Chapter 3

INCOME POVERTY AND INEQUALITY IN THE PHILIPPINES

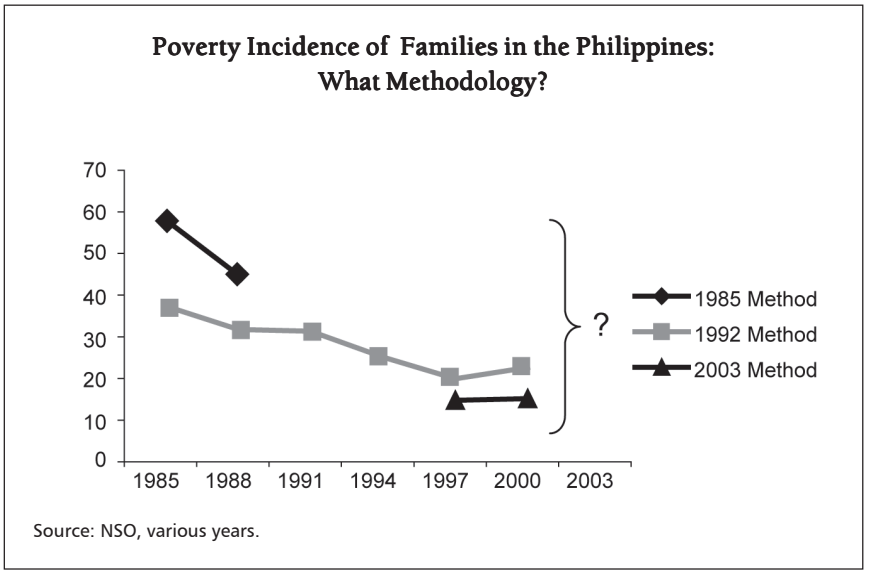
Despite a long tradition of poverty measurement in the Philippines, trends in income poverty are not as straightforward as one might hope. The most important issue is that there have been two major methodology changes since the poverty incidence was first estimated for 1985. The first major change occurred in 1992, and the second in 2003.[14] In essence, there are three different poverty series in existence for the Philippines. These are represented in Figure 2. In this chapter we distinguish between the 1992 and 2003 methodologies with the codes [M92] and [M03].

Even within the same methodology series there are four different headcounts for any given year. Great care must be taken not to confuse them with one another. Poverty headcounts are reported for both for the population and for families using two different poverty lines: the food threshold (a measure of food needs only) and the poverty threshold (food plus nonfood needs).[15] In other words, what is meant by a figure described as "the poverty incidence"

[14] The 1992 method was first applied to the 1991 data and retroactively revised the 1985 and 1988 figures. The 1992 method remained in force for the next three rounds of the FIES in 1994, 1997, and 2000. The 2003 methodology change led to the publication of revised figures for 1997 and 2000, and will be further applied to the 2003 figures to be released by the end of 2004.

[15] The headcount resulting from the food threshold should be called the subsistence incidence (as distinct from the poverty incidence), but data is not always well labeled, and mistakes can and do happen.

Figure 2

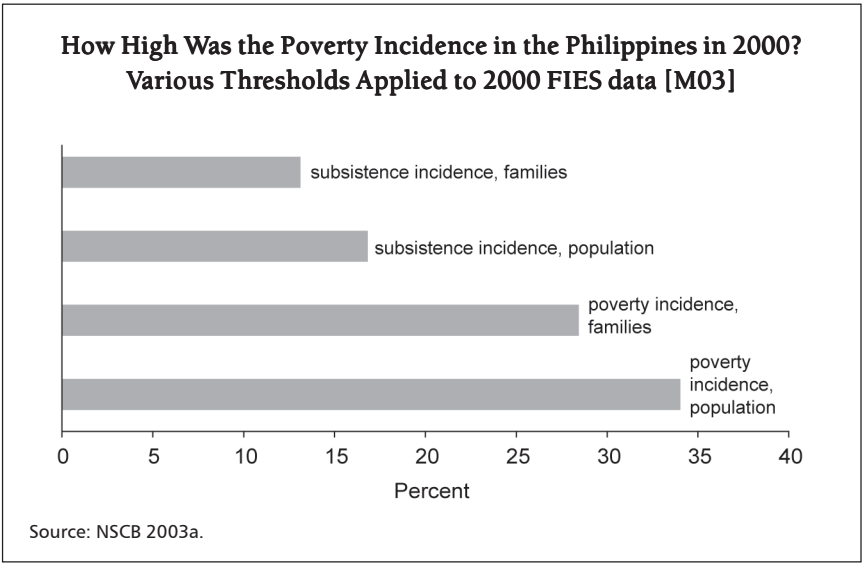


might be anything from the subsistence incidence of families to the poverty incidence of the population. Not only the levels but also the trends over time for each of these headcounts might vary, and the differences can be significant. This is illustrated using data for the year 2000 [M03] in Figure 3.

Two final issues to bear in mind when discussing poverty in the Philippines are i) that urban poverty may be underestimated owing to survey methods,[16] and ii) that poverty lines have not kept pace with inflation over time, and are worth less in real terms than they were in the past. Appendix 1 contains details of how poverty is measured in the Philippines, what exactly the methodology changes have entailed, and what methodological problems remain.

[16] Families without "official and permanent residence" are not included in the FIES, on which all poverty estimates are based (see Balisacan, 1994). Informal settlements and slum areas are by definition unofficial, so the urban poor are likely under-represented in the sample.

Figure 3



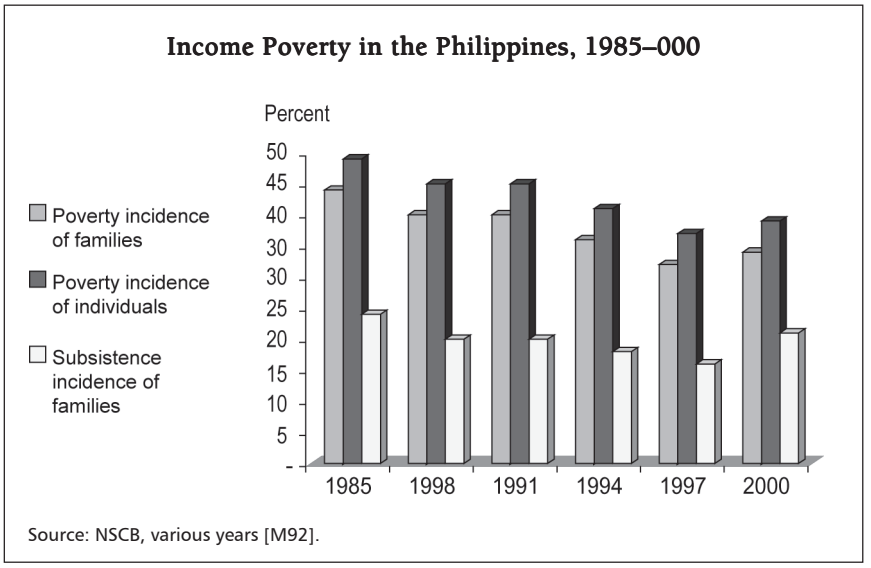
Income Poverty: Official Measures

An analysis of poverty trends using comparable data shows that while the income poverty incidence fell from 1985 to 2000, the number of poor people increased dramatically. The official poverty incidence in the Philippines declined from 44.2% of families in 1985 to 31.8% of families in 1997. There was an increase to 33.7% of families in 2000. Similarly, the poverty incidence of individuals decreased from 49.2% in 1985 to 36.9% in 1997 before rising to 39.5% in 2000 [M92]. These trends are illustrated in Figure 4.

