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# Overcoming Poverty and Inequality in the Philippines

PAST, PRESENT, AND PROSPECTS FOR THE FUTURE





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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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## Acknowledgments

The members of the core team that prepared this report are Nadia Belhaj Hassine Belghith (EEAPV, TTL), Francine Claire Fernandez (Consultant), and Clarissa Crisostomo David (ECREA). Additional help was provided by Benjamin Lavin (Consultant), Sharon Faye Alariao Piza (EEAPV), Karl Robert Lasmarias Jandoc (EEAPV), Hanindha Metta Vidyasti (Consultant) and Josue Niyonsingiza (Consultant). The political economy section is based on a background paper prepared by Ronald U. Mendoza (Southeast Asia Regional Director, IDinsight) and Clarissa C. David (ECREA).

The work of the team was guided by Ndiamé Diop (Country Director, EACPF), Achim Fock (Manager Operations, EACPF), Hassan Zaman (Regional Director, EEADR), and Rinku Murgai (Practice Manager, EEAPV). The team also gratefully acknowledges constructive feedback from Souleymane Coulibaly (Program Leader, EEADR), Gabriel Demombynes (Practice Leader, HLCDR), Emmanuel Skoufias (Lead Economist, EAEPV), Sailesh Tiwari (Senior Economist, ESAPV) and colleagues at the World Bank. The team also offers its thanks to Kristiana Gizelle Torres Rosario (EACPF), Arturo Cuabo Tiro Jr. (EACPF), Vincent M. Abrigo (EACPF), Geraldine Lalisian Asi (EACPF), Stephanie Margallo (EACPF), Moira Enerva (Consultant), and Mildred Thomas Gonsalvez (EEAPV) for their valuable help with preparation of the report. The report design and layout was done by Leslie Lim.

The team also benefited from the guidance of Usec. Rosemarie G. Edillon from the National Economic and Development Authority (NEDA) and the Philippines Statistical Authority (PSA) led by Usec. Dennis S. Mapa; and from consultations with and insights from other researchers, academics, and experts in the Philippines. The team is also grateful for the advice of Chester Arcilla, NEDA Secretary Arsenio M. Balisacan, former NEDA Secretary Ernesto M. Pernia, Connie B. Dacuycuy, Emmanuel de Dios, and Mary Racelis.

Finally, the team acknowledges the support of the Australian Government in the conduct of the COVID-19 High Frequency Surveys which informed this report.

## Abbreviations

<b>4Ps</b>	Pantawid Pamilya Pilipino Program	<b>PDP</b>	Philippines' Development Plan
<b>ANC</b>	Antenatal Care	<b>PHP</b>	Philippine peso
<b>APIS</b>	Annual Poverty Indicators Survey	<b>PhilSys</b>	Philippines Identification System
<b>BARMM</b>	Bangsamoro Autonomous Region in Muslim Mindanao	<b>PISA</b>	Programme for International Student Assessment
<b>BSP</b>	Bangko Sentral ng Pilipinas	<b>PMT</b>	Proxy Means Test
<b>CEQ</b>	Commitment to Equity	<b>PNC</b>	Prenatal care
<b>CPF</b>	Country Partnership Framework	<b>PPP</b>	Purchasing Power Parity
<b>DSWD</b>	Department of Social Welfare and Development	<b>PSA</b>	Philippines Statistical Authority
<b>EAP</b>	East Asia and the Pacific	<b>RIF</b>	Recentered influence function
<b>ECQ</b>	Enhanced Community Quarantine	<b>SAP</b>	Social Amelioration Program
<b>ESA</b>	Emergency Shelter Assistance	<b>SCD</b>	Philippines Systematic Country Diagnostic
<b>ESCS</b>	Economic, Social and Cultural Status	<b>SDG</b>	Sustainable Development Goals
<b>FIES</b>	Family Income and Expenditure Survey	<b>STEM</b>	Science, technology, engineering, and math
<b>GDP</b>	Gross domestic product	<b>STUFAP</b>	Student Financial Assistance Programs
<b>GIC</b>	Growth Incidence Curves	<b>SWS</b>	Social Weather Stations
<b>HDI</b>	Human Development Index	<b>SY</b>	School year
<b>HFS</b>	High-Frequency Phone Surveys	<b>TESDA</b>	Technical Education and Skills Development Authority
<b>IMF</b>	International Monetary Fund	<b>TRAIN</b>	Tax Reform for Acceleration and Inclusion
<b>IOP</b>	Inequality of opportunity	<b>UCT</b>	Unconditional cash transfer
<b>IPs</b>	Indigenous people	<b>UHC</b>	Universal Health Care
<b>ISSP</b>	Social Mobility International Social Survey Program	<b>UN</b>	United Nations
<b>LFP</b>	Labor force participation	<b>UNDP</b>	United Nations Development Program
<b>LFS</b>	Labor Force Surveys	<b>UNICEF</b>	United Nations Children's Fund
<b>LGU</b>	Local government units	<b>WBG</b>	World Bank Group
<b>MCCT</b>	Modified Conditional Cash Transfer	<b>WDI</b>	World Development Indicators
<b>MPI</b>	Multidimensional Poverty Index	<b>WHO</b>	World Health Organization
<b>NCR</b>	National Capital Region	<b>WID</b>	World Inequality Database
<b>NDHS</b>	National Demographic and Health Survey	<b>WVS</b>	World Values Survey
<b>NEDA</b>	National Economic and Development Authority		



# Report Highlights



**The Philippines has made significant progress in reducing poverty, but income inequality has only recently begun to fall.** Thanks to high growth rates and structural transformation, between 1985 and 2018 poverty fell by two-thirds. However, income inequality did not begin to decline until 2012. It is still high: the top 1 percent of earners together capture 17 percent of national income, with only 14 percent being shared by the bottom 50 percent.

**Several structural factors contribute to the persistence of inequality.** The expansion of secondary education and mobility to better-paying jobs, citizen ownership of more assets and access to basic services, and government social assistance have helped reduce inequality since the mid-2000s. However, unequal opportunities, lack of access to tertiary education and a scarcity of skills, coupled with inequality in returns to college education, gendered social norms and childcare, and spatial gaps, sustain inequality.

**Inequality of opportunity limits the potential for upward mobility.** While there has been considerable progress in expanding access to basic services such as electricity, safe drinking water, and school enrollment, large disparities limit the development of human capital. Inequality of opportunity and low intergenerational mobility waste human potential, resulting in a lack of innovation and a misallocation of human capital in the economy.

**While schooling is widely accessible, its quality and attainment vary by income group.** Children from poorer households are less likely to be enrolled and, if they are, to reach age-appropriate grade levels. That means they are less likely to reach tertiary education, which severely constrains their earning potential and their prospects for upward mobility. With the relatively low share of workers with tertiary education, the premium for college education has remained high. Additionally, tertiary education tends to deliver much higher returns for rich than poor households, possibly due to differences in school quality or fields of study and employment.

**COVID-19 partly reversed decades-long gains in reducing poverty and inequality.** The pandemic halted economic growth momentum in 2020, and unemployment shot up in industries that require in-person work. In 2021, poverty rose to 18.1 percent despite large government assistance. The economy has begun to rebound but signs are emerging that the recovery will be uneven. Prolonged loss of income has taken a heavy toll on the poorest households. With food prices going up and a reliance on adverse coping strategies, among them eating less, there is a risk of serious consequences for the health and nutrition of children in vulnerable households.

**The shock from the COVID-19 pandemic led to a shift in the workforce to less productive sectors and occupations.** Employment in wage work has notably decreased and employment in agriculture has risen. These trends have been concentrated among youth and the least educated, which suggests an uneven recovery and widening income inequality.

**The pandemic is likely to result in long-term scarring of human capital development.** Over half of households estimate that their children learned from remote learning less than half what they would have learned from face-to-face schooling. The proportion increases to 68 percent in poor households. Extended distance learning is expected to have reduced the learning-adjusted years of schooling by over a full year. Learning loss, combined with the de-skilling associated with prolonged unemployment, could lead to sizable future earnings losses.

**Job polarization could further increase as the nature of work changes.** Job polarization among wage workers emerged between 2016 and 2021: employment in middle-skilled occupations went down and employment in both low-skilled and high-skilled occupations went up. This pattern may rise with the transformation of jobs post-COVID-19 and could increase prevailing disparities in incomes.

**Policy can reduce inequality** by supporting employment and workers, improving education access and quality, promoting inclusive rural development, strengthening social protection mechanisms, and addressing inequality of opportunity.

# Overview



**In the past three decades, the Philippines has made remarkable progress in reducing poverty.** Driven by high growth rates and structural transformation, the poverty rate fell by two-thirds—from 49.2 percent in 1985 to 16.7 percent in 2018. By 2018, the middle class had expanded to nearly 12 million people and the economically secure population had risen to 44 million.

**Yet income inequality has only recently begun to fall, leaving much room for transformation.** Inequality peaked during the 1997–98 Asian financial crisis and then began a sustained decline that accelerated in 2012–18. Yet it is still high: with an income Gini coefficient of 42.3 percent in 2018, the Philippines had one of the highest income inequality rates in East Asia. The wealthiest 1 percent of earners capture 17 percent of national income; all those in the bottom 50 percent collectively receive only 14 percent. Thus, a perception of low mobility prevails, and it is coupled with the perception that meritocracy is low.

**Reducing inequality and promoting inclusion are central to the national development agenda.** *AmBisyon Natin 2040* outlines the country's long-term vision, aspirations for equitable development, and commitment to addressing geographic and socioeconomic inequality and expanding equitable access to economic opportunities. The Philippines

Systematic Country Diagnostic (SCD) and the 2020–25 World Bank Group (WBG) Country Partnership Framework (CPF) both make reducing inequality a priority for policy action (World Bank 2019a, 2019b). Reducing inequality is also integral to achieving the UN Sustainable Development Goals (SDGs).

## Drivers of Inequality

**In the Philippines inequality starts even before birth and is perpetuated over the life cycle.** It starts with maternal nutrition and health during a child's gestation. Differences continue into childhood, where disparities in access to health care, proper nutrition, safe drinking water, sanitation, and quality education determine the extent to which a child's human capital develops. Inequality shapes outcomes later in life, such as employment opportunities and income, which in turn influence how much Filipinos as adults are able to invest in developing the human capital of their own children. While the Philippines has been making progress in many of these areas, notably in access to such basic services as electricity, safe drinking water, improved sanitation, and school enrollment, persistent large disparities between its regions remain, relating to households' income levels and maternal education. Inequality of opportunity and low intergenerational mobility result in a waste of human potential, a lack of innovation, and a misallocation of human capital.

**While schooling is widely accessible in the Philippines, inequality has led to considerable variance in its quality, the attainment of students, and ultimately their opportunities.**

Children from households in the lowest income decile are less likely to be enrolled in school at all, or to reach age-appropriate grade levels, which makes them more likely to drop out. That means, too, that children from poorer households are less likely to reach tertiary education, which severely reduces their employment opportunities and their prospects for upward mobility. While attainment of high school education has expanded considerably, the limited expansion of tertiary education has caused a large skill premium; in fact, in 2021 the average earnings of a college graduate exceeded those of the average high school graduate by 112 percent. This has contributed to the persistence of inequality; decomposition estimates show that over one-third of income inequality is due to gaps between households based on the education level of the household head.

**One reason inequality persists is thus the limited expansion of college education, which has kept the scarcity value of skills high.**

The expansion of secondary education and the acceleration of economic changes since the early 2000s have promoted mobility to better-paying sectors and occupations, a process that accelerated in the 2010s. Thus, employment in middle-skilled occupations expanded, for poorer households returns to secondary education increased, and real wages grew faster for high school-educated workers than for college graduates. These changes helped reduce income inequality. However, the supply of college workers remained very low, rising only since 2018 when young college graduates, especially women, entered the labor market. The shortage of skills kept the wage gaps between college graduates and those with lesser education very high and prevented faster reduction of income inequality.

**Differences in returns to tertiary education across income groups is also a major cause of inequality.**

The high earnings ratio of college graduates relative to high school graduates conveys the positive news that educational investments offer a high wage return. But this masks a discouraging truth: returns to college education are much lower at the bottom of the income distribution than at the top. This indicates that the earnings increment associated to tertiary schooling is higher for individuals in better-off families than those in poorer ones. This pattern has persisted over the past three decades and contributes to the tenacity of wage and income inequalities. A possible explanation for this may lie on differences in school quality or fields of study. It may be the case that college educated workers from poorer households benefited from poorer school quality and/or engaged on fields of study that attract low interest in the labor market, limiting their earnings potential. In contrast, returns to secondary education tend to be higher at the bottom of the income distribution. This suggest that workers from poorer households would benefit more from secondary education than those better-off, which would tend to reduce inequality. Differences in returns to education are likely to be more prevalent at higher schooling levels, because those tend to have more variety in schooling paths and quality.

**Gendered social norms, which place responsibility for family care on women, also seem to have held back their participation in the labor market.**

While comparatively speaking the Philippines is a high performer in gender equality globally, in 2019 women's participation in the country's labor force was still just 49 percent—one of the lowest rates in the East Asia and Pacific (EAP) region. This was clearly a missed opportunity for economic growth and heightened prosperity. Women have higher education achievement and better learning outcomes than men, still over 75 percent of men and 80 percent of women agree that a man's job is to earn money and a woman's is to take care of the family and home (World Bank 2021e). Family responsibilities also affect the

women who do work, which pushes women into nonwage positions and jobs that allow them to balance domestic responsibilities with work.

**Generally, when women work, they appear to perform better than men on average, working at higher occupational and pay levels, but this hides significant gaps.** Women tend to cluster either in low-profile/low-pay occupations, to avoid falling further into poverty, or in high-profile/high-pay occupations, advantaged by their education levels. On average, the daily wage is 5 percent higher for women than for men. However, at the bottom of the pay distribution, the daily wage is over 50 percent higher for men than for women; women's earning disadvantage is partly due to their desire to work in jobs that offer more flexible hours and work arrangements but offer lower returns to their qualifications. At the top of the distribution, the daily wage is about 20 percent higher for women than for men because they have significantly higher education and qualifications. Yet, the concentration of women in high-skill positions declines considerably when they have young children.

**Inequality between regions and urban-rural areas has declined, but the differences are still evident.** Over the past three decades, in all regions poverty was markedly reduced, but despite the progress, in many regions poverty rates are still over 30 percent—far above the national average of 16.7 percent. BARMM (the Bangsamoro Autonomous Region in Muslim Mindanao) has long been a conspicuous outlier; in 2018 its poverty rate was about 62 percent, much worse than in other regions. After 2000, rural poverty began a rapid decline; in 2018 it was down to 24.5 percent. While this is still high compared to urban areas, where poverty is estimated at 9.3 percent, the urban-rural gap has clearly narrowed.

## COVID-19, Poverty, and Inequality

**COVID-19 partly reversed the decades-long gains the Philippines had made in reducing poverty and inequality.** In 2020, the pandemic stalled growth momentum, halting the sustained decline in poverty achieved over three decades. The recently released poverty estimates for 2021 show that the national poverty rate had risen to 18.1 percent. With economic recovery in 2021–24, poverty is expected to begin to decline slowly but will still be higher than it was pre-pandemic. Inequality is also projected to increase by 2024.

**Strict containment measures adopted when the pandemic began helped curb the initial spread of the virus but were a severe shock to employment and incomes.** Unemployment more than tripled between Q1 and Q2 of 2020—from 5.3 to 17.7 percent—as the repercussions of the strict quarantine measures reverberated through the labor market. This was accompanied by a decline in labor force participation (LFP), which fell 6 percentage points (pp) between the two quarters. In the August 2020 round of the High Frequency Survey (HFS), more than half of working household heads reported a decline in or a complete lack of income.

**As lockdown restrictions were eased, the economy began to rebound but signs that recovery would be uneven began to emerge.** Although the economy rebounded in 2021, posting growth of 5.6 percent after a 9.6 percent contraction in 2020, not all Filipinos experienced an economic recovery. In August 2020, six months after the initial lockdown, 60 percent of households in the poorest quintile reported having lost income, compared to 50 percent in the richest quintile; by May 2022, the share of households that reported experiencing income loss had fallen to 19 percent among the richest households but only to 40 percent among the poorest. The prolonged loss of income has taken a heavy toll on the poorest households, with the vast majority reporting in May 2022 that they were worried about their financial situation.



**To cope with income loss and insecurity of employment, many poor households have adopted adverse coping strategies that could jeopardize the development of the human capital of their children.** The sectors where poor laborers work, the sluggish recovery of nonfarm businesses, and the fall in domestic remittances have in varying degrees slowed the recovery of incomes and of employment of the poor. With food prices rising and the reliance of the poor on adverse coping strategies, such as spending less on food, there is a risk of serious consequences for the health and nutrition of children in vulnerable households, which could ultimately impair their learning ability and employment prospects.

### **Pandemic Recovery and Previous Inequalities**

**The pandemic caused a significant shift to less productive occupations, especially for workers with less education.** As the pandemic began, employment in agriculture rose 6 pp among workers with little education. While the share of employment in agriculture slightly declined as the economy started to recover, as of April 2021 more than 50 percent of workers with no more than elementary education were working in agriculture, compared with 47 percent in 2019. While the shift to less productive occupations also occurred among workers with more education, the transitions were much smaller.

**The increased engagement of youth in low-productivity sectors could adversely affect the country's growth and productivity prospects.** Unemployment and underemployment have increased disproportionately among youth aged 15–24 and remained persistently higher than national and pre-pandemic levels throughout 2021. In addition, between 2019 and 2021 the share of youth employed in high-end services fell from 19 to 14 percent as the share employed in agriculture rose from 21 to 26 percent. During this period, engagement of the youth in wage work declined from 73 to 67 percent. These transitions in employment, which reveal movement to sectors

and occupations that offer narrower avenues for career growth and skills development, could have long-term implications for youth career trajectories and, more broadly, the productivity and competitiveness of the country's workforce.

**The polarization in wage employment that has emerged in recent years could widen income inequality.** A pattern of wage employment declining in middle-skilled occupations and rising in both low-skilled and high-skilled occupations began to emerge between 2016 and 2021. This polarization could rise further with the intensification of automation and digitalization of economic activity in the wake of the COVID-19 pandemic. Thus, workers in middle-skilled occupations, particularly those that are routine (e.g., clerical support, plant and machine operators) could see employment opportunities thin out, leading to higher rates of transition to either low-skilled or high-skilled occupations. These transitions could cause an even wider gap in the labor market, increasing current disparities in wages and incomes.

**While flexible work arrangements have opened up a broader avenue for women to enter the workforce, most work in low-productivity sectors.** Flexible work arrangements offer opportunities to manage both domestic responsibilities and a career, but the benefits are highly variable. Two-thirds of women who returned to work in 2021 entered low-end industries. Women skilled enough to qualify for telecommuting or mixed-mode positions have mostly been able to enter high-end industries but 77 percent of those in home-based work entered low-end services, mainly in wholesale and retail trade.

**Poorer households are more likely to suffer persistent food insecurity.** At the onset of the pandemic about 57 percent of households in the poorest quintile were already suffering from severe food insecurity (i.e., ran out of food, went a whole day without eating) compared to 34 percent of the richest households; more than two years later, the proportions fell slightly among households in the poorest quintile (to 46 percent), while declining



considerably for households in the richest quintile (to 11 percent). Greater food insecurity can aggravate already prevalent child malnutrition and stunting, particularly in poorer households, which can later have significant impacts on child learning and economic prospects.

**The challenges associated with distance learning are likely more pronounced for children from poor households.** The myriad challenges distance learning imposes on students, among them lack of access to devices, lack of support due to lack of knowledge about subjects or understanding of online classes, and lack of a physical space or quiet area to study would have been magnified for children in poor households. Limited access to resources that could support remote learning placed students from poor households at a further disadvantage, making it even more difficult to maintain pre-pandemic learning outcomes.

**School closures may lead to learning losses equivalent to over a full year of schooling, and they are likely to exacerbate inequalities.** Long lasting school closure has disrupted the education of Filipino students, disproportionately affecting those from disadvantaged backgrounds. Around 38 percent of households in the poorest quintile declared that they had children who dropped out from school due to difficulties from remote learning, compared to 11 percent in the richest quintile. Over half of households estimate that their children learned from remote learning less than half what they would have learned from face-to-face schooling. The proportion increases to 68 percent in poor households. Extended school closure is expected to reduce the learning-adjusted years of schooling by 1.4–1.7 years.

**In addition to short-term economic losses, the pandemic could also have longer-term consequences for the competitiveness of the Filipino workforce.** The increased domestic responsibility of overseeing children's education as they study at home could influence parental decisions to participate in the labor market and

possibly mean forgone earnings. In addition to the short-term costs, the longer-term economic cost of learning loss could also be substantial—the World Bank estimates that learning loss, which erodes the productivity and competitiveness of the country's workforce, could decrease the average annual earning of each student by \$893 to \$1,137 (2017 PPP\$) (World Bank 2021a).

**Emergency transfers under *Bayanihan* laws helped to mitigate poverty increases but as the programs fade out, poverty and inequality may worsen.** In response to the COVID-19 crisis, the government implemented the *Bayanihan* to Heal as One Act (*Bayanihan 1*) and the *Bayanihan* to Recover as One Act (*Bayanihan 2*). Results from a World Bank microsimulation show that without the firm and massive government response through the *Bayanihan* Acts, poverty would have been almost 4 pp higher in 2020, impoverishing about 4.1 million people, of whom about 1.44 million are younger than 15. Transfers also helped lower inequality by about 1.6 points. However, with the phasing out of *Bayanihan* transfers in 2021, poverty may head upward and then begin to decline slowly but still end up more than 3 pp higher than pre-pandemic. The rural-urban gap and inequalities between regions are also expected to widen as urban and wealthier regions recover more quickly.

**The Russia-Ukraine crisis may aggravate poverty and inequality in the Philippines by raising food and energy prices.** In 2018, spending on food accounted for more than half of household consumption for 60 percent of Filipino households. For households in the poorest decile, food accounted for 64 percent of total household consumption, with cereals alone comprising 44 percent. Thus, any increase in cereal prices will likely hurt the poorest households most. We estimate that a 10 percent increase in the global price of cereals would push an additional 1.1 million Filipinos into poverty, and an increase of 10 percent in energy prices would result in an additional 329,000 people in poverty.

## Policy Possibilities

**Projections of GDP for 2021–24 are for economic growth to resume—but rebound does not mean recovery.** Though GDP is expected to grow by about 5.6 percent annually through 2024, the return of growth is not likely to be sufficient to prevent the economy, and the people, being scarred by the pandemic. Even before the pandemic, the external environment was no longer providing tailwinds to accelerate an economic rebound; today, the adverse external situation is aggravated by global recession and the war in Ukraine. Previous crises have taught that countries able to adopt sustainable measures to deal with economic shocks fare better during recoveries. Meanwhile, the Philippines has to navigate the post-COVID phase and current international crises despite wide structural inequalities, a large informal sector, and eroding fiscal space. Although a prompt resumption of economic growth is crucial for reversing poverty and inequality, the main goals must be inclusive recovery and long-term resilience.

**The Philippines can leverage the crisis generated by the pandemic to promote necessary reforms.** A question centrally related to recovery is whether resources should be directed to a quick resumption of growth or to a beyond-growth revival that seizes the opportunity to reprioritize social policies and the economy and build back better. The pandemic has offered an opportunity to address structural challenges that contribute to the persistence of poverty and inequality and to launch reforms to ensure a sustained and inclusive recovery. Policy priorities can be structured around three pillars, which partly overlap: healing the pandemic’s scars and building resilience, setting the stage for a vibrant and inclusive recovery, and promoting greater equality of opportunity.

### *Healing scars and building resilience*

Policies can provide vulnerable groups with enough support that they can absorb shocks as the crisis unfold and increase their resilience even

as challenges from rising inflation and climate events mount. Policy should also be directed to ensuring macroeconomic and fiscal sustainability.

- ◇ *Promote uptake of booster vaccination.* The decline in COVID-19 cases in the Philippines, in large part due to the massive government vaccination effort, has made it possible to loosen mobility restrictions, allowing much of the economy to reopen and spurring the recovery of jobs. This illuminates the importance of expanding booster vaccination efforts to strengthen population immunity and address vaccine hesitancy, particularly in remote areas and among the poor.
- ◇ *Support schools in assessing student learning and providing learning recovery programs.* As students return to face-to-face classes, it is critical to assess each student’s learning levels and adjust teaching to those levels to support recovery of student learning. This will require training teachers to help them prepare for classes where learning inequality could be great. It is also necessary to reach out to students who have dropped out to encourage them to return to formal schooling or enroll in alternative learning options.
- ◇ *Strengthen social protection programs and provide well-targeted assistance, particularly in regions where recovery is projected to be slow.* *Bayanihan 1* and *2* transfers did help to cushion the impact of COVID-19 in poorer regions, but many of these social protection programs have either expired or soon will. With projections showing a slow decline of poverty in several regions, compounded by the likely increase in food prices, targeted social assistance programs could do much to prevent more Filipinos from slipping into poverty. Policy could be directed to enabling active enrollment of new program beneficiaries—the already poor who are not covered by social assistance benefits and those newly impoverished by the pandemic— while facilitating the graduation of beneficiaries who have matured into self-sufficiency. Priority should be given to improving social assistance benefits in regions where recovery is likely to be sluggish.

The social protection framework can be upgraded to help Filipinos prepare, cope with, and adapt to shocks without jeopardizing the national fiscal position.

- ◇ *Leverage new technologies to improve targeting and make assistance more efficient.* By building on adoption of digital payments and the Philsys digital ID, as well as better targeting using *Listahanan 3*, services can be delivered to more of the households that are most in need and allow for faster responses to localized challenges and natural disasters.
- ◇ *Develop a fiscally viable unemployment insurance program to protect informal sector workers and reduce their vulnerability.* This will help them to deal with income insecurity caused by shocks by easing the drop in income if there is an involuntary work stoppage.
- ◇ *Closely monitor inflation in order to anticipate and minimize its impact on poor households.* With pressures on global food and energy markets likely to rise with the continuing crisis in Ukraine, monitoring inflation will be crucial for recovery. Reining in the impact of food inflation on households will be particularly important: rising food prices hurt the poorest households most and may worsen food insecurity. Policy choices face a trade-off between tackling inflationary pressures and supporting economic recovery. The EAP economic update of October 2022 caution against price control and other distortionary measures taken by several countries to protect households from food and fuel price shocks, and overall increasing cost of living (World Bank 2022a). The report suggests that more efficient social protection with targeted transfers to low-income households would better mitigate the poverty impacts of rising inflation at a lower fiscal cost than price control and subsidies.
- ◇ *Contain debt without compromising economic recovery.* The pandemic considerably narrowed national fiscal space. Although the country's debt is still below the average for developing countries, it is crucial that the Philippines broaden its fiscal

space over the medium term, without infringing on economic recovery. This can be done by streamlining tax administration, making government spending more efficient, investing prudently to restore growth, and expanding the tax base.

### *Setting the stage for vibrant and inclusive recovery*

Policies can support reskilling, redeployment, and the resilience of the workers most affected by labor market disruptions; use education and training to build pathways to better jobs and help the workforce to adapt to a rapidly changing labor market; make the business environment supportive for entrepreneurship; address gender inequalities in the labor market; and promote inclusive rural development.

- ◇ *Support the reskilling, redeployment and resilience of workers disproportionately affected by the pandemic.* The government has undertaken reforms to support the recovery of workers and businesses and to address long-lasting effects of the pandemic on the labor market. As the Philippines continues its recovery from Covid, it is important to speed up reforms. Priority actions to support workers re-entry into job markets, transition displaced workers to higher-productivity activities and protect vulnerable workers could include:
  - *Upskilling and reskilling:* Scale up skills development programs like the online training offered by the Technical Education and Skills Development Authority (TESDA). Private-sector-led reskilling schemes can offer cost-effective options to upskill and reskill workers and nurture a culture of workplace training. Broadening the reach of training to disadvantaged groups is critical to reduce the gaps in access to skills development and employment programs. Active labor market programs (ALMPs), which are used to increase employability, can be built up to maintain employability skills while ensuring they remain fiscally viable.

- *Use apprenticeship programs to support youth employment.* Apprenticeships can be powerful for bridging the skills gap of young people and opening up their employment opportunities. Private-sector-led initiatives could help firms ensure a supply of staff with the skills they need.
- ◇ *Boosting skills for a transition to a more productive and innovative economy.* The changing nature of work because of digitalization may accelerate the shift of labor demand away from low- and middle-educated to higher-educated and skilled workers. Delay in adapting the supply of skills to changing demand may aggravate the already large skill premium, which would worsen income inequality. Revising education and training systems so that they emphasize skills that will be most in demand in the digital era will be critical to harnessing technological changes to promote more inclusive—and stronger—economic growth. Policy measures can be directed to enhancing foundational and noncognitive skills in basic education, increase access to quality tertiary education, strengthen collaboration between government and the private sector to reform tertiary and technical vocational education, and close the quality gap in tertiary education to increase the return of students from poorer households.
- ◇ *Making the business environment supportive for entrepreneurship* can drive innovation and job creation and help to promote broad-based improvements in economic prosperity.
- ◇ *Closing the gender gap in the labor market offers a valuable opportunity to reduce income inequality generally in the Philippines.* This will require furthering women's economic empowerment through policies such as supporting more flexible work arrangements, scaling up efforts to reskill and upskill women to help them secure more productive jobs, encouraging firms to expand opportunities for women who want to reenter the labor market, empowering women entrepreneurs in e-commerce, and addressing traditional gendered norms and childcare challenges.
- ◇ *Raising the productivity of agriculture.* Although the sector employs a sizable share of the country's workforce, its productivity is low. Increasing productivity involves ramping up and reorienting investments in agriculture to public goods that provide higher social returns—research and development, infrastructure, innovation systems, market information systems, and biosecurity systems—rather than traditional commodity price support and input subsidies (World Bank 2020e and 2022a). Moreover, policies should also operate to shift production away from subsistence farming to producing cash crops (Beja et al. 2020). To aid in the transition, ways to improve farm-to-market links should be explored, as should expanding farmers' access to finance. In addition, agriculture must be ready to deal with the challenges rising from climate change. To ensure that the sector is sustainable and resilient, policymakers, agricultural and climate specialists, scientists, and researchers need to identify how best to promote and support climate-smart agricultural practices, such as promoting innovations that sustainably increase productivity and using digital platforms such as early warning systems to monitor weather conditions (ADB 2021).

### *Promoting greater equality of opportunity*

Although the Philippines has made great strides in expanding services and providing access to opportunities in education and health, there are still large disparities internally between regions and income groups in access to social services and in human development outcomes. Policies to address inequality of opportunity can include:

- ◇ *Increase access to quality health care.* Universal health care (UHC) will not reach its full potential for bringing births to health facilities and increasing childhood immunization rates if it continues to be difficult for patients to reach health facilities and specialists. Having more health facilities, especially in rural areas; enhancing incentives for medical professionals to service those areas; and leveraging technologies like telehealth could also improve health outcomes. Policy could focus on resuming progress in



applying the UHC act, improving the quality of service delivery, ensuring that health care is affordable, increasing access to quality care facilities in rural and poorer areas, and using multisectoral approaches to address malnutrition.

- ◇ *Increase equality of opportunity in education.* Providing comparable educational opportunities is at the center of ensuring equal opportunity for all. To better understand who is left behind when students transition to tertiary education, which is a key source of mobility and economic opportunities, more data are needed. Entry points for policy reform include attracting skilled education professionals to teach in rural villages, increase incentives for enrolling poorer children in preschool, expanding education infrastructure and increasing the number of teachers, and collecting standardized data on the transition from secondary to tertiary education.

- ◇ *Improve access to quality housing to improve quality of life and opportunity.* Ensuring affordable and safe housing connected with services and the labor market should be the goal of housing policy. Adapting both existing and new housing to climate threats requires large-scale efforts across all levels of society from design to land use rules.

- ◇ *Enhance social assistance to support equality of opportunity.* In addition to updating the national registry to improve reach to those most in need, social assistance programs can better incentivize enrollment of pregnant women and additional children. Scale up efforts to increase the efficiency of social assistance to better protect vulnerable households against shocks and to promote equality of opportunity in human capital development.



# I. Introduction



**For the past three decades, structural transformation and sustained economic growth have helped to rapidly reduce poverty in the Philippines.** Like most Asian economies, the economic structure of the Philippines has been changing dramatically. Agriculture contracted in terms of both employment and value-added share as services and, to a lesser extent, industry took a larger role. This coincided with a sustained period of economic growth and rising living standards. From 1985 to 2018 growth in gross domestic product (GDP) averaged 4.3 percent—2.1 percent a year in per capita terms. Meanwhile, surveys showed that growth in per capita household income was averaging 2 percent a year. Higher and more stable incomes following economic transformation and growth, stimulating progress in human development and employment have pushed down poverty. The national poverty rate plunged from 49.2 percent in 1985 to 16.7 percent in 2018.

**For much of this period, however, growth was accompanied by rising inequality; although some gaps have closed since 2000, inequality is still high.** It shot up during the 1997/98 Asian financial crisis, remained high in the early 2000s as economic growth accelerated, but then began a steady decline. The income Gini coefficient from the Family Income and Expenditure Survey (FIES) increased from 42.4 percent in 1988 to

47.5 percent in 1997, held at about 47 percent through 2006 then began to narrow steadily, reaching 42.3 percent in 2018. Based on pre-tax income data<sup>1</sup> from the World Inequality Database (WID), the Gini coefficient rose from 60.5 percent in 1980 to 65.3 percent in 1997, held at about 63 percent to 2001, then headed down steadily, reaching 57.5 percent in 2018. This pattern contrasts with that of many other developing East Asian economies, where rising income disparities accompanied structural transformation. For instance, according to WID pre-tax income data, from 1980 to 2018 the Gini coefficient increased in China from 38.2 to 55.5 percent, in Indonesia from 54 to 60.3 percent, and in Lao PDR from 58.2 to 60.6 percent. In Malaysia and Thailand, the pre-tax income Gini increased between 1980 and 2008 but thereafter declined steadily.

**Leveling out inequality and promoting inclusion are central to the 2017–22 Philippines Development Plan (PDP) and substantiates the country’s long-term vision.** *AmBisyon Natin 2040* outlines the policy priorities for delivering equitable transformation, increasing growth, and building sound foundations for sustainable development. It addresses geographic and socioeconomic inequality and expands equitable access to economic opportunities. The Philippines SCD and the 2020–25 World Bank Group CPF identify reducing inequality as a policy action

<sup>1</sup> WID pre-tax income statistics are the sum of all pre-tax personal income flows accruing to the owners of the production factors, labor and capital, before taking into account operation of the tax/transfer system but after taking into account pension system operation.



priority (World Bank 2019a, 2019b). Reducing inequalities is also integral to achieving the SDGs.

**However, not only is inequality still high in the Philippines, it is also subject to risks.**

As of 2018, after Thailand the Philippines had the second-highest income inequality rate in East Asia. Reducing inequality could have a double dividend: accelerating poverty reduction and enhancing social inclusion and cohesion. The few studies of inequality in the Philippines indicate that the country is struggling with deeply rooted inequality, shaped by the sociopolitical environment. Recent studies by Tũaño and Cruz (2019) and McDoom et al. (2019) demonstrate how the decline in the income Gini coefficient obscures the persistence and aggravation of different forms of inequality and social exclusion.

