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Impact of Global Economic Crisis on the Philippines Health Sector

"What began as a financial crisis has become an economic crisis, and is now becoming an employment crisis, and … could become a human crisis on a global scale", or so says World Bank President Zoellick to describe the current global economic turmoil which started with the bursting of the housing bubble in the United States precipitated by the subprime mortgage crisis that unraveled in August 2007. Shock waves that reverberated across the international financial system led to a string of bank failures, followed by a global credit crunch which triggered corporate bankruptcies or drastic downsizing and impending recession as the economy virtually grounded to a halt.

While the crisis is transitional, there is no consensus on how long the recovery will take place and how soon it will start. Some say that the crisis may have bottomed out, but by mid-2009, data on joblessness in the U.S. has not improved and the U.S. dollar continues to weaken, leading some economists to forecast a drawn-out global recovery rather than a quick one.

Consequences on the Philippine domestic economy and the workforce

Initial optimism that the Philippines could be spared the harsh effects of the crisis because of its limited exposure to the international financial market is dissipating as the economy, which experienced robust growth of 7.2 percent in 2007, slowed to 4.6 percent in 2008, and virtually stalled, growing only by 0.4 percent (year-on-year) in the first quarter of 2009, which brings the country to the brink of recession.

The global economic crisis affects the local economy through three major transmission mechanisms (Diokno 2009):

- Lower exports – Lower consumption in importing countries means lower export of Philippine products, resulting in downsizing or closure of export-oriented firms, and the accompanying unemployment or under-employment. Already export earnings in 2008 contracted by 2.9 percent, departing from the original annual growth target of 11 percent for that year). Export performance is expected to worsen further in 2009 due to the continuing recession and weak consumer demand in importing countries. Already, job shedding and job sharing have occurred in the export sector, particularly in electronics and furniture industries.

- Lower remittances of OFWs living and working abroad – The Philippines depends heavily on its millions of overseas Filipino workers (OFWs) whose remittances account for about 10-12 percent of the economy (Diokno 2009). With the global recession in full swing, OFW jobs have become more difficult to get. While OFW remittances reached a record-high of US$1.47 billion in March 2009, this could be a one-time surge due to repatriation of accumulated savings by OFWs who have been forced to come home for good. Indeed, many OFWs have returned prematurely as their contracts are terminated, thus becoming the new unemployed in the local economy. Lower remittances means lower domestic consumption, which tends to slow economic growth. Families of returning OFWs are also at risk of falling into poverty if the OFW cannot find alternative domestic employment.

- Lower foreign direct investments – Foreign investments, though not a major driver of economic growth in the Philippines, have considerably slowed, with a net inflow of foreign equity capital reported at 50 percent lower in 2008 than in the previous year. This translates to slower economic growth and lower domestic employment.

It should be noted, however, that the Philippine economy – like other emerging economies - has been slowing down even before the crisis reached the country, mainly because of the surge in inflation triggered by the global rise in food and fuel prices in much of 2008 (Yap, 2009). This means that the domestic economy was already quite fragile even before the global economic crisis reached Philippine shores, thus the downside risks with the global economic crisis in full swing are even greater.

The economic crisis exacts a dangerous "triple whammy" on the Philippine health sector and on households

Economic downturns, whether or not brought by the global economic crisis, can adversely affect the country's health sector in three painful ways.

1. The resulting rise in unemployment and poverty increases households' vulnerability to health shocks and is likely to lower their overall health status. Without savings and adequate social safeguards, unemployment and impoverishment following the economic slowdown results in lower food intake and poorer housing and sanitation conditions. For instance, the Social Weather Stations Survey in November-December 2008 found higher hunger among families of the unemployed (31.4 percent) compared to those of the employed. In the medium term, unemployment leads to sicker family members, especially the newly laid-off, their children, and the elderly. Little research has been done on this topic in the Philippines, but globally,

Kasl and Jones (2007) have reviewed the literature and concluded the following:

- Unemployment has an adverse impact on health habits and behavioral risk factors of the laid-off worker, particularly on alcohol consumption. However, the effect of unemployment on cigarette smoking, physical exercise, and body weight is non-conclusive because of selection biases. Unemployment has a clear negative effect on mental health especially on symptoms of depression. Interestingly, becoming re-employed is also associated with a decrease in symptoms of depression.

