Decentralization and poverty alleviation. 
International experience and the case of the Philippines

RICHARD BIRD¹ AND EDGARD R. RODRIGUEZ²*

¹University of Toronto, Canada
²The World Bank, Washington, D.C.

SUMMARY

In recent years, decentralization has become quite common in developing countries. The essence of decentralization is that it does not occur in general but rather in a particular context, so that decentralization takes many different forms in different countries at different times. Comparative analysis is often illuminating and the article uses it to cast some light on the current moves towards decentralization in the Philippines. Section 2 provides a quantitative overview of the relationship between decentralization and poverty across a number of Asian and Latin American countries. Section 3 discusses key aspects of the relationship between decentralization and poverty alleviation in the Philippines, drawing on a number of decentralization experiences in countries such as Argentina, Chile, Colombia, Indonesia and Vietnam. Section 3.1 focuses on local capacity and Section 3.2 on local financial resources, in particular the role of fiscal transfers. Section 3.3 examines the effects of different approaches to decentralization on the targeting and delivery of poverty-related services—health, primary education, housing and infrastructure. Section 4 concludes by noting the importance of migration in any treatment of decentralization and poverty. Copyright © 1999 John Wiley & Sons, Ltd.

1. INTRODUCTION

In recent years, decentralization has become so common in developing countries that it is sometimes viewed as either a panacea or a plague. Some argue for it on grounds of improved economic efficiency, some in terms of cost efficiency, some in terms of accountability and some in terms of increased resource mobilization. On the other hand, others argue that these virtues are unlikely to be achieved in the context of countries in which citizen preferences are unlikely to be translated into budget outcomes and the institutional capacity of existing subnational agencies is close to nil. From this perspective, decentralization seems likely to result in increased costs, lessened efficiency in service delivery and probably greater inequity.

It is not difficult to defend and elaborate each side of this controversy. With respect to efficiency, for example, the standard economic view is that the existence of different

---

*Correspondence to: E. R. Rodriguez, Department of Finance, Economic Studies & Policy Analysis Division, 18th Floor East, 140 O’Connor St, Ottawa, Canada, K1A OGS.

The paper is based on work done for the East Asia Department at the World Bank and it was completed while working at the Operations Evaluation Department at the World Bank. All views are ours and should not be attributed to the World Bank.

CCC 0271–2075/99/030299–21$17.50
Copyright © 1999 John Wiley & Sons, Ltd.
tax-spending packages in different jurisdictions, coupled with individual mobility, is sufficient to ensure that there will be efficiency-producing inter-jurisdictional competition in service provision. Similarly, empirical evidence from a number of countries (Campbell et al., 1991) supports the proposition that locally controlled services are likely to be provided at lower costs than centrally provided ones. On the other hand, reaping these virtues appears to require the prior existence of such rare conditions as significant local administrative capacity and locally responsive and responsible officials with substantial discretionary financial control (Bahl and Linn, 1992).

Interesting as such generalities may be, they largely miss the mark. The essence of decentralization is that it does not occur in general but rather in a particular context—in a country with its own history and traditions and its own specific institutional, political and economic context. Moreover, decentralization has taken many different forms in different countries at different times, and even exactly the same variety of decentralization may have very different effects under different conditions. Comparative analysis is often illuminating, but it is always subject to error and misinterpretation in the absence of complete knowledge of all relevant aspects of the institutions and settings being compared. In principle, lessons about the appropriate desirability, design and effects of particular decentralization measures can be drawn for one country from the experience of others only with great care.

Nonetheless, reference to experience abroad is often the only guide available and, despite its obvious limitations, such experience may provide useful lessons in assessing the potential strengths and weaknesses of a particular decentralization exercise. What has worked elsewhere may not work here, and what has failed elsewhere may not fail here. But the reasons for the success or failure, so far as they can be discerned, may at least help focus attention on some key factors in the process and may at best highlight a feature that appears to require more emphasis if success is to be achieved.

Casting such modest light on the current moves towards decentralization in the Philippines is the objective of the present article. Section 2 provides a general quantitative overview of the relationship between decentralization and poverty across a number of Asian and Latin American countries. Section 3 discusses key aspects of the relationship between decentralization and poverty alleviation in the Philippines, drawing on experiences of countries such as Argentina, Chile and Colombia in Latin America and Indonesia and Vietnam in Asia. Section 3.1 addresses the question of local capacity to deliver services. Section 3.2 discusses local financial resources, in particular the role of fiscal transfers to local governments. Section 3.3 examines the effects of different approaches to decentralization on the targeting and delivery of poverty-related services—such as health, primary education, housing and infrastructure. Finally, Section 4 concludes the discussion by noting the importance of explicitly considering migration in any treatment of decentralization and poverty.

