

3

Social and Human Priorities and Budget Allocation Patterns: Yardsticks for Governance

Introduction

The 1991 *Human Development Report* (HDR) [UNDP 1991] set out to assess governance based on whether human development has improved over time and on how much financial support governments devote to HD programs and concerns. To help governments design and monitor the focus of expenditure programs, the UNDP put forward a measure called the *human expenditure ratio*. This ratio says how much of national income (GNP or GDP) is devoted to human priority expenditures such as basic education (elementary to high school), primary health care, basic family planning, and low-cost water supply and sanitation. The HDR noted that the human expenditure ratio may need to be in the vicinity of 5 percent if a country wishes to perform well in terms of HD.

The human expenditure ratio in each country, however, is only the result of several factors, namely: the government's share in GNP (*public expenditure ratio*); the share of social services in government budgets (*social allocation ratio*); and the share of human priority concerns in the social services budget (*social priority ratio*) (Box 3.1). Various combinations of values for the public expenditure ratio, the social allocation ratio and the social priority ratio will yield the targeted human expenditure ratio. The report points out however that "a preferred option is to keep the public expenditure ratio moderate (around 25 percent), allocate much of this to

the social sectors (more than 40 percent) and focus on the social priority areas (giving them more than 50 percent of total social sector expenditures)".

A consequence of the desirable allocation proposed above is that governments need to allocate around 20 percent of their national budgets to human priority expenditures. It was in this spirit that in 1994 on the eve of the 1995 World Summit for Social Development, the UNDP proposed a "20:20 compact" as a means of obtaining steady and adequate financing for basic human needs. This implies that national governments should also monitor the *human development priority ratio*, i.e., the share of total government expenditure allocated to HD priorities. (See Box 3.1) A similar call is put forward for international donors to devote 20 percent of official development assistance to human priority areas.

If the logic is followed, how close or far the country is from these benchmarks should be an important indicator of the government's commitment to HD. It is precisely this which this chapter seeks to document.

Box 3.1 Relationships Among Ratios

The human priority ratio (denoted H) is simply the amount of public expenditures on human-priority concerns, measured as a share of total income. This will be higher or lower depending on several factors:

- the importance of government spending in the economy in general (G): This is measured by the *public expenditure ratio*, or the share of government spending in GNP.
- the share of social services government spending (S): This is measured by the share of social services in the government budget, the *social services ratio*.
- the type of social services provided (P): This is measured by the *social priority ratio*, the share of the social services budget that is allocated to human-development concerns.

The human priority ratio is simply the product of the previous three, that is:

$$\frac{\text{human priority spending}}{\text{GNP}} = \frac{\text{total public spending}}{\text{GNP}} \times \frac{\text{social service budget}}{\text{total public spending}} \times \frac{\text{human priority spending}}{\text{social service budget}}$$
$$\text{human priority ratio (H)} = \text{public expenditure ratio (G)} \times \text{social services ratio (S)} \times \text{social priority ratio (P)}$$

Note how some of the factors "cancel out", leaving only H . Suppose we wish to hit the 5 percent human priority ratio indicated by the HDR. One way of attaining this is to have a public expenditure ratio of 25 percent, a social services ratio of 40 percent, and a human priority ratio of 50 percent. That is to say, setting $G = 0.25$, $S = 0.40$ and $P = 0.50$ yields $H = 0.25 \times 0.40 \times 0.50 = 0.05$

An implication of this allocation is that 20 percent of total public spending should be devoted to human priority concerns. To see this, note that the product of the social services ratio S and the social priority ratio P gives us what is known as the *human development priority ratio*, or the share of human priority expenditure in total public spending. Call this G_H . Then,

$$\frac{\text{human priority spending}}{\text{total public spending}} = \frac{\text{social service budget}}{\text{total public spending}} \times \frac{\text{human priority spending}}{\text{social service budget}}$$
$$G_H = S \times P$$

If $S = 0.40$ and $P = 0.50$, then $G_H = 0.20$, as called for by the proposed 20:20 compact.

The Overall Record

Social Allocation Ratio

The share of general government expenditure in GNP was fairly stable at 22 percent in the period 1988-1994, except for a slight surge in 1990-1991 when the ratio was 24.3 (FIGURE 3.1). The trend in general government spending is determined mainly by the movement of spending by the national government. In contrast, total LGU expenditures rose continuously in 1987-1994, with marked increases since 1992, when the Local Government Code (LGC) took effect.

The social allocation ratio is the share of government spending set aside for social services. It measures the importance the government gives to the social sector in general. The share of social services in total government spending rose from 16.4 percent in 1987 to 23 percent in 1989. When the fiscal crisis of 1990-1991 occurred, this fell to 18 percent. In the period 1992-1994 it averaged 19.5 percent, a figure well below the norm of 32-35 percent found by the UNDP when it surveyed selected countries in 1988.

The debt burden, which had earlier preempted social spending in the late 1980s, has eased considerably, declining from 10.5 percent to 6.8 percent of GNP between 1987 and 1994. This improvement, however, did not

result in any substantial increase in social spending; (FIGURE 3.2) the latter peaked at 4.5 percent of GNP in 1989-1990. After the recession of 1991, this ratio stood at 4.0 percent in 1992 and reached only 4.3 percent in 1994. General government social spending was P481.71 pesos¹ per Filipino in 1994, a figure less than the peak level of P526.11 in 1990.

General government expenditures on the economic sectors and on defense² showed a trend similar to that of social sector spending. In contrast, spending on public administration showed a slight upward trend.

Human Development Spending

The social priority ratio is the proportion of social spending by government that is devoted to human priority concerns. Human priority concerns include basic education, basic health care, and low cost water supply. Basic education in turn includes education from elementary levels to high school, while basic health care includes primary health care, disease control, maternal and child health, reproductive health, including family planning, nutrition supplementation and fortification, and basic curative health services.²

The social priority ratio moved with the social expenditure ratio, rising from 50.2 percent in 1987 to 54.2 percent in 1990. It declined further to 49 percent in 1991 before recovering to 52.4 percent by 1994 (FIGURE 3.3). These figures are in the neighborhood of the UNDP norm of 50 percent. It is notable that the share of the education budget that goes to priority concerns is higher than for health, averaging 65 percent in the period 1987-1994. However the social priority ratio for health has also improved, rising from an average of 24 percent for 1987-1991 to 47 percent in 1993-1994.

The "bottom line" measure for government effort in human development is the human priority ratio, the share of human priority concerns in total government spending. This figure equaled 10 percent on average in 1987-1994 (FIGURE 3.4), a level that is only half the UNDP norm of 20 percent and

Figure 3.1 Percent to GNP of General Government Expenditures

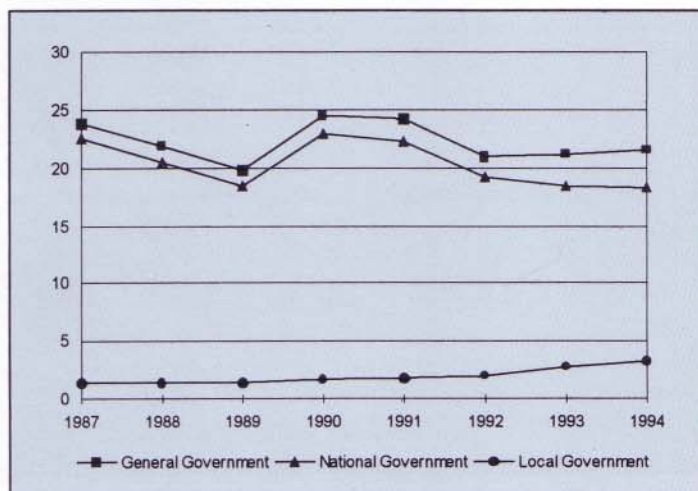


Figure 3.2 Social Ratio and Ratio of Other Government Expenditures (as % of GNP)

