Poverty in the Philippines: Income, Assets, and Access

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FOREWORD

Poverty reduction became the overarching goal of the Asian Develoment Bank (ADB) when it adopted the Poverty Reduction Strategy (PRS) in 1999. The PRS was reviewed and enhanced in 2004. The fundamental message of the PRS is that poverty is an unacceptable condition that must be eliminated through public policy and action. The Government of the Philippines recognizes this in its new Medium-Term Philippine Development Plan 2004–2010. The mission statement of the MTPDP is "to fight poverty by building prosperity for the greatest number of Filipino people." Poverty remains a significant challenge in the Philippines, and it is a challenge that continues to grow: the number of poor Filipinos is increasing. A look beyond the national poverty incidence reveals major disparities among regions and provinces. Rural poverty has proven to be particularly intractable.

Poverty in the Philippines: Income, Assets, and Access examines official income poverty statistics and trends, but then takes a more multidimensional approach in exploring questions of access. The report looks at access by the poor to five important assets: human, physical, natural, social, and financial capital. The framework is built on the sustainable livelihoods approach, where vulnerability is a central concept.

A number of key constraints hamper poverty reduction in the Philippines. The report identifies seven broad causes of poverty: macroeconomic problems, employment issues, rapid population growth, low agricultural productivity, governance concerns including corruption, armed conflict, and physical disability. Of these, the high population growth rate is particularly significant: population growth over the past two decades has been such that even though the official poverty incidence fell, the actual number of poor people increased by more than 4 million from 1985–2000. This fact alone underscores the urgent need for a serious, clearly articulated, and well-funded population policy.

This report was written by Karin Schelzig, Social Development Specialist in the Social Sectors Division of the Southeast Asia Department. Xuelin Liu of the ADB Philippines Country Office provided overall guidance. Ofelia Templo provided additional inputs as an ADB consultant. Valuable comments on the manuscript were received from Dalisay Maligalig, Susanne Wendt, Michael Lindfield, colleagues from the Regional and Sustainable Development

Department, and many others. A consultation workshop with stakeholders from government agencies, civil society, and development organizations took place in November 2004. Lily Bernal provided copy-editing assistance.

This country poverty analysis was initiated as an input to ADB's Country Strategy and Program for the Philippines. It has been published for a wider audience because we hope the analysis and findings will be of interest to a broad range of stakeholders including government officials, civil society, development organizations, and students of development and poverty issues in the Philippines more generally.

Ms. Shamshad Akhtar
Director General
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Provincial Boundary
Regional Boundary
Boundaries are not necessarily authoritative.
NCR - National Capital Region
ARMM - Autonomous Region in Muslim Mindanao
CALABARZON - Cavite, Laguna, Batangas, Rizal, Quezon
CAR - Cordillera Administrative Region
CARAGA - Region created under R.A. 7901 dated 23 February 1995
MIMAROPA - Mindoro, Marinduque, Romblon, Palawan
SOCCSKSARGEN - South Cotabato, North Cotabato, Sultan Kudarat, Sarangani, and General Santos

ABBREVIATIONS

ADB	–	Asian Develoment Bank
ADO	–	Asian Development Outlook (ADB)
AIDS	–	Acquired Immunodeficiency Syndrome
APIS	–	Annual Poverty Indicators Survey
ARB	–	agrarian reform beneficiary
ARMM	–	Autonomous Region in Muslim Mindanao
BSP	–	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CAR	–	Cordillera Administrative Region
CARP	–	Comprehensive Agrarian Reform Program
CBMS	–	community-based monitoring system
CDD	–	community-driven development
CPA	–	country poverty analysis
CPI	–	Consumer Price Index
CSP	–	country strategy and program
DAR	–	Department of Agrarian Reform
DBM	–	Department of Budget and Management
DENR	–	Department of Environment and Natural Resources
DepEd	–	Department of Education
DFID	–	Department for International Development (UK)
DILG	–	Department of Interior and Local Government
DOH	–	Department of Health
DSWD	–	Department of Social Welfare and Development
EU	–	European Union
FIES	–	Family Income and Expenditure Survey
GDP	–	gross domestic product
GNP	–	gross national product
GOP	–	Government of the Philippines
HDI	–	Human Development Index
HDR	–	Human Development Report
HIV	–	Human Immunodeficiency Virus
HSRT	–	high school readiness test
ILO	–	International Labor Organization
IMR	–	infant mortality rate

IRA	–	internal revenue allotment
JICA	–	Japan International Cooperation Agency
KALAHI	–	Kapit-Bisig Laban sa Kahirapan
LGC	–	local government code
LGU	–	local government unit
MBN	–	minimum basic needs
MDG	–	Millennium Development Goal
MEDCo	–	Mindanao Economic Development Council
MMR	–	maternal mortality rate
MTEF	–	Medium-Term Expenditure Framework
MTPDP	–	Medium-Term Philippine Development Plan
NAPC	–	National Anti-Poverty Commission
NCR	–	National Capital Region (i.e., Metro Manila)
NDHS	–	National Demographic and Health Survey
NEDA	–	National Economic and Development Authority
NFA	–	National Food Authority
NGO	–	nongovernment organization
NSCB	–	National Statistical Coordination Board
NSO	–	National Statistics Office
NWPC	–	National Wages and Productivity Board
OFW	–	overseas Filipino worker
PO	–	people's organization
PPA	–	poverty partnership agreement
PPP	–	purchasing power parity
PRS	–	Poverty Reduction Strategy
PQLI	–	Physical Quality of Life Index
PSY	–	Philippine Statistical Yearbook
PWD	–	persons with disabilities
RKCG	–	Regional KALAHI Convergence Group
SDC	–	Social Development Committee
SEER	–	Sectoral Effectiveness and Efficiency Review
SL	–	sustainable livelihoods
SRA	–	Social Reform Agenda
SWS	–	Social Weather Stations
TB	–	tuberculosis
TFR	–	total fertility rate
UN	–	United Nations
UNAIDS	–	Joint United Nations Programme on HIV/AIDS
UNDP	–	United Nations Development Programme
WDR	–	World Development Report
WHO	–	World Health Organization

EXECUTIVE SUMMARY

Introduction and Analytical Framework

Poverty in the Philippines: Income, Assets, and Access is a country poverty analysis (CPA) that was undertaken to inform the Asian Development Bank's Interim Country Strategy and Program for the Philippines, 2005–2006. However, it is also intended for a broader audience in the government, civil society, donor organization, and academic spheres. The report is based on a multi dimensional approach to poverty following ADB's Poverty Reduction Strategy, which defines poverty as a deprivation of essential assets. The analytical framework of the CPA blends a more traditional analysis of income poverty with an assessment of access to five different types of assets. Taken from the sustainable livelihoods approach, these assets are human, physical, natural, financial, and social capital. This CPA also gives an update on the Millennium Development Goals (MDGs), identifies seven structural causes of poverty in the Philippines, and provides an overview of Government responses to poverty since 1986.

The last major poverty assessment of the Philippines was conducted by the World Bank in 2000 and published in a two-volume report in 2001. The main sources of data for that study were the 1997 Family Income and Expenditure Survey (FIES) and the 1998 Annual Poverty Indicators Survey (APIS). Since then, there have been a number of important data developments, including (i) results of the 2000 FIES published in 2001, (ii) preliminary results of the 2003 FIES released September 2004; (iii) publication of the 1999 and 2002 APIS reports in 2001 and 2003, respectively; (iv) an MDG progress report published by the Government in 2003; and (iv) a revision of the official poverty measurement methodology in 2003, which led to the release of revised national and regional poverty figures for 1997 and 2000 and the publication of all-new provincial poverty data. This CPA draws on all of these sources, and more.

Income Poverty and Inequality

Analysis of income poverty trends in the Philippines must begin with a word of caution as a result of methodology changes over time. Comparisons of poverty data across time cannot be made without first ensuring that the data is based on the same assumptions. There are two overlapping series, the first from 1985 to 2000 and the second from 1997 to 2003. In other words, there are two sets of poverty figures for 1997 and 2000. The new methodology resulted in lower poverty headcounts, and some of the trends were changed. For example, depending on the series, statements A and B are both correct:

A. The poverty incidence of families increased from 31.8% to 33.7% between 1997 and 2000. The subsistence incidence increased by 0.5%, which means more hungry families. Urban poverty increased by 2%. (Old Methodology)

B. The poverty incidence of families increased from 28.1% to 28.4% between 1997 and 2000. The subsidence incidence fell by 0.5%, which means fewer hungry families. There was no change in urban poverty. (New Methodology)

Under the old methodology, the magnitude of income poverty in the Philippines worsened from 1985 to 2000. The poverty incidence of families fell by 10.5% over the period 1985–2000, but this progress was negated by very high population growth rates of 2.36% per year. The poverty incidence declined, but the actual number of poor people increased substantially. There were over four million more poor people in 2000 than there were in 1985.

Sustained economic growth from 2000–2003 has not been pro-poor. Though the Philippines experienced sustained GDP growth from 2000–2003, preliminary 2003 FIES results indicate a 10% drop in real average family incomes. Families in the National Capital Region (NCR) suffered an almost 20% drop. The total income accruing to the bottom decile of the population virtually stagnated over these 3 years. The real average income of the bottom 30% of the population contracted by about 6% from 2000 to 2003. Though 2003 poverty headcounts have not yet been released, these signs point to an increase over 2000 poverty levels.

National figures mask substantial regional and provincial differences in the Philippines. The poorest regions in 2000 were the Autonomous Region in Muslim Mindanao (ARMM), Bicol, and Central Mindanao. The poorest provinces were Sulu, Masbate, and Tawi-Tawi. In the 10 poorest provinces by poverty incidence in 2000 more than half of all families were poor. Mindanao ranks at the bottom of most poverty and social indicators. The regions of the Philippines with the lowest poverty incidence in 2000 were the NCR, Central Luzon, and Southern Tagalog. These are also the three most populous regions. With 40% of the national population they contributed 20% of the total poor population in 2000.

Rural poverty incidence is much more pronounced than urban poverty incidence, but the number of urban poor families is increasing. The very high rural poverty incidence (47% of families in 2000) has remained virtually unchanged since 1988 (46.3% of families). The urban poverty incidence fell from 30.1% of families in 1988 to 19.9% in 2000. However, the absolute number or the magnitude of urban poor families grew by nearly 11% nationwide between 1997 and 2000. There are seven regions in which the number of urban poor families grew by more than 20%.

Income distribution in the Philippines remains beset by inequality. No clear trend in income inequality emerges over the period 1985–2003, other than that inequality is high. The Gini coefficient fell slightly from 0.49 in 1997 to 0.47 in 2003, but this still represents a worse income distribution than the 0.45 level observed in 1985, 1988, and 1994. With many people toward the bottom of the income distribution in the Philippines, a small change in the way poverty is measured has major implications for the population identified as poor.

Poverty measured using the international poverty line of $1 per day has been falling steadily. In 1990 the proportion of the Philippine population living on less than $1 per day purchasing power parity (PPP) was 18.3%. By 2003 this headcount had fallen to 11.1%. The proportion of the population living on less than $2 per day was a great deal higher, at 44.1% in 2003. The international poverty line is sometimes misreported in the Philippine press (as it is elsewhere) as the current equivalent of $1 per day. Such a poverty line would result in a far higher poverty incidence (about 45% of the population in 2000). In 2003 the PPP exchange rate for $1 was P12.30, up from P11.20 in 2000 and P9.25 in 1997.

Official poverty lines have not kept pace with inflation in the Philippines. Poverty lines have been worth less and less in real terms since the mid-1980s. The poverty line in 1988 was P4,777 per person per year, the equivalent of P14,136 in 2000 (using the Consumer Price Index, or CPI). The poverty line in 2000 was only P11,605 per person per year. Another important methodology issue is that urban poverty is likely to be underestimated: official surveys exclude those without official and permanent residence. Many urban poor families live in informal settlements and squatter areas.

The proportion of Filipino families who rate themselves as poor is a great deal higher than the official poverty incidence. Based on a Social Weather Stations (SWS) nationwide survey of subjective poverty, nearly two thirds of families (62%) rated themselves as poor in September 2003. The average subjective poverty threshold indicated by families with five members who felt they were poor was P 9,466 ($170) per month. In contrast, the official poverty threshold for a family of five for the year 2002 was P4,961 ($96) per month. SWS also conducts hunger surveys. In September 2004 the self-rated hunger incidence was 15.7%.

Income poverty in the Philippines is a dynamic phenomenon: people move in and out of poverty over time. A first attempt to gauge chronic and transient poverty found that over a 3-year period about one fifth of the surveyed households were chronically poor (e.g., they were poor in each of three observations), whereas nearly one third of the households moved into and out of poverty during the period. Transient poverty can be addressed through improved social safety nets that cushion families against temporary shocks. Examples include conditional cash transfers and labor-intensive public works programs.

Access Poverty and Essential Assets

Poverty is a deprivation of essential assets that include but go beyond income. Access to various assets helps to reduce vulnerability and to keep people out of poverty. Five essential assets are human capital, physical capital, natural capital, financial capital, and social capital. Access poverty is a major problem in the Philippines.

Human Capital. The most important human capital investments in the Philippines are in health and education. Three main challenges persist in the Philippine education system: declining participation rates, poor quality of education, and low cohort survival rates. For every 100 children in the

Philippines who start grade 1, only 67 will complete elementary schooling. This rate is even lower for the poor. In ARMM, for every 100 children who start elementary school only 34 finish. Health challenges in the Philippines include high maternal mortality rates, a very high incidence of tuberculosis—ranked 8th in the world by the World Health Organization (WHO)—and poor quality and inaccessibility of public health care services. Private health care is prohibitively expensive for the poor, and access is a major issue as a result of urban bias.

Physical Capital. Problems in access to physical capital in the Philippines include water, housing, and infrastructure issues. Only 70% of the poorest households have access to safe drinking water. Housing the poor is a major challenge, particularly in urban areas. Government housing assistance programs have barely reached the poor, for a variety of reasons that include a lack of information on assistance programs and how to access them, eligibility requirements that discriminate against the poor, and an emphasis on mortgage finance as the primary form of housing assistance. Infrastructure investments can impact positively on the welfare of the poor. Rural roads can be especially beneficial, providing access to services (such as health and education), improving market access, and reducing transaction costs.

Natural Capital. In rural areas, access to land is one of the main determinants of welfare. Land reform beneficiaries have been found to have not only higher income and lower poverty rates than nonbeneficiaries, but they also fare better in terms of other indicators. The environment is another important form of natural capital. Poor environmental conditions adversely affect human capital, growth, and distributional equity. One researcher adjusted Philippine poverty statistics by factoring in the consequences of environmental damage, finding that the amount of poverty reduction has been overstated. In the Philippines, forest cover has been reduced to less than one fifth of total land area. Logging, mining, and encroachment of settlements in critical watersheds are all to blame. Carbon dioxide emissions are on the rise, and urban air quality in particular is very poor. The rich biodiversity in the Philippines is severely endangered: Conservation International ranks the country as one of the five hottest "hotspots" on the planet, i.e., one of the most threatened areas on earth.

Financial Capital. The poorest in the Philippines are unable to save, so access to credit and remittances become important areas of financial capital. Research shows that despite high and growing levels of remittances in the

Philippines, the poorest are largely excluded from the benefits of overseas migration. While a significant proportion of families report that income from abroad is their main source of income, these families are mainly based in urban areas. The poorest are largely rural. Families from higher income groups receive a larger share of their incomes from abroad than do lower income groups. International migration and remittances may actually exacerbate the inequality problem in the Philippines.

Social Capital. Social capital comprises the social resources on which people are able to draw, through networks and connectedness and relationships of trust and reciprocity. Social capital is the foundation for informal safety nets among the poor. One way to foster social capital in the Philippines is to promote increased participation in development processes through membership in local and community organizations. In 2002, 26% families had at least one member involved in a people's or a nongovernment organization.

Poverty mapping at the local level is a useful tool for determining access poverty and designing relevant interventions. A community-based monitoring system (CBMS) collects relevant, timely, and local access poverty indicators. In April 2003 the Department of Interior and Local Government prescribed that local government units (LGUs) should collect 13 survival, security and enabling indicators on an annual basis. These indicators gauge access to education, health, and other vital services. CBMS data allow for detailed poverty mapping at the local level, a technique that has been shown to greatly improve local communities' and policymakers' understanding of poverty issues. Based on participatory methods, it furthermore allows for precise targeting of interventions based on knowledge of the specific determinants of access poverty at the household level. Other poverty mapping initiatives have been initiated by the Peace Equity Foundation and the National Statistical Coordination Board.

Millennium Development Goals

Progress toward achieving the Millennium Development Goals (MDGs) in the Philippines is mixed. Some targets have a high probability of being met, such as the proportion of the population below $1 per day and the promotion of gender equality. Meeting other targets by 2015 will be more of a challenge. Concerted efforts will be required to meet the targets for maternal health, environmental sustainability, and combating diseases like tuberculosis and HIV/AIDS. If a country is going to monitor MDGs, they should be monitored using the standard UN guidelines, not only indicators chosen locally. The Philippine government's 2003 MDG report measures Target 1 using the Philippine food poverty line (the subsistence incidence) instead of the international poverty line of $1 per day. This therefore measures something very different and the indicator cannot be compared with other countries. Furthermore, the methodology for measuring subsistence incidence in the Philippines has changed.

Causes of Poverty and Government Responses

The major causes of poverty in the Philippines fall into seven broad categories: (i) weak macroeconomic management; (ii) employment issues; (iii) high population growth rates; (iv) an underperforming agricultural sector and an unfinished land reform agenda; (v) governance issues including corruption and a weak state; (vi) conflict and security issues, particularly in Mindanao; and (vii) disability.

Successive governments of the Philippines since 1985 have attached a high priority to poverty reduction, but have had only moderate success in reducing the overall headcount, and outright failure in reducing the absolute number of poor Filipinos. Targeting has been a key problem, as have issues of budget, governance, and LGU capacity (particularly in the context of decentralization, initiated with the 1991 Local Government Code). The tendency to derail old programs and to launch new ones with each new President has resulted in duplication of efforts, wasted resources, and a continuous state of transition.

The 2004–2010 Medium-Term Philippine Development Plan contains ambitious poverty reduction targets. The stated goal is to reduce the poverty incidence of families from 28.4% in 2000 to 17.9% in 2010. Similarly, the subsistence incidence of families is intended to drop from 13.10% in 2000 to 8.98% in 2010. The MTPDP document states that the poverty targets assume a reduction in the population growth rate to an average of 1.93% per year for the period 2005–2010. However, it does not articulate a clear population policy.

Supporting Poverty Reduction in the Philippines

This CPA is a call to action. The number of poor people in the in the Philippines is increasing. Average family incomes are falling despite growth in gross domestic product. Future poverty reduction will require a broad, multidimensional focus on income plus access poverty, and on their broad causes. The conclusion chapter highlights some key findings of the CPA to inform future action, particularly underscoring the importance of investments in human capital. Two of the main causes of poverty are re-emphasized: the macroeconomic situation and the high population growth rate. A major recommendation to stem from the assessment of government poverty reduction programs to date is a call for improved targeting. Poverty mapping at the local level can be a particularly useful tool to this end, especially in the era of decentralization. The chapter closes with two possible areas for future research: an analysis of the changes in provincial poverty incidence, and an in-depth assessment of social protection and social safety nets in the Philippines.

Chapter 1

REVISITING THE POVERTY PROBLEM

What has happened to poverty in the Philippines since 1985? The answer is not a simple one. The overall headcount of poverty—the proportion of Filipinos living below the poverty line—decreased by 10.5% from 1985 to 2000. If looked at in isolation, this can be considered progress in poverty reduction, if somewhat sluggish as compared to the country's Asian neighbors. Over the same period, however, the actual number of poor Filipinos—the magnitude of poverty—increased by more than 4 million.

The headcount/magnitude paradox in the Philippines is a result of very high population growth rates. The population of the Philippines was 76.5 million in the May 2000 Census of Population and Housing conducted by the National Statistics Office (NSO).[1] This represents an annual population growth rate of 2.36% over the September 1995 census count of 68.6 million. At this growth rate there are nearly 5,000 births per day, or over 200 per hour. NSO projections based on the 1995 census put the population at 82.7 million in 2004, with expectations that it would reach 105 million by 2020.[2] As a result

[1] In 2000 the Philippine population was classified as 48% urban and 52% rural.

[2] In December 2004 the National Statistical Coordination Board released new population projections based on the 2000 census. The projections were revised upward: the new projection for 2020 is 111.5 million people (see www.nscb.gov.ph, Press Release PR-200412-SS2-03, posted 21 December 2004).

of the high growth rate, the Philippine population is an overwhelmingly young population: in 2000 the median age was 21, one quarter of the population was under the age of 10, and more than half of the female population belonged to the reproductive age group (ages 15–49).

This country poverty analysis (CPA) is based on a broad, multidimensional approach to poverty. The Asian Development Bank (ADB) defines poverty as *a deprivation of essential assets*, and the report is organized around this framework, assessing income poverty and the deprivation of access to five different types of assets: human capital, physical capital, natural capital, financial capital, and human capital. This poverty assessment also delves into seven distinct causes of poverty and issues that exacerbate poverty or hinder poverty reduction efforts. These are: (i) weak macroeconomic management; (ii) employment issues including unemployment, underemployment and low wages; (iii) high population growth; (iv) an underperforming agriculture sector and an unfinished land reform agenda; (v) governance issues including corruption and a weak state; (vi) conflict and security issues, particularly in Mindanao; and (vii) disability. Entry points for future ADB assistance to the Philippines with the goal of reducing poverty can be framed in the context of improving access to the five different types of assets, or in addressing the root causes of persistent deprivation.

Why revisit the poverty problem now? This CPA has been prepared as an input to ADB's new Country Strategy and Program (CSP) for the Philippines (2004–2006).[3] The last major poverty assessment of the Philippines was conducted by the World Bank in 2000 and published in a two-volume report in 2001. The main sources of data drawn upon in that study were the 1997 Family Income and Expenditure Survey (FIES) and the 1998 Annual Poverty Indicators Survey (APIS). The intervening years have seen a number of important data developments,[4] including:

- Results of the 2000 Family Income and Expenditure Survey (FIES), published for the first time in 2001;
- Preliminary results of the 2003 FIES, released in September 2004
- Publication of the 1999 and 2002 APIS reports in 2001 and 2003, respectively;

[3] Other thematic assessments prepared for the CSP include the Country Gender Assessment, an Environmental Assessment, a Governance Assessment, and a Private Sector Assessment.

[4] There have also been a host of smaller studies by academics and reports from donor organizations that shed light on particular aspects of deprivation. Torras (2002) adjusted Philippine poverty figures for environmental damage. Quisumbing et al (2004) studied land and schooling as mechanisms to transfer wealth across generations. The World Bank's *World Development Report 2004* highlights access to services as a core dimension of well-being. The *UNDP Philippine Human Development Report 2002* focuses on issues of employment.

- A report on the Millennium Development Goals (MDGs) prepared by the Government in conjunction with the UN in 2003; and
- A revision of the official poverty measurement methodology in 2003, leading to the release of revised national and regional poverty figures for 1997 and 2000 and publication of all-new provincial-level poverty data for those years.

The last point above is particularly important, because two different sets of data coexist for 1997 and 2000. This is a recipe for confusion if data users are not aware that changes were made to the official poverty measurement procedures. Comparisons now cannot be made without first ensuring that the poverty figures are based on the same methodology. The 2003 revision led to publication of new poverty figures for 1997 and 2000. These now coexist with the old poverty data for 1997 and 2000. Throughout this report we identify the old 1992 methodology data with [M92] and the new 2003 figures with [M03]. Details can be found in Appendix 1. The major points to highlight are as follows:

- The old poverty data [M92] exists for 1985–2000. The new poverty data [M03] exists for 1997–2000.
- The new poverty lines are lower, so the poverty headcounts are lower. For example, the old national poverty threshold for 2000 was P13,823 per person per year [M92]. The new national poverty threshold for 2000 is P11,605 per person per year [M03]. This is a difference of about $50,[5] a difference that reduced the poverty incidence by more than 5%, from 33.7% of families to 28.4% of families in 2000.
- Trends over time differ between the two series: using the old poverty data [M92], the proportion of those families unable to meet food needs alone (the subsistence incidence) increased from 1997 to 2000. With the new poverty data [M03], the subsistence incidence decreased.

Poverty figures for 2003 have not yet been released, but signs point to the fact that poverty has increased since the last FIES conducted in 2000. Though the Philippines experienced sustained GDP growth from 2000 to 2003, preliminary 2003 FIES results indicate a 10% decrease in real average family incomes across the country. Families in the National Capital Region (Metro Manila) faced an almost 20% decline in real incomes. The Philippine empirical

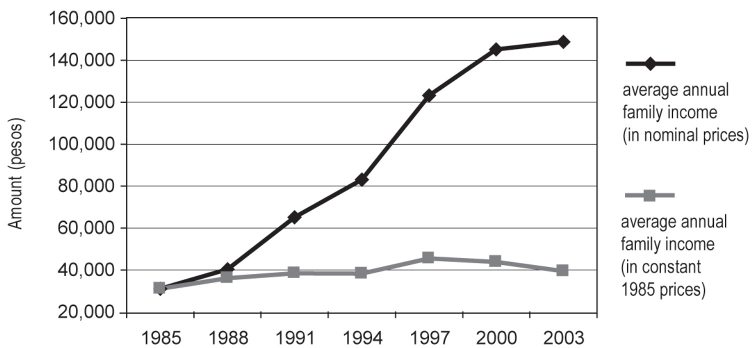
[5] Using the Bangko Sentral ng Pilipinas (BSP) average exchange rate for 2000.

record demonstrates that the poverty headcount declines when the growth rate of average family income outpaces the rate of inflation. The poverty headcount increases when the reverse is true. For example, average family income in 2000 was 18% higher than in 1997. However, inflation from 1997 to 2000 was 22% (measured using the Consumer Price Index, or CPI), and as a result the poverty headcount of the population increased by 1%.

The 2003 FIES shows average family income 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, and that it increased by a greater degree than from 1997 to 2000. Figure 1 paints a picture of what has happened to real average family incomes over the past two decades. In essence, family incomes have been on the decline since 1997, and by 2003 had fallen back to their 1991 level.

Figure 1

Average Annual Family Income in the Philippines, 1985–2003



Source: *Philippine Statistical Yearbook* 1996 and 2003; NSO FIES 2003 preliminary results at www.census.gov.ph.

This CPA is essentially an in-depth desk study that pulls together existing information from a broad array of sources and assesses it in new ways. As part of the process, consultations were held with government, civil society, and other donor organizations.[6] The analytical framework for the CPA is set out in

6 A Consultation Workshop on the Philippines Country Poverty Analysis was held on 12 November 2004 at ADB Headquarters in Manila. The list of participants can be found in Appendix 3.

Chapter 2. Chapter 3 explores income poverty and inequality. Chapter 4 is an analysis of access poverty and assets, where poverty is explored in the context of human capital, physical capital, financial capital, natural capital, and social capital. Chapter 5 summarizes the experience of the Philippines in working toward achieving the MDGs. Chapter 6 analyzes the causes of poverty in the Philippines, focusing on the key themes of economic growth, employment, population, agriculture and land, governance, conflict, and disability. Chapter 7 reviews and evaluates past government poverty reduction strategies and programs, identifying targeting as a key area for improvement. Chapter 8, the conclusion, highlights some of the main findings to inform future action.

Chapter 2

ANALYTICAL FRAMEWORK

Poverty is an unacceptable human condition that must be eliminated through public policy and action. With this statement, ADB in 1999 formally declared poverty reduction as its overarching goal. This CPA for the Philippines is based on the conceptual framework behind ADB's Poverty Reduction Strategy (PRS), further elaborated and made operational in the 2001 *Handbook on Poverty and Social Analysis*. This chapter first briefly summarizes the 50-year evolution of poverty thinking. It then outlines the features of the enhanced ADB PRS,[7] and finally explores some trade-offs made in the measurement of poverty and explains conceptual distinctions in poverty assessments.

Fifty Years of Poverty Reduction

The concept of poverty has expanded considerably over the second half of the 20th century and into the new millennium. From an early focus on income alone, today's broader definitions include income poverty as just one of a range of aspects of deprivation. Poverty is recognized to be a dynamic, complex phenomenon involving concepts such as vulnerability and powerlessness.

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7 In July 2004 the ADB Board of Directors approved a review of the ADB Poverty Reduction Strategy, which proposed a number of changes to the original version (1999).