2. A QUANTITATIVE OVERVIEW OF DECENTRALIZATION AND POVERTY

How important are local governments? Comparative data on local (and other subnational) spending is surprisingly hard to find and to interpret. Nonetheless, it is probably safe to say that on the whole the degree of fiscal decentralization in terms of
spending tends to be greater in richer than in poorer countries (Wasylkenko, 1987). However, there is considerable variation within each of these groups.1

But do larger central (and local) governments reduce poverty? Figure 1 maps countries in terms of the absolute size of per capita public expenditure and the percentage of population below a poverty line. As expected, the correlation is negative, partly because, by definition, richer countries spend more and have fewer poor people. However, the causality is by no means clear. What is interesting in this figure are the apparent outliers. First, among countries with public expenditure per capita above US$900, for example, poverty incidence is less than 30%—with the notable and much discussed exception of Brazil. More generally, as has also often been noted, other Latin American countries also tend to exhibit a higher incidence of poverty at given expenditure levels than their Asian counterparts: compare Chile and Mexico with Korea. Second, among countries whose governments spend between US$400 and US$900 per capita, poverty generally ranges between 20% and 40%, with Argentina falling below this range and the Philippines well above it. Indeed, the Philippines seems more comparable with countries such as Vietnam in which public spending per person is less than US$200—and even within this group some countries (India and Pakistan) have much lower poverty levels.

Not all expenditures reduce poverty or even relate to poverty at all. As a rule, public spending on health and education is expected to influence poverty incidence. Indeed,

1Bahl and Linn (1992) found a range of 6% to 50% of total government spending, with an average of 23%, accounted for by local governments in the 21 developing countries for which they had data. For 10 developed countries, OECD (1991) found the range to be from 12% to 53%, with an average of 26%. On the other hand, using a different source and sample, Bird (1995) found an average local expenditure share of 22% for 18 developed countries and only 9% for 16 developing countries.
Figure 2 suggests that larger per capita expenditures on health are associated with lower poverty incidence. Within the small group of ‘low’ spenders it is again noticeable that poverty is much higher in the Philippines than in South Asia. While the picture is not exactly the same with respect to education, as seen in Figure 3, it is broadly similar. Again, the Philippines appears to spend relatively little in this area, but to get less in terms of poverty reduction for its expenditure than other similarly low spenders such as Indonesia.

Figure 2. Public health and poverty: selected countries, early 1990s.

Figure 3. Public education and poverty: selected countries, early 1990s.
More—or less—expenditure on health and education, it seems, will not in itself necessarily reduce poverty. Regional studies within countries (e.g. in China and India; see Rao and DasGupta, 1995) have demonstrated that both the relative importance of social spending and the apparent effectiveness of that spending in alleviating poverty are highly variable and depend on the precise nature of the spending. For instance, spending on universities or primary schools will have different effects on poverty. Also, important intangibles such as culture and tradition will have different effects on poverty, as the case of the poor but highly literate state of Kerala in India shows. Assessing the impact of decentralization on poverty alleviation must therefore go beyond simple estimates of effects on the level of composition of public expenditure (Estache, 1995) to consider the effects on the institutional incentives that determine how the funds are spent and to whose benefit. There are as yet few studies along these lines (e.g. Ostrom et al., 1993; Scott and Litchfield, 1994; World Bank, 1995). However, preliminary evidence suggests that, contrary to the fears of many, at least some local governments in some countries are spending their funds fairly sensibly, and probably fairly effectively from a poverty alleviation perspective. The conditions required to achieve such results are discussed further later in this article.

Two further broad characteristics of decentralization around the world emerge from any overview. First, however much local governments spend, and whatever they spend it on, the revenues under their direct control are almost invariably less than their expenditure (Bird, 1995). On average, the richer the country, the more dependent local governments are on transfers. For example, Bird (1995) found that on average local governments in the industrial countries in their sample financed only 62% of their expenditures from their own resources, compared with 88% for the developing countries. As usual, of course, there is substantial variation within each group. In Chile and Malaysia, local governments financed more than 60% of their expenditures from own revenues in 1990, while Argentina, India and Pakistan had a lower level of financial autonomy (38% to 50%), and in Indonesia the ratio was only 21% in 1989 (UNDP, 1994). In most countries, fiscal decentralization in the form of increasing the importance of local expenditures is in practice likely to be accomplished only by simultaneously increasing the importance of national fiscal transfers. The level and design of such transfers are therefore a key aspect of any decentralization process.

The same conclusion emerges from consideration of the second common characteristic found in every country: not all subnational governments are equal. Even in quite small and homogeneous countries there are big cities and small towns, heavily urbanized areas and rural municipalities. The resulting unevenness in access to local public resources can be marked. In 1993, per capita revenues in low-income provinces of Vietnam were only 9% of those in high-income provinces. However, owing to central government transfers, expenditures in the poorest provinces of Vietnam were 59% of those in richer provinces (Bird, Litvack and Rao, 1995). Similarly, in Indonesia, Timor (one of the poorest provinces) has a per capita own-source revenue equivalent to only 4% of Jakarta’s per capita own-source revenues. Again, however, owing to transfers from the central government, Timor’s per capital expenditures are only 55% lower than those in Jakarta (Shah and Qureshi, 1994). Transfers determine

---

2There are very few exceptions such as local governments in Scandinavia where they have substantial access to large and elastic tax bases usually by levying surcharges on national income taxes (Slack and Bird, 1991).
the pattern and level of expenditures in the poorer regions of countries, so that the
design of transfers becomes critical in establishing the effects of decentralization on
poverty (Rao and DasGupta, 1995).

