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Growth and Poverty Reduction: Trends, Determinants, and Policies

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1. Introduction

While economic growth in most East and Southeast Asian countries has been remarkably rapid during the past 25 years, the same cannot be said for the Philippines. The country's economic growth has been quite anemic, barely exceeding the population growth rate, which has continued to expand rapidly at 2.3 percent a year for most of the past two decades. Economic growth has quickened in the first half of the present decade, but questions linger on its sustainability. Even at the present pace (5–6% per year in 2004-06), one can hardly argue that the Philippines has come close to the growth trajectories of its neighbors. It is thus not surprising that serious students of Philippine development contend that shifting the economy to a higher growth path—and keeping it there for the long term—should be first and foremost on the development agenda.

The country's similarly disappointing performance in poverty reduction simply mirrors its growth performance. This is not unexpected. Every country that has chalked up significant achievements in poverty reduction and human development has also done quite well in securing long-term economic growth. This correlation is not unexpected: economic growth is an essential condition for the generation of resources needed to sustain investments in health, education, infrastructure, and good governance (law enforcement, regulation), among others.

That achieving economic growth should be in the forefront of policy agenda does not at all imply that there is nothing else apart from growth that can be done to lick the poverty problem. On the contrary, cursory evidence indicates that much can be done to enhance the poverty-reducing effects of growth. For example, some countries have been more successful than others in reducing poverty, even after controlling for differences in income growth rates. Some evidence suggests that the response of poverty to economic growth in the Philippines is quite muted in relation to its Asian neighbors, especially Indonesia, Thailand, and Vietnam (see Balisacan 2003; Balisacan and Fuwa 2004). Why is this so? What conditions need to be changed, or what policy responses have to be evolved, to make poverty reduction more responsive to economic growth?

This paper examines the sources and causes of poverty reduction from an intra-national perspective. Going beyond cross-country averages, it exploits the increasingly available wealth of sub-national data to shed light on the determinants of poverty reduction, especially on the effectiveness of policies and programs intended to address the poverty problem by way of

income growth, redistribution, or both. In the next section, the paper provides an overview of the aggregate poverty trends and characteristics. Of particular interest here are the spatial diversity and the sectoral attributes of poverty. It then uses sub-national panel data to explore the determinants of local growth and poverty reduction. In light of the regression results, the paper proceeds to assess the country's major anti-poverty programs, focusing on "high profile" programs of recent years. Finally, the paper gives some concluding remarks.

2. Poverty Trends

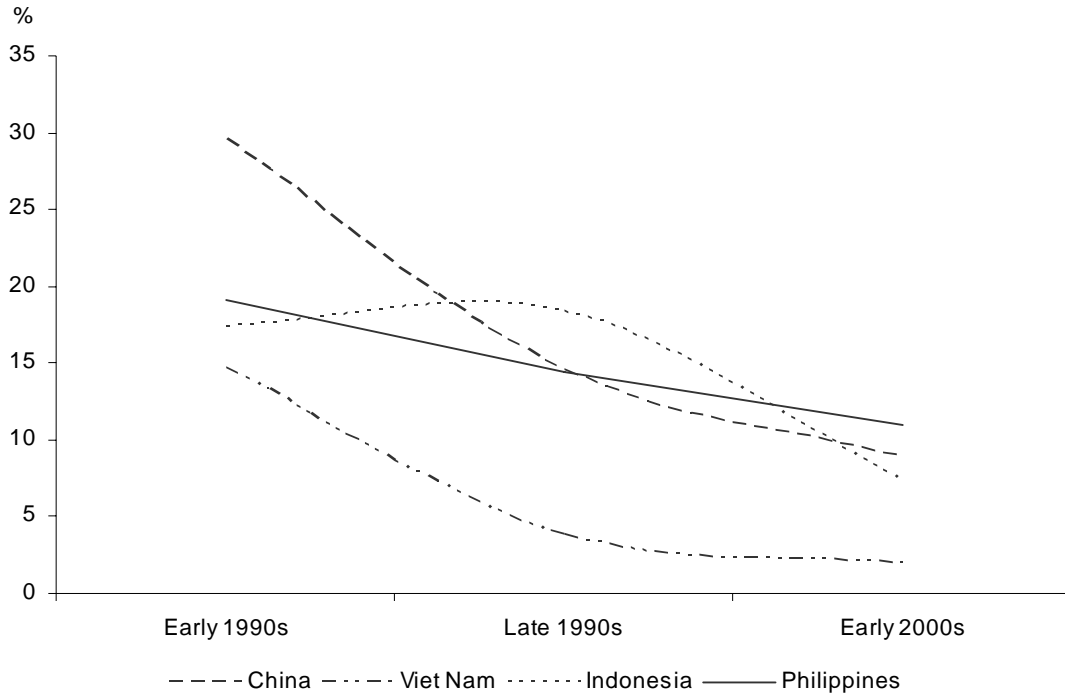
Poverty reduction in the Philippines has lagged far behind those of its East Asian neighbors, particularly Indonesia, Thailand, Vietnam, and China (Figure 1). Both China and Vietnam started with higher levels of poverty incidence than did the Philippines during the early 1980s, but their absolute poverty soon dwindled and became much lower than the Philippines' during the early 2000s. Both Malaysia and Thailand also had virtually eliminated absolute poverty in the past 20 years. Interestingly, while the Philippines had a much higher average income (PPP \$4,381) in the mid-2000s than Vietnam (PPP \$2,683) and Indonesia (PPP \$3,402), its absolute poverty was actually much higher than either of the latter countries.¹

Figure 2 shows national poverty estimates, both in terms of incidence (proportion of the population deemed poor) and the number of poor people, for the recent years when nationally representative data are available.² The estimates are based on consistent poverty lines and family expenditures per capita adjusted for provincial cost-of-living indices. Hence, this series is not strictly comparable with those in Figure 1, as well as with official estimates. The estimates in Figure 2 show two contrasting faces of the poverty problem in the Philippines: incidence has been declining, albeit slowly, but the number of the poor has risen in recent years. Indeed, the number of poor people in 2003 was as high as that in 1988! This observation generally holds true for other decomposable aggregate measures of poverty, such as those that are sensitive to the depth and severity (distribution) of poverty, as well for other equally plausible poverty lines.

¹ PPP is the preferred measure when comparing incomes of different countries. It considers differences in the prices of goods and services and is used by multilateral institutions such as the World Bank.

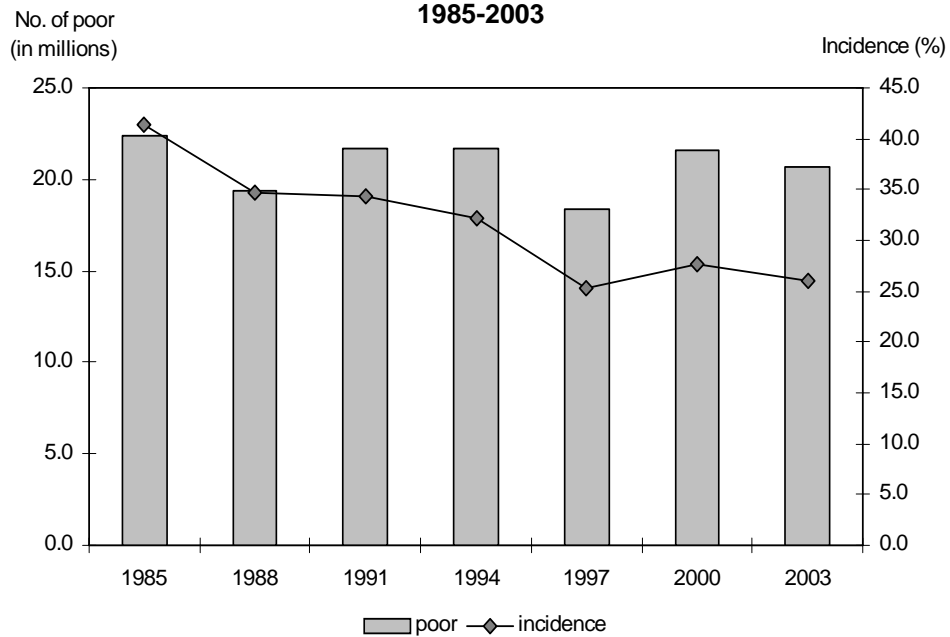
² The comparable national household surveys used in the construction of Table 1 are available only for 1985 and every three years thereafter. The latest survey pertains to 2006, but the data are not yet available as of this writing. Poverty estimates are those used in Balisacan (2007a) and Balisacan and Fuwa (2004). These are not comparable with official poverty data released by the National Statistical Coordination Board. As shown in Balisacan (2003b), the official estimates are not quite an accurate guide to ascertaining changes in poverty over time or across regions—or provinces, or between rural and urban areas—of the country. By construction, the official methodology uses poverty lines that are not quite consistent, that is, the standard of living implied by the poverty lines varies for each of the regions as well as over time. In contrast, Balisacan (2003b) uses poverty lines that are fixed for various subpopulation groups and periods in terms of the level of living they imply. Moreover, he uses expenditure per capita as a proxy measure for individual welfare, while the official methodology uses income per capita as the relevant indicator.