Official poverty headcounts for 2003 have not yet been released, but all signs point to a growth in the headcount indices. As discussed in Chapter 2, preliminary 2003 FIES results show that despite overall economic growth, average incomes have not kept pace with inflation since 2000. In real terms (using 2000 prices), the average income of the poorest 30% of the population contracted by 6% from 2000 to 2003.[17]

[17] In practice, poverty data is most often reported using the family as the unit of analysis. This misses intra-household inequalities in well-being and masks gender issues.

Figure 4



Source: NSCB, various years [M92].

No matter which time series of poverty data we use, national figures mask significant differences between urban and rural areas, as shown in Table 1. Rural poverty levels are considerably higher than urban poverty throughout the 1985–2000 time series, with the disparity growing particularly acute in the more recent rounds of the Family Income and Expenditure Survey (FIES). While the data show a significant reduction of the urban poverty headcount between 1991 and 1997, the same was not the case for rural areas. In fact there was been very little overall change in the rural poverty incidence from 1985 to 2000, and nearly half of families remained income poor in 2000.[18]

Falling headcounts from 1985 to 2000—national, urban, and rural—were not accompanied by a reduction in the absolute number families and individuals living in poverty. While the national headcount of families declined by 10.5% from 1985 to 2000, the number of poor families increased by 785,000 over the same time period. There were over 4 million more poor individuals in 2000 than there were in 1985. Table 2 shows the absolute number of poor families and individuals, or the 'magnitude' of the poverty problem, and the change over time.

[18] On a statistical note, it is quite difficult to compare rural and urban poverty incidence across time because the definition of urban areas changes from time to time. Urban-rural breakdowns from the 2000 FIES will be strictly comparable to the 1991, 1994 and 1997 estimates only if the 1980 census-based classifications are used.

Table 1
Poverty Incidence of Families, 1985–2000 (%)

	1985	1988	1991	1994	1997	2000
Philippines	44.2	40.2	39.9	35.5	31.8	33.7
Urban	33.6	30.1	31.1	24.0	17.9	19.9
Rural	50.7	46.3	48.6	47.0	44.4	46.9

Source: NSO FIES, 1985-2000 [M92].

Table 2
Magnitude of Poverty, Population, 1985–2000

	Magnitude of Poor Population	Change from Previous Survey
1985	26,674,645	
1988	25,385,200	-1,289,445
1991	28,554,247	+3,169,047
1994	27,372,971	-1,181,276
1997	26,768,596	-604,375
2000	30,850,262	+4,081,666
1985–2000		**+ 4,175,617**

Source: NSO data [M92]

Table 3 presents data on the number of poor families [M92], illustrating that the overall increase in the number of poor was most pronounced during the periods 1988–1991 (550,000 additional poor families) and 1997–2000 (629,000 additional poor families).

Table 3 also shows changes in urban and rural poverty incidence and the absolute numbers of urban and rural poor families. Trends have differed substantially. From 1988 to 1991, there appears to have been a moderate reduction in the number of rural poor families, with a massive increase in the number of urban poor families.[19] From 1994 to 1997 the large increase in

[19] Confusingly, the massive increase in urban poor families from 1988 to 1991 is not entirely a result of worsening conditions for urban families. Instead there is a hidden methodological issue. While the overall poverty headcount decreased slightly, both the urban and rural headcounts appear to have increased. This would seem to be a mathematical impossibility, but the answer, as explained by David (2002), lies in urban-rural classification changes. Surveys before 1990 were based on the 1980 census classifications of urban and rural barangays. Surveys after 1990 are based on the 1990 census, where about 2,500 rural barangays were reclassified from rural to urban. So some 1988 rural poor families automatically became 1991 urban poor families.

rural poor families was almost commensurate with the large decrease in urban poor families. These trends illustrate the dynamism of poverty: people move in and out of poverty over time, depending on their circumstances and the assets they can access to protect against shocks. The issues of chronic and transient poverty are explored in the next section of this chapter.

Table 3
Changes in Poverty Incidence and in the Number of Poor Families, 1985–2000

Period	Philippines		Rural		Urban	
	Change in Poverty Incidence (%)	Change in Number of Poor Families	Change in Poverty Incidence (%)	Change in Number of Poor Families	Change in Poverty Incidence (%)	Change in Number of Poor Families
1985–1988	-4.0	-124,000	-4.4	-73,000	-3.5	-51,000
1988–1991	-0.3	550,000	2.3	-99,000	1.0	649,000
1991–1994	-4.4	-250,000	-1.6	76,000	-7.1	-326,000
1994–1997	-3.7	-20,000	-2.6	294,000	-6.1	-314,000
1997–2000	1.9	629,000	2.5	343,000	2.0	286,000
1985–2000	**-10.5**	**785,000**	**-3.8**	**541,000**	**-13.7**	**244,000**

Source: NSO data [M92].

Where are the poor? Regional and Provincial Data

In addition to the urban-rural dichotomy, very different pictures emerge when the regional data is examined.[20] The least poor region in the Philippines has consistently been the National Capital Region (NCR), or Metro Manila. Poverty incidence here has been very low indeed, falling from 13.2% of families in 1991 to 6.4% in 1997 before rising to 8.7% in 2000. On the other end of the spectrum, a very stark contrast is found in the poverty incidence of families in the Autonomous Region in Muslim Mindanao (ARMM): 50.7% of families in 1991, rising to 66% of families in 2000. As illustrated in Table 4, Bicol (Region V) and two regions of Mindanao—ARMM and Region XII—have consistently been the three poorest regions since 1994.

[20] The Philippines is divided into 17 administrative regions as of 31 December 2003. This number has increased over the years—there were 15 regions in 2000. Regions tend to comprise between 4 and 7 provinces, except the NCR.

Table 4
Poverty Incidence of the Population by Region, 1991–2000

	1991	1994	1997	2000
Philippines	45.2	40.6	36.9	39.5
Luzon				
NCR	16.6	10.4	8.5	11.5
CAR	55.5	56.5	50.1	43.8
I - Ilocos	55.1	53.5	44.2	43.6
II - Cagayan Valley	48.9	41.9	38.0	35.0
III - Central Luzon	35.5	29.2	18.6	23.0
IV - Southern Tagalog	43.1	35.0	30.0	31.0
V - Bicol	61.2	60.8	57.0	61.9
Visayas				
VI - Western Visayas	52.8	49.8	45.9	51.1
VII - Central Visayas	46.7	37.4	39.0	43.8
VIII - Eastern Visayas	47.1	44.6	48.5	51.1
Mindanao				
IX - Western Mindanao	54.2	50.5	45.5	53.0
X - Northern Mindanao	57.4	54.2	52.7	52.2
XI - Southern Mindanao	51.5	45.4	44.3	45.1
XII - Central Mindanao	63.0	58.5	55.8	58.1
ARMM	56.0	65.5	62.5	71.3

Source: NSO data [M92].
Note: 1991 was the first year that data for ARMM was available.
CAR = Cordillera Administrative Region, NCR = National Capital Region, ARMM = Autonomous Region in Muslim Mindanao.

