

# A STRATEGY TO FIGHT POVERTY

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## PHILIPPINES



THE WORLD BANK  
COUNTRY OPERATIONS DIVISION  
COUNTRY DEPARTMENT I  
EAST ASIA AND PACIFIC REGION

16118  
Mar. 1996

PHILIPPINE ISLANDS

- I** Ilocos Region
  - 1. Ilocos Norte
  - 2. Ilocos Sur
- II** Cordillera Administrative Region
  - 1. Abra
  - 2. Benguet
  - 3. Mountain Province
  - 4. Zamboanga del Norte
  - 5. Zamboanga del Sur
- III** Central Luzon
  - 1. Bataan
  - 2. Bulacan
  - 3. Cavite
  - 4. Laguna
  - 5. Marikina
  - 6. Metro Manila
  - 7. Nueva Ecija
  - 8. Pampanga
  - 9. Tarlac
  - 10. Zambales
- IV** Southern Mindanao
  - 1. Davao del Norte
  - 2. Davao del Sur
  - 3. Davao Occidental
  - 4. Davao Oriental
  - 5. Zamboanga del Norte
  - 6. Zamboanga del Sur
  - 7. Zamboanga Sibuyan
- V** Mindanao
  - 1. Agusan del Norte
  - 2. Agusan del Sur
  - 3. Cotabato
  - 4. Davao Occidental
  - 5. Davao Oriental
  - 6. Marikina
  - 7. Metro Manila
  - 8. Nueva Ecija
  - 9. Pampanga
  - 10. Tarlac
  - 11. Zambales
- VI** Negros Occidental
- VII** Negros Oriental
- VIII** Cebu
- IX** Eastern Visayas
  - 1. Samar
  - 2. Leyte
- X** Western Visayas
  - 1. Aklan
  - 2. Iloilo
  - 3. Negros Occidental
  - 4. Negros Oriental
  - 5. Cebu
- XI** Bicol
  - 1. Albay
  - 2. Camarines Norte
  - 3. Camarines Sur
  - 4. Sorsogon
- XII** Palawan

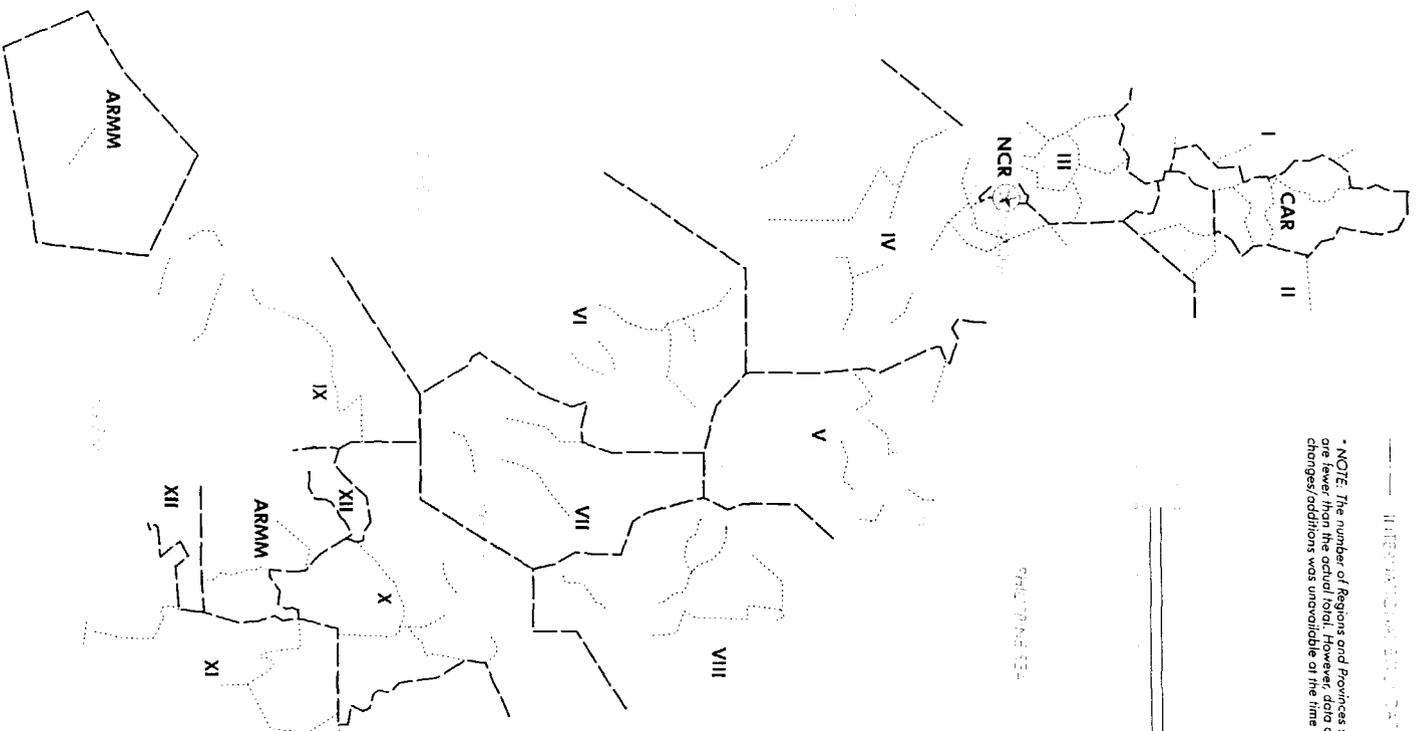
SOUTHPACIFIC SEA

PHILIPPINE SEA

## PHILIPPINES

-  NATIONAL CAPITAL
-  PROVINCE BOUNDARIES
-  REGION BOUNDARIES
-  INTERNATIONAL BOUNDARIES

**NOTE:** The number of Regions and Provinces shown on this map are fewer than the actual total. However, data on these boundary changes/additions was unavailable at the time of printing.



PHILIPPINES

A STRATEGY  

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TO FIGHT POVERTY  
P H I L I P P I N E S

MARCH 1996



THE WORLD BANK  
COUNTRY OPERATIONS DIVISION  
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EAST ASIA AND PACIFIC REGION

Cover, center: Young worker harvesting rice in Central Luzon.

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## CURRENCY EQUIVALENTS

Currency Unit – Peso (₱)

US\$ = ₱ 26.2

as of December 1995

## ABBREVIATIONS AND ACRONYMS

ARMM	Autonomous Region of Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
CAR	Cordilleras Autonomous Region
CARP	Comprehensive Agrarian Reform Program
CMP	Community Mortgage Program
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DECS	Department of Education, Culture and Sports
DENR	Department of Environment and Natural Resources
DILG	Department of Interior and Local Government
DOH	Department of Health
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
FIES	Family Income and Expenditure Survey
FFW	Food for Work
GATT	General Agreement on Trade and Tariffs
GBRP	Grameen Bank Replication Program
GDP	Gross Domestic Product
HUDCC	Housing and Urban Development Coordinating Council
IAD	Integrated Area Development
LAKASS	Lalakas ang katawang sapat sa sustansiya (Bodies with adequate nutrition will grow strong)
LGU	Local Government Unit
MEIP	Metropolitan Environmental Improvement Program
MWSS	Metropolitan Waterworks and Sewerage System
NCR	National Capital Region
NEDA	National Economic and Development Authority
NFA	National Food Authority
NNC	National Nutrition Council
NSCB	National Statistical Coordination Board
OECD	Organization for Economic Cooperation and Development
SRA	Social Reform Agenda
UNCHS	United Nations Center for Human Settlements
UNDP	United Nations Development Program



## INTRODUCTION

The Philippines is entering a new and promising phase in the struggle to lift its people out of poverty. The decade-long effort at macroeconomic stabilization and structural reform is bearing fruit, and the prospects for the higher, sustainable economic growth required to reduce poverty appear good. The Government has taken the bold step of devolving responsibility for key functions to local governments. Although transitional problems are inevitable, this step holds promise of making government more responsive to the needs and desires of the populace. Finally, the Government is launching a new, better-integrated *Social Reform Agenda with the objective of mobilizing and coordinating the efforts of the central government, nongovernmental organizations, private enterprise, and communities in the poverty-alleviation effort.*

This report is an attempt to crystallize key, as yet unresolved, issues in the hope of stimulating an informed dialogue within the Government and within key groups (including NGOs and local government officials). The report is not meant to be a final blueprint for government action. Rather, it is intended to provide substance for an ongoing discussion and debate of the issues related to poverty alleviation in the Philippines. The Bank plans to take this report to the public and discuss it widely with the Philippine Government, with local governments, with beneficiaries, with NGOs, and with the press so that a widely understood and supported strategy can be forged. The Bank will transmit the outcome of these discussions and the various points of view to all participants and work to identify the next phase of our partnership with the Philippines on poverty alleviation.

Chapter 1 reviews past progress toward poverty alleviation and the current extent and severity of the problem. It finds that, although the Philippines' social indicators are reasonably good, progress towards poverty alleviation has been slow, and the country has been losing ground relative to its East Asian neighbors and competitors. More than one third of Philippine households

still have income below the poverty line. Slow progress primarily reflects inadequate and unsteady overall economic growth, the inheritance of an historic policy bias in favor of capital-intensive, inward-oriented development, continued uneven distribution of income and assets, insufficient investment in human capital development, and limited success of "safety net" programs.

Poverty is overwhelmingly a rural problem. Over half the rural population is poor, accounting for nearly two thirds of the country's total. Chapter 2 examines the dimensions and causes of rural poverty and looks into possible solutions. The basic conclusion is that rural poverty cannot be solved in the agricultural sector alone nor in rural areas alone. Progress requires greater opportunities provided by higher overall economic growth, combined with increased emphasis on human capital development and provision of infrastructure in rural areas, increased research and extension, and improved access to land and modern inputs. The chapter urges a reexamination of land reform, which is entering a more complex and expensive phase. Clear choices need to be made on the future pace of the program and the trade-offs necessitated by budget constraints, while focusing on additional measures to help poor farmers. The report downplays the importance of expanding rural credit and argues against subsidization of credit but recommends strengthening and expanding the role of cooperatives.

Chapter 3 finds that urban poverty is less extensive and severe than rural poverty and that the urban poor are more likely to benefit rapidly and directly from accelerated growth. In addition, access to health and educational services is better in urban areas. The key problems of the urban poor are inadequate housing and transport, unsafe and inadequate water supply, and inadequate disposal of human and solid waste. Many of these problems are linked to failure of the urban land market, which results in both poor and non-poor families living in unsatisfactory conditions on land to which they do not have legal tenure. The report urges

exploration of innovative approaches to “urban land reform” and better provision of urban services related to environmental health.

Chapter 4 reviews the state of human capital of the poor and government efforts to improve it. It finds that there are severe regional disparities in health and education indicators. The level of overall public expenditure on health and education is not as much of an issue as its regional distribution and equity and efficiency considerations. The major educational problem is the one third of children who do not complete the primary cycle. The major health problems are preventable diseases such as malaria and respiratory and water borne intestinal ailments. Unfortunately, the report finds the trends in expenditure favoring curative medicine and secondary and higher education. Instead, the chapter emphasizes the need for increased emphasis on improved access to and quality of primary education and preventive, community-based primary health care.

Chapter 5 examines the “safety net” or the efforts of government to improve the well being of the poor through food subsidies, employment-creating public works programs, and “livelihood creation” (i.e., government small scale credit) programs. It finds that most of these programs have not reached the very poor, have been expensive, and have not produced sustainable income increases. The report urges reexamination of these programs to highlight factors leading to successful outcomes and consolidation of the rapidly growing number and variety of programs. The report points to the dangers of expanding politically popular, but inefficient and ineffective, efforts at the expense of tried and true approaches such as primary education and health care and rural infrastructure.