Figure 1. Poverty reduction in East Asia



Note: Figures pertain to proportion of population with income per capita below US\$1 a day (in PPP).
Source of data: World Bank and ESCAP.

Figure 2. Poverty in the Philippines, 1985-2003



Note: Author's estimates based on the *Family Income and Expenditures Survey* (various years).

The poor performance of the Philippines in economic growth and poverty reduction has often been attributed partly to the relatively large variation in access to infrastructure and social services across regions and island groups. A widely held view, for example, is that development efforts have favored Luzon and discriminated against the Visayas and (especially) Mindanao. Proponents of this view say that this development pattern has led to substantial regional differences in access to economic opportunities, in rates of poverty reduction, and in the incidence of armed conflict. For instance, the *Philippine Human Development Report 2005* shows that measures of deprivation – such as disparities in access to reliable water supply, electricity, and especially education – predict well the occurrence of armed encounters (HDN 2005).

Table 1 shows the patterns of income poverty across regions of the Philippines from 1988 to 2003, as well as the contribution of each region to national poverty. As expected given the regions' very diverse growth records (see the last column), considerable variations occurred across regions. However, Metro Manila consistently had the lowest poverty while Bicol, Western Mindanao, and the Visayas, the highest. In 2003, poverty incidence in Bicol and Western Mindanao was roughly 10 times higher than in Metro Manila. Some significant re-rankings also occurred, such as the Autonomous Region of Muslim Mindanao (ARMM) becoming the poorest region in 2003 when it was the third least poor region (out of 16 regions) in 1988. Even more significant is the differential evolution of poverty over time. In two regions, Western Mindanao and ARMM, poverty was higher in 2003 than in 1988. This increase also shows up in measures reflecting human development deprivation, particularly in the areas of health and education (HDN 2005). Toward the close of the 1990s, these two regions, particularly ARMM, were at the center of violent confrontations between the military and armed dissidents.

Table 1. Poverty incidence and income growth, Philippine regions, 1988–2003

Region	1988	1991	1994	1997	2000	2003	Contribution to national poverty, 2003	Annual per capita income growth rate, 1988-2003
<i>Philippines</i>	34.4	34.3	32.1	25.0	27.5	26.1	100.0	2.7
NCR	9.5	5.9	5.6	3.5	5.5	4.8	2.6	2.1
CAR	39.1	46.5	26.6	22.1	19.8	14.8	1.0	2.3
Ilocos	25.5	24.3	26.4	20.8	20.3	16.8	3.4	2.3
Cagayan Valley	39.2	39.1	41.8	30.1	29.9	26.9	3.5	3.3
Central Luzon	15.3	15.4	24.3	13.2	16.1	13.7	5.4	2.2
Southern Tagalog	31.7	22.9	28.6	19.6	19.5	20.9	12.2	3.9

Bicol	60.9	62.2	50.2	45.6	53.3	45.6	10.8	2.9
Western Visayas	34.4	31.6	34.5	21.8	28.1	26.5	8.2	3.6
Central Visayas	55.2	53.2	42.8	35.2	39.4	37.5	10.4	3.3
Eastern Visayas	53.7	54.4	51.5	50.6	46.8	45.6	8.8	4.3
Western Mindanao	47.6	47.1	47.1	35.2	47.0	48.9	7.6	2.0
Northern Mindanao	44.9	55.7	34.4	26.0	27.3	30.3	4.2	1.7
Southern Mindanao	46.9	56.8	30.4	26.7	25.4	27.2	7.4	3.5
Central Mindanao	35.8	46.9	45.2	33.1	38.0	34.0	4.3	2.8
ARMM	23.4	34.0	48.7	50.5	60.7	60.5	6.1	-0.5
Caraga	30.1	45.7	41.0	37.0	33.8	38.4	4.1	2.1

Note: The provincial composition of the regions has changed over the years. For comparability over time, the provinces are grouped consistently according to the 2000 regional classification. Estimates are not comparable with official figures.

Source: Author's estimates based on data from the NSO *Family Income and Expenditure Survey* (various years). Details of the estimation method employed are shown in Balisacan (2003b).

As in most of Asia's developing countries, poverty in the Philippines is a largely rural phenomenon. Two of every three poor persons in the country are located in rural areas and are dependent predominantly on agricultural employment and incomes. Poverty incidence among agricultural households is about four times that in the rest of the population (Table 2). Although the share of agriculture in the total labor force has gone down from about one-half in the late 1980s to only a little more than one-third by the mid-2000s, the sector continues to account for nearly two-thirds of total poverty.

Because poverty is pervasive and has declined quite slowly, the common presumption is that the bulk of the poor in the Philippines must be chronically poor.³ Moreover, since the lion's share of total poverty is found in agriculture, the poor in agriculture are deemed to be chronically poor. This has a solid ring of truth. In an earlier work, Balisacan (2007b) showed that multi-dimensional deprivation in the Philippines—as manifested not only in low incomes but also in inadequate human capabilities, as reflected in poor health and educational achievement indicators, as well as in low access to the means to achieving these capabilities—is closely linked to agriculture. Results of cluster analysis of provincial data indicate that the share of agriculture in employment increases with the level of provincial deprivation, being lowest (about 6%) in the least deprived provinces and highest (about 65%) in the extremely deprived provinces. Put differently, targeting agriculture for poverty reduction has the potential advantage of capturing many dimensions of deprivation at the same time.

3. Determinants of Local Growth and Poverty Reduction

³ By definition, chronic poverty is simply extended poverty. That is, a person is deemed chronically poor if his income, defined broadly to include cash and in-kind incomes, always falls or usually falls below a pre-determined poverty line. The chronically poor people are usually *multi-dimensionally* deprived, falling short of income to meet the poverty line and lacking capabilities such as educational achievement and good health.

The link running from economic growth to poverty reduction is well articulated in policy discussions. The same is not true for the other link running from poverty reduction (equity) to growth. What is casually presumed is that high inequity in incomes and assets, combined with imperfection in financial markets, inhibits the poor's access to profitable investments and human capital formation. That is, because physical assets are the usually acceptable collaterals, the poor who do not have these assets may be unable to access credit and hence take advantage of income-enhancing technologies and production processes. They may also not have the means to smooth household consumption—especially food, and health and education services for children—in the event of downside risks, hence effectively preventing them from escaping the poverty trap from one generation to another. Put differently, investing in equity (poverty reduction) is a necessary condition for the economy to subsequently move to a higher growth path. Indeed, there is increasing evidence that such investment has a high payoff in terms of human capital accumulation and hence economic growth (Deininger and Squire 1998; Bourguignon 2004; Barro and Xala-i-Martin 2004; Sachs 2005).