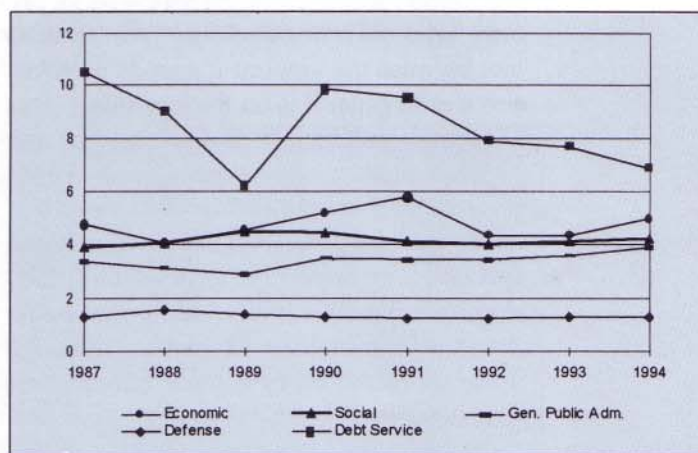


Figure 3.3 Social Priority Ratios

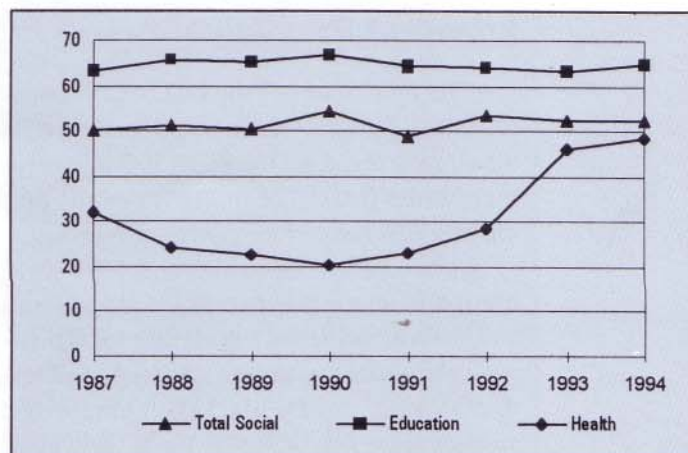
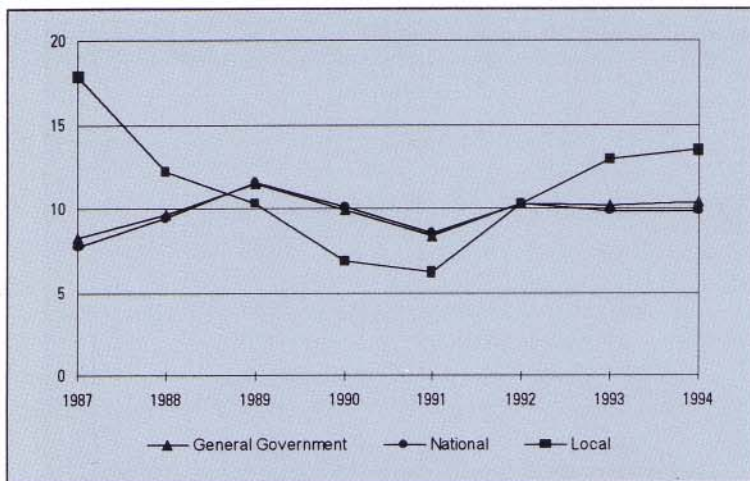


Figure 3.4 Human Priority Ratios by Level of Government



slightly lower than the average for a sample of 25 countries. Notwithstanding the fact that the country meets the target for the social priority ratio, its human priority ratio remains low because the amount it spends on social services in general is on the low side.

Finally, taking inflation into account, per capita human priority expenditures in 1985 prices stood at P252.62 in 1994, which is lower than the peak level of P285.17 reached in 1989. It is important to point out, however, that the 1994 level is somewhat better than the levels before devolution, although it has not recovered from the ill effects of the 1990-1991 fiscal crisis.

Effects of Devolution

The enactment of the LGC of 1991 represented a major shift in governance. It mandated the devolution to local government units (LGUs) of many functions previously discharged by central government agencies. Before devolution, LGUs were limited to levying and collecting local taxes and such activities as regulating local business activities, collecting garbage, and administering public markets, cemeteries, and slaughterhouses. The Code, however,

transfers the primary responsibility for delivering social and economic services from the national government to LGUs. These services include agriculture research and extension, social forestry, environment management and pollution control, primary health care, hospital services, social welfare, infrastructure repair and maintenance, water supply and irrigation projects, and land use planning. The devolution has been substantial in terms of functions, personnel, and budgets.

The Code also gives LGUs a larger share in internal revenue taxes (the so-called *internal revenue allotment* or IRA) and in the proceeds from the development and extraction of natural resources. It gives LGUs greater autonomy to mobilize revenue from local sources. Many areas formerly beyond the reach of local taxation may now be the subject of local taxes (e.g., large agriculture, forest concessions, mines, publishing, and banks). The Code also increases the maximum rates for local taxes. On the whole, LGUs are now also better able to allocate their resources according to their perceived priorities. Statutes that limited their ability to do so have been repealed, including mandatory contributions to the Philippine National Police (PNP) and the Department of Health (DOH).

Since the Code was implemented, significant progress has been achieved in devolving national government personnel, assets and functions to LGUs. The IRA, or the LGU share in internal revenue, has more than doubled relative to GNP and in real per capita terms between 1991 and 1994.

But real problems remain. *First*, while the IRA as a whole is enough to cover the cost of the devolved functions, there is an undeniable mismatch at a more detailed level between the financial resources and the expenditure responsibilities transferred to LGUs. The IRA of some LGUs is not enough to finance the functions devolved upon them. As an example, provinces have received less IRA relative to cities and municipalities, con-

sidering the larger health services and facilities devolved.

Second, since the IRA is an unconditional transfer from the national government, the provision of sufficient funding for devolved functions is no guarantee that LGUs will indeed set aside the resources needed to sustain these functions. Devolved functions must henceforth compete with other local spending priorities.

From an HD perspective, therefore, LGU expenditures must be closely monitored to learn whether devolution has strengthened or put at risk those portions of health and social welfare functions that have been devolved.

This section seeks to determine whether local governments, in general, and provincial governments, in particular, allocate their budget resources in accordance with HD priorities in the context of a more decentralized environment. More specifically, this section:

- analyses the expenditure pattern of provincial governments before and after devolution;
- relates provincial government spending on social and human expenditures to the provinces' HD status; and
- investigates the impact of local revenues and IRA shares on the expenditure pattern of provincial governments.

While the LGC itself took effect in 1992, the devolution program was completed only in 1993. As such, it should be borne in mind that 1993 is a transition year during which LGU behavior is still in a state of flux as LGUs adjust to a new environment. Admittedly, this situation limits the conclusions of this study. However, it cannot be denied that a better understanding of the transition and early problems of Code implementation is important in itself if the decentralization thrust is to be sustained.

Degree of Fiscal Decentralization

Revenue-collection in the Philippines has always been highly centralized. Local governments accounted for only 4.9 percent of total general government³ revenue on the average between 1985 and 1991 (TABLE 3.1, COLUMN 2). Short of expectations, the share of LGUs in total general government revenue (also called the *revenue decentralization ratio*, or RDR) rose only slightly after devolution to 5.4 percent in 1992-1994. On the side of spending, however, the picture appears to have improved with the enactment of the Code. The share of local government spending in general government expenditure (*expenditure decentralization ratio*, EDR) was 7 percent in 1985-1991. In the period 1992-1994, after the Code's enactment, LGU spending rose to 12.6 percent of general government spending (TABLE 3.1, COLUMN 3) or 2.7 percent of GNP.

Table 3.1
Decentralization Ratios for All LGUs (1985-1993)

	RDR	EDR	MEDR	FAR
1985	5.93	9.12	11.42	51.10
1986	5.50	6.92	9.06	52.90
1987	4.52	5.70	10.04	50.90
1988	4.67	6.21	10.48	49.20
1989	4.85	7.36	10.62	55.90
1990	4.87	6.75	11.21	51.40
1991	4.55	7.70	12.61	44.60
1992	4.35	18.98	14.26	42.14
1993	6.36	12.88	19.97	43.33
1994	5.41	15.09	21.87	34.00
Average				
1985-1991	4.86	7.04	11.00	51.60
1992-1994	5.41	12.56	19.10	38.80
1985-1994	5.12	9.42	14.54	44.20

Notes

RDR = Ratio of LGU revenue from local sources to general government revenue

EDR = Ratio of LGU expenditure to general government expenditure

MEDR = Ratio of LGU expenditure net of debt service to general government expenditure net of debt service

FAR = Ratio of LGU revenue from local sources to LGU expenditure

The gap between LGU spending and LGU revenues was filled by IRA transfers from the national government, which supported the increased levels of LGU spending even if local resource mobilization was basically stagnant.

Excluding debt service from general government expenditure then taking the share of LGU expenditure yields the *modified expenditure decentralization ratio* (MEDR) (TABLE 3.1, COLUMN 4). On this count, fiscal decentralization looks even better, being 11.0 percent in the period 1985-1991 and rising to a high 19.1 percent in 1992-1994 after the implementation of the LGC.

Still another way of measuring the degree of decentralization is the *financial autonomy ratio* (FAR), which is simply the ratio of the revenues LGUs collect to what the amounts they spend. It broadly says how much of what LGUs spend can be financed from their own revenue efforts. FAR declined from 51.6 percent in 1985-1991 to 38.8 percent in 1992-1994 (TABLE 3.1, COLUMN 5).

On this measure, one might conclude that decentralization seems indeed to have declined with the implementation of the Code, since a good deal of the higher LGU spending was supported by the higher IRA from the national government mandated by the Code. Such an inference is misleading, however. For although LGUs do not fully control the collection of internal revenue taxes and there is some uncertainty regarding the size of their annual IRA, LGUs do exercise considerable autonomy in deciding how to spend it.⁴ Moreover, while the IRA is a transfer from the national government to LGUs, it is not clear that it should be viewed as a grant but rather as the rightful share of local governments in national taxes.

The financial autonomy ratio differs across levels of local governments. TABLE 3.2 shows that cities enjoy the highest degree of financial autonomy. In 1985-1991, their FAR was highest at 66 percent compared to 48 percent and 34 percent for municipalities and provinces, respectively. With the implementation of the Code, the FAR of all levels of

Table 3.2
Financial Autonomy Ratio of Different Levels of Local Governments (1985-1993)

	PROVINCES	MUNICIPALITIES	CITIES
1985	31.79	55.19	64.23
1986	31.49	57.01	67.13
1987	30.73	53.45	65.03
1988	32.31	44.65	68.61
1989	48.71	48.89	72.39
1990	36.02	48.63	68.45
1991	28.24	43.07	61.55
1992	29.72	41.98	50.98
1993	24.04	48.88	51.09
1994	20.51	28.90	48.29
Average			
1985-1991	34.32	48.33	66.41
1992-1994	23.59	38.74	49.70
1985-1994	28.65	42.75	56.65

local government declined. Nevertheless, cities continued to post higher FARs than municipalities and provinces. In 1992-1994, the FAR was 49.7 percent for cities, 38.7 percent for municipalities, and 23.6 percent for provinces.

