THE CHALLENGE OF POVERTY REDUCTION IN THE PHILIPPINES

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Poverty, or rather, the eradication of poverty, remains one of the biggest concerns of development.

In 1995, the World Summit for Social Development laid out plans for the eradication of absolute poverty by the year 2020.

> "Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services." (**United Nations 1995**)

The Philippine government's focus on poverty is relatively recent. Only after the 1986 EDSA Revolution have official poverty estimates been generated. Specific poverty reduction targets were included in the medium term programs of former Presidents Corazon Aquino and Fidel Ramos. Various government bodies were set up to support these targets (**Monsod and Monsod 1999**). The country also signed into the WSSD in 1995.

Interestingly, the ***Angat Pinoy 2004*** document, the medium term program of President Joseph Estrada, does not contain any specific poverty reduction and equity enhancement targets. Still, the medium term plan focuses on the performance of social indicators and the reach of the social development agenda. It has to be stressed however that although social indicators improved despite sluggish or virtually nil income growth, income poverty remains one of the main components of poverty in the Philippines and certainly a leading cause of high inequity.

Keeping Track of Philippine Poverty

The most obvious and widely used indicator when measuring poverty is income. The National Statistics Coordination Board (NSCB) started calculating poverty statistics in 1985 using a menu-based approach which was revised in 1992 into a basic needs approach. Non-basic non-food items were removed from the original basket, and poverty statistics were re-estimated from the start of the series. Starting in the latest (January 2000) issue of the series, the NSCB also included calculations for the depth of poverty represented in the poverty and income gaps.

The basic needs approach calculates the subsistence and poverty thresholds. Subsistence refers to the barest minimum of food requirements for ‘‘economically necessary and socially desirable physical activities’‘. The poverty line, on the other hand, combines the food requirements and the basic non-food requirements. These thresholds are valued in pesos and computed on a per capita basis. Individuals whose incomes fall below these thresholds are said to be absolutely poor (below the food threshold) or poor (below the poverty threshold).

Measurement of the poverty line is not an uncontroversial exercise. When the basic consumption basket was revised in 1992, critics decried the move as trying to mask the real extent of impoverishment in the country. Others are not satisfied with the limited definition of subsistence to mere food requirements. The food limitation hews very closely to what may be called the ‘‘biological’‘ approach to living, and does not cover enough for a certain level of dignity. If the definition of subsistence is broadened to one of barest minimum essentials, then very basic shelter and clothing should be included in the threshold.

Notwithstanding the criticisms and limitations of the official poverty statistics, their use provides instructive insights into the composition of poverty in the country. Combined with other measures and indices that have since come up, the figures show the country’s mixed record in terms of poverty reduction and human development.

Table 1 shows the movements in poverty incidence from 1961 to 1997. In a period of 36 years, poverty incidence decreased by 27.2 percentage points, or an annual average of less than one percent (0.76%). Poverty reduction was fastest between 1961 and 1965 where the incidence fell 7 percentage points or an average of 1.75 percentage points per year. Poverty incidence remained constant until 1971, after which it started its slow but steady decline. The next big leap came in the period between 1991 and 1994 where poverty incidence decreased by 4.4 percentage points or an annual average decrease of almost one and a half percentage points. Since the population grows at a faster (almost thrice as fast) pace than the reduction in poverty incidence, the number of families and the number of people in poverty even increased between 1985 and 1997.

Table 1
Poverty Incidence, 1961 to 1997

Year	Poverty Incidence (% Families)			Contribution to Poverty					
				Families			Population		
	Total	Urban	Rural	Total ('000)	Urban (%)	Rural (%)	Total ('000)	Urban (%)	Rural (%)
1961	59	51	64		30	70			
1965	52	43	55		26	74			
1971	52	41	57		24	77			
1985	44.2	33.6	50.7	4,355	28.7	71.3	26,231	29.7	70.3
1988	40.2	30.1	46.3	4,231	28.3	71.7	25,005	28.6	71.4
1991	39.9	31.1	48.6	4,781	38.7	61.3	28,120	39.3	60.7
1994	35.5	24.0	47.0	4,531	33.6	66.4	27,274	34.3	65.7
1997	31.8	17.9	44.4	4,511	26.8	73.2	26,768	27.9	72.1
Average Annual Reduction	**0.76**	**0.92**	**0.54**						

Sources:
1961-1971: World Bank (1996), A Strategy to Fight Poverty: Philippines
1985-1997: National Statistical Coordination Board (2000), Philippine Poverty Statistics (with some computations made by author based on basic data)

While not exactly exceptional, the country's progress in terms of human development indicators, especially outside of income, has been faster than its poverty reduction record. From a mere 0.419 Human Development Index (HDI) score in 1960, the country achieved medium human development status breaching the 0.500 line by 1975. By 1998, the country achieved an HDI score of 0.744, surpassing the averages of relevant country categories even as it consistently falls below average income levels (**see tables 2 and 3**).

Life expectancy at birth increased by 15.8 years from 52.8 years in 1960 to 68.6 years in 1998. Adult literacy progressed more slowly (84% in 1960 and 94.8% in 1998) although gross enrollment ratio increased by more than a third (61% and 83% in the same period). These notable improvements happened even as real per capita gross domestic product on average increased by only 0.5 percent annually since 1975.

Health indicators also improved between 1970 and 1992. However, this cannot compare with the bigger improvements achieved earlier, and was certainly lower than the average achieved by developing countries in the same period. From 1970 to 1992, infant mortality improved by a mere 27 percent when the middle-income country norm was almost 50 percent. (**WB 1996**) Infant mortality and under-five mortality rates were barely halved in a span of almost three decades from 1960 to 1998 (**see table 1**).

Table 2
Trends In Human Development Indicators
Philippines, 1960 to 1998

	1960	1970	1975	1980	1985	1990	1995	1998
Human Development Index	0.419	0.489	0.648	0.682	0.685	0.713		0.744
Life Expectancy (years)	52.8		57.8				67.4	68.6
Adult Literacy (%)	84						94.6	94.8
Gross Enrollment Ratio (%)	61						80	83
Real GDP per capita (95US$)			974	1,166	967	1,064		1,092
Infant Mortality Rate **(per 1000 livebirths)**		60						32
Under-5 Mortality Rate **(per 1,000 livebirths)**		90						44

Source: *UNDP, Human Development Report, 1997-2000.*

Table 3
Comparison of Philippine HDI and GDP Per Capita
With Relevant Categories of Countries, 1998

	HDI	GDP Per Capita (1995US$)
Philippines	*0.744*	*1,092*
World	0.712	5,331
All Developing Countries	0.642	1,308
Southeast Asia and the Pacific	0.691	1,354
Medium Human Development	0.673	1,226

Source: *UNDP, Human Development Report 2000.*

The Faces of Poverty

Based on NSCB calculations, the national per capita food threshold for 1997 was placed at PhP7,710 and total poverty threshold was PhP11,319. One in five Filipinos failed to earn enough to subsist, while almost two in five did not meet their basic food and non-food requirements. Outside of the NCR, only three other regions — Cagayan Valley, Central Luzon and Southern Tagalog — registered subsistence incidences lower than the national average. If non-food basic needs were included, Cagayan Valley drops out of the picture, having achieved total poverty incidence in 1997 just below the national average.

For the 1997 series, the NSCB includes measures of the depth of poverty in the country. These measures — the poverty and income gap ratios — are calculated based on the income shortfall from the poverty line of those families falling below it. The income gap ratio is an average for all families below the poverty line, while the poverty gap ratio is an average over the whole population. These ratios have values between 0 (indicating absence of poverty) and 100 (indicating the poor has 0 income). Hence, the higher the ratio the deeper the poverty. **Table 4** presents the poverty profile for the country in 1997. Poverty gap for the country is 10, and income gap is 31.6.

Following the global Human Development Report, a country-specific Human Development Index for the Philippines has been generated for the Philippines since 1994. The index uses indicators (life expectancy, functional literacy, basic enrollment ratio, and real per capita income) disaggregated at the provincial level, in the hope that awareness of HDI levels can "generate awareness, constructive critique and claims from the people, and ultimately a response from their political representatives and agents." (**PHDR 2000**) While general use of the index has yet to happen, continued generation and publication holds great promise as more and more politicians and government officials refer to it, especially when improvements in their own provinces have been noted. If the index can take a more than passing mention in policy circles and political contests, then the PHDR would have generated more than a measure but a means to elevate voters' political maturity.

In the 1997 Philippine Human Development Report, provinces were classified according to their HDI level. **High** human development meant the achievement of HDI levels above 0.80, while **medium** human development meant an HDI between 0.50 and 0.79. Provinces that registered HDI levels below 0.50 were classified as having **low** human development. From this classification, the NCR was the only region/province out of 77 that registered high human development in 1994. Fifty-five provinces had medium HDI levels, and twelve had low HDI level. Although the NCR was again the only region achieving a high HDI in 1997, several provinces registered improved HDI levels. Seven provinces (Romblon, Davao del Sur, Antique, Palawan, Camiguin, Capiz and Kalinga Apayao) joined those in the medium HDI list.

Scrutiny of the numbers yields four basic observations on Philippine poverty and human development. *First*, poverty is still primarily a rural phenomenon. *Second*, wide regional disparities exist not only in the actual poverty count but also in the limited poverty reduction. *Third*, intra-regional disparity is similarly severe, as regions with supposedly lowest poverty incidence may be found to host the most persistent poverty, particularly rural poverty. *Fourth*, an aggravating feature of impoverishment is the highly skewed income and asset distribution.

