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PHILIPPINES POVERTY ASSESSMENT

Volume I: Main Report



The World Bank



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Poverty Reduction and Economic Management Unit
East Asia and Pacific Region



The World Bank

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Abbreviations and Acronyms

ADB	Asian Development Bank
APIS	Annual Poverty Indicators Survey
ASEM	Asia-Europe Summit
ARMM	Autonomous Region of Muslim Mindanao
CARL	Comprehensive Agrarian Reform Law
CARP	Comprehensive Agrarian Reform Program
CBPIMS	Community-Based Poverty Indicators Monitoring System
CDA	Cooperative Development Authority
CDF	Cumulative Distribution Function
CHED	Commission on Higher Education
CIDSS	Comprehensive and Integrated Development of Social Services
CMP	Community Mortgage Program
CPI	Consumer Price Index
DAR	Department of Agrarian Reform
DECS	Department of Education, Culture and Sports
DENR	Department of Environment and Natural Resources
DHS	Demographic and Health Survey
DILG	Department of Interior and Local Government
DOH	Department of Health
EGS	Employment Guarantee Scheme
ERAP	Enhanced Retail Access for the Poor
FGT	Foster-Greer-Thorbecke
FIES	Family Income and Expenditure Survey
GASTPE	Government Assistance to Students for Private Education
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
LG	Livelihood Groups
LGC	Local Government Code
LFS	Labor Force Survey
LGU	Local Government Unit
MBN	Minimum Basic Needs
MBN-CBIS	Minimum Basic Needs-Community-Based Indicator System
MOOE	Maintenance and Other Operating Expenditures
MTPDP	Medium-Term Philippine Development Plan

NA	National Accounts
NAPC	National Anti-Poverty Commission
NCR	National Capital Region
NEAT	National Elementary Achievement Test
NEDA	National Economic and Development Authority
NFA	National Food Authority
NGO	Non-Government Organization
NPR	National Protection Rate
NSAT	National Secondary Achievement Test
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
OL	Operation Leasehold
OLS	Ordinary Least Square
OLT	Operation Land Transfer
PD	Presidential Decree
PO	People's Organizations
QR	Quantitative Restrictions
SIR	Slum Improvement and Resettlement
SRA	Social Reform Agenda
SUC	State Universities and Colleges
SWS	Social Weather Stations
UNDP	United Nations Development Programme
US	United States
WTO	World Trade Organization

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Executive Summary

"The night is dark: the neighbors sleep in silence; the families, after remembering their dead, surrender themselves to peaceful and contented slumber. They have recited three rosaries with requiems, the novena for the souls, and burnt many wax candles before the sacred images. The rich and the affluent have fulfilled their duties to the benefactors who bequeathed them their fortunes ... but the poor man, the indigent who hardly earns enough to keep himself alive, and has to bribe the petty directors, clerks and soldiers to let him live in peace — he does not sleep with the tranquility described by the courtly poets, who themselves, perhaps, have not suffered the same pangs of misery." -- Jose Rizal, Noli Me Tangere

This report aims to provide an updated picture of poverty in the Philippines and a framework for identifying priorities in designing a strategy to attack poverty. It is intended as an input into the Philippine Government's poverty eradication strategy. It is not a blue print for action. The next step should be a detailed examination of policies and programs in each area of public intervention, including needed legislative changes, and issues of institutional design, and finance.

The report is presented in two volumes. The main volume contains a summary of the profile of the poor and trends in poverty, proposes a framework for attacking poverty, and examines the information base for pro-poor policies. The second volume provides the detailed analytical basis for many of the findings presented in the main report.

WHAT DO WE KNOW ABOUT THE POOR AND RECENT POVERTY TRENDS?

- *Poverty in the Philippines remains relatively high: in 1997, 25 percent of the population had consumption levels below the poverty threshold.* Estimates, based on sectoral GDP growth rates, suggest that poverty may have increased to 27.8 percent in 1998 when per capita GDP fell by 2.6 percent. The subsequent recovery in 1999 is estimated to have brought down the incidence of poverty to 26.3 percent.
- *Poverty declined when the Philippine economy grew.* The incidence of poverty has come down significantly from 41 percent in 1985, but much of the progress during 1985-97 was confined to the first and last three years when growth was robust. Between 1988 and 1994, the headcount index barely moved — from 34 percent in 1988 to 32 percent by 1994 — reflecting the country's anemic growth during those years.
- *Social indicators also improved.* The Philippines has achieved steady improvement in social indicators over the 1980s and 1990s, including life expectancy, literacy for both males and females, immunization and access to safe drinking water in both rural and urban areas, and a decline in child malnutrition and infant mortality rates. These improvements are also reflected in the Human Development Index for the Philippines, which rose from 0.683 in 1985 to 0.740 in 1997 (UNDP, 1999).
- *Growth — while limited — appears to have been broadly shared across income groups.* The decline in poverty was not confined to those in the neighborhood of the poverty line, but was shared more widely among those below the poverty line, as evident in the evolution of the depth and severity of poverty, which declined even more rapidly than the proportion of the poor.
- *Inequality fluctuated during the period without a significant trend.* There has been some concern that inequalities have been widening in the Philippines in recent years, but data on consumption and income distribution do not validate this concern. Nonetheless, inequality in the Philippines is relatively high, especially for income (Gini coefficient of 0.51 in the mid-1990s) — at par with levels in Thailand and Malaysia, and significantly above levels in Indonesia, Korea and China. Inequality is also much higher in urban than in rural areas but again there is no evidence of a trend over the period.

- *There were significant regional disparities in growth and poverty reduction.* Five regions appear to have lagged in terms of poverty reduction. In the case of four of these (ARMM, CARAGA, Central Mindanao and Central Luzon), this is driven by the lack of significant growth in mean consumption; for Eastern Visayas, there was some growth but the poor failed to share adequately in its benefits due to an increase in inequalities.
- *Poverty is highest in the agriculture sector and the sector also experienced the slowest poverty reduction.* Agriculture-dependent households account for over two-thirds of the poor even though they represent only 40 percent of the population. Within the sector, the self-employed are just as likely to be poor as the wage earners. The incidence of poverty declined twice as rapidly among households dependent on industry and services than on agriculture, but the sectoral composition of poverty remained stable, reflecting the shift of the population out of agriculture.
- *Educational attainment is a key determinant of household welfare.* In 1997, 75 percent of the poor lived in households where the head had no more than an elementary education.
- *Self-rated poverty levels are much higher, and unlike absolute poverty, do not display a trend decline.* The threshold level which households regard as “minimum acceptable income” in surveys of perceptions of poverty is much higher, yielding self-rated poverty estimates of about 60 percent in the last three years. And this threshold level has risen dramatically during the period, confirming that self-rated poverty is not about absolute poverty. Instead, it appears to reflect rising household expectations in response to either rising incomes or greater exposure to how the rest of the country and, indeed, the world lives. This is also apparent in the much higher self-rated poverty threshold for urban areas over the rural areas, which are higher than would be justified by rural-urban cost of living differentials.

This report proposes a framework for attacking poverty built on three pillars: opportunity, security and empowerment. **Opportunity** refers to improving the access of the poor to human and physical assets and increasing the return on these assets both in absolute terms and relative to the rest of society. **Security** refers to protecting the assets of the poor and reducing the volatility in their returns. **Empowerment** is about making public institutions work for the poor.

GROWTH WITH EQUITY: CREATING OPPORTUNITIES FOR THE POOR

Providing opportunities for the poor is primarily about creating the conditions for economic growth and enhancing the ability of the poor to participate in that growth by building up their assets through investments in their human capital and their physical environment.

Growth is the engine of poverty reduction...

The outlook for poverty reduction in the Philippines would be bleak if in the next ten years per capita consumption increases at no more than the national accounts growth rates of the previous decade (0.9% per capita GDP growth during 1988-1997). This would mean that 16 - 27 percent of the population would remain poor even in 2010, depending on distributional assumptions. The Philippines will have to grow more rapidly if poverty is to be reduced perceptibly. If it grows at the historical rates implied by the surveys, there would be a far greater reduction in the incidence of poverty — to 20.6 percent by 2004 and 14.8 percent by 2010 under the distribution-neutral growth scenario. The poor would fare even better with the more robust growth assumptions of the Medium-Term Philippine Development Plan 1999-2004 — GDP growth is expected to average 5.3 percent in the high case — as the national poverty incidence would fall to 18.8 percent by 2004 and 11.6 percent by 2010, assuming a neutral distribution of the gains from growth in each sector.

... but the nature of that growth matters...

Faster agricultural growth and a swifter structural shift out of agriculture are key for poverty reduction. The reason that poverty incidence projections are more favorable under the Plan targets than with historical survey growth rates is that the Plan scenario assumes faster agricultural growth (3.4 percent planned against historical of 2.8 percent) and faster movement out of agriculture (0.6 percent planned agricultural population growth as against historical 1.2 percent).

Higher productivity in agriculture is important in improving incomes of the poor. Particularly important are policies and investments to improve infrastructure and support services. Expanding irrigation will help boost grain yields; strengthening the research and extension system will enhance agricultural productivity and facilitate on-farm diversification; improved rural infrastructure will reduce transport costs, and increase accessibility to markets and public services. But there are limits to improving productivity in agriculture and accelerating the shift out of agriculture — including through off-farm employment in rural areas — and this is arguably even more important for the poor. Labor productivity is lowest by far in agriculture — output per worker is one-half of that in services and less than one-fourth of that in industry — so expanding opportunities in higher productivity sectors is an important part of the poverty agenda.

... and some policies are good for growth and even better for the poor.

The projections of future poverty incidence also highlight the importance of distributional shifts. For example, the distribution-neutral scenario with Plan growth targets yields a headcount of 11.6 percent by 2010, while a 10 percent improvement (deterioration) in the Gini-coefficient with the same growth rate, would bring poverty incidence down (up) to 6.6 (17.0) percent. What kinds of policies are likely to yield distributional changes in favor of the poor in the Philippines? The report discusses three: these are rice policy, land reform and regional policies.

Rice Policy. Quantitative restrictions on the import of rice result in domestic prices that are significantly higher than world market equivalents. This hurts net consumers of rice and benefits net producers. Analysis based on 1997 survey data suggests that the poor in the Philippines are net consumers of rice while the net producers are spread over the middle and higher deciles. Overall, therefore, a reduction of implicit tariffs on rice is likely to have a progressive welfare effect, and in particular, is likely to be beneficial to the poor, both in the short term through lower food prices, and in the longer term through encouraging a swifter shift out of production of rice (and corn and sugar) into other more competitive or off-farm products.

While liberalizing trade in food staples will improve the welfare of the poor, there will be short-run costs that need to be managed. Phasing in the liberalization of rice imports, in line with the country's commitment to the World Trade Organization (WTO) and more recently in the context of the Grain Sector Development Program supported by the ADB, seems appropriate. On the consumption side, there is a case for a targeted program that subsidizes low quality rice to be sold in stores placed in poor communities, particularly during and beyond the transition period when prices will remain high.

Land Policy. Progress under the government's land redistribution program has been slow due to inadequate funding, administrative problems of surveying and land valuation, and opposition of landlords. The adverse incentive effects associated with the slow implementation of the Comprehensive Agrarian Reform Program (CARP) include lower private investments and lower collateral value of agricultural land associated with increased tenurial uncertainty. But evidence is overwhelmingly favorable on gains from land redistribution for beneficiaries: these include gains in productivity and incomes, and a higher propensity to invest in both physical and human capital (of the children) among beneficiaries of CARP compared to a group of non-beneficiaries. Yet there are reasons to be concerned about the unintended impact of the program on non-beneficiaries. Based on

a small survey of five villages, the ability of the poor and the landless to gain access to land through established markets appears to have declined over the course of the program period. There is a need to confirm these findings with analysis of a larger and more representative sample of CARP beneficiaries. It is encouraging that the government is placing a high priority on undertaking an assessment of CARP.

While there is a clear economic rationale for asset redistribution in the Philippines, the key is choosing the appropriate mechanisms for effecting this transfer to the poorest segments of society without generating costly distortions to incentives. The combination of decentralized modernization of land administration; collection of a progressive land tax that generates revenues and introduces incentives to increase the supply of land on the market; and a program of grants to facilitate acquisition of land ownership may offer scope for improvement. A progressive land tax that would obviate the need for compulsory sale of large holdings as currently mandated under CARP has far-reaching implications and requires detailed scrutiny of legislative, institutional and political constraints to implementation.

Regional Policy. A map of poverty incidence in 1997 shows a clustering of poor provinces in the middle part of the country, around the Eastern Visayas and in the Muslim Mindanao region, reflecting both initially high levels of poverty in these regions and stagnation in poverty reduction over the past decade. Poor area development programs have been successful in some countries and merit consideration in the Philippines. Successful programs typically include interventions that augment income generation capacity both through improved techniques in agriculture and through off-farm employment; investing in human capital; and improving infrastructure.

Investing in people is good policy, overall and particularly, for the poor.

Building up the human capital of the poor is important for enhancing productivity and capacity to earn higher

wages. It is also important because better educated and healthier people are more likely to make more informed decisions, feel more empowered, and lead fuller lives.

Education. Given its per capita income, the Philippines has a good track record in providing education to its citizens. Enrollment rates are high both for primary and secondary education — higher than would be predicted by the country's per capita income level — and the incidence of public spending on education is progressive, overall. Still, there are some areas for concern, including: (i) large discrepancies in educational attainment between rural and urban residents; (ii) fewer years of schooling among the non-poor (4 years fewer by age 21); (iii) lower quality in the education received by the poor, both because of differences in private expenditures for public schools (the richest households spend 12 times as much as the poorest households for every child enrolled in public primary school, and more than 9 times as much for every child enrolled in public tertiary schools), as well as because of the smaller fraction of poor children who attend private institutions where quality appears to be higher; (iv) important differences in the degree to which the labor market rewards different kinds of education: the returns to university education are twice as high as returns to secondary school (19.3 percent versus 10.4 percent increase in wages for every year of schooling). This is a concern because very few poor households have access to tertiary education. Indeed, both overall public spending on tertiary education and spending on scholarships is highly regressive.

Reducing school drop-outs from poorer households, especially boys in rural areas; improving the quality of primary and secondary education; and increasing access of poor but able children to universities are important priorities that require public action. Specifically, it would be useful to examine the feasibility of programs which transfer income conditional on school attendance in rural areas as well as scholarships for tertiary education that are targeted to the poor. Analysis of the determinants of the gender gap in labor market outcomes found in this report is also important.

Health. With the devolution of health services that began in 1991, the composition of health spending appears to have become more pro-poor, as preventive health care spending has rapidly expanded at the local level. Nonetheless, more than 70 percent of total public health expenditures are still devoted to personal health care (or largely curative) services and the geographic distribution of Department of Health (DOH) spending is regressive. Also, there is some concern about the deterioration in health services since the devolution because of insufficient funding, inadequate local capacity, and deficiencies in the referral and procurement systems. There are also large variations in health status by income level, though not by location. All these suggest that there is a large agenda for future work in the health sector that includes: analysis of the determinants of health outcomes (disaggregated for rural and urban areas), the most important of which may lie outside the sector (e.g., water, education); review of the experience with decentralization to determine impact on the quality of services provided and success in reaching the poor; review of the geographic distribution of spending by the Department of Health; and review of the program of health insurance.

PROTECTING THE POOR

Protecting the poor is about policies that serve to reduce the probability of shocks, mitigate their impact and improve the ability of the poor to cope with them. In the Philippines, the main sources of vulnerability are likely to be related to climate and economic instability; certain parts of the country are also affected by political unrest. At the household level, the impact of these events is felt through lower real incomes due to loss of crops, reduced employment, lower pay or higher prices, especially for food. In addition poor households face idiosyncratic risks that make them vulnerable to illness, spells of unemployment that are not derived from systemic events, and old age.

Sound macroeconomic policies help reduce vulnerability ...

There is potential in reducing the magnitude of economic crises through sound macro-economic policies — though the extent of the contagion seen during the Asian crisis suggests limits to the ability of governments to inoculate their economies.

... and private transfers are important for the poor ...

Private transfers in the Philippines are large (13 percent of pre-transfer incomes on average), have been increasing over time, and are progressive: for the poorest quintile, transfers represent almost 60 percent of pre-transfer income. In addition, there is clear evidence that having an unemployed, elderly or female-head has a large and significant impact on transfers received by the household. For a large number of households, private transfers are the tickets out of poverty. Income poverty would have been much higher in the Philippines in the absence of transfers: the headcount index in 1997 would have been 32 percent rather 25 percent.

... but there is still an important role for public safety nets ...

Informal safety nets have their limitations when the shock is covariate in nature so that there is a role for government in helping households cope with systemic shocks. It is also not clear as to what extent private transfers fulfill an insurance function; future analysis based on the 1998 and 1999 APIS panel would help answer this question. But the case for public safety nets also needs to be balanced against concerns about potential displacement of private safety nets. Earlier work on the Philippines suggests large displacement effects both for unemployment insurance and old age pensions.

The impact of the El Niño drought in 1998 was heavier on the relatively poorer agriculture-based households whereas the financial crisis affected the relatively better-off wage earners more severely. Households were able to smooth consumption to some degree but the poor were least able to do so. Despite the feared increase in school drop-outs, administrative data suggest that enrollment rates continued to increase, both for elementary and secondary schools (from 64.0 in 1997 to 65.2 percent in 1998), with no perceptible change even in the rate of increase compared to previous years.

In response to shocks such as the recent El Niño drought, government policy should focus, as a matter of priority, on helping farmers and rural workers restore their income generation capacity. Public workfare programs can provide an effective safety net for the able-bodied poor, both during systemic downturns and also in the event of idiosyncratic shocks. Their benefits to the poor are maximized if the projects create assets that the poor value (schools, rural roads, etc.) in addition to transferring income to maintain current consumption. Creating these assets as part of reconstruction efforts in the aftermath of natural disasters is particularly useful. In addition, workfare programs have a built-in automatic stabilization function that is helpful during periods of economic downturns. Finally, because workfare programs rely on self-selection, they are administratively less cumbersome and do a better job of reaching the poor if properly designed. The key here is setting the wage level low enough so that only the poor will choose to take advantage of the program. The design of an effective workfare program in the Philippines as part of a permanent safety net would need to build upon lessons from the country's past experience with public works and recent efforts in other countries.

There is also a role for government in bringing into the economic mainstream, groups that suffer from discrimination or may be left behind by the growth process. Ethnic minorities, the disabled, domestic violence victims, and children come to mind, in particular. Fortunately, the Comprehensive and Integrated Delivery of Social Services (CIDSS) program of the Department of Social Welfare and Development, which targets these groups, appears to be among the most effective of targeted programs. But there is a need to examine the effectiveness of the multitude of other targeted programs currently under implementation. Starting with an inventory of programs, it would be useful to map spending levels, by province, to determine effectiveness in targeting poorer provinces. Selecting a few of the more important programs for detailed impact assessment should also be considered; the 100 Poorest Families program should be among those selected (see Box 5 in main report).

At the Philippines current level of economic and institutional development, the case for the introduction of an unemployment insurance system appears weak. Even a non-contributory assistance scheme is not a priority given the low level of poverty incidence among households with an unemployed head. The same reservations apply for the introduction of a national pension scheme. Finally, one of the government's more important "targeted" programs — public housing — turned out to be highly regressive, benefiting mainly non-poor households in urban areas. There is a need to evaluate if, among the many housing programs currently under implementation, some are better able to reach the poor than the others.

... and a need to protect public spending in the social sectors.

In addition to helping maintain consumption levels, government policy should protect public spending in the social sectors during periods of crisis. The Philippines Government was reasonably successful in this regard during the recent crisis. Education spending increased in real terms between 1997 and 1998 (by 2.6 percent) while health spending remained constant. In addition to protecting overall social spending levels, it is also important to make sure that children from poorer households do not drop out of school. Special dispensation from school fees for the poor, especially for primary and secondary schools, can help but there may be a need to provide scholarships to poor families. School feeding programs can also help reduce the incidence of absenteeism among poor children in general and particularly during crises.

FACILITATING EMPOWERMENT

Empowerment of the people requires the fair and predictable application of the rule of law so that public officials are held accountable for their actions. But creating public institutions that are responsive to the needs of the poor is ultimately about the ability of the poor themselves to influence policy and hold public institutions accountable. Improving public governance, decentralization and greater civil society participation can help enhance government's accountability to the poor.

Improving governance and reducing corruption are important for the poor ...

Improving governance requires a range of measures designed to create a motivated and meritocratic civil service and to enhance expenditure management through greater attention to performance, predictability and accountability. Better governance is also about combating corruption and delivering justice. Because corruption reduces resources available for poor communities and undermines public confidence in the government's will and capacity to

serve the poor, an anti-corruption strategy is an essential complement to Government's pro-poor and pro-growth stance. This report urges actions designed to reduce opportunities and motivation for corruption (e.g., policy reforms and deregulation to reduce economic rents, campaign finance reform, budget reform, and improving meritocracy in the civil service) and make corruption a high-risk, low-return activity (by increasing public oversight, enhancing sanctions against corruption, and supporting judicial reform).

... and increased civil society participation can help foster public accountability.

Civil society participation is about translating the needs and aspirations of the poor into demands for public action and creating the means for effective monitoring. Along with a vibrant press and a vocal, if narrow, labor union movement, the participation of non-government organizations (NGOs) in public affairs has been one of the greatest developments of the decade in the Philippines. The passage of the Anti-Poverty Bill in December 1997 and the subsequent creation of a National Anti-Poverty Commission (NAPC) to monitor and coordinate the country's fight against poverty served to embed the objectives and voice of people's empowerment in a national institutional structure. There is a clear momentum to civil society engagement in influencing policies and helping deliver services and the instruments and institutional frameworks have been put in place to build on this momentum.

It is time to assess if devolution has been pro-poor ...

Decentralization is about bringing government closer to the people so as to improve responsiveness to local needs. Devolution in the Philippines started in 1991, but no systematic evaluation has yet been made of how local governments have actually performed in delivering the functions devolved to them or in alleviating poverty. The evidence so far is anecdotal but mixed. It is now time for stock taking to take place. One option is to commission an independent evaluation of the experience with the Local

Government Code, leading up to recommendations for possible legislative or administrative action. Agenda items might include: (i) reassessing the scope of devolved services against the actual performance of local governments; (ii) re-evaluating the appropriateness of the existing arrangements for administrative, financial, and human resource management at the local government levels, as well as the effectiveness of existing accountability (to local constituencies and oversight agencies), and audit mechanisms; and, (iii) reviewing the internal revenue allocation (IRA) formula with a view to improving its equity, incentives for local revenue mobilization, as well as its overall fiscal sustainability.