In the 1950s and 1960s, "development" was synonymous with increased national production. This was the era of modernization, and poverty was simply the result of low gross domestic product (GDP) per capita. It was assumed that the economic rewards of modernization would eventually trickle down to everyone. During this period very little attention was paid to income distribution or poverty per se.

In the 1970s a concern arose that the expected trickle-down was not actually taking place. This decade was thus marked by efforts to promote growth with equity and targeted interventions focused on the poor. Integrated rural development and gender specific programs emerged for the first time. The basic needs approach, introduced by the International Labour Organisation (ILO), recognized that there are nonmonetary dimensions that influence whether people are poor. The five main basic needs were defined as food, health, water and sanitation, education, and shelter. The late 1970s also saw the development of the Physical Quality of Life Index, based on the basic literacy rate, infant mortality, and life expectancy at age 1. This and other indices evolved out of dissatisfaction with GNP or GDP per capita as a useful indicator of welfare, and represented a widening of the definition of poverty.

By the 1980s, Amartya Sen was promoting the capabilities approach, where poverty is a deprivation of the basic capabilities of individuals, and income is only one determinant of an individual's capability and functioning. The capability approach shifted the focus from *means* (such as having income to buy food) to *ends* (being well-nourished), recognizing that there are a number of factors at work that determine the ability to turn income into well-being. Sen's work became the foundation of the United Nations Development Programme (UNDP) concept of human development. Human development was defined as the process of expanding people's choices, and human poverty was the deprivation of the most essential capabilities of life: to lead a long and healthy life, to be knowledgeable, to have adequate economic provisioning, and to participate fully in one's community. Participation, human well-being, and freedom became central features of the notion of development.

In the 1990s, poverty reduction moved to the top of the development agenda. The definition expanded even further as more participatory research emphasized its multidimensional nature. Vulnerability became a central dimension, based on the idea that the poor have fewer assets than the nonpoor to cushion themselves against shocks (such as financial crises, conflicts, and natural disasters). Building on this concept, the UK Department for International Development (DFID) pioneered the Sustainable Livelihoods (SL) framework, based on five types of capital that help reduce vulnerability to keep people out of poverty: human, financial, natural, social, and physical capital.

In the new millennium, attentions have turned back to the question of economic growth, but with a very different and more poverty-conscious perspective than that in the 1950s. As Timmer (2004) has put it: *pro-poor growth* is "the new mantra of the development community."[8] There are current debates on how exactly to define pro-poor growth. Some define it strictly: growth is pro-poor when the poor benefit *disproportionately* from it (in other words, when the poor gain more than the nonpoor). Others are more general: growth is pro-poor simply when it reduces poverty.[9] In both formulations, the key is how well the poor connect to the growth process, and why. Overall growth that does not see a rise in the incomes of the poor is not pro-poor growth. In 2004 major research efforts were underway in a number of donor organizations (including the World Bank, the German Agency for Technical Cooperation or GTZ, and the United States Agency for International Development or USAID) to study how to make the concept operational (see USAID, 2004). ADB thus was on the leading edge when it made pro-poor growth a pillar of its 1999 Poverty Reduction Strategy.

The Poverty Reduction Strategy of the ADB

Poverty is a multidimensional phenomenon, and poverty reduction requires a broader focus than income poverty alone. Box 1 presents ADB's core statement to define poverty, highlighting that poverty is the deprivation of essential *assets*. Exploring the question of assets in great detail, the SL approach groups essential assets into five asset categories, or types of capital:

- **Human capital**: education, good health, skills, and ability to work.
- **Natural capital**: natural resource stocks such as land, forested areas, clean air, etc.
- **Physical capital**: basic infrastructure and services such as shelter, transport, water and sanitation, energy, and communications
- **Financial capital**: earned income, savings, remittances, access to credit, and so on.
- **Social capital**: social resources such as networks of family, friends, and social and community organizations.

8 Timmer, C. Peter. 2004. *The Road to Pro-Poor Growth: The Indonesian Experience in Regional Perspective*, Center for Global Development Working Paper No. 38, April 2004. Washington DC: CGD.

9 See Krakowski (Ed.). 2004. *Attacking Poverty: What Makes Growth Pro-Poor?* Hamburg Institute of International Economics. Baden-Baden: Nomos-Verlagsgesellschaft.

In focusing on assets, the ADB PRS thus recognizes poverty to include both income and non-income dimensions. The poverty reduction framework is based on three pillars of pro-poor economic growth, social development, and good governance. These pillars acknowledge the confluence of economic, social, and institutional factors in causing—and therefore solving—the poverty problem.

Box 1

The ADB Definition of Poverty

Poverty is a deprivation of essential assets and opportunities to which every human is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as have some protection from external shocks. Beyond income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives.

ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank.* Manila.

Pro-Poor Growth. Economic growth is required for poverty reduction, but growth alone is not enough, since not all growth benefits the poor equally. How well the poor connect to the growth process determines its degree of "pro-poorness." Growth can effectively reduce poverty when it generates employment and income opportunities for those at the bottom end of the income distribution. Policies to promote labor-intensive growth are thus particularly powerful pro-poor measures.

Social Development. Since economic growth alone is not enough, ADB's PRS emphasizes interventions in five core areas of social development: (i) human capital formation (ii) population policy, (iii) social capital development, (iv) gender and development, and (v) social protection.

Good Governance. Pro-poor growth and social development hinge on the quality of governance. Good governance facilitates sound macroeconomic management, private sector investment, the transparent use of public funds, and effective delivery of public services. Good governance requires adherence to the rule of law and reduction of widespread corruption.

In addition to the three pillars (which remain unchanged from the original PRS), the enhanced ADB PRS identifies five thematic priorities for poverty reduction, including gender equality, private sector development, environmental sustainability, regional cooperation, and capacity development.[10] The majority of the poor in the Asian region are women, which underscores the need for a gendered approach. The contribution of the private sector to poverty reduction is understood to come through enterprise development, expansion of infrastructure and other public services, and improved corporate governance and responsibility. Environmental sustainability is intertwined with development strategies that promote economic growth and enhanced quality of life. Regional cooperation can play a critical role in promoting economic growth, providing public goods, and addressing security concerns. The rationale for adding capacity development as a new thematic priority stemmed from the finding that achieving inclusive growth depends on enhanced capacity of countries to formulate and implement the policies, reforms, and investments needed for poverty reduction.

Poverty Measurement Considerations

This chapter so far has explored how the definition of poverty has expanded a great deal over past decades. Where the focus was previously on income poverty alone, over the course of the 20th century it has expanded to include other dimensions. Qualitative analysis enhances quantitative analysis: social indicators, subjective measures, and analysis of vulnerability, powerlessness and other dimensions all enrich the study of well-being and deprivation. But there are trade-offs: broad concepts of poverty are much more difficult to measure.

The progressive widening of the definition of poverty has been represented graphically with a triangle, where income is the sole dimension at the top, gradually expanding to include other dimensions of well-being as one moves down toward the broad base of the triangle (see Box 2). First suggested by Baulch (1996) with slightly different content,[11] the pyramid of poverty illustrates the trade-off between a more adequate concept of poverty, and a simpler indicator to measure.[12] The wider the definition of poverty, the more

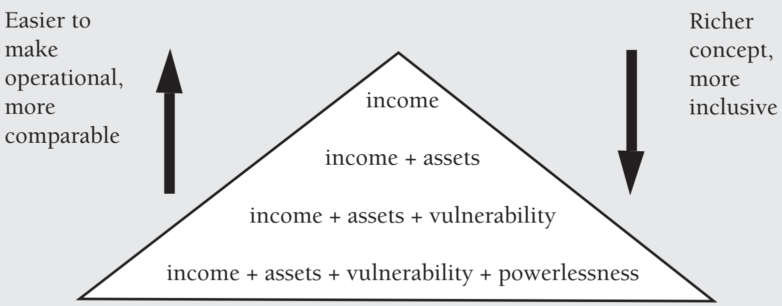
[10] These five thematic priorities in the enhanced PRS grew out of the original crosscutting priorities. The PRS review emphasized a number of other measures to enhance the PRS and its implementation, including improving the quality and results of CSPs; intensifying dialogue with DMCs on attaining MDGs; establishing a results-oriented monitoring and evaluation system; and strengthening ADB's capacity to deliver the PRS.

[11] Baulch, Bob. 1996. Neglected Trade-Offs in Poverty Measurement, in *IDS Bulletin: Poverty, Policy and Aid*, 27 (1).

[12] Even with the "simple" measure of income poverty there are major debates on questions of methodology.

Box 2

The Poverty Pyramid



meaningful and richer the information, but the more difficult it is to make operational. As stated in the ADB PRS, in practice the most widely used standard for measuring poverty will continue to be the adequate consumption of food and other essentials. ADB's priority is therefore on absolute poverty. This is also the main focus of Government of the Philippines.

The literature on definition and measurement of poverty is vast and the theoretical debates – across various disciplines – are many. It is not the purpose of this CPA to delve into great detail. However, there are three distinctions worth clarifying at the outset, distinctions that appear with specific reference to the Philippines in this CPA. These distinctions have implications for poverty measurement and development of policy interventions to reduce it. When we talk about poverty, are we looking at absolute or relative, objective or subjective, or chronic or transient poverty?

Absolute or Relative? Absolute poverty means not being able to satisfy the minimum requirements for physical human survival. Absolute poverty thresholds are developed using the cost of a basket of goods that satisfies essential food and nonfood needs: food, clothing, and shelter. The MDG for economic well-being is to reduce by half the number of people living in absolute poverty, measured using a poverty line of one US dollar per person per day (PPP). Relative poverty is defined in relation to average income levels or societal norms. The relative poverty concept goes beyond physical survival and is related to the concept of social exclusion. Relative deprivation is a lack of access to a level of goods and services that are required for meaningful participation in society. A relative poverty line might be set as a proportion of the national average income, for example.

Objective or Subjective? The subjective approach to understanding poverty holds that poverty must be defined by those experiencing it themselves, and that meanings defined from above are disempowering and do not capture the true nature of deprivation. The subjective approach grew out of participatory rural appraisal methodologies and participatory poverty assessments, both of which sought to improve policymaking by incorporating local understanding and perceptions of poverty. Seminal work in this area is contained in the three-volume *Voices of the Poor* study.[13] The Philippines has a long tradition of subjective poverty measurement conducted by Social Weather Stations (SWS). Objective poverty measures are defined in a more "scientific" manner and focus on quantifiable dimensions (such as food baskets that satisfy nutritional requirements). Absolute poverty lines fall under the objective tradition. In practice, however, all poverty measurement is going to require some more or less arbitrary choices, no matter how objective the tradition.

Chronic or Transient? Appropriate poverty reduction policies must consider whether poverty is chronic or transient. Is poverty a trap door or a revolving door? The significant feature of chronic poverty is its extended duration. The chronic poor always live in poverty and have very few assets or opportunities to escape it. Transient poverty is temporary or cyclical. The transient poor can move out of poverty once the exogenous shock has passed. Transient poverty might be related to seasonality, or to losing a job. Social protection programs become key to minimizing and mitigating transient poverty. The concepts of chronic and transient poverty recognize that poverty is dynamic, and that people may move in and out of it over time.

A final note on poverty measurement concerns the use of income vs. expenditure data as the measure of resources against which to assess poverty—whether poverty is absolute or relative, chronic or transient, or objective or subjective. Expenditure, or consumption, is theoretically preferable to income for a number of reasons. Expenditure tends to fluctuate less than income does. Incomes are often varied, particularly for workers in the informal sector, and fluctuate not only from year to year but also from month to month. Seasonality of incomes is a particular issue for workers in the agriculture and tourism sectors. As a result of income fluctuation, people tend to save in abundant times and draw on savings (or borrow) in lean times. Thus, income often does

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[13] *Voices of the Poor* consists of three volumes by Deepa Narayan et al.: *Can Anyone Hear Us?* (2000) is based on the World Bank's participatory poverty assessments and presents the voices of 40,000 poor people from 50 countries. *Crying Out for Change* (2000) is a 23-country comparative study. *From Many Lands* (2003) presents regional patterns and 14 country case studies.

not match the level of welfare indicated by expenditure. However, it is also generally acknowledged that it is very difficult to obtain reliable data on personal consumption (expenditure) habits. Income data is somewhat easier to collect (though not without its own problems). The official Philippine poverty statistics are based on income.

Chapter 3

INCOME POVERTY AND INEQUALITY IN THE PHILIPPINES

Despite a long tradition of poverty measurement in the Philippines, trends in income poverty are not as straightforward as one might hope. The most important issue is that there have been two major methodology changes since the poverty incidence was first estimated for 1985. The first major change occurred in 1992, and the second in 2003.[14] In essence, there are three different poverty series in existence for the Philippines. These are represented in Figure 2. In this chapter we distinguish between the 1992 and 2003 methodologies with the codes [M92] and [M03].

Even within the same methodology series there are four different headcounts for any given year. Great care must be taken not to confuse them with one another. Poverty headcounts are reported for both for the population and for families using two different poverty lines: the food threshold (a measure of food needs only) and the poverty threshold (food plus nonfood needs).[15] In other words, what is meant by a figure described as "the poverty incidence"

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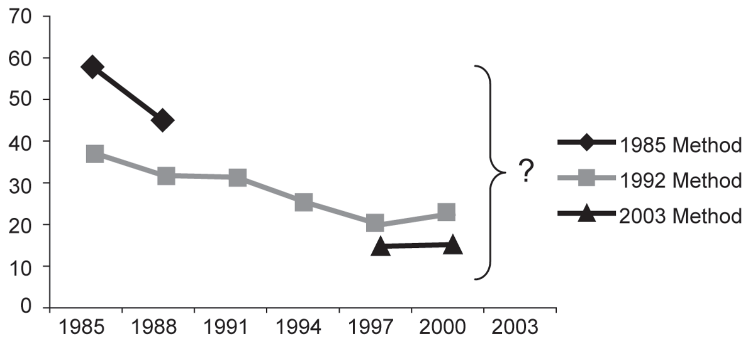
14 The 1992 method was first applied to the 1991 data and retroactively revised the 1985 and 1988 figures. The 1992 method remained in force for the next three rounds of the FIES in 1994, 1997, and 2000. The 2003 methodology change led to the publication of revised figures for 1997 and 2000, and will be further applied to the 2003 figures to be released by the end of 2004.

15 The headcount resulting from the food threshold should be called the subsistence incidence (as distinct from the poverty incidence), but data is not always well labeled, and mistakes can and do happen.

Figure 2

Poverty Incidence of Families in the Philippines: What Methodology?



Source: NSO, various years.

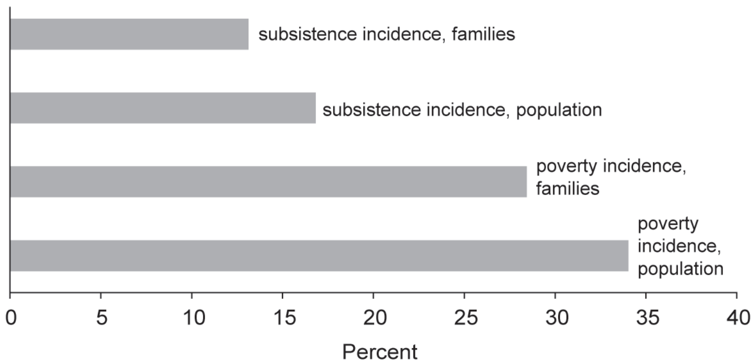
might be anything from the subsistence incidence of families to the poverty incidence of the population. Not only the levels but also the trends over time for each of these headcounts might vary, and the differences can be significant. This is illustrated using data for the year 2000 [M03] in Figure 3.

Two final issues to bear in mind when discussing poverty in the Philippines are i) that urban poverty may be underestimated owing to survey methods,[16] and ii) that poverty lines have not kept pace with inflation over time, and are worth less in real terms than they were in the past. Appendix 1 contains details of how poverty is measured in the Philippines, what exactly the methodology changes have entailed, and what methodological problems remain.

16 Families without "official and permanent residence" are not included in the FIES, on which all poverty estimates are based (see Balisacan, 1994). Informal settlements and slum areas are by definition unofficial, so the urban poor are likely under-represented in the sample.

Figure 3

How High Was the Poverty Incidence in the Philippines in 2000? Various Thresholds Applied to 2000 FIES data [M03]



Source: NSCB 2003a.

Income Poverty: Official Measures

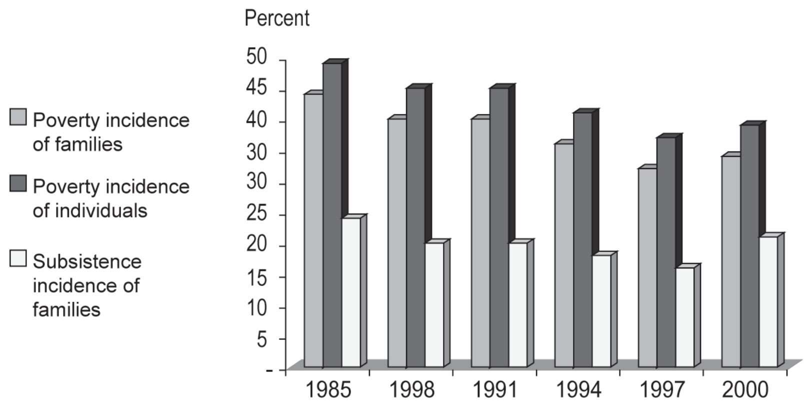
An analysis of poverty trends using comparable data shows that while the income poverty incidence fell from 1985 to 2000, the number of poor people increased dramatically. The official poverty incidence in the Philippines declined from 44.2% of families in 1985 to 31.8% of families in 1997. There was an increase to 33.7% of families in 2000. Similarly, the poverty incidence of individuals decreased from 49.2% in 1985 to 36.9% in 1997 before rising to 39.5% in 2000 [M92]. These trends are illustrated in Figure 4.

Official poverty headcounts for 2003 have not yet been released, but all signs point to a growth in the headcount indices. As discussed in Chapter 2, preliminary 2003 FIES results show that despite overall economic growth, average incomes have not kept pace with inflation since 2000. In real terms (using 2000 prices), the average income of the poorest 30% of the population contracted by 6% from 2000 to 2003.[17]

[17] In practice, poverty data is most often reported using the family as the unit of analysis. This misses intra-household inequalities in well-being and masks gender issues.

Figure 4

Income Poverty in the Philippines, 1985–000



Source: NSCB, various years [M92].

No matter which time series of poverty data we use, national figures mask significant differences between urban and rural areas, as shown in Table 1. Rural poverty levels are considerably higher than urban poverty throughout the 1985–2000 time series, with the disparity growing particularly acute in the more recent rounds of the Family Income and Expenditure Survey (FIES). While the data show a significant reduction of the urban poverty headcount between 1991 and 1997, the same was not the case for rural areas. In fact there was been very little overall change in the rural poverty incidence from 1985 to 2000, and nearly half of families remained income poor in 2000.[18]

Falling headcounts from 1985 to 2000—national, urban, and rural—were not accompanied by a reduction in the absolute number families and individuals living in poverty. While the national headcount of families declined by 10.5% from 1985 to 2000, the number of poor families increased by 785,000 over the same time period. There were over 4 million more poor individuals in 2000 than there were in 1985. Table 2 shows the absolute number of poor families and individuals, or the 'magnitude' of the poverty problem, and the change over time.

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[18] On a statistical note, it is quite difficult to compare rural and urban poverty incidence across time because the definition of urban areas changes from time to time. Urban-rural breakdowns from the 2000 FIES will be strictly comparable to the 1991, 1994 and 1997 estimates only if the 1980 census-based classifications are used.

Table 1
Poverty Incidence of Families, 1985–2000 (%)

	1985	1988	1991	1994	1997	2000
Philippines	44.2	40.2	39.9	35.5	31.8	33.7
Urban	33.6	30.1	31.1	24.0	17.9	19.9
Rural	50.7	46.3	48.6	47.0	44.4	46.9

Source: NSO FIES, 1985-2000 [M92].

Table 2
Magnitude of Poverty, Population, 1985–2000

	Magnitude of Poor Population	Change from Previous Survey
1985	26,674,645	
1988	25,385,200	-1,289,445
1991	28,554,247	+3,169,047
1994	27,372,971	-1,181,276
1997	26,768,596	-604,375
2000	30,850,262	+4,081,666
1985–2000		**+ 4,175,617**

Source: NSO data [M92]

Table 3 presents data on the number of poor families [M92], illustrating that the overall increase in the number of poor was most pronounced during the periods 1988–1991 (550,000 additional poor families) and 1997–2000 (629,000 additional poor families).

Table 3 also shows changes in urban and rural poverty incidence and the absolute numbers of urban and rural poor families. Trends have differed substantially. From 1988 to 1991, there appears to have been a moderate reduction in the number of rural poor families, with a massive increase in the number of urban poor families.[19] From 1994 to 1997 the large increase in

[19] Confusingly, the massive increase in urban poor families from 1988 to 1991 is not entirely a result of worsening conditions for urban families. Instead there is a hidden methodological issue. While the overall poverty headcount decreased slightly, both the urban and rural headcounts appear to have increased. This would seem to be a mathematical impossibility, but the answer, as explained by David (2002), lies in urban-rural classification changes. Surveys before 1990 were based on the 1980 census classifications of urban and rural barangays. Surveys after 1990 are based on the 1990 census, where about 2,500 rural barangays were reclassified from rural to urban. So some 1988 rural poor families automatically became 1991 urban poor families.

rural poor families was almost commensurate with the large decrease in urban poor families. These trends illustrate the dynamism of poverty: people move in and out of poverty over time, depending on their circumstances and the assets they can access to protect against shocks. The issues of chronic and transient poverty are explored in the next section of this chapter.

Table 3
Changes in Poverty Incidence and in the Number of Poor Families, 1985–2000

Period	Philippines		Rural		Urban	
	Change in Poverty Incidence (%)	Change in Number of Poor Families	Change in Poverty Incidence (%)	Change in Number of Poor Families	Change in Poverty Incidence (%)	Change in Number of Poor Families
1985–1988	-4.0	-124,000	-4.4	-73,000	-3.5	-51,000
1988–1991	-0.3	550,000	2.3	-99,000	1.0	649,000
1991–1994	-4.4	-250,000	-1.6	76,000	-7.1	-326,000
1994–1997	-3.7	-20,000	-2.6	294,000	-6.1	-314,000
1997–2000	1.9	629,000	2.5	343,000	2.0	286,000
1985–2000	**-10.5**	**785,000**	**-3.8**	**541,000**	**-13.7**	**244,000**

Source: NSO data [M92].

Where are the poor? Regional and Provincial Data

In addition to the urban-rural dichotomy, very different pictures emerge when the regional data is examined.[20] The least poor region in the Philippines has consistently been the National Capital Region (NCR), or Metro Manila. Poverty incidence here has been very low indeed, falling from 13.2% of families in 1991 to 6.4% in 1997 before rising to 8.7% in 2000. On the other end of the spectrum, a very stark contrast is found in the poverty incidence of families in the Autonomous Region in Muslim Mindanao (ARMM): 50.7% of families in 1991, rising to 66% of families in 2000. As illustrated in Table 4, Bicol (Region V) and two regions of Mindanao—ARMM and Region XII—have consistently been the three poorest regions since 1994.

[20] The Philippines is divided into 17 administrative regions as of 31 December 2003. This number has increased over the years—there were 15 regions in 2000. Regions tend to comprise between 4 and 7 provinces, except the NCR.

Table 4

Poverty Incidence of the Population by Region, 1991–2000

	1991	1994	1997	2000
Philippines	45.2	40.6	36.9	39.5
Luzon				
NCR	16.6	10.4	8.5	11.5
CAR	55.5	56.5	50.1	43.8
I - Ilocos	55.1	53.5	44.2	43.6
II - Cagayan Valley	48.9	41.9	38.0	35.0
III - Central Luzon	35.5	29.2	18.6	23.0
IV - Southern Tagalog	43.1	35.0	30.0	31.0
V - Bicol	61.2	60.8	57.0	61.9
Visayas				
VI - Western Visayas	52.8	49.8	45.9	51.1
VII - Central Visayas	46.7	37.4	39.0	43.8
VIII - Eastern Visayas	47.1	44.6	48.5	51.1
Mindanao				
IX - Western Mindanao	54.2	50.5	45.5	53.0
X - Northern Mindanao	57.4	54.2	52.7	52.2
XI - Southern Mindanao	51.5	45.4	44.3	45.1
XII - Central Mindanao	63.0	58.5	55.8	58.1
ARMM	56.0	65.5	62.5	71.3

Source: NSO data [M92].
Note: 1991 was the first year that data for ARMM was available.
CAR = Cordillera Administrative Region, NCR = National Capital Region, ARMM = Autonomous Region in Muslim Mindanao.

Only three regions have consistently had a poverty incidence below the national average: NCR, Central Luzon, and Southern Tagalog. These regions are also the three most populous, accounting for nearly 40% of the total population of the Philippines in the 2000 census. Therefore, while the poverty incidence is lower in these regions, the absolute number of poor people is large.

In 2003 the National Statistical Coordination Board (NSCB) published new poverty figures for 1997 and 2000, releasing provincial-level poverty data for the first time. This new level of detail for poverty analysis is valuable, particularly from a geographic targeting standpoint. However, as mentioned above, the new methodology series is currently limited to 1997–2003, and there can be no comparison with earlier rounds of the FIES. It is important to be clear which set of 1997 or 2000 data one is using, since the differences are considerable.

The most obvious difference between the two methodologies is that the new headcounts are lower across the board. For example, the old subsistence incidence was 16.7% of families in 2000 [M92]. The new subsistence incidence for 2000 is 13.2% [M03]. Table 5 presents a detailed comparison of the old and new methodology poverty headcounts and the poverty thresholds on which they are based. For example, the food threshold was P9,183 per person per year in 2000 [M92]. New pricing methods reduced this to P7,872 per person per year—or P21.57 per person per day—in 2000 [M03].

Table 5

Poverty Thresholds and Headcounts, Families, 1997–2000

	1992 Methodology		2003 Methodology		Trends 1997–2000	
	1997	**2000**	**1997**	**2000**	**M92**	**M03**
Food Threshold (Pesos per person per year)	7,170	9,183	6,801	7,872	+2,013	+1,071
Poverty Threshold (Pesos per person per year)	11,319	13,823	9,843	11,605	+2,504	+1,762
Subsistence Incidence (Families, %)	16.2	16.7	13.6	13.1	+0.5	- 0.5
Poverty Incidence (Families, %)	31.8	33.7	28.1	28.4	+1.9	+ 0.3
Urban Poverty Incidence (Families, %)	17.9	19.9	15.0	15.0	+ 2.0	no change
Rural Poverty Incidence (Families,%)	44.4	46.9	39.9	41.4	+2.5	+ 1.5

Source: NSCB, various years.

One striking difference between the old and the new data is that the subsistence incidence trend is reversed. The 1992 methodology showed an *increase* in the proportion of families unable to meet their food needs, from 16.2% in 1997 to 16.7% in 2000. The new methodology [M03] shows a *reduction* of "core poverty" from 13.6% in 1997 to 13.2% in 2000. Another conflicting trend is in the overall incidence of urban poverty: under the old methodology it grew by 2% [M92] but according to new data there was no change in urban poverty from 1997 to 2000 [M03].

The Medium-Term Philippine Development Plan (MTPDP) 2004–2010 targets a reduced subsistence incidence from 13.1% in 2000 to 8.98% in 2010, stating that *this shall enable the country to meet its target of halving poverty over a 15-year period from 1990-2015 based on the 20.4% subsistence poverty rate in*

1991.[21] This is a perfect example of mixed methodologies. The 1991 subsistence poverty rate is taken from the old series. The 2000 data and the 2010 target are based on the new series.

The 2003 Methodology data still show great variation in poverty incidence between urban and rural areas: 15% vs. 41.4% for the year 2000, respectively. It is clear that the majority of the poor live in rural areas, and that the income poverty incidence is much greater. However, to state that poverty in the Philippines is a rural phenomenon might detract attention from a growing urban problem. Though the overall incidence of families remained the same, the number of urban poor families nationally grew by more than 10% between 1997 and 2000 [M03]. There are seven regions in which the magnitude of urban poor families grew by more than 20%. The number of urban poor families grew by a staggering 165% in the 3rd District of the NCR (Caloocan, Valenzuela, Malabon and Navotas), by 127% in Masbate, and by 111% in Cavite.

