

Report No. 14933-PH

Philippines A Strategy to Fight Poverty

November 13, 1995

Country Operations Division
Country Department I
East Asia and Pacific Region



Document of the World Bank

CURRENCY EQUIVALENT

Currency Unit - Peso (₱)

US\$ = ₱ 25.9

as of October 1995

ABBREVIATIONS AND ACRONYMS

ARC	-	Agrarian Reform Communities
ARMM	-	Autonomous Region of Muslim Mindanao
ASEAN	-	Association of Southeast Asian Nations
CAR	-	Cordilleras Autonomous Region
CARP	-	Comprehensive Agrarian Reform Program
CMP	-	Community Mortgage Program
DA	-	Department of Agriculture
DAR	-	Department of Agrarian Reform
DECS	-	Department of Education, Culture and Sports
DENR	-	Department of Environment and Natural Resources
DILG	-	Department of Interior and Local Government
DOH	-	Department of Health
DPWH	-	Department of Public Works and Highways
DSWD	-	Department of Social Welfare and Development
FIES	-	Family Income and Expenditure Survey
FFW	-	Food for Work
GATSPE	-	Government Assistance to Students and Teachers in Private Education
GATT	-	General Agreement on Trade and Tariffs
GBRP	-	Grameen Bank Replication Program
HUDCC	-	Housing and Urban Development Coordinating Council
IAD	-	Integrated Area Development
IRRI	-	International Rice Research Institute
LBP	-	Land Bank of the Philippines
LGU	-	Local Government Unit
MEIP	-	Metropolitan Environmental Improvement Program
MWSS	-	Metropolitan Waterworks and Sewerage System
NCR	-	National Capital Region
NEDA	-	National Economic and Development Authority
NFA	-	National Food Authority
NGO	-	Non Governmental Organization
NNC	-	National Nutrition Council
NSCB	-	National Statistical Coordination Board
OECD	-	Organization for Economic Cooperation Development
SRA	-	Social Reform Agenda

FISCAL YEAR

January 1 - December 31

PHILIPPINES

ECONOMIC REPORT

A STRATEGY TO FIGHT POVERTY

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This report is based on a mission to the Philippines in March-April 1995 led by Erika Jorgensen (Task Manager) and including Anil Deolalikar (consultant, poverty profile), David Greene (consultant, rural poverty), Alastair Blunt (consultant, urban poverty), and Egbe Osifo (EA1CO, social sectors). A number of additional technical working papers served as background, authored by Arsenio Balisacan (consultant, rural land reform), Ramon Clarete (consultant, rural infrastructure), Louis Enoff (consultant, social security), Susan Horton (consultant, labor markets), Shamima Khan (EA1CO) and Richard Bird (consultant) (decentralization), Caroline Moser (TWURD, urban poverty), Edgard Rodriguez (consultant, overseas workers, decentralization), Joanna Ledgerwood (consultant, credit); and Michael Goldberg and Maniza Naqvi (ASTHR, credit). Special thanks go to Charlene Hsu (ENVLW) for the maps and analysis provided by the Geographical Information System, Nam Pham (EA1CO) for statistical support, and Hedwig Abbey (EA1CO) for editing and formatting.

INTRODUCTION

1. The Philippines is entering a new and promising phase in the struggle to lift its people out of poverty. The decade-long effort at macroeconomic stabilization and structural reform is bearing fruit, and the prospects for the higher, sustainable economic growth required to reduce poverty appear good. The Government has taken the bold step of devolving responsibility for key functions to local governments. Although transitional problems are inevitable, this step holds promise of making government more responsive to the needs and desires of the populace. Finally, the Government is launching a new, better-integrated Social Reform Agenda with the objective of mobilizing and coordinating the efforts of the central government, nongovernmental organizations, private enterprise, and communities in the poverty-alleviation effort.

2. This report is an attempt to crystallize key, as yet unresolved, issues in the hope of stimulating an informed dialogue within the Government and within key groups (including NGOs and local government officials). The report is not meant to be a final blueprint for government action. Rather, it is intended to provide substance for an ongoing discussion and debate of the issues related to poverty alleviation in the Philippines. The Bank plans to take this report to the public and discuss it widely with the Philippine Government, with local governments, with beneficiaries, with NGOs, and with the press so that a widely understood and supported strategy can be forged. The Bank will transmit the outcome of these discussions and the various points of view to all participants and work to identify the next phase of our partnership with the Philippines on poverty alleviation.

3. Chapter 1 reviews past progress toward poverty alleviation and the current extent and severity of the problem. It finds that, although the Philippines' social indicators are reasonably good, progress towards poverty alleviation has been slow, and the country has been losing ground relative to its East Asian neighbors and competitors. More than one third of Philippine households still have income below the poverty line. Slow progress primarily reflects inadequate and unsteady overall economic growth, the inheritance of an historic policy bias in favor of capital-intensive, inward-oriented development, continued uneven distribution of income and assets, insufficient investment in human capital development, and limited success of "safety net" programs.

4. Poverty is overwhelmingly a rural problem. Over half the rural population is poor, accounting for nearly two thirds of the country's total. Chapter 2 examines the dimensions and causes of rural poverty and looks into possible solutions. The basic conclusion is that rural poverty cannot be solved in the agricultural sector alone nor in rural areas alone. Progress requires greater opportunities provided by higher overall economic growth, combined with increased emphasis on human capital development and provision of infrastructure in rural areas, increased research and extension, and improved access to land and modern inputs. The chapter urges a reexamination of land reform, which is entering a more complex and expensive phase. Clear choices need to be made on the future pace of the program and the trade-offs necessitated by budget constraints, while focusing on additional measures to help poor farmers. The report

downplays the importance of expanding rural credit and argues against subsidization of credit but recommends strengthening and expanding the role of cooperatives.

5. Chapter 3 finds that urban poverty is less extensive and severe than rural poverty and that the urban poor are more likely to benefit rapidly and directly from accelerated growth. In addition, access to health and educational services is better in urban areas. The key problems of the urban poor are inadequate housing and transport, unsafe and inadequate water supply, and inadequate disposal of human and solid waste. Many of these problems are linked to failure of the urban land market, which results in both poor and nonpoor families living in unsatisfactory conditions on land to which they do not have legal tenure. The report urges exploration of innovative approaches to "urban land reform" and better provision of urban services related to environmental health.

6. Chapter 4 reviews the state of human capital of the poor and government efforts to improve it. It finds that there are severe regional disparities in health and education indicators. The level of overall public expenditure on health and education is not as much of an issue as its regional distribution and equity and efficiency considerations. The major educational problem is the one third of children who do not complete the primary cycle. The major health problems are preventable diseases such as malaria and respiratory and water borne intestinal ailments. Unfortunately, the report finds the trends in expenditure favoring curative medicine and secondary and higher education. Instead, the chapter emphasizes the need for increased emphasis on improved access to and quality of primary education and preventive, community-based primary health care.

7. Chapter 5 examines the "safety net" or the efforts of government to improve the well being of the poor through food subsidies, employment-creating public works programs, "livelihood development", and small scale credit programs. It finds that most of these programs have not reached the very poor, have been expensive, and have not produced sustainable income increases. The report urges reexamination of these programs to highlight factors leading to successful outcomes and consolidation of the rapidly growing number and variety of programs. The report points to the dangers of expanding politically popular, but inefficient and ineffective, efforts at the expense of tried and true approaches such as primary education and health care and rural infrastructure.

8. Finally, Chapter 6 provides a summary of the strategy suggested above and outlines the role of the central and local governments in the new era of devolution, in conjunction with the continued strong presence of NGOs. A poverty alleviation strategy for the Philippines should include the following elements:

- Continuing the strong focus on economic growth, driven by openness and competitiveness and accompanied by macroeconomic stability.
- Improving access to the means of production by the rural poor by focusing rural land reform on the do-able, promoting tenancy reforms and market assisted land reform, and ensuring the essential investments in rural infrastructure and improvements of agricultural extension services necessary to raise productivity and, thus, incomes.

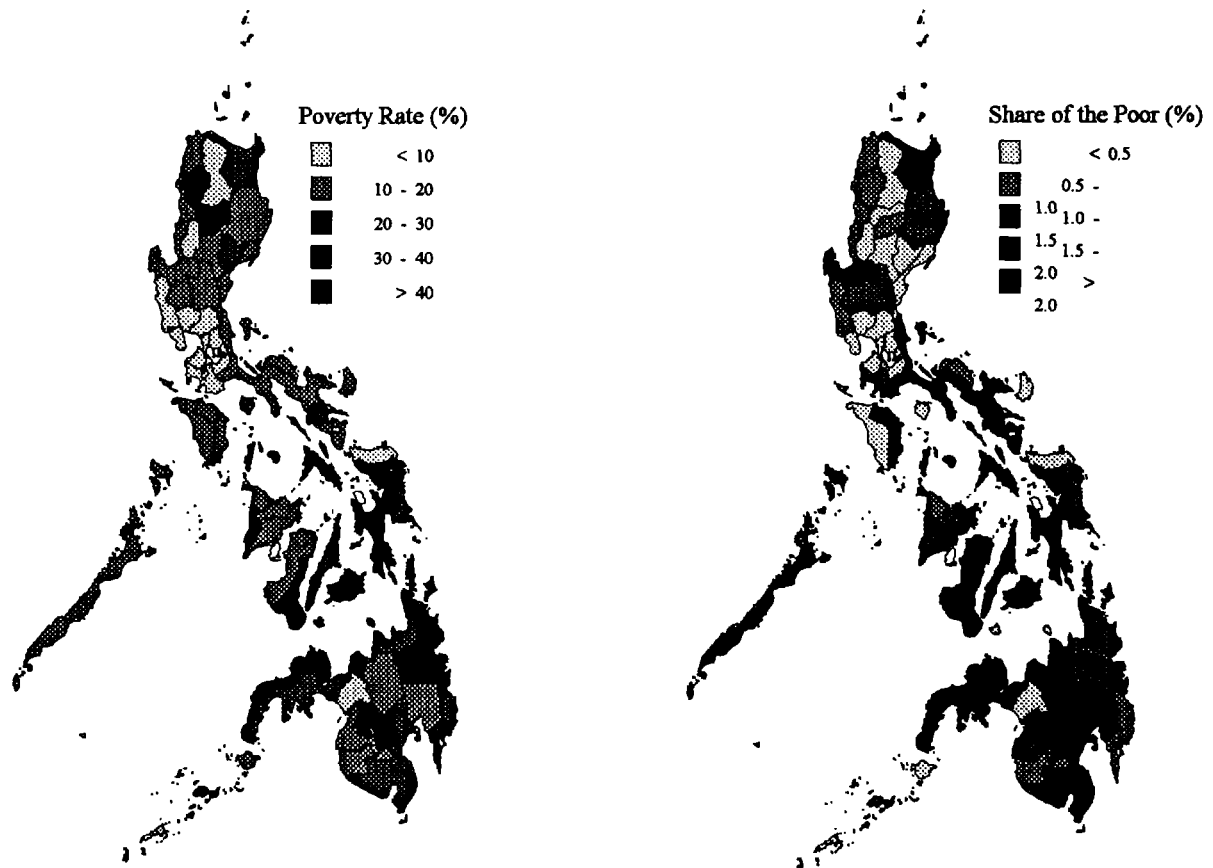
- Addressing the scarcity of affordable urban housing and threats to environmental health in urban areas by considering a program of urban land reform and extending water and sanitation services to poor urban areas, while slashing public spending on housing (which does not reach the truly poor).
- Increasing investment in human capital by improving the quantity and the quality of primary education across the country, easing access to primary education in rural areas, and strengthening primary health services, especially immunization and prevention of water-borne and respiratory diseases.
- Consolidating and targeting the social safety net by closing down publicly subsidized livelihood creation and credit to the poor programs and ceasing general food price subsidies in favor of targeted income subsidies or food stamps and supplementary feeding programs.

9. This report was based on a series of technical working papers, which are available upon request. They cover the topics of the poverty profile, rural land, urban poverty, the social sectors, the labor market, overseas workers, and credit.

1. WHY IS POVERTY SUCH A PERSISTENT PROBLEM IN THE PHILIPPINES?

"We regard poverty as another tyranny, oppressing half of all our population of 66 million – a tyranny against which we must wage the moral equivalent of war."

President Fidel V. Ramos, Speech to the World Summit for Social Development, Copenhagen, March 12, 1995



1.1 Poverty is still the major development problem in the Philippines. Between 1960 and 1985, according to official estimates, only slow improvement was registered in overall poverty rates. Since 1985, a slightly more vigorous reduction has occurred, partly because of economic growth and partly because of a greater government commitment to social development. However, not only has overall progress been modest, national level achievements mask severe geographical inequity. The two maps above illustrate the severe differences in poverty between provinces. The left map shows the poorest areas; the right map points out the greatest concentration of the nation's poor. Improving the welfare of the poor has been hampered (until the last two years) by

Maps: Left map shows percent of families in each province with family income below ₱ 20,000 in rural areas, below ₱ 40,000 in National Capital Region, and below ₱ 30,000 in other urban areas, according to the 1991 FIES. Right map shows share of all such families in each province.

over a decade of weak growth associated with the debt crisis and its aftermath. Now that the economy appears to be back on track, the Government is turning its attention to poverty alleviation. The "Social Reform Agenda" lays out general goals and possible avenues to reduce poverty, and the Ramos Administration has declared this its highest priority for the coming years.

1.2 There is already widespread understanding that significant reduction of poverty in the Philippines will require faster, more efficient, and more equitable economic growth than in the past. So far, *the country has not been able to sustain growth long enough to reduce its incidence of poverty to the levels attained in other East Asian countries.* Further, *the pattern of growth in the past tended to accentuate rather than reduce income disparities.* A development strategy that relied on government intervention to protect domestic industry, where subsidies, controls and regulations were applied to offset widespread inefficiencies and inequities, itself made growth less efficient, less equitable, and more difficult to sustain. After over a decade of structural adjustment, the Philippine economy is capable of generating more equitable growth. But in addition, government efforts to raise the income earning capacity of the poor, by *improving the functioning of markets, building supporting infrastructure, and guaranteeing basic services in health and education, have not been adequate to the task.* Finally, the government's responsibility to lend a hand to those temporarily in need and to improve the well being of the poorest of the poor through *the provision of a social safety net has gone unfulfilled.*

What Has Gone Wrong and What Has Gone Right?

1.3 The proportion of the population living below the official poverty line has declined since 1961, but slowly and unevenly, from 59 percent in 1961 to below 39 percent in 1991¹ (see Table 1.1). The Philippines' performance on poverty alleviation has been disappointing compared to its own aspirations or the accomplishments of its East Asian neighbors. In other countries in East Asia, the proportion of the population suffering from poverty has declined by at least 1 percent per annum over the last three decades (see Table 1.2).

1.4 The country has not performed well in terms of most human development indicators either. While significant improvements were registered in measures of health and education through the 1960s and 1970s, progress has been slow since. Infant mortality declined very little, especially from the late 1970s to the mid-1980s, from 66 per 1000 live births in 1970 to 48 in 1992. More than a quarter of the population were functionally illiterate, although the 1990 census reported a 94 percent literacy rate. Population growth continues at 2.1 percent, still one of the highest rates in the region, and one third of children are malnourished. Each of these social development indicators is closely related to poverty.

¹ Some very preliminary results of the 1994 Family Income and Expenditure Survey released in August 1995 indicate that poverty incidence has continued to fall steadily, despite no per capita income growth between 1991 and 1994.

Table 1.1: Poverty Incidence, Philippines, 1961-1991
(in percent)

	Poor Families			Contribution to Total Poverty	
	Total	Urban	Rural	Urban	Rural
1961	59	51	64	30	70
1965	52	43	55	26	74
1971	52	41	57	24	77
1985	44	37	49	32	68
1988	40	32	46	31	69
1991	39	31	47	39	61
1991 Adjusted	37	23	53	35	65

Notes: Poverty incidence is the head count index for each year using family income, the only poverty measure available for all years. For 1961-71, it is calculated using the 1988 poverty lines by region and urban/rural areas as set by the National Statistical Coordination Board in 1993, adjusted for inflation. For 1985-91, the poverty line is the new official line as set by NEDA in 1993. For 1991 adjusted, lower nonfood expenditures are used in the poverty line. See Table 1.4 for details on 1991.

Sources: Balisacan (1994c); staff calculations from the 1991 FIES; and NSCB revisions released May 1995.

Table 1.2: Changes in Poverty Incidence for Selected Countries
(in percent)

	Years covered	Annual reduction	First year	Last year
Philippines	1971-91	0.7	52	39
Indonesia	1970-90	2.0	58	19
Korea	1970-90	0.9	23	5
Malaysia	1973-87	1.6	37	14
Thailand	1962-88	1.4	59	22

Note: Poverty incidence is the official headcount index calculated from family income.

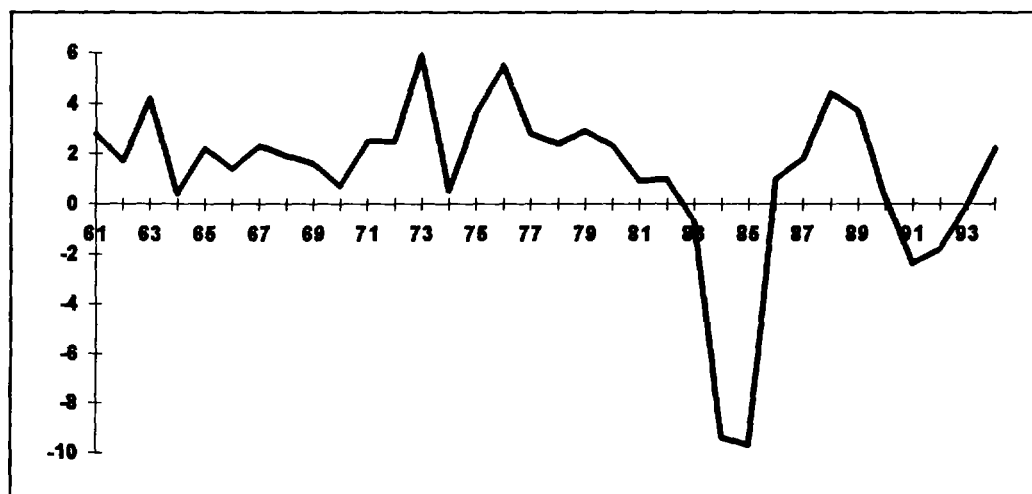
Sources: World Bank (1990; 1993c; 1993e); Balisacan (1994c).

1.5 The relatively modest decline in poverty in the Philippines reflects, among other things, its *slow overall pace of economic growth*, especially the virtual collapse of its growth during the 1980s, when the development of East Asia as a whole was accelerating. From the 1950s through the 1970s, the Philippines' rate of growth was above 5 percent. However, the international debt crisis of the 1980s and domestic political upheaval brought growth to a halt. Although there was some recovery of per capita income between 1985 and 1988, GDP growth averaged only 1.1 percent per annum in the 1980s, and per capita income as of 1992 had just recovered to its 1978 level. Under these circumstances, it is not surprising that progress in poverty alleviation was slow (see Figure 1.1).

1.6 Slow growth of higher productivity sectors resulted in absorption of labor in low productivity employment in the 1970s and 1980s. The industrial sector shrank over this period, and agricultural growth slowed dramatically, while the labor force was growing at 3.6 percent a year. The share of the industrial sector in total employment in 1990 was below what it was in 1960 (see Table 1.3). The failure of industrial employment to grow meant that labor was

absorbed in services, mainly the informal sector, or remained in agriculture, where labor productivity was low and falling.

Figure 1.1: Real Income Growth, Philippines, 1961-1994
(annual percent changes in constant price GDP per capita)



Source: National Income Accounts.

Table 1.3: Employment by Sector, Philippines, 1960-1990
(in percent)

Sector	1960	1970	1980	1990
Agriculture	61	54	52	45
Industry	13	13	12	11
Manufacturing	12	12	11	10
Services	26	32	36	44

Source: National Statistics Office.

1.7 More importantly, poverty declines were modest even when the economy was growing rapidly in the 1960s and 1970s because of the *distorted structure of the economy*. Policies discriminated against labor, subsidized capital-intensive methods of production, and gave low priority to agriculture and exports. This resulted in *growth that was narrowly based and inequitable*, trapping many people in marginal, low paying occupations such as upland agriculture, rural wage labor, and informal employment in cities. Infrastructure was highly concentrated in Metro Manila. Generous fiscal incentives provided a window for the development of export-oriented manufacturing establishments, but for the most part, the new export sector that sprung up in the 1970s functioned as an enclave of export processing zones and bonded warehouses, with little interaction with and few benefits for the domestic economy except

for the (limited) employment of labor. Government interventions, especially in the 1970s and early 1980s, tended to diminish the role of market mechanisms in favor of regulation by parastatals and promoted oligopolistic control in important sectors of the economy. This inward-looking strategy was inherently unstable and so the economy lurched from balance of payments crisis to crisis. A stop-go cycle dominated, with each boom inevitably followed by a bust.

1.8 In the wake of across the board structural reforms of the financial sector, agricultural pricing and marketing, the tax system, the foreign trade and investment regimes, and government corporations, the experience of the Philippines in the late 1980s showed that accelerated growth in a more liberalized economy has a positive impact on incomes of the poor and that poverty declines during periods of rapid growth. Between 1985 and 1988, when GDP growth averaged 4.8 percent, the poverty headcount fell by 1.3 percentage points each year, an achievement equivalent to Thailand's long-term rate of poverty reduction. Analysis of the economic growth of 1985 to 1988 concludes that deregulation in agriculture and greater control over inflation were likely the key factors that improved the lot of the poor.² The labor market performance has also shown signs of improvement (See Box 1.1).

1.9 Poverty in the Philippines has also been a consequence of the highly *inequitable distribution of incomes and assets*. Income distribution in the Philippines is substantially less equal than that in most low and middle income countries in Asia. The richest 20 percent of the population received more than half of total income in 1994.³ Indonesia, with per capita income equivalent to the Philippines (when adjusted for purchasing power parity), has a much more even distribution of income and a poverty incidence of only 19 percent. The richest fifth of the population in Indonesia has incomes about 4.7 times that of the poorest, compared to 10.7 times in the Philippines.⁴ Further, most other East Asian countries have experienced dramatic improvements in income distribution, but income inequality in the Philippines, as measured by the Gini inequality index, has not improved over time. The index has fluctuated within a narrow range of 0.45 to 0.49 over thirty years.

1.10 *Limited access to social services*, particularly primary health care and quality basic education, has reduced the opportunities for increased income and well-being of the poor. Infant mortality has not improved in recent years, and the leading causes of death are preventable: respiratory diseases, diarrhea, and measles. This stagnation has arisen out of poor environmental sanitation and infant and child malnutrition. In 1990, only 80 percent of the population had access

² Using short run simulation results from a macroeconomic model as inputs for a household model of poverty, Balisacan (1995a) finds that about two-thirds of the fall in poverty occurred in rural areas, and agriculture contributed about half of the poverty reduction, likely in response to the substantial deregulation of agricultural markets which favorably affected small farmers. Incomes of entrepreneurs, which constitute about half the total income of the poor, became more equally distributed: they increased by 38 percent for the poorest 20 percent and by 29 percent for the next poorest 20 percent; while the richest 20 percent gained only 4 percent. Further, the drop in inflation from 18 percent to 9 percent probably benefited the majority of the poor, who are more likely to be on fixed incomes or to be self-employed.

³ According to preliminary estimates for 1994, the top 10 percent of the income distribution received 36 percent of total income, and the top half of the population received about 80 percent.

⁴ The richest 10 percent of Filipinos earned 19.5 times the income of the poorest 10 percent in 1994.

to safe water, and only 70 percent had access to safe waste disposal. In 1989-90, 14 percent of preschool children were underweight, 12 percent were stunted, and 9 percent wasted. Although 85 percent of children ages 7-12 are enrolled in school, there is a high drop out rate (of 30 percent in 1991). Some 1.5 million children are not in school; and about a fourth of barangays lack primary schools. In response to these problems, public provision of appropriate services has been inadequate. As much as 75 percent of the health budget is devoted to maintaining curative facilities with only 25 percent for preventive or primary care. The education budget devotes large amounts to colleges and universities, while 27 percent of barangays do not have an elementary school, and many schools are below standards.

Box 1.1: Philippine Labor Market Performance: Translating Growth into Jobs⁵

Since the structural reform of the Philippine economy began in the 1980s, labor market performance has turned around. Since 1985, unemployment and underemployment have been slowly moderating (averaging 10.9 percent 1985-89 and 9.5 percent 1990-94), real wages and earnings have recovered, the share of industry in GDP has risen by 1 percentage point, and the share of wage and salary workers in total employment has expanded by 2 percentage points. Another encouraging development is the slowdown in the growth rate of the labor force, although with over 50 percent of workers still in rural areas, and with contract workers abroad equivalent to over 5 percent of the domestic workforce, wages are unlikely to be pushed upwards by the pressure of labor demand.

Female headed households do not seem to be particularly vulnerable to poverty; and women's position in the labor market in terms of relative pay and attachment to the labor force is good relative to many other Asian countries (with the exception of Thailand) and even relative to many OECD countries.

The Philippines has been relatively proactive in its labor market policies compared to neighboring countries, but the cause of the malaise in job creation and productivity growth in the Philippines until the mid-1980s was primarily policies of import substitution and capital intensity outside of the labor market. The minimum wage is no longer a damaging factor inducing segmentation of the labor market and inhibiting employment growth. Its application is limited to the formal private sector, and even there, exemptions are relatively easy to obtain, so a large fraction of firms do not comply. However, real minimum wages should not be raised without evidence of substantial upward wage pressure overall. Conversely, engaging in cutthroat competition for foreign investment using the minimum wage as a tool is not advisable. The Philippines should instead stress the (still) relatively good education of its workforce compared to Thailand and Indonesia. In this way, economic growth will translate more directly into higher returns to labor and improved living standards for the poor.

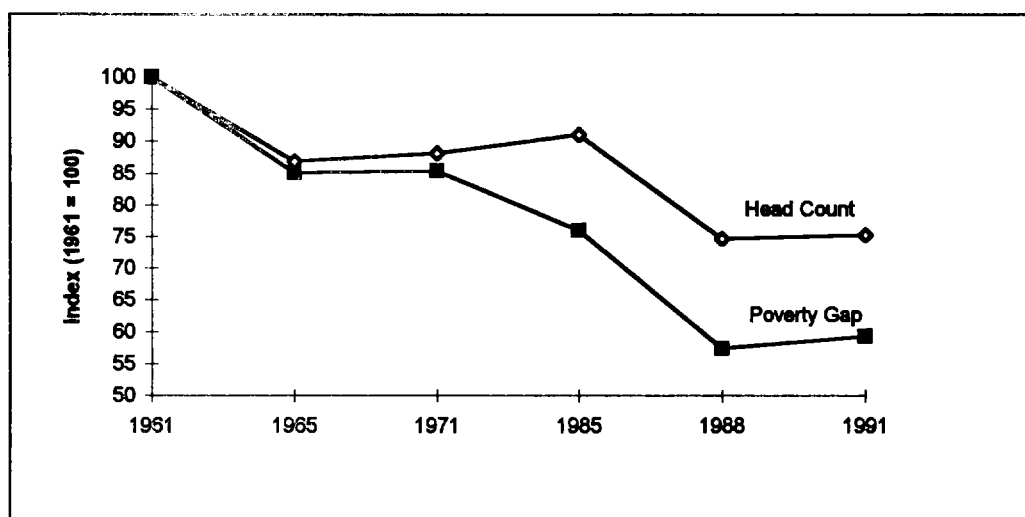
1.11 Persistent poverty also reflects the *limited success of "safety net" programs* designed to ameliorate the living standards of the very poor, including employment creation, livelihood programs, and food subsidies. Instead, as is true everywhere, the poor have devised a variety of coping strategies to survive, of which the most important has been the complex system of private transfers. It is said that in the 1960s, the way a family pulled itself out of poverty was to buy some additional agricultural land and increase production; in the 1970s, the route upwards was to

⁵ See Horton (1995).

secure a government job for a close relative; in the 1980s, the strategy for coping was to send a worker abroad.