- Job insecurity, downsizing, and underemployment also exact their toll on the affected worker. Loss of job security negatively affects self-reported health and psychological symptoms, particularly as this becomes a chronic situation of job insecurity. Studies of downsizing suggest broad negative effects on health and well-being, especially musculo-skeletal symptoms. Downsizing leads to profound changes in the work setting, which increase some of the work stressors and reduce social buffers.

- Underemployed people exhibit poorer health and well-being compared to those who are adequately employed. Studies on lower self-esteem of underemployed workers have been hypothesized, but the results are not conclusive. The high rate of underemployment in the Philippines, especially in agricultural areas, should flag this health issue.

To the extent that the economic crisis results in more temporary (rather than permanent) employment, then the crisis also tends to worsen the country's overall health status. Review of developing countries' experiences (Benach, Muntaner, and Santana, 2007) found that temporary employees fare worse in health than permanent employees; for instance, they suffer from a higher risk of occupational injuries. Temporary employees are exposed to more hazardous working conditions, work more often in painful and tiring positions, are more exposed to intense noise, perform more frequent repetitive movements, and have less freedom to choose when to take personal leave. More careful analytic techniques are , however, needed to sort out implicit statistical biases in these studies.

The acquisition of chronic conditions as a result of being laid off is particularly important for health policy because of the high cost of managing these frequently irreversible diseases. A new U.S. study from the Harvard School of Public Health (Rabin, 2009) shows that workers who lost a job through no fault of their own were twice as likely to report developing a new ailment like high blood pressure, diabetes, or heart disease over the next year and a half, compared to people who were continuously employed. The risk was just as high for those who found new jobs quickly. This implies that for laid-off workers, chronic conditions are quickly acquired, but not as easily shed off, even though one finds employment quickly again.

Unemployment and underemployment also tend to generate adverse social pathologies at the household level such as family dysfunctions including violence, family breakups, vagrancy, crime, and various forms of anti-social coping behavior among some of those affected by the economic crisis. These Philippine social phenomena, however, have rarely been empirically studied, despite a plethora of news accounts and informal anecdotes.

2. The resulting higher unemployment and poverty also reduces the ability of households to meet the financing of their health service needs. As more workers get unemployed, they and their household members lose their employment-associated health insurance coverage (whether PhilHealth or company-provided) or access to employer-provided workplace health services. Both leads to increased out-of-pocket (OOP) expenditures for health, which without savings, transfers, and other support from relatives or friends, or other forms of social safeguards, further increase household vulnerability. At worst, unemployed or underemployed workers and their families would delay or forego care-seeking in health facilities altogether, which has its own attendant problems.

3. Unless appropriate countercyclical fiscal measures are adopted, the economic slowdown reduces the ability of government to provide social services which are much-needed by an increasing number of vulnerable households. Domestic economic slowdown reduces tax revenues as reflected in the anemic Philippine tax collection for the first half of 2009. This could force the government to breach its budget deficit ceiling. Given the current leadership's aversion to deficit financing, government financial support for social services may well remain stationary, if not decline.

Fortunately, over the past few years and in the run-up to the economic crisis, the health sector has enjoyed the generosity of the National Government: the DOH budget dramatically increased from around PhP7.0 billion in previous fiscal years to PhP9.5 billion in FY 06, to PhP11.4 billion in FY 07, PhP 19.0 billion in FY 08, and PhP 23.7 billion in FY 09. These large allocations could very well cushion the health sector from the expected higher demand for health services occasioned by the economic downturn.

Wide range of social safety net programs and social legislation exists with the potential of easing the impact of the crisis, but their reach is limited and they are weakly enforced or coordinated

Reducing the negative social impact of an economic downturn is a major challenge. More than a decade ago, the 1997 Asian financial crisis exposed the weaknesses of the country's social protection programs. These are likely to surface again unless

program inadequacies and poor enforcement of social legislation are soon addressed.

