Chapter 6

CAUSES OF POVERTY IN THE PHILIPPINES

There are many inter-related causes of poverty in the Philippines. Chapter 4 has shown that access issues in each of the asset categories—human, physical, natural, social, and financial capital— are linked to deprivation. Pro-poor interventions to improve quality and access in any of those areas would result in reduced poverty. This chapter discusses seven additional themes seen to be direct causes of poverty in the Philippines. These are (i) macroeconomic issues, (ii) unemployment issues, (iii) unchecked population growth, (iv) problems in the agriculture sector, (v) governance concerns, (vi) armed conflict, and (vii) disability.

Economic Growth and Poverty

Economic growth is a necessary precondition for poverty reduction, but the quality of that growth is important, and not all growth is pro-poor. The Philippine empirical record demonstrates that the poverty headcount declines when the growth rate of average family income is higher than the rate of inflation. The flipside is an increase in the poverty headcount when the reverse is true, whether or not there was overall economic growth. The Philippines provides a concrete example of GDP growth that did not reduce poverty, although the economy recorded growth of more than 4% in 3 of the past 4 years. The 2003 FIES shows average family incomes to have increased by only 2.5% over the 2000 level, while the CPI indicates an inflation rate of 13.9%. It is therefore almost certain that the poverty headcount increased during this period. It most likely increased by a greater degree than from 1997–2000, when average family incomes grew by 18%, inflation was 22%, and the poverty incidence of the population increased by 1%.

Economic growth has not been high enough to keep up with population growth: GNP per capita has lingered at around $1,000 for the past 20 years. This is partly a result of mismanagement of the economy, and partly a result of external shocks, to which the Philippines is particularly vulnerable. It is widely recognized that the impact of the 1997 Asian financial crisis was not as serious in the Philippines as it was in neighboring countries, and that the Philippines was able to recover relatively quickly. Nevertheless, it did have an impact on poverty, undoing some of the gains made in the early to mid-1990s in terms of income poverty incidence. Importantly, the crisis came at the same time as the devastating El Niño drought.

Datt and Hoogeveen (2003) analyze the dual impacts of the financial crisis and El Niño on poverty and inequality in the Philippines. When the financial crisis set in, the Philippine economy stalled. Per capita real GNP declined by 2.7%. Agriculture contracted by 6.6% while industrial production fell by 1.7%. With the slowdown in output growth came the labor market shock, with unemployment rates increasing. Inflation accelerated, and food prices increased even faster than the general level of prices with the plummeting of agricultural output. Datt and Hoogveen's regression analysis finds that the impact of the financial crisis on poverty was modest relative to estimates for other crisis-affected countries. In the Philippines, it caused a 5% reduction in average living standards, increased the incidence of poverty by about 9%, and the depth and severity of poverty by 11% and 13%, respectively. In contrast, the authors find that the largest share of the overall impact on poverty was attributable to the El Niño shock, its share ranging between 47% and 57% of the total impact on measures of incidence, depth and severity of poverty.

While the Philippines managed to recover after the dual shock of the Asian financial crisis and the El Niño weather phenomenon, a number of problems persist on the macroeconomic management side. The high fiscal deficit, a fluctuating regulatory environment, ambiguous enforcement of contracts, and security concerns all contribute to a lack of investor confidence. This has flattened the economic growth trends and long-term development prospects of the economy. The list of chronic macroeconomic problems in the Philippines is long and includes:

- declining revenue collection causing fiscal deficit and heavy public sector debt;
- a poor investment climate resulting in particularly low foreign direct investment;
- nonperforming loans in the banking sector;
- a gradual loss of international competitiveness; and
- a governance structure rife with corruption and inefficiency in economic management.

Fiscal deficit and public sector debt

Poverty reduction requires dedicated resources, something the Philippine Government is lacking. The fiscal deficit and the national government debt are the Achilles heel of the Philippine economy. They have caused the decline of capital expenditures, thus affecting capacity for poverty reduction efforts. The revenue/gross national product (GNP) ratio declined from 16.3% of GNP in 1997 to only 13.6% in 2003 (see Table 28).[64] Because of the Government's fundamental limitations in human, financial, and physical resources, aggravated by excessive red tape, graft, and corruption, the Government has generally been unable to properly run the country. It has failed to ensure the efficient delivery of necessary public services, and has not brought about the economic development and widespread prosperity the country deserves.

With the chronic fiscal deficit problem, the Government has to borrow to meet its operational requirements and to survive. Debt interest payments have increased from 19.5% in 1998 to 27.4% in 2003, crowding out the productive portion of the national budget. The results have been predictably negative:

- steadily growing interest expenses that now take up more than one third of all government revenues;
- a squeezing out of other necessary expenditures such as health, education, and agricultural services, all of which have declined as a percentage of GDP for 3 consecutive years;
- growing concern about the possibility of a collapse of the peso, an important obstacle to both foreign and domestic investment.

[64] The revenue/GNP ratio should be at 25% or above.

On the expenditure side, the continued use of "pork barrel" spending programs at all levels of government cripples the government's ability to function effectively, by putting a significant portion of these already limited resources out of reach of those who are attempting to formulate serious plans for allocating spending according to the right criteria.

The country cannot continue to borrow, since its credit rating will further deteriorate and the only sources of funds will then come with sky-high interest rates from foreign banks or private sector sources. If there is no appropriate and effective reform, the next few years will see serious challenges on the debt issue that will lead to expenditures shortage, credit deterioration, and worsening public services. An increasing debt stock will further result in a depreciated local currency and a wider trade deficit. The increased borrowing in 2003 caused apprehensions to be expressed by various multilateral and credit rating agencies that urged the Government to significantly raise revenues and control spending. To reduce debt load, the Government must increase revenues and rationalize the expenditure structure. Key elements will include enhancing LGU revenue collection and instituting civil service reform.