1.12 However, the enormity of the poverty problem should not be overstated. Despite the large number of people whose incomes remain below the poverty line, the Philippines has had some success in improving the lot of the poorest. The gap between the income of the poor and the poverty line has fallen by over 40 percent between 1961 and 1991, and the depth of poverty is relatively small. The poverty gap index, which measures the shortfall between expenditures of poor households and the poverty line, is only 17 percent, i.e., the average poor person had income equivalent to 83 percent of the poverty line in 1991. This means that *although the proportion of the poor in the total population has declined modestly, the poor are better off than before, and income disparities among the poor have declined noticeably since 1961* (see Figure 1.2).

Figure 1.2: Trends in Numbers of Poor and Poverty Gap, Philippines, 1961-1991



Notes: Head count measures the incidence of poverty – the share of the population with income below the poverty line. The poverty gap indicates depth of poverty, measuring the shortfall between income of poor households and the poverty line.

Source: Balisacan (1994c).

Understanding Poverty

1.13 How many poor are there in the Philippines? There are several alternative methodologies of constructing a poverty line, and the choice among these methodologies is ultimately arbitrary. *The real utility of an absolute poverty line lies in tracking changes in poverty over time.* For 1991, when the most recently available household survey was conducted, the head count ratio elicits total poverty incidence varying from 37 to 54 percent, depending on definitions (see Table 1.4). However, these estimates made use of the official food poverty line. It is clear from a purely technical perspective that the Philippine food poverty line is too generous by international standards and should be recalculated. Using a poverty line more similar to those used in

Indonesia, China, and Thailand, poverty incidence in the Philippines is greater than in China and Indonesia, but less than in Thailand (see Box 1.2).⁶

Table 1.4: Incidence of Poverty Using Different Measures, Philippines, 1991
(in percent)

	Poor Households			Poor Individuals		
	Rural	Urban	Total	Rural	Urban	Total
Using Income:						
Official Food Line	31.6	11.7	19.7	38.5	14.4	24.5
Official Total Line	47.2	31.0	39.2	53.5	35.4	44.5
Adjusted Total Line	52.8	23.4	36.6	59.0	27.1	41.5
Using Consumption Expenditure:						
Official Food Line	40.3	15.6	26.1	46.5	18.5	30.7
Official Total Line	65.4	34.1	48.5	71.2	38.9	53.8
Adjusted Total Line	61.9	29.8	44.5	67.8	34.2	49.7

Notes: The official food poverty line and official total poverty line are as set by NEDA in 1993. The adjusted total line uses the officially-constructed food poverty line but lower nonfood expenditures, by using the typical value of non-food spending by households just capable of meeting their food requirements. The poverty line was estimated from the 1991 Family and Income Expenditure Survey from household level information on food consumption and total consumption per capita. Also included were household demographic characteristics set at the national means for the second per capita expenditure decile of the population and a full set of region/sector dummy variables, creating a different poverty line for each region.

Sources: Staff calculations from FIES 1991 data tapes and NSCB final results May 1995 from 1991 FIES.

1.14 Irrespective of the debate over methodology, however, is the important fact that *the estimated incidence of poverty in the Philippines is sensitive to small variations in the poverty line*. Much of the population earns an income close to the poverty line, so shifting the measure of poverty a small amount will include or exclude large numbers from the ranks of the poor (see Box 1.3). The bunching of population near the poverty line means that growth without any change in income distribution will do quite well in lifting people out of poverty. Since those near the poverty line are the most likely to be pulled out of poverty by economic growth and by their own efforts, it is instead the bottom deciles of the population, whose members are badly off by many measures, on which policy needs to focus. Nevertheless, overall poverty incidence will remain a number of great political interest, and these numbers, with caveats, can be of use for comparison over time, between geographic areas, and among groups within the Philippines.

⁶ Johansen (1993) presents a rough estimate of poverty in the Philippines using a poverty line comparable in terms of its dietary and nonfood composition to those for China and Indonesia (applying a low cost diet of 2150 calories of which 90 percent comes from grains and 63 percent of total spending is for food). She finds that rural poverty in the Philippines is still more than half again higher than in China, a third higher than in Indonesia, but lower than in Thailand. The incidence of urban poverty is lower than in China and Indonesia, but significantly higher than in Thailand. Asra and Romulo (undated) recently completed a more careful methodological study. Applying the official Philippine food poverty line to Indonesian data, 15 percent of the population in Indonesia in 1987 was living with insufficient income for subsistence while 20 percent of the Philippine population in 1988 suffered the same predicament. Using calculations for 1987/88, poverty in the Philippines was over twice as high as in Indonesia, but if Philippine poverty methodology is applied to Indonesian income data, Philippine poverty is only half, again higher than Indonesian rates.

Box 1.2: How Many Poor Are There? It Depends How You Count Them

Debates over definitions and methods in measuring poverty have often been a source of confusion about the intensity and nature of the problem. However, there are fairly standard international standards of poverty measurement. Even with recent revisions, the poverty line as officially calculated in the Philippines departs from these standards. It is also worth noting that the Philippines has for years measured poverty through self-rating, which has elicited poverty rates higher than official estimates but with similar movements over time.⁷

Since 1987, the official poverty line in the Philippines has been estimated by a Technical Working Group on poverty set up by the National Statistical Coordination Board. The poverty threshold is based on family income and varies by the 13 regions, taking into account differences in prices and consumption patterns. Revisions of methodology in 1993 reduced the official poverty line by about 25 percent as a result of improvements in the accuracy of estimating nonfood requirements.

Officially, reported poverty rates in the Philippines are of family income. Yet experience across many countries has shown consumption expenditure (rather than income) per capita (rather than per family) to be the best widely available indicator of individual welfare. Expenditure is more reliable than a single year's recorded income because agricultural and self employment incomes often vary considerably from year to year. A per capita rather than a household calculation is used because poor households are often larger, so household expenditures would understate the true extent of poverty among individuals. Table 1.4 shows how much higher poverty appears measured by individual consumption.

Two other problems remain in the methodology used to determine the official poverty line in the Philippines, and both tend to overstate poverty. First, the food bundle used to estimate the needed income for subsistence is not representative of the typical food consumption patterns of the poor, with too a high proportion devoted to expensive sources of calories. Although 2,000 calories is taken as the daily caloric requirement for an individual, the food bundle chosen to yield this energy level is assumed to be fairly diverse, with grains contributing an average of 66 percent of the calories (as compared with 90 percent in China, 81 percent in Indonesia, and 73 percent in Thailand). Since a calorie from foods other than grain costs about seven times as much as a calorie from grains in the Philippines, the use of a more diversified diet exaggerates the expenditure required to buy the food basket (i.e., the food poverty line). If the share of grains in the diet of the poor was assumed to be 90 percent, then the poverty line would fall by almost half while poverty incidence would fall by two-thirds.⁸

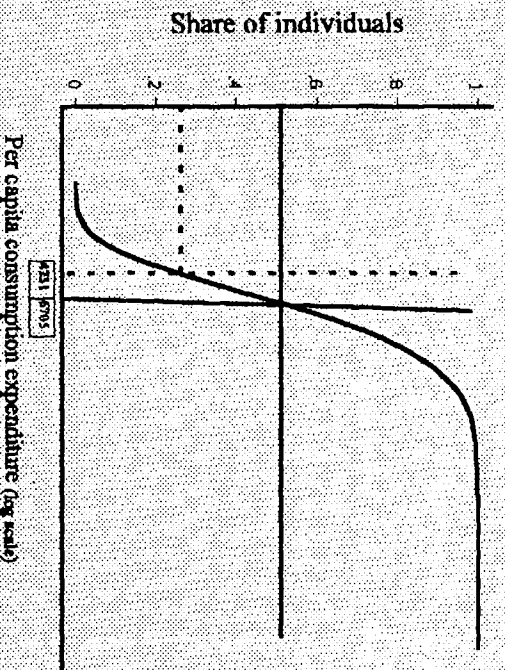
Secondly, and less importantly, the share of non-food expenditures is slightly high because it is not based on the behavior of people living at the food poverty line. In other Asian countries, food expenditures are assumed to constitute an average of 63 percent of total expenditure in China, 90 percent in Indonesia, and 61 percent in Thailand. A recalculation from the final 1991 FIES elicits a food share of 73 percent, as shown in the adjusted total poverty calculation in Table 1.4, rather than the 67 percent share used in the official line. The adjusted poverty lines average 7 percent lower than the official poverty lines, and the line for the National Capital Region is 14 percent lower.

⁷ A private polling firm, Social Weather Stations, has tracked self-rated poverty since April 1983. Survey respondents are asked to rate themselves as poor, nonpoor, or on the borderline. The time trend of these responses

Box 1.3: Bunching of the Population Near the Poverty Line

The figure below shows the share of the population near the poverty line. If the poverty line is lowered by about one-third (from ₱ 6,705, the adjusted poverty line for 1991, to ₱ 4,231), the share of people considered poor is reduced by half (from 51 percent to 25 percent).

Income Distribution and the Poverty Line, Philippines, 1991



Notes: The axes show the cumulative percent of individuals and income respectively. Per capita consumption expenditure is used to measure per capita income.

Source: Staff calculations from 1991 FIES tapes.

1.15 Who Are the Poor? Two thirds of the poor are engaged in the agriculture, fishery, and forestry sectors and have an elementary school education or less. (See Box 1.4 for a poverty portrait). In rural areas, 68 percent of the population live in poverty, while only 34 percent of urban citizens are poor. Since 1971, the urban poor have become a rising share of the total poor population, but still two-thirds of the poor live in rural areas. *The depth of poverty is nearly 2 1/2 times larger in rural areas as in urban areas.* Virtually all individuals residing in the National Capital Region (NCR) are better off than their counterparts in other regions, but the NCR, Central Luzon and Southern Tagalog, mostly because of their large populations, contain over a third of the urban poor (see Table 1.5). Six regions, Western, Northern, Central and Southern Mindanao, Central Visayas, and Bicol, together constitute roughly one-half of all the rural poor in the Philippines (although these regions contain only one-third of the country's rural population).

1.16 Poor households in the Philippines tend to combine into extended families to conserve household assets. Thus, larger households are observed as having greater poverty than smaller

is of greatest interest. Between 1983 and 1994, the incidence of self-rated poverty shows no perceptible time trend, which, coincidentally, is consistent with the sluggish change in the poverty headcount over the same period.

⁸ Johansen (1993).

households: households of 8 or more members represent nearly a third of all the poor, and the poverty experienced in larger households is deeper than that of smaller households. *The incidence and severity of poverty is significantly lower among elderly and female headed households in the Philippines, in striking contrast to the evidence from other developing countries.* Only 8 percent of poor households are female headed. Only 13 percent of poor households are headed by persons over 60 years of age, and only 9 percent are headed by persons under 30. These households tend to be absorbed into others, creating intergenerationally extended homes, with multiple income earners.

Table 1.5: Incidence, Depth and Severity of Poverty, by Region and Sector, Philippines, 1991

Region	Head Count Ratio			Poverty Gap			Poverty Gap Squared (Foster-Greer-Thorbecke Index)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
National Capital Region		15.4	15.4		3.2	3.2		1.0	1.0
Ilocos	63.6	57.2	61.0	21.4	20.8	21.2	9.3	9.3	9.3
Cagayan Valley	62.7	44.7	58.2	21.9	14.3	20.0	10.1	6.2	9.1
Central Luzon	51.1	29.2	38.4	14.7	7.6	10.6	5.6	2.8	4.0
Southern Tagalog	66.3	32.4	48.8	24.2	9.2	16.5	11.2	3.7	7.3
Bicol	73.1	55.8	67.9	27.0	19.9	24.9	12.5	9.2	11.5
Western Visayas	62.2	37.8	52.7	20.2	10.6	16.5	8.6	4.1	6.9
Central Visayas	74.1	37.5	57.7	28.8	13.0	21.7	13.9	6.1	10.4
Eastern Visayas	64.2	45.8	58.6	22.3	15.1	20.1	10.0	6.7	9.0
Western Mindanao	71.3	42.2	61.3	28.2	14.3	23.4	14.0	6.2	11.3
Northern Mindanao	75.6	50.8	64.4	32.1	18.3	25.8	16.2	8.7	12.8
Southern Mindanao	70.6	47.3	59.7	27.7	15.8	22.1	13.5	7.0	10.5
Central Mindanao	70.3	53.1	63.9	26.0	18.4	23.1	11.8	8.0	10.4
Cordillera Administrative Region	60.8	23.1	49.1	22.5	5.7	17.3	10.6	1.9	7.9
Philippines	67.8	34.2	49.7	24.1	10.2	17.0	11.1	4.3	7.7

Notes: Poverty is measured as percent of poor individuals, using consumption expenditure and adjusted total poverty line.

Source: Staff calculations from FIES 1991 data tapes.

Conclusions

1.17 Poverty is still a serious development problem in the Philippines. A large proportion of the population continues to survive on incomes insufficient to provide for the basic welfare of the household. The country's social indicators are not catastrophic but nor are they satisfactory compared to the continuing advances attained by East Asian neighbors. The persistence of

Philippine poverty has been primarily, although not exclusively, the outcome of poor growth performance and the unbalanced structure of growth until the economic reforms of the 1980s. Rural poverty is the worst aspect of the problem; it is deeper and more intractable than urban poverty. Urban poverty is serious, but it is more amenable to the simple remedy of economic growth. Faster growth in a liberal economy will be more equitable, but it will be crucial that the Government further foster equity through human capital investment to attack poverty more aggressively. The following chapters will discuss in detail the important phenomena that constitute the poverty problem and its solution: rural development, urban deprivation and needed interventions, human capital and the provision of social services, and a social safety net.

Box 1.4: A Portrait of Average Poor Households in Rural and Urban Areas in the Philippines

From the statistical information in the 1991 Family Income and Expenditure Survey and the 1992 Socioeconomic Survey of a Special Group of Families, a portrait of an average poor household in the Philippines can be drawn. This household is headed by a male aged 30 to 50 with an elementary education or less. It is larger than average, often with over 8 members. A quarter of the children in the household ages 13 to 16 are not attending school, mostly because of lack of interest. The family uses public health facilities regularly, especially for prenatal care. Almost half of poor women are using some kind of contraception; and 80 percent of poor ever-married women do not want any more children.

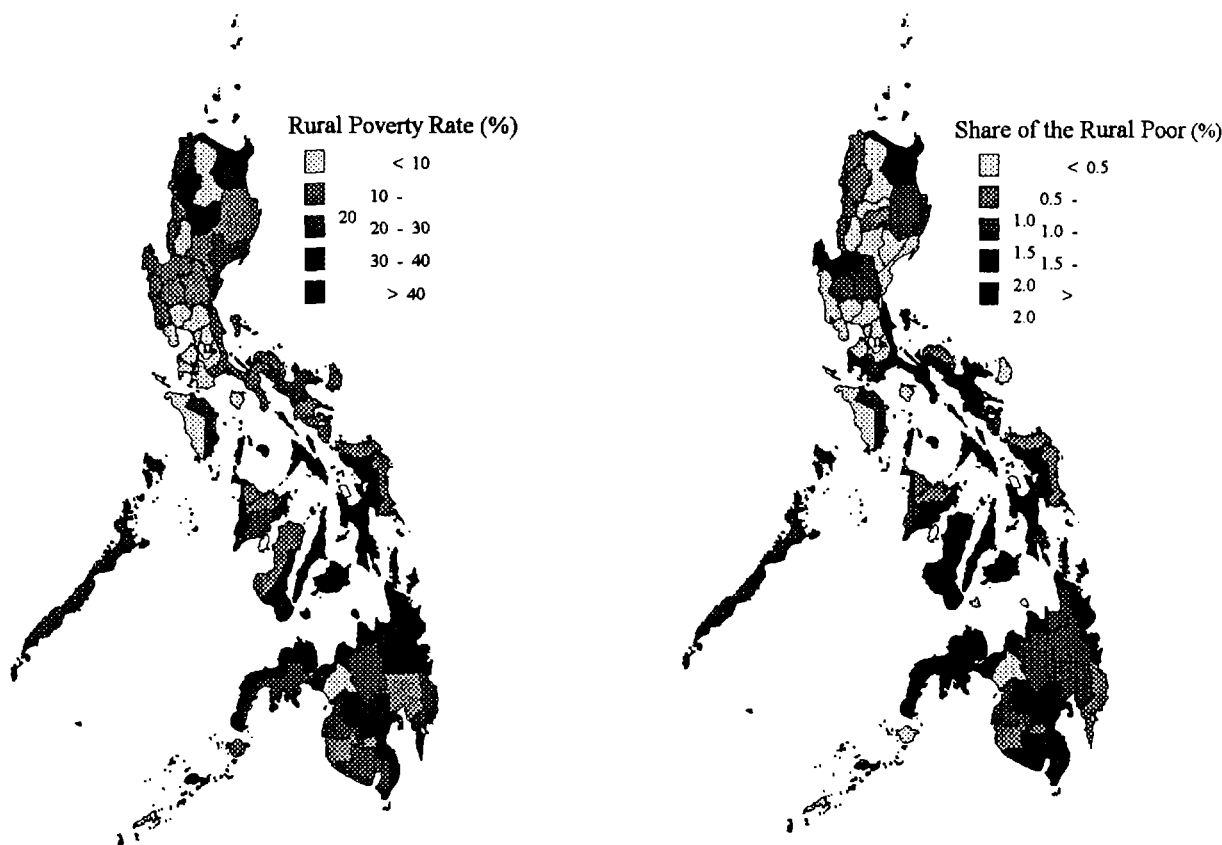
The typical poor household in rural areas is employed in crop farming but also raises livestock or poultry. The family most likely lives in Southern Tagalog or Bicol, regions with mixed economic records since the late 1980s. The head of household is a landless agricultural worker or an upland farmer on heavily sloped land cultivating a small plot planted in rice, corn, coconuts, or sugarcane. The average area cultivated by the poor farm family fell by one third between 1985 and 1992; and the household is heavily underemployed. The household has only a one in five chance of using irrigation, less than one in two chance of using fertilizers, one in three likelihood of using pesticides, and one in four chance of using high-yielding seed varieties. These rates have not improved since 1985. There is only a 10 percent chance that an agricultural extension agent will visit this year; and the family does not have crop insurance (since only 1 percent of poor farm families are insured). The household has a one in two chance of having a sanitary toilet. One or more family members have probably migrated to urban areas and send substantial money home; in Bicol, Central Visayas, and Eastern Visayas, transfers from urban areas exceed 10 percent of family income for the poorest ten percent of households.

In urban areas, the head of household might be working in construction, the wholesale and retail trade, transport, or manufacturing, generally in jobs with little security as well as low pay. The worst off work as hawkers, peddlers, and scavengers. The urban poor family would most likely be in the National Capital Region or Southern Tagalog, regions where poverty has dropped sharply since 1988. These families have a high dependency ratio of unemployed to employed members, but also may be receiving important remittances from a family member working overseas. In the NCR, such transfers added 3 percent to the incomes of the poorest 10 percent. The household would likely be living in a marginal location within the urban area or on its periphery, often in squatter settlements. Although most poor urban households have access to shared community water faucets, one in four are forced to buy water from vendors at 5 to 10 times the normal price or travel far outside their community to collect water. A poor urban household has a one in six chance of a total lack of access to sanitation; and a two in three likelihood of no solid waste disposal service.

2. SHARING PROGRESS WITH THE RURAL POPULATION

"And so today, the need is more and more apparent to develop the countryside. The countryside is where the willing hands are and where the bountiful seeds of development may be found."

President Fidel Ramos, Speech in Malacanang, December 10, 1993



2.1 Poverty in the Philippines has been largely a rural phenomenon. In 1991, half the rural population was poor, and rural poverty accounted for nearly two-thirds of the country's total. And reductions in rural poverty have been modest compared to achievements in the rest of East Asia.¹ As indicated in the maps above, rural poverty varies greatly across the country. Its incidence is highest in Ifugao, Misamis Occidental, Masbate, and Romblon, in which over half of

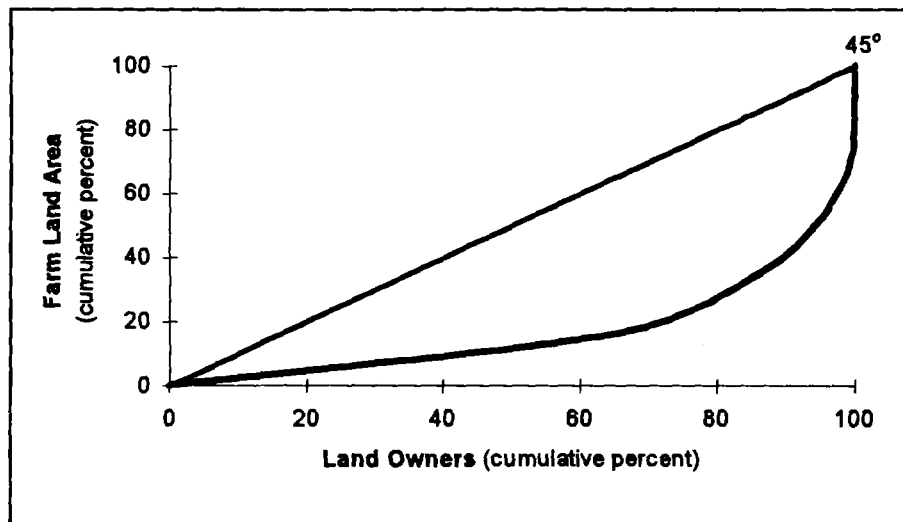
Maps: Left map shows percent of rural families in each province with family income below ₱ 20,000, according to the 1991 FIES. Right map shows share of all such families in each province.

¹ The modesty of this achievement holds even considering the impact of the reclassification of rural areas into urban areas as population grew or economic activity expanded, which has tended to exclude the better performing areas from what is called "rural." Specifically, the proportion of the population in areas classified as rural by the population census fell from 70 percent in 1960 to 51 percent in 1990. Defining rural areas the same as in 1970, rural poverty declined from 60 percent in 1961 to 41 percent in 1991, a steeper decline than appears in the official numbers. See Balisacan (1994c).

rural families survived on less than ₱ 20,000 in 1991. But the greatest *numbers* of the poorest rural families are concentrated in Negros Occidental, Iloilo, Leyte, and Cebu, each of which was home to 3.5 percent or more of the nation's poorest rural families. President Ramos has recently reiterated the commitment contained in the Philippines' current Medium Term Development Plan to reduce poverty incidence to 30 percent of families by 1998. *An overall reduction of this magnitude cannot be accomplished without a sharp reduction in rural poverty and a focused strategy for the worst off rural areas and rural populations.*

2.2 Farm sizes and cultivable land per agricultural worker have fallen in recent decades in the Philippines, even with additional land brought under cultivation by deforestation.² Adding to population pressure on agricultural land is the relatively high concentration of landholding. The Gini coefficient for landholding (a comprehensive measure of inequality) remained at 0.53 to 0.54 from 1960 to 1980 and rose slightly to 0.57 by 1990, despite legislation and implementation of land reform. This level of inequality is about the same as that in Indonesia or Malaysia.³ However, the coexistence of numerous small peasant farms and large plantations is unique in Asia and more akin to Latin America. In 1988, 86 percent of all Philippine landowners owned farms of 7 or fewer hectares, accounting for 23 percent of agricultural land, while less than 2 percent of landholders had farms exceeding 24 hectares, but controlled 36 percent of all farmland. Figure 2.1 shows how unevenly land is distributed.

Figure 2.1: Concentration of Agricultural Land Ownership, Philippines, 1988



Note: The 45° line indicates proportionate distribution.

Source: Balisacan (1993).

² In 1960, average farm size was 3.6 hectares; in 1991, it was 2.2 hectares, even as the share of land under cultivation rose from 28 percent to 44 percent of total land area.

³ Philippine land distribution is worse than that in Thailand, which has a relatively low concentration of landholding of 0.4, but slightly better than in countries such as India, Nepal, and Sri Lanka, which have higher concentrations of about 0.6.

2.3 Almost 30 percent of the population, or around 18 million people, live in upland areas, because of land shortages and the dearth of off-farm opportunities. Up to 10 million of these Filipinos are farming on forest land, often with techniques that contribute to very high rates of erosion. Between 1938 and 1990, almost 60 percent of the country's primary forest disappeared (over 10 million hectares); and deforestation continues at a rate of around 100,000 hectares each year. Similar environmental destruction has occurred in coastal areas. Nearly 70 percent of the country's mangrove forests have been destroyed since 1918 (about 300,000 hectares), overharvested for fuelwood and sometimes replaced by fish ponds. Overall, the degradation and depletion of natural resources in rural areas has been severe, limiting rural opportunities in agriculture, forestry, and fisheries.

2.4 However, the Philippine agricultural sector had performed remarkably well compared to other Asian countries from the second half of the 1960s to the early 1980s, the height of the green revolution period. Growth was led by the crop sector, especially fruits and vegetables and export products such as pineapples and coffee. Nevertheless, *the rapid growth of agricultural value added, averaging almost 5 percent per year, did not translate into a substantial reduction of rural poverty.* The headcount incidence of rural poverty declined modestly during this period, from 64 percent in 1961 to 49 percent in 1985. Clearly, the effects of agricultural growth were barely trickling down or otherwise improving life for most of the rural poor.

2.5 The linkages of agricultural growth were weak because of the numerous distortions in the economic policy environment (discussed in Chapter 1), the skewed distribution of landholding, and the highly capital intensive nature of plantation farming and large scale processing of export crops such as bananas. A further reason that agricultural growth was not good for the poor was the greater availability of subsidies for credit and fertilizers to more affluent farmers, as well as their greater access to irrigation, electricity and roads. Moreover, incentives for industrialization focused on urban areas, hampering the development of off-farm rural employment. These features weakened the employment and income multiplier effects of agricultural growth on the farm, rural, regional and national economy and prevented the rural non farm sector from responding vigorously to agricultural income growth.⁴

2.6 The many policy reforms of the 1980s have set the stage for more equitable growth into the future. However, growth of agriculture since 1990 has been sluggish (barely exceeding population growth) and has fallen behind the accelerating expansion of the rest of the economy.⁵ With agriculture accounting for about one-fourth of GDP (and one-third if agriculture based industry is included), half of employment, and one-fifth of export earnings, the relatively poor performance of the sector is a concern for the economy as a whole. Thus, *ironically, when rates of agricultural growth were robust, the structure of the Philippine economy prevented that growth from benefiting the poor. Now that structural reform has opened the avenues for growth to benefit all, agriculture is faltering.* Therefore, the Government's rural strategy needs both to

⁴ Balisacan (1994a).

⁵ The sector grew by only 2.4 percent in 1994, when the economy as a whole rose 4.3 percent. In the first half of 1995, agriculture faltered at only 0.4 percent growth, while GDP overall rose by 4.9 percent.

stimulate agriculture as a sector and to intervene specifically to bias rural growth towards the rural poor, approaches which can be complementary.