1. *Social safety nets, though wide-ranging and varied, have limited scope and are often uncoordinated.* Although the Philippines is a middle-income economy, its social services including critical public assistance and social insurance programs, remain unable to provide adequate support to those who need it. While the country's health and social protection programs are broad (see Table 1), their population coverage is far from universal and benefits are inadequate principally because of poor and fragmented funding. Moreover, there is often a multiplicity of small and uncoordinated programs with individual mandates, causing waste because of overlaps and redundancies in sectoral and geographic beneficiaries (ADB, 2007). Supportive policies, such as the legal minimum wage, also have limited coverage of workers.

Table 1. Social Protection Programs in the Philippines

Social assistance	Social services; disaster response programs; early childhood development programs; conditional or unconditional cash or in-kind transfers (e.g., Food for School Program); school feeding programs; scholarships; and temporary price subsidies (e.g., Tindahan Natin Program)
Social insurance	Old age pension (SSS and GSIS); disability, sickness and death benefits; maternity benefits; work injury and compensation benefits; social health insurance (PhilHealth); and micro-insurance schemes
Labor market improvement	Labor standards and regulations; minimum wage law; labor exchanges; skills training programs; employment generation programs; and social funds

2. *Social assistance programs are not targeted well because they rely heavily on the use of geographic targeting using faulty proxy indicators of poverty.* A recent assessment (Manasan and Cuenca, 2007) of two social assistance schemes, the Food for School Program and the Tindahan Natin Program, show the continuing challenges of reaching the poorest municipalities due to the lack of reliable poverty measures, especially at the local level. As a result, considerable leakage and undercoverage of benefits ensue.

   a. The Food for School Program (FSP) is a conditional food transfer program which provides a kilo of rice to families suffering from severe hunger through their children in day-care centers/preschools of the Department of Social Welfare and Development (DSWD) and Grade 1 schools of the Department of Education (DepEd). The rice ration is provided to pupils after class, thus assuring their families rice for as long as the child attends class. The total budget allocation of the program was PHP 2.9 billion in 2006, which rose to PHP 5.1 billion in 2007, with two components implemented by the DSWD and DepEd. Program beneficiaries are households in selected geographic areas including 17 cities and municipalities in the National Capital Region and 49 provinces identified by the Food Insecurity and Vulnerability Information Mapping System as very, very vulnerable (VVV), very vulnerable (VV), and vulnerable (V). A total of 454,814 households benefited from this program in 2006, indicating 97.6 percent reach of the program in its target areas.

   Analysis of the targeting rule used to identify the poorest cities and municipalities under the program shows that it resulted in considerable leakage (to nonpoor municipalities which were included as sites) and undercoverage (of truly poor municipalities which were excluded as sites), as shown in Table 2.

Table 2. Leakage and Under-coverage Rates Under Alternative Targeting Rules for the Food for School Program, by Component, 2006

Targeting Rule	Leakage Rate	Under-coverage Rate	Share of the Poor in Total Trans-fers
DepEd Component (Grade 1)			
Rule: FIVIMS priority provinces & municipa-lities according to Income Class	62%	80%	38%
Counterfactual: FIVIMS priority pro-vinces & municipalities according to Small Area Estimates of Poverty Incidence	55%	72%	45%
DSWD Component (Day Care Centers & Pre-school			
Rule: FIVIMS priority provinces & municipa-lities according to Income Class	59%	75%	41%
Counterfactual: FIVIMS priority pro-vinces & municipalities according to Small Area Estimates of Poverty Incidence	53%	69%	47%

Source: Manasan and Cuenca, 2007

Thus, the use of Income Class of the municipalities as proxy for poverty resulted in higher leakage and undercoverage rates, compared to the counterfactual or alternative use of Small Area Estimates of Poverty, in both the DepEd and DSWD components of the program. The use of the counterfactual or alternative targeting rule would have resulted in a higher proportion of the poor partaking of the total transfers (45 percent rather than 38 percent in the case of the DepEd component, and 47 percent rather than 41 percent in the case of the DSWD component).