3. PHILIPPINE DECENTRALIZATION AND
INTERNATIONAL EXPERIENCE

After centuries of centralization, the predominance of local government is a relatively
new phenomenon in the Philippines. Fiscal decentralization only became a major
political concern after the Marcos government was ousted in 1986. The Aquino
administration approved the new local government code only in 1991. It also created
two more regions, one in Luzon (Cordillera Administrative Region) and one in
Mindanao (Autonomous Region of Muslim Mindanao). In the early 1990s the
central government eliminated mandatory local contributions from local revenues to
the police and hospitals and introduced a major change with respect to the share of
revenues to be allocated to local governments (provinces, cities, municipalities and
barangays) from central government revenues. The central government fixed this
allocation at 40% while at the same time it shifted or ‘devolved’ some costs to local
governments.

Many international donors such as the World Bank have supported the recent
initiatives of decentralization in the Philippines. However, they found that the policy
dialogue remained quiescent after the first few years. In the mid-1990s the government
and international donors acknowledged that equalization across regions—and all
units of local governments—remained an important but difficult issue, and the
government agreed to postpone the debate until the new administration (World Bank,
1998).4

With one of the highest poverty incidences in the region, the recent Philippine
decentralization appears as a good opportunity to fight poverty. There are at least
three ways in which decentralization is expected to interact with a poverty alleviation
policy (see Bird et al., 1995; Bird and Villancourt, 1998). The various experiences
considered in this article illustrate each of these points to varying degrees.

Let us briefly examine each of these three key aspects. First, as with many other
public services, effective implementation of poverty alleviation policies often requires
detailed and specific local knowledge which may be most readily obtainable through a
decentralized and locally accountable system of governance. Again, the right kind of
decentralization would seem to be a good idea—provided of course that local
governments have sufficient technical and financial capacity to carry out their
assigned tasks. On the assumption that people should get what they want—rather
than what someone else wants them to want—poverty alleviation policies, like other
policies, should reflect local and regional variations in preferences where appropriate.
From this point of view, decentralization is also in principle a plus, not a minus. The
potential virtues of decentralization depend upon political accountability and the
inevitable need to strengthen local delivery capacity.

---

3The Philippines has 15 regions, including the National Capital Region.
4President Estrada took office in July 1998.
Second, the design and implementation of transfers exercise an important influence, for good or for ill, on local spending decisions. Efficient assignment of revenue and expenditure responsibility to different levels of government invariably means that local governments as a group will depend to a significant extent upon transfers from the central government. From this perspective, decentralization does not mean that the central government plays no role in poverty alleviation. What it means is rather that considerable thought and effort (and probably some experimentation) will be needed to develop a workable transfer system. Such a transfer system should simultaneously accomplish the difficult objectives of providing localities sufficient resources to do what they want to do while ensuring that what they do is broadly in accordance with national priorities. The interaction between decentralization and poverty alleviation emphasizes the importance of transfer design and the desirability of providing for periodic re-evaluation of that design.

Finally, the relationship between decentralization and poverty alleviation depends on the targeting of poverty-reducing public investment by local governments. Local governments implement the national poverty alleviation policy, narrowly or broadly defined. A narrowly defined poverty policy uses transfers of income, in money or kind, to the poor. A broadly defined poverty policy also encompasses policies intended to increase the productivity of the poor through the formation and maintenance of human capital—education and health—and improved access to markets and productive resources in general. Given the heterogeneity of resources, capacities, costs, needs and preferences that characterizes most countries, some local governments will need much more financial and technical support than others will. Such disparities will be accentuated, the greater the direct access of local governments to their own fiscal resources, since those who have a tax base can get more revenues, while those who have not, cannot. Decentralized poverty strategy thus inevitably requires some degree of ‘equalization’—in the sense of larger transfers to poorer regions, and not to poorer people as such—in fiscal transfers from the central government to localities (Shah, 1994). To the extent that poor people are found predominantly in poor regions, this is fine; inevitably, however, there are also some not-so-poor people in poor regions and a lot of poor people in ‘rich’ regions. Hence this line of argument must be applied with restraint, particularly in poor countries (Rao and DasGupta, 1995).

3.1. Local capacity to deliver services

An important aspect of decentralization in the Philippines has been the reassignment of central government workers to local governments. The size and skill level of the local bureaucracy are important, because public employees are ultimately in charge of delivering the goods and services within any poverty alleviation strategy. Overstaffed and underfunded local governments are unlikely to deliver services efficiently or to meet high quality standards. In 1990, 1.2 million people were on government payrolls in the Philippines (excluding personnel at state universities and colleges), with 70% in the central government, 11% in government-owned corporations and 19% in local governments. Also, in 1990, central government employees received on average around US$142 a month compared with only US$88 for local employees (BLES, 1991). Local salary bills will almost certainly have to rise if decentralization is
expected to improve quality and delivery of services.\(^5\) For this and other reasons, as Latin American experience demonstrates fairly conclusively, if service levels are to be maintained, decentralization will likely increase rather than reduce government outlays, at least initially (Campbell et al., 1991).

Another problem arises from the location of central government officials who are to be devolved. In principle, the most motivated public servants should presumably be located in the areas of greater need. As Figure 4(a) shows, however, most public employees in the Philippines are in the National Capital Region, and on the whole there is no observable relation between regional ‘need’, as measured by poverty incidence, and the ratio of public employees. Of course, a greater concentration of public employees in poor areas is not necessarily good news. Public bureaucracy is an essential part of the delivery of government services, but it may also reflect the political creation of jobs for partisan supporters. Such a pattern seems clear in Argentina, for example. Figure 4(b) shows that the richest provinces such as Buenos Aires, Cordoba and Mendoza have fewer than 30 public workers per 1000, while poorer provinces such as Formosa, La Rioja and Catamarca have more than 80 public employees per 1000 (Porto and Sanguinetti, 1993).

