

## Chapter 1

# REVISITING THE POVERTY PROBLEM

**W**hat has happened to poverty in the Philippines since 1985? The answer is not a simple one. The overall headcount of poverty—the proportion of Filipinos living below the poverty line—decreased by 10.5% from 1985 to 2000. If looked at in isolation, this can be considered progress in poverty reduction, if somewhat sluggish as compared to the country's Asian neighbors. Over the same period, however, the actual number of poor Filipinos—the magnitude of poverty—increased by more than 4 million.

The headcount/magnitude paradox in the Philippines is a result of very high population growth rates. The population of the Philippines was 76.5 million in the May 2000 Census of Population and Housing conducted by the National Statistics Office (NSO).<sup>1</sup> This represents an annual population growth rate of 2.36% over the September 1995 census count of 68.6 million. At this growth rate there are nearly 5,000 births per day, or over 200 per hour. NSO projections based on the 1995 census put the population at 82.7 million in 2004, with expectations that it would reach 105 million by 2020.<sup>2</sup> As a result

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<sup>1</sup> In 2000 the Philippine population was classified as 48% urban and 52% rural.

<sup>2</sup> In December 2004 the National Statistical Coordination Board released new population projections based on the 2000 census. The projections were revised upward: the new projection for 2020 is 111.5 million people (see [www.nscb.gov.ph](http://www.nscb.gov.ph), Press Release PR-200412-SS2-03, posted 21 December 2004).

of the high growth rate, the Philippine population is an overwhelmingly young population: in 2000 the median age was 21, one quarter of the population was under the age of 10, and more than half of the female population belonged to the reproductive age group (ages 15–49).

This country poverty analysis (CPA) is based on a broad, multidimensional approach to poverty. The Asian Development Bank (ADB) defines poverty as *a deprivation of essential assets*, and the report is organized around this framework, assessing income poverty and the deprivation of access to five different types of assets: human capital, physical capital, natural capital, financial capital, and human capital. This poverty assessment also delves into seven distinct causes of poverty and issues that exacerbate poverty or hinder poverty reduction efforts. These are: (i) weak macroeconomic management; (ii) employment issues including unemployment, underemployment and low wages; (iii) high population growth; (iv) an underperforming agriculture sector and an unfinished land reform agenda; (v) governance issues including corruption and a weak state; (vi) conflict and security issues, particularly in Mindanao; and (vii) disability. Entry points for future ADB assistance to the Philippines with the goal of reducing poverty can be framed in the context of improving access to the five different types of assets, or in addressing the root causes of persistent deprivation.

Why revisit the poverty problem now? This CPA has been prepared as an input to ADB's new Country Strategy and Program (CSP) for the Philippines (2004–2006).<sup>3</sup> The last major poverty assessment of the Philippines was conducted by the World Bank in 2000 and published in a two-volume report in 2001. The main sources of data drawn upon in that study were the 1997 Family Income and Expenditure Survey (FIES) and the 1998 Annual Poverty Indicators Survey (APIS). The intervening years have seen a number of important data developments,<sup>4</sup> including:

- Results of the 2000 Family Income and Expenditure Survey (FIES), published for the first time in 2001;
- Preliminary results of the 2003 FIES, released in September 2004
- Publication of the 1999 and 2002 APIS reports in 2001 and 2003, respectively;

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<sup>3</sup> Other thematic assessments prepared for the CSP include the Country Gender Assessment, an Environmental Assessment, a Governance Assessment, and a Private Sector Assessment.

<sup>4</sup> There have also been a host of smaller studies by academics and reports from donor organizations that shed light on particular aspects of deprivation. Torras (2002) adjusted Philippine poverty figures for environmental damage. Quisumbing et al (2004) studied land and schooling as mechanisms to transfer wealth across generations. The World Bank's *World Development Report 2004* highlights access to services as a core dimension of well-being. The *UNDP Philippine Human Development Report 2002* focuses on issues of employment.

- A report on the Millennium Development Goals (MDGs) prepared by the Government in conjunction with the UN in 2003; and
- A revision of the official poverty measurement methodology in 2003, leading to the release of revised national and regional poverty figures for 1997 and 2000 and publication of all-new provincial-level poverty data for those years.