**Tũaño and Cruz (2019) assert that the growth of the middle class has been slow and that inequalities in land tenure and financial wealth have widened.** Continuing structural challenges and marginalization of socially and economically disadvantaged groups are major reasons why inequality persists. The country has not succeeded in generating enough quality employment and stimulating social mobility. The study suggests that prospects for social mobility for most of the population have been eroded by entrenched forms of social and economic insecurity that evoke concerns about “oligarchic” economic patterns that policymakers should tackle.<sup>2</sup> Though in the 1990s the Philippines embarked on ambitious privatization and market-oriented reforms that opened a path to faster economic growth, the country still grapples with the long-term implications of adjustment. Among the problems the study identifies is premature deindustrialization, in which the shift from agriculture to a service-oriented economy was not followed by improvements in labor productivity and decent employment growth—a problem exacerbated by the prominence of family-linked conglomerates that concentrate economic

power. The lack of growth in labor productivity could be the result of the many constraints affecting manufacturing in the country—high energy costs have been cited as one major issue, as have been high transport and logistics costs and complex regulations (IFC 2019). Balisacan and Fuwa (2004) and Balisacan (2019) show that market concentration, lack of political competition, inequality in land distribution, and rent-seeking practices contribute to the persistence of inequality. While policy and institutional reforms made headway in the early 1990s and gained momentum throughout the 2010s, the Philippines needs to increase the depth and breadth of its reform efforts to ensure that opportunities and outcomes are more equitably distributed (Balisacan 2019).<sup>3</sup>

**Progress in reducing disparities in education and access to public services masks serious subnational inequality.** Using census data, McDoom et al. (2019) show that between 2000 and 2010 the Philippines made impressive progress in reducing disparities in education and access to basic public services. However, the analysis of inequality within and between the major island groups—Mindanao, Visayas, and Luzon—and ethno-religious groupings—Muslims, indigenous people (IPs), and everyone else—make the persistence of large differences clear. Within- and between-group inequality is highest in Mindanao. Although between-group inequality improved in Luzon and to a lesser extent Visayas, it increased in Mindanao due to widening gaps between Muslims and IPs on the one hand and the rest of the population on the other. The analysis also found that for the nation as a whole, Muslims and IPs have the highest levels of within-group inequality and the lowest socio-economic scores. The study argues that because locally patronage politics prevail, local political elites have an interest in keeping social relations in their communities asymmetric. L. Dacuycuy and C. Dacuycuy (2019) also identify major variations within and between regions in terms of education

<sup>2</sup> Habito (2012) and Teehankee (2017) as discussed in Tũaño and Cruz (2019).

<sup>3</sup> The Philippines Competition Act adopted in 2015 regulates conditions that allow for fair competition in the markets to maximize the benefits of economic welfare. The Act prohibits cartel practices, abuse of dominance, and anticompetitive mergers; thus, it promotes efficiency while enhancing the fairness of society (Balisacan 2019).

that are widening geographic gaps in human capital accumulation, particularly between Luzon and the rest of the Philippines and within Visayas and Mindanao. Pernia (2021) shows that fertility and demographic growth put a strain on state services and the labor market and negatively affect efforts to reduce poverty and inequality.

**Because the Philippines is also dealing with the COVID-19 crisis and climate shocks, addressing inequality has become more urgent.** There is evidence that the pandemic has increased inequality and threatens to reverse the reduction of poverty and the gains in shared prosperity. The most disadvantaged groups are especially vulnerable to pandemic-related factors in combination, such as high exposure to the virus due to poor housing conditions; occupations that do not allow them to work from home; less access to health care; and financial problems because of the instability of their working conditions and their incomes. All these factors heighten the vulnerability of disadvantaged groups to the virus in terms of both the initial impact and eventual recovery; inequalities that are worsening and repetitive natural disasters are exacerbating their distress.

**Throughout the world, recovery from the pandemic has been uneven.** The pain of the coronavirus-fueled economic recession has been uniquely concentrated among certain groups—women, youth, less-educated workers, the poorly paid, and workers in the service economy—and has affected the speed with which some groups rebound from the depths of the crisis. The World Bank's HFS that monitor how the pandemic has affected households and firms in several developing countries, including the Philippines, have found that income losses, disruptions to children's education, and food insecurity were much more common among poorer households.<sup>4</sup> The economic impacts apparently reinforced preexisting inequality patterns,<sup>5</sup> so that populations already at a disadvantage in the labor market were

more likely to lose their jobs when the pandemic began. Poorer households were also more likely to adopt strategies to cope with income losses that could ultimately reduce their productivity, although in many countries cash infusions and emergency transfers helped relieve the poverty and inequality impacts of the pandemic. But as assistance is gradually phased out, inequality may worsen. Evidence from past crises has found that those who are most affected may take longer to recover (Yap 2020). There are early indications that recovery may be unequal both within and between countries because conditions pre-pandemic were unequal.

**Several factors suggest that recovery will be difficult, with young people likely to suffer from pandemic effects for years.** In many countries, the disappearance of urban jobs led workers to seek agricultural jobs, which was a partial reversal of almost three decades of structural transformation; the recurring waves of the pandemic and quarantine lockdowns caused a gradual shift of workers, especially less educated workers, to less-productive jobs. Youth have also been placed at a considerable disadvantage as economies recover from the crisis. Reduced hiring as the pool of workers added new entrants each year resulted in higher youth unemployment and underemployment, in turn reducing opportunities for young workers to gain experience and build careers. Moreover, the learning that students lost due to school closures and distance learning is expected to have severe long-term consequences, such as lower earnings for students once they join the labor force and perhaps a less productive and competitive workforce.

<sup>4</sup> <https://www.worldbank.org/en/data/interactive/2020/11/11/covid-19-high-frequency-monitoring-dashboard>.

<sup>5</sup> <https://www.brookings.edu/blog/future-development/2021/09/27/the-risks-of-an-uneven-economic-recovery-in-an-unequal-world>.

**To avoid an unequal economic recovery, policy needs to be directed to the root causes of inequality.** The pandemic has underscored the need for effective strategies to promote equality and inclusion; without a clear understanding of the extent and the drivers of inequality, the strategies chosen could be flawed. While there is a general consensus that strategies for reducing inequality should not weaken incentives for individual effort, investment, and innovation, if there is to be sustainable reduction of poverty and vulnerability it is imperative to ensure greater equality in welfare distribution. Understanding what shapes opportunity at birth and what fosters mobility in adulthood can help to focus the attention of policy makers on the most damaging types of inequality and identify the costs as well as the benefits of strategies to promote equality.

**This report is intended to inform public debate and policy-making on inequality in the Philippines.** It synthesizes core findings from background analyses of the patterns of inequality and poverty and provides policy pointers. The analysis uses a wealth of data from a variety of sources (detailed in Appendix A). In what follows, section II discusses the poverty and inequality impacts of COVID-19. Section III analyzes what has been driving poverty and inequality over the past three decades. Section IV discusses the structural causes of current inequality; and Section V examines how they affect recovery patterns. The last section discusses how policy can promote equality and inclusive recovery.



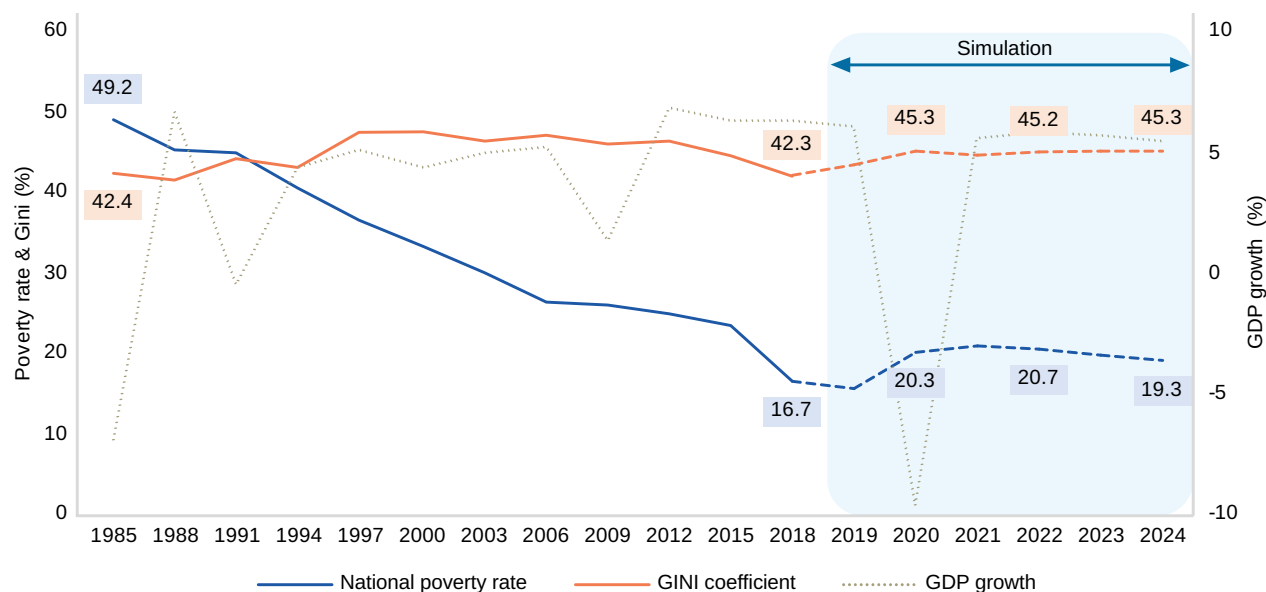
## II. COVID-19 Impacts Poverty and Inequality



**After three decades of sustained decline in poverty and a decade of reducing inequality, COVID-19 is partly reversing those gains.** In 2020, the pandemic halted economic growth and began to eat away at gains in reducing poverty. After a remarkable decline, from 49.2 percent in 1985 to 16.7 percent in 2018, just two years later, in 2020, it is estimated that poverty in the Philippines was already back up to 20.3 percent (Figure 1). The projections are based on a microsimulation model used to assess the poverty and distributional impacts of the pandemic between 2020 and 2024.<sup>6</sup>

In 2020, the number of poor people is estimated to have risen by 4.9 million. As economic growth recovers through 2024, it is expected that poverty will begin to decline gradually but will continue to be considerably higher than it was pre-pandemic. The government recently released poverty estimates for 2021 that show poverty creeping back up to 18.1 percent. Projections also show that the pandemic heightened inequality. After declining by 5.4 points from 2000 through 2018, it is estimated that in 2020–24 the income Gini coefficient will worsen.

**Figure 1. Poverty, Inequality, and GDP Growth, 1985–2024, Percent**



Source: Family Income and Expenditure Survey (FIES) 1985–2018 and World Development Indicators (WDI) 2022.

Note: Projections of poverty and inequality rates are based on a microsimulation model and include emergency COVID-19 social assistance.

<sup>6</sup> See Appendix B for details on the model.



**Strict containment measures at the onset of the pandemic were a severe shock to employment and incomes.**

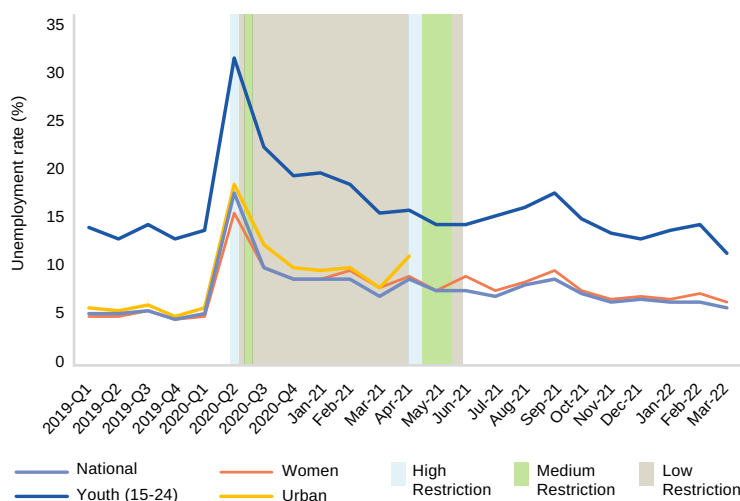
As the economy ground to a halt when the pandemic began, of the 42.5 million Filipinos employed in January 2020, 8.1 million had lost their jobs by April; and unemployment had more than tripled, from 5.3 to 17.7 percent, as the repercussions of strict quarantine measures reverberated through the labor market (Figure 2). The spike in unemployment was coupled with a plunge in labor force participation (LFP), which fell 6 percentage points (pp). Unemployment of youths aged 15–24 shot up disproportionately, from 13.7 percent in January 2020 to 31.5 percent in April. Between January and April 2020, unemployment increased faster for men, but LFP fell faster among women: women’s LFP fell 7 pp— from 48.4 to 41.5 percent; men’s LFP fell 5 pp—from 74.9 to 69.8 percent. These disruptions caused painful income losses. Data from the HFS of August 2020 reveal that 57 percent of working household heads reported lower or even a complete loss of income; data from the 2020 Annual Poverty Indicators Survey (APIS) show a reduction in average

monthly household per capita income by about 13 percent between the first two quarters of 2020.

**The first shock waves affected regions and sectors unevenly.**

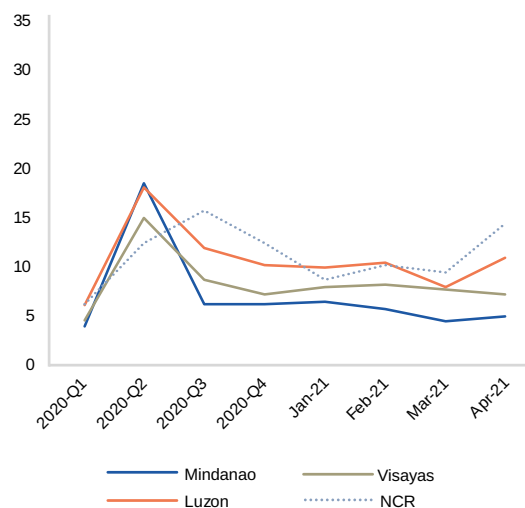
Urban areas and Luzon experienced a larger increase in unemployment, which stayed higher than in the rest of the country throughout 2021 (Figure 3). Unemployment increased gradually in the National Capital Region (NCR) to its peak in the third quarter of 2020 before declining, though it continued to swing with the different waves of the pandemic and the related mobility restrictions; throughout this period, unemployment was higher than it had been pre-pandemic. In contrast, unemployment surged in Mindanao but then rapidly declined in 2021, gradually approaching its pre-pandemic level. As for sectors, in the second quarter of 2020, 28 percent of workers in industry and 22 percent in low-end services either became unemployed or left the labor market.<sup>7</sup> Within broad sectoral groups, industries that require in-person work were hit hardest by mobility restrictions and temporary closure of businesses: between January and

**Figure 2. Unemployment, 2019–22, Percent**



Source: Labor Force Survey (LFS) 2019–21 and Philippines Statistics Authority (PSA). Note: LFS are usually conducted quarterly but in 2021 they were conducted every month. Figures for May 2021 to March 2022 are from PSA publications.

**Figure 3. Unemployment by Region, 2020–21, Percent**



Source: LFS 2020-21. Note: Figures for unemployment rates by region are currently not available in PSA publications.

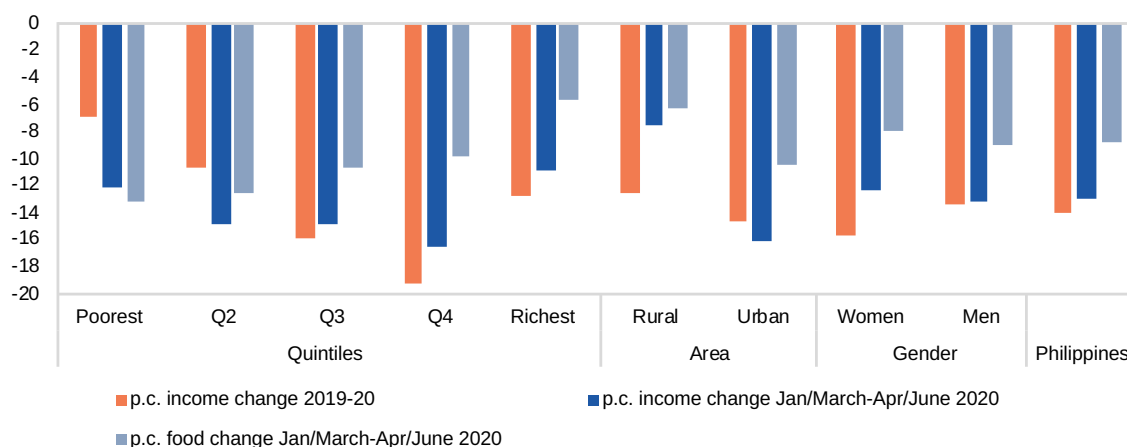
<sup>7</sup> The classification of sectors follows Bárány and Siegel (2018): High-end services include information and communication, financial and insurance activities; real estate activities; professional, scientific, and technical activities; administrative and support service activities; public administration, education, human health, arts and entertainment activities; and water supply and waste management, electricity, gas and air conditioning supply. Low-end services include wholesale and retail trade; repair of motor vehicles; transportation and storage; accommodation and food services; activities of households as employers; and other service activities. Industry includes manufacturing, mining, and construction. Agriculture includes crop and animal production, hunting, forestry, and fishing.

April 2020, employment declined 33 percent in construction, 29 percent in accommodation and food services, 26 percent in transportation and storage, and 19 percent in wholesale and retail trade. These figures from the quarterly labor force surveys largely mirror the results of the HFS of August 2020, which show that construction, followed by accommodation and food services, were the sectors most affected by layoffs.

**Middle-income households were most affected by the erosion of earnings.** The uneven geographic and sectoral impacts of the crisis on employment resulted in uneven changes in incomes by population group. According to the

2019 and 2020 APIS, average real monthly per capita household income declined 14 percent between the two surveys with most of the decline occurring in 2020 between the first (January to March) and second (April to June) quarters (Figure 4). While all population groups were affected, urban households and households in the third and fourth quintiles had experienced the largest declines in incomes due to their concentration in the areas and sectors that were hardest hit by the crisis. However, households in the poorest quintiles suffered the largest decline in spending on food.

**Figure 4. Household Average Monthly Per Capita Income and Food Expenditures, 2019–20, Percent**



Source: APIS 2019 and 2020.

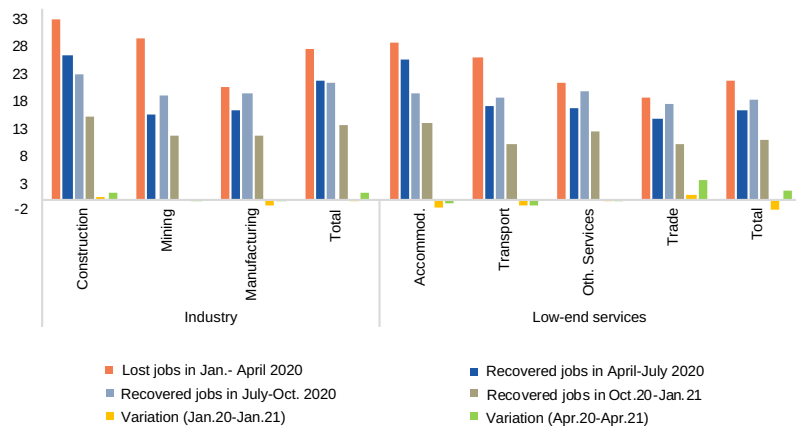
Note: The 2019 APIS survey asks: “Taking into account all family members who work for a salary or wages, operate a business, or receive income from other sources, how much [was] the average monthly income of your family during the period January to June?”; and “How much is your family’s average weekly food consumption?”. The 2020 APIS asks the same questions but separately for January to March 2020 and April to June. The orange bars plot the average monthly income change between the first semesters (Jan-June) of 2019 and of 2020; the blue bars plot the average monthly income change between the first (Jan-Mar) and the second (Apr-June) quarters of 2020.

## Signs of Recovery

**As lockdown restrictions were eased in the Philippines, the economy began to rebound, but there were signs that recovery would be uneven.** Rebounding from a 9.6 percent contraction in 2020, in 2021 the economy expanded by 5.6 percent, despite several COVID-19 waves. Although unemployment started to fall rapidly in the third quarter of 2020, through November 2021 it was still more than 3 pp higher than it had been pre-

pandemic, especially in urban areas and in Luzon. And although many sectors where job losses had been severe rebounded quickly, other sectors continued to trail their previous performance. The rebound in jobs was most evident in industry, particularly construction, where 27 percent of those who were working in the third quarter of 2020 had not worked in the second quarter (Figure 5). In contrast, job recovery in low-end services was mixed: recovery was sluggish in accommodation and food services and in transportation, but was

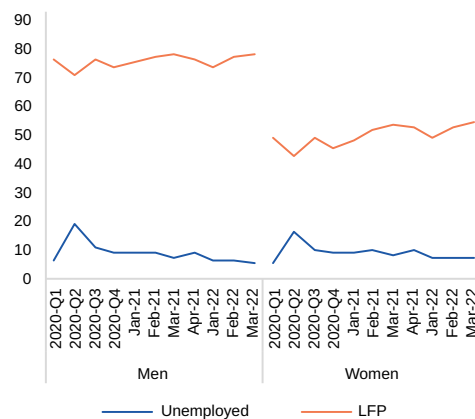


**Figure 5. Job Losses and Recovery by Sector, 2020–21, Percent**

Source: LFS 2020-21.

faster in wholesale and retail trade. Overall, construction, manufacturing, and wholesale and retail trade restored nearly half of the jobs the economy recovered between the second and third quarters of 2020. Notably, LFP rebounded quickly for women starting in the fourth quarter of 2020 and increasing steadily through 2021 and into February and March 2022, even rising above pre-pandemic levels (Figure 6).

**Home-based work, telecommuting, and other flexible work arrangements seem to be helping women and some sectors.** About 23 percent of those who were not working in the last quarter of 2020 again had jobs by January 2021—37 percent of men and 14 percent of women.<sup>8</sup> Of these, about 10 percent had home-based work and another 6 percent telecommuting and other flexible work arrangements (e.g., job rotation, reduced hours); 17 percent of women who were again working in January 2021 had home-based work, compared with 5 percent of men. Between January and April 2021, home-based work had grown in low-end services, from 16 to 24 percent (Figure 7). Most of the increase was in wholesale and retail trade, where home-based work rose from 24 to 34 percent. To a lesser extent, home-based and other flexible work arrangements also

**Figure 6. Unemployment and LFP by Gender, 2020–22, Percent**

Source: LFS 2020-21.

Note: Figures for January to March 2022 are from PSA publications.

grew in accommodation and food services and in other household services. Telecommuting, though still low, grew rapidly in high-end services, mainly in information and communications technology (ICT), education, and professional, scientific, and technical activities. Women's engagement in home-based work expanded from 16 to 22 percent during this period (Figure 8); in wholesale and retail trade, the proportion of women doing home-based work rose from 30 percent in January 2021 to 42 percent in April. Flexible work arrangements were more common and expanded faster in urban areas and Luzon than elsewhere in the country.

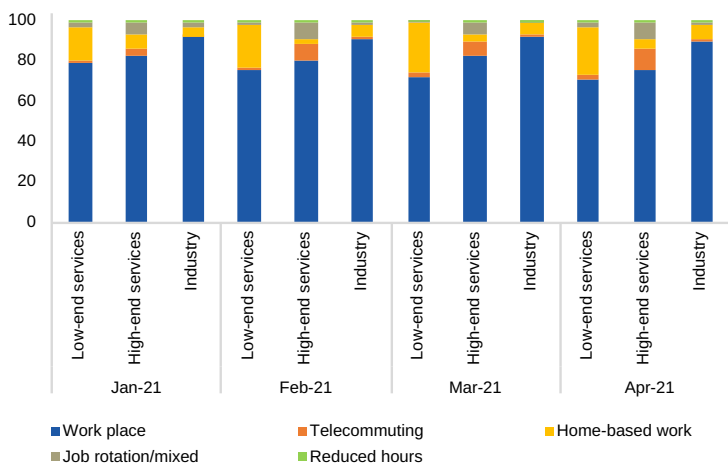
**While incomes of richer households improved as the economy rebounded, a substantial share of the poorest households continue to lose income.** Data from the HFS reveal that while both the richest and the poorest households suffered substantial income losses in August 2020, the patterns of recovery had been very different. Six months after the initial and most stringent lockdown, 60 percent of households in the poorest quintile and 50 percent in the richest reported losses of income. By December, as COVID-19 cases declined and mobility restrictions were eased, households reporting income loss dropped to 47 percent in the poorest quintile and 32 percent

<sup>8</sup> In the 2021 LFS, only the January round asked about employment in the previous quarter.

in the richest (Figure 9). However, as mobility was again restricted in response to the steep rise in COVID-19 cases in early 2021, income loss across both groups rose again, albeit faster among poorer households. By May 2022, 40 percent of households in the poorest quintile reported

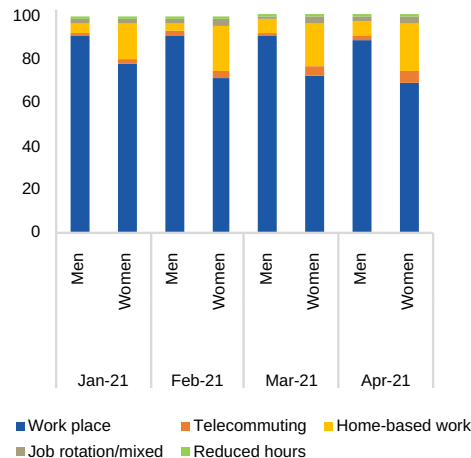
income loss compared to 19 percent of those in the highest quintile. Moreover, in May 2022, along with income loss, 91 percent of households in the poorest quintile were worrying about their financial situation but only 47 percent in the richest quintile were—21 pp less than in May 2021.

**Figure 7. Work Arrangements by Sector, 2021 Q1, Percent**



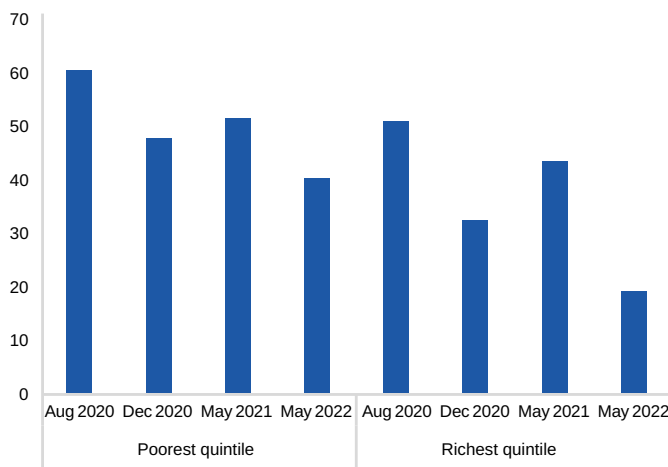
Source: LFS 2021.  
Note: Data on work arrangement were collected only in 2021 surveys.

**Figure 8. Work Arrangements by Gender, 2021 Q1, Percent**



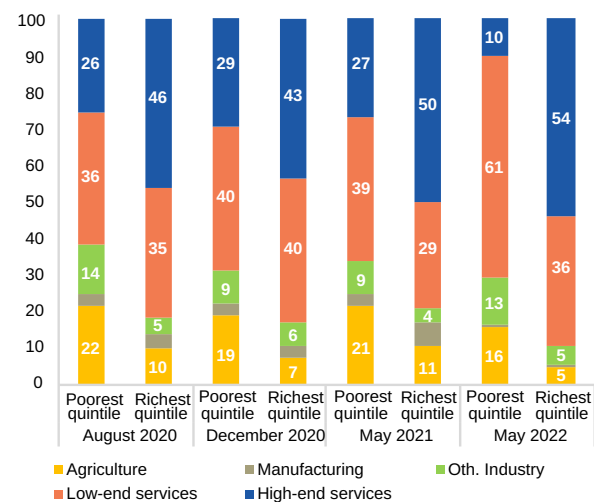
Source: LFS 2020-21.

**Figure 9. Income Loss by Quintile, 2020–22, Percent**



Source: COVID-19 HFS December and August 2020, May 2021 and May 2022 rounds.

**Figure 10. Change in Sector of Employment, 2020–22, Percent**



Source: HFS December and August 2020, May 2021 and May 2022 rounds.

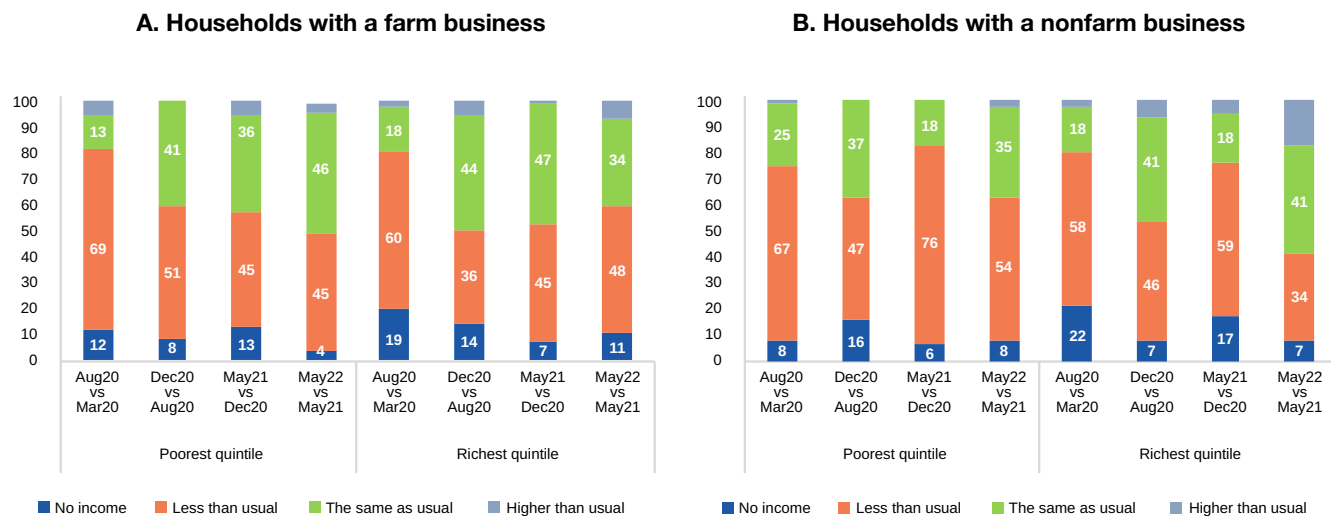
## Continuing Economic Insecurities and Child Human Capital

Although the poor have recovered jobs, given the nature of the pandemic the sectors where they work leave them highly vulnerable. Employment among the poor has rebounded since August 2020 and in May 2022 was up by 9 pp (from 49 to 58 percent). However, the increase was much slower than for better-off households, which increased 23 pp, from 57 to 80 percent—widening the gap between the poorest and richest groups. The sectors where the poor work contribute to the precarity of their employment. In May 2022, 54 percent of Filipinos in the richest quintile were employed in high-end services, which not only offer higher incomes but also are more likely to give workers the option of telecommuting, reducing their risks of exposure to both the virus and business closures (Figure 10). In stark contrast, poorer households tend to be engaged in sectors that rely on in-person work, leaving them more vulnerable to surges of COVID-19 and to lockdowns. In addition to their larger employment in agriculture (16 percent), Filipinos in the poorest quintile mainly work in food and accommodation (14 percent), construction (12 percent) and domestic and other low-profile services (30 percent). The prevalence

of the poor in informal employment implies that their situation is more precarious: informal workers are particularly vulnerable to job, income, and other social insecurities and have no access to the benefits and safety nets offered to formal workers.

**Sluggish recovery in nonfarm businesses also slowed recovery of income, particularly for the poor.** While between March and August 2020 about 65 percent of households reported income losses from farm businesses, the proportion declined to less than 50 percent from May 2021 to May 2022 for both poorer and better-off households (Figure 11 panel A). However, nonfarm businesses operated by poorer households experienced further strains on their incomes. The proportion of households reporting income losses from nonfarm businesses declined from about 64 percent in August 2020 to 55 percent in May 2021, but most of the improvements occurred in households in the second and third quintiles; meanwhile, 76 percent of households in the bottom quintile continued to suffer from nonfarm income losses compared to 59 percent of those in the richest (Figure 11 panel B). In May 2021, poorer households operated nonfarm businesses in wholesale and retail trade (38 percent) and other informal services (55 percent) and suffered major income losses in both

Figure 11. Changes in Household Income, 2020–22, Percent



Source: HFS December and August 2020, May 2021 and May 2022 rounds.

sectors, particularly the latter. Those in the top quintile operated mainly in wholesale and retail trade (55 percent) but were able to diversify into social and recreational services, transportation, and construction, stabilizing their incomes and in construction even increasing them. As economic recovery continued, by May 2022 the share of households that reported suffering nonfarm income losses declined further for both the poorest and the richest quintiles. However, nonfarm income losses continued to be much higher among poor households (54 percent) compared to the top quintile (34 percent).

**Between 2020 and 2022 remittances to poor households also fell.** The share of households receiving remittances in the richest quintile was a consistent 25 percent from August 2020 to May 2021, but the share in the poorest quintile was cut by more than half, from 19 to 7 percent. This is probably because remittances to poor households are mainly from private domestic transfers, which sank as economic conditions in the Philippines worsened; better-off households relied mainly on transfers from abroad, which were fairly steady. By May 2022, the proportion of poor households receiving remittances rose again, due to the increase of domestic remittances with the rebound of the economy, but foreign remittances declined due to the difficult international context.

**Poorer households are more likely to suffer persistent food insecurity.** Data from the Social Weather Stations (SWS) surveys show that when the crisis began, hunger rose to unprecedented levels. Hunger, which had declined from 16 percent in 2010 to 9 percent in 2019, by September 2020 had risen to 31 percent. At the same time, the proportion of people experiencing severe hunger had increased five-fold from 2019 and was close to triple its level in 2010. By September 2021, the national hunger rate had eased to 10 percent, but hunger remained very prevalent among poor families. About 14 percent of poor households, compared to 6.5 percent of nonpoor families,

continued to suffer from hunger, and for 3 percent hunger was severe. According to the HFS data, at the beginning of the crisis, about 57 percent of the poorest households suffered from severe food insecurity compared to 34 percent of the richest; by May 2022, the proportions were 46 percent of the poorest and 11 percent of the richest.<sup>9</sup> Food insecurity can aggravate child malnutrition and stunting, already prevalent in the Philippines, and have major impacts on future child learning and economic prospects. Comparisons between groups of households that have and have not experienced an income shock suggest that the economic shock from the pandemic put households at greater risk of food insecurity.

**The combination of income loss and insecure employment has led poor households to adopt coping strategies that could jeopardize the development of the human capital of their children.** Rising food prices and reliance on adverse mechanisms that reduce food consumption create the risk of serious long-term consequences, particularly for the basic health and nutrition of those in vulnerable households. While households in both the bottom and top quintiles resorted to bad coping strategies, not only eating less but also selling assets or increasing their debt, the proportion of poorer households doing so is larger than better-off one. Around 30 percent of households in the richest quintile could rely on insurance policy to cope with shocks compared to only 7 percent of poor ones. Reduced mobility, facility closures, and the fear of contracting COVID-19 may have kept patients from seeking needed health care. In 2020, average monthly utilization of essential health services decreased by 25 percent compared with the same period pre-pandemic, with poorer households more likely to forgo care. Primary care reductions were most evident for malnutrition services (48 percent), tuberculosis (43 percent), and ischemic heart conditions (30 percent). Due to the pandemic, it is estimated that more than 2 million children missed out on life-saving immunizations.<sup>10</sup>

<sup>9</sup> A household experiences severe food insecurity if it ran out of food, any of its members was hungry and could not eat, went without eating a whole day, or went to sleep hungry.

<sup>10</sup> Figures are based on PhilHealth claims; see also <https://www.unicef.org/philippines/press-releases/2-million-filipino-children-may-miss-out-vaccinations-2020-amidst-covid-19>.



**Although the pandemic has affected all population income groups, its effects may last longer for poorer and disadvantaged households, which could exacerbate pre-existing inequalities.** Although when the pandemic began, urban and middle-income households were more affected by job and income loss than rural and poorer households, their recovery seems faster as poorer households continue to suffer from the effects of the pandemic.

The patterns of lagging groups are deeply rooted in past patterns of poverty and inequality. To ensure that the economy is built back better and to avoid an uneven recovery, policy should be informed by a better understanding of past patterns of inequality. The following section considers pre-pandemic trends of inequality, and progress made in reducing poverty and inequality in that time.





### III. The Pattern of Progress: Thirty-Year Poverty and Inequality Trends



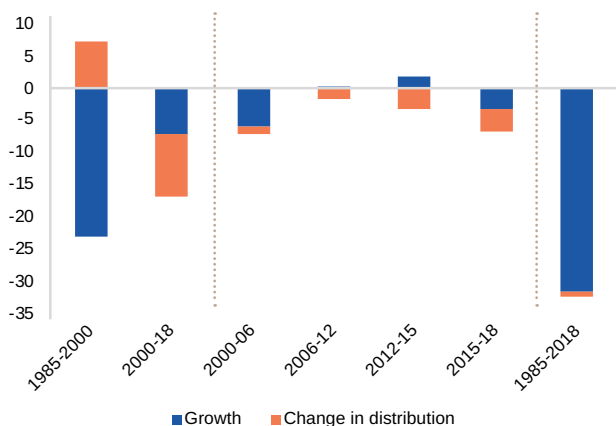
**Since the mid-1990s, economic growth has markedly reduced poverty, and shared prosperity has been advancing since the early 2000s**

**Until the mid-1990s poverty reduction and economic growth were sluggish in the Philippines, but thereafter poverty declined steadily, and that trend has accelerated in the past decade.** The national poverty rate plunged from 49.2 percent in 1985 to 16.7 percent in 2018 (Figure 1). With this progress came improvements in economic security and human development. In 2018, the Filipino middle class—defined according to global standards as those whose per capita daily income is above US\$15 (2011 purchasing power parity [PPP])—had expanded by 10.6 million since 1985 to reach nearly 12 million people, and the economically secure—those whose per capita daily income is between US\$5.5 and US\$15 (2011 PPP)—had risen by 34.4 million to reach 44 million people. This was coupled with improvements in how citizens perceived their quality of life. According to the SWS, in 2019, 37 percent of the population reported having a better quality of life than in the previous year, up from 23 percent in 2010. Hunger had dropped from 16 percent in 2010 to 9 percent in 2019. The Human Development Index (HDI) rose from 0.590 in 1990 to 0.712 in 2018, pushing the country's rank into the High Human Development group (UNDP 2019).

**Since the mid-2000s on, inequality had been steadily trending down.** It had worsened significantly during the 1997–98 Asian financial crisis and stayed high as economic growth accelerated in the first decade of the 2000s—between 1985 and 2000 the Gini coefficient rose from 42.4 to 47.7 percent— but then started a sustained decline, which accelerated in 2012–18, during which the Gini coefficient fell from 46.5 to 42.3 percent. As will be discussed in what follows, expansion of secondary education and mobility to better-paying jobs, citizen ownership of more assets and access to basic services, and government social assistance have helped reduce inequality. However, despite sustained investment in building human capital, opportunity and incomes are still unequal; and lack of access to tertiary education and a scarcity of skills, coupled with gendered social norms and other structural challenges, sustain inequality.

**Over the past two decades, increased household income had driven down poverty, as did improved income distribution.** The reduction in poverty between 1985 and 2018 was entirely driven by the increase in mean household per capita income (the growth effect); the contribution of inequality (the redistribution effect) was marginal (Figure 12). However, with the reduction of inequality since 2000, the redistribution effect has become more apparent. In 1985–2000, income growth accounted for the entire reduction in poverty; inequality partly offset that progress. However, in 2000–18, the growth

**Figure 12. Contribution of Growth and Redistribution to Poverty Reduction, 1985–2018, Percentage Points**



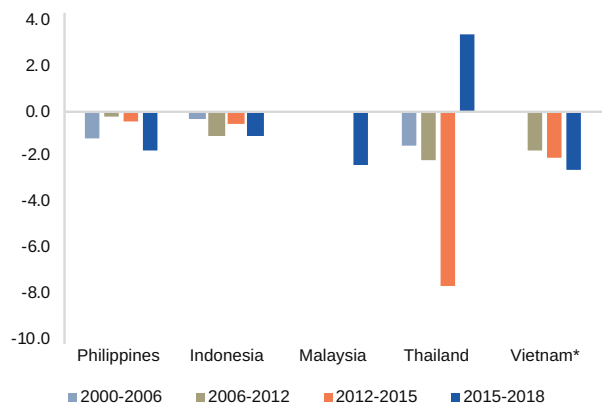
Source: FIES 1985–2018.

Note: Poverty decomposition uses survey-based household per capita income deflated by the poverty lines ratio as a measure of growth. Estimates are based on Datt and Ravallion (1992) and the Shapley method.

effect contributed 42 percent (7 pp) to poverty reduction and the redistribution effect contributed 58 percent (9.8 pp). Since 2000, better income distribution has increasingly helped alleviate poverty; the contribution of growth declined in 2006–15, though it rose again in 2015–18.

**The power of GDP growth to reduce poverty has risen steadily since the mid-2000s.** The elasticity of poverty reduction to growth in per capita GDP increased in 2015–18 relative to 2006–15. In 2015–18, the growth elasticity of poverty was estimated at  $-1.7$ , up (in absolute value) from  $-0.5$  in 2012–2015 and  $-0.2$  in 2006–12. Thus, a 10 percent increase in per capita GDP growth in 2015–18 produced a 17 percent decrease in the proportion of the poor, compared with a decrease of no more than 5 percent in 2006–15.<sup>11</sup> Based on 2015–18 elasticity estimates, poverty seems to be more responsive to economic growth in the Philippines than in Indonesia and Thailand, but less responsive to growth than in Malaysia and Vietnam (Figure 13).

**Figure 13. Growth Elasticities of Poverty in the Philippines and Comparators, 2000–18**



Source: WDI 2021.

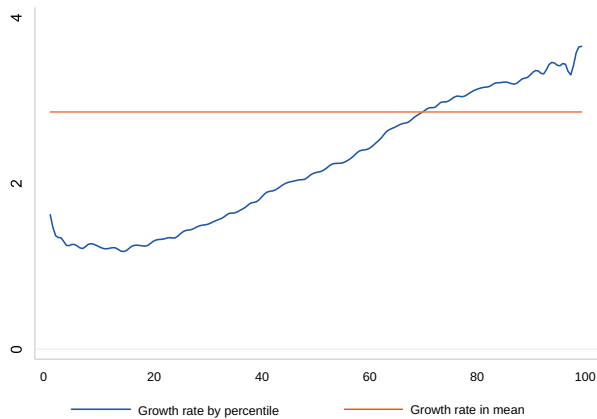
Note: Estimates are based on growth in GDP per capita. In Vietnam, elasticities are for 2010–12, 2012–16, and 2016–18.

**Survey-based estimates also suggest that since the early 2000s growth has become more pro-poor.** From 1985 to 2000, growth was much lower for Filipino households at the bottom of the distribution than for those who were better off, indicating a pro-rich growth pattern in that period (Figure 14). However, as is apparent from the growth incidence curves (GIC) in Figure 15, the growth pattern seems to have reversed in 2000–18, when growth became much higher in the poorest groups than those that were better-off.<sup>12</sup> By 2012–18 growth had become much more pro-poor than it had been a decade earlier: the average annual growth rate was an estimated 0.5 percent and reached 3.5 percent for the poorest decile, compared with average annual growth of 0.9 percent and 2 percent for the poorest decile in 2000–12.

<sup>11</sup> How much poverty reduction responds to economic growth depends on whether economic growth is defined based on changes in GDP per capita in the national accounts or measured directly from the household surveys on which poverty estimates are based. Using survey-based mean per capita income, the growth elasticity of poverty is estimated at  $-0.7$  in 2006–15 and  $-2.8$  in 2015–18. This suggests serious discrepancies between national accounts and survey-based data; these require further investigation but are beyond the scope of this report.

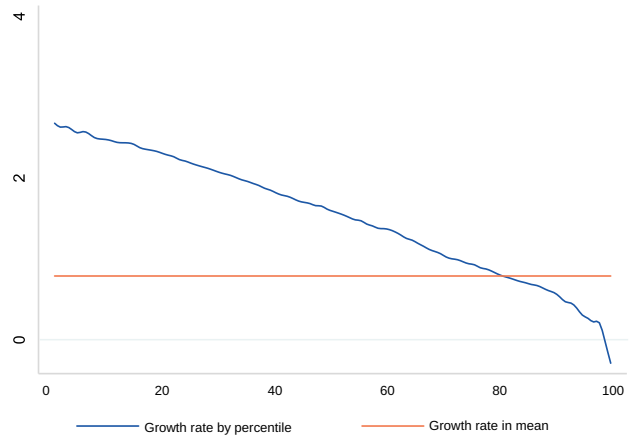
<sup>12</sup> Survey-based data show much higher per capita income growth in 1985–99 than in 2000–18 (3.1 percent per year on average during the first period compared with 1.1 percent during the second period). In contrast, average growth in GDP per capita appears to have been much higher in the second period (0.3 percent per year on average during the first period vs 3.6 percent in the second).

**Figure 14. Growth Incidence Curve, 1985–2000, Percent**



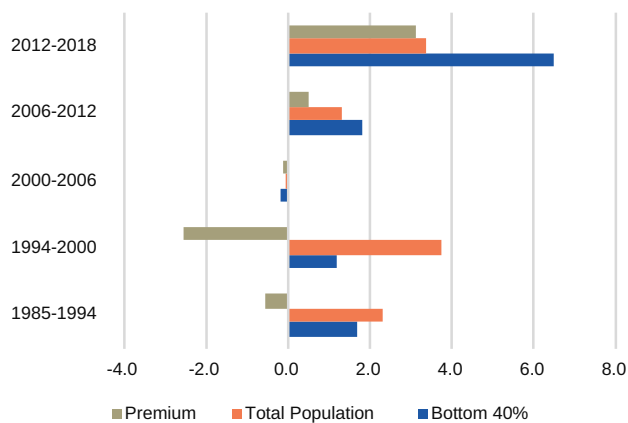
Source: FIES 1985 to 2000.  
 Note: GICs use per capita household income from FIES as a measure of growth.

**Figure 15. Growth Incidence Curve, 2000–18, Percent**



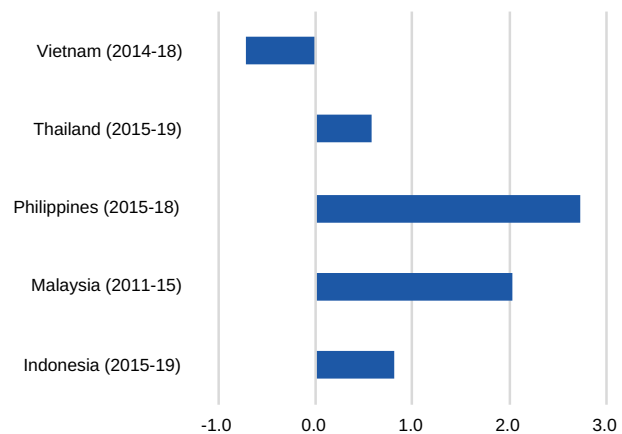
Source: FIES 2000 to 2018.

**Figure 16. Shared Prosperity Premium, Philippines, 1985–2018, Percent**



Source: FIES 1985–2018.

**Figure 17. Shared Prosperity Premium, Comparator Countries, Percent**



Source: FIES 2015–18 and Poverty & Equity Brief series Spring 2021.

**In recent years the shared prosperity premium in the Philippines has been larger than in many of its regional peers.** The premium, which measures how much the incomes of those in the bottom 40 grow relative to the average population, turned positive in 2006, averaging 2 pp for 2006–18 and peaking at 3.1 pp in 2012–18 (Figures 16 and 17).

## Factors Driving Reduction of Inequality

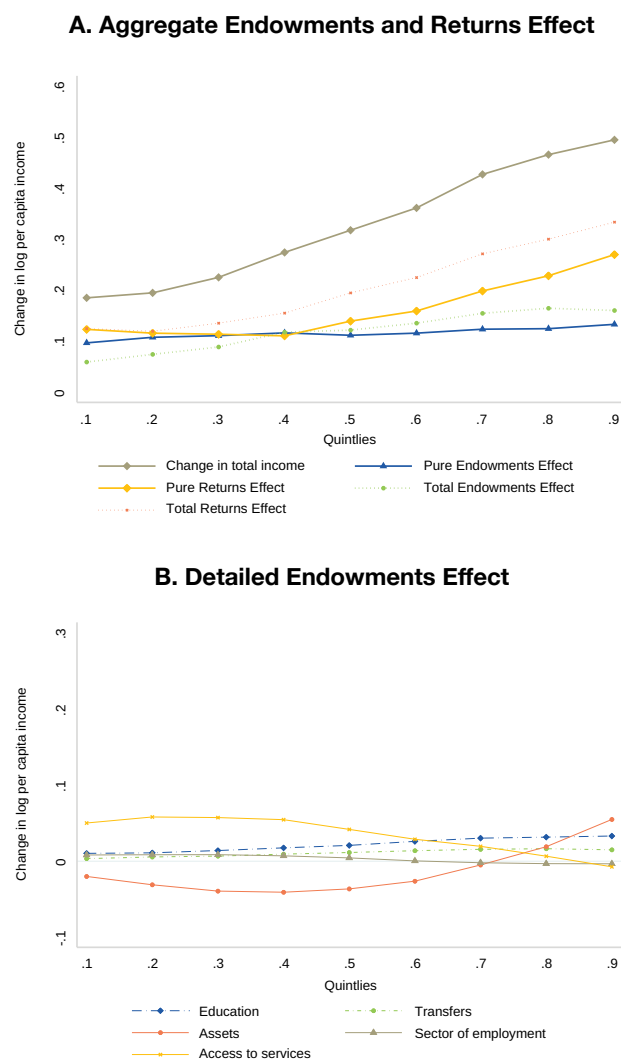
**Expanded communication assets, access to basic services and education, and increased employment in services drove inclusive growth in 2000–18.** Decomposition of changes in household per capita income over 1985–2000<sup>13</sup> shows a pro-rich pattern of growth during the first period, driven by improvements in returns to better-

<sup>13</sup> The decomposition uses the recentered influence function (RIF) of the unconditional quantile regression method proposed by Firpo, Fortin, and Lemieux (2018). The method consists of decomposing changes in household consumption or income into (1) improvements in household characteristics or endowments, such as education of the head of the household, ownership of assets, and access to employment opportunities and social assistance programs; and (2) changes in the rewards or returns that households get for characteristics like returns to education, asset productivity, and profits to business. The two components can themselves be decomposed to identify specific attributes that contribute to changes in income. The decomposition is applied to each quantile of the income distribution to understand differences in the patterns of change for different welfare groups. The results are based on reweighted-regression decomposition, where the reweighting factor is estimated using the logit model.

off households—mainly, returns to wage work and employment in high-end services (Figure 18). In 2000–18, the pro-poor growth pattern was driven by a surge in the endowments of poorer households (Figure 19). Ownership of communication assets and to a lesser extent means of transportation, followed by improved access to electricity, increased attainment of high school education, and higher transfers from foreign and domestic sources drove the disproportionate increase in income among households in poorer deciles. In the past three decades structural transformation has seen a gradual movement of workers from agriculture

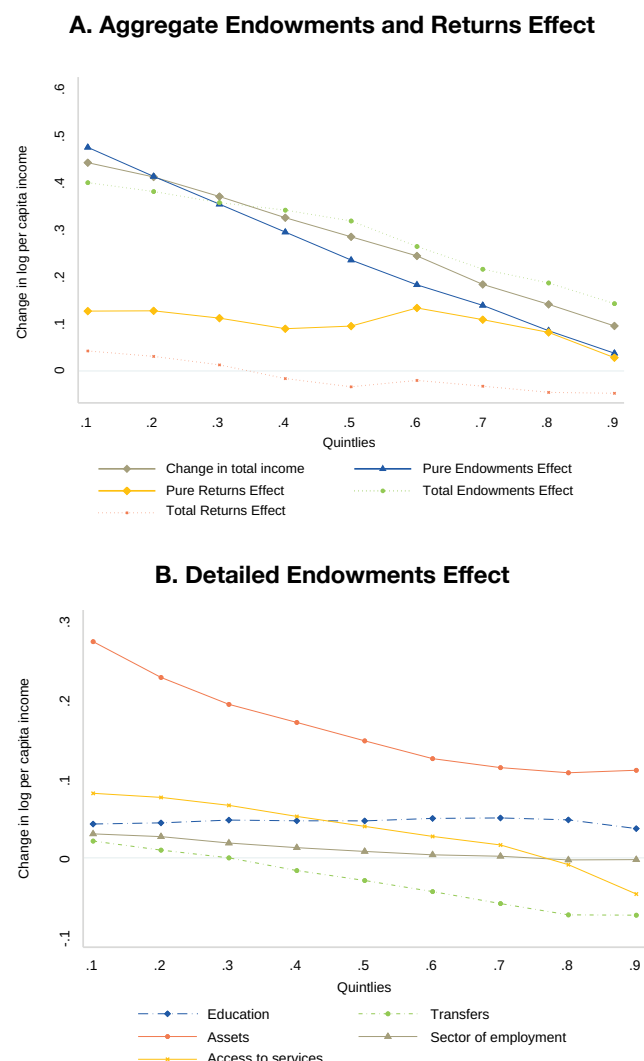
to services, and to a lesser extent industry. The transition to nonfarm sectors after 2000 was much more pronounced among poorer households: The share of households in the bottom 40 percent whose head works in agriculture fell from 72 percent in 1985 to 67 percent in 2000 and then 47 percent in 2018; meanwhile the share employed in low-end services rose from 13 to 16 percent and then 25 percent. The proportion employed in industry rose from 11 percent in 1985 to 14 percent in 2000 and then 21 percent in 2018.<sup>14</sup> The fast transition of bottom 40 households to low-end services since 2000, where average per capita

**Figure 18. Drivers of Income Growth and Inequality Reduction, 1985–2000**



Source: FIES 1985–2000.

**Figure 19. Drivers of Income Growth and Inequality Reduction, 2000–18**



Source: FIES 2000–18.

<sup>14</sup> Across all households, the proportion of those whose head works in agriculture fell from 60 to 43 percent between 1985 and 2000 and then to 29 percent in 2018, while the proportion working in low-end services went up from 18 to 27 percent and then 34 percent. Meanwhile, the industry share rose from 12 to 18 percent and then to 21 percent.

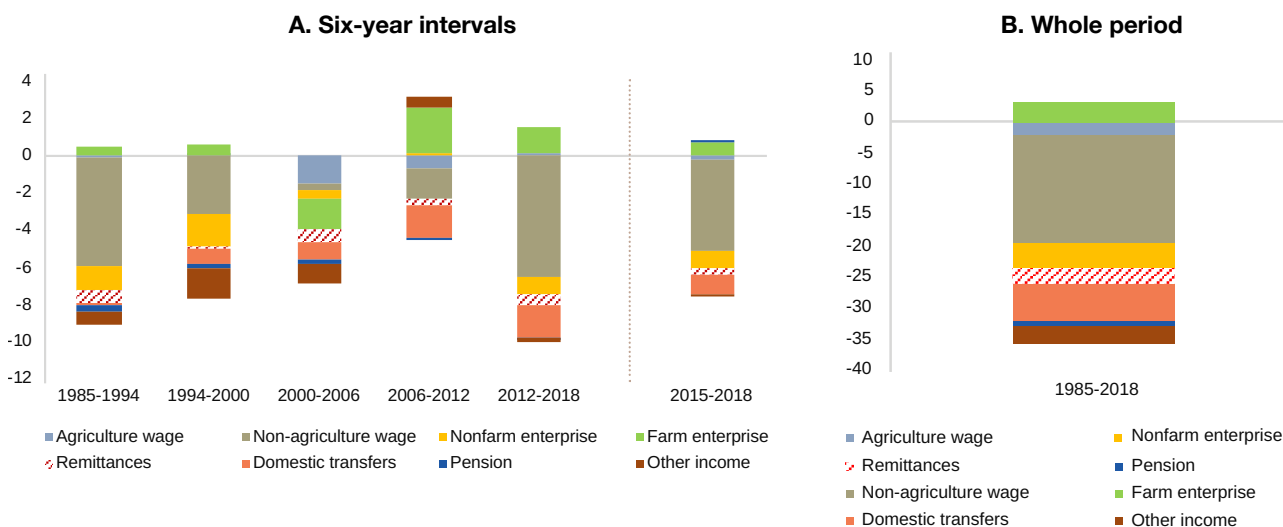


income is more than double that of agriculture, and to industry, where average per capita income is about 50 percent higher, helped them increase their income faster than the average household. In 2000-18, improvements in household endowments contributed about 80 percent to the reduction of the Gini coefficient while increased returns to endowments contributed 20 percent.

**The narrowing of the wage gap between college-educated workers and those with lower education in the 2010s in turn helped to narrow inequality.** As will be detailed in the next section, that gap has changed three times: In 2002–08, the gap declined as wages of college-educated workers fell by 11 percent but wages of less-educated workers fell by just 8 percent; between 2008 and 2013 the gap grew as the wages of highly educated workers rebounded and those of the less educated fell further; and in 2013–20 the gap narrowed again as wages of less educated workers grew by 39 percent while those of college-educated workers edged up by only 2 percent. Yet while the wage gap has been narrowing in the past decade, slightly moderating income inequality, it is still large and seems to have increased with the pandemic.

**The gradual shift out of agriculture, combined with higher nonagricultural wages, drove most of the reduction in poverty.** The transition of workers out of agriculture was coupled with their increased engagement in wage employment, which grew from 48 to 64 percent in 2002–18.<sup>15</sup> This led to major changes in the sources of household incomes. Dependence on higher and more stable wage income has increased gradually since 1985 for all Filipinos, particularly the bottom 40 percent. The proportion of households that had nonagricultural wages as their main source of income rose from 33 percent in 1985 to 54 percent in 2018; for the bottom 40 percent the increase was from 24 to 45 percent. The combination of higher nonfarm employment and greater reliance on wage income was the most powerful factor in reducing poverty. Of the 32.5 pp reduction in poverty between 1985 and 2018, about 17.4 pp (54 percent) can be attributed to wage income from nonfarm employment, and 2.4 pp (7 percent) to wages from agricultural work (Figure 20). The contribution of nonfarm wage income to relieving poverty was highest in recent years, accounting for 76 percent in 2012–18. In comparison, income from nonfarm enterprises accounted for only 12 percent of poverty reduction in 1985–2018 and 11

**Figure 20. Contribution of Income Sources to Poverty Reduction, 1985–2018, Percentage Points**



Source: FIES 1985 to 2018.

Notes: The estimates, which are based on the poverty decomposition method of Azevedo et al. (2013) and Inchauste et al. (2014), use national poverty lines and deflators based on poverty line ratios. Domestic transfers include transfers from both government social assistance programs and private transfers.

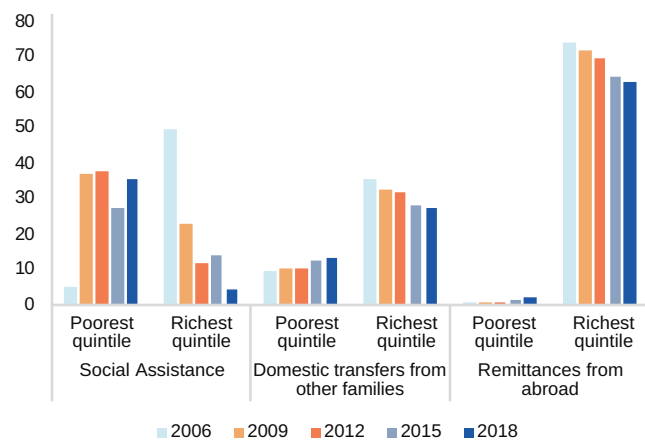
<sup>15</sup> Proportions are based on LFS data, which does not include information on wages before 2002.

percent in 2012–18; the deterioration of income from farm enterprises partly offset the positive trends in poverty reduction. As discussed below, the positive effects of nonfarm wages on poverty are due to the gradual shift of workers to wage work and thus more wage-earners in households, rather than higher wage amounts.

**Domestic transfers and remittances from abroad have also helped to lift Filipinos out of poverty.** In 2018, about 68 percent of the population, up from 37 percent in 1985, received transfers from government social assistance programs and private domestic sources, and 29 percent, up from 15 percent, received remittances from abroad. Domestic transfers are more common among low-income households— they benefit 86 percent of households in the bottom quintile compared to 42 percent of those in the richest; foreign remittances are more common among middle-income households, benefitting 14 percent of households in the bottom quintile and 43 percent in the richest. Between 1985 and 2018 domestic transfers accounted for 18 percent of poverty reduction and foreign remittances for 8 percent (Figure 20). The contribution of domestic transfers to poverty reduction was highest in 2012–15, when it reached 39 percent.

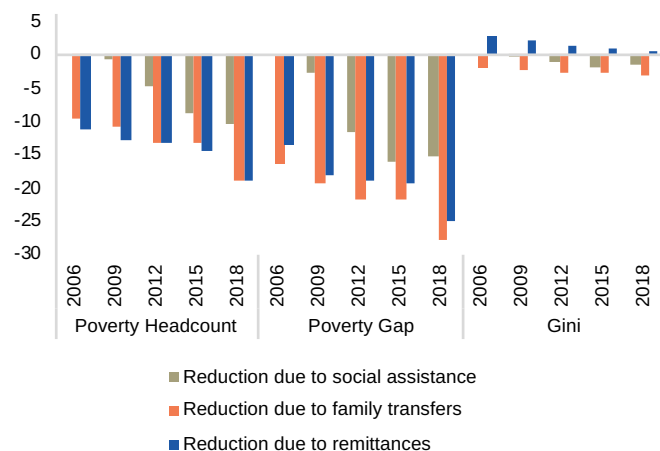
**Without government social assistance, poverty would have been 10 percent higher in 2018 and inequality 1.4 percent higher.** The government provides a wide range of social assistance programs (e.g., *Pantawid Pamilya*, a conditional cash transfer program [4Ps], scholarship benefits, and other cash receipts) to support the living standards of disadvantaged families.<sup>16</sup> In 2018, 27 percent of all Filipinos and 50 percent of the poorest benefitted from social assistance. The distribution of social assistance is highly progressive, with the biggest share of benefits going to the poorest households (35 percent to the lowest quintile) and dropping to 4 percent in higher- income groups (Figure 21). A counterfactual analysis comparing poverty and inequality rates with and without transfers from social assistance shows that without social assistance, in 2018 the poverty rate would have been 18.6 percent—10 percent higher than the actual 16.7 percent—and the income Gini would have been 42.9 percent (Figure 22). Of the various assistance programs, the 4Ps contributes most to the poverty- and inequality- reducing effects of social assistance. Without the 4Ps, in 2018 poverty would have been 7 percent higher and inequality 0.9 percent higher. Social assistance also helped bring the poor closer to the poverty line— without

**Figure 21. Benefit Incidence of Social Assistance and Private Transfers, 2006–18, Percent**



Source: FIES 2006 to 2018.

**Figure 22. Impacts of Social Assistance and Private Transfers on Poverty and Inequality, 2006–18, Percent**



Source: FIES 2006 to 2018.

<sup>16</sup> Government social insurance programs include health insurance (PhilHealth), coverage of which by 2020 had reached nearly 80 percent of the population. Between 2017 and 2020, coverage of people in the poorest quintile shot up from 14 to 74 percent—increases were from 3 to 14 percent for paying members and 11 to 60 percent for non-paying members.

assistance, in 2018 the poverty gap would have been 15 percent wider and without the 4Ps the gap would have been 11 percent wider.

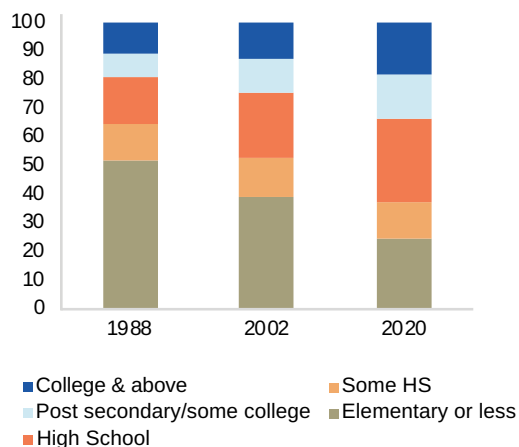
**Domestic transfers from private sources and remittances from abroad are both major contributors to poverty reduction but have opposite impacts on inequality.** In 2018, transfers from other families within the Philippines helped to keep the poverty headcount lower by 19 percent and the poverty gap narrower by 28 percent than they would have been without the transfers (Figure 22). The impact on poverty reduction of domestic transfers from other families is larger than the impact of government social assistance, but their distribution tends to be regressive—about 27 percent of total transfers benefitted the top quintile but only 14 percent benefitted the poorest quintile (Figure 21). However, without these transfers, in 2018 the Gini coefficient would have been 3 percent higher (Figure 22). Remittances from abroad helped keep poverty 19 percent lower in 2018, but they are largely regressive and increase inequality—about 63 percent of the transfers benefit the richest quintile and only 2 percent benefit the poorest. Better-off households have more members working overseas (14 percent of households in the richest quintile have members working overseas compared with only 1 percent of those in the poorest), which explains the remittance flow to better-off families. The impactful contribution of foreign remittances to poverty reduction is due to the magnitude of these transfers: the mean value of international remittances per household is about five times higher than that of private domestic transfers and almost ten times higher than average transfers from social assistance; the mean amounts received per household in 2018 were PHP101,027 from foreign remittances, PHP21,208 from domestic private transfers, and PHP11,931 from social assistance programs.<sup>17</sup>

**Private and social assistance transfers can play complementary roles in reducing poverty.**

Decomposition of the sources of poverty reduction shows that private domestic transfers accounted for 14 percent of poverty reduction in 2015–18 and international remittances accounted for 5 percent, compared with less than 1 percent for social assistance. Similarly, the counterfactual analysis in Figure 22 shows that private transfers have greater poverty-reducing effects than government transfers. Private transfers can work as a safety net and a risk-sharing mechanism in developing countries, where poor households face pervasive risks. However, both international and domestic private transfers are not targeting poor and vulnerable households; they are not only regressive but are also subject to shocks and changing socioeconomic conditions, weak investment motivation, and dependent on the whims of senders. By protecting the consumption floor, on the other hand, social assistance programs allow poorer households to take risks, help prevent the depletion of their productive assets (including human capital), and avert downward spirals and poverty traps—all of which augment people's chances to lift themselves from poverty. Recent studies in Latin America show that public transfers from social protection programs and private transfers can play complementary roles in addressing poverty and that public transfers increase the probability of receiving private transfers (Garcia and Cuartas 2021). The specific roles and interactions of social assistance and private transfers are beyond the scope of this report but could be the subject of future analysis.

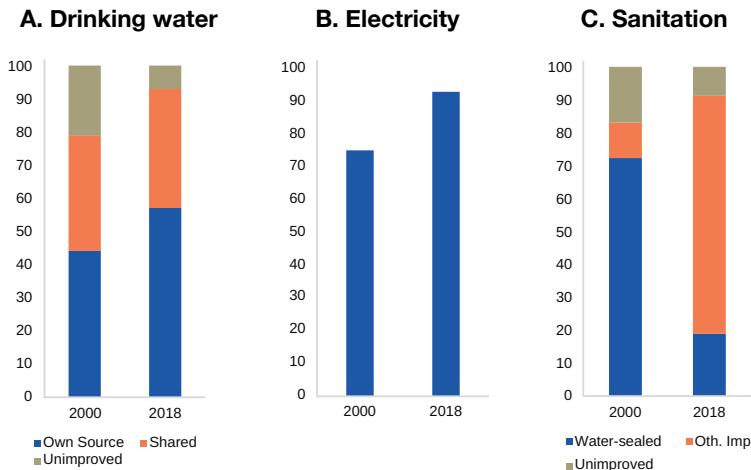
<sup>17</sup> In the bottom quintiles, foreign remittances averaged PHP22,158, domestic remittances PHP14,136, and social assistance PHP 12,816 (the 4Ps program alone averaged PHP 9,791).

**Figure 23. Educational Attainment of Workers, 1988–2020, Percent**



Source: LFS 1988–2020.

**Figure 24. Access to Basic Services, 2000 and 2018, Percent**



Source: FIES 2000–18.

**Sustained investments in human development and infrastructure have helped reduce poverty and inequality.** Since the late 1980s, school enrollment and educational attainment have made major strides. The proportion of households whose heads had completed secondary education or more rose from 29 percent in 1985 to 53 percent in 2018. The share of more educated workers generally also went up: between 1998 and 2020 the share of workers having at least graduated from high school jumped from 36 to 63 percent (Figure 23). Access to basic services improved notably between 2000 and 2018: access to electricity from 75 to 93 percent, the proportion of households with their own source of safe drinking water from 44 to 57 percent, and use of unimproved sanitation fell from 17 to 9 percent (Figure 24). The proportion of households that own at least one, and often many, communication assets (e.g., cell phone, TV, personal computer) went up from 61 percent in 2000 to 94 percent in 2018, and those who own mobility assets (e.g., car, motorcycle) rose from 9 to 39 percent.

**Despite laudable progress, inequality remains high in the Philippines and detailed analysis is necessary to understand its causes.** This section has examined why rising inequality trends began to be reversed starting in the early 2000s, although inequality was still high. The next section focuses on understanding the drivers of inequality and the reasons why it is persistently high. It examines the prevalence of inequality in the Philippines and peer countries, the perception of inequality and social mobility, and how education, the labor market, gender, and spatial gaps affect income inequality.

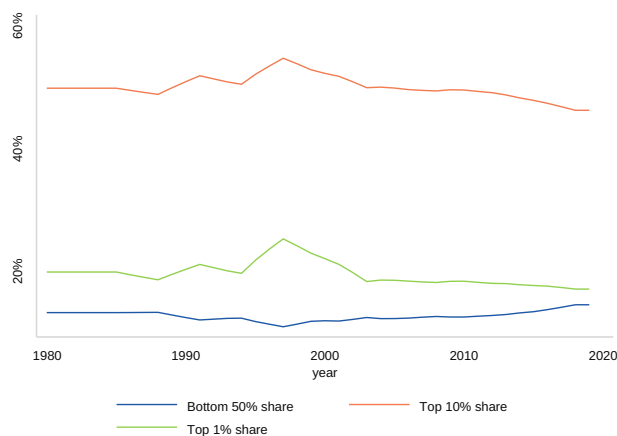


## IV. What Drives the Persistence of Inequality?

**Despite the progress in poverty reduction and shared prosperity, inequality is still very high and should be central to the economic development agenda of the Philippines.**

**Disparities in income and consumption continue to be higher in the Philippines than in neighboring countries.** With an income Gini coefficient of 42.3 percent in 2018, the Philippines ranks 15th of 63 countries for which data on income inequality is available. Of EAP countries for which data are available for 2014–19, only in Thailand is income inequality greater than in the Philippines. In terms of consumption inequality, the Philippines performs better globally, ranking 30th of 72 countries, but it is still higher than EAP countries except Laos.

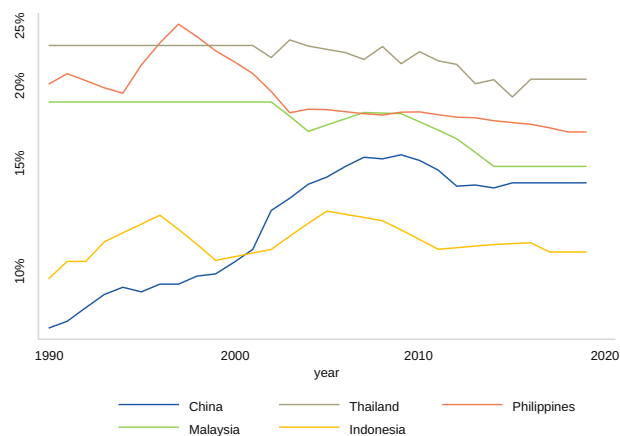
**Figure 25. Pre-tax Income Share by Groups, Philippines, 1980–2019**



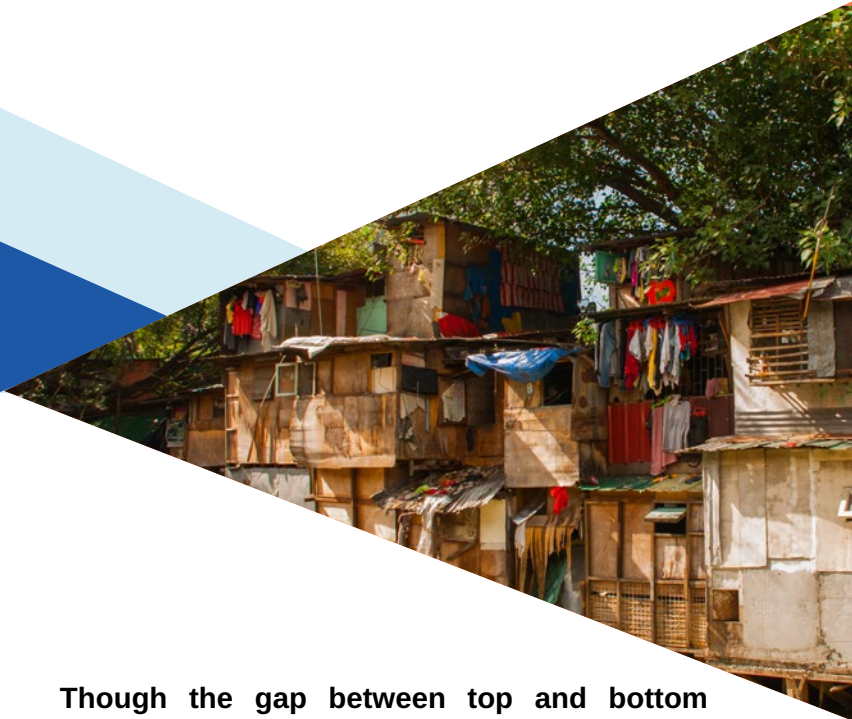
Source: WID database 1980–2019.

**Though the gap between top and bottom earners in the Philippines has narrowed, it is still higher than in many regional peers.** In 1980, the incomes of the top 10 percent together constituted 50 percent of national income, increasing to about 55 percent during the 1997–98 Asian financial crisis before declining to 46 percent by 2019 (Figure 25). However, inequality remains very high; the share in total national income of the bottom 50 percent now constitutes only 14 percent, while the top 1 percent capture 17 percent of national income. Over 1990–2019 income concentration among the top 1 percent earners increased in China and Indonesia but declined in Malaysia, the Philippines, and Thailand (Figure 26). Malaysia recorded the fastest decline, followed by the Philippines, yet the share of national income attributable to the top 1 percent is still highest in Thailand, followed by the Philippines.

**Figure 26. Pre-tax Income Share, Top 1%, Philippines and Comparators, 1980–2019**



Source: WID database 1980–2019.



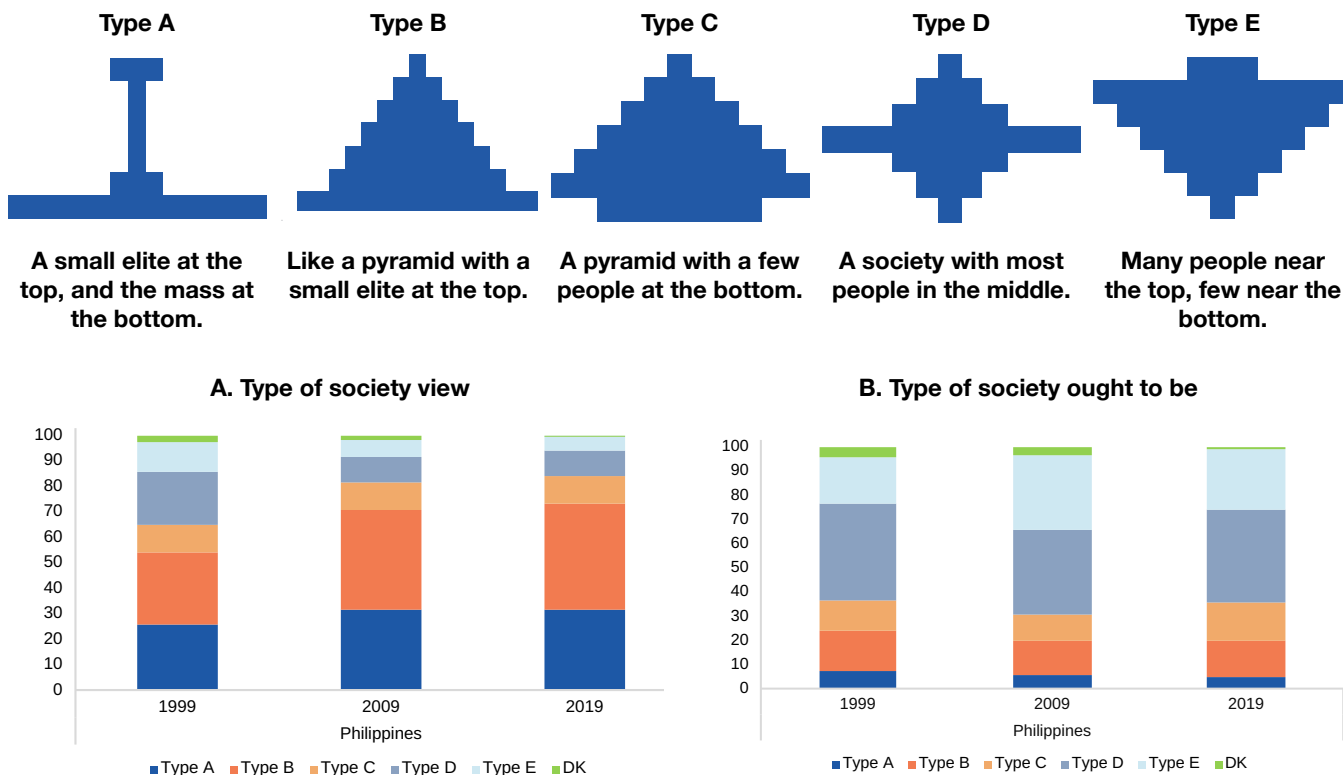
## Growing Perceptions of High Inequality and Low Mobility

The majority of Filipinos view their society as a pyramid, with most of the population at the bottom and a small elite at the top. Data on social mobility from the International Social Survey Programme (ISSP), used to assess subjective perceptions of inequality, indicate that in 2019, 73 percent of Filipinos viewed their society as a pyramid with the bulk of the population at the bottom (type A or B in Figure 27), up considerably from 55 percent in 1999 (Figure 27 panel A). But 38 percent believed that the society ought to be similar to Type D, with the majority of the people in the middle, and 25 percent expect the society to be similar to Type E, with a considerable share of the population near the top and a smaller share near the bottom (Figure 27 panel B). Comparing data from the 2019 ISSP and the 2018 FIES reveals

that Filipinos have a relatively realistic view of their society as resembling a pyramid, but they tend to underestimate the true extent of inequality. Preliminary estimates of the perceived inequality indicator show estimates at about 34 percent in ISSP data, significantly lower than the income Gini coefficient of more than 40 percent in the FIES survey.<sup>18</sup>

**The perception that inequality is too high is growing and public support for redistribution has increased.** In 2009, about 50 percent of respondents agreed that the difference in incomes is too large, and a similar proportion agreed that it is the government’s responsibility to reduce income differences between groups. By 2019, the proportion agreeing had gone up to nearly 70 percent, suggesting growing awareness of the importance of inequality in the country and of the need for the government to address it

Figure 27. Perceived Type of Society, Philippines, 1999, 2009, and 2019, Percent



Source: ISSP 1999, 2009, and 2019.

<sup>18</sup> Subjective Gini estimates are based on the methodology of Niehues (2014) and Gimpelson and Treisman (2018).

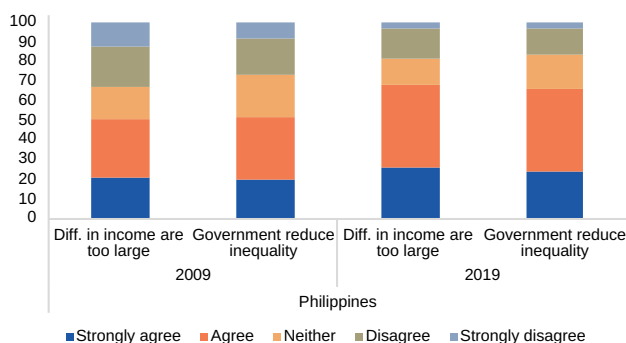
(Figure 28). About 75 percent of those who agreed that income differences are too large seemed to support redistribution (that the government should reduce income differences), though less than 50 percent of those who disagreed that income differences are too large supported redistribution. Moreover, 74 percent of Filipinos consider current income distribution in the country to be unfair, but only 30 percent believe that the government has not been successful in reducing inequality (compared with over 66 percent of the Thai population). Despite a growing perception of the prevalence of inequality, most Filipinos continue to believe that it is necessary for prosperity, with the proportion having grown from 53 to 70 percent between 1999 and 2019 (Figure 29). In 2019, 56 percent of respondents agreed that inequality persists because collective actions to address it are lacking. These results suggest that Filipinos would not support government intervention to fully equalize incomes but do believe that currently the pendulum has swung too far.

**Further analysis may help to clarify how redistribution policies could reduce income inequality.** The government could use income redistribution as a policy lever to tackle inequality, but further analysis is needed to better understand if and how redistribution can help reduce income disparity. For instance, analysis using the Commitment to Equity (CEQ) approach could

make it easier to understand how fiscal policy and public spending affect inequality and how reform policies could help reduce the inequality.

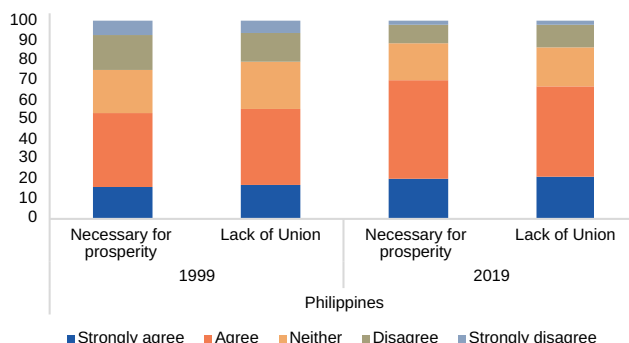
**Perceptions of low mobility are prevalent, coupled with a perception that meritocracy is also low.** These perceptions are highly influenced by family circumstances. Asked about their current position in society compared with that of the family in which they grew up, about 70 percent of respondents who grew up in families in poorer groups perceive themselves to still be in those groups today, and 61 percent of those who grew up in better-off families similarly see themselves to be in the top groups (Figure 30). More importantly, people who see their families as having been in the bottom groups are much more pessimistic about their own mobility—over 82 percent of those who grew up in poorer families believe that they will still be in those groups over the next 10 years. Perceived low mobility seems to be associated with perceived low meritocracy, in that although over 90 percent of Filipinos say that having a good education and hard work are either essential or very important to get ahead, a large proportion of respondents believe that having well-educated parents (68 percent) and a wealthy family (39 percent) are also essential or very important (Figure 31)—and the proportion of people with those opinions is about 10 pp higher among people in the bottom groups.

**Figure 28. Perceptions about Income Differences and Redistribution, 2009 and 2019, Percent**



Source: ISSP 2009, and 2019.

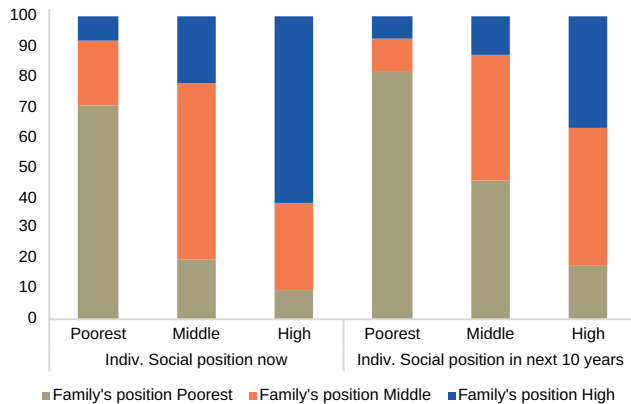
**Figure 29. Perceptions about Reasons for Inequality, 1999 and 2019, Percent**



Source: ISSP 1999 and 2019.

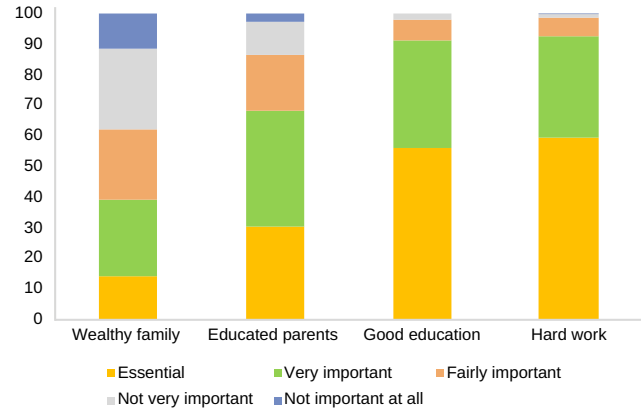
Note: "Lack of union" refers to respondents affirming that inequality persists because people do not act together to correct it. The indicator was not collected in 2009.

**Figure 30. Individual vs Family Social Position, 2019, Percent**



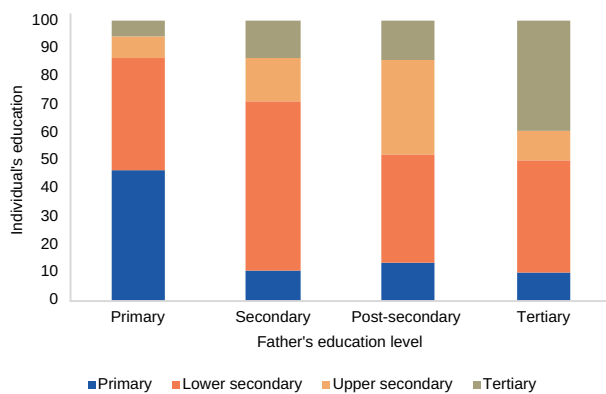
Source: ISSP 2019.

**Figure 31. Important Factors in Getting Ahead, 2019, Percent**



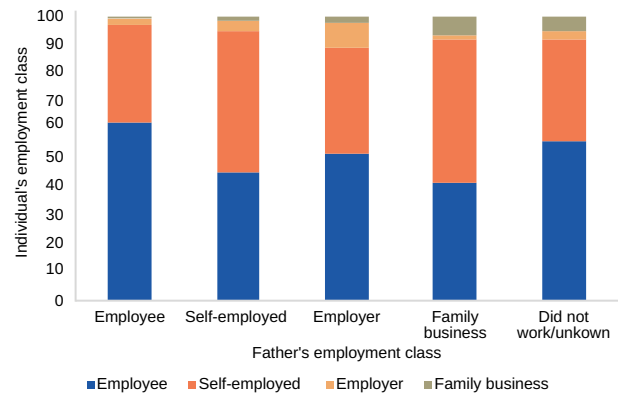
Source: ISSP 2019.

**Figure 32. Individual and Father's Education, 2019, Percent**



Source: WVS 2019.

**Figure 33. Individual and Father's Employment, 2019, Percent**



Source: ISSP 2019.

## Inequality over the Life Course and across Generations

**Today's inequalities limit tomorrow's opportunities.** Limited social mobility and the role that family circumstances play in shaping their children's lives significantly influence prospects for economic mobility and expectations about the chances of improving Filipinos living conditions. Data from the 2019 World Values Survey (WVS) suggest relatively low intergenerational mobility in education: nearly half of individuals born to a father who did not go beyond primary school also have only primary education themselves (Figure 32). On the other hand, about 40 percent of those whose father completed tertiary education

similarly acquired a college education. Education mobility is slightly higher in the Philippines than in Thailand but far lower than in Vietnam, where only 17 percent of individuals born to a father who did not go beyond primary education had only similar education. Mobility in both employment and occupation is also relatively limited—about 50 percent of individuals whose father was self-employed or worked in a family business are also self-employed, and over 60 percent of those whose father was an employee are also wage-earning employees (Figure 33). About 12 percent of individuals born to a father who never worked also never worked—3 pp higher than those whose father had a job.



**Inequality that stems from the circumstances in which children are born can be persistent.**

Inequality starts even before birth, e.g., in maternal nutrition and health during gestation, which is influenced by factors like mother's education and income level. In childhood, disparities in access to health care, proper nutrition, safe drinking water, sanitation, and quality education determine development of a child's human capital, which then shapes outcomes later in life in terms of employment opportunities, income, and their own eventual investments in developing the human capital of their own children. Inequality of opportunity and low intergenerational mobility is a waste of human potential and innovation because they result not only in less human capital but also a misallocation of human capital resources in the economy. These inefficiencies can both depress economic growth and minimize poverty reduction.

**Early Disadvantages**

**Skilled antenatal and postnatal care and immunization for children show large variations by region, wealth group, and mother's education.** Skilled antenatal care (ANC)—defined as care by trained providers such as doctors, nurses, and midwives—and postnatal care (PNC) within the first two days of birth are crucial for a child's health. Of women with a live birth in the five years preceding the 2017 National Demographic and Health Survey (NDHS), 94 percent reported at least one skilled ANC visit, with about 86 percent of mothers and infants having a check-up within the first two days after birth. Both ANC and PNC for infants and mothers were lower among poorer wealth quintiles and mothers with less education. They are also significantly lower in rural areas and conflict-affected zones: in Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), ANC use is 69 percent and newborn PNC is 51 percent. Women with no education or from poorer families receive fewer ANC and PNC services during their visits—especially lifesaving diagnostics like blood and urine tests. Crucially, about 94 percent of babies born in health facilities received PNC, compared with just 46 percent for

those not born in such facilities. About 70 percent of children aged 12–23 months and 66 percent of those 24–35 months had all basic vaccinations. However, age-appropriate vaccinations are 35 pp higher among children whose mother has a college degree than among those whose mothers did not reach high school; they are also 17 pp higher in the richest wealth quintile than in the poorest; and 64 pp higher in the leading region (NCR) than the lowest (BARMM).

**Lack of access to improved sanitation and drinking water contributes to the persistence of child diarrhea and health problems.**

In 2018, the sources of drinking water for 26 percent of BARMM households were unsafe, compared to a national average of 7 percent; and for 53 percent sanitation was unimproved, compared to a national average of 9 percent. Diarrhea—often caused by poor sanitation and lack of handwashing—is a leading cause of child mortality in the Philippines, responsible for 8 percent of under-5 deaths (UNICEF 2017). According to the 2017 NDHS, seeking care is highly uneven across gender, with parents of children with diarrhea more likely to seek treatment for boys (50 percent) than for girls (33 percent); in 23 percent of cases, children were given no treatment. In addition to causing mortality and morbidity, diarrhea is also a cause of malnutrition, which can severely affect a child's future health and learning outcomes.

**Nutritional shortfalls start before birth with micronutrient deficits, and immediately after birth inadequate nutrition can begin with improper breastfeeding, contributing to high rates of stunting, wasting, and underweight children.** In 2019, 38 percent of infants aged 6–11 months suffered from anemia, as did 26 percent of children aged 12–23 months and 20 percent of pregnant women (Mbuya et al. 2021). Almost one-third of children under 5 are stunted. The poorest quintile had the highest rates of stunting (42 percent), underweight (27 percent), and wasting (8 percent); the richest had the lowest rates (stunting 11 percent, underweight 7 percent, and wasting 4 percent). Undernutrition also varies with how

much education the mother has had: except for overweight, every form of nutritional deficiency decreases the more education the mother has had. Malnutrition and food insecurity, which have been exacerbated by COVID-19, are significantly higher in BARMM and rural areas than in the rest of the country.

**Regional differences in access to health services contribute to divergent health outcomes.** Most health facilities and health personnel are concentrated in highly urbanized areas and richer provinces. Thus under-5 mortality ranges from 11 per 1,000 in NCR to 55 per 1,000 in BARMM. The variations are similar for infant mortality, maternal mortality, and malnutrition, among other health outcomes.

**Compared with rural areas, housing in urban areas presents a complex multidimensional problem, driven by issues of space, planning, and transaction costs.** Housing quality and location form foundational conditions for children's learning and health while providing connection to labor markets and local networks. UN-HABITAT estimates that in 2018, 43 percent of urban Filipinos lived in slums. In NCR, about 4.5 percent of residents were informal settlers. Suggesting greater problems with urban housing, more than 87 percent of the people who live in informal urban settlements are not poor; they may even be high earners. In rural areas, scarcity of land is less of a concern, but the quality of rural housing is markedly worse, especially among the poor.

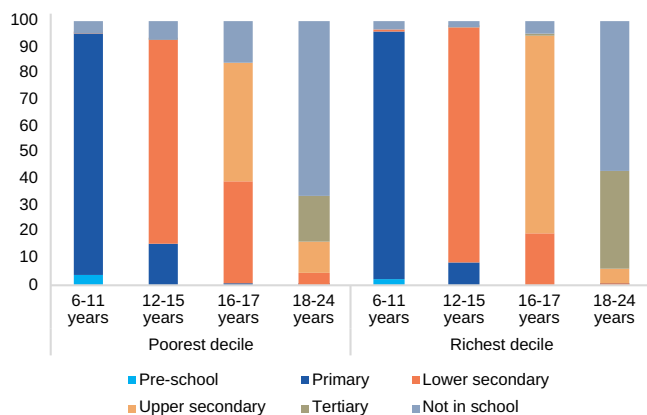
## Effects of an Unfair Start in Life

**While schooling is widely accessible in the Philippines, there are large gaps between socioeconomic groups in terms of enrollment in age-appropriate grades and in achievement.** In 2020, 94 percent of children aged 5–18 years were in school. However, children from households in the lowest income decile are less likely to be enrolled in any school, and to be in an age-appropriate grade, which makes them more likely to leave education early (Figure 34). Transition to tertiary education is also much lower among poorer students than among those who are better-off: in 2020, about 17 percent of Filipinos aged 18–24 in the poorest decile were in tertiary education compared to 37 percent of those in the richest decile. There are also large socioeconomic variations in student learning outcomes. Average scores in reading, math, and science in the 2018 Program for International Student Assessment (PISA) are generally low, but in every subject less than 5 percent of students in the lowest economic, social, and cultural status (ESCS)<sup>19</sup> decile achieved minimum proficiency, while in the top ESCS decile, a majority of students did so (Figure 35).<sup>20</sup>

**Students from better-off households benefit from better learning environments within their schools.** The 2018 PISA data show that the share of students in crowded classes—46 or more students—varies considerably by socioeconomic group (29 percent in the top ESCS decile, 49 percent in the bottom one). Students from better-off groups are more likely than those in poorer deciles to attend private schools. APIS 2020 shows that 40 percent of students aged 12–17 in the richest income decile attend private schools compared to less than 3 percent of those in the poorest decile; PISA 2018 data show that 54 percent of students in the highest ESCS decile attend private schools compared to only 5 percent of those in the poorest

<sup>19</sup> The PISA ESCS index is calculated from three sets of variables related to household background: (1) parents' highest level of education, (2) parents' occupational status, and (3) home possessions.

<sup>20</sup> PISA scores are evaluated on a scale depending on how students performed. Each of the three courses has a different scale, which corresponds to the proficiency levels, which help to better understand a student's knowledge, skill, and application of complex theories in the courses that were tested. Average scores in EAP vary from lows of 340 (reading), 353 (math), and 357 (science) in the Philippines to the highs of 549 (reading), 551 (science), and 569 (math) in Singapore. Level 2 is the minimum proficiency reading, math, and science levels students should have acquired by the end of their secondary education. Lower score limits for level 2 are 407 in reading, 420 in math, and 410 in science (see World Bank 2020d for more details).

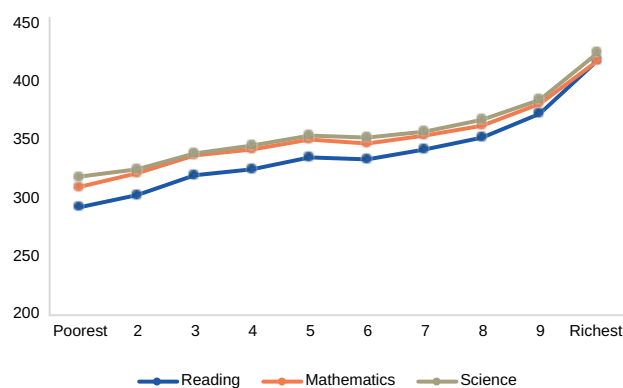
**Figure 34. Grade Attendance by Age and Income Decile, Percent, 2020**

Source: APIS 2020.

Note: Tertiary includes post-secondary, bachelor's, short-cycle college, and master's programs and above.

decile. Better-off households also tend to spend more to educate their children—average per capita expenditure on education in FIES 2018 is more than 22 times higher among households in the richest income decile than in the poorest. School-related problems (e.g., students skipping class, truancy) that affect student learning are less frequent (though still high) in schools that have more students from higher ESCS groups. It appears that better-off students are better positioned to learn.

**Variations in student learning outcomes are partly driven by the circumstances in which students are born.** Such circumstances might include the educational background of the parents; family socioeconomic status; parental support for the education of their children (e.g., help with schoolwork, discuss a child's progress with teachers); the presence in the home of books, learning material, ICT tools, and other assets; the type of community they live in; and the quality of its schools. Circumstances that affect student learning but are beyond their control are compelling reasons for policy to be egalitarian. Estimation of the share of inequality in student achievement scores that is attributable to circumstance—inequality of opportunity (IOP)—show the presence of serious IOP in their achievements, particularly in areas

**Figure 35. PISA Scores by ESCS Decile, 2018**

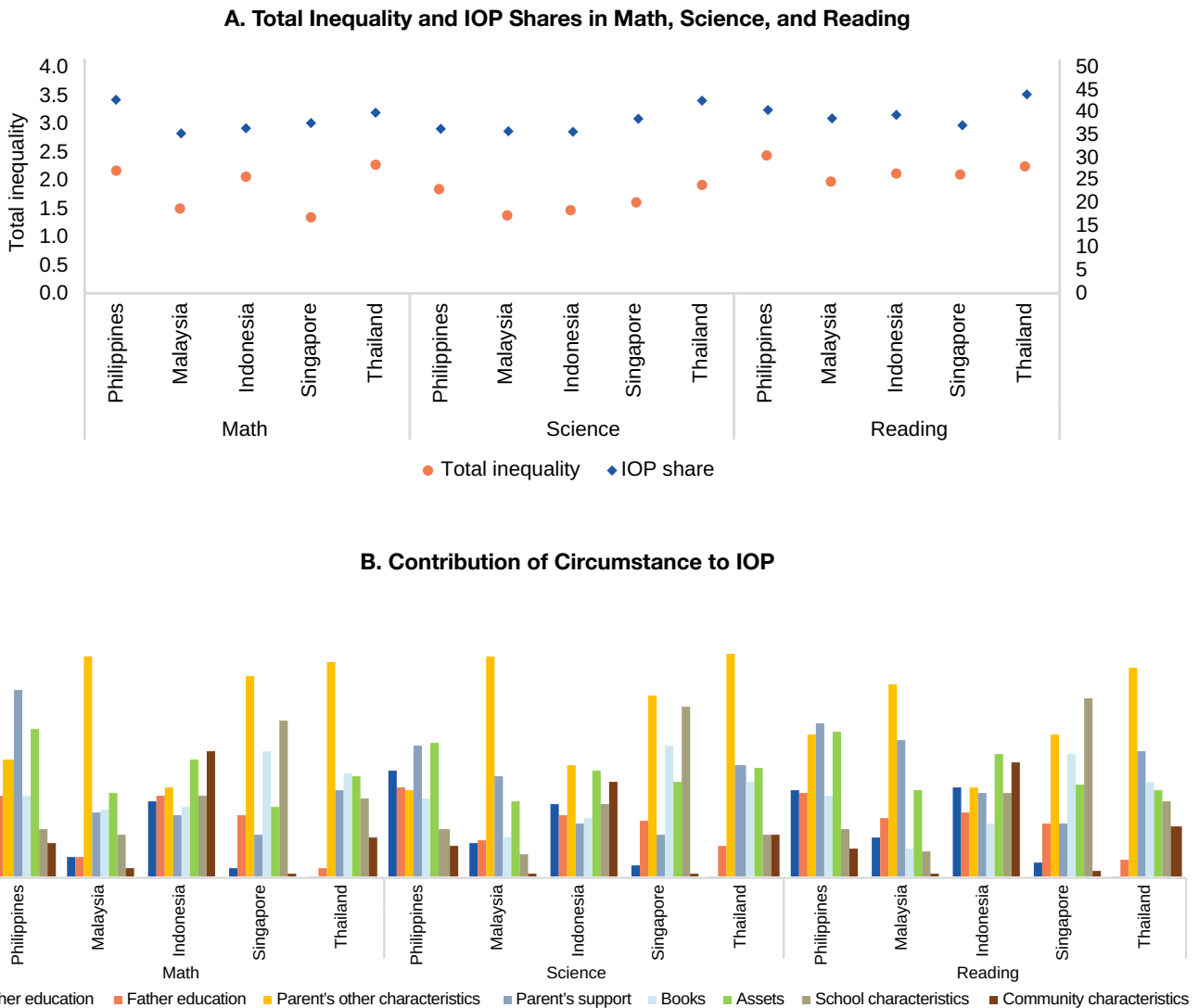
Source: PISA 2018.

that promote access to STEM fields and later to productive jobs (Figure 36 panel A).<sup>21</sup> Overall, IOP shares are highest in math (43 percent) and reading (41 percent) and lowest in science (36 percent). The share of parent's background in IOP is over 20 percent, indicating that out of all children's circumstances, the education and socioeconomic class of their parents are the most significant factors shaping their learning opportunities (Figure 36 panel B).

**Overall inequality and IOP in education achievement seem to be higher in the Philippines than in many EAP peer countries.** Figure 36 panel A suggests that the Philippines must deal with larger inequalities in education achievement, performing better only than Thailand. Singapore, despite being the achiever that is second from the top in all 2018 PISA countries, also seems to suffer from severe IOPs in educational performance; Malaysia has the lowest levels of both general inequality and IOP. Among comparators, Filipino students are most affected by parental background and learning support. These results suggest that in the Philippines parental resources are critical for placing children in the top 10 percent of their grade level, an achievement that is highly correlated with their later enrollment in tertiary education. Public

<sup>21</sup> The analysis uses the parametric approach of Bourguignon et al. (2007) to estimate the contribution of circumstances to inequality in education achievement. IOP is measured by comparing the observed inequality in achievements with the inequality that would have prevailed if circumstances were equally distributed.

**Figure 36. Total Inequality, IOP Share, and Contribution of Circumstances to IOP in the Philippines and Comparator Countries, 2018, Percent**



Source: PISA 2018.

Note: Parent's other characteristics include ESCS group and parent's country of birth. Estimates are significant at 1 percent using bootstrapped standard errors based on 100 replications.

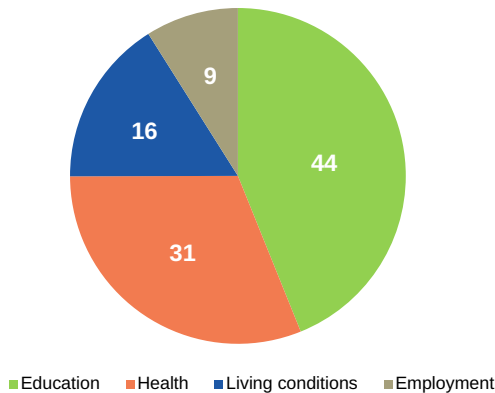
policy may not be able to do much in the near future to counterbalance the effect of unequal parental resources, but it can reduce the extent to which children's success depends on where they grow up. Public policy can help equalize educational opportunities and improve student performance by improving community and school characteristics, enhancing teacher competence, promoting access to books and academic material, and enhancing

parental awareness of the need to provide more support to the education of their children.

### The Effects of Major Deprivations

**About 16 percent of Filipinos must deal with multiple deprivations in well-being indicators.** Deprivations are distributed unequally by location—21 percent of rural and 11 percent of urban dwellers are deprived in at least one-third

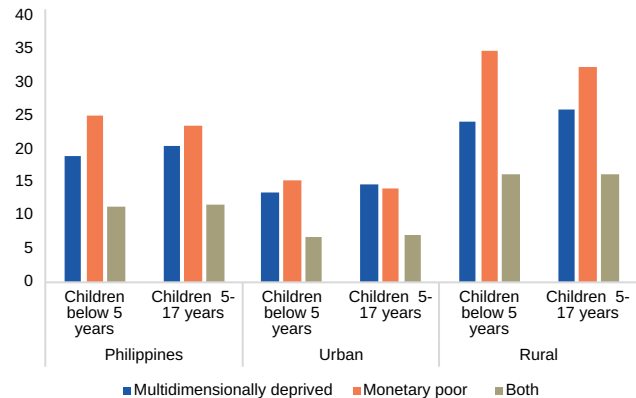


**Figure 37. Contribution of Different Dimensions to Multidimensional Deprivation, Percent, 2018**

Source: FIES 2018.

of well-being indicators.<sup>22</sup> These households are not necessarily income poor, but about 8 percent of Filipinos must deal with both income poverty and multidimensional deprivation. Deprivation tends to be greatest in education and health and nutrition. More than 60 percent of families had at least one member aged 18 or older who had not completed high school and for more than 40 percent, per capita food consumption was below the food poverty line—they are unable to meet their basic food needs. Deprivation in education constitutes about 44 percent of multidimensional deprivation, and deprivation in health and nutrition about 31 percent. In comparison, living conditions are responsible for 16 percent of the deprivation—assets (7 percent) and housing and basic services (9 percent)—and employment is responsible for 9 percent (Figure 37).

**Multidimensional deprivation and poverty have a disproportionate effect on children, jeopardizing human capital formation and economic mobility.** The proportions of children living with multidimensional deprivation and those living with both deprivation and income poverty are higher than that of the population average—about 19 percent of children younger than 5 and 21 percent of children aged 5–17 live in families

**Figure 38. Proportion of Children Living in Poverty and Deprivation, Percent, 2018**

Source: FIES 2018.

that suffer multidimensional deprivation, and about 12 percent of them are in families that are also income-poor (Figure 38). These proportions are about 10 pp higher in rural than in urban areas. Over 50 percent of children younger than age 5 live in households deprived in food consumption, with the proportion increasing to 67 percent in rural areas. While deprivations in basic services are lower than in education and food consumption, they remain high among children. Between 8 and 10 percent of children younger than 5 live in households deprived of improved drinking water, improved sanitation, or electricity. The prevalence of deprivations among children may have serious consequences on the development of future generations.

## The Persistence of Income Disparities

**Inequalities between households based on the education of their heads, their occupations, their sectors of employment, and the geographic location of the household are the largest contributors to income inequality.** Decomposition of inequality by household attributes shows that over one-third of income inequality is due to gaps between households based on the education of their head

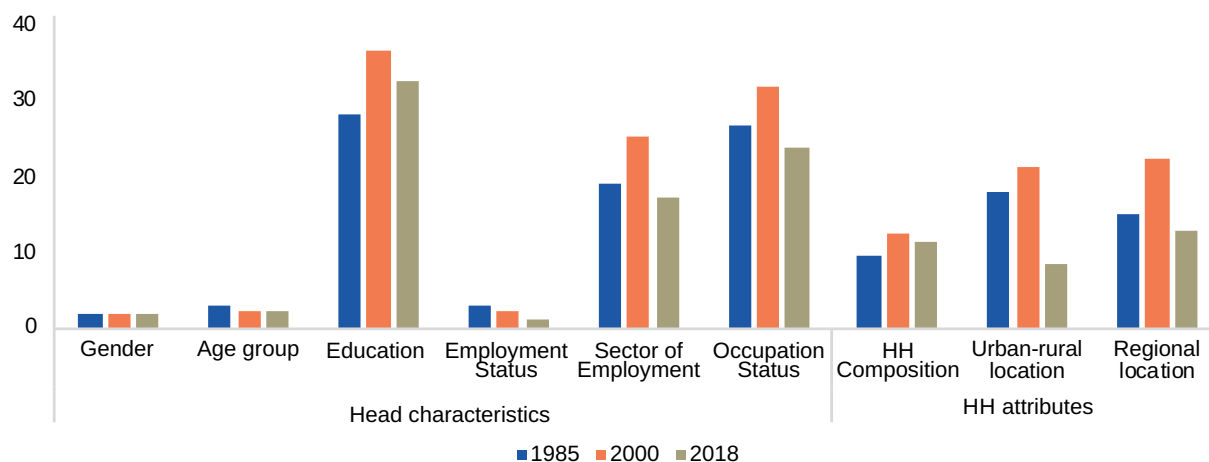
<sup>22</sup> The approach for estimating multidimensional deprivation is based on Alkire and Foster (2011) and follows as closely as possible the approach of the Philippines Statistics Authority (PSA) to estimating the multidimensional poverty index (MPI). Results are in line with PSA MPI measures, which show that in 2016 23.9 percent of Filipinos were living in multidimensional poverty, and in 2018 17.3 percent were.

(Figure 39).<sup>23</sup> Although education levels have risen over the past three decades, since 1985 the share of inequality explained by differences in the education of the household head has never gone below 28 percent. In 2018, at 24 percent, inequality between households based on the occupation of their head is the second largest contributor to income inequality—though that is down from 32 percent in 2000. The sector where the head was employed in 2018 was the third largest contributor to inequality at 17 percent, and income gaps between geographic regions came in at 13 percent. Differences in household demographic composition also account for a relatively important share of total inequality—it held steady from 1985 to 2018 at about 11 to 13 percent due to persistent gaps between households whose members were all over 14 years old, and those with large numbers of dependents. The explanatory powers of household head gender and age barely exceed 1 percent. The low share of gender in these decompositions can be explained by the low proportion of woman-headed households in the sample, about 20 percent, and the particular status of women who head their own households, who benefit from wide family support.

**Inequality in returns to college education across the income distribution is the most important reason why inequality persists.**

The coefficients (or returns) to household head education, occupation status, and employment sector are estimated using the RIF regression of the unconditional quantile of household per capita income on a set of household socio-demographic characteristics (Firpo et al. 2018). Figure 40 reports detailed estimates for the 5th to the 95th income percentile: returns to college education increase monotonically with income percentiles, from 17 percent at the 5th percentile to 174 percent at the 95th. This pattern of increasing returns for college graduates at higher income groups has persisted since 1985. For all income groups, returns to college education are higher than returns to secondary and lower education levels. However, while the persistence of high returns to college education is a positive sign of valuation of skills, the fact that higher education delivers different returns for rich and for poor households is still a concern. A likely explanation is the interaction between schooling and unobserved complementary endowments. The income distribution reflects unobserved endowments and skills relevant to the labor market. Those at the bottom of the income distribution tend to have not only less education

**Figure 39. Share of Inequality Between Groups in Total Income Inequality, 1985–2018, Percent**



Source: FIES 1985 to 2018.

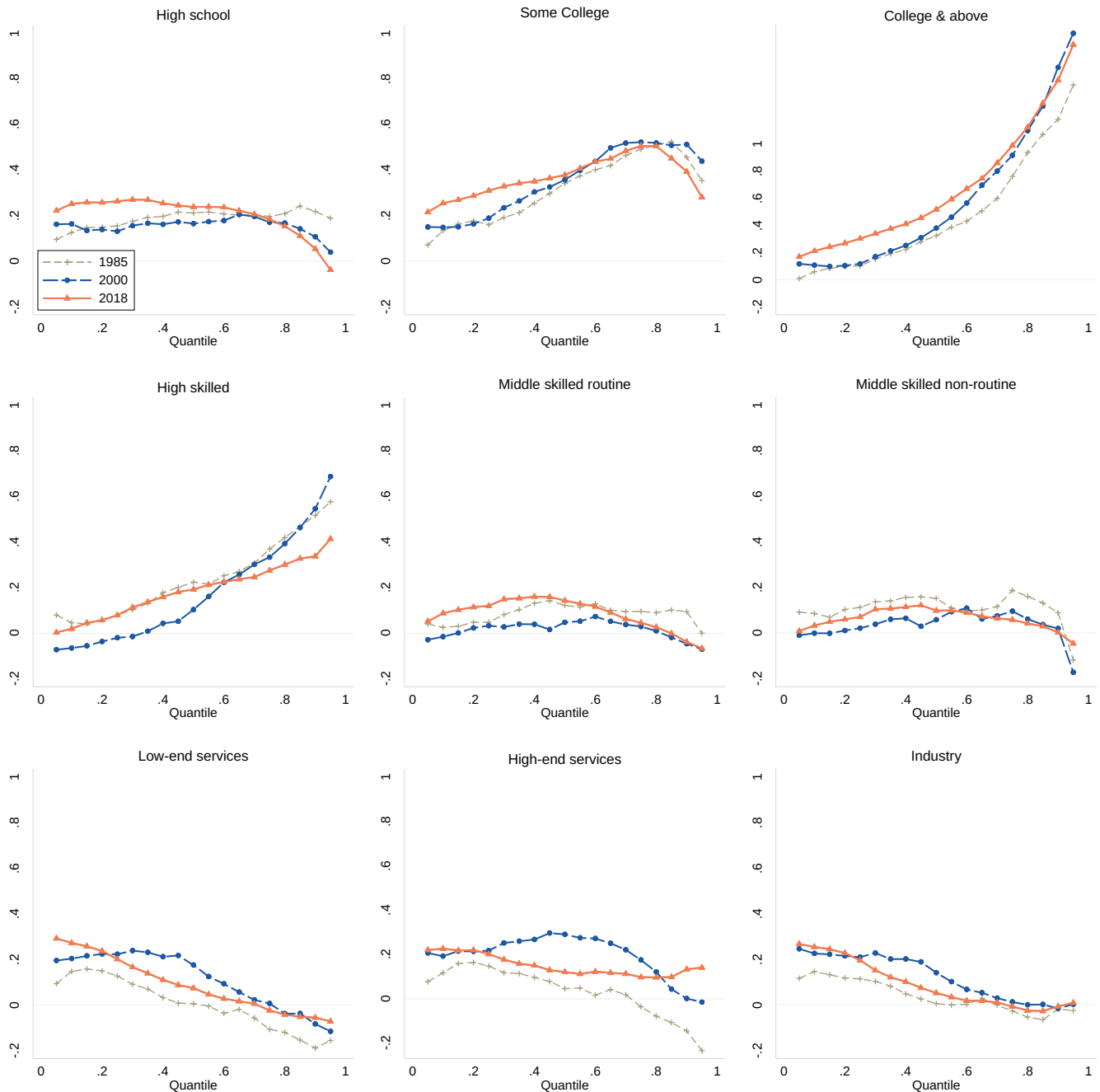
Note: Estimates are based on Theil\_L and bootstrap 100 replications.

<sup>23</sup> The analysis uses the conventional decomposition method of Cowell and Jenkins (1995) to measure how much inequality is explained by a given household characteristic or set of characteristics. Nine characteristics are considered: the gender, age, education, employment status, sector of employment, and occupation status of the household head; the regional location, urban/rural status, and the demographic composition of the household.

but also fewer unobservable complementary endowments. When education compensates for low endowments, returns to education tend to be larger for poorer than better-off groups, which reduces inequality, but if education complements unobservable endowments, the effect of education increases across the income distribution,

increasing inequality (Buchinsky 1994, Mwabu and Schultz 1996). Another possible explanation relates to differences in school quality: students whose education was of lower quality tend to do worse in the labor market, and thus receive lower returns for a given amount of education (Patrinos et al. 2006).

**Figure 40. Returns to Education, Occupation, and Employment Sector, 1985–2018, Percent**



Source: FIES 1985 to 2018.

Note: Estimates represent the unconditional quantile coefficients at different percentiles of the income distribution. The base groups in the regression are primary education, work in agriculture, and low-skilled occupations.

**College education tends to complement unobservable skills and endowments, widening inequality; secondary education tends to compensate for unobservable skills, narrowing inequality.**

The increasing returns to college education across the income distribution suggest that workers with higher endowments and skills seem to benefit from additional investment in higher education, and the gap is widened by differential access to quality schooling. In contrast, secondary education seems to act as a substitute for unobservable skills and tends to compensate for lower endowments—workers with lower skills and endowments would benefit more from secondary education, which would tend to reduce inequality. This can be seen in Figure 40 through the increase in returns to high school and some college education between 1985 and 2018 for the lower income percentiles (up to the 80th percentile). The figure also shows that returns for high school graduates and those with some college education tend to be lower at top percentiles than middle ones. The increasing returns to secondary education over time—despite the expansion of education—could be explained by job mobility stimulated by economic transformation, which allowed individuals with better education to move to better-paying jobs. This contributed partly to the pro-poor growth pattern and the decline in inequality since the early 2000s previously discussed.

**The gap in returns to high-skilled occupations is also a major cause of inequality.** Returns to high-skilled occupations (e.g., upper management, engineers and scientists, doctors) are also increasing across the income distribution, but the slope has become less steep over time.<sup>24</sup> It is estimated that returns to engineering, management, and other high-skilled occupations are more than 10 times higher at the upper end of the income distribution than for the poorest groups, which suggests that high-skilled occupations contribute to the persistence of inequality, though

the effect is declining over time (Figure 40). There are some variations in the contribution of different occupations and industries that are consistent with technological change and the potential routine-biased polarization of incomes. For example, as shown in Figure 40, there are increases in the returns to high-end services at the lower and upper ends of the income distribution but decreases in the middle. Returns to middle-skilled nonroutine occupations declined for all income groups except the top quintile, while returns to middle-skilled routine occupations increased at the bottom and middle of the income distribution.

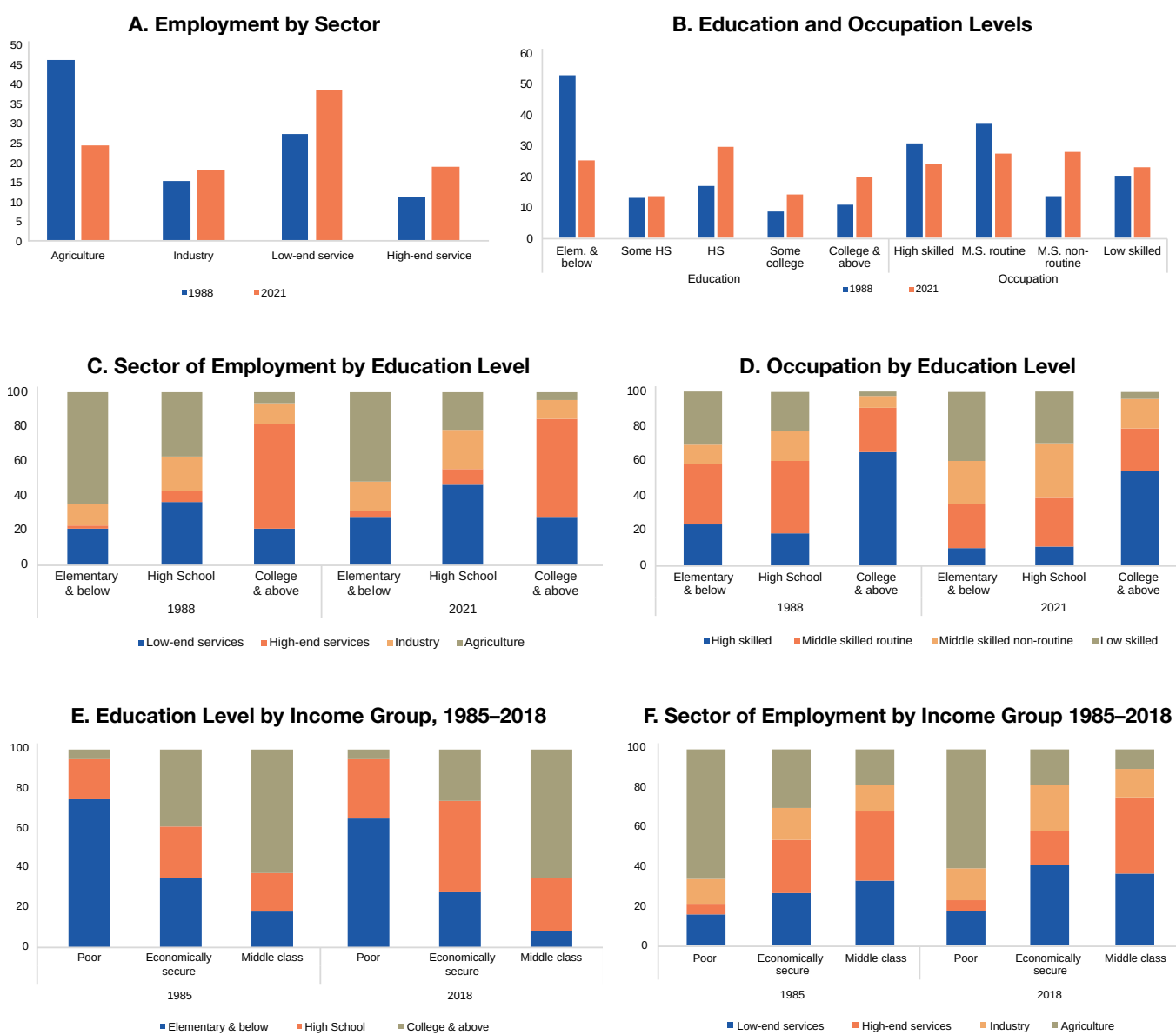
**Between 1988 and 2021 the Philippines experienced an expansion of high school educational attainment and a shift of employment to more productive sectors, but less-educated workers and poor people benefitted less from the transformation.** With structural transformation, employment declined substantially in agriculture and increased in services, particularly low-end services, and to a lesser extent industry (Figure 41 panel A). With the expansion of education, the share of workers who completed at least some high school increased from 29 percent in 1988 to 43 percent in 2021, but the share of college graduates only went up from 10 to 19 percent. Employment increased in middle-skilled nonroutine occupations, such as service and sales, from 13 to 27 percent but declined in routine occupations like clerical support and plant and machine operators from 37 to 27 percent. In 2021, middle skilled occupations made up 54 percent of all nonfarming occupations—up from 50 percent in 1988 (Figure 41 panel B). Between 1988 and 2016 the share of workers in high-skilled occupations rose slightly, from 30 to 35 percent, then headed down, reaching 23 percent in 2021. Less educated workers were not able to benefit from economic changes; those with no more than elementary education remained overwhelmingly employed in agriculture and low-skilled occupations (Figures 41 panels C and D). Similarly, almost 70

<sup>24</sup> The classification of occupations follows Acemoglu and Autor (2011) and Barany and Siegel (2018). High-skilled occupations include managers and managing proprietors, professionals, and associate professionals and technicians. Middle-skilled routine occupations are comprised of clerical support workers, craft and related trades workers, and plant and machine operators and assemblers. Middle-skilled nonroutine occupations are comprised of service and sales workers. Low-skilled occupations comprise elementary occupations, which include cleaners and helpers; and laborers in mining, construction, manufacturing and transport.

percent of the poor did not go beyond elementary school and over 60 percent were still employed in agriculture; outside agriculture about 35 percent of the poor were in low-skilled occupations. In comparison, the economically secure (living on \$5.50–\$15 a day in 2011 PPP) and the middle class (living on more than \$15 a day) continued to improve their education and their employment in productive sectors, though education of the

economically secure was still at the high-school level and their employment was concentrated in low-end services and, to a lesser extent, industry (Figure 41, panels E and F). In 2018 about 56 percent of the economically secure were in middle-skilled occupations and 28 percent in high-skilled occupations; for the middle class, the proportions were 36 percent in middle-skilled work and 60 percent in high-skilled.

**Figure 41. Employment by Sector and Occupation, 1988-2021, Percent**



Sources: LFS 2002–21 and FIES 1985–2018.



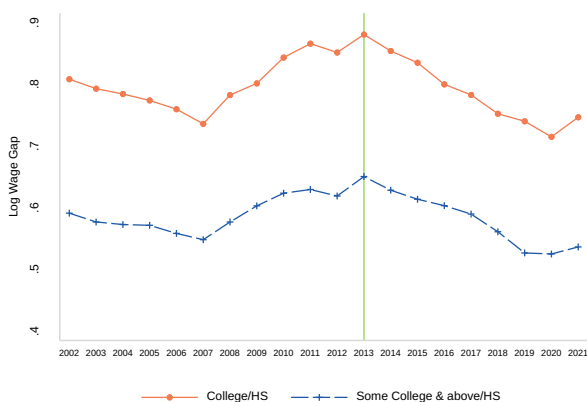
**Further analysis of the labor market valuation of skills and the relative supply of skills helps to clarify the role of higher education in the persistence of inequality.** The previous analysis and Figure 40 examined the patterns of returns of household income to the education of the head and investigated variations in returns to college education over time and across the income distribution. The following paragraphs complement the previous analysis by exploring patterns over time in college wage premiums and the relative supply of college-educated workers. The first measures the relative earnings of college- and high school-educated workers and provides a rough measure of how the labor market values skills; the second indicates the relative supply of skills. The analysis should help to illuminate how the interaction of the labor market and education affects wage gaps and thus income inequality (wage income is the main source of household incomes). The analysis, which builds on the work of Acemoglu and Autor (2011), is detailed in Appendix D.

**The slow expansion of tertiary education and the shortage of skills has kept the scarcity value of skills high, leading to a large skill premium and preventing faster reduction in inequality.** Figure 42 shows a persistently large college wage premium, which trended downward in 2002–07, then reversed course until it peaked at 88 points in

2013; it then again reversed course and declined steadily until it hit 71 points in 2020, at which point it again rebounded, reaching 75 points in 2021. That year the wage earnings of the average college graduate exceeded those of the average high school graduate by 112 percent; in comparison, the wage earnings of the average worker with at least some college education exceeded those of the average high school graduate by 72 percent. The college premium has followed the same trends for men and women but was much higher for women; it appears that gaps in returns to the skills of women are a more problematic source of inequality than gaps among men (Figure D1, Appendix D). The college premium is affected by, among other factors, the relative supply of skills. Figure 43 illustrates the evolution of the relative supply of college- and noncollege-educated workers.

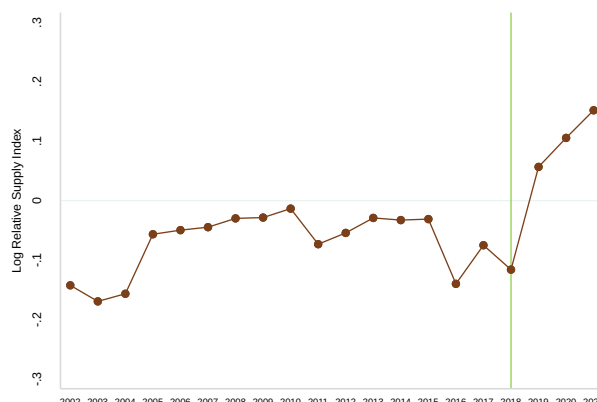
**The supply of college-educated workers has risen only during the past three years—**before that, it had increased marginally in 2002–10 and slowly declined in 2010–18. The supply of college workers was much higher for women than men, and in 2018–21 accelerated faster for them (Figure D2). The increase in the supply of college workers in 2018–21 was due to young college graduates entering the labor market; in particular there was a sharp acceleration in the relative supply of women college graduates (Figure D.3). Figure D.4

**Figure 42. Composition-Adjusted College/High-School Log Weekly Wage Ratio, 2002–21**



Source: LFS 2002 to 2021.

**Figure 43. College/High-School Log Relative Supply, 2002–21**



Source: LFS 2002 to 2021.

illustrates how the supply of experienced college graduates—those with 20–29 years of potential experience— increased marginally, and only for women. It seems that the increasing, though slow, enrollment in tertiary education, particularly among women, has contributed to a quite rapid increase in very recent years in the average education of the labor force. Meanwhile, the shortage of skills continues to be a serious problem for the economy; besides being a constraint on growth and productivity, it contributes to the persistence of a large skill premium and the tenacity of inequality.

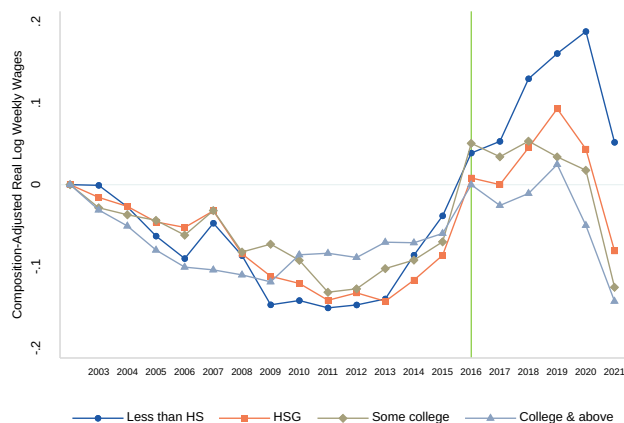
**In the 2010s, real wages of less-educated workers grew faster than those of college-educated workers, helping to reduce inequality, but wage gaps between education groups remain large and since the pandemic seem to be increasing.** The college/high-school wage premium gives information about the market value of skills but not about real wage levels; a large or rising college wage premium can occur if real college wages rise, real high-school wages fall, or both. Figure 44 plots the evolution of composition-adjusted real log weekly wages by education level from 2002 through 2021. Real wages plunged during the financial crisis of 2007/08, falling an average of 9 percent a year from 2002 to 2008. While wages rebounded between 2008 and 2020, they did not rise above 2002 levels until 2016.

**Following the COVID-19 crisis, real wages again fell, by about 12 percent, for most groups ending up below 2002 levels.** Figure 44 reveals four key facts about the evolution of earnings by education groups that are not evident from the plots of the college/high-school wage premium: (1) A sizable share of the decrease in the college wage premium in 2002–08 is explained because the wages of highly educated workers fell faster. During this period college wages fell 11 percent—9 percent for men and 12 percent for women; wage decline at 8 percent was more modest among less-educated workers, reaching 5 percent for men who had less than a high-school degree. (2) Widening of the college/high-school wage gap in 2008–13 was caused by a persistent

decline in the wages of less-educated workers and a modest rebound in college-educated earnings. During this period, real wages rose 4 percent for college-educated workers—1 percent for men and 6 percent for women—but declined 6 percent for workers with a high school education or less; the decline was slightly worse for women. (3) The narrowing of the college/high-school wage gap in 2013–20 was driven by steep rises in the wages of less-educated workers, which grew 39 percent, compared with just 2 percent for college graduates. Earnings of women with less than high school education went up 42 percent, compared to 37 percent for men; earnings of women college graduates went up by 4 percent and those of men did not change. (4) While earnings of all groups went down in 2020–21, they fell more for less-educated workers and women. Real wages declined by 13 percent for workers with less than high-school education—12 percent for men and 14 percent for women; in comparison, wages of the college-educated declined 9 percent—7 percent for men and 10 percent for women. The analysis of real weekly wages by occupation groups also shows limited changes for each group over close to two decades but persistent gaps in average wages by occupation (for 2002–21 the average wage in high-skilled occupations continued to be triple the average for low-skilled workers and at least double the average for middle-skilled workers). Analysis of the sources of income inequality found that since 2000 wage income has maintained the largest share, nearly 50 percent, in the income Gini coefficient (Figure 45).

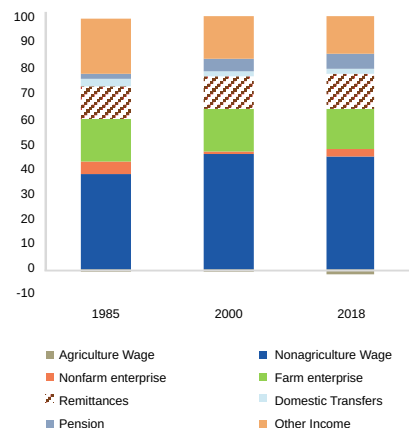
**Despite large college wage premiums, completing tertiary education does not automatically lead to better labor market outcomes, particularly for youth.** In 2021, Filipinos aged 15–24 had the largest rate of unemployment, 16 percent—5 pp higher than workers aged 25–34 and 10 pp higher than the 45–54 cohort. Among youth, unemployment was highest for those who had completed college, 25 percent—considerably higher than unemployment rates among those with less education. However, employment of college-educated youth varies

**Figure 44. Composition-Adjusted Log Real Weekly Wage by Education Group, 2002–21**



Source: LFS 2002–21.  
 Note: Log wages are normalized at zero in 2002; subsequent values correspond to the log change in earnings for each group relative to the 2002 level.

**Figure 45. Contribution of Income Source to Total Income Inequality, 1985–2018, Percent**



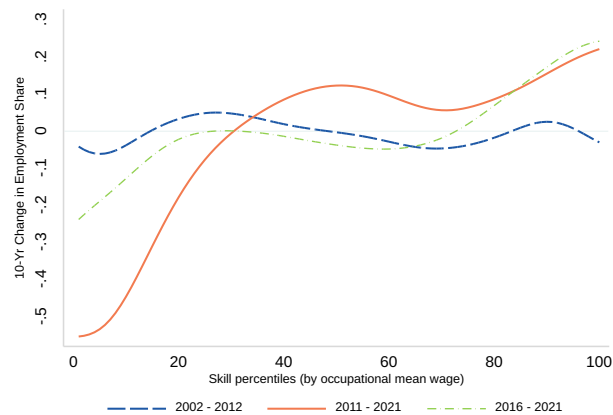
Source: FIES 2000 and 2018.

significantly by field of study. Estimates indicate that the young people most likely to be unemployed are those who majored in *education, social sciences, journalism & information, engineering, manufacturing & construction, and services*<sup>25</sup>; most likely to find jobs are those who majored in *business administration & law, ICT and health & welfare*. Young people can only benefit from the large college wage premium and gain from their additional investment in education if they find a job.

**The 2010s were marked by a relative expansion of middle-skilled occupations that probably helped to moderate inequality.** In many emerging economies and developed countries, structural transformation and technological change were coupled with a displacement of middle-skilled workers to low-skilled and low-paying jobs (Acemoglu and Autor 2011, Gochoco-Bautista et al. 2013). This polarizes jobs—growth of employment in high-wage and low-wage occupations and a hollowing-out of middle-ranked occupations—that induces increases in inequality. For the Philippines there is no clear pattern of

polarization, which suggests that middle-ranked occupations increased in the 2010s. Figure 46 plots the smoothed changes in wage employment shares for occupational skill percentiles, where occupations are ranked according to mean weekly wages.<sup>26</sup> Like Barany and Siegel (2018) and Acemoglu and Autor (2011), we use employment shares measured by the proportion of hours worked for each wage occupation as a share of total hours worked in all wage occupations; this gives more weight to occupations where average hours worked are greater. Occupations are ranked on the x axis by their skill level from lowest to highest; an occupation’s skill rank is approximated by the average wage of workers in the occupation in 2002. The height at each skill percentile on the y axis measures the growth of employment in each occupation relative to the whole.<sup>27</sup> The figure shows shifting patterns in employment shares between the 2000s and the 2010s. In 2002–12, changes in wage employment shares were relatively small and mostly negative except at the lower and higher ends of the distribution; employment shares increased slightly in the second through

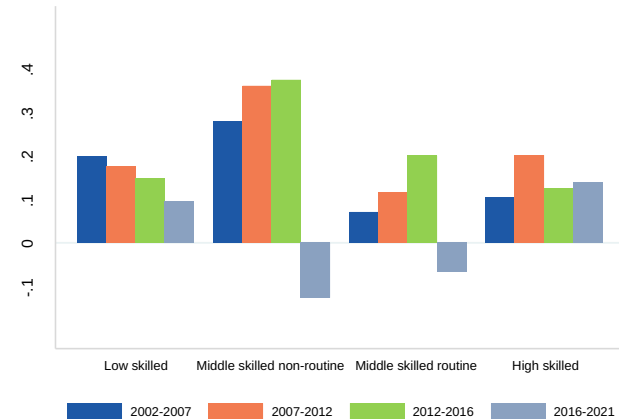
<sup>25</sup> Mainly those with a bachelor degree in personal services (i.e., hotels & restaurants and tourism) and transport services. This pattern was consistent pre- and post-pandemic.  
<sup>26</sup> Ranking by mean daily wages shows a similar pattern.  
<sup>27</sup> Occupations are split into 100 groups, each representing 1 percent of employment in 2002. We smooth changes in employment shares with a locally weighted regression using a bandwidth of 0.8. Results are not sensitive to the choice of the skill measure (daily vs. weekly wages) or base year for skill ranking.

**Figure 46. Wage Job Polarization**

Source: LFS 2002 to 2021.

the fourth deciles and in the ninth decile. In 2012–21, employment declined in occupations below the third decile and increased in the higher deciles. The increase was more pronounced around the median skill level and in the top decile.

**Signs of wage job polarization have been emerging in recent years, which may worsen income inequality.** The employment relationship seen in Figure 46 for 2012–21 seems to have changed in the past five years (2016–21) when job polarization began to emerge. During this period, wage employment growth was fastest in high percentiles, modestly positive in low percentiles (about the second decile), and negative in intermediate percentiles. This emerging polarization in wage employment was due to fewer wage jobs in middle-skilled nonroutine occupations, which fell 13 pp in 2016–21, and in middle-skilled routine occupations, which fell 7 pp (Figure 47). In contrast, wage employment in low-skilled occupations increased by 10 pp and in high-skilled occupations by 14 pp. Total employment, wage and nonwage, by occupation shows a different pattern from wage employment in the past five years (Figure D7). This suggests that while wage employment is going up in high-skilled occupations, nonwage employment is rising in low- and middle-skilled occupations.

**Figure 47. Change in Wage Employment by Occupation, 2002–21, Percent**

Source: LFS 2002 to 2021.

**Job polarization may be aggravated by the recent increase in digitization.** One possible effect of the pandemic is accelerated adoption of automation and increased business digitization. As firms continue to deal with closures due to virus outbreaks and lowered productivity due to containment and social distancing measures, companies could be choosing to rely less on workers and more on technology (Park and Inocencio 2020), which would worsen the recent job polarization among wage workers. As more firms choose to replace labor with automation, middle-skilled jobs, particularly in routine occupations, will thin out, forcing workers in shift to low- or high-skilled jobs. That could widen the wage gaps in the labor market by increasing disparities in occupational wages and productivity.

### Deterrents to Women's Economic Activity

**By several measures, the Philippines is a best performer in gender equality in the EAP region and even globally, yet women's participation in the labor force remains low—a waste of Filipino human capital.** The Philippines ranked 17th of 156 countries in the World Economic Forum's Gender Gap Index for 2021; women have held numerous major political positions, and they face few legal barriers—the country's gender equality laws are recognized as comprehensive.

Yet despite considerable economic growth, and falling fertility, in 2019, at 49 percent women's LFP was among the lowest in the EAP region. This is a missed opportunity for economic growth and increased prosperity in the Philippines—it is estimated that raising women's LFP by a mere 0.5 pp per year would by 2040 increase the country's GDP per capita by about 6 percent and by 2050 by almost 10 percent (World Bank 2021e).

**The considerable LFP gender gap is not driven by disparities in education—in the Philippines, women have higher rates of educational attainment and better learning outcomes than men.** According to the 2020 LFS, 25 percent of women aged 25–39 have completed tertiary education, compared to 19 percent of men. In the total working-age population, aged 15 and above, 63 percent of women but only 56 percent of men have completed at least high school, and 18 percent of women and 14 percent of men have completed college or have post-graduate degrees. As in many other countries, women are still underrepresented in STEM and ICT fields, but the proportions in the Philippines are higher than elsewhere in EAP. As for learning outcomes, girls have higher harmonized test scores on student achievement assessments and higher learning-adjusted years of schooling than boys (WB 2020d).

**Child care and gendered social norms, which consider women to be responsible for family care, appear to be holding back women's participation in the labor market.** Recent analysis of the barriers to women's economic empowerment found that over 75 percent of men and 80 percent of women agree that a man's job is to earn money and a woman's job is to take care of the family and home (World Bank 2021e). Moreover, 76 percent of women and 70 percent of men believe that the emotional and psychosocial development of young children may be affected when their mother works outside the home. Data from the 2020 LFS support these findings: married women consistently have lower LFP rates than single women and single or married men. Among women not in the workforce, 88 percent of married women cited household and

family duties as the main reason, compared to only 11 percent of single women. Women's LFP rates are 8 pp lower among those with young children at home (43 percent) than those without (51 percent). It appears that despite almost a decade of economic change, social attitudes and gender norms continue to prevent women's participation in the economy.

**Family responsibilities also affect the women who do work, influencing the type of jobs they can take.** Working women must balance employment with time-consuming responsibilities inside the home. On average, women spend about 25 hours a week looking after family members, and the amount of time jumps to 34 hours for women with children too young for school, compared to only 17 hours for men regardless of children's ages. Moreover, at peak reproductive age, 25–39, which also correspond to heavier domestic duties, married women and women with young children more often engage in nonwage work than single women; for instance, the share of self-employment is 16–19 pp higher for married women and women with young children than for single women. Apparently, when they work, women more often choose the type of work that allows them to balance home and work responsibilities.

**On average, working women seem to perform better than men, working at higher occupational levels, but that masks significant differences.** Women who work are clustered either in low-profile/low-paying occupations to avoid falling further into poverty or in high-profile/high-paying work driven by higher education. While on average women earn about 5 percent more than men, at the bottom of the pay distribution, wages per day for men are more than 50 percent higher than for women. The wage gap is particularly large between women and men with less than high school education. In part, women's earning disadvantage at the lower end of the distribution may be due to their desire to work in jobs that offer more flexible hours and work arrangements, as well as to social stigmas that deem certain types of jobs to be men's work. In contrast, wages per day for women at the top



of the pay distribution are about 20 percent higher than for men. The pay differential in favor of women at the top of the distribution is due to their higher qualifications and characteristics, essentially higher tertiary education and higher concentration in high-skill occupations. However, even with an earning advantage, the concentration of women in high-skilled positions declines considerably when they have young children, indicating a limit to what education alone can do to increase LFP.

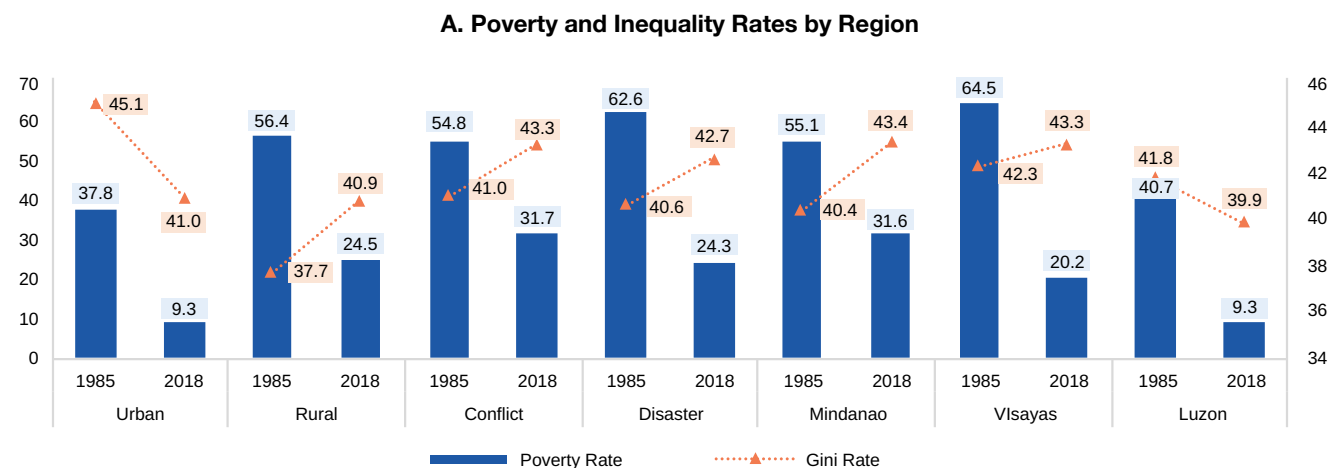
### Closing Geographic Differences

**Inequality between regions has been easing over time, but differences within and between some regions persist.** In the past 30 years, poverty was markedly reduced in all regions, and the decline was fastest in many vulnerable zones, though BARMM was an exception. The incidence of poverty fell 44 pp in Visayas, 38 pp in natural disaster-prone regions, and 32 pp in rural areas (Figure 48 panel A). However, it has been declining more slowly in Mindanao and conflict-affected regions than in Luzon and nationally. The reduction in poverty was also uneven within regions: in Mindanao, Northern Mindanao and Davao achieved the largest reduction in poverty, over 30 pp, while in BARMM the incidence of poverty held at about 62 percent in 2018—nearly quadruple

the national average and 28 times the rate in NCR. Poverty also declined much faster in Western (50 pp) and Central Visayas (44 pp) than in Eastern Visayas (34 pp). In 2018, the poverty rate persisted at over 30 percent in Eastern Visayas and in several regions in Mindanao (e.g., Caraga, Zamboanga Peninsula, and BARMM). Inequality also increased considerably within many vulnerable regions—the income Gini coefficient went up by over 3 points in rural areas and Mindanao and over 2 points in conflict-affected and disaster-prone regions; meanwhile it went down by over 4 points in urban areas and 2 points in Luzon. Inequality is still high in Central Mindanao (45.2 percent), Caraga (44.3 percent), and Eastern Visayas (44.6 percent).

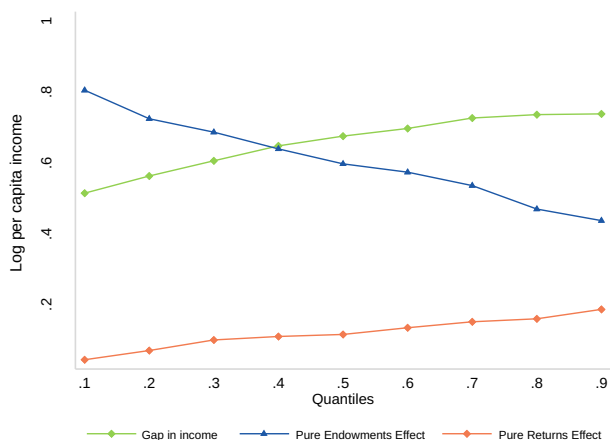
**Rural-urban inequality has been declining gradually but is still far from resolved.** After staying high at over 50 percent until 2000, rural poverty reversed dramatically, falling to 24.5 percent in 2018. While this is still high compared to urban areas, where poverty is estimated at only 9.3 percent, the urban-rural difference has been narrowing (Figure 48 panels B and C).<sup>28</sup> In 2000, the spatially deflated per capita income of urban households in the poorest quintile was 75 percent higher than the income of rural counterparts; the gap increases to 96 percent for the median.

Figure 48. Regional Trends in Poverty and Inequality, 1985-2018, Percent

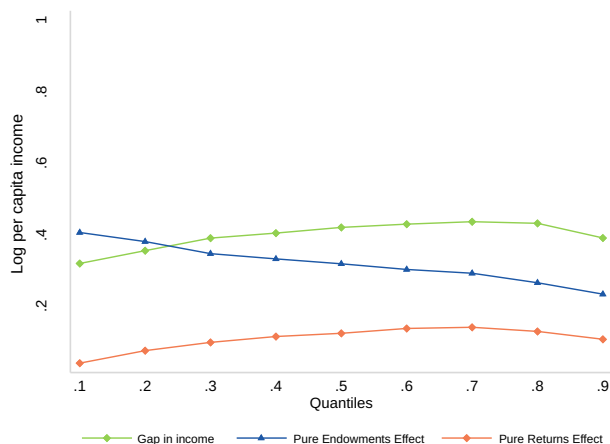


<sup>28</sup> Results in Figure 48 B and C are based on the RIF and on unconditional quantile regression of Firpo, Fortin, and Lemieux (2009).

**B. Rural-Urban Gap 2000**



**C. Rural-Urban Gap 2018**



Source: FIES 1985–2018.

Notes: Conflict-affected regions are Zamboanga Peninsula, Northern Mindanao, Davao, SOCCSKSARGEN, and ARMM/BARMM; disaster-affected regions are Bicol Eastern and Western Visayas, Davao, and CARAGA.

By 2018, the income of urban households in the poorest quintile was only 37 percent higher than their rural counterparts and was down to 52 percent in the median. Substantial improvements in rural household ownership of communication assets and in access to electricity contributed most to narrowing the rural-urban gap in 2000–18.

However, persistent differences in educational attainment at and above the high-school level and in access to more productive jobs in low-end services and middle-skilled occupations, followed by differential access to piped water, were responsible for the more than 70 percent difference in income between poorer urban and rural households in 2018.



# V. The Road to Inclusive Recovery



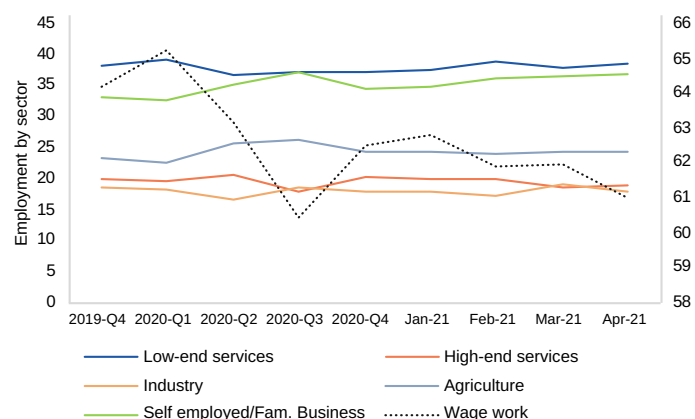
## COVID-19 may have widened gaps in employment

The shock from the pandemic led to a significant shift toward less productive sectors and occupations. As economic activity slowed drastically with the first Enhanced Community Quarantine (ECQ) in March 2020, employment in agriculture rose and employment in low-end services and in industry fell (Figure 49). Mirroring these changes, the share of wage work fell and self-employment and employment in family businesses rose. These transitions reversed almost three decades of structural change and shifts in employment to more productive jobs and sectors. Employment in low-end services and

industry rebounded slightly in April 2021 from its drop in the second quarter of 2020, but wage work continued to decline. Between January 2020 and April 2021, wage work fell from 65 to 61 percent while self-employment and employment in family business rose from 33 to 37 percent.

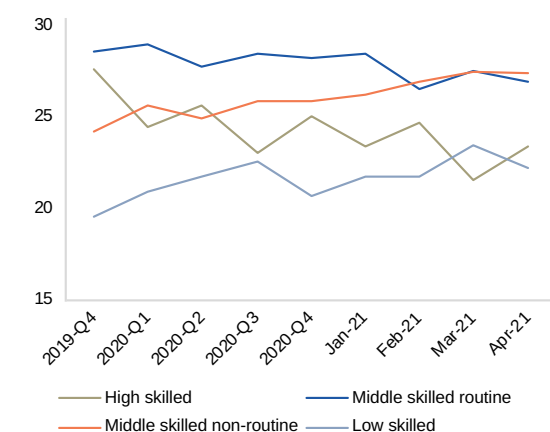
A shift to less productive work is also reflected in occupational categories: employment in high-skilled and middle-skilled routine occupations seems to have trended downward from January 2020 through April 2021 while employment in middle-skilled nonroutine and in low-skilled occupations trended upward, with the latter rising slightly faster (Figure 50). Considering wage occupations only, employment seems to have been

Figure 49. Employment by Sector and Type, 2019–21, Percent



Source: LFS 2019-21.

Figure 50. Employment by Occupation, 2019–21, Percent



Source: LFS 2019-21.

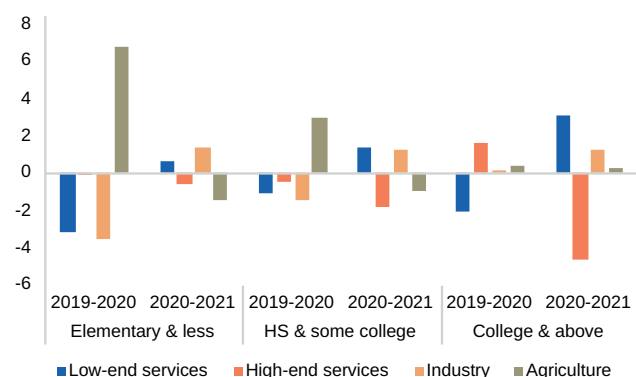
shifting from middle-skilled to low- and high-skilled occupations, which suggests that the polarization in wage employment that apparently started in the mid-2010s will persist during the recovery and may worsen in the next few years. The post-COVID-19 era will likely result in an expansion of the digital economy and acceleration of the transformation of jobs. These changes may further the transition of workers from middle-skilled to low- and high-skilled occupations. Concerns have been raised in many countries about heightened job polarization and income inequality with the transformation of jobs post-COVID-19 (Park and Inocencio 2020, Beylis et al. 2020).

**The transition to less productive work has been more pronounced among workers with less education.** At the onset of the pandemic, employment in agriculture rose 6 pp among workers with less education, while their employment shares fell 3 pp in low-end services and 4 pp in industry (Figure 51). Although employment in agriculture declined slightly as the economy began to recover, in April 2021 about 52 percent of workers with elementary education or less continued to work in agriculture, up from 47 percent in April 2019 (Figure 51). Meanwhile, employment of workers with less education in high-skilled occupations went down by 5 pp between 2019 and 2021 as employment in low-skilled occupations rose by almost 3 pp (Figure 52). In April 2021, 39 percent

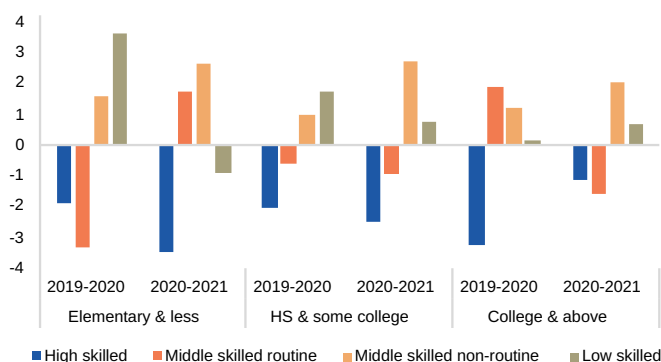
of less-educated workers were in low-skilled occupations. In that two-year period, the share of less-educated workers who were self-employed or working in family businesses rose from 48 to 51 percent, while the share of wage workers went down from 49 to 46 percent. In 2021 the shift to less productive sectors and occupations also occurred among workers with more education, but these transitions were smaller: although employment of college-educated workers in high-end services declined by 3 pp from its level pre-pandemic, their employment in agriculture went up by only 1 pp.

**The increased engagement of youth in less-productive sectors could jeopardize the country’s growth and productivity prospects.** Unemployment and underemployment have risen disproportionately among workers aged 15–24, and were persistently higher than national totals throughout 2021. Moreover, between 2019 and 2021 employment of the youth in high-end services dropped from 19 to 14 percent; meanwhile, their employment in agriculture rose 5 pp—from 21 to 26 percent (Figure 53). In 2019–21 employment in low-skilled occupations also grew faster for youth, from 30 to 35 percent, than for middle-aged workers (35–44), for whom the increase was from 19 to just 20 percent. As part of these transitions, the share of youth in self-employment or working in a family business rose 6 pp, reaching 33 percent in 2021; their engagement in wage work had dropped

**Figure 51. Change in Employment by Sector and Education, 2019–21, Percentage Points**



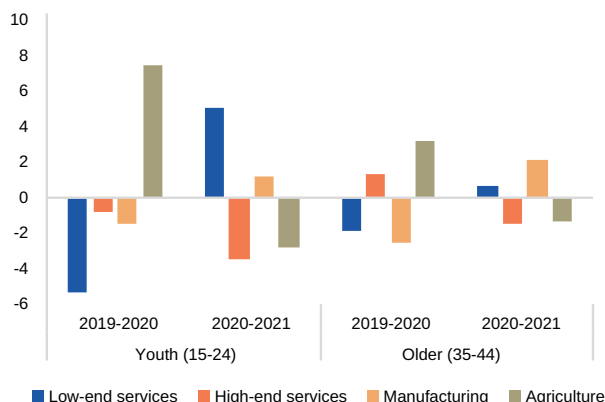
**Figure 52. Change in Employment by Occupation and Education, 2019–21, Percentage Points**



Source: LFS 2019-2021.

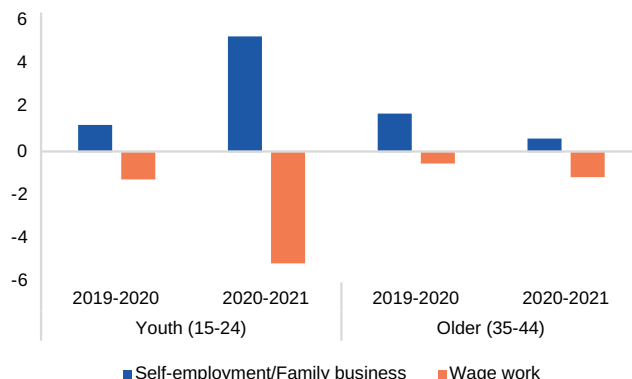
Note: Variations are between the second quarters of the relevant years.

**Figure 53. Change in Employment by Sector and Age, 2019–21, Percentage Points**

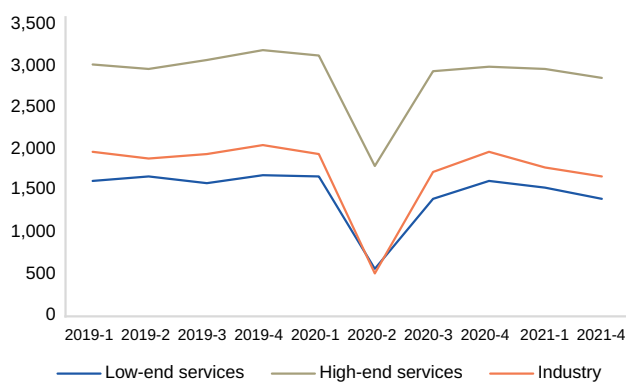


Source: LFS 2019–21.  
 Note: Variations are between the second quarters of the relevant years.

**Figure 54. Change in Employment Type by Age, 2019–21, Percentage Points**

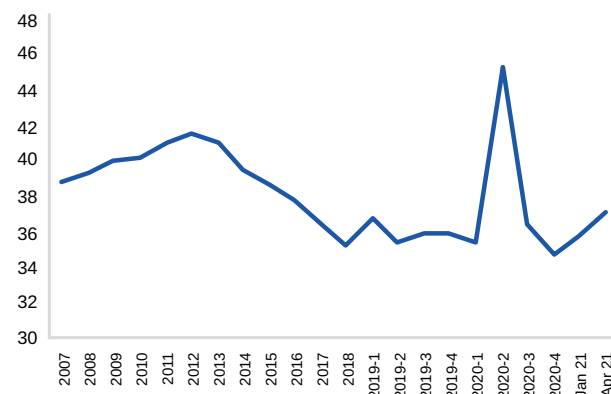


**Figure 55. Weekly Wages by Sector, 2019–21, PHP**



Source: LFS 2019–21.

**Figure 56. Gini Coefficient for Weekly Wages, 2007–21, Percent**



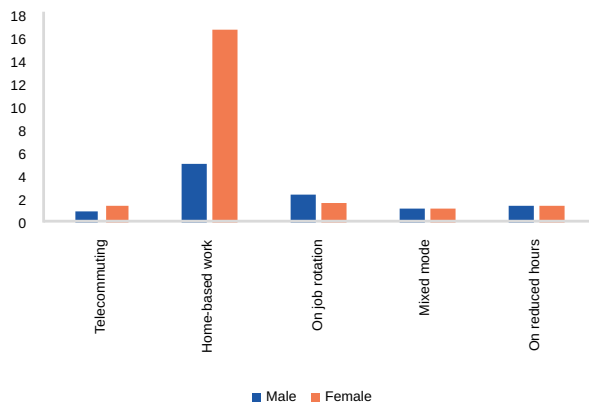
Source: LFS 2007–21.

from 73 percent in 2019 to 67 percent (Figure 54). With the economy still recovering from the severity of the pandemic shock, fewer apprenticeships and internship opportunities, and a new cohort entering the labor force every year, young people will probably have to deal with the effects of the pandemic for years to come. Transitions in employment among youth, which demonstrate movement to sectors and occupations that offer narrower avenues for career growth and skills development, could limit their career trajectories for a long time, and thus also limit the productivity and competitiveness of the Filipino workforce.

**Uneven drops and recovery in wage income points to widening income inequality.** While wage income fell across all sectors when the COVID-19 crisis began, those most affected between the first and second quarters of 2020 were workers in industry, where wages were down by 73 percent, and low-end services, where wages were down by 66 percent (Figure 55). That caused a spike in the wage Gini coefficient, which rose higher than its peak after the 2008 financial crisis (Figure 56). While wage income has since been recovering slowly, as of April 2021 wage income for low-end services was still just 84 percent of the pre-pandemic level and for industry just 87 percent;



**Figure 57. Flexible Work Arrangement by Gender, January 2021, Percent**

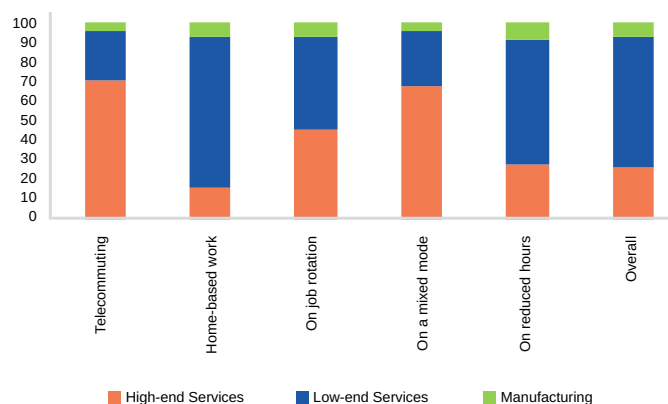


Source: LFS 2021.

wages in high-end services had reached 91 percent. It appears that recovery has been slower for low-end services and industry, both of which employ a large share of less-educated workers. Reflecting this pattern, the wage Gini coefficient fell after the initial shock before turning back upward, suggesting that inequality is widening as the economy recovers from the pandemic.

**Women returning to work have been able to access flexible work arrangements but have mostly entered lower-productivity sectors.** Among those who were not working in the fourth quarter of 2020 but returned to work in January 2021, 23 percent of women and 11 percent of men had flexible work arrangements, the majority in home-based work (Figure 57). Flexible work arrangements can make it possible to manage both domestic responsibilities and a career. However, two-thirds of the women who returned to work entered low-end services (Figure 58). Women who could find positions that allowed telecommuting or mixed work modes have mostly been able to enter high-end industries but 77 percent of those in home-based work were in low-end services, mainly in wholesale and retail trade. As of April 2021, 80 percent of women in home-based work are in non-wage jobs, about 65 percent are self-employed and 14 percent are unpaid family workers, and around two-third did not go beyond high school. In contrast, 73 percent of women telecommuting are in wage jobs (mostly in private establishments

**Figure 58. Sectors by Type of Work Arrangement for Employed Women, 2021, Percent**



Source: LFS 2021.

and in government or government corporations), and 60 percent have a college degree and above. Home-based work offers an opportunity to increase women's participation in the economy while reconciling their family and working roles. However, in order to enable homeworking women to be economically productive and empower them, it is fundamental to have a better understanding of home-based workers' challenges and needs.

### Pressure on Education in the Philippines and Long-term Effects on Human Capital

**As a response to the pandemic, in March 2020 the country halted in-person instruction.** Between March 2020 and February 2021 schools were closed and about 24.9 million students from pre-primary to upper secondary missed in-person instruction (UNICEF 2021). The opening of School Year (SY) 2020–21 was deferred from August to October 2020, but as of January 2021, total enrollment in K-12 was still almost 6 percent lower than it had been in SY 2019–20 (World Bank 2021a). By mid-November 2021, about 100 pilot schools had reopened for face-to-face instruction, but as of April 2022 only about 20 percent of schools in the country had done so. While the precise learning losses are not yet known, they are undoubtedly tremendous.

**The challenges associated with distance learning could severely affect educational attainment and learning outcomes.**

When schools adopted distance learning at the beginning of SY 2020–21, the Department of Education identified a variety of learning modalities to support remote learning, among them an online learning platform and TV and radio programs in addition to traditional paper-based modules. However, the December 2020 round of the HFS showed that 80 percent of households that had students enrolled were still using paper-based modules as the primary modality (World Bank 2021a). The HFS also revealed that the top barriers to effective learning were lack of access to learning devices (e.g., iPad, PC); children's inability to learn remotely without adult supervision; and lack of internet access or sufficient mobile data. In the HFS of May 2022, 56 percent of households estimated that their children learned from remote learning less than half what they would have learned from face-to-face schooling. The proportion increases to 68 percent among poor households and to 64 percent in rural areas. Moreover, 25 percent of poor households mentioned their children attended the majority of classes (90–100 percent) compared to 57 percent in the richest quintile. With the additional COVID-imposed challenges to learning, a World Bank simulation of learning losses found that Filipino students could lose 1.4–1.7 years of learning-adjusted years of schooling, reducing their totals from 7.1 years to 5.7–6.1 years (World Bank 2021a). Given the delays in introducing face-to-face classes, the learning losses are likely to be much larger.

**These problems are likely to be even more intense for children from poor households.**

In addition to the problems with distance learning already mentioned, the HFS also found that older family members were unable to support students due to their own lack of knowledge about subjects, lack of understanding about online classes, lack of time, and lack of a physical space or quiet

area for children to study—all of which are likely to have affected students in poorer groups more. Before the pandemic, according to 2018 PISA data, less than 10 percent of Filipino households in the bottom decile had internet access or even a computer, and only 56 percent had at least one smartphone, compared to over 90 percent in the top decile. Moreover, only 53 percent of students in the lowest decile had a desk at which to study, compared to 91 percent in the top decile, and 50 percent had a quiet place, compared to 83 percent for the top decile. The lack of access to resources to support remote learning further disadvantages students from poor households, and makes it more difficult to raise or simply maintain learning outcomes, which were already low before the pandemic.

**The widespread pre-COVID learning poverty may have aggravated by the pandemic.**

In 2019, learning poverty, which measures the share of children who cannot read a simple text with comprehension by age 10, was estimated at 90 percent. Learning poverty in the Philippines is 55.9 pp higher than the average for the EAP and 30.1 pp higher than the average for lower middle income countries.<sup>29</sup> The *State of Global Learning Poverty: 2022 Update*<sup>30</sup>, shows that the pandemic has deepened the learning crisis globally, sharply increasing learning poverty and exacerbating the inequalities in education among children. The impact was more severe in countries where school closures were longer.

**In addition to short-term economic losses, the pandemic could also have longer-term consequences for the competitiveness of the Filipino workforce.** Overseeing children's education as they study at home has added to the domestic work of parents; the HFS found that parents are the main assistants in distance learning (40 percent), followed by grandparents (30 percent); and the COVID-19 Low Income Household Panel and Economic (HOPE) survey

<sup>29</sup> <https://documents1.worldbank.org/curated/en/972851624613012971/pdf/Philippines-Learning-Poverty-Brief-2021.pdf>.

<sup>30</sup> A joint publication of the World Bank, UNICEF, FCDO, USAID, the Bill & Melinda Gates Foundation, and in partnership with UNESCO. <https://thedocs.worldbank.org/en/doc/e52f5322528903b27f1b7e61238e416-0200022022/original/Learning-poverty-report-2022-06-21-final-V7-0-conferenceEdition.pdf>

findings indicate that for remote learning, students aged 6 to 8 required an average of 3–hours of supervision a day. The increased domestic responsibility could influence parental decisions to participate in the labor market, possibly resulting in forgone earnings. The disruption to education created by COVID-19 is expected to have exacerbated the already acute learning crisis in the Philippines. The long-term economic cost of learning loss could be substantial. The World Bank estimates that learning loss, which erodes the productivity and competitiveness of the country's workforce, could decrease the average annual earnings of each student by \$893 to \$1,137 (2017 PPP; World Bank 2021a).

## The Effects of Social Assistance

**Emergency transfers under the *Bayanihan* laws covered a large share of the population, particularly the most vulnerable.** In response to the COVID-19 crisis, the government adopted the *Bayanihan* to Heal as One Act (*Bayanihan 1*) and the *Bayanihan* to Recover as One Act (*Bayanihan 2*).<sup>31</sup> *Bayanihan 1* and 2 both have a very complex structure and encompass multiple assistance programs. APIS 2020 collected information on coverage and financial assistance under selected *Bayanihan 1* social amelioration programs; 96 percent of all households benefitted from some form of *Bayanihan 1* assistance (Figure 59).

**The largest assistance provided by *Bayanihan 1* in 2020 was from the social amelioration and government relief programs.** Based on APIS 2020 data, the total amount transferred to households in April–June 2020 under *Bayanihan 1* reached PHP 130.1 billion<sup>32</sup>; the total amount of conventional social assistance—4Ps, UCCT, social pension, student financial assistance programs, emergency shelter assistance, and government

feeding programs—transferred to households in January–June 2020 was PHP 49 billion. The average *Bayanihan 1* transfer per household from April to June reached PHP 5,258 (on average PHP 5,320 for households in the poorest income quintile and PHP 4,180 for those in the richest). Average conventional social assistance transfer per household from January to June was PHP 7,356 (PHP 7,789 for the poorest quintile and PHP 5,924 for the richest—average transfers from 4Ps were PHP 9,786 and PHP 8,789).

**Assistance programs helped households to recover, but some programs lacked a progressive structure.** The largest *Bayanihan 1* programs in terms of both coverage and budget are the Social Amelioration Program (SAP) and the government relief program—mainly local relief through food aid distributed by local government units (LGUs). The SAP covered 47 percent of households (nearly 60 percent of the poorest quintile and 25 percent of the richest) and was responsible for about 57 percent of the total financial transfers of *Bayanihan 1*.<sup>33</sup> The government relief program, on the other hand, covered about 86 percent of households and was responsible for about 33 percent of *Bayanihan 1* transfers. While social assistance, and 4Ps programs in particular, were progressive, allocating more than 30 percent of the funds to the poorest quintile and 6 percent to the richest, *Bayanihan 1* was not. This may be due to the specific character of the pandemic, which affected different household groups severely no matter their income or location. While the widespread initial impact of the crisis warranted high coverage, adjustments will be needed over time to better target assistance as impacts seem to cumulate for the poor, while better-off households seem to experience better recovery in their incomes.

<sup>31</sup> The government had expanded social assistance before the pandemic: it launched an unconditional cash transfer (UCT) program in 2018–20 as part of the Tax Reform for Acceleration and Inclusion law, though coverage and average transfers were relatively low. The government also increased health and education assistance transfers in 2019.

<sup>32</sup> The Department of Budget and Management released about PHP 200 billion to DSWD to fund SAP. <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1647-dbm-releases-p199-975-billion-for-dswd-social-amelioration-program>.

<sup>33</sup> Official figures show that over 60 percent of households (17.6 million) received SAP, significantly higher than the 47 percent (12 million) households in APIS 2020. The difference may be due to the timing of the survey, which was conducted in early July, when a small share of households were still receiving SAP (Cho and Johnson 2022).

**Figure 59. Social Assistance Coverage, 2020, Percent**

Source: APIS 2020.

Note: 4Ps includes CCT and modified conditional cash transfer (MCCT) programs. Coverage of the latter is minimal (4.3 percent in 2019 and 1.1 percent in 2020).

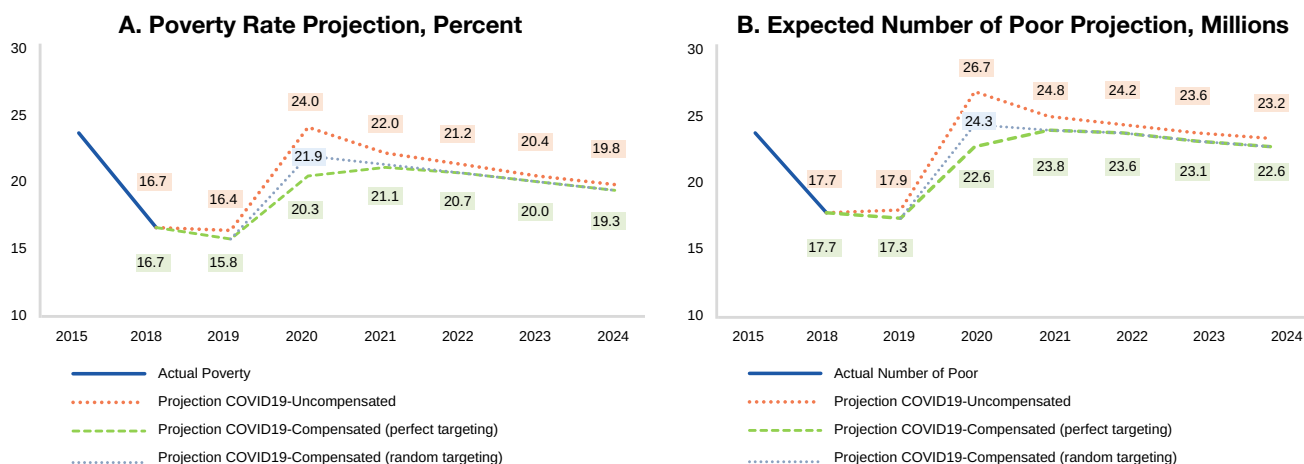
**The coverage of social assistance programs was substantial enough to deter poverty and inequality but not enough to fully compensate for the income lost during the pandemic.**

Results from the microsimulation model show that without the massive response from the government due to the *Bayanihan* Act, in 2020 poverty would have been almost 4 pp higher, making about 4.1 million people poor, of which 1.44 million were children. With growth in GDP per capita of 6 percent in 2019 and increased social assistance transfers, it is estimated that the poverty rate went down from 16.7 percent in 2018 to 15.9 percent in 2019. The pandemic-induced recession in 2020 that caused GDP to contract by 9.5 percent would have increased poverty to 24 percent without the government's emergency assistance measures. With GDP projected to grow at about 5.6 percent between 2021 and 2024, the poverty rate would have reached 22 percent in 2021 and then steadily decline to reach 19.8 percent in 2024. In 2020 an additional 9 million Filipinos would have entered poverty, of which about 1.47 million would have been younger than 15. Inequality would also have increased, with the Gini coefficient rising from 42.3 percent in 2018 to 46.9 percent in 2020 and over 45 percent from 2021 through 2024. Simulation results suggest that with the success of the *Bayanihan 1* and *2* assistance programs, and assuming perfect targeting, poverty would

have still increased to 20.3 percent in 2020 and the number of poor people would have increased by 4.9 million in 2020, of which 24,000 are younger than 15; though the numbers are daunting, that is still 4.1 million poor people and 1.44 million children less than if there had been no transfers. Transfers also helped keep inequality lower by about 1.6 points.<sup>34</sup> However, although social assistance helped Filipino households cope with the shock, the transfers—averaging less than PHP 6,000—were not large enough to compensate for the massive income losses from the pandemic. The most optimistic simulation scenarios and official preliminary estimates all show a significant increase in poverty and an expansion of the number of poor by at least 4 million. With the reduction of transfers under *Bayanihan* laws, the trend in 2021 was for poverty to continue upward and then start to decline slowly. But despite the expected sustained high economic growth, in 2024 poverty is still expected to be almost 3 pp higher than its pre-pandemic level.

**The coverage and targeting accuracy of emergency transfers enhanced their mitigating effects.** The perfect targeting scenario expressed in Figure 60 assumes that all *Bayanihan* programs were allocated to all intended beneficiaries based on the number of beneficiaries and targeting criteria in government documents and assuming total

<sup>34</sup> In the simulation model with transfers, the Gini coefficient is estimated at about 45.3 percent in 2020 and 44.8 percent in 2021.

**Figure 60. Impact of COVID-19 on Poverty, 2015–24**

Source: Projections based on FIES 2018, using macro-microsimulation model.

Note: Emergency transfers in 2020 have been adjusted based on information made available in APIS 2020. Projections for 2022 assume that emergency response programs will end.

amounts were fully disbursed.<sup>35</sup> When assuming random allocation of emergency transfers, the projected poverty rates and number of poor are much higher—poverty is 1.6 pp higher in 2020 compared to perfect targeting and the number of poor is 1.7 million higher.<sup>36</sup>

**Although the emergency transfers were more beneficial to rural areas, in coming years the rural-urban gap is expected to widen.**

Projections from the simulation model show that early in the crisis, urban poverty increased much faster than rural but it is expected to decline faster. It is estimated that urban poverty peaked at 16.6 percent in 2020 before beginning a steady decline to 11.8 percent in 2024—down 4.8 pp from its 2020 level but up 2.5 pp from 2018 (Figure 61). Rural poverty is predicted to jump in 2021 but then start to decrease, reaching 27.2 percent by 2024—up about 3 pp from its 2018 and 2020 levels. By 2024, the number of poor is projected to have increased by 2.1 million in urban and 3.2 million in rural areas, suggesting a reversal, or at least a plateauing,

of the progress achieved in narrowing the rural-urban gap. Cash infusions and emergency transfers helped attenuate the poverty impacts of COVID-19 in both urban and rural areas—they kept 1.4 million urban and 2.7 million rural residents from falling into poverty (Figure E1). The mitigating impact of transfers was much stronger in rural areas, where they prevented a 5 pp rise in poverty, compared with 2.4 pp in urban zones.

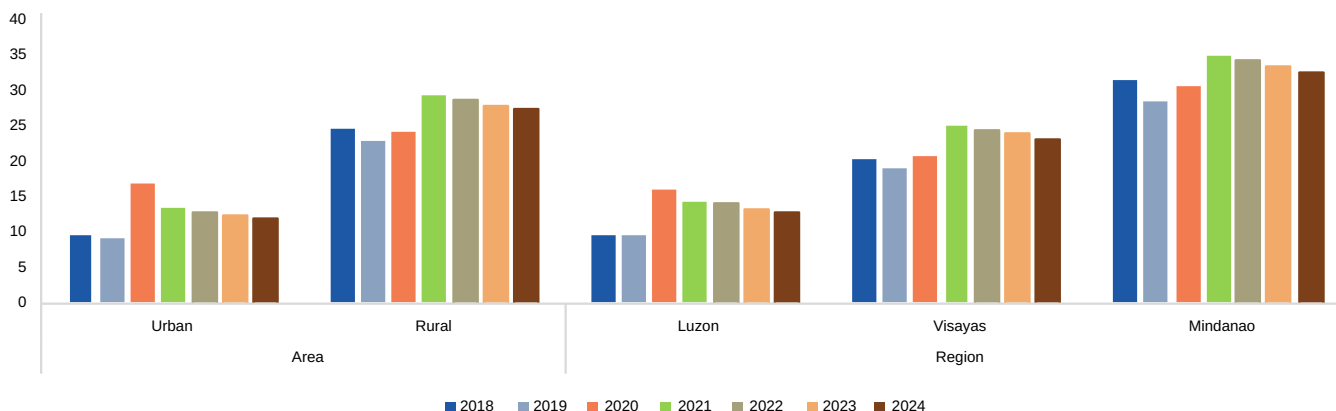
**However, with assistance being phased out starting in 2021, rural poverty is likely to rise.**

Among other possible reasons that rural poverty could have begun increasing in 2021 are the concentration of rural employment in sectors that are expected to recover only slowly and lower domestic transfers from private families. Most rural employment is in agriculture (48 percent), which is predicted to have grown in 2021 at –0.3 percent, and low-end services (23 percent), where growth was projected at 4.6 percent. In comparison, manufacturing and high-end services, which together account for over 45 percent of urban

<sup>35</sup> For example, the scenario assumes the allocation of the first tranche of SAP to 17.6 million households—4.3 million 4Ps and 13.3 million low-income recipients who are non-4Ps. The second tranche is allocated to 12.8 million households: 1.4 million 4Ps recipients, 6.2 million non-4Ps low-income, and 5.2 million from the waitlist. Both SAP1 and SAP2 were paid to 6.2 million non-4Ps households and 1.4 million 4Ps and are in ECQ areas. Information is from March 2022 figures on the DSWD website.

<sup>36</sup> Several simulation scenarios were conducted for random allocation. Results reported here assume perfect targeting of SAP to 4Ps recipients and households in ECQ areas and random allocation of SAP to other beneficiaries and other *Bayanihan* programs, calibrating the number of recipients and amounts by program to information in APIS 2020.



**Figure 61. Impact of COVID-19 on Poverty, by Region**

Source: Projections based on FIES 2018, using the microsimulation model.

Note: Projections cover transfers from Bayanihan programs and assume perfect targeting.

employment and only about 30 percent of rural, are both expected to have grown much faster (manufacturing by 8.6 percent and high-end services by 5.6 percent). Rural households rely heavily on private transfers from other families in the Philippines; urban households rely more on international remittances.<sup>37</sup> With the crisis, as confirmed by the HFS results for May 2021, domestic private transfers declined substantially compared to foreign remittances, affecting the incomes of rural households.

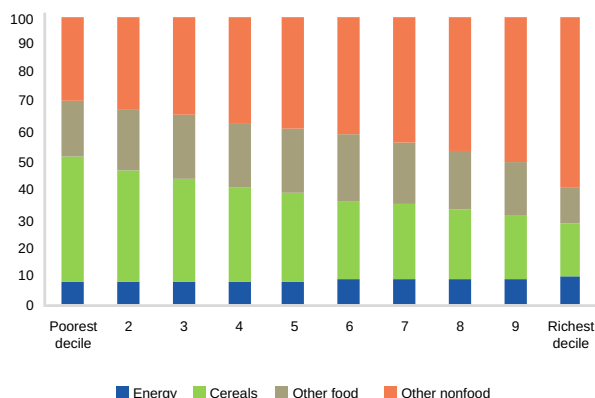
**Regional inequalities are expected to increase in the aftermath of the pandemic.** Luzon, particularly Central Luzon, CALABARZON, and NCR, saw the largest increase in poverty in 2020, although social assistance was highly effective in countering income losses in poorer regions. However, as assistance starts to phase out, recovery is diverging by region (Figures 61 and E2). Luzon is expected to experience the fastest decline in poverty through 2024, with the decline being largest in Central Luzon, CALABARZON and NCR. However, Visayas and Mindanao are expected to see poverty surge in 2021 and then decline very slowly; Eastern Visayas, Caraga, and Northern Mindanao would see a disproportionate jump in poverty in 2021 and the slowest decline in poverty thereafter.

## Social Assistance and Inclusive Recovery

**Inequality is expected to worsen in years to come.** A slow transition to tertiary schooling and a large skills wage premium, inequality in access to productive jobs and skilled occupations, gender inequalities, gaps between regions, and political economy challenges have all contributed to the persistence of inequality in the Philippines; and the COVID-19 pandemic seem to be aggravating it. Less educated workers and youth have either stayed unemployed or work in low-productivity jobs; wage inequality is the main source of income inequality; and rural and lagging areas are projected to be confronted by a much higher prevalence of poverty in the coming years than urban and advanced zones. Over the past decade social assistance helped to attenuate poverty, and emergency assistance during the crisis partly buffered vulnerable households against the economic impacts of the pandemic. However, despite the broad coverage, the benefits were not large enough to have real impacts on poverty and inequality, and mistargeting of cash transfers to non-needy households have been relatively important. With the gradual removal of emergency assistance, poverty is expected to surge in many vulnerable groups.

<sup>37</sup> In 2018, about 57 percent of rural households received transfers from elsewhere in the Philippines and 28 percent received remittances from abroad.

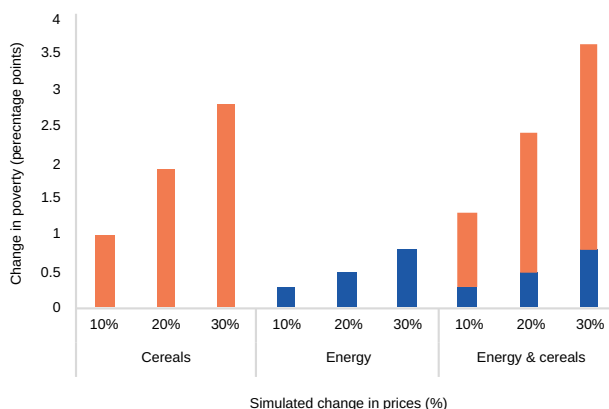
**Figure 62. Household Consumption Composition by Decile, Percent, 2018**



Source: FIES 2018.

**The Russia-Ukraine crisis may aggravate poverty in the Philippines by raising food and energy prices.** While neither Ukraine or Russia is a large trade partner of the Philippines, both countries are highly influential in global food and energy markets, providing almost 35 percent of the world’s wheat exports and close to 12 percent of the world’s crude petroleum exports (BACI 2020).<sup>38</sup> The continuing conflict will likely raise commodity prices, which could jeopardize the country’s prospects for alleviating poverty. According to the 2018 FIES, spending on food accounts for more than half of household consumption for 60 percent of Filipino households. For households in the poorest decile, food accounts for 64 percent of total household consumption, with cereals alone comprising 44 percent (Figure 62). Thus, any increase in cereal prices will likely hurt the poorest households most. Our estimates of the direct effects of price variation on poverty show that a 10 percent increase in the global price of cereals could raise the poverty rate by 1 pp, pushing an additional 1.1 million Filipinos into poverty, and an increase of 10 percent in energy prices would raise the poverty rate by 0.3 pp, equivalent to an additional 329,000 people in poverty (Figure 63).<sup>39</sup>

**Figure 63. Simulated Changes in Poverty from Increases in Cereals and Energy Prices**

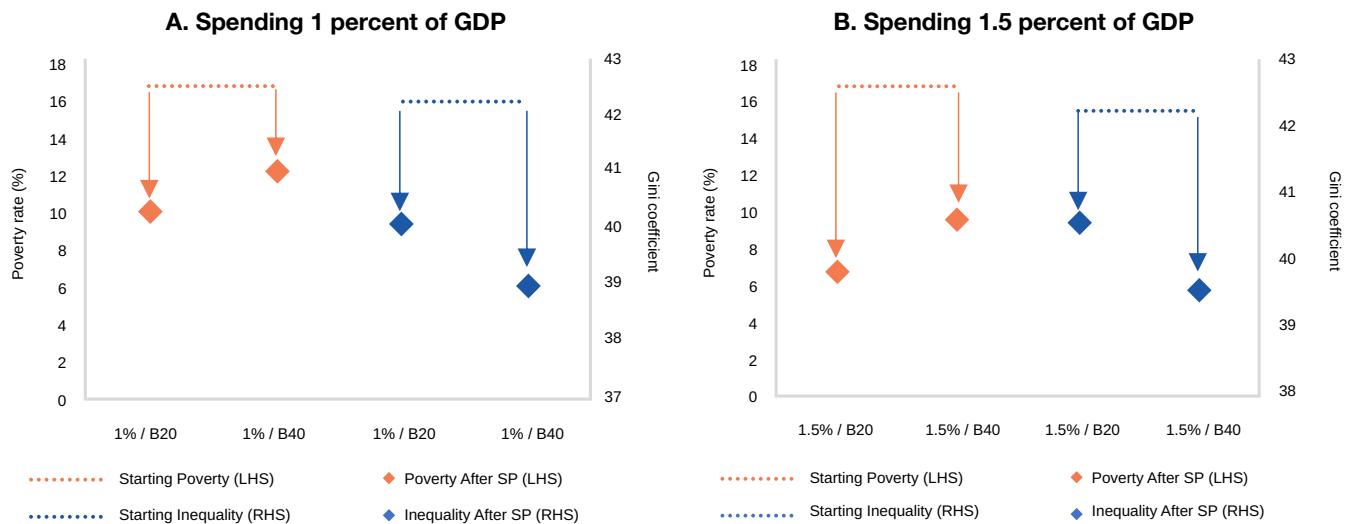


Source: FIES 2018.

**Unwinding COVID-19 assistance programs too quickly may intensify the hardship of vulnerable households.** In the May 2022 HFS, 30 percent of households reported having lower incomes than before the pandemic. In the poorest quintile, 40 percent reported lower incomes compared to 19 percent in the richest. The government started scaling back *Bayanihan* emergency transfers in 2021. However, unwinding household income support too quickly raises a risk that efforts to reduce poverty could stall—or that poverty could increase. Simulation analysis found that while social assistance was instrumental in limiting the rise in poverty in the first year of the pandemic, when the social assistance budget was reduced starting in 2021—and assuming that the previous COVID-19 social assistance funds are not allocated to other growth recovery programs—poverty may worsen (Figure 60). If there is a sustained economic recovery, poverty will be slightly lower in 2024—but will still be much higher than it was pre-pandemic. Most of the increase in poverty is expected to occur in already poor rural areas and regions.

<sup>38</sup> BACI: International Trade Database at the Product-Level

<sup>39</sup> The impact may in fact be higher: the estimated effect of the rise in energy prices is conservative—it does not include the indirect effects of increased energy prices.

**Figure 64. Simulated Effects of Transfers Targeted to the Bottom 20% and 40%**

Sources: FIES 2018.

**Government assistance could be carefully targeted to ensure continued protection of those most in need while conserving scarce government resources.** In 2018, conventional social assistance programs were not well targeted: for instance, 53 percent of the poor did not benefit from the 4Ps program but 19 percent of the nonpoor (and 2 percent of richest quintile) did. Updating beneficiary households for 4Ps based on application of the proxy means test (PMT) to 2018 FIES data reduces the inclusion error from 66 to 49 percent and the exclusion error from 52 to 16 percent.<sup>40</sup> A simple simulation exercise consisting in removing 4Ps assistance from the richest 60 percent and reallocating it to the poorest 20 percent would reduce poverty by over 2 pp. Following the COVID crisis, the government was prepared to make *Bayanihan* support broadly available to those who experienced pandemic-related income shocks. However, growing pressures for fiscal consolidation have raised the need for more efficient spending of scarce government resources. Moving forward, the country can still protect those most in need by better targeting assistance to poor

households and those who still suffer from the effects of the pandemic and are now exposed to shocks from the Ukraine crisis and climate change.

**Simulations illustrate how improving social assistance may entail a trade-off between promoting faster poverty reduction and accelerating reduction of inequality.** As the pandemic hit in 2020, the Philippines doubled spending on social assistance from less than 1 percent of GDP to more than 2 percent. As the country looks to balance its social assistance and fiscal objectives, the government has several levers at its disposal in addition to the targeting approach, including the intended beneficiary population and the size of the transfers. Figure 64 presents simulation results for transfers targeted using the PMT method. Panel A shows the estimated impacts of targeting either the bottom 20 or the bottom 40 percent of the population, assuming a budget equivalent to 1 percent of GDP; panel B shows the estimated impacts of targeting the same populations, assuming a budget of 1.5 percent of GDP. Budgets are significantly higher than the pre-pandemic budget but lower than they

<sup>40</sup> The DSWD, the lead agency designing and managing Listahanan, the country's targeting system, completed the first Listahanan registration in 2011 and a second in 2015. Of the 15.2 million households enumerated in 2015, the PMT model classified 5.1 million as poor. The third registration round was expected to be completed in 2019 but had to be postponed. Data collection was completed in November 2021, and the process is now in its final stage of community validation (Cho and Johnson 2022). The analysis here attempted to apply the PMT to FIES 2018 and compare the targeting accuracy with current 4Ps targeting. The variables used for the analysis are based on Mapa and Albis (2013).

were in 2020.<sup>41</sup> Targeting different beneficiary populations has different implications for poverty and inequality. In both budget scenarios, targeting the bottom 20 percent has more impact on poverty and targeting the bottom 40 percent has more impact on inequality. Targeting the bottom 20 percent reduces poverty by 7–10 pp depending on the budget allocation and reduces the Gini coefficient by about 2 points. Targeting the bottom 40 percent reduces the exclusion error from 16 to 2.4 percent and reduces the Gini coefficient by about 3 points but it reduces poverty by only about 5–7 pp.

### Political and Economic Concentration and Development

**Although economic inequality is the main focus of many studies on widening gaps, social and political inequalities are closely associated with it.** When inequalities in these three dimensions are large, the situation may constitute an “inequality trap” where the mutually reinforcing effects of one form of inequality make it difficult to address the challenges in another form (Mendoza 2021). In other words, political or social inequalities may be a constraint on reforms to reduce income inequalities. Recognizing how the sociopolitical environment affects the development dynamic can help move forward reforms that address economic and social inequalities.

**Sociopolitical economy factors are integral to the environment within which policy decisions are made and economic analyses conducted.** Who makes the decisions? What incentives apply, and to whom? What are the interests being protected? Such political economy considerations shape decision-making and implementation. The Philippines is marked by a high degree of economic and political concentration (World Bank 2020a), which can jeopardize policy reforms aimed at greater shared prosperity and inclusive growth.

**Many of the expected returns on effective public investments are designed to function through a strong system of public accountability.** In communities (*barangays*), municipalities, and cities, when public services degrade, the voting public can be expected to demand better governance and periodically elect new representatives to heighten their satisfaction with public services. However, in many local governments in the Philippines, this mechanism has been weakened by political concentration through, among other factors, cumulative incumbency advantages and eroded systems of checks and balances, among others (Mendoza et al. 2019). Political concentration can undermine systems of accountability and stifle public demand for improvements in social services.

**Weak local political competition can compromise effective service delivery in a variety of ways.** Barriers to competition may systematically turn away potentially more effective leaders while less effective incumbents are re-elected because they have accumulated political advantage. In the Philippines there are indicators that political competition is weak, which can affect development outcomes because it is a major factor in local and national governance (George and Ponattu 2018, Querubin 2016, Olson 2002). Across 10 election periods, political dynasties have grown vertically and horizontally (Mendoza, Jaminola & Yap 2019)<sup>42</sup>. In poor communities especially, clientelism and patronage-based systems influence the provision of social services such as livelihood support and health assistance. Thus, public funds tend to be directed toward individual grants rather than programs or local investments that have medium or long-term benefits<sup>43</sup>. Governance systems like these make it challenging to build long-term opportunities to develop human capital, which depends on effective local delivery of social services.

<sup>41</sup> Total cash transfers for 4Ps (4Ps and other government cash transfers) are estimated at 0.23 percent (0.31 percent) of GDP in FIES 2018. Administrative data show a slightly higher 0.35 percent.

<sup>42</sup> After the last local elections, over 66 percent of representatives in the House, 80 percent of governors, 70 percent of vice governors, and 53 percent of mayors were members of only a small number of political families.

<sup>43</sup> Local elected officials serve a 3-year term before running for re-election. An official is allowed a total of 3 consecutive terms—9 years of incumbency.

**Strengthening local governance can improve delivery of the very services where investments are needed to improve the well-being of the poor.** Local governance is consequential to building an environment within which opportunities are available—among them opportunities for jobs, good education, quality health care, support for agriculture, and access to social welfare services. Weak local government capacities lead to inefficiencies and thus poor service delivery. Many community services that would enhance equality in opportunities (e.g., health, social protection, nutrition) are provided by local governments, a number of which have minimal accountability mechanisms due to political concentration.<sup>44</sup> At the national level, “those who hold the keys to further economic and political reforms in the country... may face deep conflicts of interest as far as pushing reforms that may actually hurt their economic and political dominance in the country” (Mendoza et al. 2019).

**Though possible in highly concentrated environments (economic and political), economic growth can be more difficult; in such environments, economic competition may gradually be ground down.** Lack of political competition can limit private sector growth and competitiveness as regulation becomes more vulnerable to rent-seeking. The political system in the Philippines has historically been heavily influenced by economic elites (Hutchcroft 1998; McCoy 2009; Sidel 2014). The combination of oligarchic markets and political dynasties “curb the capacity of non-elite formations and players to assert more developmental policy regimes” (Tuano and Cruz, 2019).

## Quality of Local Social Services

**How well local government delivers services is critical to equal access to high-quality public services like health care, nutrition, water and sanitation, education, transportation, and certain social safety nets.** With the Mandanas ruling, the LGU role in poverty reduction will grow larger in relation to the central government yet the levers for equity remain very much with national agencies. Because it ensures that LGUs are allotted larger shares of the budget, more of the throughput in terms of effectiveness and efficiencies will course through local governments. Where local government capacity is weak, the equity-promoting aspects of social service investments may be undermined for entire localities.

**Power at the local level tends to be more concentrated, and incentives and capacities for providing high-quality social services can be undermined by inadequate accountability systems.** Geographic inequalities reflect differences in local governance capacities.<sup>45</sup>

**The likely theory of change is that investments in human capital and other assets will increase the incomes of the next generation** (World Bank 2015). However, severe inequality undermines the assumptions supporting this theory. When there is limited political competition, the rewards for delivering inclusive high-quality social services and incentives for equity-enhancing programs dissipate. For children born in poor communities where affordable health and nutrition care, high-quality education, and jobs are not available, there is likely to be more reliance on clientelism to gain access to government support. For instance, local officials give support for unaffordable out-of-pocket health care costs directly to families.

<sup>44</sup> There is international evidence supporting the hypothesis that places where vote-buying is high have less access to primary health services, and health outcomes are weaker (Khemani 2019; World Bank 2020a). While there is as yet no consensus among researchers on causal links between dynastic politics and development, there is empirical evidence that in areas outside Luzon, entrenched dynasties are linked to greater poverty (Mendoza et al. 2016).

<sup>45</sup> Poorer LGUs tend to have more concentrated dynasties setting priorities, making allocations, and running day-to-day local government administration (Teehankee 2012, Mendoza et al. 2016, 2019).



In some parts of the Philippines, accessing support for health care expenses depends on connections to barangay and municipal officials and the ability to navigate the system through those connections; and the support received is identified directly with a specific local official (Lasco et al. 2021). Such systems of service provision in the local level can short-circuit the transmission model that normally is expected from investments in human capital.



## VI. The Role of Policy



**Projections of GDP for 2021–24 are for economic growth to rebound—but rebound does not necessarily mean recovery.** GDP is expected to grow by about 5.6 percent annually through 2024, but the return of growth, while necessary, is not likely to be sufficient to prevent the pandemic from scarring the economy, and the people. Even before the pandemic, the external environment was no longer providing tailwinds to accelerate economic recovery. Today the already adverse external situation is aggravated by global recession and the war in Ukraine. International conditions, together with basic structural challenges, will considerably influence the pace and shape of recovery (Loayza et al. 2020). Previous crises have taught that countries where the demographics are favorable and those able to implement sustainable measures to deal with economic shocks fare better during recoveries. The Philippines is having to navigate the post-COVID phase and current international crises despite wide structural inequalities, a large informal sector, limited scope for home-based work, and eroding fiscal space. Although a quick resumption of economic growth is crucial for reversing poverty and inequality, inclusive recovery and long-term resilience need to be the main goals.

**The Philippines can still leverage the crisis generated by the pandemic to promote necessary reforms.** A central question related to recovery is whether resources should be directed to a business-as-usual recovery—a straightforward economic rebound— or to a new normal, a beyond-growth revival, that seizes the opportunity to reprioritize social policies and the economy (Yap 2020). Past crises in many countries have begotten reforms that have had lasting beneficial effects (Alesina, Ardagna, and Trebbi 2006; Bruno and Easterly 1996). Return to business-as-usual involves speeding up resumption of growth by adopting stop-gap policies that do not substantively address fundamental shortcomings. Such a course can over time amplify weaknesses and worsen subsequent crises. The pandemic has exposed areas of high vulnerability in both advanced and developing economies; but it has also opened an opportunity to address these weaknesses through commitment to policies to build back better. Policy priorities in the Philippines can be structured around three somewhat overlapping pillars: healing the pandemic’s scars and building resilience, setting the stage for a vibrant and inclusive recovery, and promoting greater equality of opportunity.

## Healing the Pandemic's Scars and Building Resilience

Carefully crafted policies can provide enough support that vulnerable population groups can absorb shocks as the crisis unfolds and become more resilient even as the challenges from rising inflation and climate events mount. Meanwhile, policy must also ensure macroeconomic and fiscal sustainability. Resilience will to a large extent depend on these priorities:

- ◇ *Promote uptake of booster vaccination.* The decline in COVID-19 cases in the Philippines—in large part due to the massive government vaccination effort—has made it possible to loosen mobility restrictions, allowing the economy to reopen almost completely and spurring the recovery of jobs. This underscores the critical role of vaccinations in economic recovery and the importance of building up population immunity. According to the HFS of May 2022, only 25 percent of Filipinos were fully immunized with booster vaccination, and the shares drop to 17 percent in rural areas and 12 percent in the poorest quintile. Less than 40 percent of the population was planning to get the booster. This illuminates the importance of addressing vaccine hesitancy, particularly in remote areas and among the poor. Preliminary results from a study on reducing vaccine hesitancy in the Philippines suggest that providing those who are vaccine-hesitant with simple messaging that speaks to either personal or social vaccination benefits from getting the vaccine could nudge people to get vaccinated (World Bank 2021b).
- ◇ *Support schools in assessing student learning and providing learning recovery programs.* During the last two years Filipino students have had widely differing learning experiences. As students return to face-to-face classes, it is critical to assess how much each student has learned and adjust teaching to support the recovery of student learning. This would require training teachers to help them prepare for classes where learning inequality may be large (World Bank

2021a). It will also be necessary to encourage students who have dropped out to return to formal schooling or enroll in alternative learning options.

- ◇ *Strengthen social protection programs and provide well-targeted assistance, particularly in regions where recovery is projected to be slow.* The government adopted a range of measures—under *Bayanihan to Heal as One Act (Bayanihan 1)* and *Bayanihan to Recover as One Act (Bayanihan 2)*—to support the economy, and to top up social assistance measures, extend benefits and increase their reach to a larger share of the population than ever before. These programs helped mitigate the impact of COVID-19 on poor and vulnerable groups, but they have either already expired or soon will. With projections showing that in 2022–24 in several regions poverty will decline only slowly, compounded by the likely increase in food prices and the growing exposure to climate risks, attention needs to be directed to more broad-based and more effective social protection programs. Targeting social assistance benefits to those most in need and speeding up their delivery can maximize the poverty- and inequality-reducing effects. Attention could be directed to active enrollment of new beneficiaries: the already poor who are not covered by social assistance benefits and those newly impoverished by the pandemic—meanwhile facilitating the graduation of beneficiaries who have achieved self-sufficiency. This can be done by using the 2020 National Household Targeting System or *Listahanan 3* database to address grievances of poor households who are excluded, and preparing a strategy for the recertification and enrollment of eligible and new beneficiaries and the exit of non-eligible ones. Priority should be given to improving social assistance benefits in regions where recovery is likely to be sluggish. The social protection framework can be upgraded to help Filipinos prepare for, cope with, and adapt to shocks without jeopardizing the country's fiscal position. Such reforms can build on lessons learned from the relatively rapid roll-out of COVID-related emergency benefits based on digital technologies.



- ◇ *Leverage technologies to improve targeting and make assistance more efficient.* The roll-out of the Philippine Identification System (PhilSys) registration for a national ID has been accelerated to improve targeting and delivery of public services. Great strides were made to establish a unified beneficiary database and improve beneficiary information management with the help of the PhilSys digital ID. By building on the adoption of digital payments and PhilSys, and with more accurate targeting using *Listahanan 3*, service delivery can reach more of the households that are most in need and respond faster to localized challenges and natural disasters. Linking PhilSys with both 4Ps and the unified beneficiary database would make possible a comprehensive and up-to-date beneficiary information database. A dynamic social registry can then be developed by building on the unified beneficiary database and *Listahanan 3*, which can be updated from a variety of databases (e.g., tax registry, PhilHealth, civil registry).
- ◇ *Develop a fiscally viable unemployment insurance program to reduce the vulnerability of informal workers.* This will help them to deal with income insecurity caused by a shock by cushioning the drop in income if there is an involuntary work stoppage. In particular, participation in government social insurance programs could be made more inclusive to allow rural informal employment which is abundant in agriculture (UNDESA 2021). This should be complemented by programs assisting in re-employment of affected workers (Vodopivec 2009).
- ◇ *Closely monitor inflation in order to minimize its impact on poor households.* In 2021 and the first three months of 2022, inflation reached the upper bound of the central bank 2–4 percent target (*Bangko Sentral ng Pilipinas* [BSP] 2022a)—annual inflation in 2021 reached 3.9 percent (BSP 2022b), and monthly inflation in March 2022 was estimated at 4 percent (PSA 2022). Prices of food and energy have been even more volatile: food prices went up as much as 6.2 percent in February 2021 and energy prices by 6.2 percent in March 2022. With pressures on global food and energy markets likely to rise with the continuing crisis in Ukraine, keeping prices stable in the coming months will be crucial for recovery. Reining in the impact of food inflation on households will be particularly important: rising food prices hurt the poorest households most and may increase food insecurity. Policy choices face a trade-off between tackling inflationary pressures and supporting economic recovery. The EAP economic update of October 2022 caution against price control and other distortionary measures taken by several countries to protect households from food and fuel price shocks, and overall increasing cost of living (World Bank 2022). The report suggests that more efficient social protection with targeted transfers to low-income households would better mitigate the poverty impacts of rising inflation at a lower fiscal cost.
- ◇ *Contain debt without compromising economic recovery.* The pandemic considerably narrowed the fiscal space of the Philippines. As the government continued to respond to it, in Q1 2022 the country's debt-to-GDP ratio reached 63.5 percent—above the 60 percent target. In 2020, the ratio had been just 54.6 percent. Moreover, with the ratio projected to peak in 2024 at about 63 percent, fiscal space to absorb future shocks will continue to be limited (IMF 2021). However, although the country's debt is still below the average for developing countries, it is crucial that the Philippines expand its fiscal space within the medium term—being careful not to infringe on economic recovery. This can be done by streamlining tax administration, making government spending more efficient, making prudent investments to restore growth, and expanding the tax base (World Bank 2021d).

## Setting the Stage for a Vibrant and Inclusive Recovery

Policies can support the reskilling, redeployment, and resilience of workers most affected by labor market disruptions; use education and training to build pathways to better jobs and help the workforce to adapt to a rapidly changing labor market; make the business environment supportive of entrepreneurship; address gender inequalities in the labor market; and promote inclusive rural development.

◇ *Support the reskilling, redeployment and resilience of those workers who have been disproportionately affected by the pandemic.* The COVID-19 crisis massively disrupted the labor market, causing both job loss and a shift of employment to non-wage work in less-productive sectors. The heaviest burdens were on youth and less-educated. Early progress toward recovery suggests it will be slower for low-end services and industry, both of which employ a large share of less-educated workers. The pandemic pushed the economy into faster adoption of digital technologies, further raising demand for higher-value-added skills, which will likely increase the mismatch between the skills available and those needed. Displaced workers and workers just entering the labor market may suffer significant hardship due to lack or loss of skills. The government has undertaken reforms to support workers' and businesses' recovery and to address the long-lasting effects of the pandemic on the labor market. A National Employment Recovery Strategy (NERS), institutionalized in June 2021, is the master plan to restore the Filipino labor market and foster quality employment. The NERS focuses on livelihood and training programs, worker reskilling and upskilling, and helping existing and emerging businesses to generate jobs.<sup>46</sup> As the Philippines continues its recovery from the pandemic, it is important to accelerate progress on the NERS. Among priority actions to support re-entry into the job markets, transition of

displaced workers to more productive activities and protect vulnerable workers are:

- *Upskilling and reskilling.* The government should continue to support skills development programs to reskill and upskill displaced or temporarily laid-off workers so that they can transition to more productive jobs, which will speed up recovery of the economy. During the pandemic, The Technical Education and Skills Development Authority (TESDA) offered online training programs and 1.5 million enrolled—a clear indication of pent-up demand and the potential for scaling up these training programs (World Bank 2021d). Private-sector-led reskilling can be cost-effective options not only to upgrade worker skills but also to nurture a culture of workplace training and coordination across enterprises in a given industry or locality. Broadening the reach of trainings to disadvantaged groups is critical to reduce the gaps in their access to skills development and employment programs. Online training platforms risk leaving behind those whose income is lower and have less, or no, access to digital technologies. Targeted, flexible, and responsive training will be important. Innovative solutions involving public–private partnerships can improve access and build capacity for digital and distance learning and training (ADB 2022).
- *Dynamic mapping of opportunities available to displaced workers and new-market entrants can help with jobs recovery and transition to more productive jobs.* Active Labor Market Programs (ALMPs), which are used to increase employability through job-search assistance, training, career counselling, and wage subsidies can be reinforced to maintain skills while ensuring that they are fiscally viable. ALMPs can be better targeted to youth, women, and other disadvantaged workers, and better linked with social protection programs. ALMPs and other interventions to ensure that the labor markets recover should be periodically evaluated to inform medium- to long-term planning (Barford et al. 2021).

<sup>46</sup> The strategy harmonizes the programs of various government agencies, including social protection, training, upskilling, and support to businesses. Key initiatives to operationalize the NERS are the Philippine Skills Framework (PSF) which addresses skills mismatch, industry boards to enhance links between the public and private sectors, expanded employment facilitation programs to broaden access to them, and their quality, enhancements to the JobStart program to facilitate youth employment, and reforms to the investment climate (ADB 2022).



- *Use apprenticeship programs to support youth employment.* Younger people have been hardest hit by the impact of the pandemic on employment, adding to the challenges they already face as they enter the workforce—a situation that is demonstrable not just in the Philippines but worldwide. Policy strategies should give priority to building both skills and work experience so that youth can get onto the jobs ladder and do not suffer permanent damage to their employment prospects. Apprenticeships can be a powerful way to both bridge the skills gap of young people and introduce them to employment opportunities. Private-sector-led initiatives could help firms ensure a supply of talent with the skills they need.
- *For staff retention and equity, strengthen worker protections.* For instance, (i) continue to allow flexible work arrangements and ensure that new work arrangements support both well-being and productivity, and that they are equitable so that remote workers are not disadvantaged in terms of career progression; (ii) facilitate access to social insurance regardless of the type of employment; (iii) develop a dynamic granular view of sectors and occupations that are most at risk to shocks to protect the most vulnerable workers; and (iv) promote links and synergies between social protection measures (World Bank 2022b).
- ◇ *Boost skills to transition to a more productive and innovative economy.* Recent decades have seen rapid technological transformation. The pandemic has given added impetus to this transformation, bringing the future ever closer. Digital transformation creates opportunities to boost economic prosperity and increase welfare but can shift growth and distributional dynamics in ways that worsen inequality (Autor et al. 2022). The digitalization of work may accelerate the shift of labor demand away from low- and middle-educated to higher-educated and more-skilled workers. Delay in adapting the supply of skills to changing demand may aggravate already large inequalities in wages and incomes: Findings in the report show that college versus non-college earnings premium and earnings inequality among college-educated workers have been the predominant contributors to persisting income inequality for the last three decades. Adapting education and training systems to put more emphasis on skills that will be in demand in the digital era will be critical in harnessing technological changes to promote more inclusive—and stronger—economic growth. A more supportive environment for entrepreneurship can drive innovation and job creation, and thus help to promote broad-based improvements in economic prosperity.
- *In basic education, enhance foundational skills and promote acquisition of noncognitive skills.* Foundational and noncognitive skills developed in basic education will ensure that students are able to adapt to changing labor market demands. Students with strong literacy and math skills are better able to absorb higher-level knowledge, whether academic or technical. In the short term, large investments in basic education to recover the deep learning lost during the pandemic will be necessary. In the long term, the priorities must be large-scale reforms and programs to improve the quality of learning (as measured by international or independent assessments) so that students are prepared for the domestic labor market and competitive in the international one. These initiatives should include efforts to help teachers to become more effective, foster conducive learning environments in school, and build noncognitive skills throughout basic education.
- *Increase access to quality tertiary education.* While the Philippines has made great strides in expanding access to education, the share of workers who completed tertiary education is still low, and transitioning to tertiary education is not equitable. The resulting large college premium contributes to the persistence of inequality. Policies to reduce inequality should therefore include efforts to increase access to tertiary education, particularly for those from poor households. That could provide them with the skills they need to engage in productive employment while also reducing inequality and promoting intergenerational mobility.

- *Strengthen tertiary and technical vocational education to prepare workers to meet the demands of high-productivity jobs and mitigate jobs polarization.* Skills-building and preparing workers to meet the demands of high-productivity jobs are best done through close consultation of policymakers and educators with industry. The private sector is better-positioned than the government to anticipate the skill-sets and fundamental knowledge needed by workers to not only fill higher productivity jobs but also to be able to adapt to changes in industries. Continuing close collaboration can ensure that government-led skills development programs are aligned with the current and future needs of fast-developing higher-productivity jobs. These policies could also help mitigate the emerging polarization of jobs. Although TESDA already offers enterprise-based programs, many of which integrate these components, there is much room to expand its offerings.
- *Close the quality gap in tertiary education to increase returns of students from poorer households.* The quality gap in tertiary education can be closed through stronger insistence on quality, review of the design of higher education institutions, and focused investments in faculty development. The Philippines Commission on Higher Education (CHED) formulates program quality requirements for private and public colleges and universities, but can strengthen its capacity to support institutions that are unable to meet quality benchmarks. In addition, developing measurements of tertiary education outcomes (e.g., returns to education, employability) that are tracked by the CHED can augment current quality metrics, which are largely concerned with inputs (e.g., program design, faculty credentials, facilities). The structure of the country's higher education system can be revised to provide clear guideposts for development of teaching and research universities, as well as the equally important technical and community colleges, which can provide higher education that is targeted to skills development for employment. The latter can cater to lower-income families whose priorities are immediate higher productivity employment.
- *To drive innovation and job creation, make the environment for entrepreneurship more supportive.* The pandemic accelerated the pace of digitalization, expanding both the volume and the reach of e-commerce and digital services. This opens up a valuable opportunity for the growth of new enterprises and could be useful in helping raise women's participation in the labor force because it can allow them to fulfill domestic tasks as they engage in commerce (World Bank 2021e). Hence, policies that encourage female entrepreneurship, such as business development programs and facilitating credit access can also help close the gender gap for poor women (Lanzafame et al. 2021). Leveraging technology to streamline the process of opening and operating new enterprises could also provide considerable support to entrepreneurship, which has the potential to create employment in highly productive sectors (World Bank 2021d).
- ◇ *Closing the gender gap in the labor market offers a valuable opportunity to reduce income inequality throughout the country.* This would require increasing women's economic empowerment through policies that, e.g., support more flexible work arrangements, scaling up efforts to reskill and upskill women to help them secure more productive jobs, and encourage firms to expand opportunities for women who want to reenter the labor market, empower women entrepreneurs in e-commerce, and address gendered norms and childcare challenges.
- *Support more flexible work arrangements, particularly remote models.* The pandemic has accelerated the adoption of remote work models, which seem to incentivize more women to enter the labor force because they provide flexibility that is compatible with care responsibilities. The Philippine House of Representatives has proposed amending the Telecommuting Act (Republic Act 11165) to expand work-from-home capabilities, which would be a useful step forward.

- *Help women in poorer groups to cope with the pandemic impacts on their jobs and earnings and scale up efforts to reskill and upskill women.* Income support—such as paid leaves, cash transfers, and tax breaks—and support for child and elder care should unburden women who must balance work and home life (Tang et al. 2021). Increased adoption of remote work models offers a real opportunity to women who would otherwise be unable to join the labor force due to domestic work and childcare—and to women who lost their jobs in the pandemic. However, if they lack the skills to benefit from this shift, they may not be able to take advantage of this opportunity. Scaling up efforts to provide women, especially women in low-income groups, with a chance to acquire new skills in ICT and other STEM-related fields could help them to secure more productive work as the labor market changes.
- *Strengthen support for women entrepreneurs.* E-commerce could be a valuable tool in increasing the participation of women in the labor force as it allows them to set their own work location and schedule, enabling them to grow their business while engaging in domestic work and childcare. Support could take the form of training in, for example, financial literacy, marketing, and inventory management or expanding access to credit, particularly for women engaged in e-commerce. Policies that encourage female entrepreneurship, such as facilitating credit access and offering business development programs, can also help close the gender gap for poor women (Lanzafame et al. 2021).
- *Encourage firms to expand opportunities for women who wish to reenter the labor force.* Returnship programs, which typically provide women with mentorship and skills training, could ease the process.
- *Address gender wage gaps at the bottom of the income distribution.* There are important differences in the wages of men and of women at the bottom of the pay distribution, largely because women, especially if they are married or have young children, are unable to accept jobs that pay better. In the Philippines, women, even those in lower-income groups, have more education than men. Their lack of representation in more productive jobs means that the economy is missing an opportunity to tap into talented high-potential labor. Policies that encourage poorer women to engage in higher-paying jobs (through, e.g., encouraging hiring of women in certain industries, and encouraging employers to offer flexible work arrangements; and addressing the social stigma associated with certain male-dominated jobs so forth) could help reduce gender gaps in the labor market and income inequality generally.
- *Address childcare and the gendered social norms that deter women's participation in the labor market.* This is challenging but the literature points to successful interventions through media campaigns, behavior change communication, and attitude change interventions. Changing norms about gender role in care work can start with making it acceptable for men to do their fair share in domestic duties and child and elder care. Although there is evidence that many Filipino households are reluctant to use child care outside the home, policy can support alternatives in the home that can support dual-income households.
- ◇ *Further reducing poverty and inequality will require an inclusive strategy for rural development.* That will have a salutary effect on the incomes of the rural poor and could alleviate food price pressures and ensure food security for economically vulnerable urban consumers. This strategy will mainly involve heightening agricultural productivity and improving social protection in rural areas.
- *Raise the productivity of agriculture by raising rural investments.* Although it employs a sizeable share of the country's workforce, the productivity of agriculture is low, and investors have been discouraged by excessive regulation, misguided priorities, and a frozen land market. Reorienting investments in agriculture to “public goods”—research and development, infrastructure, innovation systems, market information systems, and

biosecurity systems—will provide higher returns than traditional commodity price supports and input subsidies (World Bank 2020e and 2022a).

- *Encourage the shift of agricultural production from subsistence farming to cultivation of cash crops* (Beja et al. 2020). Upgrading the connections of farmers to markets should be explored, as should expanding farmers' access to finance. Investment in internet infrastructure for e-commerce can help access to a wider market, which can bolster not only farm income but also nonfarm business opportunities.
- *Address the lack of scale in agriculture resulting from highly fragmented landholdings.* The problems with land reform—such as ceilings on land held—have made it difficult for agriculture to operate on a large enough scale to be efficient (Jandoc and Roumasset 2019). To overcome these bottlenecks, policies should investigate approaches to legally allow land consolidation (e.g., through leasing or sale), or encouraging of cooperative arrangements to allow farmers to coordinate in order to become members of inclusive value chains (World Bank 2020e).
- *Investment should also make softening the impacts of climate change a priority.* To ensure that agriculture is sustainable and resilient, policymakers, agricultural and climate specialists, scientists, and researchers need to work together to draft a plan to support climate-smart agricultural techniques, such as identifying innovations that sustainably increase productivity, and adapt digital platforms, such as early warning systems to monitor weather conditions (ADB 2021).

## Promoting Greater Equality of Opportunity

The Philippines has done a great deal to expand services and provide access to opportunities in education and health. In recent decades, sanitation and water access have improved remarkably, particularly for poor households, as has access to electricity. Primary education has become universal and in 2013 the already high rates of secondary enrollment shot up with the passage of the Enhanced Basic Education Act. The PhilHealth program has expanded to cover about 80 percent of households. The 4Ps, which aims to provide social assistance in the short-run and to break the intergenerational poverty cycle, has been a notable success in both helping to lift households out of poverty and increasing the use of education and health services. However, spending on health and education programs is below the average amount spent globally by economies at the same income level as the Philippines (World Bank 2020). Large disparities between internal regions and income groups persist in access to social services and human development outcomes. Policies to address inequality of opportunity can include:

- ◇ *Increase access to quality care.* Universal health care (UHC) will not reach its full potential for bringing births to health facilities and increasing childhood immunization rates if it continues to be difficult to physically access facilities and specialists. Increasing the availability of health facilities, especially in rural areas; enhancing incentives for medical professionals to service these areas; and leveraging technologies such as telehealth could certainly improve health outcomes.
- *Resume previous progress in implementing the Universal Health Care (UHC) Act.* The 2019 UHC Act grants access, through PhilHealth, to essential health services for all citizens regardless of their ability to pay. The UHC act has expedited enrollment, with automatic enrollment of citizens, and expanded the number of medical services covered. However, the pandemic delayed full roll-out of



the program. Accelerating the progress of UHC is very important to increase opportunity and human capital (World Bank 2022b).

- *Improve the quality of service delivery.* Ensure that all primary care facilities meet minimum accreditation and service quality standards by setting up standards for clinical practice and building integrated health care provider networks to ensure all primary care facilities meet the same service quality standards.
- *Ensure that health care is affordable.* Removing or limiting hospital copayments will open up access to essential health services. This policy will need to be carried out in conjunction with broad provider payment reforms that manage the growth of spending on health and incentivize hospitals to increase efficiency and reduce inappropriate or unnecessary care (World Bank 2022b).
- *Increase access to quality care facilities.* Access to health care and specialized care is still difficult in rural areas and poorer regions. After cost, distance to health facilities is the most common reason that individuals do not seek regular medical care and the number one reason that mothers do not give birth in health facilities (NDHS 2017). Without enough hospitals and health centers across the country, all staffed at adequate levels and able to afford equipment (including private facilities that accept PhilHealth insurance), the UHC act cannot achieve its goals and provide universal care while honoring care standards. Innovative service delivery mechanisms, such as telemedicine which has grown remarkably with the pandemic, may open up access to health care in underserved areas.
- *Use multisectoral approaches to address malnutrition.* Although it is important to apply direct nutrition interventions at scale, multisectoral approaches that simultaneously address a number of determinants of malnutrition are needed to ensure a significant reduction in malnutrition. Moreover, to do this

effectively, it is essential to achieve geographic convergence within the Philippines – down to the household level – of critical sectors and programs in communities with high levels of stunting.

- ◇ *Increase equality of opportunity in education.* Providing comparable educational opportunities is central to ensuring equal opportunity for all. Addressing the learning crisis is critical to educational policy efforts. To better understand who is left behind when students transition to tertiary education, which is a key source of mobility and economic opportunities, more data are needed. Entry points for policy reform include these:
  - *Attract skilled teachers to the education profession in rural villages:* Attracting highly skilled professionals to remote and poor areas is difficult. The education profession has an additional challenge because the returns to working in education are low. This makes teaching less appealing to students who believe that they have more attractive options. Making the teaching profession more attractive through higher pay, professional development opportunities, and good working conditions is vital to attracting and retaining knowledgeable teachers, which is in turn vital to improving learning. Incentivizing teachers to work in small villages will be difficult but necessary to equalize opportunity.
  - *Increase incentives to enroll children in preschool, particularly from poorer households.* An essential step is to increase the supply and quality of preschools to build early childhood cognitive skills, enhance abilities and motivation for learning, and sustain learning throughout schooling and beyond. Delays in starting school put children from poor families at a disadvantage. Increasing incentives, especially for poorer households, to send their children to school at appropriate ages could help them to both stay in school and perform better while they do.



- *Expanding education infrastructure and increasing the number of teachers could support equalizing opportunities.* Regional gaps between number of schools relative to number of students indicate that some regions of the Philippines need more schools. Data from APIS 2019 show that accessibility to school and lack of regular transportation means are the main reasons about 60 percent of rural children aged 17 or less are not in school—the rate exceeds 80 percent in Bicol (Luzon) compared with 41 percent in NCR. Expanding the number of schools and increasing staffing could reduce the number of students who leave school, especially at higher educational levels, because it is too far from home. This could also help avoid overcrowding and unsustainable student-teacher ratios which can undermine student learning outcomes.
- *Collect standardized data on the transition from secondary to tertiary education to understand better who attends tertiary education and who is left behind.* While there is excellent information on enrollment and transition between the primary and secondary levels and on tertiary enrollment, data is limited on the background of the students who attend tertiary education. Greater data on which students are unable to attend tertiary education would allow policies to better target those who have the requisite skills but are likely to miss out on the returns from higher education.
- ◇ *Improve access to quality housing to improve the quality of life and opportunity.* Ensuring affordable and safe housing interconnected with services and the labor market should be the goal of housing policy. Improving the quality and resilience of housing materials can bring significant gains for health and education. Adapting both existing and new housing to climate threats requires large-scale efforts across all levels of society from design to land use rules.
- ◇ *Enhance social assistance to support equality of opportunity.* While the 4Ps has been remarkably effective in reducing both total poverty and food poverty, the program can be strengthened to address inequality of opportunity challenges and nutritional deficits. In addition to updating the national registry to improve targeting and reach those most in need, the program can better incentivize the enrollment of pregnant women and additional children. The increase in the value of 4Ps benefits through the *Pantawid* Act in 2019 is a welcome step to help poor households as the cost of living rises. Efforts need to continue to adjust the benefit value to help poor households cope with rising cost of living (World Bank 2022b).

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# Appendixes

## Appendix A: Data Sources

Survey name	Period	Purpose
Family Income and Expenditure Survey (FIES)	Every 3 years: 1985–2018 Household level	Poverty and inequality official statistics. Living conditions.
Labor Force Survey (LFS)	Quarterly basis: 1988–1997; 2002–20. Individual level	Official labor statistics.
Annual Poverty Indicators Survey (APIS)	Annual basis: 1998–99; 2002–17, 2019, 2020. Household and individuals.	Update on important living conditions indicators. Get basic information on income and consumption but not for estimating poverty.
Social Weather Stations (SWS) ( <a href="https://www.sws.org.ph/swsmain/home/">https://www.sws.org.ph/swsmain/home/</a> )	Quarterly basis: 2010–19	Perception about poverty, living conditions, and other factors.
International Social Survey Programme (ISSP)	Family and changing gender roles: 1994, 2002, 2012.  Social inequality: 1999, 2009, 2019	Cross-national collaboration to conduct annual surveys on diverse topics relevant to social sciences.
World Value Surveys (WVS)	Every four years: 1994–2020	International research program to assess the impact that stable values or change over time has on the social, political, and economic development of countries.
World Inequality Database (WID.world) ( <a href="https://wid.world/wid-world/">https://wid.world/wid-world/</a> )	1908–2019	Database on the evolution of the global distribution of income and wealth within and between countries.
High-Frequency Phone Survey	Three rounds: August and December 2020, May 2021.	COVID-19 phone monitoring survey

## Appendix B: Microsimulation Model

This appendix presents the general structure of the model and assumptions for the projections. Box B.1 shows the core structure of the model and Box B.2 describes the structure of the COVID-19 emergency transfers from *Bayanihan* programs. More technical details can be found in the background paper “Poverty and Inequality Impacts of COVID-19”.

### Box B.1: Microsimulation Model

The microsimulation model combines macroeconomic projections with pre-crisis data from FIES 2018 and the LFS 2019 January round to predict individual and household income. The simulation model uses labor markets as the main transmission mechanism and allows for two types of shocks: shocks to labor income, and shocks to non-labor income, modeled as a change in social protection mechanisms. An estimate takes three distinct steps:

- 1. Calibration:** Household and individual data from FIES 2018 and LFS 2019 is used to model labor market behavior and outcomes; behavior was adjusted based on data from the LFS of April 2020 using logit imputation models.
- 2. Simulation:** Information on aggregate projected changes in output, employment, and remittances is used to generate changes in labor and non-labor income at the micro level through the structural models developed during the calibration. Aggregate projected national and sectoral changes in output are based on GDP growth projections as follows:

	GDP	GDP manufacturing	GDP other industry	GDP agriculture	GDP low-end services	GDP high-end services
2020	-9.6	-9.8	-18.6	-0.2	-16.0	-4.0
2021	5.6	8.6	7.6	-0.3	4.6	5.8
2022	5.7	7.0	5.7	1.0	5.9	6.0
2023	5.6	6.5	5.6	1.1	5.8	6.2
2024	5.6	6.3	5.4	1.1	6.2	6.1

- 3. Assessment of impacts:** The resulting information on individual employment status and labor income, and on non-labor household income is used to generate income distribution, which can then be used to compare COVID-19 impacts with and without additional transfers.

This approach is appealing because it generates counterfactuals for individual and household incomes that can then be used to assess impacts across the entire distribution. Estimates from other simulation models, such as projection models, used to produce macro poverty outlook (MPO) indicators have a less complex structure but are also less robust because they do not capture labor market behavior and treat income growth as uniform for the entire distribution.

There are some important limitations that must be recognized in interpreting the results: (1) The quality and accuracy of the simulation output is a function of the nature and quality of the data used. More specifically, the results depend on both the micro models and the macro projections of the crisis. (2) The simulations implicitly assume that the structural relationships estimated as part of the calibration process on the baseline data continue to be valid in the future years for which the projections are made. The more distant in the past the baseline year is, the more questionable this assumption is likely to be.

## Box B.2: Emergency Social Transfers in the Philippines during COVID-19

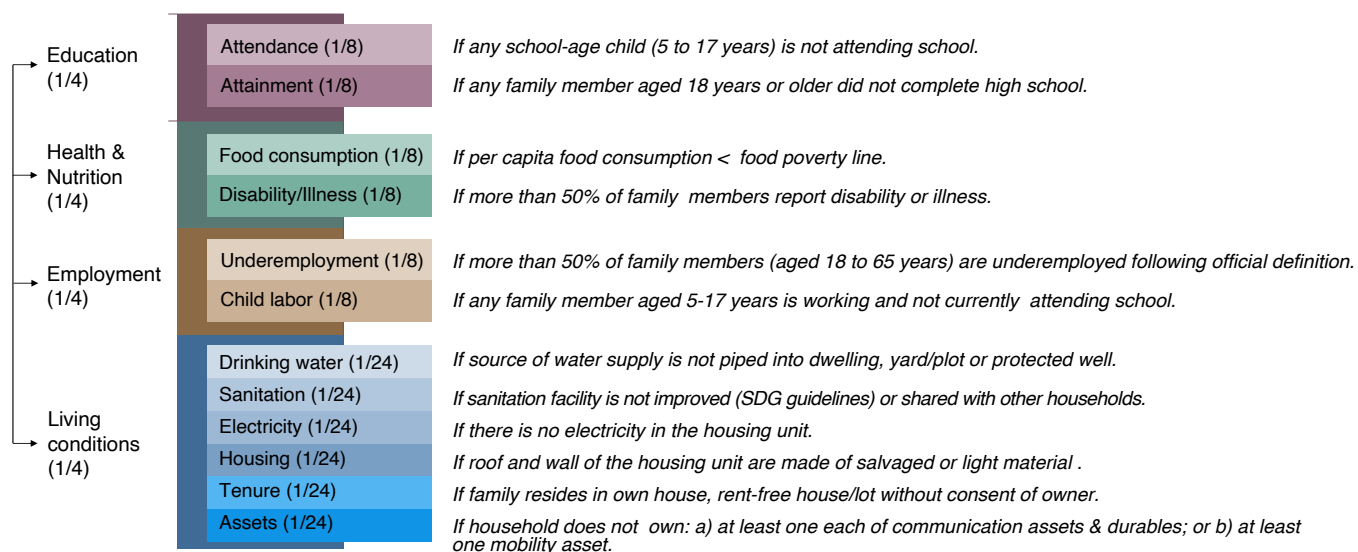
To help mitigate the economic impacts of COVID-19, the *Bayanihan 1* act was passed on March 2020. It lapsed on June 2020 and was replaced by *Bayanihan 2* to carry on *Bayanihan 1* work plus additional programs. *Bayanihan 2* was enacted on September 2020 and lapsed in June 2021.

**Bayanihan 1** contained several programs to address the immediate issues raised by the spread of COVID-19. The primary component provided transfers through the Emergency Subsidy Program, of PHP 5,000–8,000 per household for two months to help ease difficulties from the initial Enhanced Community Quarantine (ECQ). Additional outreach and funds were included to reach poor households missed by the initial transfers. *Bayanihan 1* also included targeted support for displaced workers, including: (1) Department of Labor and Employment's *Abot Kamay ang Pagtulong* (known as DOLE-AKAP) for overseas Filipino workers (OFWs); (2) *Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers* (TUPAD), in which the government provided temporary jobs for informal sector workers; (3) COVID-19 Adjustment Measures Program (CAMP) for displaced formal sector employees; (4) The social amelioration program (SAP); (5) the DA Rice Farmers Financial Assistance Program; (6) the DTI Livelihood Seeding Program and *Negosyo Serbisyo sa Barangay*; (7) The DSWD Relief Assistance; (8) relief assistance other than DSWD, and (9) relief assistance other than from the government. In addition to measures targeting households and workers, *Bayanihan 1* also contained provisions to support micro, small, and medium enterprises (MSMEs) and increase funding for the health sector.

**Bayanihan 2** retained many of the provisions of *Bayanihan 1*, as well as the programs for displaced workers, AKAP, TUPAD, and CAMP maintained. To continue support for displaced workers, *Bayanihan 2* contained such sector-targeted programs as transfers to the transport sector, assistance to school personnel, teaching and non-teaching, as well as cash and training support for the tourism sector. For agricultural workers and fisherfolk, *Bayanihan 2* provided PHP 5,000 in of cash and food assistance. In 2021, to mitigate the impacts of a new ECQ in NCR and surrounding provinces, funds up to PHP 4,000 per household were provided to households in affected areas.

## Appendix C: Multidimensional Poverty

Figure C1. Multidimensional Deprivation Dimensions



Source: FIES 2018.



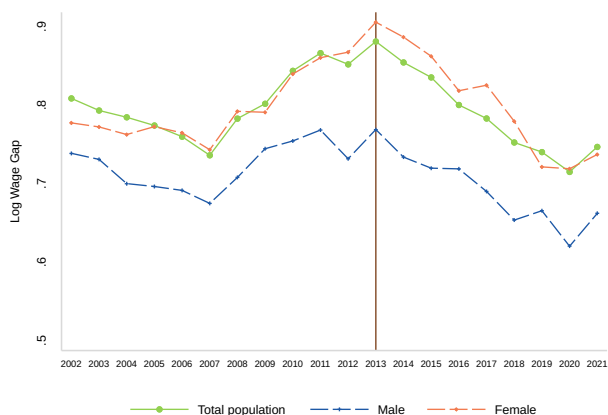
## Appendix D: Inequality and Polarization in Wage and Employment

Figure 42 plots the composition-adjusted log college/high-school (and log some college and above/high-school) weekly wage premium in the Philippine labor market for years 2002–21 for wage workers 15 and older. This composition adjustment holds constant the relative employment shares of demographic groups as defined by gender, education, and potential experience, across all years of the sample.

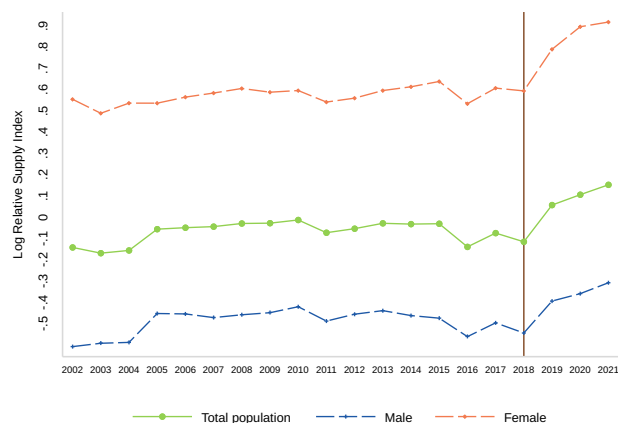
The analysis follows the approach of Acemoglu and Autor (2011). It first estimates mean (predicted) log real weekly wages in each year for 40 gender-education-experience groups. These groups consist of four education categories (less than high school, high school graduate, some college, and college degree & above), five potential experience levels (0–9 years, 10–19 years, 20–29 years, 30–39 years, and 40–48 years), and two genders. The number of years of potential experience is estimated as the difference between age and years of education minus six. The number of years of experience is set to a minimum of 0 and a maximum of 48. Weekly wages are deflated by the 2011 Consumer Price Index (CPI); and log real weekly wages are regressed in each year on education dummies, potential experience, and interactions of education, experience, and gender. The composition-adjusted log real weekly wage is the predicted log real weekly wage. Mean wages for broader groups are calculated as fixed-weighted averages of the relevant sub-group means (using as weights the average share of total hours worked for each group over 2002 to 2021). This adjustment ensures that the estimated college premium is not mechanically affected by shifts in experience, gender composition, or average level of completed schooling within the broader categories of college and high-school graduates. The analysis also used daily wages and alternative deflators, including the ratio of poverty lines; the results show similar trends as those reported here.

The labor supply for college/high-school groups is estimated using efficiency units to adjust for changes in labor force composition. We follow Acemoglu and Autor (2011) in measuring the efficiency units as the mean labor supply for broad college and high-school graduates weighted by fixed relative average wage weights for each cell. The labor supply of workers with some college education is divided equally between the broad college and high-school categories. The fixed set of weights for 2002–21 are constructed using the average wage in each cell of gender-education-experience groups relative to the reference wage of a male high-school graduate with 10 years of experience.

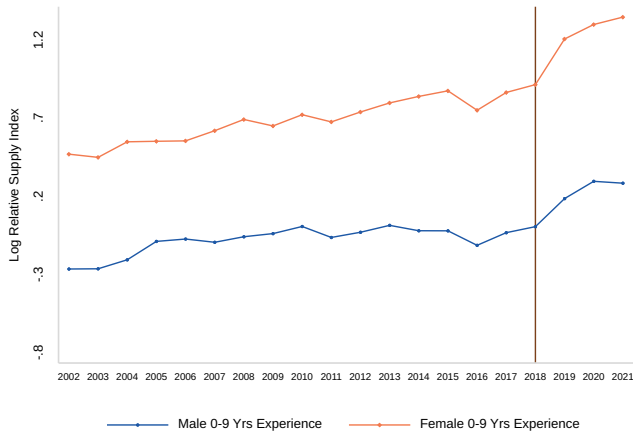
**Figure D1. Composition-Adjusted College/High-School Log Weekly Wage Ratio by Gender, 2002–21**



**Figure D2. College/High-School Log Relative Supply, by Gender, 2002–21**

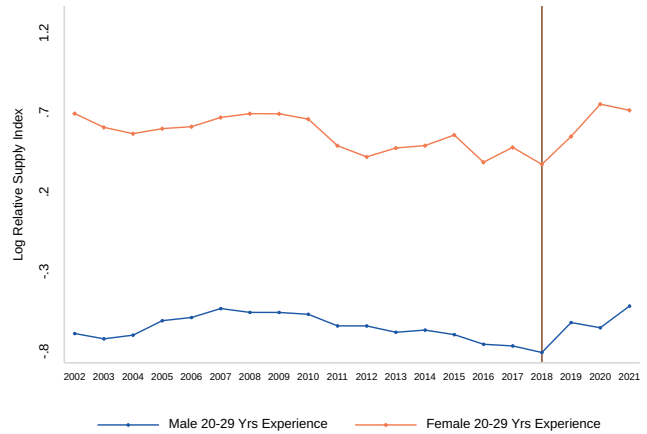


**Figure D3. College/High-School Log Relative Supply Young Cohort, by Gender, 2002–21**



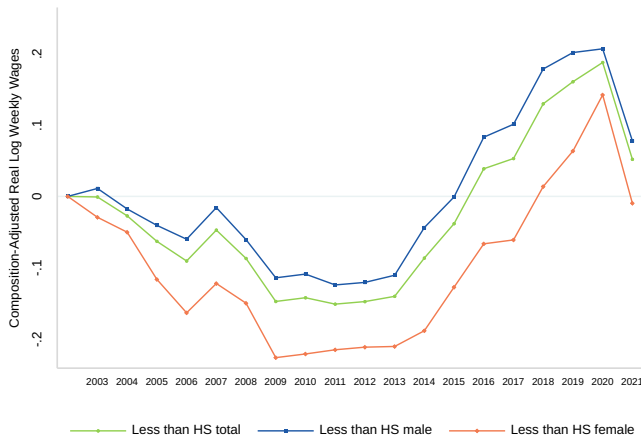
Source: LFS 2002–21.

**Figure D4. College/High-School Log Relative Supply Older Cohort, by Gender, 2002–21**



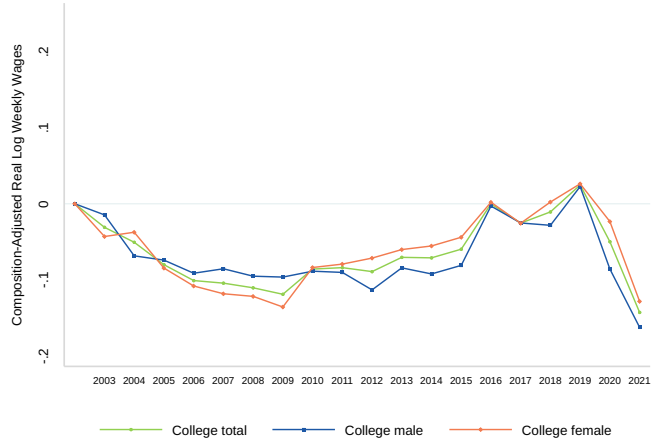
Source: LFS 2002–21.

**Figure D5. Composition Adjusted Log Real Weekly Wage by Gender, Less than High-school, 2002–21**



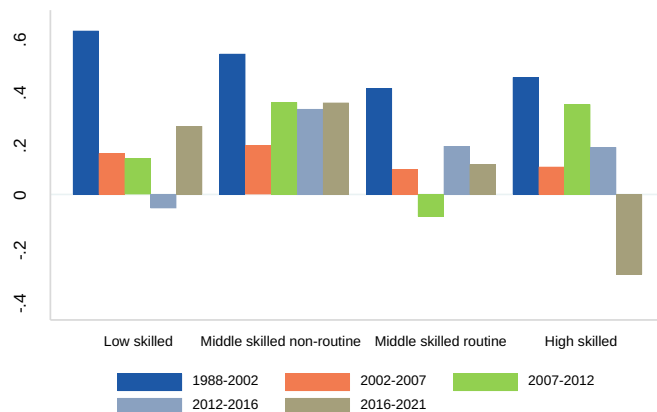
Source: LFS 2002–21.

**Figure D6. Composition Adjusted Log Real Weekly Wage by Gender, College Graduates, 2002–21**



Source: LFS 2002–21.

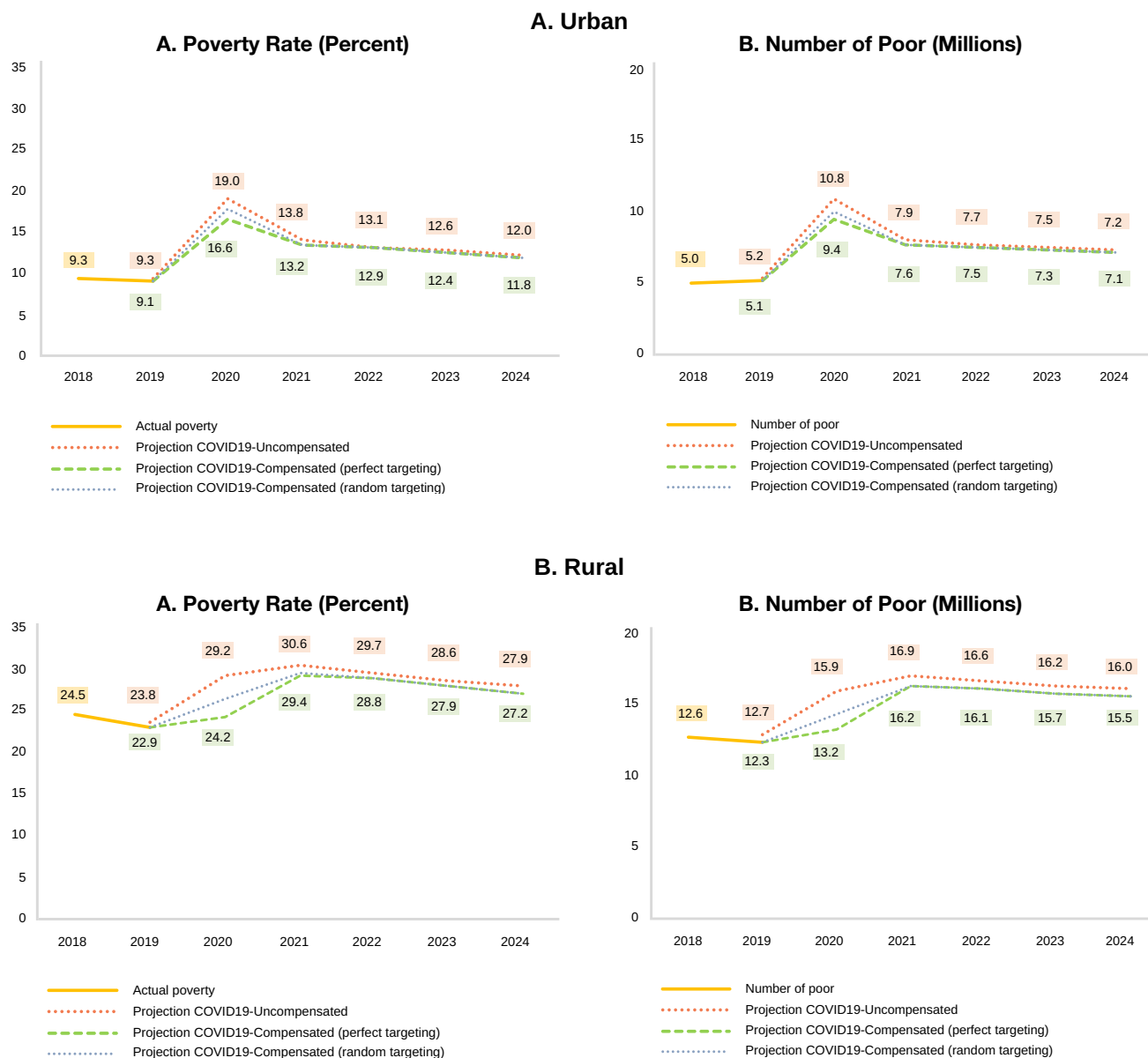
**Figure D7. Percent Change in Nonfarm Wage and Non-wage Employment by Occupation, 1988–2021.**



Source: LFS 1988–21.

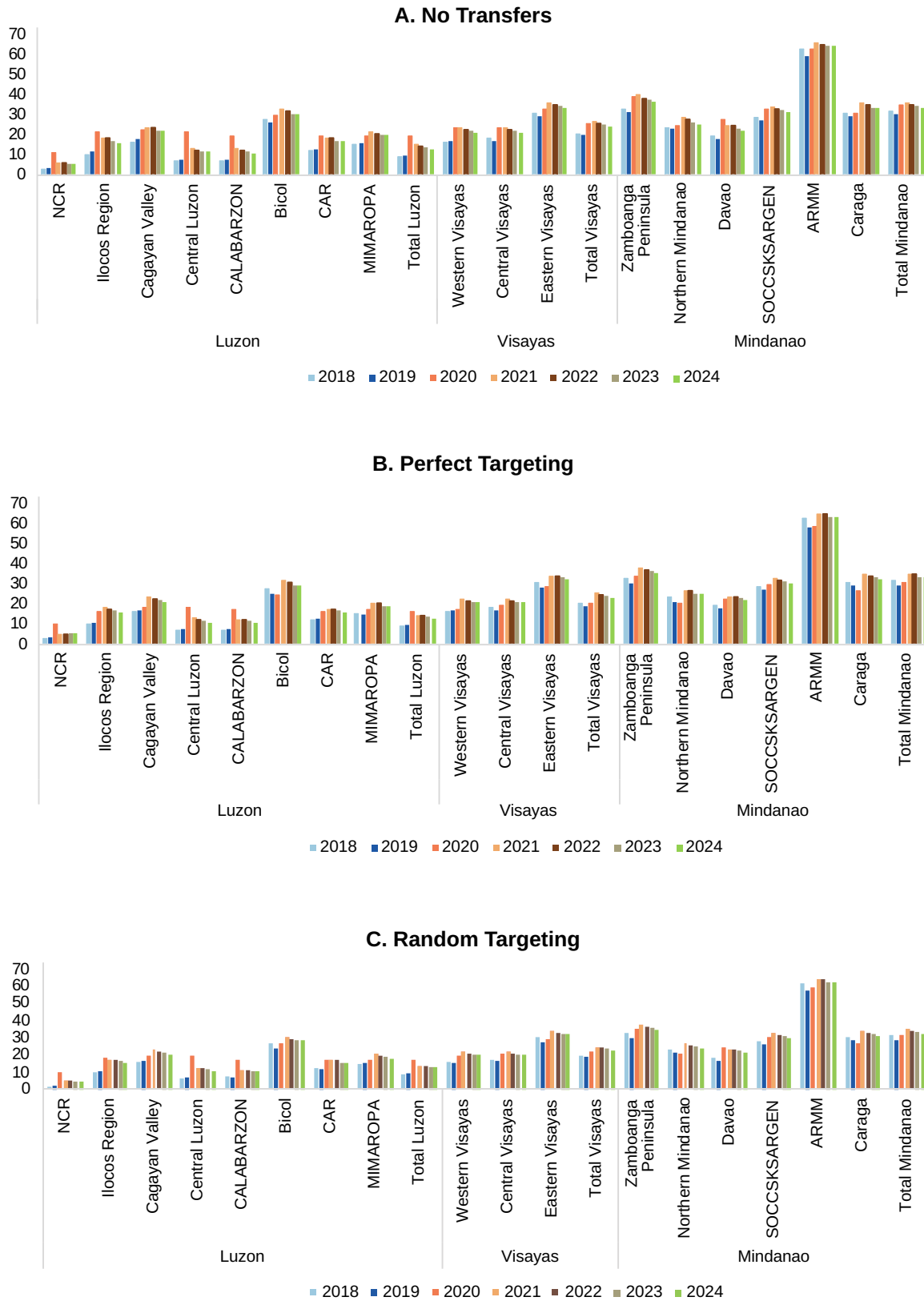
## Appendix E: Impacts of COVID-19 on Spatial Poverty

Figure E1. Impact of COVID-19 on Poverty, by Area



Source: Projections based on FIES 2018, using the microsimulation model.

Figure E2. Impact of COVID-19 on Poverty, by Region, Percent



Source: Projections based on FIES 2018 using the microsimulation model.

**The World Bank**  
**PHILIPPINES**

26th Floor, One Global Place 5th Ave. corner 25th St.  
Bonifacio Global City, Taguig City Philippines 1634

T: +63 2-465-2500

F: +63 2-465-2505

W: [www.worldbank.org/en/country/philippines](http://www.worldbank.org/en/country/philippines)



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