Table 28
Public Finance Ratios (%)

	1998	1999	2000	2001	2002	2003
Deficit/GNP	-1.8	-3.6	-3.8	-3.8	-4.9	-4.3
Total Revenue/GNP	16.5	15.3	14.7	14.5	13.4	13.6
Tax Revenue/GNP	14.9	13.8	13.2	12.6	11.8	11.6
Interest Payment/ Total Expend.	19.5	18.0	21.7	24.6	23.9	27.4
Capital Outlays/ Total Expend.	8.6	10.6	9.4	14.8	16.0	13.5

Source: Department of Finance and Department of Budget Management.
GNP = gross national product.

Poor investment climate[65]

The investment level in the Philippines has been low and falling since the Asian financial crisis of the late 1990s (see Table 29). Increasing investment levels hinges on an attractive investment climate, something the Philippines has not achieved. As a result, the country suffers from limited capital formation, limited productivity improvements and limited competitiveness of firms. The Government has a central role to play in shaping the investment climate, which essentially comprises the macroeconomic fundamentals, infrastructure, and governance and institutions (such as the legal and regulatory framework). All of these combine to influence the costs and returns of doing business. The highly educated, English-speaking workforce of the Philippines is considered one of the most technically proficient in Asia, but the country faces increasing pressure from heightened global competition for market and capital. Without improvements in the investment climate, the country will continue to lose out.

Table 29
Investment and Savings (% of GNP)

	1998	1999	2000	2001	2002	2003
Gross domestic investment	19.3	17.8	19.9	17.8	16.5	15.5
Public	4.4	4.2	3.7	2.8	3.0	2.3
Private	14.9	13.6	16.2	15.0	13.5	13.2
Gross domestic savings	21.6	27.0	31.1	19.5	21.8	19.4
Public	1.4	0.8	(0.6)	(1.4)	(2.1)	(2.6)
Private	20.2	26.2	31.8	20.9	23.9	22.0
Resource Gap/Surplus	2.3	9.2	11.2	1.7	5.4	3.9

Source: National Economic and Development Authority (NEDA).

In 2003 ADB launched the Investment Climate and Productivity Study (ICS), in collaboration with the World Bank. The goal of the ICS, completed in 2004, was to investigate the stumbling blocks and constraints to private investment and productivity growth. To this end, a survey of 716 business establishments was conducted in four major manufacturing sectors (electronics,

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[65] The World Bank's *World Development Report 2005* focuses on the theme of improving the investment climate, arguing that the investment climate is fundamental to driving growth and reducing poverty and should therefore be a top priority for governments. The WDR 2005 draws on surveys of nearly 30,000 firms in 53 developing countries, on country case studies, and on other new research.

food and food processing, garments, and textiles). A large share of firms surveyed reported the following constraints to be either major or severe: macroeconomic instability (40% of firms), corruption (34%), electricity (33%), tax rates (32%), uncertainty of economic policy (29%), crime, theft and disorder (26%), and tax administration (26%).

The ICS reports that corruption affects exporters more than non-exporters and foreign firms more than domestic firms. Transactions at the customs bureau are particularly perceived to be riddled with corruption. More than half of exporting and foreign firms surveyed regard customs administration as a moderate to major obstacle to business, and delays in getting goods cleared through customs are a major bottleneck for firms that rely on imported inputs. On the infrastructure front, electricity is a critical concern (33% of firms), more critical than transportation (18%) and telecommunications (10%). Losses as a result of power failures amount to an average of 8% of production. While a number of measures to deal with the major investment stumbling blocks have already been initiated by the current and previous government administrations, much more needs to be done. The ICS makes a number of recommendations for reviving investor confidence in order to generate more capital infusions and productive investments, which will employ labor and ultimately reduce poverty in the Philippines (see ADB, 2004d).

Gradual loss of international competitiveness

In the 1980s and 1990s Philippine exports grew rapidly. However, since the late 1990s there has been great competition from the People's Republic of China (PRC) and Viet Nam. Philippine exports in 2003 grew by only a little more than 1%. The overall weak export performance is attributed to relatively concentrated export markets and to the gradual decline of the competitiveness of once highly demanded electronics products. The two pillar sectors in industry, electronics and garments, account for nearly 50% and 20% of total goods exports. These sectors registered export declines of about 2% and 5% in 2003, respectively.

Electronics. In the electronics sector, the decline of export shares is a result of a lack of investment, high production costs, poor infrastructure, and slow upgrading to new technology. The engine for growth in electronics should be investment, especially foreign investments, but from 1996 to 2003 investments were erratic. Gradually the sector has lost competitiveness in the international market as neighboring countries have increased their efforts. PRC, Indonesia, Malaysia, and Viet Nam all are able to produce electronics with higher quality, cheaper labor and more advanced technologies.

Garments. The major constraint in the garment sector is the export quota issue. The WTO 1995 Agreement on Textiles and Clothing set 10-year quotas up to January 2005, and the quota for garment exports thwarts any substantial increase in exports. When quotas are removed starting in 2005, the PRC will likely control two thirds of world exports. The PRC currently accounts for 40% of global garment exports and its share continues to grow. The Philippine garment industry expects to use existing trade mechanisms such as safeguards, countervailing steps, and antidumping measures rather than seeking deferment of the quota phaseout.