The financial autonomy ratios for individual provincial governments exhibit the same rising trend,⁵ but with a wide dispersion (APPENDIX TABLE 5). The FAR of provincial governments in 1991 ranged from a low of 0.4 percent (Lanao del Sur) to a high of 72.1 percent (Bulacan). In 1994, the FAR ranged from 1.2 percent (Maguindanao) to 44.2 percent (Bataan).

LGU Income

Total LGU receipts averaged 1.7 percent of GNP in the period 1985-1991 (FIGURE 3.5), divided almost equally between revenue from local and external sources. Comparing 1992-1994 with the earlier period 1985-1991, however, the share of external receipts, largely IRA, rose from 52 percent to 64 percent (FIGURE 3.6). As a proportion of GNP, income from external sources increased noticeably from 0.9 percent to 1.5 percent of GNP, and LGU income from local sources

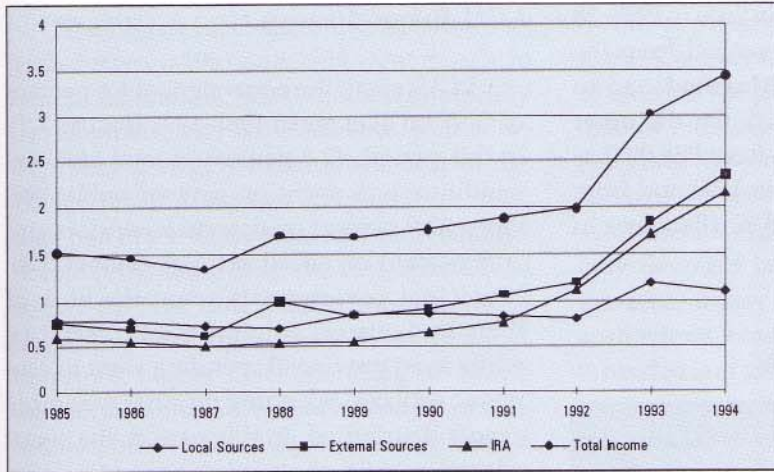


Figure 3.5 Revenue Structure of All Local Governments (ratio to GNP in percent, 1985-1994)

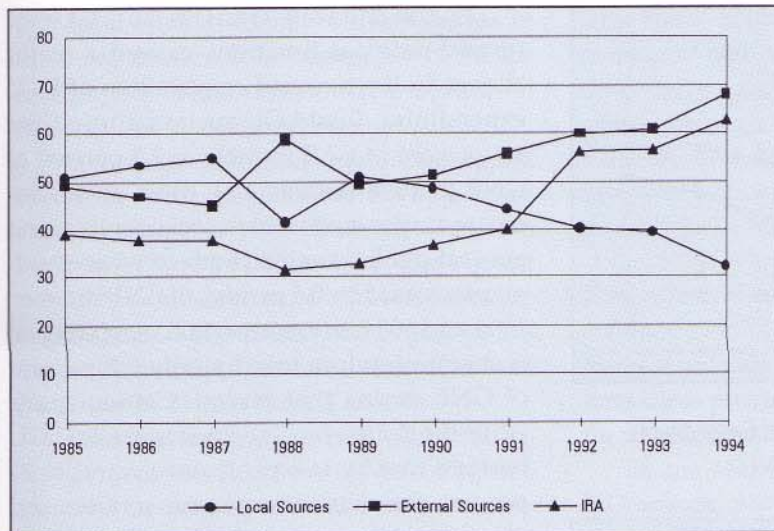


Figure 3.6 Revenue Structure of All Local Governments (1985-1994 percent of total LGU income)

inched up from 0.8 percent to 1.0 percent of GNP between the two periods.

Before devolution, provinces were most dependent on non-local sources of income, which comprised 65.1 percent of their total income in 1985-1991 (FIGURE 3.6). This is to be compared with 54.2 percent for municipalities and 38.6 percent for cities. After the LGC's implementation, the contribution of income from external sources rose even more for all LGUs. In the post-devolution period, 1992-1994, external sources constituted 75.5 percent of total income for provinces, 56.8 percent for municipalities and 54.5 percent for cities.

As expected, the contribution of IRA to total receipts of individual provincial governments expanded markedly between 1991 and 1994. IRA per person in the provinces almost tripled on the average between 1991 and 1994. Locally sourced revenue increased only minimally, on the other hand (APPENDIX TABLES 6 AND 7).

The size and composition of total LGU income also differ widely across provincial governments (APPENDIX TABLE 7). The share of IRA in total LGU incomes varied from a low of 11.5 percent (Cebu) to a high of almost 100 percent (Sulu) in 1991 and from 44.4 percent (Rizal) to 98.0 (Abra) in 1994 (APPENDIX TABLE 7). Per capita revenue from local

sources was as low as P1.06 in Sulu to P176.28 in Rizal in 1991; in 1994 it ranged from the lowest P2.37 per head in Maguindanao to P198.77 in Misamis Oriental. On the other hand, per capita IRA varied from P38.09 (Laguna) to P314.79 (Batanes) in 1991 and from P7,109.98 (Rizal) to P2,628.92 (Batanes) in 1994 (APPENDIX TABLE 6).

LGU Expenditures

LGUs spent the equivalent of 1.6 percent of GNP on average in 1985-1991 (FIGURE 3.7). In this period, 42.8 percent of total LGU expenditure was spent on general public services, 32.9 percent on economic services and 20.5 percent on social services (FIGURE 3.8). Municipal governments spent the bulk of their budgets on general public services, while most provincial spending went to economic services. Spending by cities was more evenly distributed. In this period, the social allocation ratio of provincial spending was highest at 21.1 percent while that of municipalities was lowest at 14.7 percent.

The mandated transfer to LGUs of former national functions caused a major change in the size and composition of LGU expenditure. Total LGU spending rose from 1.9 percent of GNP in 1991 to 3.3 percent of GNP in 1994 (FIGURE 3.7). Most of this increase in spending went to social services and general public services, both of whose budgets increased by 0.5 percent of GNP between 1991 and 1994. In contrast, LGU spending on economic services rose by only 0.2 percent of GNP during that period. Consequently, while the share of social services in total LGU budgets rose by 11.6 percentage points to 27 percent, the share of economic services and general public services fell by 10.3 percentage points and 3.7 percentage points to 25.5 and 40.8 percent, respectively, between 1991 and 1994 (FIGURE 3.8).

The budget share of social sectors increased relative to the economic sectors and general public service on all levels of local government. Since provinces absorbed the bulk of devolved social service functions, it was their social allocation ratio that expanded the most (by 18.4 percentage points from its 1991 level to 36.3 percent in 1994). The social allocation ratio among municipalities also rose substantially (by 12.5 percentage points to 21.8 percent by 1994). The increase for cities was markedly smaller (by 5.0 percentage points to 26.2 percent).

Figure 3.7 Patterns of Local Government Spending (All LGUs, 1985-1994, as percent of GNP)

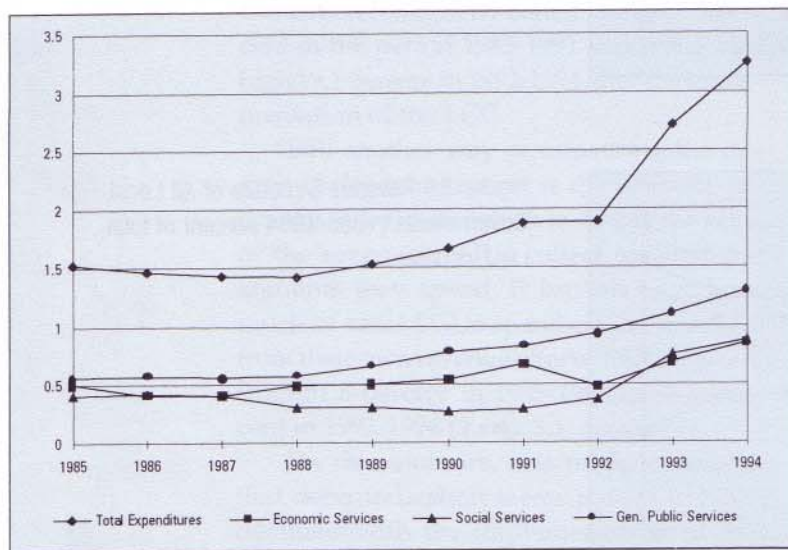
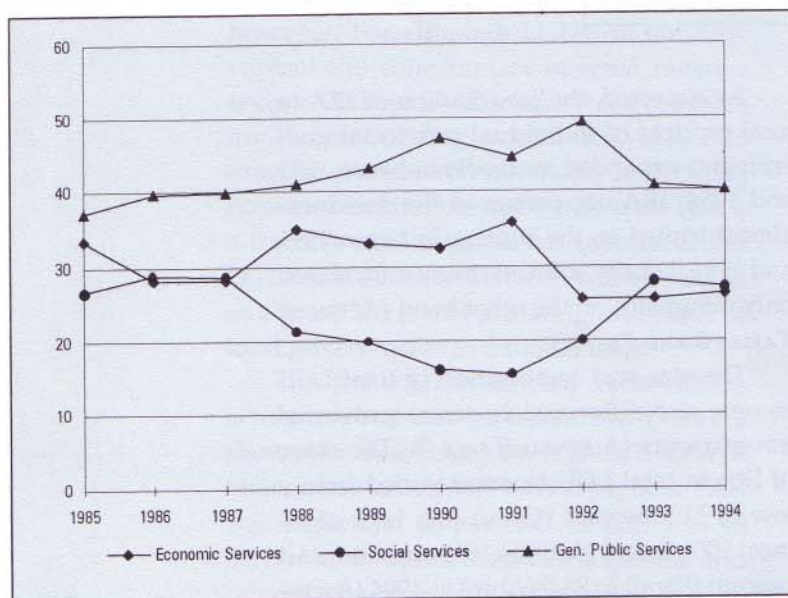


Figure 3.8 Sectoral Distribution of Local Government Expenditures (1985-1994, Percent of all LGU Budgets)



The higher LGU spending on social services between 1991 and 1994 went mostly to health, education, housing and community development, and social welfare, in that order. This is largely because the cost of devolved health functions accounted for more than half of the total cost of all devolved functions. At the same time, the cost of devolved social welfare functions, although not as large, was also significant. In many ways, therefore, higher LGU spending on health and social welfare was less a product of conscious policy choices by LGUs and more a reflection of inherited obligations. Meanwhile, higher LGU expenditures on education and housing do reflect the higher priority that local officials assign to these sectors in the more decentralized regime, since the direct impact of the devolution program on these sectors was not substantial.