Finally, Chapter 6 provides a summary of the strategy suggested above and outlines the role of the central and local governments in the new era of devolution, in conjunction with the continued strong presence of

NGOs. A poverty alleviation strategy for the Philippines should include the following elements:

- Continuing the strong focus on economic growth, driven by openness and competitiveness and accompanied by macroeconomic stability.
- Improving access to the means of production by the rural poor by focusing rural land reform on the doable, promoting tenancy reforms and market assisted land reform, and ensuring the essential investments in rural infrastructure and improvements of agricultural extension services necessary to raise productivity and, thus, incomes.
- Addressing the scarcity of affordable urban housing and threats to environmental health in urban areas by considering a program of urban land reform and extending water and sanitation services to poor urban areas, while slashing public spending on housing (which does not reach the truly poor).
- Increasing investment in human capital by improving the quantity and the quality of primary education across the country, easing access to primary education in rural areas, and strengthening primary health services, especially immunization and prevention of water-borne and respiratory diseases.
- Rationalizing and better targeting social safety net programs, by transferring resources in government livelihood creation programs to capacity building of institutions with successful track records in reaching the poor and by ceasing general food price subsidies in favor of targeted income subsidies or food stamps and supplementary feeding programs.

This report was based on a series of technical working papers, which are available upon request. They cover the topics of the poverty profile, rural land, urban poverty, the social sectors, the labor market, overseas workers, and credit.

## WHY IS POVERTY SUCH A PERSISTENT PROBLEM IN THE PHILIPPINES?



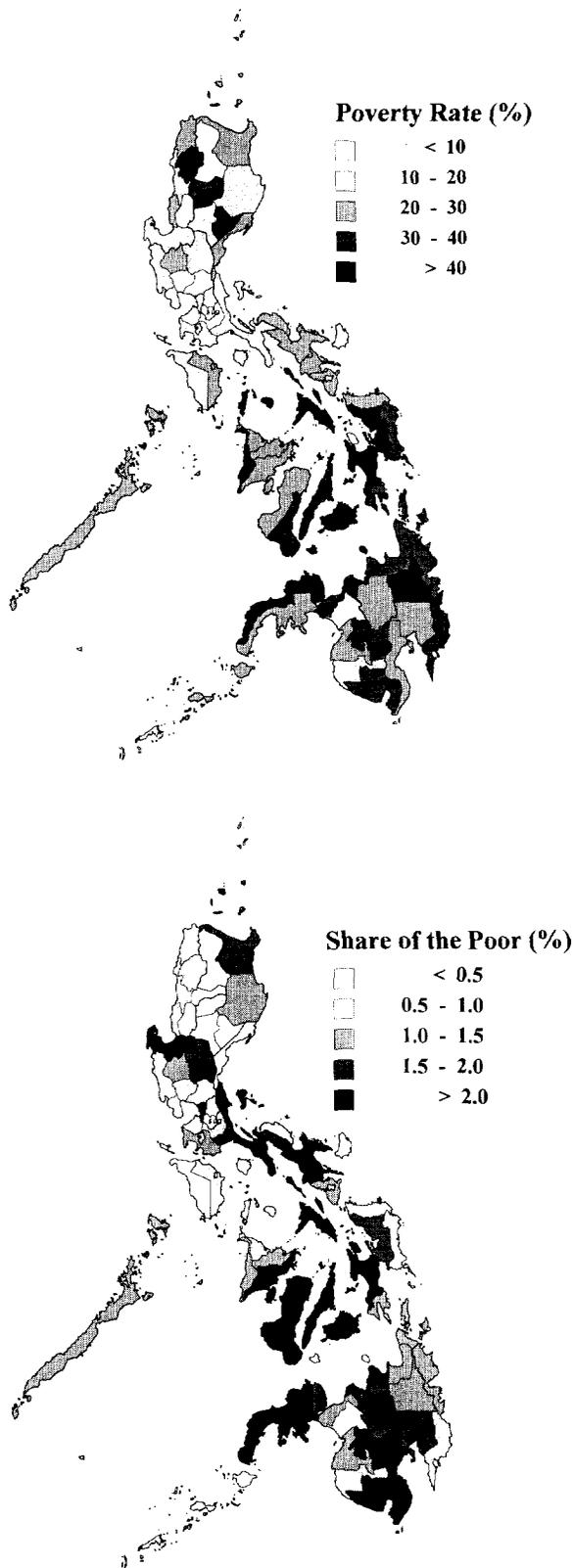
A new hotel stands near squatters' shacks in Manila, and other children scavenge for a living in a garbage dump.

“We regard poverty as another tyranny, oppressing half of all our population of 66 million—a tyranny against which we must wage the moral equivalent of war.”

*President Fidel V. Ramos  
Speech to the World Summit for Social Development  
Copenhagen, March 12, 1995*

Poverty is still the major development problem in the Philippines. Between 1960 and 1985, according to official estimates, only slow improvement was registered in overall poverty rates. Since 1985, a slightly more vigorous reduction has occurred, partly because of economic growth and partly because of a greater government commitment to social development. However, not only has overall progress been modest, national level achievements mask severe geographical inequity. The two maps illustrate the

severe differences in poverty between provinces. The upper map shows the poorest areas; the lower map points out the greatest concentration of the nation's poor. Improving the welfare of the poor has been hampered (until the last few years) by over a decade of weak growth associated with the debt crisis and its aftermath. Now that the economy appears to be back on track, the Government is turning its attention to poverty alleviation. Its "Social Reform Agenda" lays out general goals and possible avenues to reduce



Notes: Top map shows percent of families in each province in 1991 with family income below ₱ 20,000 in rural areas, below ₱ 40,000 in National Capital Region, or below ₱ 30,000 in other urban areas. Bottom map shows share of all such families in each province.

poverty, and the Ramos Administration has declared this its highest priority for the coming years.

There is already widespread understanding that significant reduction of poverty in the Philippines will require faster, more efficient, and more equitable economic growth than in the past. So far, the country has

THE COUNTRY HAS NOT BEEN ABLE TO SUSTAIN GROWTH LONG ENOUGH TO REDUCE ITS INCIDENCE OF POVERTY TO THE LEVELS ATTAINED IN OTHER EAST ASIAN COUNTRIES

not been able to sustain growth long enough to reduce its incidence of poverty to the levels attained in other East Asian countries. Further, *the pattern of growth in the past tended to accentuate rather than reduce income disparities.*

A development strategy that relied on government intervention to protect domestic industry, where subsidies, controls and regulations were applied to offset widespread inefficiencies and inequities, itself made growth less efficient, less equitable, and more difficult to sustain. After over a decade of structural adjustment, the Philippine economy is capable of generating more equitable growth. But in addition, government efforts to raise the income earning capacity of the poor, by *improving the functioning of markets, building supporting infrastructure, and guaranteeing basic services in health and education,* have not been adequate to the task. Finally, the government's responsibility to lend a hand to those temporarily in need and to improve the well being of the poorest of the poor through the *provision of a social safety net* has gone unfulfilled.

#### WHAT HAS GONE WRONG AND WHAT HAS GONE RIGHT?

The proportion of the population living below the official poverty line has declined since 1961, but slowly and unevenly, from 59 percent in 1961 to below 39 percent in 1991 and near 36 percent in 1994<sup>1</sup> (see Table 1.1). The Philippines' performance on poverty alleviation has been disappointing compared to its own aspirations or the accomplishments of its East Asian neighbors. In other countries in East Asia, the proportion of the population suffering from poverty has declined by at least 1 percent per annum over the last three decades (see Table 1.2).

The country has not performed well in terms of most human development indicators either. While significant

improvements were registered in measures of health and education through the 1960s and 1970s, progress has been slow since. Infant mortality declined very little, especially from the late 1970s to the mid-1980s, from 66 per 1000 live births in 1970 to 48 in 1992. More than a quarter of the population remains functionally illiterate, despite a simple literacy rate in 1990 of 94 percent. Population growth continues at 2.1 percent, still one of the highest rates in the region, and one third of children are malnourished. Each of these social development indicators is closely related to poverty.

**Table 1.1: Poverty Incidence, Philippines, 1961-1995**

Year	Poor Families		Contribution to Total Poverty	
	Total	Urban	Rural	Rural
1961	59%	51%	64%	70%
1965	52%	43%	55%	74%
1971	52%	41%	57%	77%
1985	44%	37%	49%	68%
1988	40%	32%	46%	69%
1991	39%	31%	47%	61%
1991 Adjusted	37%	23%	53%	65%

Notes: Poverty incidence is the head count index for each year using family income—the share of the population with income below the poverty line—the only poverty measure available for all years. For 1961-71, it is calculated using the 1988 poverty lines by region and urban/rural areas as set by NSCB in 1993, adjusted for inflation. For 1985-91, the poverty line is the new official line as set by NEDA in 1993. For 1991 adjusted value, lower nonfood expenditures are used in the poverty line. See Table 1.3 for details on 1991.

Sources: Balisacan (1994c); NSCB; World Bank staff estimates.

**Table 1.2: Changes in Poverty Incidence for Selected Countries**

	Years	Annual Reduction	First Year	Last Year
Philippines	1971-91	0.7%	52%	39%
Indonesia	1970-90	2.0%	58%	19%
Korea	1970-90	0.9%	23%	5%
Malaysia	1973-87	1.6%	37%	14%
Thailand	1962-88	1.4%	59%	22%

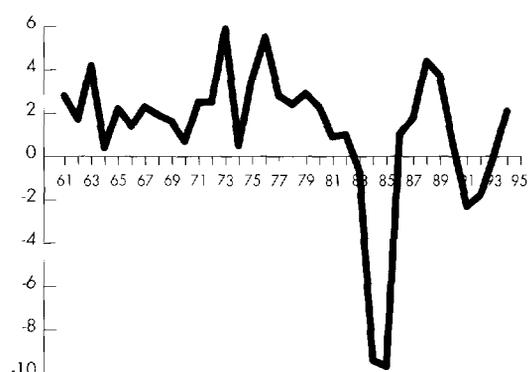
Note: Poverty incidence is the official head count index calculated from family income.

Sources: World Bank staff estimates; Balisacan (1994c).

The relatively modest decline in poverty in the Philippines reflects, among other things, its *slow overall pace of economic growth*, especially the virtual collapse of its growth during the 1980s, when the development of East Asia as a whole was accelerating.

From the 1950s through the 1970s, the Philippines' rate of growth was above 5 percent. However, the international debt crisis of the 1980s and domestic political upheaval brought growth to a halt. Although there was some recovery of per capita income between 1985 and 1988, GDP growth averaged only 1.1 percent per annum in the 1980s, and per capita income as of 1992 had just recovered to its 1978 level. Under these circumstances, it is not surprising that progress in poverty alleviation was slow (see Figure 1.1).

**Figure 1.1: Real Income Growth, Philippines, 1961-1994**



Note: Annual percent changes in constant price GDP per capita. Source: NSCB.

Slow growth of higher productivity sectors resulted in absorption of labor in low productivity employment in the 1970s and 1980s. The industrial sector shrank over this period, and agricultural growth slowed dramatically, while the labor force was growing at 3.6 percent a year. The share of the industrial sector in total employment in 1990 (at 11 percent) was below its share in 1960 (of 13 percent). The failure of industrial employment to grow meant that labor was absorbed in services (which expanded from one-quarter to nearly half of employment), mainly the informal sector, or remained in agriculture, where labor productivity was low and falling.

More importantly, poverty declines were modest even when the economy was growing rapidly in the 1960s and 1970s because of the *distorted structure of the economy*. Policies discriminated against labor, subsidized capital-intensive methods of production, and gave low priority to agriculture and exports. This resulted in growth that was narrowly based and inequitable, trapping many people in marginal, low

paying occupations such as upland agriculture, rural wage labor, and informal employment in cities. Infrastructure was highly concentrated in Metro Manila. Generous fiscal incentives provided a window for the development of export-oriented manufacturing establishments, but for the most part, the new export sector that sprung up in the 1970s functioned as an enclave of export processing zones and bonded warehouses, with little interaction with and few benefits for the domestic economy except for the (limited) employment of labor. Government interventions, especially in the 1970s and early 1980s, tended to diminish the role of market mechanisms in favor of regulation by parastatals and promoted oligopolistic control in important sectors of the economy. This inward-looking strategy was inherently unstable, and so the economy lurched from balance of payments crisis to crisis. A stop-go cycle dominated, with each boom inevitably followed by a bust.

