

unemployment noted earlier will ensure that wages do not keep pace with inflation. History shows that, working together, rising inflation and growing unemployment will contribute to a deterioration in the country's already poor income distribution.¹⁶

Devolution, Fiscal Austerity and the Capacity of Government Institutions

Much like Malaysia, Philippine society and politics was also undergoing significant changes prior to the crisis. Since the adoption of the Local Government Code (LGC) in 1991, responsibilities over several social services have been devolved to provincial and/or local government units (LGUs). In areas such as health care, where the process of decentralization has progressed furthest and its effects have been most pronounced, LGUs are now required to administer several programmes that were once the sole responsibility of the central government.¹⁷

Unfortunately, this has meant that in poorer municipalities, the quality of social services has deteriorated as impoverished LGUs find themselves without the management, technical and financial resources to provide quality social programming. As a noted health care expert noted in an interview,

While for some municipalities, the story on devolution is mixed, for many it's been quite negative. Aside from the pervasive resource constraints, decentralization resulted in a deterioration in the quality of coordination between different institutions/groups with different responsibilities. Under the centralized system, there was fairly close coordination between the district hospitals and the Rural Health Units [RHUs]. They would work together to serve people in their shared areas. Now, however, the district hospitals receive no support from the RHUs, leaving the district hospitals in a dismal state. They don't have enough medicines, not enough equipment and their supplies and logistics are often very poor, especially in the poorer communities. Also, they don't have the resources for to train their people; there are no resources for upgrading skills. This has compromised the ability of the system to gather adequate and reliable data on the state of health in the country and, ultimately, the system's ability to care for the people.¹⁸

The crisis, unfortunately, has exacerbated the situation because of the fiscal austerity that accompanied the regional financial turmoil. With the onset of the crisis, all Philippine government departments were forced to reduce their expenditures by 25%.¹⁹ This has had a

¹⁶ Joseph Y. Lim, *The Social Impact and Responses to the Current East Asian Economic and Financial Crisis: The Philippine Case*, unpublished ms, prepared for the UNDP/Regional Bureau for Asia and the Pacific, July 1998.

¹⁷ For more see: Government of the Philippines, *Local Government Code of 1991* (Manila: Government of the Philippines, 1991); World Bank, *Philippines Devolution and Health Services: Managing Opportunities and Risks* (Manila: World Bank, 1994); "Turning Point in DOH's Strategic Direction", *DOHVOLUTION: Health in the Hands of the Filipino People*, First Quarter 1994; Department of Health, *Responding to Questions on Devolution of Health Services*, Parts 1 to 3 (Manila: Department of Health, 1993).

¹⁸ Dr. Warlito Vicente, Dean, Davao Medical School Foundation, interview with author, October 20, 1999. Prior to his appointment as Dean of the DMSF, Dr. Vicente was Executive Director of the IPHC. During that time, he worked with several LGUs in Mindanao in providing training and helping them confront the challenges of devolution. In his current position, he continues to work as a consultant and advise the DOH as well as international bodies on health care management issues in the Philippines.

¹⁹ This statistic as well as the data cited in the following paragraphs came from discussions the author had