In any case, the leakage and undercoverage rates are so high that one wonders whether it is worth using geographic targeting rules at all, rather than household-based indicators of deprivation.

b. The Tindahan Natin Program (TNP) is a targeted food price subsidy program which lowers the price of food items (rice and noodles) to eligible households in TNP outlets, effectively increasing the purchasing power of beneficiaries. The budget allocation of the program was PHP 181 million in 2006 and PHP 160.8 million in 2007. This allocation translates to a household benefit of PHP 280 per month, representing 25 percent of the income gap based on the food threshold and 16 percent of the income gap based on the overall poverty threshold. Like the Food for School Program, the TNP employs the FIVIMS to implement geographic targeting, and thus shares the same problems related to the ones identified in FSP, i.e., unevenness in the quality of targeting below the level of the province. The leakage rate of the TNP is estimated to be equal to 66 percent, i.e., about two-thirds of the program benefits accrue to non-poor households.

3. *Social insurance programs have limited coverage and benefits.* The Government Service Insurance System (GSIS) and the Social Security System (SSS) for private-sector employees, are one of the oldest social insurance programs in the region. Their coverage of the entire labor force, however, remains far from universal. Coverage of workers continues to be mainly those in the formal sector, although various initiatives now cover informal sector and self-employed workers as well. Indeed, some employers tend to "casualize" workers just so they will be outside the compass of these social insurance programs. Pensions tend to be small relative to the cost of living, and the amounts tend to be eroded annually by inflation.

4. *The mandatory Philippine health insurance program (PhilHealth) boasts of covering 81 percent of the (2005) population, but its benefits of financial protection is small.* PhilHealth reimbursements only cover around 11 percent of total health care costs, the balance mainly funded through out-of-pocket (OOP) expenditures. As much as 47 percent of total health expenditures in the country are direct out-of-pocket spending, one of the highest proportions in the region. Indeed, Filipino households typically spend 2.7 percent of their income on health care, compared to only 0.9 percent in Malaysia, 1.5 percent in Sri Lanka, 1.9 percent in Thailand, and 2.6 percent in Indonesia. Thus, sickness exacts a heavier financial toll on the Filipino household relative to its Indonesian, Thai, Malaysian, and Sri Lankan counterparts.

5. *Local government programs to reduce vulnerability, such as the LGU coverage of medically indigent under PhilHealth, though well-intended, are wracked with operational problems.* While this Local Government Unit (LGU)/PhilHealth sponsorship program has grown in coverage through the years, its financing is not assured as it depends on the whims of the LGU executive as a funding sponsor. Moreover, while more objective targeting methods (proxy means-tests) are being introduced in some areas to identify eligible clients, it is still the case that many of the sponsored households are "politically chosen," resulting in leakage (non-indigents being provided coverage) and undercoverage (indigents not enjoying the covered benefits). In addition, each LGU's independent use of its own means-test engenders non-uniformity in the identification of indigents which perpetuates geographic inequities across the country.

Finally, because of delays in the accreditation of local health facilities, a number of LGU executives have become reluctant to initiate or expand the sponsorship program because they feel that the premium contributions are just going to PhilHealth and not being enjoyed by their poor constituents in terms of local health services (Picazo, et al., 2009). Indeed, even with aggressive lobbying for LGUs to participate in this program, coverage of indigents is only around 54 percent (according to the 2006 Family Income and Expenditure Survey), which means that 46 percent of poor Filipinos have to rely on themselves for the cost of health care. The higher rate of impoverishment that often follows an economic crisis means that the proportion of poor households not receiving any support under this sponsorship program may even be higher today.

6. *Labor standards and regulations, though comprehensive, are weakly enforced, possibly lowering the health status of workers.* The extremely limited number of labor inspectors reduces the effectiveness of minimum wage, occupational health and safety, and other labor regulations. Trade union officials claim that underpayment of the minimum wage and use of contract, casual, or informal employees to avoid payment of required social insurance (SSS) and other benefits are common practices. In recent years, 16-19 percent of commercial establishments inspected by the Department of Labor and Employment (DOLE) were not in compliance with the minimum wage, although most of those not in compliance were remedied on the spot, highlighting the effectiveness of labor inspection.