In the post-devolution period, per capita spending on all the social sectors by provincial governments rose dramatically, from P8.95 in 1991 to P91.70 in 1994. The biggest growth was in health expenditures, a sixteen-fold increase. More closely, per capita spending on HD priorities increased sevenfold from P4.11 to P28.21 (APPENDIX TABLE 8).

Similarly, the average social allocation ratio for provincial governments increased from 9.3 percent in 1991 to 34.9 percent in 1994, while their HD priority ratio increased from 4.3 percent to 10.7 percent over the same period (APPENDIX TABLE 9). Notwithstanding these improvements, however, the average social allocation ratio of provincial governments is still some 6 percentage points below the UNDP target of 40 percent, while the average HD priority ratio of provincial governments is just about half of the figure of 20 percent indicated by the UNDP.

The top and bottom 10 provinces with respect to their per capita social service expenditures and per capita human priority expenditures in 1991 and 1993 are presented in TABLE 3.3. On the other hand, the top and bottom 10 provinces with respect to their social allocation ratios and their HD priority ratios are shown in TABLE 3.4.

To appreciate these figures, it is helpful to think of the HD priority *ratio* as a measure of *effort* on the part of local governments, in light of their capacities, while the per capita spending *levels* may be understood as measures of the *adequacy of effort* in meeting absolute needs. A province with a small budget may devote a large portion of it to HD; in this sense it may exert admirable effort. Even such efforts, however, may fall short of what is needed and yield only a low level of spending per capita, simply because a large portion of a small cake is still small.

A comparison of the lists of the top-ranking provinces in terms of per capita human priority spending between 1991 and 1994 shows large shifts. In the pre-devolution year 1991, a number of high-ranking provinces came from the country's more developed and industrialized areas, e.g., Tarlac, Laguna, Pampanga, Rizal. By 1994, however, these provinces had disappeared from the list and one sees instead the emergence of much smaller provinces such as Batanes, Catanduanes, Siquijor, and Ifugao. This reflects the larger amounts of resources that have been made available under the Code to these smaller provinces, as well as the efforts these provinces have made to use them for HD priorities.

If one seeks to measure sheer effort at HD among provinces, then a comparison should be made using the HD priority ratio. One sees (TABLE 3.4) that in this case there was a similar concentration of high-ranking provinces in Central and Southern Luzon prior to devolution. It is also notable, however, that there is a large overlap between the high-ranking provinces appearing on the lists for levels and ratios of HD spending in 1994: Batanes, Batangas, Catanduanes, Siquijor, Ifugao, Ilocos Sur, Quezon, and Lanao del Norte. The high level of HD spending per capita in Batanes is particularly noteworthy. On the other hand, notwithstanding the relatively large share of their budgets devoted to human priority expenditures by North Cotabato and Pangasinan, these were still inadequate to place them in the top ten

Table 3.3
Top and Bottom 10 Provinces with Respect to Per Capita Total Social Service Expenditures
and Per Capita Human Priority Expenditures

1994				1993			
Top 10		Bottom 10		Top 10		Bottom 10	
Per Capita Total Social Expenditures				Per Capita Total Social Expenditures			
Batanes	950.27	Maguindanao	3.15	Batanes	745.95	Tawi-Tawi	1.15
Kalinga Apayao	330.04	Sulu	3.69	Bataan	271.74	Maguindanao	2.64
Bataan	264.53	Davao del Norte	35.16	Camiguin	213.51	Sulu	6.25
Quirino	257.35	Sarangani	42.12	Catanduanes	179.25	North Cotabato	26.23
Surigao del Norte	230.77	North Cotabato	45.91	Isabela	175.23	Abra	26.45
Abra	205.93	Camarines Norte	48.58	Kalinga Apayao	174.01	Pangasinan	28.16
Mountain Province	199.73	Bukidnon	49.87	Quirino	172.37	Davao del Norte	31.59
Camiguin	186.43	Cebu	53.98	Misamis Occidental	159.81	Bukidnon	33.53
Siquijor	181.58	Sultan Kudarat	54.81	Lanao del Norte	150.79	Sarangani	37.38
Biliran	179.72	Pampanga	54.85	Mountain Province	146.17	Sultan Kudarat	38.04
Per Capita Human Priority Expenditures				Per Capita Human Priority Expenditures			
Batanes	923.67	Aurora	0.42	Batanes	619.72	Maguindanao	0.78
Catanduanes	166.29	Mountain Prov.	0.76	Catanduanes	135.85	Mountain Province	1.02
Siquijor	166.22	Misamis Occ.	2.05	Lanao del Norte	117.44	Tawi-Tawi	1.15
Ifugao	154.60	Ilocos Norte	2.33	Siquijor	101.06	Ifugao	1.19
Batangas	101.23	Capiz	2.38	Isabela	98.09	Oriental Mindoro	1.63
Ilocos Sur	90.28	Western Samar	2.40	Aurora	88.32	Zamboanga del Norte	1.80
Lanao del Norte	78.49	Biliran	2.45	Guimaras	68.66	Romblon	2.07
Kalinga Apayao	74.01	Aklan	2.58	Kalinga Apayao	64.28	Tarlac	2.43
Agusan del Sur	71.10	Camarines Norte	2.61	Southern Leyte	61.21	Abra	2.56
Quezon	70.29	Abra	2.75	Aklan	57.45	Bataan	2.62

Table 3.4
Top and Bottom 10 Provinces with Respect to Social Allocation Ratio and
Human Development Priority Ratio

1994				1993			
Top 10		Bottom 10		Top 10		Bottom 10	
Social Allocation Ratio				Social Allocation Ratio			
Bataan	63.79	Maguindanao	1.57	Bataan	69.39	Tawi-Tawi	0.53
Kalinga Apayao	58.86	Sulu	1.98	Isabela	66.12	Maguindanao	1.40
Isabela	58.06	Davao del Norte	14.12	Iloilo	54.53	Sulu	3.89
Batangas	56.66	Sarangani	16.12	Nueva Ecija	50.51	Abra	9.11
Iloilo	54.95	Camarines Norte	16.95	Misamis Occidental	48.77	North Cotabato	15.38
Pangasinan	50.19	Misamis Oriental	19.99	Ilocos Sur	48.59	Pangasinan	19.36
Laguna	48.41	Palawan	20.44	Catanduanes	48.13	Misamis Oriental	20.74
Romblon	45.68	Basilan	21.51	Capiz	47.76	Bohol	21.99
Quezon	44.11	Aurora	22.00	Romblon	47.42	Davao del Norte	22.30
Camarines Sur	43.40	Biliran	22.29	Batangas	47.18	Lanao del Norte	22.49
Human Development Priority Ratio				Human Development Priority Ratio			
Batangas	40.68	Aurora	0.07	Isabela	37.01	Mountain Province	0.24
Catanduanes	39.65	Mountain Province	0.11	Catanduanes	36.48	Ifugao	0.32
Quezon	34.93	Biliran	0.30	Southern Leyte	29.90	Maguindanao	0.42
Pangasinan	32.25	Misamis Occidental	0.45	Aklan	28.05	Tawi-Tawi	0.53
Ifugao	32.13	Camiguin	0.45	Batanes	28.01	Camiguin	0.56
Batanes	31.92	Abra	0.57	Siquijor	25.98	Bataan	0.67
Ilocos Sur	30.65	Western Samar	0.70	Aurora	23.92	Zambo. del Norte	0.75
Siquijor	26.61	Palawan	0.76	Davao Oriental	22.80	Palawan	0.86
Lanao del Norte	25.12	Ilocos Norte	0.77	Negros Oriental	20.90	Abra	0.88
North Cotabato	21.63	Aklan	0.79	Guimaras	20.20	Oriental Mindoro	0.96

1991

Top 10

Bottom 10

Per Capita Total Social Expenditures

Bataan	48.21	Abra	0.05
Rizal	36.76	Lanao del Norte	0.68
Tarlac	23.21	Biliran	0.75
Bulacan	20.20	Siquijor	0.89
Batanes	18.66	North Cotabato	1.22
Batangas	17.95	Agusan del Norte	1.30
Negros Oriental	17.57	Oriental Mindoro	1.75
Nueva Ecija	14.94	Maguindanao	1.77
Laguna	14.65	Sultan Kudarat	1.78
Quirino	11.77	Misamis Occidental	1.90

Per Capita Human Priority Expenditures

Tarlac	13.74	Sorsogon	0.04
Laguna	12.05	Northern Samar	0.04
La Union	8.85	Abra	0.05
Pampanga	8.61	Siquijor	0.06
Quezon	8.53	Biliran	0.07
Cagayan	7.78	Romblon	0.48
Benguet	7.59	Guimaras	0.55
Ilocos Norte	6.88	North Cotabato	0.75
Rizal	6.80	Agusan del Norte	0.89
Leyte	6.34	Mountain Province	1.24

list in HD spending, suggesting a need to augment the size of provincial budgets.