Table 2. Poverty by sector of employment, 1985-2004

Sector	1985	1988	1991	1994	1997	2000	2003	Contribution to total poverty	
								1985	2003
Agriculture	57.7	51.2	51.9	49.9	42.3	45.9	46.0	67.2	65.9
Mining	46.4	34.4	44.7	37.1	30.0	58.4	43.4	1.0	0.7
Manufacturing	31.4	21.9	20.9	16.5	13.5	16.1	15.0	4.9	4.1
Utility	17.5	10.8	12.5	9.5	9.5	6.7	3.7	0.2	0.1
Construction	39.6	33.8	33.8	34.5	23.1	29.8	26.3	5.3	7.5
Trade	27.3	18.6	21.3	17.8	13.5	15.4	13.0	4.4	5.6
Transportation	27.8	24.1	22.5	21.2	13.7	18.2	15.1	4.7	5.8
Finance	13.2	8.5	6.9	7.1	3.0	9.1	5.9	0.5	0.9
Services	20.0	15.4	15.2	12.7	9.9	10.5	11.0	5.6	4.1
Unemployed	21.5	18.3	16.8	17.1	12.1	14.0	11.1	6.1	5.3

Source: Author's estimates, based on FIES data.

Until recently, the examination of the growth-poverty nexus usually involves data on cross-country averages (i.e., average growth rates for a specified period regressed against initial income and other explanatory variables, including infrastructure, human capital, and policy regime). However, data comparability is quite a serious problem in cross-country averages. For example, observation units on income are often measured quite differently across countries. Political factors influence economic performance, but comparing political characteristics across countries also proves to be difficult owing to differences in historical experiences, cultures and

norms, and institutional contexts. Moreover, some unobserved factors at the country level might be quite correlated with the observed variable of interest (e.g., the country's initial income), thereby biasing any measured effects of that variable on steady-state growth and poverty reduction.

In this paper, a unique sub-national “panel data” set is used to explore the determinants of income growth and poverty reduction. The observation units are provinces, which show remarkable diversity in terms of economic performance and poverty reduction. The units and variables are consistently defined, both across space and over time. The historical and institutional contexts are largely similar across these units (e.g., same legal system, same political administration). Moreover, the major sources of heterogeneity—i.e., technologies, tastes—are likely to be less severe for these data than for cross-country data. Hence, the estimation problems noted above concerning cross-country data are likely to be less serious for the sub-national panel data set.

The long-term relationship between Philippine poverty and income growth is evident for data on the country's 77 provinces. This is shown in Figure 3, which plots the change in poverty incidence between 1985 and 2003 and the corresponding percent change in real family income per capita, adjusted for provincial cost-of-living differences.⁴ Clearly, as in cross-country data on growth and poverty, the pace of poverty reduction at the provincial level is closely linked to local economic performance. However, there are significant departures from the fitted line (i.e., provinces not conforming to the “average pattern”), suggesting that factors other than the local economic growth rate are influencing the evolution of poverty.

One set of such factors may have to do with the relatively large variation in access to infrastructure and social services across regions and island groups. As noted earlier, a widely held view is that development efforts have favored Luzon and discriminated against the Visayas and (especially) Mindanao. Proponents of this view say that this development pattern has led to substantial regional differences in access to economic opportunities, in rates of poverty reduction, and in the incidence of armed conflict.

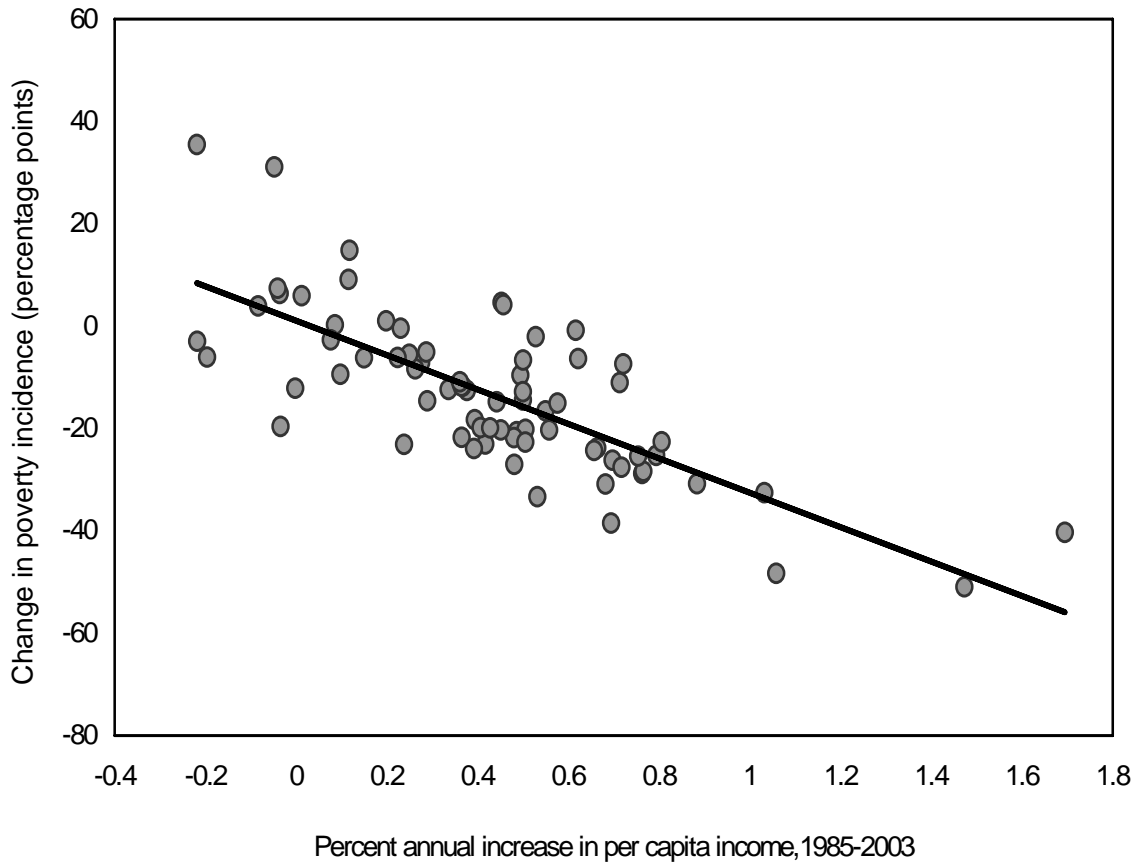
Adopting the growth framework developed by Barro and Sala-i-Martin (2004), Balisacan (2007a) traced the quantitative significance of the channels by which income growth, together with a host of other factors, influences poverty reduction. In his model, these other factors affect the speed of poverty reduction directly by changing the distribution of a given economic pie (hereafter referred to as redistribution channel), or indirectly by expanding the economic pie for each person in society (hereafter referred to as growth channel). These factors can be grouped into two types:

Initial economic and institutional conditions (in or around 1988)-- initial mean provincial per capita income; initial distribution of per capita income; initial human capital stock; political ‘dynasty’ (as proxy for political competitiveness); and ethno-linguistic fragmentation; and

Time-varying policy variables (difference during 1988–2003): simple adult literacy rate; agricultural terms of trade (as proxy for economic incentives); access to infrastructure (represented by electricity and good-quality road); and Comprehensive Agrarian Reform Program (CARP) implementation.

⁴ Poverty estimates are those used in Balisacan (2007a). As noted earlier (see footnote 2), these are not comparable with official data released by the National Statistical Coordination Board.

**Figure 3. Income growth and poverty reduction,
Philippine provinces, 1985-2003**



The income growth regression is specified as in the standard Barro and Sala-i-Martin framework. The poverty reduction regression adds the income growth rate variable to the set of explanatory variables associated with the rate of poverty reduction. This amounts to estimating the income growth and poverty reduction equations simultaneously using the three-stage least squares estimation technique. Only variables that are significant in the reduced-form estimates of the growth and poverty reduction equations are retained. The regression results are summarized in Table 3. Annex Table 1 shows the complete list of variables, including descriptive statistics.