Only three regions have consistently had a poverty incidence below the national average: NCR, Central Luzon, and Southern Tagalog. These regions are also the three most populous, accounting for nearly 40% of the total population of the Philippines in the 2000 census. Therefore, while the poverty incidence is lower in these regions, the absolute number of poor people is large.

In 2003 the National Statistical Coordination Board (NSCB) published new poverty figures for 1997 and 2000, releasing provincial-level poverty data for the first time. This new level of detail for poverty analysis is valuable, particularly from a geographic targeting standpoint. However, as mentioned above, the new methodology series is currently limited to 1997–2003, and there can be no comparison with earlier rounds of the FIES. It is important to be clear which set of 1997 or 2000 data one is using, since the differences are considerable.

The most obvious difference between the two methodologies is that the new headcounts are lower across the board. For example, the old subsistence incidence was 16.7% of families in 2000 [M92]. The new subsistence incidence for 2000 is 13.2% [M03]. Table 5 presents a detailed comparison of the old and new methodology poverty headcounts and the poverty thresholds on which they are based. For example, the food threshold was P9,183 per person per year in 2000 [M92]. New pricing methods reduced this to P7,872 per person per year—or P21.57 per person per day—in 2000 [M03].

Table 5
Poverty Thresholds and Headcounts, Families, 1997–2000

	1992 Methodology		2003 Methodology		Trends 1997–2000	
	1997	2000	1997	2000	M92	M03
Food Threshold (Pesos per person per year)	7,170	9,183	6,801	7,872	+2,013	+1,071
Poverty Threshold (Pesos per person per year)	11,319	13,823	9,843	11,605	+2,504	+1,762
Subsistence Incidence (Families, %)	16.2	16.7	13.6	13.1	+0.5	- 0.5
Poverty Incidence (Families, %)	31.8	33.7	28.1	28.4	+1.9	+ 0.3
Urban Poverty Incidence (Families, %)	17.9	19.9	15.0	15.0	+ 2.0	no change
Rural Poverty Incidence (Families,%)	44.4	46.9	39.9	41.4	+2.5	+ 1.5

Source: NSCB, various years.

One striking difference between the old and the new data is that the subsistence incidence trend is reversed. The 1992 methodology showed an *increase* in the proportion of families unable to meet their food needs, from 16.2% in 1997 to 16.7% in 2000. The new methodology [M03] shows a *reduction* of "core poverty" from 13.6% in 1997 to 13.2% in 2000. Another conflicting trend is in the overall incidence of urban poverty: under the old methodology it grew by 2% [M92] but according to new data there was no change in urban poverty from 1997 to 2000 [M03].

The Medium-Term Philippine Development Plan (MTPDP) 2004–2010 targets a reduced subsistence incidence from 13.1% in 2000 to 8.98% in 2010, stating that *this shall enable the country to meet its target of halving poverty over a 15-year period from 1990-2015 based on the 20.4% subsistence poverty rate in*

1991.[21] This is a perfect example of mixed methodologies. The 1991 subsistence poverty rate is taken from the old series. The 2000 data and the 2010 target are based on the new series.

The 2003 Methodology data still show great variation in poverty incidence between urban and rural areas: 15% vs. 41.4% for the year 2000, respectively. It is clear that the majority of the poor live in rural areas, and that the income poverty incidence is much greater. However, to state that poverty in the Philippines is a rural phenomenon might detract attention from a growing urban problem. Though the overall incidence of families remained the same, the number of urban poor families nationally grew by more than 10% between 1997 and 2000 [M03]. There are seven regions in which the magnitude of urban poor families grew by more than 20%. The number of urban poor families grew by a staggering 165% in the 3rd District of the NCR (Caloocan, Valenzuela, Malabon and Navotas), by 127% in Masbate, and by 111% in Cavite.

Just as national averages mask rural and urban differences as well as differences between regions, regional averages can mask immense provincial differences. The disparity appears greatest in Region IV, Southern Tagalog, where 25.9% of the population were counted as income poor in 2000. However, while the headcount of the population in Rizal province was 11.1%, the poverty incidence in Romblon was 66.5%.[22] The differences are similarly striking in the Cordillera Administrative Region (CAR), with a poverty incidence of 38% in 2000. Where Benguet province had a poverty incidence of 19.2%, the headcount in Ifugao province was 64% of the population. In other areas the regional average is fairly representative of the provinces. In the ARMM for example, the regional incidence of 62% is a fair representation of poverty in Lanao del Sur, Maguindanao, Sulu, and Tawi-Tawi, all of which have headcounts above 60% of the population.

Provincial rankings differ according to the measure examined—poverty incidence or subsistence incidence of families. Six provinces are among the 10 poorest on both counts: Sulu, Masbate, Ifugao, Romblon, Maguindanao, and Camarines Norte. This is shown in Table 6. Provincial ranking would differ again based on the number of poor people (the magnitude of the poor). Sulu, ranked poorest among provinces according to the poverty incidence of families, had slightly fewer than 63,000 poor families in 2000. In a listing of provinces according to absolute number of poor families, Sulu would be 28th out of 79. The province with the largest number of poor families in 2000 was Negros Occidental, with more than 212,000 [M03].

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[21] NEDA, 2004a: p.8

[22] In 2002, Executive Order 103 split Region IV into Region IV-A (comprising Batangas, Cavite, Laguna, Quezon, and Rizal) and IV-B (Marinduque, Oriental and Occidental Mindoro, Palawan, and Romblon). The 1997 and 2000 FIES data were not analyzed using this new designation.

Table 6

Ten Poorest Provinces by Poverty, Subsistence, and Magnitude of Families, 2000 [M03] [a/]

Poverty		Subsistence		Magnitude	
Province (Region)	Incidence (%)	Province (Region)	Incidence (%)	Province (Region)	Families
Sulu (ARMM)	**63.2**	**Masbate (V)**	**42.6**	**Negros Occidental (VI)**	**212,724**
Masbate (V)	62.8	Sulu (ARMM)	34.2	Masbate (V)	209,851
Tawi-Tawi (ARMM)	56.5	Romblon (IV-B)	33.7	Cebu (VII)	187,359
Ifugao (CAR)	55.6	Ifugao (CAR)	32.7	Pangasinan (I)	141,240
Romblon (IV-B)	55.2	Maguindanao (ARMM)	31.2	Zamboanga del Sur (IX)	139,474
Maguindanao (ARMM)	55.1	Sorsogon (V)	30.9	Camarines Sur (V)	126,116
Lanao del Sur (ARMM)	55.0	Lanao del Norte (X)	30.5	Leyte (VIII)	122,070
Sultan Kudarat (XII)	54.3	Zamboanga del Norte (IX)	30.4	Iloilo (VI)	108,518
Camiguin (X)	53.1	Agusan del Sur (CARAGA)	29.7	Davao del Norte (XI)	103,679
Camarines Norte (V)	52.7	Camarines Norte (V)	28.7	Bohol (VII)	99,321

Source: NSCB 2003a.
ARMM = Autonomous Region in Muslim Mindanao, CAR = Cordillera Administrative Region.