Just as national averages mask rural and urban differences as well as differences between regions, regional averages can mask immense provincial differences. The disparity appears greatest in Region IV, Southern Tagalog, where 25.9% of the population were counted as income poor in 2000. However, while the headcount of the population in Rizal province was 11.1%, the poverty incidence in Romblon was 66.5%.[22] The differences are similarly striking in the Cordillera Administrative Region (CAR), with a poverty incidence of 38% in 2000. Where Benguet province had a poverty incidence of 19.2%, the headcount in Ifugao province was 64% of the population. In other areas the regional average is fairly representative of the provinces. In the ARMM for example, the regional incidence of 62% is a fair representation of poverty in Lanao del Sur, Maguindanao, Sulu, and Tawi-Tawi, all of which have headcounts above 60% of the population.

Provincial rankings differ according to the measure examined—poverty incidence or subsistence incidence of families. Six provinces are among the 10 poorest on both counts: Sulu, Masbate, Ifugao, Romblon, Maguindanao, and Camarines Norte. This is shown in Table 6. Provincial ranking would differ again based on the number of poor people (the magnitude of the poor). Sulu, ranked poorest among provinces according to the poverty incidence of families, had slightly fewer than 63,000 poor families in 2000. In a listing of provinces according to absolute number of poor families, Sulu would be 28th out of 79. The province with the largest number of poor families in 2000 was Negros Occidental, with more than 212,000 [M03].

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21 NEDA, 2004a: p.8

22 In 2002, Executive Order 103 split Region IV into Region IV-A (comprising Batangas, Cavite, Laguna, Quezon, and Rizal) and IV-B (Marinduque, Oriental and Occidental Mindoro, Palawan, and Romblon). The 1997 and 2000 FIES data were not analyzed using this new designation.

Table 6

Ten Poorest Provinces by Poverty, Subsistence, and Magnitude of Families, 2000 [M03] [a/]

Poverty		Subsistence		Magnitude	
Province (Region)	Incidence (%)	Province (Region)	Incidence (%)	Province (Region)	Families
Sulu (ARMM)	**63.2**	**Masbate (V)**	**42.6**	**Negros** Occidental (VI)	**212,724**
Masbate (V)	62.8	Sulu (ARMM)	34.2	Masbate (V)	209,851
Tawi-Tawi (ARMM)	56.5	Romblon (IV-B)	33.7	Cebu (VII)	187,359
Ifugao (CAR)	55.6	Ifugao (CAR)	32.7	Pangasinan (I)	141,240
Romblon (IV-B)	55.2	Maguindanao (ARMM)	31.2	Zamboanga del Sur (IX)	139,474
Maguindanao (ARMM)	55.1	Sorsogon (V)	30.9	Camarines Sur (V)	126,116
Lanao del Sur (ARMM)	55.0	Lanao del Norte (X)	30.5	Leyte (VIII)	122,070
Sultan Kudarat (XII)	54.3	Zamboanga del Norte (IX)	30.4	Iloilo (VI)	108,518
Camiguin (X)	53.1	Agusan del Sur (CARAGA)	29.7	Davao del Norte (XI)	103,679
Camarines Norte (V)	52.7	Camarines Norte (V)	28.7	Bohol (VII)	99,321

Source: NSCB 2003a.

ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region.

[a/] A statistical note: The sampling domains for the 1997 and 2000 FIES were the provinces and cities/municipalities with a population of 150,000 or more. However, the estimates derived at the sampling domains for poverty incidence are not very stable. Looking at the coefficient of variance (CV) of poverty incidence estimates at the provincial level, we find that more than half have a CV greater than 5%. The ranking of provinces to get the 10 poorest could be affected by these large CVs.

The analysis of provincial income poverty in the Philippines—and the differences it exposes—illustrates the value of disaggregating poverty data to ever more local levels. The information on which to base policy decisions becomes more detailed, which in turn can lead to better designed interventions.[23] Community-based poverty monitoring—the monitoring of multidimensional indicators at the barangay, municipal, and city levels—is on its way to becoming institutionalized in the Philippines through the Department

[23] Further research might be undertaken to explore the substantial differences in poverty reduction at the provincial level. For example, it appears that the poverty incidence of families in Eastern Samar was reduced by more than 10% from 1997 to 2000. In Siquijor, it appears to have fallen by more than 16%. How did this happen? Were there particularly successful policies and/or programs in these provinces?

of Interior and Local Government (DILG). This initiative, and the poverty mapping it allows, is explored in Chapter 4.

Who are the poor?

Gender and Poverty. It is interesting to note that both the incidence and severity of income poverty among female-headed households in the Philippines are lower than among male-headed households, in contrast to most developing countries. However, poor women in the Philippines face a number of challenges that are distinct from those faced by poor men, including poor reproductive health, unwanted fertility, and gender discrimination. This is why it is important to look beyond the income dimension in poverty analysis. The Philippines continues to have one of the highest maternal mortality rates in Southeast Asia, and the rates are a great deal higher among poor women. Violence against women is also widespread in the Philippines. This includes sexual harassment in schools and at work, domestic violence, and human trafficking and forced prostitution. Violence against women causes severe health problems, affects earnings, job performance, and job security. It is one of the factors that causes low productivity among women and makes them vulnerable to poverty. When families are poor, women often suffer disproportionately. One strategy for stretching scarce resources is to reduce meals. In the Philippines it is customary for a woman to feed the man first, children next, and herself only after everyone else has eaten. The result is that when food is in short supply, women are often left without enough to eat. Analysis of households as the unit of measure (as is the norm in Philippine statistics) thus can miss substantial intra-household inequality. The ADB's 2004 *Country Gender Assessment Philippines* highlights these and many other issues (see ADB 2004e).

Indigenous People and Poverty. In 2002 ADB published a detailed study of indigenous people (IP), ethnic minorities, and poverty reduction in the Philippines. Researchers focused particularly on the CAR and Mindanao. The total IP population was estimated at between 12 and 15 million people in 1998. The ADB study revealed that IP are not necessarily the poorest of the poor in the Philippines since their regions are relatively wealthy, but that extreme inequality, poor infrastructure, and massive exploitation contribute to a worsening poverty situation for these communities. Importantly, IP have distinctive perspectives on poverty. Some of the key indicators they identify are powerlessness, a lack of access to land and resources, a lack of knowledge (e.g., poor education), insufficient income, and alienation from kin/clan and their traditional culture. Access to and control over ancestral land and domain is crucial for the well-being of IP, as is ensuring delivery of basic services such as health and education.

Disability and Poverty. There is no precise data on disability and poverty in the Philippines, but in general the disabled are disproportionately found among the poorest of the poor. The 2000 census counted nearly 1 million persons with disabilities (PWD), but the actual number is thought to be much higher than that, given World Health Organization (WHO) estimates that the incidence of disability is about 10% of any population. This would put the number of disabled Filipinos at about 8 million in 2004. A Japan International Cooperation Agency (JICA) study finds that most of the disabled in the Philippines are poor (2002). Disability is a cause of poverty, and poverty is a cause of disability. Access—to education, health care, employment, and transportation—is a key constraint. These issues are explored in greater detail in Chapter 6.

Chronic and Transient Poverty

The FIES poverty data do not tell us a great deal about whether people are moving in and out of poverty over time. Issues of chronic vs. transient poverty in the Philippines have been explored by Reyes (2003a), using a panel data made up of a subset of nearly 17,000 households from the 1997 FIES and the 1998 and 1999 rounds of the APIS. There are some data comparability issues between the FIES and APIS[24] and the time period is quite short to define chronic poverty, but nevertheless Reyes' work represents a first attempt to demonstrate the dynamism of poverty. First Reyes identified a poverty incidence of families for each year using the official poverty threshold [M92]: 32.1% in 1997, 39.5% in 1998, and 39.8% in 1999. She then assessed who remained poor throughout and who moved into and/or out of poverty. The findings are summarized in Table 7.

The families in the group designated as PPP are the chronic poor. These families, 21.5%, were poor in each of the three observations. Those who were able to protect themselves from shocks to remain not poor in all three years, 46.9%, are the group NNN. The remaining 31.6% are the transient poor, or those who have moved into and/or out of poverty over the three-year period. Reyes work confirms that there can be considerable shifts in poverty status, even when the overall headcount remains more or less the same. The poor are not a homogenous group. Well-designed social protection and safety net programs can keep people out of transient poverty, and thus reduce overall poverty levels.

[24] The questionnaires used for the FIES and APIS are not the same, the APIS has fewer details on income, and the reference period is different. For this reason the NSCB does not release poverty incidence based on the APIS.

Table 7
Chronic Poverty in the Philippines, 1997–1999

Status	1997	1998	1999	No. of Families	Percent
PPP	Poor	Poor	Poor	3,563	21.5
PPN	Poor	Poor	Not Poor	648	3.9
PNP	Poor	Not Poor	Poor	569	3.4
PNN	Poor	Not Poor	Not Poor	522	3.2
NPP	Not Poor	Poor	Poor	1,301	7.9
NPN	Not Poor	Poor	Not Poor	1,025	6.2
NNP	Not Poor	Not Poor	Poor	1,154	7.0
NNN	Not Poor	Not Poor	Not Poor	7,755	46.9
Total				**16,537**	**100.0**

Source: Reyes (2003a), p. 5.

International Poverty Lines

Poverty can also be measured using the two international poverty lines of $1 per day and $2 per day at 1993 purchasing power parity (PPP) prices, or exchange rates.[25] This poverty line was developed mainly for the purpose of cross-country comparisons. Table 8 shows a steady decline in the proportion of the population below both of these thresholds, though it is interesting to note the large difference in the two. In the Philippines a large proportion of the population is at the bottom of income distribution. This means that the poverty incidence is very sensitive to where the line is placed: small changes in poverty line (of just one PPP dollar, for example) mean large differences in poverty incidence. To illustrate the sensitivity of poverty incidence to even smaller changes in the poverty line, ADB statisticians calculated $1 per day poverty in 2000 at 15.6% of the Philippine population.[26] They then added 10 cents, 20 cents, and 30 cents to the $1 per day threshold. The resulting headcounts were 19.3%, 23.0%, and 26.5%, respectively (ADB, 2004b).

The headcount index using the international poverty line of $1 per day PPP was 11.1% in 2003. Compared to its Asian neighbors, the $1 per day poverty incidence of the Philippines was higher than the average for East Asia and the Pacific (10.4%), higher than the average for East Asia and the Pacific

[25] The actual poverty lines are set at $1.08 per day and $2.15 per day. The PPP exchange rates for the Philippines are from the Penn World Tables.

[26] This differs from the World Bank's calculations for 2000, possibly because different PPP exchange rates were used.

Table 8
Poverty in the Philippines Using International Poverty Lines, FIES years, 1991—2003

Year	Proportion of the Population Below $1-a-Day	Proportion of the Population Below $2-a-Day	PPP exchange rate for $1 (pesos)
1991	19.1	53.5	6.72
1994	19.8	55.0	7.98
1997	14.8	46.5	9.25
2000	13.5	46.9	11.20
2003	11.1	44.1	12.30

Sources: World Bank (2004b) for headcounts and IMF World Economic Outlook Database for PPP exchange rates.
FIES = Family Income and Expenditure Survey, PPP = purchasing power parity

not including the People's Republic of China (7.6%), and higher than the average for Southeast Asia (5.8%). The same is true of the $2 per day poverty incidence.

The international poverty line is sometimes misunderstood. Some reports say that many people struggle to survive on less than $1 a day, without mentioning PPP or 1993 prices. Others use the prevailing exchange rate to express a peso poverty line equivalent to about $1 a day in current prices. A July 2004 study on the UNDP Philippines website states that "most Filipinos especially in the rural areas barely survive on little more than fifty pesos a day (the international extreme poverty threshold is defined as $1 a day)."[27] Table 9 shows the actual PPP exchange rates for various years. In effect, the $1 per day international poverty line was worth P12.31 per day in 2003. This is the equivalent of just P4,490 per year, less than $83 (using the BSP 2003 exchange rate).

A look at $1 per day poverty in current prices results in headcounts very different than those derived using the international poverty line. It is an illuminating exercise, particularly because the Philippine peso weakened substantially against the US dollar during the second half of the 1990s. Where the exchange rate in 1994 was P26.41, it had more than doubled to P54.20 by 2003.[28] We determined annual family poverty lines by multiplying historical $1 exchange rates by 365 to get an annual per capita poverty threshold, and further multiplying by 5, the average family size in the Philippines. These

[27] UNDP Report: Unleashing Entrepreneurship—One of the Keys to Development, Latest News July 6, 2004, http://www.undp.org.ph/news/recentnews.asp

[28] For this exercise we use the average annual US dollar exchange rates as published by the BSP for 1991, 1994, 1997, 2000, and 2003.

Table 9

$1 PPP/Peso Exchange Rate, FIES Years, 1985–2003

Year	Peso Equivalent of $1 PPP
1985	4.71
1988	5.25
1991	6.73
1994	7.98
1997	9.25
2000	11.20
2003	12.31

Source: International Monetary Fund, World Economic Outlook Database, September 2004

poverty lines were applied to the published FIES annual family income tables.[29] The results are presented in Table 10.

Table 10

Poverty Incidence, $1 per Day in Current Prices, 1991–2003

	1991	1994	1997	2000	2003
BSP $1 exchange rate (pesos, annual average)	27.48	26.41	29.47	44.19	54.20
Annual $1 poverty threshold per capita	10,030	9,640	10,757	16,129	19,783
Annual $1 poverty threshold per family of 5	50,151	48,198	53,783	80,647	98,915
Practical threshold for poverty estimate based on FIES tables (pesos)	49,999	47,999	53,999	79,999	97,999
Number of poor families (estimate)	7,082,100	5,353,861	5,059,583	6,939,612	TBD
Percent of total families	**59.1%**	**42.0%**	**35.6%**	**45.4%**	**TBD**

Sources: Author's estimates using BSP exchange rates and published FIES tables (NSCB).
BSP=Bangko Sentral ng Pilipinas, FIES = Family Income and Expenditure Survey.

[29] Some extrapolation is necessary, since the brackets do not correspond precisely to the poverty lines. For example, to estimate the number of families with incomes below P53,999 in 1997, we first look up the published number of families below P 49,999 (the upper limit of the last full income bracket), which is 4.6 million. We then assume equal distribution of families within particular income brackets. Based on this assumption, we calculate that 40% of the 1.16 million families in the P50,000 – P59,999 bracket must fall between P50,000 and P53,999, or 0.5 million. This number is added to the 4.6 million below P49,999 to arrive at 5.1 million.

Using these poverty lines, we see a dramatic drop in poverty incidence from 59.1% in 1991 to 35.6% in 1997, but the overall level is still high: more than one third of Filipino families still did not have one nominal US dollar per person per day in 1997. There then followed a headcount increase of nearly 10% between 1997 and 2000. The official poverty threshold in 2000 was P32 per day, which at the time was worth about $0.72. In stark contrast, the international poverty line of $1 per day was worth P11.20 in 2000.

Income Inequality

The Philippines exhibits a highly inequitable distribution of income. Despite a very slight improvement in overall distribution since 1997, in 2003 the share of income accruing to the richest 10% of the population was still more than twenty times the share of income of the poorest 10%. Since 1985 the richest quintile of the population has consistently commanded more than 50% of total family income in the country, with the poorest quintile at less than 5% (see Table 11). Despite major fluctuations in economic performance during the period 1985–2003, income inequality while very high has remained relatively stable.[30]

Table 11

Share of Total Income of the Poorest Quintile and the Richest Quintile, 1985–2003

	1985	1988	1991	1994	1997	2000	2003
Poorest quintile	5.2	5.2	4.7	4.9	4.4	4.4	4.7
Richest quintile	51.8	51.8	53.9	52.0	55.5	54.8	53.4

Sources: *Philippine Statistical Yearbook* 1996 for 1985–1994; *Philippine Statistical Yearbook* 2003 for 1997–2000; NSO website for 2003 FIES preliminary results

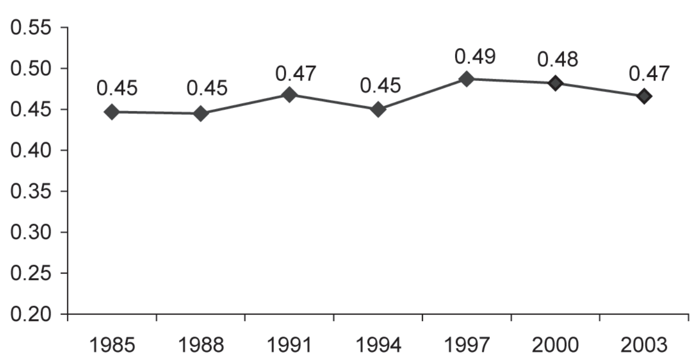
30 See Balisacan and Fuwa (2004).

The overall income distribution trend from 1985 to 2003 shows a slight deterioration, with an increase in the Gini coefficient from 0.447 in 1985 to 0.466 in 2003.[31] However, this broad trend masks mild fluctuations over the years (see Figure 5). The Gini was at its highest in 1997 (0.487) and has been on a very slight downward trend since that time. The decrease is minimal and should not be taken to be significant. Table 12 presents the percentage distribution of total family income, by income decile, for each FIES year (1985–2003).

When income distribution is highly unequal, as in the Philippines, there are many families at the bottom of said distribution. As a result, poverty measures become very sensitive to where the poverty line is placed, and small changes in the poverty threshold can result in large changes in the population identified as poor. This was demonstrated above with the international poverty lines of $1 and $2 a day, but is also noticeable in the national poverty lines. The 2003 Methodology reduced the poverty line by P6 per person per day. This minimal change, less than $0.14 per person per day,[32] resulted in a 5.3% reduction in the headcount of families in 2000, or a reduction in the number of poor people by 4.3 million.

Figure 5

Gini Coefficients in the Philippines, 1985–2003



Sources: Distribution data: *Philippine Statistical Yearbook* 1996 for 1985–1994; Philippine Statistical Yearbook 2003 for 1997–2000; NSO website for 2003 FIES preliminary results. Gini coefficients: own calculations.

[31] The Gini coefficient measures inequality, where a coefficient of 0 represents perfect equality and 1.0 would be perfect inequality. The higher the coefficient the more unequal the distribution.

[32] Using BSP's published average exchange rate for the year 2000 ($1 = P44.20).

Table 12

Percentage Distribution of Total Family Income by Income Decile and Gini Coefficients, 1985–2003

	1985	1988	1991	1994	1997	2000	2003
First decile	2.0	2.0	1.8	1.9	1.7	1.7	1.8
Second decile	3.2	3.2	2.9	3.0	2.7	2.7	2.9
Third decile	4.1	4.1	3.8	3.9	3.5	3.5	3.7
Fourth decile	5.0	5.0	4.7	4.9	4.3	4.4	4.6
Fifth decile	6.0	6.0	5.7	6.0	5.4	5.5	5.7
Sixth decile	7.3	7.3	7.0	7.4	6.8	6.9	7.1
Seventh decile	8.9	9.0	8.8	9.1	8.7	8.8	9.0
Eighth decile	11.4	11.6	11.4	11.8	11.5	11.7	11.8
Ninth decile	15.7	16.0	16.1	16.4	16.2	16.4	16.6
Tenth decile	36.4	35.8	37.8	35.6	39.3	38.4	36.8
Gini Coefficient	**0.447**	**0.445**	**0.468**	**0.450**	**0.487**	**0.482**	**0.466**

Sources: Distribution data: *Philippine Statistical Yearbook* 1996 for 1985–1994; *Philippine Statistical Yearbook* 2003 for 1997–2000; NSO website for 2003 FIES preliminary results. Gini coefficients: own calculations.

Relative Poverty

As introduced in Chapter 2, the concept of relative poverty is related to the concept of social exclusion. The concept of relative poverty thus goes beyond the determination of some minimum level of monetary resources required for physical survival. Relative deprivation is seen a lack of access to a level of goods and services that are required for meaningful participation in society, a level which can and does change over space and time as circumstances evolve.[33] A relative poverty line defines the poor as those with per capita income or expenditure levels below a certain percentage of the mean or median for the country. Relative poverty lines thus incorporate distributional concerns, following Amartya Sen's observation that the identification of a level of income at which people can be described as poor may well depend on the pattern of affluence and deprivation that others experience. This explains differences in what is considered poor in the United States (US) versus what is considered poor in Thailand, for example.

33 There are some problematic aspects of purely relative measures, as there are with absolute ones as well. Critics mainly point out that a relative definition makes the elimination of poverty impossible, because there will always be some in society who have less than others, and relative poverty lines rise along with living standards.

In practice relative approaches are usually applied in more developed countries. For example, the European Union (EU) defines various relative "risk-of-poverty" thresholds.[34] The standard EU risk-of-poverty threshold is 60% of the median income, a threshold that has now been applied to the ten new member states as well (see EU, 2004). Other countries that have applied relative poverty lines are, for example, Azerbaijan and Ukraine. It can still be useful to examine what has happened to relative poverty in middle income or less developed countries, so long as it is clear that what is being looked at is conceptually different from absolute poverty levels. One benefit of relative poverty lines is that they are methodologically simple and transparent.

We have calculated rough estimates of relative poverty in the Philippines using two methods.[35] The first method sets a relative poverty threshold at 50% of the mean family income for each FIES year. In other words, this method uses changing poverty lines based on the changing circumstances in the country. The results are referred to as relative method A, and are presented in Table 13 and Figure 6. The second method sets a relative poverty threshold at 50% of the mean family income for 1988 and then inflates this amount using the Consumer Price Index for subsequent FIES years. This method results in a relative poverty line that is fixed over time. We call this relative method B (see Table 14 and Figure 7).

The pictures of relative poverty painted using methods A and B are rather different. In method A, relative poverty has been on a general upward trend since 1985, with alternating periods of growth and reduction. The periods of increasing relative poverty have outweighed the periods where relative poverty was reduced. By 2000 more than 40% of Filipino families lived on less than half of the national average family income. This pattern in Figure 6 generally follows that of the Gini coefficient of inequality (refer to Figure 5). With a slightly reduced Gini coefficient in 2003, we would expect to see reduced relative poverty as well.

In Method B, the 1988 relative poverty threshold is kept constant using the CPI. In 1988 terms, we see that relative poverty had increased slightly by 1991, then declined over the subsequent two FIES surveys, then shot up dramatically by 12% from 1997–2000. With a 2003 annual threshold of

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[34] The 18 Laeken indicators of social inclusion were adopted at the Laeken European Council in December 2001. Median income is the basic measure used as a reference, and risk of poverty rates can be broken down by age, gender, household type, activity status (e.g. employed, unemployed), and housing tenure status.

[35] The estimates are rough because they rely on published FIES data tables for number of families by income class. Some extrapolation is necessary where the poverty thresholds do not exactly match the income classes. Here we have had to assume equal distribution of families within the income classes to derive the number of families below a certain cutoff point within an income class.

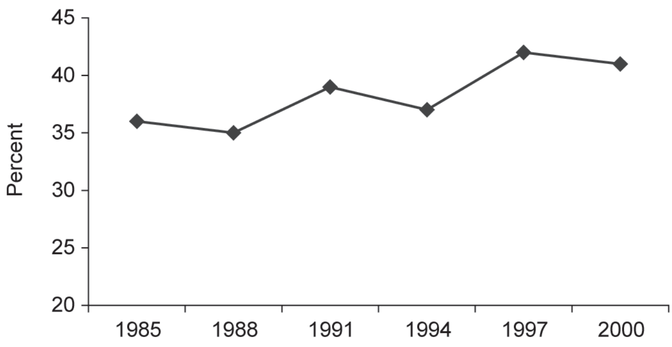
Table 13
Relative Poverty Lines and Headcount of Families, 1985–2003 (Method A)

Year	Average Annual Family Income	Relative Poverty Line (50% of mean rounded to nearest '000)	Families Below Relative Poverty Line	Total No. of Families	Relative Poverty Incidence of Families (%)
1985	31,052	16,000	3,579,000	9,847,000	36
1988	40,408	20,000	3,642,000	10,534,000	35
1991	65,186	33,000	4,619,010	11,975,400	39
1994	83,131	42,000	4,658,333	12,754,944	37
1997	123,168	62,000	5,940,785	14,192,462	42
2000	144,039	72,000	6,146,324	15,072,000	41
2003	148,757	74,000	TBD	16,005,000	TBD

Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results.

Figure 6

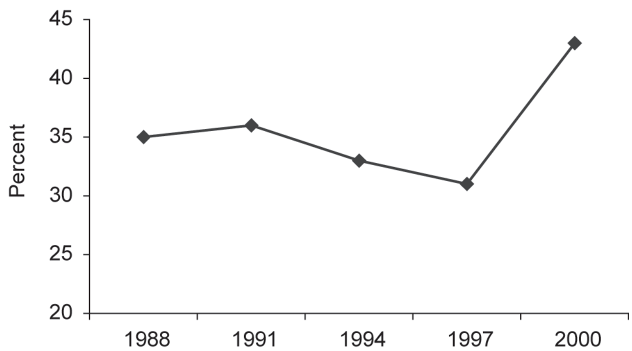
Relative Poverty Incidence of Families, 1985–2000 (Method A)



Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results

Figure 7

Relative Poverty Incidence of Families, 1988–2000 (Method B)



Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results

Table 14

Relative Poverty Lines and Headcount of Families, 1988–2003 (Method B)

Year	**Relative Poverty Line** (50% of 1988 mean income, inflated using CPI, rounded to nearest '000)	**Families Below Relative Poverty Line**	**Total No. of Families**	**Relative Poverty Incidence of Families** (%)
1988	20,000	3,642,000	10,534,000	35
1991	31,000	4,272,670	11,975,400	36
1994	39,000	4,214,832	12,754,944	33
1997	49,000	4,450,167	14,192,462	31
2000	75,000	6,443,807	15,072,000	43
2003	85,000	TBD	16,005,000	TBD

Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary result
TBD=To be determined (on release of final 2003 FIES data).

P85,000 per family (or P17,000 per capita) it is expected that the new FIES data will show a further increase in relative poverty for 2003, since we know that average family incomes have grown by only 2.5% in nominal terms.

Relative poverty incidence is a useful complement to the study of absolute income poverty and inequality in the Philippines. While absolute poverty is about physical survival, relative poverty provides the link to inequality and places emphasis on the ability to thrive as a human being and member of society. Relative poverty is also closely related to subjective well-being, which is explored in the following section.

Subjective Poverty

There is a long tradition of subjective poverty assessment in the Philippines. This section looks at three sources of data. Social Weather Stations (SWS) has been conducting empirical subjective poverty analysis for over 20 years and has rich data sets spanning that time. More recently, the APIS survey has included a number of subjective welfare questions. Finally, two new qualitative research projects in 2003 and 2004 have examined perceptions of poverty by the elite and by poverty program managers, respectively.

Social Weather Stations[36]

Social Weather Stations was established in 1985 as a private, not-for-profit research institute. Its goal is to play a role in the policy dialogue through the generation of credible, frequent, understandable poverty rates and other indicators of the 'social weather' in the country. By September 2003, the SWS national survey data comprised 63 observations on poverty, beginning April 1983 (with quarterly data from 1992). SWS furthermore has conducted 22 quarterly observations on hunger in the Philippines since July 1998. Surveys are based on national samples of 1,200 households, 300 each in Metro Manila, Luzon, Visayas, and Mindanao. The sample is drawn from 240 geographical locations selected from all regions. The sample locations and respondents are newly selected for each survey, rather than being a fixed panel of locations or individuals.

The SWS hunger indicator is the proportion of household heads reporting that their families have experienced hunger at least once in the last 3 months.

[36] The discussion here is drawn from Mangahas (2004) The SWS Survey Time Series on Philippine Poverty and Hunger, 1983–2003, paper presented at the BMZ/GTZ/CEPA/ADB Regional Conference on Poverty Monitoring in Asia, 24–26 March 2004, Manila, Philippines.

The frequency of experienced hunger in the past three months is used to classify moderate and severe hunger. No other statistical data series for hunger exists in the Philippines.

The SWS poverty indicator is the proportion of respondents who rate their families as poor. Respondents are shown a card with the words "poor" and "not poor" and asked to point to where their family falls on that card. The survey also asks household heads to estimate a poverty threshold. The household heads that rate their families as poor are asked: "How much would your family need for home expenses each month in order not to feel poor anymore?" Those who rate themselves as not poor or as in-between/on the line are asked "How much would a family of the same size as yours, which felt it was poor, need for home expenses each month in order not to feel poor anymore?"

Table 15 shows self-rated poverty thresholds for September 2003 by size of family. In September 2003 the median self-rated poverty threshold of poor families with five members, the national average family size, was P7,000. This is the equivalent of approximately P16,800 per capita per year, or P46 per person per day. Using the September 2003 exchange rate[37] this amounts to $0.84.