Has Devolution Led to Greater Attention to Human Development Priorities?

This is the all-important question, and the answer must be carefully qualified. Local government spending on social services obviously increased following the implementation of the devolution program. But this is partly explained by the mere transfer of responsibilities to LGUs from the departments of health and social welfare, whose budgets were substantially reduced. It is not obvious therefore whether the larger LGU outlays on social services in 1993 and 1994 maintained or augmented the level of devolved social services enjoyed by local communities. To assess whether indeed LGUs have increased spending on social services, the analysis must consider the cost of devolved functions.

What would the LGU expenditure level in 1993/1994 have been if LGUs continued to spend what they actually did in 1991 and, in addition, maintained the level of spending by national agencies on devolved functions? TABLE 3.5 estimates what is needed to maintain general government expenditures at their 1991 levels in real per capita terms (i.e., after adjusting for inflation and population growth).⁶ It is this that is compared with actual levels of LGU expenditures in 1993.

The result shows that actual LGU spending in 1993 and 1994 was more than enough to maintain the spending level of 1991, even after taking inflation and population growth into account. In particular, actual LGU spending on general public services and on social services greatly exceeded 1991 levels. Spending on economic services, however, did not even keep up with prices, let alone population growth.

Focus within the social sector itself differed. On education, LGUs in 1994 spent three and a half times what was needed cope with both inflation and population growth.

1991

Top 10

Bottom 10

Social Allocation Ratio

Bulacan	39.51	Abra	0.07
Bataan	33.90	Siquijor	0.62
Nueva Ecija	22.82	Biliran	0.87
Batangas	22.06	Lanao del Norte	1.04
Iloilo	21.44	Agusan del Norte	1.57
Negros Oriental	20.43	Palawan	1.81
Tarlac	19.39	Misamis Occidental	1.82
Quirino	16.65	North Cotabato	1.82
Pampanga	15.66	Oriental Mindoro	1.83
Quezon	15.07	Camiguin	1.95

Human Development Priority Ratio

Pampanga	14.20	Northern Samar	0.04
Quezon	12.06	Siquijor	0.04
Laguna	11.63	Abra	0.07
Tarlac	11.48	Sorsogon	0.08
La Union	11.00	Biliran	0.09
Cagayan	10.17	Romblon	0.60
Iloilo	8.35	Guimaras	0.70
Leyte	8.06	Palawan	0.74
Bukidnon	7.79	Mountain Province	0.85
Zamboanga del Sur	7.64	Cebu	0.93

Table 3.5
Local Government Expenditure Before and After Devolution (in million pesos)

	1993 (ACTUAL)				1993 (LEVELS THAT WOULD HAVE PRESERVED 1991 LEVELS IN REAL TERMS)			
	Total	Provinces	Municipalities	Cities	Total	Provinces	Municipalities	Cities
GRAND TOTAL NET								
OF DEBT SERVICE	40361.3	10167.0	17450.3	12744.0	33664.6	11033.2	13931.3	8700.1
Total Economic Services	10411.5	2827.5	3755.1	3829.0	11085.3	3959.7	4049.6	3076.0
Total Social Services	11394.0	3865.6	4121.7	3406.7	9340.5	4065.0	3284.2	1991.3
Education	2917.9	521.0	1331.8	1065.1	971.1	125.6	405.9	439.6
Health	5233.0	2488.9	1746.5	997.6	5488.7	2845.3	1810.1	833.3
Social Welfare, Labor & Other Soc. Serv	871.6	112.2	482.5	277.0	1563.2	186.3	899.8	477.1
Housing and Community Development	2371.5	743.5	560.9	1067.1	1317.5	907.8	168.4	241.3
General Public Services	16630.9	3143.2	8908.2	4579.4	12306.0	2727.3	6178.3	3400.4
Public Administration	16327.5	3103.0	8804.9	4419.7	12198.2	2725.6	6150.8	3321.8
Peace and Order	303.4	40.3	103.3	159.8	107.8	1.8	27.5	78.6
Others	1924.9	330.8	665.2	928.9	932.8	281.2	419.2	232.5
	1994 (ACTUAL)				1994 (LEVELS THAT WOULD HAVE PRESERVED 1991 LEVELS IN REAL TERMS)			
	Total	Provinces	Municipalities	Cities	Total	Provinces	Municipalities	Cities
GRAND TOTAL NET								
OF DEBT SERVICE	55620.4	13782.7	21555.2	20282.5	37041.3	12139.9	15328.6	9572.7
Total Economic Services	14830.0	3872.8	4816.8	6140.4	12197.2	4356.9	4455.8	3384.5
Total Social Services	15206.1	5055.1	4720.2	5430.9	10277.4	4472.8	3613.6	2191.0
Education	4005.2	703.0	1355.2	1947.0	1068.5	138.2	446.6	483.6
Health	6534.8	3046.9	1980.3	1507.5	6039.3	3130.7	1991.7	916.9
Social Welfare, Labor & Other Soc. Serv	1255.0	230.2	607.4	417.3	1720.0	205.0	990.1	524.9
Housing and Community Development	3411.2	1075.0	777.2	1559.0	1449.7	998.9	185.3	265.5
General Public Services	22579.2	4153.7	11070.1	7355.4	13540.3	3000.9	6798.0	3741.5
Public Administration	22220.7	4100.7	10983.3	7136.7	13421.7	2998.9	6767.8	3655.0
Peace and Order	358.5	53.0	86.8	218.6	118.6	2.0	30.2	86.5
Others	3005.1	701.1	948.1	1355.8	1026.4	309.4	461.3	255.8

Provinces, municipalities, and cities all gave education high priority (TABLE 3.5). Total LGU spending on housing and community development in 1994 was more than two times the amount required to preserve the 1991 level in real per capita terms. Housing and community development expenditures of cities and municipalities exhibited significant growth in real per capita terms. However, housing and community development expenditure of provincial governments in the aggregate in 1993 was slightly less than the amount needed maintain 1991 levels.

In contrast, actual 1994 expenditures on social welfare by all types of LGUs fell short of 1991 levels and did not even keep up with inflation. The 1994 spending level of all LGUs on health was also below the amount needed to sustain previous levels, except for cities.

In general, therefore, one must conclude that LGUs have underspent on health and social welfare relative to levels prevailing before devolution.

The same analysis as in TABLE 3.5 may be made using data on individual provinces. The results indicate that in 1993, 32 provincial governments (out of 62 provincial governments with complete data) allocated less to the social sectors in the aggregate than was needed to maintain their 1991 expenditure level in real terms (TABLE 3.6). Similarly, 47 (27) provincial governments did not allocate enough resources to health (social welfare) to preserve the level of real spending in 1991 expenditure. In contrast, only three provincial governments reduced their 1993 education budgets in real terms relative to 1991. The difficult situation immediately after

**1993 (LEVELS THAT WOULD HAVE PRESERVED
1991 LEVELS IN REAL PER CAPITA TERMS)**

Total	Provinces	Municipalities	Cities
35231.0	11546.6	14579.5	9104.9
11601.1	4144.0	4238.0	3219.1
9775.1	4254.2	3437.0	2083.9
1016.2	131.5	424.8	460.0
5744.1	2977.7	1894.3	872.1
1635.9	195.0	941.7	499.3
1378.8	950.1	176.2	252.6
12878.6	2854.2	6465.7	3558.6
12765.7	2852.4	6437.0	3476.4
112.8	1.9	28.7	82.2
976.2	294.2	438.7	243.3

**1994 (LEVELS THAT WOULD HAVE PRESERVED
1991 LEVELS IN REAL PER CAPITA TERMS)**

Total	Provinces	Municipalities	Cities
39656.4	12997.0	16410.8	10248.6
13058.3	4664.5	4770.4	3623.4
11003.0	4788.5	3868.8	2345.7
1143.9	148.0	478.1	517.8
6465.6	3351.7	2132.3	981.7
1841.4	219.4	1060.0	562.0
1552.0	1069.4	198.4	284.3
14496.2	3212.8	7277.9	4005.6
14369.2	3210.7	7245.5	3913.0
127.0	2.1	32.3	92.6
1098.9	331.2	493.8	273.8

devolution is also seen in data for 15 of 19 priority provinces under the Social Reform Agenda (SRA). Adjusting for the cost of devolved functions, ten of these SRA provinces spent less on total social services, health, and social welfare in 1993 relative to 1991.

By 1994, however, the situation had improved. For instance, only in 16 provinces (of 68 for which data are complete) did total social sector spending fall below real per capita levels of 1991. Similarly only 32 provinces failed to devote sufficient resources to health to maintain 1991 real per capita levels. For social welfare spending, the corresponding number of provinces that have fallen behind was 25. As for the SRA provinces, only five (out of the 15 with complete data) continued to suffer effective reductions in real social spending per head. Seven

SRA provinces showed reduced health spending per head, and six showed lower social welfare spending.

It will seem a puzzle and a source of concern why some provincial governments have allocated less to certain types of social services, such as health or social welfare services and more to others. LGUs as a whole have, after all, received more than sufficient amounts to continue providing the social services devolved from national agencies. There have been specific cases, of course, where the devolution formula was unmistakably deficient, so that IRAs were insufficient even to cover the cost of devolved functions. Yet this cannot have been the main reason for LGU underspending, for even provincial governments with sufficiently large social services budgets chose to allocate these differently, spending more, say, in the direction of education. What this suggests is that after devolution, many LGUs have essentially chosen to discontinue the pattern of budget allocation previously implemented by national agencies, most likely because these do not accord with their own priorities.

