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Amid the wave of institutional reforms in the early 1990s, the Philippines underwent decentralization and placed healthcare services squarely under local government (LGU) purview. Three decades on, this study revisits the question of whether the effect of this strategy has improved or deteriorated local health service delivery. Using a panel dataset covering 145 city-level LGUs for 2011-2019, the study employed a two-stage, semi-parametric approach to ascertain efficiency scores and analyze factors determining their variations, with fiscal decentralization as the independent variable of interest while controlling for fiscal, economic, and health-related factors. Findings challenge the conventional wisdom that decentralization uniformly enhances service delivery. The first-stage analysis showed substantial disparities among local government efficiency scores, with Manila City, Cebu City, and Quezon City consistently being the most efficient LGUs on the frontier. Results from the second-stage model revealed that fiscal decentralization negatively affects efficiency, suggesting that local governments with less fiscal autonomy are more efficient in providing health services, espoused by the reliance on IRA and a lack of independence in generating income. Component cities were found to be less efficient than Highly Urbanized cities, highlighting equity concerns. The main findings suggest structural weaknesses in the implementation of decentralization in the Philippines, calling for a comprehensive review of the financing scheme and devolution process.

Policy Recommendations

1. **The Department of Health, in coordination with the Philippine Health Insurance Corporation and Local Health Boards, should re-examine the current devolution process outlined by the Local Government Code of 1991.** Following the enactment of the Local Government Code of 1991, LGUs were expected to take on a range of devolved responsibilities, including essential services such as health, education, and infrastructure. However, a significant lag in fiscal decentralization meant that while LGUs gained new responsibilities, adequate financial resources were not immediately available. As a result, not all LGUs have an elastic revenue base to spend more on essential services, and only financially capable cities benefited from autonomy, while weaker cities struggled. The stakeholders must
2. **The same stakeholders should implement more equitable and effective allocation formula for IRA that considers not only population size but also factors such as poverty rates, remoteness, and existing infrastructure.** To address the financial challenges faced by LGUs, the Internal Revenue Allotment (IRA) was established as a central component of the fiscal decentralization framework. The IRA is a mechanism that allocates a share of national internal revenue to local governments, intended to provide them with the financial resources needed to carry out their devolved functions. By considering more locale indicators, the government can better align resource distribution with the actual healthcare requirements of LGUs.
3. **Incorporate performance-based metrics to incentivize LGUs to improve their efficiency in service delivery.** This system would link the allocation of additional resources to the achievement of specific health outcomes and performance indicators. The findings reveal significant variations in operational efficiency among LGUs, with some achieving high efficiency scores while others lag behind. By linking funding to performance outcomes, LGUs would be motivated to optimize

their resource utilization and improve health service delivery, addressing the inefficiencies identified in the study.

4. **Local Health Boards (LHBs) should coordinate with the Department of Health to conduct and implement targeted capacity-building programs for LGU personnel, focusing on financial management, project planning, and data analysis.** Additionally, the DOH should provide technical assistance and mentorship to support LGUs in developing and implementing evidence-based health plans. Emphasis should be placed on strengthening the capacity of LGU health offices to conduct needs assessments, develop appropriate interventions, and monitor and evaluate program outcomes. By building the capacity of LGUs, the DOH can ensure that health resources are utilized efficiently and effectively to improve the health status of the population.
5. **Enhance the auditing processes of LGUs by requiring regular and comprehensive audits conducted by the Commission on Audit (COA) and mandating financial disclosure and public consultations.** The Commission on Audit (COA) could work to identify irregularities, inefficiencies, and potential areas for improvement. Furthermore, LGUs should be mandated to disclose their health budgets, expenditures, and outcomes publicly, allowing for greater citizen oversight and participation. To enhance transparency, public consultations should be conducted regularly to gather feedback on health service delivery and to inform resource allocation decisions.
6. **Local government units (LGUs) should foster collaboration with the Department of Health (DOH), Philippine Health Insurance Corporation (PhilHealth) and other LGUs for knowledge-sharing and best-practice adaption.** Exploring regional resource pools or joint service delivery models can possibly leverage economies of scale and expertise. Further research could delve deeper into innovative financing mechanisms, such as health insurance schemes and public-private partnerships. Alongside this, exploring the potential of adopting digital health technologies in improving health service delivery and outcomes in LGUs could streamline operations and enhance access to health services in localities.

Introduction

By the late 1980s, the Philippines faced growing concerns over its deteriorating public sector, prompting a move to decentralize governance with passage of the Local Government Code of 1991 (LGC). The LGC of 1991 gave local governments more authority over service provision, including health. Along with the devolution of services, they were also promised more autonomy over their budgets and resource allocation. Despite this decentralization, LGUs continue to be heavily dependent on central government funding for health services, creating disparities in access and efficiency, which have contributed to the concerns over health service quality. This study aims to evaluate the effect of fiscal decentralization on the efficiency of local health service delivery and identify factors contributing to variations in efficiency across LGUs.

Model Specification & Results

The study used Data Envelopment Analysis (DEA) to estimate efficiency and Tobit regression to analyze factors influencing it, focusing on fiscal decentralization. A panel dataset of 145 city-level LGUs was created using available data, including per capita health expenditure and health indicators such as the number of LGU-owned facilities, hospital length of stay, paid hospital claims, and a medical specialty index. The Tobit regression examined how fiscal decentralization, population size, Internal Revenue Allotment (IRA) per capita, LGU income per capita, own-source revenues per capita, disease burden, LGU maturity, legal classification, and income classification impact efficiency, including interaction terms to explore combined effects. A nonparametric Nadaraya-Watson estimator was used to address data non-normality and LGU heterogeneity.