In the wake of across-the-board structural reforms of the financial sector, agricultural pricing and marketing, the tax system, the foreign trade and investment regimes, and government corporations, the experience of the Philippines in the late 1980s showed that accelerated growth in a more liberalized economy has a positive impact on incomes of the poor and that poverty declines during periods of rapid growth. Between 1985 and 1988, when GDP growth averaged 4.8 percent, the poverty headcount fell by 1.3 percentage points each year, an achievement equivalent to Thailand's long-term rate of poverty reduction. Analysis of the economic growth of 1985 to 1988 concludes that deregulation in agriculture and greater control over inflation were likely the key factors that improved the lot of the poor.<sup>2</sup> Labor market performance has also shown signs of improvement (See Box 1.1).

Poverty in the Philippines has also been a consequence of the highly *inequitable distribution of incomes and assets*. Income distribution in the Philippines is substantially less equal than that in most low and middle income countries in Asia. The richest 20 percent of the population received more than half of total income in 1994.<sup>1</sup> Indonesia, with per capita income equivalent to the Philippines (when adjusted for purchasing power

parity), has a much more even distribution of income and a poverty incidence of only 19 percent. The richest fifth of the population in Indonesia has incomes about 4.7 times that of the poorest, compared to 10.7 times in the Philippines.<sup>5</sup> Further, most other East Asian countries have experienced dramatic improvements in income distribution, but income inequality in the Philippines, as measured by the Gini inequality index, has not improved over time. The index has fluctuated within a narrow range of 0.45 to 0.49 over thirty years.

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### **Box 1.1: Philippine Labor Market Performance: Translating Growth into Jobs<sup>3</sup>**

*The cause of the malaise in job creation and productivity growth in the Philippines until the mid-1980s was primarily policies of import substitution and capital intensity, not labor market policies. Since 1985, unemployment and underemployment have been slowly moderating (averaging 10.9 percent 1985-89 and 9.5 percent 1990-94), real wages and earnings have recovered, the share of industry in GDP has risen by 1 percentage point, and the share of wage and salary workers in total employment has expanded by 2 percentage points. Another encouraging development is the slowdown in the growth rate of the labor force, although with over 50 percent of workers still in rural areas, and with contract workers abroad equivalent to over 5 percent of the domestic workforce, wages are unlikely to be pushed upwards by the pressure of labor demand.*

*The Government seems to have accepted that traditional labor market policies such as the minimum wage cannot be used to raise overall wage levels. As a result, in recent years, the minimum wage has not been a damaging factor inducing segmentation of the labor market and inhibiting employment growth. Its application has been limited to the formal private sector, and even there, exemptions are relatively easy to obtain, so a large fraction of firms do not comply. Into the future, the Government's labor market policy needs to stress the (still) relatively good education of its workforce compared to Thailand and Indonesia so as to stimulate foreign and domestic investment. In this way, economic growth will translate more directly into higher returns to labor and improved living standards for the poor.*

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*Limited access to social services*, particularly primary health care, quality basic education, and credit, has reduced the opportunities for increased income and well-being of the poor. Infant mortality has not improved in recent years, and the leading causes of death are preventable: respiratory diseases, diarrhea, and measles. This stagnation has arisen out of poor environmental sanitation and infant and child malnutrition. In 1990, only 80 percent of the population had access to safe water, and only 70 percent had access to safe waste disposal. In 1989-90, 14 percent of preschool children were underweight, 12 percent were stunted, and 9 percent wasted. Although 85 percent of children ages 7 to 12 are enrolled in school, there is a high drop out rate (of 30 percent in 1991). Some 1.5 million children are not in school, and about a fourth of barangays lack primary schools. In response to these problems, public provision of appropriate services has been inadequate. Three-quarters of the health budget is devoted to maintaining curative facilities with only one quarter for preventive or primary care. The education budget devotes large amounts to colleges and universities, while many elementary schools are below standards.

Persistent poverty also reflects the *limited success of "safety net" programs* designed to ameliorate the living standards of the very poor, including government efforts at employment creation, livelihood programs, and food subsidies. Instead, as is true everywhere, the poor have devised a variety of coping strategies to survive, of which the most important has been the complex system of private transfers, from urban workers to rural families and from overseas workers to families at home.

However, the enormity of the poverty problem should not be overstated. Despite the large number of people

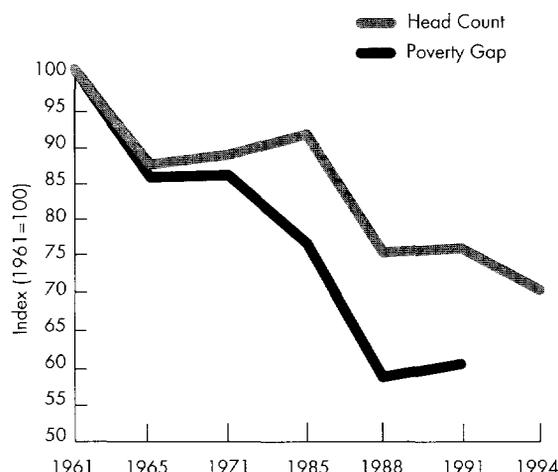
THE POOR ARE BETTER OFF THAN BEFORE, AND INCOME DISPARITIES AMONG THE POOR HAVE DECLINED NOTICEABLY

whose incomes remain below the poverty line, the Philippines has had some success in improving the lot of

the poorest. The gap between the income of the poor and the poverty line has fallen by over 40 percent between 1961 and 1991, and the depth of poverty is relatively small. The poverty gap index, which measures the shortfall between expenditures of poor households and the poverty line, is only 17 percent, i.e., the average poor person had income equivalent to 83 percent of the poverty line in 1991. This means that

although the proportion of the poor in the total population has declined modestly, the poor are better off than before, and income disparities among the poor have declined noticeably since 1961 (see Figure 1.2).

**Figure 1.2: Trends in Numbers of Poor and Poverty Gap, Philippines, 1961-1994**



Notes: The poverty gap indicates depth of poverty, measuring the average shortfall between income of poor households and the poverty line. Source: Balisacan (1994c).

## UNDERSTANDING POVERTY

How many poor are there in the Philippines? Traditionally, poverty is measured as the share of the population living on less than an established minimum amount of income, and there is a fairly standard international methodology for calculating the

ALL OF THESE ESTIMATES ARE INFLATED IN COMPARISON TO OTHER COUNTRIES

poverty line, which includes both food and non-food components. For 1991, when the most recently available household survey was conducted, poverty incidence as measured by the head count ratio (the share of the population with income or consumption less than the level of the poverty line) varied from 37 to 54 percent, depending on definitions (see Table 1.3). But all of these estimates are inflated in comparison to other countries because the Philippine allowance for food expenditures is too generous by international standards. Using a poverty line more similar to those used in Indonesia, China, and Thailand, poverty incidence in the Philippines is greater than in China and Indonesia, but less than in Thailand (see Annex A).

Perhaps the most important feature of household income in the Philippines is that the estimated incidence of poverty in the Philippines is sensitive to small variations in the poverty line. Much of the population earns an income close to the poverty line, so shifting the measure of poverty a small amount will include or exclude large numbers from the ranks of the poor (see Figure 1.3). If the poverty line were lowered by about one-third (from ₱6,705 per capita each year, the adjusted poverty line for 1991, to ₱4,231), the share of people considered poor would fall by half (from 51 percent to 25 percent, as shown by the area under the curve in the figure).

**Table 1.3: Incidence of Poverty Using Different Measures, Philippines, 1991**

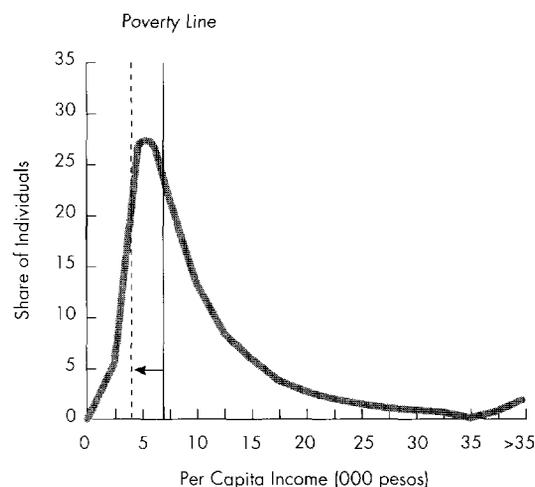
	Poor Households			Poor Individuals		
	Rural	Urban	Total	Rural	Urban	Total
Using Income:						
Official						
Food Line	32%	12%	20%	38%	14%	24%
Official Total Line	47%	31%	39%	53%	35%	44%
Adjusted						
Total Line	53%	23%	37%	59%	27%	41%
Using Consumption Expenditure:						
Official						
Food Line	40%	16%	26%	46%	18%	31%
Official Total Line	65%	34%	48%	71%	39%	54%
Adjusted						
Total Line	62%	30%	44%	68%	34%	50%

Notes: The official food poverty line and official total poverty line are as set by NEDA in 1993. The adjusted total line uses the officially-constructed food poverty line but lower nonfood expenditures, by using the typical value of non-food spending by households just capable of meeting their food requirements. The poverty line was estimated from the 1991 FIES from household level information on food consumption and total consumption per capita. Also included were household demographic characteristics set at the national means for the second per capita expenditure decile of the population and a full set of region/sector dummy variables, creating a different poverty line for each region. Sources: World Bank staff estimates.

The bunching of population near the poverty line means that growth without any change in income distribution will do quite well in lifting people out of poverty. Since those near the poverty line are the most likely to be pulled out of poverty by economic growth and by their own efforts, it is instead the bottom

deciles of the population, whose members are badly off by many measures, on which policy needs to focus. Nevertheless, overall poverty incidence will remain a number of great political interest, and these numbers, with caveats, can be of use for comparison over time, between geographic areas, and among groups within the Philippines.

**Figure 1.3: Income Distribution and the Poverty Line, Philippines, 1991**



Note: Per capita consumption expenditure is used to measure per capita income. Source: World Bank staff estimates.

**Who Are the Poor?** Two thirds of the poor are engaged in the agriculture, fishery, and forestry sectors and have an elementary school education or less. In rural areas, 68 percent of the population live in poverty, while only 34 percent of urban citizens are poor.

Since 1971, the urban poor have become a rising share of the total poor population, but still two-thirds of the poor live in rural areas. The depth of poverty is nearly 2½ times larger in rural areas as in urban areas. Virtually all individuals residing in the National Capital Region (NCR) are better off than their counterparts in other regions, but the NCR, Central Luzon and Southern Tagalog, mostly because of their large populations, contain over a third of the urban poor. Six regions, Western, Northern, Central and Southern Mindanao; Central Visayas; and Bicol, together constitute roughly one-half of all the rural poor in the

Philippines (although these regions contain only one-third of the country's rural population).

Poor households in the Philippines tend to combine into extended families to conserve household assets. Thus, larger households are observed as having greater poverty than smaller households: households of 8 or more members represent nearly a third of all the poor;

THE INCIDENCE AND SEVERITY OF POVERTY IS SIGNIFICANTLY LOWER AMONG ELDERLY AND FEMALE HEADED HOUSEHOLDS

and the poverty experienced in larger households is deeper than that of smaller households. The incidence and severity of poverty is significantly lower among elderly and female headed households in the Philippines, in striking contrast to the evidence from other developing countries. Only 8 percent of poor households are female headed; only 13 percent of poor households are headed by persons over 60 years of age; and only 9 percent are headed by persons under 30. This relative invulnerability to poverty is partly because these households tend to be absorbed into others, creating inter-generationally extended homes, with multiple income earners and also reflects women's strong position in the labor market in terms of relative pay and attachment, compared to many other Asian countries and even relative to many OECD countries. See Box 1.3 for a poverty portrait.