Given the scarcity of inspectors, to enforce occupational health and safety requirements, DOLE stipulated in 2004 that large firms (with > 200 workers) just have to do self-assessment and are no longer required for inspection; medium-sized firms (10-199 workers) will be inspected on a per request basis; and small firms (< 10 workers) will be given advice on how to improve working conditions. Such a stipulation, however, essentially leaves employers alone, leaving the labor standards weakly enforced unless unions and communities exert the necessary pressure.

Enforcement of labor standards and the consequent reduction of "informality" in employment is increasingly being recognized as additional instruments to improve health in general. (Of course, some argue that the imposition of minimum wages and other labor standards themselves lead to employment informality, as employers self-select to opt out of these regulations by staying as small, informal operations outside the regulatory compass of labor authorities.) The lack of any statutory regulation to protect working conditions, wages, occupational health and safety, or injury insurance is a key feature of informal employment, and the absence of these regulations (or their weak enforcement) tends to result in the poorer health of informal-sector populations.

A recent global review of the role of labor and employment conditions on health (Benach, Muntaner, and Santana, 2009) demonstrates that informal workers have less favorable health indicators than do formal workers, and that there is a strong positive association between an increasing proportion of informal jobs in countries and death and disability-adjusted life years (DALY) lost for all diseases. These findings suggest the need to enforce the country's labor standards not only to protect workers but to improve their health as well. The "health dividend" from enforcing labor regulations should be better appreciated by policymakers in DOLE and DOH. Conversely, the likely relaxation of – and poor compliance to – labor regulations as a result of the economic crisis could result in incalculable health costs to workers.

7. *The country lacks a comprehensive disaster response program.* About 20 typhoons visit the Philippines each year, causing flooding, landslides, and other storm-related disasters. The archipelago is also part of the "Ring of Fire" volcanic and earthquake zone. Despite the country being located in a disaster-prone area, the reach of disaster relief programs is woefully inadequate and disaster response efforts are often uncoordinated. Only about half of the 8 million or so Filipinos affected by typhoons and other hydrologic events in rural areas receive assistance from government and private relief institutions (ADB, 2007). Unfortunately, victims of these disasters also tend to be the poor and vulnerable who live in environmentally unsafe areas, often in makeshift dwellings. Disasters tend to quickly degenerate into public health problems, necessitating close coordination among disaster response teams and health professionals.

Policy options to cushion the impact of the global economic crisis on the country's health and other social sectors

1. *Overall social spending must be increased to expand program coverage and deepen the benefits of health and social safety nets.* Health spending in the Philippines remains low relative to other countries in the region. Total health expenditures (THE) as a proportion of GDP is only 3.3 percent, lower than the 5 percent norm prescribed by WHO. Expenditures on the social sectors as a whole is also low. The share of central government spending on the social sector was only 22 percent for the Philippines, compared to 45 percent in Thailand and 37 percent in Malaysia (ADB, 2007). Spending specifically on social assistance is also low; the Philippines spends only 1.7 percent of its GDP on social assistance compared to 3.2 percent in South Africa, 2.1 percent in Venezuela, and 1.9 percent in Morocco (Braithwaite, 2007).

2. *The targeting of social assistance programs should be improved with greater use of local poverty estimates.* Poor targeting leads to significant leakage and inefficient use of resources on the nonpoor, hence dissipating the impact of increased program funding on social assistance. The experience with targeting in the Food for School and Tindahan Natin programs clearly shows the pitfalls of geographic targeting based on provincial-level poverty incidence and the income class of municipalities. Manasan and Cuenca (2007) conclude that (a) the ranking of municipalities according to their income class does not correlate well with the ranking according to small area estimates of poverty incidence, and (b) within-province variation of poverty is more important than between-province variation of poverty. These suggest that significant improvements in targeting can be achieved if one targets municipalities directly by using small area estimates of poverty incidence which have recently become available.

   The evaluation of the FSP and TNP (and similar social assistance programs in the past) shows the grave weakness of geographic targeting in general, and the need for more household-specific targeting methods. Geographic targeting does not live up to its promise of rendering equity because often the within-area differences (of poverty among households within the same town) are just as large if not larger than the across-area differences in poverty among towns. This tends to be the case in general across the Philippines where in the same town or even in the same barangay, the poor and the nonpoor coexist. Thus, targeting a town or barangay already implies leakage. A better approach in lieu of geographic targeting is household targeting through proxy means tests. (Needless to say, means tests through income measures are not suggested in the Philippines because much economic activity is informal and large resource transfers come from OFWs.)

