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Growth, Equity and the Social Sector Analysis **by: Hyun H. Son & Mary Jane Carangal-San Jose**

1. Introduction

GDP per capita and related aggregate income measures are widely used to assess the economic performance of countries. Economic growth that measures the rate of change in per capita real GDP has become a standard economic indicator. Despite the popularity of economic growth as a measure of success, there is increasing recognition that it is an inadequate measure of a population's well-being. Higher economic growth does not necessarily mean a higher level of well-being of the people.

GDP as conventionally measured excludes many factors that contribute to well-being while incorporating other factors, which have an adverse effect on it. For instance, GDP does not include non-market production in the economy. The contribution made by housewives to output can be quite substantial, but is not included in measuring GDP. As growth leads to increased air and water pollution, people spend more money protecting themselves from these ill-effects. These expenditures are included in GDP but they do not add to well-being. Instead, pollution contributes to the people's ill-being.

It is not suggested that economic growth is not important for well-being. On the contrary, economic growth provides people with a greater command over goods and services, which translates to greater utility. It gives people more choices. However, these do not necessarily or automatically translate to well-being.

Furthermore, the benefits of economic growth are seldom shared equally. Some people may enjoy a much larger share of benefits while many others may be completely bypassed by growth. Thus, economic growth does not necessarily imply a higher well-being for everyone in the society. If the objective is to enhance the well-being of everyone, then economic growth is not a sufficient indicator of aggregate well-being. It should be supplemented with some other indicators that are more closely related to individual lives such as "achievements in the most basic human capabilities—leading a long life, being knowledgeable, and enjoying a decent standard of living" (UNDP 1999: 127). According to the Human Development Report (HDR) (1990), "Economic growth is a means and not an end of development." There is no automatic link between high GDP growth and progress in human development, at least in the short to middle term.

This chapter on the social sector study focuses on identifying the obstacles or constraints to achieving sustainable and equitable growth that will ensure the well-being, in this case of the people in the Philippines. This study posits that penultimately, such constraints could be related to human capital, i.e in terms of education and health (see Appendix A.1). Households decide on schooling, health care and labor force participation. These decisions relates closely with the households' well-being. Such decisions moreover, have direct impacts on the economy as a whole: for instance, households' decisions on schooling are directly

related to the production of skilled/unskilled labor for the economy. Although GDP (obtained from national account statistics) and household welfare (coming from unit record household surveys) are not comparable and do not always provide the same trend in growth, it is widely accepted that people's well-being is better reflected in welfare measures obtained from micro household surveys than in national accounts. As such, this chapter explores what constrains the achievement of sustainable and equitable growth with a particular focus on basic social services such as health and education.

In this chapter, the key questions in which we are interested are as follows:

- Is spatial disparity a binding constraint to growth and poverty reduction?
- Have spatial disparities in opportunities been serious constraints to achieving an equitable growth?
- Do people have access to primary education and health services?
- Does everyone in society benefit equally from primary education and health services?
- Is the pattern of government budget allocation equitable across regions and income groups?

This study will utilize three different types of nationally representative household surveys: the Family Income and Expenditures Survey (FIES) and Annual Poverty Indicator Survey (APIS). For this study, we have used the FIESs conducted in 1994, 1997, 2000 and 2003. We have also used the 1998 and 2004 APISs.

The study is organized in the following manner. Section 2 analyzes trends on average welfare, inequality and poverty in the Philippines. Section 3 discusses human development in health and education and economic growth. In this section, major findings from cross-country and cross-regional regression analyses are discussed. Section 4 looks into the education sector, particularly on issues including access to and equity of education, quality and government resource allocations. Section 5 deals with similar issues for the health sector. Section 6 reviews the Philippine government's major poverty reduction programs. In this section, issues of programming, budgeting and institutional arrangements are discussed. The final section contains conclusions and policy recommendations based on the major findings of the study.

2. Average Welfare, Inequality and Poverty

There is a widely held view that in the Philippines, the development policy has favored Luzon and discriminated against the Visayas and particularly Mindanao. Moreover, the poor performance of the Philippine economy over the past three decades has been blamed partly on the relatively large gap in access to infrastructure and social services between the major urban centers and rural areas (Balisacan 1996, Bautista 1997). Spatial variation in certain summary measures of human development is also evident (HDN 1996, 2005).

If spatial income disparities are indeed at the core of the poverty problem in the Philippines, then policy reforms aimed at reducing these disparities have to be central to the country's poverty reduction program. This may also promote efficiency goals: important dynamic externalities can arise from targeting by region or according to sector-specific characteristics (Bardhan 1996, Ravallion and Jalan 1996). Channeling physical infrastructure investments—such as roads, communications, and irrigation – to backward areas or the rural sector in

general, may improve the productivity of private investment decisions, promote the development of intangible 'social capital', and mitigate erosion in the quality of urban life by discouraging rural-urban migration.

However, if spatial income disparities result from variations in human development within each of the regions of the country, then a different approach to poverty reduction needs to be found. It is possible, for instance, that systematic differences in levels of human capital between low and high-income groups within a geographic region translate into considerable differences in earning opportunities. In this case, a policy prescription to reduce overall income inequality and poverty would require expanding the access of low-income groups to basic social services and infrastructure.

This section seeks to test if spatial disparity represents a binding constraint to growth and poverty reduction in the country. To achieve this, we need to begin by analyzing trends in average standard of living or welfare, poverty and inequality over the period 1994-2003, with a particular focus on regional disparities.

2.1. Average standard of living

Average standard of living can be measured either by per capita income or by per capita consumption. The latter is widely preferred however. On theoretical grounds, consumption is better than income in reflecting the current and long-term standard of living. Income is subject to large fluctuations due to transitory components, while consumption is more stable as people tend to smooth out their consumption over time, albeit partially, through savings and dissavings. Thus, consumption is deemed as a better measure of permanent income; it is less influenced by transitory income and is thus more stable.

From a practical perspective, consumption is measured more accurately than income. In an economy largely characterized by self-employment and informal sector, income is hard to estimate accurately. Moreover, it tends to be reported inaccurately for tax advantage or illegal activities. Based on both theoretical and practical reasons, international practitioners have relied increasingly on consumption or expenditure-based measures to analyze poverty and inequality. Nevertheless, this chapter will use both measures for completeness.

This chapter adjusted per capita nominal income and expenditure by the costs of living that differ across regions and over time. This was achieved by dividing per capita nominal income or expenditure by per capita poverty line, expressed as a percentage. This measure is commonly referred to as the per capita welfare of income or expenditure, which could be interpreted as real income or expenditure. The poverty lines used in this study are consistency-conforming provincial poverty lines developed by Balisacan (2001).¹ Per capita welfare of income or expenditure is thus equivalent to the per capita income or expenditure that is above or below the poverty line. For instance, a per capita welfare of income of 250 means that an individual's income is 2.5 times greater than the poverty line. Similarly, a per capita welfare of income of 70 can be interpreted as the per capita income that is 30 percent lower than the poverty threshold.

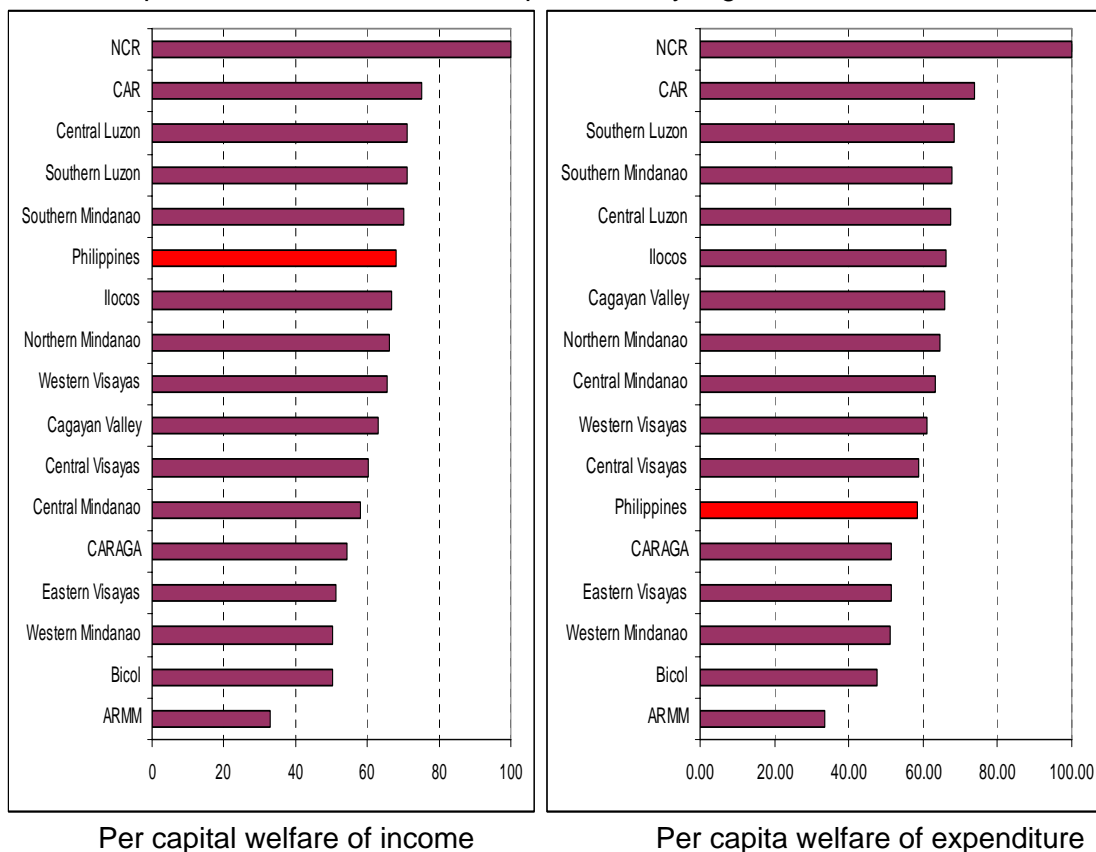
According to our estimates from FIESs, both welfare measures show that people's average standards of living have improved during 1994-2003. Over this period, per capita

¹ Although there have been debates on official poverty lines vs. other poverty lines, this is not the main objective of the current study. For detailed discussions on the poverty lines, see Balisacan (1999) and ADB (2005).

welfare of income and expenditure grew at an annual rate of 1.43 and 1.70 percent, respectively. Our estimates also reveal that both welfare indicators increased sharply in the 1994-97 period flowing from the restoration of political stability and deepening of policy and institutional reforms. However, because of the combined impact of the Asian financial crisis, the El Niño phenomenon in 1998, and political uncertainty, the overall growth in average welfare fell over 1997-2000 and continued to decline in 2000-2003. We have found that per capita welfare based on income fell more rapidly than the per capita welfare of expenditure.

Figure 1 shows the disparity in the level of average welfare across the 16 regions of the Philippines. Clearly, average welfare varies substantially across regions with the National Capital Region (NCR) having the highest mean living standard over the nine-year period. In 2003, its average per capita welfare of expenditure was almost 47 percent higher than the national average and about three times the mean living standard for ARMM, the poorest region of the country. Overall, the average welfare for the Luzon regions surpassed those in the Visayas and Mindanao. While the welfare ranking of most regions had changed between 1994 and 2003, NCR had remained in its relative position over the period. Our finding suggests that the prevalence of regional disparity remains a major challenge to the country.

Figure 1: Per capita welfare of income and expenditure by regions, 2003



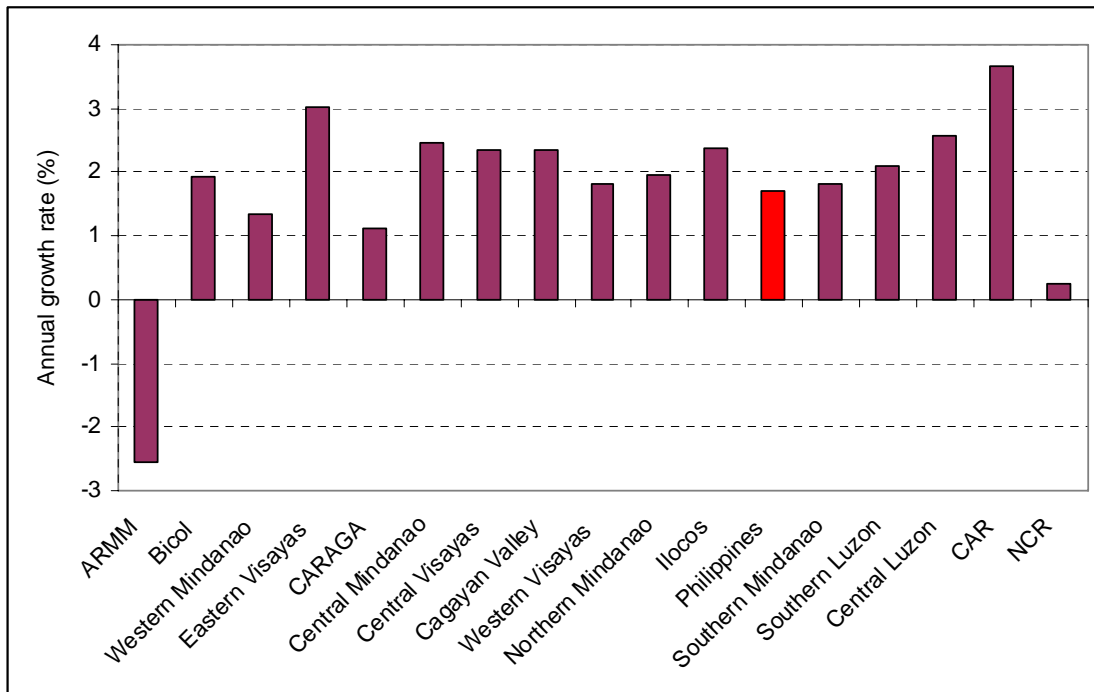
Note: Per capita welfare is expressed in terms of NCR. This means that the per capita welfare of NCR is taken as 100.