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**Box 1.2: A Portrait of Average Poor Households in Rural and Urban Areas in the Philippines**

*From the statistical information in the 1991 Family Income and Expenditure Survey and the 1992 Socioeconomic Survey of a Special Group of Families, a portrait of an average poor household in the Philippines can be drawn. This household is headed by a male aged 30 to 50 with an elementary education or less. It is larger than average, often with over 8 members. A quarter of the children in the household ages 13 to 16 are not attending school, mostly because of lack of interest. The family uses public health facilities regularly, especially for prenatal care. Almost half of poor women are using some kind of contraception; and 80 percent of poor ever-married women do not want any more children.*

*The typical poor household in rural areas is employed in crop farming but also raises livestock or poultry. The family most likely lives in Southern Tagalog or Bicol, regions with mixed economic records since the late 1980s. The head of household is a landless agricultural worker or an upland farmer on heavily sloped land cultivating a small plot planted in rice, corn, coconuts, or sugarcane. The average area cultivated by the poor farm family fell by one third between 1985 and 1992; and the household is heavily underemployed. The household has only a one in five chance of using irrigation, less than one in two chance of using fertilizers, one in three likelihood of using pesticides, and one in four chance of using high-yielding seed varieties. These rates have not improved since 1985. There is only a 10 percent chance that an agricultural extension agent will visit this year; and the family does not have crop insurance (since only 1 percent of poor farm families are insured). The household has a one in two chance of having a sanitary toilet. One or more family members have probably migrated to urban areas and send substantial money home; in Bicol, Central Visayas, and Eastern Visayas, transfers from urban areas exceed 10 percent of family income for the poorest ten percent of households.*

*In urban areas, the head of household might be working in construction, the wholesale and retail trade, transport, or manufacturing, generally in jobs with little security as well as low pay. The worst off work as hawkers, peddlers, and scavengers. The urban poor family would most likely be in the National Capital Region or Southern Tagalog, regions where poverty has dropped sharply since 1988. These families have a high dependency ratio of unemployed to employed members, but also may be receiving important remittances from a family member working overseas. In the NCR, such transfers added 3 percent to the incomes of the poorest 10 percent. The household would likely be living in a marginal location within the urban area or on its periphery, often in squatter settlements. Although most poor urban households have access to shared community water faucets, one in four are forced to buy water from vendors at 5 to 10 times the normal price or travel far outside their community to collect water. A poor urban household has a one in six chance of a total lack of access to sanitation; and a two in three likelihood of no solid waste disposal service.*

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## CONCLUSIONS

Poverty is still a serious development problem in the Philippines. A large proportion of the population continues to survive on incomes insufficient to provide for the basic welfare of the household. The country's social indicators are not catastrophic but nor are they satisfactory compared to the continuing advances attained by East Asian neighbors. The persistence of Philippine poverty has been primarily, although not exclusively, the outcome of poor growth performance and the unbalanced structure of growth until the economic reforms of the

1980s. Rural poverty is the worst aspect of the problem; it is deeper and more intractable than urban poverty. Urban poverty is serious, but it is more amenable to the simple remedy of economic growth. Faster growth in a liberal economy will be more equitable, but it will be crucial that the Government further foster equity through human capital investment to attack poverty more aggressively. The following chapters will discuss in detail the important phenomena that constitute the poverty problem and its solution: rural development, urban deprivation and needed interventions, human capital and the provision of social services, and a social safety net.

2

SHARING PROGRESS WITH  
THE RURAL POPULATION



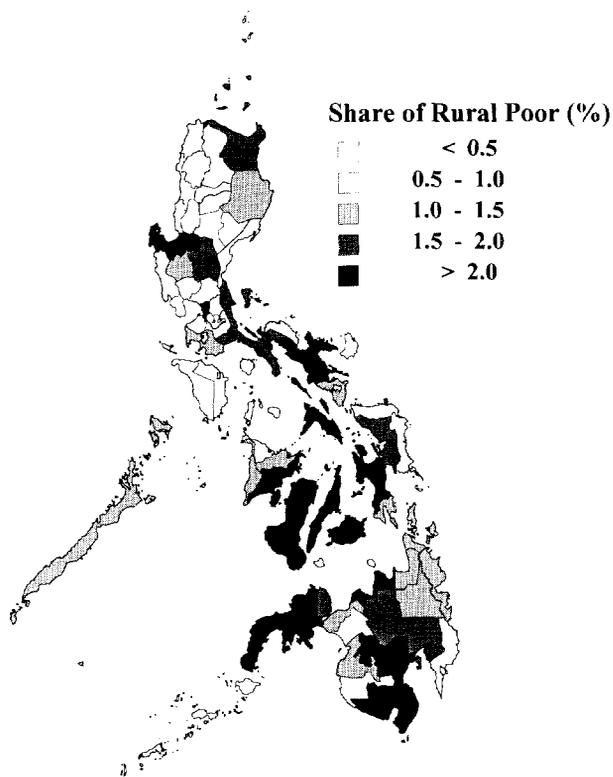
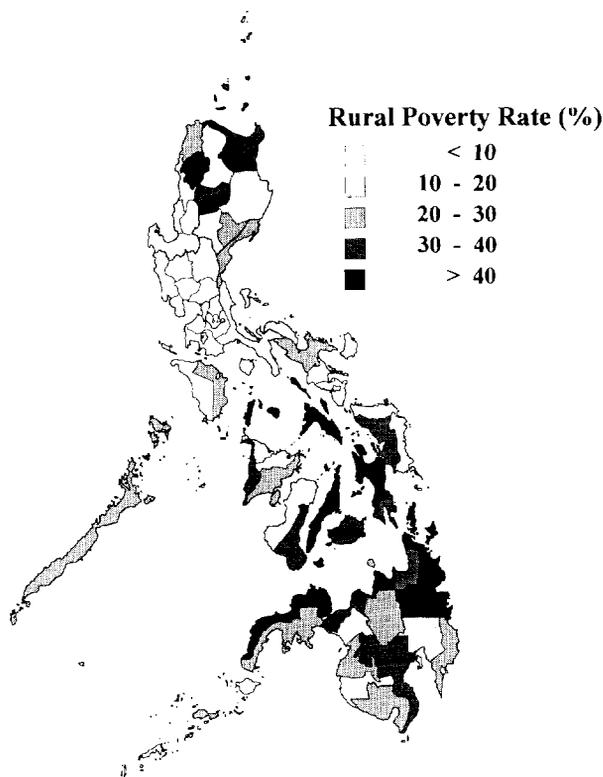
“And so today, the need is more and more apparent to develop the countryside. The countryside is where the willing hands are and where the bountiful seeds of development may be found.”

*President Fidel Ramos  
Speech in Malacañang  
December 10, 1993*

Upland farms in Bohol use terracing to reduce erosion on steeply sloped land.

Poverty in the Philippines has been largely a rural phenomenon. In 1991, half the rural population was poor, and rural poverty accounted for nearly two-thirds of the country's total. And reductions in rural poverty have been modest compared to achievements in the rest of East Asia.<sup>1</sup> As shown in the maps, rural poverty varies greatly across the country. Its incidence is highest in Ifugao, Misamis Occidental, Masbate, and Romblon, in which over half of rural families survived on less than ₱ 20,000 in 1991. But the greatest numbers of the poorest

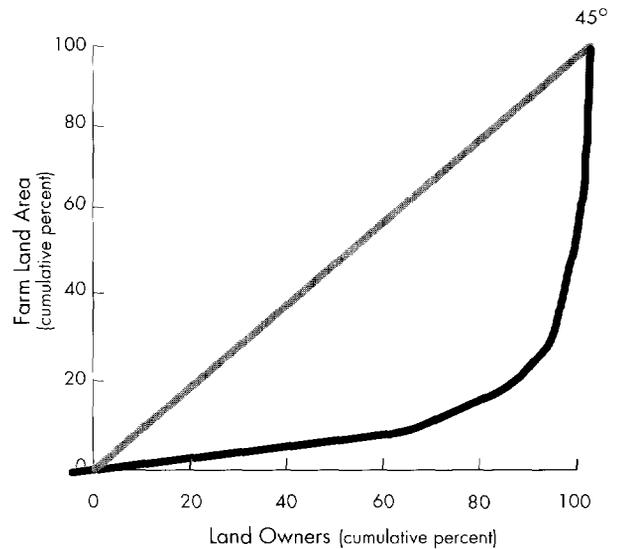
rural families are concentrated in Negros Occidental, Iloilo, Leyte, and Cebu, each of which was home to 3.5 percent or more of the nation's poorest rural families. President Ramos has recently reiterated the commitment contained in the Philippines' current Medium Term Development Plan to reduce poverty incidence to 30 percent of families by 1998. *An overall reduction of this magnitude cannot be accomplished without a sharp reduction in rural poverty and a focused strategy for the worst off rural areas and rural populations.*



Notes: Top map shows percent of rural families in each province in 1997 with family income below ₱ 20,000. Bottom map shows share of all such families in each province.

Farm sizes and cultivable land per agricultural worker have fallen in recent decades in the Philippines, even with additional land brought under cultivation by deforestation.<sup>2</sup> Adding to population pressure on agricultural land is the relatively high concentration of landholding. The Gini coefficient for landholding (a comprehensive measure of inequality) remained at 0.53 to 0.54 from 1960 to 1980 and rose slightly to 0.57 by 1990, despite legislation and implementation of land reform. This level of inequality is about the same as that in Indonesia or Malaysia.<sup>3</sup> However, the coexistence of numerous small peasant farms and large plantations is unique in Asia and more akin to Latin America. In 1988, 86 percent of all Philippine landowners owned farms of 7 or fewer hectares, accounting for 23 percent of agricultural land, while less than 2 percent of landholders had farms exceeding 24 hectares, but controlled 36 percent of all farmland. Figure 2.1 shows how unevenly land is distributed.

**Figure 2.1: Concentration of Agricultural Land Ownership, Philippines, 1988**



Note: The 45° line indicates perfectly equal distribution.  
Source: Balisacan (1993).

Almost 30 percent of the population, or around 18 million people, live in upland areas, because of land shortages and the dearth of off-farm rural employment opportunities. Up to 10 million of these Filipinos are farming on forest land, often with techniques that contribute to very high rates of erosion. Between 1938

and 1990, almost 60 percent of the country's primary forest disappeared (over 10 million hectares); and deforestation continues at a rate of around 100,000 hectares each year. Similar environmental destruction has occurred in coastal areas. Nearly 70 percent of the country's mangrove forests have been destroyed since 1918 (about 300,000 hectares), over-harvested for fuelwood and sometimes replaced by fish ponds. Overall, the degradation and depletion of natural resources in rural areas has been severe, limiting rural opportunities in agriculture, forestry, and fisheries.



A small village clings to an island off Bohol, submerged with each tide.

However, the Philippine agricultural sector had performed remarkably well compared to other Asian countries from the second half of the 1960s to the early 1980s, the height of the green revolution period. Growth was led by the crop sector, especially fruits and vegetables and export products such as pineapples and coffee. Nevertheless, *the rapid growth of agricultural value added, averaging almost 5 percent per year, did not translate into a substantial reduction of rural poverty.* The headcount incidence of rural poverty declined modestly during this period, from 64 percent in 1961 to 49 percent in 1985.