Who Are the Rural Poor?

2.7 The vast majority of the rural poor are engaged in farming, and about two thirds of all farming families were considered poor in 1988. Rural poverty is most common among: (i) lowland landless agricultural workers, tenants and leaseholders; (ii) lowland small farm owners and cultivators; (iii) upland farmers on heavily sloped land; and (iv) artisan fisherfolk. The incidence of poverty among landless agricultural workers and farmers cultivating small plots has been high for many years, especially farm workers in sugarcane, rice, corn, coconut and forestry. Rice producers contributed almost a fourth of overall poverty, not a surprising fact given that they comprise 28 percent of farmers. The incidence of poverty has also been high for families whose incomes depend mainly on fishing (although they account for only 9 percent of all rural families). Overall, rural poverty is more prevalent in those geographical areas where droughts and typhoons are most frequent.

2.8 *Poor families in agriculture are characterized by high levels of underemployment (as is common in monsoon dominated agricultural areas), and the intensity of poverty among the self-employed (including primary lessees, tenants, and small owner-cultivators) is as severe as among wage households in rural areas.* Thus, the modest rise between 1960 and 1980 in the share of crop and livestock farms that were operator owned, from 45 percent to about 59 percent did not correlate with a drop in rural poverty.

2.9 *The rural poor also suffer from inadequate access to land and modern technology, nonagricultural sources of income, and social services, including health care and family planning.* Access to land was actually held back by past land reform programs that covered only large tenant rice and corn farms and so encouraged eviction of tenants and hiring of landless workers. Limited access of the rural population to social services reflects the concentration of these services in urban areas, lack of information, ill-designed programs and inadequate administration. Only two thirds of rural families have access to clean water supply (versus three quarters of urban families); the median distance to higher level health facilities (i.e., rural health units and public hospitals) are four to five times further in rural compared to urban areas, and child mortality is 50 percent higher in rural areas.

How Has East Asia Reduced Rural Poverty?

2.10 The success of East Asian countries at reducing rural poverty confirms, first and foremost, that the problem of rural poverty cannot be solved in the rural sector alone. Its solution requires a multi-dimensional strategy that starts with achieving and sustaining higher rates of growth for the economy as a whole. *Unless overall growth is accelerated, in an economy that is reasonably competitive and open, there is little chance that poverty can be eliminated.*

2.11 In addition to higher growth, the experience of East Asia teaches that economy wide and sectoral policies must encourage rural development. This requires moderate taxation of agriculture and relatively undistorted product and factor markets. It requires public provision of

infrastructure and mechanisms that make technological change available to farmers, especially small farmers. Specific interventions are important to improve the participation of the poor in growth by increasing their access to land and public infrastructure and services. And for resource poor regions, policies that provide opportunities for out-migration are important. Together, these policies can be categorized as increasing access of the poor to the means of production.

2.12 Most importantly, *successful rural development and poverty reduction require policies and programs supportive of smallholder agriculture*. Korea, Taiwan and, more recently, Indonesia, Malaysia and China have followed this strategy. All these countries either did not have large-scale landholdings or have encouraged their reform into owner-operated family farms. Even in plantation crops, they have pursued smallholder strategies based on contract farming; as a result, the share of these crops grown by smallholders has steadily increased. But actual redistribution of land is only one component of a smallholder strategy. These countries have also invested heavily in agricultural infrastructure and agricultural technology for smallholders and have largely refrained from heavily subsidizing credit. They have not taxed or only lightly taxed their agricultural sectors. And this support of small farms does not sacrifice efficiency: evidence from a number of countries now supports the superior productivity of smallholder agriculture.⁶ These countries have experienced rapid agricultural growth, modernization of technology, and sharp reductions in rural poverty. The dramatic declines in rural poverty in these countries has set them up as models for the rest of the developing world where, in general, there are many more rural poor than there were a half century before.⁷

Improving Access of the Poor to Land

2.13 Although land reform can play an important economic, social and political role, it is not a panacea for poverty. Successful land reform must include provision of rural infrastructure and technical support to make small farms productive and prosperous. *Land distribution in the Philippines is not notably more unequal than that of a number of other countries, such as Malaysia or Indonesia, that have been successful in battling poverty*. In certain areas and for certain crops, it is a severe problem that must be addressed. However, comprehensive rural land reform, as currently structured, is bound to remain contentious, expensive, and administratively complex. The ambitious land distribution goals the Government has set for itself in the past have not been attained, and it will be very difficult to meet its new goals. Thus, it is time to take a fresh look at the Philippine land reform program.

2.14 The *Comprehensive Agrarian Reform Law* (CARP) of 1987 mandated the redistribution of public and private agricultural lands amounting to three-quarters of all the agricultural land in the country to landless farmers and farm workers. But progress in agrarian reform has been slow and has yet to make a dent in rural poverty. Only 31 percent of the targeted distribution of 10.3 million hectares over 1987-98 had been distributed by end-1994 (see Table 2.1). These

⁶ A number of empirical studies of farm size and productivity that carefully consider the source of economies of scale (which arise from processing technology; lumpy inputs such as farm machinery; and advantages in risk diffusion, especially in credit markets) conclude that even in fairly technologically advanced and mechanized areas, small farms have a productivity advantage over large farms. See Binswanger, *et. al.* (1993).

⁷ Binswanger (1994).

substantive delays reflect the bottleneck of financing such a program and the complex procedures, loopholes, exemptions and other provisions in the law that have reduced its effectiveness without necessarily contributing to agricultural efficiency or growth.⁸ The uncertainty surrounding the program has discouraged the flow of investments into agriculture as well as encouraged non-planting and premature conversion of agricultural lands into non-agricultural uses. It has also diminished the collateral value of agricultural lands. Moreover, redistribution has lagged most for private agricultural lands; yet it is exactly these areas where landholding inequality is the worst, particularly in sugarcane, coconut and other tree crops, and nontraditional export crops.

Table 2.1: Implementation of the Comprehensive Agrarian Reform Program, Philippines, 1987-94
(in '000 hectares, except as noted)

Program	Schedule of Implementation ^{a/}	Original Target (1987-1997)	Actual (1987-1994)	Percent of Target
PHASE I	1988-1992	<u>1,055</u>	<u>1,046</u>	<u>99</u>
Rice and corn lands already selected for land reform		728	441	61
All idle lands		250		
Government agricultural lands ^{b/}		77	605	786
PHASE II	1988-1992	<u>7,660</u>	<u>2,150</u> ^{d/}	<u>23</u> ^{d/}
Public agricultural lands ^{c/}		6,954	1,776	26
All private agricultural lands in excess of 50 hectares		706	374 ^{d/}	15 ^{d/}
PHASE III		<u>1,581</u>	<u>0</u>	<u>0</u>
Other private agricultural lands				
24-50 hectares	1992-1995	517		
5-24 hectares	1994-1998	1,064		
TOTAL		10,296	3,196	31

^{a/} Based on program phasing in RA 6657, the law for CARP.

^{b/} Includes Presidential Commission on Good Government surrendered and sequestered lands and government owned agricultural lands.

^{c/} Includes public alienable and disposable lands, lands under agricultural leases, social forestry areas, and resettlements.

^{d/} Includes some private agricultural lands under Phase III and idle lands under Phase I, so the target used as a denominator includes 250 and 1,581 hectares from Phases I and III.

Source: Balisacan (1995b).

⁸ For example, complicated procedures are required for land valuation. The law requires consideration of at least ten factors, including the cost of acquisition by the owner, the current value of similar properties, its nature, actual use and income, the owner's sworn valuation, tax declarations, and appraisal by government assessors. These cumbersome procedures invite abuse. Incidents of gross overvaluation of lands offered voluntarily by landowners for sale to the government have been discovered. About 9,000 cases are currently under adjudication.

2.15 Because it was realized from the outset that land redistribution without supporting services might reduce productivity, a large proportion (about a third) of CARP resources have been devoted to support services. Barangays have been clustered into Agrarian Reform Communities (ARCs) to serve as a focus for land tenure improvement, delivery of support services and interventions (by the Department of Agrarian Reform, DAR, other government agencies and NGOs) to improve household incomes. Such an approach has a certain surface appeal. However, the target of establishing (and serving) 1000 ARCs (at least five in every congressional district) by the year 2000 seems overly ambitious.

2.16 Another dilemma with CARP as currently structured is its restriction of tenancy forms. Evidence now argues against the traditional view that tenancy is correlated with poverty. Instead, it seems land reform programs constraining the scope of tenure choice tend to defeat the objective of promoting efficient resource allocation in rural areas.⁹ More importantly for the alleviation of rural poverty, tenancy prohibitions close the opportunity for the landless poor to move up the "agricultural ladder" and especially hurt the poorest of the rural poor--landless farm workers. As the wage worker accumulates experience and financial capital, he or she can become a tenant farmer and eventually an owner cultivator.¹⁰

2.17 *The ongoing targets for the land reform program are unrealistic.* During the first seven years out of the original ten year program, less than one-third of the land has been redistributed, and barely 15 percent of private agricultural lands (constituting one fourth of the program and the lands with most highly concentrated ownership). The cost alone makes full implementation of CARP unlikely. Continuing increases in land prices have inflated recent estimates of the total cost to the budget of completing CARP to over ₱ 250 billion (or US\$ 10 billion)!¹¹ Future program implementation presents a heavy budgetary burden. This could result in diversion of resources away from areas such as rural infrastructure and social services, with negative repercussions on the welfare of the rural poor.

2.18 A Different Strategy for Land Reform. It is clear that it is vital to improve the lives and prospects of the rural poor. But given budget and administrative constraints, the Government is facing stark trade-offs between fully funding CARP and helping landless and tenant farmers in other ways. The land reform program should be carefully reevaluated to bring its financial and administrative requirements into line with available resources. *The program should be reshaped*

⁹ Recent empirical evidence shows that the same degree of efficiency can be achieved under share tenancy contracts and under fixed fee contracts as under owner farming. Inefficiency in tenancy arises where the scope of contract choice is institutionally restricted. See Binswanger (1994).

¹⁰ In the Philippines, the prohibition of share tenancy in rice and corn starting in 1972 induced landlords to evict their share tenants in favor of direct farm management, with wage labor contracts for agricultural workers (even though such a setup is technically less efficient), and also encouraged landlords to shift to crops other than rice and corn. However, the ineffective implementation of earlier land reform has left about the same proportion of farms under share tenancy two decades later. See Balisacan (1995b).

¹¹ In 1994, CARP's total budgetary requirement was estimated at ₱ 101 billion for 1995-98 (about US\$ 4 billion, or about half of the Government's 1994 revenues net of interest payments and mandated block grants to LGUs). Of this, the budgetary requirement for land acquisition and distribution activities was ₱ 67 billion. Most of the remainder would be used for support services to land reform beneficiaries.

to be applied only to areas where the land tenure problems are most pressing and oriented to assisting the poorest agricultural workers. Bicol and Western Visayas stand out amongst the regions, with highly concentrated landholding. Even more dramatic is the extreme level of inequality of land ownership for sugarcane lands.¹² A focused completion of rural land reform, whether implemented under existing CARP rules or a modified approach, must be fully funded and quickly finished. The rural poor can wait no longer: the delays in agrarian reform have begun to impose crippling costs on the rural sector as uncertainty about future ownership status brings investment to a halt.

- The number of beneficiaries from spending on land reform must be compared to those who would benefit from other rural spending. About 3.7 million families are potential beneficiaries of CARP, out of 6 million rural households. About 2 million of these households would be enriched by receiving 3 hectares of land, the amount DAR is distributing from private lands: they are owner-cultivators of farms smaller than 3 hectares, landless agricultural workers, and lessees and tenants. But the land targeted under CARP, not counting forests, public lands, or private lands between 5 and 24 hectares, is sufficient only for fewer than 1 million families. For the remainder of these 2 million, it is less certain to what degree they would benefit since they would not receive ownership of land. The other 1.7 million families are farming in upland forests and would benefit from the stewardship contracts provided under CARP in forest areas and on public lands.
- Land reform efforts should be reconsidered (or halted) in peri-urban or rapidly urbanizing areas where the value of land in non agricultural uses exceeds that in agricultural uses. Implementation of the reform program in these areas is bound to be very expensive, gobbling up a disproportionate share of available resources, and land is bound to go out of agricultural production and into urban use in the near future.
- The Government should not proceed with implementation of the program's third phase affecting private lands smaller than 50 hectares. (Most farms in this group are below 24 hectares.) This phase will be much more difficult and costly than phases one or two since it implies distribution of smaller, more scattered private plots.
- *The Government should not let the targeting of agrarian reform beneficiaries as a special group for support services distract from the need to provide services to all small farmers.*

2.19 The administrative complexity of land reform, the time consuming disputes that arise because of land valuation problems and the issues of exemptions for "efficient uses" of land probably cannot be resolved in the context of a government-sponsored and administered program being executed in a democratic society. An alternative is to move toward *market assisted land reform*, which would involve removing all regulations and subsidies that artificially raise the value of land and imposing a stiff land tax. Such changes would encourage large landholders to sell voluntarily and would reduce incentives to hold land out of production or retain inefficient

¹² With a Gini coefficient of .81 compared to a national average of .57!

production patterns.¹³ To enhance the impact such a scheme could have on the rural poor, beneficiaries could receive partial grants to enable them to buy land without incurring unmanageable debt burdens. Such a program, which could well be less costly, should be evaluated for the Philippine context. A decentralized structure capable of assisting with the provision of infrastructure and social and agricultural services would also be essential for the success of the program.

Strengthening the Agricultural Credit System

2.20 Despite the heavy emphasis given to credit in the Government's rural programs, *shortages of credit are not as serious an impediment to agricultural development or a cause of persistent poverty as access to infrastructure and human capital*. It is true that small farmers often cannot secure institutional credit. Transaction and collateral requirements restrict access of owners of small farms and tenants to formal sources of credit. This type of lending is also unattractive to banks because of the high costs of administering loans to small farmers and, if interest rates are controlled, low profitability. However, it should be kept in mind that in the context of a well functioning agricultural marketing and rural finance system, farmers' requirements for short term credit are usually met by suppliers of inputs and marketers of crops rather than directly by financial institutions. The primary role of the rural credit system is to fill the working capital requirements of these (rural) agricultural intermediaries. A subsidiary role, and one that cross-country experience of banking with the poor has shown as important in the early stages of a client-banker relationship, is the provision of consumption loans (for seasonal smoothing) and emergency loans (to overcome shocks), a credit need that agricultural intermediaries are rarely equipped to handle.

2.21 The State of Agricultural Credit. Formal lending for agricultural production has declined significantly over the last 10 years in the Philippines, in absolute terms, as a share of value added, and as a share of total loans by the banking system (see Table 2.2). About two-thirds of total loans to agriculture over 1988-92 came from *commercial banks* with rural branches. Their lending has essentially been limited to highly collateralized loans granted to large domestic and multinational agribusinesses, with the bulk of their loans short term and often rolled over for large long term customers. Another important set of players in the rural financial sector have been family owned *rural banks* which mobilize and reinvest resources in rural areas and thus could in theory play a significant role in rural development. However, their weak financial positions, the legacy of provision and subsequent withdrawal of government subsidies, have undermined performance.¹⁴ Although rural banks still account for close to 30 percent of the rural branch

¹³ Market assisted land reform would avoid bargaining games between owners and government and lead to competition among buyer and sellers. This could avoid the delays associated with disputes about compensation levels by privatizing and thereby decentralizing the essential processes. The process should not be left unsupervised; district land committees reporting to regional and national committees could facilitate implementation, and parties will ultimately have to be provided with recourse to the courts to resolve disputes. A decentralized land or agrarian court could be established to which disputes can be appealed that cannot be resolved through arbitration or by land committees. See Binswanger (1994).

¹⁴ The expansion of rural banks throughout the country was spurred by heavily subsidized government funds during the 1970s and early 1980s. However, more attention was given to extending loans than ensuring viability, and over 80 percent of loans granted under some programs were never collected, leaving most rural banks in

network, they retain less than 3 percent of the sector's total assets and 13 percent of the loans granted to agriculture over the last five years.

Table 2.2: Indicators of Agricultural Lending, Philippines, 1983 and 1993

	1983	1993
Loans granted, billions of 1985 pesos	50	27
Loans/Agricultural GDP	32%	17%
Agricultural loans/Total loans	8%	4%

Source: Bangko Sentral ng Pilipinas.

2.22 The *Land Bank* (LBP) has in recent years concentrated on support of agrarian reform, especially through the Agrarian Reform Fund established under CARP to cover operating costs in the agrarian sector and to fund land reform mortgage loans and agrarian production loans. One important threat to LBP's financial viability has been set aside: the arrangements for land purchases under CARP have recently been changed to resolve the serious mismatch between payments to landholders and receipts from small farmer mortgages that had arisen (amounting to about US\$ 820 per hectare, excluding administrative costs). Perhaps of equal importance, over the past few years, LBP has shifted away from lending to individual farmers to wholesaling through agricultural cooperatives and rural banks and providing technical assistance to cooperatives for loan administration, general management, and project development.

2.23 The quickly expanding role of *rural cooperatives* is an important development. A multitude of cooperative production initiatives, a cooperative promotion code which allows for easy establishment and registration of cooperatives, and significant government incentives to cooperatives have led to an unprecedented surge in the number registered: from 1,860 in 1990, to 9,800 in 1991, and 22,000 in 1993. By 1993, rural cooperatives accounted for three quarters of loans disbursed to the small farmer sector. Almost half appear to be multipurpose cooperatives, but information about their size, financial status, and activities is not readily available. Many are quite small, suffer from poor management and control, and lack business orientation. It is likely that a significant number only exist on paper, having been formed to avail themselves of government benefits and donor assistance. Many cooperatives' limited experience and meager equity tend to reduce repayment capacity. However, cooperatives offer the potential to increase competition for small borrowers which should reduce high interest rates in the informal financial sector.¹⁵

financial distress. The elimination of government subsidies to rural banks in 1985 resulted in widespread closure of rural banks and left most of the remainder with weak financial positions. In 1987, the Government launched an initiative to rehabilitate rural banks, with a focus on infusion of fresh capital by rural bank owners and central bank support (through arrears conversion into government equity and rescheduling of remaining arrears into a 15 year installment program). Nevertheless, less than half the 1,100 rural banks operating in 1981 are currently deemed viable, and only 250 are still strong enough to operate without external assistance. See World Bank (1994c).

¹⁵ See World Bank (1995c).

2.24 Improving the Rural Credit System. The financial condition of many rural banks remains weak. Non government bank lending still concentrates on larger borrowers. Proliferation of subsidized rural credit programs by government non-financial agencies continues despite efforts to consolidate various funds. Perhaps most importantly for the long run, while rural savings mobilization has improved somewhat recently, these savings continue to be invested in major urban centers. Savings can be a substitute source of capital for a rural household, if savings deposits are secure, accessible, and offer a positive return. Actions are necessary:

- The Government needs to resist any pressure to restore agricultural credit subsidies. The private sector should continue to lend to agriculture on an equal footing with public institutions. In addition, increased efforts should be made to streamline and consolidate all government sponsored credit programs, relying on banking institutions to carry them out.
- The Government should also avoid any bail out of weak rural banks. Further rehabilitation of rural banks should be carried out through private sector initiative with limited, indirect government support.
- Rural cooperatives should be strengthened to permit them to serve as viable financial intermediaries and expand the range and quality of non-financial services they provide to their members, including post harvest processing and marketing of inputs and outputs. Increasing cooperatives' working capital would enable them to offer such services, which would ultimately help in collection and financial health. Therefore, LBP needs to strengthen its accreditation criteria for cooperatives, provide them with technical assistance for institutional strengthening, and place more emphasis on savings mobilization.¹⁶

Building Rural Infrastructure

2.25 Government Spending in Agriculture. *The current level of public expenditures on agriculture is inadequate if the agricultural sector is to become an important engine of growth and make a significant contribution to poverty alleviation and sustainable resource management during the second half of the 1990s.* The share of government spending in agriculture declined from the range of 10 to 12 percent during 1976-1983 to an average of 6 percent during 1992-94.¹⁷ Relative to value added, public expenditures for agriculture in the mid-1980s were only equal to 1955 levels. While expenditures recovered by the late 1980s, the Philippines continues to have the lowest ratio of public expenditures for agriculture to total expenditures and gross domestic product among ASEAN countries. The expenditure bias indicator (the ratio of public expenditures on agriculture to total government expenditures compared to agricultural sector GDP divided by total GDP) compares unfavorably with comparator countries: for the Philippines over 1992-94, it was 0.27, compared to 0.62 in Thailand, 0.41 in Indonesia and 0.40 in Mexico.¹⁸

¹⁶ See World Bank (1995c).

¹⁷ Includes livestock, fisheries, research and extension, price supports, credit and input subsidies, agrarian reform, forestry and environment, and community development and rural roads.

¹⁸ See World Bank (1995e).

2.26 At the same time, there has been a marked shift of government agricultural expenditures away from research, irrigation and community development (including rural roads) to agrarian reform, environment (which each claim one-fourth of government expenditures on agriculture), and price supports (which claim another 7 percent). On the whole, this represents a shift from tried and true methods of directly supporting sectoral growth and indirectly alleviating rural poverty, to methods that seem to be more direct but which have not (yet) proven to be effective. Unfortunately, it is precisely investment in infrastructure where the backlog has been particularly severe. Total infrastructure expenditure in 1991 was only 60 percent of the level in 1981.

2.27 An increase of agriculture's share in public investment is planned for the remaining years of the Ramos Administration. A substantial part of the increase should be devoted to rural infrastructure investment. Investments in rural roads, electricity and communications, port facilities, and irrigation can reduce transaction costs, thereby facilitating a wide variety of economic activities and strengthening the rural supply response to overall economic growth. Infrastructure also raises the quality of life directly by providing cleaner water, land and air which contribute to improved personal health, and by providing services valued in their own right such as transport and communication.

2.28 The relative returns to investments in agrarian reform versus physical infrastructure that improves access to markets have been investigated. *Simply redistributing land was found to have little effect on earnings in rural areas or aggregate poverty and inequality.* Instead, increasing the access of the worst off regions to paved roads and electricity could reduce poverty significantly by improving productivity and earnings.¹⁹

2.29 Investment in *rural roads* is particularly vital. Better roads would make it easier for the poor to gain access to markets for final goods and services and to sources of productive inputs (as well as to social services and alternative employment). In the Philippines, the density of rural roads has been found to have a substantial impact on farm output and use of inputs such as fertilizer and tractors.²⁰ But an estimated 50 percent of barangays lack all weather roads, significantly delaying hauling in the rainy season; 40 percent of provincial roads and 50 percent of barangay roads are in such poor condition that they cannot be maintained any longer, but must be rebuilt or abandoned. Road density is lowest in Central, Western, and Southern Mindanao. Electricity and communication services are also of high value if off farm employment is to be generated in rural areas. Only 53 percent of rural families were hooked up to electricity at the beginning of the 1990s; and families in Central and Western Mindanao and in Eastern Visayas were most deprived, with two-thirds lacking electricity.

2.30 Investment in *irrigation*, on the other hand, has already reaped the easiest returns. By 1985, 87 percent of the paddy area (94 percent of irrigated area) was planted to high yielding varieties, one of the highest adoption rates in Asia. As a result, over the last decade, yields on irrigated land have averaged 70 percent higher than those on rainfed farms. While some modest new investment in low-cost communal irrigation schemes, which have the possibility of improving

¹⁹ See Balisacan (1995b). Earnings equations were estimated using household data and regional indices.

²⁰ See Clarete(1995). This result is reinforced by the findings of Binswanger (1989) in India.

the income of poor farmers and have proven economically attractive, should be considered, IRRI evidence now suggests that the emphasis of future spending for irrigation and irrigated agriculture should be on increasing farmer skills, improving irrigation management and augmenting support services such as agricultural research and extension and marketing facilities.

Improving the Functioning of Rural Markets

2.31 Government interventions in the agricultural sector have imposed heavy costs and uncertainties on farmers and distorted agricultural production and markets. A prime example is the National Food Authority (NFA) which has spent billions of pesos over the years without stabilizing prices or raising returns to farmers. While deregulation in agriculture started in the 1980s with the dismantling of a number of counterproductive regulations and monopolies, *it is time for deregulation to be completed.*

2.32 The most significant move would be to end the monopoly by the NFA on international trade in rice and corn and its direct intervention in the domestic market. The NFA's functions could be replaced by simple, more transparent rules to protect and promote agricultural development. NFA's budget would be better spent on the development of improved agricultural technology, extension, and infrastructure. Rice and corn producers could be sufficiently protected by applying variable tariffs on imports and allowing private imports of grain.

2.33 Any serious reform effort must also remove the remaining restrictions on agricultural production and trade that prevent farmers from earning a higher return or from procuring inputs more cheaply. Among the most important of these are limits of area planted with bananas; the import bans on seeds; restrictions on importing cattle feeder stock; export bans on buntal and ramie planting materials; the slaughter ban of carabaos, and export restrictions on unendangered animals and animal products. Some of these issues are slowly being addressed as part of the Philippines' signing on to the Uruguay Final Round of the GATT.

2.34 To complement deregulation, markets could function better with improved transaction services. Here, *rural cooperatives* can be an important tool to help small scale producers organize to integrate into the modern agricultural sector. At this point, the amount of agricultural product handled, ex farmgate, by cooperatives is small, and many cooperatives stand in great need of financial and institutional strengthening. Since most have been established as credit vehicles, trade both in inputs and products has been simply an outgrowth of the credit function, i.e. the supply of products in kind and payments effected with product. Both aspects of trade are growing as the working capital of cooperatives grows. Coops can and are competing with established traders by offering cash payments, accurate prices and quality determination, free collection at the farmgate and storage, a business development which should cut transaction costs for farmers.

Improving Agricultural Services

2.35 Too few resources have been allocated to the more cost-effective long-term policy instruments that raise agricultural productivity and lower costs of production such as agricultural research. The reach of extension services is limited: as little as 12 percent of crop-growing poor

households receive information about seed utilization and crop management. Only 20 percent of poor households have access to irrigation, use high yielding varieties, or practice interplanting or double cropping. As a result, there remain many unrealized technical opportunities to improve productivity (see Box 2.1).

Box 2.1: Rehabilitation of Coconut Smallholdings: Higher Yields Improve Farm Incomes and Export Earnings

The Small Coconut Farms Development Project of the Philippine Coconut Authority, supported by a World Bank loan, launched a 20 year program to rehabilitate the declining coconut industry beginning in 1991. Coconuts occupy about 3 million hectares, contribute to the livelihood of a quarter of the Philippine population, and are the biggest agricultural export. However, because of increasing senility of the palms, production had been declining by about 2 percent per year, and major international customers were beginning to look for other sources of long-term future supplies.

The project planned to rehabilitate about 348,000 hectares and replant up to 50,000 hectares of young palms replanted over five years. To ensure an early response while the seed production capacity needed for massive replanting was under development, the project provided fertilizer for the rehabilitation of nutrient deficient mature palms and young plants. It was estimated that the yield of mature palms could be doubled after four applications of fertilizer and that the yield potential of deprived young hybrids could be increased four or five fold.