Table 3. Determinants of local growth and poverty reduction^a

Explanatory Variable	Mean Income Growth	Rate of Poverty Reduction ^b
Mean income growth		-1.30161 ** (-5.18)
Change in literacy	0.00066 ** (2.66)	-0.00077 (-1.45)
Change in electricity	0.00031 ** (2.81)	
Change in road density	0.04649 ** (2.41)	-0.07067 ** (-1.95)
Change in CARP	0.03211 ** (3.55)	0.00748 (0.38)
Change in agricultural terms of trade	0.01346 ** (1.95)	
Initial per capita income (log)	-0.02106 ** (-3.29)	
Initial mortality	-0.00019 * (-1.89)	0.00035 * (1.86)
Landlock	0.00754 ** (2.29)	0.00615 (1.05)
Initial Gini ratio	0.00806 ** (3.02)	
Initial Gini ratio squared	-0.00012 ** (-2.98)	
Constant	0.06261	-0.01666
R^2	0.62850	0.64880
Sample size	71	71

Notes:

**= statistically significant at 5 percent level; *= statistically significant at 10 percent level.

^a The estimation procedure used is three-stage least squares regression. Figures in parentheses are *t*-ratios. Other variables included in the estimation but are not significant in both growth and poverty regressions are not shown.

^b The poverty measure used is headcount, defined as the proportion of the population deemed poor. The dependent variable is the average annual rate of headcount reduction between 1988 and 2003 so that a *negative* coefficient for a variable implies that the variable has a *positive* effect on poverty reduction.

Source: Balisacan (2007).

Among the initial conditions, the level of human capital stock (as proxied by the child mortality rate) is found to be statistically significant at conventional levels. This finding of a positive association between growth performance and human capital is consistent with most other studies on determinants of income growth. The magnitude of the coefficient, however, is comparatively small. An increase of 10 percent in the mortality rate relative to the mean for all provinces (84.7 in 1988) would reduce the rate of provincial income growth by 0.2 percentage

points per year. Put differently, if the mortality rate in the province with the highest mortality rate (Western Samar) were to fall to the average level for all provinces, that is, from 121.1 to 84.7 or by 30 percent (see Annex Table 1), the income growth rate for that province would increase by 0.7 percentage points per year, all other things remaining equal.

All the time-varying policy variables are significant and have the expected signs. In conformity with theory and most cross-country regressions, improvements in literacy and access to infrastructure (electricity and roads) have a positive effect on income growth. The magnitude of those effects, however, are surprisingly small. In the case of literacy, even a 20 percent improvement in the overall provincial average increase of 3.8 percentage points per year (see Annex Table 1) would see income growth increasing by only 0.05 percentage points. This limited gain from an improvement in the simple literacy rate can be attributed to the already relatively high rate for the provinces as a group (91.4% in 2003). This average, however, conceals the large variation that exists across provinces. For provinces that are well below the national average, an improvement in the literacy rate to, say, the national average could have a major impact on local income growth. For example, if the province with the lowest literacy rate in 2003 (Tawi-Tawi, at 63.3%) were to achieve the average rate for all provinces (91.4%), the income growth rate of that province would increase by 1.8 percentage points per year, all other things remaining the same.

Increments in land reform implementation (CARP) have a positive and significant effect on the mean income growth rate. A 25 percent increase in the pace of CARP implementation (that is, an increase in the average change for all provinces from 80 percent to 100 percent, thereby effectively completing implementation) would raise the income growth rate by 0.6 percentage points per year. This is a significant result considering that land reform is often seen as a policy tool mainly for achieving non-economic objectives. The result suggests that addressing access to productive assets would improve efficiency, thereby raising the economy's subsequent income growth rates, as argued cogently by Bourguignon (2004).

The regression results also reveal cracks in poverty reduction efforts. The policy variables and the variables representing initial conditions, except those pertaining to human capital and infrastructure, are found to mainly exert an *indirect* effect on poverty reduction through their effect on overall income growth. For infrastructure, particularly transport, and, to some extent, initial human capital, both direct and indirect effects are operative and, taken together, have positive impact on the pace of poverty reduction. Particularly remarkable is the lack of direct response of poverty to CARP. Considering that the agrarian reform program is touted as an equity tool, this result is not only surprising but also inconsistent with earlier findings. This is not to say that CARP has no effect on the poor. It has, but its effect is mainly through the income growth channel. Taken together, the regression results show very limited direct effects of recent policies and institutions on the speed of poverty reduction; their effects get transmitted to poverty reduction indirectly, mainly through overall income growth.

Another interesting observation from the above study, as well as other studies using the same provincial data (e.g., Balisacan and Fuwa 2004), concerns the extent by which poverty responds to overall income, after accounting for the influences of other factors noted above. This response can be aptly summarized by what is referred to as "growth elasticity" of poverty reduction. This elasticity clusters around 1.3: a 10 percent increase in the income growth rate increases the poverty reduction rate by roughly 13 percent. Significantly, these estimates are much lower than those reported for other developing countries. For example, using parameter estimates of inequality distribution for each country, Cline (2004) obtained growth elasticities of

2.9 for China, 3.0 for Indonesia and 3.5 for Thailand.⁵ Ravallion (2001) obtained a growth elasticity of 2.5 for 47 developing countries, based on a bivariate regression of the proportionate changes in their poverty rates and mean incomes. A similar bivariate regression of the data used in this paper gives an elasticity of 1.5. Hence, by all these indications, the growth elasticity in the Philippines has been quite muted by international standards.

Clearly, the very low income growth achieved in recent years is a key factor in the country's sluggish rate of poverty reduction. Still, even this modest level of income growth could have delivered more poverty reduction than what had been actually realized if the growth elasticity in the Philippines had come close to those in neighboring countries.

The finding that certain policy levers often identified as tools for achieving equity objectives – human capital and asset reform through CARP – have rather weak discernible direct effects on poverty reduction is quite disturbing. Their effects are felt mostly indirectly through the income growth process. In other words, even programs supposedly targeted at poverty such as CARP have actually been largely neutral from an income distribution viewpoint! One interpretation of this result is that the implementation of such programs has actually been poorly targeted. The next section takes a closer look at some of the country's direct anti-poverty programs to validate this otherwise quite disturbing result.

4. Anti-Poverty Programs

As noted above, the roots of the country's economic malaise during the past 25 years have been well articulated (that is, weak governance, low investment in basic infrastructure, political and macroeconomic instability, a highly unequal distribution of productive assets such as land, and a persistently rapid population growth). This is not quite the case for programs intended to efficiently deliver assistance to the poor, especially in the event of adverse shocks such as during a macroeconomic crisis or natural calamities. In short, how must programs intended for the poor be designed so as to achieve the desired objective? What lessons have been gleaned from recent experience to serve as input to this design?

Efficiency in the use of funds for poverty reduction underlies the principle of targeting, in which benefits are channeled to the high priority group that a program aims to serve. Targeting requires that the poor be distinctly identified from the non-poor, and that the program be monitored so that its benefits flow to the intended beneficiaries. As such, it is a potentially costly activity, both in terms of time and administrative outlay.

The literature distinguishes between two types of targeting – broad and narrow targeting. Broad targeting specifies the intervention. The effectiveness of the strategy lies on the comparative propensity of the poor to utilize the intervention vis-a-vis the non-poor. Meanwhile, narrow targeting stipulates inclusion and exclusion criteria to distinguish the qualified beneficiaries (the poor) from the non-beneficiaries (the non-poor). Broad targeting may result in substantial leakages, but narrow targeting may entail significant administrative costs. In practice, the design of anti-poverty projects employs both types of targeting.

⁵ Cline's estimate for the Philippines was 2.2. While higher than the other estimates quoted here, it is still low by Asian standards.

An Overview of Poverty Reduction Programs

Poverty reduction has always been a central element of the development effort of the government, as articulated in its development plans and official policy statements. By and large, only the emphasis and the strategy to achieve these goals have changed over recent decades.