The linkages of agricultural growth were weak because of the numerous distortions in the economic policy environment (discussed in Chapter 1), the

skewed distribution of landholding, and the highly capital intensive nature of plantation farming and large scale processing of export crops such as bananas. A further reason that agricultural growth was not good for the poor was the greater availability of government subsidies for credit and fertilizers to more affluent farmers, as well as their greater access to irrigation, electricity and roads. Moreover, incentives for industrialization focused on urban areas, hampering the development of off-farm rural employment. These features weakened the employment and

income multiplier effects of agricultural growth on the farm, rural, regional and national economy and prevented the rural non-farm sector from responding vigorously to agricultural income growth.<sup>1</sup>

The many policy reforms of the 1980s have set the stage for more equitable growth into the future. However, growth of agriculture since 1990 has been sluggish (barely exceeding population growth) and has fallen behind the accelerating expansion of the rest of the economy. With agriculture accounting for

about one-fourth of GDP (and one-third if agriculture-based industry is included), half of employment, and one-fifth of export earnings, the relatively poor performance of the sector is a concern for the economy as a whole. Thus, *ironically, when rates of agricultural growth were robust, the structure of the Philippine economy prevented that growth from benefiting the poor.* Now that structural reform has opened the avenues for growth to benefit all, agriculture is faltering. Therefore, the Government's rural strategy needs both to stimulate agriculture as a sector and to intervene specifically to bias rural growth towards the rural poor, approaches which can be complementary.

NOW THAT STRUCTURAL REFORM HAS OPENED THE AVENUES FOR GROWTH TO BENEFIT ALL, AGRICULTURE IS FALTERING

Therefore, the Government's rural strategy needs both to stimulate agriculture as a sector and to intervene specifically to bias rural growth towards the rural poor, approaches which can be complementary.

## WHO ARE THE RURAL POOR?

The vast majority of the rural poor are engaged in farming, and about two thirds of all farming families (or 2.2 million) were considered poor in 1988. Rural poverty is most common among: (i) lowland landless agricultural workers, tenants and leaseholders; (ii) lowland small farm owners and cultivators; (iii) upland farmers on heavily sloped land; and (iv) artisan fisherfolk. The incidence of poverty among landless agricultural workers and farmers cultivating small plots has been high for many years, especially farm workers in sugarcane, rice, corn, coconut, and forestry. Rice producers contributed almost a fourth of overall poverty, not a surprising fact given that they comprise 28 percent of farmers. The incidence of poverty has also been high for families whose incomes depend mainly on fishing (although they account for only 9 percent of all rural families). Overall, rural poverty is more prevalent in those geographical areas where droughts and typhoons are most frequent.

*Poor families in agriculture are characterized by high levels of underemployment (as is common in monsoon dominated agricultural areas), and the intensity of poverty among the self-employed (including primary lessees, tenants, and small owner-cultivators) is as severe as among wage households in rural areas.* Thus, the modest rise between 1960 and 1980 in the share of crop and livestock farms that were operator owned, from 45 percent to about 59 percent, did not correlate with a drop in rural poverty.

*The rural poor also suffer from inadequate access to land, modern technology, nonagricultural sources of income, and social services, including health care and family planning.* Access to land was actually held back by past land reform programs that covered only large tenant rice and corn farms and so encouraged eviction of tenants and hiring of landless workers. Limited access of the rural population to social services reflects the concentration of these services in urban areas, lack of information, ill-designed programs, and inadequate administration. Only two-thirds of rural families have access to clean water supply (versus three-quarters of urban families); the median distance to higher level health facilities (i.e., rural health units and public hospitals) are four to five times further in rural compared to urban areas; and child mortality is 50 percent higher in rural areas.

## HOW HAS EAST ASIA REDUCED RURAL POVERTY?

The success of East Asian countries at reducing rural poverty confirms, first and foremost, that the problem of rural poverty cannot be solved in the rural sector alone. Its solution requires a multi-dimensional strategy that starts with achieving and sustaining higher rates of growth for the economy as a whole. Unless overall growth is accelerated, in an economy that is reasonably competitive and open, there is little chance that poverty can be eliminated.

UNLESS OVERALL GROWTH IS ACCELERATED, IN AN ECONOMY THAT IS REASONABLY COMPETITIVE AND OPEN, THERE IS LITTLE CHANCE THAT POVERTY CAN BE ELIMINATED

In addition to higher growth, the experience of East Asia teaches that economy wide and sectoral policies must encourage rural development. This requires moderate taxation of agriculture and relatively undistorted product and factor markets. It requires public provision of infrastructure and mechanisms that make technological change available to farmers, especially small farmers. Specific interventions are important to improve the participation of the poor in growth by increasing their access to land and public infrastructure and services. And for resource poor regions, policies that provide opportunities for out-migration are important. Together, these policies can be categorized as increasing access of the poor to the means of production.<sup>6</sup>

Most importantly, *successful rural development and poverty reduction require policies and programs supportive of smallholder agriculture.* Korea, Taiwan and, more recently, Indonesia, Malaysia and China have followed this strategy. All these countries either did not have large-scale landholdings or have encouraged their reform into owner-operated family farms. Even in plantation crops, they have pursued smallholder strategies based on contract farming; as a result, the share of these crops grown by smallholders has steadily increased. But actual redistribution of land is only one component of a smallholder strategy. These countries have also invested heavily in agricultural infrastructure and agricultural technology for smallholders and have largely refrained from heavily subsidizing credit. They have not taxed or only lightly taxed their agricultural sectors. And this support of small farms does not sacrifice efficiency: evidence from a number of countries now supports the

superior productivity of smallholder agriculture.<sup>7</sup> These countries have experienced rapid agricultural growth, modernization of technology, and sharp reductions in rural poverty. The dramatic declines in rural poverty in these countries has set them up as models for the rest of the developing world where, in general, there are many more rural poor than there were a half century before.<sup>8</sup>

#### IMPROVING ACCESS OF THE POOR TO LAND

Although land reform can play an important economic, social and political role, land reform alone will not solve the rural poverty problem. *Successful land reform must include provision of rural infrastructure and technical support to make small*

LAND REFORM ALONE WILL NOT SOLVE THE RURAL POVERTY PROBLEM

*farms productive and prosperous.* Land distribution in the Philippines is not

notably more unequal than that of a number of other countries, such as Malaysia or Indonesia, that have been successful in battling poverty. In certain areas and for certain crops, it is a severe problem that must be addressed. However, comprehensive rural land reform, as currently structured, is bound to remain contentious, expensive, and administratively complex. Thus, it is time to take a fresh look at the Philippine land reform program, to accelerate its implementation and to ensure the necessary complementary investments to improve small farmer productivity.

*The Comprehensive Agrarian Reform Program (CARP)* of 1987 mandated the redistribution of public and private agricultural lands amounting to three-quarters of all the agricultural land in the country to landless farmers and farm workers. Progress in agrarian reform has been slow and has yet to make a dent in rural poverty. Only 31 percent of the targeted distribution of 10.3 million hectares over 1987-98 had been distributed by end-1994 (see Table 2.1). These substantive delays reflect the shortages of funds for such a program and the complex procedures, loopholes, exemptions and other provisions in the law that have reduced its effectiveness without necessarily contributing to agricultural efficiency or growth.<sup>9</sup> The uncertainty surrounding the program has discouraged the flow of investments into agriculture as well as encouraged non-planting and premature conversion of agricultural lands into non-agricultural uses. It has also diminished the collateral value of agricultural lands. Moreover, redistribution has lagged most for

private agricultural lands; yet it is exactly these areas where landholding inequality is the worst, particularly in sugarcane, coconut and other tree crops, and nontraditional export crops.

**Table 2.1: Implementation of the Comprehensive Agrarian Reform Program, Philippines, 1987-1994**

(in '000 hectares, except as noted)

Program	Schedule of Implementation <sup>a</sup>	Original Target (1987-1997)	Actual (1987-1994)	Percent of Target
PHASE I	1988-1992	1,055	1,046	99%
Rice and corn lands already selected for land reform		728	441	61%
All idle lands		250	—	—
Government agricultural lands <sup>b</sup>		77	605	786%
PHASE II	1988-1992	7,660	2,150 <sup>d</sup>	23% <sup>d</sup>
Public agricultural lands <sup>c</sup>		6,954	1,776	26%
All private agricultural lands in excess of 50 hectares		706	374 <sup>d</sup>	15% <sup>d</sup>
PHASE III		1,581	—	—
Other private agricultural lands				
24-50 hectares	1992-1995	517	—	—
5-24 hectares	1994-1998	1,064	—	—
TOTAL		10,296	3,196	31%

a Based on program phasing in Republic Act 6657 of 1988, the law for CARP.

b Includes Presidential Commission on Good Government surrendered and sequestered lands and government owned agricultural lands.

c Includes public alienable and disposable lands, lands under agricultural leases, social forestry areas, and resettlements.

d Includes some private agricultural lands under Phase III and idle lands under Phase I, so the target used as a denominator includes 250 and 1,581 hectares from Phases I and III.

Source: Balisacan (1995b).

Another dilemma with CARP as currently structured is its restriction of tenancy forms. Evidence now argues against the traditional view that tenancy is correlated with poverty. Land reform programs that constrain the scope of tenure choice tend to defeat the objective of promoting efficient resource allocation in rural areas.<sup>10</sup> Tenancy prohibitions close the opportunity for the landless poor to move up the "agricultural ladder" and especially hurt the poorest of the rural poor—landless farm workers. As the wage worker accumulates experi-

ence and financial capital, he or she can become a tenant farmer and eventually an owner-cultivator.<sup>11</sup>

*The ongoing targets for the land reform program are unlikely to be achieved.* During the first seven years out of the original ten year program, less than one-third of the land has been redistributed, and barely 15 percent of private agricultural lands (constituting one fourth of the program and the lands with most highly concentrated ownership). The cost alone makes full implementation of CARP improbable. Continuing increases in land prices have inflated recent estimates of the total cost to the budget of completing CARP to ₱ 120 billion (or US\$ 5 billion), twenty percent above the estimate of only a year earlier.<sup>12</sup> Future program implementation presents a heavy budgetary burden. This could result in diversion of resources away from areas such as rural infrastructure and social services, with negative repercussions on the welfare of the rural poor.

**A Strategy for Accelerating Land Reform.** It is vital to improve the lives and prospects of the rural poor, but given budget and administrative constraints, the Government is facing stark trade-offs between fully funding CARP and helping landless and tenant farmers in other ways. The land reform program should be carefully reevaluated to bring its financial and administrative requirements into line with available resources. The program should be reshaped to be focused on areas where the land tenure problems are most pressing and oriented to assisting the poorest agricultural workers. Bicol and Western Visayas stand out amongst the regions, with highly concentrated landholding. Even more dramatic is the extreme level of inequality of land ownership for sugarcane lands.<sup>13</sup> A focused completion of rural land reform, whether implemented under existing CARP rules or a modified approach, must be fully funded and quickly finished.

- Even with full implementation of CARP there is not sufficient land for all poor rural households, and complementary programs for these farmers also need funding. About 3.7 million families are potential beneficiaries of CARP, out of the 6 million rural households in the Philippines. 1.7 million of these

families are farming in upland forests and would benefit from the greater security provided by stewardship contracts under CARP in forest areas and on public lands but would not likely experience any immediate increase in incomes. The other 2 million households are those that would be enriched by receiving 3 hectares of land (the amount DAR is distributing from private lands): they are owner-cultivators of farms smaller than 3 hectares, landless agricultural workers, and lessees and tenants. But the land targeted under CARP, not counting forests, public lands, or private lands between 5 and 24 hectares, is sufficient for fewer than 1 million families. Thus, it is vital that these poor families also benefit from poverty-reducing programs.

- Land reform efforts should be reconsidered (or halted) in rapidly urbanizing areas where the value of land in non-agricultural uses exceeds that in agricultural uses. Implementation of the reform program in these areas is increasingly expensive, gobbling up a disproportionate share of available resources, and land is bound to go out of agricultural production and into urban use in the near future.
- The Government should not proceed with implementation of the program's third phase affecting private lands smaller than 24 hectares, which constitutes two-thirds of the land identified under Phase III. This phase will be much more difficult and costly than Phases I or II since it implies distribution of smaller, more scattered private plots. A rough estimate is that it will take ₱ 35 billion to complete redistribution of farms under Phases I and II; another ₱ 20 billion for so or farms of 24 to 50 hectares; and over 40 billion for the small farms of 5 to 24 hectares. The government must weigh the trade-offs of spending more on land redistribution and less on other programs for the rural poor and *vice versa*.