The area targets for the first two years of the project were exceeded, but then budget constraints and other problems prevented the planned continued expansion of coverage. However, it soon became apparent that the response to fertilizer had been underestimated. Farmers fortunate enough to have been included in the program soon reported significant increases in the number of nuts produced and in the copra content of the nuts. A recent survey has shown that after only three applications of fertilizer, average annual copra yield per hectare increased from 1.02 tons to 2.79 tons (174 percent increase), which tripled the farmers' net incomes. The increased production already resulting from the project is estimated to have a potential annual value in the international market of at least \$50 million. The results have generated great enthusiasm for the project among the Small Coconut Farmers' Organization groups, and most participants who will graduate from the program this year have said that they intend to continue using fertilizer to maintain their higher income.

2.36 Uncertainty about agricultural services into the future has been heightened by recent devolution of government functions to local governments which placed agricultural extension and most regulatory functions under the management of provincial and municipal authorities who have considerable discretion in determining the level and types of services they provide to farmers. This is supposed to *make agricultural services more accountable to farmers and more responsive to local needs*. In the short term, however, it has produced uncertainty, staff fears about deprofessionalization, and political influence in technical matters.

2.37 Prior to the impact of decentralization, efficient delivery of agricultural support services had already been retarded by weaknesses and fragmentation in the institutional structure.

Whereas the Department of Agriculture assumed responsibility for accelerating agricultural development, the mandates, authorities and budgets for performing various agriculture-related activities have been spread over several different agencies belonging to at least four different departments -- Science and Technology, Public Works, Agrarian Reform, and Environment and Natural Resources. Further, the severance of linkages between research and extension after the devolution of extension to LGUs, the significant real redirection in expenditures on communal irrigation in particular and irrigation in general, and the limited responsiveness of research to farmers' needs, have reduced the contribution to agricultural growth of research, extension and irrigation.

2.38 *More funds should be devoted to agricultural research and extension.* Training for devolved extension personnel should be continued and monitored. There has been a proliferation of agencies with a mandate to provide various agricultural support services, with little coordination among them. As a starting point, a study should be carried out on the respective roles of various national agencies and LGUs involved in the delivery of agricultural services with a view to rationalizing the institutional structure of the agriculture sector and enhancing its effectiveness in dealing with small farmers and the rural poor.

Rethinking Rural Development Programs

2.39 Numerous approaches to rural development have been tried in the Philippines: community development programs, integrated area development programs and integrated rural development programs. In the early 1970s, the Government formally adopted the *integrated area development* (IAD) approach as a means of increasing employment opportunities and promoting rural welfare. Typical components of IAD projects included: (i) agricultural services, including extension and demonstration plots; (ii) rural infrastructure, including farm to market roads, irrigation facilities, flood control and bridges; (iii) rural industries; (iv) social services including education, nutrition, health and environmental sanitation; and (v) local level planning.

2.40 Planning and implementation problems limited the scope and sustainability of these programs. IAD projects proved difficult to manage, because of the need to coordinate the activities of various line agencies with differing levels of commitment to each project; because projects were highly centralized, with little local participation in decision making; and because they were dependent on external financial assistance for operating costs as well as investment expenditures. More importantly, complex project design, often ill-adapted to local conditions and incorporating inappropriate technologies, insufficient investment in local administration, and lack of beneficiary participation limited the effectiveness of these projects, as did inadequate attention to the implications of other government programs and policies, both within and outside agriculture.

2.41 Given this disappointing experience, current thinking has been that administrative and fiscal *decentralization* could be a more viable route to integrated rural development. However, *poverty-reducing rural development efforts based on a small farmer strategy will generally require partial or full government finance since the private sector is unlikely to judge such infrastructure and service delivery to be sufficiently profitable.* Public resources could be channeled for specific small scale productive or social projects to beneficiary groups, either

directly or via intermediation of local governments or NGOs. For example, a rural development fund window could be set up within the existing Municipal Development Fund, as a financing vehicle through which the Government could make available conditional or matching grant resources for targeted activities to be implemented by LGUs. Genuine decision making power can be delegated to municipalities or beneficiary groups for their choice from a predetermined menu of poverty-reducing community projects. The Central Visayas Regional Project provides valuable lessons about community-based resource management (see Box 2.2). Project selection can be made according to rules that increase the transparency of decision making to ultimate beneficiaries and assist in targeting to poorer groups.

Box 2.2: The Central Visayas Regional Project (CVRP): Community Management for Sustainable Use of Resources

The Central Visayas Regional Project (CVRP), supported by the World Bank, addressed the degradation of upland watersheds and coastal reef fisheries in poor and remote areas of the Central Visayas during the 1980s. The watersheds of the Visayas had been denuded of forests and farmed extensively without concern for soil conservation. Soil erosion contributed to rapid loss of fertility, and lack of tree cover added to the danger of flash flooding. Coastal fisheries had been overexploited by large numbers of small-scale fishermen competing with commercial boats illegally fishing in municipal waters. Poor access to markets and farm inputs limited prospects for agricultural development and further contributed to a deepening cycle of impoverishment and resource depletion.

The CVRP project aimed to organize users of upland watersheds and near-shore fisheries, resources that were already in principle publicly owned and regulated, and give them long term exclusive use rights to create incentives for conservation. Contractual tenure instruments were developed, such as the Stewardship Certificate which provides 25-year renewable use rights for farmer occupants of public land or the Forest Occupants Stewardship Agreement which assigns collective management rights to upland communities over residual forest. A major rural infrastructure component utilized highly labor intensive techniques to increase road access to remote farming communities and to provide safe water supplies to communities that undertook to protect catchment areas. The project also promoted decentralization of regulation of small-scale municipal fisheries to the municipal level and active management by Fishermen's Associations.

The project proved successful in encouraging more sustainable use of coastal fisheries and upland resources. Municipal Fishermen's Associations secured agreements among users to set aside and protect areas of coral reefs as nurseries, helped control use of dynamite fishing, and restricted the use of fine mesh nets, in return for assistance in excluding commercial fishing boats from municipal waters and in developing alternative livelihoods such as goat and swine raising. The project also improved soil conservation by upland farmers, especially through private tree planting and agroforestry. However, CVRP did not manage to put in place effective community management of residual forests. Other government sponsored reforestation programs with high wages undermined these community efforts; project management and technical services proved too costly for local government to sustain without external financial support; and it became clear that adequate alternative immediate sources of income needed to be provided if an impoverished community is expected to forgo opportunities for profitable exploitation of a local resource.

2.42 Decentralization of rural development would involve: (i) relying on local governments as the main implementers of projects under antipoverty plans and making local governments more accountable for their planning and implementation (through social or municipal funds); (ii) mobilizing NGOs and people's organizations to articulate needs, design self-help projects, mobilize resources, implement them and monitor and evaluate their progress; and (iii) monitoring progress of poverty alleviation through a community-managed surveillance system.

Building the Human Capital of the Rural Poor

2.43 The perennial weakness of the rural supply response in the Philippines has reflected persistent under investment in human capital formation. There is overwhelming evidence that investment in human capital is a key factor in reducing poverty. For the Philippines, recent calculations estimate that raising educational levels of the population to at least high school would reduce poverty headcount by about 10 percentage points.²¹ Thus, it follows that the ability of the poor to participate in the growth process can be facilitated by improving primary health care and basic education. *In rural areas in particular, the most important obstacle to the poor gaining access to health and education services continues to be the lack of accessible physical infrastructure, i.e., schools and health clinics and the roads to get to them.* Further, public investment in human capital has been biased against rural areas. For example, in the 1970s and early 1980s, high quality primary education was limited to less than 10 percent of the total elementary age population, mostly in private schools in Metro Manila. It is clear that rural primary education and health services have been short changed; and therefore, that emphasis on the provision of primary health services and primary education, which favor all the poor, would be particularly beneficial to the rural poor. (See Chapter 4 for a discussion of human capital issues.)

Conclusions

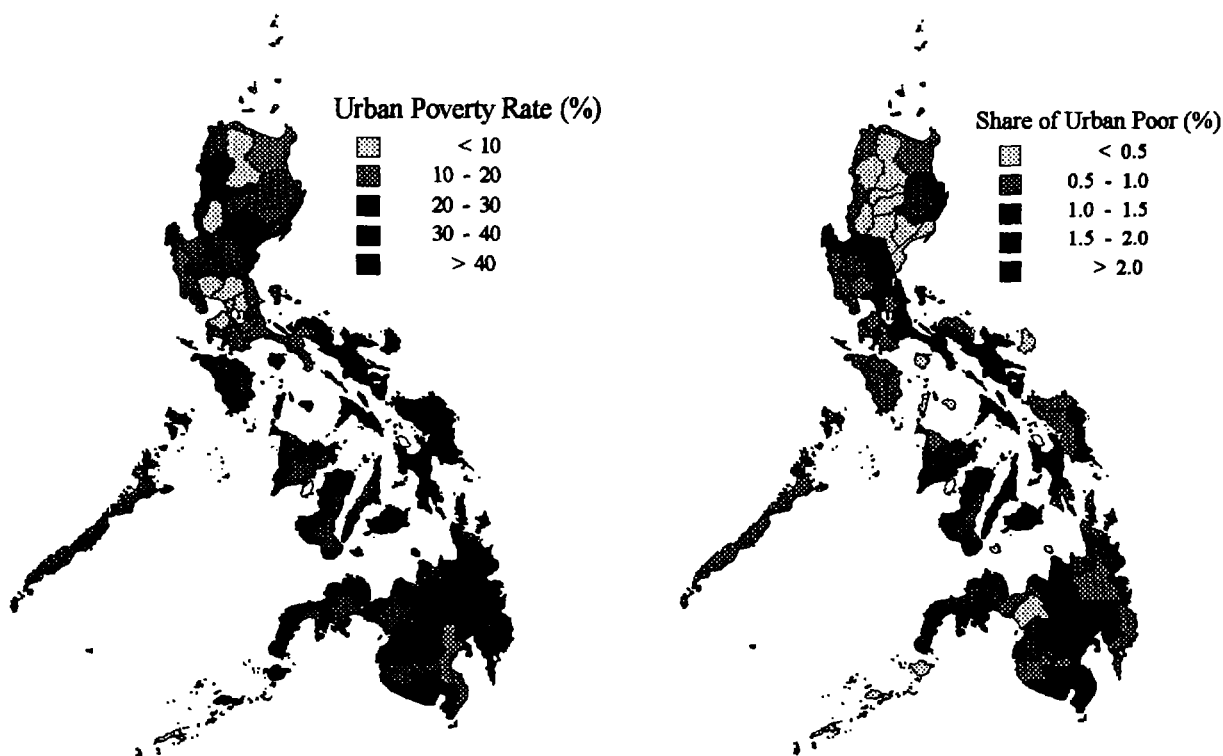
2.44 Agricultural growth until the mid-1980s had only weak effects on poverty; and the sector's growth over the last few years, while more likely to assist the poor because of the improved structure of the economy, has been insufficient. Into the future, the Government's efforts at alleviation of rural poverty will need to give more emphasis to investment in rural infrastructure, expansion and redirection of research and extension services, improvement in the efficiency of markets, and expenditures on basic social services to build the human capital of the poor. Finally, the Government's program of rural land reform should be rationalized, consistent with budgetary and institutional capacities, eliminating loopholes, increasing certainty and reducing case-by-case administrative discretion, and clearly identifying areas and timing of redistribution. Using market assisted land reform could reduce costs and deserves detailed study. Resolving exactly where, when, and how rural lands will be redistributed cannot be further delayed. Uncertainty has already gutted agricultural investment, harming exactly those land reform is intended to assist--the rural poor.

²¹ Balisacan (1995b).

3. RAISING LIVING STANDARDS OF THE URBAN POOR

"At the current level of urbanization and urban deprivation, poverty in the Philippines has ceased to be merely a rural phenomenon."

Professor A. Balisacan, University of the Philippines, 1994



3.1 The share of the poor in urban areas has climbed over the past two decades. Incomes of about 31 percent of urban dwellers fell below the poverty line in 1991, but perhaps of greater concern has been the proliferation of slum and squatter communities, which have been estimated to contain 17 percent of the country's population and nearly 40 percent of the urban population, including poor and non-poor.¹ Poverty in urban areas, as measured by income, is distinctly less severe than in rural areas. Moreover, access to health and education services is easier, because of physical proximity and the past bias of public spending towards urban areas, especially Metro Manila. Nevertheless, the urban poor face serious problems of availability of housing and poor environmental health. The proportion of the urban population living with incomes less than the official poverty line is highest in Mindanao. However, more extreme urban poverty is more

Maps: Left map shows percent of urban families in each province with family income below ₱ 40,000 in National Capital Region and below ₱ 30,000 in other urban areas, according to the 1991 FIES. Right map shows share of all such families in each province.

¹ Nuqui (1991).

prevalent in Bicol and the Visayas, which are also the areas where there are the greatest numbers of poor urban dwellers, as shown in the maps.

3.2 The Philippines is urbanizing rapidly. In the decade between 1980 and 1990, the total population of the Philippines grew at an annual average rate of 2.3 percent while the urban population grew at a 5 percent rate. Metro Manila remains the dominant urban center, with almost 28 percent of urban population, but its growth rate over the last decade was just 2.9 percent. Instead, it was the sub-regional urban centers that expanded the most. Much of the rapid urban growth during the 1980s reflects settlement of migrants on the periphery of established urban centers. These labor migrants tend to come from lagging regions, drawn into cities with large service sectors.² However, high measured urban growth has also been the outcome of reclassification of these expanding periphery areas from rural to urban; this phenomenon has accounted for more than half of urban growth during the decade.³

Who Are the Urban Poor?

3.3 *The urban poor live closer to the poverty line than the rural poor, and so are more likely to be pulled out of poverty by accelerated growth of the economy*, especially given the improved performance of labor markets (see Box 1.1). Urban poverty is more pronounced among laborers with insecure jobs and low pay: hawkers, peddlers, micro entrepreneurs, and scavengers. Poor households in urban areas are larger and generally younger than non poor households, with around one-third of the population under 15 years and only 10 percent over 60 years. Such populations have a high proportion of primary school drop-outs, a high dependency ratio (with more family members being supported by each person in employment), and a disproportionate representation in low paying non-skilled occupations.

3.4 Many of the urban poor in the Philippines live in marginal locations, whether within urban areas (on the *esteros*, along railway lines, under bridges, or on barrows) or on the periphery (for example, along shorelines or on steep hills). These settlements are usually on land which was of very low economic value when settled. Frequently such settlements have been improved by the poor themselves and later absorbed into the main body of the urban area in a process of settlement and consolidation. In Metro Manila, 591 squatter (informal settlement) colonies have been identified with a total population of almost 2.5 million, representing over 30 percent of the total metropolitan population.⁴ Estimates are that between 30 and 80 percent of all households in urban areas do not have title to the land they occupy. Further, there are significantly more people

² Balisacan and Babila (1994).

³ Balisacan (1994c).

⁴ Ramos-Jimenez and Chion-Javier (1993).

living in squatter areas in Manila than the international average for countries with equivalent GNP per capita.⁵

3.5 Because of the shortage of affordable and suitable sites for urban households below median income, informal settlements contain a wide variety of income groups,⁶ and many of these households have incomes above the poverty line. A survey of Metro Manila and peripheral areas in 1991 found that the median income of households without legal tenure was almost 20 percent above the official poverty line.⁷ Since less than 15 percent of the total Metro Manila population are classified as poor and approximately 31 percent of the population live in informal settlements, over half the population of these areas is not poor. *This high level of insecurity of tenure indicates the extent of the failure of the urban land market in the Philippines.*

Survival Strategies of the Urban Poor

3.6 Poor urban dwellers have various survival strategies of which policymakers should be aware before pursuing an urban poverty alleviation strategy (see Box 3.1). The risk that income could fall unexpectedly (for instance, because of loss of employment) or expenditure needs sharply escalate (if the informal settlement where the family has been living is cleared) creates a high degree of uncertainty amongst the urban poor and undermines their welfare. One of the primary ways the urban poor cope with this uncertainty is to combine households and create extended families. A common phenomenon is migration of one or more family members overseas so that remittances can supplement family income. Another common feature is greater involvement in the workforce by women and children. For example, in the World Bank survey of the Commonwealth area of Manila, child labor accounted for 17 percent of all the hours spent in income earning activities, thereby making a considerable contribution to total household income.

Box 3.1: A Community Study of the Urban Poor: Commonwealth Barangay, Manila⁸

The World Bank studied the Commonwealth barangay, Quezon City, as one of four longitudinal panel community studies also carried out in urban Ecuador, Zambia, and Hungary. A survey of households in the Commonwealth was undertaken by a team from the Women's Resource Center of the Philippines in 1992. Analysis of this data sought to describe strategies adopted by poor households to reduce vulnerability and to prevent increased impoverishment during periods of macroeconomic recession and reform; and to identify the supply constraints that can limit the poor's capacity to respond to new opportunities. Many common survival strategies emerged across the four countries.

⁵ The median proportion of total housing stock in informal settlements for a country with per capita GNP close to that of the Philippines is around 7.5 percent, while the Philippines stands at around 25 percent, based on findings for major cities in 52 countries. See UNCHS/World Bank (1992).

⁶ See Strassmann and Blunt (1994), who claim that the lowest commercial dwelling price is unaffordable to half the population in Metro Manila.

⁷ Based on a survey of 3000 households. See UNCHS/World Bank (1992).

⁸ See World Bank (1994b).

3.7 A major source of additional income, and sometimes the primary source of income, is the use of the home. Many women use their homes as *sari-sari* stores or as the workplace for sewing as piecework. Likewise for men, homes are used as workshops or the land as a repair yard which provides self employment for the owner. In the Commonwealth neighborhood, one in three households earned additional income from home-based enterprises. Self employment has always been a common response to the lack of employment opportunities in the formal sector. Day care for neighborhood children can be another source of income, as is renting of rooms.

3.8 Informal loan networks frequently provide credit to the poor. In most cases, inter-household credit is for daily consumption needs such as food. Credit for emergencies such as helping to cover hospital or funeral expenses is usually provided by employers, store owners or money lenders (often at extremely high rates).⁹ Other forms of credit may be taken from an employer or relative without a formal system for repayment, but with a strong obligation (*utang na loob*) to that person or his family for a long period to come.

3.9 The urban poor will substitute time for monetary outlay and substitute private services for public because of high cost and low quality of urban public services. For example, in the Commonwealth, one-third of women, men and children fetch water daily, averaging 90 minutes. Some households pay to have individual water pumps installed to reduce water collection time. To conserve on transport, more than a quarter of economically active individuals in Commonwealth either work at home or use non-motorized transport. Even the poor make significant use of private education and health care, in response to the declining quality of publicly provided social services.

Key Problems of the Urban Poor

3.10 The *lack of secure affordable housing* reduces the living standards of the urban poor. This problem is a reflection of problems of legal land tenure and the failure of the land market. It is worsened by the long distances and high costs of commuting that come from a poor public transport system. *Transportation costs* can become a major drain on income of the poor. In a situation where transportation costs are increasing, costs of going to work or going to school can make up a major part of the household's expenditure.

3.11 *Poor access to urban services related to environmental health* reduces the welfare of urban dwellers: the poor end up paying most and receiving least. Urban air pollution contributes to respiratory diseases such as bronchitis, which accounts for over half of morbidity from environmental pollution and almost one-fourth of morbidity from all major causes. Road vehicle, industrial, and household emissions are concentrated at the roadside level, where the poor and especially poor children are most exposed. Urban water supply is heavily polluted, with widespread incidence of coliform bacteria. This problem is worse in areas subject to flooding; and in Metro Manila, the poorest 30 percent of the population are more than twice as likely to suffer from flooding problems as households with income above the median. Chlorination is not effective, especially at the far ends of the system. Poor household sanitation, lack of toilet

⁹ Known as 'five six', because you borrow five pesos and must repay six the same day.

facilities (available to only 67 percent of poor urban households in 1993), and the lack of servicing of septic tanks greatly increase the risk of waterborne diseases such as diarrhea, which accounts for almost 15 percent of pollution-related morbidity.¹⁰

3.12 Clean water, sanitation, and solid waste disposal are inadequately provided in urban areas in general and are often nonexistent in the informal settlements where the poor live. These infrastructure services are essential to good health and hence affect the earning capacity and medical expenses of the household. Frequently, the poor end up paying higher unit costs for private (informal) supply of such services, or spending large amounts of time, for example, in fetching water. Thus, it is not affordability of these services that is the primary issue; the poor are already paying high prices, especially for water.

3.13 The *quality of social services* is also important for the welfare of the urban poor. Access to education has improved, but much of that improvement has come from even the poor attending private schools, with higher household financial contributions.¹¹ Recent improvements in access to health services are also linked to greater use of private facilities.

3.14 One other key problem of the urban poor, which is often overlooked in analyses of poverty, is *urban violence*. In poor urban areas in the Philippines, violence is often related to the use of alcohol and drugs. Violence on the street inhibits movement and hence limits options both for work and for further education. Violence that results in death increases the household's susceptibility to further impoverishment. In the Commonwealth study, 60 percent of widows had lost their husbands due to violent crime.

Access to Affordable Housing and Security of Land Tenure

3.15 In many developing countries, it is the case that "slums and squatter settlements are as much a product of failures in the housing delivery system as they are the product of poverty."¹² In the Philippines, it is the underlying failure of the land market that has undermined the housing sector in urban areas. With such a high proportion of urban dwellers surviving with uncertain land tenure, improved security of settlement is critical to the reduction of poverty in urban areas. Without security of tenure, the poor will not invest in assets that will enable them to help themselves out of poverty. However, it is not access to finance for a dwelling that is most important. With secure tenure, the majority of the poor can meet their own needs for shelter, constructing their own houses. Further, there are differing needs for security of tenure which vary with the degree of poverty. For the destitute, 'a place to stay' is the immediate need, while the upwardly mobile poor may aspire to full legal title and a permanent housing structure.

3.16 The two main issues facing the policy makers are: how to improve the working of the land market to lower the cost of land and hence extend the potential access to legal ownership to a

¹⁰ See World Bank (1995a).

¹¹ The Government has established an Education for All program which encourages the private sector to provide assistance in education to the urban poor.

¹² World Bank (1993a).

wider section of society; and how to provide security and stability to those who cannot currently afford to purchase land. These two problems are related, since land has traditionally been, and continues to be, the main source of power and wealth of the ruling elite. In addition, and in part because of the inadequacies of the capital market, land has been and is perceived to be a most attractive short and long-term investment.

3.17 The diverse needs of the poor with respect to land have not been sufficiently recognized by the Government. The housing component of the Social Reform Agenda includes the Community Mortgage Program (see Box 3.2), slum improvement programs, and the provision of resettlement areas with basic services, all of which are worthwhile investments. But in 1994, the combined expenditure on all these program components formed a mere 4 percent of the Government's National Shelter Program expenditures.¹³ Further, with the exception of the resettlement program, all involve the purchase of the land. The one program that is not based on land ownership, the resettlement program, necessitates the disruption of households and their relocation to areas far from the main urban centers and from opportunities for employment.

Box 3.2: The Community Mortgage Program (CMP): Pooling Community Resources

The CMP, an innovative program of the Philippine Government, was designed to meet the needs of the poor, if not the poorest, by facilitating the joint purchase of land by communities living in informal settlements. Since these informal settlements are heterogeneous, common ownership would enable the poor to benefit from the greater purchasing power of the non poor. However, lax repayment, a situation arising from insufficient preparation and organization at the community level, has led to modification of this arrangement. To improve accountability, each member is now responsible for his or her mortgage share directly, undermining the concept of cross-subsidization within the community. An emerging problem for the program is the sharply rising cost of urban land, making it unaffordable for CMP to buy the land occupied by the poor.

3.18 Land Market Failure. The failure of the market is reflected in the very high price of land. A 1992 study of housing indicators by the UNCHS and the World Bank found that land prices for a 100 square meter serviced housing lot on the edge of the developing area has risen from 2.5 times to 3.65 times GDP per capita between 1975 and 1991. Even the 1975 cost was considered incongruously high against an international norm.¹⁴ Over the last few years, prices have continued to rise sharply. In the three largest cities (Metro Manila, Metro Cebu and Davao), raw land on the periphery of the built up area has been rising by almost 25 percent per year in real terms.¹⁵

¹³ HUDCC (1995). It does not include an equivalent additional 1.64 percent on emergency housing.

¹⁴ Strassmann and Blunt (1993).

¹⁵ See Diaz (1995). Commercial land prices have risen even more steeply than residential prices. Land prices in the central business district of the National Capital Region are reported to have risen from ₱ 4,400 to ₱ 9,200 per square meter in 1987 to ₱ 80,000 to ₱ 215,000 per square meter in 1994, a 20 to 23 fold rise in seven years.

3.19 The growth of urban population puts pressure on urban land markets, but demand for land has been exaggerated by the fact that land is seen as a secure form of investment and with a high rate of return. Investment in real estate holdings in urban areas in the Philippines consistently provide a real rate of return of around 10 to 15 percent, and in some cases much higher, compared with an average return below 8 percent on the stock exchange.¹⁶ Demand is pulled by the availability of finance at subsidized interest rates. While it is desirable for finance to be available to a wider section of the potential market, it is not clear how much this has led to distorted increases in land prices in the peripheral parts of cities, particularly in regional and sub-regional centers. Finally, low property taxes encourage landholding for speculative purposes (see Table 3.1).

Table 3.1: Factors Affecting Supply and Demand for Land in Urban Areas

Demand Factors	Supply Factors	Demand and Supply Factors
<ul style="list-style-type: none"> • Land as investment • Population growth • Finance availability (CMP, worker remittances) 	<ul style="list-style-type: none"> • Land conversion regulations • Land development regulatory process • Estate duties Information 	<ul style="list-style-type: none"> • Real property tax collection and efficiency

3.20 A major constraint to the supply of land is the complicated process for conversion of land from rural to urban uses. This conflict originates from a lack of clarity in legislation and implementing regulations about which department is the final arbiter in the conversion of agricultural land to non-agricultural uses under the Comprehensive Agrarian Reform Program (CARP) and the Local Government Code (Republic Act 7160). Although the conversion process restricts land availability, the quantity of land converted to urban use has risen since passage of the CARP. In the period 1972 to 1981, approximately 10,000 hectares of agricultural land were converted to non agricultural uses. In the five year period following the passage of the law the equivalent figure is 28,000 hectares.¹⁷ Less than half has been for residential use, yielding land sufficient for approximately 40 percent of the last five years' urban growth.¹⁸ The two-thirds shortfall created by the present system has been made up by informal conversion, which accounts for a far greater loss of agricultural land than official conversion. Thus, insufficient land is being officially converted, and land converted is not always in the areas where most required. Further,

¹⁶ See Strassmann and Blunt (1994).

¹⁷ Medalla and Centano (1994).

¹⁸ If the converted land is developed at an average of 120 persons (approximately 20-25 units which includes all classes of subdivision) per hectare, if half the newly converted agricultural land is devoted to residential uses, and if the increase in urban population is about 3 percent per year, approximately 7,250 hectares are needed each year for residential uses, yielding a total requirement over five years of 72,500 ha of converted land.

because of restrictions in the conversion of certain types of land, some destruction of irrigation schemes has taken place. Finally, much conversion is taking place illegally, further adding to chaos in the land market.

3.21 Land development regulations do not act as a restriction on the supply of land for housing.¹⁹ They do enable small lots to be sold in regular formal subdivisions. However, the time-cost of the processing of applications is very long, estimated at three years from the application of the development permit to the issuance of the license to sell. From 1981 to 1991, only 27 percent of all development permits were converted into licenses to sell. Performance has improved in the last few years. In 1994, the number of units issued with licenses to sell had fallen by 37 percent from the previous year but it still was 52 percent greater than the number of units with development permits. Despite improved performance, the outstanding backlog results either in a large number of incomplete estates or developers selling without formally completing the process. This effectively removes them from the market, increasing the price of developed land. Table 3.2 compares Manila to other East Asian cities, showing that land shortage is less severe in Manila, but permit delays drive up the cost of developed land.