In contrast, both Colombia and Chile demonstrate the importance of qualified and community-involved local officials and the possibilities of improving local capacities in these respects. A recent study in Colombia found that some municipalities had made considerable progress in improving the level and ‘professionalization’ of their staff, but that there was still a long way to go (World Bank, 1995). Some

\(^5\) A recent review of the World Bank advice on decentralization in the Philippines indicates that a 1995 Public Expenditure Review and a 1996 Policy Paper on Decentralization both recommend increasing accountability of local governments and strengthening their capacity for fiscal planning and implementation (World Bank, 1998).
medium-sized municipalities had above-average ratios of municipal employees and in some cases an excess of unskilled employees. One municipality channelled some of its unskilled labourers into a co-operative enterprise that now effectively maintains roads. Another has increased its professionalization by conscious personnel attrition policies. Evidence suggests that there are substantial economies of scale in this respect: a core minimum number of professionals is required for efficient local government, but the size of this core does not increase proportionally with size.

In Chile, as in Argentina, municipal governments were once largely politically influenced employers of low-productivity labour. After more than a decade of reform, however, the proportion of skilled professionals employed at the local level has increased and the number of government workers per capita has dropped by 12% (World Bank, 1993a). An important starting point for this reform was a 1976 law establishing equivalence between municipal and central government employees in labour relations under the Public Sector Administrative Statute. In recent years, municipal governments in Chile have kept expenditures on personnel to less than a quarter of total current expenditures.

How such questions are resolved in the Philippines with respect to the absorption of ‘devolved’ personnel by local governments seems likely to be a critical factor in determining the outcome of the current decentralization policy. This requirement not only increases local governments’ expenditures, but also has other effects requiring immediate attention. For example, agricultural extension workers have been turned down by some city governments, which consider them—whether correctly or not—to be redundant in an urban setting. Local governments also have to deal with understandable wage claims from local government personnel who are paid less than their counterparts in the central government. It would not be at all surprising to find that more basic reforms in the local public service, perhaps along Chilean lines, will soon
prove necessary to maintain both the integrity of local government finance and an adequate degree of efficacy in local service delivery.

3.2. Local financial resources

Central governments have scarce resources to spend on health, education and other social sectors. In the Philippines, 3.7% of GNP goes to education and health, or about US$29 per person in 1992, with local governments accounting for approximately US$5 of this total. Some countries spend even less. In Indonesia, government spent US$16 per person on education and health (World Bank, 1994a). In Vietnam, although the government spent 6.1% of GDP on social services in 1992, this amounted to only about US$9 per person (Bird et al., 1995). Other countries spend much more. Malaysia’s expenditure on education and health was US$209 per person or 7.5% of GNP. Chile assigned 5.4% of GNP to these functions (financed mainly by the central government but delivered through the municipalities), or about US$147 per person (World Bank, 1994a). As noted earlier, when local governments are expected to play a major role in delivering social services, they inevitably depend in large part on central fiscal transfers to do so.

The design of such transfers takes two quite different approaches. On one hand, to the extent that their primary objective is to ensure that all regions of the country expected to provide such services at acceptable minimum standards have adequate resources to do so, simple ‘lump sum’ transfers without conditionality, other than the usual requirements for financial auditing, are called for (Shah, 1994). This ‘federalist’ approach assumes that the funds flow to responsible local political bodies, that there is sufficient accountability and that it is neither necessary nor desirable for the central government to attempt to interfere with local expenditure choices. On the other hand, when the central government uses local governments as agents in executing national policies, such as in providing primary education, then it makes sense to have transfers conditional on the funds actually being spent on education or on certain educational performance (Bird, 1993).

The Philippine model seems closer to the federalist approach. Most funds transferred to local governments come from the internal revenue allocation (also known as IRA). These transfers are allocated according to population, area and equal share (the weights used are 70%, 20% and 10% respectively among these three criteria). Figure 5(a) shows transfers to provinces, cities and municipalities aggregated by regions in 1992 and plotted against regional poverty incidence in 1991. The poorest region (Bicol) received slightly above the average, while the newly created region of the Cordillera (Cordillera Administrative Region) received almost double the average regional transfer per capita. On the whole, there is not much apparent relation between per capita transfers and levels of regional poverty in the Philippines.

For the most part, these transfers are not conditional, except for the requirement that 20% should be used for ‘development purposes’. This condition is not very onerous in practice, because local governments use part of their 20% development fund for a variety of medical, nutrition, social welfare, cultural, youth and sports expenditures. Moreover, all local governments must now do to utilize this 20% development fund is to send copies of the projects to the Department of Interior and
Local Government, whereas previously such projects required prior approval by this Department.

In contrast, in Indonesia, transfers from the central government finance about two-thirds of subnational government expenditures. Recent emphasis on regional autonomy has increased the proportion of general-purpose transfers, but they still...
represented only 23% of all transfers in 1990–91 (Shah and Qureshi, 1994). Among
the explicit rationales for transfers in Indonesia are two that require explicit condi-
tionality to be effective to alleviate inefficiencies that arise from inter-jurisdictional
spillovers and to provide minimum standards in services. In fact, Devas (1997)
discusses how Indonesia has been able to benefit from an efficient decentralization
without a shift of political power to local governments. Also, in Vietnam, central
government leaves little autonomy to local governments in deciding how to spend
these transfers (Bird et al., 1995).