Source: ADB staff estimates

In terms of the growth in average welfare, Figure 2 does not suggest that richer regions grew faster than poorer ones over the period 1994-2003. NCR, the richest region grew

sluggishly over the period (0.26% per annum), which is far slower than the other regions except ARMM. The poorest region, ARMM, is the only region that has experienced a negative growth over the period (-2.54% per annum). Such trends have widened the disparity in the standards of living between NCR and ARMM. Along with material well-being, disparity in human development in education and health could have increased between the two regions, which will be investigated in sections 4 and 5. This also highlights the need to address economic hardships suffered by those living in the ARMM region.

Figure 2: Annual growth rates in per capita welfare of expenditure by regions, 1994-2003



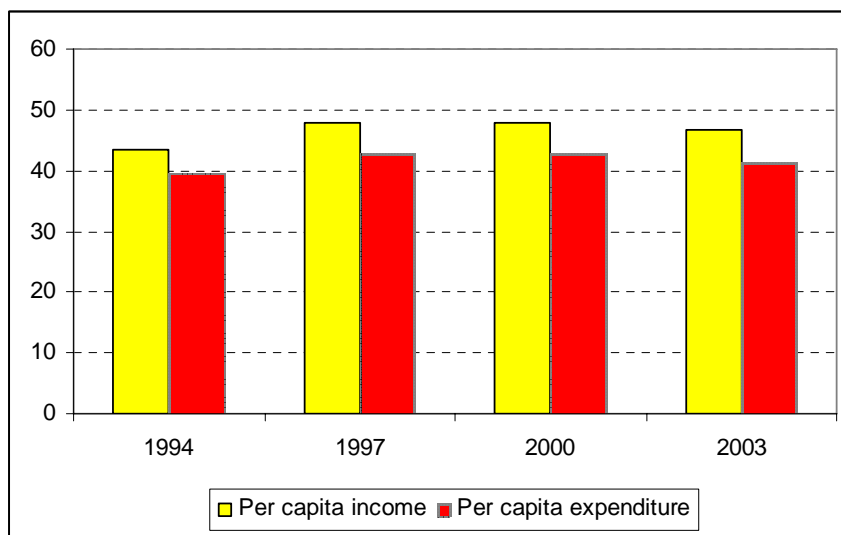
Note: Regions are arranged in ascending order of their per capita expenditure in 2003 price.
Source: ADB staff estimates

The foregoing has shown that average welfare has improved nationwide, but growth in welfare has declined over time. Moreover, disparities in welfare pervade the Philippines.

2.2 Inequality

In this study, inequality in per capita welfare of income and expenditure is measured using the Gini coefficient, which is the most widely used measure of inequality. Figure 3 shows inequality is high in the Philippines in terms of both income and expenditure. As expected, the distribution based on income is more unequal than that of expenditure. More importantly, the distribution of both income and expenditure had worsened during 1994-2003: the Gini coefficient rose by 7 and 4.2 percent for per capita welfare of income and expenditure, respectively. This increase was mainly attributed by the rise in Gini in the earlier period (1994-1997). While inequality fell in the latter period (2000-2003), the 2003 level was still higher than the 1994 level. These findings indicate that while average per capita welfare increased in the Philippines during 1994-2003, the benefits of the growth were not equally shared by all segments of the population.

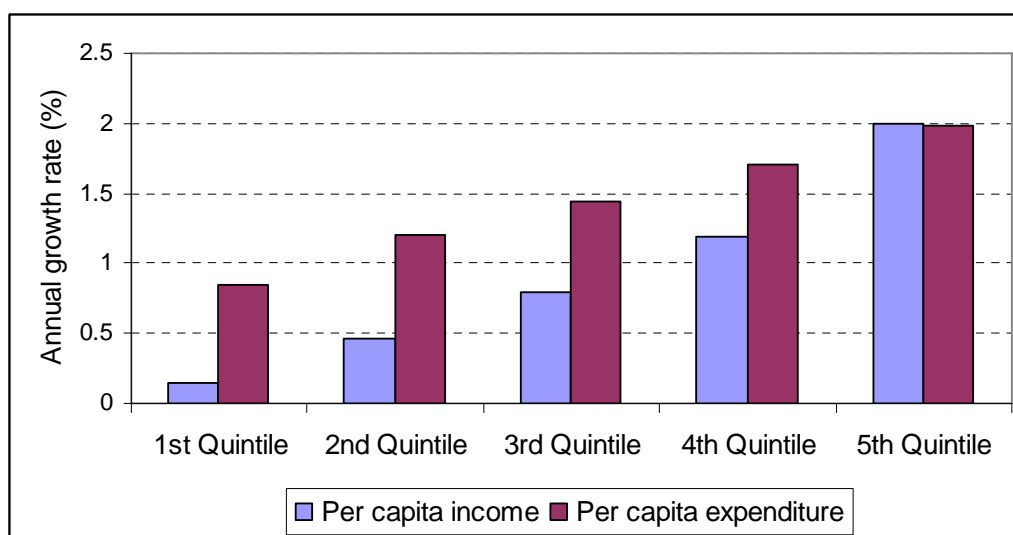
Figure 3: Gini coefficients based on per capita income and expenditure adjusted for regional costs of living indices



Source: ADB staff estimates

Figure 4 shows the annual growth rates of per capita welfare of income and expenditure by quintile shares. The growth rates are positive for all quintiles over the entire period (1994-2003). They are monotonically increasing as one moves toward the richer quintile shares: per capita welfare had grown the slowest for the poorest quintile, and fastest for the richest quintile. More recently however, (2000-2003) the growth rates are negative for the richest quintile, suggesting that the standard of living of the top 20 percent of the population declined during the period while that for the poorest quintile remained unchanged. These findings indicate that generally, inequality in the Philippines had worsened in the 1994-2003 period, although it slightly improved in the latter years.

Figure 4: Annual growth rates of per capita real income and expenditure by quintile shares, 1994-2003



Source: ADB staff estimates

A way of understanding inequality is to calculate the contributions of various socioeconomic groups to aggregate inequality. A commonly used tool is the Theil's index. This index decomposes total inequality into between- and within-group inequality. Decomposition is useful in separating the relative contribution of between- and within-group inequality to the overall inequality in society. This technique can be most helpful in examining changes in intra-regional and inter-regional inequality over time.

Table 1 shows a decomposition of national inequality of per capita welfare of income and expenditure into two components: inequality between regions and inequality within the region. The results show that the contribution of the between-group (i.e. between regions) component to overall inequality is small, despite the large regional differences in average welfare of income and expenditure. Hence, removing between-group inequality by equalizing all regional mean incomes or expenditure will not do much to reduce total inequality. In 2003, for instance, equalizing all regional mean incomes and expenditure by removing between-group inequality would have reduced total inequality by only 7.2 and 9.2 percent, respectively. On the other hand, removing within-region inequality by making everyone's income or expenditure within a region equal to the mean for that region would lower total inequality substantially -- for example by 92.8 percent in 2003.

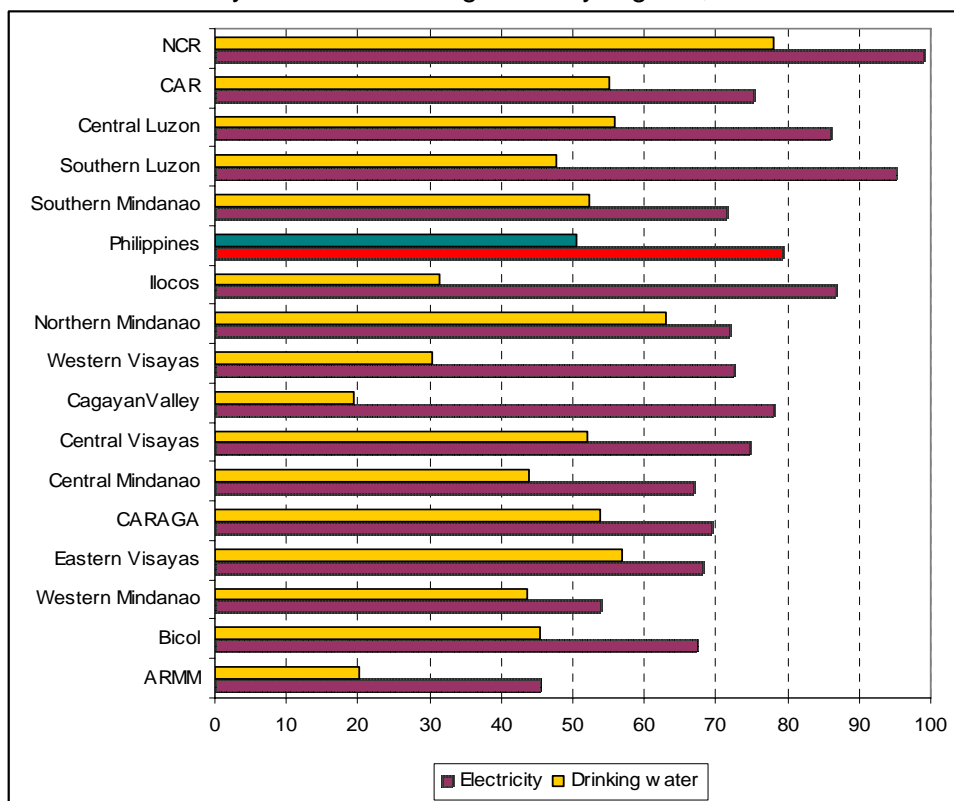
Table 1: Explaining inequality by regions

	1994	1997	2000	2003
Per capita welfare of income				
Theil's index: total	31.6	39.0	38.6	36.7
Of which				
Within regions	27.8	34.0	33.9	34.0
(as a share of total)	(88.1%)	(87.1%)	(87.8%)	(92.8%)
Between regions	3.8	5.0	4.7	2.7
(as a share of total)	(11.9%)	(12.9%)	(12.2%)	(7.2%)
Per capita welfare of expenditure				
Theil's index: total	26.0	30.5	30.6	28.3
of which				
Within regions	22.5	25.7	26.1	25.7
(as a share of total)	(86.6%)	(84.3%)	(85.3%)	(90.8%)
Between regions	3.5	4.8	4.5	2.6
(as a share of total)	(13.4%)	(15.7%)	(14.7%)	(9.2%)

Source: ADB staff estimates

Although income or consumption is an important component of the standard of living, it will be useful to look into inequality based on non-income dimensions. Non-income dimensions of living standards may include various housing characteristics, such as access to safe drinking water, sanitary toilet, and electricity. As illustrated in Figure 5, inequality in the endowment of modern housing amenities can be seen between regions, whereby NCR far better equipped than the ARMM.

Figure 5: Access to electricity and safe drinking water by regions, 2004

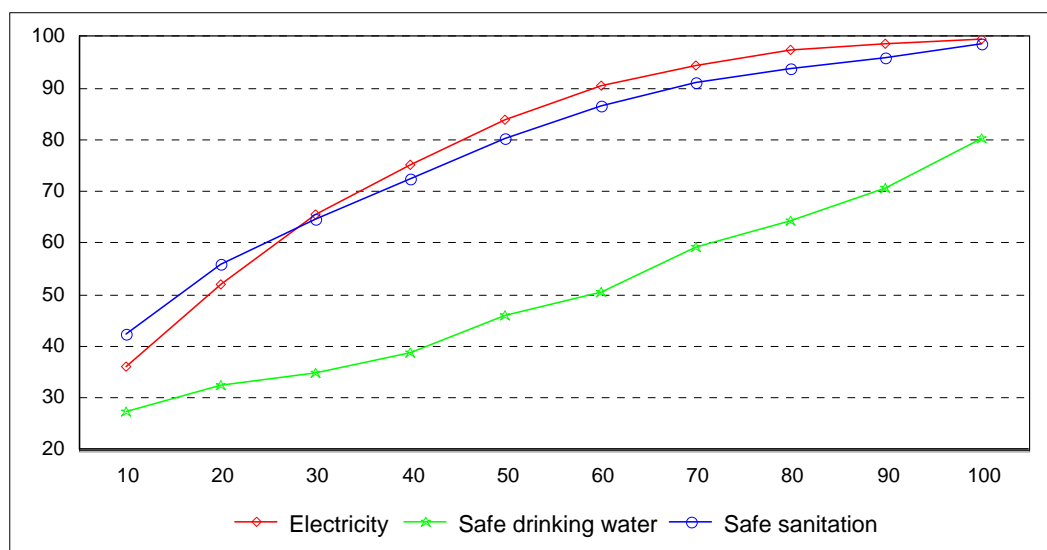


*Note: Regions are arranged in ascending order of their per capita expenditure.
Source: ADB staff estimates*

Water scarcity accentuates poverty by directly constraining people’s access to a basic necessity and indirectly limiting access to food and employment. Improved household and community water security, safe environmental sanitation and better hygienic practices are among the most effective approaches to minimizing the transmission of and exposure to pathogens and wastes in and around communities and households. When access to water and sanitation is sub-optimal, the levels of disease, mortality and morbidity in the population are likely to be high.