[a/] A statistical note: The sampling domains for the 1997 and 2000 FIES were the provinces and cities/municipalities with a population of 150,000 or more. However, the estimates derived at the sampling domains for poverty incidence are not very stable. Looking at the coefficient of variance (CV) of poverty incidence estimates at the provincial level, we find that more than half have a CV greater than 5%. The ranking of provinces to get the 10 poorest could be affected by these large CVs.

The analysis of provincial income poverty in the Philippines—and the differences it exposes—illustrates the value of disaggregating poverty data to ever more local levels. The information on which to base policy decisions becomes more detailed, which in turn can lead to better designed interventions.[23] Community-based poverty monitoring—the monitoring of multidimensional indicators at the barangay, municipal, and city levels—is on its way to becoming institutionalized in the Philippines through the Department

[23] Further research might be undertaken to explore the substantial differences in poverty reduction at the provincial level. For example, it appears that the poverty incidence of families in Eastern Samar was reduced by more than 10% from 1997 to 2000. In Siquijor, it appears to have fallen by more than 16%. How did this happen? Were there particularly successful policies and/or programs in these provinces?

of Interior and Local Government (DILG). This initiative, and the poverty mapping it allows, is explored in Chapter 4.

Who are the poor?

Gender and Poverty. It is interesting to note that both the incidence and severity of income poverty among female-headed households in the Philippines are lower than among male-headed households, in contrast to most developing countries. However, poor women in the Philippines face a number of challenges that are distinct from those faced by poor men, including poor reproductive health, unwanted fertility, and gender discrimination. This is why it is important to look beyond the income dimension in poverty analysis. The Philippines continues to have one of the highest maternal mortality rates in Southeast Asia, and the rates are a great deal higher among poor women. Violence against women is also widespread in the Philippines. This includes sexual harassment in schools and at work, domestic violence, and human trafficking and forced prostitution. Violence against women causes severe health problems, affects earnings, job performance, and job security. It is one of the factors that causes low productivity among women and makes them vulnerable to poverty. When families are poor, women often suffer disproportionately. One strategy for stretching scarce resources is to reduce meals. In the Philippines it is customary for a woman to feed the man first, children next, and herself only after everyone else has eaten. The result is that when food is in short supply, women are often left without enough to eat. Analysis of households as the unit of measure (as is the norm in Philippine statistics) thus can miss substantial intra-household inequality. The ADB's 2004 *Country Gender Assessment Philippines* highlights these and many other issues (see ADB 2004e).

Indigenous People and Poverty. In 2002 ADB published a detailed study of indigenous people (IP), ethnic minorities, and poverty reduction in the Philippines. Researchers focused particularly on the CAR and Mindanao. The total IP population was estimated at between 12 and 15 million people in 1998. The ADB study revealed that IP are not necessarily the poorest of the poor in the Philippines since their regions are relatively wealthy, but that extreme inequality, poor infrastructure, and massive exploitation contribute to a worsening poverty situation for these communities. Importantly, IP have distinctive perspectives on poverty. Some of the key indicators they identify are powerlessness, a lack of access to land and resources, a lack of knowledge (e.g., poor education), insufficient income, and alienation from kin/clan and their traditional culture. Access to and control over ancestral land and domain is crucial for the well-being of IP, as is ensuring delivery of basic services such as health and education.

Disability and Poverty. There is no precise data on disability and poverty in the Philippines, but in general the disabled are disproportionately found among the poorest of the poor. The 2000 census counted nearly 1 million persons with disabilities (PWD), but the actual number is thought to be much higher than that, given World Health Organization (WHO) estimates that the incidence of disability is about 10% of any population. This would put the number of disabled Filipinos at about 8 million in 2004. A Japan International Cooperation Agency (JICA) study finds that most of the disabled in the Philippines are poor (2002). Disability is a cause of poverty, and poverty is a cause of disability. Access—to education, health care, employment, and transportation—is a key constraint. These issues are explored in greater detail in Chapter 6.

Chronic and Transient Poverty

The FIES poverty data do not tell us a great deal about whether people are moving in and out of poverty over time. Issues of chronic vs. transient poverty in the Philippines have been explored by Reyes (2003a), using a panel data made up of a subset of nearly 17,000 households from the 1997 FIES and the 1998 and 1999 rounds of the APIS. There are some data comparability issues between the FIES and APIS[24] and the time period is quite short to define chronic poverty, but nevertheless Reyes' work represents a first attempt to demonstrate the dynamism of poverty. First Reyes identified a poverty incidence of families for each year using the official poverty threshold [M92]: 32.1% in 1997, 39.5% in 1998, and 39.8% in 1999. She then assessed who remained poor throughout and who moved into and/or out of poverty. The findings are summarized in Table 7.

The families in the group designated as PPP are the chronic poor. These families, 21.5%, were poor in each of the three observations. Those who were able to protect themselves from shocks to remain not poor in all three years, 46.9%, are the group NNN. The remaining 31.6% are the transient poor, or those who have moved into and/or out of poverty over the three-year period. Reyes work confirms that there can be considerable shifts in poverty status, even when the overall headcount remains more or less the same. The poor are not a homogenous group. Well-designed social protection and safety net programs can keep people out of transient poverty, and thus reduce overall poverty levels.

[24] The questionnaires used for the FIES and APIS are not the same, the APIS has fewer details on income, and the reference period is different. For this reason the NSCB does not release poverty incidence based on the APIS.

Table 7
Chronic Poverty in the Philippines, 1997–1999

Status	1997	1998	1999	No. of Families	Percent
PPP	Poor	Poor	Poor	3,563	21.5
PPN	Poor	Poor	Not Poor	648	3.9
PNP	Poor	Not Poor	Poor	569	3.4
PNN	Poor	Not Poor	Not Poor	522	3.2
NPP	Not Poor	Poor	Poor	1,301	7.9
NPN	Not Poor	Poor	Not Poor	1,025	6.2
NNP	Not Poor	Not Poor	Poor	1,154	7.0
NNN	Not Poor	Not Poor	Not Poor	7,755	46.9
Total				**16,537**	**100.0**

Source: Reyes (2003a), p. 5.