It is expected that world exports will expand by about 20% in 2004, but the Philippines' exports are forecasted to increase by only 10%, resulting in a gradual loss of export share. The export of fruits and vegetables and mineral products can mitigate some, but not all, of the losses in garments and electronics. The Government would thus do well to prioritize attracting more investment in the electronics and garment sectors to improve international competitiveness.

Employment and Poverty

Labor is the most important asset of the poor. Unemployment and underemployment are thus key determinants of poverty, as is the sector of employment. The official unemployment rate for 2003 was 11.4% of the labor force. The labor force participation rate in 2003 was 67.1% of the population aged 15 years and over (NSCB, 2003 *Philippine Statistical Yearbook*). In the 2000 FIES, 35.5% of family heads were employed in the agriculture sector, and close to half of those were classified as poor (see Table 30).

The average income of the poor in the agriculture sector is about 84.5% of the poverty line, according to the poverty gap measure. Inequality is also highest among the families whose heads are in agriculture. To reduce the high poverty levels, the Government will need to give priority to raising the incomes of those in the agriculture, fishery, and forestry sectors. The question of land reform is crucial, and is examined separately in this chapter. The other sectors where poverty incidence is relatively high include construction (28.5%), transport (17.2%) and services (11.4%). The sectors with high poverty gap ratio other than agriculture include mining (12.6%) and construction (7.5%).

Of the 16.4% of families whose heads were unemployed in 2000,15.7% were poor. Of the employed household heads, poverty rates were higher among the self-employed than the wage earners, 36.5% and 23.6% respectively (see Table 31). Table 31 also shows that agricultural wage earners were considerably better off than their self-employed counterparts.

Table 30
Poverty Measures by Sector of Employment of the Household Head, 2000

Sector	Share of Household Heads (%)	Poverty Incidence (%)	Contribution to Poverty Incidence (%)
Agriculture, Fishing, and Forestry	35.5	48.5	61.6
Mining	1.0	44.8	1.7
Manufacturing	7.1	16.6	4.2
Utilities	0.5	7.7	0.1
Construction	6.6	28.5	6.7
Trade	11.8	14.8	6.3
Transport	8.9	17.2	5.4
Finance	0.6	2.1	0
Services	11.6	11.4	4.7
Unemployed	16.4	15.7	9.2
Total	**100.0**		**100.0**

Source: NSO FIES 2000

Table 31
Poverty by Class of Workers, 1997–2000

	Poverty Incidence	
	2000	**1997**
Wage Earners	23.6	19.9
Agriculture	18.7	15.0
Non-Agriculture	53.1	48.1
Self-employed	36.5	37.6
Agriculture	47.2	47.4
Non-Agriculture	18.7	16.5

Source: NSO FIES 2000

Poverty and employment issues are also addressed in the APIS. Recalling that this survey uses the lowest 40% income bracket as proxy for poverty, the 2002 APIS results show that 84.5% of the poor were employed in 2002, which is remarkably close to the 2000 FIES finding of 83.6%. Most of the poor by the APIS definition are in agriculture (66.2%) and in wholesale and retail trade. By occupation, they are laborers (42.5%) and as farmers (34.1%). Most of the poor are self-employed (43.5%), engaged in either family sustenance or entrepreneurial activities, while about 34.4% are wage and salary workers (see Table 32).

The data imply that the basic problem of the poor is not so much lack of employment as the low incomes derived from employment. This has to do with both low wage rates and the phenomenon of *under*employment. Underemployment, defined as the percentage of employed persons who would like to work additional hours, was 15.3% in 2002 (NSCB, 2003 PSY). The UNDP *Philippine Human Development Report 2002* points out that the link between work and poverty is primarily manifested in the quality of employment. While most of the poor may be employed, they are mostly mired in jobs with low productivity and low pay (see UNDP, 2002).

The 2003 minimum wage was in theory still more than the NSCB's 2000 poverty threshold inflated for 2003 (using the CPI). However, this assumes no dependents. Column three in Table 33 shows the maximum number of dependents one wage earner can support on his or her wage (in addition to him/herself), without falling below the poverty line. In Metro Manila, for example, a minimum wage laborer with a wife and 3 children, the average family size, would very soon fall into poverty. In ARMM the minimum wage was not enough for a minimum wage earner to support herself, her spouse and one child without becoming poor.

Table 33 further shows that minimum wage levels are only about 40% of the family living wage estimated by the National Wages and Productivity Board (NWPB). The family living wage is comprised of: (i) food expenditures based on the menus set by the NSCB, (ii) nonfood expenditures derived using the food expenditure ratios of families with 6 members in the 5th–7th deciles of the population that is solely dependent on wages and salary, and (iii) an additional 10% to allow for savings/investment (NWPC, 2004).

The discussion of employment and poverty in this section has focused on questions of income. The issues of work and poverty are much broader, of course, and include, for example (i) a lack of labor rights for some categories of workers, making them particularly vulnerable to poverty (especially workers within the informal sector); (ii) child labor, the incidence of which increases the lower the household income; and (iii) informal/illegal migration, which is sometimes the only option for the poor. These and other issues are assessed in the *Philippine Human Development Report 2002*, with its theme of work and well-being (UNDP, 2002).