Figure 5(b), like Figure 5(a) for the Philippines, shows transfers per capita from the
central government to provinces together with levels of provincial poverty in the early
1990s in Indonesia. Transfers per capita were lower than the average provincial
transfer for the capital, Jakarta, as for Metro Manila in the Philippines. On the whole,
however, per capita transfers appear to be more closely related to poverty levels in
Indonesia. Timor Timur and Nusa Tenggara Timur are the poorest provinces in the
country, with about 50% of their population under the poverty line, but they received
quite different transfers, presumably reflecting in part the political situation. The high
transfer to the frontier province of Irian Jaya—more than three times the average
provincial per capita transfer—is a common phenomenon. Frontier regions also
receive strong attention from central governments in Argentina and Chile.

In sharp contrast with Indonesia, however, only 14% of transfers to provinces were
conditional in Argentina in 1992 (Porto and Sanguinetti, 1993). As in Indonesia, the
relationship of transfers and poverty is broadly positive, with poorer provinces
receiving more support from the central government, though it is not the very poorest
that gain most. For instance, data from Argentina in Porto and Sanguinetti (1993)
indicate that per capita transfers to the poorest provinces (Chaco, Formosa and
Santiago del Estero), which have around 40% of their populations under the poverty
line, are only slightly higher than the average per capita transfer to all provinces. On
the other hand, some relatively wealthier provinces such as Catamarca received
almost double the average per capita transfer.

In many if not all countries, transfers, particularly those for investment purposes,
are clearly influenced by politically related territorial criteria. In Chile, for example,
although all funded projects are required to have a minimum rate of return, all projects
exceeding that rate are not necessarily funded (World Bank, 1993a). Moreover, the
transfers do not always contribute to the employment and output growth needed for
long-term poverty reduction. The central government is responsible for most regional
investment in Chile (72%), favouring frontier regions in the south with low population
density (Aisen and Magallanes). Nonetheless, the poorest regions of Chile (Maule and
Biobio) received investment per capita close to the average allocated by the central
government in 1991 (using data from Espinoza and Marcel, 1993). However, many
poor families still live in rich regions. Over half the Chileans with incomes below the
poverty line live in the wealthiest regions of the country—the Metropolitan Region,
Valparaiso and Libertador, all in Central Chile—so that transfers based solely on
regions are inherently inefficient in reaching these pockets of poor families.

3.3. Targeting the poor

Poverty alleviation encompasses several different strategies, the desirability and
feasibility of which will vary from country to country, depending upon political,
economic, administrative and timing factors. Some policies focus on improving the productivity of the poor, enhancing their ability to earn a decent living by increasing their level of human capital and improving access to markets and resources. Others are more in the nature of a social safety net, focusing on delivering to the poorest members of society the minimal services and resources needed for human life and dignity. Both types of policy give rise to targeting issues—issues that are more important the lower the level of development of the country (and hence the higher the opportunity cost of resources wasted on inefficient delivery systems). This section discusses several experiences relevant to the Philippines in the areas of health, education, housing and infrastructure.

**Health**

In most developing countries, health is an area that has been traditionally in the hands of the central government. In the Philippines, for example, as Figure 6 depicts, under the previous centralized system there were tremendous differences among regions. In the early 1990s, in terms of population per hospital bed available, Western and Eastern Visayas—representing almost 10% of the total population—had more than 1500 people per hospital bed, compared with the much lower level of 262 people per hospital bed in the National Capital Region. On average, the poorest regions of Bicol, Central and Northern Mindanao had 1133 people per hospital bed, above the national average of 932. To some extent, of course, these disparities reflect the natural concentration of specialized facilities, but it is still striking. Public funds provide about half of all hospital beds in the Philippines (57% and 50% in 1989 and 1993 respectively; NSO, 1992, 1995). The proportion is close to this average in the poorest region of Bicol (46%), but not in Mindanao. Public provision of beds in hospitals reached only 18%
and 37% in Central and Northern Mindanao respectively. Southern Mindanao with a relatively low number of people per hospital bed also stands out with a small public provision of hospital beds (only 20% of beds in 1993).

In 1988, only 0.9% of all local government expenditure was for hospital and other health facilities. The absolute level of investment in health was very small, although in per capita terms it was relatively higher in the poorer regions. Fortunately, the present level of health in the Philippines is surprisingly good. In 1991 the Philippines had an infant mortality of 19 per 1000 live births (NSO, 1995), closer to Chile (15 per 1000) and Colombia (21 per 1000) than to Vietnam (50 per 1000) or Indonesia (66 per 1000). However, regional differences are marked, with the Cordillera and Southern Mindanao regions being significantly better than the average. These regions also have above-average availability of hospital facilities, although they have very different health provision systems. Between 1989 and 1993, at the early stages of decentralization, the Cordillera had more than half of the hospital facilities in the hands of the central government, while Southern Mindanao had almost 80% of hospital capacity in private hands. The challenge of decentralization in this politically attractive area—to close gaps in medical service and to keep up with population growth—is likely to be strong.