Table 3.2: Costs of Land Conversion, Permit Delay and Land Development, Various East Asian Cities

City	Land Conversion Multiplier	Permit Delay (in months)	Land Development Multiplier
Manila		36	6.7
Bangkok	1.8	11	2.6
Kuala Lumpur	5.5	18	4.3
Singapore	6.0	2	1.3
Tokyo	10.4	8	2.0

Notes: The land conversion multiplier is the number of times the price of land zoned for agricultural uses increases on conversion to urban uses. A high multiplier indicates physical shortage of land. Permit delay is the period from the application to final approval to sell. The land development multiplier is the difference between the price of raw land zoned for housing and the developed land. A high multiplier indicates delays in completion of the sale of land.

Sources: UNCHS/World Bank (1992).

3.22 In 1991, it was estimated that almost a quarter of Metro Manila remained undeveloped,²⁰ but very few municipal authorities have more than an approximate idea of where informal development is taking place and what land still remains available for development. By February 1995, almost three years after the issuance of the guidelines for the inventory and identification of lands for socialized housing under Republic Act 7279 (the Urban Development and Housing Act), none of the 286 targeted cities has carried out the requisite full inventory of all vacant lands within

¹⁹ BP (Batas Pambansa) 220 allows 80 percent site development and lots as small as 35 square meters.

²⁰ Strassmann and Blunt (1994).

the urban and urbanizing areas and only 31 of these municipalities had identified land suitable for socialized housing.²¹

3.23 A further restriction on land reaching the formal market is the progressive estate tax, which can be substantial for properties with high market value. Property heirs frequently do not formally register the title in their names, especially in Manila where property values have risen so quickly. This not only leads to disputes later between competing claimants but effectively removes such land from the formal land market.

3.24 Other important institutional features involve taxes. If sufficiently high and rigorously administered, property tax could moderate the attractiveness of land as an investment. This will lessen the competition for land and leave more available for those who wish to develop the land. The use of historic land values coupled with poor property tax collection records have contributed to increasing the attractiveness of land as an investment.

3.25 Land tax in the Philippines is low, being restricted to 3 percent of the land value at the fixed assessment value, which for residential land is set at 20 percent of market value. Hence, the real tax value is only 0.6 percent of the assessed market value. Many municipalities rely on self-declared valuations. Even when they have block values, there is a three year period between revisions, applied a further year later, so that the tax paid is based on an outdated value. With land values rising at the rates of recent years, property tax has fallen to levels as low as 0.08 percent of the market value. Although an additional 5 percent tax can be levied on vacant land, it appears that this has rarely, if ever, been applied. As a result, the tax on holding land or speculating in land is extremely low compared with the potential gains.

3.26 In addition, collection performance is poor. Although local authorities have the right to sequester land on which tax is outstanding, the law is generous in giving the owner a year's grace period after the sequestration to pay off the outstanding debt. This problem is exacerbated by the difficulties in monitoring tax collection when no base maps of the area exist. Although cartographic maps do exist, it is often difficult to relate these to the land use plans which the planning departments hold which often contain free hand alterations to very ancient base maps.

3.27 The low level of real property tax has led to a drop in the contribution of that tax to total local revenues. Thus local governments have less funds available for capital works projects, such as roads and drainage, which could open up more land for development. The failure to levy an appropriate rate of tax, by regularly updating valuation and ensuring full collection, restricts the capacity of the local government unit to play a positive role in helping keep land prices lower.

3.28 Facilitating the Land Market. The problems with the urban land market are now so severe and the resulting chaos imposes such great uncertainty on those who can least deal with it that a comprehensive and bold approach to this pressing problem is needed: urban land reform. A special commission could be established to begin considering the following changes:

²¹ Monitoring by Housing and Urban Development Coordinating Council.

- Improved information on the location and extent of informal development, the availability and suitability of land and the monitoring of tax payments would allow the land market to work better.
- The laws and regulations affecting land conversion should be reviewed, so that the market can determine the relative value of different land uses. Land should be preserved for agricultural or non-urban uses only for environmental reasons (although the rights of tenant farmers need to be protected in the process).
- Establishing performance targets for land assessment and property taxes would improve collection. In addition, windfall profits from market speculation or changes in land use classification should be taxed. The income from this source should be shared between the local government and the central government and used to open up more land for urban use.
- Land conversion should be facilitated through arbitration and innovative transactions. Extra-legal land exchanges should be regularised. Since a large proportion of land sales are now carried out in the informal market, resulting in a severe loss of income for the Government, the Government might consider a moratorium for all land holders who have failed to register the transfer of the land they occupy to their name, including all illegal informal subdivisions. This action could be followed by a program to register all such owners to bring them into the formal tax system.
- To allow landowners to benefit from increased commercial value of property without dislocating informal settlers, the Government should play an arbitration role to facilitate land sharing. Such a system could be modeled on the land arbitration program currently in place in Bangkok, which has succeeded in reaching agreements between settlers and holders of legal title. Such a program would bring more land onto the market by enabling landowners to develop the most valuable part of the site, while selling the remaining part of the land at a lower unit price than would have been demanded for the whole lot.

3.29 Transportation. The lack of affordable housing forces urban residents to live long distances from their employment. Transportation costs are a major element of expenditure for the urban poor. The Commonwealth survey found transport spending was double the share of total expenditure for the poor as for the non-poor. In addition, the poor tend to spend longer traveling, with the poor and very poor more likely to walk. In the Commonwealth area of Manila, the average time for a round trip to work for the non-poor was 67 minutes while it was 75 minutes for the poor and 149 minutes for the very poor.²²

3.30 Recently, especially in Manila, a number of efforts have been made to improve the availability and efficiency of public transport. Land transport has been deregulated, allowing licensing of more bus operators to ply the most popular routes; and restrictions on importation of vehicles such as buses have been eased. In addition, in an effort to speed up public transport, bus lanes have been introduced, and jeepneys banned from the EDSA highway. Nevertheless, congestion is taxing the poor through hidden fare increases and additional time required to travel

²² World Bank (1994b).

to work, as well as affecting them directly when their communities are demolished for transport improvements.

3.31 The high cost of transport severely limits the access of the urban poor to employment opportunities and to education. The poor are particularly hard hit by insufficient public transport services, especially when informal settlements are relocated by the authorities to areas far away from employment centers. A common response by relocated squatters is to abandon the new site and return to a different informal settlement area in the city, thus undermining the purpose of the relocation. While relocation sites are sometimes found, these are necessarily far from traditional work places with the consequence that few of those affected settle in the areas allocated; most returning to alternate sites in town as soon as possible.²³

3.32 In Manila especially, public transport is an absolute necessity given the fast growth of traffic, the already overburdened road system, and the substantial externalities of congestion. In addition, if settlements are relocated, public transport services at reasonable prices must be a priority. Improved transportation services can have the effect of expanding the locations of viable residential and commercial land, with beneficial impacts on the land and housing markets. Proposals for bus ways should, therefore, be speeded up while the expansion of the light rail transit system (LRT 2 and 3) should be implemented as soon as possible. A policy of publicly subsidized transport during the early years of new outlying settlements could help to facilitate their consolidation into viable neighborhoods.

Provision of Urban Infrastructure Services Related to Environmental Health

3.33 Water, sanitation, and solid waste disposal are the crucial categories of urban public services required to maintain health, especially in poor areas. Their provision is very closely linked to the age and stability of an urban settlement. Settlements considered temporary have unsatisfactory arrangements for the provision of water and sanitation, usually because the local utility is unwilling to serve. For example, local water authorities are reluctant to make extensive capital investments necessary to extend the water network to an area of housing if the settlement has uncertain legal status.

3.34 Access to Clean Water. Households living in settlements without public faucets or direct connections and without their own well have two choices, both of them costly: to buy from vendors; or to go outside their immediate community to access water. The urban poor without direct access to a well or faucet pay more per cubic meter of water than the non-poor. Water purchased from vendors is calculated to be between five to ten times the price for the equivalent quantity of water paid by someone with a legal connection. Those without connections also spend more time collecting water, which reduces time available for productive activities. Without

²³ A good example of this dilemma was the Sapang Palay project in Cavite, about 30 kms from the center of Manila, which was chosen as a relocation area by the Presidential Assistance for Housing Resettlement Agency for squatters from along the railway lines and along the canals (esteros) in the early 1970s. The relocatees were given building materials but little else. Within days of being moved there, the families returned to find alternative locations in which to squat. Those who stayed tended to leave their wives and families behind while they went off to find work.

adequate supplies of clean water, the poor are at greater risk of infection and disease, further undermining their capacity to move out of poverty. Utility companies are reluctant to provide full scale services because they do not have legal access to the land. However, precedents do exist for supplying piped water to urban poor settlements. Efforts to distribute water in such settlements, however, have frequently failed due to the inadequate organization of the community, particularly the failure to collect fees. Instead, the innovative approach electricity providers have taken to allowing access to squatters could serve as a model for water (although the infrastructure for water is more complex).

3.35 Over a quarter of the urban poor nationwide have no direct access to safe water; these households likely either buy from private vendors or travel to areas outside the community to collect water. In the NCR, the situation is somewhat better. Only 5 percent of households were without direct or community access to water in 1992²⁴ (see Table 3.3). However, access to water is correlated with income: more than 8 percent of households in the lowest 30 percent income group have no water connection while 42 percent had to make use of a shared faucet or well. In contrast, 87 percent of households above the median income level had their own piped water supply on the premises.

3.36 Access to Sanitation. As with access to safe water, access to sanitary systems of human waste disposal correlates with income. The situation in the National Capital Region is better than most other urban areas. The situation appears to be far worse in smaller towns where between 35 and 60 percent have satisfactory sanitary arrangements (see Table 3.3). For the very poor (defined as households with monthly income in 1992 below ₱ 2,000), only 60 percent have sanitary toilets, varying from 50 percent in rural areas to 67 percent in urban areas.

Table 3.3: Urban Access to Water, Sanitary Facilities, and Solid Waste Disposal, Philippines, 1992
(in percent)

Level of Service	Urban Areas		National Capital Region			
	All Urban	Urban Poor	Lowest 30% Income	31-50% Income	51+% Income	All NCR
Water:						
indoor piped	46	22	50	68	87	73
shared community	38	52	42	26	11	23
without	16	26	8	6	2	5
Sanitation:						
sanitary	93	84	63	83	93	98
non sanitary	8	16	37	17	7	2
Solid Waste:						
regular collection	75	31	9	68	74	80
no service	25	69	91	32	26	20

Source: Staff calculations from data from NEDA and Herrin and Racelis (1994).

²⁴ From a survey of 3000 households in NCR and adjoining urban areas carried out for HUDCC by the Philippine Women University (PWU) as part of 1992 Housing Indicators Project of World Bank and UNCHS.

3.37 Water Resources. The problem of water is not only whether an area is connected to the main reticulation system, but also whether there are sufficient water resources to provide adequate supplies to all who are connected to the system. Estimates put the additional need for surface water resources in the area served by the Metropolitan Waterworks and Sewerage System (MWSS, the water utility in Metro Manila) at 559,000 cubic meters per day. Yet the MWSS is not able to recover the costs through charges on 58 percent of what it presently produces because about 30 percent is lost through leaks and about 25 percent is pilfered. For the MWSS to develop alternative sources of water or, more importantly, to stem the present losses, requires revenue it has not collected. Indeed, the vicious circle of lack of revenue-lack of repairs-loss of water-loss of revenue is exacerbated by the effect of the resulting pressure variations on the water network. Uneven pressure leads to fracturing of the joints in the water system and hence to greater water loss. Greater water loss leads to more need to ration water on a time rotation, exacerbating the initial problem.²⁵

3.38 Solid Waste Disposal. The lack of adequate garbage collection increases health hazards in poor areas as well as the risk of flooding. Only 19 percent of households are served by municipal solid waste collection nationwide. Instead, the most popular form of disposal is burning (45 percent), while over 20 percent admits to dumping either on open ground or elsewhere.²⁶ There are, however, wide variations between localities. In Metro Manila, 75 percent of households have regular garbage collection; although only two-thirds of the urban poor receive such service. In Metro Cebu, 32 percent had regular collections, while in smaller towns, it was less than 3 percent²⁷ (again, see Table 3.3).

3.39 In Metro Manila, as estimated 2,000 cubic meters of waste per day are left on open land, in waterways and along roads.²⁸ Illegal dumping increases the risk of flooding and the risk of pollution of water sources, both of which impose higher costs on low-income households. The situation would be much worse if as much as 60 percent of the waste were not recycled. Much of this work has traditionally been done by the poor and children who “scavenge” and then sell the recyclable materials to junk dealers. A number of initiatives are underway to improve the collection and recycling of garbage (see Box 3.3).

3.40 Recommended Interventions.

- In the water sector, a higher priority should be given to ensuring that the waste and pilfering of existing water supplies is minimized. Especially, stiffer penalties need to be imposed on illegal large scale industrial users of water. These issues are currently being addressed by

²⁵ Ebravia (1995).

²⁶ From data from the National Health Survey (1992).

²⁷ HUDCC/UNCHS (1992).

²⁸ World Bank (1993c).

the Water Crisis Act of 1995. At the same time, provision of water service to areas where the poor live, including squatters, should be considered.

- Investment in sanitation infrastructure is particularly urgent outside of Metro Manila, complemented by an information dissemination program on personal hygiene geared towards poor communities.
- For solid waste disposal, additional support is needed to foster better organized and more commercial recycling ventures. Government information campaigns to encourage recycling and disseminate good practices across local governments, and NGO and community participation in running local schemes will be important. Pilot projects for re-cycling all forms of waste demonstrate the potential of this approach not only to improve environmental health but also to provide additional employment opportunities for the poor.

Box 3.3 The Metropolitan Environmental Improvement Program (MEIP): Creating Jobs Out of Urban Waste

Since 1989, the World Bank and the UNDP have been jointly supporting MEIP projects to help selected metropolitan regions in East Asian countries, including Manila, design and implement practical solutions to rapidly growing environmental problems. These projects are seen not only as a means of managing the growing quantity of waste but also of providing a useful source of income for the poor. Local NGOs have played a key role in promoting and mainstreaming local level projects. In addition to environmental planning and project identification, the MEIP in Manila has funded community-led efforts to improve the urban living environment, such as:

- the organization of pushcart collectors who mainly target upper and middle income housing areas for non-food recyclables such as bottles, cans, paper and junk metal;
- organizing junk dealers into cooperatives to avail of soft loans to cover operating capital;
- community education projects such as the one run by the Mayor of Marikina to encourage waste separation; and
- food waste composting projects, such as the one run by AWARE in Santa Maria, Bulacan.

Conclusions

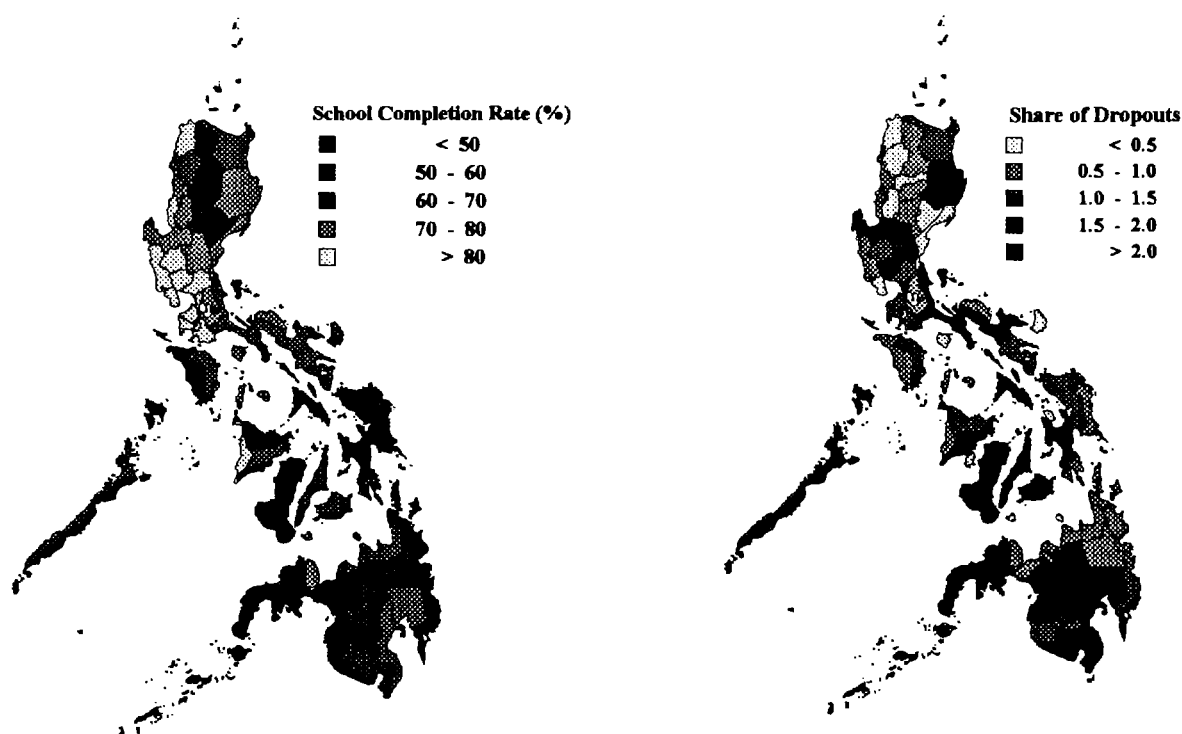
3.41 The urban poor live closer to the poverty line than the rural poor and are more likely to be pulled over the line by economic growth. Gainful employment is constrained not by insufficient productive opportunities for labor in urban areas as much as by inadequate nearby housing and poor public transport. Health and education services, both public and private, are more readily available to the urban poor than to the rural poor. Thus, the need for additional resources is less pressing. However, the urban poor face a severe shortage of affordable housing, driven by the failure of the urban land market, and significant environmental health issues, especially related to water, sanitation, and solid waste.

- Urban land reform should be pursued, so as to make the land market work better. Property taxes need to be raised, and tenure regularized. A special commission could assess possible approaches.
- The Government should not spend resources on building houses nor be involved in subsidy of construction if improved housing for the poor is its goal. Instead, the goal should be security of tenure and public services, leaving people to build their own houses.
- Environmental health of the urban poor should be a priority, especially access to clean water. If the problem of squatters is addressed at its source--the failure of the urban land market--then urban utilities such as MWSS will more easily be able to come up with solutions that provide water service to the poor without encouraging further squatting.

4. INVESTING IN THE NEXT GENERATION OF FILIPINOS

"We cannot leave the fate of the next generation to chance. It is imperative that we provide children with the proper care, education and nutrition so they will be prepared for the roles they will play in the future."

Roberto Pagdanganan, President, League of Provinces, in the Forward to Progress of Provinces of the Philippines, October 1994



4.1 To reduce poverty in the long run, a country must develop and make use of its people's skills, knowledge, and health. Investment in human capital cannot be neglected for long, or the costs will begin to be felt in falling productivity and stagnating wages. In fact, developing country experience argues strongly for increased investment in health and education, particularly for the poor. This public investment can directly improve the living conditions of the poor, enhance labor productivity, and serve as an instrument to promote equity. The outcome of government policies has been to aggravate the inequitable distribution of physical and land capital with a misallocation of human capital development opportunities.

The State of Human Capital

4.2 *The indicators of health status and educational attainment in the Philippines have generally been better than those of most countries with similar levels of per capita income. However, its rate of improvement has slowed, and compared to its East Asian neighbors, its progress appears modest (see Table 4.1).*

Maps: School completion is for 1991. Dropout rate is measured by non-cohort survival which refers to the share of first-year primary entrants not surviving to end of cycle (including dropouts and repeaters) for 1988-94.

Table 4.1: Human Development Indicators for Selected Asian Countries

	Per capita GNP, 1993 (US \$)	Infant Mortality (per 1000 live births)		Primary Education Cohort Survival, 1989
		1970	1992	
Philippines	850	66	48	61
Indonesia	740	118	66	62
Thailand	2110	73	26	83
Malaysia	3140	45	13	97
Korea	7660	46	11	97
All Middle Income	2480	74	39	--

Note: Middle income countries are defined as those with per capita GNP between \$696 and \$8625 in 1993.

Sources: World Bank (1995h); staff calculations.

4.3 Infant mortality is a key health status indicator. The Philippines has recorded some progress since 1970, due to improved medical technology and public health measures, but while infant mortality in the Philippines used to be below the average for all middle income countries, now it is above the average. Further, the country is not doing well compared to its peer group, especially its neighbors in East Asia which have shown dramatic gains in the 1980s. Similarly, education indicators such as cohort survival place the Philippines well behind other East Asian achievements. Even more important in understanding the poverty impact of human capital development in the Philippines are the massive disparities in social indicators within the country.

4.4 Although government outlay for social services rose from 3.2 percent of GDP in 1975-85 to 4.1 percent in the last eight years, it is still low by international standards. For example, government expenditure on health, nutrition, and population has been roughly 0.5-0.7 percent of GDP, compared to an average of 1.4 percent of GDP for 17 Asian countries. Moreover, within total social service expenditures, the allocation between urban and rural areas and between primary and higher level services has been such that the spending most relevant to the poor has not had sufficient priority. Preventive or primary health care receives as little as 25 percent of the health budget. Through the 1970s and early 1980s, high quality primary education was limited to less than 10 percent of the total elementary age population, mostly in private schools in Metro Manila. Overall, it is clear that *rural primary education and rural health services have been short changed*.

4.5 Education and health increase the productivity of labor, the principal asset of the poor,¹ and therefore the income earned by the poor. For the economy as a whole, there is a strong link between education and economic growth: primary education was the largest single contributor to the economic growth rates of the high-performing Asian economies.² There is a virtuous circle in which better education stimulates stronger economic growth, which in turn allows higher investment in education. However, greater investment in education by itself cannot compensate

¹ World Bank (1990).

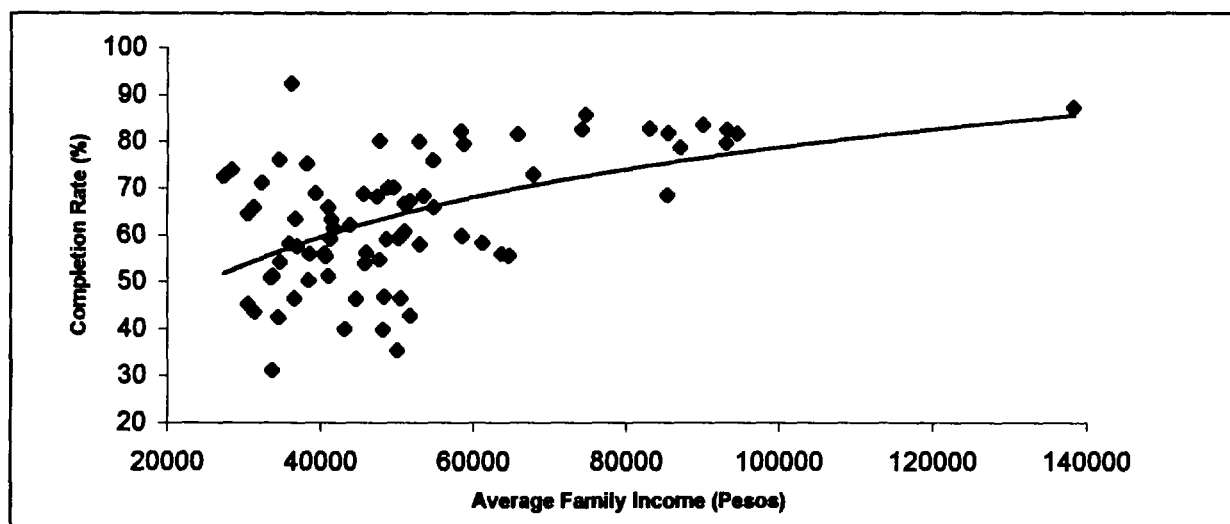
² World Bank (1993a).

for an environment inimical to economic growth. Further, investing in health and education of the poor may be used as an instrument to promote equity.³ To achieve pro-poor spending, adequate overall expenditure in health and education is important, but also intra-sectoral allocation to support pro-poor policies is required.

Is Education Spending Less Pro-Poor than It Used to Be?

4.6 By 1970, both Korea and the Philippines had achieved universal enrollment at the elementary cycle. Twenty five years later, one in every three Filipino children entering the first grade still does not complete the elementary cycle, while in Korea, ninety seven children of every hundred graduate. Children who do not complete the cycle are much more likely to be from poor families and poor regions thus condemning them to a continuous cycle of poverty (see Figure 4.1).

Figure 4.1: Poverty and Primary School Completion by Province, Philippines, 1991



Note: Far right data point is for NCR.

Sources: Staff calculations from 1991 FIES and data from DECS.

4.7 Underlying the national average is significant provincial variation. The substantial and widening quality differentials across regions in basic education are reflected in higher completion rates in better off areas and higher mean scores in terminal examinations at elementary and secondary levels.⁴ Primary school completion rates range from near universal in Metro Manila to barely 30 percent completion in the poorest provinces. Several Mindanao provinces and Cebu have both low completion rates and significant shares of the total number of dropouts (see Table 4.2). This has targeting implications since it is more efficient to target limited resources to areas

³ Birdsall and Hecht (1995).

⁴ World Bank (1995d).

with both low completion rates and a high concentration of failures. There are also significant quality differentials between urban schools (which tend to be richer) and rural schools, a conclusion supported by the results of a recent international reading achievement comparison. In this 1991 study, the difference between the mean scores of urban and rural Filipino children (14 year olds) were considered to be moderate to large compared to those of Indonesian or Thai children (where the differences were considered to be of minimal significance). Further, regional disparities are likely to widen even further as richer local governments become increasingly involved in financing education.

Table 4.2: School Performance in the Eastern Visayas and the National Capital Region, Philippines, 1991

	E. Visayas	NCR
Average Family Income, 1991	₱ 38,475	₱ 138,256
Mean NEAT Scores (for public schools)	61	71
Mean NCEE Scores	461	523
Ratio of Private to Public Completion Rates (for elementary level)	1.67	1.03

Notes: NEAT is National Elementary Achievement Tests; NCEE is National College Entrance Examination.

Sources: World Bank (1995d); 1991 FIES.

4.8 In the Philippines, poor youth are much more likely to drop out of school or get a poor quality education.⁵ In part, this is because public primary education is under financed, resulting in the delivery of poor quality education. Philippine public expenditures on education were less than 3 percent of GNP compared to 4 percent in Indonesia or 7 percent in Malaysia.⁶ Budgetary allocation to the Department of Education, Culture, and Sports (DECS), which receives about 85 percent of national government education allocation, has been inching upwards since the late 1980s, after over almost two decades of limited investment through the 1970s and early 1980s (see Figure 4.2).

4.9 Nationalization of village high schools in 1988 and inception of the Government Assistance to Students and Teachers in Private Education (GATSPE) Program in 1989 resulted in a shift in intrasectoral allocation. The share of secondary education allocation rose from 10 percent in 1987 to 17 percent in 1994 at the expense of elementary education which declined from 60 percent in 1987 to 56 percent in 1994. Thus, *after over a decade of under investment in education in general, investment in elementary education suffered as the government took on greater responsibilities for secondary education*, which is less pro-poor.