There are two possibilities: *First*, the devolved functions themselves may be deemed unresponsive or unimportant to actual local needs. For provinces in particular, a large part of devolved health services consists of huge outlays for tertiary hospitals which are nonetheless ill-equipped and unresponsive to community needs. It cannot be surprising, therefore, that LGUs should choose to discontinue their support to such social services. On the other hand, neither can one rule out the *second* possibility that local government priorities themselves may be misplaced or badly informed, placing expedient showcase-projects ahead of continuing programs with long-term effects.

Both effects are probably at work. It has been noted that even after devolution, the proportion of provincial budgets allocated to HD priorities was still only half the recommended ratio, clearly indicating the need for a further re-examination of priorities. But perhaps the most important and reassuring

Table 3.6
Difference Between 1993 and 1991 Per Capita Real Expenditure Levels
and Real Per Capita Net Resource Transfer

Region/Province (1993)	Actual 1993 Expenditures Less 1991 Expenditures Adjusted for Inflation, Cost of Devolved Function and Population Growth					Net Resource Transfers
	<i>Education</i>	<i>Health & Population</i>	<i>Social Welfare</i>	<i>Total Social Expenditures</i>	<i>Human Priority</i>	
I. ILOCOS REGION						
Ilocos Norte	1.88	(3.43)	(0.82)	(4.70)	(0.36)	10.32
Ilocos Sur	4.55	(1.09)	(0.64)	2.30	0.38	(22.19)
La Union	7.45	52.70	(0.20)	62.14	9.86	(13.51)
Pangasinan	7.25	(42.69)	0.37	(32.13)	8.55	5.19
CORDILLERA ADMINISTRATIVE REGION (CAR)						
Abra	0.79	(77.56)	4.90	(71.86)	2.50	13.97
Benguet	11.99	7.02	0.19	18.37	8.36	(0.35)
Ifugao	0.47	(19.12)	(0.09)	(18.74)	(3.21)	(58.66)
Kalinga Apayao	1.52	(12.36)	(1.27)	(12.11)	60.01	(42.90)
Mountain Province	0.00	(89.19)	2.24	(88.32)	(0.41)	(57.55)
II. CAGAYAN VALLEY						
Batanes	6.22	(71.96)	(13.74)	(100.97)	na	(294.07)
Cagayan	0.82	(6.53)	0.22	(6.99)	4.95	33.70
Isabela	92.52	(12.53)	9.59	105.81	91.82	(138.00)
Nueva Viscaya	5.27	(45.10)	1.36	(37.29)	4.84	(56.21)
Quirino	11.99	(21.37)	4.13	(5.82)	16.65	3.26
III. CENTRAL LUZON						
Bataan	23.96	(20.42)	(0.43)	92.94	(2.70)	(75.16)
Bulacan	8.76	(16.18)	3.79	(10.13)	29.57	(13.05)
Nueva Ecija	(0.48)	5.30	12.51	16.86	(0.35)	56.50
Pampanga	6.00	(7.49)	(0.52)	(0.58)	(1.76)	(2.73)
Tarlac	(1.23)	(3.03)	2.59	(2.16)	(13.39)	3.15
Zambales	3.80	(9.97)	(0.39)	(6.56)	2.16	(24.08)
IV. SOUTHERN TAGALOG						
Aurora	na	na	na	na	na	67.68
Batangas	16.50	(5.02)	(0.25)	19.06	15.84	22.86
Cavite	3.94	(11.01)	3.17	(3.72)	3.23	(3.88)
Laguna	18.98	(6.18)	1.44	14.47	9.31	(6.81)
Marinduque	5.12	(6.81)	7.30	5.60	1.73	(6.94)
Occidental Mindoro	2.41	0.99	(0.08)	3.33	na	13.82
Oriental Mindoro	3.13	5.39	(0.24)	8.06	1.63	17.57
Palawan	11.15	(6.40)	1.00	5.90	1.25	78.24
Quezon	5.99	(11.47)	(0.15)	(4.77)	(3.32)	(10.01)
Rizal	(6.37)	(0.53)	1.28	(10.91)	10.66	15.24
Romblon	1.52	(36.33)	(0.39)	(36.88)	1.52	(57.47)
V. BICOL REGION						
Albay	1.94	(10.73)	(3.50)	(11.64)	2.88	(11.91)
Camarines Norte	3.48	(14.91)	1.34	(9.55)	33.44	4.79
Camarines Sur	na	na	na	na	na	(4.12)
Catanduanes	na	na	na	na	na	(111.79)
Masbate	na	na	na	na	na	na
Sorsogon	na	na	na	na	na	na
VI. WESTERN VISAYAS						
Aklan	5.38	(12.58)	(0.17)	3.31	52.79	(26.20)
Antique	1.50	(10.90)	(0.26)	(11.86)	10.21	(22.04)
Capiz	1.67	(16.34)	5.21	12.74	0.12	(9.60)
Guimaras	5.40	51.21	1.33	57.28	68.03	58.13
Iloilo	8.13	12.24	(0.11)	19.81	15.20	(7.00)
Negros Occidental	3.06	(9.99)	3.27	(4.94)	7.58	28.68

VII. CENTRAL VISAYAS						
Bohol	2.82	(4.67)	(0.78)	(1.83)	(0.29)	4.81
Cebu	1.30	(13.54)	(0.26)	(10.18)	3.42	3.97
Negros Oriental	9.00	(10.52)	(0.02)	(12.54)	42.04	(3.08)
Siquijor	1.41	(60.48)	(0.26)	(59.25)	100.99	(67.01)
VIII. EASTERN VISAYAS						
Biliran	2.40	(16.02)	(0.67)	(14.91)	3.50	(4.79)
Eastern Samar	1.33	(33.23)	(0.05)	(31.94)	6.65	(45.12)
Leyte	7.88	(13.34)	0.40	(6.68)	7.53	(24.71)
Southern Leyte	1.10	(22.60)	(0.05)	(21.82)	59.14	(37.80)
Northern Samar	1.56	(16.53)	0.38	(14.81)	8.71	(37.85)
Western Samar	na	na	na	na	na	na
IX. WESTERN MINDANAO						
Basilan	na	na	na	na	na	na
Zamboanga del Norte	2.33	(12.10)	(0.12)	(10.55)	1.80	2.39
Zamboanga del Sur	1.11	(11.79)	1.76	(5.83)	(1.55)	11.20
X. NORTHERN MINDANAO						
Agusan del Norte	2.62	(45.95)	6.18	(36.69)	2.58	(53.62)
Agusan del Sur	14.13	(7.12)	(0.05)	6.79	2.07	34.88
Bukidnon	4.06	(6.99)	(0.17)	(3.56)	(0.50)	28.06
Camiguin	4.11	(3.37)	(0.73)	8.54	0.88	(24.66)
Misamis Occidental	3.75	(24.53)	(0.72)	(21.58)	2.87	(29.47)
Misamis Oriental	14.04	(5.02)	0.01	3.95	10.16	(8.93)
Surigao del Norte	1.75	(65.40)	(0.44)	(64.77)	3.39	(81.36)
XI. SOUTHERN MINDANAO						
Davao del Norte	2.13	3.11	0.69	5.43	5.23	35.73
Davao del Sur	4.69	11.86	1.95	18.39	21.27	23.80
Davao Oriental	5.24	0.56	1.68	9.54	43.60	28.29
South Cotabato	9.84	(17.59)	0.75	(6.99)	6.68	(52.53)
Surigao del Sur	na	na	na	na	na	111.51
Sarangani	na	na	na	na	na	na
XII. CENTRAL MINDANAO						
Lanao del Norte	0.21	41.64	6.71	58.53	na	(33.79)
North Cotabato	1.38	(2.38)	(0.19)	(1.15)	20.97	57.39
Sultan Kudarat	1.88	(3.21)	0.30	(1.03)	7.93	27.75
AUTONOMOUS REGION FOR MUSLIM MINDANAO (ARMM)						
Sulu	2.02	1.09	(1.79)	1.32	3.01	61.98
Tawi-Tawi	na	na	na	na	na	88.44
Lanao del Sur	na	na	na	na	na	na
Maguindanao	0.37	0.23	0.00	0.60	(1.26)	61.30

finding is that human development priority spending per capita, i.e., spending on the most vital human priorities, has *risen* in the majority of provinces after devolution. This fact overshadows all other problems and possible reservations regarding devolution and strengthens the belief in its efficacy.

Aside from LGUs' own priorities, the outcomes at the local level are also influenced by national initiatives. Among the least examined and most controversial are the Countrywide Development Fund (CDF) and Congressional Initiatives Allocation (CIA) on

the part of the legislature. It should cause some concern that these, too, respond to distorted priorities (See Box 3.2).

What Determines Social and Human Priority Expenditures Among Provinces?

Offhand, one would expect that the level of spending on social and HD priorities among provincial governments should reflect either means or needs. Provinces that can afford it may be expected to devote more

Box 3.2 Congress and the Budget

Congress makes a mark on the national budget in two ways. *First*, while the Philippine Constitution prohibits Congress from augmenting the total outlay proposed by the President, members of Congress are allowed to realign expenditures. Congress may therefore introduce new expenditure items or increase the allocation to specific agencies and programs by reducing the budget for others. *Second*, the way senators and representatives spend their Countrywide Development Fund (CDF) may also influence the social allocation and social priority ratios.