The last point above is particularly important, because two different sets of data coexist for 1997 and 2000. This is a recipe for confusion if data users are not aware that changes were made to the official poverty measurement procedures. Comparisons now cannot be made without first ensuring that the poverty figures are based on the same methodology. The 2003 revision led to publication of new poverty figures for 1997 and 2000. These now coexist with the old poverty data for 1997 and 2000. Throughout this report we identify the old 1992 methodology data with [M92] and the new 2003 figures with [M03]. Details can be found in Appendix 1. The major points to highlight are as follows:

- The old poverty data [M92] exists for 1985–2000. The new poverty data [M03] exists for 1997–2000.
- The new poverty lines are lower, so the poverty headcounts are lower. For example, the old national poverty threshold for 2000 was P13,823 per person per year [M92]. The new national poverty threshold for 2000 is P11,605 per person per year [M03]. This is a difference of about \$50,<sup>5</sup> a difference that reduced the poverty incidence by more than 5%, from 33.7% of families to 28.4% of families in 2000.
- Trends over time differ between the two series: using the old poverty data [M92], the proportion of those families unable to meet food needs alone (the subsistence incidence) increased from 1997 to 2000. With the new poverty data [M03], the subsistence incidence decreased.

Poverty figures for 2003 have not yet been released, but signs point to the fact that poverty has increased since the last FIES conducted in 2000. Though the Philippines experienced sustained GDP growth from 2000 to 2003, preliminary 2003 FIES results indicate a 10% decrease in real average family incomes across the country. Families in the National Capital Region (Metro Manila) faced an almost 20% decline in real incomes. The Philippine empirical

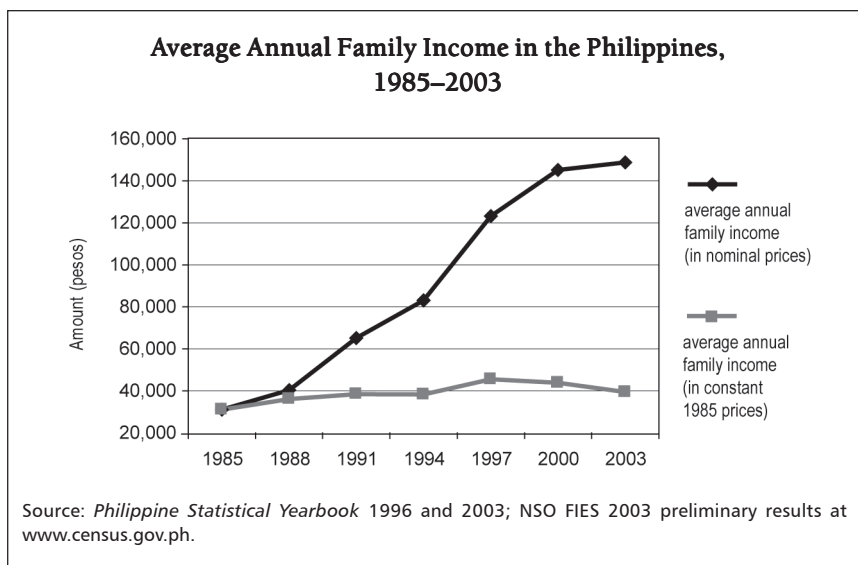
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<sup>5</sup> Using the Bangko Sentral ng Pilipinas (BSP) average exchange rate for 2000.

record demonstrates that the poverty headcount declines when the growth rate of average family income outpaces the rate of inflation. The poverty headcount increases when the reverse is true. For example, average family income in 2000 was 18% higher than in 1997. However, inflation from 1997 to 2000 was 22% (measured using the Consumer Price Index, or CPI), and as a result the poverty headcount of the population increased by 1%.

The 2003 FIES shows average family income to have increased by only 2.5% over the 2000 level, while the CPI indicates an inflation rate of 13.9%. It is therefore almost certain that the poverty headcount increased during this period, and that it increased by a greater degree than from 1997 to 2000. Figure 1 paints a picture of what has happened to real average family incomes over the past two decades. In essence, family incomes have been on the decline since 1997, and by 2003 had fallen back to their 1991 level.

Figure 1



This CPA is essentially an in-depth desk study that pulls together existing information from a broad array of sources and assesses it in new ways. As part of the process, consultations were held with government, civil society, and other donor organizations.<sup>6</sup> The analytical framework for the CPA is set out in

<sup>6</sup> A Consultation Workshop on the Philippines Country Poverty Analysis was held on 12 November 2004 at ADB Headquarters in Manila. The list of participants can be found in Appendix 3.

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Chapter 2. Chapter 3 explores income poverty and inequality. Chapter 4 is an analysis of access poverty and assets, where poverty is explored in the context of human capital, physical capital, financial capital, natural capital, and social capital. Chapter 5 summarizes the experience of the Philippines in working toward achieving the MDGs. Chapter 6 analyzes the causes of poverty in the Philippines, focusing on the key themes of economic growth, employment, population, agriculture and land, governance, conflict, and disability. Chapter 7 reviews and evaluates past government poverty reduction strategies and programs, identifying targeting as a key area for improvement. Chapter 8, the conclusion, highlights some of the main findings to inform future action.