The initial effort to manage the devolution of health services in the Philippines has taken the form of the Comprehensive Health Care Agreement. Although devolution involves two-thirds of the personnel of the central Department of Health, the aim of this agreement is to preserve a basic uniform level of services across a broad range of programmes. It is not yet clear what the regional redistributive effect will be. Out of 77 provinces, only 18 provinces had signed contracts with the Department of Health as of the beginning of 1994. Moreover, the proportion of grants in the local health budget appears similar regardless of income. Grants accounted for 22% of the local health budgets in low-income provinces, while the percentage for high- and middle-income provinces was just slightly higher (24% and 26% respectively).

Experience suggests that it is not easy to develop an effectively decentralized health service that provides acceptable minimum levels of service in poor regions, let alone to poor people. In Chile, for example, municipalities have for some years provided basic medical care, with most finance coming from earmarked subsidies from the central government. The central government initially based the subsidies on the number and type of treatments provided by municipal health posts, and reimbursements reflected the full costs of each specific type of treatment. The original reimbursement system, however, prompted a high level of demand and an unsustainable increase in total subsidies. The result was that in 1983 the government had to impose an arbitrary ceiling on these payments which still persists. In the meantime, health expenditures of course increased and had to be financed from local resources. From 1987 to 1990, municipal subsidies to primary health increased at an average annual rate of 61% (from US$2 million to US$13 million), though they still amounted to only 3.9% of municipal expenditure in the latter year. Currently, the government is trying to define new criteria for the allocation of health subsidies (World Bank, 1993a). Similar problems have of course occurred in other countries with decentralized health delivery systems and centralized finance—for example, Canada.

On the whole, decentralization in Chile has reduced the real public resources spent on health and increased user charges. Public expenditure on health fell largely owing to privatization of contributions and services for upper-income groups. Reductions in infant and maternal mortality have improved health standards, but, with respect to
both health and education (see below), larger and richer municipalities have benefited more than others (UNDP, 1994).

In contrast, Indonesia’s central government determines the grants to health on a per capita basis. These grants include allowances for medicine, health centres and the costs of doctors and paramedics. Some components of the grant take the form of transfers in kind (e.g. medicine). There is a small matching element in health grants in the sense that local government must finance the cost of acquisition of land for health centres. The central government directly intervenes in the provision of health services through the appointment of medical personnel, the provision of medicine and other supplies and the construction of health centres. Further central control in the form of more specific standards for access and service levels is necessary to ensure adequate access for the neediest (Shah and Qureshi, 1994).

**Primary education**

Education is another focus for decentralization in the Philippines. At present the central government mainly offers primary school services and coverage is almost universal. In the early 1990s, 7% to 8% of all primary students went to private schools (NSO, 1995). Although class sizes do not differ significantly, private schools generally perform better than public schools. For example, of all students enrolled in Grade I in 1986–87, 68% were still enrolled in Grade VI in a primary public school in 1991–92. In contrast, private schools have a survival rate of 86% (NSO, 1995).6

With primary and secondary education—the latter is currently 64% public—now becoming the responsibility of local governments, it will become more difficult in many ways to remedy these deficiencies, let alone to maintain the present relatively good Philippine record with respect to education. In 1990, 90% of the population could read and write in the Philippines—a rate not unlike that in Chile (95%), Colombia (88%) and Vietnam (88%), and substantially better than Indonesia (77%), though the rate in some poorer regions of the Philippines is close to Indonesian levels.

If the resources devoted to education are small and change little with decentralization, major changes in the quality or quantity of services are unlikely to occur. The major cost of education is for teachers’ salaries. Local capacity to improve, or even change, lack of financial resources and inflexibility in employment practices severely restrict what is done in public education. In Vietnam, for example, resources per student in 1991–92 were about US$11, and in one of the poorest provinces (Soc Trang), only US$2 per student. No matter how efficiently resources are used, little can be expected if they are at such low levels as this. If most funds go to pay teachers, little is left to improve facilities, books and other educational aids (Bird et al., 1995). Legal restraints on the use of resources exacerbate this basic problem. In Columbia, municipalities have found that their attempts to improve the quality of the staff in their education sector involve politically charged decisions. Municipalities are subject to the *Estatuto Docente* (Teachers’ Code) which severely limits their flexibility to change employment practices, given the rigidity of its rules on the selection and management of teachers (World Bank, 1995).

Most interesting, perhaps, is the experience of Chile with respect to managing primary education within a decentralized system. In Chile the central government allocates subsidies per student (adjusted to reflect greater costs in certain regions) to

---

6These cohort survival rates are similar to those in earlier years (NSO, 1992).
both private and municipal schools. The intention is to provide an incentive to deliver education at the lowest price to the public. Under this system, private schools have on the whole fared better. Private schools charge fees to top up central government transfers, while municipal schools have been using their own funds to top these subsidies. Although in principle this situation could be sustainable, in practice municipal schools suffered from deteriorating facilities and an increase in older (and more expensive) teaching staff (World Bank, 1993a). Although younger teachers may not be better, they are cheaper, and low pensions make it unduly attractive for even unmotivated older teachers to stay on for too long. The result is to divert some student (or, better, parent) demand to private schools. Charging fees and hiring lower-paid, highly motivated young teachers, private schools tend to attract students from richer households (which often means a higher-than-average learning environment), thus resulting in higher test scores (World Bank, 1993a) and reinforcing the attraction of private schools.