Table 32

Employment of Families by Income Stratum, 2002 APIS

	Bottom 40%	Top 60%	Philippines
Families with employed head	84.9	78.7	81.2
Families with members 18 years old and over in employment	92.7	94	93.5
Type of Economic Activity			
Family sustenance activity	76.6	26.9	46.9
Net sharing of crops	6.7	5.7	6.1
Entrepreneurial activity	74.2	58.9	65.1
Wage & salary employment	53.5	76.5	67.2
By Class of Workers			
Wage & salary workers	34.4	57.1	48.6
Own-account workers	43.5	32.6	36.7
Unpaid family workers	22.2	10.2	14.7
By Major Industry Group			
Agriculture, fishery, and forestry	66.2	20.9	37.9
Mining & quarrying	0.4	0.3	0.4
Manufacturing	5.1	12.5	9.7
Electricity, gas, and water	-	0.5	0.3
Construction	4.1	6.2	5.4
Wholesale and retail trade	11.5	23.4	18.9
Hotel and restaurant	0.7	3.3	2.3
Transportation, storage, and communication	4.2	9.5	7.5
Financing, insurance, and real estate	0.5	4.5	3.0
Community, social, and personal services	4.6	16.7	12.2
By Major Occupation Group			
Laborers	42.5	22.7	30.1
Farmers	34.1	11.5	20.1
Technicians	0.9	4.0	2.8
Clerks	0.9	6.8	4.6
Service Workers	5.1	11.4	9.0
Traders	7.0	11.6	9.9
Plant and machine operators	3.5	10.0	7.6
Special occupations	0.2	0.4	0.3
Professionals	0.4	7.4	4.8
Officials of the Government	5.2	14.1	10.7

Source: 2002 APIS

Table 33
Comparing the Monthly Minimum Wage, the Poverty Line, and the Family Living Wage, 2003

	Monthly Minimum Wage (pesos)	Monthly Poverty Threshold (pesos per person)	Max. No. of Dependents	Food	Nonfood	Total
NCR	6,160.00	1,479.00	3.2	3,828.00	7,480.00	12,430.00
Region 1	4,180.00	1,146.00	2.6	3,828.00	6,138.00	10,956.00
Region 2	4,070.00	965.00	3.2	3,564.00	5,478.00	9,944.00
Region 3	5,027.00	1,237.00	3.1	3,916.00	5,742.00	10,604.00
Region 4	5,214.00	1,226.00	3.3	3,850.00	6,578.00	11,484.00
Region 5	4,004.00	1,062.00	2.8	3,608.00	6,226.00	10,824.00
Region 6	3,960.00	1,049.00	2.8	3,344.00	5,060.00	9,240.00
Region 7	4,400.00	900.00	3.9	3,212.00	7,150.00	11,396.00
Region 8	4,136.00	878.00	3.7	3,212.00	4,158.00	8,118.00
Region 9	3,850.00	838.00	3.6	3,278.00	6,512.00	10,780.00
Region 10	4,224.00	925.00	3.6	3,300.00	6,006.00	10,230.00
Region 11	4,290.00	974.00	3.4	3,366.00	5,324.00	9,570.00
Region 12	3,960.00	999.00	3.0	3,520.00	5,918.00	10,384.00
CAR	4,180.00	1,217.00	2.4	3,696.00	7,150.00	11,924.00
ARMM	3,080.00	1,174.00	1.6	–	–	–
Caraga	3,938.00	959.00	3.1	–	–	–

Source: adapted from Templo (2003) with additional calculations.
ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region, NCR = National Capital Region.

Population and Poverty

As shown at the outset of Chapter 1, the population of the Philippines is growing at the very high rate of 2.36% per year. At this rate, more than 5,000 people are born every day in a country where the number of poor people has increased by more than four million since 1985 [M92]. The population is projected to reach 111 million by 2015. Population growth in and of itself is not a problem if resources are available to cope with the additional people requiring public services, employment, housing, and so on. But in a country where the budget is already stretched and where poverty is high to begin with, population growth becomes a major issue.

The links between rapid population growth and persistent poverty have been well established. Rapid population growth hinders development for two interrelated reasons. First, because it reduces growth in per capita incomes and thus savings, it reduces the funds available for investment in productive capacity. This underinvestment in turn reduces overall economic growth and prospects for poverty reduction. Second, as population growth outpaces the capacity of industry to absorb new labor, urban unemployment and rural underemployment are compounded. In 2003, the Philippine economy generated 566,000 new jobs, of which 60% were in the services sector. Despite this job creation, unemployment levels rose because the job market was inundated with 624,000 new entrants (ADB *Asian Development Outlook* 2004).

The larger the family, the more likely it is to be poor. Table 34 shows poverty incidence by family size for 1997 and 2000, and the two are very strongly correlated. Orbeta (2002) reviews the empirical evidence to show that high fertility is associated with decreasing investments in human capital (health and education). Children in large families perform less well in school, have poorer health, lower survival probabilities, and are less developed physically. The problem is one of resource dilution, where each additional child means a smaller share of family resources including income, time, and maternal nutrition.

Orbeta (2002) further shows that larger family sizes in the Philippines are not the result of rational choice among the poor. Surveys including the APIS[66] have shown that the poor have more limited access to family planning

Table 34
Poverty Incidence of Families by Family Size, 1997–2000 [M92]
(%)

	1997	2000
All Families	31.8	33.7
By Family Size		
1	9.8	9.8
2	14.3	15.7
3	17.8	18.6
4	23.4	23.8
5	30.4	31.1
6	38.2	40.5
7	45.3	48.4
8	50.0	54.9
9 or more	52.6	57.3

Source: NSO FIES [M92], in Reyes (2002a).

services, lower contraceptive prevalence rates, higher unwanted fertility, and higher unmet needs for family planning. The author's conclusion is that subsidized family planning services for the poor must be an integral component of any poverty reduction strategy.