The development program of the Aquino administration (1986-92) primarily stressed the alleviation of poverty, the generation of more productive employment opportunities, and the promotion of equity and social justice. Unlike previous programs, which emphasized import-substituting development, the new program called for the removal of policy biases against agriculture and the rural sector, with agrarian reform serving as its centerpiece. For its direct poverty reduction strategy, the administration launched *Tulong sa Tao* program, of which provision of subsidized credit was a focal point.

The Ramos administration (1992-98) focused on accelerating the pace of economic growth by building the international competitiveness of domestic industries, reforming regulation in services and industry, and investing in basic infrastructure. It also had a *Social Reform Agenda* for achieving its human development targets. Containing a package of government interventions organized around “flagship programs” for the country’s 20 poorest provinces, the Social Reform Agenda is considered to be the first effort of the Philippine public administrative system to organize the various sectors of government toward securing so-called minimum basic needs before attending to other demands of priority sectors.

The Comprehensive and Integrated Delivery of Social Services (CIDSS) was the flagship anti-poverty project of the Ramos administration. Its basic strategy was to “break down the culture of poverty” through empowerment. Previous programs were ineffective either due to underutilization, or if utilization was high, impacts were not sustained, and the thinking was that this was because they did not coincide with the needs of the target beneficiaries, who had no sense of ownership of the anti-poverty projects involved. Under the CIDSS, beneficiary communities, with the help of full-time community workers, were organized and taught to identify their problems, prepare a work program, mobilize additional funding resources as necessary, and implement projects themselves. Civil society groups were involved in all the project stages.

The CIDSS employed the minimum basic needs (MBN) approach in project prioritization. The approach used a set of 33 indicators, spanning the different basic needs for survival (food and nutrition, health, water and sanitation and clothing), security (shelter, peace and order, income and employment), and an enabling environment (basic education and literacy, people’s participation, family care and psychosocial needs). Priority was given to projects that addressed the top unmet “needs.” In practice, the most common projects were day care centers, water supply systems, sanitary toilet facilities, shelter assistance, and credit provision. Others included skills training programs and school facilities. Of course, the innovative contribution of the CIDSS is the mobilization of the community to participate in all the project stages. Within priority provinces, preference was given to the poorer municipalities and within these, to poorer districts (barangays).

The Estrada administration (1998-2001) came to power with a lavish pro-poor agenda. It recognized the imperative of broad-based rural development to win the war against poverty. Its Medium-term Philippine Development Plan for 1999-2004 identified the main elements of the development strategies required to spur growth and achieve sustainable development in rural areas. The plan envisioned, for example, an aggressive delivery of basic social development

services, removal of policy and regulatory distortions, sustained development of rural infrastructure, improvement in governance, and macroeconomic stability. The administration's flagship program for poverty alleviation was the *Lingap Para sa Mahihirap (Care for Poor)* program, which involved the identification in each province and city of the 100 poorest families. These families would be provided with a package of assistance, including livelihood development, price support for staple foods, medical assistance, socialized housing, and a rural waterworks system. Several modalities were employed in the selection of beneficiaries, but in principle the aim was to use data on the unmet minimum basic needs. If such data were not available, the local social worker was consulted to identify the poorest families. Overall, the program turned out to be far less effective—in terms of impact on national poverty—than either the *Tulong sa Tao* program of the Aquino administration or the CIDSS program of the Ramos administration (Balisacan and Edillon 2005).

The ascension to power of the Macapagal-Arroyo administration (2001-present) has revived the push for economic growth as the principal vehicle for licking the poverty problem. The current administration also gave birth to a new national strategy of direct poverty alleviation dubbed *KALAHÍ (Kapit-Bisig Laban sa Kahirapan, literally translated as “Linking Arms Against Poverty”)*. The strategy encompasses asset reform, provision of human development services, creation of employment and livelihood opportunities, social protection and security against violence, and participation of basic sectors in governance. Interventions are delivered using the administrative apparatus of national government agencies and local government units, but the emphasis, as in earlier programs, is on local community empowerment.

The KALAHÍ interventions are grouped into four programs, namely: (i) KALAHÍ-CIDDS, which seeks to empower poor communities through enhanced participation in community governance and involvement in the design, implementation, and management of anti-poverty initiatives; (ii) KALAHÍ-Agrarian Reform Zone, which focuses on acquiring lands for qualified farmers, improving tenancy, and providing agricultural support services; (iii) KALAHÍ-KALAYAAN, which aims to address the needs of poor communities in conflict areas; and (iv) KALAHÍ-Poverty Free Zones, which provides livelihood opportunities for people in targeted areas. As of mid-2006, these programs cover about 12,800 barangays (representing nearly 30% of the total barangays in the country), of which 29 percent and 71 percent are served by KALAHÍ-CIDDS and KALAHÍ-Agrarian Reform Zones, respectively.⁶ The two other programs are present in 600 and 44 barangays only, respectively.

Government Expenditure on Anti-poverty Programs

Estimates of the total expenditure on the types of directly (narrowly) targeted interventions discussed above suggest that they account for a very modest share only of government expenditure. More recent figures are not available but data for the late 1990s show poverty-related measures at no more than 0.60 percent of central government expenditure. When the cost of the National Food Authority (NFA) operations are added, the figure comes to about 1.5 percent.⁷ Expenditure by local governments on poverty programs was tiny at only 60

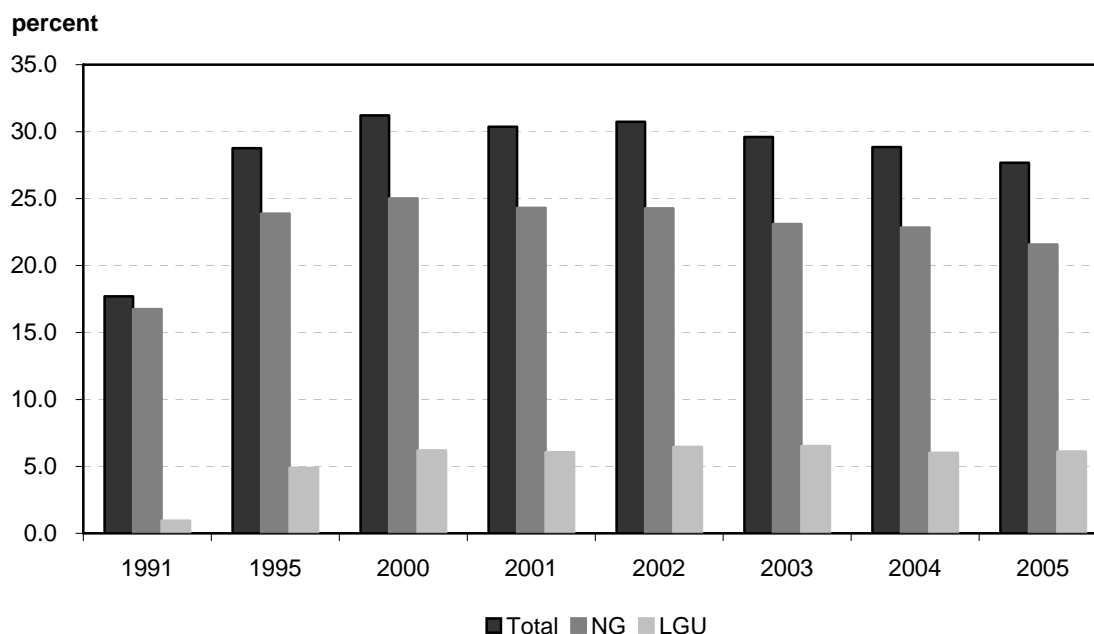
⁶ Of the KALAHÍ barangays, 100 barangays are beneficiaries of at least three different KALAHÍ agency programs, 1,210 barangays have at least two KALAHÍ agency programs, and 11,249 barangays have one KALAHÍ agency program (www.napc.gov.ph/kalahi.htm).