As expected in the Philippine context, richer households tend to have better access to various housing amenities than the poorer ones (Figure 6).

Figure 6: Access to housing amenities by income deciles, 2004



Source: ADB staff estimates

To recap, inequality persists in the Philippines and has worsened from 1994-2003. Much of this inequality is attributed to within-group inequality. In assessing further how welfare has changed in the Philippines, this study has shown that inequality persists in terms of both income and non-income dimensions (e.g. access to housing amenities such as safe drinking water and electricity). As pointed out earlier, this reflects much of the bias in government spending that favored the Northern regions in the country. As the next section shows, inequality has redounded to disparities in poverty incidence across Philippine regions. The well-being of the Philippine economy has on the whole remained largely uneven.

2.3. Poverty

This study focuses on three aspects of poverty: incidence, depth, and severity. These are captured by the general class of Foster-Greer-Thorbecke (FGT) (1984) poverty measures. The incidence of poverty is measured by the headcount ratio, which simply estimates the percentage of population living below the poverty line.

The depth of poverty is estimated by the poverty gap ratio. The poverty gap ratio can be defined by the average distance below the poverty line as a proportion of that line, where the average is formed over the entire population, counting the non-poor as having zero poverty gap. Thus, the sum of poverty gaps (aggregated across all individuals) reflects the minimum amount of consumption that is required to bring all the poor up to the poverty line.

The severity of poverty measure represents the mean of the squared proportionate poverty gaps. Unlike the headcount ratio and the poverty gap ratio, it considers inequality among the poor. The severity of poverty measure is sensitive to the distribution of consumption among the poor, in that its calculation give more weights to those whose consumption falls far below the poverty line. Hence, the severity of poverty index is more sensitive to changes in the standard of living of the ultra-poor than of the moderately poor.

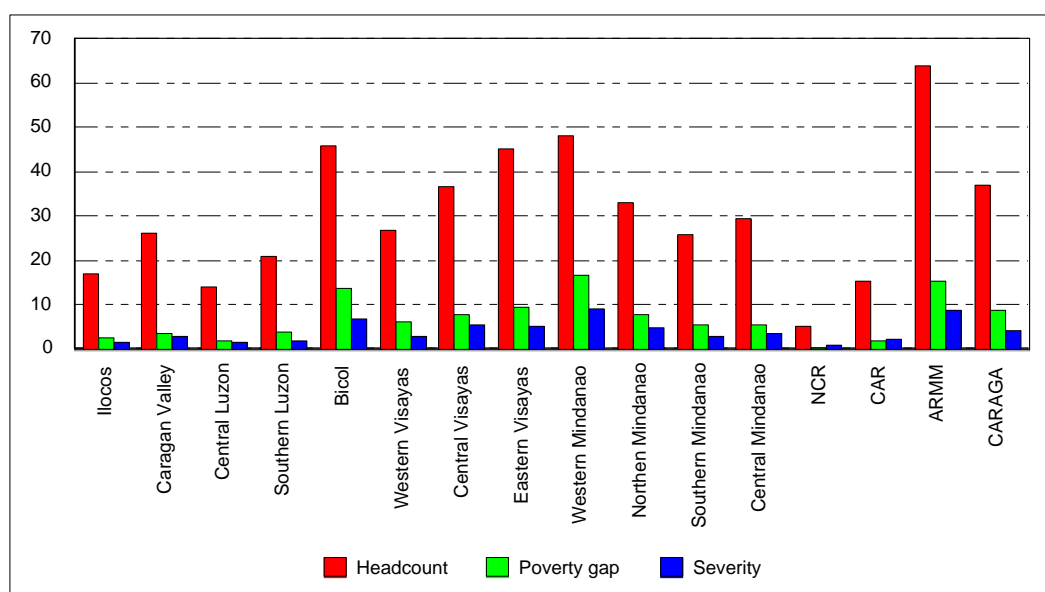
Table 2: Poverty incidence by 16 regions (based on per capita welfare of expenditure)

	1994	1997	2000	2003			
				Poverty Incidence	Population share	Contribution to total poverty (% points)	Share of poor
Ilocos	26.4	20.9	20.3	16.9	5.3	0.9	3.6
Cagayan Valley	41.8	30.1	29.6	26.2	3.4	0.9	3.3
Central Luzon	24.4	13.4	16.3	13.9	11.1	1.5	5.8
Southern Luzon	28.8	19.6	19.7	20.7	16.0	3.3	12.7
Bicol	50.2	45.6	49.6	45.7	6.1	2.8	11.4
Western Visayas	34.5	22.1	28.6	26.7	7.6	2.0	8.4
Central Visayas	42.9	35.6	39.5	36.6	7.4	2.7	9.4
Eastern Visayas	51.4	50.6	47.0	45.0	4.7	2.1	7.8
Western Mindanao	47.1	35.3	47.0	48.2	3.6	1.8	7.0
Northern Mindanao	35.1	26.1	27.7	32.9	4.5	1.5	5.7
Southern Mindanao	30.5	27.6	25.1	25.9	4.9	1.3	4.9
Central Mindanao	45.2	32.9	36.7	29.3	4.3	1.3	5.2
NCR	5.6	3.5	5.6	4.9	13.5	0.7	2.3
CAR	26.6	23.4	20.9	15.3	1.7	0.3	1.1
ARMM	48.9	51.1	61.9	63.9	3.3	2.1	7.6
CARAGA	41.3	37.1	34.0	36.9	2.6	1.0	3.8
Philippines	32.2	25.2	27.1	26.0	100.0	26.0	100.0

Source: ADB staff estimates

Table 2 shows poverty incidence across regions of the country from 1994 to 2003, as well as the contribution of each region to total poverty. Despite the huge gaps, the NCR consistently recorded the lowest poverty, while ARMM, Bicol and Western Mindanao the highest. As shown in Table 2 and Figure 7, the highest concentration of poor people was observed in the Visayas and Mindanao regions in 2003: 48.3 percent of the poor lived in those regions. In particular, the highest concentration of the ultra poor – as measured by the poverty gap and severity of poverty ratio – was found in Western Mindanao. High poverty – in all three aspects– in Western Mindanao and ARMM was brought about largely by instability: toward the end of the 1990s, the region was at the center of violent conflicts between the military and armed dissidents.

Figure 7: Poverty estimates by regions in 2003



Source: ADB staff estimates

This chapter began by purporting that education can penultimately bear on poverty reduction. Table 3 reaffirms that education can be a powerful shield against poverty. Similar to most countries, there is a negative correlation between poverty and the level of education of the household head in the Philippines. The incidence of poverty falls continuously, from households where the head has no formal education (60.2% in 2003) to one with a tertiary education (2% in 2003). This suggests that human capital accumulation has important impacts on individual earnings, thus on mitigating poverty.

Table 3: Poverty incidence by educational levels of household heads (based on per capita welfare of expenditure)

				2003			
	1994	1997	2000	Poverty incidence	Population share	Contribution to total poverty (% points)	Share of poor
No education	54.7	46.9	57.5	60.2	2.8	1.7	6.7
Primary incomplete	48.9	41.9	45.0	46.5	21.9	10.2	39.0
Primary graduate	39.3	31.7	33.3	32.8	20.5	6.7	26.2
High school incomplete	31.5	24.5	28.6	26.3	12.9	3.4	12.8
High school graduate	18.3	13.6	17.0	14.5	21.3	3.1	11.9
College incomplete	8.8	6.3	7.5	6.6	11.2	0.7	2.7
College graduate	2.8	1.8	1.3	2.0	9.4	0.2	0.6
Philippines	32.2	25.2	27.1	26.0	100.0	26.0	100.0

Source: ADB staff estimates

Thus far, our analysis shows that the Philippine economic growth is quite unbalanced with some regions growing faster than others and even more so, that poverty is more severe in the southern regions of the country such as Mindanao, Visayas and Bicol. That spatial disparity could be a binding constraint to sustainable and equitable growth and ultimately to poverty reduction appears to hold water. Our analysis also indicates that addressing inequality within, rather than between each region would considerably reduce inequality nationwide. This suggests the need for government policies to be region-specific, to ensure success in curbing aggregate inequality. At this point, it is essential to understand how health and education can contribute to addressing regional disparities, with the end in view of attaining equitable growth.

3. Human Development in Education and Health and Economic Growth

The linkage between human capital development and economic growth cannot be undermined. Higher levels of human development affect the economy by enhancing people's capacities and, consequently, their creativity and productivity. Ample evidence suggests that as people become healthier, better nourished and educated, they contribute more to economic growth through higher labor productivity, improved technology, attracting more foreign capital, and higher exports. This, of course, does not detract from the intrinsic value of improving the lives of those who cannot find employment because of disability or age, for example.

As indicated in an earlier chapter on "Human Capital and Economic Growth", increases in earnings are associated with additional years of education, with the rate of return varying with the level of education. In agriculture moreover, evidence suggests the positive effects of education on productivity among farmers using modern technologies (Schultz 1975, Rosenzweig 1995).

There is also a positive feedback from improved education to greater income equality. As education becomes more broadly based, people with low incomes are better able to seek out economic opportunities which improve income distribution over time. For example, a study of the relationship between schooling, income inequality and poverty in 18 countries of Latin America in the 1980s concluded that education has the strongest impact on income inequality (Psacharopolous et al. 1992). Improved income distribution, in turn, has been found to be positively associated with economic growth, even though the empirical basis for this appears to be rather inconclusive (Alesina and Rodrik 1994, Alesina and Perotti 1994).

Improved health and nutrition have also been shown to have direct effects on labor productivity, especially among poorer individuals (Behrman 1996). For instance, calorie increases have been widely shown to raise productivity, including among farmers in Sierra Leone, sugar cane workers in Guatemala and road construction workers in Kenya (Cornia and Stewart 1995). A longitudinal study of children in Chile concluded that providing nutritional supplements to children to prevent malnutrition would generate benefits in terms of additional productivity 6 to 8 times the cost of the intervention (Selowsky and Taylor 1973). At the aggregate level also, health has been shown to be an important input into economic growth (Bloom et al. 2004).

Education and health alone, of course, cannot transform an economy. The quantity and quality of investment, domestic and foreign, together with the overall policy environment, form other important determinants of economic performance. Yet, the level of human development in health and education has a bearing on these factors too.

Notwithstanding the relationships between economic growth and human capital in education and health, this study extends the discussion to find out whether the relationship holds empirically. For this purpose, we have used data from 69 developing countries including the Philippines, though for some variables, a smaller number of observations was used due to lack of data (Boozer et al. 2004). Using ordinary least squares method, regression helps us understand the extent to which indicators of human capital have a bearing effect on growth in GDP per capita during 1960-2001. The variables chosen to measure a progress in human capital are the adult literacy rate and life expectancy. The results showed that GDP per capita growth was significantly related to improvement in the literacy rate at both 1 and 5% level. Similar results were derived for life expectancy.

For the same period (1960-2001), we also performed regression to test the linkage between growth and income distribution (using average Gini coefficient) and poverty (using average headcount ratio) in 69 developing countries. The results showed that the average Gini coefficient over the period did not prove significant, while the average poverty headcount ratio was found to be highly significant at the 1% level. The regression results were found to be robust particularly for 12 Asian countries included in the model.²

Overall, we have found significantly positive effects of progress in education and health indicators on growth. While useful, cross-country analysis suffers from insufficient attention to country heterogeneity in the growth-human capital-inequality-poverty relationship, and is empirically unable to generate robust determinants of growth that are valid across the developing world. Therefore, policy recommendations emerging from cross-country analysis should not be prescribed for individual countries without further analysis at a specific country level.

A similar regression methodology was applied in the case of the Philippines whereby Balisacan (2006) has investigated the impact of human capital on regional income growth. His findings echoed the results of our cross-country regression analysis. A major conclusion from his analysis was that improvements in health and schooling have positive effects on regional income growth rates in the Philippines. In his regression model, basic literacy rate and under-5 mortality rate were included as explanatory variables to capture their impacts on regional growth.

Findings from both cross-country and within-country analyses above suggest that a progress in health and education affects growth. This motivates us to investigate the relationship between human capital and growth. It should be noted that the main objective of this study is not to establish the casual relationship between the two. To do so can be an endless exercise if its objective is set to find the causation between human capital and growth. In fact, economic literature suggests that causation runs in both directions, from human capital to growth and *visa versa*. Rather, this study focuses on investigating the linkage between growth and human capital in health and education at a micro level.

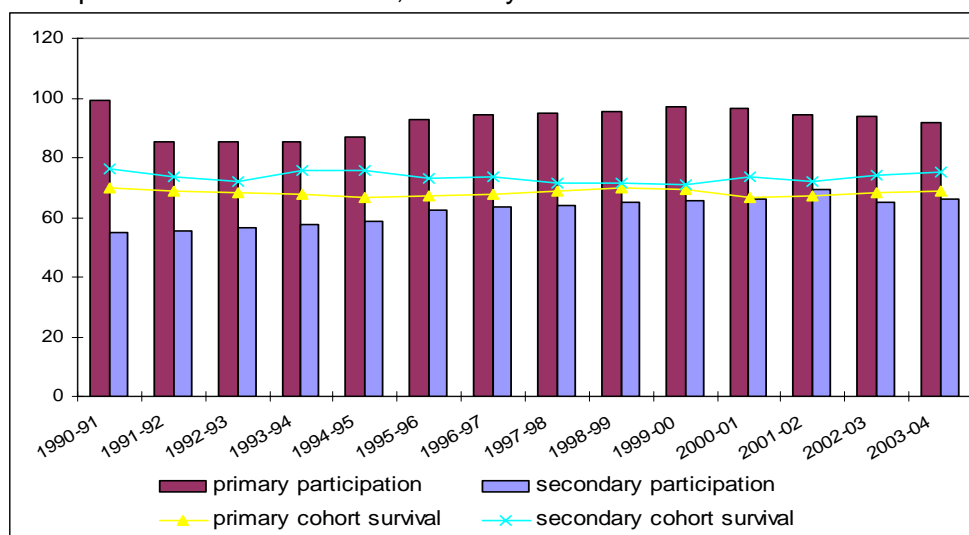
4. Education

For decades, the Philippines has ranked among the most highly educated developing countries. At first glance, it appears that the country has made significant progress in education as reflected in the levels of basic and functional literacy. While basic literacy (i.e. can read and

² The 12 Asian countries included in the regression model are the Philippines, China, Hong Kong, Indonesia, Lao PDR, Malaysia, Mongolia, Papua New Guinea, Korea, Singapore, Thailand, and Viet Nam.

write) increased from 90% in 1989 to 93% in 2003, functional literacy (i.e. can read, write, compute and comprehend) improved from 73% to 84.1% over the same period.