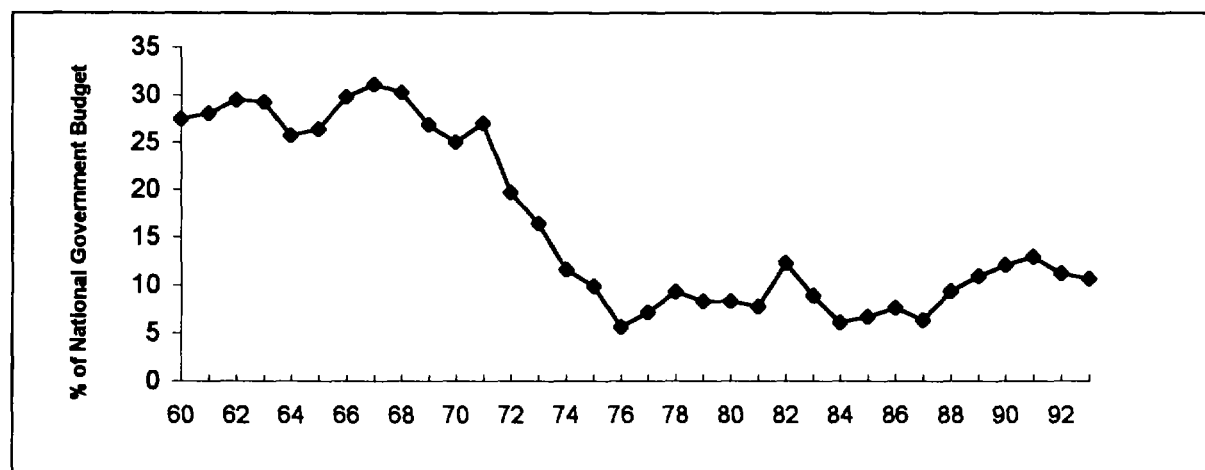
4.10 The aim of the GATSPE program has been to improve access by lower income youth to private secondary schools and colleges. Total funds allocated in 1993/94 were ₱ 700 million. It has essentially sought to maximize the number of beneficiaries (about half of private school enrollment) so the benefits are substantially below the actual cost of enrollment (the highest

⁵ World Bank (1995d).

⁶ Mingat and Tan (1994).

subsidy level was 25 percent of average unit recurrent costs of private schools in 1994). A large segment of the target population cannot afford to pay the difference between the subsidy and actual costs of private schools. In addition, some of the better private schools are withdrawing from the scheme since they are unable to collect full operating costs and are being replaced by lower cost and quality private schools for these subsidized students.

Figure 4.2: Allocation of National Budget to Education, Philippines, 1960-1993

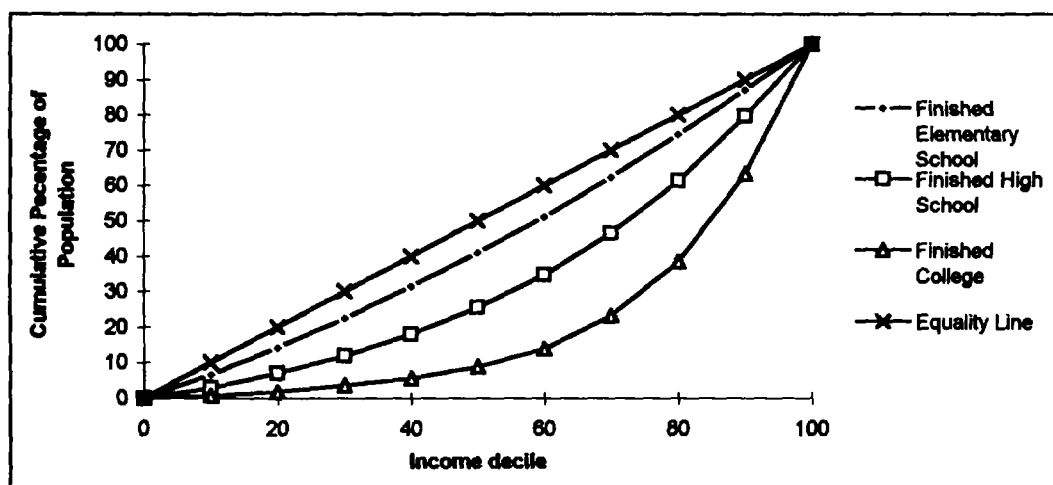


Source: DECS.

4.11 Assessment of the GATSPE program at grassroots levels shows poor targeting effectiveness. The reported educational attainment of parents of beneficiaries were significantly higher than the national average for low income households indicating that perhaps beneficiaries were not limited to the poorest households. Since any qualified applicant regardless of family income is eligible for funding, this finding is not surprising. If GATSPE is meant for the poor, it might be wiser to increase the level of subsidization (and monitor quality) and reduce the number of beneficiaries, targeting the program to poor students.

4.12 Elementary education completion is more equitably distributed in the overall population than secondary cycle completion and far more equitable than tertiary education, which is markedly skewed to favor upper income groups (see Figure 4.3). *The worsening equity of intrasectoral allocation is reinforced by the fact that the government now subsidizes a higher percentage per unit cost in tertiary education than in elementary education*, as well as by the fact that per pupil costs are much higher at the tertiary level (see Table 4.3). There is more justification for government funding of primary education than of higher levels. The externalities of primary education are great (because of the benefits of a literate numerate society), while benefits of higher levels of education accrue more directly to the students. Yet government spending is moving in precisely the wrong direction, with the share of elementary education paid by government going down sharply and household costs rising, while the share of tertiary education funded by government is rising.

Figure 4.3: Distribution of Education by Income Decile, Philippines



Source: UNDP (1994).

Table 4.3: Cost Sharing in Public Education, Philippines, 1986 and 1994
(government and private shares of total unit costs, in percent)

Financing Sources	1986	1994
Elementary		
Government	88	69
Household	12	31
Secondary		
Government	66	57
Households	34	43
Tertiary		
Government	74	78
Households	26	22

Source: World Bank (1995d).

Can Health Spending on the Poor Be Improved?

4.13 Interventions to improve health are an important policy tool for poverty alleviation. Equity and efficiency criteria suggest that health expenditures designed to help the poor should be focused on rural areas. Expanding preventive and community medicine and reducing the incidence of malaria, water-borne diseases and respiratory infections would curtail infant mortality (even eventually leading to declines in fertility) and produce a healthier, more vigorous rural population. Recent decentralization of health functions from the central to local governments has imposed major changes on the sector, which remains in a state of flux.

4.14 Health Expenditures. *The Philippines spends comparatively less of its resources on health than several other East Asian nations, both publicly and privately* (see Table 4.4). Further, public health gains are not as great as they should be because of the poor distribution of health facilities and personnel over the country. For example, only 25 percent of all barangays had health stations in 1990. Each health center served 14,200 people in the National Capital Region (NCR) but between 21,000 and 44,000 people in other regions. Over half of all physicians and two thirds of all dentists are in the NCR. There are major imbalances in the allocation of expenditures within budgets. The prevalence of family planning is low among poor families, 35 to 40 percent compared with 70 percent in Korea, 66 percent in Thailand and 62 percent in Sri Lanka. Clean water is not supplied to 26 percent of the population, but 62 percent of Western Mindanao's population have no access. Sanitary toilets are lacking for 28 percent overall and for 49 percent of people in Central Mindanao. Adding uncertainty to the picture is the fact that the pattern of health spending into the future may well shift, as devolution continues and as the new universal health insurance law comes into effect. It is not yet clear if overall spending levels will rise or fall as a result.

Table 4.4: Total Health Expenditures and Public Health Expenditure, East Asian Countries

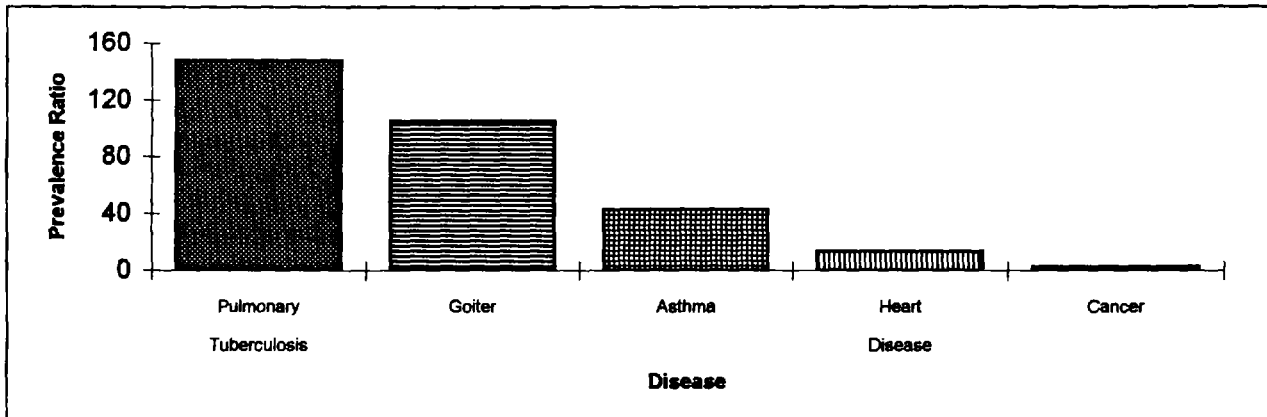
	Total Health Expenditure (1985-87)		Public Health Expenditure (1980-89)	
	Percent of GNP	US\$ per capita	Percent of GNP	Percent of public spending
Philippines	2.4	14.09	0.6	3.3
China	4.0	11.04	1.1	4.4
Indonesia	2.4	10.42	0.8	2.6
Thailand	3.8	32.79	1.0	6.1
Malaysia	3.5	58.51	2.5	6.2

Sources: Griffin (1990); World Bank database.

4.15 Choosing Interventions for the Poor. Primary health care should be emphasized, including immunization, sanitation, and early treatment of intestinal and respiratory ailments. Government spending on tertiary and curative medicine is unlikely to benefit the poor as much as an emphasis on environmental and preventive factors (which are key for diseases like tuberculosis, goiter, and asthma). Figure 4.4 compares the prevalence of selected diseases in a poorer occupational group

(workers in agriculture, fishery, and forestry) to a better off group (those working in administrative or managerial positions). For all diseases, the prevalence level was higher for the poor, but the differences are largest for diseases closely related to environmental conditions.

Figure 4.4: Prevalence of Selected Diseases in Agricultural Workers Compared to Office Workers, Philippines, 1987



Notes: Office workers are those in administrative or managerial positions. Agricultural workers are those in agriculture, fisheries, forestry, and hunting.

Source: Staff calculations based on National Health Survey, 1987.

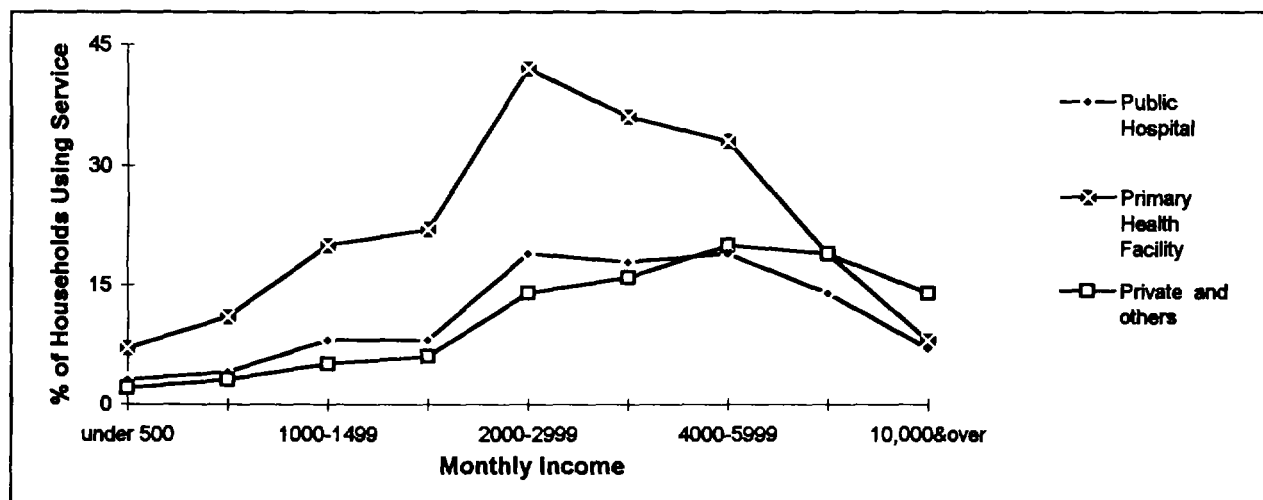
4.16 Accessibility and Utilization of Facilities. The lowest level of the health system is composed of public primary health care facilities: barangay health stations and rural health units. Progressively higher levels of care are provided by primary, secondary and tertiary hospitals (public or private). Primary care is the most highly utilized level of health care for most income groups (see Figure 4.5). Its utilization rises steeply as monthly household income rises to 3000 pesos (about 90 percent of the poverty line), and then declines rapidly as more families begin to utilize public hospitals and then private health care. Thus, the coverage of health care can be broadened by channeling increased resources into basic health care delivered through networks of lower level facilities, supplemented by outreach programs. Improving community health care requires giving special attention to the selection and training of health workers, supervision and support of local clinics, and administration of materials and supplies (including pharmaceuticals). Local units could be given greater autonomy and responsibility for planning and budgeting, collecting fees and setting priorities.

4.17 Health Financing. In 1991, 44 percent of total health expenditure in the Philippines was from public sources, 44 percent from private sources (predominantly through out-of-pocket expenditure), and 12 percent from social insurance programs. Health insurance coverage, particularly the existing Medicare Program, is much more common in urban areas (since it is limited to those employed in the formal sector) and is of little importance to the poor. However, a new *National Health Insurance Law* was approved in February 1995, intended to extend insurance to more of the population, especially those employed in the informal sector and the self-employed such as farmers. The implementation of the new program is dependent on the design of

the rules and regulations which are expected by early 1996. While it is difficult to predict its effect on access and utilization of health care by the poor, several concerns are already apparent.

- The new insurance program includes a government subsidy to allow the poor to participate. But since coverage is directed towards curative care, this allocation of public resources may squeeze out existing public health programs that are especially beneficial to the poor, such as tuberculosis treatment and immunizations. The estimated 1996 subsidy is ₱ 10 billion, equal to about a third of total 1993 public sector expenditure on health.
- Provision of health care to the poor could decline either in terms of accessibility or quality if the new broader health insurance coverage results in a double tiered public system or if health care costs rise (as has been the predominant experience in other countries when insurance coverage has increased).

Figure 4.5: Utilization of Health Facilities by Income, Philippines, 1992



Source: National Health Survey, 1992.

4.18 Provincial Hospitals and the Poor. Two-thirds of provincial health budgets are allocated to hospitals. With the advent of devolution and now a compulsory health insurance program, the provinces have three options for provision of hospital care: (i) continue to provide free services in existing facilities and pay the mandated contribution towards the health insurance subsidy for the poor from additional resources; (ii) reduce fixed health expenditures by closing hospitals (as a few provinces have already done with district hospitals) and use part of health budgets to pay premiums for the poor; or (iii) increase revenues by instituting cost recovery measures and pay the mandated premiums.

4.19 Several incentives may encourage provinces to favor the third option (and some provinces have already started): (i) individual public health facilities can retain such revenues; (ii) cost recovery ensures payment by cross-border users; and (iii) implementing a compulsory insurance scheme would be difficult while free services are provided.

4.20 User-fees at the primary care level are likely to have a greater negative impact on the poor who tend to use these services more (see Figure 4.5), and these services are less likely to be covered, at least initially, by the recently legislated insurance program. The potential ramifications of any planned measures should be carefully studied (since they are dependent on the price elasticity of health demand for the poor). Any introduction of user-fees in the public sector, particularly at the primary level, needs to be carefully coordinated between the various levels of health care (in addition to being implemented in an environment of improving quality) to avoid undesired effects on health facility utilization.

4.21 Either of the latter two options is likely to result in higher utilization of primary health care facilities (at the barangay level) and at municipal hospitals. Access of the poor to provincial hospitals is likely to decline, in the absence of protective arrangements, if these facilities are priced out of their reach. However, cost recovery measures at higher level facilities is a potential tool to ensure rational referral patterns (i.e., charging for primary care services provided at hospitals may encourage the use of cheaper lower-level facilities).

4.22 Family Planning. An important element of health services for the poor in the Philippines is family planning, especially since the total fertility rate in the Philippines remains high and the contraceptive prevalence rate low⁷ (see Table 4.5). As in many countries, the Philippine program focuses on improvements in maternal and neonatal health. While there appears to be widespread popular support for family planning,⁸ to avoid possible difficulty in recruiting family planning staff and to ensure that women have improved access to services and that the populace are well informed about their choices, the Government needs to continue to foster public support for the program. The Department of Health also needs to consider sustainability and long term financial viability of the program, which is currently highly dependent on foreign donor funding. In 1993, only 18 percent of the Department of Health's family planning budget was funded out of the budget. For example, increased cost recovery should be implemented so that public resources can focus on the poor (who have higher unsatisfied demand than the general population). Across countries, birth rates are negatively related to education of parents, especially mothers. Thus, encouraging elementary and secondary education for girls is an effective indirect step to reduce family size and so population growth.

4.23 Nutrition. Malnutrition remains a significant health problem in the Philippines. It contributes to child mortality and morbidity, with estimates showing that reducing prevalence rate of underweight Filipino children by half by 2000 could result in 20 percent fewer infant deaths. It reduces the development of mental capacity; the average intelligence of children in iodine deficient areas is lower by 13 IQ points. It results in lost potential productivity. Total annual economic loss of stunting in the Philippines is estimated to be over \$8.6 billion.⁹

⁷ World Bank (1991).

⁸ A nationwide survey in 1991 by Social Weather Stations found that 96 percent of those surveyed felt that it was important to have the ability to control fertility.

⁹ Jamison and Moseley, *et. al.* (1993).

Table 4.5: Demographic Indicators for Selected Asian Countries

	Total Fertility Rate, 1992 (no. of children)	Decline in Total Fertility Rate, 1970-92 (percent)	Contraceptive Prevalence Rate (percent)
Philippines	4.1	38	37
Indonesia	2.9	47	50
Thailand	2.2	60	66
Malaysia	3.5	37	56

Source: World Bank (1994d).

4.24 The most important nutritional problems in the Philippines are protein energy malnutrition (PEM) and specific micronutrient deficiencies - of iron, iodine and vitamin A. There is significant regional variation, and in 1993, the prevalence rates for most PEM indicators in the 0 to 6 year cohort in the Autonomous Region of Muslim Mindanao (ARMM), Bicol, Eastern and Western Visayas were twice the rates in Cagayan Valley and the Cordilleras Autonomous Region (CAR). As expected, children of households in the poorest quartile of food expenditures are twice as likely to be underweight as children of households in the richest quartile.¹⁰

4.25 Supplementation programs for micronutrient deficiency have had varied level of success. Although a DOH vitamin A supplementation program has achieved universal coverage, an iron supplementation program reaches less than a third of its target group, because it does not involve most primary health care units who provide the bulk of care to the poor. Clinical evidence of vitamin A and iodine deficiency shows significant regional variation, suggesting it may would be more cost-effective to target supplementation programs geographically. To ensure long term abatement of the micronutrient problem, dissemination of information to decision makers, health practitioners, and the public must be improved. And nation-wide programs must be maintained and expanded to include approaches such as fortification, especially salt-iodization.

4.26 In contrast to the commitment and initiatives in the area of micro-nutrient malnutrition, no comparable effort has been made to improve the PEM situation. This may be due to the multiplicity of government agencies involved (six agencies), the fragmentation of responsibilities and the sheer size of the problem. The National Nutrition Council, an attached agency of the Department of Agriculture is the overall policy-making and coordinating body and runs an intervention program, LAKASS, that has shown mix results (see Box 4.1).

¹⁰ UNDP (1994).

Box 4.1: LAKASS: A Community Based Nutrition Action Program

LAKASS, a nutrition intervention program run by the National Nutrition Council since 1989, addresses poverty and malnutrition issues in nutritionally depressed municipalities. It combines livelihood activities with direct and indirect nutrition services. Within each chosen municipality, families at risk in the two most nutritionally-depressed barangays are targeted. Programs and projects are identified, implemented, and managed by the community. Local government agencies and NGOs provide some technical and financial assistance. Seed money is provided by the NNC to eligible municipalities, to supplement resources from government agencies, NGOs, LGUs, and the community. 80 percent of LAKASS funds may be used for activities that addresses causes of malnutrition, including increasing food production, improving sanitation, and expanding income-generating activities. The rest of the funds are set aside for direct nutritional services such as supplementation of micronutrients or food.

By 1993, the program reached 163 municipalities (about 10 percent of the total) and covered 326 barangays (less than 1 percent of the total). Initial results from the first phase of the LAKASS program indicate that the number of severe and moderately malnourished pre-schoolers in selected areas declined from 80 percent to 36 percent after one year, but the number of mildly malnourished children tripled, likely because of reclassification from more malnourished groups. But the drop out rate from the program during its the second phase was over 75 percent, casting doubt over the validity of any assessment. The cost effectiveness of this program needs to be thoroughly evaluated by external assessors to determine if it should be expanded and replicated.

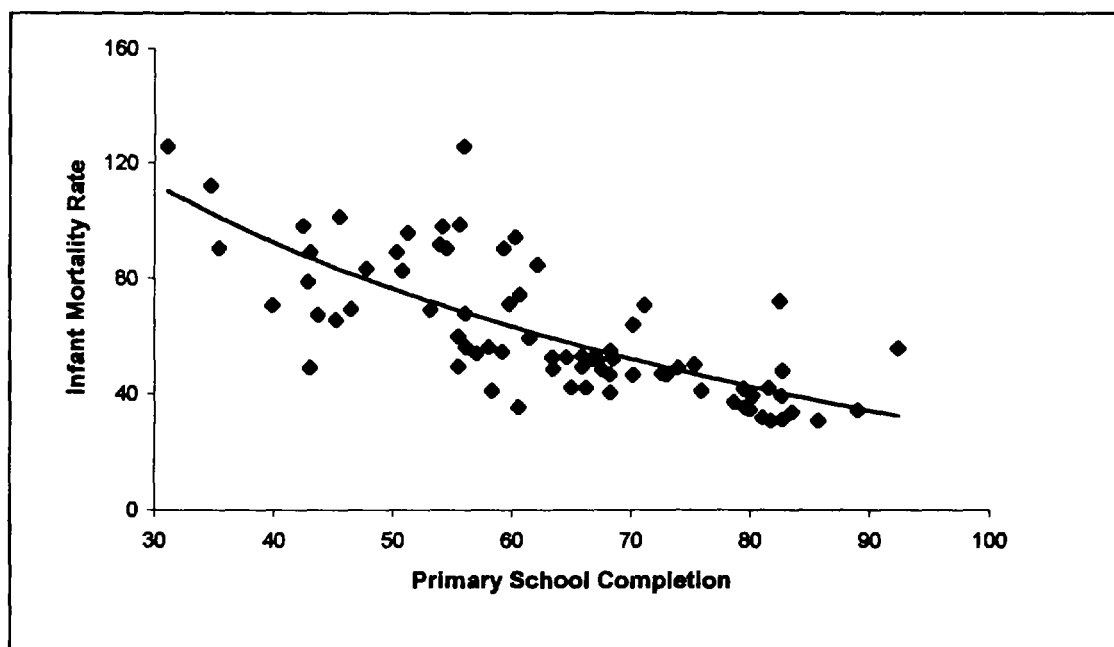
4.27 To improve the effectiveness of the present national nutrition strategy.

- The role of the National Nutrition Council needs to be clarified and strengthened. The recent change in the NFA's role (from a price stabilization to a buffer stock agency) creates the opportunity to reallocate freed resources for more efficient targeted nutrition interventions such as a food stamp program or a micro nutrient program.
- The attachment of the NNC to Department of Agriculture should be reconsidered. Given the extensive synergies between health and nutrition, the comprehensive field presence of health offices, and the recent success of DOH in achieving widespread immunization and micro-nutrient supplementation (although capabilities post-devolution require reassessment), the DOH may be a better home for the NNC.
- Greater coordination between the various programs of different agencies is needed to avoid duplication of efforts and ensure that overall national priorities are being followed. Cost-effectiveness of the various programs should be closely monitored so that prompt decisions about their future can be made (see Box 4.1).
- Nutritional education would benefit from greater emphasis. There is a strong negative correlation at the regional level between percent cohort survival at primary school (a measure of educational quality) and stunting, indicating that better educated populations have less malnourished children.

The Symbiosis between Health and Education

4.28 Rising incomes, falling fertility, substantial investments in human capital, and continuing growth are mutually reinforcing. In particular, there is a strong correlation between health and education status, as shown in the relationship between provincial primary school completion and infant mortality rate (see Figure 4.6). The beneficial impact of education on health outcomes can even offset to some extent the otherwise strong relationship between poverty and ill health. For example, provinces in the Bicol region have better health status than would be expected for their level of poverty. The health-conferring advantage of education is confirmed by results from the recent National Demographic Survey which revealed that infants of uneducated mothers, aged between one to twelve months, were twice as likely to die as those of mothers with elementary education.

Figure 4.6: Infant Mortality and Primary School Completion By Province, Philippines, 1990



Source: DECS, National Statistics Office.

4.29 Not only does better educational attainment result in better health status, reduced fertility levels,¹¹ and reduced malnutrition, better nutrition improves the ability to learn. The rapid fertility decline in the high performing Asian economies, fostered by rising levels of wealth and education, in turn explains to a large extent rising educational expenditure per child (because the share of GNP spent on education remained constant, or in some cases even declined). Consequently, *investment in education amplifies the effects of any investment in health and vice versa.*

¹¹ 1993 National Demographic Survey.

What Can Be Done?

4.30 The National Government should aim at consolidating and sustaining present national achievements in *elementary education* ensure the provision of nation-wide quality basic education, particularly at the elementary level and particularly in rural areas, and target a higher proportion of its expenditure to the poor. Its most important goal is to get the completion rate up, by improving access to primary schools and improving teachers, materials and curriculum, especially in areas where performance is worst.

- Increasing available resources. The present allocation share to education should be maintained so that the available resource level can rise as the economy continues to grow. National subsidies to state universities and colleges should be reduced and eventually eliminated.
- Effective use of resources. Expenditure allocation based on strict proportionality applied nationally should be replaced by methods that would address priority needs, recognizing geographical differences. Improved quality and retention at elementary school should be the highest priority. New school construction should be avoided. Instead, resources must go to improve the existing elementary school system. Subsidizing elementary education for the poorest households should be considered, since one fifth of children in this population group do not attend school for financial reasons (see Box 4.2).

Box 4.2: Reducing Household Costs of Education

In Bangladesh, where school attendance is very low for girls, a Female Secondary School Assistance Program (supported by the World Bank) provides stipends to girls to attend school. Stipend rates are structured to reflect rising educational costs from lower to upper grades and to provide extra incentives for reducing high drop out rates in upper grades. Students must maintain certain grade averages and attendance levels to continue to earn stipends.

In 1994, the first year of implementation, twice as many girls as planned were enrolled in the program. The program is expected to benefit about 5 million girls eventually. Although it is too early to judge its success, this innovative program in Bangladesh may hold useful lessons for improving elementary school completion among the poor of both sexes in the Philippines.

4.31 In *health*, the National Government should:

- Allocate more resources to cost-efficient areas such as primary care; and protect spending on preventive care by the public sector.
- Improve accessibility of health services to the poor and rural populations as this is essential to ensure that recently legislated universal health insurance does not result in the development of a two-tiered public sponsored system. The progress of the present

preventive and vertical programs, which are pro-poor, need to be closely monitored as decentralization is fully implemented.

- Improve targeting of subsidized service provision, e.g., family planning.
- Improve the basic education system, which will also improve health status.
- Complement human capital investments with supporting investments in physical infrastructure such as transport, electricity, water, and waste disposal facilities.

Conclusions

4.32 There is overwhelming evidence that investment in human capital is a key factor in reducing poverty. The most important obstacle to the poor gaining access to health and education services is lack of physical infrastructure, especially roads in rural areas. The urban bias in the provision of services affects quantity and quality. Expansion of rural primary schools and health clinics will certainly help the poor. A shift in allocation of public funds from higher level services to basic health and primary education would meet both efficiency and equity objectives.

4.33 Equity considerations suggest that incremental allocations for education should go to primary schooling. Recurrent costs are often under funded in primary education. Spending should be geared away from construction and towards teaching staff and books and materials, the latter having been found to have high returns. High dropout and repetition rates severely reduce the efficiency of the schools. In some instances, these reflect inappropriate curriculum or poor teaching. These issues should be reviewed.

4.34 Primary health care should be emphasized, including immunization, sanitation and early treatment of intestinal and respiratory ailments. The coverage of health care can be broadened by channeling increased resources into basic health care delivered through networks of lower level facilities, supplemented by outreach programs. Improving community health care requires giving special attention to the selection and training of health workers, supervision and support of local clinics, and administration of materials and supplies (including pharmaceuticals). Local units could be given greater autonomy and responsibility for planning and budgeting, collecting fees and setting priorities.

4.35 Sources of financing of the health sector should be reviewed. Greater emphasis should be given to cost recovery for higher level, curative health care, but it is important to ensure that the poor continue to have access to these services.

5. A SAFETY NET FOR THE POOREST

"Truly, as the country's most valuable resource, every Filipino deserves, and in fact, has the right to adequate food and nutrition, to be able to hone his or her skills for increased productivity and simply be the best he or she can be."

Elsa Bayani. Executive Director, National Nutrition Council

5.1 While the basic elements of a poverty alleviation strategy are economic growth and investment in human capital, the Government also has a role in aiding households and communities and ensuring provision of minimum living standards to those unable to gain from the growth process. In the Philippines, some form of income support is needed to help people through income-reducing events such as natural calamities.¹ The public provision of a safety net for the poorest must be designed to complement rather than replace existing private arrangements of transfers, which are already widespread in the Philippines. *A typical public social safety net for a country at the stage of development of the Philippines, as laid out by the World Development Report of 1990, would include disaster relief, food programs, public employment schemes, and the beginnings of a social security system.* A number of such programs have already been implemented by the Philippine Government, ranging from cash and in-kind income transfers (such as food subsidies and nutrition interventions) to wage employment programs and livelihood creation (or self employment) programs to social security for part of the formal sector. In addition, the private sector, multilateral agencies and non-governmental organizations (NGOs) have been active in planning, financing and executing livelihood creation programs.²

5.2 However, the Government's set of programs do not constitute an efficient and equitable social safety net: (i) they are fragmented and not a consistent or adequate response to the problem; (ii) they have generally failed to mobilize communities to help themselves; and (iii) recent changes of institutions and strategies are creating problems of transition that tend to obscure priorities in the Government's delivery of social services or make additional demands on an ill-equipped bureaucracy and cadre of field workers.

5.3 *The test of safety net initiatives is the cost effectiveness of reaching the poor or the budgetary cost per unit of benefits delivered. It is a well accepted principal that targeted programs to the poor are likely to be more cost-effective than universal programs.* Targeting can be achieved through choice of commodity to be subsidized, location of distribution outlets or use of indicators, even when the only information employed in identifying the potential beneficiaries is their area of residence. For example, Balisacan (1994b) estimated that an area-differentiated income transfer program in the Philippines amounting to ₱ 2 billion is capable of achieving the same reduction in aggregate poverty as a universal program amounting to ₱ 18 billion.³ In rural

¹ Major natural disasters cost the country an average 1 percent of GNP each year, but with great variation: in 1993, 1.5 percent of GNP was lost.

² A recent World Bank report assesses the food subsidy program, labor-based public works programs, and livelihood creation programs in the Philippines. See World Bank (1995f).

³ Balisacan (1994b).

areas, well-designed public works programs can provide a measure of insurance to the poor. In these cases, the key to targeting is self-selection, through the payment of a wage that would be unattractive to anyone but the poor.

Private Transfers

5.4 Remittances from abroad and domestic private transfers are a key component in the survival of the poor. Domestic transfers tend to be from those who migrate to urban areas for employment to their families in poor areas. In 1991, these transfers accounted for 8 percent of the income of the poorest 10 percent of families but only 1 percent of incomes of the richest 10 percent. Remittances from abroad, by comparison, tend to accrue more to the upper deciles and more developed regions. Jobs abroad are often for the more educated and highly skilled. Nevertheless, for those families with a worker overseas, remitted income improves the welfare of the household. However, the richest 20 percent obtained around 11.5 percent of their income in the form of overseas remittances, while the poorest 20 percent gained only 1 percent (see Box 5.1). *Given the widespread nature of private transfers, it is particularly important that the Philippine Government design a system of public transfers that supplements instead of substitutes for private support for the poor.*⁴

Food Subsidy Programs

5.5 The National Food Authority (NFA) operates a general consumer price subsidy program for rice as well as income support to producers of rice and corn. However, *NFA's food subsidy has had little effect on the poor's consumption and nutrition and at high cost.* NFA's food subsidy program raises the annual income of the poor by no more than 0.3 percent. Moreover, its regional distribution is extremely unequal; during 1991-93, the National Capital Region received 35 percent of NFA-subsidized rice, but accounted for only 3 percent of food poverty. In contrast, five regions accounting for 62 percent of food poverty received 29 percent of NFA rice.⁵

5.6 Less than 10 percent of the three million corn farmers in the country have benefited from the corn subsidy for producers, and only 0.6 percent of low-income rice farmers and 1.4 percent of low-income farmers sold their crops to the NFA in 1992.⁶ Further, only 2 percent of the country's 10 million households have benefited from the consumer subsidy on rice. Yet, budgetary losses of the NFA averaged ₱ 1.2 billion annually from 1988 to 1991, because the total cost of the subsidy program is substantially higher than the actual subsidy received by rice producers and consumers. In addition, NFA has had to draw on its equity to support current operations. If effective withdrawals from equity were added to the National Government subsidy, the total would average ₱ 1.8 billion per year over the period. Further, it costs ₱ 1.52 to deliver every ₱ 1 of subsidy. Moreover, if leakage of benefits to the non poor were 50 percent (as has

⁴ See World Bank (1995f).

⁵ World Bank (1995), *op. cit*

⁶ Herrin and Racelis (1994).

been the experience in other countries with such programs), the cost of delivering one peso of subsidy to a poor person would exceed three pesos.⁷

Box 5.1: Overseas Workers: Employment Abroad Brings Large Benefits Home⁸

International migrant workers bring substantial benefits to the Philippine economy. With more than 750,000 Philippine migrants overseas, annual remittances from migrants and their expected domestic wages and consumption represent gains to the Philippine economy estimated to range from 2.2 to 4.5 percent of GDP.⁹

Almost 2 million of the country's 12 million households benefit from migrants' remittances, with most of that income coming from contract workers. These remittances represented on average 8 percent of all household incomes, but for the households that received remittances, this proportion was almost a third of their total income (31 percent).¹⁰ In 1991, in the National Capital Region, almost 4 percent of the income of the bottom 20 percent of households came from overseas transfers. In Ilocos, a region with a strong tradition of overseas work, almost 7 percent of income flowed from abroad. Overall, overseas remittances are largest for the richest households: the top 10 percent of households receive 12 percent of their income from abroad in 1991. In the first six months of 1995, remittances of overseas contract workers (through the banking system) soared to \$2.2 billion (from \$1.3 billion in the same period of 1994), of which \$1.7 billion flowed from workers in the United States, \$99 million from Hong Kong, and \$22 million from the Middle East.

Migration has helped to reduce unemployment by almost 40 percent. Overseas employment reduces the pressure on domestic labor markets, especially in urban areas. Between 1990 and 1991, the urban labor force (considered to be the pool from which most migrants come) increased by 2.1 million workers: 1.2 million found employment in the domestic economy, and 0.9 million became unemployed. The urban unemployment rate rose to 14 percent in 1991. However, a complete return of all overseas workers in 1991 would have increased unemployment substantially. Under this counterfactual scenario, urban unemployment would have been as high as 20 percent in 1991 had all migrants returned (an increase of 40 percent over the actual unemployment rate).

⁷ Experience in other countries suggests that many non poor families benefit from such programs (through leakage), making the cost of transferring income high. The leakage in India was 50 percent, between 60 and 70 percent in Egypt and Morocco, and between 50 and 70 percent in Pakistan. Similar high levels of leakage are probable in the Philippines.

⁸ See Rodriguez (1995). The most recent detailed information available is from an October 1991 Survey of Overseas Workers by the National Statistical Office.

⁹ These gains have been calculated in a number of ways by Rodriguez (1995). Remittances adjusted for foregone domestic consumption have amounted to 4.1 to 4.5 percent of GDP. If domestic earnings foregone are also subtracted, economic benefits are still large (i.e., 2.5 to 2.9 percent of GDP). Even if an adjustment for the loss of valuable skilled workers to the Philippine economy is estimated, overall benefits range from 2.2 to 2.6 percent of GDP.

¹⁰ In 1994, 6.7 percent of households and 10.4 percent of household income was receipts from abroad.

5.7 Alternatives to a general food price subsidy such as the NFA's can avoid leakages and ensure cost effectiveness. *Self targeting through commodity selection, geographic targeting, and use of food stamps would help to target food subsidies tightly on needy families.* For example, subsidizing only the price of corn to consumers would be an improvement; the leakage of the subsidy to the non poor and the not-so-poor would be greatly reduced because corn, unlike rice, is an inferior good. Food stamp programs combine the merits of food and cash-based systems. They tend to reach the poor better, raise food consumption, and have low to moderate leakage rates (see Box 5.2). A 1983 pilot food subsidy scheme in the Philippines was successful, but short lived. Both its subsidy and nutrition education components were found to be important. Cost effectiveness could have been improved by targeting food subsidies on poor families within poor villages, rather on the entire village. In general, experience with food stamp programs in developing countries has been mixed. Minimizing leakage through counterfeiting of the stamps and periodic means-testing, are likely necessary to keep the program well-targeted. Or, food stamps could be used as part of wage payments in self targeted public works programs or distributed in schools or health clinics. Another targeting alternative is gross monitoring of children, which while time-consuming and requiring a high degree of training of health workers, hold great promise for targeting food supplements on the most needy families.

Box 5.2: Food Coupons for Better Nutrition in Honduras

A food coupon program in Honduras, supported by the World Bank, is working towards meeting the nutritional needs of poor women and children in areas with the highest malnutrition rates. The coupon program is supported by nutrition education for health workers, community groups, and mothers; and provision of primary health care services for the target groups. Since its inception in 1990, the program has come to cover over three quarters of children at risk of malnutrition.

Using food coupons instead of food, this program avoids food distribution costs. Coupons are distributed at primary health facilities to encourage utilization of their services and at primary schools in the areas with no health centers. The number of children cared for in health facilities distributing coupons has risen by 55 percent, while enrollment in primary schools is up 12 percent. Three years into the program, moderate and severe malnutrition rates had declined nationally by over 4 percent.

Public Works Employment Programs

5.8 The Philippines has two decades of experience with labor-based public works programs, but there is little analysis of this experience. Two large scale programs, the Community Employment and Development Program (CEDP, which operated during 1986 and 1987), and Kabuhayan 2000 (currently operating) are examples of such efforts. CEDP was undertaken to combat poverty by generating employment, especially in rural areas. It financed 53,000 projects, mostly roads, irrigation systems and schools, employing 1.2 million people over three years. An executive order in 1988 required local and national government agencies to promote labor-intensive methods, especially for small rural-based projects. This policy provided the institutional framework for implementing the later Comprehensive Agrarian Reform Program (CARP). The

Department of Public Works and Highways (DPWH) has labor-based units to help CARP construct farm to market roads for farmers who acquire land through agrarian reform.

5.9 A more recent nationwide initiative, Kabuhayan 2000, aims at generating 2 million jobs between 1994 and 1996, focusing on reforestation, land development, physical infrastructure and livelihood creation, targeted to high-priority regions. However, large allocations are made to the National Capital Region and the adjacent urbanizing areas.

5.10 The Food for Work (FFW) program includes land development, small irrigation projects and expansion of infrastructure, and promotion of agro forestry. The major FFW program is land development -- giving food to beneficiaries until they can harvest their own crops. The effective wage rate is much higher than necessary and attractive to the non poor. The wage needs to be reset to match the poor's supply price and ensure self targeting.

5.11 Labor based public works can create productive assets and transfer income to the poor if designed with sufficient flexibility. If the objective is to stabilize consumption over seasons, public works should be timed to counter seasonal fluctuations. If they are intended to offer insurance, employment should be available on demand. If they are intended for the poor, employment should be restricted to poverty targeted indicators, means tests or self targeting characteristics such as low wages. However, *as now structured, Philippine programs do not serve as an employer of last resort, address the problem of seasonal unemployment, create assets that benefit the poor (such as schools), or provide disaster relief.*

5.12 The Government proposes consolidating all ongoing works programs under Kabuhayan 2000. To make the consolidated program effective and maximize benefits to the poor, wages should be set lower than the prevailing market wage. Line departments should identify infrastructure projects for which labor-based methods are technically and economically feasible. These projects should be located in provinces with poor infrastructure and, if possible, benefit the ultra poor. *Short-term public works employment programs can also be usefully applied in the wake of natural disasters, to use locally available labor to repair urgently needed infrastructure.* Overall, the revamping of works programs is needed to maintain the assets created and monitor implementation and results.

Livelihood Creation Programs

5.13 Livelihood creation programs are supposed to raise the living standards of the poor by converting them into small entrepreneurs. They combine training and supervision with credit, in the hope of allowing the new business people eventually to have access to channels of formal credit. However, experience in the Philippines and elsewhere does not suggest that such programs can be successfully implemented on a broad scale. *Most programs have high administrative costs, generally do not reach the core poor, and do not create sustainable increases in income and living standards.*

5.14 There are currently about 54 livelihood-type programs in the Philippines, being executed by 17,000 NGOs. The programs are implemented through nine government line agencies, five government financial institutions, and two government owned and controlled corporations. All

loans are channeled through NGOs. Typically, an NGO borrows funds from one of the agencies at an interest rate of 7 percent to be repaid in three years (compared to a market interest rate of about 12 percent). The poor borrow from the NGO for either individual or group business ventures, at unregulated interest rates varying between 12 and 25 percent. The interest spread (subsidy) accrues to the NGO. If the borrower defaults, the NGO also defaults, and the Government bears the cost.

5.15 Most NGOs are small, indigenous, and highly localized, adopting a strong grass roots approach to their operations. They typically average 60 clients. Several NGOs have emerged in response to the advent of livelihood programs and have increasingly assumed banking functions, including savings mobilization. It is important to ensure that their commitment to serve the poor is matched by their competence. Some are loosely structured and lack important managerial and financial skills.

5.16 NGOs tend to receive assistance from many different sources, including government line agencies, bilateral donors, and multilateral lending agencies, making it difficult to estimate the amount invested overall in these programs: fourteen major programs have provided more than ₱ 1.3 billion to 2.2 million people during 1989-91; the amount for all 54 programs is probably on the order of ₱ 2 billion.

5.17 Overall experience is not favorable. Programs are being implemented in regions that are better endowed, whose residents had higher than average incomes. Leakage is substantial, and, with the exceptions of the program of the Department of Social Welfare and Development (DSWD) and the Grameen Bank Replication Program (GBRP), have not been able to reach the very poor. Cost-benefit ratios are unfavorable. Incremental employment and income effects have been negligible, and even modest gains have disappeared within two years. Most programs serve families close to or above the poverty line and were concentrated in Metropolitan Manila.¹¹ In 1991, nearly a fourth of available funds were disbursed in the most developed region, Central Luzon. Most beneficiaries had at least eight years of schooling, nearly 85 percent owned their own dwellings, and 30 percent owned agricultural land. Nearly half the participants in the 14 major programs already owned family businesses.

5.18 A study by the Center of Advanced Philippine Studies (CAPS) showed that 26.6 percent of sample beneficiaries invested in businesses, while the rest used the loans for personal consumption. Nearly half the new ventures never became operational, and most that did ultimately became nonviable. CAPS concluded that the livelihood programs created no positive impact on the welfare of beneficiaries, and sustainable income were not achieved. Most of the beneficiaries defaulted, and nearly half the NGOs did too.

5.19 The GBRP gives the poorest people a chance to initiate income earning activities. It organizes them into groups so as to instill a collective consciousness and culture on the proper use of credit, savings operations, and repayment obligations. *GBRP allows the very poor to invest in projects that raise their incomes, but once government subsidies to NGO operations are counted, costs are very high* -- unit costs are four to five times those in Bangladesh. The Agricultural

¹¹ World Bank (1995f).

Credit Policy Council of the Department of Agriculture began training and lending to NGOs interested in replicating Grameen Bank in 1989. Since then, there has been a dramatic expansion of activities. At present, ₱ 1.8 million in loans have been given to 7,500 borrowers by about 25 NGOs in 20 provinces. GBRP beneficiaries have substantially increased their net incomes and slightly increased their assets. Even at interest rates ranging from 10 to 30 percent, repayment rates are exceptionally high. However, for every peso lent, the replicators' cost was ₱ 0.2 and the Government's subsidy cost was ₱ 0.5.

5.20 The Community Projects Fund (CPF) finances mainly agriculture-based livelihood programs through groups or community based organizations. Cumulative loan releases to such entities amounted to about ₱ 7 million. Repayment performance has been generally disappointing. Of the total loans released, only 14 percent have been repaid. An aggregate ₱ 6.1 million remained outstanding, with 2.4 million reported past due. Program managers have attributed delayed or nonpayment of loans to group disintegration, political interference, and poor monitoring and supervision. There is also no strong evidence that the CPF scheme had an impact on the level of incomes among beneficiaries. Absence of systematic benchmark data limits the ability to measure accurately changes in income; however, responses of beneficiaries (and indicators such as income derived from the project and payment rates) point to barely significant income gains.¹²

5.21 DSWD offers a range of services to the very poor. About ₱ 300 million of its 1993 budget of ₱ 445 million was used for transfers to the poor. It works closely with NGOs in delivering welfare services; targeting the socially disadvantaged and handicapped. It has a cadre of community workers who screen beneficiaries. The Department's outreach is limited to a few of the most depressed barangays (with an official poverty incidence of 51 percent or more). DSWD organizes community volunteer resources.

5.22 The DSWD Small Enterprise Assistance Program has reached the very poor, partly because it has been implemented by community workers who convinced beneficiaries to repay at least a portion of their loans (and almost 60 percent was repaid), allowing funds to be recycled to other beneficiaries. This program essentially provided very small loans for pressing short term consumption needs. A few beneficiaries engaged in petty trading for a brief period but were not able to develop sustainable livelihoods. This program has potential if SEAP loan amounts are increased to allow it to serve more families and if supervision and monitoring is strengthened.

5.23 Rationalizing Livelihood Programs. *An effort should be made to consolidate the various livelihood programs, sorting out the successful from the unsuccessful.* These programs should be evaluated to learn what accounts for success or failure, although such an exercise will be very difficult because of the multitude of programs, NGOs, and financing sources involved. No effort should be made to discourage agencies from establishing and implementing such programs, as long as public moneys are not involved. However, *NGOs or other organizations using government or government guaranteed funds (such as non grant external assistance) should be responsible for repayment of the funds, even if the beneficiaries default. Any subsidies should be*

¹² NEDA (1991).

passed along to the beneficiaries, and beneficiaries should pay for the operational overhead of the NGOs.

5.24 The Government should distinguish clearly between resources meant for the non poor (e.g., entrepreneurial development and credit for agribusiness) and those meant exclusively for the poor. Even when working with the poor, a distinction should be made between the very poor and the less poor:

- Credit schemes should be designed taking into account the capabilities of poor groups and the purpose of the intervention by the implementing NGOs or cooperatives.
- Training and technical assistance must accompany any government funding for schemes that extend non collateralized low-interest socialized credit (such as those currently operated by cooperatives, development foundations, and other developmental NGOs) to ensure viability of these enterprises.
- Credit must be extended at commercial rates, even to the poor. The basic accommodation to their condition is that the credit is available to them exclusively and without collateral. The only purpose of extending subsidized credit is as part of a training scheme.
- Efforts of the government, NGOs, and the private sector in providing training for the poor in livelihood and income generating project should be coordinated in order to improve the quality of training facilities and thus the quality and relevance of training provided to the poor.

The Beginnings of a Social Security System

5.25 There are two primary social security programs operating in the Philippines, the Government Security Insurance System (GSIS) and the Social Security System (SSS), which provide payments for old-age, disability, death, workmen's injury, sickness, medical care, and maternity.¹³ About 60 percent of workers in the formal sector of the economy and all government workers are covered. This total of about 18 million workers represents about 27 percent of the total Philippine population. It should be noted, however, that this currently covered portion of the population does represent that portion of the population less likely to fall into poverty as a result of periods of unemployment, sickness, or accidents.

5.26 Particularly as a country becomes more developed, social security programs can have a substantial impact in preventing or lessening poverty among particular groups. For instance, the Social Security program in the United States has been generally credited with being responsible

¹³ The Government Security Insurance System was established in 1936 to provide protection against the loss of income for government employees. The Social Security System was initiated in 1954 as a means of protecting workers and families in the formal portion of the private sector of the economy. The GSIS currently provides some degree of protection for about 1.5 million current government workers and about 700,000 retired workers or dependents. The SSS provides some degree of protection to about 15 million current workers and about 600,000 retired workers or dependents. In addition to these programs, members of the armed forces, police, judiciary, and constitutionally created positions receive social security protection from separate programs.

for the tremendous decrease in poverty among the elderly since 1940. However, at present in the Philippines, extended family structures tend to keep the elderly, the very young, and female-headed households out of poverty. Instead, the social security programs in the Philippines, if properly reformed and gradually expanded, can become an important component of the social safety net into the future.

5.27 As incomes in the Philippines rise over the next decades and the country pushes towards middle income status, social security programs can begin to provide a guaranteed source of income for persons who become too old or disabled to participate in the labor market and survivors benefits to help to ease the transition of dependents of workers who die before retirement, to keep them from falling into temporary or long-term poverty.¹⁴ As per capita GDP increases, attempts should be made to cover workers employed by small firms and the self-employed, so that coverage could become more nearly universal. This would mean retirement, survivors, and disability protection would be extended to those workers in the lower income categories. In addition, health insurance coverage in the future, if phased in slowly and with financial caution, could help to protect the poor, who are least able to self-insure against illness. (But see Chapter 4 for caveats related to the new national health insurance scheme.)

Conclusions

5.28 The Government needs to reevaluate the existing components of a social safety net. Few of the resources currently spent on livelihood programs or labor-based public works reach the poorest groups. Even the cash and in-kind transfer programs do not target effectively. In addition, the public cost of administering these programs is high. Instead, looking towards the future, the Government needs to improve targeting and efficiency. For the poorest groups, interventions should stress nutritional and household food security. A food subsidy program, designed as food stamps or as a nutrition program, would be appropriate. For livelihood and credit to the poor programs, the Government should play only a facilitating role and should not provide subsidies. NGOs must be encouraged to self-finance their efforts; and accountability and transparency of credit operations must be emphasized. Lastly, the financial health and potentially important future role of the social security system must not be forgotten.

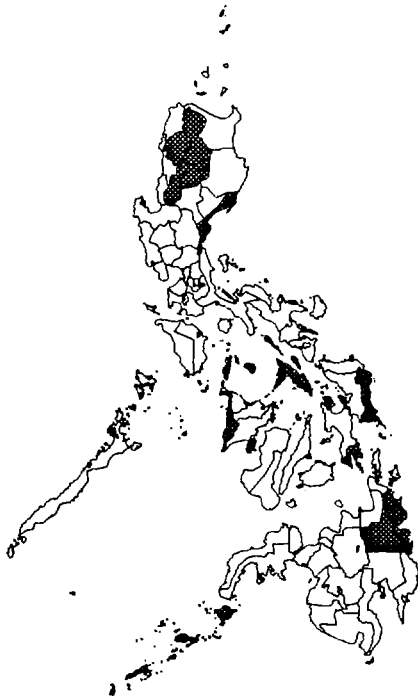
¹⁴ Of course, expansion of the social security programs assumes that appropriate corrective actions will be taken to ensure fiscal sustainability. The World Bank (1995b) provides some possible alternatives to be considered for improving the financial health of these programs.

6. A STRATEGY FOR POVERTY REDUCTION OVER THE LONG RUN

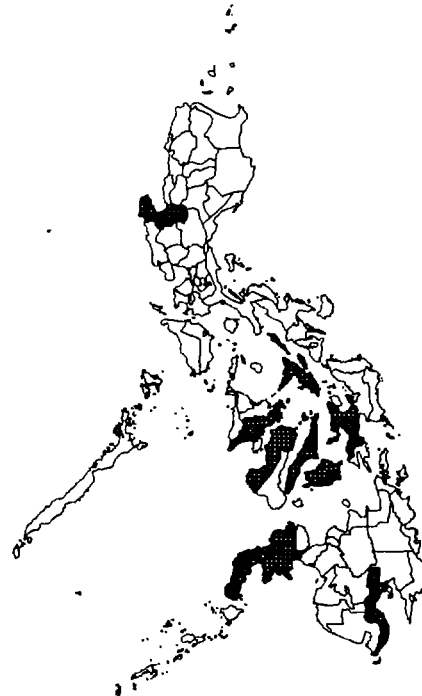
"I once said the ultimate test of any human society is the way it treats the poorest. This is a test of governance and compassion no government can afford to fail."

President Fidel V. Ramos, Message in "Winning the Future: the Social Reform Agenda," 1995

The 20 Priority Provinces



The 10 Intensely Poor Provinces



6.1 The World Bank's World Development Report of 1990 set out a strategy for poverty alleviation that has proven successful across many countries. This "2 1/2 leg" strategy sets out priorities for government action. The first leg or element is to promote the productive use of labor, the poor's most abundant asset, primarily through sustainable and labor intensive growth. This calls for policies that direct market incentives, social and political institutions, infrastructure, and technology to that end. The second leg of the strategy is provision of basic social services to the poor so they can take full advantage of the opportunity of growth, particularly primary education, preventive health care, family planning, and nutrition. The final 'half leg', not to be forgotten, is a program of well-targeted transfers and safety nets to assist those who fall behind and those suffering temporary setbacks. The elements of such a strategy are already familiar to most policymakers. The complications arise in judging what mix of programs and priorities will best achieve it within the limited budget of the public sector.

Maps: Left map shows the Government's choice of 19 (now 20) priority provinces for special attention in poverty alleviation. Right map shows 10 provinces that contain much of the poorest of the poor.