To determine whether the social sectors, in general, and human priorities in particular, are favored in congressional realignments the President's Budgets (PBs) and the General Appropriations Acts (GAAs) of 1994 and 1995 are compared. The results show that Congress consistently increased the national government's budgetary allocation to the social sectors. However, such increments were not as large as those allotted to economic sectors.

In 1994 and 1995, Congressional initiatives augmented the allocation proposed in the PB for the social service sectors. The appropriation for the social sectors under the 1994 GAA was P0.9 billion (or 1 percent) higher than that proposed in the 1994 President's Budget. In 1995 it was P2.1 billion or 3 percent more. Among the social service sectors, education captured the biggest increment in nominal peso terms in both years. Congress increased the education budget by P1.2 billion (or 3 percent) in 1994 and by P1.1 billion (or 2 percent) in 1995. In 1994 the largest increase in proportional terms however was in health (7 percent), while in 1995 it was social welfare (11 percent).

It should be emphasized, however, that the increment in the budget allocation for the economic service sectors as a result of Congressional realignment was significantly larger than that for the social service sectors. Thus, Congress increased the combined budgets of the economic sectors by P2.8 billion (or 6 percent) in 1994 and by P10.6 billion (or 22 percent) in 1995 compared to the appropriation levels proposed in the President's Budget. Massive supplements were received by the transportation and communication sector and by the agrarian reform sector in 1994 and 1995. The agriculture, the power and the water sectors also secured substantial increases in their respective budgets in 1995. At the same time, Congress cut the aggregate public administration budget by 6 percent in 1994 but increased it by 2 percent in 1995.

Consequently, the social allocation ratio (i.e., the share of the social service sectors in the government budget net of debt service) increased only slightly (from 25.8 percent to 26.5 percent) in 1994 as a result of Congressional initiatives. Compare this with the robust rise in the budget share of the economic sectors from 19.3 percent to 20.7 percent. Moreover, in 1995 the social allocation ratio suffered a marginal decline, from 26.0 percent to 25.9 percent, because of budget realignments at the legislature. In contrast, the economic service sectors received another boost when its budget share rose from 17.2 percent in the PB to 20.2 percent in the GAA.

At the same time, a closer examination at the distribution of the budgets of the Department of Education, Culture and Sports (DECS), the State Universities and Colleges (SUCS) and the Department of Health (DOH) reveals that Congressional initiatives have not been kind to human development priorities like basic education and basic health services. While Congress legislated increases (relative to the proposed allocation in the PB) in the combined budgets of the DECS and the SUCS in 1994 and 1995, the increases in the appropriations on tertiary education are larger than those on basic education. The budget for tertiary education rose by 9 percent and 8 percent in 1994 and 1995, respectively, compared to 2 percent and less than 1 percent increase in basic education. Consequently, the share of basic education in the combined DECS/SUCS budget declined while that of tertiary education increased in those years.

Similarly, there has been some reallocation away from preventive health care in favor of curative health care in the DOH budget in 1994 and 1995 as a result of Congressional budget realignment. While the appropriation for preventive care in the GAA rose by 3 percent relative to its PB level in 1994, that for curative care went up by 16 percent. Consequently, in that year there was a decline in the budget share of preventive care from 45.5 percent to 43.5 percent as a result of Congressional realignment. In

contrast, the budget share of curative care jumped from 41.6 percent to 44.5 percent. A similar picture is observed for 1995 but the bias in favor of curative care was not as marked.

Finally, it is notable that in 1995 Congress increased total national government expenditures net of debt service by 3 percent relative to the proposed appropriations level in the President's Budget. This came about as Congress went through the motion of reducing the debt service component of President's expenditure program and subsequently re-allocating the "savings" thus generated to other programs. However, Presidential Decree 1177 which remains in force to date provides that debt service is automatically appropriated. Thus, Congressional cuts on debt service are illusory and the higher non-debt service expenditures provided in the GAA imply that Congress has effectively increased the national government budget in the aggregate relative to the President's Budget.

It should be stressed that this practice tends to increase the general uncertainty in the amount of budget resources that will be released by the Department of Budget and Management (DBM) to specific agencies/programs in the course of the budget year notwithstanding the existence of a legislated appropriation cover. It has been pointed out that the DBM paces the release of allotment advises as well as notice of cash allocation in accordance with the relative availability of cash in the national treasury. To the extent that increases in the non-debt service portion of the budget increases the overall size of the budget relative to the amount of revenue that is forthcoming, the need to ration cash releases is intensified.

Over and above the Congressional budget insertions, it has been the practice since 1990 to allot each representative P12 million and each Senator P18 million from the CDF. Each legislator is given the discretion to choose the sector and the geographic area where his CDF share will be spent. These "pork barrel" funds, as the CDF has come to be known, are allocated by members of Congress to projects of their choice. An analysis of the sectoral distribution of CDF releases reveals that the CDF was heavily biased in favor of the economic service sectors in 1993 and 1994. In those years, 56-57 percent of the CDF was channeled to economic services compared to the 17-27 percent share of social services. In both years, the CDF was more heavily skewed in favor of economic services than the overall national budget. In 1993, for instance, the share of economic services in the CDF was 56 percent, which was significantly higher than its 28 percent share in the national budget.

resources to various types of social spending per capita. Hence, one would expect higher social spending to correspond with higher LGU incomes, whether this higher income takes the form of local revenue sources or the IRA. Second, one might expect social spending levels to vary with need. Provinces that rank lower in terms of social and HD indicators should, other things being equal, be willing to spend more of their limited budgets on social services. These conjectures were tested statistically (See APPENDIX, this chapter) with the results being more complex than expected:

- **The Importance of IRA.** Social spending by provincial governments rises with IRA. That is, higher per capita IRA tends to be associated with higher per capita spending on social services. IRA favorably affects total social service spending,
- **Winners and Losers.** Provinces that suffered negative net resource transfers from devolution behaved differently from those that gained. Net gainers

human priority spending, and health spending. In contrast, no relationship is observed between the amount of local revenue collected and social spending, human priority spending, or health spending. This and the previous result suggests that many provincial governments rely on IRA rather than on locally generated revenue in financing local programs. LGUs that collect more revenues from local sources tend to spend more of it on education. This may be attributed to the existence of the Special Education Fund (SEF), an additional levy on real property earmarked for the education sector.

spend less of their IRA on the social sectors than net losers.⁷ This indicates that provincial governments adjust their spending to compensate for the net transfers they receive. Likewise net losers spend a bigger share of their IRA on the social sectors, in an attempt to reach their "target" expenditure level because their IRA share is small relative to their expenditure requirements. Despite these adjustments, provinces that suffered negative net transfers could not maintain their 1991 social sector spending in real terms in 1993. This suggests the need to revisit the IRA allocation formula since the formula appears to have a negative impact on the way provincial governments allocate their resources on social and HD priorities. Net gainers tend to spend more on general public services and economic services than net losers.

- **Budgets in Relation to Needs.** The budgets allocated by provinces to the social sectors (i.e., total social services, education, health, and HD priorities) do *not* conform with objective indicators of need (i.e., HD status) or distributional goals. Provinces with higher human development indices spent more on all the social sectors and on human priority needs than those with lower HDI. Provinces with higher functional literacy spend more on education, and those with higher life expectancy spent more on health.

This last finding is particularly worrisome. Provinces that are already doing well in terms of human development also tend to spend more on it, while those that do poorly spend less. There is undoubtedly a circularity involved. Provinces that have a high level of human development spend more on it, both because they are able to and because they want to. And by virtue of this fact, they will continue to perform well. The opposite is the case for lower-ranking provinces, which are in danger of being sucked into a

vicious circle of low HD spending, low HD outcomes, and a low political will to do anything about it.

Concluding Remarks

The mandated transfer to LGUs of functions previously discharged by national government agencies has caused major changes in the size and composition of LGU budgets. Aggregate LGU expenditure rose from 1.9 percent of GNP in 1991 to 2.7 percent in 1993, the first year devolution was implemented. Most of the increment in LGU spending went to social services, partly as a result of the transfer of a big number of the DOH and Department of Social Work and Development (DSWD) personnel and assets to LGUs. Consequently, while the budget share of the social service sector expanded those of the economic service sectors and general public services contracted.

Higher LGU expenditures on certain social services in 1993 were more than sufficient to support the cost of devolved functions such that there is a real augmentation of the given services at the local community level. But this has not been true for all types of social services. Compared to their 1991 levels, actual LGU expenditures on education and housing and community development after devolution were greater than the amount needed to cover inflation, population growth, and the cost of devolved functions. In contrast, after making adjustments for the cost of devolved functions, LGU expenditures on health were below the levels needed to sustain the 1991 level in real terms. LGU social welfare expenditures declined even in nominal terms.

Of 62 provincial governments with complete data, 32 allocated less to the social sectors in the aggregate than was needed to maintain their 1991 real expenditure levels (after subtracting the cost of devolved functions). Similarly, 47 provincial governments failed to increase resources enough to main-

tain the pre-devolution real value of health spending. The corresponding figure for social welfare is 27 provinces. In contrast, only 3 provinces reduced their 1993 education budgets in real terms relative to 1991.

Higher per capita IRA tends to be associated with higher per capita spending on social sectors. This was true for total social service expenditure, human priority expenditure, and health expenditure. On the other hand, the relationship between the latter set of variables and local source revenue was not statistically significant. This may be indicative of the tendency of many provincial governments to rely on the IRA rather than on locally generated revenue in financing local programs.

In contrast, the opposite is true in the case of education expenditure. That is, the positive relationship between per capita education expenditure and per capita locally sourced revenue is found to be statistically significant while that between the former and per capita IRA is not. This may be attributed to the existence of the SEF. The SEF is an additional levy on real property earmarked for the education sector.