Figure 8: Participation and survival rates, school year 2001/02 – 2005/06



Source: Department of Education

However, a closer look as shown in Figure 8 reveals a number of disturbing trends. Of particular concern in recent years, is the continued decline in primary participation from a high of 90 percent in school year 2001-02 to a low of 84 percent in school year 2005-06. The drop is more pronounced in urban areas, threatening the likelihood that the Philippines can attain its MDG target of universal primary education by 2015. More depressing has been the drop in cohort survival rates for both primary and secondary schools from 66 percent and 71 percent, respectively in school year 1981-82 (NSCB 1990), to 58 percent and 59 percent respectively in 2004-2006. The sharp fall in secondary schools has been blamed on increasing tuition fees and the need for poor students to forego studies in lieu of work.

Most problematic has been the persistence of poor quality education in the Philippines as evident in low average scores achieved by primary students in 2002-2003. Achievement rates in primary schools are measured by the National Achievement Test (NAT) and its predecessors, namely the National Elementary Assessment Test (NEAT) and the National Secondary Assessment Test (NSAT). These tests assess students in three subjects – Mathematics, English and Science. In addition, educational quality has suffered as a result of the country’s large pupil-teacher ratio at the primary school level, with 35 students per teacher (Department of Education 2007). The ratio for the secondary level is even higher at 39 students per teacher. By comparison, the primary pupil-teacher ratios in other Southeast Asian countries in 2004 were 19 for Malaysia, 21 for Thailand, and 23 for Vietnam.

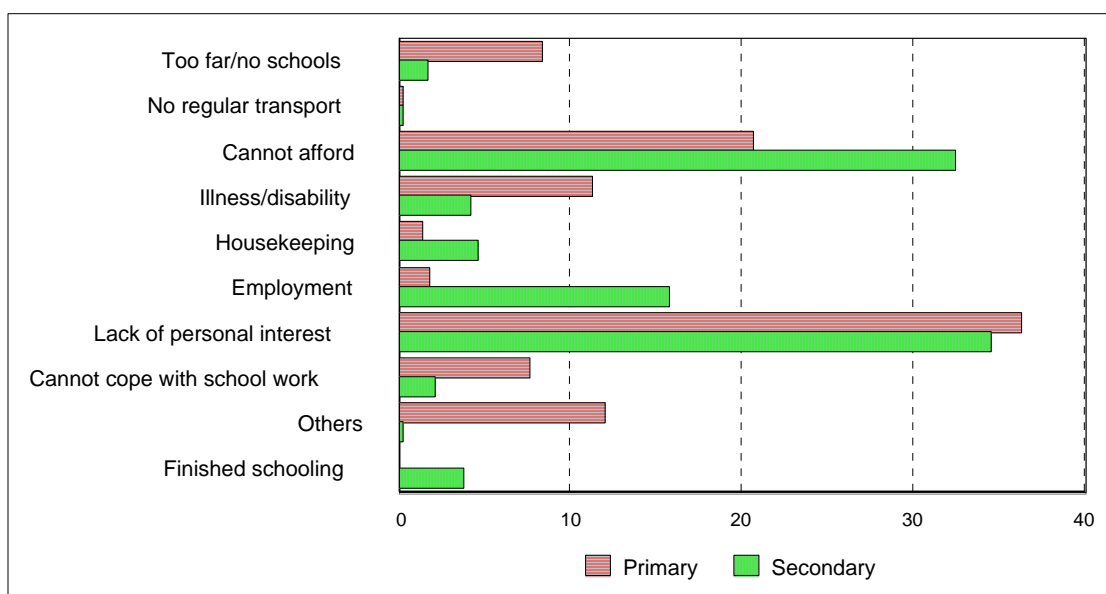
While the foregoing depicts the Philippine’s progress in achieving education nationwide, a different picture emerges at the regional level. The discussions below shed light on variations in access to education across the different regions and income classes within the country. Further, it will discuss the government’s resource allocation in education.

4.1. Access to and Equity of Education

Education is known to promote social mobility, thereby improving equity. This is one of the often-mentioned justifications for public intervention in the education sector. There are two dimensions by which one can measure whether the education system is indeed serving this end: (i) through average access to education by school-age children, over time and across space, and (ii) through distribution of educational opportunities across different socioeconomic and income groups. This section deals with both access to and equity of education at primary and secondary levels.

According to the 2004 APIS, the Philippine primary education system provides an impressively wide access to children aged 7-12 years. Almost 96 percent of school-age children attended a primary school in 2004. However, the proportion of school attendance by children aged 13–16 years drops at the secondary level (73%). This stems from the lack of personal interest (35%), affordability (32%) and employment (16%) (Figure 9). At the primary level, the main reason for not attending school is lack of personal interest. The lack of interest results, in turn, from a number of factors that discourage students to study including inadequate curriculum, unqualified teachers, and lack of learning materials. Such factors are largely related to the quality of education.

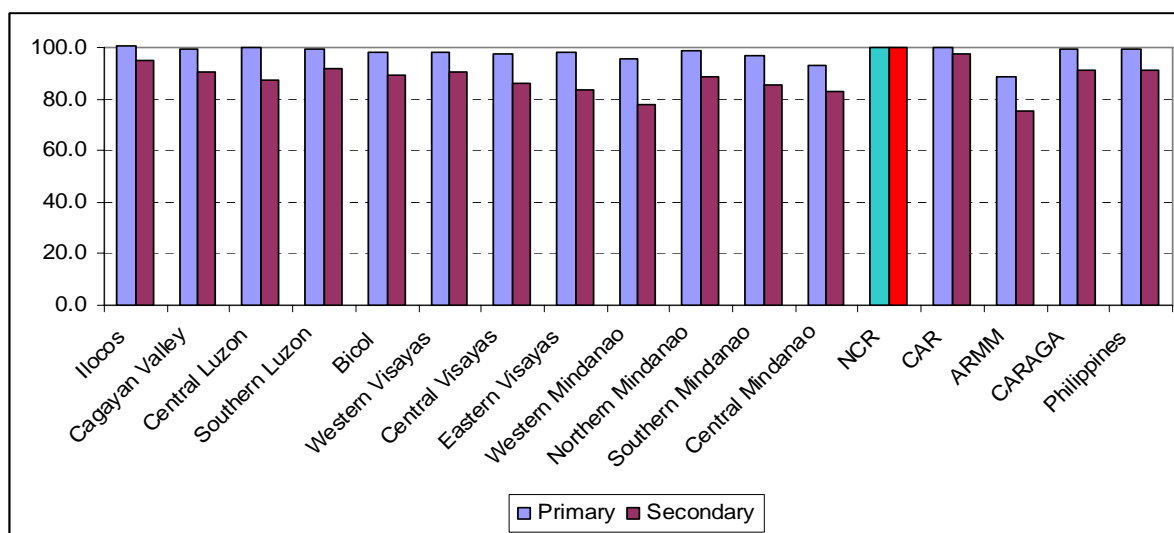
Figure 9: Reasons for not attending schools by school-age children



Source: ADB staff estimates

In the Philippines, regional differences in school attendance exist in both the primary and secondary levels (Figure 10). While the gap among regions is smaller during primary education, it becomes larger at secondary level. These results reveal a degree of correlation between children’s school attendance and poverty across regions. Indeed, poor regions – such as Bicol, the Visayas and Mindanao regions (particularly ARMM) – tend to have lower school attendance by children, falling below the national average. On the other hand, richer regions like NCR and CAR exhibit the best performance on this account. These gaps persist because the high cost of education has made it impossible for the poor to attend school, without sacrificing their basic needs.

Figure 10: Percentage of school-age children attending primary and secondary schools, 2004



Note: Figures are normalized to NCR. This means that access to primary and secondary school in NCR is equal to 100.

Source: ADB staff estimates

The correlation between children's school attendance and poverty is evident further when examining access to education by the different income classes in the Philippines.

Some studies argue that there are pronounced differences in access to education between different income groups. For instance, a study by Balisacan (1994) suggests that while there is an almost 100 percent enrollment rate for children aged 7-10 years, the figure drops beyond that age, particularly for the three poorest deciles. More recently, Manasan (2001) found that the poor have a much lower access to education than the non-poor, and the disparity becomes greater at the higher educational level.

An attempt by this present study to assess the equity of access to primary and secondary education by income deciles revealed similar findings as those of the above-mentioned studies. This was done using the methodology of the opportunity curve proposed by Ali and Son (2007). The methodology was applied to two periods of the Annual Poverty Indicator Survey, 1998 and 2004.

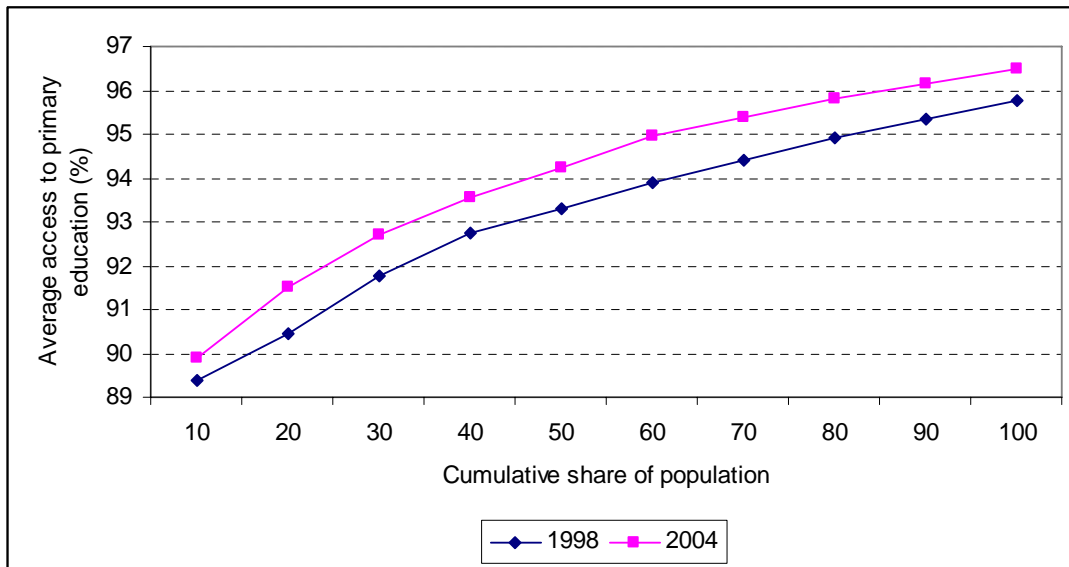
The slope of the opportunity curve may be helpful in assessing the extent to which opportunities are distributed equally or unequally among the people at a given time. A downward sloping opportunity curve suggests that opportunities are distributed equally among the population. Conversely, an upward sloping curve suggests an inequitable distribution. Figures 11 and 12 present the opportunities curves over 1998-2004. In this case, opportunities are assessed in terms of access to primary and secondary education.

There are two points to consider on these curves. First, when the entire population is covered (i.e., a variable on the horizontal axis is 100), the opportunity curve coincides with the average access to primary (or secondary) education among children aged 7-12 years (or 13-16 years). Hence, access to primary education by the 7-12 year-old children was on average 95.7 percent in 1998, slightly increasing to 96.5 percent in 2004. Similarly, 73.4 percent of the

children aged 13-16 years attended a secondary school in the Philippines in 1998; it was slightly higher at 74.8 percent in 2004. These results can be seen from the upward shifts in the opportunity curve. Such changes on both educational levels are quite small over a six-year period, particularly for the secondary level.

Second, in terms of the equity of access to education, children at the bottom end of the income distribution have lower access to primary and secondary education. Such inequity can be seen from the upward sloping opportunity curves for both educational levels.