For this and other reasons, quality of education in Chile appears as a mixed outcome of decentralization. The standards in municipal schools fell and the differences between social groups widened. Private schools (in 1986, 31% of the school population) did rather better in test scores on the whole—but the lower socioeconomic groups tended to do better in municipal schools. On the other hand, secondary enrolment ratios increased and the number of years required for pupils to pass through the system fell. Paying the same subsidies to municipal and private schools appeared to be equalizing. Moreover, competition between municipal and private schools in principle appeared to improve amount and quality of services. In practice, however, the lack of infrastructure and lower-quality personnel in municipal schools unduly accelerated their deterioration and consequently worsened the conditions of some poor families. Such problems are of course removable. Increased resources for poor local schools may be provided fairly easily. But more suitable personnel policies (i.e. pensions for retiring teachers) are linked to more national policies and may prove more difficult to implement. As always, people are central to success, and the key to successful decentralization in any area is to provide the right incentives and institutional structure to induce and permit the right people to be in the right places.

Compared with Chile, specific school grants in Indonesia pay greater attention to the supply side. The Indonesian central government established grants, using projections on the population of school age children and the average number of pupils enrolled in local primary schools to estimate demand levels. To secure minimum standards, the input side is set out in detail. The central government prescribes school design and construction standards. For new schools, local governments must provide matching funds to cover land acquisition—a feature that also ensures there is adequate local demand for education in the first place. Separate grants are given for reconstruction of old schools and for construction of new schools, additional classrooms, teacher and caretaker housing, etc. The Department of Education even chooses and distributes the books. All in all, Indonesia’s is a highly centralized system (Shah and Qureshi, 1994; Devas, 1997).

Housing

Proper shelter is an urgent need for many families in developing countries, and many governments intervene actively in the housing market. In the Philippines, both local
and national governments have been actively involved in housing. In 1993 the National Housing Authority completed over 7000 housing units.\(^7\) Also, residential housing accounted for 14% of all local government expenditures for completed projects in 1993, representing 7500 residential housing units; that is, 19% of all housing units (although only 6% of the floor area) built by the private sector that year (NSO, 1995). Plans are to continue an active public role in the Philippine housing market.

Like many Latin American countries, Colombia has also intervened in housing with the goal of improving access to the poor. After decades of government intervention, however, filling the housing gap and meeting the needs of the poor remain evasive goals. Government participation in housing has crowded out private sector involvement, and government’s ability to target subsidies to the poor has been poor. For these reasons the Colombian government adopted a New Housing Policy to move from the direct provision of housing units to directly subsidizing housing needs of the poor. This policy emphasizes decentralization and focuses on the poorest by specifying the target groups, type of financial assistance (direct subsidy with an indexed mortgage instrument) and housing units to be financed (World Bank, 1994b). There are two clearly defined target groups. First, families earning between US$210 and US$430 a month can apply individually provided they have at least 5% of the value of the housing unit as a down payment. Families with higher down payments receive priority. Housing units cost from US$5300 to US$14,300. The government gives an initial subsidy of US$1300 and leaves the rest to be covered by indexed mortgage loans from private banks. Second, families with incomes below US$210 who organize themselves to obtain new housing through self-help programmes are eligible for a direct subsidy of US$1600 on a housing unit worth no more than US$5300. Once the subsidy is approved, beneficiaries have a maximum of a year and a half to find the housing unit they want. Eligible housing units include urbanizable or urbanized lots, new or used units, home improvements, water and sanitation works and titling. Because in rural areas most people own their lot, half of the direct subsidy is provided to improve sanitation (World Bank, 1994b).

The target population is basically the bottom half of the population. A 1993 study found, however, that only 39% of the applications submitted came from this group, and only about 25% of the subsidies actually disbursed went to this group. Between 10% and 20% of the subsidy was found to be going to households with incomes above the limit set in the housing programme (World Bank 1994b). Even a basically well-designed and fairly well-implemented and tightly targeted housing programme, it appears, is by no means easy to make effective. Given the importance of local housing in the Philippines, this is an area that may repay more attention.

**Infrastructure**

An essential ingredient in improving the life of the poor in many countries, both immediately and in terms of enhanced productivity in the long run, is the improvement of basic infrastructure—roads, water, sewerage, electricity (World Bank, 1994a). A number of countries have used intergovernmental transfers to guide