International Poverty Lines

Poverty can also be measured using the two international poverty lines of $1 per day and $2 per day at 1993 purchasing power parity (PPP) prices, or exchange rates.[25] This poverty line was developed mainly for the purpose of cross-country comparisons. Table 8 shows a steady decline in the proportion of the population below both of these thresholds, though it is interesting to note the large difference in the two. In the Philippines a large proportion of the population is at the bottom of income distribution. This means that the poverty incidence is very sensitive to where the line is placed: small changes in poverty line (of just one PPP dollar, for example) mean large differences in poverty incidence. To illustrate the sensitivity of poverty incidence to even smaller changes in the poverty line, ADB statisticians calculated $1 per day poverty in 2000 at 15.6% of the Philippine population.[26] They then added 10 cents, 20 cents, and 30 cents to the $1 per day threshold. The resulting headcounts were 19.3%, 23.0%, and 26.5%, respectively (ADB, 2004b).

The headcount index using the international poverty line of $1 per day PPP was 11.1% in 2003. Compared to its Asian neighbors, the $1 per day poverty incidence of the Philippines was higher than the average for East Asia and the Pacific (10.4%), higher than the average for East Asia and the Pacific

[25] The actual poverty lines are set at $1.08 per day and $2.15 per day. The PPP exchange rates for the Philippines are from the Penn World Tables.

[26] This differs from the World Bank's calculations for 2000, possibly because different PPP exchange rates were used.

Table 8
Poverty in the Philippines Using International Poverty Lines, FIES years, 1991—2003

Year	Proportion of the Population Below $1-a-Day	Proportion of the Population Below $2-a-Day	PPP exchange rate for $1 (pesos)
1991	19.1	53.5	6.72
1994	19.8	55.0	7.98
1997	14.8	46.5	9.25
2000	13.5	46.9	11.20
2003	11.1	44.1	12.30

Sources: World Bank (2004b) for headcounts and IMF World Economic Outlook Database for PPP exchange rates.
FIES = Family Income and Expenditure Survey, PPP = purchasing power parity

not including the People's Republic of China (7.6%), and higher than the average for Southeast Asia (5.8%). The same is true of the $2 per day poverty incidence.

The international poverty line is sometimes misunderstood. Some reports say that many people struggle to survive on less than $1 a day, without mentioning PPP or 1993 prices. Others use the prevailing exchange rate to express a peso poverty line equivalent to about $1 a day in current prices. A July 2004 study on the UNDP Philippines website states that "most Filipinos especially in the rural areas barely survive on little more than fifty pesos a day (the international extreme poverty threshold is defined as $1 a day)."[27] Table 9 shows the actual PPP exchange rates for various years. In effect, the $1 per day international poverty line was worth P12.31 per day in 2003. This is the equivalent of just P4,490 per year, less than $83 (using the BSP 2003 exchange rate).

A look at $1 per day poverty in current prices results in headcounts very different than those derived using the international poverty line. It is an illuminating exercise, particularly because the Philippine peso weakened substantially against the US dollar during the second half of the 1990s. Where the exchange rate in 1994 was P26.41, it had more than doubled to P54.20 by 2003.[28] We determined annual family poverty lines by multiplying historical $1 exchange rates by 365 to get an annual per capita poverty threshold, and further multiplying by 5, the average family size in the Philippines. These

[27] UNDP Report: Unleashing Entrepreneurship—One of the Keys to Development, Latest News July 6, 2004, http://www.undp.org.ph/news/recentnews.asp

[28] For this exercise we use the average annual US dollar exchange rates as published by the BSP for 1991, 1994, 1997, 2000, and 2003.

Table 9
$1 PPP/Peso Exchange Rate, FIES Years, 1985–2003

Year	Peso Equivalent of $1 PPP
1985	4.71
1988	5.25
1991	6.73
1994	7.98
1997	9.25
2000	11.20
2003	12.31

Source: International Monetary Fund, World Economic Outlook Database, September 2004

poverty lines were applied to the published FIES annual family income tables.[29] The results are presented in Table 10.

Table 10
Poverty Incidence, $1 per Day in Current Prices, 1991–2003

	1991	1994	1997	2000	2003
BSP $1 exchange rate (pesos, annual average)	27.48	26.41	29.47	44.19	54.20
Annual $1 poverty threshold per capita	10,030	9,640	10,757	16,129	19,783
Annual $1 poverty threshold per family of 5	50,151	48,198	53,783	80,647	98,915
Practical threshold for poverty estimate based on FIES tables (pesos)	49,999	47,999	53,999	79,999	97,999
Number of poor families (estimate)	7,082,100	5,353,861	5,059,583	6,939,612	TBD
Percent of total families	**59.1%**	**42.0%**	**35.6%**	**45.4%**	**TBD**

Sources: Author's estimates using BSP exchange rates and published FIES tables (NSCB).
BSP=Bangko Sentral ng Pilipinas, FIES = Family Income and Expenditure Survey.

[29] Some extrapolation is necessary, since the brackets do not correspond precisely to the poverty lines. For example, to estimate the number of families with incomes below P53,999 in 1997, we first look up the published number of families below P 49,999 (the upper limit of the last full income bracket), which is 4.6 million. We then assume equal distribution of families within particular income brackets. Based on this assumption, we calculate that 40% of the 1.16 million families in the P50,000 – P59,999 bracket must fall between P50,000 and P53,999, or 0.5 million. This number is added to the 4.6 million below P49,999 to arrive at 5.1 million.

Using these poverty lines, we see a dramatic drop in poverty incidence from 59.1% in 1991 to 35.6% in 1997, but the overall level is still high: more than one third of Filipino families still did not have one nominal US dollar per person per day in 1997. There then followed a headcount increase of nearly 10% between 1997 and 2000. The official poverty threshold in 2000 was P32 per day, which at the time was worth about $0.72. In stark contrast, the international poverty line of $1 per day was worth P11.20 in 2000.

Income Inequality

The Philippines exhibits a highly inequitable distribution of income. Despite a very slight improvement in overall distribution since 1997, in 2003 the share of income accruing to the richest 10% of the population was still more than twenty times the share of income of the poorest 10%. Since 1985 the richest quintile of the population has consistently commanded more than 50% of total family income in the country, with the poorest quintile at less than 5% (see Table 11). Despite major fluctuations in economic performance during the period 1985–2003, income inequality while very high has remained relatively stable.[30]

Table 11
Share of Total Income of the Poorest Quintile and the Richest Quintile, 1985–2003

	1985	1988	1991	1994	1997	2000	2003
Poorest quintile	5.2	5.2	4.7	4.9	4.4	4.4	4.7
Richest quintile	51.8	51.8	53.9	52.0	55.5	54.8	53.4