... and to consider using intergovernmental transfers to equalize regional welfare disparities.

How devolution affects regional welfare disparities depends in part on how resources are transferred from the national to local government units (LGUs). Public policies can influence the extent of geographic differences in economic and social development. *There is essentially no relationship between poverty and IRA allocations in the Philippines, suggesting that the main block grant from the central government to local governments does not help to reduce regional inequalities.* In the context of ongoing discussions on reforming the system of intergovernmental transfers, it would be important to propose various formula-based options to make IRAs more responsive to poverty status without undermining incentives for revenue collection. The economic classification of LGUs does not correlate well with poverty incidence; its use for purposes of targeting anti-poverty spending should therefore be reconsidered as there is scope for better poverty targeting, at least at the provincial level.

INFORMING PRO-POOR POLICIES

To improve the effectiveness of poverty reduction programs, local and national policy makers need information that allow them to monitor poverty levels, understand the causes of chronic and transient poverty, and measure the impact of poverty reduction policies and programs. Making this information available to researchers, and more generally to the public, helps improve the quality of the diagnosis and build consensus around objectives and policies to attain them.

The information base in the Philippines is strongest in monitoring levels and trends in quantitative and subjective measures of poverty. It is weaker in the ability to distinguish between chronic and transient poverty and to analyze poverty determinants. Also, few anti-poverty programs in the Philippines have been subjected to rigorous impact evaluation. The information base for poverty reduction can be strengthened through improving the compatibility of the FIES and APIS household surveys; increasing the links between poverty indicators and determinants; incorporation of panel designs into data collection; and expanding and deepening the information on public services and poverty alleviation programs at the household level. Equally important, the government can improve the cost-effectiveness of the key anti-poverty programs by launching external, in-depth impact evaluations of select programs and interventions on a regular basis, beginning with the largest and most established programs. Periodic in-depth impact evaluation should become an integral element in pilot-testing all public anti-poverty programs that are proposed for large-scale implementation. They can also form the basis for establishing expenditure priorities, which is particularly useful during times of fiscal austerity.

POVERTY IN THE PHILIPPINES

"Poverty is dehumanizing, breeds discontent, social injustice and conflicts. Now, more than ever, there is an urgency to eradicate poverty. Poverty is not insurmountable; it can be overcome."

— excerpt from the National
Anti-Poverty Action Agenda

1. This report is intended as an input into the Philippine Government's poverty eradication strategy. The report aims to update our understanding of the nature of poverty and the recent progress in poverty reduction in the Philippines. It examines the extent to which growth in the nineties has translated into poverty reduction and analyzes how well publicly - provided social services reach the poor and whether redistributive policies attain their objectives. The report also focuses on the social impact of the recent financial/El Niño crises and explores policies to reduce vulnerability in the Philippines.

2. The report is presented in two volumes. The main volume starts with a summary of the profile of the poor and trends in poverty. It then proposes a framework for attacking poverty built on three pillars: (i) promoting opportunity for poor people through generating broad - based growth and building up the assets of the poor; (ii) enhancing security of poor people through reducing vulnerability and helping the poor manage risks; and, (iii) facilitating empowerment of poor people to ensure accountable institutions. Finally, the main report examines the information base for pro-poor policies and offers suggestions for future work. The second volume provides the detailed analytical basis for many of the findings presented in the main report. The



report aims to identify overall priorities rather than craft a blueprint for action for each sector. A concurrent Bank report on *Philippines: Growth with Equity, the Remaining Agenda* (World Bank, 2000b) covers some of the same issues but focuses more on the structural reforms needed to sustain growth with equity in the Philippines. This still leaves a large agenda for future work, both to fill remaining gaps in knowledge and to operationalize this report's findings.

PROFILE OF THE POOR

3. About a quarter of the Philippine population, or about 18.2 million Filipinos, were poor in 1997 — that is, their consumption was below the level required to sustain a minimum standard of living (Table 1). The rural poverty incidence was about 37 percent while the urban incidence was about 12 percent. The national poverty gap index is estimated at 6.4 percent which implies that on average, the consumption of the poor was about three-quarters of the poverty line.¹

4. These estimates are substantially lower than official ones: the official estimate of poverty for 1997 is 36.8 percent (NSCB, 1999a). The difference is mostly

	Headcount index (incidence)	Poverty gap index (depth)	Squared poverty gap index (severity)
1997	25.1	6.4	2.3
Rural	36.9	10.0	3.6
Urban	11.9	2.6	0.9
1998 (projection)*	27.8	7.6	2.9
1999 (projection)*	26.3	6.9	2.5

Note: The headcount index measures the share of population with consumption (income) levels below the poverty threshold. This measure gives the prevalence of poverty, but is silent on how poor the poor are. The poverty-gap index is defined as the mean distance below the poverty line as a proportion of that line (where the non-poor are counted as having zero poverty gaps), and gives a measure of the "depth" of poverty. The squared poverty gap index is defined as the mean of the squared proportionate poverty gaps, is sensitive to distribution below the poverty line, and reflects the "severity" of poverty. All poverty measures are expressed as percentages. Projections based on 1997 FIES data and growth rates for agriculture, industry and services sectors for 1998 and 1999 taken from the national accounts. The projections assume no change in relative inequalities within sectors.

Source: Staff estimates based on 1997 FIES data and national accounts data from NSCB.

due to the higher poverty lines used in the official estimates. The official poverty lines are 15-68 percent higher than the basic needs poverty lines used in this Report (see Annex A in Volume II for methodology). The higher official poverty lines reflect the use of a relatively more expensive food bundle, and since the allowance for basic non-food expenditure (i.e., the non-food poverty line) is tied to the food threshold itself, this translates into a higher overall poverty threshold.²

5. Both estimates in turn are substantially below the estimates of self-rated poverty based on surveys conducted by the Social Weather Stations (SWS). Self-rated poverty has been estimated at around 60 percent for the last three years. This is not a measure of absolute poverty; the poverty threshold varies from household to household based on their own perception of their poverty status and what it means to be non-poor. As a result, the self-rated poverty thresholds are considerably higher than the thresholds used for estimating income/consumption poverty (for example, for the National Capital Region, the median self-rated poverty threshold was PhP10,000 per month in the third quarter of 1997 compared to the basic needs and the official 1997 poverty lines of PhP4,495 and PhP6,077 per month, respectively).

6. 1997 is the most recent year for which the Family Income and Expenditure (FIES) data are available. Projections can be made, however, using the sectoral growth rates available from the national accounts. These indicate that the incidence of poverty increased to 27.8 percent in 1998,³ with the economic contraction due to the crisis (a 2.7 percent decline in per capita GDP in 1998, while subsequent recovery (a 1.1 percent increase in per capita GDP during 1999) helped bring the poverty incidence down though still somewhat higher than its pre-crisis level (Table 1). The agricultural sector played an important role in both the contraction and the subsequent recovery, with value added in the sector declining by 6.8 percent in 1998 and growing by 6.7 percent during 1999.

Who are the poor

7. Poverty in the Philippines is still a largely rural phenomenon despite rapid urbanization in recent years. The rural poor account for about 77 percent of the poor (Table 2). Other poverty measures show the same order of magnitude. Within rural areas, poverty is largely agriculture-driven. While agriculture-dependent households represent only 40 percent of the total population, the sector accounts for over two-thirds of the poor, simply because poverty incidence is higher in agriculture than in any other sector of the economy. Agriculture accounts for an even higher share of the depth and severity of poverty. Within agriculture, the self-employed (poverty incidence of 42.1 percent) are just as likely to be poor as wage earners (poverty incidence of 43.8 percent): poor self-employed heads of households include primarily lessees, tenants, and small owner-cultivators and account for over 50 percent of the country's poor population.

8. The overwhelmingly rural nature of poverty in the Philippines holds for the official estimates as well: 72 percent of the poor were found to live in rural households in 1997 (NSCB, 1999a). But estimates of self-rated poverty portray a somewhat different picture. Poverty is still found to be more prevalent in rural than urban areas (70 percent of rural respon-

dents considered themselves to be poor in 1999 compared to 55 percent in urban areas) but the differences are much smaller than for the estimates shown in Table 1, where the rural population is three times more likely to be poor than the urban population. These differences may be reflecting a combination of factors.

9. First, since self-rated poverty reflects households' own perceptions of what it means to be poor, it is likely that urban residents in general have higher aspirations for themselves than do rural residents because they are more exposed to "how others live" both in the Philippines and abroad. This is borne out by an analysis of rural-urban poverty thresholds: the urban-rural differential in self-rated poverty thresholds is very high and is clearly reflecting more than rural-urban cost of living differentials. While the median urban threshold for NCR (Metro Manila) was twice as high as the median threshold in Luzon, Visayas and Mindanao regions in the SWS surveys (1997, third quarter), the cost of living in the NCR region was found to be only 21, 42 and 42 percent higher than for the three regions respectively (Balisacan 1999a).⁴ Some of these higher aspirations may be fueled by the relatively higher levels of inequality in urban areas: urban Gini indices of per capita consumption in 1997 were about 30 percent higher than the Ginis in rural areas (0.425 for urban versus 0.352 for rural). Second, the self-rated poverty surveys may also be reflecting well-being in some non-income dimensions as well, where the rural-urban gap may be somewhat smaller. There is a need to examine this more systematically but information available for some health indicators, for example, suggests that controlling for incomes, urban residents are experiencing higher rates of infant and under five mortality. Similarly, substandard housing may be more of an urban rather than a rural problem.

Household characteristics

10. Household welfare varies systematically with certain demographics but the educational attainment of the household head is the single most important contributor to the observed variation in household

	Share among the poor (%)	Share in total population (%)
<i>Households living in:</i>		
Rural areas	77.4	52.5
Metro Manila	2.0	14.1
Central Luzon	5.4	10.3
Bicol	12.8	7.1
Eastern Visayas	10.3	5.1
ARMM	6.0	3.1
<i>Households whose head is:</i>		
Employed in Agriculture	67.8	40.1
Self-employed	62.6	46.7
Elementary graduate or less	75.6	51.1
Male	92.4	87.8
Age 30-50	65.2	55.7
Age 60+	10.5	15.5

Source: Based on data from 1997 FIES; Balisacan (1999a).

welfare. Poverty incidence is lower than the national average for three categories of households that are commonly targeted through public programs: households headed by females, the elderly and the unemployed. Compared to a national poverty incidence of 25 percent, the headcount index is only 12.1 percent for households where the head is not employed; it is 17 percent for female headed households and 15.6 percent for households headed by the elderly (aged 60+). This reflects the importance of private transfers for these categories of households. Regression analysis of determinants of transfers using 1997 data finds that having an unemployed, elderly or female head of household has a large and significant positive impact on transfers received by the household, almost all of which are from private sources. However, this should not be construed to imply that poverty is not an issue for women and the elderly in general, because both these groups often belong to poor households (without heading them) and also because intra-household allocations could be biased against them even within non-poor households.

11. Poverty appears positively correlated with household size, such that it is highest among households with seven or more members, while families with five or more members account for over three-fourths of total poverty. But this result is driven by the use of *per capita* consumption as the welfare measure, which is increasingly questioned in the literature because it does not adjust for household size and composition. Sensitivity analysis using a plausible range of parameters (for adult equivalence and scale economies) shows that the link between household size and poverty is tenuous (Chapter 1, Volume II).

Regional dimension

12. There are pronounced regional differences in poverty rates reflecting only in part differential levels of urbanization and reliance on agriculture for income. Location appears to be an important determinant of poverty even after controlling for sector of employment and education level. The pov-

erty headcount ranges from 3.5 percent in Metro Manila to 87.5 percent in Sulu province in the ARMM. Among the regions, Bicol hosts the largest number of poor although poverty incidence is somewhat higher in Eastern Visayas and the ARMM.

13. The regional differences in poverty rates are mirrored in equally profound differences in other social indicators. Functional literacy ranges from a low of 48 percent in the province of Basilan in Western Mindanao, to a high of almost 93 percent in Cavite in Southern Luzon. Enrollment rates in primary and secondary school range from 43 percent in the province of Sulu in ARMM to 99 percent in the Mountain Province of the Cordillera Administrative Region. And, life expectancy ranges from a low of 52 years in the province of Tawi-Tawi in ARMM to a high of 71 years in the province of Pampanga in Central Luzon (Annex B, Volume II). Moreover, functional literacy, school enrollment rates, and life expectancy are all significantly correlated with poverty: poorer provinces in the Philippines also have significantly lower educational attainment and worse health outcomes. This points to the instrumental value of improving social indicators in combating income/consumption poverty, but an improvement in these indicators, especially in regions where they have lagged behind, is important in and of itself.

What does it mean to be poor

14. Poverty is a way of life. It affects what people do with their time and money, how they live, their command over resources, their status in the community, their relations with the government and their sense of self-worth (Table 3). Typically the poor save less of their income and spend more on food. In the Philippines, they also rely more on private transfers. The poor would also be expected to have limited access to credit and live in low-quality housing. Survey data (APIS 98) from the Philippines appear to suggest that the poor are only marginally (though statistically significantly) less likely to obtain credit than the average population. Not surprisingly, housing is a problem for the poor as 11 percent of the

population in the bottom three expenditure deciles are either squatters or live in poor quality housing. What is surprising is the extent to which housing is a problem for the population as a whole: the prevalence of illegally occupied housing is highest for those in the middle of the distribution and remains high even among the wealthiest (2.5 percent for the 9th decile). It is quite likely that housing, especially insecurity of tenure, is a problem particularly in urban areas and more specifically in Manila.

15. Fertility rates in the Philippines have come down but remain high by regional standards — 3.7 births per woman in 1995 down from 6.4 in 1970.⁵ Within the East Asia region, comparable rates are 3.4 in Malaysia, 2.7 in Indonesia and 1.8 in Thailand. An important correlate of high fertility rates is the low use of modern contraceptive methods. Although married women of reproductive ages have considerable awareness of contraceptive methods (90 percent report awareness, APIS 98) and almost all who are aware know where to avail of services (97 percent) contraceptive use is low. There is negligible difference between rural and urban areas; the poor are somewhat less likely to use contraception but more educated women are significantly more likely to do so.⁶ Differences in the pattern of use among differ-

ent segments of the Filipino population are dwarfed by the large differences between the Philippines and Vietnam, for example, where almost 60 percent of married women in rural areas use modern contraceptives. There are clearly deep cultural and religious forces at work, which overwhelm income effects.

TRENDS IN POVERTY

16. Consumption poverty declined significantly since the mid-1980s up to the onset of the economic crisis in late 1997. The incidence of absolute poverty is estimated to have declined from about 41 percent of the Filipino population in 1985 to 25 percent in 1997 (Table 4). Moreover, the decline in poverty was not confined to those in the neighborhood of the poverty line, but was shared more widely among those below the poverty line. This is apparent from the evolution of the depth and severity of poverty, which declined even more rapidly than the proportion of the poor.

The Philippines in regional perspective

17. While this is impressive, certainly by the country's own track record, rates of poverty reduction in the Philippines have been slower during this period than in several other countries in the region and in the region as a whole. The question is whether slower poverty reduction in the Philippines is on account of slower growth or due to growth being less pro-poor. Growth was certainly slower in the Philippines, whether measured in per capita private consumption terms from national accounts or per capita household consumption terms from the household surveys (Figure 1). But how the Philippines fared as far as the responsiveness of its growth to poverty (its elasticity) depends on whether the elasticities are calculated with respect to GDP (private consumption) or survey-based consumption growth rates.

18. Based on national accounts data, the Philippines appears to have had the most pro-poor growth in the region because relatively small rates of GDP per capita (and per capita consumption) growth over the period (1.2 percent per annum) appear to be generat-

Table 3: Pattern of Spending and Behavior for the Poor
(Data from 1997 and 1998)

	The Poor	Total Population
Save (% of income) ^{1/}	-5.6	18.9
Rely on transfers (% of pre-transfer income) ^{2/}	43.0	12.9
Spend on food (% of consumption) ^{3/}	64.4	44.7
Live in sub-standard housing ^{3/}	11.0	8.8
Obtain credit ^{4/}	22.5	24.3
Belong to cooperatives	7.7	12.9
Use modern contraceptives ^{5/}		
Urban	21.4	29.5
Rural	19.3	27.1

Note: 1/ The poor are ranked by income. When ranked by consumption the savings rate is 11.8 percent. 2/ Transfer includes public and private transfers from both domestic sources and abroad but not pensions. The poor are defined as the bottom 30 percent of the population and ranked by pre-transfer income. 3/ The figure for the poor is that for the bottom 30 percent of population. 4/ As share of population in families with entrepreneurial activities. 5/ Share of married persons using modern contraceptive methods. Poor defined as bottom 20 percent of the population and the average for the total population is assumed to be represented by the middle quintile.

Source: Based on 1997 FIES; 1998 APIS; 1998 DHS; Balisacan (1999a); Alba (2000).

	1985	1988	1991	1994	1997
Mean living standard (per person per year at 1997 prices)	17,197	18,926	20,049	19,600	23,694
		(9.9)	(5.5)	(-2.4)	(14.3)
Poverty					
Incidence (percent)	40.9	34.4	34.3	32.1	25.0
		(-11.2)	(-0.1)	(-4.5)	(-15.6)
Depth (percent)	13.2	10.1	10.6	8.7	6.4
		(-12.8)	(2.5)	(-9.9)	(-14.6)
Severity (percent)	5.8	4.2	4.5	3.4	2.3
		(-12.1)	(3.3)	(-11.3)	(-12.8)
Inequality					
Gini	0.412	0.400	0.428	0.397	0.427
Theil T	0.330	0.298	0.363	0.302	0.376
Theil L	0.282	0.264	0.306	0.260	0.303

Notes: Living standards are defined as household consumption expenditures adjusted for family size and provincial cost-of-living differences. Poverty estimates are based on spatially fixed poverty norm and on per capita consumption expenditures adjusted for provincial cost-of-living differences (see Balisacan, 1999a for details). Figures in parentheses are t-ratios for reference year against previous period. The t-test for the significance of poverty difference is based on the methodology proposed by Kakwani (1993). Source: Balisacan (2000).

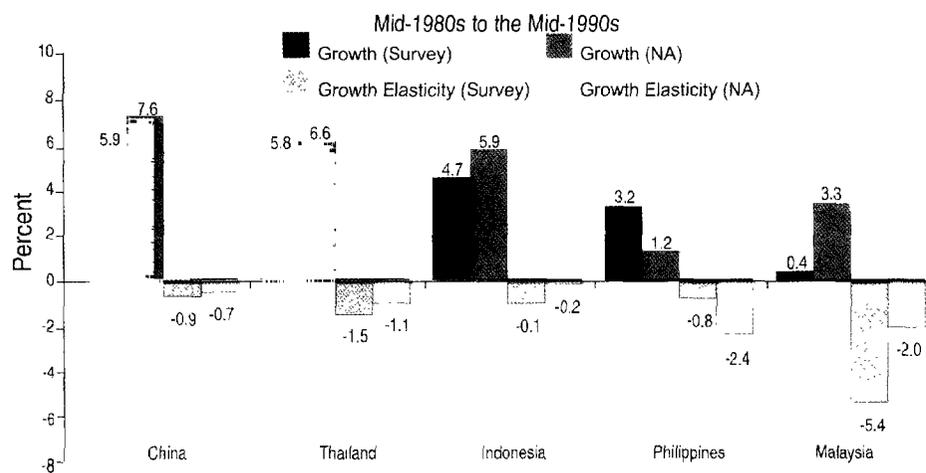
ing substantial poverty reduction. But if elasticities are calculated using survey-based consumption growth rates (3.2 percent per annum over the period), the Philippines ends up with the least pro-poor growth of all. Which is correct? It is possible that the discrepancy between the GDP per capita and the household per capita consumption growth rates is grounded in economic realities: if the household sector grew more

rapidly than the enterprise or government sectors during this period, household income (consumption) would be expected to grow more rapidly than GDP, but it is difficult to find evidence for this in the national accounts. It is more likely that measurement error is accounting for this discrepancy. In that case, it may be more “correct” to relate trends in poverty to changes in survey-based mean consumption because the poverty rates are necessarily derived from the survey data. In either case, it is clear that growth is an undeniable part of the story; but how a given growth is distributed also matters greatly for the poor.

Growth, inequality and trickle down?

19. Figure 2 summarizes the main findings from an analysis of trends in growth, inequality and poverty reduction in the Philippines at the aggregate, and regional and sectoral levels for the 1985-97 period. The main findings are the following: (i) when growth occurred, it translated into poverty reduction; (ii) there was no trend in inequality, (iii) there were significant regional disparities in growth and poverty reduction; and, (iv) the pace of poverty reduction was much slower in the agriculture sector but the shift in the sectoral composition of employment — while limited — was enough to keep the sectoral

Figure 1: Pro-Poor Growth in East Asia



Notes: The empirical growth elasticity is the ratio of percentage change in the headcount index to the percentage change in mean consumption from the survey (Survey) and to the percentage change in per capita private consumption from the National Accounts (NA). Source: Based on staff estimates and those in World Bank (2000a).

composition of poverty constant. These points are, in turn, taken up below.

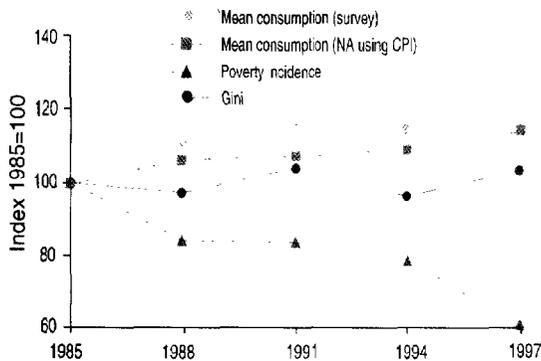
20. Overall poverty reduction has been significant but subject to much variation during 1985-1997. Most of the decline in poverty was confined to the first and last three years of this period (Figure 2). The decline in the headcount index during 1985-1988

and 1994-97,⁷ for instance, accounted for more than 85 percent of the total decline during 1985-97. Similarly, the decline in the depth and severity of poverty during the two sub-periods accounted for a little under 80 percent of the total decline.