Efficiency Scores Results

Quezon City, Cebu City, and Davao City consistently emerged as the most efficient LGUs across multiple years (2011-2019), demonstrating robust healthcare management practices and effective resource

utilization. Different cities excelled in specific areas. For instance, Angeles City was noted for its efficiency in managing shorter lengths of stay, while Iloilo City led in the specialty index in 2011. Manila City consistently ranked high in the number of LGU-owned facilities, indicating strong infrastructure investment. Over the years, cities like Bacolod and Muntinlupa showed improved efficiency in managing longer lengths of stay and specialty services, respectively, indicating a shift in performance dynamics among LGUs. Cities such as Pasig, Taguig, and Muntinlupa were highlighted for their effective delivery of specialized healthcare services, as reflected in their high specialty index scores.

Explanatory Variables Results

Fiscal Decentralizaion

The analysis revealed a significant negative relationship between fiscal decentralization and efficiency scores, indicating that a higher degree of fiscal decentralization is associated with lower efficiency in healthcare service delivery. This suggests that as local governments contribute to more spending on health expenditure, there may be inefficiencies arising from potential mismanagement or lack of administrative capacity to handle the increased financial autonomy effectively. The reliance on decentralized fiscal powers without adequate training or systems in place can result in the misallocation of resources and ineffective service delivery. This disputes the preference matching channel prompted by earlier decentralization theories, suggesting that just because local governments are in a better position to know their constituents' needs does not mean that they are efficient. There is an emphasis for the need for local governments to have both the authority and the capability to utilize their fiscal powers efficiently.

IRA, LGU Income, and Own-Source Revenue

The fiscal covariates give insight into the financing scheme that propels LGUs' devolution responsibilities. The IRA per capita variable was shown to have a negative relationship with efficiency, suggesting that LGUs heavily reliant on IRA allocations may not have the incentive to generate their own revenue or

manage funds efficiently. This is compounded by the design of the IRA allocation formula, which is based on population, and hence, does not consider the actual costs of providing health services, thus exacerbating financial difficulties in areas with high healthcare demands. Meanwhile, the positive relationship with income per capita complements the explanation that LGUs with better financial independence due to higher income are able to allocate resources effectively. Greater financial resources enable LGUs to invest in healthcare infrastructure, staff training, and service delivery improvements. This finding reinforces the idea that economic capacity directly influences the ability of local governments to manage healthcare services efficiently. Although a positive relationship, own-source revenue lack significance, indicating that increasing local revenues is insufficient; LGUs may need to focus on improving their financial management practices rather than just increasing revenue generation.

Population, Legal Classification, Income Classification

Population size of the locale showed a negative relationship with efficiency scores and was quite significant, which disputes the prevalent notion that governments with larger populations tend to achieve economies of scale in producing health services. Meanwhile, income classification of LGUs was a categorical variable that compared the efficiencies of classes compared to its baseline, First Class cities. It was revealed that lower-income classes (Second to Sixth Class cities) generally had lower efficiency scores compared to First Class cities. This indicates that wealthier cities are better at utilizing their resources for healthcare services, possibly due to better infrastructure, administrative capacity, and access to funds. The same treatment was revealed for the legal classifications of cities, which tells about the level of "cityhood" an LGU has to make decisions about resource allocation and administration. Component cities were found to be less efficient compared to Highly Urbanized cities. When looking at the combined effect of fiscal decentralization with the legal classification, it was found that Component cities have significantly worsened due to fiscal decentralization, while their individual effect became not as significant. Such cities face structural disadvantages compared to Highly Urbanized cities, including limited access to resources and lower levels

of autonomy. This classification often places Component cities under provincial jurisdiction, which can dilute their capacity to manage healthcare services effectively. The findings indicate that the legal framework governing these cities may hinder their ability to respond to local healthcare needs efficiently.

Disease Burden

The positive and highly significant disease burden relationship indicates that LGUs with higher disease burdens tend to be more efficient. Disease burden reflects healthcare demand, suggesting that LGUs with higher burdens better forecast needed supplies. This raised the question of whether disease burden influences efficiency through fiscal decentralization, turning the relationship positive and mitigating fiscal decentralization's negative effects. Additionally, it supports Bardhan and Mookherjee's (2002) model, which suggests localities with higher demand and willingness to pay are likely overprovisioned by financial schemes that levy user fees, to the detriment of smaller users.

Conclusion and Recommendations

While decentralization, through the passage of the Local Government Code of 1991, aimed to empower local government units (LGUs) and improve healthcare accessibility, significant disparities in operational efficiency were observed among LGUs. The study found that increased financial resources, such as internal revenue allotments (IRA), do not necessarily lead to enhanced efficiency. In fact, a negative relationship was identified between reliance on IRA and efficiency, indicating that LGUs with higher dependence on these funds may perform less effectively. This challenges the assumption that more funding will automatically improve service delivery. Overall, the findings suggest that achieving the intended benefits of fiscal decentralization requires addressing structural weaknesses, implementing tailored policies, and enhancing the capacity of LGUs to effectively deliver healthcare services.