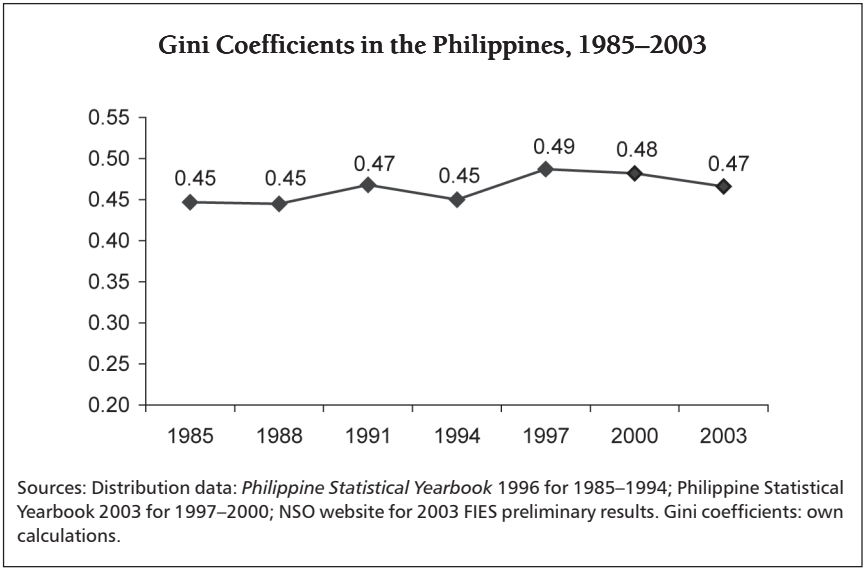
Sources: *Philippine Statistical Yearbook* 1996 for 1985–1994; *Philippine Statistical Yearbook* 2003 for 1997–2000; NSO website for 2003 FIES preliminary results

[30] See Balisacan and Fuwa (2004).

The overall income distribution trend from 1985 to 2003 shows a slight deterioration, with an increase in the Gini coefficient from 0.447 in 1985 to 0.466 in 2003.[31] However, this broad trend masks mild fluctuations over the years (see Figure 5). The Gini was at its highest in 1997 (0.487) and has been on a very slight downward trend since that time. The decrease is minimal and should not be taken to be significant. Table 12 presents the percentage distribution of total family income, by income decile, for each FIES year (1985–2003).

When income distribution is highly unequal, as in the Philippines, there are many families at the bottom of said distribution. As a result, poverty measures become very sensitive to where the poverty line is placed, and small changes in the poverty threshold can result in large changes in the population identified as poor. This was demonstrated above with the international poverty lines of $1 and $2 a day, but is also noticeable in the national poverty lines. The 2003 Methodology reduced the poverty line by P6 per person per day. This minimal change, less than $0.14 per person per day,[32] resulted in a 5.3% reduction in the headcount of families in 2000, or a reduction in the number of poor people by 4.3 million.

Figure 5



Sources: Distribution data: *Philippine Statistical Yearbook* 1996 for 1985–1994; Philippine Statistical Yearbook 2003 for 1997–2000; NSO website for 2003 FIES preliminary results. Gini coefficients: own calculations.

[31] The Gini coefficient measures inequality, where a coefficient of 0 represents perfect equality and 1.0 would be perfect inequality. The higher the coefficient the more unequal the distribution.

[32] Using BSP's published average exchange rate for the year 2000 ($1 = P44.20).

Table 12
Percentage Distribution of Total Family Income by Income Decile and Gini Coefficients, 1985–2003

	1985	1988	1991	1994	1997	2000	2003
First decile	2.0	2.0	1.8	1.9	1.7	1.7	1.8
Second decile	3.2	3.2	2.9	3.0	2.7	2.7	2.9
Third decile	4.1	4.1	3.8	3.9	3.5	3.5	3.7
Fourth decile	5.0	5.0	4.7	4.9	4.3	4.4	4.6
Fifth decile	6.0	6.0	5.7	6.0	5.4	5.5	5.7
Sixth decile	7.3	7.3	7.0	7.4	6.8	6.9	7.1
Seventh decile	8.9	9.0	8.8	9.1	8.7	8.8	9.0
Eighth decile	11.4	11.6	11.4	11.8	11.5	11.7	11.8
Ninth decile	15.7	16.0	16.1	16.4	16.2	16.4	16.6
Tenth decile	36.4	35.8	37.8	35.6	39.3	38.4	36.8
Gini Coefficient	**0.447**	**0.445**	**0.468**	**0.450**	**0.487**	**0.482**	**0.466**

Sources: Distribution data: *Philippine Statistical Yearbook* 1996 for 1985–1994; *Philippine Statistical Yearbook* 2003 for 1997–2000; NSO website for 2003 FIES preliminary results. Gini coefficients: own calculations.

Relative Poverty

As introduced in Chapter 2, the concept of relative poverty is related to the concept of social exclusion. The concept of relative poverty thus goes beyond the determination of some minimum level of monetary resources required for physical survival. Relative deprivation is seen a lack of access to a level of goods and services that are required for meaningful participation in society, a level which can and does change over space and time as circumstances evolve.[33] A relative poverty line defines the poor as those with per capita income or expenditure levels below a certain percentage of the mean or median for the country. Relative poverty lines thus incorporate distributional concerns, following Amartya Sen's observation that the identification of a level of income at which people can be described as poor may well depend on the pattern of affluence and deprivation that others experience. This explains differences in what is considered poor in the United States (US) versus what is considered poor in Thailand, for example.

[33] There are some problematic aspects of purely relative measures, as there are with absolute ones as well. Critics mainly point out that a relative definition makes the elimination of poverty impossible, because there will always be some in society who have less than others, and relative poverty lines rise along with living standards.

In practice relative approaches are usually applied in more developed countries. For example, the European Union (EU) defines various relative "risk-of-poverty" thresholds.[34] The standard EU risk-of-poverty threshold is 60% of the median income, a threshold that has now been applied to the ten new member states as well (see EU, 2004). Other countries that have applied relative poverty lines are, for example, Azerbaijan and Ukraine. It can still be useful to examine what has happened to relative poverty in middle income or less developed countries, so long as it is clear that what is being looked at is conceptually different from absolute poverty levels. One benefit of relative poverty lines is that they are methodologically simple and transparent.

We have calculated rough estimates of relative poverty in the Philippines using two methods.[35] The first method sets a relative poverty threshold at 50% of the mean family income for each FIES year. In other words, this method uses changing poverty lines based on the changing circumstances in the country. The results are referred to as relative method A, and are presented in Table 13 and Figure 6. The second method sets a relative poverty threshold at 50% of the mean family income for 1988 and then inflates this amount using the Consumer Price Index for subsequent FIES years. This method results in a relative poverty line that is fixed over time. We call this relative method B (see Table 14 and Figure 7).

The pictures of relative poverty painted using methods A and B are rather different. In method A, relative poverty has been on a general upward trend since 1985, with alternating periods of growth and reduction. The periods of increasing relative poverty have outweighed the periods where relative poverty was reduced. By 2000 more than 40% of Filipino families lived on less than half of the national average family income. This pattern in Figure 6 generally follows that of the Gini coefficient of inequality (refer to Figure 5). With a slightly reduced Gini coefficient in 2003, we would expect to see reduced relative poverty as well.

In Method B, the 1988 relative poverty threshold is kept constant using the CPI. In 1988 terms, we see that relative poverty had increased slightly by 1991, then declined over the subsequent two FIES surveys, then shot up dramatically by 12% from 1997–2000. With a 2003 annual threshold of

[34] The 18 Laeken indicators of social inclusion were adopted at the Laeken European Council in December 2001. Median income is the basic measure used as a reference, and risk of poverty rates can be broken down by age, gender, household type, activity status (e.g. employed, unemployed), and housing tenure status.