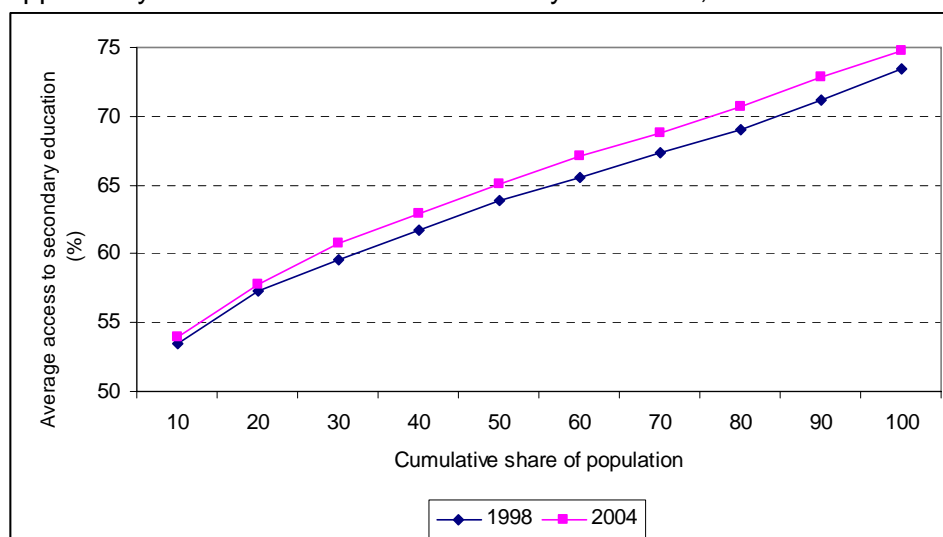
Figure 11: Opportunity curves for access to primary education, 1998-2004



Source: ADB staff estimates

Figure 11 shows clearly that the average opportunity in primary education has expanded over the period 1998-2004 among children aged 7-12 years. In terms of equity, it seems that the equity of the opportunity in primary education has remained unequal but its degree has been almost constant over the period. This has been suggested by the observation that the opportunity curves have shifted parallel across the income distribution.

Figure 12: Opportunity curves for access to secondary education, 1998-2004



Source: ADB staff estimates

Figure 12 clearly depicts an expansion of the average opportunity in secondary education, available among the children aged 13–16 years between 1998 and 2004. From Figure 8, the shift in the opportunity curves is greater for households with higher income than those with lower income. This suggests that secondary education has been utilized increasingly more by children from richer households than from poorer ones, supporting earlier claims that education has become unaffordable to the poor.

Hence in terms of access, educational attainment in the Philippines has achieved almost universal coverage at the primary level, but remains far from doing so at the secondary level. Equity-wise however, disparities in access is prevalent across regions within the country, particularly in secondary education. The gaps persist moreover, among income groups, suggesting the need to reallocate resources to the most needy.

4.2. Quality of Education

Wide access to education which means larger number of student enrollees brings with it concerns over class size, bottlenecks in teaching, but most importantly over quality. Ensuring the quality of labor force by providing quality education is particularly important in the Philippine context as the economy exports professionals, technicians and other skilled workers overseas. In 2004, overseas Filipino workers accounted for 10 percent of the country’s population, the highest in the world (Lam 2005). Moreover, remittances from these workers have accounted for about 8 percent of GNP in recent years.

Undoubtedly, the low quality of education is likely to be more visible in poor areas and regions. Hence, it is critical to improve the coverage and quality of the education system in the most impoverished parts of the country. Education is valued highly by Filipinos, rich and poor alike. For the poor, education is a means of getting a good job and thus escaping poverty and deprivation. For the rich, the state of public education, except for a few coveted state schools at the secondary and tertiary levels, is largely irrelevant. Rich families normally send their children to private schools, local or abroad. Indeed, the education policy for primary and secondary education has largely been about schooling for the poorer segments of the population. On the

other hand, the rich have good reasons to worry about the quality of public education because it contributes to the quality of labor force and hence economic growth in future.

That quality has remained low is evident in completion levels of primary and secondary education in the Philippines. A large number of children who enter school (about 30 % of those who enter grade 1 and about 25% of those who enter first year secondary school) do not reach the last grade in the cycle. With low transition rates, less than 50 percent of children who enter grade 1 are able to complete secondary school.

There is little direct evidence – using household survey data and school data – in the Philippines on the impact of improved school quality on school enrollments (and completion). There is, however, convincing evidence of its impact on learning outcomes. A report by the World Bank (1996) using provincial data showed that some school staffing characteristics – particularly related to teachers – have an impact on elementary school completion rates. This report also suggests that provincial imbalances in school staffing characteristics are correlated with provincial income.

Regional disparity in the quality of education is apparent further in cohort survival rates and average test scores at NEAT and NSAT. Cohort survival rates tend to be lower in the poorer regions. For instance, it was lowest at 32.2 percent for primary education in Western Mindanao (Lam 2005). The test scores reflect a similar result: NCR had the highest achievement rate in 1998 and Mindanao regions, the poorest. This evidence suggests that a more effective targeting of available educational resources in poor areas is needed to reduce the disparities in schooling outcomes. However, the way governments spend on education is likely to have negative effects on the quality of education, as will be discussed in the next section.

In addition, a study by de Guzman and Cortes (1995) using the HSMS data showed that having more experienced school administrators (with tenure of 10 years or less), teachers who use innovative teaching methods, and schools that offer remedial classes reduce the rate of student absenteeism in grade 1. Also, the availability of textbooks and the presence of a guidance counselor lower the likelihood of absenteeism among grade 4 students. Evidence from Vietnam (Glewwe and Jacoby 1996), where enrollment rates are also very high and primary school completion rate is 80 percent, shows that school quality (as proxied by the lack of supplies, poor quality of buildings and poor quality of teachers) significantly lowers the probability of completing primary school. A higher percentage of trained teachers showed otherwise. Evidence from Indonesia (Mason 1994) similarly shows that the lower the quality of the school (as proxied by a high ratio of broken classrooms to maintained classrooms), the lower the probability of completing primary education.

4.3 Government Resource Allocation in Education

The Philippines' total (government and private) expenditure on education has increased in real terms over the past 15 years or so. The increase was due to larger enrollments at the primary and secondary levels as a result of the rapid growth in the number of school-age children.

Education has always ranked highest among the Philippine government's budgetary priorities. The newly launched Basic Education Sector Reform Agenda (BESRA) has underpinned a substantial increase in spending on education, close to 8 percent in real terms for 2007. However, when benchmarked against major ASEAN countries, education spending appears insignificant. Education spending as a share of Philippine GDP fell from 4 to 2.4

percent during 1998-2005 (WDI 2007). This is far lower than in countries like Malaysia (8.1%), Thailand (4.2%) and Vietnam (4.4%). Similarly, the Philippines lags behind its neighbors (e.g., Malaysia and Vietnam) when it comes to per capita spending on primary and secondary education. In 2004, the national government spent 11.1 percent of GDP per capita for every elementary student and 9.2 percent for every secondary school student. The corresponding figures for Malaysia were 20.2 percent and 28.3 percent, respectively. This casts doubts on the quality of secondary education in the Philippines.

Recent evidence supports the view that the low quality of education has resulted from misallocating public resources. For example, the share of government spending on primary education fell over the period, with private households paying for the shortfall. Moreover, as a share of total spending on education, national government spending on primary school dropped from 68 percent in 1986 to 59 percent in 1994, and recovered to 61 percent in 1997. Between 1986 and 1997, shares of spending for secondary education increased from 12 percent to 20 percent and remain unchanged for tertiary education at 20 percent. Per budget item, education spending appears to have shifted in favor of personal services whose share rose substantially from 74 percent in 1990 to 88 percent in 1999 on account of salary increases for teachers. During the same period, the share of maintenance and operating expenditure (MOE) fell from 17 to 9 percent. The squeeze on MOE has resulted in the short supply of key educational inputs including textbooks, teaching/instructional materials, science laboratory equipment and supplies, school deck, teacher training, and school building maintenance.

While the above analysis suggests broad directions for the efficient and equitable allocation of public resources, it also stresses the need for a sound institutional environment to implement effective educational reforms in the Philippines. One such factor pertains to having adequate accountability mechanisms to ensure good performance in the sector (Luz 2004). Besides, increasing salaries, teacher capabilities need to be strengthened. Unlike current practice, an adequate probationary period must be introduced for teachers before attaining permanent status. It is critical to address teacher issues in educational policy because these impact directly on student achievement. The education system needs to look carefully into the recruitment process of teachers, focusing on their competencies and ability to deliver good quality education.

5. Health

Similar to education, the Philippine health sector achieved modest gains at the national level. Life expectancy increased from 62.8 in 1990 to 64.1 years in 2000-05 for males and from 66.4 years in 1990 to 70.1 years in 2000-05 for females (NSO 2006). Infant and child mortality rates have declined significantly. Infant mortality rate was reduced from 57 per 1000 live births in 1990 to 24 in 2006. Mortality rate among children below 5 years old was also reduced from 80 per 1000 children aged less than 5 years old to 32 in 2006. At the regional level however, disparities based on these health indicators exist where child mortality in ARMM is twice more than in the NCR. Maternal mortality rate nationwide remains high despite the decline from 209 per 100000 live births in 1993 to 162 in 2006. The rate for ARMM is extremely high at 320, almost triple that in the NCR. The mortality data suggests that in areas where access to primary health care may be limited by geography or political conflict, the risk of dying is double than in areas where health care is more available.

Access to health care is primordial in improving the Philippine's health status. Using the opportunity curve methodology (see Section 4.1), this study will investigate: (i) to what extent people have access to health facilities including primary health care?; and (ii) are the access to

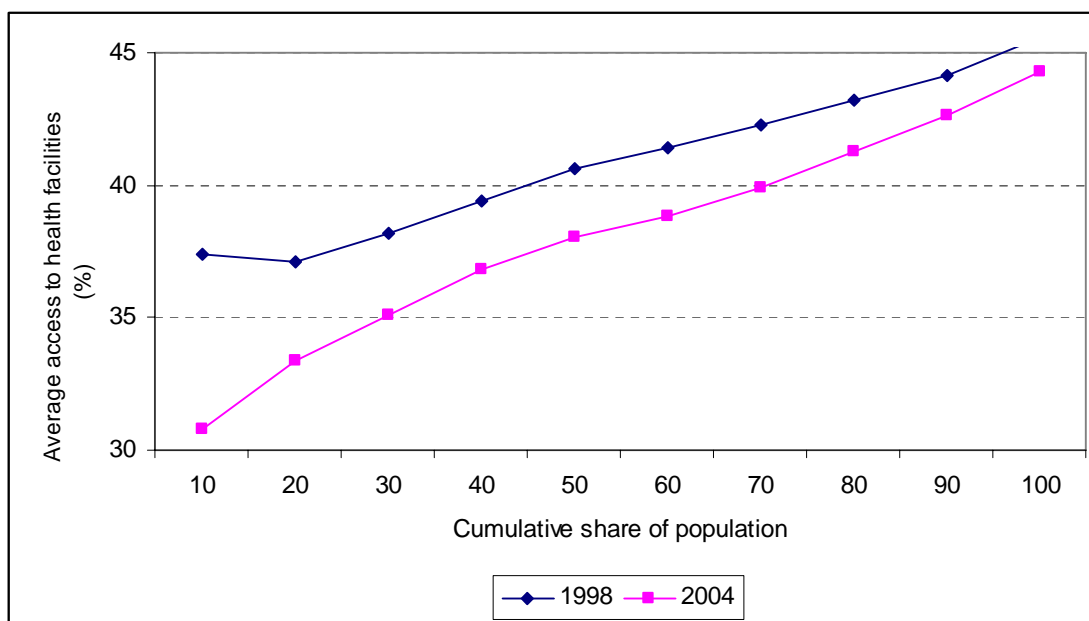
health services equitably provided to the population?; The study will also explore (iii) is government spending on health sufficient to address the issues related to quality health services?; and (iv) is the government expenditure on health allocated towards poorer regions?

5.1 Access to and Equity of Health Services

Figure 13 shows access to and equity of health services in the Philippines. In 1998-2004, about 44-46 percent of sick people sought treatment in one of the available health facilities – e.g., government hospital, private hospital, private clinic, rural health unit (RHU), Barangay health station (BHS), or other health facilities. Access to overall health services in the Philippines appear to be inequitable in the sense that they are largely utilized by those at the top end of the income distribution. This is depicted by the upward sloping opportunity curves in Figure 13.

Moreover, the proportion of sick people who sought treatment in a health facility declined over 1998-2004, with the shift far greater at the bottom end than at the top end of the income distribution. This implies that the provision of health services has become more inequitable between 1998 and 2004.

Figure 13: The opportunity curve for having access to health facilities, 1998-2004

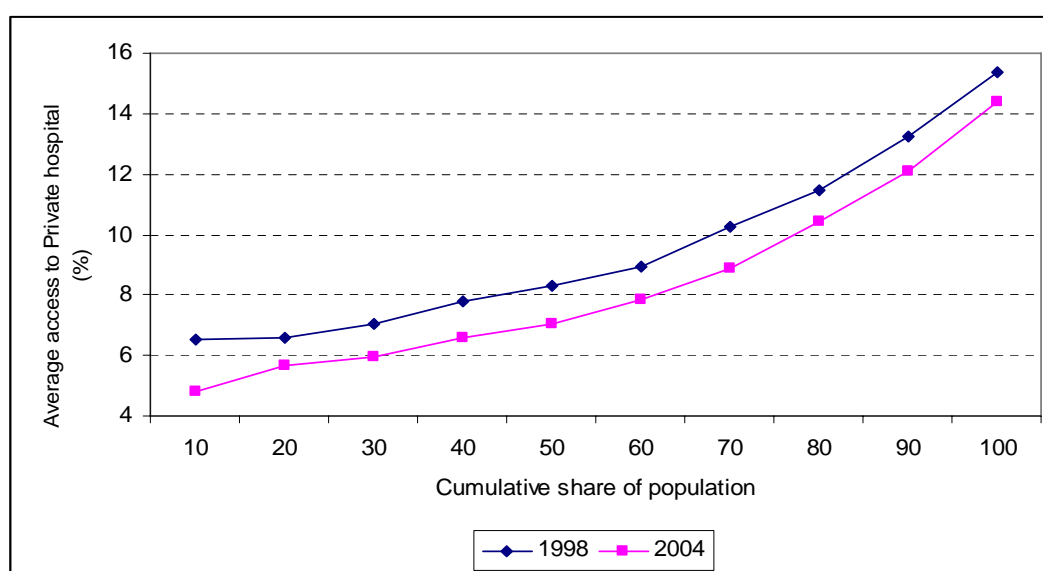


Source: ADB staff estimates

When individuals are sick, they go to different types of health facilities. Services provided by government hospitals, private clinics, RHUs, and BHSs are highly utilized by sick individuals from different income groups. However, the quality of services among these facilities differs vastly. Those offering better quality of service are likely to be utilized mainly by the rich individuals. Such health facility is expected to show an opportunity curve that steeply slopes upward.