Balisacan and Tubianosa (2004) undertook cross-country research to quantify the direct effects of population on economic growth, social services, and labor force participation in the Philippines. The Philippines and Thailand were similar in terms of both population and GDP per capita in 1975, but by 2000, there were 13 million more Filipinos than Thais. Total fertility rate (TFR) in Thailand had dropped to 1.9, while it remained at 3.6 in the Philippines. At the same time, by 2000 GDP per capita in Thailand had grown to 8 times its 1975 rate, while the Philippines' GDP per capita was only 2.6 times higher. The empirical analysis shows that population is not the only cause of the poor performance of the economy, but it is the most significant one, ahead of corruption, for example. In an interesting exercise, the authors assess what the monetary savings in education and health would have been, had the Philippine population growth pattern followed that of Thailand. The authors find that P128 billion would have been saved in the education sector from 1991 to 2000, while P52 billion could have been saved in the health sector from 1996 to 2000.

The Government's new MTPDP 2004–2010 has been criticized for not articulating a clear population policy. Instead, it presents only a target: that population growth will slow to 1.98% per year by 2010. The NEDA response to this critique states that the population policy of the plan is based on responsible parenthood, respect for life, informed choice, and birth spacing (NEDA, 2004). This is insufficient. The Government, with strong donor support, should scale up family planning education and services. Innovative mechanisms and clear messages promoting contraceptive use are needed, because access does not automatically result in use, as reported in the 1999 APIS. The data shows that nearly 90% of married women aged 15–49 had access but less than 40% were actually practicing family planning. Population policy should not concentrate too narrowly on contraception alone: women's rights, reproductive health, and education are also critical elements of the population-development equation. Rather than a singular focus on married couples, heightened emphasis should be placed on informing, educating, and providing access to adolescents and youth.

[66] The 1998 and 1999 APIS questionnaires included a series of family planning and maternal care questions–but only for married women. These were removed from the 2002 APIS for an unknown reason.

Agriculture and Poverty

The Philippine agriculture sector has been growing erratically since the 1980s, with overall annual productivity growth averaging only 1.1% from 1993 to 2002. There has been very little intensification, and little expansion in the area under cultivation. There are also market distortions and other structural deficiencies. The price support and trade barriers in the case of rice have meant higher prices for both urban and rural consumers and limited benefits to larger farmers. The National Food Authority (NFA) procures a fraction of the country's rice production and hence only a few can enjoy the higher support prices. The smaller rice producers are either net buyers of rice or have little marketable surplus to benefit from higher prices. The need for structural reforms in the agriculture sector was recognized in the late 1990s and the ADB Grain Sector Development Program was aimed at addressing these. The Program was cancelled in 2003 at the Government's request and the structural weaknesses in the sector remain unaddressed, which limits the prospects for improved productivity in the sector. As a consequence of these and other problems, poverty rates among farming households have remained very high at over half of all farming households, a proportion virtually unchanged since 1985 (see Table 35).

Table 35
Poverty Incidence Among Farming Households, 1985 - 2000 (%)

Year	Poverty Incidence
1985	56.7
1988	55.5
1991	57.3
1994	55.4
1997	52.3
2000	55.8

Source: Reyes (2002a), FIES data, [M92].

Access to land is crucial for rural poverty reduction. Putzel (1992) concludes that there are three inter-related reasons why agrarian reform is so important in the Philippines:

> First, a majority of the population continues to live in poverty-stricken rural areas, where they depend primarily on the agricultural sector for their living but enjoy no secure access to land. Second, inequality in ownership and

> control over land remains acute and is more extreme than most analysts have previously imagined. Third […], the legal peasant movement and the underground communist movement have continued to organize and wage war around demands for land redistribution […] because skewed access to land is still and important source of not only economic deprivation but also political domination.[67]

The promises of the Comprehensive Agrarian Reform Program (CARP) have not been met. The deadline for the completion of this program has been postponed on many occasions. Its postponement has resulted in the incomplete development of the land market, has induced speculation, and has resulted in poor land-use planning. Sustainable rural sector growth is critical for ensuring overall pro-poor growth in the Philippines, and in this context land reform remains a major bottleneck. While the land reform agenda has been adopted by successive administrations, not much has been achieved. Access to land not only improves equity, it also enables new asset owners to apply for bank loans and secure access to financial capital. The lack of sufficient collateral has affected growth of rural credit. CARP's farmer-beneficiaries are supposed to be landless residents of the barangay or municipality where the land in question is located, and are meant to have worked directly on the land, whether as tenants or seasonal farm workers. This has not always been the case. There are many examples of wealthy landlords circumventing the regulations. The World Bank in 2000 recommended that a shift in CARP implementation toward better targeting the landless is warranted.