3. *A more comprehensive, less "politicized" approach is needed to finance the medical indigent program of PhilHealth.* Client targeting must be improved under PhilHealth's LGU indigent sponsorship program to reduce leakage and undercoverage. To address these issues, suggestions have been made for the National Government to assume responsibility for providing coverage of the indigents under PhilHealth (Ala, 2009). This is expected to result in more sustainable premium financing of the poor, a uniform national proxy means-test to identify the poor, and de-

politicization of the process of client identification, enrollment, and financing.

4. *Modern social safety nets must be adopted to ensure that social assistance grants do improve health, nutrition, education, and other human-development outcomes.* Price subsidies (such as the Tindahan Natin Program) as well as in-kind transfers (such as the Food for School Program) relying on geographic targeting approaches have been shown to be inefficient, not the least of which is the high level of leakage and undercoverage which waste public resources. A more comprehensive approach to the provision of social safety nets is clearly needed.

   Fortunately, the DSWD is already well on its way to expanding the Conditional Cash Transfer (CCT) Program, known as the Pantawid Pamilyang Pilipino Program (or 4P). Instead of directly providing basic commodities to poor households (as in FSP), or artificially suppressing the prices of these commodities so that poor households can afford them (as in TNP), CCTs provide cash to poor households, and their continuing receipt of such cash is conditionalized on key behaviors intended to improve human development outcomes (e.g., sending children to school, attending health clinics). Thus, CCTs not only alleviate poverty; they are also meant to improve human capacity development. More importantly, they do not tamper with the supply side of goods and services; indeed, because of cash infusion in the community, they provide a positive incentive for the provision of such goods and services especially in rural areas. CCTs in Latin America and Turkey have been shown to improve health, nutrition, education, and employment outcomes of vulnerable populations.

   Under the DSWD's 4P, PHP500 would be given monthly to households for health and nutrition while PHP300 would be allotted for each child who is studying, with a maximum number of three students per household. Recent news articles (Romero, 2009) indicate government's intention to increase the monthly household allowance to PHP 900 to 321,000 households. The program's budget last year was PHP2 billion, and there are strong indications that donors are willing to support this program for nationwide expansion. Eligible households would be identified using proxy means tests. The key issue for the health sector under this program is the readiness of health facilities to provide services so that CCT-recipient households can meet their "conditions".

5. *SSS and GSIS need to be geared to widen their safety nets.* To respond to the current global economic crisis, President Macapagal-Arroyo unveiled its Economic Resiliency Plan (ERP) under which GSIS, SSS, PhilHealth, and other government financial institutions are supposed to earmark PHP30 billion for the provision of temporary additional benefits to their members. By May 2009, only PhilHealth has committed to set aside PHP7 billion for the ERP; the SSS and GSIS plans are still on the drawing board apparently because funding is still being sought. However, both government-run pension funds plan to change how they compute member benefits to make room for bigger pensions to retirees (Romero, 2009).

6. *The government must actively pursue labor market interventions to get laid-off workers back into gainful employment or entrepreneurship, and to actively enforce existing labor standards.* Employment and income-generating activities are still the best safety net. To its credit, the Arroyo administration is aggressively pursuing this approach, with job fairs and skills/entrepreneurship training being held everywhere. However, earlier legislative effort to establish an unemployment insurance program for the country appears to have been shelved mainly because of funding issues. Finally, much remains to be done to actively enforce existing labor regulations especially on the payment of the minimum wage and contributions to social insurance and on occupational health and safety.

Greater fiscal space is required to expand social services and social safety nets

Fiscal space is the budgetary room that allows the government to provide resources for desired purposes without jeopardizing their desired sustainability (Heller, 2005; PREM, 2006). In the wake of the global economic crisis, more fiscal space is needed to expand health services and social safety net programs that address the anticipated increased vulnerability of households. Based on the brief review of the likely impact of the crisis on the health and other social sectors, the following are critical areas that warrant increased spending: (a) strengthening and upgrading of health services, including raising the resources to contain global infectious diseases, such as A(H1N1); (b) further expansion of PhilHealth coverage in the formal and informal sectors; (c) increasing the financing of indigents' premiums under PhilHealth; (d) expansion of 4P CCT program; (e) expansion of scholarships, bursaries, and benefits for skills training; and (f) providing more resources for the enforcement of labor regulations.