The administrative complexity of land reform (e.g., the time consuming disputes that arise over land valuation, or the granting of exemptions) probably cannot be resolved in the context of a government-administered program executed in a democratic society. One alternative is to consider *market assisted land reform*, which would involve removing all regulations and subsidies that artificially raise the value of land and imposing a stiff land tax. Such changes would encourage large

landholders to sell voluntarily and would reduce incentives to hold land out of production or retain inefficient production patterns.<sup>14</sup> To enhance the impact such a scheme could have on the rural poor, beneficiaries could receive partial grants to enable them to buy land without incurring unmanageable debt burdens. A decentralized structure capable of assisting with the provision of infrastructure and social and agricultural services would also be essential for success. Such a program merits further examination, since it seems it might be significantly less costly than the current arrangements for rural land reform.

**STRENGTHENING THE AGRICULTURAL CREDIT SYSTEM**

Despite the heavy emphasis given to credit in the Government's rural programs, *shortages of credit are not as serious an impediment to agricultural development* as serious an impediment to agricultural development

*as serious an impediment to agricultural development or a cause of persistent poverty as access to infrastructure and human capital.* It is

true that small farmers often cannot secure institutional credit. Transaction and collateral requirements restrict access of owners of small farms and tenants to formal sources of credit. This type of lending is also unattractive to banks because of the high costs of administering loans to small farmers and, if interest rates are controlled, low profitability. However, farmers' requirements for short term credit are normally met by suppliers of inputs and marketers of crops rather than directly by financial institutions. The primary role of the rural credit system is to fill the working capital requirements of these (rural) agricultural intermediaries. A subsidiary role, and one that cross-country experience of banking with the poor has shown as important in the early stages of a client-banker relationship, is the provision of consumption loans (for seasonal smoothing) and emergency loans (to overcome shocks), a credit need that agricultural intermediaries are rarely equipped to handle.

**The State of Agricultural Credit.** Formal lending for agricultural production has declined significantly over the last 10 years in the Philippines (see Table 2.2). About two-thirds of total loans to agriculture during 1988 to 1992 came from *commercial banks* with rural branches, but their lending has been limited to highly-

collateralized short-term loans granted to large domestic and multinational agribusinesses. Family-owned *rural banks* mobilize and reinvest resources in rural areas and, thus, could in theory play a significant role in rural development. However, their weak financial positions—the legacy of provision and subsequent withdrawal of government subsidies—have undermined performance.<sup>15</sup> Although rural banks still account for close to 30 percent of the rural branch network, they retain less than 3 percent of the sector's total assets and 13 percent of the loans granted to agriculture over the last five years. The *Land Bank* has in recent years concentrated on support of the CARP by funding land reform mortgage loans (with coverage of losses from the National Government) and agrarian production loans. Over the past few years, Land Bank has shifted away from lending to individual farmers to wholesaling through agricultural cooperatives and rural banks.

The quickly expanding role of *rural cooperatives* is an important development. Significant government incentives and regulations which allow for easy establishment of cooperatives and registration with Land Bank have led to an unprecedented surge in the number registered: from 1,860 in 1990, to 9,800 in 1991, and 22,000 in 1993. By 1993, rural cooperatives accounted for three-quarters of loans disbursed to the small farmer sector. Almost half appear to be multipurpose cooperatives, but information about their size, financial status, and activities is not readily available. Many are quite small, suffer from poor management and control, and lack business orientation. It is likely that a significant number only exist on paper, having been formed to avail themselves of government benefits and donor assistance. Many cooperatives' limited experience and meager equity tend to reduce repayment capacity. However, cooperatives offer the potential to increase competition for small borrowers which should create downward pressure on the high interest rates in the informal financial sector.<sup>16</sup>

**Table 2.2: Indicators of Agricultural Lending, Philippines, 1983 and 1993**

	1983	1993
Loans Granted (billions of 1985 ₱)	50	27
Loans/Agricultural GDP	32%	17%
Agricultural Loans/Total Loans	8%	4%

Source: Bangko Sentral ng Pilipinas (Central Bank of the Philippines).

**Improving the Rural Credit System.** The financial condition of many rural banks remains weak. Non-government bank lending still concentrates on larger borrowers. Proliferation of subsidized rural credit programs by government non-financial agencies continues despite efforts to consolidate various funds.

SAVINGS CAN BE A SUBSTITUTE SOURCE OF CAPITAL FOR A RURAL HOUSEHOLD

Perhaps most importantly for the long run, while rural savings mobilization has improved somewhat recently, these savings continue to be invested in major urban centers. Savings can be a substitute source of capital for a rural household if savings deposits are secure, accessible, and offer a positive return. Actions are necessary:

- The Government needs to resist any pressure to restore agricultural credit subsidies. The private sector should continue to lend to agriculture on an equal footing with public institutions. Increased efforts should be made to streamline and consolidate all government sponsored credit programs, relying on banking institutions to carry them out. Instead, the Government should focus on effective supervision and regulation and depositor protection.
- Rural cooperatives should be strengthened to permit them to serve as viable financial intermediaries and expand the range and quality of non-financial services they provide to their members, including post-harvest processing and marketing of inputs and outputs. Increasing cooperatives' working capital would enable them to offer such services, which would ultimately help in collection and financial health. Therefore, Land Bank needs to strengthen its accreditation criteria for cooperatives, provide them with technical assistance for institutional strengthening, and place more emphasis on savings mobilization.

RURAL COOPERATIVES SHOULD BE STRENGTHENED

## BUILDING RURAL INFRASTRUCTURE

**Government Spending in Agriculture.** *The current level of public expenditures on agriculture is inadequate if the agricultural sector is to become an important engine of growth and make a significant contribution to poverty alleviation and sustainable resource management during the second half of the 1990s.* The share of

government spending in agriculture declined from 10 to 12 percent during 1976-1983 to an average of 6 percent during 1992-94. The Philippines continues to have the lowest ratio of public expenditures for agriculture to total expenditures and to GDP among ASEAN countries.<sup>19</sup>

At the same time, there has been a marked shift of government agricultural expenditures away from research, irrigation and community development (including rural roads) to agrarian reform, environment, and price supports. On the whole, this represents a shift from tried and true

SIMPLY REDISTRIBUTING LAND HAS BEEN FOUND TO HAVE LITTLE EFFECT ON EARNINGS IN RURAL AREAS OR AGGREGATE POVERTY AND INEQUALITY

methods of directly supporting sectoral growth (and indirectly alleviating rural poverty) to methods that have not proven to be effective. Simply redistributing land has been found to have little effect on earnings in rural areas or aggregate poverty and inequality. Instead, increasing the access of the worst-off regions to paved roads and electricity could reduce poverty significantly by improving productivity and earnings.<sup>20</sup> Unfortunately, it is precisely investment in infrastructure where the backlog has been particularly severe.<sup>21</sup>

An increase of agriculture's share in public investment is planned for the remaining years of the Ramos Administration. A substantial part of the increase should be devoted to rural infrastructure investment. Investments in rural roads, electricity and communications, port facilities, and irrigation can reduce transaction costs, thereby facilitating a wide variety of economic activities and strengthening the rural supply response to overall economic growth. Infrastructure also raises the quality of life directly by providing cleaner water, land and air which contribute to improved personal health, and by providing services valued in their own right such as transport and communication.

- Better *rural roads* would make it easier for the poor to gain access to markets for final goods and services and to sources of productive inputs (as well as to social services and alternative employment). In the Philippines, the density of rural roads has been found to have a substantial impact on farm output and use of inputs such as fertilizer and tractors.<sup>22</sup>

But an estimated 50 percent of barangays lack all weather roads, significantly delaying hauling in the rainy season; 40 percent of provincial roads and 50 percent of barangay roads are in such poor condition that they cannot be maintained any longer but must be rebuilt or abandoned. Road density is lowest in Central, Western, and Southern Mindanao.

- Electricity and communication services are also of high value if off-farm employment is to be generated in rural areas. Only 53 percent of rural families were hooked up to electricity at the beginning of the 1990s; and families in Central and Western Mindanao and in Eastern Visayas were most deprived, with two-thirds lacking electricity.
- Investment in *irrigation*, on the other hand, has already reaped the easiest returns. By 1985, 87 percent of the paddy area (and 94 percent of irrigated area) was planted to high yielding varieties, one of the highest adoption rates in Asia. As a result, over the last decade, yields on irrigated land have averaged 70 percent higher than those on rainfed farms. While some modest new investment in low-cost communal irrigation schemes, which have the possibility of improving the income of poor farmers and have proven economically attractive, should be considered, evidence from the International Rice Research Institute now suggests that the emphasis of future spending for irrigation and irrigated agriculture should be on increasing farmer skills, improving irrigation management and augmenting support services such as agricultural research and extension and marketing facilities.

#### IMPROVING THE FUNCTIONING OF RURAL MARKETS

Government interventions in the agricultural sector have imposed heavy costs and uncertainties on farmers and distorted agricultural production and markets. A prime example is the National Food Authority (NFA) which has spent billions of pesos over the years without stabilizing prices or raising returns to farmers. While

IT IS TIME FOR DEREGULATION TO BE COMPLETED



A fruit vendor in Metro Manila provides a crucial market link for rural farmers.

deregulation in agriculture started in the 1980s with the dismantling of a number of counterproductive regulations and monopolies, it is time for deregulation to be completed.

- The monopoly by the NFA on international trade in rice and corn and its direct intervention in the domestic market should be ended. Less than 10 percent of the three million corn farmers in the country have benefited from the corn subsidy for producers, and only 0.6 percent of low-income rice farmers and 1.4 percent of low-income farmers sold their crops to the NFA in 1992.<sup>23</sup> The NFA's functions could be replaced by simple, more transparent rules to protect and promote agricultural development. NFA's budget would be better spent on the development of improved agricultural technology, extension, and infrastructure, or devoted to targeting food subsidies to needy families as part of a safety net for the poor; as suggested in Chapter 5.

- Any serious reform effort must also remove the remaining restrictions on agricultural production and trade that prevent farmers from earning a higher return or from procuring inputs more cheaply;<sup>21</sup> and some are being addressed as part of the Philippines' signing on to the Uruguay Final Round of the GATT.

To complement deregulation, markets could function better with improved transaction services. Here, *rural cooperatives* can be an important tool to help small scale producers organize to integrate into the modern agricultural sector. At this point, the amount of agricultural product handled, *ex farmgate*, by cooperatives is small, and many cooperatives stand in great need of financial and institutional strengthening. Since most have been established as credit vehicles, trade both in inputs and products has been simply an outgrowth of the credit function, i.e. the supply of products in kind and payments effected with product. Both aspects of trade are growing as the working capital of cooperatives grows. Cooperatives can and are competing with established traders by offering cash payments, accurate prices and quality determination, free collection at the farmgate and storage, a business development which should cut transaction costs for farmers.

#### IMPROVING AGRICULTURAL SERVICES

Too few resources have been allocated to policy instruments that raise agricultural productivity and lower costs of production over the long run, such as agricultural research. Efficient delivery of agricultural support services has been retarded by weaknesses and fragmentation in the institutional structure. The mandates, authorities and budgets for performing various agriculture-related activities have been spread over several different agencies belonging to at least four different departments—Science and Technology, Public Works, Agrarian Reform, and Environment and Natural Resources—in addition to the Department of Agriculture. As a result, there remain many unrealized technical opportunities to improve productivity (see Box 2.1); and the reach of extension services is limited. As little as 12 percent of crop-growing poor households receive information about seed utilization and crop management. Only 20 percent of poor households have access to irrigation, use high yielding varieties, or practice interplanting or double cropping.