Table 4
Philippine Poverty Profile, 1997

	Poverty Incidence						Subsistence Incidence						Poverty Gap Ratio			Income Gap Ratio		
	Total		Urban		Rural		Total		Urban		Rural							
	Fam	Pop	Fam	Pop	Fam	Pop	Fam	Pop	Fam	Pop	Fam	Pop	Total	Urban	Rural	Total	Urban	Rural
PHILS.	31.8	36.8	17.9	21.5	44.4	50.7	16.2	19.8	7.0	9.0	24.5	29.7	10.0	5.0	15.2	31.6	28.2	34.2
NCR	6.4	8.5	6.4	8.5			0.8	1.0	0.8	1.0			1.2	1.2		18.9	18.9	
LUZON	29.8	34.8	18.3	22.2	38.9	44.7	14.0	17.6	6.5	8.7	19.8	24.3	9.1	4.9	12.3	29.0	25.9	30.4
CAR	42.5	50.1	13.4	17.2	55.5	63.7	24.9	30.6	5.6	7.8	33.4	39.9	15.8	4.3	21.0	37.2	32.2	37.7
I	37.8	44.1	26.4	32.1	43.0	49.8	17.8	22.8	11.2	15.1	20.9	26.4	12.0	7.7	14.0	31.8	29.1	32.6
II	32.1	38.0	28.0	33.6	33.2	39.1	13.5	17.8	12.4	16.2	13.8	18.2	8.6	8.5	8.6	26.7	30.3	25.9
III	15.4	18.5	12.7	16.0	18.8	21.7	4.7	5.9	3.5	4.8	6.2	7.3	3.7	2.9	4.6	23.8	23.1	24.4
IV	25.7	30.0	15.3	18.7	37.3	42.3	10.5	12.9	4.8	6.5	16.9	20.0	7.5	4.0	11.5	29.3	25.8	30.9
V	50.1	57.0	36.3	41.5	55.1	62.7	30.2	36.5	15.7	19.3	35.6	42.9	16.7	10.1	19.1	33.3	27.9	34.6
VIS.	38.3	44.1	23.6	27.6	46.7	54.0	21.1	26.1	11.0	13.7	27.0	33.5	12.1	7.0	15.1	31.8	29.7	32.4
VI	39.9	45.9	26.2	31.2	47.8	54.6	19.5	24.5	10.6	13.7	24.7	31.0	12.5	7.1	15.6	31.2	27.2	32.5
VII	34.4	38.9	18.2	20.5	47.0	53.6	19.8	23.7	8.8	10.5	28.3	34.0	11.1	5.7	15.3	32.2	31.2	32.5
VIII	40.8	48.5	29.8	35.6	44.9	53.4	25.7	32.3	17.1	21.0	28.9	36.5	13.1	9.6	14.4	32.2	32.3	32.1
MIN.	44.6	50.6	32.0	37.3	51.3	57.4	24.8	29.6	15.4	19.2	29.7	35.0	15.3	10.4	17.9	34.2	32.2	34.8
IX	40.1	45.5	25.6	28.9	46.5	52.7	20.6	24.4	8.7	11.0	25.9	30.2	13.6	7.4	16.3	33.9	28.9	35.1
X	47.0	52.7	34.2	39.9	55.7	61.5	26.8	31.7	16.9	20.9	33.6	39.2	16.5	11.4	20.1	35.2	33.2	36.1
XI	38.2	44.3	26.5	32.2	45.8	51.7	21.7	26.8	12.7	16.5	27.4	33.1	12.8	8.4	15.6	33.5	31.7	34.1
XII	50.0	55.8	35.8	39.5	55.9	62.4	30.6	35.5	19.6	22.1	35.3	41.0	19.2	12.8	21.9	38.4	35.8	39.1
ARMM	57.3	62.5	57.5	61.3	57.3	62.8	27.7	32.7	30.3	34.8	27.0	32.2	16.8	18.3	16.4	29.4	31.8	28.6

Source: *National Statistics Coordination Board (2000), Philippine Poverty Statistics*

Food Threshold is the peso value of the barest minimum annual per capita food requirement.

Poverty Threshold is the peso value of the per capita annual basic food and non-food requirements.

Poverty Gap Ratio is the average income shortfall (proportionate to the poverty threshold) normalized over the whole population.

Income Gap Ratio is the average income shortfall (proportionate to the poverty threshold) of those below the poverty line.

Poverty as a Rural Phenomenon

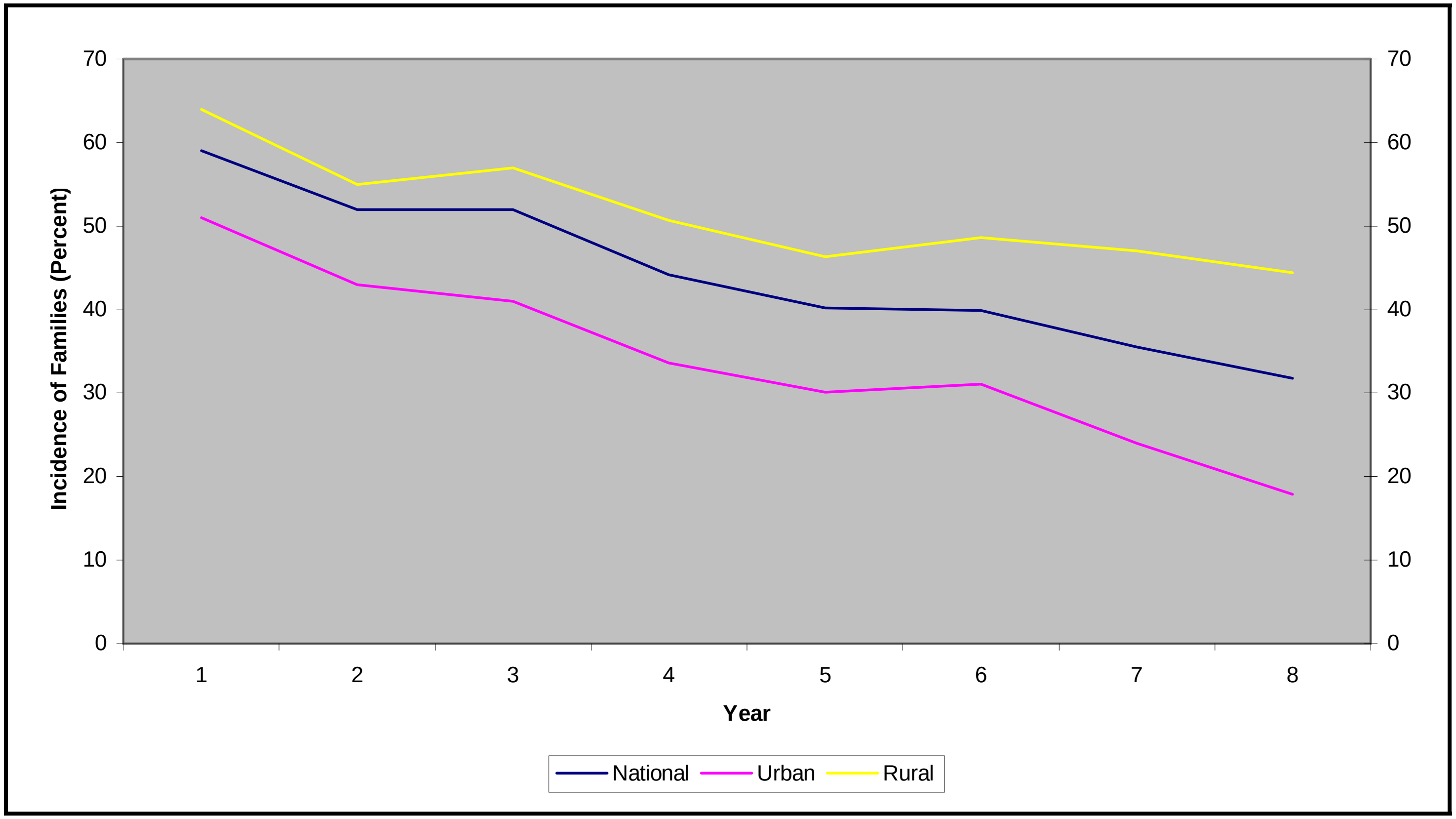
Figure 1 shows the trend in poverty incidence by area. Since the 1960s, rural, urban and total poverty have all followed similar trajectories. However, upturns in rural poverty have been sharper compared with those in urban and national poverty, while the reduction has been flatter. Urban poverty clearly dropped faster than rural poverty. From 1961 rural poverty decreased by 31 percent or less than half the 65 percent poverty reduction in the urban areas. The difference within the last 15 years is even more pronounced. Between 1985 and 1997, urban poverty decreased four times faster than rural poverty (48% and 12% respectively).

Almost three in four poor families come from the rural sector, a trend that has not substantially shifted since 1961.

Not only are more poor families found in rural areas, they are also deeper in poverty. While the difference in the income shortfall of the rural and the urban poor relative to the poverty line is less than 20 percent, compared with the rest of the population the rural poor are three times as deep in poverty as the urban poor. In all the 15 regions, with the exception of Metro Manila, poverty in the rural areas is greater. Interestingly, the same trend in subsistence incidence is observed, but with the ARMM having greater urban than rural food poverty. Urban poverty is also more severe and deeper than rural poverty in this region. The two other exceptions to the general trend are Cagayan Valley and Eastern Visayas where the urban poor experience greater income shortfalls relative to the poverty line than the rural poor (**see table 4**).

The urban-rural divide is significant in yet another context. For a long time the urban label was used for strictly political area classifications. This included the whole of Metropolitan Manila, chartered cities, provincial capitals, and town centers of municipalities. Only by the mid-1960s did population density become an additional criterion in determining an urban area. By the 1970s, any district with at least six establishments could be classified an urban area. In the 1990s, there was a major reclassification of rural areas into urban areas. The considerable growth in urban population therefore is due more to reclassification rather than movement to urban areas or to urbanization. The population growth in the urban sector outpaces national population growth average, half of which is accounted for by migration, but the contribution of area reclassification is overlooked.

Figure 1
Poverty Incidence By Area, 1961 to 1997



Legend: Year 1: 1961 Year 2: 1965 Year 3: 1971 Year 4: 1985 Year 5: 1988 Year 6: 1991 Year 7: 1994 Year 8: 1994

The significant contribution of area reclassification to urbanization points to profound implications in any attempt to assess urban poverty in the Philippines. For one, we can be talking of a very wide gap in the level of development of what are commonly classified as urban areas. Urban areas may in fact be more differentiated than homogeneous in terms of economic activities and problems associated with poverty. For instance, the economic activities of a newly classified urban area can be linked more to agricultural production rather than to service and manufacturing that we normally associate with urbanization. Scavenging, mendicancy, slum dwelling and itinerant vending — problems we normally associate with urban poverty — may not be major issues in newly classified urban areas.

Many, if not most of those classified as urban areas, therefore are more agriculture-based than is commonly perceived. Put in another way, urban poverty has many rural features that need to be addressed if poverty targeting is to be done properly.