Bello et al. (2004) give a scathing critique of CARP. In their assessment, the program has failed to change the feudal landscape and to address the historical roots of land concentration in the hands of a few rural and urban elites. CARP has suffered from the same problems since its inception, including lack of funds, opposition from landlord-dominated Congress, lackluster performance of the Department of Agrarian Reform (DAR), intense resistance from landlords, and legal hurdles. By DAR's account at the end of 2003 both DAR and the Department of Environment and Natural Resources (DENR) had redistributed 5.8 million hectares, or 72% of the overall 8.1 million hectare

[67] The Philippines still sees violence around reform demands from agricultural laborers. In November 2004, farm workers at the Luisita Sugar Mill and Plantation went on strike to demand better wages and benefits. After 11 days, the police and military took action to disperse the strikers and fired into the crowd, killing 7 workers. More than 50 others sustained gunshot wounds, and 130 were arrested. Hacienda Luisita is owned by the family of former President Cory Aquino. In 1987, 13 farmers at Luisita were killed by the military in a strike dispersal operation. The farmers were seeking genuine land reform. (Strikers Dispersed at Hacienda Luisita, 7 Dead. Philippine *Daily Inquirer*, 17 November, 2004)

target. In other words, 58% of the country's total farmland, benefiting 2.7 million rural households or 44% of the country's total peasant population. Bello et al. question the 72% figure, noting that it accounts for hectares that have been awarded but not necessarily distributed, the distinction being whether the farmer beneficiary has security of tenure or not.

Even if land reform were completed, it is clear that unless asset reforms are accompanied by reforms in the agriculture sector—such as investment in productivity improvements and supporting infrastructure—the impact of asset reform will remain limited.

Governance and Poverty

The 1986 People Power revolution ousted dictator Ferdinand Marcos and became a significant milestone in Philippine political development, paving the way for strengthened democratic institutions in the country. While much has been achieved in the process of democratization since then, events of recent years have spawned a sense of disappointment over the ability of the political system to address the needs of Philippine society, and particularly the poor. Some claim that politics is the main economic problem confronting the country today—weak governance seems to be the major contributory factor for the economy's lackluster performance and the insignificant impacts on poverty over the years. A July 2004 article in *The Economist* equates Philippine democracy with "showbiz" and refers to the "sorry political culture" (Economist, 2004). A strong political party system is one of the vital institutions of a representative government. In the Philippines, political parties are seen as personal tools of self-serving politicians rather than as social vehicles of collective interest.

Governance issues are central to the widespread perception that the country is becoming less competitive and provides a less attractive destination for investment. Transparency International's Corruption Perceptions Index ranks the Philippines at 92 out of 133 countries, a less than inspiring score for investors. Three particular governance issues affect the poverty problem in the Philippines: corruption, a weak and inefficient state, and security problems.

Corruption. Corruption increases income inequality and poverty through reduced economic growth; biased tax systems favoring the rich and well-connected; poor targeting of social programs; the use of wealth by the well-to-do to lobby government for favorable policies that perpetuate inequality in asset ownership; and lower social spending (see Gupta et al., 1998). Political patronage in Philippine poverty programs has influenced the choice of target groups and the distribution of poverty funds, as well as the appointment of officials to poverty program positions in order to pay political debts (more detail can be found in Chapter 7). A regression analysis of provincial growth by Balisacan and Fuwa (2004) showed that a "dynasty" variable (measuring the proportion of Philippine provincial officials related by blood or affinity) had significantly negative effects on subsequent income growth.[68]

A weak and inefficient state. A weak and inefficient state is unable to efficiently deliver the necessary services to its population as a result of low capacity. One main reason the Philippine Government is unable to deliver necessary services to the population is an inability to collect sufficient revenues. A second reason is the country's cumbersome bureaucracy, run by close to 1.5 million civil servants and structurally challenged by (i) weak mechanisms for planning, agenda-setting, and policy-making; (ii) a failure to implement and maintain an appropriate performance management and measurement system; (iii) an overly large bureaucracy that is nevertheless plagued with gaps, overlaps, and duplication of functions, activities, and jurisdiction at all levels; (iv) overemphasis on rules and procedures instead of directing resources towards the realization of intended outcomes and impacts, (v) highly politicized bureaucracy with opportunities for rent seeking; (vi) lack of managerial and technical competencies; and (vii) wrong mindsets, attitudes, and corporate culture.

A weak judiciary also contributes to a weak and inefficient state. Because of its mandate to resolve disputes, review the constitutionality of government action, and exact accountability from individuals, public officials and government itself, the judiciary plays a crucial role in the economic governance of the country. In the Philippines the enactment of laws is often slow and reforms take several years.[69] The poor have particularly limited access to justice.

Security problems. Where security is not maintained, underdevelopment and poverty are the result, particularly where armed conflicts arise. Violent conflict results in the decline of the state and democratic political processes, military actors have increased influence, and the rule of law breaks down. Conflict is inextricably linked with chronic poverty and affects access to each of the five types of capital. Mindanao is a case in point. Conflict as a cause of poverty in Mindanao is explored in depth in the next section.

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68 Balisacan and Fuwa point out that the lack of a competitive political system in the Philippines is one of the main factors resulting in suboptimal policy choices in the Philippine Government and thus leading to the relatively poor economic performance as compared to its Asian neighbors (2004:18-19).

69 Examples include the Power Sector Reform Act (enacted June 2001) and the Special Purpose Vehicle Act (enacted January 2003). Implementation of both acts has been very slow. The inefficiencies range from challenges to judicial integrity, independence and accountability, and fiscal autonomy to inadequate judicial competence and support services.

A special aspect of governance that must be emphasized in the Philippine context is the decentralization program and how it has had an impact on poverty reduction and the achievement of the MDGs. This is emerging as a major issue in several countries that have decentralized in recent years. The problems in the Philippines relate to LGU capacity, financial resources, and governance. The Local Government Code was passed in 1991. Principal responsibility for the delivery of basic social services was devolved to the LGUs in the areas of agricultural extension and research, social forestry, environmental management and pollution control, primary health and hospital care, social welfare services, infrastructure repair and maintenance, water supply and communal irrigation, and land use planning (Reyes and Valencia, 2004).