\(^7\)The National Housing Authority also has programmes of sites and services, resettlement, construction of new units and joint venture with the private sector and local governments. In 1994 the NHA assisted local governments to develop resettlement sites.
and shape local investments in these areas, and more recently, loans to local
governments.
In Indonesia, for example, the central government provides specific grants for
provincial and district road improvement. The programme provides minimum
standards of road service across the nation and facilitates the development of an
internal common market. More grants go to places with poor roads and low motor
vehicle registrations, which are proxies for road expenditure needs. As in the case of
other Indonesian transfers, the central government restricts local discretion in the use
of this grant, limiting its effectiveness. Local governments can only repair and
upgrade existing roads, but they cannot finance new roads.
Colombia has a much less ‘guided’ system, which appears to have been quite
successful in directing infrastructure investment to the poor. The Fondo de Desarrollo
Integrado (Integrated Development Fund) provides funds to municipalities to finance
small investment projects on a matching grant basis. Local communities provide
labour and local materials, and municipal governments contribute a portion of the
cost. This fund not only fosters community involvement in identifying needs and
choosing projects, but it also promotes community participation in the execution,
operation and maintenance of the works. Municipalities have to prepare projects,
which the fund appraises based on technical and environmental criteria. The other
important requirement is that the beneficiaries should be low-income rural families.
Any contractor (private contractors, non-government organizations, state agencies
and universities) may carry out the projects as long as they compete to supply the
works and services. Overall, the distribution of the expenditures from this fund
appears to be quite progressive, with households in the lowest quintile of the rural
income distribution receiving 26% of the subsidies (World Bank, 1994b). As with
other successful decentralized investment programmes, the key appears to be
community involvement at all stages of the operation, guided and supported
technically and financially from the centre (Bird and Villancourt, 1995).
In the Philippines the World Bank has supported investment in infrastructure by
poor local governments. The World Bank’s portfolio in urban investment moved
from slum upgrading in the 1970s to infrastructure improvements in selected cities in
the early 1980s. In the 1980s there was no major lending for infrastructure outside
Luzon, but the World Bank started a municipal development programme that
evolved into an important instrument of decentralization in the 1990s. Several lending
operations in urban infrastructure have adapted to the reality of local governments. In
particular, a series of loans made under the objective of municipal development has
continued since the mid-1980s, and these loans have become effective mechanisms to
finance local infrastructure through the Municipal Development Fund. The most
recent World Bank country strategy for the Philippines proposes to focus on poor
local governments that cannot access private capital markets to improve their delivery
of services (World Bank, 1998).

4. A FINAL CONSIDERATION: DECENTRALIZATION AND POVERTY
ALLEVIATION UNDER MIGRATION

One of the first major efforts to deal with poverty by improving investment and service
levels in poor regions was that in the Mezzogiorno—the South of Italy. In an early
evaluation of this programme, Chenery et al. (1971) noted that the programme was both a success and a failure from the point of view of poverty alleviation. If one compared the incomes of those inhabitants of the Mezzogiorno who were poor a decade earlier with their incomes now, the programme was clearly a success. But if one compared the incomes of the people living in the Mezzogiorno a decade ago and those living there now, the programme was a failure. The answer to this apparent puzzle, of course, is that many of the original inhabitants had in the intervening decade moved to the North of Italy and hence raised their incomes. The major beneficial effect of increasing public spending in the poor regions was, it appeared, to make it easier for those who wanted to do so to leave, both by upgrading the human capital they carried with them and by improving transportation systems.

There is nothing new about this observation. In the 18th century, Dr Johnson famously observed that the finest sight a Scotsman ever sees is the high road leading south to England. Nor is its truth confined to any one country: one of the best-established truths of development economics is that improving educational levels in poor regions is likely to increase migration out of those regions (Fields, 1980). It is therefore important to factor migration effects explicitly into any analysis of the effects of decentralization on poverty.

A study of 146 communities in Chile shows the importance of this factor in reaching conclusions about the effects of government policies affecting poor communities (Scott and Litchfield, 1994). Between 1968 and 1986, government policies in these Chilean communities improved infrastructure, transport and communication, piped drinking water, supply of electricity and health facilities. Since Chile is a relatively advanced developing country, it also has a system of transfer payments, and pensions and child allowances began to flow into these communities. With rising educational attainment among the rural population and cheaper transport to towns, the number of claims increased. Assuming these welfare payments were well targeted, an expansion of their coverage in rural communities should reduce income inequality.

However, the impact of improvements in infrastructure is less clear, since—perhaps reflecting community ability to make politically effective demands—investment in infrastructure was lowest in the poorest communities. Also, the effects of educational expenditure were mixed. By 1986, sons of household heads had on average attained more than twice the number of complete years of schooling achieved by their fathers, and daughters even more. Nonetheless, this marked rise in the level of education had little apparent impact on income inequality among sample households. Children migrated to obtain secondary education and stayed away. Migration of the young and educated also helps to explain the relatively weak ‘voice’ of the poorest communities when it comes to securing infrastructure investment. In the absence of basic economic change in local production possibilities, the private returns to additional years of schooling remained low (Scott and Litchfield, 1994).

Just as migrants may impose negative externalities on the regions they leave, they may impose similar costs on the regions to which they go. Of course, migration is a perfectly rational and beneficial response from individuals to economic reality. One rationale for inter-jurisdictional equalizing transfers is precisely to discourage fiscally induced migration, i.e. migration in response to fiscal rather than real economic differentials. Little research has been done on this subject in developing countries, although it is clear that migration limits the efficacy of local governments in undertaking redistributive policies (e.g. with respect to housing).
This consideration seems likely to be important in the Philippines, where migration levels are relatively high. As Figure 7 shows, there is some relation between poverty levels and migration. Regions with high incidence of poverty in 1991 had the highest rates of emigration (more than 10 emigrants per 1000 residents). On the other hand, regions with lower poverty incidence (the National Capital Region, Southern Tagalog and Central Luzon) had net immigration from other regions in the country (more than 20 immigrants per 1000 residents).

Poverty alleviation programmes aimed at the poorest regions may reduce poverty. However, at the same time, these programmes increase population mobility—which may or may not be a desirable end—so to evaluate the overall impact of these programmes, one needs further research on the link between migration and decentralization.

REFERENCES


Decentralization and poverty alleviation