Regional Disparity

Table 5 lists the top and bottom five regions by extent of poverty. The five poorest regions — ARMM, Bicol, Central Mindanao, Northern Mindanao, and CAR — account for 18 percent of the total family population, and 31 percent of the poor population. The five regions with the highest incidences of food poverty — Central Mindanao, Bicol Region, ARMM, Northern Mindanao and Eastern Visayas — share a little over a fifth of the total population and 41 percent of the food-poor families.

The regional difference is not only defined by the distance from the main island (though indeed three of the poorest five regions are in Mindanao). The bigger difference is in the gaps between poverty incidences. Poverty incidence in the ARMM, the poorest region in 1997, is almost four times as high as the incidence in Metro Manila, while the subsistence incidence in Central Mindanao (the most food-poor) is more than six times that of Metro Manila. Even among the group of the ‘‘least poor’‘, the NCR is obviously a class all its own. NCR poverty incidence is less than half as that of the nearest region, and subsistence incidence less than a fifth (Central Luzon in both instances).

Regions outside of the capital also fared worse in terms of poverty reduction. While the NCR was able to reduce poverty by 72 percent between 1988 and 1997, the next nearest region (Central Luzon) could only manage a 44 percent reduction. The Visayan regions were the best performers, reducing poverty by an average of 35 percent in the same period. Luzon had a mixed record, hosting the fastest increases (Central Luzon, Southern Tagalog) as well some of the slowest (CAR, Ilocos Region). In Mindanao, the ARMM even experienced a 13 percent increase in poverty incidence from 1991 to 1997.

Proximity to Metro Manila also appears to be highly correlated with the achievement of high HDI levels, basically by virtue of their being high-income provinces. The top ten provinces in terms of HDI are in the main island of Luzon, notably in the Central and

Southern Tagalog, depicting what the PHDR in 1997 declared as the “historical radiation of economic and social development from the capital region” (**PHDR 1997**). Batanes, Ilocos Norte and Benguet occupied the other slots in the top ten. Batanes is found in Region II which is consistently among the ‘‘least poor’‘ regions in the country. Benguet is in the CAR which, ironically, is among the poorest regions. Together with Ilocos Norte (Region I), these three provinces registered impressive results in life expectancy and functional literacy for 1997 (s**ee table 6**).

At the extreme end, in the southern regions of the Philippines may be found 7of the 10 bottom HDI provinces. Four ARMM provinces take up the bottom positions, achieving HDI scores at worst 54 percent lower than the HDI score of the top province (0.331 for Sulu against 0.723 for Bataan). The four provinces achieve some of the lowest rates of functional literacy, life expectancy and per capita incomes.

Regions IX (Basilan), XII (Lanao del Norte) and CARAGA (Agusan del Sur) each have one province in the bottom 10. Only Northern Samar (Region VIII) comes from the Visayan regions, while two provinces (Ifugao, CAR and Masbate, Region V) are from Luzon.

Table 5
Top and Bottom Five Regions
By Extent of Poverty, 1997

Five Poorest		Five Least Poor	
Poverty Incidence (% of Family)			
ARMM	57.3	NCR	6.4
Bicol Region (5)	50.1	Central Luzon (3)	15.4
Central Mindanao (12)	50.0	Southern Tagalog (4)	25.7
Northern Mindanao (10)	47.0	Cagayan Valley (2)	32.1
CAR	42.5	Central Visayas (7)	34.4
Subsistence Incidence (% of Family)			
Central Mindanao (12)	30.6	NCR	0.8
Bicol Region (5)	30.2	Central Luzon (3)	4.7
ARMM	27.7	Southern Tagalog (4)	10.5
Northern Mindanao (10)	26.8	Cagayan Valley (2)	13.5
Eastern Visayas (8)	25.7	Ilocos Region (1)	17.8
Poverty Gap Ratio			
Central Mindanao (12)	19.2	NCR	1.2
ARMM	16.8	Central Luzon (3)	3.7
Bicol Region (5)	16.7	Southern Tagalog (4)	7.5
Northern Mindanao (10)	16.5	Cagayan Valley (2)	8.6
CAR	15.8	Ilocos Region (1)	11.1
Income Gap Ratio			
Central Mindanao (12)	38.4	NCR	18.9
CAR	37.2	Central Luzon (3)	23.8
Northern Mindanao (10)	35.2	Southern Tagalog (4)	29.3
Western Mindanao (9)	33.9	Cagayan Valley (2)	26.7
Southern Mindanao (11)	33.5	Western Visayas (6)	31.2

Table 6
Top and Bottom Ten Provinces* in HDI, 1997

1994 Rank a/	Top Provinces	HDI 1997	1994 Rank b/	Bottom Provinces	HDI 1997
8	Bataan	0.723	7	Masbate	0.487
1	Cavite	0.721	9	Northern Samar	0.482
2	Batanes	0.709	8	Agusan del Sur	0.478
4	Bulacan	0.700	12	Lanao del Norte	0.465
3	Rizal	0.690	3	Ifugao	0.448
6	Batangas	0.681	5	Basilan	0.434
5	Laguna	0.672	6	Lanao del Sur	0.408
7	Pampanga	0.646	4	Maguindanao	0.403
12	Ilocos Norte	0.644	2	Tawi-tawi	0.425
11	Benguet	0.624	1	Sulu	0.331

***** excluding the NCR
a/ number of places from the top, e.g., 1 = top
b/ number of places from the bottom, e.g., 1 = last

Source: *Philippine Human Development Report 2000*

Intra-Regional Disparity

Some economists downplay the impact of inter-regional and urban-rural disparity on poverty and inequality. Balisacan (1999) for instance claims that disparity between regions and urban-rural areas account for but a small portion (at most 20%) of overall inequality. According to him, intra-regional disparity, more than the inter-regional and urban-rural differences, should be the greater concern.

Without conceding that the first two concerns are lesser problems (even if they are not the best explanations for poverty), we agree that intra-regional disparity is indeed a big issue. Intra-regional disparity is even more severe than the other disparities earlier discussed. The intra-regional differences are accounted for by the differential asset ownership and income potentials within the region. Investments in crucial economic and social services are also uneven across provinces even within the same region. The result: even while certain regions perform quite well in terms of average poverty incidence, a per-province comparison reveals wide gaps between the poorest and least poor provinces as well as between the province and the regional and national averages.

For instance, Region IV (Southern Tagalog) is the third least poor region, but it is home to the poorest province, Romblon. While the regional poverty incidence is lower than the national incidence, Romblon has a poverty incidence almost thrice the regional average and two-and-a-half times the national average. Region IV is also home to the least poor province (outside of NCR), Cavite.

At the other end is Northern Mindanao, one of the poorest regions. It hosts Misamis Oriental, a province quite low in average income scores and high on poverty incidence. But within Misamis Oriental is Cagayan de Oro, a major city where average family income is among the highest in the country.

Skewed Income and Asset Distribution

The distribution of incomes and assets in the country is very skewed. The income ratio of the bottom half and the richer half is 0.21, i.e., the richer 50 percent of families capture five times as much income as their poorer counterparts. Inequality is even more severe on a per decile comparison. Income of the richest decile is more than 23 times that of the poorest decile. Worse, distribution has remained stagnant since the mid-1980s. From 1985 to 1997, the income shares of the first seven deciles even decreased in favor of a 3.7 percentage point increase for the ninth and tenth deciles (**see table 7 and figure 2**).

The GINI coefficient has not improved substantially either, traversing the narrow range of 0.45 and 0.49. The best improvements in the index were observed in the poorest regions of CAR, Region IX and Region XII from 1985 to 1997. Inequality worsened in Regions III and VI during the same period (**see table 8**). While even the World Bank in its latest report[1] on poverty in the Philippines said that the increase in inequality between 1994 and 1997 should not be mistaken for a trend, it is worth stressing that any fluctuation in inequality indicators is a justifiable cause for concern in a country where no major improvement in income distribution has taken place in the last two decades.

Who are the Poor?

As mentioned, income is the most obvious measure used when defining who the poor are. But beyond income, poverty is best illustrated by the significantly lower performance in various social indicators as well as by the limited access to crucial services.

The ultra-poor households (households who are not able to meet the basic food requirements) on average experience a 30 percent shortfall between their annual income and the subsistence threshold. They tend to have a household bigger in size than the national average, 6.3 and 5.2 members respectively. The ratio of households with eight or more members is almost twice (27.9%) as much as that for the country (15%). Poor households also have four times the likelihood to earn less than PhP20,000 a year compared with the national average (34.1% vs 8.5%). Farming and fisheries are the major sources of income for poor households. Four of the seven poorest regions in the country are in Mindanao (Regions IX, X, XII and ARMM), one is in the Visayas (Region VIII) and two are in Luzon (CAR, Region V) (**see box**).