Table 15

Self-Rated Poverty Thresholds, by Family Size, September 2003

Family Size	All Families		Poor Families	
	Mean	Median	Mean	Median
1	10,762.70	8,000.00	6,912.70	5,000.00
2	8,115.30	5,000.00	6,905.00	5,000.00
3	10,151.10	8,000.00	8,789.30	6,000.00
4	11,859.00	6,000.00	8,455.60	6,000.00
5	11,666.10	8,000.00	9,465.70	7,000.00
6	13,766.90	10,000.00	9,932.60	7,000.00
7	12,911.10	10,000.00	11,520.00	10,000.00
8	14,903.60	10,000.00	14,400.20	10,000.00
9	12,309.00	10,000.00	11,911.30	10,000.00
10 and up	14,044.60	10,000.00	13,757.90	10,000.00

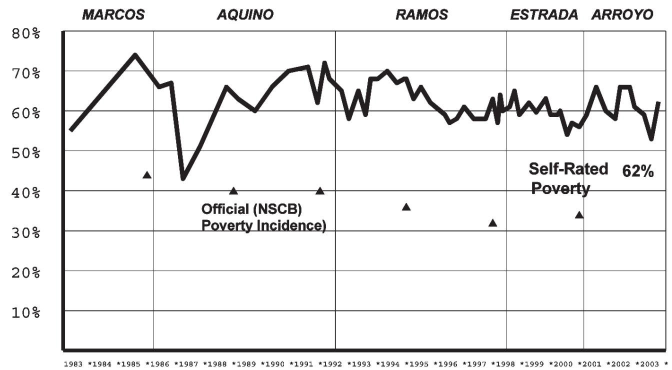
Source: Mangahas, 2004.

[37] P55.02 per $1 as published by the BSP (http://www.bsp.gov.ph).

In September 2003, 62% of families rated themselves as poor. The peak of self-rated hunger incidence was 16.1% in March 2001, and that peak was nearly reached again in September 2004, with 15.7% of families. As with all other poverty data, there are substantial regional differences. In September 2004, self-rated hunger was highest in Mindanao (23% of families) and in the NCR (15.7%) and lowest in the remainder of Luzon (11.3%) and in the Visayas (13.3%). Figure 8 shows the highly variable time series of self-rated poverty from April 1983 to September 2003.

Figure 8

Self-rated Poverty in the Philippines:
Households who are "Mahirap" April 1983 to September 2003



© by Social Weather Stations. Source: Mangahas (2004).

The APIS and Subjective Welfare

In addition to gathering objective data, the APIS surveys gauge how families perceive changes in their welfare, and what families have done to cope with these changes. Table 16 examines responses to the question of how the family's present situation compares to their situation 12 months ago, split into rates for the bottom 40% of the income distribution (a proxy for the poor) and the rest. Results for 1999 and 2002 are quite similar. In both years, less than 10% of the poor felt better off as compared to the previous year. In 2002, more than 35% of the poor felt worse off. The most common response was "about the same"—more than half of all families, both poor and nonpoor.

Table 16
Families' Perceived Situation as Compared to 12 Months Ago, 1999 and 2002
(%)

	1999			2002		
	Better Off	Same	Worse Off	Better Off	Same	Worse Off
Lower 40%	9.8	52.4	37.8	9.4	55.0	35.7
Upper 60%	16.0	52.3	31.3	19.3	53.2	27.5

Sources: NSO 2001, 2003.

The APIS report further presents disaggregated data by region. In 2002, more than 40% of the poor in four regions felt worse off. This proportion was highest in Metro Manila, at 45.8%.

Overall reasons for feeling worse off in 2002 were predominantly reduced income, increased food prices, and lost jobs. The most common coping mechanisms to deal with these setbacks included changing eating patterns, working more hours, and receiving assistance from friends and relatives.

Another subjective question asked families where they would imagine themselves on a "ladder of welfare" with 10 rungs, with step 1 being the lowest and step 10 being the highest. In 1999, 60.8% of families ranked themselves on the bottom 4 rungs. In 2002 the results were roughly the same. As in 1999, the largest proportion of families in 2002 (27.3%) said they were on the 5th step. It is interesting to compare this subjective inequality perception with the actual income distribution data explored in the inequality section of this chapter.

Elite Perceptions of Poverty

Clarke and Sison (2003) explore subjective poverty issues from a different angle: the view from the top. Their study on elite perceptions of poverty and the poor in the Philippines was based on interviews with 80 members of the Filipino political, economic, and social elite. The authors argue that the Filipino elite possesses a relatively coherent set of perceptions with respect to poverty and the poor, and that pro-poor public policy should take such perceptions into account:

> They attribute poverty to a range of political phenomena including the inequitable distribution of resources, the prevalence of corruption and the persistence of 'traditional' (semi-feudal or oligarchic) politics. They blame 'the elite' for these problems yet disassociate themselves from this elite [...]. They

> feel that rural poverty is less significant than its urban equivalent, that Filipinos need not and do not die of hunger, and that the Philippine state counts among the world's most corrupt. The Filipino elite feel a sense of responsibility towards the poor, but this responsibility is met through the provision of assistance on a patron-client basis or through philanthropic activity, rather than a more substantive commitment to redistributive action led by the state, involving, for instance, more elaborate social safety nets financed by higher taxes. The Filipino elite looks to the state to lead the fight against poverty yet they are deeply skeptical of the state's capacity to lead this fight (Clarke and Sison, 2003, p 237).

One interesting point to take from this work is the general perception that urban poverty is more significant than rural poverty. Perhaps this is inadvertently based on a more multidimensional perception of poverty, where not only income but also different forms of capital—particularly physical capital in the form of adequate housing and services—are recognized as playing a central role in well-being.

Roberto (2004) also examined perceptions of poverty, focusing not specifically on the elite but on the people who implement and manage poverty reduction programs from both government agencies and NGOs. Interviews were conducted with 100 poverty reduction program managers, split evenly into government agency and NGO respondents. One question asked respondents to judge how much money a family of five would need per month in order to not be poor. Responses covered a broad range, from a low of P3,000 per month to a high of just under P50,000. Almost one third of respondents' estimates fell within the P10,0001–P15,000 band. In contrast, the official government poverty threshold for 2002 was just under P5,000 per month for a family of five.

When asked about the poverty level in the past five years and predictions for the next five years, opinions of Government and NGO poverty program managers differed somewhat. More than half of the NGO managers (54%) believed poverty had risen either somewhat or a lot over the past 5 years. A similar proportion (52%) believed poverty would worsen either somewhat or a lot in the coming five years. Government managers were more optimistic. Among this group, only 34% believed poverty had risen somewhat or a lot in the past 5 years, while 38% opined that poverty was likely to rise somewhat or a lot in the coming 5 years. Among all respondents, exactly one half felt that the poverty level at the time of being interviewed was "the same as usual for the country."

Chapter 4

ASSETS AND ACCESS POVERTY

Poverty is more than a lack of income. It is a deprivation of and lack of access to essential assets. The assets discussed here fall into the categories of human capital, physical capital, natural capital, financial capital, and social capital. Within these categories there are many different issues, and this section highlights some key themes. It is not a 100% comprehensive discussion of every aspect of deprivation under these areas—the categories are vast and volumes could be written on each. The idea is to start thinking about poverty in the Philippine context as deprivation of these essential assets, and to highlight the role poverty reduction role to be played by improving access.

Human Capital

Human capital is defined as the skill, knowledge, and good health that together allow people to work and earn a living. The two most important human capital investments are in education and health. Human capital expands the opportunities and choices people have, and this in turn can impact economic growth. The WHO Commission on Macroeconomics and Health confirms the link between human capital and macroeconomic performance. Empirical evidence bears out that countries with the weakest conditions of health and education have a much more difficult time achieving sustained growth than do countries with better conditions of health and education (WHO, 2001).

Access to Education[38]

The strong relationship between educational attainment and poverty is confirmed by both FIES and APIS data. The incidence of poverty is negatively correlated with the level of schooling. With each additional level of schooling reached, the poverty incidence falls. More than half of the families whose head has no education are poor. In contrast, the poverty incidence among college graduates is just 1.6%. Of course very few people have no education at all (just 4.1% of household heads surveyed). The largest proportion of the population has some elementary schooling (22.4%), and this group contributes about 35.1% of total poverty incidence. From the simple analysis presented in Table 17 it becomes that clear that prioritizing quality elementary education can contribute in great measure to poverty reduction.

Examining the poverty gap disaggregated for different levels of education, families whose heads have no schooling have the lowest average mean income relative to the poverty line. The poverty gap decreases with higher levels of schooling, implying that more education leads to better opportunities for higher levels of income.

Table 17

Poverty Measures by Educational Attainment of the Household Head, 2000 (%)

Educational Attainment	Share of Population	Poverty Incidence	Share of Total Poverty	Poverty Depth
No Grade Completed	4.1	52.8	7.7	17.8
Some Elementary	22.4	44.0	35.1	13.7
Elementary Graduate	20.9	34.9	26.1	10.0
Some High School	11.4	31.5	12.8	9.0
High School Graduate	20.3	19.8	14.4	5.2
Some College	10.9	8.4	3.2	2.1
College Graduate	10.0	1.6	0.6	0.3
Total	**100.0**		**100.0**	

Source: NSO, 2000 FIES.

The Philippine Department of Education (DepEd) manages a basic education system of about 16 million students and 440,000 teachers in 48,000 schools, making it one of the largest centrally administered public education

[38] The poverty data in this section are based on the 1992 Methodology.

systems in the world.[39] Just three to four decades ago, the Philippines was admired for its excellent education system. Unfortunately this advantage has been eroded as a result of the dual pressure from population growth and declining budgets, with little recognition that the system is in trouble. There are three main challenges in the Philippine education system, serving as barriers to human capital formation and strengthening and, ultimately, to poverty reduction. These are (i) falling participation rates, (ii) low cohort survival rates, and (iii) deteriorating quality of education.

Based on the 2002 APIS, 91.2% of children aged 6–12 were enrolled in elementary school. This was lower than the net elementary participation rate of 96.8% for the school year 2000–2001 as reported by DepEd.[40] The APIS high school enrollment rate for children aged 13–16 was only 77% in 2002 (see Table 18).[41] Though this represents an increase over previous years, it is still very low: nearly one quarter of children aged 13–16 were not getting a high school education in 2002.

Table 18

Enrollment by Income Stratum and Level of Education 1998-2002 (%)

	1998	1999	2002
Families with children aged 6–12 in Elementary School	**91.1**	**91.6**	**91.2**
Lowest 40%	*89.6*	*89.8*	*91.1*
Highest 60%	*92.1*	*92.8*	*91.2*
Families with children aged 13–16 in High School	**69.9**	**71.5**	**77.0**
Lowest 40%	*56.3*	*57.6*	*67.1*
Highest 60%	*77.4*	*79.2*	*83.0*

Source: NSO APIS, 1998–2002.

APIS data on education can be disaggregated into the lower 40% (the poor) and the upper 60% of the income distribution. As one would expect, participation rates are universally lower for the poor. Among the lower 40%, the most commonly cited reason for not attending school in 2002 was the

[39] See ADB's Education Sector Strategy for the Philippines, 2004–2006.
[40] The latest participation rate data is for 2000–2001 (DepEd website, www.deped.gov.ph).
[41] This figure is higher than the 66.1% estimated by DepEd for high schools nationwide.

high cost of education. Public education is free in theory, but there are many costs associated with a free education including uniforms, supplies, and transportation, as well as the opportunity cost of forgone income. These costs can be prohibitive for the poorest.

The 2002 APIS regional data for the poorer segment of the population, presented in Table 19, shows that the conflict areas of Mindanao, led by ARMM, have the most number of poor people with no grade completed. The differences are striking, with a full two thirds of the population having either no schooling at all or some elementary school only. The regions with the highest proportion of people with some elementary (but not elementary graduates) are in Central and Eastern Visayas, implying high dropout rates in these regions. Cohort survival rates are a major problem in the Philippines.

Table 19

Highest Grade Completed, by Region, among Families in the Lowest 40% Income Stratum, 2002 APIS (%)

Region	No Grade Completed	Some Elementary	Some Elementary Graduate	Some High School or High School Graduate	College or College Graduate	Total
Philippines	14.5	37.0	17.8	25.4	5.3	**100**
NCR	12.3	26.6	15.7	36.1	9.4	100
Luzon						
CAR	16.2	35.4	15.6	25.8	6.8	100
Ilocos	11.1	26.8	20.9	34.0	7.1	100
Cagayan Valley	11.1	38.5	19.1	25.0	6.3	100
Central Luzon	11.2	34.2	23.7	26.9	4.4	100
Southern Tagalog	12.8	34.0	21.2	26.8	5.1	100
Bicol	13.0	33.9	23.8	23.7	5.7	100
Visayas						
Western Visayas	14.1	38.7	15.8	26.1	5.4	100
Central Visayas	14.1	45.4	14.7	21.6	4.3	100
Eastern Visayas	14.3	43.3	17.2	21.3	3.6	100
Mindanao						
Western Mindanao	16.7	40.9	14.3	22.9	5.2	100
Northern Mindanao	12.9	36.4	16.8	27.8	6.1	100
Southern Mindanao	15.4	37.4	16.1	26.6	4.5	100
Central Mindanao	15.5	35.2	14.6	29.4	5.6	100
Caraga	12.8	35.7	19.2	26.2	6.1	100
ARMM	33.1	32.7	10.1	18.5	5.7	100

Source: APIS (2002).
ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region, NCR = National Capital Region.
Note: As a result of rounding, rows may not add up to exactly 100.0.

Elementary cohort survival rates are the number of students who start grade 1 that go on to complete grade 6. DepEd statistics show falling cohort survival rates, from 68.6% in the 1997–98 school year to 67.1% in 2001–02 (DepEd, 2003). This is very low, and should be a priority area of intervention. As Reyes (2002a) observes, for every 100 children in the Philippines who enter first grade, only 67 graduate. If all of these children went on to high school, only 49 would graduate. Again, regional differences are drastic: In ARMM, for every 100 children who start elementary school, only 34 are able to finish, and only 24 will eventually graduate from high school. Other countries in the region show much higher elementary school cohort survival rates achieved in the late 1990s—Indonesia at 88.2%, Malaysia at 97.3%, and Republic of Korea at 98.5% (UN, 2003).

Access to and quality of basic education in the Philippines is a third major issue. The number of public schools in the country increased from 38,400 in 1997–98 to 41,300 in 2002–03, and the World Bank reports that access to both public and private schools in the Philippines has improved over time (2001c), but there were still 1,054 barangays not served at all by an elementary school in 2002–03 (DepEd 2003). Poor children in these barangays can be particularly at risk for nonattendance if transportation costs are too high. A particularly marginalized subgroup is children with disabilities. There are very few schools that accept children with disabilities because of both a lack of appropriate school facilities and a lack of appropriately trained teachers.

Where children are able to access public elementary schools, the teacher-to-pupil ratio is high and has been growing steadily, from 1 teacher per 34 students in 1997–98 to 1 teacher per 36 students in 2002–03. Class sizes in public schools are large to very large, with an average class size of 45 pupils in public elementary schools. In the NCR class sizes can reach upwards of 55 students. Quality of teachers is another issue. The World Bank's *Filipino Report Card on Pro-Poor Services* asked respondents about satisfaction with the public education system. Public schools were rated most poorly for classroom attributes such as large class size, lack of textbooks, and poor facilities (World Bank 2001c). Progress has been made on the textbook ratio in recent years, as the Department of Education has prioritized the procurement of textbooks.

The relative brevity of basic Philippine education is a further problem: 6 years of elementary followed by 4 years of high school, for a total of only 10 years. This is the shortest in Asia. In most countries the standard is 12 years. There are some new initiatives to address education quality in the country, including a Bridge Program introduced in 2004. Under this program, elementary school graduates must pass a high school readiness test (HSRT) to become eligible to enroll in the normal 4-year high school. In May 2004, only half of all elementary school graduates in the Philippines passed the HSRT with a minimum score of

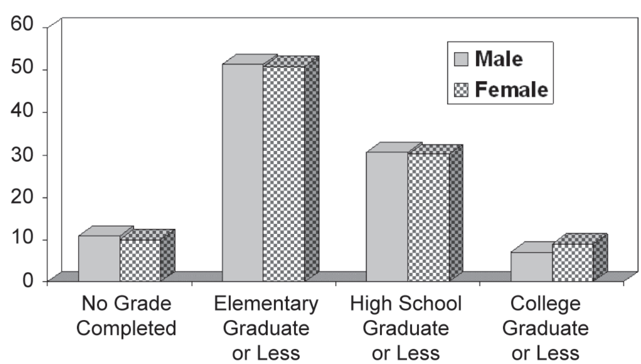
30% or higher (a very low passing score). Only one half of 1% were able to score 75% and above. The Department of Education stated that 99% of elementary graduates were not proficient in English, Mathematics, and Science. The Bridge Program would have instituted a mandatory 7th year of elementary education for those pupils who fail the HSRT in order to better prepare them for high school. However, as a result of opposition from various sectors—including families who do not feel they can shoulder the cost of an additional year of schooling—DepEd was forced to make the program optional for the 2004/2005 school year.

On a more positive note, analysis of education from a gender perspective shows that there is no discrimination against girls, even among the poor. In fact, attendance of girls exceeds that of boys from primary through to tertiary education. More girls finish high school and college than boys (see Figure 9). Gender aspects of education are further explored in Chapter 5 on progress toward achieving the MDGs in the Philippines.

Education is important not only because it builds human capital in and of itself, but also because education levels are closely correlated with the health status of the population—the second crucial element of human capital. For example, the 2003 National Demographic and Health Survey (NDHS) finds that the proportion of children between the ages of 6 months and 5 years receiving Vitamin A supplementation is directly correlated with the education level of the mother. Educated mothers are also more likely to have their children vaccinated. Education levels are more generally linked with fertility rates: more educated mothers tend to have fewer children.

Figure 9

Highest Grade Completed, by Gender, among Families In the Lowest 40% Income Stratum, 2002 APIS



Source: NSO APIS (2002)

Access to Health

Health status affects a person's ability to go to school, to obtain work and generate income, and to generally participate in society. The *Filipino Report Card on Pro-Poor Services* (World Bank, 2001c) finds that socioeconomic variables at three levels determine the health status of a population. These are (i) household-level determinants such as income and education; (ii) community-level determinants including environment, norms and values; and (iii) health-system determinants like accessibility and quality. The poor are more likely to suffer from ill health.[42]

One of the most basic indicators of health status of a population is life expectancy. In the Philippines life expectancy has been steadily rising from 57 in 1975 to 67 in 2001 for men, and from 60 in 1975 to 72 in 2001 for women. However, there are still many health challenges in the Philippines, including high prevalence rates of infectious diseases such as tuberculosis, a high maternal mortality rate, and the potential for an explosive HIV/AIDS epidemic. Some key health issues are further explored in Chapter 5 on achieving the MDGs in the Philippines, and disability is explored as a significant cause of poverty in Chapter 6.

There is some good news of course. Results of the 2003 NDHS show an improvement in the infant mortality rate (IMR) and the under-five mortality rate from 1988 to 2002. Infant mortality fell to 29 deaths per 1,000 live births in the period 1998–2002 from 35 deaths over the period 1993–1997 (see Table 20). Similarly, child mortality decreased to 40 deaths per 1,000 live births.

Table 20

Infant and Child Mortality Rates, Philippines, 1993–2002

NDHS Survey Year	Infant Mortality	Under-5 Mortality
1993	34	54
1998	35	48
2003	29	40

Source: NSO (2004).
NDHS = National Demographic and Health Survey.

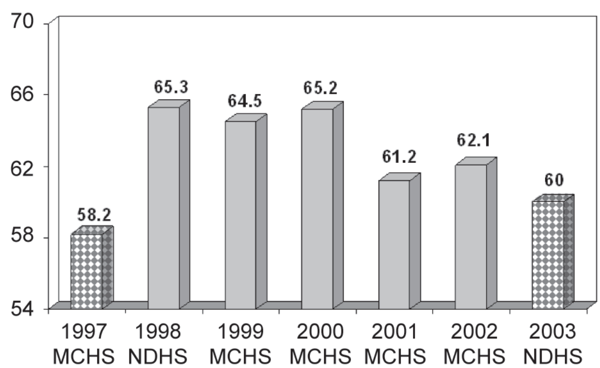
[42] A national SWS survey asked respondents whether they had been sick at any time in the past 2 weeks. Almost one third of poor respondents had been ill as opposed to only one fifth of the more well-off (World Bank, 2001c).

As with all indicators, national averages mask differences among socioeconomic and regional groups. The IMR among the poorest quintile of the population is more than three times higher than for the richest quintile. The IMR for richest quintile in rural areas was still double the overall IMR for urban areas in 2001 (World Bank, 2001c).

The successful immunization program of the Government in the 1990s was likely a factor in overall lowered infant and child mortality rates. However, this positive trend is in danger: data indicate a falling proportion of fully immunized children (FIC). The number of unvaccinated children increased to 7.3% in 2003 while the proportion of FIC fell to 60% in 2003 from 65% in 1998 (see Figure 10).

Figure 10

Fully Immunized Children 12–23 months old, 1997–2003



Source: NSO MCHS and NDHS, various years.
MCHS = Maternal and Child Health Survey, NDHS = National Demographic and Health Survey.

The maternal mortality rate (MMR) is high in the Philippines, despite having dropped from 209 deaths per 100,000 live births in 1993 to 172 in 1998. Again, the MMR is vastly different across regions and across income groups—the MMR for the ARMM was 320 in 1998, nearly three times the rate in Metro Manila (Reyes, 2002a). On maternal care, the preliminary results of the 2003 NDHS indicate that 87.6% of women received antenatal care; 70.7% had at least one tetanus injection; and about 76.8% of women were given iron supplements. Regional variations indicate that the ARMM again had the lowest proportion of women receiving these services. Only 40% of all births were delivered in a health facility, though 60% were attended by a skilled health care professional (e.g., a doctor, nurse or midwife).

Some advances have been made in curbing infectious disease in the Philippines, but tuberculosis remains a major problem. The WHO classifies the Philippines as one of 22 high-burden countries, and ranks it 8th in the world in terms of estimated incidence, with 320 cases per 100,000 population. TB mortality in the Philippines is 54 per 100,000 population (WHO, 2004).

Quality health care services, both preventive and curative, are the cornerstone for building human capital in the area of health. The 2002 APIS showed that the health facilities most utilized by the bottom 40% income bracket were the public Rural Health Units in both rural and urban areas (see Table 21). The poor tend to go to government-run primary facilities rather than private clinics or hospitals for their health needs. Private health facilities are often prohibitively expensive, and access is a major problem: quality private health care is centered in urban areas.

Table 21

Families in the Lowest 40% Income Bracket with at Least One Member who Visited any Health Facility in the last 6 Months, by Type of Health Facility Visited, 2002 (%)

	Philippines	Urban	Rural
Government Hospital	8.1	9.6	7.6
Private Hospital	3.2	3.7	3.0
Private Clinic	5.9	6.7	5.6
Rural Health Unit	9.2	10.9	8.7
Barangay Health Station	8.0	7.4	8.2

Source: NSO 2002 APIS.

The Luzon area had the largest proportion of families belonging to the lowest 40% income bracket that had visited health facilities. It is unclear whether this is due to the higher presence of health facilities in the area or because of a higher propensity to get sick. In Cagayan Valley and Central Luzon, there was a preference for private hospitals and clinics as opposed to government-run facilities (see Table 22).

The *Filipino Report Card on Pro-Poor Services* (WB, 2001c) finds that overall access to health facilities is reasonably good, but that there are still hard-to-reach pockets. About 8% of survey respondents who used private health facilities stated that they were unable to access a government-run facility. Among poor households, 20% of those who used private health facilities indicated non-availability of an alternative. Access to health facilities is a constraint facing poor Filipinos. Two main factors play a role in access: availability of facility/ personnel, and affordability. There is a severely unequal distribution of medical personnel in rural and urban areas in the Philippines. Though the population is spread relatively evenly between the two, medical personnel are biased heavily in favor of urban areas. According to the World Bank, only 10% of doctors, dentists and pharmacists, 20% of medical technicians, and 30% of nurses practice in rural areas (2001c).

Table 21

Type of Health Facility Visited by Families in the Lowest 40% Income Bracket, by Region, 2002 (%)

	Type of Facility Visited					
Region	**Proportion of Families Visiting a Health Facility**	**Govern-ment Hospital**	**Private Hospital/ Clinic**	**Rural Health Unit**	**Barangay Health Station**	**Others**
Philippines		8.1	9.1	9.2	8.0	1.2
NCR	29.9	5.0	5.4	8.4	10.7	0.7
Luzon						
CAR	28.7	9.9	4.3	11.1	5.6	0.4
Ilocos	31.2	6.5	9.4	10.0	7.3	0.6
Cagayan Valley	28.7	7.0	10.8	9.1	4.0	0.7
Central Luzon	35.5	10.3	12.6	7.6	6.7	1.2
Southern Luzon	39.7	9.3	11.3	11.4	10.5	0.9
Bicol	38.4	9.5	10.7	11.1	10.1	2.4
Visayas						
Western Visayas	38.2	10.6	11.0	12.0	6.4	1.0
Central Visayas	29.5	5.4	7.0	7.5	11.1	0.2
Eastern Visayas	30.2	9.5	8.0	9.7	4.6	1.2
Mindanao						
Western Mindanao	27.5	4.9	4.3	9.2	9.3	1.1
Northern Mindanao	28.5	7.4	6.5	10.0	4.7	1.9
Southern Mindanao	29.4	8.4	9.1	2.7	8.8	1.3
Central Mindanao	29.0	4.9	10.6	7.2	8.2	1.6
Caraga	31.3	9.8	6.9	9.1	7.9	1.9
ARMM	32.	29.8	8.0	8.6	8.2	0.2

Source: NSO 2002 APIS.

ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Autonomous Region.

The *Report Card* survey concludes that quality of government health services is the single most pressing issue from the point of view of the consumers. Since the poor primarily frequent government primary facilities, improving the quality of their services, with an emphasis on those services mainly demanded by the poor (particularly maternal and child health services and treatment of communicable diseases) would strongly enhance the pro-poor nature of health services (World Bank, 2001c).

Not only is there a downward trend in health spending in the Philippines, but the overall level is well below the 5% standard recommended by the WHO for developing countries. Total health expenditure by the Philippine Government was 3.1% of GDP in 2001, down from 3.3% in 1998 (NSCB). The *World Development Report 2004* shows total per capita expenditure on health in the Philippines at $33 from 1997–2000. This is low by comparison to neighboring countries like Malaysia ($101) and Thailand ($71). The average for the low and middle-income countries of Asia and the Pacific was $44 (World Bank, 2004).

Physical Capital

Physical capital comprises the basic infrastructure and services that help to keep people out of poverty. Essential infrastructure and services include access to roads and affordable transportation, adequate shelter/housing, potable water supply and sanitation, affordable energy, and communications. The lack of these types of infrastructure is a core dimension of poverty. Without adequate access to services such as water and energy, health can deteriorate and people are forced to spend more time in nonproductive activities like collecting water and fuel wood. Without access to affordable transportation, the poor might opt to keep their children at home rather than send them to school. This in turn prevents human capital formation and perpetuates poverty.

Adequate shelter and housing is significant in light of the major role played by housing as a productive asset. In poor communities in the Philippines, housing is used to earn incomes through renting out rooms, growing vegetables and raising livestock, and operating home-based enterprises. Home-based enterprises were a significant source of income for almost a third of households in an urban poor community in Metro Manila studied by Moser and McIlwaine (1997). The majority of home-based enterprises were retail operations (sari-sari stores), workshops (clothes, shoes, and furniture manufacture and electrical workshops), and services enterprises (such as laundry and childcare).

Access to physical capital clearly plays a central role in keeping people out of poverty but the poor in the Philippines still have inadequate access.

Based on the 2002 APIS, the highest level of deprivation in terms of physical capital was in access to electricity and adequate housing (see Table 23). Only 55.9% of families in the lower 40% income bracket had access to electricity. The 2002 survey furthermore shows that fewer families in the lower income brackets had access to safe drinking water, sanitary toilets and ownership of house/lot than in previous years.

Table 23

Access to Forms of Physical Capital by Income Bracket, 1998-2002 (%)

	1998	1999	2002
Total Families with access to…			
Safe drinking water	78.1	81.4	0.0
Sanitary toilet	79.4	85.8	86.1
Electricity	72.3	73.3	79.0
Owned or owner-like possession of house/lot	68.3	71.5	66.5
Roof of shelter made of strong materials	62.2	70.5	72.2
Families in the bottom 40% with access to…			
Safe drinking water	65.7	71.5	70.2
Sanitary toilet	65.8	73.9	73.1
Electricity	65.6	47.4	55.9
Owned or owner-like possession of house/lot	41.8	69.0	63.1
Roof of shelter made of strong materials	41.8	51.6	54.8

Sources: NSO APIS, 1998, 1999 and 2002.