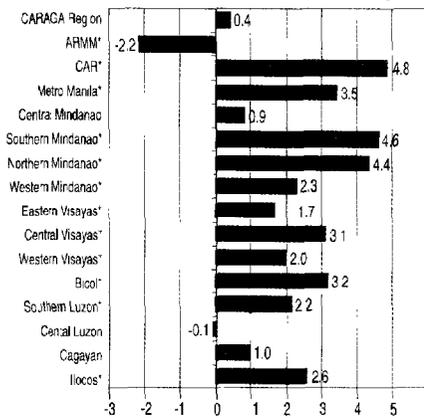
21. Underlying the uneven performance in poverty reduction was the uneven growth performance

Figure 2: Trends in Poverty, at a Glance

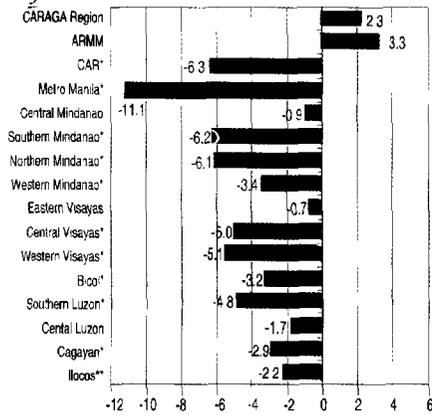
Poverty declined when mean consumption grew while inequality fluctuated with no trend...



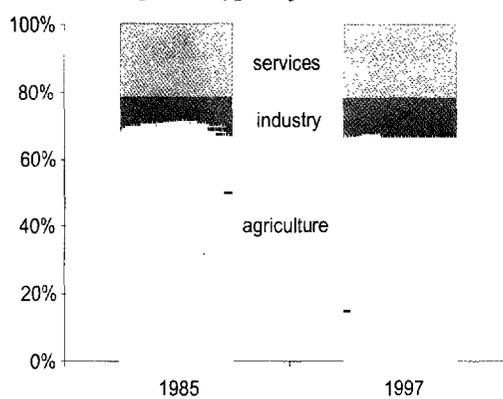
...but there was substantial variation in regional growth and...



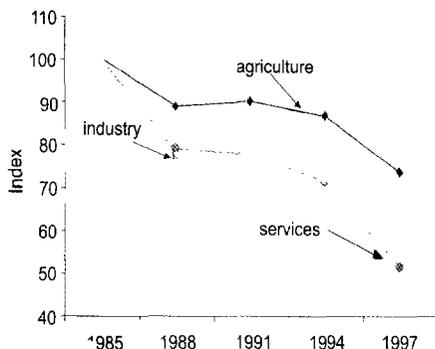
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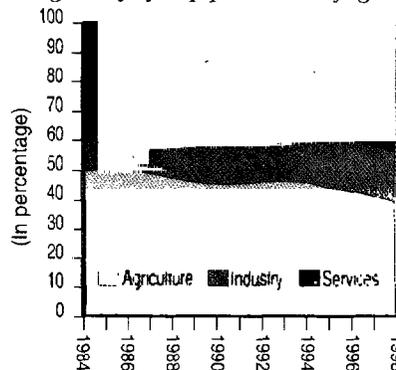
The sectoral composition of poverty remained stable...



...despite the differential rates of poverty reduction across the sectors



...reflecting the shift of the population out of agriculture.



Source: Staff computations.

(Figure 2). When the economy grew, poverty declined. But the quality of growth for the poor also varied during this period with no apparent trend. Some simple calculations are illustrative of both the importance of sustained growth and the sustained quality of growth. Thus, for instance, if the highest growth rate in per capita consumption of 6.3 percent during 1994-97 was maintained over the whole period, the incidence of poverty would have declined to 12.9 percent (compared with the actual value of 25.1 percent). But, if the highest empirical elasticity of poverty incidence with respect to growth (of -1.58 during 1985-88) were maintained over the entire period, then the existing growth rates would have implied a decline in the headcount index to 16.5 percent by 1997.

22. There has been some concern that inequalities have been widening in the Philippines in recent years. Data on consumption and income distribution do not validate this concern. While the inequality measures for income are consistently higher than those for consumption, which is unsurprising, the evolution of income and consumption inequality over time was remarkably similar. Irrespective of the measure used, inequality seems to have fluctuated without any significant trend (Figure 2). In particular, the rise in inequality during the most recent period, 1994-97, should not be confused with a *trend* increase. But inequality in the Philippines is relatively high, especially for income (Gini coefficient of 0.51 in the mid-1980s) — at par with levels in Thailand and Malaysia, and significantly above levels in Indonesia, Korea and China.

23. Has human and social development kept pace with the progress in reducing income and consumption poverty? The evidence suggests that the Philippines has achieved steady improvement in a number of social indicators over the 1980s and 1990s (Table 5). Thus, life expectancy has improved, and illiteracy has declined for both males and females. Similarly, immunization and access to safe drinking water in both rural and urban areas has improved, while child malnutrition and infant mortality rates have declined. These improvements are also reflected in the Hu-

man Development Index (HDI) for the Philippines, which rose from 0.683 in 1985, to 0.711 in 1990, to 0.740 in 1997 (UNDP, 1999). This is all the more creditable as it occurred during a period of relative stagnation in per capita GDP.

Rural-urban and regional disparities

24. While poverty in the Philippines is a largely rural phenomenon, tracking progress in rural and urban poverty reduction is not straightforward owing to the reclassification of some rural areas into urban areas in 1990.⁸ Despite the problem of comparability across the two decades, however, certain patterns are clear. There are large urban-rural disparities. Average living standards are significantly higher (about twice) and poverty levels are significantly lower (about one-third) in urban areas. The lower urban poverty levels exist despite the higher levels of urban inequality (Table 6). There are indications of widening urban-rural disparities in poverty rates between 1994 and 1997 although it is not clear whether this represents a trend.

25. Regional disparities in living standards and poverty have been an important policy concern in the Philippines. While there has been some reduction in provincial disparities in poverty levels between 1988 and 1997 and considerable re-ranking of provinces by their poverty levels (the poorest 10 provinces in 1988 and 1997 had only four provinces that were common, and the poorest 15 had only seven common ones), there is no strong evidence for convergence of poverty levels, and clearly, a number of

Table 5: Evolution of Select Social Indicators

Social indicator	1987	1998
Life expectancy at birth, female (years)	65.9	70.5
Life expectancy at birth, male (years)	62.2	66.8
Illiteracy rate, adult total (% of people 15+)	8.4	5.2
Illiteracy rate, adult female (% of females 15+)	9.1	5.4
Immunization, measles (% of children under 12 mos.)	68.0	83.0 **
Low-birth weight babies (% of births)	18.0*	8.7 ***
Malnutrition prevalence (% of children under 5)	32.9	29.6 ***
Mortality rate, infant (per 1,000 live births)	45.0	32.2
Safe water, rural (% of rural population with access)	67.7*	81.0 ****
Safe water, urban (% of urban population with access)	80.5*	91.0 ****

Note: * refers to 1988, ** 1997, *** 1993, and **** 1996 respectively.
Source: World Bank (2000f).

provinces failed to participate in the significant poverty reduction observed at the national level.

26. At the regional level, there is a large variation in both growth in mean consumption and rates of poverty reduction across the 16 regions (Figure 2). Five regions have clearly lagged behind in terms of poverty reduction. These are ARMM, CARAGA Region, Eastern Visayas, Central Mindanao, and Central Luzon. In the case of four of them, this seems to be driven by the lack of significant growth in mean consumption. For Eastern Visayas, there was growth (though still low in comparison with most other regions), but the poor failed to share adequately in the benefits of growth due to an increase in inequalities. Together,

these five regions accounted for 25 percent of the total population and 30 percent of the total number of poor in 1997. The lack of poverty reduction in these regions points to a major failure of the growth process to deliver widely shared benefits. It also points to the need for a regional focus to the poverty alleviation strategy which accords high priority to the development of these poor and lagging regions.

Sectoral composition of poverty

27. Poverty declined significantly in all sectors, though more in some sectors than others. The sector where it declined the most (measured by percentage change between 1985 and 1997) was finance, insurance, real estate and business services; this is true for all poverty measures. The sector with the least decline was agriculture, fishing and forestry for the headcount index, and mining and quarrying for measures of the depth and severity of poverty.

28. Despite the differential rates of poverty reduction, the sectoral composition of the poor has remained remarkably stable since the mid-1980s (Figure 2). Agriculture, fishing and forestry accounted for two-thirds of the poor in 1985; it still accounted for two-thirds of the poor in 1997. This is because the occupational distribution of the population shifted in favor of sectors where poverty has relatively declined more rapidly, thus leaving the sectoral shares in aggregate poverty relatively stable. For instance, while the incidence of poverty declined least rapidly in the agricultural, fishing and forestry sector, the population share of this sector also declined from 47 percent in 1985 to 40 percent in 1997.

29. The large share of the agricultural sector in total poverty is the joint product of the high levels of poverty in this sector and the high (though declining) share of population dependent on this sector for its livelihood. This has two policy implications for future poverty reduction strategies. First, in the short-to medium-term, there is no getting away from the task of agricultural development if significant inroads are to be made into the problem of poverty reduction in the Philippines. And the reason is as

	1985	1988	1991	1994	1997
Urban					
Mean living standard (per person per year at 1997 prices)	24,099	26,283	26,213	25,093	31,657
		(6.2)		(-3.2)	(11.5)
Dimension of poverty					
Incidence (percent)	21.7	16.0	20.1	18.6	11.9
		(-8.1)		(-2.9)	(-14.8)
Depth (percent)	5.9	3.8	5.7	4.4	2.6
		(-9.0)		(-7.2)	(-13.3)
Severity (percent)	2.3	1.4	2.3	1.5	0.9
		(-8.2)		(-8.7)	(-11.1)
Inequality					
Gini	0.410	0.390	0.421	0.392	0.425
Theil T	0.327	0.286	0.355	0.295	0.379
Theil L	0.280	0.253	0.300	0.255	0.303
Rural					
Mean living standard (per person per year at 1997 prices)	12,838	14,414	13,864	14,154	16,475
		(10.2)		(1.8)	(14.4)
Dimension of poverty					
Incidence (percent)	53.1	45.7	48.6	45.4	36.9
		(-9.4)		(-4.0)	(-11.7)
Depth (percent)	17.8	14.0	15.6	13.0	9.8
		(-11.1)		(-8.0)	(-11.8)
Severity (percent)	8.0	5.9	6.8	5.2	3.6
		(-10.7)		(-8.8)	(-10.6)
Inequality					
Gini	0.352	0.350	0.359	0.336	0.352
Theil T	0.226	0.217	0.238	0.205	0.230
Theil L	0.204	0.200	0.211	0.183	0.202

Notes: Poverty and inequality estimates are based on per capita consumption expenditures adjusted for provincial cost-of-living differences. The derivation of provincial poverty lines is described in Annex A, Volume II. Figures in parentheses are t-ratios for differences between poverty measures for the reference year and the previous year. Source: Balisacan (1999a).

simple as the fact that 67-75 percent of the poverty problem rests in the agricultural sector. Second, poverty reduction over the medium-to long-term will require a continued structural shift of employment and output from agriculture to the more productive non-agricultural sectors of the economy (Figure 3).

A FRAMEWORK FOR ATTACKING POVERTY

30. This section proposes a framework for attacking poverty built on three pillars which are familiar to the Philippines: opportunity, security and empowerment. Opportunity refers to improving the access of the poor to human and physical assets and increasing the return on these assets both in absolute terms and relative to the rest of society. It encompasses the range of policies that promote broad-based growth and equitable investments in human capital. Security refers to protecting the assets of the poor and reducing the volatility in their returns; it involves minimizing the consequences of short-run negative shocks for the poorest, such as health shocks, unemployment, transitional costs of economic reforms, macro-economic crises and natural disasters. Protecting the poor requires policies that serve to reduce the probability of shocks, mitigate their impact and improve the ability of the poor to cope with them. Empowerment is about making public institutions work for the poor. This requires actions to improve delivery of services, especially by giving poor people the voice to shape policies and influence program design and implementation. Finally, an effective program of action to attack poverty requires good information to monitor developments, to analyze key policy and institu-

tional determinants of poverty and to evaluate the impact of specific interventions.

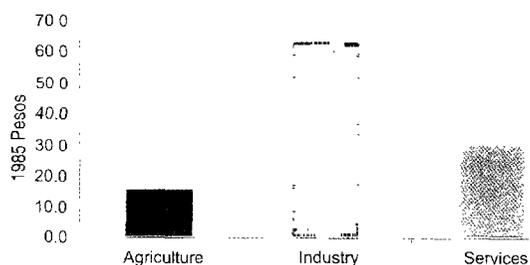
31. There is considerable overlap between the framework proposed above and the one discussed in the National Anti-Poverty Action Agenda. The Agenda discusses four dimensions of poverty: social, economic, environmental and political referring respectively to access to quality basic services; asset reform and access to economic opportunities; sustainable development of productive resources and democratizing the decision making and management process. It then proposes a four-pronged strategy to combat poverty, comprising: (i) equitable and sustained economic growth; (ii) focused targeting; (iii) effective delivery of public goods and basic social services; and, (iv) people empowerment.

Growth with equity: creating opportunities for the poor

32. Providing opportunities for the poor is primarily about creating the conditions for economic growth and enhancing the ability of the poor to participate in that growth by building up their assets through investments in their human capital and their physical environment. As discussed earlier, the Philippines performance in poverty reduction has been uneven primarily because economic growth has fluctuated considerably since 1985. Maintaining political and macro-economic stability remains the key to fostering confidence in the Philippine economy — for domestic and foreign investors alike. Equally important is enhancing predictability through transparent and accountable institutions. Beyond creating the conditions for economic growth, there remains scope for influencing the pattern of that growth through policies and programs that have potentially favorable distributional implications.

33. The Medium-Term Philippine Development Plan 1999-2004 (MTPDP) has proposed certain growth and poverty reduction targets. In the high (low) case scenario, GDP growth is expected to average 5.3 (4.7) percent over the plan period, resulting in a 20 percent fall in poverty incidence by

Figure 3: Output Per Worker, 1998



Labor productivity is lowest in the agriculture sector.

Source: Staff calculations.

the government's measure — from 32.1 percent in 1997 to 25.6 percent in 2004. It is useful to test the sensitivity of expected poverty reduction to various parameters. The discussion below reports on projected poverty rates based on four scenarios using different growth rates and various assumptions about the distribution of that growth. The projections are shown for three different assumptions for the distribution of growth within the sector: distribution neutral growth; worsening inequality (i.e., 10 percent increase in the Gini coefficient)⁹ and improving inequality (i.e., 10 percent reduction in the Gini coefficient). Poverty rates are projected for 2004 and 2010. All projections are based on sectoral growth rates and take into account projected population shifts across sectors for 2004 and 2010 (Table 7).

34. The *first* set of projections uses historical growth rates from the national accounts for each sector for the 1988-97 period. The growth of household consumption in each sector is assumed to equal the growth of value-added in that sector; however, per capita consumption growth rates are worked out taking into account population shifts across sectors over the same period. In other words, the rates of population growth are different across sectors and are determined by the change in population shares of sectors over the period 1988-97.

35. The *second* set of projections is based on historical growth of per capita consumption as calculated directly from household survey data. As discussed earlier, there is a large discrepancy between GDP per capita (similarly for private consumption per capita) growth over this period as captured in the national accounts and household consumption per capita as recorded in the survey data. The survey growth rates for all sectors are significantly higher than the NA growth rates (Table 7). The reason for this discrepancy is not entirely clear: it may be reflecting higher growth in the household sector than in the economy as a whole or it may be due to data measurement problems.

36. The *third* set of projections uses the Plan (high case) projections of sectoral growth instead of historical growth rates. These growth rates are comparable with the survey growth rates for total industrial and services sector incomes, but are significantly higher for the agricultural sector (Table 7). This translates into even higher agricultural growth in per capita terms because of Plan assumptions on population growth and sectoral employment/population shifts. The Plan assumes a lower overall rate of population growth (2.1 percent against the historical 2.5 percent during 1988-97), and also a faster shift out of agriculture (implying sectoral population growth rates of 0.6, 3.7 and 2.8 percent in agriculture, industry and services, respectively). The *fourth* set of projections also uses the Plan (high) growth rates but applies the (survey-based) historical sectoral poverty elasticities.

37. Several points emerge from these projections (Table 7). First, growth is critical for poverty reduction. Second, agriculture growth in particular is crucial for making a significant dent into poverty. Third, a structural shift of population out of agriculture will accelerate progress, as growth prospects and levels of productivity are higher in other sectors. Fourth, the distribution of a given growth matters hugely for the poor; this goes beyond the sectoral distribution of growth and encompasses the distribution of growth within a given sector.

38. The outlook for poverty reduction would be bleak in the Philippines if in the next ten years per capita consumption increases at no more than the historical national accounts growth rates of the previous decade (scenario 1). Under this scenario, there is very limited growth and, assuming no change in the distribution, there is limited reduction in national poverty. Even in 2010, 21.4 percent of the population will remain poor, down from 25 percent in 1997. This reflects modest improvements in agriculture and services, and a worsening of poverty in the industrial sector, and some movement out of agriculture (the 0.2 percent annual per capita growth in the industrial sector is not enough to make up for the decline during 1998-99).

Table 7: Poverty Projections, 2004/2010

Assumptions/Actuals	GDP/National		Agriculture		Industry		Services	
Historical, NA (1988-97)								
Total	3.4		1.9		3.6		4.0	
Per capita*	0.9		0.7		0.2		0.5	
Historical, Survey (1988-97)								
Total	5.0		2.8		5.7		5.9	
Per capita*	2.5		1.6		2.3		2.4	
Plan (high)								
Total	5.3		3.4		5.7		5.7	
Per capita*	3.2		2.8		2.0		2.9	
Poverty Incidence, 1997	25.0		42.3		18.6		11.7	
Inequality (Gini), 1997	42.7		33.7		41.1		41.5	
Scenarios	2004	2010	2004	2010	2004	2010	2004	2010
1. Historical growth (NA)	23.8	21.4	41.2	38.1	22.2	21.7	10.7	9.8
Gini +10%	28.7	26.5	44.1	41.2	27.8	27.2	17.0	16.1
Gini - 10%	18.4	15.8	37.8	34.1	14.9	14.2	4.4	3.8
2. Historical growth (survey)	20.6	14.8	38.2	31.2	16.9	11.2	7.9	4.9
Gini +10%	25.6	20.1	41.3	35.4	23.7	17.5	14.0	10.5
Gini - 10%	15.3	9.8	34.2	26.0	9.7	4.4	2.4	0.8
3. Plan growth (high)	18.8	11.6	33.8	22.2	17.3	12.0	7.4	4.0
Gini +10%	24.0	17.0	37.3	26.8	24.3	18.8	13.4	9.5
Gini - 10%	13.2	6.6	28.7	16.0	10.2	5.2	2.0	0.6
4. Plan growth with historical elasticity	20.7	16.2	36.5	29.9	17.9	15.1	9.2	7.1

Note: * Per capita growth rates incorporate differential population growth as implied by the shift of population across sectors. The growth rate of GDP per capita is higher than the sectoral per capita income growth rates because of the shift of population from low-income agriculture to relatively high-income industry and services. NA denotes National Accounts. Source: Staff projections based on 1997 FIES data; Medium-Term Philippine Development Plan, 1999-2004.

39. The Philippines will have to grow more rapidly if poverty is to be reduced perceptibly. For instance, if it grew at the historical rates implied by the surveys (scenario 2), there would be a far greater reduction in the incidence of national poverty — to 20.6 percent by 2004 and 14.8 percent by 2010 under the distribution-neutral growth scenario. The poor would fare even better with the more robust growth assumptions of the Plan. National poverty incidence in this scenario (scenario 3) falls to 18.8 percent by 2004 and 11.6 percent by 2010 assuming a neutral distribution of the gains from growth in each sector.

40. The projections for scenarios 2 and 3 highlight the importance of both agricultural growth and a structural shift out of agriculture for poverty reduction. The main difference between these scenarios is that the Plan scenario assumes both faster agricultural growth (3.4 percent planned against the historical 2.8) and faster movement out of agriculture (0.6 percent planned agricultural population growth against the historical 1.2 percent). The joint effect of these two factors is a much faster decline in agricul-

tural poverty (a near halving of poverty incidence by 2010 to 22 percent, starting from 42 percent in 1997), and hence in national poverty. In the absence of any inter-sectoral population shifts, national poverty incidence in 2010 would have been 15.5 percent rather than the projected 11.6 percent, but 70 percent of poverty reduction between 1997 and 2010 still comes from intra-sectoral growth rather than changes in sectoral composition. More importantly, without the shift in population, even the 3.4 percent growth in agriculture would have implied a much slower growth in living standards in per capita terms, leading to unacceptably high levels of poverty in this sector (34 percent in 2010 under the distribution-neutral growth scenario). While there may be room for attaining higher rates of growth in agriculture, these projections vividly show the need for accelerating structural change in the Philippine economy so that the rural population can shift more rapidly out of farming.

41. The projection also clearly demonstrates that modest changes in the distribution of the benefits

of growth can make a huge difference to the poverty impact. For instance, a 10 percent deterioration in inequalities (increase in Ginis) can virtually wipe out the gains in poverty reduction by 2004 and cut by nearly half the gains by 2010, under both the Plan and the historical survey growth scenarios. By the same token, small improvements in the distribution of growth can induce a much larger poverty reduction; for instance, a 10 percent decline in the Gini virtually eliminates poverty in the non-agricultural sectors in the Plan scenario. It is interesting to note that changes in inequality within the agriculture sector have a smaller impact on poverty incidence: for agriculture, a 10 percent deterioration of the Gini at historical (survey) growth rates yields a headcount ratio in 2010 of 35.4 percent compared to 26 percent, with a 10 percent improvement in the Gini, whereas the favorable and unfavorable distribution scenarios yield headcount ratios of 4.4 versus 17.5 percent for industry and 0.8 versus 10.5 percent for services. This is primarily on account of higher rates of initial inequality in industry and services (Gini coefficient of around 41) than in agriculture (33.7); therefore, both the absolute changes in inequality are larger and the resulting high levels of inequality dampen the impact of a given growth on poverty.

42. The final set of projections, which uses historical elasticities and Plan growth targets, also underscores the importance of distributional effects. The results are less favorable than under the Plan scenario assuming distribution neutrality. Poverty incidence declines to 16.2 percent by 2010 rather than 11.6 percent in the distribution neutral scenario (scenario 3). At the level of the sectors, distribution-neutral growth (scenario 3) produces larger falls in poverty than achieved with historical elasticities, suggesting that there is considerable room for enhancing the poverty impact of growth through better distribution of growth in all sectors.