⁷ NFA implements a number of subsidy schemes the most important of which is that for rice. The authority aims to meet potentially conflicting objectives of maintaining a floor price for producers and a ceiling price for consumers of rice. NFA buys the grains from the farmers during times of bumper harvest, when the buying price is higher than the market price. The program essentially provides a subsidy to the farmers, so that they are assured of a stable income, independent of the supply situation in the market. However, in recent years

centavos per capita compared with 37 pesos per capita by the central government (Manasan 2001).

For broad targeting expenditure categories, real public expenditure per capita on key activities has declined in recent years. While total social services spending per capita in real terms (in 1985 prices) rose from PhP480 in 1991 to PhP807 in 2000, it fell since then, reaching PhP664

Figure 4. Share of Social Services Expenditures to Total Government Expenditures



in 2005. In particular, education expenditures per capita dropped from about PhP440 in 2001 to PhP390 in 2004.

The above trends simply reflect the broader picture: expenditures for social services as a percentage of the total government expenditures declined in the first half of the current decade. The spending for social services decreased from 31 percent in 2000 to 27 percent in 2005 (Figure 4). The decline came mainly from national government, not from LGUs. Historically, of the total national government spending for social services, a little over 50 percent goes to education. However, for the first half of the current decade, education's share declined.

the NFA has been able to procure only less than 5% of total rice production. On the consumer side, subsidies are provided for sales of supported goods in selected retail outlets and NFA rolling stores. The main objective of the program is to protect consumers against large increases in the price of basic commodities, not just rice but also sugar, cooking oil, and more recently common drugs. NFA has a monopoly control over rice imports and its import quota has combined with relatively high import tariffs on rice to keep domestic consumer prices well above world prices.

Impact Evaluation of “High Profile” Anti-Poverty Programs

As discussed above, the core of the KALAH strategy is poverty reduction through asset reform, access to basic services by way of community empowerment, and generation of livelihood opportunities. Concretely, the main vehicle for the asset reform is the country’s Comprehensive Agrarian Reform Program (CARP). For the delivery of basic services through community empowerment, the flagship program is the KALAH-CIDSS. Microfinance programs take the front seat for the generation of employment and livelihood opportunities. While many other poverty-oriented programs are implemented by the various national government agencies, the above-mentioned three programs have acquired “high profile” status owing to their extensive coverage (national in scope), budget outlays, and projection in media and national development forums. To be sure, these three programs have preceded the inception of KALAH. CARP, for example, was a creation of a landmark law passed in the late 1980s by the Aquino administration. CIDSS, on the other hand, was the implementing vehicle for the Social Reform Agenda of the Ramos administration. Microfinance programs have also been around since at least the mid-1980s, though in smaller scale than those operating at present. Nonetheless, under the Arroyo administration through the KALAH strategy of “convergence of resources, programs and projects, and stakeholders and sectors,” the three programs have served as the main vehicles for directly addressing the problems of inequity and poverty.

The Comprehensive Agrarian Reform Program

CARP has been the government’s landmark agrarian initiative since the late 1980s. At its inception, expectations were high that CARP would serve not only as a social program to, rightly or not, reduce rural income disparities but also as part of the government’s counter-insurgency campaign. The Philippine Congress enacted what was to become the Comprehensive Agrarian Reform Law (Republic Act No. 6657) in 1988 to govern the CARP’s implementation.

CARP departs from all previous land reform initiatives by: (i) its inclusion of all agricultural lands, regardless of the commodity produced, and (ii) going beyond tenancy arrangements to include other alternative production arrangements, such as production or profit-sharing, labor administration, and distribution of shares of stock.

At the beginning of its implementation, CARP expected to cover about 9.77 million hectares. Subsequent re-assessments of potential areas led to a downward revision of program scope to 8.2 million hectares. Of the revised scope, the Department of Agrarian Reform (DAR) is tasked to distribute 4.4 million hectares of private agricultural and government-owned lands to some 3 million farmers, while the Department of Environment and Natural Resources (DENR) is tasked to distribute 3.7 million hectares of public agricultural and Integrated Social Forestry/Community-Based Forest Management (ISF/CBFM) lands to some 2 million farmers.

CARP was intended to be completed in 10 years, i.e., by 1998. Cognizant of the remaining tasks to be done, Congress extended the program implementation by another 10 years (until 2008). Even so, a year prior to the end of the extension, the program is far from completed. As of end of December 2006, only 86 percent of the DAR scope of 4.4 million hectares had been distributed. But even this level of accomplishment is quite exaggerated. The end results expected from the land redistribution program are individual ownership titles, which would be instrumental in bringing about incentive effects that redound to increases in farm investments, household incomes, and opportunities for human development. However, instead of individual titles, about 2.15 million hectares representing about 50 percent of the distributed

lands—or 72 percent of the combined individual and collective titles—are still under collective or “mother” certificates of land ownership awards (CLOAs). These collective co-ownership titles are supposed to have been subdivided to individual titles for distribution to agrarian reform beneficiaries. The program’s performance system does not distinguish between hectareage under individual titles and those under collective CLOAs.

Land distribution was particularly slow for private agricultural lands (other than rice and corn lands) under compulsory acquisition, which total 1.5 million hectares or roughly one-fifth of the program scope. The accomplishment for this program component was only about 18 percent. The main problems were the slow process involved in land acquisition and distribution, insufficient technical capacity of implementing agencies, legal disputes relating to coverage and land valuation, landowners’ resistance, harassment and unstable peace and order condition, and budget constraints. It is in these lands (particularly lands planted to sugarcane, coconut and other tree crops, and nontraditional export crops) where most of the remaining problems with landholding inequality exist.

In the case of public A&D lands, where accomplishment was only 69 percent of target after 20 years of CARP implementation, the bottlenecks were in delays in undertaking land surveys, slow reconstitution of land records, and sluggish resolution of land conflicts among competing claimants. It is to be noted that public A&D lands and forested lands are not vacant lands; they are being tilled by farmer “squatters” who only need to be given security of tenure.

Too frequent changes in the leadership of implementing agencies, especially DAR and DENR, have also constrained the program’s smooth implementation.

Financing the program has likewise become a major bottleneck. At the beginning of program implementation, funding requirement was estimated at PhP221 billion. The average annual budget represented about 30 percent of the national government’s total appropriations for 1987. The total budget was subsequently pared down to about PhP153.07 billion. Funds were to be drawn from proceeds of the government’s sale of non-performing assets. This was poorly realized. CARP’s extension to 2008 came with an additional allocation of PhP50 billion. Likewise, the additional budget requirement was poorly realized.

The funding problem, together with the limited technical capacity of the agencies tasked to implement the program, has bred uncertainty on the effective scope of CARP. Invariably, successful land reform programs elsewhere, especially in East Asia, were implemented swiftly. The uncertainty is magnified by the continued efforts of certain sectors to lobby in Congress for exclusion from the program. Congress has granted in early 1995 such exemption to fishery and prawn farms. The uncertainty surrounding the program has discouraged the flow of investments into agriculture as well as encouraged non-planting of agricultural lands and their premature conversion into non-agricultural uses. Moreover, the program could have effectively weakened the private market for agricultural lands, thereby diminishing their collateral value.

The CARP is quite distinct from previous agrarian initiatives in another major respect: it provides a comprehensive program of beneficiary development, especially the delivery of basic services (capacity building, credit and marketing assistance, farm infrastructure, etc.) needed to transform the beneficiaries into efficient agricultural producers and entrepreneurs. However, because the funds available to support the program had been very limited, the government, through DAR, launched in 1993 the Agrarian Reform Community (ARC) approach to beneficiary development. The approach involves focusing of the delivery of support services on selected areas, rather than dispersing the delivery to all areas covered by CARP. It is also a mechanism

to fast-track investment in basic social infrastructure, such as water, power supply, education, and health.