[35] The estimates are rough because they rely on published FIES data tables for number of families by income class. Some extrapolation is necessary where the poverty thresholds do not exactly match the income classes. Here we have had to assume equal distribution of families within the income classes to derive the number of families below a certain cutoff point within an income class.

Table 13

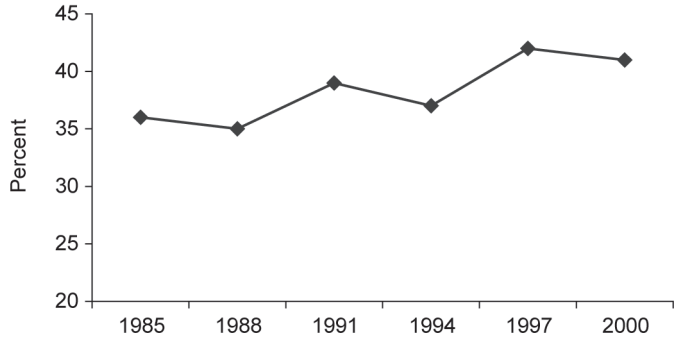
Relative Poverty Lines and Headcount of Families, 1985–2003 (Method A)

Year	Average Annual Family Income	Relative Poverty Line (50% of mean rounded to nearest '000)	Families Below Relative Poverty Line	Total No. of Families	Relative Poverty Incidence of Families (%)
1985	31,052	16,000	3,579,000	9,847,000	36
1988	40,408	20,000	3,642,000	10,534,000	35
1991	65,186	33,000	4,619,010	11,975,400	39
1994	83,131	42,000	4,658,333	12,754,944	37
1997	123,168	62,000	5,940,785	14,192,462	42
2000	144,039	72,000	6,146,324	15,072,000	41
2003	148,757	74,000	TBD	16,005,000	TBD

Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results.

Figure 6

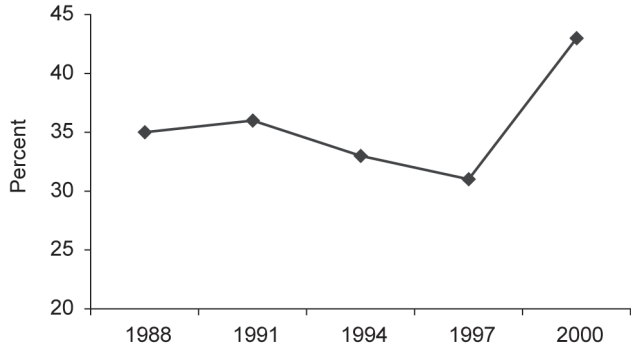
Relative Poverty Incidence of Families, 1985–2000 (Method A)



Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results

Figure 7

Relative Poverty Incidence of Families, 1988–2000 (Method B)



Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary results

Table 14

Relative Poverty Lines and Headcount of Families, 1988–2003 (Method B)

Year	Relative Poverty Line (50% of 1988 mean income, inflated using CPI, rounded to nearest '000)	Families Below Relative Poverty Line	Total No. of Families	Relative Poverty Incidence of Families (%)
1988	20,000	3,642,000	10,534,000	35
1991	31,000	4,272,670	11,975,400	36
1994	39,000	4,214,832	12,754,944	33
1997	49,000	4,450,167	14,192,462	31
2000	75,000	6,443,807	15,072,000	43
2003	85,000	TBD	16,005,000	TBD

Sources: Own calculations using *Philippine Statistical Yearbook*, various years; NSO website for 2003 FIES preliminary result
TBD=To be determined (on release of final 2003 FIES data).

P85,000 per family (or P17,000 per capita) it is expected that the new FIES data will show a further increase in relative poverty for 2003, since we know that average family incomes have grown by only 2.5% in nominal terms.

Relative poverty incidence is a useful complement to the study of absolute income poverty and inequality in the Philippines. While absolute poverty is about physical survival, relative poverty provides the link to inequality and places emphasis on the ability to thrive as a human being and member of society. Relative poverty is also closely related to subjective well-being, which is explored in the following section.

Subjective Poverty

There is a long tradition of subjective poverty assessment in the Philippines. This section looks at three sources of data. Social Weather Stations (SWS) has been conducting empirical subjective poverty analysis for over 20 years and has rich data sets spanning that time. More recently, the APIS survey has included a number of subjective welfare questions. Finally, two new qualitative research projects in 2003 and 2004 have examined perceptions of poverty by the elite and by poverty program managers, respectively.

Social Weather Stations[36]

Social Weather Stations was established in 1985 as a private, not-for-profit research institute. Its goal is to play a role in the policy dialogue through the generation of credible, frequent, understandable poverty rates and other indicators of the 'social weather' in the country. By September 2003, the SWS national survey data comprised 63 observations on poverty, beginning April 1983 (with quarterly data from 1992). SWS furthermore has conducted 22 quarterly observations on hunger in the Philippines since July 1998. Surveys are based on national samples of 1,200 households, 300 each in Metro Manila, Luzon, Visayas, and Mindanao. The sample is drawn from 240 geographical locations selected from all regions. The sample locations and respondents are newly selected for each survey, rather than being a fixed panel of locations or individuals.

The SWS hunger indicator is the proportion of household heads reporting that their families have experienced hunger at least once in the last 3 months.

[36] The discussion here is drawn from Mangahas (2004) The SWS Survey Time Series on Philippine Poverty and Hunger, 1983–2003, paper presented at the BMZ/GTZ/CEPA/ADB Regional Conference on Poverty Monitoring in Asia, 24–26 March 2004, Manila, Philippines.

The frequency of experienced hunger in the past three months is used to classify moderate and severe hunger. No other statistical data series for hunger exists in the Philippines.

The SWS poverty indicator is the proportion of respondents who rate their families as poor. Respondents are shown a card with the words "poor" and "not poor" and asked to point to where their family falls on that card. The survey also asks household heads to estimate a poverty threshold. The household heads that rate their families as poor are asked: "How much would your family need for home expenses each month in order not to feel poor anymore?" Those who rate themselves as not poor or as in-between/on the line are asked "How much would a family of the same size as yours, which felt it was poor, need for home expenses each month in order not to feel poor anymore?"

Table 15 shows self-rated poverty thresholds for September 2003 by size of family. In September 2003 the median self-rated poverty threshold of poor families with five members, the national average family size, was P7,000. This is the equivalent of approximately P16,800 per capita per year, or P46 per person per day. Using the September 2003 exchange rate[37] this amounts to $0.84.