Policies for pro-poor growth

43. The importance of macro-economic stability and good governance for sustaining growth has been recognized internationally and in the Philippines. In addition, there is mounting evidence that the poor

experience significant hardship during periods of economic downturn and high inflation. Increased integration in the national economy and with global markets has strengthened transmission mechanisms — for good and for bad — underscoring the importance of prudent management of the economy on the one hand and preparedness for systemic shocks on the other. The next section on security expands on this topic.

44. Beyond maintaining economic and political stability, what are the ingredients of poverty-reducing growth in the Philippines? What kinds of policies are likely to yield distributional changes in favor of the poor (i.e., result in the 10 percent improvement in the Gini coefficient simulated above) and therefore imply a much greater poverty reduction impact for a given growth rate. Prospects for the poor in the Philippines will depend on policies that improve productivity in agriculture; accelerate the movement out of agriculture, including through helping develop the non-farm rural economy; reduce high food prices; and increase the assets of the poor, through land reform and investing in their human capital. Regional policies that focus on poor areas that may be handicapped by a confluence of low human and physical assets can also help.

45. *Growth in Rural Incomes.* Because the bulk of the poor depend on agriculture for their livelihood, with little difference in the incidence of poverty between those who are self-employed and those who are wage-earners, (Chapter 1, Volume II) higher productivity in agriculture is key to improving incomes of the poor. A recent World Bank report suggested a number of measures to enhance growth in the rural sector.¹⁰ Particularly important are policies and investments to improve infrastructure and support services. Expanding irrigation will help boost grain yields which have largely stagnated since the completion of the Green Revolution in the early 1980s. Strengthening the research and extension system is important for enhancing agricultural productivity and facilitating on-farm diversification. Improved rural infrastructure, in particular rural roads, has many benefits as it reduces transport costs, in-

creases accessibility of markets and public services, and enhances opportunities for off-farm employment.

46. *Rice Policy.* Quantitative restrictions on the import of rice and other foodstuffs result in domestic prices that are significantly higher than world market equivalents: despite the substantial devaluation of the Peso, the nominal protection rate for rice remained 34 percent in 1998, down from nearly 80 percent in the three years leading up to the financial crisis.

47. What are the distributional implications of this protection? Standard economic theory tells us that trade protection favors the producers at the expense of the consumers. On the consumption side, it is clear that rice is an important component of poor people's consumption; for instance, it accounts for about 22 percent of total consumption of the poorest two deciles (Figure 4). Rice budget shares decline slowly for higher deciles, and are about 14 percent even for the sixth decile. This has two implications: the poor derive *proportionately* larger consumption benefits from a lower price of rice but a large share of total consumption benefits would still accrue to the non-poor on account of their large share in total rice consumption.

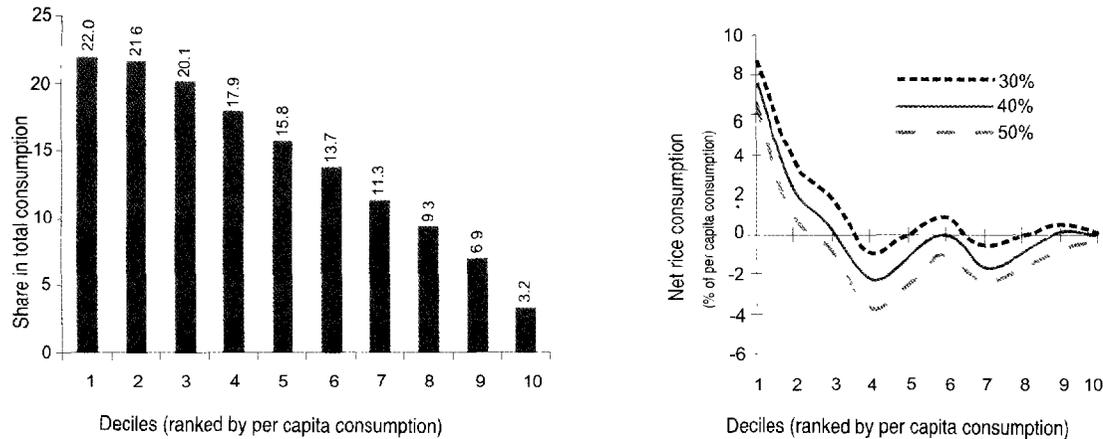
48. The distributive impact of protection critically depends on who the *net* consumers of rice are, and where they are located in the overall income distribution. Estimates based on the 1997 FIES data suggest that the poor in the Philippines are net consumers of rice (Figure 4). Under three alternative assumptions on the differential between retail and farm gate prices,¹¹ it is reasonable to conclude that the poor (bottom one-fourth of the population) are net consumers of rice, while the net producers are spread over the middle and higher deciles. Overall, therefore, a reduction of implicit tariffs on rice is likely to have progressive welfare effects, and in particular, is likely to be beneficial to the poor.¹²

49. Beyond the short term impact, liberalization of rice trade may serve to provide an added impetus

to the structural transformation of the economy. In the absence of protection, domestic producers of rice (and corn and sugar) are more likely to shift out of the production of these commodities into other more competitive products or off-farm, thereby enhancing their opportunities for growing out of poverty. In addition, trade protection for foodstuffs appears to have fueled an increase in the value of land, which has elevated the fiscal cost of land reform as envisaged under the Comprehensive Agrarian Reform Program (CARP) with adverse consequences for the ability of the poor to gain access to land (see below).

50. Changing trade policies with respect to foodstuffs will therefore be an important anti-poverty measure. But there will be short-run costs that need to be managed. Phasing in the liberalization of rice imports, in line with the country's commitment to the World Trade Organization and, more recently, under the Grain Sector Development Program supported by the Asian Development Bank (ADB) seems appropriate (see Box 1), but there is a need to prepare the farmers who will be affected by this move. On the consumption side, there is a case for a targeted program that subsidizes low quality rice to be sold in stores placed in poor communities, especially during the transition period when rice prices will remain high. Even after liberalization, subsidies for rice primarily consumed by the poor may be a cost-effective way of reaching poor households as leakages to the non-poor and program costs would be contained through self-targeting. It should be possible to manage food security concerns through a flexible import policy, but some limited buffer stocks may be considered for unexpected shortfalls in domestic production or disruptions in world markets.

51. *Land Policy.* Progress under the government's land redistribution program has been slow due to inadequate funding, administrative problems of surveying and land valuation, and opposition of landlords. Both financial and political costs of the program have increased as the "easier" redistribution of public land has been completed and much of the land that remains is still in private hands. Earlier

Figure 4: Share of Rice in Total Consumption and Net Consumption of Rice, by Deciles, 1997

Note: The deciles are deciles of population ranked by per capita consumption, adjusted for spatial cost of living differentials. The 30, 40 and 50% refer to assumptions on the mark-ups on farm-gate prices used to adjust the value of rice produced (valued at farm gate prices) to make it comparable with the value of rice consumed (valued at local retail prices). Source: Balisacan (2000), and calculations based on 1997 FIES data.

studies have highlighted some of the adverse incentive effects associated with the slow implementation of CARP. Of particular importance is that the slow pace of land acquisition and distribution may have increased uncertainty, thereby, lowering private investments in the rural sector and reducing the collateral value of agricultural land for purposes of credit. Many observers, both in the Philippines and abroad, have thus been questioning the government's ability to implement the land reform program in its present format and within the time frame established without a clear and predictable source of funding and some important changes in program design. Analysis based on a survey of five villages suggests some additional issues which reinforce the need to modify program design (Chapter 4, Volume II).

52. Based on survey results, evidence is overwhelmingly favorable on gains from land redistribution for beneficiaries: the analysis points to gains in productivity and incomes, and a higher propensity to invest in both physical and human capital (of the children) among beneficiaries of CARP compared to a group of non-beneficiaries. This suggests that the government's land reform program attains not only its redistributive or equity aims (transfer of assets) but it also succeeds in creating the conditions for an

increase in the return on those assets and a build up of other assets for the future.

53. Yet there are reasons to be concerned about the unintended impact of the program on non-beneficiaries. The analysis suggests that the ability of the poor and the landless to gain access to land through established markets has declined over the course of the program period (Figure 5). There is a need to confirm findings from this small survey with analysis of a larger and more representative sample of CARP beneficiaries. It is encouraging that the government is placing a high priority in undertaking an assessment of the CARP to be carried out by the Department of Agrarian Reform (DAR).

54. Virtually all the shortcomings of the current land reform program can be traced to the unintended consequences of administrative efforts aiming to increase the supply of land (or to reduce the cost at which such land can be acquired). To increase the supply of land, the government has prohibited share tenancy and imposed land ownership ceilings. These measures are not only costly to implement (and often circumvented by spurious subdivision owners) but also restrict access to land through the rental market and are likely to discourage land-related investment in labor intensive agro-export and planta-

Box 1: Proposed Rice-Related Reforms under the ADB Grain Sector Development Program Loan (1999)

The proposed rice-related reforms under this Loan focus on the following areas: (i) liberalized grain import policy, and more cost-effective grain pricing; (ii) improved administration of grain buffer stocks; (iii) restructuring of the NFA from a grains marketing monopoly into a public regulatory agency and a private marketing corporation; and, (iv) a better targeted food subsidy program. The following specific reforms are proposed. (i) The regulatory and proprietary/marketing functions of the NFA should be decoupled. (ii) The proprietary function should be privatized, by creating a corporation from the grain marketing part of the NFA with at least 51 percent private sector equity. (iii) The regulatory functions of the NFA should be folded into a new or existing government line agency which should be responsible for ensuring food security through setting the band for rice wholesale prices that must be defended, deciding on the volume of rice imports needed to stabilize prices, moving rice into areas hit by natural disasters, and stabilizing paddy prices in case of a bumper crop. This agency will contract out services to the marketing corporation and/or other private sector grain traders to implement its food security program. (iv) An annual technical assessment should determine how much rice should be imported in a given year given production and consumption projections. The private sector will be permitted to import the amount of rice required to stabilize supply and prices after setting aside the volume that the government needs for its 30-day buffer stock. The government will auction the import volume to private traders. (v) Local paddy procurement should be limited to meeting the requirement of a 30-day rice buffer stock inclusive of government imports, and setting the procurement price as a weighted average of prevailing unit production costs and world rice price. (vi) Quantitative restrictions (QRs) on rice imports will be replaced by tariffs by December 31, 2004, consistent with WTO commitments. Also, a minimum access volume (MAV) will be instituted consistent with the government's commitment to the WTO, with a provision for increasing the minimum access volume based on the annual technical assessment of local supply and demand conditions. (vii) One or more targeted food subsidy and/or food-for-work programs for the poor (with a budgetary appropriation of not less than PHP2 billion) should replace the general rice subsidy program. (viii) Private sector involvement in research and development is to be encouraged through legal protection of intellectual property rights in new varieties, simplified public bidding of irrigation projects, and better seed certification.

Source: Asian Development Bank (1999b).

tion crops. It is important to explore alternative mechanisms that would be less costly in administrative as well as economic terms, provide better incentives for increased efficiency of production, and at the same time solve the issue of financing. Progressive (by size of land holding) land taxes at the local level that feed into a special fund would help in terms of fiscal sustainability, efficiency, and land access/supply.

55. *First*, a land tax would make the program financially independent of legislative decisions and thus ensure its sustainability — the pace of implementation under the current scheme depends critically on the allocation of appropriate funds through the land-owner-dominated Congress. *Second*, a land tax would provide strong incentives for increased

productive efficiency and avoid the disincentives for investment that plague existing instruments. A land tax would also induce local governments to upgrade the outdated registry and cadastre system in the Philippines, thus establishing the basis for a modern system of land administration. *Third*, a progressive land tax would go some way toward increasing the supply of land on the market by reducing the marginal profitability of larger holdings. But even more important in this respect is the need to reduce the trade distortions that result in the overvaluation of agricultural land in the Philippines.

56. There is a clear economic rationale for asset redistribution in the Philippines because the impact on beneficiaries appears to be overwhelmingly positive in the long run. A well-designed and implemented

program for land redistribution is therefore an important instrument for reducing rural poverty in the Philippines. The key is choosing the appropriate mechanisms for effecting this transfer to the poorest segments of society without generating costly distortions to incentives. International experience shows that the benefits of land reform cannot be fully realized if policy distortions remain in place, if contract choices are limited, or if access to complementary infrastructure, inputs and services is lacking. The combination of decentralized modernization of land administration, collection of a land tax, and a program of grants to facilitate acquisition of land ownership may offer scope to improve the functioning of land markets, agricultural efficiency, rural investment, and land access by the poor.

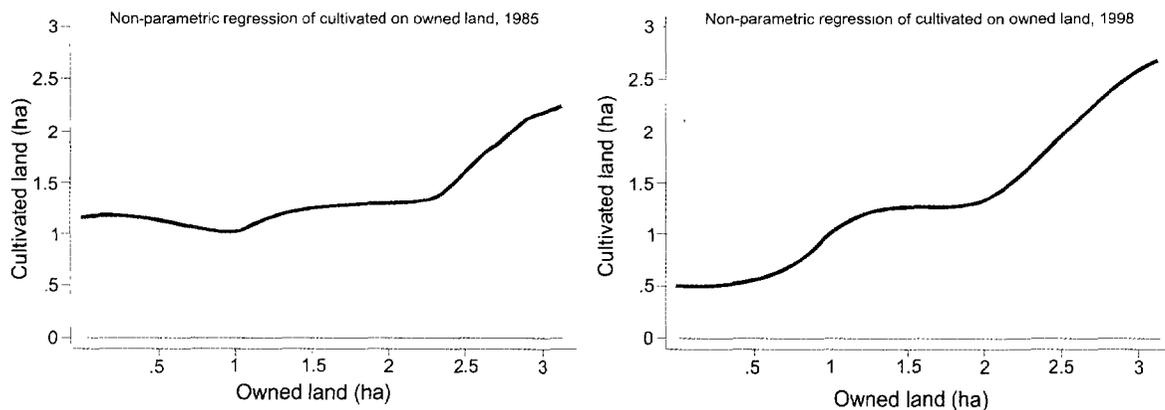
57. No matter how sensible in economic terms, any changes to land reform policies in the Philippines will have to contend with well-established stakeholders. In order to enhance the political acceptance of land taxes, a land fund could be established from its proceeds at the local level, with disbursements from the fund subject to community-level decisions in accordance with transparent procedures. This would serve to create a link between land tax collection and land reform implementation and enlist community involvement in the implementation of land reform. A World Bank-supported project currently

under preparation will pilot such a community-based land reform scheme which will make grant funding available for the purchase of land on the basis of a voluntary transaction between buyer and seller. Community involvement is expected to improve the targeting of the subsidy (grant) for land purchase and facilitate the transaction. It will be important to draw the lessons learned from this pilot project for wider implementation of a decentralized and market-based land reform scheme advocated in this report.

58. *Regional Policy.* The provincial level analysis in Chapter 2, Volume II, suggests that there has been overall convergence in income and poverty levels between 1988 and 1997, with considerable re-ranking of provinces between the two years. Only a handful of provinces that were in the bottom ten in 1988 were still in that list in 1997. *A priori*, this suggests that the Philippines does not have a problem of lagging regions — a common phenomenon in other large developing countries. But the province may be too disaggregated — a level for considering the role of regional policy in the Philippines. A map of poverty incidence in 1997 shows a clustering of poor provinces in the middle part of the country, around the Eastern Visayas, and in the Muslim Mindanao region. These two regions are also among the five regions where poverty has stagnated or even increased over the 1988-97 period (see earlier discussion), mainly

Figure 5: Cultivated Versus Owned-Land, 1985 and 1998

In 1985, most small farmers cultivated between 1 and 2 hectares of land regardless of how much land they owned but by 1998, there is a much closer link between area owned and area cultivated suggesting limited access to rental land market for the landless.



Source: Deininger, Lara Jr., Maertens and Quisumbing (2000).

on account of lagging growth, but in some cases, adverse distribution shifts also played an important role. These regions also have some of the lowest human development indicators.

59. Poor area development programs have been successful in some countries. These programs are typically based on principles of geographic targeting and they include interventions that augment income generation capacity, both through improved techniques in agriculture and through off-farm employment; investing in human capital; and improving infrastructure. This approach to developing poor areas merits consideration in the Philippines.

Investing in people

60. Building up the human capital of the poor is important for enhancing productivity and capacity to earn higher wages. Since labor is the most important asset of the poor, ensuring that they, or their children, get high returns on this labor is therefore the surest way of giving them a path out of poverty. Healthier, better-educated people are also more likely to make better-informed decisions about health, management of community resources, garbage disposal and a host of matters that affect others — including their own children, and other members of their community. They are also more likely to lead fuller lives.

61. *Education.* Given its per capita income, the Philippines has a good track record in providing education to its citizens. Secondary school enrollment rates in the Philippines are well above what would be predicted for the country's income level (Figure 6). Moreover, the average educational attainment of Filipinos has gone up considerably over time: on average, someone born in 1920 finished only five years of schooling, while someone born in 1965 finished almost nine. Still, educational attainment remains the single most important determinant of household welfare: in 1997, 75 percent of the poor lived in households where the head had no more than elementary education. This is reflected in the large differences in educational attainment between

urban and rural areas and by income class (Figure 6). By age 16, children from the wealthiest income quintile have completed more than two years of education more than their counterparts in the poorest income quintile. Providing high-quality education to poor households, and reducing drop-outs, especially in rural areas, should therefore continue to be the focus of attention. One positive aspect of the provision of education in the Philippines is that there is no evidence of discrimination against girls: if anything, girls appear to receive more schooling than boys, especially in rural areas.

62. There also appear to be large differences in the quality of education received by students from poor and non-poor households. Some of these differences are probably related to the higher fraction of non-poor children (29 percent versus 5 percent for the poor) who are enrolled in private institutions, where quality appears to be higher. Indeed, cohort-survival rates, and the performance of students on standardized tests are both higher in private than in public schools. Quality in the public sector is also compromised by the fact that a very high — and growing — fraction of total expenditures in the sector are devoted to teacher salaries, at the expense of maintenance and other operating expenditures (MOOE). In per-pupil terms, MOOE expenditure in the public sector was only PhP135 in 1997 (less than US\$4), only about a quarter of what it had been in 1990.

63. Differences in the quality of education received by poor and non-poor children are reinforced by very large differences in private expenditures on education even for public schools. The richest households spend more than 20 (12) times as much as the poorest households for every child enrolled in primary (public) school, and more than 10 (9) times as much for every child enrolled in (public) tertiary education.

64. The overall incidence of public spending on education is progressive: the poor receive more in per capita terms than the rich (Figure 6). However, this is not the case for public spending on university

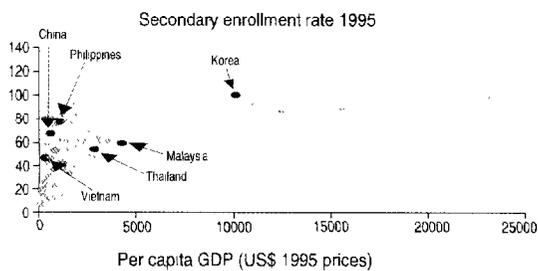
education, which is clearly regressive, favoring the rich over the poor.

65. More education allows people to earn higher wages in the labor market. The mean rates of return to education in the Philippines are high: on average, every additional year of schooling is associated with

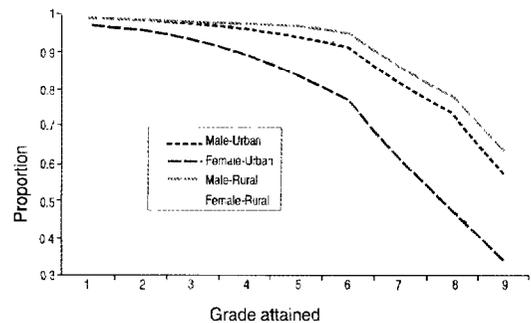
a 16 percent increase in hourly wages. But, there are important differences in the degree to which the labor market rewards different kinds of education: on average, every year of university education is associated with a 19.3 percent increase in wages, compared to 10.4 percent for every year of secondary school, and 7.2 percent for every year of primary

Figure 6: Education Disparities in Attainment, Incidence of Public Spending and Labor Market Returns

Enrollment rates in the Philippines are higher than would be predicted by the country's income level...

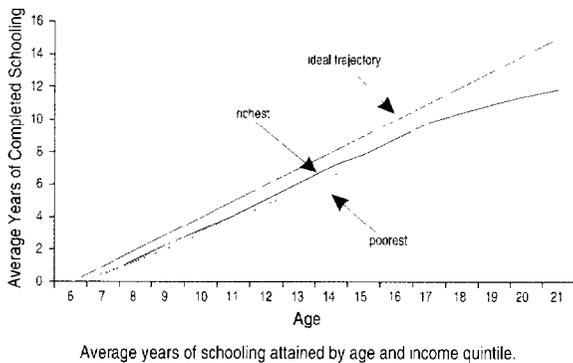


... but there are large discrepancies in educational attainment between urban and rural areas...



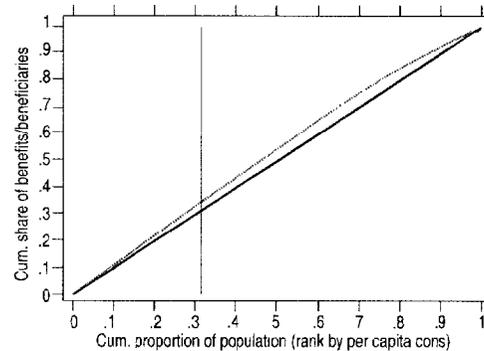
Educational attainment, ages 15-19 by gender and place of residence, 1998

... and by income level.

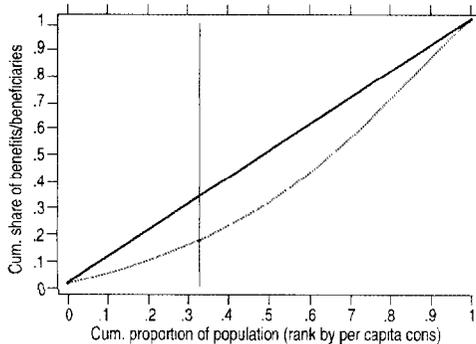


Average years of schooling attained by age and income quintile.