About 1,780 ARCs have been established since the program's launch.⁸ They cover roughly 42 percent of the total agrarian reform beneficiaries (ARBs) nationwide. Foreign-assisted projects (FAPs) for the agrarian reform program have been concentrated in the ARCs. These projects have provided support to 58 percent of the ARCs, covering 62 percent of the ARBs in all ARCs, or roughly 30 percent of all ARBs nationwide. Owing to the fiscal constraint noted above, ARCs receiving support services through FAPs are expected to be better off than those without FAPs.

Despite the above implementation problems, the body of evidence tends to show that the impact of CARP on farm household welfare and poverty reduction has been quite positive, albeit not as large as expected. The latest and most comprehensive assessment to date is that by a team of researchers of the Asia Pacific Policy Center (hereafter referred to as APCC Study). It is instructive to mention the highlights of the work, especially the findings and implications, here.

The APCC Study re-examined the earlier findings in light of available national household surveys, agriculture and population censuses, updated panel data, and related community level data. From these extensive data, a nationally representative group of ARCs ("treatment" group) was matched with an initially comparable, nationally representative group of non-ARCs ("control" group). The matched set—consisting of 1,467 barangays for each group, or a total of 2,934 barangays—was then used to determine whether or not the ARC barangays were better-off than the non-ARC barangays. Regression analysis was also performed to examine the independent effects of ARCs and of land ownership on the welfare of ARBs and non-ARBs.

The study found that the net effect of CARP through the ARCs on the economic welfare of beneficiaries is positive, albeit rather small compared with the comparable group of non-beneficiaries and with findings in previous studies (e.g., Lim 2003). The annual increase in income attributable to CARP was, on the average, PhP223 per person (at 2006 prices). For the 10-year period (1990-2000), the increases were enough to cause a slightly faster reduction of poverty incidence in ARCs than in comparable non-ARCs. Further, the increase in per capita income is significantly higher for farmers owning land than their counterparts not owning land, all other things remaining the same. This is the case whether the comparison was made for farmers residing in ARCs or in non-ARCs.⁹ Moreover, the odds for a farmer owning land being nonpoor is at least 1.7 times to as much as 2.6 times more than for one not owning land.

Evidently, while CARP has been a positive force for social reform and poverty reduction, the welfare gains have been rather small. The major impediment to realizing the full benefits of asset reform, as envisioned by RA 6657, has been the extremely slow program implementation. This has given rise to bureaucratic inertia; provided room for legal disputes, lobbying by landowners for exemption from the program, and rent-seeking activities by elite groups for the resources made available to the program; and led to dwindling financial support from the political regime as the prime "trigger" (e.g., rural unrest) for the program receded. Moreover, the long-drawn implementation has bred an atmosphere of uncertainty, which has not only discouraged the flow of private investments into agriculture but also encouraged non-planting of agricultural lands and their premature conversion into non-agricultural uses. It is to be noted that

⁸ Based on CARP Situationer, as of end of December 2006, Department of Agrarian Reform.

⁹ Note that being in an ARC does not guarantee also being an ARB.

the success of the East Asian land reform was rooted mainly on the speed of its implementation.

High in the agenda for faster implementation should be the completion of the subdivision of the collective CLOAs into individual ownership titles, along with improvement in access to production support services. This move should enhance the incentive effects of land ownership on farm investment, productivity, and household welfare. For private agricultural lands under compulsory acquisition, which are mainly the big plantation farms and haciendas, the political economy is likely to continue to stand in the way of completion. Other modalities of land reform implementation for these lands would need to be explored. In any case, a firm timeline for a closure of the program has to be set. Finally, land reform should be seen as only one of the elements of a comprehensive strategy for economic and social development. No land reform program can effectively achieve its goals unless the economic and political environment is conducive to sustained economic growth and development.

Kapit-Bisig Laban sa Kahirapan—Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS)

The KALAHI-CIDSS comes next to CARP as the Government's major direct anti-poverty program. Launched in January 2003, the program aims to reduce poverty in poor areas by providing basic social services through local communities who take the key role in identifying, designing, and implementing projects responsive to their development needs. Conceptually, the program is similar to other known community-driven development (CDD) initiatives in which the poor and vulnerable are given greater voice in development decisions by empowering communities while improving services and reducing poverty.

The program is planned for implementation over a six-year period in 4,216 rural barangays (villages) and 183 municipalities in the country's 42 poorest provinces, benefiting an estimated 1.1 million poor households. The provinces are selected based on the poverty data of the National Statistical Coordination Board. The poorest one-fourth of the municipalities are then selected from each of these provinces, based on municipal poverty mapping methodology developed by the Manila-based Asia Pacific Policy Center (Balisacan et al. 2002). All the barangays within the selected municipalities are eligible to participate in the program.

The total project cost is US\$182.4 million, of which US\$100 million comes from the World Bank through a loan window, US\$31.4 million from the national government, and US\$51 million from the local government units (mainly in-kind contributions). For the World Bank, this project is the first of its kind that it has financed, by way of loan, in the Philippines and among the few it has in its global operations. It is still uncommon for the Bank, as well as other multilateral finance institutions, to lend to national governments for projects intended mainly for empowering communities, especially since such projects do not easily lend to the usual financial and economic viability filters (e.g., loan repayment, benefit-cost ratios). The KALAHI-CIDSS provides a window for understanding the intricate economics of building social capital. For the Philippines, the program offers an opportunity to try new approaches to generating and implementing local projects that address the pressing needs of poor communities. Indeed, the many "high profile" anti-poverty initiatives in recent decades had been costly to administer and not sustainable, had high benefit leakage, and were curved for "top-down" implementation (Balisacan and Edillon 2005).

The program is divided in four phases of implementation. The coverage is broadened as the project progresses from one phase to the next. According to the midterm progress report released by the World Bank and the Department of Social Welfare and Development (DSWD) in June 2006, KALAH-CIDSS has reached 3,080 barangays in 129 municipalities across 42 provinces. It financed about 2,300 sub-projects amounting to US\$41 million. Basic infrastructure (roads, footpaths bridges, culverts, flood control, drainage) and essential services (water supply, health stations, school buildings, day care centers) represent 51 percent and 39 percent of these projects, respectively. The balance of 10 percent are mainly common service facilities (postharvest facilities, community enterprises).

The DSWD's KALAH-CIDSS Update for the Second Quarter 2007 shows that a total of 2,770 community projects in 2,947 barangays, with a combined amount of \$67 million, have been funded. Of this amount, about 34 percent (\$23 million) was shouldered by the local governments and communities as counterpart. The completed projects, numbering 2,062 of the 2,770 funded projects, amounted to approximately \$48 million.

The Program's mid-term internal monitoring and evaluation indicates that the various projects have addressed the pressing development needs of the targeted communities. Moreover, the Program's capacity-building component has built up social capital and improved local governance, as indicated by improvements in LGU officials' capabilities, participation in barangay assemblies and the practice of LGU accountability and transparency in implementing projects, and community-LGU relations (DSWD-World Bank 2006). While obtaining positive results from a program's own monitoring and evaluation system is usually predictable (at least in the Philippine context), two independent external evaluations of the KALAH-CIDSS provide similar qualitative results, though one shows much more subdued impacts so far than the other.

The first of the two external evaluations, that by Araral and Holmemo (2006), focused on the program's economic effects. Drawing from program field reports and rapid appraisals, they concluded that:

Overall, the Program is economically beneficial, with an economic internal rate of return of 21 percent. At this rate, the Program passes NEDA's hurdle for economically justifiable investments.

The projects tend to be cost-effective compared with traditionally implemented infrastructure projects of other government agencies. Unit costs under the Program are lower than those of these agencies' comparable projects, ranging from 8 percent for school buildings to 76 percent for water supply.

Investment in the capability-building of communities and LGUs can be beneficial. This is shown to be positively associated with collective action, inclusive access to local public goods, maintenance of projects, and trust among community members.

The Program's social mobilization process leads to a more efficient resource allocation through an improved matching of demand for and supply of local public goods.