The analysis also reveals that the propensity to spend on the social sectors out of the IRA was higher among provinces that suffered negative net resource transfers than those which had positive net transfers. This result suggests that provincial governments do adjust their spending behavior to compensate for the net transfers they received. However, despite these adjustments the net losers were not able to maintain their 1991 social sector spending in real terms. This is indicative of the need to revisit the IRA allocation formula since it appears to have a negative impact on the way provincial governments allocate their resources on social and HD priorities.

If one assumes that the national agency budgets (which formed the basis for estimates of the cost of devolved function) in the various sectors before devolution represent the appropriate spending levels, then one could say that LGUs "underspent" on health

and social welfare in the decentralized regime. However, one can also argue that the very essence of decentralization lies in giving LGUs the freedom to make their own spending decisions based on their assessment of what their constituents need. If the latter premise holds, then the 1994 actual LGU expenditure levels represent the optimal levels from the LGU perspective. It is not a simple matter to establish which of these alternative viewpoints is relevant. It is likely that both of them are applicable. If LGUs are given expenditure responsibilities with significant spillover effects (i.e., responsibilities whose benefits are not exclusively enjoyed by their constituents like public health services) then it is expected that LGUs will underprovide for these services without additional financial support from the central government, perhaps in the form of matching grants. If the benefits are confined to definite areas, then cost sharing among the LGUs that benefit from the service, rather than matching grants from the central government, may be the more appropriate arrangement. Abstracting from spillovers, LGUs should be allowed to decide on the quantity and quality of *local* public goods and services that they will finance without interference from the center. The only qualification to this is the need to ensure that LGUs have sufficient fiscal resources to finance their expenditure responsibilities. In this regard, there is a need to review IRA allocation formula with the end in view of developing a system that will equalize net fiscal capacities (i.e., revenue potential less expenditure need) of LGUs.

Finally, there is large scope for improving the budget allocation of provincial governments on the social sectors (i.e., total social services, education, health, and HD priorities) to conform with objective indicators of need (i.e., HD status) and/or distributional goals. Governments of provinces which registered higher human development index spent more on all the social sectors combined on a per capita basis than those with lower HDI. The converse of this is that poorer provinces where human priority spending is

needed are precisely those where such spending is lacking.

Setting aside for the moment the important problem of redressing the inequities of the existing IRA allocation formula, it cannot be denied that the provincial governments' allocations to the social sectors and for human priority expenditures reflect priority setting at the local level. The proportion of provincial budgets allocated to the social service sectors did rise from 9.3 percent on the average in 1991 to 34 percent in 1994; the human development priority ratio

for provinces did increase from 4.3 percent to 10.3 percent in 1994. Such developments augur well for the ultimate effects of devolution on human development. At the same time, this performance falls short of what is necessary. In particular, the average human development priority ratio is only half of the 20 percent ratio recommended by the HD framework. Together with the perverse relationship between HDI and social sector expenditures, this indicates the wide scope improving budget allocation for the social sector at the provincial government level.

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Notes

- 1 In prices of 1985.
- 2 For present purposes, DOH programs falling under field health and community health services were deemed to comprise basic curative health services.
- 3 General government is comprised of the central or national government and local government units or LGUs.
- 4 The Code mandates that the aggregate IRA share of LGUs may be reduced below 40 percent of the internal revenue collections in three years prior to the current year (but in no case should it be less than 30 percent) if the fiscal deficit is at a critical level.
- 5 It is not possible to measure the revenue decentralization ratio or the expenditure decentralization ratio at a more disaggregated level because data on the geographical distribution of central government revenue/expenditure are not available.
- 6 In arriving at these estimates, it is assumed that the national government maintains its spending level at the 1991 level (net of the cost of devolved functions) in nominal, real and real per capita terms, respectively. Inflation is computed based on the GNP implicit price index and population growth rate is assumed to be 2.3 percent.
- 7 This relationship is statistically significant for total social service expenditures, human priority expenditures and health expenditures but not for education expenditures.

Appendix 3.1 What Determines Social Spending by Provinces?

To study the determinants of social expenditure of provincial governments, the aggregate level as well as the various components of social sector outlays of these LGUs in per capita — (i) education expenditures, (ii) health expenditures, and (iii) human development priority expenditure — are regressed against the following variables:

LGU Income. LGU expenditure will be directly limited by LGU income, especially since there is only limited or no possibility of borrowing. Two major components of LGU income were considered as explanatory variables, namely, IRA and regular income from local sources. The share of IRA and of local sources of revenue were also used.

Net Resource Transfer as a Result of the LGC. While the increase in the IRA as a result of the 1991 Local Government Code is sufficient to cover the cost of devolved functions in the aggregate, it cannot be denied that there is a mismatch at the LGU level between the financial resources and the expenditure responsibilities that were transferred to LGUs. Thus, the increase in the IRA share of some LGUs is not enough to finance the functions devolved to them.⁸ In 1993, the net resource transfer (i.e., 1993 IRA less 1992 IRA less cost of devolved functions adjusted for inflation) to LGUs as a result of Code implementation is negative in 27 out of the 65 provinces for which data is available. It is worth noting that 19 out of the 32 provinces whose total social service outlays declined in real terms in 1993 (relative to 1991) suffered negative resource transfers. Also, 7 out of the 12 priority provinces for which there is data posted negative resource transfers in 1993. All of these 7 provinces reduced their total social sector spending in real terms in 1993 relative to 1991. A variable, D1, (which takes on the value of 1 when the net resource transfer to the province is positive and 0, otherwise) is considered as one of the explanatory variables in the regression analysis that was done for this paper. This variable was included in order to verify whether the budget allocation behavior of the net gainers from the devolution program differ significantly from that of the net losers.

Human Development Index. The analysis also tested whether the lagged composite human development index, HDI, and its various components (like the infant mortality rate, the malnutrition rate, the illiteracy rate and the cohort survival rate) influence the budget allocation of provincial governments in the social sectors in the current year. This is an attempt to determine whether provincial governments' spending on the social sectors is responsive to objective indicators of need.

The results of the regression analysis show that the per capita total social sector expenditure of provincial governments is positively related with their per capita IRA (TABLE 3.7). That is, higher per capita IRA tends to be associated with higher per capita social service expenditures. This relationship was found to be statistically significant in the case of total social service expenditure, human priority expenditure, and health expenditure.

On the other hand, the relationship between per capita local source revenue, on the one hand, and per capita total social sector expenditures, per capita human priority expenditures and per capita health expenditure, on the other, was not statistically significant. This may be indicative of the tendency of many provincial governments to rely on the IRA rather than on locally generated revenue in financing local programs.

The opposite is true for education expenditure. Thus, the positive relationship between per capita education expenditure and per capita local source revenue is statistically significant while that between per capita education expenditure and per capita IRA is not. This may be attributed to the existence of the SEF. The SEF is an additional levy on real property earmarked for the education sector.

At the same time, it is also interesting to note that the net gainers' tendency to spend on general public services and on economic services is higher than that of the net losers.

⁸ The increment in the IRA is defined as the difference between the 1993 IRA and the 1992 IRA share.

Table 3.7
Determinants of 1994 Per Capita Provincial Government Expenditure in Social Sectors

DEPENDENT VARIABLE	INDEPENDENT VARIABLES							R ² ADJUSTED	DW	WHITE CHI-SQUARE
	Constant	Per Capita IRA	D1* Per Capita IRA	Per Capita Local Source Revenue	HDI	Life Expectancy Rate	Functional Literacy			
Total Social Service Expenditure ^(a)	-91.936 (-3.721)**	0.402 (11.414)**	-0.061 (-1.756)*	0.240 (1.077)	148.947 (2.950)**			0.901	2.310	15.620*
Human Priority Expenditure ^(a)	-152.648 (-3.393)**	0.274 (3.738)**	0.039 (0.641)	0.268 (1.603)	150.030 (1.957)*			0.807	2.128	34.110*
Health Expenditure ^(a)	-199.155 (-3.317)**	0.446 (20.725)**	-0.095 (-5.090)**	0.114 (1.441)		2.549		0.963	2.466	9.620
Education Expenditure ^(b)	-10.976 (-2.045)	-0.569 (-2.341)*	0.100 (2.389)*	0.602 (3.704)**	3.135 (2.541)**	0.330	1.860	11.520		

^(a) linear specification
^(b) double logarithmic specification
* statistically significant at 5%
** statistically significant at 1%

Notes Expenditures are expressed in per capita terms. Numbers in parenthesis refer to t-values. When the White chi-square is significant, the t-values are derived from White chi-square heteroskedasticity-consistent covariance matrix.

Finally, TABLE 3.7 shows that the budget allocation of provincial governments on the social sectors (i.e., total social services, education, health, and human development priorities) moves positively into indicators of human development. There is a statistically significant positive relationship between 1994 per capita total social service expenditures of provincial governments and 1991 human development index. That is, governments of provinces which registered higher a human development index spent more on all the social sectors combined on a per capita basis than those with lower HDI.

The same is true of human priority spending and of health and education expenditures. Provinces that already rank high on indicators of human development tend to spend more on it. Undoubtedly some "virtuous cycle" is at work. Spending for human development raise people's well-being and motivates further investment in people — both because the positive experience makes it desirable to do so. Hence one may just as easily interpret the results as capturing the positive effects of social spending on human development. That is, except for the fact that the HD variables used precede the spending variables. On the other hand, HD status does not vary greatly over the period being considered.

The worrisome aspect of these results, however, is that provinces with low HD status are also those that spend the least to change it, for lack of both the means and the motive. How to break such a tight circular causation remains a challenge.