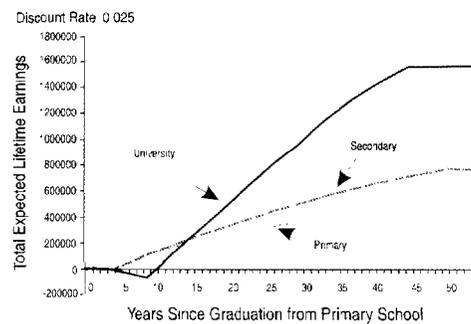
Overall, incidence of education spending is progressive^{1/}



... but spending on tertiary education benefits the better off ...^{1/}



... so poor children are less well-positioned to access the higher returns to tertiary education.



^{1/} The vertical line in these graphs represents the poverty headcount which was estimated at 31.8 percent in 1998 using the APIS dataset; note, however that this is not comparable to the 25 percent headcount estimated for 1997 using FIES data.
Source: Based on staff estimates.

school (Chapter 3, Volume II). This may reflect the relative abundance of people with primary and secondary schooling on the labor market as well as the higher demand for university graduates, coming in particular from the booming electronics export sector. It may also reflect underlying differences in the quality of education. Because poor children have very limited access to the current program of scholarships for tertiary education, which is merit-based, it would be useful to consider targeting able but poor children. Expanding targeted scholarship programs could be funded by greater overall cost recovery at this level.

66. While women have more education than men in the Philippines, they do not appear to be rewarded commensurately in the labor market. There are numerous possible explanations for this, but discrimination by employers may be a contributing factor. Understanding the reasons why women earn less than expected given their education and experience is important to help design appropriate policies.

67. *Health.* The devolution of health services which began in 1991 appears to have been accompanied by an increase in the share of health spending which is devoted to public (i.e., preventive) health care, including such high-externality interventions as communicable disease and vector control, immunization, and health awareness programs. (Chapter 3, Volume II). Partly as a result, the overall pattern of health spending in the Philippines is mildly progressive (Figure 7).

68. Still, the Philippines continues to face important health challenges. First, there are large differences in the incidence of public spending by level: *barangay* health stations and rural health centers both disproportionately benefit the poor, while government hospitals do not (Figure 7). Second, more than 70 percent of total public health spending is still for personal health care services, and more than half of the resources of the Department of Health (DOH) are devoted to public hospitals. This is particularly worrying because the geographic distribution of DOH hospital subsidies is itself regressive. Regions

where infant mortality is higher tend to receive lower subsidies. Clearly, there is room for further enhancing the distribution of public spending towards the poor, in particular by reconsidering the geographic distribution of DOH spending.

69. Third, data on the pattern of public spending are silent on the quality of service delivery and this may be an issue particularly for the poor who visit public health facilities more frequently. Data from the Demographic and Health Survey (DHS) show that there are indeed large variations in health status by income level, although not by location (Figure 8). There is also some concern about the deterioration in health care services since the devolution because of insufficient funding, inadequate local capacity and deficiencies in the referral and procurement system. It is cause for some concern that a recent report prepared by the DOH finds evidence of stagnation in levels of infant and maternal mortality. Finally, there are also growing challenges in environmental and work-related health risks which remain unaddressed.

70. As part of this overall poverty study, a national survey covering 1,200 households is being carried out on users' awareness, access to and satisfaction with some publicly provided services, including primary education, primary health, drinking water, low income housing and subsidized rice. An innovative part of the exercise is to link the information collected to household welfare levels by including the short consumption module of APIS in the questionnaire; this will enable analysis of responses by different income groups. While the results of the survey are not yet available for inclusion in this report, they will yield valuable information about the key constraints that the poor face in accessing public services, their views about the quality and quantity of services they receive from different service providers and the extent (if any) of harassment they experience in their interactions with government officials. These findings will complement the results from APIS, discussed earlier on access to public services, and will be made available in a follow-up report. Another effort underway in the context of this

poverty study focuses on undertaking case studies of some local government units to examine the institutional and political economy ingredients of pro-poor policies. The results from these case studies will also complement the analysis provided in this report.

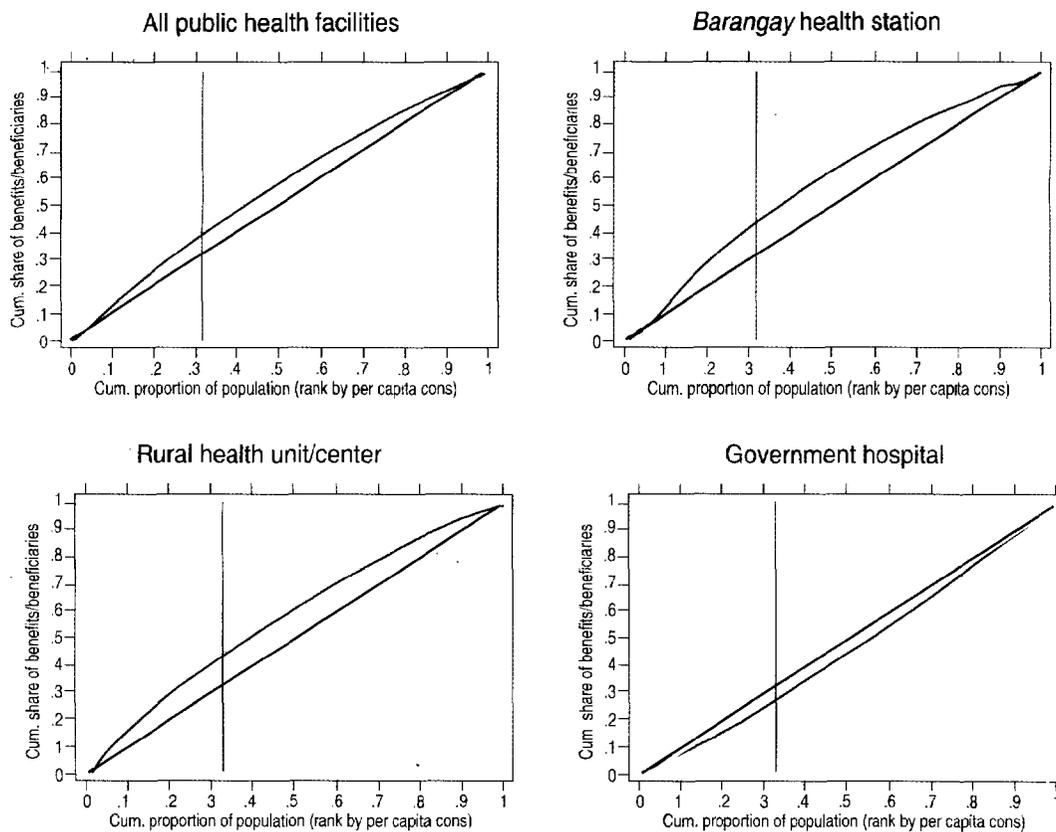
Protecting the poor

71. Protecting the poor is about reducing their vulnerability to adverse shocks. These shocks can result from events that affect households (illness, death, and disability), a community, region, or the whole nation (natural disasters, macro-economic crises).¹³ Few are immune from shocks but the poor are particularly vulnerable because they are less able to cushion their welfare and because small declines in consumption can put them seriously at risk. This is not to suggest that poor households do not have mecha-

nisms for coping with risk. They do — but these mechanisms cannot eliminate vulnerability. Typically, poor households have limited recourse to intertemporal consumption smoothing because they have few savings or assets and are constrained in their ability to borrow. Private or community level support systems help in sharing risks across households but have limitations in cases of systemic or regional (covariate) shocks. Some household strategies may help in the short run but at the expense of longer-term well-being. The government's response to vulnerability must be aimed at helping the poor manage risk by preventing and mitigating risk and lessening the impact of shocks. Policies must take care to nurture informal safety nets and understand their limitations.

72. There is no formal analysis of the extent of vulnerability in the Philippines which typically requires

Figure 7. Public Health Spending Benefits the Poor Overall, 1998



Note: The vertical line in these graphs represents the poverty headcount which was estimated at 31.8 percent in 1998 using the APIS dataset; note however, that this is not comparable to the 25 percent headcount estimated for 1997 using FIES data.

Source: Staff calculations based on 1998 APIS data.

panel data to examine the frequency of movements into and out of poverty. But analysis available from other countries suggests that a significant portion of poverty in any given year is likely to represent transient poverty — that is, households who are poor in one year but have consumption levels above the poverty line in “normal” years.¹⁴ Understanding the sources of this variability and designing mechanisms to reduce either the variability or its impact would improve the welfare of the poor.

73. In the Philippines, the main sources of vulnerability are likely to be related to climate and economic instability; certain parts of the country are also affected by political unrest. At the household level, the impact of these events is felt through lower real incomes due to loss of crops, reduced employment, lower pay or higher prices, especially for food. In addition, poor households face idiosyncratic risks

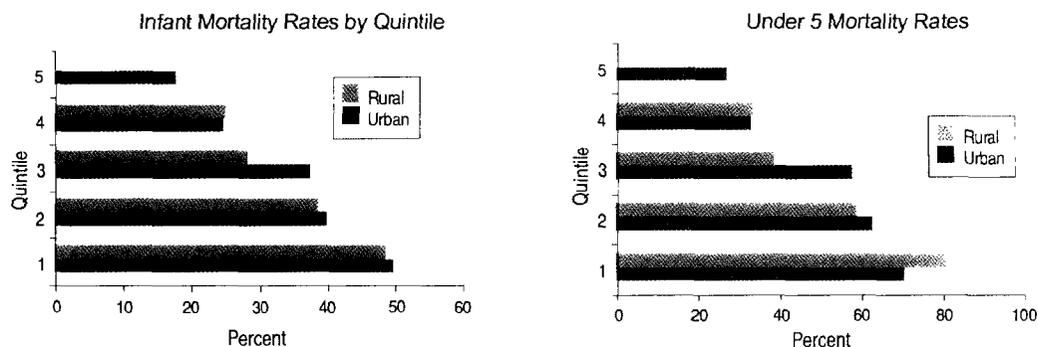
that make them vulnerable to illness, spells of unemployment that are not derived from systemic events, and old age. As different risk mitigation mechanisms are indicated for different types of risks, the discussion here focuses first on macro level or covariate shocks and then considers micro level or idiosyncratic sources of risk.

Macro-economic crises and natural disasters

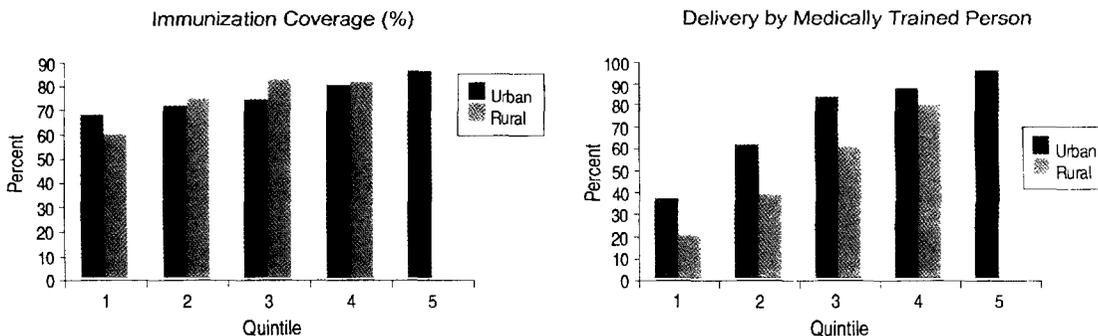
74. The best approach to reducing the welfare impact of risks is to eliminate the source of the risk itself. This is possible for some categories of risk but not for others. There is clearly potential to reduce the frequency and the severity of economic crises through sound macro-economic management though the extent of the contagion seen during the Asian crisis suggests limits to the ability of govern-

Figure 8: Health Indicators by Income and Location, 1998

Health indicators vary by income status but rural-urban differences are small and even favor rural residents...



... but the rural poor have lower immunization coverage and less access to medically trained persons for deliveries.



Notes: Quintiles are based on the entire population. Because there are few rural residents in the fifth quintile nationally, these values are subject large sampling errors; as a result, the graphs do not show values for the fifth quintile for rural areas. Infant mortality and under 5 mortality refer respectively to deaths under age 12 months per thousand births and deaths under 5 years per thousand births; immunization coverage is for children 12-23 months. Source: Filmer (1999b).

ments to inoculate their economies. Even so, in the Philippines, macro-economic stability in the 3-4 years leading up to the Asian financial crisis has arguably made the greatest contribution to poverty reduction.

75. Natural disasters are a common occurrence in the Philippines and can have devastating impacts on the affected population. As a matter of fact, El Niño has occurred with remarkable regularity every three or four years in recent history. Although there is no scope for eliminating this risk, policies can help mitigate its impact and assist households in coping with its consequences. Effective public policies and regulation in some areas — including watershed management, impounding, drainage, flood control, forestry regulation, housing and zoning standards, and trash collection — can help reduce the financial and human costs of natural disasters. But public safety nets are still needed to mitigate the impact on vulnerable households. The rest of this section discusses the social impact of the crisis and builds upon lessons learned to discuss options for public safety nets in times of systemic shocks.

76. *Social Impact of the Crisis.* In the wake of the worst drought in 30 years and the Asian financial crisis, which spread in earnest to the Philippines by the last quarter of 1997, real GDP per capita declined by 2.6 percent in 1998. Agriculture contracted the most, by 6.6 percent while industrial production fell by 1.7 percent. Unemployment rates increased to double-digit levels during 1998. Inflation, too, rose to double-digit levels and with plummeting agricultural output, food prices increased faster than the general level of prices. The crisis also reduced government revenues, which constrained public spending despite an overall counter-cyclical fiscal policy adopted by the government. However the government was successful in protecting expenditures in the social sectors.

77. What has been the distributional impact of the crisis? There was limited information at the time the crisis was unfolding because data collection systems

in most countries of the region, including the Philippines, were not geared toward providing real time information. Quarterly estimates of self-reported poverty for the Philippines are one exception (Mangahas, 1999): according to these surveys, the incidence of poverty increased somewhat in 1998 (61 percent reported being poor) compared to the period 1996-97 (when 59 percent reported being poor). To remedy this information gap, a significant effort was made to gauge the impact of the crisis through rapid assessments (Box 2). Much of the qualitative discussion of the impact of the crisis found in the World Bank and ADB documents, summarized in Box 2, is largely borne out by the more quantitative analysis included here; one exception is that this report finds that the government was largely successful in protecting social sector expenditures whereas the ADB report reached the opposite conclusion, reflecting changes in the underlying information available between now and the ADB report.

78. Concern about the social impact of the crisis provided the impetus and the funding necessary to launch the first round of the APIS in 1998. The 1998 APIS came on the heels of the 1997 FIES and was expected to yield information about poverty trends, in addition to collecting indicators on other dimensions of household welfare (i.e., use of various services) not available in the triennial FIES. A decision was also made to include a section in the survey with direct questions on the crisis and this turned out to be very useful in analyzing the distributional impact of the crisis, given issues of comparability of consumption and income information between FIES and APIS (Box 3). Partial funding for the 1998 APIS was made available under the ASEM trust fund which was created at the initiative of ASEM leaders at the second Asia-Europe (ASEM) Summit in London in April 1998. ASEM funding helped in particular with the quicker than usual turnaround in data availability.

79. Analysis of data available from the 1998 APIS suggests that the impact of the crisis was modest, leading to a 5 percent reduction in average living stan-

dards and a 9 percent increase in the incidence of poverty, with higher increases indicated for the depth and severity of poverty (Chapter 5, Volume II). The largest share of the overall impact on poverty is attributable to the El Niño shock as opposed to shocks mediated through the labor market. The impact on measures of overall inequality was minimal but the distributional impact of the two shocks was different: while the labor market shock was progressive (inequality reducing), the El Niño shock was regressive (inequality increasing). This is also evident in Table 8 which shows the distribution of the different shocks across the deciles (based on the 1997 FIES) and is consistent with the notion that the impact of the El Niño drought was heavier on the relatively

poorer agriculture-based households whereas the financial crisis affected the relatively better-off wage earners more severely. In rural areas, the main impact was felt through production short falls, increases in the relative price of food, which was limited due to a responsive import policy on the part of NFA, and increases in underemployment. In urban areas, there was an increase in unemployment reflecting the slowing down of the economy as a result of the financial crisis.

80. Households were able to smooth consumption to some degree but the poorer ones among them were more constrained in their ability to do so. For three-fourths of the affected households, consump-

Box 2: Rapid Assessments of the Social Impact of the Crisis

The World Bank and ADB each conducted assessments of the socioeconomic impact of the crisis. The World Bank assessment was done in February 1998, and relied on economic analysis and focus groups discussions. The team identified five major trends affecting the poor, including lower real incomes (largely due to price increases), increased unemployment and lower wages, reduced social services, reduced access to credit, and negative impacts on social capital. Each of these effects was seen to be the combined impacts of the drought and economic crisis. The report noted that the crisis was felt more strongly outside of the National Capital Region, largely because of the increased effects of the drought in rural areas, and that a number of factors (such as the drawing down of inventories, government price supports, and delays in the impact of overseas contract workers losing jobs in other East Asian countries) were delaying the worst of the impact. The team recommended a variety of strategies to mitigate the impact of the crisis, including protecting the social sectors from budget cuts, protecting programs that are disproportionately used by the poor, developing programs to promote labor mobility, and using participatory processes to evaluate the impact of income and employment generation programs with a view to scaling up the most successful of them. The ADB assessment was completed a year later than the World Bank report (in June, 1999) and had the benefit of a much more substantial information base. Focus group discussions, surveys of community based leaders, and a household survey of 430 households in the same communities were conducted specifically for this assessment. The ADB report finds evidence for adverse impacts of the crisis, including increased unemployment (due to the labor force growing faster than employment), lower incomes among poorer rural communities in particular, price increases (particularly for food), increases in self-rated poverty (up from 40% to 43%), lower enrollment rates (particularly for secondary and first year of primary) and higher drop-out rates in education, reduced availability of medical supplies, but social fabric largely unaffected. The ADB report finds that despite the best efforts of the Philippine Government, expenditures on social services did decline, and suggests that the government should use external budget sources (particularly donor funding) to make up for this shortfall. The report also calls for better targeting methods for assistance, and suggests that these need to be based at the *barangay* level, as well as arguing for a social monitoring system. More specific recommendations included facilitating access to basic commodities within targeted communities at below market prices, employment creation, increasing microcredit programs, focusing healthcare resources on primary and preventative health programs (in particular, immunization and feeding programs, in the short term), and restructuring education provision to make it more cost-effective (and in the short term, increasing the subsidies available under a student/teacher assistance program). The ADB survey also showed that the poor, especially in urban areas, benefited from increased financial support from relatives. While both of these assessments show that the crisis period was a difficult one for the poor, the effects of the crisis *per se* were found to be limited. The combination of the crisis and drought was judged to have been more severe, especially on farmers and fisherman, and the urban poor.

Source: World Bank (1998b); ADB (1999a).

tion impacts were smaller in magnitude than the income impacts (Figure 9). But while the mean consumption to income shock ratio for the non-poor was 78 percent, it was 94 percent for the poor.

81. *Household Response.* In response to the crisis, poorer households reported changing their eating pattern, increasing hours worked, taking their children out of school and migrating more often than non-poor households (Table 9). But the overall proportion of households who responded by taking their children out of school is too high to be

credible.¹⁵ Administrative data suggest that enrollment rates continued to increase for both elementary and secondary schools with no perceptible change even in the rate of increase compared to previous years.¹⁶ It is possible that households' responses to this question are reflecting an increase in the incidence of absenteeism. While households benefited from private assistance, it is not possible to tell as to what extent private transfers or informal safety nets played a role in mitigating the impact of the crisis on the poor. Further work in this area would be very helpful in understanding the insur-

Box 3: Using the 1998 APIS to Estimate the Impact of the Crisis: Getting Around Measurement Issues

The 1998 Annual Poverty Indicators Survey (APIS) was designed to be a longitudinal survey forming a panel with the 1997 Family Income and Expenditure Survey (FIES). 23,150 households (59.8 percent of the APIS sample) were thus common to both surveys. Unfortunately, problems of comparability of income and consumption across the two surveys have handicapped researchers' ability to estimate changes in welfare between 1997 and 1998. The comparability of income was impaired because of the shorter reference period used in the APIS compared to the FIES. A partial year recall of incomes introduces unknown seasonal biases in the estimates of incomes, and has particularly serious implications for estimates of agricultural incomes and incomes from self-employment. The comparability of consumption, on the other hand, was compromised by the use of a much shorter consumption module in the APIS (two-page module for APIS versus a forty-page consumption module for FIES). A shorter consumption module generally introduces a downward bias in measured consumption levels. Thus, *ex post* it is virtually impossible to separate out how much of any observed decline in consumption would be attributable to a real crisis-related welfare shock versus how much is simply on account of measurement error related to the use of a shorter module. Fortunately, a separate section of the APIS survey included some direct questions on the crisis, where households were asked if they were adversely affected by the crisis in different ways. Households were asked: "During the past six months, did the following problems affect you and your family?" (i) increasing prices of food and other basic commodities; (ii) loss of job within the country; (iii) loss of job due to retrenchment of migrant/overseas workers of the family; (iv) reduced wages; (v) drought or "El Niño." It is however not clear what being "affected by a problem" means and the survey includes only yes/no responses from households; with no measure of the intensity of the effect of any one of these shocks. It is possible, nonetheless, to analyze the welfare impact of the crisis on households by identifying the impact of being affected by one of these five shocks after controlling for a large number of household attributes, the attributes of the communities in which they live and for geographic fixed effects. For the purposes of this analysis the shocks were classified into three after discarding the price shock because nearly everyone reported being affected, making the identification of its impact virtually impossible. The remaining three mutually exclusive categories of shocks then were: (i) the *labor market shock* applying to households who experienced either reduced wages or a loss of job within the country or overseas; (ii) the *drought or El-Niño shock* and (iii) a *joint labor market and El-Niño shock* given that some households experienced both types of shocks. *Household characteristics* include household demographics, characteristics of household head, education level of adults, occupational characteristics, including a measure of diversity of employment, and access to land, electricity, social networks and public assistance. *Community or barangay characteristics* include three indices based on *barangay* or community-level data: one for infrastructure capital, one for community social capital, and one for commercial capital. In addition, the analysis is extended to allow for variation in the severity of the shock and the ability of the household to cope based on certain household and community characteristics as there is no direct measure of the severity of the shock. These include households' endowments of labor, land and human capital, households' social network and employment diversity, as measures of their risk-management abilities and the community-level indices of infrastructure, social and commercial capital. (see Chapter 5 of Volume II for further details on methodology and results)

ance function of private transfers during systemic downturns.