Access to Water

The 2002 APIS shows that only 70% of the poorest had access to safe drinking water, defined as an own-use or shared faucet or an own-use or shared tubed/piped well. Among the poorest, only 12.1% have an own-use faucet nationwide. The largest proportion of families using unsafe water sources—dug wells, rivers and streams, rain, water supplied by peddlers, and other types—is in ARMM, where more than 35% of the poor rely on dug wells, and 26% on rivers and streams. Shared tubed or piped wells, while considered a safe water source, are not necessarily convenient. People, and especially women, must often spend a good deal of time fetching the water their families need for daily use. This is a drain on productivity.

The focus of the *World Development Report 2004* is making services work for the poor. The report identifies patronage as one of the key reasons why infrastructure services fail poor people, and illustrates this phenomenon with the example of water in the Philippines:

> Where water, sanitation, and electricity are publicly managed, the accountability to citizens is achieved when the state ensures that utilities, boards, and government departments provide efficient and equitable services for all citizens, including the poor [. . .]. In 1997 the MWSS [Metro-Manila Waterworks and Sewerage System] was typical of service utilities, boards and government departments that consider politicians and policymakers as their real clients. Politicians—responding to equity concerns or, more likely, to short term political gain—often keep prices for infrastructure services well below those for cost recovery. This makes service providers dependent on politically motivated budget transfers for survival—or when transfers are not forthcoming, on service cutbacks that attract no penalties from policymakers. State-owned water and electricity providers then cease to function as autonomous service providers. [. . .] When this happens, policymakers can no longer hold providers accountable for delivering to all citizens, services deteriorate, and poor citizens as clients are left powerless (World Bank, 2004a: 162–163).

MWSS was privatized in 1997, and water and sanitation services in the Philippines are decentralized, but this does not mean there are no patronage issues. The *Filipino Report Card on Pro-Poor Services* finds that because water and sanitation services are decentralized, all regions lobby for funding for services, giving a lot of discretionary powers to "fairly corrupt" national agencies to decide who should receive what level of services (World Bank, 2001c). The main *Report Card* recommendation in the area of water provisioning is that national policies should be developed to provide water supply services on the basis of what clients want and are willing to pay for, along with targeted interventions to provide services to those that are not able to pay (some of the poor) and to correct for market failures (such as in rural areas).

Access to Housing

Adequate housing is a major problem in the Philippines. ADB's 1999 *Philippines Urban Sector Profile* estimated the deficiency in housing for 1993–1998 at 3.72 million units. The report further found that nationally about 2.5 million urban households were living in informal slum settlements, typically occupying high-risk areas along riverbanks, canals, environmentally sensitive coastal areas, infrastructure easements such as railroad tracks, utility corridors, watersheds, other government land, or private land. Squatter communities have poor quality housing, are overcrowded, and face inadequate access to services (ADB, 1999).

Housing issues are of course not limited to urban areas. In the *Report Card* survey, more than half of the households rated themselves to be "housing poor," meaning that they considered their housing to be inadequate or in need of major improvement. An additional 34% considered themselves as borderline housing poor. An interesting observation is that only 30% of the households in the survey were considered expenditure poor, indicating that many of the households with inadequate housing have incomes above the poverty line (World Bank, 2001c). This echoes findings in many other studies including *Philippines Urban Sector Profile* (ADB, 1999), *Philippines: A Strategy to Fight Poverty* (World Bank, 1996), *Household Responses to Poverty and Vulnerability: Confronting Crisis in Commonwealth, Metro Manila* (Moser and McIlwaine, 1997) and *Poverty in Manila: Concepts, Measurements, and Experiences* (Schelzig, 1999). All of these studies underscore the need to examine poverty in a multidimensional framework since income does not capture the full extent of deprivation.

The 2002 APIS reveals that one third of families in the lower 40% income bracket were living in houses with both roofs and outer walls made of light materials.[43] In four regions—Bicol, Eastern Visayas, ARMM, and Caraga—this proportion was closer to one half of all poor families (NSO, 2003). Data from the *Report Card* survey show that government housing assistance programs barely reached the poor. The reasons included (i) a lack of information on housing assistance programs and how to access them; (ii) a strong emphasis on mortgage finance as the primary form of housing assistance; (iii) a centralized service delivery system that increases the transaction costs of assistance; (iv) eligibility requirements that discriminate against the poor, especially the rural poor; and (v) excessively long waiting periods for processing applications (World Bank, 2001c).

Access to Transportation and Other Infrastructure

Infrastructure in the form of roads can improve the lives of the poor in many different ways. New roads can provide easier access to services that were previously unreachable, such as health and education. Improved farm-to-market roads reduce transaction costs and give farmers access to markets for their agricultural products. Better roads can cut down on travel times, thus improving productivity. Building new roads and improving existing ones can provide direct benefits to the poor in the form of income earning opportunities,

[43] Light materials include cogon, nipa, anahaw, and sawali. Strong materials, on the other hand, include galvanized iron, aluminum, tile, concrete, brick stone, wood, and asbestos.

provided the roads are constructed in a labor-intensive manner. Labor-intensive public works are an important item on the menu of social safety net interventions since they have a double benefit: income generation for the poor plus lasting infrastructure improvements that provide secondary benefits as described above.[44]

Ali and Pernia (2003) examine empirical evidence to conclude that rural infrastructure investments (roads, irrigation, electricity, etc.) can lead to higher farm and nonfarm productivity, more employment and income opportunities and increased availability of wage goods, thus reducing poverty by increasing income and consumption. Their study on infrastructure and poverty reduction finds that roads in the Philippines, particularly when complemented by education investments, significantly impact the welfare of the poor. Another important conclusion is that if governance and institutional frameworks are strengthened, the linkage between infrastructure and poverty reduction can become even stronger.

ADB conducted a study of rural roads and poverty reduction in 2002. The case study approach included two field sites in the Philippines, in Sorsogon and Negros. As in this country poverty analysis, the roads study defined poverty in a multi-dimensional manner. Main findings were that the rural roads studied provide an important economic safety net allowing alternative livelihood opportunities. These alternative income streams, even where they are temporary or seasonal, are important for household food security. A good road surface and the guarantee of all-year accessibility are important prerequisites for the development of any kind of regular enterprise.[45] The study also found that the poor and very poor benefited substantially in all case study projects from social impacts of rural roads through access to state services in areas such as health, education, agricultural extension, and provision of information. Improved rural roads created the conditions for better access of people to services, and of services to the village. Roads allowed regular contact with the outside world and brought remote areas within the purview of the state and other networks. Such improvements reduced the perception of isolation and remoteness among the poor and very poor (ADB, 2002a).[46]

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44 Labor-intensive public works programs can also be self-targeting if wages are set below market rates. In this manner only the poor will participate and leakage to the nonpoor is minimized. For more on labor-intensive public works programs, see Subbarao (2003).

45 Though the study also noted that increased accessibility can also have less desirable consequences in the form of exposure to negative influences from nearby urban centers such as drugs and the sex trade.

46 It is important to note that, in an archipelagic country like the Philippines, basic access is not only about improved rural roads, but also improved sea transport and small ports. Many isolated areas of the country (coastal and small island communities) are not accessible by road. A complete discussion on transport and access would thus include other subsectors such as sea and air.

Financial Capital

Financial capital denotes the financial resources that people are able to access. DFID defines two main sources of financial capital: available stocks (such as savings, or credit) and regular inflows (the most common types, aside from wage earnings, are pensions and other transfers from the state, and remittances) Financial capital is thought to be the most versatile of the five categories of assets, since it can be turned into other types of capital, but it is also the asset that tends to be least available to the poor (DFID, 1999). Increased access to financial capital for the poor can be supported in a number of ways, as illustrated in Box 3.

Box 3

Building Financial Capital

Access to financial capital can be supported through three indirect means:

- **Organizational**: Increasing the productivity of existing savings and financial flows by helping to develop effective financial services for the poor.
- **Institutional**: Increasing access to financial services (including overcoming barriers associated with lack of collateral among the poor).
- **Regulatory**: Reforming the environment in which financial services operate and helping governments provide better safety nets for the poor (including pensions).

Source: DFID, 1999.

Sources of financial capital were assessed in the 2002 APIS. Salaries and wages are the most dominant source of income (44.2%), but "other sources" are also significant at 28.8%. Other sources include rental incomes, gifts, and income from other sources that do not include work. It is assumed that remittances fall under this category. Table 24 shows sources of income for the poor (the bottom 40%), by category, and by region. NSO defines family sustenance as activities "for home consumption only, in order to augment family income." Entrepreneurial activities are defined as any member of the family engaged as operator or self-employed in any agricultural or non-agricultural family-operated activities. In many of the Philippine regions, particularly Western Mindanao and CAR, entrepreneurial activities provide much larger share of poor families' total income than do salaries and wages. This is not the case in Metro Manila, where 'other sources' seem to provide the lion's share of poor households' income (43.4%).

Table 23

Sources of Income of the Lowest 40% Income Bracket by Region (%)

Region	Salaries & Wages	Family Sustenance/ Net Share of Crop	Entre-preneurial Activity	Other Sources
Philippines	**34.6**	**1.6**	**25.4**	**28.8**
NCR	38.2	0.2	18.2	43.4
Luzon				
CAR	17.3	11.5	51.6	19.5
Ilocos (I)	30.4	5.8	36.0	27.7
Cagayan Valley (II)	38.8	9.8	41.6	9.8
Central Luzon (III)	41.9	1.6	28.7	27.7
Southern Luzon (IV)	37.7	5.9	33.9	22.5
Bicol (V)	35.5	7.6	38.5	18.4
Visayas				
Western Visayas (VI)	39.7	9.3	32.8	18.1
Central Visayas (VII)	35.6	6.5	37.3	20.6
Eastern Visayas (VIII)	30.5	8.9	47.4	13.2
Mindanao				
Western Mindanao (IX)	29.4	7.9	50.7	11.9
Northern Mindanao (X)	39.3	7.8	39.3	13.6
Southern Mindanao (XI)	36.6	6.6	46.1	10.8
Central Mindanao (XII)	34.5	7.8	47.7	10.0
Caraga	30.5	9.3	48.4	11.8
ARMM	7.6	7.2	74.4	10.0

Source: NSO 2002 APIS.
ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Autonomous Region.

It is clear that the poor in the Philippines are generally not able to save. Both the 2002 APIS and the 2003 FIES imply that the poor spend more than they earn, also known as dissaving.[47] Table 25 presents 2003 FIES data to show that the pattern of dissaving among the poor has worsened. In 2000, only the poorest 20% spent more than they earned. In 2003, the poorest 30% were forced to dissave. Moreover, comparing 2000 and 2003 income and expenditure data using 2000 prices reveals that all income classes suffered either an increase in the amount of dissavings or a reduction in the amount of savings. In other words, the difference between income and expenditure deteriorated for all.

Because they lack savings and must spend more than they are able to earn, access to credit is an important part of consumption smoothing for the poor, through both formal and informal credit markets. Remittances are a major source of financial capital in the Philippines, though questions arise about the extent to which the poorest are able to benefit from remittances.

Table 25

Average Annual Family Income, Expenditure, and Saving by Income Decile, 2000–2003 (pesos at constant 2000 prices)

	2000			2003		
	Average Income	Average Expend.	Average Saving	Average Income	Average Expend.	Average Saving
Philippines	**145,121**	**118,839**	**26,282**	**130,604**	**109,988**	**20,615**
First decile	24,506	26,463	-1,957	23,199	25,197	-1,997
Second decile	39,620	40,537	-917	37,261	38,393	-1,133
Third decile	51,250	50,795	455	48,388	48,422	-35
Fourth decile	64,231	61,693	2,538	60,444	58,196	2,247
Fifth decile	80,247	74,015	6,232	74,822	70,386	4,436
Sixth decile	100,549	90,878	9,671	92,964	86,800	6,164
Seventh decile	128,203	113,094	15,109	117,737	105,998	11,740
Eighth decile	169,290	141,769	27,521	154,385	134,710	19,674
Ninth decile	237,029	189,464	47,565	216,148	181,061	35,087
Tenth decile	556,277	399,678	156,599	480,689	350,719	129,970

Source: 2003 FIES preliminary results: NSO Table 4d available at www.census.gov.ph/data/sectordata

47 There are well-documented difficulties in accurately capturing total income in household surveys. Expenditure tends to be thought of as easier to measure, which is why many countries (unlike the Philippines) base their poverty statistics on expenditure rather than incomes.

Access to Credit

Microfinance is one of the key avenues of credit for the poor. In 2003, ADB published a study on the commercialization of microfinance in the Philippines (see Charitonenko, 2003). The report finds that until recently the performance of the microfinance sector in the Philippines had been largely disappointing. Despite hundreds of small-scale rural banks, cooperatives, and NGOs that provide microfinance, total outreach was rather limited. Since the late 1990s, however, more significant numbers of rural banks and cooperatives have begun to consider microfinance as a potentially profitable market niche. The Government gave formal recognition to microfinance in 1997 and has been improving the environment for the commercialization of microfinance institutions (MFIs) since that time. An improved legal and regulatory framework and increased donor support has led to rapid expansion in outreach.

Nevertheless, expanding access to sustainable microfinance by the poor and near poor is still the greatest challenge facing the microfinance industry in the Philippines. The ADB report estimates that the number of poor people with access to microfinance services is in the order of 600,000 to 1 million people, depending on whether one includes salary-based loans that may be borrowed from rural banks for microenterprise purposes. But even if the upper estimate were true, it would still mean that only a fraction of the total number of poor households have access to microfinance. Charitonenko (2003) finds that greater focus by MFIs on financial sustainability (i.e., commercialization) will allow MFIs a greater opportunity to fulfill their social objectives of providing the poor with increased access to demand-driven microfinance products and services. The report lays out the array of challenges that continue to inhibit commercialization, and ascribes specific roles to be played by the major stakeholders: Government, MFIs, donor organizations, and microfinance support institutions.

Access to Remittances

The Philippines is the third highest recipient of remittances in the world. The Central Bank of the Philippines (BSP) reports official remittances in the Philippines at $7.6 billion in 2003, equivalent to 7.5% of total GDP. About 7 million Filipino citizens were working abroad. Some estimate the inflow of remittances to be much higher, since it is difficult to quantify transfers made through informal remittance systems, and since an average remittance of $1,000 per overseas worker per year seems too low. A World Bank case study of the Philippines (World Bank, 2003b) finds an extensive network of informal money remitters operating openly in the *padala* system. This is a system based on personal couriers (often friends and relatives) who deliver money door-to-door and offer direct credit to peso or conversion of foreign exchange to pesos for the account of the beneficiary. This personalized system thrives on faster, cheaper (often free) service that operates with flexible hours and close proximity to service providers. The World Bank case study estimated the inflow of remittances in 2002 as between $14–21 billion. This much higher estimate is echoed in a recent ADB study on remittances in the Philippines (ADB, 2004c).[48] The ADB survey of more than 2,000 overseas Filipino workers (OFWs) and beneficiary households found that the average remittance amount was $340 per month. Of the 1,450 respondents in the Philippines, 82% said they sent (or received) money at least once per month if not more often.

Adams and Page (2003) conducted a cross-country study of the impact of international migration and remittances on poverty, constructing a panel of data on poverty (defined as the population living below $1 per day), international migration and remittances for 74 low- and middle-income developing countries. Their main finding was that international migration has a strong statistical impact on poverty reduction. On average, a 10% increase in the share of international migrants in a country's population will lead to a 1.9% decline in the share of people living in poverty. Furthermore, the money these migrants remit also has a strong statistical impact on poverty reduction. On average, a 10% increase in the share of international remittances in a country's GDP will lead to a 1.6% decline in the share of people living in poverty.

These broad cross-country conclusions may not hold up in the Philippines. Research conducted by Go (2002) found that the poorer segment of Philippine society has been largely excluded from the opportunities provided by migration, and that OFWs tend to come from less poor regions. The regions with the highest levels of poverty (mainly Mindanao) have the lowest proportion of OFWs. While a significant proportion of families report that income from abroad is their main source of income, these families are mainly based in urban areas. Furthermore, families from higher income groups tend to receive larger proportions of income from abroad than lower income groups. Go finds that international migration and remittances may actually exacerbate the inequality problem in the Philippines, and therefore recommends policies to channel remittances into more productive investments to fuel pro-poor economic development (Go, 2002).

The ADB remittance study (ADB, 2004c) makes similar recommendations, noting that remittances have been used mainly for excessive consumption as

[48] ADB. 2004. Enhancing the Efficiency of Overseas Workers' Remittances. Technical Assistance Final Report. July 2004.

opposed to increasing productive capacity. When properly harnessed and combined with savings mobilization and fiscal discipline, remittances could serve as a driver of development. The study makes recommendations with a view to increasing remittance volumes, facilitating the shift from informal to formal channels, and leveraging the use of remittances for sustainable poverty reduction. One recommendation is to look more closely at the role of community-based financial or economic institutions such as rural banks, thrift banks, cooperatives, and MFIs in linking remittances to development. The authors furthermore suggest that with predictable remittance flows of more than $7 billion per annum, there exist opportunities to securitize these flows for developmental initiatives.

While the potential for economic benefits of remittances is high, there remain a number of negative social consequences of migration, both domestically and abroad. Overseas, workers can be subjected to abuse and exploitation. Women in domestic and entertainment work are particularly vulnerable. On the domestic front, the country faces "brain drain," where many of the most skilled professionals leave for better opportunities overseas.[49] One also must consider the social costs of nearly 10% of the population working abroad. Families are often apart for long periods of time, and social capital can break down. Over 65% of OFWs are women (ADB, 2004c), many of whom leave children behind to be brought up by relatives. This leaves the children of OFWs vulnerable to an array of problems. There can also be negative health consequences of migration, to which seafarers and their families are particularly at risk.[50] Seafarers are a particularly high-risk population for HIV/AIDS and other sexually transmitted diseases, including Hepatitis B.[51] Although HIV prevalence among male Filipino seafarers is still less than 1%, their global exposure to risky practices is alarming. A returned OFW who becomes ill can quickly pull his family into poverty, both through increased health care costs (particularly if a family member becomes infected as well) and as a result of lost earnings.

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[49] Often these highly qualified professionals take lower level jobs overseas, such as when teachers work as domestic helpers, or qualified doctors retrain to work as nurses.

[50] More than a quarter of a million Filipinos comprise nearly one third of the world's supply of seafarers (ADB, 2004c).

[51] Sunas (2003) presents findings from a 2002 survey of returning male seafarers, using a two-stage cluster sampling design. The great majority of respondents were married. Nevertheless, a total of 35% of the study participants had had sex during their most recent tour of duty. Of those who had had sex, 36% had high-risk sex with female sex workers (FSWs) in countries with HIV prevalence among FSWs. Upon returning to the Philippines, 86% of respondents had sex. Each respondent underwent a blood test, and all tested negative for HIV, but 7% were positive for Hepatitis B.

Natural Capital

Natural capital comprises a variety of resources, from intangible public goods such as the atmosphere and biodiversity to divisible assets used directly for production. As explained by DFID (1999) the relationship between natural capital and vulnerability to poverty is particularly pronounced. Many of the shocks that devastate the livelihoods of the poor are processes that destroy natural capital, such as fires that destroy forests, or floods that destroy agricultural land. Natural capital is particularly significant to those who derive all or even part of their livelihoods from resource-based activities, like farming, fishing, and so on, which in the Philippines is a large proportion of the population. But it is vital for everyone – health and therefore human capital are compromised in areas where air quality is poor, for example. This section focuses on two key issues in natural capital: the environment and access to land.

Access to a Clean and Healthy Environment

Improving environmental conditions can help to reduce poverty, since environmental conditions have major effects on the health, opportunities, and vulnerability of poor people. Environmental damage increases the expenditures people face, such as increased health care costs resulting from pollution-related illness. Despite receiving the same money, such individuals experience a lower level of well being than they would in the absence of environmental damage.

The scope of environmental concerns is broad, and includes water supply and wastewater disposal, solid waste removal, indoor and urban air pollution, and natural resources issues such as land degradation, deforestation, and loss of coastal ecosystems and fisheries. The assessment of the Millennium Development Goals in Chapter 5 gives details of some of the environmental indicators for the Philippines, none of which are particularly encouraging. Forest cover has been reduced to less than one fifth of total land area—persistent problems are logging, mining, and encroachment of settlements in critical watersheds. Carbon dioxide emissions are on the rise and urban air quality, particularly in Metro Manila, is appalling. The ratio of protected area to total areas in the Philippines is very low. The result is that the country is experiencing an alarming rate of biodiversity loss. The Philippines is one of only 17 countries in the world classified as mega-diversified with a high concentration of endemic plants and wildlife, but Conservation International now ranks the Philippines as one of the five "hottest hotspots." Hotspots are the most threatened reservoirs of plant and animal life on earth.

Environmental damage can influence both growth and distributional equity. Working from this assumption, Torras (2002) adjusted poverty and inequality measures to account for estimated environmental damage in the Philippines. Torras used environmental damage valuations compiled by researchers from the World Resources Institute (WRI).[52] His analysis employs two scenarios: equality of misfortune, or EMA, where environmental damage is distributed equally across the population, and regressive impacts assumption (RIA), which assumes that the poor on average shoulder more of the environmental damage than the rich relative to total income and in absolute terms. Torras found that conventional statistics overstate the magnitude of poverty reduction, and that factoring in environmental damage results in higher poverty levels under both EMA and RIA. Inequality is also increased: Gini coefficients rise particularly severely under RIA. Torras concludes that even his adjusted figures underestimate deprivation in the Philippines since the environmental damage valuations included only marketable raw materials, not lost ecosystem benefits (Torras, 2002).

There is a strong link between poverty, the environment, and governance. Property rights are especially significant as they lay the foundation for natural resource utilization. Incentives in the form of regulated prices, taxes, and subsidies can send important signals to resource users about economic opportunities. Natural resource utilization should not only be seen in the context of limiting access and exploitation, but should be viewed from the perspective of sustainable opportunities for poverty reduction.

In July 2004 ADB prepared the first Country Environmental Analysis (CEA) for the Philippines, providing the background information necessary for informed decision making on environmental constraints, needs, and opportunities (see ADB, 2004f). The CEA contains detailed analysis in terms of legal, policy, and institutional constraints. The strategic priorities identified for the Philippines include

- Promoting ecosystem-based planning and management,
- Financing environmental and natural resource management,
- Strengthening community-based resource management,
- Integrating environmental sustainability principles into agrarian reform,
- Strengthening biodiversity conservation, and
- Consolidating and rationalizing planning and management functions.

[52] WRI's monetary assessment of resource depletion in the Philippines was estimated by Cruz and Repetto for 1970–1987. Total losses as a percent of GDP range from a high of 5.6% in 1970 to 3.0% in 1984 and 1986.

Access to Land

Income poverty analysis demonstrates that poverty in the Philippines is overwhelmingly concentrated in rural areas. Of the 26.5 million poor people in the country in 2000 [M03], 7.1 million were urban and 19.4 million lived in rural areas. In other words, nearly 75% of the poor are rural. In rural areas, land is one of the main determinants of welfare, and passing down land is one of the main ways in which parents assure the future welfare of their children (Quisumbing et al., 2004). Where the distribution of land is highly inequitable, poverty is difficult to reduce. Balisacan and Pernia found this in their study of the Philippines (2002). Unequal distribution of land limits the ability of the poor to invest in human capital and in productivity enhancements. Without land, the poor have difficulty accessing financial capital (e.g., credit) and are not able to smooth consumption during shocks. Balisacan and Pernia highlight that in the Philippines, in areas where the Comprehensive Agrarian Reform Program (CARP) has been successfully implemented, it has had a beneficial effect on the welfare of the poor.

An empirical study by the World Bank (2000) echoes this finding. Land reform was found to have had a significant impact on improving the beneficiaries' well being (see Table 26). Per capita consumption of beneficiaries from the 1972 land reform in 1998 was 45% higher than that of nonbeneficiaries. Children of land reform beneficiaries accumulated human capital faster than those from nonbeneficiaries. Rates of physical asset accumulation by land reform beneficiaries were significantly higher than those by nonbeneficiaries. The data also suggested that, in the longer term, land reform beneficiaries were able to improve their productivity more than nonbeneficiaries.

Table 26

Impact Of Land Reform On Beneficiaries

Impact	Indicator
Additional schooling (years)	0.60 – 0.83
Additional income ($)	73 – 92
Additional asset accumulation ($)	996 –1526
Increase in rice yields 1985–1998 (Kg/ha)	565 – 638
Additional profits, 1985–1998 ($)	80 – 102

Source: World Bank (2000).

The Department of Agrarian Reform's series of CARP Impact Assessment Studies (2003) includes *Impact of Agrarian Reform on Poverty* (Reyes, 2003). Reyes assessed household data from 1990 and 2000 surveys conducted by Gordoncillo. The sample included 1,000 agrarian reform beneficiaries and 1,000 nonbeneficiaries. Reyes' analysis concludes that agrarian reform has had a positive impact on farmer beneficiaries. It has led to higher real per capita incomes and reduced poverty incidence between 1990 and 2000. Agrarian reform beneficiaries not only tend to have higher incomes and lower poverty incidence but they also fare better in terms of other indicators of well-being such as access to safe water, improved sanitation facilities, and higher educational attainment. Reyes points out that complementary inputs are necessary to maximize the benefits from agrarian reform, and that irrigation, credit, and government services tend to promote higher incomes.

Land is good for the poor. However, much remains to be done, both in terms of increasing the number of beneficiaries, and improving the program itself. The number of landless farmers far exceeds the number of CARP beneficiaries. Data from 1998 APIS indicate that, of the households who have at least one member working in agriculture, 68% do not have access to land other than their residence, while only about 3% received land through CARP (World Bank, 2000). Critics of CARP point out that the program ties farmers to very small plots, which ultimately dooms agricultural productivity to remain low. In any event, land reform in the Philippines remains an urgent, unfinished agenda.[53] Support services to go along with asset reform are critical. This issue is taken up again in Chapter 6.

Social Capital

Social capital comprises the social resources upon which people are able to draw. These social resources are developed through networks and connectedness, membership of groups and organizations, and relationships of trust, reciprocity, and exchanges that facilitate cooperation and can provide informal safety nets among the poor (DFID, 1999). Social capital is based on relationships. As Portes (1998) defines it: social capital stands for the ability of actors to secure benefits by virtue of membership in social networks or other social structures". Portes clarifies the distinction between social and other forms

[53] For an in-depth and comprehensive look at the history and politics of land reform in the Philippines, see *A Captive Land: The Politics of Agrarian Reform in the Philippines* (Putzel, 1992).

of capital. "Whereas economic capital is in people's bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others, and it is these others, not himself, who are the actual source of his or her advantage." Participation is a key ingredient of social capital.

Participation—involving people in decision-making on issues that directly affect them—builds social capital, and social capital stocks directly improve people's welfare. This has been empirically demonstrated by Grootaert (2002) who studied social capital and poverty in Indonesia to conclude that membership of local associations correlates positively with household welfare. Main findings included that social capital reduces the probability of being poor and that the returns to household investment in social capital are higher for the poor than for the population as a whole. There is thus a high potential pay-off to the poor from participating actively in local associations and creating social capital.

Grootaert further found that membership of associations facilitates information dissemination, reduces opportunistic behavior, and brings about collective decision-making. Indonesian households with higher social capital have higher household expenditure per capita, more assets, better access to credit, and are more likely to have increased their savings in the past year. They are also less likely to have their school-aged children not attending school.

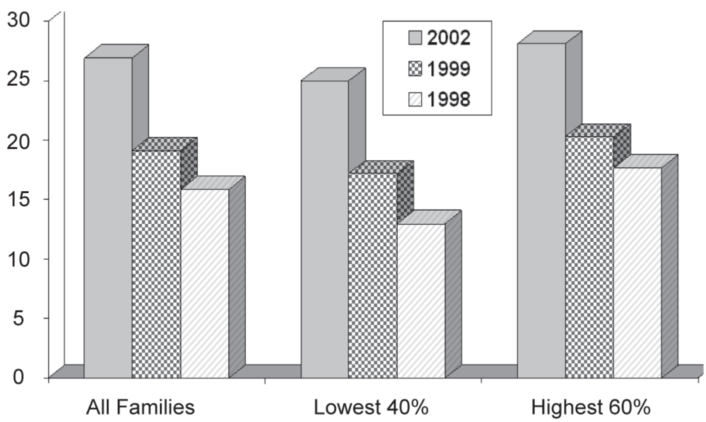
In the Philippines there is a strong tradition of participation in civil society, one that appears to be continually evolving. In 2002, the APIS found that 26% of all families had at least one member of the family involved in a people's organization (PO) and/or a nongovernment organization (NGO). The interesting finding here is that there is not much difference in levels of participation between the upper and lower income brackets, and there is only a slight difference between rural and urban areas. Rural participation is somewhat higher: about 26.1% of families in the rural areas had family members participating in an NGO/PO compared to 21.7% in urban areas (see Figure 11).

