

# EXECUTIVE SUMMARY

## Introduction and Analytical Framework

*Poverty in the Philippines: Income, Assets, and Access* is a country poverty analysis (CPA) that was undertaken to inform the Asian Development Bank's Interim Country Strategy and Program for the Philippines, 2005–2006. However, it is also intended for a broader audience in the government, civil society, donor organization, and academic spheres. The report is based on a multi dimensional approach to poverty following ADB's Poverty Reduction Strategy, which defines poverty as a deprivation of essential assets. The analytical framework of the CPA blends a more traditional analysis of income poverty with an assessment of access to five different types of assets. Taken from the sustainable livelihoods approach, these assets are human, physical, natural, financial, and social capital. This CPA also gives an update on the Millennium Development Goals (MDGs), identifies seven structural causes of poverty in the Philippines, and provides an overview of Government responses to poverty since 1986.

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 for that study were the 1997 Family Income and Expenditure Survey (FIES) and the 1998 Annual Poverty Indicators Survey (APIS). Since then, there have been a number of important data developments, including (i) results of the 2000 FIES published in 2001, (ii) preliminary results of the 2003 FIES released September 2004; (iii) publication of the 1999 and 2002 APIS reports in 2001 and 2003, respectively; (iv) an MDG progress report published by the Government in 2003; and (v) a revision of the official poverty measurement methodology in 2003, which led to the release of revised national and regional poverty figures for 1997 and 2000 and the publication of all-new provincial poverty data. This CPA draws on all of these sources, and more.

## Income Poverty and Inequality

Analysis of income poverty trends in the Philippines must begin with a word of caution as a result of methodology changes over time. Comparisons of poverty data across time cannot be made without first ensuring that the data is based on the same assumptions. There are two overlapping series, the first from 1985 to 2000 and the second from 1997 to 2003. In other words, there are two sets of poverty figures for 1997 and 2000. The new methodology resulted in lower poverty headcounts, and some of the trends were changed. For example, depending on the series, statements A and B are both correct:

- A. The poverty incidence of families increased from 31.8% to 33.7% between 1997 and 2000. The subsistence incidence increased by 0.5%, which means more hungry families. Urban poverty increased by 2%. (Old Methodology)
- B. The poverty incidence of families increased from 28.1% to 28.4% between 1997 and 2000. The subsistence incidence fell by 0.5%, which means fewer hungry families. There was no change in urban poverty. (New Methodology)

**Under the old methodology, the magnitude of income poverty in the Philippines worsened from 1985 to 2000.** The poverty incidence of families fell by 10.5% over the period 1985–2000, but this progress was negated by very high population growth rates of 2.36% per year. The poverty incidence declined, but the actual number of poor people increased substantially. There were over four million more poor people in 2000 than there were in 1985.

**Sustained economic growth from 2000–2003 has not been pro-poor.** Though the Philippines experienced sustained GDP growth from 2000–2003, preliminary 2003 FIES results indicate a 10% drop in real average family incomes. Families in the National Capital Region (NCR) suffered an almost 20% drop. The total income accruing to the bottom decile of the population virtually stagnated over these 3 years. The real average income of the bottom 30% of the population contracted by about 6% from 2000 to 2003. Though 2003 poverty headcounts have not yet been released, these signs point to an increase over 2000 poverty levels.

**National figures mask substantial regional and provincial differences in the Philippines.** The poorest regions in 2000 were the Autonomous Region

in Muslim Mindanao (ARMM), Bicol, and Central Mindanao. The poorest provinces were Sulu, Masbate, and Tawi-Tawi. In the 10 poorest provinces by poverty incidence in 2000 more than half of all families were poor. Mindanao ranks at the bottom of most poverty and social indicators. The regions of the Philippines with the lowest poverty incidence in 2000 were the NCR, Central Luzon, and Southern Tagalog. These are also the three most populous regions. With 40% of the national population they contributed 20% of the total poor population in 2000.

**Rural poverty incidence is much more pronounced than urban poverty incidence**, but the number of urban poor families is increasing. The very high rural poverty incidence (47% of families in 2000) has remained virtually unchanged since 1988 (46.3% of families). The urban poverty incidence fell from 30.1% of families in 1988 to 19.9% in 2000. However, the absolute number or the magnitude of urban poor families grew by nearly 11% nationwide between 1997 and 2000. There are seven regions in which the number of urban poor families grew by more than 20%.