While decentralization in theory should result in programs and services that better address local needs, this requires sufficient capacity on the part of LGUs in addition to supportive institutional arrangements. In general the planning, budgeting, revenue generation and investment programming capacity of LGUs is weak. Heavy reliance on the internal revenue allotment (IRA)[70] makes LGUs reluctant to search for other financial resources for local developments. LGUs rely on the IRA for over 55% of their budget revenue. Local expenditure management and revenue collection capacity needs to be strengthened. Currently over 50% of IRA is used for personnel services, and local revenue collection accounts for less than 10% of total expenditures. Unless LGUs are able to significantly improve their own-source revenue effort and/or tap nontraditional sources of financing, they will remain dependent on their IRA to finance provincial development funds. The ability of the LGUs to increase own-source revenue is hampered by the poor linkage between planning and budgeting, weak tax administration, large allocations for personnel, and constraints in the LGU credit/capital financing framework.

A final governance issue related to poverty reduction in the Philippines is inconsistency. There has long been a tendency for the central Government to introduce new poverty programs with every change in administration (this is explored further in Chapter 7). This gives the impression of never-ending transitions, transitions that waste time and scarce resources when institutional and procedural duplications arise, often causing confusion among implementers at the local level. In the partial devolution of authority like in the Philippines, delivery of services in affected sectors becomes the joint responsibility of the national government agencies and the LGUs. The efficient delivery of services in poor areas is a central policy objective, but this can only be implemented

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[70] The IRA is the inter-government financing mechanism by which 40% of revenues collected by the National Government are channeled to LGUs for development spending.

effectively if coordination between national government agencies and local government officials can be strengthened. Capacity building is key, as is the development of local-level data to assist LGUs in their planning and program development, as mandated by the DILG (refer to the Chapter 4 discussion on the poverty mapping and community-based monitoring systems). Developing regular LGU-level information collection should be seen as an investment, not a cost, since it will enhance transparency and improve the delivery and targeting of services, and ultimately support good governance.

Conflict and Poverty

The causal relationship between conflict and poverty is bi-directional. Conflict causes poverty, and poverty can be one of the causes of conflict. Goodhand (2001) discusses that conflict is both a direct and indirect cause of poverty. Direct impacts are deaths, disablement and displacement. Chronic poverty is likely to increase as a result of loss of breadwinners, higher dependency ratios, and so on. Indirect impacts affect far more people as they suffer the negative effects of the disruption of basic services, the destruction of rural life and transport systems, and general collapse of the state. APIS data reviewed in Chapter 4 showed that in ARMM nearly two thirds of the poorest 40% of the population have little to no education—a far higher proportion than anywhere else in the Philippines. Conflict affects access to all forms of capital—human, financial, social, natural, and physical— as summarized in Box 5.

Poverty as a cause of conflict is also indirect. Uneven development processes lead to inequality, exclusion and poverty. This contributes to growing grievances, especially when poverty coincides with ethnic, religious, language or regional boundaries (as in the case of Mindanao). Underlying grievances can explode into open conflict. Few people argue that poverty directly causes conflict, but research points to the importance of extreme inequalities as a source of grievance that can be exploited by leaders to mobilize followers and to validate violent actions (Goodhand, 2001).

One of the first empirical studies of the links between conflict and poverty in Mindanao was conducted by Malapit et al. (2003). They divided the 25 provinces of Mindanao into 13 conflict areas and 12 nonconflict areas. Their key variables were the Human Development Index (HDI) and the Quality of Life Index (QLI)[71]. They also included a number of variables relating to human

[71] The QLI is a composite index of the number of births attended by a health professional, under-five nutrition, and elementary cohort survival rate. The HDI is an index of life expectancy, literacy, and per capita GDP.

Box 5

Negative Impacts of Conflict on All Forms of Capital

Human capital: Conflict leads to deaths, disablement and displacement; decline in capacity of the state to provide health and education services; declining literacy, life expectancy, increased infant mortality rates and higher levels of stunting; higher dependency ratios; long term effects are a poorly educated and skilled workforce and a future generation which has known nothing but violence

Financial capital: Conflict impacts negatively on financial institutions, investments, markets, rates of economic growth, and investment levels; market decline, lack of credit, and outflow of capital are a result.

Social Capital: Conflict disrupts social relations and causes social dislocation and a decline in trust and reciprocity.

Natural capital: Conflict leads to a breakdown of customary rights and rules of usage, lack of management and investment in natural resources, and increased use of marginal lands. Predatory behavior leads to resource depletion and environmental degradation.

Physical capital: Conflict causes destruction of and lack of investment in infrastructure and services.

Source: Goodhand (2001)

capital and access to services—access to potable water and sanitary toilets, elementary cohort survival rate, and so on. The results revealed that there were significant differences for HDI and QLI between provinces in conflict and those that are not. Access to potable water and sanitation are 14% and 20% less, respectively, for people in conflict areas. Children in conflict areas are 10% less likely to finish elementary school. Functional literacy is lower in conflict areas as well. Contrary to these findings, income poverty levels did not differ significantly in conflict and nonconflict areas of Mindanao. This was explained by the fact that violent conflict is only one of the shocks that affect Mindanao's resources, and that all provinces share common risks in agriculture, a sector that accounts for up to 50% of the regional economy. The El Niño drought phenomenon of 1997–98, for example, had a large negative impact on all of Mindanao. Since these shocks affected the whole of the region, whether or not they were in conflict, the impact of conflict on chronic income poverty may have been camouflaged by the transient income poverty caused by the shock.