Encouraging participation in community-driven development (CDD) is a way to build social capital in the Philippines. CDD gives control of decisions and resources to community groups and treats poor people as assets and partners in the development process, building on their institutions and resources. The World Bank has a major CDD program (www.worldbank.org/cdd), and support includes (i) strengthening and financing inclusive community groups, (ii) facilitating community access to information, and (iii) promoting an enabling environment through policy and institutional reform. The link to social capital lies in empowering poor women and men by devolving control and decision making to them. An example of CDD in the Philippines is the

World Bank-funded KALAHI-CIDSS (Comprehensive Integrated Delivery of Social Services) program, run by the Department for Social Welfare and Development (DSWD). Launched in January 2003, it is targeted to work in 5,000 barangays of the 42 of the poorest provinces.[54] ADB is also undertaking to build social capital in the Philippines through the Social Protection for Poor Women Vendors project. This activity focuses on building social networks among poor women in Mindanao.

Figure 11

People's Participation/Community Development



Sources: NSO 1998, 1999 and 2002 APIS.

Mapping Poverty in the Philippines

Income poverty data exists primarily at the national, regional, and provincial level, based on the FIES surveys conducted every 3 years. The provincial level data was only released in 2003 for the years 1997 and 2000. The development of provincial data by NSCB is valuable, but more timely local-level data is required if decentralization for poverty reduction is to work in the Philippines. Local planners and implementers need local information.

54 See the KALAHI-CIDSS website at http://itd.dswd.gov.ph/kalahi.

In April 2003 the DILG issued a directive to all LGUs in the Philippines outlining guidelines for the adoption of core local poverty indicators. This directive was based on work of the MIMAP project[55] in the mid-1990s to develop a community-based monitoring system (CBMS). The 13 indicators fall into three categories (survival, security, and enabling) and are meant to help LGUs formulate their local poverty reduction action plans. The list of indicators can be found in Box 4.

Box 4

Core Local Poverty Indicators

Survival		
Health	1	Under-5 mortality
Nutrition	2	Malnutrition
Basic Services	3	Proportion of households without access to safe water
	4	Proportion of households without access to sanitation
Security		
Shelter	5	Proportion of households who are squatting
	6	Proportion of households in makeshift houses
Peace and Order	7	Proportion of households with victims of crime
Enabling		
Income	8	Proportion of households with income less than poverty line
	9	Proportion of households with income less than food poverty line
	10	Proportion of households who eat less than 3 meals a day
Employment	11	Unemployment rate
Education	12	Elementary participation rate
	13	Secondary participation rate

Source: DILG Memorandum Circular MC2003-092.

[55] The Micro Impacts of Macroeconomic Adjustment Policies Philippines project.

These indicators are based on earlier attempts to monitor nonincome dimensions of deprivation at the local level, such as the Minimum Basic Needs (MBN) approach developed in the early 1990s.[56] The DILG memorandum recommends that the indicators be collected annually, and indicates that communities might decide to include other concerns for their particular area. So, for instance, indicators related to environmental concerns are included in the CBMS for Palawan (where the system was successfully piloted). The National Anti-Poverty Commission (NAPC) and DILG have agreed that a 14th indicator should be added across the board: the maternal mortality rate. One indicator that appears to be missing from the list is a measure of community participation, allowing for the assessment of social capital.

CBMS data allows for poverty mapping, and results show that local policymakers' and communities' comprehension of the poverty situation in their localities was greatly facilitated by the use of poverty maps (Reyes and Valencia, 2004). Being able to visualize the data facilitates understanding. Figure 11 shows the level of detail that can be obtained through CBMS and poverty mapping, where households are identified precisely. The potential for its use in planning and impact monitoring is very high. Poverty maps will often use color to get the message across, with municipalities colored darkening shades of red to mean worsening conditions, and shades of green implying higher/ better levels of a particular indicator. This is the method employed by the Peace Equity Foundation maps.

In 2004, CBMS was being implemented in 7 out of 12 municipalities in Camarines Norte and is scheduled to commence in the province of Bulacan. Region IV B had expressed interest in implementing it region-wide through the National Economic and Development Agency (NEDA) regional office (Reyes and Valencia, 2004). Support for this type of local-level poverty monitoring would be useful for improved service delivery at the local level, with the ultimate goal of reducing access poverty.[57]

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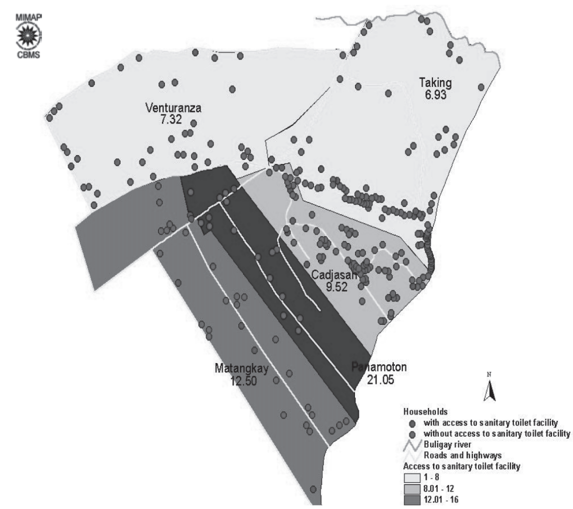
56 The MBN approach was developed by a consortium of organizations and academic institutions including the UNDP, the Philippine Institute for Development Studies (PIDS) and scholars from the University of the Philippines. The Department of Social Welfare and Development (DSWD) was mandated with its implementation, and the first survey of 33 indicators was implemented in December 1994, covering a sample of 825 barangays across the country.

57 While there are many benefits from using CBMS, there are a few issues that have to be considered in using CBMS results: (i) the comparability of indicators across locations; (ii) the use of standard concepts and methodology in compiling indicators; and (iii) cost-effectiveness. The compilation methodology and even concepts and definitions may vary across locations. Strict comparability across areas or aggregation to provincial or national level may not be possible.

Figure 11

Proportion of Households with Access to Sanitary Toilet Facility, by Purok and Household, Barangay Oring-Oring, Brooke's Point, Palawan, 2002



Source: Reyes and Valencia (2004).

Different stakeholders in the Philippines have launched other attempts at poverty mapping. The Peace and Equity Foundation (PEF) has been working on poverty maps of the poorest 28 provinces. Four detailed provincial maps have been completed—of Marinduque, Romblon, Bohol, and Negros Oriental—and were launched in November 2004. The PEF uses official secondary data on income, health, education, employment, and other social indicators. PEF has mapped some of the data from the APIS surveys, for example. The stated goal of these maps, as with the DILG and CBMS systems, is to provide a tool to guide local stakeholders in setting their own priorities. ADB is preparing to support the Mindanao Economic Development Council (MEDCo) working with the local office of the NSCB to produce detailed municipal level poverty maps of the 25 provinces of Mindanao. The indicators will at first be taken from existing administrative data (gathered locally), with the idea of eventually institutionalizing the full DILG/CBMS list of indicators.

Chapter 5

ACHIEVING THE MDGS IN THE PHILIPPINES

All 191 United Nations (UN) member states have pledged to meet the 8 Millennium Development Goals (MDGs) by the year 2015. The UN has identified 18 targets and 48 indicators that serve to guide countries in their mission.

Several institutions—both international and local—monitor progress toward the MDGs in the Philippines. In January 2003, the Government in cooperation with the UN Country Team published a progress report on the accomplishments of the Philippines in meeting the MDGs (Government of the Philippines, 2003). NSCB maintains an extensive section dedicated to the MDGs on its very comprehensive website (www.nscb.gov.ph/stats/mdg).[58]

In the monitoring reports prepared in the Philippines, some nonstandard indicators have been used for assessing performance. The reports prepared by UN agencies use indicators that can compare performance across countries, such as population below an international poverty line of $1 per day. In the Philippines, there was an attempt to make use of commonly available indicators

58 In this MDG section of the website, NSCB reports time series and sources of various indicators. One table shows population below the national poverty line, 1991–2000. There is a major flaw in the table in that the figures for 1991 and 1994 are 1992 Methodology and those for 1997 and 2000 are 2003 Methodology. This is precisely the sort of error one wishes to avoid when there is a major change in the poverty measurement method.

(something that is encouraged in the UN guidelines on MDGs). In measuring extreme poverty, instead of the $1 per day benchmark, the Government decided to use the national subsistence incidence based on the national food threshold. These differences must be noted if Philippine progress is to be compared to other countries using different indicators. One further note on consistency: the Government's January 2003 MDG Progress Report does not quite match the UN norms on targets. In the Philippine report, MDG 1, Target 3, is "halve the population with no access to safe drinking water." In international reports, this is MDG 7, Target 10.

This Chapter is organized by MDG, with a brief discussion of the indicators and a summary table at the end. These summary tables pull together data from various available sources, and represent the most up-to-date assessment of the MDGs at this time. There are of course some data consistency questions that arise when different sources are consulted. Some of these data disparities are examined here.

MDG 1: Eradicate extreme poverty and hunger

The proportion of the population living below the international poverty line of $1 per day at 1993 PPP in the Philippines was 11.5% in 2002, a good deal lower than the 19.1% in 1990 (ESCAP, 2004). The target is 9.6% by 2015. Given past trends, ESCAP estimates the poverty incidence is likely to reach 7.5% by that time (UN 2003). Most other Southeast Asian countries have already met this goal but the Philippines, along with Cambodia and Lao People's Democratic Republic, is generally on target (UN 2003).

Progress in reducing hunger has been modest. The Philippine Government MDG report uses subsistence incidence as the indicator for the target of reducing poverty, but in theory one might use it as a proxy indicator for hunger, since subsistence incidence is based on a food poverty line. If families fall below this food poverty line, which is constructed to meet minimum dietary requirements, then one must assume that they do not have enough income to meet their food needs, and are thus undernourished. There was an overall reduction in the subsistence incidence of families from 20.4% in 1991 to 16.7% in 2000. However, the magnitude of food poor families increased from 2.4 million in 1985 to 2.5 million in 2000 [M92]. There are also great regional and provincial differences, as explored in Chapter 4.

The proportion of children under five years old who are moderately and severely underweight has been reduced by less than 4% between 1990 and 2001 and remains very high at about 30.6%. The target of 17.25% does not seem likely to be met. Similarly, there has been only a 3% drop in the proportion of Filipinos who are undernourished, according to UN estimates for 1991 and 1998.

MDG 1
Eradicate Extreme Poverty and Hunger

	Target and Indicator	Philippine Update	
1	**Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day (%)**		
	Population living below $1 a day (%)	1990	19.1
	source: 1	2002	11.5
	Poverty gap ratio (%)	1991	2.8
	source: 2	2000	2.7
	Share of poorest quintile in national consumption (%)	1991	5.9
	source: 2	2000	5.4
2	**Halve, between 1990 and 2015, the proportion of people who suffer from hunger (%)**		
	Children underweight for age (% under age 5)	1990	34.5
	source: 3	2001	30.6
	Undernourished people (as % of total population)	1991	26.0
	source: 4	1998	23.0
	Families living below the food threshold (%)	1991	20.4
	source: 5	2000	16.7

Sources: 1. ESCAP (2004), 2. World Bank poverty monitoring website, 3. NSCB MDG website, 4. UN (2003), 5. FIES [M92].

MDG 2: Achieve universal primary education

The education indicators for the Philippines, as reported by NSCB, do not look promising. All three indicators show slight decreases from 1990–2001. The net enrolment ratio in primary education dropped from a near universal 99.1% in 1990 to 97% in 2001. The literacy rate of 15–24-year-olds dropped from 96.6% in 1990 to 95.1% in 2001. Nevertheless, these levels are reasonably high overall. More worrying is the cohort survival rate, namely the proportion of students who start grade 1 that complete grade 5. This indicator, low to begin with, dropped from 68.2% to 67.1%. In Malaysia, for example, the cohort survival rate was nearly over 97% in 1993 (UN, 2003). Various factors can account for poor performance on this indicator, including low quality of schooling, discouragement over poor performance, and the direct and indirect costs of schooling.

MDG 2

Achieve Universal Primary Education

	Target and Indicator	Philippine Update	
3	**Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling**		
	Net enrolment ratio in primary education	1990	99.1
	source: 3	2001	97.0
	Proportion of students who start grade 1 that reach grade 5 (cohort survival rate)	1990	68.2
	source: 3	2001	67.1
	Literacy rate of 15 to 24-year-olds	1990	96.6
	source: 3	2000	95.1

Source: 3. NSCB MDG website.

MDG 3: Promote gender equality and empower women[59]

The indicators for gender equality and empowerment of women are universally high in the Philippines. The status of women is promising. Particularly in the sphere of education the MDG targets have long been met: the participation rate of girls tends to exceed that of boys, as do cohort survival rates. Other indicators on gender equality, the share of women in nonagricultural wage employment and the number of parliament seats occupied by women, both improved. The country has had two female presidents since 1986, but there is still some ground to be gained by women in the political sphere: In 2003, 3 out of 24 senators and 33 out of 205 legislators in the House of Representatives were women. Though female employees dominated the bureaucracy at 53% of the total work force, significantly more men are appointed to higher levels. Furthermore, only 2 out of 15 Supreme Court justices are women (Government of the Philippines, 2003).

[59] For an in-depth survey of gender issues in the Philippines, see ADB. 2004. Country Gender Assessment, Philippines, Manila: ADB.

MDG 3
Promote Gender Equality and Empower Women

Target and Indicator	Philippine Update	
4 Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015		
Ratio of girls to boys in primary, secondary, and tertiary education	1993	1.0
Ratio of girls to boys in primary education source: 3	2000	1.0
Ratio of girls to boys in secondary education	1993	1.1
source: 3	2001	1.1
Ratio of girls to boys in tertiary education	1993	1.3
source: 3	2000	1.2
Ratio of literate females to males among 15–24-year-olds	1990	1.0
source: 4	2002	1.0
Share of women in nonagricultural wage employment (%)	1990	40.2
source: 3	2001	41.0
Share of seats held by women in national parliament (Senate and House of Representatives) (%)	1992	11.6
source: 3	2001	18.2

Source: 3. NSCB MDG website, 4. UN (2003).

MDG 4: Reduce child mortality

Infant and child mortality in the Philippines have both been gradually reduced since 1990. The target to reduce the under-5 mortality rate by two thirds implies a continued reduction to 22 per 1, 000 live births by 2015 (UN 2003). The Government's 2003 report shows a reduction in IMR from 57 per 1,000 births in 1990 to 35 in 1998. The 2003 NDHS revealed a further fall in IMR to 29 in 2003. These improvements were a result of a variety of programs, services, and initiatives for children including expanded immunization, improved breastfeeding, and vitamin supplementation. The data on measles immunization, from the NSCB's MDG website, also shows improvements.[60]

[60] A conflicting and negative trend is reported in the UNDP's global Human Development Report 2003. In that report, the proportion of 1-year-olds fully immunized against measles has dropped from 85% in 1990 to 75% in 2001. It is difficult to know which trend to report. The NSCB data is from the Department of Health–National Epidemiology Center/Field Health Service Information System. The UNDP source is unclear.

Despite these generally positive trends, there are still many challenges. The Philippines was declared polio-free in 2000, but there was a resurgence in 2001. Other preventable infectious diseases persist at high rates, and large variations in child health status exist across income classes and regions.

MDG 4
Reduce Child Mortality

	Target and Indicator	Philippine Update	
5	**Reduce by two-thirds, between 1990 and 1995, the under-five mortality rate**		
	Under-five mortality rate	1990	66
	source: 4 and 8	2003	40
	Infant Mortality Rate	1990	57
	source: 6 and 8	2003	29
	Proportion of one-year-old children immunized against measles	1990	77.9
	source: 3	2001	81.7

Sources: 3. NSCB MDG website, 4. UN (2003), 6. Government of the Philippines (2003), 8. NSO NDHS 2003.

MDG 5: Improved maternal health

As with any indicator, there are conflicting statistics in maternal health in the Philippines. The first conflicting reports concern the maternal mortality ratio (MMR). The NSCB reports a reduction in the MMR from 209 per 100,000 live births in 1990 to 172 in 1998. Based on this data, the target by 2015 would be 52. However, both the *Human Development Report 2003* and the *World Development Report 2004* report a higher MMR: 240 per 100,000 live births in 1995 (no trend data provided). The second area of conflicting data is in the area of births attended by health professionals. The 2003 NDHS finds that the proportion increased to 60% in 2003 (NSO, 2004), up from 53% in 1993. The NSCB website reports Department of Health data. Here there is also an increase in this indicator, from 58.8% in 1990 to 69% in 2001. The trend is clearly toward improvement, which is positive, but the precise level is under question. The Government's MDG progress report states that 1 in 100 women die as a result of "maternal causes," and that maternal deaths accounted for about 14% of all deaths among women of reproductive age (15–49) (Government of the Philippines, 2003). This number is unacceptably high.

MDG 5
Improve Maternal Health

	Target and Indicator	Philippine Update	
6	**Reduce by three quarters between 1990 and 2015 the maternal mortality ratio**		
	Maternal mortality ratio (per 100,000 live births)	1990	209
	source: 3	1998	172
	Proportion of births attended by skilled health personnel (%)	1990	58.8
	source: 3	2001	69.0

Sources: 3. NSCB MDG website and 8. NSO NDHS 2003

MDG 6: Combat HIV/AIDS, malaria, and other diseases

The confirmed cases of HIV/AIDS in the Philippines remain relatively low and their rate of increase has been slow as compared to many other countries. Between 1984 and 1992, the annual number of confirmed cases reported was below 100. From 1993 to 1999, the number of new cases per year exceeded 100 but was still below 200. Nevertheless, the Government cannot be complacent on the HIV/AIDS issue. An estimated 9,400 people were living with AIDS in 2001. The Joint United Nations Programme on HIV/AIDS (UNAIDS) reports that the Philippines has an HIV/AIDS epidemic that has a huge explosion potential, and that risky behavior is a major concern. A large sex industry exists in the country, casual sex is prevalent among youth, and regular and correct use of condoms is low. The country's 7 million migrant workers belong to a particularly vulnerable group (UNAIDS, 2004).

Republic Act 8504 promotes AIDS education, mandates a multisectoral response that involves marginalized groups, promotes confidentiality, prohibits discrimination, and proscribes mandatory testing. The Philippine National AIDS Council (PNAC) is a multisectoral body comprising representatives from government departments, various sectors and professional groups, and NGOs. It is responsible for formulating and monitoring the national response to HIV/AIDS, but the AIDS-specific government allocation of about $176,000 per year has left many of the activities in the National Strategic Plan unfunded (UNAIDS, 2004).

Tuberculosis (TB) is a major health problem in the Philippines. It was the fifth leading cause of death in 1995 (Government of the Philippines, 2003). Here too the statistics conflict somewhat. NSCB reports the tuberculosis prevalence rate per 100,000 population as having dropped from 246 per

100,000 population in 1990 to 158 in 2001 (NSCB MDG website). The UN reports the prevalence rate in 2000 at 316 per 100,000, exactly double the NSCB rate. The difference is quite remarkable. With a population of 76.5 million in 2000, this would mean either 120,800 or 241,000 new cases of TB per year, depending on which source is consulted. Similarly, the death rate reported by NSCB (38 per 100,000) is much lower than that reported by the UN (67 per 100,000 in 2000). Either way, the problem is substantial. The 1997 Tuberculosis Prevalence Survey showed that positive action behavior among those with TB is low—only 21% of TB symptomatics and 28% of TB patients consulted a health provider (Government of the Philippines, 2003). Malaria is not nearly as great a problem, and is no longer a leading cause of death in the Philippines.

MDG 7: Ensure environmental sustainability

The state of the environment in the Philippines is alarming and calls for concerted efforts to arrest continued degradation. Forest cover has been reduced to less than 18% of total land area in 2000 from 20.5% in 1990 (Government of the Philippines, 2003).[61] Less than 7% of the country's original forest cover remains. Forests are lost as a result of such problems as fires, logging, pests, diseases, mining activities, and encroachment of settlements in critical watersheds. Carbon dioxide emissions per capita have worsened to 1 metric ton in 1999 from 0.7 metric tons in 1991. The ratio of protected area to total area is very low at 0.06. Consumption of ozone-depleting chlorofluorocarbons was reduced somewhat between 1990 and 2001.

The Philippines is experiencing an alarming rate of biodiversity loss. As discussed in Chapter 4, the country is one of only 17 in the world classified as mega-diversified with a high concentration of endemic plants and wildlife. Conservation International now ranks the Philippines as one of the five hottest hotspots, or one of the most threatened places on earth.

The ADB *Philippines Country Environmental Assessment* states that water quality is worsening: only 36% of the country's river systems are suitable sources of public water supply, and up to 58% of groundwater is contaminated with coliform, requiring treatment. The country has not been able maintain the gains

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61 The NSCB website data on forest cover in the Philippines is puzzling. According to a time series spanning each year from 1990–2002, forest cover has remained virtually unchanged at just under 53%. A footnote states that the series is revised as of September 2003 and that the source is the National Mapping Information and Resource Authority. Nowhere else can one find data to substantiate forest cover of more than half of the country that has not been depleted in 12 years.

MDG 6

Combat HIV/AIDS, malaria, and other diseases

	Target and Indicator	Philippine Update	
7	**Have halted by 2015 and begun to reverse the spread of HIV/AIDS**		
	HIV Prevalence among 15–24-year-old women (high estimate)	1999	0.06
	source: 4	2001	0.02
	HIV Prevalence among 15–24-year old men (high estimate)	1999	0.05
	source: 4	2001	0.02
	Condom use rate of the contraceptive prevalence rate	1993	1.0
	source: 3	2002	1.6
	Estimated number of people living with AIDS	2001	9,400
	source: 4		
	Number of children orphaned by AIDS	1997	480
	source:4	2001	4100
8	**Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases**		
	Malaria prevalence rate (per 100,000 population)	2000	15
	Malaria death rate (per 100,000 population)	2000	2
	source: 4		
	Tuberculosis prevalence rate (per 100,000 population)	2000	316
	Tuberculosis death rate (per 100,000 population)	2000	67
	source: 4		

Sources: 3. NSCB MDG website, 4. UN (2003).

made in providing safe drinking water to its population. For instance, the proportion of people with sustainable access to an improved water source in both rural and urban areas declined during 1990–2000. Access to rural sanitation declined from 76.3% in 1998 to 74.2% in 2000.[62] One positive development is that the urban population with access to improved sanitation reached 92% of the total population in 2000, up from 85% in 1990.

62 Philippine Country Brief on the MDGs prepared by the World Bank for the Regional Conference on Translating the MDGs through Water Supply and Sanitation Action, 21-23 Feb 2003, Thailand.

MDG 7
Ensure Environmental Sustainability

	Target and Indicator	Philippine Update	
9	**Integrate principles of sustainable development into country policies and programs and reverse the loss of environmental resources**		
	Land area covered by forest (%)	1990	20.53
	source: 6	2000	17.97
	Ratio of protected area to total surface area	1990	4.9
	source: 3	2001	8.7
	GDP per unit of energy use (PPP US$ per kg. of oil equivalent)	2000	0.14
	source: 7		
	Carbon dioxide emissions per capita (metric tons)	1991	0.7
	source: 7	1999	0.99
	Consumption of ozone-depleting chlorofluorocarbons (metric tons)	2001	2,049
	source: 7		
10	**Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation**		
	Population with sustainable access to an improved water source		
	Rural	1990	82.0
	source: 4	2000	79.0
	Urban	1990	93.0
	source: 4	2000	91.0
11	**Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers**		
	Urban population with access to improved sanitation (%)	1990	85.0
	source: 4	2000	92.0
	Proportion of households with secure tenure (%)	1990	91.0
	source: 3	2000	81.2

Sources: 3. NSCB website, 4. UN (2003), 7. ADB *Basic Data* May 2004.

MDG 8: Develop a global partnership for development

MDG number 8, develop a global partnership for development, is the most broad in scope of all the MDGs. It contains seven targets (targets 12–18) and nearly 20 indicators grouped into sub-headings covering official development assistance, debt sustainability, market access, and other. Some of the indicators pertain specifically to the least developed countries, to Africa, to landlocked countries, and to small island states and are therefore not applicable to the Philippines specifically.

On targets 15–18 the Philippines demonstrates a mixed record. While the debt service ratio as a percentage of exports has dropped from 27.2% in 1990 to 16% in 2003, youth unemployment is a major and growing problem, particularly for young women. In 2002 almost one quarter of the female labor force aged 15–24 was unemployed. This was an 8% increase over 1990. Importantly, the target for decent and productive work for youth does not include an indicator on *under*employment, no doubt also a major issue.

On the communications front, the number of telephone landlines increased between 1990 and 2002 but the overall coverage remained low at just under 9 telephone lines per 100 people. Cell phone ownership, on the other hand, has skyrocketed in the Philippines from less than 3 units per 100 people in 1997 to nearly 20 in 2002. More recent data are not yet available, but figures are sure to have grown even more rapidly. Text messaging is an extremely popular means of communication in the Philippines.[63] More than 4% of Filipinos were Internet users in 2002. This is slightly more than Indonesia and Micronesia, but far below Malaysia (32%), Singapore (50%) and the Republic of Korea (55%).

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63 In 2004 it became possible for overseas Filipinos to remit money home quickly and efficiently using cell phones.

MDG 8
Develop a Global Partnership for Development

Target and Indicator	Philippine Update	
15 Deal comprehensively with the debt problems of developing countries		
Debt service ratio as a percentage of exports of goods and services	1990	27.2
sources: 3 (1990) and 7 (2003)	2003	16
16 Develop strategies for decent and productive work for youth		
Youth Unemployment (% of labor force age 15–24)		
Female	1990	16.2
source: 3	2002	24.3
Male	1990	7.7
source: 3	2002	19.7
17 Provide access to affordable essential drugs		
Proportion of population with access to affordable essential drugs on a sustainable basis	1999	50 - 79
source: 8		
18 Make available the benefits of new technologies, especially for information and communications		
Telephone lines and cellular subscribers per 100 population		
Landlines	1990	1.5
source: 3	2002	8.7
Cell phones	1997	2.8
source: 3	2002	19.3
Personal computers per 100 people	2002	2.77
source: 7		
Internet users per 100 people	2002	4.4
source: 7		

Sources: 3. NSCB website, 7. ADB *Basic Statistics* 2004, 8. UNDP HDR 2003

Opportunities and Challenges

The Philippine Progress Report on the MDGs assesses the probability of meeting eight of the targets, based on past trends. Six out of eight targets are given a high probability of achievement. One is ranked medium (MMR), and one low (hunger). The assessment is reproduced in Table 27.

Table 27
Probability of Meeting the MDGs in the Philippines

MDG Target	Probability		
	High	Medium	Low
Extreme Poverty: Halve the proportion of people below the national food threshold	X		
Hunger: Halve the proportion of underweight five-year-olds			X
Basic Amenities: Halve the proportion of people without access to safe drinking water	X		
Universal Primary Education: Achieve universal primary education	X		
Gender Equality: Achieve equal access to boys and girls to primary schooling	X		
Child Mortality: Reduce under-five mortality by two thirds	X		
Maternal Health: Reduce maternal mortality by three quarters		X	
HIV/AIDS: Halt and reverse the spread of HIV/AIDS	X		

Source: Government of the Philippines (2003).

The high probability of achievement might have been misdiagnosed for three of the targets: extreme poverty, basic amenities, and HIV/AIDS. To reach the Philippines' own target on extreme poverty, the national subsistence incidence of families must be reduced to 10.2% [M92]. The national subsistence incidence was reduced by only 3.7% from 1991 to 2000, or by an average of –0.95% with every round of the FIES. Assuming this same rate of change in future, the subsistence incidence in 2015 FIES would be 11.95%, and the target would not be met. The subsistence incidence would not reach 10.05% until 2021. Importantly, the Government will have to continue to apply the 1992 poverty measurement methodology to new rounds of the FIES if this goal is to be measured accurately. However, it does appear highly likely that the proportion of people living on less than $1 per day will be halved between 1990 and 2015.

The UN reports that the proportion of people in the Philippines with sustainable access to an improved water source dropped between 1990 and 2000, in both urban and rural areas. This is cause for concern and does not support a high probability of achieving the MDG without concerted efforts to reverse the trend. The ADB Country Environmental Assessment finds that water quality is generally worsening in the Philippines (ADB, 2004f) .