**Income distribution in the Philippines remains beset by inequality.** No clear trend in income inequality emerges over the period 1985–2003, other than that inequality is high. The Gini coefficient fell slightly from 0.49 in 1997 to 0.47 in 2003, but this still represents a worse income distribution than the 0.45 level observed in 1985, 1988, and 1994. With many people toward the bottom of the income distribution in the Philippines, a small change in the way poverty is measured has major implications for the population identified as poor.

**Poverty measured using the international poverty line of \$1 per day has been falling steadily.** In 1990 the proportion of the Philippine population living on less than \$1 per day purchasing power parity (PPP) was 18.3%. By 2003 this headcount had fallen to 11.1%. The proportion of the population living on less than \$2 per day was a great deal higher, at 44.1% in 2003. The international poverty line is sometimes misreported in the Philippine press (as it is elsewhere) as the current equivalent of \$1 per day. Such a poverty line would result in a far higher poverty incidence (about 45% of the population in 2000). In 2003 the PPP exchange rate for \$1 was P12.30, up from P11.20 in 2000 and P9.25 in 1997.

**Official poverty lines have not kept pace with inflation in the Philippines.** Poverty lines have been worth less and less in real terms since

the mid-1980s. The poverty line in 1988 was P4,777 per person per year, the equivalent of P14,136 in 2000 (using the Consumer Price Index, or CPI). The poverty line in 2000 was only P11,605 per person per year. Another important methodology issue is that urban poverty is likely to be underestimated: official surveys exclude those without official and permanent residence. Many urban poor families live in informal settlements and squatter areas.

**The proportion of Filipino families who rate themselves as poor is a great deal higher than the official poverty incidence.** Based on a Social Weather Stations (SWS) nationwide survey of subjective poverty, nearly two thirds of families (62%) rated themselves as poor in September 2003. The average subjective poverty threshold indicated by families with five members who felt they were poor was P 9,466 (\$170) per month. In contrast, the official poverty threshold for a family of five for the year 2002 was P4,961 (\$96) per month. SWS also conducts hunger surveys. In September 2004 the self-rated hunger incidence was 15.7%.

**Income poverty in the Philippines is a dynamic phenomenon: people move in and out of poverty over time.** A first attempt to gauge chronic and transient poverty found that over a 3-year period about one fifth of the surveyed households were chronically poor (e.g., they were poor in each of three observations), whereas nearly one third of the households moved into and out of poverty during the period. Transient poverty can be addressed through improved social safety nets that cushion families against temporary shocks. Examples include conditional cash transfers and labor-intensive public works programs.

## **Access Poverty and Essential Assets**

**Poverty is a deprivation of essential assets that include but go beyond income.** Access to various assets helps to reduce vulnerability and to keep people out of poverty. Five essential assets are human capital, physical capital, natural capital, financial capital, and social capital. Access poverty is a major problem in the Philippines.

**Human Capital.** The most important human capital investments in the Philippines are in health and education. Three main challenges persist in the Philippine education system: declining participation rates, poor quality of education, and low cohort survival rates. For every 100 children in the

Philippines who start grade 1, only 67 will complete elementary schooling. This rate is even lower for the poor. In ARMM, for every 100 children who start elementary school only 34 finish. Health challenges in the Philippines include high maternal mortality rates, a very high incidence of tuberculosis—ranked 8<sup>th</sup> in the world by the World Health Organization (WHO)—and poor quality and inaccessibility of public health care services. Private health care is prohibitively expensive for the poor, and access is a major issue as a result of urban bias.

**Physical Capital.** Problems in access to physical capital in the Philippines include water, housing, and infrastructure issues. Only 70% of the poorest households have access to safe drinking water. Housing the poor is a major challenge, particularly in urban areas. Government housing assistance programs have barely reached the poor, for a variety of reasons that include a lack of information on assistance programs and how to access them, eligibility requirements that discriminate against the poor, and an emphasis on mortgage finance as the primary form of housing assistance. Infrastructure investments can impact positively on the welfare of the poor. Rural roads can be especially beneficial, providing access to services (such as health and education), improving market access, and reducing transaction costs.

**Natural Capital.** In rural areas, access to land is one of the main determinants of welfare. Land reform beneficiaries have been found to have not only higher income and lower poverty rates than nonbeneficiaries, but they also fare better in terms of other indicators. The environment is another important form of natural capital. Poor environmental conditions adversely affect human capital, growth, and distributional equity. One researcher adjusted Philippine poverty statistics by factoring in the consequences of environmental damage, finding that the amount of poverty reduction has been overstated. In the Philippines, forest cover has been reduced to less than one fifth of total land area. Logging, mining, and encroachment of settlements in critical watersheds are all to blame. Carbon dioxide emissions are on the rise, and urban air quality in particular is very poor. The rich biodiversity in the Philippines is severely endangered: Conservation International ranks the country as one of the five hottest “hotspots” on the planet, i.e., one of the most threatened areas on earth.