Clearly, health services provided by private clinics tend to be highly inequitable, becoming more so over 1998-2004. This suggests that private clinics are heavily utilized by the richer segments of the society. A similar result emerges with private hospitals. As Figure 14 suggests, access to private hospitals has fallen across different income groups, declining more for those at the bottom end. Compared with private health facilities, government hospitals tend to be utilized more by poor people. Moreover, our calculations suggest that poor Filipinos often sought treatment in government hospitals than in private health facilities (Table 4). Compared to the latter unfortunately, the quality of health care in government hospitals remains severely wanting, especially in the National Capital Region (NCR). This is disconcerting especially since a large share of the national government budget for health is spent on NCR hospitals (DOH 2007).

Figure 14: The opportunity curve for having access to private hospital, 1998-2004



Source: ADB staff estimates

Table 4: The opportunity index for having access to hospitals and clinics, 1998-2004

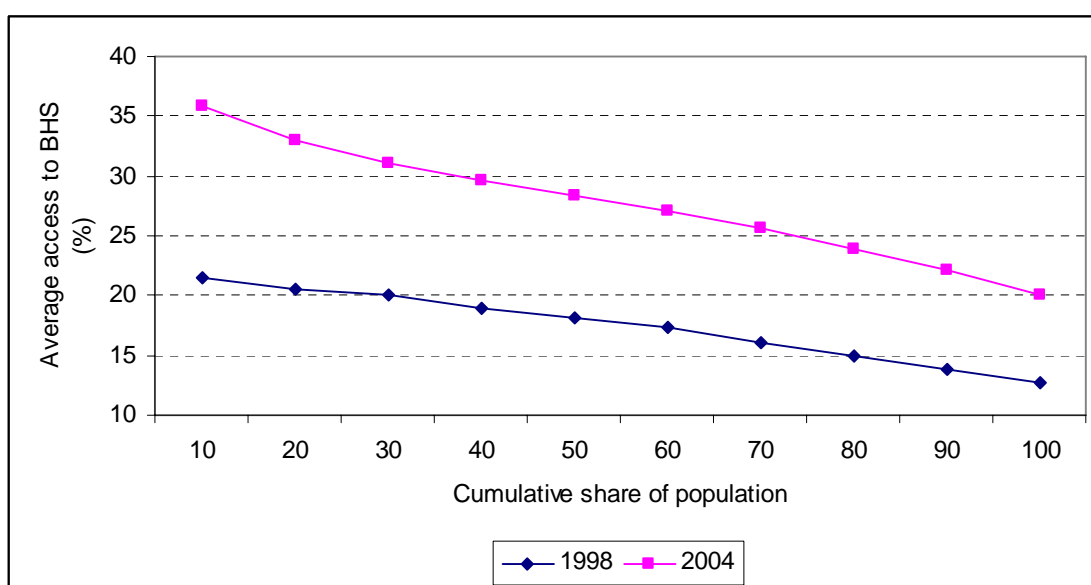
	Government hospital		Private hospital		Private clinic	
	1998	2004	1998	2004	1998	2004
Average opportunity (for the society)	20.22	26.12	15.38	14.40	27.02	25.15
Opportunity index (OI)	20.16	25.60	9.55	8.37	19.52	16.41
Equity index of opportunity (EIO)	0.99	0.98	0.62	0.58	0.72	0.65
Comments	Not equitable	Not equitable	Not equitable	Not equitable	Not equitable	Not equitable

Source: ADB staff estimates

Public health services are used mainly by those who cannot afford private health care, that is the poor in society. Compared with government facilities, private facilities are ranked superior on all aspects of quality (e.g., care, facility, personnel, medicine, and convenience) by the clients. Government facilities cater to the poor because of low costs of treatment, cheaper medicines and supplies, and flexibility in paying health bills.

Expectedly, public health facilities such as RHUs and Barangay health stations (BHSs) are utilized more by people at the lower end of the income distribution. This is evident in the downward-sloping and flat opportunity curves for BHSs (Figure 15). Moreover, the opportunity curve shifted upward over the 1998-2004 period, with the shift far greater at the bottom end of the distribution. This suggests that poor people utilize health services provided by BHSs and RHUs. Utilization by the poor of these facilities nevertheless, does not mean they have access to quality health care. RHUs and BHSs are generally perceived to provide low quality health services (World Bank 2001). Diagnosis is poor, resulting in repeat visits. Medicines and supplies are inferior and rarely available. Staff members are often absent, especially in rural areas, and are perceived to lack medical and people skills. Waiting time is long, schedules are very inconvenient, and facilities are rundown.

Figure 15: The opportunity curve for having access to BHS, 1998-2004



Source: ADB staff estimates

Moreover, our results from the 2004 APIS also showed that utilization of health facilities varies across regions. Those living in the Mindanao region tend to underutilize health services during 1998-2004. In terms of health status indicators, there are large differentials across regions and provinces within the country. For instance, NCR has an infant mortality rate of around 20, which is very close to the norm of developed countries, whereas some parts of Mindanao has mortality rates still close to or a little over 100, similar to the least developed countries. Given that Mindanao is one of the poorest areas in the country, the wide gap in health status calls for an effective system of health service delivery that will reach the disadvantaged areas and regions.

Disparity (i.e. between regions and income groups) persist in the Philippines due to fragmented administration, as well as by the high costs of operating public hospitals. Administrative fragmentation of health services occurs at different levels because of a lack of referral networking among health care providers. In the past, the national government controlled all public health facilities from the central office down to the regional districts. Today however, the regional health units such as RHUs and BHSs are run by the municipalities, while the

provincial and district hospitals are controlled by the provinces. This proves disadvantageous because the less capable health centers have difficulty getting the services of the hospitals that have well-trained doctors and better facilities. In some cases, health units are linked because of informal personal contacts and not institutionalized arrangements. Thus, technical fragmentation happens. Increased networking is not necessary if only interrelationships among the health units could be formally established.

It is also claimed that public hospitals are at risk of losing their competitive edge over private hospitals due to the higher costs of operating them if quality adjustments are to be factored in. Such adjustments include necessities like running water and reliable supply of electricity. A comparison of hospital bills showed that primary and secondary public hospitals have lower bills than private hospitals. It should be noted that it is not the price of medical services that lead to the higher expense but the cost of running the hospital. This means that public tertiary hospitals need to spend more on electricity and water supply for them to match the quality of service private hospitals offer. Unfortunately, public hospitals are subject to budgetary allocations by local governments for utilities - electricity and water supply. Less funds for these items would certainly affect the efficiency and quality of service provided by these hospitals, whose main clientele happen to be mostly the poor.

5.2. Government Budget Allocation in Health

Low spending and persistent poor quality of health services – which have led to lagging achievement in important MDG health targets (e.g. infant mortality rate) – are the focus of health sector reforms in the Philippines.

Total health expenditure has been increasing in real per capita terms, outpacing the growth in GNP from 2.9 percent of GNP in 1991 to 3.3 percent in 2000. However, public spending on health remains low relative to other countries with similar per capita income. Despite the growth in health spending, health services remain highly inequitable, with many poor households unable to receive care. As a consequence, households pay (out of their own pockets) the largest share in the country's health care costs, accounting for almost 47 percent in 2003-04 (Table 5). This places a heavy financial burden on families, mostly penalizing the poor. The share of the national health insurance program to total health expenditure has been relatively small also, at around 9-10 percent for the 2003-04 period, although it had increased sharply over the period.

Table 5: Total health expenditure by source of funds, 2003-2004

Source of funds	Amount (in billion pesos)		Share in total (in %)		Growth Rate
	2003	2004	2003	2004	
GOVERNMENT	47.5	50.1	32.0	30.3	5.5
National	24.0	26.3	16.2	15.9	9.9
Local	23.5	23.8	15.8	14.4	1.0
SOCIAL INSURANCE	12.9	15.7	8.7	9.5	21.1
Medicare	12.8	15.5	8.6	9.4	21.3
Employees' Compensation	0.2	0.2	0.1	0.1	5.7
PRIVATE SOURCES	86.4	97.5	58.1	59.0	12.9
Out-of-Pocket	69.2	77.5	46.6	46.9	12.0
Private Insurance	3.4	4.1	2.3	2.5	21.3
Health Maintenance Organizations	7.0	8.0	4.7	4.8	14.0
Employer-Based Plans	5.0	5.9	3.4	3.6	18.1
Private Schools	1.8	2.0	1.2	1.2	12.9
OTHERS	1.8	2.0	1.2	1.2	8.3
ALL SOURCES	148.6	165.2	100.0	100.0	11.2

Source: National Statistical Coordination Board

In 1995, a new National Health Insurance Law was enacted to expand the coverage of the national health insurance program. This law also replaced the Medicare Commission and created a public corporation to manage the system. By 1998, the Philippine Health Insurance Corporation (PhilHealth) formally took over all activities formerly performed by the Medicare Commission. Delays in processing of claims during that year caused a dip in the share of the national health insurance program to total health expenditures (3.8% in 1998). Having caught up with the backlog of claims, PhilHealth was able to restore its share of total health spending in 1999, and increased it to 9.4 percent in 2004, partly as a result of an increase in health benefits.

National government spending on health mainly goes to the Department of Health (DOH). DOH's budget decreased immediately after the responsibility for health care was devolved to the local government units in 1994, but rose rapidly thereafter to reach 19.6 billion pesos in 2000 and further to 26.3 billion pesos in 2004. While local government spending on health has increased beyond what is needed to maintain the devolved health functions, it has been noted that local efforts remain uncoordinated. The devolution of administrative powers has also led to technical fragmentation in the delivery of basic health services (Solon et al. 1999).

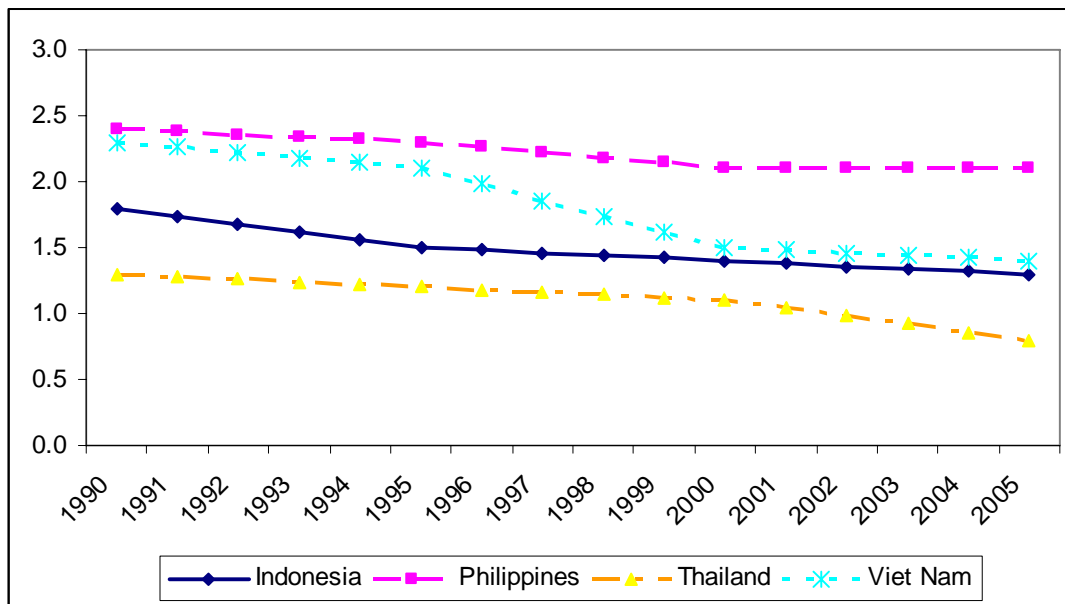
The above findings call for a change in the sourcing of funds for the Philippine health system. First, the financial burden on families needs to be shifted to societal risk pools, particularly the national health insurance program. Second, the coverage of the national health insurance program needs to be expanded to cater to the needs of the poor. This suggests securing adequate funding for premium subsidies to ensure that the poor can afford to participate in the program. The benefits of health insurance should also be enhanced to make the program more attractive to the rest of the population, including groups not yet covered such as those who are self-employed.

6. Achievements or Progress so far

6.1 The Philippines vis-à-vis ASEAN

Over the past 15 years, the Philippines has lagged behind her ASEAN neighbors in terms of economic growth and poverty reduction. This has been blamed partly on the rapid population growth during the period. From 1990-2005, the Philippines recorded the highest annual growth in population compared to four countries in Southeast Asia (see Figure 16). The country has failed to achieve a demographic transition similar to what its Southeast and East Asian neighbors went through during the past three decades.³ This transition contributed immensely to the rapid economic growth in the so-called “East Asian miracle” countries (World Bank 1993; Bloom et al. 1999; McNicoll 2006).