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#### **Box 2.1: Rehabilitation of Coconut Smallholdings: Higher Yields Improve Farm Incomes and Export Earnings**

*The Small Coconut Farms Development Project of the Philippine Coconut Authority, supported by a World Bank loan, launched a 20 year program to rehabilitate the declining coconut industry beginning in 1991. Coconuts occupy about 3 million hectares, contribute to the livelihood of a quarter of the Philippine population, and are the biggest agricultural export. However, because of increasing senility of the palms, production had been declining by about 2 percent per year, and major international customers were beginning to look for other sources of long-term future supplies.*

*The project planned to rehabilitate about 348,000 hectares and replant up to 50,000 hectares of young palms over five years. To ensure an early response while the seed production capacity needed for massive replanting was under development, the project provided fertilizer for the rehabilitation of nutrient-deficient mature palms and young plants. It was estimated that the yield of mature palms could be doubled after four applications of fertilizer and that the yield potential of deprived young hybrids could be increased four or five fold.*

*The area targets for the first two years of the project were exceeded, but then budget constraints and other problems prevented further expansion of coverage. However, it soon became apparent that the response to fertilizer had been underestimated. Farmers fortunate enough to have been included in the program soon reported significant increases in the number of nuts produced and in the copra content of the nuts. A recent survey has shown that after only three applications of fertilizer, average annual copra yield per hectare increased from 1.02 tons to 2.79 tons (a 174 percent increase), which tripled the farmers' incomes. The results have generated great enthusiasm, and most participants who will graduate from the program this year have said that they intend to continue using fertilizer to maintain their higher income.*

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Uncertainty about agricultural services into the future has been heightened by recent devolution of

government functions to local governments, which placed agricultural extension and most regulatory functions under the management of provincial and municipal authorities who have considerable discretion in determining the level and types of services they provide to farmers. *Decentralization should make agricultural services more accountable to farmers and more responsive to local needs.* In the short term, however, it has produced uncertainty, staff fears about deprofessionalization, and political influence in technical matters.

To strengthen agricultural services:

- More funds should be devoted to agricultural research and extension. Training for devolved extension personnel should be continued and monitored.
- The proliferation of agencies with a mandate to provide various agricultural support services, with little coordination among them, needs to be rationalized. The respective roles of various national agencies and LGUs involved in the delivery of agricultural services must be clarified so as to enhance effectiveness in dealing with small farmers and the rural poor.
- The Government should not let the targeting of agrarian reform beneficiaries as a special group for support services distract from the need to provide services to all small farmers.

## RETHINKING RURAL DEVELOPMENT PROGRAMS

Numerous approaches to rural development have been tried in the Philippines. To increase employment opportunities and promote rural welfare, the Government tried *integrated area development* (IAD) starting in the early 1970s. These projects included: (i) agricultural services such as extension and demonstration plots; (ii) rural infrastructure such as farm-to-market roads, irrigation facilities, flood control, and bridges; (iii) rural industries; and (iv) social services including education, nutrition, health and environmental sanitation.

Planning and implementation problems limited the scope and sustainability of these programs. IAD pro-

jects proved difficult to manage, because of the need to coordinate the activities of various line agencies with differing levels of commitment to each project; because projects were highly centralized, with little local participation in decision making; and because they were dependent on external financial assistance for operating costs as well as investment expenditures. More importantly, complex project design, often ill-adapted to local conditions and incorporating inappropriate technologies, insufficient investment in local administration, and lack of beneficiary participation limited the effectiveness of these projects, as did inadequate attention to the implications of other government programs and policies, both within and outside agriculture.

Given this disappointing experience, current thinking has been that administrative and fiscal *decentralization* could be a more viable route to integrated rural development. However, poverty-reducing rural development efforts based on a small farmer strategy will generally require partial or full government finance since the private sector is unlikely to judge such infrastructure and service delivery to be sufficiently profitable. Public resources could be channeled for specific small scale productive or social projects to beneficiary groups, either directly or via intermediation of local governments or NGOs. For example, a rural development fund window could be set up within the existing Municipal Development Fund, as a financing vehicle through which the Government could make available conditional or matching grant resources for targeted activities to be implemented by LGUs. Genuine decision making power can be delegated to municipalities or beneficiary groups for their choice from a predetermined menu of poverty-reducing community projects. (See Chapter 6 for further discussion.) The Central Visayas Regional Project provides valuable lessons about community-based resource management (see Box 2.2). Project selection can be made according to rules that increase the transparency of decision making to ultimate beneficiaries and assist in targeting to poorer groups.

POVERTY-REDUCING RURAL DEVELOPMENT EFFORTS BASED ON A SMALL FARMER STRATEGY WILL GENERALLY REQUIRE PARTIAL OR FULL GOVERNMENT FINANCE

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**Box 2.2: The Central Visayas Regional Project (CVRP): Community Management for Sustainable Use of Resources**

*The Central Visayas Regional Project (CVRP), supported by the World Bank, addressed the degradation of upland watersheds and coastal reef fisheries in poor and remote areas of the Central Visayas during the 1980s. The watersheds of the Visayas had been denuded of forests and farmed extensively without concern for soil conservation. Soil erosion contributed to rapid loss of fertility, and lack of tree cover added to the danger of flash flooding. Coastal fisheries had been overexploited by large numbers of small-scale fishermen competing with commercial boats illegally fishing in municipal waters. Poor access to markets and farm inputs limited prospects for agricultural development and further contributed to a deepening cycle of impoverishment and resource depletion.*

*The CVRP project aimed to organize users of upland watersheds and near-shore fisheries, resources that were already in principle publicly-owned and regulated, and give them long term exclusive use rights to create incentives for conservation. Contractual tenure instruments were developed, such as the Stewardship Certificate which provides 25-year renewable use rights for farmer occupants of public land or the Forest Occupants Stewardship Agreement which assigns collective management rights to upland communities over residual forest. A major rural infrastructure component utilized highly labor intensive techniques to increase road access to remote farming communities and to provide safe water supplies to communities that undertook to protect catchment areas. The project also promoted decentralization of regulation of small-scale municipal fisheries to the municipal level and active management by fishermen's associations.*

*The project proved successful in encouraging more sustainable use of coastal fisheries and upland resources. Municipal fishermen's associations secured agreements among users to set aside and protect areas of coral reefs as nurseries, helped control use of dynamite fishing, and restricted the use of fine mesh nets, in return for assistance in excluding commercial fishing boats from municipal waters and in developing alternative livelihoods such as goat and swine raising. The project also improved soil conservation by upland farmers; especially through private tree planting and agroforestry. However, CVRP*

*did not manage to put in place effective community management of residual forests. Other government-sponsored reforestation programs with high wages undermined these community efforts; project management and technical services proved too costly for local government to sustain without external financial support; and it became clear that adequate alternative immediate sources of income needed to be provided if an impoverished community is expected to forgo opportunities for profitable exploitation of a local resource.*

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Decentralization of rural development would likely involve: (i) relying on local governments to carry out projects for poverty alleviation and making local governments more accountable for their planning and implementation; (ii) mobilizing NGOs and people's organizations to articulate needs, design self-help projects, mobilize resources, implement the projects, and evaluate their progress; and (iii) tracking progress of poverty alleviation through a community-managed surveillance system.

#### BUILDING THE HUMAN CAPITAL OF THE RURAL POOR

The perennial weakness of the rural supply response in the Philippines has reflected persistent under-investment in human capital formation. There is overwhelming evidence that investment in human capital is a key factor in reducing poverty. For the Philippines, recent calculations estimate that raising educational levels of the population to at least

high school would reduce poverty headcount by about 10 percentage points.<sup>25</sup> Thus, it follows that the ability of the poor to participate in the growth process can be facilitated by improving primary health care and basic education. The most important obstacle to the rural poor gaining access to health and education services continues to be the lack of accessible physical infrastructure, i.e., schools and health clinics and the roads to get to them. Further, public investment in human capital has been biased against rural areas, with high quality primary education concentrated in private schools in Metro Manila. It is clear that rural primary

THE MOST IMPORTANT OBSTACLE TO THE RURAL POOR GAINING ACCESS TO HEALTH AND EDUCATION SERVICES CONTINUES TO BE THE LACK OF ACCESSIBLE PHYSICAL INFRASTRUCTURE

education and health services have been short-changed and, therefore, that emphasis on the provision of primary health services and primary education, which favor all the poor, would be particularly beneficial to the rural poor. (See Chapter 4 for a discussion of human capital issues.)

## CONCLUSIONS

Agricultural growth until the mid-1980s had only weak effects on poverty; and the sector's growth over the last few years, while more likely to assist the poor because of the improved structure of the economy, has been insufficient. Into the future, the Government's efforts at alleviation of rural poverty will need to give more emphasis to investment in rural infrastructure, expansion and redirection of research and extension services,

improvement in the efficiency of markets, and expenditures on basic social services to build the human capital of the poor. Rural cooperatives and NGOs should be encouraged to provide credit to the small farmer, with government involvement focused on capacity building. The Government's program of rural land reform should be rationalized, consistent with budgetary and institutional capacities, eliminating loopholes, increasing certainty and reducing case-by-case administrative discretion, and clearly identifying areas and timing of redistribution. Applying market-assisted land reform techniques could reduce costs and deserves detailed study. Resolving exactly where, when, and how rural lands will be redistributed cannot be further delayed. Uncertainty has already gutted agricultural investment, harming exactly those land reform is intended to assist—the rural poor.



3

RAISING LIVING STANDARDS  
OF THE URBAN POOR



A poor neighborhood in Manila is plagued by poor drainage.

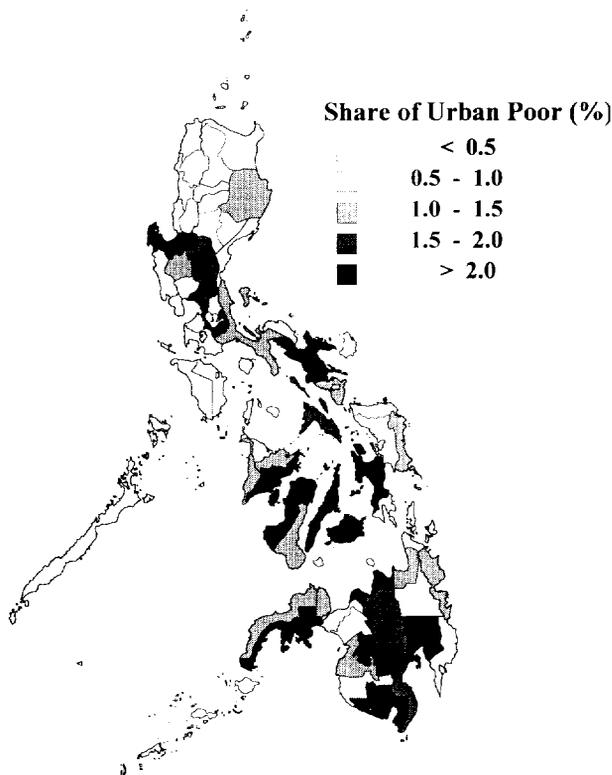
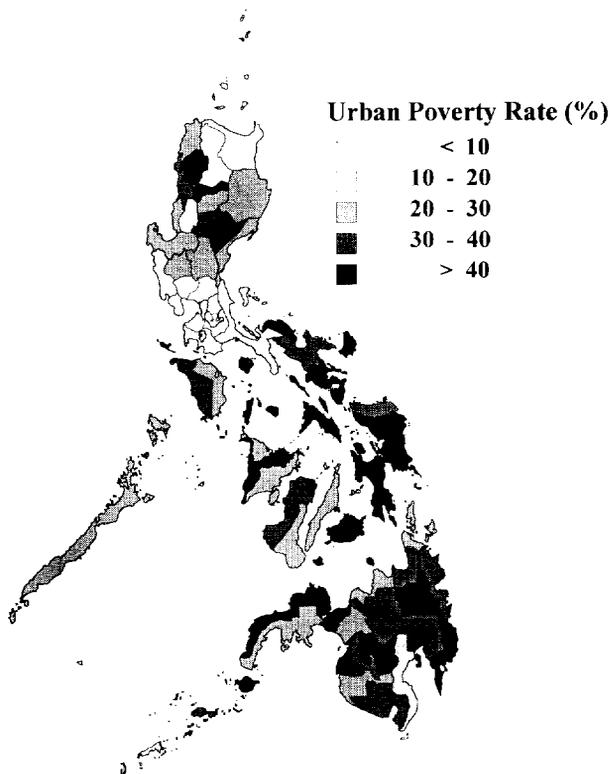
“At the current level of urbanization and urban deprivation, poverty in the Philippines has ceased to be merely a rural phenomenon.”