The Nature of Poverty in the Philippines

6.2 As discussed in the preceding chapters of this report, poverty in the Philippines displays a number of characteristics of particular interest to policymakers. The proportion of the poor in the total population remains high, having declined only modestly during the 1980s. However, average incomes of the poor have risen, leaving them better off, and income disparities among the poor have declined noticeably since the early 1960s. In 1991, 37 percent of households lived below an adjusted official poverty line, and 21 percent earned incomes insufficient for subsistence (i.e., less than the official food poverty line). But since much of the population lives close to the poverty line, measurements of poverty incidence are strongly affected by small adjustments in the poverty line.

6.3 Poverty is worse in rural areas (with 53 percent of families below the poverty line) because economic opportunities have been scarce. But the urban poor (who are 23 percent of urban families) suffer especially from the low quality of life induced by environmental pollution, congestion, and violence. As long as job growth remains higher in urban areas, migration from rural to urban areas will continually reinforce the ranks of the urban poor. Elderly and female-headed households do not suffer high rates of poverty in the Philippines, in striking contrast to other developing countries, because households tend to be extended, with multiple income earners. The poor everywhere suffer from the declining quality of primary education. In rural areas, access to education and to health is limited severely by poor roads and other physical infrastructure.

A Strategy for Poverty Alleviation: Solutions that Work

6.4 Growth alone can accomplish much for the poor of the Philippines, provided that the economy's structure enables equity. While it is true that income distribution in the country as a whole has remained more or less constant for the last thirty years, while GDP per capita grew by about 1.7 percent on average, the distribution of income across regions improved during the short spurt of faster growth of the late 1980s. Growth during this period, when a number of structural reforms were beginning to be felt, reduced regional income inequalities, helping poor regions catch up with richer ones. Thus, the assumption that growth of the Philippine economy will improve the welfare of the poor now that structural reforms are more or less completed is well founded on evidence from recent Philippine experience as well as that of other countries. It is important to remember that no country in the world has achieved long-term reduction of poverty in the absence of significant economic growth.¹ Thus, economic growth is the most powerful tool the National Government has.

6.5 Rapid, sustained economic growth is a necessary *but not sufficient* condition for poverty alleviation over the long run. The experience of East Asia shows that the *quality of growth* matters as well. Economic growth fueled by import substituting development strategies, such as India or the Philippines until the 1980s, is bound to be short-lived. Openness to foreign trade and investment, along with aggressive efforts to promote domestic and international competitiveness,

¹ World Bank (1990).

allows the expansion of high-paying employment opportunities. Conversely, excessive regulation leads to inefficient allocation of financial and real resources, often to the detriment of the poor. In order to increase its positive impact on poverty, growth must be broad-based, founded on the efficient development of economic activities in line with comparative advantage. Further, a balance is required between policies that spur growth and policies that enable the poor to participate in growth.

6.6 The overwhelming priority of the Government in poverty alleviation, then, must be to sustain and increase *high rates of economic growth*; only in this way can the Government's stated target of reducing the number of families living below the poverty line from 45 percent in 1991 to 30 percent by 1998 be met. It has been estimated that every percentage point increase in the Philippine economy's growth rate will reduce the incidence of poverty as measured by the poverty gap by 1.8 percent, holding the distribution of income constant.² *Thus, to reach the Government's goal of 30 percent poverty incidence in 1998, per capita income needs to grow by an average 3.8 percent each year from 1996 to 1998, requiring GNP to grow by about 6.5 percent annually.* Of course, absolute poverty would be reduced even more rapidly if growth were accompanied by measures to redistribute its benefits toward the poorest.

6.7 As discussed in detail in the preceding chapters, *the Government should be focusing on a small number of elements of a poverty alleviation strategy:*

- A permanent change in the model of economic growth followed by the country is of primary importance. Policymakers must not waver in keeping the economy outward oriented and geared towards competition, because an East Asian style economy is far more likely to be able to sustain the rapid and smooth rate of growth that is fundamental to improving the welfare of the poor. Macroeconomic stability must be maintained so that growth will no longer be of the stop-go variety. Controlling the budget deficit remains crucial for this task. Many of the urban poor will be helped directly by growth, as employment opportunities respond to increased demand. Even a good number of the rural poor will find their incomes rising, as demand for agriculture based products, especially exports, expands. However, significant reduction of rural poverty will require improvements in health and education and infrastructure (especially roads, markets, and agricultural extension and research).
- Access to the means of production by the rural poor is crucial. It is time to revisit how to accomplish the goals of rural land reform so that the intended beneficiaries--the poorest of farmers and landless agricultural workers--can benefit. The Comprehensive Agrarian Reform Program, which has accomplished a number of its original goals, is getting too expensive and complicated. The current phase of reform of holdings greater than 50 hectares should be quickly completed. Tenancy should be allowed once again, as a useful interim state between landless labor and owner-cultivator status. A market assisted land reform program should be studied to explore options for reducing costs. Investments with

² Balisacan (1994c). This estimate falls well within the range of -1.5 to -4.0 elasticity of the poverty gap with respect to growth of consumption per capita found elsewhere. See Lipton and Ravallion (forthcoming).

greater impact on the poor, e.g., rural infrastructure, should be a priority for use of scarce public funds

- In urban areas, the scarcity of affordable housing (a problem caused primarily by the failure of the urban land market) and threats to environmental health must be addressed. It is now urban, rather than rural, land reform that should be a priority for government action. Tax and regulations on land ownership and development need to be revised. A commission should consider options to balance the rights of dwellers in irregular settlements with the legal owners of urban properties. Water and sanitation services must be extended to poor urban areas.
- The National Government should reduce its emphasis on livelihood creation and credit to the poor and should not spend more money on housing. These expenditures are wasteful and do not reach the truly poor.
- Investment in human capital must be increased by improving the quantity and the quality of primary education and access to primary education in rural areas. Primary health services must be strengthened, especially immunization and prevention of water-borne and respiratory diseases.
- The social safety net must be consolidated and targeted. Publicly subsidized livelihood programs should generally be closed down. General food price subsidies should be stopped, in favor of targeted income subsidies or food stamps and supplementary feeding programs.

The Roles of the Center and of the Local Governments

6.8 The Philippine Government recognizes that growth alone will not be sufficient to address the critical concerns of the poor. Its Social Reform Agenda (SRA), launched in September 1994, focuses on the provision of health, nutrition, education, and shelter to targeted groups. In the context of the SRA, 20 provinces in the country have been identified for special focus in terms of targeting poverty alleviation programs.

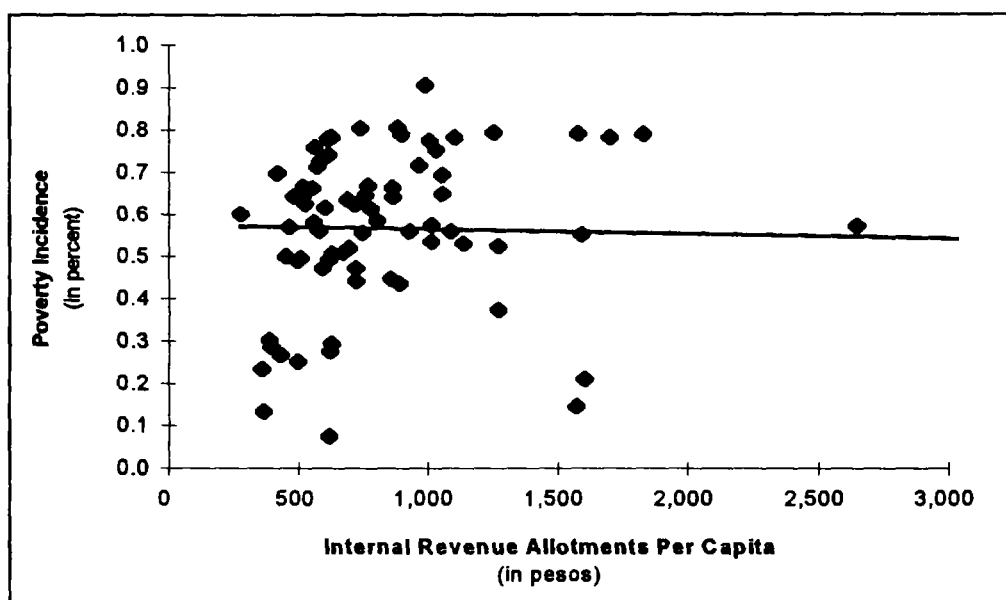
Decentralization

6.9 The enactment of the Local Government Code in 1991 was the first major step towards fiscal decentralization in the Philippines. After decades of economic stagnation and inefficiency and inequity in the provision of basic social services, devolution was designed as a central element of the Aquino Government's program of structural reform. Decentralization aimed at improvement of local public service delivery and allocation of public investment resources, accountability of locally elected officials, and decreased political alienation outside Metro Manila through increased local autonomy. It was hoped that *devolution of fiscal powers, by introducing local oversight and control, would be a cost effective strategy for improving service quality.*³

³ See World Bank (1995e) for detailed analysis of decentralization, and its implications.

6.10 As a result, most traditional poverty alleviation programs except education have become the responsibility of local governments, limiting the ability of the central authorities to implement programs of national priority.⁴ At the same time, the current revenue sharing arrangements with local governments do not redistribute resources towards poorer provinces. The formula set out in the law allocates revenue between Local Government Units (LGUs) based on population, land area, and equal shares. Income levels or local resource mobilization are not considered. Figure 6.1 shows that, not surprisingly, no relationship can be discerned between the unconditional block grants to the LGUs (called Internal Revenue Allotments, IRAs) and the poverty head count.

Figure 6.1: Revenue Sharing with Local Governments and Poverty Incidence, By Province, 1993



Notes: Internal Revenue Allotments include province and municipal level receipt of revenues from the National Government in 1993, but not barangay allotments. Poverty incidence is the head count for 1991.
Sources: Staff calculations from data from Department of Finance and 1991 FIES tapes.

6.11 Also, by devolving functions and whole institutions to local government, expertise and efficiency in many areas has been (at least temporarily) lost and likely is weakest in poorer provinces. Some of these issues are ones of transition, as local governments build capacity and responsiveness to their constituents over the next decade. The variation in planning and implementation capacity and in locally available resources across LGUs calls for continued attention by central authorities. The National Government will need to provide technical

⁴ As of January 1994, key functions have been devolved from central departments to LGUs, including agricultural extension; construction and repair of water impounding systems; forest management services environmental management services; reforestation, integrated social forestry, and watershed rehabilitation projects; provincial health offices; district, municipal, and medicare community hospitals; purchase of drugs and medicines; implementation of primary health care; field health services; repair and maintenance of infrastructure; barangay road, water supply, and communal irrigation projects; barangay day care centers; and existing DSWD poverty alleviation programs in low-income areas.

assistance, capacity building, and incentives through which LGUs can better devise and implement programs targeted at specific groups within their jurisdiction such as the poor in urban, coastal, and upland areas.⁵

Targeting

6.12 Simple geographical targeting can accomplish much for cost effectiveness, and it is easy to monitor and implement, compared to more complicated targeting by income, occupation, or family status. The National Government may decide to provide additional funding for poverty alleviation to provincial governments, who in turn will be responsible for much of the implementation. Provinces can be selected as eligible for special government poverty alleviation efforts based on poverty characteristics on which information is already available.

6.13 The 20 Province Strategy. Twenty provinces⁶ have been identified as priority targets for government poverty alleviation programs. In these priority provinces, the National Government is willing to assume greater financial and administrative responsibilities regarding poverty alleviation -- as illustrated by a recent decision to assume the liability for approved external borrowing directed to these provinces. About 11 percent of Filipinos live in these provinces (about 20 percent of the rural population and 9 percent of the urban population) (see Table 6.1). Only five, Romblon, Masbate, Agusan del Sur, Abra, and Ifugao rank in the ten most needy provinces as measured by any of the standard poverty indicators.⁷ They do contain a higher proportion of the very poor: about 18 percent of the very poor in rural areas (the poorest quarter of the rural population) and 10 percent of the very poor in urban areas (the poorest two deciles of the urban population) reside in these provinces. However, in general, these are average provinces in terms of poverty, not the worst off.⁸ *Thus, while these 20 have been judged by the Government to be lagging and in need of special assistance, a national poverty alleviation program will need a wider scope to have an impact on significant numbers of the poor.*

⁵ NEDA, with a grant from the World Bank, is preparing a study outlining policies and mechanisms to follow for channeling funding (either grants or credits) to LGUs for projects with environmental and social objectives.

⁶ The province of Kalinga-Apayao was recently separated into two, making the 19 priority provinces into 20.

⁷ The three standard poverty indicators are the poverty headcount index, the poverty gap index, and the Foster-Greer-Thorbecke distribution sensitive index (which is the poverty gap squared). Alternatively, using the UNDP's methodology for Minimum Basic Needs, which creates an index for each province, ranking it according to poverty, health and education measures, of the 15 worst off provinces, 8 are included in the Government's priority list. However, another 8 of the 20 are amongst the better off half of provinces. See *Presidential Commission to Fight Poverty (1994)*.

⁸ As measured by the adjusted official poverty line used in this report, the 20 provinces contain 13 percent of all the poor, a number not much different from their share of population. If provinces are ranked by various poverty indicators -- the poverty head count ratio, average poverty gap, distribution sensitive poverty measure, and the proportion of the national poor residing in the province, these provinces (the 16 out of 20 for which sufficient data is available) lie on average in the fortieth percentile in terms of poverty. As judged by proportion of the poor, the ranking is even worse, around the 57th percentile, implying that these are precisely the provinces that contribute very little to national poverty.

6.14 For the design and implementation of programs of poverty alleviation in the 20 priority provinces for which the SRA provides special focus, the Government needs to ensure that the various initiatives that are underway are embedded within a consistent overall framework and are effectively implemented. Moreover, the priority provinces are sufficiently varied in character to permit a valid testing ground for targeted programs, which if successful, could be expanded elsewhere in the country. Successful pilot programs could then be adopted outside the 20 provinces.

Table 6.1: Targeting of Provinces: Coverage by Different Poverty Measures, Philippines (shares in percent)

	Head Count	Poverty Gap	Rural Very Poor	Urban Very Poor	Population
20 Priority Provinces	13	14	18	10	11
15 Flagging Provinces of which:	38	38	45	42	38
10 Intensely Poor Provinces	29	30	37	31	25

Notes: Priority provinces are the 20 provinces identified by the Government for special attention and funding. Flagging provinces and intensely poor provinces are 15 and a subset of 10 provinces selected to cover the most rural and urban very poor. 10 are Bohol, Cebu, Davao del Sur, Iloilo, Leyte, Masbate, Negros Occidental, Pangasinan, Zamboanga del Norte, and Zamboanga del Sur. 15 also includes Cagayan, Negros Oriental, South Cotabato, and 2 of 4 of the provinces constituting the National Capital Region. Only Masbate is also one of the Government's priority provinces.

Source: Staff calculations from 1991 FIES tapes.

6.15 A 10 Province Strategy. If the National Government wishes to extend its poverty alleviation efforts to a small number of additional provinces, 10 intensely poor provinces have been identified which include a substantial number of the very poor. As shown in Table 6.1, these ten provinces contain over a third of poverty by various definitions. Importantly, only one province, Masbate, is already identified in the 20 Priority Provinces. If another 5 provinces are added to the 10 intensely poor, generating the group here labeled the "flagging provinces," then around 40 percent of the truly poor can be covered by programs.

6.16 However, an analysis of the sources of inequality in income (measured by consumption expenditures) in the 1991 household survey reveals that roughly one half of the observed inequality in per capita consumption expenditures in the Philippines originates from per capita expenditure variations across households residing within the same barangays.⁹ These results suggest that policies that merely seek to redress regional and sectoral inequities will not be enough in reducing overall expenditure inequality in the country. *What is needed is a dual approach that seeks to redress regional, provincial, and urban/ rural imbalances on the one*

⁹ The population weighted Theil measure of inequality, the per capita consumption weighted Theil measure of inequality, and the log variance index were calculated for various regional and urban/rural groupings to allow decomposition of expenditure inequality into between group inequality and within group inequality.

hand but also addresses the factors associated with inequalities between neighbors. Thus, targeting by means other than selection of provinces will also be important. Nationwide programs of nutrition interventions, immunization, teacher training, or food stamps are examples of targeting by other than geography.

Program Directions

6.17 The Philippines has often suffered from a surfeit of programs and a multitude of pilots. The country has had too many programs ostensibly for the poor, not too few. What is needed now is streamlining of existing approaches, taking heed of the lessons already learned, and applying the successes of existing pilots nationwide. Resources, both financial and institutional, must be focused on approaches with a track record of success, that have a strong positive impact on the poorest of the poor. The financing of a tightly targeted poverty alleviation strategy, as laid out here, will not be difficult. While this report has not attempted a costing of poverty programs, such an exercise would likely reveal much potential for budget-neutral spending shifts. Savings from cutbacks in less efficient programs can be applied to needed expenditures in more fruitful areas. Table 6.2 illustrates the kinds of trade-offs that are possible.

Table 6.2: Guidelines for Spending on a Poverty Strategy

<u>Areas to spend more:</u>	<u>Areas to spend less:</u>
<ul style="list-style-type: none"> • Rural infrastructure, especially roads • Agricultural extension services • Urban water supply • Urban sanitation • Sites and services for slum areas • Public transportation • Primary education, especially for teaching staff, books, and materials • Primary preventive health services • Supplementary feeding programs and food stamps 	<ul style="list-style-type: none"> • Rural land reform below 24 hectares • Public works employment programs, except for short-term disaster relief • Construction of urban housing • Livelihood programs • Tertiary education • Higher level curative health services, especially through greater cost recovery • General food price subsidies

6.18 The *National Government* needs to concentrate its energies on a few activities in its poverty strategy:

- Maintaining overall economic growth that provides expanding opportunities for the poor through appropriate macroeconomic and sectoral policies is a crucial responsibility of the National Government.
- Education remains a central government function and the key intervention to help the next generation pull themselves out of poverty.
- Appropriate national level programs of targeting in areas where uniform standards, economies of scale, or externalities beyond local boundaries argue for nationwide implementation, such as food stamps or immunization, must be supported.
- Additional financing will need to be provided to poor areas. For example, a social or municipal investment fund arrangement for rural infrastructure could be set up by the National Government, which would provide project design assistance and strict guidelines for eligibility. Only the poorest provinces might be eligible or those that showed particular success in poverty alleviation. The communities would need to be intimately involved in all phases of planning and implementation, and a matching grant element would likely be useful. Foreign donor funds could be mixed with government revenues. Colombia and Chile have both devised social investment fund approaches as useful complements to decentralization, ensuring that national objectives of service delivery to targeted poverty groups are not bypassed (see Box 6.1).
- Intergovernmental finance should be kept as uncomplicated as possible. If the provision of a nationwide basic uniform level of health or educational services is an important objective of national policy, the National Government should either provide such services itself or directly transfer the needed resources to the target population (such as through a voucher system). If such poverty-related services must be provided through decentralized governments, very careful attention has to be paid to: (i) getting prices facing service providers right, via a well-designed system of matching grants; (ii) setting up an information and inspection system sufficient to ensure that the desired services are delivered to the target groups; and (iii) devising some system (a national "fail-safe" provision) for dealing with the non-compliant.
- The National Government will need to provide services to the local governments, especially assistance in planning, budgeting, project implementation, and monitoring. LGUs require a viable staffing policy, including incorporating officials from other levels of government without unduly inflating wage bills or lowering service quality; and a sound information system for accounting and financial reporting, both for accountability to local residents and monitoring and evaluation by the central government. Technical support, e.g., for project development, contracting, and procurement, is especially important over the next decade or so, as capability is developed in local governments.

- Monitoring of poverty and the relative performance of the provinces and cities is another important role for the National Government. Through an expanded household survey and the integration and improvement of existing statistics and program information, the National Government can provide crucial assistance to the provinces in setting priorities. Indonesia has moved boldly in this direction with great success. (see Box 6.2).

Box 6.1: Chile and Colombia: Complementing Decentralization with Social Investment Funds

Colombia's *Fondo de Desarrollo Integrado* provides funds to municipalities to finance small investment projects on a matching grant basis. Local communities provide labor and local materials, and municipal governments contribute a portion of the cost. This fund not only fosters community involvement in identifying needs and choosing projects, but it also promotes community participation in the execution, operation, and maintenance of the works. Overall, the distribution of the expenditures from this fund appears to be quite progressive, with households in the lowest quintile of the rural income distribution receiving 26 percent of the subsidies. These subsidies represented 1.5 percent of the income of the poorest quintile compared to only 0.1 percent for the richest quintile.

Chile's Solidarity and Social Assistance Fund (FOSIS) was established in 1990 to help groups of the poor who were not protected by the country's relatively well-functioning social safety net and system of financing of basic education and health care through local governments. Because the Chilean civil service is highly skilled, FOSIS is part of the regular government structure. It focuses on initiatives such as self-help organizations among the poor and training programs for unemployed youths and single mothers. The fund insists on a relatively high level of cost-sharing by beneficiaries and coordinates closely with other central and local government activities.

As with other successful decentralized investment programs, the key appears to be community involvement at all stages of the operation, guided and supported technically and financially from the center. The experience with social investment funds shows that they can be effective financial intermediaries if: (i) they are demand-driven, thus requiring a high degree of local involvement; (ii) their operations are transparent and hence accountable; (iii) they are closely targeted to low-income groups; and (iv) if central government is not highly efficient, they must be made relatively autonomous in their operation, usually being run by private sector managers and freed from much official red tape.

6.19 The *local governments*, both provincial and municipal, will play an ever growing role in all aspects of policy, including poverty alleviation. They will need to:

- Coordinate with local non-governmental organizations (NGOs), the local private sector, and other community organizations, drawing on such extra governmental groups for assistance in targeting, project design, and implementation.
- Acquire expertise in a large number of areas that will allow them to choose programs and investment projects with the highest returns and keep them cost effective.

6.20 *Non-governmental organizations* will continue to be of prime importance in battling poverty. They will be needed to contribute to community mobilization and local participation; to provide training, and to share their extensive on-the-ground knowledge. The National Government needs to forge a stronger partnership with NGOs, to stay aware of current developments and to build on successes, and to learn where their expertise will reap the highest returns. Only with the assistance of local governments, NGOs, community organizations, and the beneficiaries themselves will the National Government have a high chance of success in meeting the challenge of poverty alleviation over the coming years.

Box 6.2: Indonesia's Use of an Improved Household Survey for Poverty Targeting

Improvements in the national household survey in Indonesia have allowed for development of an information base that is highly useful for poverty analysis and policy formulation. Policymakers in the Indonesian national planning agency had realized that more detailed and timely data about the poor and public spending on poverty reduction programs would allow much more accurate targeting of the poor and evaluation of poverty programs. Perhaps the overwhelming reason why the Philippine FIES has not been of great value to policymakers is the lengthy delays for processing. The final results of the 1991 survey were released in May 1995. However, realization of this problem has led to some preliminary results of the 1994 survey (but not poverty incidence) to be released in August 1995.

The World Bank worked with the Indonesian Government to help strengthen the design of the existing household survey. First, coverage of welfare indicators (chosen in consultation with various line agencies) were broadened to include not only household consumption but also measurements of labor, housing, school enrollment, health status, use of health care services, fertility and use of contraceptives, and access to water supply and sanitation. A new core survey was implemented nationally beginning in 1992.

Second, the coverage of welfare indicators was deepened by enlarging the sample size to allow disaggregation of data down to the district level. Beginning in 1993, the sample was tripled from 65,000 to 200,000 households. This new information base has already been used to generate analyses of the impact on the poor of changing fees for public services such as education and health.¹⁰

¹⁰ World Bank (1995g).

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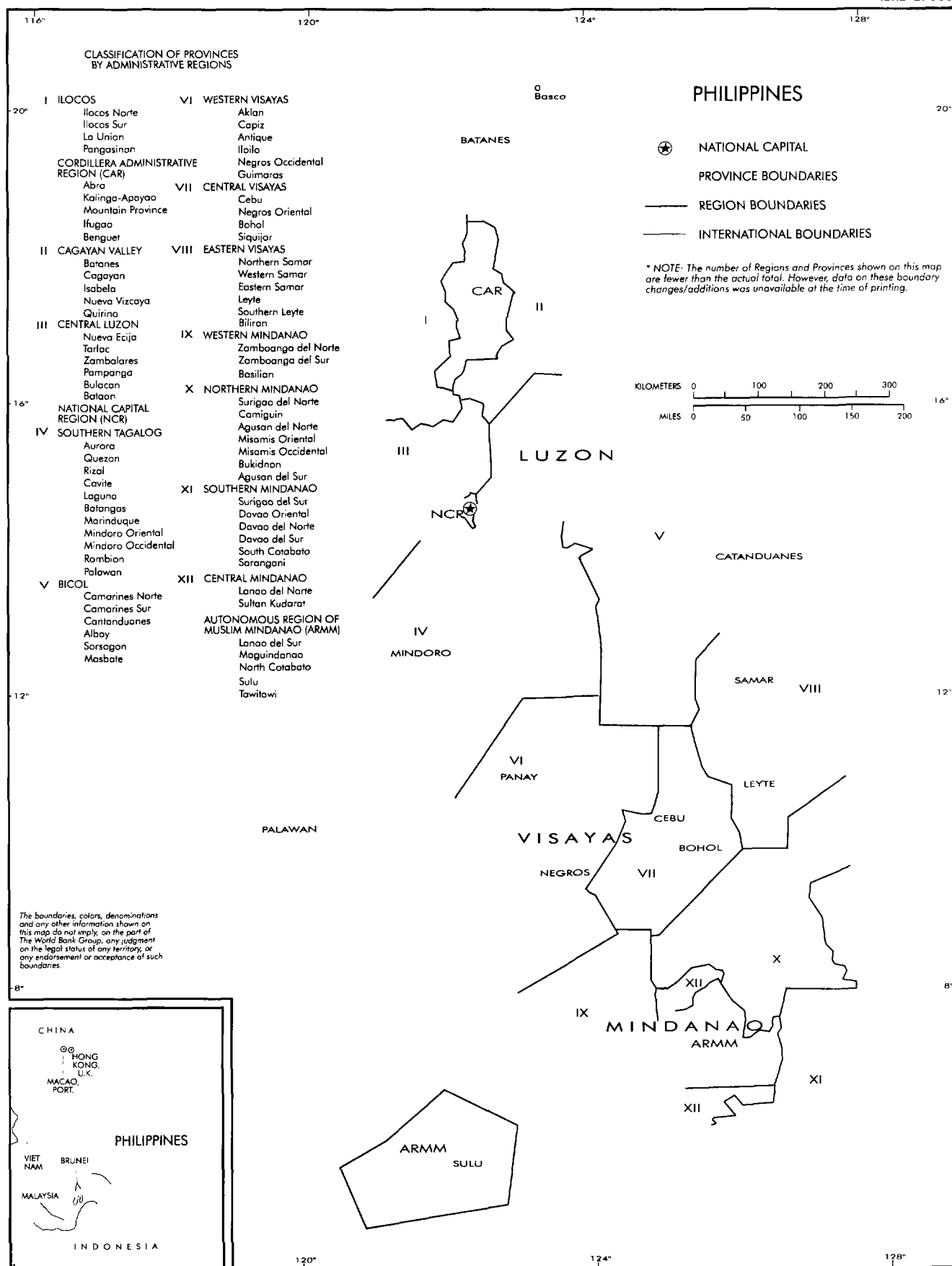
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1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting. The text highlights the role of the accounting department in ensuring that all data is properly recorded and analyzed.

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