Figure 16: Trends in population growth in selected Asian countries, 1990-2005



Source: UN Statistical Database (actual census data)

³ Demographic transition is a change from a situation of high fertility and high mortality to one of low fertility and low mortality. This change results in sizable changes in the age distribution of the population. The change can create the “demographic dividend,” i.e., the increases in per capita income as the bulge in the age pyramid moves, over time, from young people (infants and children) to prime age for productive work and savings.

Focusing on the comparative performance of Thailand and the Philippines, regarded as “twin sisters” in the 1970s⁴, Balisacan et al. (2007) estimated that demographic factors accounted for roughly one-fifth of the difference in their per capita GDP growth rates during the period 1975-2000. That is, had the Philippines followed Thailand’s population growth path, the country’s growth in terms of average income per person would have been 0.77 percentage point higher every year during the period. This additional growth would have lowered poverty incidence by roughly five percentage points more than what was achieved. Put differently, given that the population in 2000 was 76.5 million, about 4.05 million would have escaped poverty, if only the Philippines followed the population growth dynamics of Thailand during the period.

As is often claimed, the country’s poor economic performance has generated a vicious cycle: low economic growth has negative impacts on the labor market (e.g., high unemployment) and poverty reduction, feeding back to high fertility rates (Herrin and Pernia 2003; Esguerra and Manning 2007). Fertility rates reached as high as 3.2 in 2005 (NSO-FPS). Government projections suggest that the Philippine population will reach 98.8 million by 2020 and 114.3 million by 2040 (NSO 1997). This projection is based on the assumption that fertility will decline to two children per woman by 2010, which does not appear to be achievable. Thus, it would seem that suitable policy measures need to be put in place to combat continuing high fertility rates and ultimately, curb the rise in poverty numbers.

6.2 Major Poverty Reduction Programs

From an emphasis on economic growth in the 1950s and 1960s, the Philippines re-oriented its development agenda towards lowering poverty in the 1970s and the 1980s. Since 1986, various Philippine presidents have embarked on reducing poverty as the core objective of his/her administration (Appendix A.2). This was embodied in the government’s medium term development plan (MTPDP) that is drawn every six years, coinciding with the president’s term in office. The agenda has evolved from one of alleviating to a more holistic mode of eradicating poverty. Each president has had flagship poverty reduction projects (See summary in Appendix A.3). Despite the plethora of measures however, the government’s anti-poverty effort leaves much to be desired as poverty remains widespread and the magnitude of the poor increases. Shortcomings are seen in the areas of programming, budgeting and institutional arrangements.

Programming Issues

In terms of programming, the anti-poverty programs have been weak because these are often short-lived, poorly targeted, lacked accountability, not well-coordinated and wanting in key components. Framing the poverty plans had been cumbersome and lengthy, but problematic more so because every administration tended to introduce new poverty programs, while discontinuing ones that are associated with the previous government, even if these were making good progress. This shortened the lifespan of the programs making it difficult to realize the full

⁴ These two countries had a lot of things in common: land area, economic structure, natural resources, and goods traded in the international market. In the mid-1970s, both had roughly the same population: 43 million in the Philippines growing at about 2.6 percent that year and 41 million in Thailand growing at about 2.7 percent. The Philippines was ahead in terms of average income: per capita GDP was US\$ 1,502 (in PPP), about twice the per capita GDP of Thailand at US \$805 (in PPP). In 2000, per capita GDP in the Philippines was US\$ 3,971 (in PPP) – about 2.6 times the initial per capita GDP in 1975. Thailand’s 2000 per capita GDP was US\$ 6,402 – 8 times its 1975 per capita GDP. While Thailand and the Philippines had also roughly similar population growth rates in 1975, the former was able to manage its population growth during the 25-year period, growing annually at an average of 1.6 percent only. The Philippines, however, maintained its relatively high population growth rate throughout the period, growing at an average of 2.4 percent per year in the 1990s. Hence the total population of the Philippines ballooned to about 76 million in year 2000 while Thailand’s was about 61 million only.

impact of poverty initiatives. Targeting was often ineffective since the various programs used different targeting mechanisms (see Table A.2 in the Appendix), and due to the absence of clear guidance to identify program beneficiaries. Geographical targeting under the SRA was prone to exclusion as well as leakages. Balisacan (cited in Schelzig 2005) lamented the vagueness and/or lack of criteria to identify, screen and include/exclude potential beneficiaries under the *Tulong sa Tao* and *Lingap* programsⁱ. Moreover, beneficiary selection became highly politicized, lowering further the welfare impact of these programs. For instance, local government units (LGU) tended to use the *Lingap* funds to further their political agenda while congressman who received bulk of the funds (around 68%) used it as “pork barrel”. In the main, poor targeting resulted from the lack of reliable poverty measures, especially at the local level. National surveys generated poverty statistics, but only at the provincial levelⁱⁱ. This made it difficult to identify and validate the poorest families targeted under *Lingap* (see Reyes 2002). Worst, none of the programs had built-in monitoring and evaluation components which made impact assessment impossible. It had also been difficult to synchronize the anti-poverty efforts due in part to the different target areas of major social sector agencies (ADB 2007)ⁱⁱⁱ. Reyes (2002) cited the lack of key ingredients in the government’s anti-poverty strategy such as programs that differentiate between chronic and transient poverty; well-designed and well-targeted scholarships for the poor; stronger population management policy; and programs that enhance agricultural productivity to help reduce rural poverty. The comprehensive agrarian reform program (CARP) forms part of the latter but this has remained wanting.

CARP. Contrary to previous land reform initiatives, the CARP was much broader in scope as it covers all agricultural lands- regardless of the commodity produced- and includes alternative production arrangements (besides tenancy arrangements) such as production- or profit sharing, labor administration and distribution of stocks. As of end December 2006, overall accomplishment in land distribution reached 84 percent of the revised target (scope) of 8.06 million hectares^{iv}. Implementation had been painstakingly slow on account of the tedious acquisition processes, insufficient technical capacity of the implementing agencies, legal disputes relating to coverage and land valuation, landowners’ resistance, unstable peace and order conditions, and severe budget constraints (see Balisacan 2007).

Budget Problems

Chronic budget deficits meant the Government had less funds to allocate for poverty reduction. The major issues revolved around the option to either allocate a separate budget line for poverty- related projects or to give agencies, responsibility to request for budgetary funds.^v

Institutional Arrangements

Institutions that carried out anti-poverty programs have been weakened by high staff turnover, politicization and redundancy. Every change in administration since 1988 meant appointing new agency heads and recruiting new staff up to the director level. Rapid staff turnover negated the continuity and slowed the pace of anti-poverty efforts. Oftentimes, poverty programs were often pursued to meet short term political goals. The operations of the NAPC since 1988 have been highly politicized, possibly because of its proximity to the President (Chair of NAPC).^{vi} Political influence is rife throughout the process from appointing agency heads, to choosing “basic sector” representatives and target beneficiaries, and to distributing the budget and goods for poverty alleviation. Efforts to curb politicization, like broadening sector representation, were undertaken but much remains to be done. Many institutional structures that were set up for social development policies (including poverty reduction) considerably overlapped in functions.

Redundancies constrained the smooth implementation of anti-poverty measures.^{vii}

KALAHI Program. Similarly, the *Kalahi* suffers from weak programming, inadequate budget and redundant institutions. In terms of programming, *Kalahi* is highly centralized and controlled whereby target areas and beneficiaries are identified at the national level. Control is most apparent in the appointment of a Presidential Assistant to head the regional convergence groups. This meant missing the opportunities offered by decentralization, whereby LGUs are deemed to be in a better position to prioritize the needs of the localities and identify the eligible beneficiaries. Bautista (2001) criticized the *Kalahi* on grounds of poor targeting, conflicting objectives (e.g. those that fast-track measures for social protection, provide security from violence and emergency relief) and leakages that could flow from program components that benefit both the poor and the non-poor^{viii}. Despite intentions to capitalize on the existing resources of the different offices, the *KALAHI* program is constrained by lack of budget with a funding gap of P400 million. Moreover, there is duplication of functions at both the national and regional levels under the *KALAHI* program (Schelzig 2005; Reyes 2002 and Bautista 2001)^{ix}, pronouncing the need to streamline agencies concerned with poverty reduction.

7. Conclusions and Policy Recommendations

This chapter shows that the Philippines has achieved modest success in the area of average welfare, poverty reduction and human development during the period 1994-2003. Life expectancy has gone up and mortality rates have gone down. While school participation rates have gone up, the decline in the primary participation rate in the 2000s throws a particular concern. Moreover, spatial disparities remain large and some regions – particularly ARMM, Bicol and western Mindanao – have lagged behind. These disparities made it possible for neighboring Asian countries to overtake the Philippines based on income as well as non-income indicators in human development.

In contrast to other sub-sector studies, this study focuses on identifying constraints to achieving sustainable and equitable growth in overall well-being of the people who belong to a household, with a particular focus on the basic social services of health and education. In addition, we have also noted that the main objective of this study is not to find the causal relationship between human capital and growth. As argued in the economic literature, because of the strong two-way relationship between the two, one has to promote both to sustain progress in either. Economic growth, which is an important input into human capital improvement, is itself not sustainable without improving human capital. Experience tells us that economic policy has tended to focus priority on getting the economic fundamentals right as a necessary precondition for economic growth, arguing that human capital improvement must await such economic growth. Why should it be the case? In contrast, our study has contradicted the view that human capital improvement may be postponed until economic resource expansion makes it affordable. If human capital improvement is postponed in this way, economic growth itself will be not sustained. Therefore, this study has rather focused on investigating the linkages between growth and human capital in education and health at micro level. The study has carried out a systematic analysis to test a few hypotheses to establish such linkages. Major findings, in this context, can be summarized as follows:

First, disparity in incomes and human capital *within* each of the regions of the country is itself the major problem in the Philippines. This does not deny the fact that there is a large variation in income and non-income indicators *between* regions. Despite inter-regional disparity, our study has found that disparity within each of the regions largely explains the

aggregate inequality, i.e. by almost 90%. Hence in this case, a policy that aims to reduce poverty requires a more targeted approach to address this intra-regional disparity which poses a major constraint to achieving equitable growth. To put it slightly differently, it is possible for instance, that systematic differences in the levels of human capital between income groups within a geographical region can translate into considerable differences in earning opportunities. In such a case, the policy prescription to reduce overall inequality and poverty should focus on expanding the access of low-income groups to basic social services and infrastructure.

Second, although enrollment in basic education is high in the Philippines relative to her Asian neighbors, more recent trends are alarming. More specifically, the continued decline in elementary participation, from a high of 90% in school year 2001-02 to a low of 84% in school year 2005-06, can set back the possibility of achieving universal primary education by 2015. More disturbing is the poor access to secondary education among children living in poorer regions (e.g. ARMM and western Mindanao) and those aged between 13-16 years old. As noted in the study, a major reason for not attending secondary school stemmed from the high cost of education.

The opportunity costs of sending children aged between 13-16 years to school are high, but even greater for the poor households. The need to improve access to basic education by children living in the poorer regions has become pressing. This calls for financial schemes that can cater to poor enrollees. Well-designed and well-targeted scholarships for the poor – particularly those living in ARMM and Western Mindanao – are most urgent to address intra-regional disparity in the Philippines. Schemes similar to conditional cash transfers could be options to consider. Under such schemes, strict monitoring is a pre-condition to ensure success.

Third, the study has found that while access to primary education is of less concern, its equity dimension is rather disappointing. Although disparity in access to primary education is not very large between the poor and the non-poor, children from poor families tend to have less opportunities in primary education. In this context, the study also indicated that poor families have more children aged between 7-12 years compared to non-poor ones. This finding is also consistent with the common view that larger families tend to be poorer in the Philippines, highlighting the need for a stronger population management policy as an important component of a poverty reduction program.

Fourth, there is ample scope for policy makers to think about the health sector in terms of both accessibility and equity. The study has found that Filipinos do not have equitable access to health services, in the sense that these are largely utilized by those at the top end of the income distribution. It also found that while the poor utilize more of primary health facilities such as Barangay Health Stations and Rural Health Units, these facilities are poorly equipped and staffed, depriving the poor of quality health care. It is essential to note that both RHUs and BHSs are categorized as primary government facilities that can appropriately provide preventive health services and treatment for minor illnesses/accidents. Despite access to these primary facilities, however, a sizable number of Filipinos still prefer to seek treatment in government hospitals and private clinics/hospitals. Thus, government hospitals end up providing the same services as primary facilities. It is, therefore, critical to ensure that primary health services are delivered efficiently so that they can prevent the incidence of diseases such as diarrhea, bronchitis, influenza, pneumonia and tuberculosis. Preventive health care services do a lot more in the long run in protecting the people's health, and require less amounts of budgetary allocation than medical treatments.

Fifth, the Philippine health sector is beset with problems of low spending and persistent poor quality of health services. Public spending on health remains low relative to other countries with similar per capita income. As a result, health services are inequitable with many poorer households unable to receive care. Consequently, households pay out of their own pockets accounting for almost 47% in 2003-04, the largest share in the country's health care costs. This places a heavy financial burden on families and makes access to health care highly inequitable. It remains vital therefore, to make the health system more pro-poor by: (i) expanding health insurance coverage for the poor; (ii) improving the quality and accessibility of health care for the poor in public health facilities; (iii) reducing the cost of medicines and expenditures on hospital stays; and (iv) improving quality by giving government hospitals more autonomy in setting budgets.