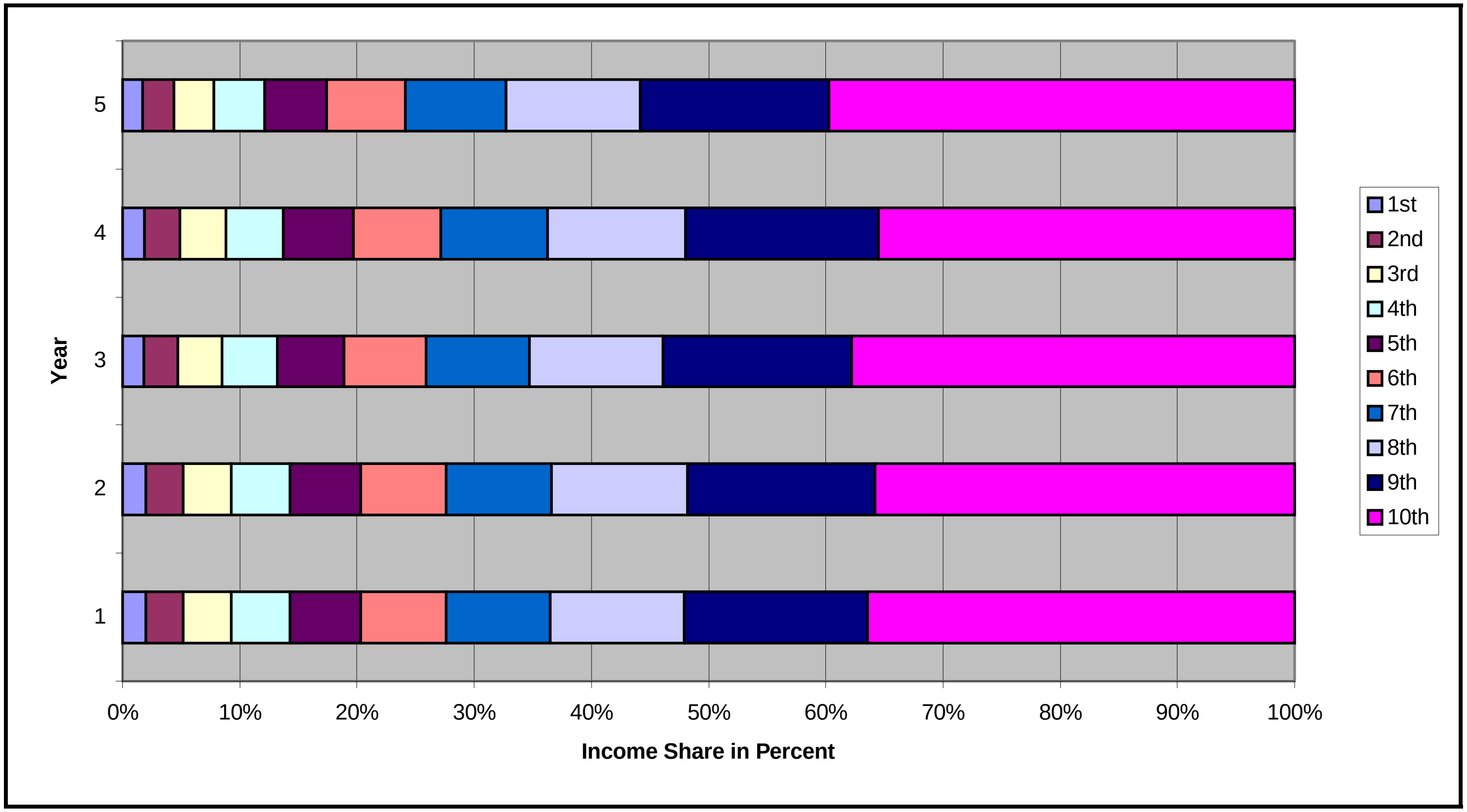
[1] Philippines Poverty Assessment (Report No. 20498-PH), draft report

Table 7
Income Decile Distribution of Families
Summary, 1985 to 1997

	Philippines					**National Capital Region**					**Outside NCR***				
	1985	**1988**	**1991**	**1994**	**1997**	**1985**	**1988**	**1991**	**1994**	**1997**	**1985**	**1988**	**1991**	**1994**	**1997**
First	2.0	2.0	1.8	1.9	1.7	2.4	2.4	2.5	2.8	2.2	2.5	2.4	2.3	2.4	2.2
Second	3.2	3.2	2.9	3.0	2.7	3.6	3.5	3.6	3.9	3.2	3.7	3.7	3.3	3.7	3.4
Third	4.1	4.1	3.8	3.9	3.4	4.5	4.4	4.4	4.7	4.0	4.7	4.7	4.5	4.7	4.2
Fourth	5.0	5.0	4.7	4.9	4.3	5.4	5.3	5.2	5.6	4.7	5.6	5.6	5.4	5.6	5.1
Fifth	6.0	6.0	5.7	6.0	5.3	6.4	6.3	6.2	6.6	5.6	6.5	6.6	6.5	6.6	6.0
Sixth	7.3	7.3	7.0	7.4	6.7	7.5	7.5	7.3	7.7	6.7	7.7	7.8	7.7	7.9	7.2
Seventh	8.9	9.0	8.8	9.1	8.6	9.1	8.9	8.8	9.2	8.1	9.2	9.4	9.2	9.5	8.7
Eight	11.4	11.6	11.4	11.8	11.4	11.3	11.0	10.8	11.3	10.0	11.3	11.5	11.4	11.6	11.3
Ninth	15.7	16.0	16.1	16.4	16.1	15.2	14.8	14.4	14.8	13.7	15.1	15.5	15.5	15.8	16.0
Tenth	36.4	35.8	37.8	35.5	39.7	34.4	35.7	36.8	33.3	41.7	33.8	32.6	33.9	32.2	35.8
Poorest 20%	5.2	5.2	4.7	4.9	4.4	6.0	5.9	6.1	6.7	5.4	6.2	6.1	5.6	6.1	5.6
Poorest 40%	14.3	14.3	13.2	13.7	12.1	15.9	15.6	15.7	17.0	14.1	16.5	16.4	15.5	16.4	14.9
Richest 20%	52.1	51.8	53.9	51.9	55.8	49.6	50.5	51.2	48.1	55.4	48.9	48.1	49.4	48.0	51.8
Ratio of Bottom 50% / Highest 50%	0.25	0.25	0.23	0.25	0.21	0.29	0.28	0.28	0.31	0.24	0.30	0.30	0.28	0.30	0.26

* un-weighted average

Figure 2
Income Decile Distribution of Families
1985, 1988, 1991, 1994 and 1997



Legend: Year 1: 1985 Year 2: 19886 Year 3: 1991 Year 4: 1994 Year 5: 1997

Table 8
GINI Coefficients, 1985 to 1997

Region	1985	1988	1991	1994	1997
PHILIPPINES	0.4466	0.4466	0.4680	0.4507	0.4872
NCR	0.4146	0.4258	0.4282	0.3967	0.4622
CAR		0.3741	0.4372	0.4100	0.4640
Region I	0.4011	0.3743	0.4039	0.3814	0.4257
Region II	0.3856	0.3962	0.4172	0.4056	0.4130
Region III	0.3992	0.3861	0.4172	0.3630	0.3638
Region IV	0.4058	0.4080	0.4236	0.4016	0.4247
Region V	0.3798	0.3876	0.3910	0.4116	0.4362
Region VI	0.4499	0.4080	0.4031	0.4063	0.4412
Region VII	0.4537	0.4602	0.4604	0.4417	0.4750
Region VIII	0.3904	0.4041	0.4149	0.4198	0.4457
Region IX	0.3947	0.4087	0.4057	0.3861	0.4684
Region X	0.4539	0.4424	0.4380	0.4157	0.4944
Region XI	0.3932	0.4019	0.4348	0.4114	0.4495
Region XII	0.3709	0.3583	0.4050	0.4280	0.4491
ARMM			0.3197	0.3125	0.3406
CARAGA					0.4387

Source: *National Statistics Coordination Board (2000), Philippine Poverty Statistics*
Gini Coefficient is a measure of income inequality, with values ranging from 0 (perfect equality) to 1 (perfect inequality).

A poor family[2] has 20 percent less chance of having access to safe drinking water, and an almost 24 percent less chance of having sanitary facilities than the non-poor family. Debunking the argument that indolence is a primary reason for the poor's poverty is the fact that the head of a poor family will be five percent more likely working than his/her non-poor counterpart. Children aged between 5 and 17 are almost twice as likely to be working if they are poor (**APIS 1998**).

[2] Here data are culled from the 1998 Annual Poverty Indicators Survey which divided families into two major income strata, the lowest 40% and the highest 60%.

The Absolute Poor

Region XII / Central Mindanao:

Subsistence threshold was PhP6,119 which 32.6 percent of families failed to meet. The average ultra-poor family had 6.5 members and earned PhP27,328 from mostly own-account agricultural activities. Only 30 percent of families had wage and salary occupations, of which more than half were agricultural workers.

Region V / Bicol Region

Two in four households earned less than PhP20,000 in 1994. The average income of PhP24,214 for a family of 6.4 people was 35 percent short of the food threshold. Entrepreneurial activities in agriculture remained the major income source even as the poor of Bicol had the highest participation in wage employment among the country's absolute poor. Outside of farming and fishing, the poor were in trade, transportation, construction, mining and quarrying.

ARMM

One in four families in ARMM failed to meet the per capita food threshold of PhP6,143 in 1994. The absolutely poor family had 5.9 members, and earned an average income of PhP30,302 from crop farming and gardening, livestock and poultry raising, and some fishing, for the year.

Region X / Northern Mindanao

The average subsistence household had 6.4 members and earned PhP25,691 in 1994. This meant a more than 25 percent shortfall from the food threshold of PhP5,555 per capita. Farming and fishing were the main occupations, while one in ten households were in the wholesale and retail trade and transportation subsectors.

Region VIII / Eastern Visayas

On an average income of PhP20,490, the Eastern Visayan poor household had to feed six members. Three in five households earned less than PhP20,000. Farming and fisheries were the main occupation, with only one in five households receiving wages from both agriculture and non-agriculture jobs. Expanding the work choices in Region VIII were wholesale and retail trade, manufacturing, and community and personal services.

Cordillera Administrative Region

The CAR had the biggest household size (6.6) and earned the highest average income (PhP32,591) among the poorest regions in the country. Two in five families had eight or more members. Crop farming and gardening was the main source of income in 1994, although a very small number of households was also involved in mining.

Region IX / Western Mindanao

On average the Western Mindanao poor family had 6.1 members. In 1994 they eked out an income of PhP22,459, a 27 percent shortfall from the subsistence level of PhP5,064 per capita. Farming and fishing were still the major source of income. Only one in three households received wages and salaries. Seventy percent of them were employed in the non-agricultural subsectors.

Note:
Indicative figures; recomputed from the FIES 1994 series. All recalculations were based on families whose average incomes fell below the per capita food threshold multiplied by the family size.

Growth, Equity and Poverty Reduction in the ASEAN-4

‘‘Basket case’‘, ‘‘latecomer’‘, ‘‘slow’‘. These are but few of the words used to describe the Philippines vis a vis its immediate Southeast Asian neighbors. The optimism about the country’s prospects just after the second world war turned into disappointment when the Philippines trailed countries that were not even among the initial favorites.

Indeed the Philippines grew way too slowly among the ASEAN-4 (Malaysia, Thailand, Indonesia and the Philippines). Throughout the 1980s, the country managed an annual gross domestic product (GDP) growth rate of only one percent, when the rest of the ASEAN-4 were growing at an average annual rate of at least 5.2 percent. Between 1990 and 1997, the average growth rate improved (3.3%) but still not good enough to match even half of the growth achieved by the other three. The average annual growth in GDP per capita was just a little over one-tenth of the average achieved by Malaysia, Thailand and Indonesia (**see table 9**).

Table 9
Trends in Human Development, Per Capita Income and Growth
ASEAN-4, 1975 to 1998

	Human Development Index					**HPI**	**Annual Average per capita GDP** (%)	**Per Capita GDP** (1995 PPPUS$)	**GDP Average Annual Growth Rate** (%)		
	1975	**1980**	**1985**	**1990**	**1998**	**1998**	**1975-1998**	**1998**	**1980-90**	**1990-97**	**1998**
Malaysia	0.620	0.663	0.696	0.725	0.772	14.0	3.9	4251	5.2	8.7	-6.2
Thailand	0.600	0.643	0.673	0.708	0.745	18.7	4.9	2593	7.6	7.5	-8.0
Philippines	0.648	0.682	0.685	0.713	0.744	16.1	0.5	1092	1.0	3.3	-0.5
Indonesia	0.465	0.526	0.578	0.619	0.670	27.7	4.1	972	6.1	7.5	-13.7

Source: *UNDP, Human Development Report 2000; World Bank, World Development Report 1998/99; ADB, Asian Development Outlook 1999.*

The low growth achieved by the country had an impact on poverty. The Philippines had the slowest poverty reduction record among the ASEAN-4. **Table 10** shows the poverty incidences in the ASEAN-4. Between 1971 and 1991, or in a period of 20 years, poverty was reduced by less than one percent (0.7%) every year. Indonesia (the closest comparable period) managed to reduce poverty thrice as fast.

Improvement in human development was also the slowest for the Philippines for the period between 1975 and 1998 — 15 percent versus 24 percent for the nest slowest country (**see table 9**).

Table 10
Changes in Poverty Incidence, ASEAN-4

	Years	Annual Reduction	First Year	Last Year
Philippines	1971-1991	0.7%	52%	39%
Indonesia	1970-1990	2.0%	58%	19%
Malaysia	1973-1987	1.6%	37%	14%
Thailand	1962-1988	1.4%	59%	22%

Source: *World Bank, The Philippines: A Strategy to Fight Poverty, 1996.*

Still, the country performed quite well in improving various social indicators. Despite having achieved the lowest growth among the ASEAN-4, the Philippines "overall though relatively… did better in reducing human and capability poverty rather than income poverty." The relative change in HDI with respect to the relative change in per capita income was the highest in the Philippines since 1975. The Philippines has also consistently outperformed Indonesia in terms of HDI despite Indonesia's high ranking (number 2 in the ASEAN-4) in terms of poverty reduction, and growth in GDP and GDP per capita.

Table 11 shows that the Philippines remains the third best performer in various social indicators in the ASEAN-4. It even outperforms Thailand in the percentage of people expected to live beyond 60 years old. It also achieved the second best improvement in life expectancy — gaining 10.5 years from 1970–75 to 1995–2000, second to Indonesia's 15.8 years for the same period.

Table 11
Comparative Social Indicators
ASEAN-4, 1970 to 1998/2000

	Life Expectancy at Birth (years)		**Infant Mortality Rate** (per 1,000 livebirths)		*Under-five Mortality Rate* (per 1,000 livebirths)		**People not expected to survive to age 60** (%)	**Maternal Mortality rate** (per 100,000 livebirths)
	1970-75	**1995-2000**	**1970**	**1998**	**1970**	**1998**	**1995-2000**	**1990-98**
Malaysia	63.0	72.0	46	9	63	10	16.1	39
Thailand	59.6	68.8	74	30	102	37	25.8	44
Philippines	57.8	68.3	60	32	90	44	21.8	170
Indonesia	49.3	65.1	104	40	172	56	26.7	450

Source: *UNDP, Human Development Report 2000*

On the downside, the table also indicates that the Philippines performed the worst in the ASEAN-4 in infant mortality and under-five mortality. Between 1970 and 1998, the reduction in infant mortality rate was just 28 per 1,000 livebirths, or just a 47 percent reduction, compared with 37 per 1,000 livebirths (Malaysia) or 59 percent reduction (Thailand) for the next slowest country (in absolute and relative reduction, respectively). The same trend is observed in under-five mortality. Reduction for the country was by 46 per 1,000 livebirths, or by 51 percent reduction from 1970, compared with 53 per 1,000 livebirths (Malaysia) or 64 percent reduction (Thailand) for the next slowest country.

Table 12 presents an interesting picture of equity and inequality in the ASEAN-4. Based on the GINI ratio and the shares of the poorest and richest deciles, it appears that the more prosperous the country the more unequal the distribution. The Philippines ranks second to Indonesia in terms of the Gini index and the ratio of the income or expenditure share of the poorest decile to the share of the richest decile. In both cases Malaysia exhibits the worst distribution record.

Table 12
Distribution of Income and Expenditure, ASEAN-4

	Survey year	Gini index	Lowest 10%	Highest 10%
Indonesia	1995 a/	34.2	3.6	28.3
Malaysia	1989 b/	48.4	1.9	37.9
Philippines	1994 a/	42.9	2.4	33.5
Thailand	1992 a/	46.2	2.5	37.1

a/ refers to expenditure shares by percentiles of population; ranked by per capita expenditure
b/ refers to income shares by percentiles of population; ranked by income per capita
Source: *World Bank, World Development Report 1998/99*

The country's performance in gender-related indicators is also relatively good. In the ASEAN-4 it ranks third in terms of GDI (Gender Development Index), a big part of which has to do with the low female per capita GDP. Gender differentiation as to income is highest in Malaysia and lowest in Thailand. Female GDP per capita is only 39 percent of the male GDP per capita in Malaysia, and 62 percent in Thailand. In the Philippines, women earn 55 percent of what the men do. (**UNDP PHDR 2000**) The Philippines ranks first in adult female literacy rate, 94.6 percent compared to 93.2 for the next highest country, and combined gross enrollment ratio for females, 85 percent versus 66 percent for the next highest country. The country also performs better than Malaysia in terms of gender empowerment (**see table 13**).

Table 13
Gender-Related Development Indicators
ASEAN-4, 1998

	GDI a/	Life Expectancy at Birth (years)		Adult Literacy Rate (%)		Combined Gross Enrolment Ratio (%, 1997)		GEM b/
	1998	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**1998**
Malaysia	0.762	74.5	70.1	82.0	90.7	66	64	0.468
Thailand	0.741	72.1	65.9	93.2	96.9	59	58	
Philippines	0.739	70.5	66.8	94.6	95.1	85	80	0.479
Indonesia	0.664	67.5	63.7	80.5	91.1	61	68	

a/ gender-related development index
b/ gender empowerment measure
Source: *UNDP, Human Development Report 2000*

Sources of Growth and Poverty Reduction in the Past

Various treatises have been advanced and developed in explaining the sources of growth in East Asia, ranging from the most elaborate to the most straightforward. Short of dodging the ‘‘miracle’‘ label often attached to the region, we focus on the most straightforward explanations offered. Ahuja (1997), for instance, cited two important factors that can explain the impressive achievements of East Asia in terms of growth and poverty reduction:

> “Two external conditions are worth emphasizing. The first is *favorable geographic location*: not just proximity to major coastal trading routes (especially for latecomers) but being located in a growing, integrating, and constantly restructuring region. A second exogenous condition is *the initial level of income*. Other things being equal, low incomes relative to other economies, or ‘relative backwardness’, is associated with faster growth, as followers catch up with the leaders.” (**V. Ahuja et al. 1997**) (emphasis supplied)

The second factor is self-explanatory. Anything starting from a low base and growing by x amount will experience higher growth in percentage terms than one that starts from a bigger base and growing by the same x amount.

The first factor requires more elaboration because it is also one of the factors that affected the reversal during the Asian financial crisis that started in 1997. Being in Asia gave a good amount of goodwill to Asian countries from which they derived premiums. Asian countries were attractive because Asia was. Southeast Asia became the sub-region of choice from the mid-1980s.

Member countries of the ASEAN have been the fastest-growing in the world, perhaps the fastest at the onset of the 1990s when it showed exceptional growth as a region. The best performer among the ASEAN-4 was Malaysia, followed by Thailand. The high income growth in these countries was accompanied by a rapid industrialization, second only to the feat achieved by the so-called newly industrializing economies NIEs in the 1970s and early 1980s. From 1970 to 1998, industry share to GDP increased 41 percent (or almost 12 percentage points) from 29.1 percent to 41 percent on average in the ASEAN-4. The share of agriculture for the same period was halved from 31.1 percent to 15 percent (**see table 14**).

Trade-creating investments, mostly from Japan and eventually the NIEs, stimulated the industrial expansion in the ASEAN-4. The shift in production radically transformed the trade structure of the ASEAN. In the 1970s, ASEAN exports were dominated by primary commodities: rice for Thailand, rubber and tin for Malaysia, and rubber and petroleum for Indonesia. Manufactures now account for at least 40 percent of merchandise exports. In 20 years the share of ASEAN export of manufactures grew 16 times bigger, from 0.2 percent to 3.4 percent from 1973 to 1994 (**Malaluan 1997**).

Table 14
Sectoral Share of GDP (In Percent)
1970, 1980, 1995 and 1998

	Agriculture				**Industry**				**Services**			
	1970	**1980**	**1995**	**1998**	**1970**	**1980**	**1995**	**1998**	**1970**	**1980**	**1995**	**1998**
Malaysia		22.9	13.9	11.3		35.8	47.1	45.8		41.3	39.0	42.9
Thailand	30.2	20.2	10.9	12.0	25.7	30.1	42.2	40.4	44.1	49.7	46.9	47.6
Philippines	28.2	23.5	21.5	19.4	33.7	40.5	35.5	35.5	38.1	36.0	43.0	45.1
Indonesia	35.0	24.4	15.9	17.2	28.0	41.3	42.2	42.3	37.0	34.3	41.9	40.5
ASEAN-4 *	*31.13*	*22.75*	*15.55*	*14.98*	*29.13*	*36.92*	*41.75*	*41.00*	*39.73*	*40.32*	*42.70*	*44.02*

Sources: *Asian Development Outlook, 1996 and 1997, 1999.*
** un-weighted average*

Table 15 shows the Foreign Direct Investment (FDI) and portfolio flows into the ASEAN-4, and their export performance since 1984. Proof of the attractiveness of the sub-region to investors during the first half of the 1990s, FDI flows increased 152 percent from US$19.4 billion for 1984–1990 to US$49 billion for 1991–1995. Increase in portfolio flows were even more substantial, tripling from US$5.8 billion to US$23.5 billion for the same period. The biggest increases were recorded by Malaysia and Indonesia for FDI flows, and Indonesia and the Philippines for portfolio flows. Export performance was best in Thailand and Malaysia for the same period.

Table 15
FDI and Portfolio Flows and Exports in the ASEAN-4
1984 to 1998 (In US$ million and Percent)

	Amount			**Average Growth Rate**		
	1984-90	***1991-95***	***1996-98***	***84-90/ 91-95***	***91-95/ 96-98***	***84-90/ 96-98***
Foreign Direct Investment Flows						
Indonesia	3526	11718	10515	232.33%	10.27%	198.21%
Malaysia	7305	22707	10184	210.84%	55.15%	39.41%
Philippines	2484	5079	4452	104.47%	12.34%	79.23%
Thailand	6115	9455	13023	54.62%	37.74%	112.97%
ASEAN-4	***19430***	***48959***	***38174***	***151.98%***	***22.03%***	***96.47%***
Portfolio Investment Flows						
Indonesia	-229	9682	421	4327.95%	95.65%	283.84%
Malaysia	2410	-3746	-516	-255.44%	13.77%	121.41%
Philippines	314	4697	5450	1395.86%	16.03%	1635.67%
Thailand	3345	12867	8542	284.66%	-33.61%	155.37%
ASEAN-4	***5840***	***23500***	***13897***	***302.40%***	***40.86%***	***137.96%***
Exports						
Indonesia	140173	187715	156857	33.92%	-16.44%	11.90%
Malaysia	137296	248437	154762	80.95%	-37.71%	12.72%
Philippines	43663	60969	75267	39.64%	23.45%	72.38%
Thailand	93221	196654	163807	110.95%	-16.70%	75.72%
ASEAN-4	***414353***	***693775***	***550693***	***67.44%***	***20.62%***	***32.90%***

Source of Basic Data: *International Financial Statistics*

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The above may be considered exogenous factors and do not fully explain the extent of human capability improvements in Asia. When it comes to poverty alleviation, internal policies and public expenditures on key social services were crucial.

Education has been identified in many studies as the basic difference between the growth rallies in Asia and elsewhere, particularly Europe. Expansion of primary and secondary education was made a priority in Asia even prior to the long periods of high growth it experienced. This was done by devoting substantial portion of national budgets to education. Indonesia, for instance, used oil rents to finance a primary school expansion program that started in the 1970s. Education was both income-creating as well as well-being enhancing for Asia (**Sen 1999; Ahuja et al. 1997**).

Table 16
Government Expenditure on Social Services, as a percentage of GDP
1980, 1985, 1990, 1995 and 1997

	1980	1985	1990	1995	1997
Malaysia					
Education	5.2	5.6	5.7	4.8	4.6
Health	1.5	1.4	1.5	1.3	1.3
Social Security and Welfare	1.8	1.8	1.9	2.0	2.1
Housing and Community Amenities	0.6	1.3	<0.1	0.2	0.3
Thailand					
Education			3.6 *+		4.8 *+ a/
Health			1.0 *		1.7 * b/
Social Security and Welfare	5.4	5.6	4.4	6.3	7.5
Housing and Community Amenities					
Indonesia					
Education	1.3	1.5	1.0	0.6	1.4 * a/
Health c/					0.6 * b, d/
Social Security and Welfare					
Housing and Community Amenities	1.6	1.4	1.3	1.6	
Philippines					
Education	2.0	1.9	3.1	3.2	3.9
Health	0.6	0.6	0.7	0.4	0.6
Social Security and Welfare	0.2	0.1	0.2	0.4	0.5
Housing and Community Amenities	0.4	0.1	0.1	0.2	0.1

Sources of Basic Data:
GDP shares computed from data reported in the Key Indicators of Developing Asian and Pacific Countries (ADB, 1998); Data with asterisks (*) taken from the Human Development Report 2000; Data with a cross (+) are public expenditure as a percentage of GNP.
a/ for 1995 -97
b/ for 1996-98
c/ combined expenditure for health and social security and welfare
d/ data for health expenditure only

Another thing that helped Asia in poverty reduction is the family network, specifically the private income transfers that this entailed. More than public transfers, Asians relied on family support to cope with “financial insecurity arising from ill health, disablement, unemployment, or old age”. This ensured that various groups, including the elderly, shared in the overall income increases experienced in the region (**Ahuja et al. 1997**).

Prospects Under the Estrada Administration and Beyond

While the Philippines was able to achieve the highest marginal rate of poverty reduction in relation to growth, the fact that the country grew the lowest among the ASEAN-4 was the biggest reason why it performed the worst in reducing the number of people in poverty. The failure to grow is the biggest obstacle to a sharp reduction in poverty in the Philippines.

It took the country 16 years to recover the highest real per capita income it had achieved in 1981. Real per capita GDP breached the US$1,000 line in 1997 to reach US$1,220. Unfortunately, even this achievement was short-lived. The financial crisis that started in 1997 reversed the country's economic performance, with GDP contracting by ½ percent in 1998. Before 1998, the country enjoyed modest growth for six years, a feat that was hailed all over especially coming from a downturn from 1990–92. The contraction that happened in 1997–98 therefore was the second the country experienced in less than a decade.

The period of growth came with the administration of former President Fidel V. Ramos. Such growth was premised on the fast track strategy that sought to usher the Philippines into NIC-hood by the turn of the 21st century. Such strategy made possible the 5.8 percent GDP growth, the highest achieved by the country in a long while. But critics also point to such strategy as having rendered the country vulnerable to the reversals such as what happened in 1997–98.

The crisis had the effect of reversing the gains in poverty reduction achieved between 1991 and 1997. According to the 1998 Annual Poverty Indicators Survey (APIS), price increase had been the most common impact cited by households, while 20.3 percent of households reported having lost jobs inside the country, and 17 percent experienced reduced wages. Families from the higher 60 percent income brackets experienced all three slightly more severely than the poorer 40 percent.

Beyond the income changes, however, the poorer 40 percent of families had to contend with deeper adjustments as a result of the crisis. More families from these income strata reported changes in their eating habits and increases in their working hours. They also reported a higher incidence of pulling their children out of school. The explanation for this is straightforward: any income squeeze on households starting with already lower incomes will have to be compensated by even longer working hours and deeper cuts in consumption.

The crisis eroded the income gains achieved during the moderate growth years, while it pushed the poor deeper in poverty. Unfortunately, government was ill-prepared in handling the crisis, with lack of safety nets mechanisms. Overall, the government was able to extend assistance to less than seven percent of families affected by the crisis in 1998.

In this context, the knee-jerk reaction is to start economic recovery at the soonest time possible, and usher in a new episode of rapid and hopefully sustained growth. Unfortunately, the prospects for this in the medium term appear bleak.

Low Growth for the Medium Term

Growth Targets for the Medium Term. The medium term development plan carries only modest targets. The growth targets and the macroeconomic assumptions for 1999 to 2004 are shown in **table 17**. The government aims for an average GDP growth rate of 4.5 to 5.4 percent, and GNP growth rate of 5 to 5.8 percent. The peak growth is targeted for the years 2003 and 2004, 5.5–6.5 percent for GDP and 6–7 percent for GNP. The biggest growth is expected from the service sector (5.1–6%) and the industrial sector (4.7–5.5%). In industry, the mining and quarrying sub-sector (5–6%) and utilities (4.9–5.7%) are expected to grow the fastest. The construction sub-sector was initially targeted for the fastest growth in industry, but the slump that followed the financial crisis caused the target to be scaled down by more than a third. Although only coming in third, the government places high hopes on the performance of agriculture. Encouraged by the strong showing in 1999 (6% versus the 3.5% target), the average growth rate for agriculture has been revised from 2.6–3.4 percent to 3.1–3.9 percent.

Compared to the targets set out for administration of former President Ramos, the Estrada administration's targets for the medium term are modest. President Ramos sought an annual average growth rate of 7.5 percent, capped by a 10 percent growth rate by 1998. The targets of course were missed, the highest growth rate managed by the economy being a mere 5.8 percent in 1996.

Even at these levels, the growth targets appear difficult to achieve.

For the past two years, the economic team of President Estrada pursued a reasonable exchange rate, interest rate, and fiscal policy. The government was able to bring down interest rates considerably from the peak of the high 20s in late 1997 to the present level of under 9 percent for the 91-day treasury bills. Even more remarkable is the consistency of the interest rate posture, with the fiscal and monetary teams in apparent agreement to maintain low interest rates. This is in contrast to the sharp disagreements between the two teams during the time of former *Bangko Sentral ng Pilipinas* (BSP) Governor Gabriel Singson. The present BSP leadership has also shown greater flexibility in addressing exchange rate movements, again in contrast to its predecessor which showed an unbending predilection to raise interest rates and unload foreign exchange reserves at the first sign of pressure on the peso. On fiscal policy, the government has programmed continued deficit spending, in recognition of the need to pump prime the economy after the 1997–98 slump.

All these are consistent with the imperative of restarting economic recovery from the 0.1 percent GNP growth and the –0.5 percent GDP growth registered by the economy in 1998.

Unfortunately, despite maintaining a correct fiscal, exchange rate, and interest rate stance, the government has not generated as much positive response from the economy. The 1999 economic performance, while meeting the aggregate target, can be best described as anemic when seen from the vantage of sustainability. For one, the 1999 GNP growth of 3.7 percent was carried by the extraordinary growth of 6 percent in agriculture, far surpassing the 3 to 3.5 percent target for the sector. Industry remained almost stagnant at 0.9 percent, which is not surprising given the continued contraction in investments. The economic performance this year (2000) is no more encouraging. In fact the NEDA has already made downward adjustments in its growth targets for the year to reflect the significant depreciation of the peso.