Achievement of the HIV/AIDS goal is also ranked as high. There are three factors that speak against this assessment. First, the HIV/AIDS prevalence rate increased between 1999 and 2001. Second, UNAIDS warns that the epidemic in the Philippines has a huge potential to explode. Third, resource constraints mean many HIV/AIDS programs cannot be implemented.

Going forward, the Philippines should consider adopting and reporting the standard international MDG indicators. In other words, future reports should use the international measure of extreme poverty, and should classify access to safe water as MDG 7.

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,

[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 5^{th}–7^{th} 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

[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.

Chapter 7

GOVERNMENT POVERTY REDUCTION PROGRAMS

Promises to reduce poverty always feature prominently in Philippine presidential campaigns, and every administration since 1986 has prioritized poverty reduction in its development plans. Institutional reforms have taken place that significantly changed the scope and breadth of poverty policy making in the country. As the concept of poverty evolved in the literature, the treatment of poverty by various Philippine governments also saw dynamic changes. Some innovative program interventions were introduced in the process. Overall, however, the implementation of government poverty programs has been weak and politicized. As Chapter 3 illustrated, while overall income poverty incidence has fallen over the years, there were more poor people in 2000 than there were in 1985, and high levels of income inequality have not changed. This Chapter identifies some of the problems of past programs in order to draw lessons for future poverty initiatives.

Major Poverty Programs, 1986–2004

The Government's MTPDP, prepared every 6 years to coincide with the term of the President, sets out that administration's development goals. The Plan also lays out the framework for poverty reduction efforts. The treatment of poverty in the plans since 1986 has evolved to become broader.

- *MTPDP 1986–1991, Aquino Administration*: Eradication of poverty and improved quality of life are the major development goals. The first serious attempt at making poverty a performance criterion of the Government is made with this Plan. Poverty incidence targets are set for the first time.
- *MTPDP 1992–1997, Ramos Administration*: Improved quality of life and international competitiveness are the development objectives of both the Plan and the midterm update in 1996. Poverty is treated in the human development and human resources chapter, which promotes the concept of minimum basic needs. Poverty incidence targets are again included.
- *MTPDP 1999–2004*, *Estrada Administration*: Sustainable development and growth with social equity are the vision of this Plan. For the first time an attempt is made to make the Plan revolve around a common theme of sustaining growth and reducing poverty, identifying priority areas necessary to achieve the Plan's objectives. Poverty continues to be treated as part of human development. Regional poverty targets are also included in the Plan.
- *MTPDP 2001–2004, Arroyo Administration:* The President clearly stated that the MTPDP would be her Government's poverty plan. The goal is to eliminate poverty in the next decade with four major strategies. The problem of poverty is treated broadly, recognizing the roles played by growth, governance, agriculture modernization, and human development. For the first time, the Plan recognizes the problem of vulnerable sectors (a chapter is dedicated to this theme). No poverty incidence targets are included, nor is there an indicator for poverty "elimination."
- *MTPDP 2004 –2010, Arroyo Administration:* The basic task is "to fight poverty by building prosperity for the greatest number of the Filipino people." The five main parts of the plan cover (i) economic growth and job creation, (ii) energy, (iii) social justice and basic needs, (iv) education and youth opportunity, and (v) anticorruption and good governance. The specified target is to reduce the poverty incidence of families from 28.4% in 2000 to 17.9% by 2010.

Each president has had specific poverty reduction projects: The *Tulong sa Tao* Program of the Aquino Administration; the Social Reform Agenda (SRA) of the Ramos administration, the *Lingap Para sa Mahihirap* program of President Estrada, and the *Kapit-Bisig Laban sa Kahirapan* (KALAHI) Program of the Arroyo Government. The main features of each program are described below and summarized in Table 36.

Tulong sa Tao. Launched in 1987 through Executive Order No. 158, the program aimed at reducing poverty through the creation of employment opportunities for “low income municipalities.” According to the project completion report, about 183,500 new jobs were created and living conditions of 111,000 beneficiaries improved while more than 1,500 NGOs were strengthened in the process (Balisacan, 2000).

Social Reform Agenda (SRA). The SRA emphasized two key areas of development—poverty alleviation and countryside development. Beneficiaries were targeted with sectoral and geographical methods. The focus on “basic sectors” was not on sectors per se but rather on particularly disadvantaged economic and social groups: farmers, fisher folk, indigenous communities, the urban poor, workers especially in the informal sector, and other disadvantaged groups—women, persons with disabilities, youth, disadvantaged students, the elderly, and victims of disasters. The geographical targeting placed emphasis on the country’s 20 poorest provinces.

Lingap Para sa Mahihirap. This program identified the 100 poorest families in each LGU nationwide. The emphasis on the 100 poorest families as the basic targeting unit instead of the village or *barangay* was adopted when President Estrada declared that the family is at the center of Filipino society and must be the driver of progress. A P2.5 billion *Lingap Para sa Mahihirap* Fund (Poverty Alleviation Fund) was provided under the 1999 General Appropriations Act.

Kapit-Bisig Laban sa Kahirapan (KALAHI) program. Launched in 2001 under the supervision of the National Anti-Poverty Commission (NAPC), there are five types of KALAHI Special Projects which serve as the Government’s vehicle to reach out to the poor: (a) KALAHI Rural Projects serve 90 priority rural barangays which will be provided with potable water systems, farm-to-market roads, multi-purpose or day-care centers and micro-enterprises and livelihood activities; (b) KALAHI Urban Projects are located in 8 cities, offering human development services as well as housing and land for poor urban families; (c) KALAHI Social Initiative Projects (i.e. animal dispersal, abaca plantation, water system installation, core shelter construction and farm-to-market roads), comprise 13 projects in 6 provinces, 7 municipalities, and 25 barangays costing P4 million for 2003; (d) KALAHI Resettlement Areas serve 5,000 households in six underdeveloped resettlement sites in 3 regions; and

(e) KALAHI in Conflict Areas, implemented in 100 communities in conflict areas.

The SRA laid the groundwork for the passage of the Social Reform and Poverty Act of 1997 (RA 8425). This Act provided a new perspective in policy making for poverty reduction, creating the NAPC with the three-fold task of coordinating poverty reduction programs, institutionalizing participation of the "basic sectors" in social reform and poverty alleviation, and promoting micro-finance programs and institutions.

Evaluating Government's Poverty Reduction Programs

In evaluating poverty reduction programs, the issues and lessons can be grouped into three categories: policy issues, institutional issues, and resource or funding issues. These are discussed in turn here before focusing in more detail on the KALAHI program of the first Arroyo administration (2001–2004).

Policy Issues

Changing poverty framework. Starting with the formulation of the SRA in the 1990s, there has been a tendency to prepare separate poverty frameworks from the MTPDP prepared by the Government. Since of the Social Reform Council was composed of civil society and NGOs, the process of generating the framework through a participatory was given as much importance as the substance of the document. However, more difficult than preparing separate poverty plans is the tendency of every administration to introduce new poverty programs, sometimes without regard to what has been started by previous administrations. This has resulted in a waste of energy and resources as even effective programs were discarded just because they were a part of the past presidents' agendas.

Different targeting mechanisms. The different government programs have also followed different approaches in targeting the poor, as summarized in Table 37. For example, the SRA followed a geographic and sectoral approach while *Lingap sa Mahirap* targeted the 100 poorest families in every province and city, while the KALAHI targets barangays. A related problem is that none of the programs had built-in monitoring and evaluation components.

According to Balisacan (1995), *Tulong sa Tao* had a number of targeting problems. There were considerable leakages where unintended beneficiaries were also assisted. The credit needs of the poor could not be met since the target clientele was not clearly defined: the target beneficiaries were identified as the low-income groups in the rural areas. There was a lack of clear criteria

Table 36
Objectives and Components of Government Poverty Reduction Programs, 1986–2004

	Tulong sa Tao	Social Reform Agenda (SRA)	Lingap Para sa Mahihirap (Lingap)	Kapit-Bisig Laban sa Kahirapan (KALAHI)
Key Objectives	To increase employment and income of low-income groups To strengthen self-help groups To encourage savings mobilization among low-income groups To increase production of goods and services by members of the low-income groups To strengthen NGOs to service credit needs of low-income groups	Poverty alleviation Quality basic social services Institutional development	For government and private sector to converge efforts and resources for poverty alleviation	To address inequities in ownership, distribution, management, and control over productive resources To meet basic human needs To strengthen the capacities of marginalized groups to engage in productive enterprises and livelihood To eliminate all forms of discrimination To institutionalize and strengthen participation of basic sectors in all levels of governance

(continued on next page)

for the screening and inclusion/exclusion of prospective beneficiaries, resulting in elite capture by about two thirds of the beneficiaries. Finally, the definition of rural areas was also vague, generally construed to mean all areas outside Metro Manila.

In the case of *Lingap*, the target of 16,100 direct beneficiaries was too limited for a program that was meant to be national in scope and coverage. The targeting mechanism was not efficient at all. The implementers had to

Table 36 (continued)

Objectives and Components of Government Poverty Reduction Programs, 1986–2004

	Tulong sa Tao	Social Reform Agenda (SRA)	Lingap Para sa Mahihirap (Lingap)	Kapit-Bisig Laban sa Kahirapan (KALAHI)
Program Components		Flagship programs: Agricultural development Fisheries and aquatic resources management Ancestral domains Socialized housing Workers' welfare and protection Livelihood Credit Institution building and effective participation in governance	Potable water Socialized housing Health care Protective services for children Livelihood/ cooperative development Food subsidy	Asset Reform Human Development Services Employment and Livelihood Social Protection Participation of the poor in Governance
Poverty Reduction Target	Not explicit	Reduce poverty incidence to 30%	Reduce poverty incidence to 25–28 %	Win the war against poverty within the decade
Coordinating Agency	Department of Trade and Industry	Social Reform Council	National Anti-Poverty Commission	National Anti-Poverty Commission

seek out the 100 poorest families in an area. Often those families were far apart which resulted in high administrative costs for service delivery. The identification of the 100 poorest families in every province and city became highly politicized. The NAPC left 32% of the Lingap fund to the DILG and LGUs, whereas the other 68% was distributed to congressmen. LGUs have tended to use the Lingap to further their political agenda while the congressman used it as another source of "pork barrel" funds.

Table 37

Target Areas, Beneficiaries, and Delivery Mechanism of Government Anti-Poverty Programs

	Tulong sa Tao	Social Reform Agenda (SRA)	Lingap Para sa Mahihirap (Lingap)	Kapit-Bisig Laban sa Kahirapan (KALAHI)
Target Area	Low-income municipalities	Special priority areas:20 poorest provinces 5th and 6th class municipalities Special Zones of Peace & Development (Mindanao & Palawan)	Nationwide	Poorest barangays in the KALAHI convergence areas
Target Beneficiaries	Low income groups in rural areas	Poor and vulnerable groups	100 poorest families in every province and city	14 "basic sectors": children, women, urban poor, persons with disabilities, farmers, fisherfolk, indigenous peoples, informal labor, formal labor and migrant workers, youth and students, senior citizens, victims of disasters and calamities, cooperatives, NGOs
Delivery Mechanism	National government agencies with NGOs as conduits	Flagship program agencies	National government agencies	National government agencies

Weak implementation of "convergence policy". Convergence of services has been promoted since the SRA days, but making the policy operational has proven difficult. The difficulties lie partly in the different target areas of major social sector agencies. For instance, the DOH implemented the Health Plus strategy, targeting 65 provinces and cities for 2001–2004. These sites were prioritized into five groups according to LGU interest or commitment, favorable local conditions, and active participation in various DOH and PhilHealth programs such as the Tuberculosis Direct Observed Treatment System, *Sentrong Sigla*, and the PhilHealth Sponsored Program for the poor. DepEd has the Strong Republic School Distance Learning Program aimed at providing the unserved or inadequately served barangays with access to quality basic education through the use of Distance Learning Technology. There are differences in the target areas identified by NAPC, DepEd, and DOH.

There is an attempt to coordinate poverty programs through the implementation of KALAHI programs in the regions. The needs of communities are first identified through Regional KALAHI Convergence Groups (RKCGs). These are referred to the appropriate government agencies that then make a commitment to address the needs of the area. In this way, the RKCG serves as the liaison between the targeted barangay and the national level agency.

Institutional Issues

Transition blues/fast staff turnover. The appointment of new agency heads after every change of administration since 1998 has in nearly every case resulted in new staff being brought in up to the director level. Various agencies therefore only have a few staff members with the institutional memory of past policies. There is also a tendency to look with suspicion on those associated with the past administration. Security of tenure is not assured, which affects staff motivation.

Highly politicized poverty programs. Since the organization of NAPC in 1998, its operations have become highly politicized, possibly as a result of the proximity to the Office of the President (Chair of NAPC). From the choice of "basic sector" representatives and the target beneficiaries to the distribution of the budget and goods for poverty alleviation, political considerations often prevail. As a result, there are leakages in the flow of benefits to the poor. Similar politicization and misuse of funds occurred under the Lingap fund, as discussed above. Some steps have been taken to move away from politicization (for example, basic sectors are now able to select their own representatives) but there is still work to be done.

Political appointment of agency heads. Despite pronouncements that poverty is a priority problem of the country, the NAPC has not been spared from being used as an opportunity to pay political favors. One head of NAPC lasted only for 3 months, during which time almost all the NAPC directors tendered their resignation.

"Basic sector" representation. Since its organization, the NAPC has been confronted with administrative issues related to the appointment of

representatives from the basic sectors. During the time of President Estrada, NGO representatives demanded the same status and salary as their government counterparts. During President Arroyo's first term, NGO representatives appointed during former President Estrada's term refused to vacate their posts. This stalemate meant that NAPC was not convened by the administration for many months.

Budget Issues

As a result of chronic budget deficit problems of the Government, a lack of funds has always been the perennial complaint of agencies. The unresolved issue around financing for poverty reduction relates to (i) whether a separate budget line for poverty related projects should be included; or (ii) whether agencies should be made responsible for requesting a budget for poverty projects. Until 1998, a Poverty Alleviation Fund was approved for poverty projects. Since then, no budget line item for poverty has been delineated in the national budget.

The KALAHI Program: Opportunities for Improvement

There is very much a need to streamline agencies concerned with poverty. Through the years, institutional structures for setting social development policies (including poverty reduction) have become more and more complicated, both at the national and local levels with decentralization. At the national level, both the NAPC and the Social Development Committee (SDC) under the NEDA Board have legal mandates to tackle poverty-related issues. The SDC is mandated to be the highest policy-making body on social development issues, including poverty reduction. It formulates and recommends policies and reviews programs, projects and the legislative agenda. NAPC, on the other hand, is the focal agency for the antipoverty program, which includes policy-making, advocacy, and monitoring. Membership is almost the same for the two committees, and reviewing their functions might be warranted. Another related group that could be included in a review is the Presidential Commission on the Urban Poor (PCUP). It has similar responsibilities as the SDC and NAPC, except that it focuses specifically on the urban poor.

To oversee the implementation of KALAHI, National and Regional KALAHI Convergence Groups (NKCGs and RKCGs) were created under the NAPC. The apparent duplication of functions at the national level is replicated at the regional level. The RKCGs are similar to the SDC under the Regional Development Council (RDC) except for the designation of a Presidential

Assistant appointed by the President as Chair of the RKCG and NAPC sector representatives.

Highly centralized poverty program. While the target beneficiaries of the KALAHI programs are the barangays, the identification of target areas and beneficiaries as well as the approval of projects is still undertaken at the national level. The assignment of a Presidential Assistant to head the RKCG also reflects intent to control the program at the national level. In the context of decentralization, it may be better to involve the local chief executives in KALAHI, not only to elicit their cooperation but also to encourage them to share resources for poverty-related programs in their areas.

Inadequate budget for KALAHI. The budget for the different modules of KALAHI has been sourced mostly from the President's Social Fund. Compared to *Lingap's* P2.5 billion, the KALAHI has less than P200 million for its projects. A gap of P400 million between the commitments of the agencies and the identified needs of the target areas was identified. With the budget constraints of the national Government, agencies are using the Sectoral Effectiveness and Efficiency Review process to try to refocus their budgets to activities that will contribute most to poverty reduction. The exercise still needs to be complemented with information on the projected requirements of KALAHI-targeted areas. While refocusing is important, enlarging the resource envelope for poverty reduction should also be addressed through more innovative financing modes.

Chapter 8

CONCLUSION

This Country Poverty Analysis for the Philippines has highlighted worrisome trends in income poverty levels, has explored issues of access poverty and essential assets, and has linked all of these to some of the major causes of poverty and deprivation. The issues covered in the CPA are broad and the discussion is by no means exhaustive, but it does bring out the need for concerted, positive, and forward-thinking action for poverty reduction. This chapter does not repeat all of the major findings of the paper, but rather highlights some key points to inform future action, and closes with two possible areas for future research.

Income Poverty

Income poverty is increasing. One thing is clear from the discussion of income poverty, and that is that the situation has been worsening since 1997. Income poverty incidence grew from 1997 to 2000, and will very likely be shown to have increased again from 2000 to 2003, given falling real incomes among the bottom 30% of the income distribution. With so many methodological options it is likely that the precise headcount levels will never be universally agreed upon, but the situation is not positive, no matter which way we look at it. This is why it is useful to complement the more traditional objective measures of absolute income poverty with both relative and subjective approaches, as well as analysis of access to assets.

The poverty measurement methodology is inconsistent. Methodological improvements in poverty measurement are not discouraged, of course. But in drawing comparisons over time, consistency is key. For that reason, NSCB should undertake to analyze all FIES data back to 1985 using one consistent methodology, for comparison. This should involve the same method of setting the poverty line as well as the same urban and rural classifications. Otherwise this rich household data source will become less useful, and we will only be able to analyze it in two sets (1985–2000, and 1997–2003 and beyond), as was the case in this CPA. Thailand may serve as a model here. The Thai National Economic and Social Development Board (NESDB) is currently undertaking to revise and improve its poverty line.[72] In doing so, it has applied the new methodology to historical data, starting with 1988 (NESDB, 2004). If the Philippine data is not assessed in a consistent manner, it will be impossible to continue to monitor the first MDG using the national subsistence incidence.

Consider the magnitude of poverty. Oftentimes, only the poverty headcount (the poverty incidence) is considered in making statements about progress in poverty reduction. This can give an incomplete picture, as it does in the Philippines. While poverty incidence in the Philippines generally declined from 1985 to 2000, the actual number of poor people has significantly increased, and rapid population growth is to blame. In targeting resources and programs to "the x poorest provinces," for example, it might make sense to look at those provinces in which the number of people in poverty has increased to the greatest degree. For example, 18 provinces saw the magnitude of the poor population grow by more than 25% from 1997–2000.

Income poverty can be transient. People move in and out of poverty over time. There has not been a great deal of empirical research into this phenomenon in the Philippines, but one attempt finds that nearly one third of all households in a data set moved into and out of poverty over the three observations (about one fifth were the chronic poor, i.e. poor throughout, and just under half were consistently nonpoor). The findings confirm that there can be considerable shifts in poverty status, even when the overall headcount remains more or less the same. The way to protect against transient poverty is through the design of appropriate social safety nets, such as conditional cash transfer or labor-intensive public works programs (also known as workfare, or food-for-work).

Qualitative approaches complement the quantitative. The subjective tradition in particular has a long history in the Philippines, and findings are widely

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72 In what appears to be a unique result, the proposed changes have increased the Thai poverty lines. The poverty incidence subsequently increased from 10% to 15% of Thai people in 2002. The NESDB also aims to introduce a relative measure of poverty to complement the absolute one.

publicized. The findings of such studies can spur the Government into action, as with the SWS hunger incidence of 15% of Filipino households in September 2004. The Government responded by stepping up its food assistance programs, particularly the food-for-school program, where children attending elementary school are given 1 kilogram of rice each day (an example of a conditional transfer, as mentioned above). More qualitative work should be encouraged, particularly in the area of perceptions of poverty by the poor themselves.

Assets and Access Poverty

The level of access to key assets (human, physical, natural, financial, and social capital) determines people's ability to stay out of poverty by dealing with trends, shocks, and seasonality. In other words, assets protect against vulnerability. Each of the types of capital is significant and necessary for poverty reduction in the Philippines, but one stands out as particularly worthy of investment: human capital.

Investment in human capital formation is the foundation for poverty reduction. Without adequate levels of human capital—knowledge, skills, and health—the other assets will be less productive. Once admired in Asia, the quality of the Philippine public education system has been steadily eroding. Many of the indicators are on a downward trend, such as the net enrolment ratio, the cohort survival rate, and the literacy rate. English skills, traditionally one of the competitive advantages of the Philippines, have also deteriorated. A recent government study has shown that only one in five public high school teachers can be considered proficient in the English language.[73] Educated women tend to have fewer children, a secondary benefit of education. Meeting the education needs of a country of 82 million people distributed over 7,000 islands is a major challenge, one that ADB should continue to support. Skills training and capacity building also constitute a part of human capital development. In the age of decentralization, such capacity building at the level of the LGU can go a long way toward poverty reduction if it helps those responsible to better design and implement interventions for poverty reduction. On the health side, there are well-documented links between improved health and reduced poverty. A healthy person is able to work, and to translate her labor into financial capital. Access to quality health care by the poor is a key concern, particularly in rural areas and outlying areas, and for indigenous people.

[73] DepEd wants new teachers to pass English mastery test, *Philippine Daily Inquirer*, 10 November 2004.

Causes of Poverty

The CPA has identified seven broad causes of poverty, or factors that conspire to keep poverty levels high and rising. These seven causes are (i) weak macroeconomic management, (ii) employment issues, (iii) high population growth, (iv) an underperforming agricultural sector and an unfinished land reform agenda, (v) governance issues including corruption and a weak state, (vi) conflict and security issues, particularly in Mindanao, and (vii) disability. Of these issues, two deserve to be highlighted in this conclusion. The first is macroeconomic management, and the second is population growth.

Economic growth is a necessary pre-condition for poverty reduction, but that growth must be pro-poor. In the Philippines, recent episodes of sustained GDP growth have not translated into increased average incomes for either the population as a whole, or for the bottom 30% of the income distribution. Weak macroeconomic management thwarts pro-poor growth, and the fiscal deficit and the national government debt are the Achilles heel of the Philippine economy. With the chronic fiscal deficit problem, the Government has to borrow to meet its operational requirements. Debt interest payments have increased to more than 30% in 2004 (ADO 2004), crowding out the productive portion of the national budget. Predictably, government expenditures in social services have been steadily falling. Other constraints to economic growth include very low investment levels, caused by the poor investment climate. As a result, the country suffers from limited capital formation, limited productivity improvements and limited competitiveness of firms. ADB's 2004 survey of the investment climate in the Philippines found the major stumbling blocks and constraints to private investment to include macroeconomic instability, corruption, electricity, and tax issues.

A high population growth rate thwarts the country's attempt to grow the economy, to create enough jobs, and to provide quality services. The Philippines population growth rate is 2.36% per year. At this rate, it would be difficult to accommodate all new entrants to the labor force even if economic growth were accelerated. A rapidly growing population also makes it difficult for the Government to keep up with the delivery of what are already deficient public services in health, education, water supply and sanitation, and so on. The empirical record shows conclusively that larger families are more likely to be poor. Only 19% of families with 3 members were poor in 2000, while the poverty incidence among families with 8 members was 55%. Poverty and population together form a vicious cycle: poverty perpetuates high population growth rates (poorer women have higher fertility rates), and high population growth rates perpetuate poverty. Recent empirical research compared the

Philippines to Thailand—the countries were more or less on par in terms of population and GDP per capita in 1975—to find that the Philippines' continued high population growth rate has been the most significant drag on economic growth. In the Philippine MTPDP 2004–2010, "the poverty target *assumes* a reduction in population growth" to an annual average of 1.93% for the period, but details of a population policy remain unarticulated. ADB support to family planning and reproductive health as priority areas within the health sector is thus strongly recommended.

Improving Targeting

Inefficient targeting has been one of the main problems across various Government poverty reduction programs. Different government programs have followed different approaches in targeting the poor. There have often been considerable leakages to unintended beneficiaries as a result of a lack of clear criteria for the screening of prospective beneficiaries. Elite capture has been another problem, especially in one program, which sought to target the 100 poorest families in every local government unit. The selection process became highly politicized. Furthermore, identified families were often far apart which resulted in high administrative costs for service delivery.

Targeting can be improved by taking a local approach in the form of poverty mapping. Local indicators, for the most part already collected on a regular basis, can easily be shaped into poverty maps. Philippine experience with poverty mapping to date shows that local policymakers' and communities' comprehension of the poverty situation in their localities was greatly facilitated by the use of poverty maps. Being able to visualize the issues facilitates understanding. DILG has mandated annual collection of 13 core local poverty indicators. Some LGUs have adopted the suggested methods. These indicators provide a tool to guide local stakeholders in setting their own priorities. Developing regular LGU-level information collection should be seen as an investment, not a cost, since it will improve the delivery and targeting of services, enhance transparency, and ultimately lead to better governance as well.

Areas for Future Research

What factors explain the changes in provincial poverty levels? Provincial-level income poverty data now exist for 1997 and 2000, and will soon be released for 2003. Poverty levels vary greatly across provinces. Importantly, there are some provinces where the poverty incidence of families was reduced between 1997 and 2000, in some cases by more than 10% (i.e. Siquijor, Eastern Samar, Bukidnon, and Davao Oriental). How did this happen? What particular policies or programs were in place? In what sectors did economic growth occur? What other factors may have played a role? The answers to these questions examined at the provincial level could unearth replicable interventions for other areas where poverty has been more intractable. Some provinces experienced major increases of 10% or more in the poverty incidence of families from 1997 to 2000 (including Camiguin, Capiz, and Bohol).

An assessment of social protection and safety nets in the Philippines. This CPA has shown that about one third of the poverty in the Philippines is transient. In other words, people move in and out of poverty over time. Furthermore, we have found that a lack of access to key assets hinders people's ability to cope with the vulnerability that comes with trends, shocks, and seasonality. The ILO published an inventory and analysis of safety net programs in the Philippines in 2001, with data mainly from the late 1990s. This work could now be updated. What programs have worked well, which ones less so? What types of new programs would have the biggest impact, and how should they be targeted? A strengthened social protection program comprising social insurance and well-designed social safety nets would go a long way toward reducing poverty in the Philippines.

APPENDICES

Appendix 1

POVERTY MEASUREMENT IN THE PHILIPPINES: METHODOLOGY ISSUES

How Poverty Is Measured

Official poverty measurement in the Philippines is done using two poverty lines: the food threshold and the poverty threshold. The food threshold is a measure of food needs only, and the proportion of people falling below this line is referred to as the subsistence incidence. People falling below the food threshold are sometimes also referred to as the "core poor." The poverty threshold is a measure of minimum food plus basic nonfood needs. The poverty threshold is derived by multiplying the food threshold by a factor representing the average expenditure of the households whose total expenditure is roughly equal to the food threshold.[74] The resulting poverty threshold is known as a *lower-bound* poverty line. Lower-bound poverty lines are austere, based on the spending patterns of people who must give up necessary food spending for nonfood items. An *upper-bound* line would be determined by the spending patterns of households whose food expenditure is equal to the food threshold.

[74] More precisely, in a 10% band around the food threshold.

Poverty lines are applied to income data from the Family Income and Expenditure Survey (FIES). The National Statistics Office (NSO) conducts the FIES every 3 years. Most poverty analysis begins with the 1985 FIES, and subsequent rounds have been in 1988, 1991, 1994, 1997, 2000, and 2003. The FIES is undertaken as a two-stage survey, enumerated in July and January, with reference to the previous 6 months. Sample sizes have grown with each round, from just under 17,000 households in 1985 to nearly 40,000 in 2000.

Headcounts of poverty and subsistence incidence are computed for families and for the population. Official documents most commonly report headcounts for families. It is important to be aware of this distinction. The headcounts are lower for families since poor families tend to be larger. So, for example, the poverty incidence of the population was 34% while the poverty incidence of families was 28.4% in 2000 [M03].[75] The National Statistical Coordination Board (NSCB) releases all official poverty figures.

Recognizing that the 3-year gap between FIES rounds was too long to be useful for policymakers concerned with poverty reduction, the NSO launched the Annual Poverty Indicators Survey (APIS) in 1998. The APIS aims to provide access and impact indicators to assess the government's poverty reduction programs. Conducted in between the FIES years, the APIS gathers income and expenditure data as well as information on minimum basic needs classified into survival, security and empowerment indicators. The questionnaire also elicits some subjective data. The APIS classifies families into two income groupings: the lower 40% of the income distribution (a proxy for those falling below the poverty line) and the upper 60%. To date three rounds of the APIS have been undertaken: 1998,1999 and 2002. The results of the 2004 APIS should be available in 2005.

Methodology Changes: 1992 and 2003

The study of poverty in the Philippines is complicated somewhat by two major changes in the official poverty measurement methodology, the first in 1992 and the second in 2003. Both methodology revisions resulted in lower poverty lines and thus a lower poverty incidence. Care must therefore be taken in reporting statistical trends.[76] In this Poverty Assessment we use [M92] for

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[75] As in the main text of this report, [M92] is used to refer to the 1992 methodology for poverty measurement applied to FIES years 1985–2000, while [M03] denotes the 2003 methodology applied to FIES years 1997–2003.

[76] The World Bank's 2001 poverty assessment develops its own poverty thresholds, different from those of NSCB. It thus presents vastly different poverty headcounts (World Bank, 2001a).

the 1992 methodology and [M03] for the 2003 methodology revision in order to distinguish between the two series.

The 1992 revision. The first revision saw in two major changes in how the poverty line was constructed. First, total expenditure was limited to "total basic expenditure"—in other words, a number of expenditure categories were no longer allowed to be included in computations of total household expenditure.[77] Furthermore, the method of deriving the poverty threshold from the food threshold was changed to the lower bound method, as described above, where previously the average food and nonfood spending patterns of all families were used for the calculations. The 1992 methodology was used to analyze the 1991 data, and was retroactively applied to the 1985 and 1988 survey results. Where the originally published poverty headcount of the families in 1985 was 59%,[78] the revised methodology made much lower: 44.2%.

The 2003 revision. The 2003 revisions mainly involved a new pricing method for the items that make up the poverty line. The 2003 methodology uses provincial prices rather than regional prices in costing the regional food baskets. The food baskets now contain cheaper "ordinary rice", rather than "special rice" (Virola & Encarnacion, 2003). The ratio of bought to non-bought items in the menus was updated, now using the 1993 instead of the 1982 Food and Consumption Survey, and weight conversion factors of certain commodities at the provincial level were used (NSCB 2003). The new methodology was applied retroactively to the 1997 and 2000 data. The originally published poverty incidence of families in 2000 was 33.7%. The 2003 methodology resulted in a poverty incidence of families of 28.4%.

Other Methodological Issues to Note

General methodological issues in Philippine poverty measurement are set out in great detail in Templo (2003b). Briefly, there are debates regarding:

- the use of income instead of expenditure as the measure of welfare,
- the nutritional requirements on which the poverty lines are based,
- the use of derived menus based on the food consumption of all families (instead of actual food consumption by a reference poor population), and

[77] Basic expenditures excluded alcohol, tobacco, recreation, durable furniture & equipment, 'miscellaneous expenditure,' and 'other expenditure.'

[78] NSCB. 1987. *Economic and Social Indicators 1986.*

- the inconsistency of official poverty lines across time and among regions.

Four additional methodology issues should be noted. First, as a result of various methodological issues set out above, the value of the poverty line has not kept up with inflation. Using the Consumer Price Index (CPI) for all goods to compare poverty lines in real terms reveals that the poverty line of 2000 had less purchasing power than the poverty line for 1988, for example. The resulting poverty headcounts, then, are not truly comparable as a measure of absolute poverty based on a measure of resources that are fixed over time. The poverty line in 1988 was P4,777. If the 2000 poverty line were to have the same purchasing power (based on the CPI) it would have to be P14,136. Instead it was about P2,500 less at P 11,605.

Second, estimates of urban poverty in the Philippines may be underestimated. The FIES sample omits families without official and permanent residence. Informal settlements are by definition unofficial, so the residents of slums and squatter areas—the urban poor—are likely to be underrepresented in the surveys (Balisacan, 1994). This could be one reason for what appears to be a very low poverty incidence for Metro Manila, less than 6% of families in 2000 [M03].

Third, poverty in the Philippines in general might be underestimated. The pricing method for the food threshold (which is the basis of the overall poverty line) does not take into account that the poor pay more.[79] The NSCB determines a representative menu for each region and prices the required ingredients at prevailing market prices per kilo.[80] In reality, a poor family is probably not able to buy in bulk, particularly when only a few grams of an item are needed on a daily basis. Much is therefore purchased in small amounts

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79 *The Poor Pay More: Consumer Practices of Low-Income Families* (Caplovitz, 1967) surveyed poor families in four New York housing projects to find that they predominantly bought from neighborhood convenience stores and peddlers and thus paid more for goods. These findings are still relevant nearly four decades later, both in developed and developing countries.

80 For example, the daily menu for Cagayan in 2000 included 61 grams of Galunggong (a low-cost, commonly eaten fish). The local cost per kilo in 2000 was P54.97. The cost of Galunggong per day was calculated at P3.24 per person.

at neighborhood sari-sari stores.[81] Even if the poorest were able to buy in bulk, they remain highly unlikely to have refrigerated storage for perishable items. It would be more realistic to price the goods in the menu according to the higher prices the poor actually face. A survey of sari-sari store prices would provide useful data. In 2002, the annual food threshold for Metro Manila was P9,742. In other words, a person living in the NCR in 2002 was supposed to be able to eat three low-cost meals for about P26.70—an average of P8.90 per meal (or about P44.50 per meal for a family of five).

A final methodology issue to note is that the FIES and APIS data are technically not comparable. The income and consumption modules in the APIS are not the same as those in the FIES. Furthermore, the reference periods are different: the FIES is enumerated in two visits to cover the entire year. The 1998 and 1999 rounds of the APIS both cover April to September while the 2002 APIS covered the period from January to June. NSO and NSCB do not release poverty headcounts based on the APIS, most likely because they would conflict with the FIES results.

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81 Sari-sari stores are small neighborhood retail outlets that dot the urban and rural landscape. Schelzig (1999) found that the urban poor tend to buy most of their food at sari-sari stores and therefore end up paying more. Sari-sari stores employ poor-friendly retail techniques of takal and tingi. Tingi refers to selling by the piece, as when a pack of cigarettes is opened and individual cigarettes are sold separately. Takal means selling by volume (such as liquid, grain, or powder) in quantities smaller than the manufacturers' retail minimum. Prices at sari-sari stores are higher than at markets and supermarkets. The poor frequent these stores for a number of reasons. First, they are convenient, allowing procurement of necessities within easy walking distance (thus avoiding both transportation and opportunity costs). Second, they sell small amounts of needed items. Finally, in some cases, neighborhood stores allow purchases on credit. There were more than 560,000 sari-sari stores in 2003, accounting for 90% of the retail outlets in the Philippines (Sari-Sari Stores Win Big, *The Manila Times*, 17 January 2004).

Appendix 2

THE ADB-GOP POVERTY PARTNERSHIP AGREEMENT

In October 2001 ADB and the Philippine Government signed a Poverty Partnership Agreement (PPA), signifying their commitment to reduce poverty in the Philippines. The 2001–2004 Medium-Term Philippine Development Plan (MTPDP) served as the framework for the PPA. The PPA has four broad goals/strategies:

(1) Macroeconomic stability and equitable growth;
(2) Poverty alleviation and comprehensive human development;
(3) Agriculture modernization with social equity; and
(4) Good governance.

The PPA also included the crosscutting concerns of gender equity, sustainable and ecologically sound development, and stakeholder participation in the poverty-related programs and projects. To monitor the performance of the Philippines under the PPA, a set of key indicators were identified corresponding to each of the four goals (see Box A1). In assessing the PPA, the targets set in the MTPDP are used as benchmarks.[82]

[82] Revised targets from the Budget of Receipts and Sources of Financing (BRSF) are used for some of the macroeconomic targets in the MTPDP that are revised annually.

Goal 1: Macroeconomic Stability and Equitable Growth

Economic growth is a necessary prerequisite for poverty reduction. Despite adverse external and internal conditions, the Philippines was able to attain its gross national product (GNP) targets for 2001–2003. Real GNP growth averaged 4.0%, well within the MTPDP target of 4.3–4.7%. Growth was based primarily on strong net factor incomes from abroad, which grew by 12.2% during the period (see Table A2.1). Despite the attainment of GNP targets during the period, the domestic economy was generally sluggish, affected by the United States' economic slowdown, the September 11 terrorist attacks, the Iraq war, and the Severe Acute Respiratory Syndrome (SARS) scare. The gross domestic product (GDP) grew by 4.0% during the period, below the MTPDP target of 4.2–4.6%. These targets were later revised to 3.8–4.5%. The industry sector bore the brunt of the shocks, posting a 2.5% growth, the slowest sector growth for the period—only the mining sector met its targets. The modest industry performance was partly offset by the services sector, a driver of growth during period, accounting for half of the expansion in GDP from 2001–2003. The sector grew by 5.2% in 2001-2003, exceeding the high-end of the MTPDP targets. The transportation, communication and storage sectors posted the highest growth among the services subsector, followed by trade and finance.

Table A2.1

Comparison of MTPDP Targets and Actual Performance for Goal 1

Indicator	2000 Actual	2001 Target	2001 Actual	2002 Target	2002 Actual	2003 Target	2003 Actual
GNP	4.5	3.4	3.5	4.1-4.6	4.5	5.5–6.0	5.5
Government Deficit to GNP Ratio	-3.8	-3.8	-3.8	-3.1	-4.9	-2.1	-4.3
Budget Allocated to Social Services	40.2	44.2	31.0	42.0	27.8	44.7	24.8
Gross Value Added in Industry	4.9	2.3	0.9	4.0–4.3	3.7	5.8–6.2	3.0
Gross Value Added in Services	4.4	4.0	4.3	4.5–5.0	5.4	5.8–6.3	5.9

GNP = gross national product, MTPDP = Medium-Term Philippine Development Report.

Box A1

Goals, Strategies and Indicators of the Poverty Partnership Agreement

Goal	Strategy	Key Indicator
Macroeconomic Stability and Equitable Growth	Reduce vulnerability to macroeconomic shock	GNP growth rate
Government institutions effectively implement sound fiscal and monetary policies to ensure macroeconomic and political stability	Promote aggregate fiscal discipline to reduce the fiscal deficit	Proportion of National Government deficit to GNP
	Improve allocation of public expenditures	Budget allocation to social services
Broad-based growth based on a competitive industry and services sector	Create an enabling environment for trade and industry including SMEs	Gross value added in industry and services
Agricultural Modernization with Social Equity Broad-based growth driven by a dynamic agriculture sector supported by adequate infrastructure	Modernize the agriculture and fishery sector by encouraging greater private sector participation supported by public investments focused on public goods and services including basic infrastructure especially in rural areas, such as farm-to-market and feeder roads, feeder ports, irrigation, rural water supply and electrification	Paved road ratio for secondary roads and barangay electrification. Gross value added in agriculture
Reform of unequal distribution of endowments	Accelerate agrarian reform by fast-tracking land acquisition and distribution, and by institutionalizing and rationalizing delivery of support services to all agrarian reform beneficiaries	Hectares of land distributed under CARP
	Adopt and promote the use of environmentally friendly technologies, create the appropriate economic and regulatory environment for safeguarding natural resources. Protect ancestral land rights and rights of indigenous people and develop their capacity to manage their domains	
Comprehensive Human Development and Protecting the Vulnerable	Expand access to health and family planning services through the district health systems, implementation of the national nutritional action agenda for POPDEV, and expansion of national health insurance	Maternal mortality rate, infant mortality rate, achieving desired family size
Approaching universal access to basic social services addressing minimum basic needs	Raise the quality of basic education through decentralization of management, integrated teacher education, and development of localized curriculum	Gross enrollment rate by gender at elementary level
	Improve urban infrastructure and services especially for poor communities through partnership with private sector and capacity building for LGUs	Number of poor and mobile families provided housing assistance
Good Governance and the Rule of Law	Pursuing prudent expenditure management through the Medium-Term Expenditure Framework (MTEF)	Implementation of the MTEF
Effective pro-poor and pro-development governance by developing results-orientation in Government, improving service delivery to the poor, raising ethical standards and strengthening institutions in society	Rationalize and prioritize programs and activities through Sectoral Effectiveness and Efficiency Reviews (SEER) conducted prior to budget preparation for agencies implementing social development programs	Implementation of the SEER
	Reverse the 3-year downward trend in internal revenue collection	Tax collection as a percentage of GNP

Source: ADB. 2001. *Republic of the Philippines – Asian Develoment Bank Poverty Partnership Agreement*. 10 October 2001.

The PPA recognized the importance of the public sector in the provision of poverty-related goods and services, and promoted two fiscal strategies as part of the macroeconomic goal: fiscal discipline to reduce the fiscal deficit, and improvement in the allocation of public expenditures with a bias for social services. In both areas, the Government failed to achieve the targets set in the MTPDP. The budget deficit-to-GNP ratio averaged 4.3% of GNP in 2001–2003, well above the 3.0% target set in the MTPDP. The cumulative deficit level during the period reached P556.9 million. The need to finance the ballooning deficit level led to the accumulation of debt, which reached P3.36 trillion or 77% of GDP by end–2003.

The increasing debt servicing requirements of the Government have reduced the budget allocation for the social services sector during the period. The share of the budget allocated to the social sectors has declined to 26.5% for the period 2001–2003, compared to 28.7% during the period 1998-2000. Fiscal difficulties during the period reduced the growth of social sector expenditures to just 3.3% for 2001–2003, compared to the 22% expansion of the sector during the period 1993–1997. The sectors that suffered most from the cuts include health, land distribution, housing and community development.

Goal 2: Agriculture Modernization with Social Equity

This country poverty analysis, *Poverty in the Philippines: Income, Assets, and Access*, has shown that most of the poor are dependent on agriculture for their income. A pro-poor growth strategy therefore necessarily implies an increased role of the agriculture sector in driving the growth process. The PPA calls for (i) the modernization of the sector through a program that involves greater private sector participation, supported by public investments that focus on agriculture-promoting infrastructure; (ii) the acceleration of agrarian reform; and (iii) protection of the environment. Some of the infrastructure activities supportive of the sector include farm-to-market and feeder roads, feeder ports, irrigation, rural water supply and electrification. In relation to the goal of social equity, the Government (through the Department of Agrarian Reform, DAR) has five major programs:

- *Salin-Lupa, a* program which covers land tenure improvement through land distribution;
- *Bayanihan*, a program to provide support services like credit, infrastructure training, extension and community organizing for agrarian beneficiaries;

- *Katarungan*, an agrarian justice system that aims to resolve agrarian cases;
- *Kabayanihan,* involving partnership with people's organizations (POs) and nongovernment organizations (NGOs) to resolve agrarian issues; and
- *Kamalayan*, an awareness program to support the above components.

On the whole, the agriculture sector performed well in the last 3 years, growing by 3.6%, well within the 3.1–3.7% target in the MTPDP. Except for corn and other crops, all the other agriculture subsectors exceeded the targets in the MTPDP (see Table A2.2). The fastest growing sectors in the last three years were sugar (7.2%), fisheries (6.6%) and poultry (5.2%). The exceptional performance of the fishery sector was due to increased commercial operations, improved demand from fish canneries, expansion of seaweed areas, improved fingerling disposal, and better cultural and management practices (NEDA 2003).

Table A2.2
Comparison of MTPDP Targets and Actual Performance for Goal 2

	2000	2001		2002		2003	
Indicator	**Actual**	**Target**	**Actual**	**Target**	**Actual**	**Target**	**Actual**
Paved road ratio for secondary road (%)	51	–	–	–	–	65	–
Barangay Electrification							
Electrification level (%)	80.1	83.3		87.0	85.4	90.96	
Target no. of barangays per year	1,621	1,353		1,536		1,604	
GVA in Agriculture	3.4	3.1	3.7	2.7-3.6	3.3	3.4-4.3	3.9
Hectare of land distributed under CARP	370,049	175,427	110,478	145,318	111,922	225,339	67,980

The record for agriculture–related infrastructure, however, has been mixed. The MTPDP identifies the following targets for agriculture-related infrastructure: (1) construction of 1,597 km. of farm-to-market roads and rehabilitation, repair and upgrading of another 601 km. of such roads; and (2) irrigation of 473,572 hectares of land. As of 2002, a total of 1,045 farm-to-market road projects covering 736.5 km had been constructed for a 34% accomplishment rate (NEDA 2003). On irrigation, a total of 417,787 hectares of land were irrigated from existing systems for an accomplishment rate of 134%, though only 28% of the targeted new irrigation systems had been generated as of 2002.

The PPA identified two key indicators to assess the performance of the government: (i) paving of 65% of secondary roads by 2004 (13,079 km) from 51% in 2000, which entails the paving of 1,838 km and the rehabilitation of 1,086 km of roads; (ii) 90.96% electrification level by 2003 or about 38,200 *barangays* electrified (NEDA 2002). On the latter count, about 87% of barangays (villages) have been provided with electricity covering about 36,599 barangays to date, lower than the MTPDP target for 2003.

The implementation of the Comprehensive Agrarian Reform Program (CARP) has been lagging behind, with only about 67.5% of the target accomplished as of 1998. Some of the reasons cited for the slow progress in CARP implementation are inadequate funding, landowner resistance, problematic lands without documentation, peace and order problems and failure to install agrarian reform beneficiaries (ARBs) on awarded lands (NEDA 2002). The PPA therefore supported fast-tracking land acquisition and distribution as well as institutionalizing and rationalizing the delivery of support services to all agrarian reform beneficiaries. The target for land distribution under the MTPDP was 225,339 ha by 2003 broken down as follows: (i) 143,000 ha of lands under the Department of Agrarian Reform (DAR) covering private land transfers, operation land transfer, government lands, landed estates and settlements; and (ii) 82,339 ha of public alienable and disposable lands. However, the President in her 2001 State-of-the-Nation Address announced an annual land distribution target of only 200,000 hectares (i.e., 100,000 ha each for DAR and the Department of Environment and Natural Resources, DENR), in effect revising downwards the MTPDP targets of 506,335 hectares from 2001–2004 to 400,000 hectares for the same period. The revision reflected the administration's priority for distributing public alienable and disposable lands under the jurisdiction of DENR over those of DAR.

From 2001–2003 a total of 300,867 ha were distributed, making for an annual average of 100,289 ha, the lowest average annual output for any administration since 1987. Also for the first time, DAR's performance in 2003 of 97,305 hectares distributed fell below 100,000 ha. DENR is also lagging behind its targets, with a backlog of 1.15 million ha as of 2003.

Goal 3: Comprehensive Human Development and Protecting the Vulnerable

The PPA identifies three strategies as critical to the goal of human development: (i) expanding access to health and family planning services through the direct health system, implementation of the national nutritional action agenda and expansion of the national health insurance system; (ii) raising the quality of basic education through decentralization of management, integrated teacher education and the development of localized curriculum; and (iii) improvement in urban infrastructure and service delivery especially for poor communities through partnership with the private sector and capacity building for local government units (LGUs).

Health. The 2003 National Demographic and Health Survey (NDHS) results indicate that the infant mortality rate has been reduced to 29 deaths per 1,000 live births for the period 1998–2002 from 35 for 1993–1997. Furthermore, contraceptive use among married women has also been increasing, from 40% in 1993 to 48.9% in 2003. Fertility desires have not really changed since the 1993 NDHS. Fertility preferences indicated that 51% of women did not wish to have more children.

As of June 2002, the National Health Insurance Program had 38.2 members, of which 1.4 million belonged to the "indigent" group under the *Medicare Para sa Masa* program.[83] The program covers 171 provinces/cities and 1,244 municipalities, with beneficiaries approximately reaching 7.5 million for the 1.4 million member-families (PhilHealth 2004). About 60 % of the beneficiaries are in Luzon, 21% in Mindanao and the rest in Visayas. Indigent families number more than 930,000 comprising nearly 8% of the total estimated household population for 2002.

Education. Elementary participation rates were 97% for the school year 2001-02, exceeding the plan targets for the year.[84] The attainment of the target can be traced to several measures, including construction of school buildings; establishment of elementary schools for 1,617 barangays in 2002; an increase in the 2002 budget for elementary pupils to P5,200 per pupil from P4,600 in 2001; and increased partnership of the government with the private sector in providing schools to 35% of barangays (NEDA 2002).

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[83] *Medicare para sa Masa* aims at providing medical care to the marginalized sector, the beneficiaries of which are identified using the community-based information system for minimum basic needs (CBIS-MBN). The local government units (LGUs), share the payment of the premium with the national government, with premium payments discounted according to the income classification of the indigents' residence.

[84] Note that the MTPDP target for participation rate was not disaggregated by gender.

Table A2.3
Comparison of MTPDP Targets and Actual Performance for Goal 2

Indicator	Target	Accomplishment
Maternal mortality rate	Decline from 0.6 per 1,000 live births to 0.4 per 1,000 live births by 2004	
Infant mortality rate	Decline from 48.9 per 1,000 live births to 35 per 1,000 live births by 2004	IMR 2003: 29
Achieving desired family size Gross enrollment rate by gender at elementary level	Participation rate at elementary level: School Year (SY) 2000–01: 96.4 2001–02: 96.8 2002–03: 97.0 2003–04: 97.5	SY 2000–01: 96.8
Number of poor and mobile families provides having assistance	For the plan period 2001-2004, the housing sector is targeting the provisions of socialized housing to 880,000 household or 73% of the total housing package of 1.2 million homes	Informal settlers would account for 44.9% of the package (538,824) and nonsettlers with 28.4% (341,176%)

Housing. As of November 2002, just over 420,000 people have benefited from the government's housing program. Of these, one third were part of the socialized housing program for nonsettlers and about half were urban poor settlers who were provided security of land tenure (see Table A2.4). The actual accomplishments covered 70% of the housing sector targets in the MTPDP. According to NEDA (2003), the modest accomplishment could be traced to the high cost of housing, only partly mitigated by low cost borrowing and longer repayment periods.

Table A2.4

Housing Sector Targets vs. Accomplishments, 2001-2002

Program	Target No. of Households	Accomplishment 2001	Accomplishment 2002 (Jan–Nov)	Total 2001–2002	Accomplishment (%)
Socialized housing: nonsettlers	170,000	56,025	70,824	126,849	74.62
Formal sector	160,000	37,899	43,594	81,493	50.93
Provision of security of land tenure for urban poor settlers	270,000	127,559	84,313	211,872	78.47
Total	**600,000**	**221,483**	**198,731**	**420,214**	**70.04**

Goal 4: Good Governance and the Rule of Law

The PPA recognizes the importance of effective delivery of service by the government, especially to the poor. Since the fiscal problem has become very serious, three areas were identified as crucial to the promotion of good governance: (i) improved tax collections; (ii) prudent expenditure management through the Medium-Term Expenditure Framework (MTEF); and (iii) the prioritization of government programs and projects through the Sectoral Effectiveness and Efficiency Review (SEER).

Low tax collection of government was the main reason for the increasing budget deficit from 2001–2003. The tax effort ratio has been on the downtrend since its peak in 1997, reaching 13.2% in 2002. This trend was reversed in 2003 when the ratio of government revenue-to-GNP ratio slightly rose to 13.4%, which is still low compared to past achievements. Recent higher collections can be attributed to the administrative and legislative reforms implemented during the year. The Revenue Integrity Protection Service was created to conduct lifestyle checks and enforce prudent debt management measures. Operational efficiency was improved at the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) through administrative measures such as organizational adjustments of functions and increased use of technology-based tools. Value-added tax payments have been enforced. Finally, the excise tax on automobiles was passed (DOF 2004). The 2003 experience will hopefully start the momentum for reforms at the revenue agencies.

On the expenditure side, the importance of a longer time horizon in formulating expenditure programs gave rise to the MTEF, presently being implemented by the DBM. The MTEF introduces the concept of multi-year budgeting in accordance with the development framework of the MTPDP and the priority investments in the MTPIP. The MTEF comprises two components. The first is a SEER which categorizes and prioritizes ongoing programs, activities, and projects. The second component is an organizational performance indicators framework (OPIF) that introduces performance accountability in government.

The implementation of the MTEF has proceeded with the following major components (DBM 2004):

- Improving medium-term planning and the national and local levels through better streamlining of planning procedures;
- Improving the credibility of the MTEF through better revenue forecasting methods and techniques;
- Developing 3-year department budgets to guide departments in planning and programming new and ongoing programs, activities, and projects;
- Building partnerships with civil society to support the MTEF implementation; and
- Revising budget manuals to conform with new procedures

A number of measures are being pursued for the SEER: (i) refocusing resource allocation by the agencies to address poverty reduction programs and projects, (ii) correcting the allocative distortion caused by congressional initiatives and earmarked revenues, and (iii) working out ways to improve the transparency and accountability of congressional allowances (DBM 2004).

NEDA and the Department of Budget and Management are still in the preliminary stages of operationalizing the SEER and OPIF processes. Among the challenges facing the SEER prioritization exercise are methodological constraints in determining intra- and inter-sectoral investment priorities. Financial constraints exist in funding newly proposed and even continuing high priority programs and projects in view of the Government's austerity program to contain the budget deficit (Templo 2003b). OPIF implementation is also facing operational bottlenecks. There are methodological difficulties in attributing outcomes fully controllable by national government agencies and other instrumentalities. There are questions of the technical capacity of agencies to measure outcomes. Finally, there is a need for organizational resources for DBM to monitor agency performance on top of its regular expenditure reviews.

Have the PPA Goals Been Achieved?

Three years through the implementation of the ADB-GOP PPA, there are both clear accomplishments and shortfalls. While GNP targets were achieved, the domestic economy was weaker than originally perceived in the MTPDP. Industry growth was sluggish but was offset by the generally better performance of the service sectors and of agriculture (where most of the poor are). The available indicators for health and education indicate relatively good performance.

The weaker domestic economy and administrative problems in the revenue collecting agencies are responsible for the higher-than-programmed budgetary deficits in the last 3 years, though a turnaround in tax collection occurred in 2003. There has been a cutback in government services as a result of the budget problem as seen in the shortfalls in the PPA targets for agrarian reform, housing, and in agriculture-related infrastructure. On expenditure reform, the Government started implementing the MTEF and the SEER, though progress has been modest.

Appendix 3

COUNTRY POVERTY ANALYSIS CONSULTATION WORKSHOP PARTICIPANTS

12 November 2004, ADB Headquarters, Manila

Government of the Philippines:

1. Secretary Imelda Nicolas, National Anti-Poverty Commission (NAPC)
2. Assistant Secretary Dolores Castillo, NAPC
3. Ms. Susanita Tesiorna, NAPC
4. Mr. Richard Arcenio, NAPC
5. Ms. Nerrisa Esguerra, NAPC
6. Ms. Josephine Parilla, NAPC
7. Director Carmencita Delantar, Department of Budget and Management (DBM)
8. Ms. Li-Ann De Leon, League of Municipalities of the Philippines
9. Dir. Erlinda Capones, National Economic and Development Authority
10. Director Lina Castro, National Statistical Coordination Board (NSCB)
11. Ms. Marissa Barcenas, National Statistics Office (NSO)

12. Mr. Peter Val Mendoza, Presidential Commission on Urban Poor (PCUP)
13. Ms. Ella Regala, PCUP
14. Ms. Alicia Diaz, PCUP

Civil Society

15. Ms. Eden Garde, Philippine Business for Social Progress

International Organizations and Embassies

16. Ms. Nicole Cadwallader, British Embassy
17. Ms. Berta del Olivo, Embassy of Spain
18. Mr. Frank Hess, European Commission
19. Ms. Cecil Astilla, German Technical Cooperation (GTZ) Philippines
20. Ms. Mayumi Endoh, Japan Bank for International Cooperation (JBIC)
21. Ms. Patricia Tan, New Zealand International Aid and Development (NZAID)
22. Ms. Imelda Benitez, NZAID
23. Ms. Corazon Urquico, United Nations Development Programme (UNDP)
24. Ms. Rosanna Señga, UNDP
25. Mr. Carl Vincent Nadela, UNDP
26. Dr. Robert Wuertz, United States Agency for International Development (USAID)

Asian Development Bank

27. Mr. Stephen Curry, Southeast Asia Department, Director General's Office (SEOD)
28. Mr. Peter Fedon, Southeast Asia Department, Social Sectors Division (SESS)
29. Ms. Manju Senapaty, SESS
30. Ms. Karin Schelzig, SESS
31. Ms. Susanne Wendt, SESS
32. Mr. Thomas Crouch, Philippines Country Office (PhCO)
33. Ms. Xuelin Liu, PhCO
34. Mr. Jing Lachica, PhCO
35. Ms. Rita Festin, PhCO
36. Ms. Laura Cordero, Regional and Sustainable Development Department, Governance and Regional Cooperation Division (RSGR)

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