82. *Public Safety Nets.* There is a clear role for government in mitigating the impact of natural disasters and economic downturns on the poor, especially since natural disasters occur with some regularity in the Philippines. Encouraging the purchase of private insurance for those who can afford it will help free up government resources for poorer households. Preparedness — at the level of institutions, programs and sources of funding — can reduce response time considerably, thereby attenuating the adverse impact on households. In response to shocks such as the recent El Niño drought, government policy should focus, as a matter of priority, on helping farmers restore their income generation capacity. An instrument of choice under these circumstances is public workfare. Workfare programs can provide an effective safety net for the able-bodied poor. Their benefits to the poor are maximized if the projects can create assets which the poor value (schools, rural roads, etc.) in addition to transferring income to maintain current consumption. Creating these assets as part of reconstruction efforts in the aftermath of natural disasters that inflict physical damage is particularly useful. In addition, workfare programs have a built-in automatic stabilization function which is helpful during periods of economic downturns: demand for workfare increases as domestic output falls and abates as economic activity is

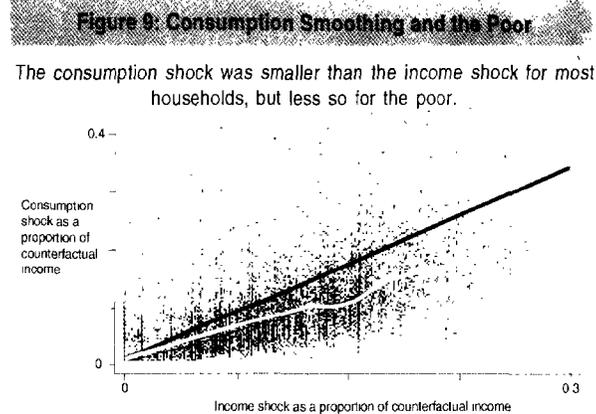
revived, making workfare an effective countercyclical fiscal policy instrument. Finally, because workfare programs rely on self-selection, they are administratively less cumbersome and do a better job of reaching the poor if properly designed (see Box 4). The key here is setting the wage level low enough so that only the poor will choose to take advantage of the program.

83. There is tremendous merit in capitalizing on the Philippines' earlier experience with public works programs and considering the adoption of a workfare scheme as part of the country's permanent safety net. These programs can be implemented in poorer provinces of the Philippines on an ongoing basis to provide an income floor to poorer households. Direct community involvement in project selection and implementation has been shown to increase program benefits in other countries and should be encouraged in the Philippines. Funding can come from the budget in normal years; to handle increased demand during periods of crisis, it should be possible to provide for accumulating funds in "good" times which can then be drawn down in "bad" times. International assistance is often a supplementary source of funding during crises. Before reactivating previous institutions and methods for implementing workfare, it would be important to draw from the lessons learned from the Philippines' own past efforts as well as to capitalize on recent experience from other countries around the world. An earlier study on Philippine public works and food

Table 8: Impact of Economic Crisis and El Niño

Per capita expenditure Decile (1997 FIES)	Percent of households affected by					El Niño
	Price increases	Loss of domestic job	Loss of overseas job	Reduced earnings		
1 (Poorest)	93.5	17.0	3.8	15.4	78.6	
2	91.5	16.6	3.2	13.9	72.7	
3	90.9	18.3	2.9	15.5	68.3	
4	91.7	18.5	4.1	17.1	64.5	
5	90.0	21.5	4.5	17.1	61.7	
6	90.2	20.5	3.8	16.8	55.0	
7	89.7	20.7	4.7	17.1	51.4	
8	89.6	19.4	4.8	15.2	45.2	
9	88.3	18.3	5.1	14.2	43.5	
10 (Richest)	84.7	14.7	4.8	11.2	37.8	
Overall	90.0	18.5	4.2	15.3	57.9	

Note. Calculations are based on panel data (23,150 households) constructed from the 1997 FIES and the 1998 APIS
 Source: Zalisacar (1999a), based on 1998 APIS data.



Source: Staff calculations based on 1998 APIS data.

for work schemes suggested problems with targeting on account of higher than market wages, inadequate maintenance of assets created, concern with the types of works that are technically amenable to labor-based methods, incentive issues with use of private contractors and inadequate monitoring and evaluation.¹⁷ It would be important to address these concerns before the reintroduction of a large-scale program.

84. In addition to helping maintain consumption levels through workfare, government policy should protect public spending in the social sectors during periods of crisis. The Philippines government was successful in this regard during the recent crisis. Health expenditures declined marginally and mainly for curative services which are utilized more commonly by wealthier households. In the Philippines, it is particularly important to maintain funding for rural health facilities and *barangay* health centers because the poor utilize these facilities much more than the non-poor. It is also important to make sure that children from poorer households do not drop out of school or experience increased absenteeism. Special dispensation from school fees for the poor, especially for primary and secondary schools, can help but there may be a need to provide scholarships to poor families. School feeding programs can also help reduce the incidence of absenteeism among poor

children in general, and particularly, during periods of crises.

85. While timely survey data made it possible to capture, to some extent, the household level of impact of the recent twin macro level shocks and to identify the characteristics of vulnerable households, similar information does not exist for a systematic evaluation of the determinants of vulnerability in normal times. Who is vulnerable to micro level shocks in the Philippines and what coping mechanisms do they utilize? Some insights can be obtained from the poverty profile (Chapter 1, Volume II).

Micro level shocks

86. The literature on vulnerability and participatory poverty assessments identifies several major sources of idiosyncratic risk, including health, death of primary income earner, loss of a job, crime and violence, and old age. In the Philippines, households headed by women, the elderly and the unemployed — primary candidates for vulnerability in developed societies — are not among the ranks of the poorest. These findings are not unique to the Philippines. Because there is an element of choice in becoming a household head, it is quite plausible that poor women and poor elderly choose not to become household heads; they prefer instead to live with other family members. So the information on poverty incidence

Income Decile (1997 FIES)	Total HHs responding	Percent of HH responding to crisis by:					
		Changing eating pattern	Taking children out of school	Migrating to city or other countries	Receiving assistance from other households	Receiving assistance from government	Increasing working hours
1	2,256	56.7	12.4	7.8	16.5	10.7	37.5
2	2,223	52.3	9.3	5.4	17.1	8.8	36.8
3	2,211	50.7	7.3	5.4	16.3	8.4	33.6
4	2,206	51.0	8.7	5.2	17.0	6.8	33.1
5	2,180	47.8	7.1	4.5	17.2	5.9	29.4
6	2,155	48.3	5.6	3.8	16.4	5.7	27.0
7	2,138	47.0	5.0	3.7	15.0	4.5	26.1
8	2,125	44.1	3.5	3.4	12.5	2.9	22.3
9	2,097	41.4	3.2	3.1	13.8	3.9	23.1
10	2,011	33.3	1.2	3.5	12.0	2.6	18.2
Total	21,602	47.5	6.4	4.6	15.4	6.1	28.9

Note: Calculations are based on panel data (23,150 households) constructed from the 1997 FIES and the 1998 APIS.
Source: Balisacan (1999a), based on 1998 APIS data.

Box 4: Public Workfare: An Essential Part of a Permanent Safety Net?

Public workfare programs require participants to work in order to receive benefits and are a useful countercyclical measure in fighting poverty during periods of crisis. The crisis could be a macro-economic or agroclimatic shock, or a deep structural change in the economy whereby large numbers of able-bodied people become unemployed. Such programs help fight poverty in two ways: first, by providing paid employment to the poor and helping households smooth their consumption, and second, by creating assets and services that the poor value (e.g., minor construction of schools, health facilities, basic sanitation facilities, small roads and bridges, small dams and canals, community kitchens and centers, and low-cost housing). International experience offers several lessons in the design and implementation of such programs and highlights some of the trade-offs.

Guarantee of Employment: Existing market and non-market arrangements for insurance often leave the poor exposed to significant risk. A workfare program that guarantees employment can reduce the longer-term risk the poor face. While highly desirable, guarantees have not been a feature of most public workfare schemes. One possible exception is the Employment Guarantee Scheme (EGS) in Maharashtra, India, that guarantees unskilled manual work within the district within 15 days of registering for employment with the EGS. While this does not necessarily mean locally accessible employment, this scheme comes closest to offering a guarantee of any kind.

Wage Rate: The key to the success of a workfare program is in setting the wage rate. The wage rate should be no higher than the market wage for unskilled manual labor in agriculture or the informal sector during a normal year in the environment in which the program is introduced. While determining the precise level of the wage rate may not be easy, it is better to err on the side of starting with a wage rate that is too low — if there is no demand at the offered wage rate, it can be raised. Setting the wage rate at a low level ensures that the workfare scheme uses self-targeting to reach the poor — that is, only the poor would choose to participate at that wage level. It also maintains the incentive to take up regular work when it is available. A low wage also helps with the guarantee aspect in that the scheme can reach as many of those in need as possible.

Labor intensity: The labor intensity, that is the share of the wage bill in total costs, should be higher than normal for similar projects in the same setting. There is a trade-off between immediate income gains through employment of the poor, and gains to the poor from the quality and durability of the assets created. In a crisis situation, where current transfers to the poor have a high weight, a high labor intensity is likely to be desired. Illustrative average labor intensities range from 0.5 - 0.65 percent in low-income countries, and somewhat lower (0.4) in middle income countries, though labor intensities often vary significantly by sub-projects. The Korea workfare program introduced during the recent economic crisis was very successful in achieving a high labor intensity of 70 percent. In the Trabajar workfare program in Argentina, a high labor intensity was encouraged through an arrangement in which the central government paid the labor costs of the program, whereas local governments financed the capital costs. In addition, sub-projects competed for funds and were appraised on the basis of an objective points system, which favored sub-projects with higher labor intensity.

Eligibility conditions and other means of rationing should be avoided; ideally the only requirement should be the willingness to work at the offered wage. If rationing is unavoidable (for example if the demand for employment at the wage set exceeds the available budget), then the program should be targeted to poor areas and confined to time periods when the need is greatest.

Targeting to Poor Areas: Ideally, workfare sub-projects should be targeted to poor areas to ensure that the assets created are of maximum value to poor people; in the Argentina Trabajar scheme, the above-mentioned point system favored sub-projects in poor areas. Any exceptions, where the majority of the benefits go to the non-poor, should require co-financing from the beneficiaries and this money should go back to the workfare budget.

Administration and Implementation: Direct community involvement in project selection and implementation is highly desirable. Work should be performed only on technically feasible projects proposed by bonafide community groups to help ensure that the efforts respond to the needs of local communities. Women's participation can be enhanced through non-discriminatory wages and the provision of on-site daycare centers. While the design features of workfare programs are well researched, administering and implementing an effective scheme present challenges. For example, ensuring that the workfare program is poverty focused is often difficult because of conflicting pressures from alternate target groups (for example, the skilled unemployed). Local capacity for implementation is often limited, and inter-agency co-ordination, often required for implementation of these programs, presents difficulties. Corruption is often also a problem.

based on headship does not mean that poverty does not represent a problem for women or the elderly in the Philippines. Poverty is an issue for these groups to the extent that they live in poor households, and if within (even non-poor) households, spending is biased against them. As for unemployment, there may also be an element of choice here, reflecting high reservation wages, in particular for the more educated. Typically, the poor cannot afford to be unemployed; for example, it is underemployment that is prevalent in rural areas in the Philippines.

87. But there is another factor at play in the Philippines. Transfers, and these are primarily private transfers, play a significant role in reducing poverty in the Philippines. In addition, they are equalizing and benefiting vulnerable groups more proportionately. Transfers are large in the Philippines and have been increasing over time. They accounted on average for 13 percent of pre-transfer household incomes in 1997 (Table 10) with 57 percent coming from abroad. Data from the balance of payments puts worker's remittances at PhP134 billion (US\$ 7.7 billion) for the same year, equivalent to 7.6 percent of personal consumption reported in the national accounts and up from less than one percent in 1988.

88. Transfers are highly progressive, benefiting more households with low levels of (pre-transfer) income per capita. For the poorest quintile (ranked by pre-transfer incomes), transfers received constitute almost 60 percent of pre-transfer incomes (Table 10). For a large number of households, private transfers are the tickets out of poverty. Income poverty would have been much higher in the Philippines in the absence of transfers: the headcount index would have been 32 percent rather than 25 percent. The distributionally sensitive measures would have been even higher suggesting that transfers help some of the poorest among the Philippine households.

89. Furthermore, analysis of the determinants of transfers suggests that having an unemployed, elderly or female-head has a large and significant impact on transfers received by the household. On the whole, private transfers or informal safety nets

have been a powerful anti-poverty force in the Philippines.

90. What then is the role for public safety nets? *First*, as discussed in the previous section, informal safety nets have their limitations when the shock is covariate in nature so that there is a role for government in helping households cope with systemic shocks. *Second*, it is not clear as to what extent private transfers fulfill an insurance function; do transfers respond to downturns in household income for idiosyncratic reasons? Future analysis based on the 1998 and 1999 APIS panel would help answer this question. The case for public safety nets needs to be balanced against an additional consideration having to do with the potential displacement of private safety nets. Earlier work on the Philippines (Cox and Jimenez, 1995) suggests large displacement effects both for unemployment insurance and old age pensions.

91. At the current level of the Philippine economic and institutional development, the case for the introduction of an unemployment insurance system is weak. Even a non-contributory assistance scheme is not a priority given the low level of poverty incidence among households with an unemployed head. The same reservations apply for the introduction of a national pension scheme. But the workfare scheme advocated as an instrument of choice for addressing shortfalls in consumption during periods of systemic shocks is also effective in the event of idiosyncratic shocks.

92. There is also a role for government in bringing into the economic mainstream, groups that suffer from discrimination or may be left behind by the growth process. Ethnic minorities, the disabled, domestic violence victims, and children come to mind, in particular. Fortunately, among the myriad of government programs that are purported to help the poor, the Comprehensive and Integrated Delivery of Social Services (CIDSS) program of the Department of Social Welfare and Development (DSWD) appears to be one of the most effective. A recent assessment of this program (Bautista, 1999), based on qualitative feedback from stakeholders and

data collected on unmet minimum basic needs (MBN), suggests that CIDSS communities experienced a greater improvement in community welfare than non-CIDSS areas. There appears to be scope for both deepening and expanding the reach of CIDSS.

93. The current housing programs, on the other hand, are highly regressive. Responses to the APIS questionnaire suggest that some two million urban residents had access to assistance from a government housing or financing program, but that the programs fail in reaching the urban poor (Figure 10). Since the analysis here does not impute value to the housing assistance received, it is quite likely that the distribution of benefits is even more skewed than simple access to the program. Since there is a multitude of programs to provide housing and upgrade slums in the Philippines, a serious evaluation to assess which, if any, publicly-funded housing programs actually benefit the poor should be an important priority for the future.

94. There is also a need to examine the effectiveness of the multitude of targeted programs currently under implementation. It would be useful to map spending levels by province to determine overall effectiveness in targeting poorer provinces. Selecting a few of the more important programs for detailed

impact assessment should also be considered: the 100 Poorest Families Program should be among those selected (see below).

95. The so-called "100 Poorest Families Program" or *Lingap Para sa Mabibirap* (Box 5) constituted the Estrada Administration's flagship program. The program aimed to identify the 100 poorest families in each province and municipality based on local level information such as the MBN indicators and to deliver a range of services and interventions through the relevant line departments. PhP2.5 billion were allocated to seven departments in the 1999 budget to provide credit, health, housing, infrastructure, and other services. Even though the program targeting starts with identifying the poorest families, many of the interventions were envisaged to be at the community level rather than household-specific, thereby helping expand the reach of the program. This resulted in a program that may be too dispersed as an area program (and it is not based on geographic poverty indicators) but too expensive as a means-tested program for households. In addition, local level decisions on targeting may be effective because typically communities have more information than central authorities but there is a risk of local capture. It is important therefore to conduct an evaluation of *Lingap* from the perspective of both targeting effectiveness and welfare impact.

Facilitating empowerment

96. Empowerment is about making public institutions work for the poor. In a participatory assessment of poverty in the Philippines, poor people characterized well-being in terms of material and human deprivation and vulnerability; they talked about access to resources (land, capital); sufficient and stable income and benefits; being able to eat three times a day; and the capacity to send children to school (South Asia Partnership Canada, 1999). But the poor also cited lack of relevant government support as one of the causes of poverty and indicated feeling socially excluded by the inattentiveness of government agencies. They considered efficient delivery of social services as the key manifestation

Table 10: Private Transfers Benefit the Poor, 1997

Income Quintile (ranked by income before transfers)	Income per capita before gross transfers (PhP)	Gross transfers per capita received (PhP)	Share of transfers in pre-transfer income (%)
Quintile 1	6066	3549	58.5
Quintile 2	10877	2183	20.1
Quintile 3	16203	2594	16.0
Quintile 4	25353	3224	12.7
Quintile 5	70935	5185	7.3
Average	25887	3347	12.9
Poverty and inequality indices			
Incidence	32.0	25.2	
Depth	10.7	7.2	
Severity	5.0	2.9	
Theil	0.52	0.49	
Log of variance	0.71	0.64	

Source: Staff estimates based on 1997 FIES data.

of their inclusion in the nation's political life. The poor also found access to the legal system and its enforcement difficult and this contributed to their sense of insecurity. Finally, the patronage system in finding jobs further fueled feelings of social isolation, unfairness and powerlessness.

97. Empowerment of the people requires the fair and predictable application of the rule of law so that public officials are held accountable for their actions. But creating public institutions that are responsive to the needs of the poor is ultimately about the ability of the poor themselves to influence policy and hold public institutions accountable. Poverty as material and human deprivation is closely correlated with voicelessness. Poor people are unable to help shape policies to improve their lot in large part because they do not have access to information critical for influencing decisions, nor do they have the financial and intellectual wherewithal to demand being heard. Hence, actions discussed in earlier sections of the report to improve material well-being, investing in the human capital of the poor, and reducing their vulnerability will improve the poor's ability to be heard.

98. This section touches upon three institutional considerations that are important in enhancing government's accountability to the poor: public governance, decen-

tralization, and civil society participation. Governance is about enhancing transparency and accountability of public institutions, combating corruption and delivering effective justice; decentralization is about bringing government closer to the people so as to improve responsiveness to local needs; and civil society participation is about translating the needs and aspirations of the poor into demands for public action and creating the means for effective monitoring.

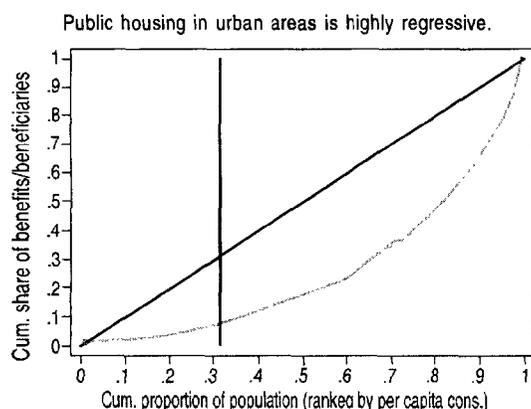
Improving governance and combating corruption

99. Improving governance requires a range of measures designed to create a motivated and meritocratic civil service and to enhance expenditure management through greater attention to performance, predictability, and accountability. Better governance is also about combating corruption and delivering justice. These issues are discussed in some detail in a number of recent World Bank documents covering social and structural reforms, anti-corruption strategies, and judicial reforms (World Bank 2000b, 2000c and 2000d). Here we focus briefly on the corrosive effects of corruption on society as a whole but particularly for the poor.

100. Corruption has declined in the Philippines since the restoration of democracy in 1986 (Figure 11) but efforts can be made to further limit its scope. Internationally, the Philippines ranks in the middle among a group of 99 countries for which a corruption perception index was calculated, as published by Transparency International. At home, a 1998 survey by the Social Weather Stations revealed that nearly two-thirds of respondents thought there was corruption in government (World Bank 2000c).

101. There is now mounting evidence on the positive links between good governance and economic and social development. Corruption is a key aspect of governance that directly affects poor people's lives. Corruption undermines development and hurts the poor by diminishing the quality and delivery of public services, raising the prices of goods and services

Figure 10: Public Housing and the Poor



Note: The vertical line in these graphs represents the poverty headcount which was estimated at 31.8 percent in 1998 using the APIS dataset; note, however that this is not comparable to the 25 percent headcount estimated for 1997 using FIES data. Source: Staff estimates based on 1998 APIS data.

Box 5: 100 Poorest Families Program of the Estrada Administration

In response to former President Estrada's call for concrete programs to fight poverty in March 1999, the National Anti-Poverty Commission (NAPC) — the main agency of government tasked with coordinating the anti-poverty program — directed local government units (LGUs) to identify the 100 poorest families from four or five poorest *barangays* in their respective jurisdictions. An excerpt of the series of memorandum circular issued by the DILG is as follows: "Using the guidelines issued by NAPC, the LGUs shall identify the poorest families from five *barangays* in each province and city. The poorest families in each of these *barangays* shall form one cluster containing twenty (20) to twenty-five (25) families. Each cluster shall be nurtured by the concerned national agencies and local government into a self-sustaining community-based cooperative. Each cluster shall organize itself into livelihood groups, each of which shall contain four to six families. A livelihood group shall elect its group leader and shall identify and manage one group-based livelihood activity." Given that there are about 76 provinces and 80 cities in the country, the program will identify about 15,600 households in its first year of implementation. The households will be formed into groups of five to form the Livelihood Groups (LG). The expected 3,120 LG units will form the first batch of small enterprises to be supported by the anti-poverty program of the administration. The one hundred poorest families are to be selected as follows:

Structure: In the case of the provinces, the Governors shall identify five (5) most depressed municipalities in its area of jurisdiction. The Municipal Mayor of the identified municipalities shall identify one (1) most depressed *barangay*. In case of cities, the City Mayor shall identify five of its most depressed *barangays*. The *barangay* captains in the chosen municipalities and cities shall, in consultation with the *barangay* council, identify twenty (20) of the poorest families, representing one cluster, in his or her *barangay*. Each cluster shall organize themselves into livelihood groups composed of five (5) families per group with an elected group leader and a set of rules and regulations which all members shall commit to observe. All the designated group leaders shall form themselves into the *Ugnayang Pangkalakan sa Barangay* (or the *barangay* entrepreneurial unit). This unit for each *barangay* shall be the grassroot, socio-economic institution to be recognized by government as representative of the cluster. It shall also be developed as the initiating group that will form the community-based cooperative that may be established in the *barangay* concerned.