The dismal performance of the economy in 1998 (-0.5% GDP growth) prompted the adjustment of targets a few times, though the medium term averages have generally been retained. **Table 18** contains the national income accounts figures for the first semesters of 1999 and 2000. Compared with the same period for 1999, government consumption, capital formation and imports contracted, a clear indication of the sluggish response of the economy. Exports, though, have started to pick up from the decline experienced in the same period last year. The response from the industry sector is encouraging, with manufacturing growing at 6.1 percent. The extraordinary growth experienced in agriculture is highlighted by the significantly lower growth registered for the first semester this year compared with the year-ago level.

What accounts for such less-than-favorable response of the economy?

Exogenous Factors. The 1997 crisis has obviously affected the inflow of foreign capital not only to the Philippines but into the entire Asian region. A recent international magazine article[3] noted an emerging divide in East Asia between the Northeast Asian countries of Hong Kong, South Korea, China and Taiwan, and the Southeast Asian countries of Malaysia, Singapore, Thailand, the Philippines and Indonesia. Southeast Asia in that article was described as a "lousy neighborhood" in terms of economic prospects. Such low business confidence in the sub-region has definitely affected the flow of foreign capital into the Philippines.

This trend is significant when viewed against the past periods of economic recovery in the Philippines. Given the historically low level of domestic savings in the country, foreign capital — whether in the form of debt, foreign direct investment, or the more recent phenomenon of portfolio capital flows — has played a key role in economic recovery.

Aggravating the problem was the stronger drive triggered among the crisis countries to compete against each other, thereby weakening any attempts at consolidated and regional solutions. This competition was manifested in the Philippines by the government's attempt to differentiate the country from the rest of the crisis-hit Asia. The government tried to paint a healthier economic picture, trying so hard to distance the country from the general malaise experienced in the region.

It is true that the Philippine condition was vastly different from South Korea, Malaysia, Thailand and Malaysia. When these four countries were basking in an average 8+

[3] Tom Holland, Asia's New Fissure, *Far Eastern Economic Review*, 29 June 2000.

percent GDP growth in the first half of the 1990s, the Philippines trailed way behind with a pitiful 2 percent. The Philippines was also last in the list of destination countries for private capital, despite its pioneering efforts at liberalization. The country did have a poorer record of sustaining and managing growth. So when the crisis hit, a smaller amount of capital went out, because only small amounts came in. Other fundamentals also appeared better, but not substantially much than the others, and definitely not good enough to convince capital to come back, much less stay.

Further compounding the economic woes of the country was the sharp rise in the world price of petroleum. Following the decision of OPEC to increase crude oil prices and not to increase output, there have been several episodes of price increases in petroleum products. The situation was aggravated by the depreciating peso.

Internal Factors: Governance Issues. Internally, governance issues hound the Estrada presidency, further undermining its credibility at home and abroad.

One, there is the issue of the handling of the Mindanao security problem. The failure of the government to swiftly resolve the Abu Sayyaf hostage situation has put to question its institutional capability to maintain peace and order. An even bigger issue is the handling of the MILF secessionist movement. Though no experts on Mindanao, we hasten to say that the handling of the MILF situation has ignited a serious national debate, among which are the surging economic and social costs of war in Mindanao. The budget requirements for national defense shot up and economic activity in the area has been seriously compromised.

According to Randolph Parcasio, ARMM executive secretary, foreign financial assistance and investment pledges for Mindanao amounting to at least $150 million have been lost due to the long-drawn conflict in parts of the island. Said amount, pledged during the Islamic Development Bank-sponsored investment conference in Zamboanga City in 1997, was supposed to go the region and in the Special Zone of Peace and Development (SZOPAD) over a period of three years. The infusion was stopped because foreign donors feared that their investments would only go to waste. Foreign donors also expressed concerns about security reasons.[4]

Two, the government refuses to address the growing perception that interests very close to the presidency have been able to distort certain economic policies and legislation. To cite a few flashpoints in this area:

1. The alleged intervention in the SEC investigation of the BW Resources;
2. The alleged "payola" in the Energy Sector Reform Bill;
3. The president's connection with Lucio Tan and the skirmish over the air agreement between the country and Taiwan, and issues surrounding the Philippine National Bank.

[4] Allen Estabillo, $150-M foreign aid for South lost due to conflict, *Philippine Daily* Inquirer, 17 July 2000.

Finally, the issue of corruption is far from being resolved. In fact it was the subject of a recent report by the World Bank.

A New Crisis

In early October 2000, Ilocos Sur Governor and presidential friend Luis ‘Chavit’ Singson announced to media President Estrada’s alleged connection to *jueteng*, an illegal numbers game. According to the Governor, the President received some 200 million pesos from *jueteng* operations. On top of this, the President also allegedly received 130 million pesos in ‘‘kickback’‘ money from tobacco taxes.

Singson’s expose sent waves of criticism across the nation, and gave rise to the call for the President’s resignation, especially when the President dismissed Singson’s claims without giving his own detailed explanation. Calls for Congressional inquiry were quashed in the House of Representatives even as it prospered in the Senate. The President’s continued refusal to make a public statement escalated the criticisms and further eroded economic confidence. The most obvious and damaging effect was the continued downward spiral of the peso. When the President finally did speak, disappointment and distrust was already widespread. Unfortunately, in an attempt to prop up the deteriorating popularity of the President, the Executive Branch had to resort to some unsound economic remedies.

Two of the most criticized measures were the issuance of the so-called cash management bills (CMB’s) that carried a 16 percent interest, and the suspension of a three percent tariff on oil imports. The CMB’s were an attempt to prevent the slide of the peso-dollar exchange rate. While the CMB’s cannot be said to have accomplished their objective, the net effect was an upshot in real interest rates. Based on the ‘‘gentleman’s agreement’‘ among banks, a 16 percent interest on government security will translate to a 21 percent lending rate for banks. This aggravated the already weak investor confidence and consumer demand. Bank lending rates continued to be prohibitive, and indeed even consumer borrowing was dampened, even after the pullout of the CMB’s.

The other measure that had a grave implication was the suspension of the oil levy, supposedly to protect consumers from increasing oil prices. The suspension of the levy had the effect of contracting the government’s income base. By October 2000, government had breached its deficit target for the year, poor tax collection being the main culprit. The suspension of the oil levy guaranteed the further ballooning of the fiscal deficit.

On top of these, the President was seen resorting to populist measures — e.g. giving or promising to give land to urban poor families, even given the vague status of the land in question — to strengthen his support from the poor population. Such direct intervention, while having huge potential impact on the well-being and housing security of the beneficiaries, nevertheless distorts the government’s urban poor housing policy, and indeed erodes the rationality of its poverty reduction strategy.

In November, the House of Representatives impeached the President. The case is now before the Senate for trial.

Such is the picture of the new crisis. Amidst the growing political tension, and the desperate need to protect the presidency, policies may be resorted to with a perspective of short-termism and jeopardizing more rational and more sustainable strategies.

Challenges

Defending the Economic Targets

On macroeconomic and fiscal policy, the government cannot as yet depart from its present posture of decreasing interest rates, allowing the exchange rate to seek its own levels, and to program the budget at a deficit. At this point, it is imperative that interest rates be brought down to at least the levels prevailing prior to the presidential crisis. The budget deficit should be properly linked to a clear socio-economic program and should not be used as a cover for poor revenue generation.

Revenue generation should be a special focus of government if it is to meet its economic targets. Key agencies like the Bureau of Internal Revenue and the Bureau of Customs should be put to task to deliver. This means increasing collection at the same time that corruption is adequately addressed. Placing people of high caliber and unimpeachable credibility in these agencies should be a good start. These agencies should also be supported in their campaign against corruption and creation of a culture of public responsibility.

On the production side, key agencies relating to direct production, such as the Department of Agriculture or the Department of Trade and Industry, should actively reorient their program to assist potential winners — whether in agriculture, industry or services. Such reorientation will help create potential niches for the Philippines and help elevate its status in the international market. This strategy will require taking a stronger position in trade negotiations, as well as in putting in place supportive mechanisms for the potential winners. These mechanisms shall include but not be limited to infrastructure support, capital mobilization, training and re-training programs, and the granting of certain preferential treatment in policy and practice.

It is quite clear that the issue of governance should be addressed, and this requires converging efforts by all branches of government. This is necessary to regain the confidence of both foreign and local investors.

Vulnerabilities brought about by the type of economic expansion experienced in the past also create challenges for governments now. Some reversal in the framework of full opening up is in order. It has already been said that growth following the era of liberalization cannot be denied. But equally important are the costs, in the form of the further pushing out of marginal actors and the attack on weak institutions, which liberalization entails. For instance, in recognition of the pitfalls of unhampered financial liberalization, there is emerging consensus for some form of regulation especially of short-term capital. Better internal regulatory mechanisms are needed, particularly for financial institutions and corporate indebtedness.

The more political aspect of this challenge is the prosecution of those who betray the public trust by cheating government — e.g. through non-payment or under-payment of taxes — or by directly or indirectly stealing from government coffers. The current presidential crisis is a crucial test. Regardless of the outcome of the impeachment case, those implicated in the scandal should be thoroughly investigated, prosecuted and punished. This is the only way that the administration can show the people that it is able to steer the government out of the crisis of governance, and that it will not tolerate predatory bureaucratic and political behavior.

Equity Interventions

It should be emphasized that the focus on equity intervention does not necessarily imply a tradeoff between growth and equity. Essentially, equity interventions can, while not automatically, be consistent with increasing efficiency. For instance, various groups have argued that agrarian reform, clearly an equity issue, is actually efficiency enhancing. Addressing equity issues in Mindanao can reduce conflict thereby making for a more stable basis for economic activity. Similar arguments can be made for investments in education, health and physical infrastructure. On the other hand, some direct transfer programs address equity while being inefficient or very costly, but such programs may be necessary in certain situations (e.g. crisis, war). Programs that imply heavy subsidies (e.g. *ERAP* stores for basic commodities) are examples. Theoretically, there can be growth programs that reduce equity or increase poverty.

Economist T.N. Srinivasan (2000) puts the main argument eloquently thus:

> "An association between aggregate growth and reduction in national poverty does not imply a one-way causal relation between growth and poverty… One has to identify the possible mechanisms through which, on the one hand aggregate growth could affect, positively or negatively, poverty at national or sub-national levels and, on the other, how levels and trends in poverty could influence growth, again in either direction."