**Financial Capital.** The poorest in the Philippines are unable to save, so access to credit and remittances become important areas of financial capital. Research shows that despite high and growing levels of remittances in the

Philippines, the poorest are largely excluded from the benefits of overseas migration. While a significant proportion of families report that income from abroad is their main source of income, these families are mainly based in urban areas. The poorest are largely rural. Families from higher income groups receive a larger share of their incomes from abroad than do lower income groups. International migration and remittances may actually exacerbate the inequality problem in the Philippines.

**Social Capital.** Social capital comprises the social resources on which people are able to draw, through networks and connectedness and relationships of trust and reciprocity. Social capital is the foundation for informal safety nets among the poor. One way to foster social capital in the Philippines is to promote increased participation in development processes through membership in local and community organizations. In 2002, 26% families had at least one member involved in a people's or a nongovernment organization.

**Poverty mapping at the local level is a useful tool for determining access poverty and designing relevant interventions.** A community-based monitoring system (CBMS) collects relevant, timely, and local access poverty indicators. In April 2003 the Department of Interior and Local Government prescribed that local government units (LGUs) should collect 13 survival, security and enabling indicators on an annual basis. These indicators gauge access to education, health, and other vital services. CBMS data allow for detailed poverty mapping at the local level, a technique that has been shown to greatly improve local communities' and policymakers' understanding of poverty issues. Based on participatory methods, it furthermore allows for precise targeting of interventions based on knowledge of the specific determinants of access poverty at the household level. Other poverty mapping initiatives have been initiated by the Peace Equity Foundation and the National Statistical Coordination Board.

## **Millennium Development Goals**

**Progress toward achieving the Millennium Development Goals (MDGs) in the Philippines is mixed.** Some targets have a high probability of being met, such as the proportion of the population below \$1 per day and the promotion of gender equality. Meeting other targets by 2015 will be more of a challenge. Concerted efforts will be required to meet the targets for maternal health, environmental sustainability, and combating diseases like tuberculosis and HIV/AIDS. If a country is going to monitor MDGs, they should be

monitored using the standard UN guidelines, not only indicators chosen locally. The Philippine government's 2003 MDG report measures Target 1 using the Philippine food poverty line (the subsistence incidence) instead of the international poverty line of \$1 per day. This therefore measures something very different and the indicator cannot be compared with other countries. Furthermore, the methodology for measuring subsistence incidence in the Philippines has changed.

## Causes of Poverty and Government Responses

**The major causes of poverty in the Philippines fall into seven broad categories:** (i) weak macroeconomic management; (ii) employment issues; (iii) high population growth rates; (iv) an underperforming agricultural 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.

**Successive governments of the Philippines since 1985 have attached a high priority to poverty reduction, but have had only moderate success** in reducing the overall headcount, and outright failure in reducing the absolute number of poor Filipinos. Targeting has been a key problem, as have issues of budget, governance, and LGU capacity (particularly in the context of decentralization, initiated with the 1991 Local Government Code). The tendency to derail old programs and to launch new ones with each new President has resulted in duplication of efforts, wasted resources, and a continuous state of transition.

**The 2004–2010 Medium-Term Philippine Development Plan contains ambitious poverty reduction targets.** The stated goal is to reduce the poverty incidence of families from 28.4% in 2000 to 17.9% in 2010. Similarly, the subsistence incidence of families is intended to drop from 13.10% in 2000 to 8.98% in 2010. The MTPDP document states that the poverty targets assume a reduction in the population growth rate to an average of 1.93% per year for the period 2005–2010. However, it does not articulate a clear population policy.

## Supporting Poverty Reduction in the Philippines

**This CPA is a call to action.** The number of poor people in the Philippines is increasing. Average family incomes are falling despite growth in gross domestic product. Future poverty reduction will require a broad, multidimensional focus on income plus access poverty, and on their broad causes. The conclusion chapter highlights some key findings of the CPA to inform future action, particularly underscoring the importance of investments in human capital. Two of the main causes of poverty are re-emphasized: the macroeconomic situation and the high population growth rate. A major recommendation to stem from the assessment of government poverty reduction programs to date is a call for improved targeting. Poverty mapping at the local level can be a particularly useful tool to this end, especially in the era of decentralization. The chapter closes with two possible areas for future research: an analysis of the changes in provincial poverty incidence, and an in-depth assessment of social protection and social safety nets in the Philippines.