Seeking for greater fiscal space at this time is a tall order because the economy is slowing down, thus constraining the government's revenue-generating capacity. Moreover, the country needs additional investments for infrastructure and human capital necessary to make it competitive in the global market. Given the competing claims on government resources, the fiscal stimulus package contained in the Economic Resiliency Plan appears to have placed social protection in the back-burner. Indeed, as late as May 2009, the social protection elements in the ERP were still on the drawing board (Romero, 2009). This situation is untenable from the point of view of averting the social and human consequences of the crisis. The need for more social spending cannot be deferred indefinitely and policymakers need to think creatively to find the required fiscal space.

How can fiscal space be created to accommodate expanded health and social protection services? In a review done by the Poverty Reduction and Economic

Management (PREM) Group of the World Bank, four factors are seen as improving fiscal space (as percent of GDP) as gleaned from a global analysis of public expenditure reviews (PERs). These are shown in Table 3.

Table 3. How Fiscal Space Could be Created

Factors That Improve Fiscal Space	PREM Norms
Improved expenditure efficiency	PERs have identified areas of rationalization that would release 3% of GDP in resources for reallocation
Improved revenue effort	Estimates of revenue effort suggest than an additional 4% of GDP could be raised through domestic revenue efforts
Increased external grant aid	Negotiations with development partners may elicit indications of an additional 3% of GDP in grant aid
New borrowings	Macroeconomic and debt management suggests that new borrowing over the period should be limited to 2% of GDP

Source: PREM, 2006

1. *Expenditure efficiency can provide some of the fiscal space needed to accommodate greater social spending*. For instance, government subsidies to some large and loss-making government corporations could be reduced significantly and some of their operating activities might be amenable to privatization (ADB, 2007). Leakages in existing government programs, both within the social sectors (such as the Food for School and Tindahan Natin programs) as well as those outside the social sectors, should be addressed immediately. National and local governments should be open to reallocating their budgetary resources towards more support for social programs at this critical juncture. Local governments need specific technical support to think strategically on the use of their internal revenue allocations so that health services and social safety nets get greater prominence.

2. *Improved revenue effort can offer wider latitude for higher spending on social support programs*. This requires effective implementation of programs for improving tax collection. More aggressive membership promotion and collection efforts by the social insurance programs (SSS, GSIS, and PhilHealth) would also help. In this regard, the greater enforcement of labor standards and regulations on companies by the Department of Labor and Employment (DOLE) would be a most welcome complementary effort.

3. *New borrowings and external grants can provide impetus on new social programs*. Official development assistance have been used in the past to initiate and "pump-prime" new social services, whether in government or with nongovernmental organizations. PhilHealth initiatives were earlier supported by USAID and GTZ. This tradition continues with the CCT, which is being supported by the World Bank and other donors. Sustainability, however, requires that the government takes on increasing financial responsibility as donor support dissipates

   Donors are also called upon to look at the draft Philippine health care financing (HCF) strategy to identify possible areas of support. The economic crisis warrants expediting rather than delaying the implementation of the HCF strategy as it (a) endorses more intensive revenue generation to meet increasing health needs, (b) provides greater concern for equity, and (c) supports a program to improve allocative and technical efficiency through a variety of approaches including institutional restructuring and incentive payments.

In this period of economic crisis, it is important to remember these key messages

- The global economic crisis merely highlights the shortcomings of the country's system for financing and delivery of social services

- The social sectors – including health, social welfare, and labor – emerge as central, rather than peripheral, areas of concern during a crisis because of the likely large social and human consequences.

- Countrycyclical fiscal spending on health and social services and assistance is an appropriate response during an economic crisis.

- Equity and good targeting of social services and assistance programs are never out of fashion and, indeed, their importance is heightened in times of economic stress.

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