Table 15

Self-Rated Poverty Thresholds, by Family Size, September 2003

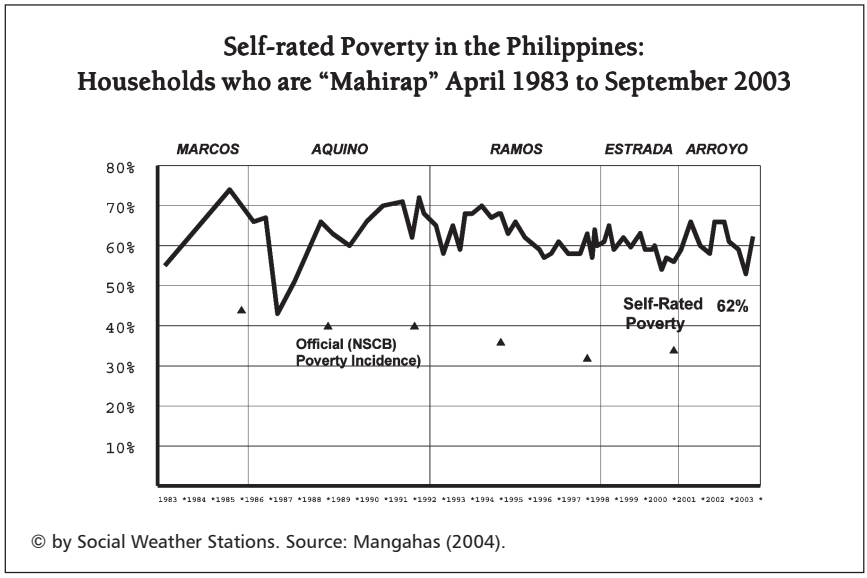
Family Size	All Families		Poor Families	
	Mean	Median	Mean	Median
1	10,762.70	8,000.00	6,912.70	5,000.00
2	8,115.30	5,000.00	6,905.00	5,000.00
3	10,151.10	8,000.00	8,789.30	6,000.00
4	11,859.00	6,000.00	8,455.60	6,000.00
5	11,666.10	8,000.00	9,465.70	7,000.00
6	13,766.90	10,000.00	9,932.60	7,000.00
7	12,911.10	10,000.00	11,520.00	10,000.00
8	14,903.60	10,000.00	14,400.20	10,000.00
9	12,309.00	10,000.00	11,911.30	10,000.00
10 and up	14,044.60	10,000.00	13,757.90	10,000.00

Source: Mangahas, 2004.

[37] P55.02 per $1 as published by the BSP (http://www.bsp.gov.ph).

In September 2003, 62% of families rated themselves as poor. The peak of self-rated hunger incidence was 16.1% in March 2001, and that peak was nearly reached again in September 2004, with 15.7% of families. As with all other poverty data, there are substantial regional differences. In September 2004, self-rated hunger was highest in Mindanao (23% of families) and in the NCR (15.7%) and lowest in the remainder of Luzon (11.3%) and in the Visayas (13.3%). Figure 8 shows the highly variable time series of self-rated poverty from April 1983 to September 2003.

Figure 8



The APIS and Subjective Welfare

In addition to gathering objective data, the APIS surveys gauge how families perceive changes in their welfare, and what families have done to cope with these changes. Table 16 examines responses to the question of how the family's present situation compares to their situation 12 months ago, split into rates for the bottom 40% of the income distribution (a proxy for the poor) and the rest. Results for 1999 and 2002 are quite similar. In both years, less than 10% of the poor felt better off as compared to the previous year. In 2002, more than 35% of the poor felt worse off. The most common response was "about the same"—more than half of all families, both poor and nonpoor.

Table 16
Families' Perceived Situation as Compared to 12 Months Ago, 1999 and 2002
(%)

	1999			2002		
	Better Off	Same	Worse Off	Better Off	Same	Worse Off
Lower 40%	9.8	52.4	37.8	9.4	55.0	35.7
Upper 60%	16.0	52.3	31.3	19.3	53.2	27.5

Sources: NSO 2001, 2003.

The APIS report further presents disaggregated data by region. In 2002, more than 40% of the poor in four regions felt worse off. This proportion was highest in Metro Manila, at 45.8%.

Overall reasons for feeling worse off in 2002 were predominantly reduced income, increased food prices, and lost jobs. The most common coping mechanisms to deal with these setbacks included changing eating patterns, working more hours, and receiving assistance from friends and relatives.

Another subjective question asked families where they would imagine themselves on a "ladder of welfare" with 10 rungs, with step 1 being the lowest and step 10 being the highest. In 1999, 60.8% of families ranked themselves on the bottom 4 rungs. In 2002 the results were roughly the same. As in 1999, the largest proportion of families in 2002 (27.3%) said they were on the 5th step. It is interesting to compare this subjective inequality perception with the actual income distribution data explored in the inequality section of this chapter.

Elite Perceptions of Poverty

Clarke and Sison (2003) explore subjective poverty issues from a different angle: the view from the top. Their study on elite perceptions of poverty and the poor in the Philippines was based on interviews with 80 members of the Filipino political, economic, and social elite. The authors argue that the Filipino elite possesses a relatively coherent set of perceptions with respect to poverty and the poor, and that pro-poor public policy should take such perceptions into account:

> They attribute poverty to a range of political phenomena including the inequitable distribution of resources, the prevalence of corruption and the persistence of 'traditional' (semi-feudal or oligarchic) politics. They blame 'the elite' for these problems yet disassociate themselves from this elite […]. They

> feel that rural poverty is less significant than its urban equivalent, that Filipinos need not and do not die of hunger, and that the Philippine state counts among the world's most corrupt. The Filipino elite feel a sense of responsibility towards the poor, but this responsibility is met through the provision of assistance on a patron-client basis or through philanthropic activity, rather than a more substantive commitment to redistributive action led by the state, involving, for instance, more elaborate social safety nets financed by higher taxes. The Filipino elite looks to the state to lead the fight against poverty yet they are deeply skeptical of the state's capacity to lead this fight (Clarke and Sison, 2003, p 237).

One interesting point to take from this work is the general perception that urban poverty is more significant than rural poverty. Perhaps this is inadvertently based on a more multidimensional perception of poverty, where not only income but also different forms of capital—particularly physical capital in the form of adequate housing and services—are recognized as playing a central role in well-being.

Roberto (2004) also examined perceptions of poverty, focusing not specifically on the elite but on the people who implement and manage poverty reduction programs from both government agencies and NGOs. Interviews were conducted with 100 poverty reduction program managers, split evenly into government agency and NGO respondents. One question asked respondents to judge how much money a family of five would need per month in order to not be poor. Responses covered a broad range, from a low of P3,000 per month to a high of just under P50,000. Almost one third of respondents' estimates fell within the P10,0001–P15,000 band. In contrast, the official government poverty threshold for 2002 was just under P5,000 per month for a family of five.

When asked about the poverty level in the past five years and predictions for the next five years, opinions of Government and NGO poverty program managers differed somewhat. More than half of the NGO managers (54%) believed poverty had risen either somewhat or a lot over the past 5 years. A similar proportion (52%) believed poverty would worsen either somewhat or a lot in the coming five years. Government managers were more optimistic. Among this group, only 34% believed poverty had risen somewhat or a lot in the past 5 years, while 38% opined that poverty was likely to rise somewhat or a lot in the coming 5 years. Among all respondents, exactly one half felt that the poverty level at the time of being interviewed was "the same as usual for the country."