Finally, this study reviewed the major poverty reduction programs in the Philippines that have been implemented over the last two decades or so. Accordingly, the government's anti-poverty measures have remained weak on issues related to programming, budgeting and institutional arrangements. Poor targeting is foremost among these issues. It is often claimed that targeted programs are seldom carried out in accordance with the design, because the data needed to operationalize the criteria for selecting eligible beneficiaries are not available. As pointed out earlier, to address intra-regional disparity well-targeted programs are of critical importance. This calls for further research efforts in identifying the beneficiaries. With given resources, it is critical to minimize leakages of the benefits to the non-beneficiary on one hand, and to maximize the benefits to the targeted beneficiary on the other.

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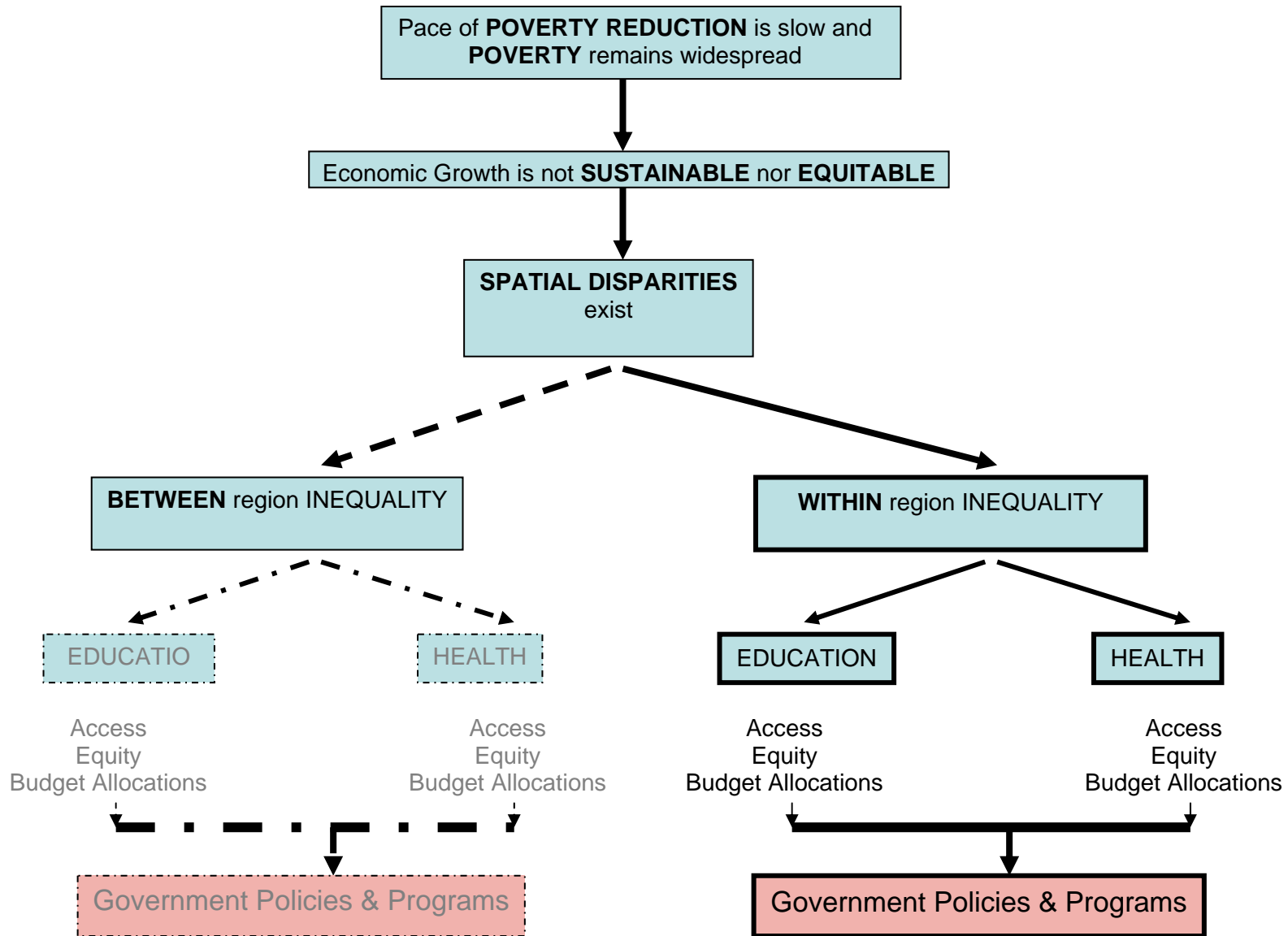
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APPENDIX A.1 Problem Tree in the Social Sector



APPENDIX A.2: Poverty Goals, Targets & Strategies in Medium Term Development Plans of Various Administrations

MTPDP Administration	GOALS/PRIORITIES	TARGETS	MAIN POVERTY STRATEGIES and ACTIVITIES
1987-1992 Corazon Aquino	<i>poverty alleviation</i> generation of more productive employment promotion of equity and social justice achieve sustainable economic growth	Reduce poverty incidence 1985 1992 Nationwide 59% 45.4% Rural areas 63% 48% NCR 48% 44% Urban outside NCR 56% 49%	Employment-oriented, rural- based development strategy. <i>Activity: Tulong sa Tao Program</i>
Update 1990-1992 Corazon Aquino	<i>poverty alleviation</i> productivity and growth equitable distribution of opportunities, income, wealth and means of production	Reduce poverty incidence from 58.9% in 1985 to 46.1-49.3% in 1992	Employment-oriented, rural- based development strategy and one that maximizes the complementarities between agriculture and industry Activities: provide physical infrastructure, enhance social services delivery, agrarian reform and decentralization
1993-1998 Fidel Ramos	human development and improvement of the quality of life	Reduce poverty incidence from 39.2% in 1997 to about 30% by 1998.	Main strategies were people empowerment, and acceleration of global competitiveness <i>Activity: Social Reform Agenda</i>
1999-2004 Joseph Estrada	acceleration of rural development delivery of basic social development services strengthening competitiveness sustained infrastructure development macroeconomic stability reforming governance	Reduce poverty incidence from 32% in 1997 to 25-28% by 2004.	Community-and center-based gender sensitive social welfare interventions for the poor, vulnerable, and disadvantaged, informal sector workers, victims of disasters and human rights violations, older persons, dysfunctional families and depressed communities <i>Activity: Lingap para sa Mahihirap</i>
2001-2004 Gloria Macapagal Arroyo	macroeconomic stability with equitable growth based on free enterprise agriculture and fisheries modernization with social equity comprehensive human development protecting the vulnerable good governance and rule of law	The "Healing the Nation: First 100 Days of the Macapagal-Arroyo Administration", said that the MTPDP included the goal of reducing poverty to 28% by 2004. The final MTPDP failed to mention any target.	Main strategy is convergence <i>Activity: Kapit-Bisig laban sa Kahirapan (KALAHI)</i>

SOURCE: *The Poverty Fight: Have We Made an Impact. 2002. by Celia M. Reyes. PIDS*

TABLE A.2: Objectives and Components of Flagship Government Poverty Reduction Programs, 1986-2004

	<i>Tulong sa Tao</i> (CORAZON AQUINO)	Social Reform Agenda (FIDEL RAMOS)	<i>Lingap Para sa Mahihirap</i> (JOSEPH ESTRADA)	<i>Kapit-Bisig Laban sa Kahirapan</i> (KALAHI) (GLORIA M. ARROYO)
Key Objectives	<p>To increase employment and income of low-income groups</p> <p>To strengthen self-help groups</p> <p>To encourage savings Mobilization among low-income groups</p> <p>To increase production of goods and services by members of the low-income groups</p> <p>To strengthen NGOs to service credit needs of low-income groups</p>	<p>Poverty alleviation</p> <p>Quality basic social services</p> <p>Institutional development</p>	<p>For government and private sector to converge efforts and resources for poverty alleviation</p>	<p>To address inequities in ownership, distribution, management, and control over productive resources</p> <p>To meet basic human needs</p> <p>To strengthen capacities of marginalized groups to engage in productive enterprises and livelihood</p> <p>To eliminate all forms of discrimination</p> <p>To institutionalize and strengthen participation of basic sectors in all levels of governance</p>
Program Components	<p>Some components include</p> <ul style="list-style-type: none"> - Micro Credit Program - Community mortgage program - Nutrition (<i>Lalakas ang Katawang Sapat sa Sustansya</i>) 	<p>Flagship programs:</p> <ul style="list-style-type: none"> - Agricultural development fisheries and aquatic resources management - Ancestral domains - Socialized housing - Workers' welfare and protection - Livelihood and Credit - Institution building and effective participation in governance 	<ul style="list-style-type: none"> - Potable water - Socialized housing - Health care - Protective services for children - Livelihood/cooperative development - Food subsidy 	<ul style="list-style-type: none"> - Asset Reform - Human Development services - Employment and Livelihood - Social Protection - Participation of the poor in Governance

	<i>Tulong sa Tao</i> (CORAZON AQUINO)	Social Reform Agenda (FIDEL RAMOS)	<i>Lingap Para sa Mahihirap</i> (JOSEPH ESTRADA)	<i>Kapit-Bisig Laban sa Kahirapan</i> (KALAHI) (GLORIA M. ARROYO)
Poverty Reduction Target	Not explicit	Reduce poverty incidence to 30%	Reduce poverty incidence to 25–28 %	Win the war against poverty within the decade
Coordinating Agency	Department of Trade and Industry (DTI)	Social Reform Council	National Anti-Poverty Commission (NAPC)	National Anti-Poverty Commission (NAPC)
Target Area	Low-income municipalities	Special priority areas: 20 poorest provinces 5th and 6th class municipalities Special Zones of Peace & Development (Mindanao and Palawan)	Nationwide	Poorest barangays in the KALAHI convergence Areas
Target Beneficiary	Low-income groups in rural areas	Poor and vulnerable groups	100 poorest families in every province and city	14 “basic sectors”: children, women, urban poor, persons with disabilities, farmers, fisherfolk, indigenous peoples, informal labor, formal labor and migrant workers, youth and students, senior citizens, victims of disasters and calamities, cooperatives, NGOs
Delivery Mechanism	National government agencies with NGOs as conduits	Flagship program agencies	National government agencies	National government agencies

SOURCE: Adapted from *Poverty in the Philippines. 2005.* by Karen Schelzig. ADB

ⁱ LINGAP's target of 16,100 direct beneficiaries proved too limited for a program that was meant to be national in scope and coverage. Targeting was inefficient as the implementers had to seek out the 100 poorest families in an area. Often those families were far apart which resulted in high administrative costs for service delivery (Schelzig 2005).

ⁱⁱ In the absence of data on the different dimensions of well-being, it is not uncommon to find that the programs implemented by LGUs seldom correspond to the priorities of the local chief executives. There are instances when LGUs headed by engineers tend to prioritize infrastructure over health and education (Reyes 2002).

ⁱⁱⁱ For instance in 2001-2004, while DOH's Health Plus strategy targeted groups that are prioritized by the LGUs within 65 provinces and cities, the DepED's Strong Republic School Distance Learning Program aimed at providing access to quality basic education for unserved or inadequately served barangays. The experience of the SRA showed that convergence is quite difficult to operationalize. To address this, the KALAH! program attempted to coordinate poverty programs by employing Regional KALAH! Convergence Groups (RKCGs) who are tasked to identify the communities' needs and refer these to the appropriate agencies. RKCGs meant to serve as liaison between the barangays and the national level agencies (Schelzig 2005).

^{iv} The largest distributed lands were settlement areas, landed estates, and government-owned lands, which altogether represent 45 percent of the program scope (Balisacan 2007).

^v A Poverty Alleviation Fund was set up in 1998 but since then, no item has been earmarked in the national budget.

^{vi} The NAPC has not been spared from being used as an opportunity to pay political favors. In one instance, politicking caused one head of NAPC to last for only 3 months, during which time almost all the NAPC directors tendered their resignation. In addition, the NAPC has been beset with administrative difficulties particularly in relation to appointing representatives from the basic sectors. During Estrada's tenure, NGO representatives demanded the same status and salary as their government counterparts. Estrada's appointees later refused to vacate their posts during President Arroyo's first term, leaving the NAPC indisposed for many months (Schelzig 2005).

^{vii} At the national level, poverty-related responsibilities tend to overlap among three agencies namely: the NAPC, the Social Development Committee (SDC) under the NEDA Board and the Presidential Commission on the Urban Poor (PCUP). The SDC is mandated to be the highest policy-making body on social development issues, including poverty reduction tasked to formulate and recommend policies and review programs, projects and the legislative agenda. The NAPC is the focal agency for the antipoverty program that handles policy-making, advocacy, and monitoring. Their membership is almost the same. The PCUP has a similar mandate as the two, except that it focuses on the urban poor. Moreover, the heads of NEDA and PCUP are members of the NAPC (Schelzig 2005 and Reyes 2002)

^{viii} For instance, delivery of human development services incorporates electrification, waste management services and anti-flooding program. The latter projects pertain to infrastructures that stand to benefit the entire community rather than the poor households directly (Bautista 2002).

^{ix} The RKCGs share the same responsibilities as the Regional Development Councils of the SDC, except for the designation of a Presidential Assistant appointed by the President to chair the RKCGs and NAPC sector representatives. Moreover, the RKCGs may overlap or duplicate the tasks of other interagency bodies that were established under previous poverty projects (e.g. the CIDSS which continues to have a legal mandate)