Hence, it is crucial to pick out sectors and equity interventions that reduce poverty and enhance growth prospects at the same time. Various tests may be used when applying direct interventions. The income test is prime, while poverty data in country also support the location test. Using any of the tests is not easy and they entail cost. Part of the poverty reduction strategy that should be adopted should lay down the clear basis for intervention.

Education. The value of investing in education is widely accepted. Poverty being essentially a rural phenomenon means that majority of the poor depend on agriculture. Education has the effect of "increasing the propensity to adopt new technologies" in farm work, and increasing the employment potential of the rural dwellers in non-agricultural work.

Both have the effect of reducing income poverty and reducing earnings inequality (**Ahuja et al. 1997**).

Private expenditures in education by Filipino households are relatively large, but many households still find sending children to school expensive. The absence of alternative sources of funds (e.g. credit) constrains many households from making substantial investments in quality education, or in sustaining such expenditures. Government investment in education therefore serves to address this constraint. And because labor costs in the country are still relatively low, investment in education (which depends a lot on labor) is still relatively cheap for government to make (**Ahuja et al. 1997**).

Health. The area of health is where more public investment is needed. For one, private expenditure on health is lower than that for education. It is also in the health aspects that the country scores low. It can be said the health holds the same importance in poverty reduction as education.

Private spending on health averages around 60 percent of total spending on education (**FIES 1997**). Poorer households spend around 50 percent more on health than on education. According to the 1997 FIES, households with income below 50 thousand pesos a year spend on average 1.5 percent on medical care but spend only one percent on education. The difference is higher for urban households. Even given that amount, poor households still cannot afford the cost of health care.

Agricultural Productivity and Agrarian Reform. The higher growth target for agriculture should be encouraging. If growth in this sector means the expansion of employment activities and an increase in rural incomes, then higher agricultural growth should be good for poverty reduction. However, the six percent growth in agriculture achieved in 1999 was extraordinary. Coming out from the extreme weather phenomenon experienced in 1998, the rise in output may be attributed more to better natural conditions rather than to a general increase in agricultural productivity.

A long-standing issue in Philippine development is asset redistribution, particularly land reform. Reform in land ownership remains a critical component of poverty reduction. Landless farmers experience the most persistent poverty (both in terms of severity and incidence) (**Malaluan 1998**).

There is an element of geographical concentration in both poverty and landlessness. To maximize net poverty and equity gain, primary focus should be given to regions and provinces where land tenure problems and impoverishment are high. The Bicol and the Western Visayas regions should be top on the list.

Defending poverty reduction gains

An economic plan, no matter how carefully drafted, does not automatically translate into social development directly. Social development is not an incidental aspect of development. It cannot simply be assumed within a given framework for economic growth. Social development should be given more active attention and emphasis, hopefully also given primacy over plain economic growth.

It is important to insulate government budgets for social services from austerity measures and undue cuts. While private spending on health and education may be considered relatively high among Filipino households, such spending does not adequately cover their needs. Poor households cannot be expected to fully provide for their own health and education; they simply cannot afford them. Therefore government should assist in making these services accessible. Public provision of health and education services has significant contribution to the household's capacity to generate income. Moreover, a healthy and educated population makes for better citizenship.

There is also a need to institutionalize stable safety net mechanisms, especially those that are able to effectively respond to crisis situations. When a crisis causes severe impacts, the need for response is immediate. While such impact usually has long-term repercussions, often the response can be given in the short or medium term. For adversely affected groups, direct transfers from government and other groups should be considered. For instance, to keep children of retrenched workers in school without unduly adding to the parents' and the children's burdens, school vouchers can be issued. These vouchers may be used to pay for reasonable school activities, school food, and school supplies. Food coupons may be given to households in extreme need. The main objective should be to prevent further erosion in the income-earning capacity of poor households.

Finally, a good poverty reduction strategy should seek the active involvement of communities in the identification, implementation, and monitoring of safety nets programs. Communities should be encouraged to give inputs to wide-ranging public concerns not only on the local level but also the national arena. An involved community makes for a more vibrant public life, and is a first step toward political maturity.

Table 17
Medium Term Growth Targets, and Adjustments, 1999 to 2004

	1999		2000		2001		2002		2003		2004		Average	
	Proj.*	Actual	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
GNP (real)	3.7	3.7	5.3	5.9	4.6	5.1	5.9	6.4	6.6	7.1	5.7	6.4	**5.2**	**5.8**
adjusted			*4.5*	*5.5*	*4.5*	*5.5*	*5.5*	*6.5*	*6.0*	*7.0*	*6.0*	*7.0*	***5.0***	***5.8***
GDP (real)	3.2	3.3	4.8	5.4	3.9	4.6	5.4	5.9	6.1	6.6	5.2	5.9	**4.7**	**5.3**
adjusted			*4.0*	*5.0*	*4.0*	*5.0*	*5.0*	*6.0*	*5.5*	*6.5*	*5.5*	*6.5*	***4.5***	***5.4***
SECTORAL PERFORMANCE														
Agric/Fish/For	3.5	6.0	3.5	4.1	0.5	1.5	3.5	4.3	4.0	4.6	1.0	2.0	**2.6**	**3.4**
adjusted			*2.5*	*3.5*	*1.0*	*2.0*	*3.0*	*4.0*	*3.5*	*4.4*	*2.5*	*3.5*	***3.1***	***3.9***
Industry	2.0	0.9	5.0	5.6	4.8	5.4	6.0	6.6	6.8	7.5	6.6	7.2	**5.1**	**5.7**
adjusted			*4.5*	*5.5*	*5.0*	*6.0*	*5.2*	*6.3*	*5.7*	*6.7*	*5.8*	*6.8*	***4.5***	***5.4***
Mining/Qryng	5.9	-8.4	6.0	6.5	7.0	7.5	6.0	6.5	7.0	7.5	7.5	8.0	**6.5**	**7.0**
adjusted			*18.4*	*20.0*	*6.0*	*7.0*	*4.0*	*5.0*	*5.0*	*6.0*	*5.0*	*6.0*	***5.0***	***6.0***
Manufacturing	1.7	1.6	4.4	5.0	4.0	4.5	5.6	6.0	6.3	7.0	5.8	6.3	**4.5**	**5.1**
adjusted			*4.6*	*5.5*	*5.3*	*6.3*	*5.3*	*6.3*	*5.6*	*6.6*	*5.6*	*6.6*	***4.7***	***5.5***
Construction	0.5	-1.6	5.9	6.4	6.5	7.5	6.7	8.0	8.0	9.0	9.0	10.0	**6.0**	**6.9**
adjusted			*1.6*	*2.5*	*3.0*	*4.0*	*5.0*	*6.3*	*6.3*	*7.3*	*7.0*	*8.0*	***3.6***	***4.4***
Utilities	5.0	3.1	7.4	7.8	7.0	7.3	7.5	7.9	8.0	8.8	7.5	8.6	**6.9**	**7.6**
adjusted			*4.5*	*5.5*	*5.2*	*6.2*	*5.0*	*6.0*	*5.5*	*6.5*	*6.0*	*6.5*	***4.9***	***5.7***
Services	4.0	4.1	5.3	5.8	4.7	5.3	5.6	6.0	6.4	6.7	5.8	6.4	**5.2**	**5.7**
adjusted			*4.1*	*5.2*	*4.5*	*5.5*	*5.6*	*6.6*	*6.1*	*7.1*	*6.5*	*7.5*	***5.1***	***6.0***
MACROECONOMIC ASSUMPTIONS														
Population Growth Rate	2.2		2.1		2.1		2.0		2.0		2.0		**2.1**	
Domestic Savings Rate (% GNP)	21.1		20.8		21.3		21.8		21.9		22.2		**21.5**	
Foreign Savings (% GNP)	-2.1		-1.2		-0.6		-0.2		0.6		1.3		**-0.4**	
Investment (% GNP)	18.9		19.6		20.7		21.6		22.5		23.5		**21.1**	
ICOR	6.8		4.0		4.9		4.0		3.7		4.5		**4.7**	
Inflation Rate	9.0	6.6	6.5	7.5	6.0	7.0	5.0	6.0	4.5	5.5	4.0	5.0	**5.7**	**6.7**

Source: *National Economic and Development Authority*
* highs

Table 18
National Income Accounts
First Semester Growth, 1999 and 2000

	1999			2000		
	Q1	Q2	Sem1	Q1	Q2	Sem1
Gross National Product	**1.5**	**4.0**	**2.8**	**3.4**	**4.6**	**4.0**
Gross Domestic Product	**0.7**	**3.6**	**2.2**	**3.2**	**4.5**	**3.9**
By Expenditures						
Personal Consumption	2.5	2.6	2.5	3.2	3.2	3.2
Government Consumption	7.9	4.2	5.9	-1.9	0.8	-0.5
Capital Formation	-5.9	6.2	-0.6	-1.7	-2.3	-2.0
Exports	-8.4	3.3	-2.9	10.7	13.9	12.3
Less: Imports	-16.8	0.1	-8.8	1.4	-3.3	-1.0
By Industry						
Agriculture, Fishery and Forestry	2.9	9.2	5.8	0.1	4.8	2.3
Industry	-3.6	0.6	-1.5	4.4	3.7	4.1
Mining and Quarrying	-15.6	-14.1	-14.9	18.8	9.1	14.1
Manufacturing	-1.0	0.9	0.0	6.0	6.2	6.1
Construction	-12.8	1.8	-5.9	-4.8	-8.6	-6.7
Electricity, Gas and Water	1.3	1.3	1.3	4.5	6.4	5.5
Services	3.2	3.8	3.5	3.8	5.0	4.4
Net Factor Income from Abroad	17.2	11.0	14.1	5.9	5.5	5.7

Source: *National Economic and Development Authority*

The challenge of poverty reduction in the Philippines is both a challenge of growth and a challenge of equity. There is no need to split hairs over the positive and negative impact of growth, it should be stressed that growth is needed if equity is to be meaningful. It is, after all, more acceptable for everybody to be equally or equitably better off than to be equally/equitably poor.

Meeting growth and equity targets is not exclusively an economic challenge. It is political as well. And just as the choice of economic policy is a political process, creating opportunities for the enhancement of equity is also an economic gain.

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