Criteria for Selection: The identification of the poorest *barangays* shall be based on indicators such as the minimum basic needs (MBN), the human development index, their location, occupation/nature of employment, and their primary resource base. In the *barangay* level, there should be: Willingness of the *barangay* to undertake the project. Willingness of the *barangay* council to pass a resolution to guarantee a portion of the loan; and, Proper information to all households as to the selection of the poorest families. A *barangay* assembly shall be called for this purpose.

Support Mechanisms: On the national level, the Department of the Interior and Local Government (DILG), in coordination with the NAPC, shall be responsible for the creation and monitoring of the 100 Poorest Families Program. The designated local government unit (LGU) shall provide infrastructure support to their respective poorest *barangay* and guarantee the loans for micro-finance operations of the poorest families. Infrastructure support, at the minimum, would consist of the provision of a common warehouse and a livelihood center. The designated LGU shall provide assistance to the poorest families towards their eventual formation into a community-based cooperative or integration into the cooperative that is actively operating in the area, as certified by the Cooperative Development Authority (CDA). The *barangay* captain of the selected depressed *barangays* should show good leadership towards the development of their designated cluster and is expected to provide guarantee to portions of the loans incurred by the livelihood groups. Micro-finance operations to the livelihood groups shall be expected to come from government financial institutions, government corporations engaged in livelihood development, and other concerned agencies of government. It shall be impressed on the chosen household that there exist a joint guarantee system among members to pay the loan that their livelihood groups incurred.

leading to regressive taxes, and producing shoddy construction that can result in accidents and fatalities. Corruption also inflicts untold social damage, leading to a corrosion of social values and creating deep mistrust of government and ruling elites among the poor. Corruption in the judiciary is particularly pernicious as it amplifies the vulnerability of the poor to the whims and interests of private employers and public officials alike.

102. Because corruption reduces resources available for poor communities and undermines public confidence in the government's will and capacity to serve the poor, an anti-corruption strategy is an essential complement to government's pro-poor and pro-growth stance. Popular opinion surveys in the Philippines draw a strong link between good governance and meaningful efforts to combat poverty. Additional information on perceptions of and experience with corruption will soon become available through a special round of the SWS survey; the survey will allow a better understanding of how these differ by respondents' income level.

103. Building upon the many favorable conditions in the Philippines — a vibrant civil society and media, a legal framework and specific institutions charged with combating corruption in the public sector — the World Bank's recent report on *Combating Corruption in the Philippines* identified nine key elements for an effective national anti-corruption program. These are designed to reduce opportunities and motivation for corruption (e.g., policy reforms and deregulation to reduce economic rents; campaign finance reform; and budget reform, improving meritocracy in the civil service) and make corruption a high-risk, low-return activity (by increasing public oversight; and enhancing sanctions against corruption, supporting judicial reform). This report urges action in line with these recommendations as an essential ingredient of pro-poor policies.

Decentralization

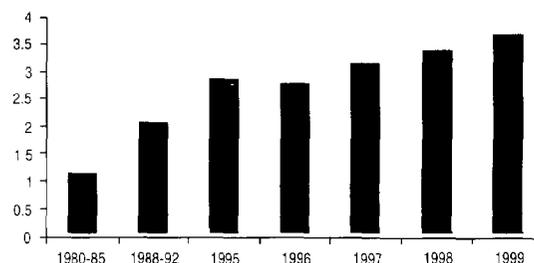
104. The devolution of responsibilities to local governments started under the 1991 Local Govern-

ment Code. This was motivated in large part by a desire to improve service delivery by bringing government services in closer contact with users. It was also expected that devolution would put local governments at the forefront of the fight against poverty. The code established three levels of local government (provinces, cities and municipalities, and *barangays*) and assigned to them major responsibilities in the fields of agriculture, environment and natural resource management, health, public works and highways, and social welfare development.¹⁸

105. Considerable resources are involved in this initiative. Alongside the devolution of responsibilities, the Local Government Code of 1991 vested local governments with revenue raising powers and expanded the share of national revenues transferred under the Internal Revenue Allotment (IRA).¹⁹ The magnitude of these transfers is rapidly rising: from 18 percent of the national government budget in 1996 to 24 percent in the President's budget for 2000 (excluding debt service).

106. *Has Decentralization Been Pro-Poor?* No systematic evaluation has been made of how local governments have actually performed in delivering the functions devolved to them or in alleviating poverty. Whereas there is considerable anecdotal evidence of decentralization having stimulated local authorities to improve service delivery, it is also the case that local governments have so far failed to assume some of the functions devolved to them, particularly for school construction. Many questions have also been raised about the local governments'

Figure 11: Transparency International Corruption Perception Index



Note: Scale = 1 to 10; higher score means lower perception of graft and corruption. Source: World Bank (2000c).

continuing capacity to deliver such key services as agricultural extension, primary health, or even local roads maintenance. As concerns health, for instance, the increasing share of resources devoted to public health services notwithstanding, there are concerns that the referral system has broken down, that the technical integrity among the different levels of the system is not being maintained, and that the quality of services is suffering as a result.

107. There are many reasons why decentralization in the Philippines may be producing mixed results. There could, for example, be a mismatch at the aggregate level between newly devolved expenditure and revenue responsibilities, but there is no firm evidence to support this contention. Weak institutional capacity at the local level is likely to constrain ability to deliver quality services while political patronage at the level of local governments may be thwarting incentives to be responsive to the needs of poor constituencies. With the number of political appointees almost as large as in the national executive and with local elections held every three years, lack of continuity is also an important problem (World Bank 2000b). Finally, national departments have not provided all the support that local governments may have needed. If some national departments (e.g., Social Welfare and Development) have diligently adjusted their structures and operations to support devolution, others are only now beginning in earnest (e.g., Health). In many respects, these problems are not unique to the Philippines. International experience suggests that devolution is a complex policy intervention where success depends on a large number of factors (see Box 6).

108. The full impact of decentralization can only be judged over decades, not years, of implementation and adjustment. Indeed, the authors of the Local Government Code did not believe that they could get it fully right the first time. Rather, they envisaged that decentralization would involve a substantial part of learning-by-doing, and a regular need to review practical experience and make mid-term corrections. It is now time for such stocktaking to take place. One possible way would be to commission an in-

dependent evaluation of the experience with the Code, leading up to recommendations for possible legislative or administrative action. Agenda items might include: (i) reassessing the scope of devolved services against the actual performance of local governments; (ii) re-evaluating the appropriateness of the existing arrangements for administrative, financial, and human resource management at the local government levels, as well as the effectiveness of existing accountability (to local constituencies and oversight agencies), and audit mechanisms; and (iii) reviewing the IRA formula with a view to improving its equity, incentives for local revenue mobilization, as well as its overall fiscal sustainability. Many of the recommendations for remedial action will need to be based on in-depth institutional assessments of both national and local government agencies. While this is beyond the scope of this report, the analysis of the system of intergovernmental transfers presented below suggests that there is room for enhancing the redistributive potential of the current scheme.

109. *Intergovernmental Transfers.* How devolution affects regional welfare disparities depends in part on how resources are transferred from the national to local government units. As noted earlier, there are important and persistent geographic differences in social and economic outcomes in the Philippines, including the distribution of income-based poverty, malnutrition, health indicators such as infant mortality, enrollment and educational attainment. Public policies can affect the extent to which these geographic differences are corrected. For example, social expenditures can be targeted geographically, and transfers from the central government to local governments can be designed in such a way as to favor poorer provinces and municipalities.

110. The main block grant from the central government to local governments in the Philippines is the Internal Revenue Allotment (IRA). IRA transfers to provinces, cities, and municipalities are based on a formula which considers the population, area, and an "equal share" component, while IRA trans-

Box 6: Decentralization, Redistribution, and the Provision of Social Services

Efforts to decentralize various government functions, including the provision of social services, are underway in scores of developing countries. Perhaps the most important economic appeal of decentralization is that it can result in increases in allocative efficiency if lower tiers of government have better information about household preferences. Because decentralization can make more apparent the connection between taxes collected and services provided, it may increase consumers' willingness to pay for these services. Decentralization can also provide better opportunities for local residents to participate in decision-making, result in greater accountability of public officials, and strengthen democratic processes. On the other hand, decentralization may lead to increases in regional disparities and greater inequity. Moreover, if local governments do not have adequate capacity, some of the expected increases in efficiency could fail to materialize. There is no cookbook recipe for successful decentralization, but the following issues require consideration.

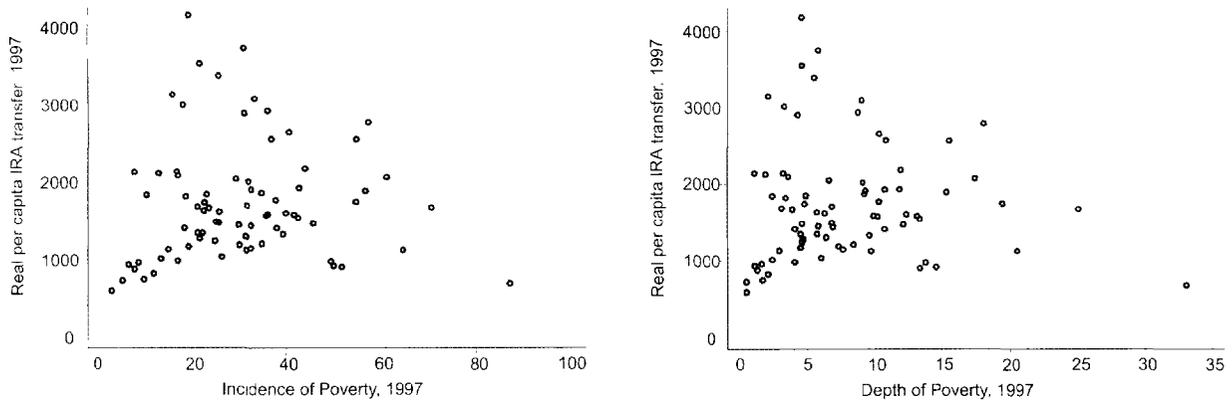
The function or service to be decentralized: Decentralization is not an "all-or-nothing" proposition. In many instances, efficiency gains may be possible without increases in inequality if the central government keeps primary responsibility for financing while local governments take over responsibility for spending decisions, inputs, and implementation. Some social services may inherently be more difficult to decentralize than others. Economic theory suggests that redistribution may best be carried out by higher levels of government, because labor mobility will make attempts by lower jurisdictions to change the distribution of income self-defeating as the poor gravitate to areas of high redistribution, while the rich cluster in areas of low redistribution. Still, even if central governments take primary responsibility for the financing of safety nets, and establish the criteria which determine eligibility for transfers, local governments may have an informational advantage screening applicants. Decentralization of the health sector is also complicated because of the need for effective referral across levels — from health posts which provide basic services, to high-technology hospitals. Unless these inter-linkages are considered carefully, decentralization can result in a deterioration of some aspects of the services provided, as may have happened in the Philippines, Bolivia, and Zambia.

The level of the sub-national government to which responsibilities are decentralized: Economists often argue that decentralization should follow the principle of "subsidiarity," whereby decisions are made at the lowest level of government consistent with allocative efficiency. This often involves a careful parsing out of responsibilities. In education, for example, national governments are often responsible for setting standards, curriculum development, and textbook production and distribution; and local governments, communities, and parent-teacher associations are responsible for construction and maintenance of school facilities, and the day-to-day running of schools, as what happens in a multitude of countries, from the United States to Bhutan. International experience suggests that efficiency gains in the provision of social services frequently materialize when the central government devolves responsibilities to the community or facility level, but rarely when they are devolved to provinces or regions. In every instance, it is important that revenues for social services follow responsibilities for their delivery.

The extent of community mobilization and oversight: Increases in allocative efficiency in the delivery of social services can only take place if more accurate local information can reach decision-makers, and if there are mechanisms whereby these decision-makers are held accountable for their performance. In Colombia, accountability to constituents pushed local mayors to concentrate more on training and hiring effective civil servants. In Northeast Brazil, community oversight and fear of job loss helped motivate civil servants.

Initial conditions: The initial distribution of income is important. If income is distributed more unevenly within jurisdictions than across them, decentralization could be equalizing if local authorities have the capacity to transfer income to the poor and share the equity objectives of the center. On the other hand, if there are large initial differences in capacity or jurisdictions that do not share the same equity objectives, some sub-national governments may not effectively target the poor. Central governments may therefore have to target poverty funds themselves or create stronger incentives for sub-national governments to do so.

Figure 12: IRA Allocations are Unrelated to the Poor



Source: Balisacan (1999a) and staff calculations.

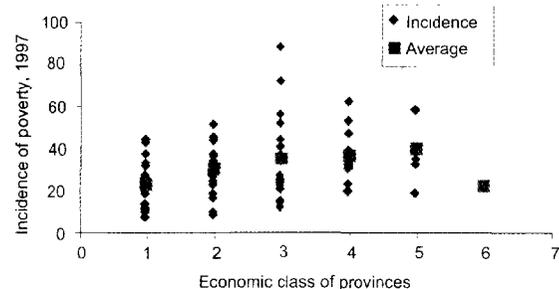
fers to *barangays* only take into account population and the equal share component. There is, therefore, no redistributive intent in the IRA formula. To see whether IRA transfers are redistributive in practice, we aggregate transfers to provinces, cities, municipalities, and *barangays* for every province, and graph the per capita transfers to provinces as a function of the incidence and depth of poverty. Figure 12 shows that there is essentially no relationship between poverty and IRA allocations, suggesting that the main block grant from the central government to local Governments does not help to reduce regional inequalities.

111. Intergovernmental grants are an important source of revenue for sub-national governments in most developing countries. The design of these transfers affects the efficiency and equity of local service provision. Box 7 summarizes some considerations which should be taken into account for the design of an optimal scheme of intergovernmental grants. One important objective of intergovernmental transfers in many countries is to reduce regional fiscal disparities without providing disincentives to local resource mobilization. One recommendation of this report is that the Philippine government consider incorporating an explicitly redistributive component into the IRA scheme to enable all local governments to provide adequate social services to their constituents.

112. Allocation of central government resources is sometimes also guided by the economic classification of local government units under the Local Government Code (LGC) from 1 to 6, with 1 considered the most well-off. How well does this classification reflect poverty incidence at the provincial level? On average, provincial classification under the LGC is correlated with poverty incidence but that there is large variation within a given class (Figure 13). Hence, there are a large number of provinces in class 3 and above that are less poor than many provinces in classes 1 and 2. This is not altogether surprising because the economic classification of LGUs is based on total revenues at the disposal of LGUs, including IRA, and because the allocation of

Figure 13: Poverty and Economic Classification of Provinces

On average, provinces are poorer as the economic classification moves from 1 to 5 but large variation within a given class suggests considerable room for improved targeting.



Source: Staff calculations.

Box 7: The Design of a System of Intergovernmental Grants

The design of the most appropriate formula for intergovernmental transfers is a difficult issue, and often reflects some combination of the desire to equalize fiscal capacity or to reduce disparities in the levels of public service and to encourage local governments to mobilize resources. *First*, the formula may be designed to reflect differences in expenditure needs. Different indicators can be used to measure expenditure needs: (i) population; (ii) indicators of physical factors that may lead to greater costs of service provision, e.g., land area, population density, urbanization; (iii) measures to reflect the concentration of high cost population in the local government area, for example, the percent of families living below the poverty line, the percent of the population on pensions, the percent of school-aged children; and (iv) indicators of infrastructure needs, such as the miles of paved highways, percent of households with access to adequate water supply, etc. *Second*, the intent is income or fiscal capacity equalization, which means an equalization in the capacity of local governments to finance a given level of services. The grant formula attempts to provide more money to those local governments with a lower capacity to raise taxes. Such a formula may allocate funds according to the level of average income in the local area. *Since this provides no incentive for the recipient government to increase its tax effort, the formula often includes a measure of tax effort, or requires the maintenance of some level of revenue mobilization as a condition of receiving the grant.* *Third*, the grant formula could reflect a balance between revenue raising capacity and expenditure needs. But once local governments get additional resources, there is no guarantee that these resources are used to finance services that the poor value. Different types of intergovernmental grants can be used to influence the allocation of local government resources. For example, if national governments want to ensure minimum standards of service provision, grants could be provided conditional on the funds being used for a particular purpose, such as basic health services, and with conditions on standards of service and access. Such transfers ensure that the recipient government spending on a particular category will at least be equal to the amount of the grant. There are alternative grant types, such as matching grants or cost-sharing programs, which are conditional transfers that require funds to be spent for specific purposes and the recipients match the funds to some degree. Such transfers have an income effect, as the subsidy gives the community more resources, and a price or substitution effect, since the subsidy reduces the relative price of the subsidized service. Matching transfers may change local priorities, which may be the desired outcome if the objective is to achieve national policy objectives. This type of grant has the potential to be inequitable, since richer communities can raise matching funds more easily. But this effect can be offset by adjusting matching rates to local government wealth.

Source: Bahl (1999).

IRA itself was not found to be correlated with poverty levels. Reliance on the economic classification under the LGC for targeting of anti-poverty programs is therefore not advisable; there is sufficient information for more effective targeting at the provincial level.

Civil society participation

113. Along with a vibrant press and a vocal, if narrow, labor union movement, the participation of non-government organizations (NGOs) in public affairs has been one of the greatest developments of the decade. In addition to enhancing availability of public information and scrutiny of public policies, the people's power revolution in 1996 created the momentum for

the unprecedented recognition and engagement of the NGOs as partners of the government in carrying out development and reform programs. With the explosion of civil society initiative in the nineties, broader approaches to poverty alleviation began to emerge whereby the poor came to be seen not merely as recipients/beneficiaries of government programs or policies, but as agents of their own destinies. This helped shape the development of a consensus around the need to ensure equitable access to assets and productive livelihood, and to secure the rights of poor communities (e.g., fishing rights, indigenous peoples' ancestral domain) and individuals. Empowerment of the poor through social mobilization came to be considered both as an end in itself and as an essential instrument to deliver on the equity agenda. To that end, a Community-

Box 8: Community-Based Monitoring of Poverty in the Philippines

The origins of community-based monitoring of poverty and local targeting of social programs were under the Social Reform Agenda (SRA) of the Ramos Administration. The Minimum Basic Needs (MBN) system collected information on 33 indicators from a 2-page questionnaire, for all households in a locality, using local volunteers and manual data analysis. The MBN approach was first implemented in the 20 poorest provinces then expanded to all remaining provinces and renamed the MBN-Community Based Information System (MBN-CBIS) when it was officially adopted by the government in 1995. In 1996, the National Statistics Office (NSO), with the support of UNDP, assisted the program in refining the list of indicators and developing a system for aggregating the information. The number of core indicators was reduced to 24 and grouped into Survival Needs (basic and reproductive health, food, nutrition, water and sanitation); Enabling Needs (schooling, participation in peoples' organizations, literacy); and, Security Needs (employment, shelter, income, avoidable deaths). The data collection form was revised to make data processing easier. This improved system, called the Community-Based Poverty Indicators Monitoring System (CBPIMS) was applied in six pilot provinces in May 1999, focusing on the 5th and 6th poorest class municipalities. Some 56 municipalities, 1,290 *barangays*, and 205,000 households were involved. Results are being aggregated at the municipal and provincial level. Based on the results, the community is to develop a list of priority projects for which they can request co-financing. These systems have less consistent methodology and uneven implementation across communities, compared to surveys implemented by government agencies. However, they remain important tools for engendering local participation in poverty reduction efforts and are an independent source of information that can lend insights when combined with the results of systematic household surveys.

Based Minimum Basic Needs Monitoring System was developed to involve the communities themselves in the identification of basic needs requirements (Box 8).

114. The passage of the Anti-Poverty Bill in December 1997 and the subsequent creation of a National Anti-Poverty Commission (NAPC) to monitor and coordinate the country's fight against poverty served to embed the objectives and voice of people's empowerment in a national institutional structure. In keeping with the spirit of empowerment, the Commission is composed of representatives of the major departments involved in poverty reduction, as well as the most affected sectors of society: farmers, fisherfolk, urban poor, formal and informal labor, women, youth and students, children, senior citizens, persons with disabilities, victims of disasters and calamities, cooperatives and NGOs.

115. In many ways, the empowerment agenda remains unfinished. Particularly disturbing is the recent finding that poverty is correlated with low levels of association. The poor are less likely to belong to a cooperative and fewer of them are also members of people's organizations (POs) or non-gov-

ernment organizations (Chapter 1, Volume II). It is not clear whether this is a symptom of poverty or has some causal effect on welfare: low membership in cooperatives may lead to less information and lower bargaining power for the poor with negative impact on economic activity while the findings on POs and NGOs may suggest that the poor may be inadequately served by these important intermediaries. There is a clear momentum to civil society engagement in influencing policies and helping deliver services and the instruments and institutional frameworks have been put in place to build on this momentum. It is now up to the players involved to rise to the occasion.

INFORMING PRO-POOR POLICIES

116. To improve the effectiveness of poverty reduction programs, local and national policy makers need information that allows them to monitor poverty levels, understand the causes of chronic and transient poverty and measure the impact of poverty reduction policies and programs. Making this information available to researchers, and more generally the public, helps improve the quality of the diagnosis and build consensus around objectives and policies to attain them.

Information needs

117. *Monitoring Poverty.* Who are the poor? What are their characteristics and where do they live? Policy makers need information on the level and depth of poverty, trends in poverty over time, and the movement of households into and out of poverty. Poverty is multi-dimensional; poverty indicators should therefore include not only income and/or expenditure-based measures, but also direct measures of individual and household well-being, like schooling, health status, and access to safe water, as well as respondents' own perceptions of their place in the income distribution and changes in living standards. Poor households can be part of the chronic poor or recently pushed into poverty, in response to a shock against which they could not insure themselves. The ability to distinguish between chronic and transient poverty is important for designing and targeting different types of poverty reduction programs — those that improve the long-run productivity of the poor and those that provide temporary assistance to households recovering from an adverse shock like the El Niño or an economic crisis.

118. *Understanding the Causes of Poverty.* Monitoring poverty and the characteristics of the poor is useful in identifying households in greatest need, but it is not sufficient for understanding why some households remain poor while others do not. Policy makers need information that relates poverty outcomes to potential causes or determinants: the household's productive assets (human and physical capital); the activities and allocation of time of household members; access of the household to public and private services; participation in formal and informal safety nets, including government anti-poverty programs; receipt of public and private transfers; and the impact of exogenous environmental factors, like local consumer and producer prices, rainfall, drought, natural disasters and epidemics. There are always some factors that are difficult to observe or record on a household survey questionnaire, but these may be important for welfare outcomes. Subjective views of the poor and non-poor on the causes

of poverty are thus important to consider in designing an effective poverty reduction strategy.