Mindanao faces major poverty challenges overall, and particularly in conflict areas. As shown in Chapters 3 and 4, the provinces of Mindanao rank toward if not at the bottom of most social and economic indicators. There appears to be a need to undertake regional prioritization for poverty reduction in the Philippines (also known as geographical targeting). The Muslim areas need the most attention. The key may be to ensure that peace negotiations emphasize pro-poor economic growth (through rural industrialization), capacity building, and institutional strengthening.

Disability and Poverty

The causal relationship between disability and poverty is also bi-directional, much like the relationship between conflict and poverty. First, poverty causes disability. Not all disability is caused by poverty, but poor people are more likely to have poor health, poor living conditions, and dangerous working conditions. The poor suffer from malnutrition and they lack adequate access to health services including maternal care and trauma services. Disabilities are caused by communicable, maternal and peri-natal diseases as well as by accidents and injuries. The Department of Health has identified malnutrition and unsanitary living conditions as a result of extreme poverty as the most significant causes of disability, especially among children. The prevalence of disability among children 0–14 years old is highest in urban slum communities and in rural areas where access to health services are limited.

Second, disability causes poverty. Exclusion and marginalization of disabled people reduces their opportunities to contribute productively to the household and to the community, which in turn increases the risk of poverty. Disabled people are disproportionately found among the poorest of the poor in all parts of the world, and the disabled tend to be chronically poor. JICA finds that in the Philippines, most persons with disabilities live in poverty (JICA, 2002). Access is one of the key problems.

Statistics on persons with disabilities (PWD) in the Philippines are not particularly reliable. The first census to gather this information counted 637,000 people as having some type of disability in 1990. The 1995 census counted 919,292 PWD. In 1995, poor vision was the most common type of disability, representing 34.1% of all PWD. In the 2000 census, the number of PWD did not increase significantly despite a more broadly defined definition of disability: 942,000 people (1.2% of the total population) reported disabilities in 2000, evenly split between men and women.

WHO estimates that disabled people make up approximately 10% of any given population. In the Philippines, this would mean more than 8.5

million PWD in 2005. In 2004 the National Council for the Welfare of Disabled Persons was in the process of establishing a data resource center on disability in the country, to include demographic data on persons with disabilities and social and economic dimensions of disability. As of October 2004 more than 300,000 PWD had registered. The expectation is to register 1 million PWD nationwide by the end of 2004.

There have been some notable legislative achievements in promoting the inclusion of disabled people. Republic Act 7277, also known as The Magna Carta For Disabled Persons, was passed in 1992. It supports the rehabilitation, development and provision of opportunities for PWD and their integration into the mainstream of society. The *Magna Carta* creates a national mandate for the elimination of discrimination against persons with disabilities to bring them into the social and economic mainstream of Philippine society. The passage of this law marked the beginning of an important attitude change from seeing PWD as objects of charity handouts and social assistance to seeing disabled people as partners in development. However, although the *Magna Carta* sets in place the rights of persons with disabilities, implementation and enforcement remains unfortunately weak. Violators of the law are rarely prosecuted.

Access is a key problem when buildings are not constructed according to code. Access to education, access to health care, access to employment, and access to transportation are all severely limited for persons with disabilities. But access questions go beyond the physical. For example, there are very few schools in the Philippines that accept children with disabilities because of both a lack of appropriate school facilities and a lack of appropriately trained teachers. It is said that more than 90% of disabled people in the Philippines are unable to complete basic schooling. The link to poverty here becomes particularly clear, recalling the data on educational achievement and poverty levels presented in the human capital discussion of Chapter 4.

The recent decentralization in the delivery of basic services in the Philippines means that heavy financial burdens and decision making in terms of construction, repair and renovation of school buildings now rest with the LGUs. Financial constraints are central to delays in modifying existing educational buildings. An ADB study in 2002 found that while the Philippines passed an accessibility law more than 20 years earlier, most of the provisions of the law remained not enforced (ADB, 2002c). The introduction of barrier-free features for existing schools, hospitals, public transport systems, buildings and other infrastructure should be given priority attention.

Economic participation remains out of reach for most PWD. More than 100,000 employable PWD are registered with the Department of Labor and Employment (DOLE) but less than 10% of them are in wage employment. The Magna Carta provides that 5% of the contractual personnel of the national government engaged in social development should be reserved for qualified PWD. The law also encourages the private sector and LGUs to hire PWD. This employment provision is far from being realized, for a number of reasons:

- Inadequate transportation: PWD (especially wheel chair users) are restricted by commuting costs and mobility concerns in public utility vehicles.
- Inaccessible workplace: Workplaces tend to be improperly designed, without ramps or accessible bathrooms.
- Poorly qualified PWD: Most PWD do not reach levels of education that would qualify them for employment.

The issues facing disabled people are on the national agenda. The Arroyo administration declared 2003–2012 as the Philippine Decade of Persons with Disabilities. The NAPC has 14 representatives from the basic sectors, one of which is a sectoral representative for persons with disabilities. The MTPDP 2004–2010 calls for expanded capacity building programs for PWD, and sets an ambitious target whereby disabled people will make up 10% of the national government workforce (this target is up from 5% in the *Magna Carta*). These are all positive developments that acknowledge the link between disability and poverty. But much remains to be done, particularly on the physical accessibility front. Education and job generation are key areas for intervention. To break the vicious cycle of disability and poverty, the focus must be placed on *ability* rather than disability.