The other external evaluation, conducted by the Asia Pacific Policy Center (2007), gives a far more subdued program impact. Unlike the Araral and Holmemo study, the APCC study used carefully designed panel data of treatment and control groups, thereby allowing a more informed attribution of program benefits. The treatment group consisted of beneficiary municipalities, while the control group was composed of municipalities chosen from within the

same sample provinces with similar characteristics as the treatment municipalities, but are not part of the project. The control municipalities were selected using cluster analysis in which the “discriminators” are the variables that proxy for quality of life. The baseline survey of 2,400 households in four select provinces was conducted in late 2003, while the follow-up (midterm) survey was implemented in late 2006. The APPC study results on the effects of KALAH-CIDDS on social capital formation and local governance are broadly consistent with those reported by the Araral and Holmemo study. However, on income and other economic welfare measures, the APPC results are quite mixed, i.e., the treatment municipalities are not consistently better off than their control municipality counterparts. Moreover, in cases where the economic gains are significantly higher for the beneficiary municipalities than for the non-beneficiary municipalities, the benefits are perceived to have resulted mainly from the projects supported by the program (basic infrastructure and essential community services), not from empowerment and participation in governance per se. It is possible, however, that it is too early in the project implementation to see such links, especially significant gains in economic welfare terms.

The KALAH-CIDDS experience so far offers interesting insights and issues for the design of poverty reduction strategies. For one, investment in community empowerment and local governance as a pathway out of poverty has potentially high payoffs, but the risks are also high. The translation of community empowerment to economic welfare gains appears not to be as clear-cut as often assumed. In a related vein, one has to ask whether it would have been more appropriate to anchor the flagship anti-poverty program to something that is already well understood in the literature and development practice. There is, for example, fairly high level of understanding on the connection between access to basic education and health services, on the one hand, and poverty, on the other, and what it takes to improve this access to the poorer segments of the Philippine society. Also, it has to be asked whether the KALAH-CIDDS implementation infrastructure is reproducible to other areas in the absence of high-level funding and technical support, i.e., in a regime of fiscal bind.

5. Concluding Remarks

Poverty in the Philippines has to do largely with its inability to achieve—and sustain—an income growth substantially higher than its population growth. However, while economic growth is good for the poor, it is not good enough. The response of poverty reduction to income growth in the Philippines has been quite muted by international standards, especially in comparison with the country’s neighbors. Hence, the Philippines’s unenviable record in poverty reduction in recent years is the outcome not only of its comparatively low per capita GDP growth rate but also of its weakness in transforming any rate of income growth into poverty reduction. The quality of economic growth has to be improved to enhance the benefits of growth to the poor.

Even given the fiscal constraints, there are wide avenues for improving the response of poverty to overall income growth. Evidence suggests, for example, a strong connection running between agricultural and rural development and poverty reduction. Investments in social services, such as in basic health and education especially in rural areas, have also high payoffs in terms of poverty reduction.

The very high spatial diversity in the Philippines is quite remarkable. This study has shown that, indeed, poverty has a strongly spatial dimension, with some regions and provinces far more multi-dimensionally deprived than others. Some areas of the country have human development outcomes comparable with those found in more economically advanced countries; for example, Metro Manila’s Human Development Index (HDI) for 2003 is comparable with that of Thailand, and the province of Rizal’s with Ukraine’s. Sadly, many other areas have outcomes

comparable with those of the poorest countries of the world; for example, the ARMM provinces have HDI scores comparable with those of Sudan, Ghana, and Myanmar. In recent years some regions have done quite well in attaining high per capita income growth and reducing poverty, but disturbingly others have experienced falls in their average per capita income and an increase in poverty. Viewed from an international perspective, such disparities could breed regional unrest, armed conflicts, and political upheavals, thereby undermining the progress in securing sustained economic growth and national development. The *Philippine Human Development Report 2005* shows that measures of deprivation – such as disparities in access to reliable water supply, electricity, and especially education – predict well the occurrence of armed conflicts (HDN 2005).

The reform effort has to go beyond simply raising the level of public investment in basic infrastructure and social services, particularly health and education. It has to be made pro-poor as well. The country's public spending in basic infrastructure (particularly in rural areas), education and health, whether seen in terms of share in GDP or in expenditure per person, has been lagging well behind those of its East Asian neighbors with similar per capita income. To catch up with these countries in terms of poverty reduction and human development outcomes, the government has to simply prioritize spending in basic infrastructure and the social sector, especially in education and health. More than that, however, targeting of public spending must be improved so that poorer individuals would receive proportionately more opportunities for publicly funded social services and infrastructure. Unfortunately, the country's record in administering direct anti-poverty programs -- such as land tenure, food, credit, and housing subsidy programs -- has been quite disappointing (Balisacan and Edillon 2005). These programs had high leakages to the non-poor, were administratively costly to implement, and encouraged unintended rent-seeking processes.

To be sure, a number of direct anti-poverty programs had been successfully pilot-tested in various areas or sectors of society, especially at the level of local government units. Upscaling these "success stories" appears to be a major challenge, especially if these have received generous funding support from foreign donors.

Overall, the country has not been lacking in the thrust and zeal to achieve poverty reduction and sustainable growth. These have certainly been present throughout the postwar period. By and large, only the emphasis and the strategy to achieve these goals have changed over the years, at least as indicated by development plans and official policy statements. However, development plans are one matter; the development record is another. Implementing the plans in a regime of accountable and pro-poor governance has long been a challenge for the Philippines. The country can hardly afford to miss again opportunities for reforms – and inclusive growth.

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Annex Table 1 Determinants of Growth and Poverty Reduction: Descriptive Statistics

Variable	Description	Mean	Standard Deviation	Minimum	Maximum
Income 1988	Log of per capita income, 1988	9.868	0.270	9.168 (Romblon)	10.562 (Metro Manila)
Income 2003	Log of per capita income, 2003	10.059	0.290	9.058 (Sulu)	10.717 (Northern Vizcaya)
Headcount 1988	Proportion of the population deemed poor, 1988	0.394	0.175	0.075 (Kalinga-Apayao)	0.852 (Romblon)
Headcount 2003	Proportion of the population deemed poor, 2003	0.321	0.176	0.044 (Northern Vizcaya)	0.884 (Sulu)
Average income growth rate	Average annual growth rate of per capita income, 1988–2003	0.012	0.016	-0.030 (Maguindanao)	0.049 (Batanes)
Average headcount growth rate	Average annual rate of change in poverty incidence, 1988–2003	-0.008	0.032	-0.0568 (Batanes)	0.115 (Mindoro Occidental)
Gini 1988	Expenditure Gini ratio, 1988	33.594	5.077	21.190 (Tawi-Tawi)	43.230 (Iloilo)
Gini squared 1988		1,153.988	339.961	449.016	1868.833
Dynasty	Proportion of provincial officials related by blood or affinity	0.140	0.246	0	1.000
Ethnic fragmentation 1988	Herfindahl index	0.579	0.190	0.287 (Catanduanes)	0.884 (Palawan)
Mortality	Mortality rate per 1,000 children aged 0–5 years, 1988	84.688	14.847	55.920 (Pampanga)	121.120 (Western Samar)
<i>Landlock</i>	Dummy variable (1 if a landlocked province, 0 otherwise)	0.203	0.405	0	1.000
Change in literacy	Change in simple literacy rate, 1988–2003	3.847	5.288	-8.960 (Zamboanga del Norte)	16.0000 (Abra)
Change in road density	Change in (concrete-equivalent) road density, 1988–2003	0.123	0.286	-0.076 (Romblon)	2.466 (Metro Manila)
Change in electricity	Change in share of households with electricity, 1988–2003	18.761	13.931	-11.800 (Agusan del Sur)	67.380 (Batanes)
Change in CARP	Change in CARP accomplishment, 1988–2003	0.802	0.144	0.263 (Sulu)	1.000 (Batanes/Squijor)
Change in agricultural terms of trade	Change in agricultural terms of trade, 1988–2003	-0.004	0.186	-0.310 (Northern Mindanao provinces)	0.460 (CAR provinces)

Note: The last two columns show the provinces with the lowest and highest scores, respectively.
Source: Balisacan (2007).