*Professor Arsenio Balisacan  
University of the Philippines  
1994*

The share of the poor in urban areas has climbed over the past two decades, and incomes of about 31 percent of urban dwellers fell below the poverty line in 1991. However, poverty in urban areas, as measured by income, is distinctly less severe than in rural areas. Moreover, access to health and education services is easier, because of physical proximity and the past bias of public spending towards urban areas, especially Metro Manila. Nevertheless, the urban poor face serious problems of availability of

housing and poor environmental health. The proportion of the urban population living with incomes less than the official poverty line is highest in Mindanao. However, extreme urban poverty is more prevalent in Bicol and the Visayas, which are also the areas where there are the greatest numbers of poor urban dwellers, as shown in the maps.

The Philippines is urbanizing rapidly. In the decade between 1980 and 1990, the total population of the



Notes: Top map shows percent of urban families in each province in 1991 with family income below ₱ 40,000 in NCR or below ₱ 30,000 in other urban areas. Bottom map shows share of all such families in each province.

Philippines grew at an annual average rate of 2.3 percent while the urban population grew at a 5 percent rate. Metro Manila remains the dominant urban center, with almost 28 percent of urban population, but its growth rate over the last decade was just 2.9 percent. Instead, it was the sub-regional urban centers that expanded the most. Much of the rapid urban growth of the 1980s reflected settlement of migrants on the periphery of established urban centers. These labor migrants tended to come from lagging regions, drawn into cities with large service sectors.<sup>1</sup> However, high measured urban growth has also been the outcome of reclassification of these expanding periphery areas from rural to urban; this phenomenon has accounted for more than half of urban growth during the decade.<sup>2</sup>

### WHO ARE THE URBAN POOR?

The urban poor live closer to the poverty line than the rural poor and so are more likely to be pulled out of poverty by accelerated growth of the economy, especially given the improved performance of labor markets (see Box 1.1). However,

the risk that income could fall unexpectedly (for instance, because of loss of employment) or expenditure needs sharply escalate (if the informal settlement where the family has been living is cleared) creates a high degree of uncertainty amongst the urban poor and undermines their welfare. Urban poverty is more pronounced among laborers with insecure jobs and low pay: hawkers, peddlers, micro entrepreneurs, and scavengers. Poor households in urban areas are larger and generally younger than non-poor households, with around one-third of the population under 15 years and only 10 percent over 60 years. Such populations have a high proportion of primary school drop-outs, a high dependency ratio (with more family members being supported by each person in employment), and a disproportionate representation in low paying non-skilled occupations. Many of the urban poor in the Philippines live in marginal locations, whether within urban areas or on the periphery (along railway lines and canals, under bridges, or on shorelines or steep hills). These settlements are usually on land which was of very low economic value when settled. Frequently such settlements have been

THE URBAN POOR LIVE CLOSER TO THE POVERTY LINE THAN THE RURAL POOR, AND SO ARE MORE LIKELY TO BE PULLED OUT OF POVERTY BY ACCELERATED GROWTH OF THE ECONOMY

improved by the poor themselves and later absorbed into the main body of the urban area in a process of settlement and consolidation.

Because of the shortage of affordable and suitable sites for urban households below median income, informal settlements contain a wide variety of income groups, and many of these households have incomes above the poverty line.<sup>3</sup> Slum and squatter communities have been estimated to contain 17 percent of the country's

THIS HIGH LEVEL OF INSECURITY OF TENURE INDICATES THE EXTENT OF THE FAILURE OF THE URBAN LAND MARKET IN THE PHILIPPINES

population and nearly 40 percent of the urban population, including poor and non-poor.<sup>4</sup> In Metro Manila, fewer than 15 percent of the population are classified as poor but approximately 30 percent live

in informal settlements; thus, over half the population of these areas is not poor. In fact, the median income of households without legal tenure in Metro Manila and peripheral areas, according to a 1991 survey, was almost 20 percent above the official poverty line.<sup>5</sup> Finally, there are significantly more people living in squatter areas in Manila than the international average for countries with equivalent GDP per capita, and detailed studies of other urban areas suggest the same to be true throughout the country.<sup>6</sup> This high level of insecurity of tenure indicates the extent of the failure of the urban land market in the Philippines.

The poor use a number of strategies to pull themselves out of poverty, depending on what assets are available to them. These include their labor, human capital (their health and education), productive assets (including rights to land), social capital (both support within the urban community but also from family ties to rural areas), and household relations (See Box 3.1). These strategies are, however, vulnerable to economic, legal, social, and environmental factors.

**Box 3.1: Survival Strategies of the Urban Poor: A Community Study of the Commonwealth Barangay, Manila<sup>7</sup>**

*One of the primary ways the urban poor cope with uncertainty of employment and income is to combine households and create extended families. A common phenomenon is migration of one or more family members*

*overseas so that remittances can supplement family income. Another common feature is greater involvement in the workforce by women and children. The Commonwealth study found that child labor accounted for 17 percent of all the hours spent in income earning activities, thereby making a considerable contribution to total household income.*

*A major source of additional income is the use of the home, which many women use as sari-sari stores or as the workplace for sewing as piecework. Men also make use of the home, as workshops, or they make use of the land as a repair yard which provides self-employment. In the Commonwealth neighborhood, one in three households earned additional income from home-based enterprises. Self-employment has always been a common response to the lack of employment opportunities in the formal sector. Day care for neighborhood children can be another source of income, as is renting of rooms.*

*Informal loan networks frequently provide credit to the poor. In most cases, inter-household credit is for daily consumption needs such as food. Credit for emergencies such as helping to cover hospital or funeral expenses is usually provided by employers, store owners, local NGOs, or money lenders (often at extremely high rates). Other forms of credit may be taken from an employer or relative without a formal system for repayment, but with a strong obligation to that person or his family for a long period to come.*

*The urban poor will substitute time for monetary outlay and substitute private services for public because of high cost and low quality of urban public services. For example, in the Commonwealth, one-third of women, men and children fetch water daily, averaging 90 minutes. Some households pay to have individual water pumps installed to reduce water collection time. To conserve on transport, more than a quarter of economically active individuals in Commonwealth either work at home or use non-motorized transport. Even the poor make significant use of private education and health care, in response to the declining quality of publicly provided social services.*

The *lack of affordable housing* reduces the living standards of the urban poor. This problem is a reflection of problems of legal land tenure and the failure of the land market. It is worsened by the long distances and high costs of commuting that come from a poor public transport system. *Transportation costs* can become a major drain on income of the poor. In a situation where transportation costs are increasing, costs of going to work or going to school can make up a major part of the household's expenditure. *Lack of access to affordable credit* limits income-generating opportunities of the urban poor, but government-subsidized credit programs distort the market, making it difficult for non-government institutions to provide credit at a reasonable cost for the long run.

*Poor access to urban services related to environmental health* reduces the welfare of urban dwellers: the poor end up paying most and receiving least. Urban air pollution contributes to respiratory diseases such as bronchitis, which accounts for over half of morbidity from environmental pollution and almost one-fourth of

morbidity from all major causes. Road vehicle, industrial, and household emissions are concentrated at the roadside level, where the poor and especially poor children are most exposed. Urban water supply is heavily polluted, with widespread incidence of coliform bacteria. This problem is worse in areas subject to flooding; and in Metro Manila, the poorest 30 percent of the population are more than twice as likely to suffer from flooding problems as households with income above the median. Chlorination is not effective, especially at the far ends of the water supply system. Poor household sanitation, lack of toilet facilities (available to only 67 percent of poor urban households in 1993), and the lack of servicing of septic tanks greatly increase the risk of waterborne diseases such as diarrhea, which accounts for almost 15 percent of pollution-related morbidity.<sup>31</sup>

Clean water, sanitation, and solid waste disposal are inadequately provided in urban areas in general and are often nonexistent in the informal settlements where the poor live. These infrastructure services are essential to good health and affect the earning capacity and medical expenses of the household. Frequently, the poor end up paying higher unit costs for private (informal) supply of such services, or spending large amounts of time, for example, in fetching water. Thus, it is not affordability of these services that is the primary issue; the poor are already paying high prices, especially for water.



Children wash outside their makeshift house in Manila.

*The quality of social services* is also important for the welfare of the urban poor. Access to education has improved, but much of that improvement has come from even the poor attending private schools, with higher household financial contributions. Recent improvements in access to health services are also linked to greater use of private facilities.

One other key problem of the urban poor, which is often overlooked in analyses of poverty, is *urban violence*. In poor urban areas in the Philippines, violence is often related to the use of alcohol and drugs. Violence on the street inhibits movement and limits options both for work and for further education. Violence that results in death increases the household's susceptibility to further impoverishment. In the Commonwealth study, 60 percent of widows had lost

their husbands due to violent crime. Domestic violence also imposes high costs. In Basak San Nicolas in Cebu City, a 1991 survey of all 300 households (carried out by Lihok Pilipina) found that 60 percent of women had been victims of domestic violence in the previous twelve months.

## ACCESS TO AFFORDABLE HOUSING AND SECURITY OF LAND TENURE

Slums and squatter settlements around the world reflect the failures of housing and land markets as much as poverty. In the Philippines, it is the underlying failure of the land market which has made land so costly that urban housing has become unaffordable to many. With such a high proportion of urban dwellers surviving with uncertain land tenure, improved security of settlement is critical to the reduction of poverty in urban areas. With secure tenure, the majority of the poor can meet their own needs for shelter, constructing their own houses.

This near-crisis in urban housing is not a recent phenomenon, and in the past 20 years, the Government has tried a number of approaches, including slum upgrading and the development of basic sites with services (which met with some success) and the development of medium-rise dwellings and resettlement of squatters (which generally did not). The need to resolve the land ownership problem, particularly in upgraded areas, resulted in the Community Mortgage Program (see Box 3.2). But as land prices have continue to soar and informal settlements to proliferate, the Housing and Urban Development Coordinating Council (HUDCC) has once more turned to medium-rise apartment buildings (to conserve land) and to minimum-cost resettlement, both of which threaten heavy future costs for the recipient local government units.

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### **Box 3.2: The Community Mortgage Program (CMP): Pooling Community Resources**

*The CMP, an innovative program run by HUDCC, was designed to meet the needs of the poor by facilitating the joint purchase of land by communities living in informal settlements. Since these informal settlements are heterogeneous, common ownership could enable the poor to benefit from the greater purchasing power of*

*the non-poor. However, insufficient preparation and organization at the community level led to lax repayment, and so an inevitable modification of the original arrangements. To improve accountability, the community mortgage has now to be "unitized," so that each member is responsible for his or her mortgage share directly, within two years of its original take-out. This recent regulation is being forced on the loan originators despite the fact that CMP's collection efficiency has regularly out-performed all other government housing programs since 1993.*

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**Land Market Failure.** The failure of the market is reflected in the very high price of land. A 1992 study of housing indicators (by the United Nations Center for Human Settlements and the World Bank) found that land prices for 100 square meter serviced housing lots on the edge of developing urban areas rose from 2.5 times GDP per capita to 3.65 times between 1975 and 1991. Even the 1975 cost was considered incongruously high against international norms.<sup>9</sup> Over the last few years, prices have continued to rise sharply. In the three largest cities (Metro Manila, