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Appendix 1

POVERTY MEASUREMENT IN THE PHILIPPINES: METHODOLOGY ISSUES

How Poverty Is Measured

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

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

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

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

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

Methodology Changes: 1992 and 2003

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

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

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

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

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

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

Other Methodological Issues to Note

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

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

⁷⁷ Basic expenditures excluded alcohol, tobacco, recreation, durable furniture & equipment, ‘miscellaneous expenditure,’ and ‘other expenditure.’

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

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

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

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

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

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

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

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

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

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

Appendix 2

THE ADB-GOP POVERTY PARTNERSHIP AGREEMENT

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

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

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

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

Goal 1: Macroeconomic Stability and Equitable Growth

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

Table A2.1

Comparison of MTPDP Targets and Actual Performance for Goal 1

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

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

Box A1

Goals, Strategies and Indicators of the Poverty Partnership Agreement

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

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

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

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

Goal 2: Agriculture Modernization with Social Equity

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

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

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

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

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

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

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

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

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

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

Goal 3: Comprehensive Human Development and Protecting the Vulnerable

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

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

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

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

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

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

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

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

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

Table A2.4
Housing Sector Targets vs. Accomplishments, 2001-2002

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

Goal 4: Good Governance and the Rule of Law

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

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

was passed (DOF 2004). The 2003 experience will hopefully start the momentum for reforms at the revenue agencies.

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

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

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

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

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

to measure outcomes. Finally, there is a need for organizational resources for DBM to monitor agency performance on top of its regular expenditure reviews.

Have the PPA Goals Been Achieved?

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

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

Appendix 3

COUNTRY POVERTY ANALYSIS CONSULTATION WORKSHOP PARTICIPANTS

12 November 2004, ADB Headquarters, Manila

Government of the Philippines:

1. Secretary Imelda Nicolas, National Anti-Poverty Commission (NAPC)
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6. Ms. Josephine Parilla, NAPC
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8. Ms. Li-Ann De Leon, League of Municipalities of the Philippines
9. Dir. Erlinda Capones, National Economic and Development Authority
10. Director Lina Castro, National Statistical Coordination Board (NSCB)
11. Ms. Marissa Barcenas, National Statistics Office (NSO)

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

Civil Society

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

International Organizations and Embassies

16. Ms. Nicole Cadwallader, British Embassy
17. Ms. Berta del Olivo, Embassy of Spain
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