119. *Evaluating the Impact of Poverty Reduction Programs.* Impact evaluation helps policy makers identify and select the most cost-effective poverty reduction strategies. Large-scale household surveys may not capture a sufficient number of people participating in any given program to provide for proper evaluation. Further, they usually rely on a single cross-section of households and have limited or no information on project inputs or outputs. Impact evaluation must quantify the outcomes for poor and non-poor over time, relative to what would have happened in the absence of the program. This usually involves baseline and follow-up data collection, documentation of program inputs, outputs, and costs, and setting up a control group. Without such a careful design, it is difficult to confidently attribute changes in welfare or poverty to the program, as opposed to changes that might have occurred anyway in its absence.

120. These information needs — the levels of poverty, the causes of poverty, and the impact of poverty reduction programs — are the foundation for efforts to improve the effectiveness of public anti-poverty policy. They may be met by a combination of data collection activities from the public and private sector, quantitative and qualitative, from the top down and the bottom up. Independently collected data from different sources can confirm the basic trends found by any one source. Qualitative data may yield important insights or hypotheses on dimensions of poverty and its causes that cannot easily be quantified.

Evaluating the information base in the Philippines

121. There are five main categories of information available in the Philippines for monitoring poverty and poverty reduction programs.

Box 9: Monitoring Dimensions of Poverty: Household Surveys

The *Family Income and Expenditure Survey* (FIES) is the main instrument for monitoring the levels and depth of poverty in the population. Conducted every three years since 1956, the FIES collects comprehensive information on the annual income and consumption of a national cross-section of Philippine households. It is from these data that government can assess the official poverty line in terms of household income and obtain estimates of the extent and geographic distribution of poverty. The FIES results are also used to weigh the *Consumer Price Index* (CPI). The most recent FIES was in 1997; the sample size was expanded to 41,000 households to obtain poverty estimates by province.

The objective of the *Annual Poverty Indicators Survey* (APIS) is to monitor trends in non-income dimensions of poverty and well-being. These include: demographic and socioeconomic characteristics of all household members; education and school attendance; health status and use of health care; use of family planning and maternal and child health services; housing characteristics; access to safe water and sanitation; main and secondary economic activities. The APIS was specifically designed to measure poverty indicators not collected by the FIES and to monitor trends during the two intervening years between the triennial FIES but as discussed earlier, comparability between the FIES and APIS was impaired. Another key feature of the APIS that distinguishes it from the FIES is that it collects information on the characteristics and welfare of individual household members, while the FIES contains only summary information on the characteristics of the head of household. The APIS was piloted in the spring of 1998 and launched on a national scale in October 1998 on a sample of roughly 40,000 households. The timing of the survey presented an opportunity to include a set of subjective questions about the impact of the financial crisis and the El Niño. The second APIS, conducted in October 1999, while keeping the same basic questionnaire as the previous year to maintain comparability of indicators over time, incorporated several small improvements in the methodology that greatly enhanced its potential use for analyzing poverty transitions, the determinants of poverty, and the incidence of public subsidies. The 1999 APIS re-interviewed a panel of 10,000 households interviewed in 1998, making it possible to track changes in individual and household welfare over time. Household members in the 1999 APIS were also linked to their responses to the Labor Force Survey, making it possible to analyze the labor force characteristics of the poor and non-poor. The use of public vs. private services, participation in anti-poverty programs, and receipt of public and private transfers was more systematically recorded, making possible a comparison of the use of public services by the poor and the non-poor. Finally, the 1999 APIS included a set of subjective questions on recent changes in welfare and respondents' assessment of their own location in the income distribution, permitting a comparison of objective and subjective changes in (non-income) poverty indicators within the same households.

- *Nationally representative household surveys conducted by the government.* These include the two main national surveys with explicit poverty-monitoring objectives — the Family Income and Expenditure Survey (FIES) and the Annual Poverty Indicator Survey (APIS) — and other more in-depth surveys on specific dimensions and determinants of poverty, such as the quarterly Labor Force Survey (LFS) and health and literacy surveys conducted every five years (see Box 9).
- *Administrative reporting systems.* These systems, which may be facility or contact-based, collect performance indicators for government services, like health, education and agriculture, that are elements of the poverty reduction strategy. They document the extent to which programs were implemented — their outputs and in some cases, their outcomes, like school enrollments.
- *Special surveys and decentralized monitoring systems.* These include specialized surveys and community-based monitoring of nutrition, often linked to specific national and provincial programs of public and non-governmental agencies.
- *Community-based assessments of poverty.* These systems generate information on local poverty and basic infrastructure on the basis of which local officials can identify the poorest households and set priorities in resource allocation. The system in widest application is the Minimum Basic Needs/Community-Based Information System (MBN-CBIS). The involvement of community volunteers

in data collection and the feedback of results to the community enhance transparency and empower community participation in these decisions.

- *Private monitoring of self-assessed poverty.* The Social Weather Station (SWS) surveys measure the perceptions of a national sample of 1,200 voting-age adults on a range of issues related to their welfare, including a subjective assessment of whether they consider themselves to be poor. The SWS has produced a time series of 34 national surveys from 1981 to 1997. It provides an additional dimension to the long time series on objective measurements of poverty, is independent, and complements the community-based and national sample survey approaches.

122. How adequate is this existing information base for informing pro-poor policies? The information base is strongest in monitoring levels and trends in quantitative and subjective measures of poverty; it is weaker in the ability to distinguish between chronic and transient poverty and to analyze poverty determinants. Few anti-poverty programs in the Philippines have been subjected to rigorous impact evaluation

123. *Monitoring Needs.* The major strength of the existing information base is the diversity of poverty indicators collected from independent sources. The types of indicators include traditional income- and expenditure-based measures of poverty from the FIES, non-income welfare indicators at the household and individual level from the APIS, subjective assessments of relative poverty from the Social Weather Station, and community-based assessments from the MBN-CBIS. The FIES and SWS surveys have been collected for many years, making it possible to track trends.

124. Nevertheless, there remain important gaps in monitoring capacity. *First*, until the recent use of panel data and retrospective questions on changes in well-being by the 1999 APIS, there was no monitoring of transitions of households into and out of poverty, nor an ability to distinguish between the

chronic poor and the transient poor. Even then, the ability of the system to track transitions into and out of poverty is still weak (based on non-income indicators only) and it is not clear whether the panel design will be maintained in subsequent rounds.

125. *Second*, the income-based estimates of poverty from the FIES are available only every three years. With this frequency, the FIES will not be useful in monitoring changes in poverty arising from acute events like the East Asian crisis or the El Niño. The APIS indicators, on the other hand, are collected annually but we do not know how they “map” into income- or expenditure-based measures of poverty from FIES. The two surveys are conducted in different years and APIS includes a greatly reduced set of income and expenditure questions that are not comparable to FIES. The SWS survey is conducted quarterly but again cannot be used as a proxy for the quantitative changes in poverty that would be measured by the FIES.

126. The community-based information collection systems (MBN-CBIS), even when regularized and aggregated to provincial levels, are not substitutes for the quantitative measures of the FIES or APIS in monitoring poverty. The advantage of the community-based systems is that they may be cost-effective at the local level in identifying poor households and they encourage the formation of social capital (Conning and Kevane, 1999). However, there are also disadvantages that undermine the usefulness of the results in terms of monitoring poverty nationally, and allocating resources across communities. *First*, communities vary greatly in their ability to collect information in a consistent and sustainable way. The uneven capacity results in possibly large variation in the quality and accuracy of results when comparing across communities. *Second*, when the results of such a local assessment can influence resource allocation, there is an incentive to portray the situation in such a way as to obtain more resources. There are also important caveats to the use of these systems for targeting anti-poverty programs: to the extent that communities are empowered to decide

on their own targeting criteria, some communities may be reluctant to target the poor. Given a choice, some poor people might prefer that national government make the decision on targeting criteria. Unfortunately, the accuracy of targeting by these community-based systems is very difficult to evaluate. It is impossible to tell whether a lack of correlation between objective measures of poverty and characteristics of households receiving benefits is due to poor targeting or to incomplete information provided by the quantitative measures. Thus, community-based assessments are important complementary information but they are not in any sense a substitute for more frequent systematic monitoring of poverty based on sample surveys.

127. *Understanding the Determinants of Poverty.*

The existing information base on this is on weaker ground. There are almost no variables at the individual or household in the FIES to explain poverty. The APIS has much of the necessary household-level information required between poverty outcomes and determinants, but not the full income or consumption poverty outcomes measured in the FIES. Until now, it simply has not been possible to make the necessary links. However, tentative plans for the 2000 FIES include administering the standard FIES questionnaire plus an abridged version of the 1999 APIS questionnaire to all households, which will greatly improve the ability to analyze poverty determinants for the first time. The ability to understand determinants would also be helped greatly by linking results of community and other external data to each household. For example, the APIS has a separate questionnaire with summary information on the availability of social services that can be linked to households in each *barangay*. This short “*barangay* questionnaire” could be deepened and augmented with separate surveys of the locally available services or by linking data from the administrative reporting system to households in each *barangay* in the surveys. Rainfall and price data can also be linked from external sources, and will likely have strong explanatory power.

128. *Evaluating Program Impact.* The Philippines has rich experience with several large and a multitude of smaller pilot poverty reduction programs and policies implemented by government and non-governmental organizations, but very few have been subjected to in-depth impact evaluation. A rapid assessment of pro-poor programs in 1999 found that most programs had some type of assessment mechanism— including institutional monitoring of program inputs and outputs, case studies, and documentation of success stories. However, in most cases there was no framework that would identify the impact of the program on welfare outcomes relative to what might have happened in the program’s absence. This is best accomplished through specialized in-depth evaluations of the impact of specific programs.

129. An impact evaluation needs to be able to measure welfare before and after the intervention and to control for other non-project factors that might affect outcomes. This is often accomplished using baseline and follow-up surveys and some type of “control” — either statistical or through the monitoring of individuals, households or communities that did not benefit from the project. Further, to be credible, impact evaluation should be conducted by individuals who are not involved in program implementation. Measures of program impact should be compared with program costs to obtain cost-effectiveness estimates of alternative programs and strategies for improving the welfare of the poor.

Improving the information base for poverty reduction

130. The information base for poverty reduction can be strengthened through improving the compatibility of the FIES and APIS household surveys, increasing links between poverty indicators and determinants, incorporation of panel designs into data collection, and expanding and deepening the information on public services and pov-

Box 10: Recommendations for Improving the Household Survey Information Base

1. Enhance the ability to continuously monitor overall **levels of poverty** and to understand the **relation between different poverty indicators** by: adding the non-income poverty indicators of the APIS to the FIES. This would ensure continuity in the monitoring of non-income poverty indicators during years in which FIES is implemented and enhance the understanding of the relation of non-income to income- and expenditure-based measures of poverty; and expanding the consumption expenditure module on the APIS to enable continuous monitoring of levels of an expenditure-based measure of welfare that could be calibrated with the FIES. Official poverty estimates have traditionally been based on the detailed income questions of the FIES, and it is not proposed to change this. However, over time it would make sense to scale-back the household consumption expenditure modules in FIES while expanding the consumption expenditure module in the annual APIS sufficiently to allow for reasonable expenditure-based estimates of household welfare. These two recommendations would result, in the longer term, in continuous annual monitoring of non-income poverty indicators and an expenditure-based measure of household welfare. Every third year, with the FIES, this would be augmented with what would amount to a special, comprehensive module on household income, thereby preserving the long series.
2. Enhance the ability to monitor **transitions into and out of poverty** by: greater use of retrospective questions, qualitative and quantitative, on changes in household and individual welfare and the proximate reasons; and, greater experimentation with use of panel data within the APIS and FIES surveys, while maintaining national representativeness of the overall sample.
3. Improve the ability to analyze **determinants of poverty outcomes** by: ensuring that the use of and access to social services and various anti-poverty programs are reflected in all of the household survey questionnaires; expanding the coverage and depth of community questionnaires (like the *barangay* module) that are implemented in the areas where households are interviewed, to include greater detail on the availability of different types of services and community infrastructure; implementing on a pilot basis specialized questionnaires for the schools and health facilities located in the areas from which households are drawn. These questionnaires would provide greater detail on the nature, quality, access, and price of services. When linked to the household data, this information will allow analysis of the determinants of use of public services by the poor and the non-poor; and, strengthening the links between the household surveys and (i) other surveys in the same households (like the links between APIS and the LFS); and (ii) exogenous information from administrative reporting systems.

erty alleviation programs that can be linked to households (see Box 10). Equally important, the government can improve the cost-effectiveness of the key anti-poverty programs by launching external, in-depth **impact evaluations** of selected programs and interventions on a regular basis, beginning with the largest and most established programs. Periodic in-depth impact evaluation of programs should become an integral element of the overall poverty reduction strategy; such an evaluation should become a requirement for pilot programs that are proposed for wide-scale implementation with public money.

131. Evaluation reports on programs can also be used to inform budget decisions, particularly

during periods of economic downturns that may necessitate cuts in public spending. Based on such evaluations, different government programs could be placed in different categories indicating their relative importance as part of the budget appropriations process. If such procedures were adopted, government agencies could be required to provide evaluation reports on different programs to help policy makers identify social programs with high rates of return.

THE REMAINING AGENDA

132. This report has aimed to provide an updated picture of poverty in the Philippines and a frame-

work for identifying priorities in designing a strategy to attack poverty. But this is far from a blue print for action which would require a more detailed discussion of policies and programs in each area of public intervention, including issues of necessary legislative changes, institutional design, and costing. This constitutes the next step. It is also the next step in the national process of consultations that has resulted in the National Anti-Poverty Action Agenda. The report has identified several priority areas that may require further analysis or an implementation plan to be actionable. These are recapitulated as follows.

Rice policy. The findings of the report lend further support for the timely implementation of the country's commitments under the WTO and more recently, the Grain Sector Development Program supported by the ADB. More flexible import policies, including providing for private sector imports, along with a targeted program of subsidized rice will help the poor.

Land policy. This report's recommendation to reconsider the design of land reform is consistent with recommendations included in earlier work from the World Bank and others. The report provides new analysis pointing to an adverse impact of CARP on the landless poor on account of reduced access to land; there is a need to confirm this finding which is based on a small survey of five villages with a larger nationally representative survey. The recommendation to establish a progressive land tax that would obviate the need for compulsory sale of large holdings as currently mandated under CARP has far-reaching implications and requires detailed scrutiny of legislative, institutional and political constraints to implementation.

Regional policy. The report recommends a role for regional policies in helping poor and lagging regions. A multi-sectoral working group could be established to consider long-term development plans for some lagging regions, such as the Eastern Visayas, with a view to identifying key public interventions.

Education. Expanding access to education in rural areas, reducing school drop-outs from poorer households, improving the quality of secondary education and increasing access of poor but able children to universities are important priorities that require public action. Specifically, it would be useful to examine the feasibility of "food for education" programs in rural areas and scholarships for tertiary education that are targeted to the poor. Analysis of the determinants of the gender gap in labor market outcomes found in this report is also important; the follow-up could include structured interviews with employers to probe reasons for possible discrimination and identify areas amenable to public action.

Health. This report's contributions in identifying policies to improve health outcomes is minor. There is a large agenda of future work here which includes: analysis of the determinants of health outcomes (disaggregated for rural and urban areas), the most important of which may lie outside the sector (e.g., water, education); review of the experience with decentralization to determine impact on the quality of services provided and success in reaching the poor; review of the geographic distribution of spending by the Department of Health; and review of the program of health insurance.

Housing. The report finds that urban housing programs are highly regressive. Further work in this area should focus on an evaluation of the cost-effectiveness and targeting efficiency of existing programs as an input into reforming the government's housing policies.

Safety nets. Further analytical work is required to determine as to what extent *private transfers* perform an insurance function. Other priorities include designing an effective *workfare* program as part of the Philippines permanent safety net to mitigate the impact of macro-level as well as idiosyncratic shocks. This would build upon lessons learned from the country's past experience with public works and recent efforts in other countries. There is also a need to examine the effectiveness of the multitude of

targeted programs currently under implementation. Starting with an inventory of programs (annexed to the National Anti-Poverty Action Agenda), it would be useful to map spending levels by province to determine effectiveness in targeting poorer provinces. Selecting a few of the more important programs for detailed impact assessment should also be considered; the 100 Poorest Families Program should be among those selected.

Intergovernmental transfers. The report finds that IRA transfers are not correlated with the prevalence of poverty in the province. In the context of ongoing discussions on reforming the system of intergovernmental transfers, it would be important to propose various formula-based options to make IRA more responsive to poverty status without undermining incentives for revenue collection. The use of the economic classification of LGUs for pur-

poses of (targeted anti-poverty) program placement should be reconsidered; there is scope for better poverty targeting, at least at the provincial level.

Monitoring poverty. The report makes a number of recommendations to improve poverty monitoring and analysis. The next steps would involve developing a blue-print for an information system designed to provide timely and relevant information to the public and to decision-makers to improve the effectiveness of poverty reduction programs.

133. The Government of the Philippines is well placed to build on the momentum established domestically through extensive national consultations and to capitalize on renewed donor focus on the core objective of poverty alleviation so as to move from strategy to action. This report is intended as a contribution to that process.

Endnotes

- 1 This is obtained by dividing the poverty gap index by the headcount ratio. The poverty gap index can be expressed as the product of the headcount ratio and the average poverty deficit of the poor (as a proportion of the poverty line).
- 2 The official poverty line is based on a food bundle which corresponds to the *average* within a region rather than the food bundle of the poor in the region. As a result, the differential between the official and basic needs poverty lines tends to be greater for the richer regions, again reflecting the relatively more expensive food bundles typically consumed in the richer regions. Another difference potentially contributing to the relatively higher official food poverty lines is that while the basic needs food poverty line is anchored to the norm of 2000 calories per person per day, the official line is calibrated to both that caloric norm as well as the recommended daily allowance (RDA) for proteins and 80% of the RDA for vitamins, minerals and other nutrients (NSCB 1999a, and Balisacan, 1999a). There are other differences between the estimates reported here and the official estimates. An important one is the use of per capita income rather than consumption as the welfare measure in the official methodology. This however contributes in the direction of *lower* official poverty estimates reflecting some positive savings even among those below the poverty line. Using income per capita and the basic needs poverty lines, poverty incidence is estimated to be 22.1 percent. See Annex A, Volume II, and Balisacan (1999a) for further discussion of the difference between the two approaches.
- 3 The projections assume that relative inequalities within sectors do not change and that average consumption growth for households in a given sector mirrors the growth of value added within that sector. The resulting estimate for 1998 is consistent with the estimated impact of the crisis, as discussed further in the main report and in greater detail, in Chapter 5 of Volume II. The estimates in Chapter 5 indicate a 9 percent increase in the incidence of poverty due to the crisis.
- 4 These regions also include urban areas so “true” rural-urban differentials are likely to be much higher.
- 5 Fertility rates are high for poorer households (6.5 for the lowest quintile in rural areas) but the measure of welfare used in the DHS survey, which is based on per capita assets rather than income or consumption, suffers from the same problems discussed earlier regarding economies of scale and household composition.
- 6 52 percent of secondary school graduates who are aware of family planning methods and know where to obtain the services reported using contraceptives whereas only 37 percent of women who never completed a grade did (based on 1998 APIS).
- 7 The decline in poverty during 1985-88 may however be somewhat misleading since 1984-85 was a year of sharp economic contraction. Per capita GDP shrank by an average of 10% a year during 1984-85. Based on FIES household data, real mean consumption in 1988 was 10% higher than that in 1985, although arguably still much lower than the level prevailing at the turn of the 1980s.
- 8 For example, the share of urban households in all Filipino households estimated from successive rounds of the FIES were 38% in 1985, 39% in 1988, 50% in 1991, 50% in 1994 and 48% in 1997. The sudden jump in the proportion of urban households in 1991 is on account of a large-scale reclassification of erstwhile rural areas into urban areas.

- 9 The 10% increase (decrease) in Gini assumes a proportional outward (inward) shift of the Lorenz curve by 10%.
- 10 World Bank. (1998a).
- 11 The FIES survey values the household production of rice at farm-gate prices while household consumption of rice is valued at local retail prices. An (upward) adjustment therefore needs to be made to the value of rice produced in order to make it comparable with the values of consumption. Using data on farm-gate and retail prices from the Bureau of Agricultural Statistics and Roumasset (1999) and using a 65% recovery rate for rice (from palay), the effective differential between retail and farm-gate rice price is estimated to range between 30-50% (off farm-gate price). Thus, three alternative adjustment factors of 30, 40 and 50% are used to derive estimates of the value of rice production, and hence of the value of *net* consumption of rice.
- 12 For a similar analysis for Thailand, see Deaton (1989).
- 13 World Bank (2000g).
- 14 Jalan and Ravallion (1998) found that 49% of poverty in rural China in the mid-eighties was transient in nature.
- 15 Given the formulation of the question, households would have responded with a yes even if they took their children out of school for a day as a result of the crisis.
- 16 Initial data (August 1998) from the Department of Education, Culture and Sports suggested a substantial decline in secondary enrolments and constitutes the basis for concerns expressed in the ADB report.
- 17 Subbarao, et. al. (November 1995).
- 18 **Agriculture:** agricultural and fishery extension services, regulation and research; procurement and disbursement of seeds; purchase, expansion and conversion of breeding stocks; and construction, repair and rehabilitation of water impounding systems. **Environment and Natural Resources:** forest management services; mine and geo-science services; environmental management services; and reforestation, integrated social forestry, and watershed rehabilitation projects. **Health:** provincial health offices and district, municipal and medicare community hospitals; purchase of drugs and medicines; implementation of primary health care program; field health services; aid to puericulture centers; and operation of 5-bed health infirmaries. **Public Works and Highways:** repair and maintenance of infrastructure; and *barangay* road, water supply and communal irrigation projects. **Social Welfare Development:** program for rebel returnees; *barangay* day care centers; and poverty alleviation programs in low-income municipalities, *barangays* and depressed urban *barangays*.
- 19 The total IRA allocation is set at 40% of internal revenues of 3 years hence. This amount is further subdivided between level and class of local governments according to a formula. The distribution formula based on population, land area and equal sharing among local governments was retained. A larger weight was given to land area and equal sharing and a smaller weight to population resulting in a double formula based on (i) population (50% weight), land area (25% weight) and equal share (25% weight), on the one hand; and (ii) class of local government (e.g., province, municipality, *barangay*), on the other.

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