has proved to be effective in certain provinces of the Philippines, research indicates that, on average, local governments compete with their neighbours to spend more on health. Furthermore, this competition may not necessarily translate into better health outcomes. Unfortunately, evidence suggests that the money is spent on paying higher salaries to doctors, or is spent by politicians as a part of their campaigns to get re-elected prior to an election. To improve health outcomes in the Philippines, action must be taken by the central government to encourage local governments to coordinate spending, rather than compete with their neighbours while providing public health services.

**ACKNOWLEDGMENTS**

I thank Sidney Carl Turner for his valuable comments.

**REFERENCES**


How to cite this article: Kelekar U. Fiscal competition in health spending among local governments in the Philippines. WHO South-East Asia J Public Health 2013; 2(3-4):198–200

Source of Support: Nil Conflict of Interest: None declared.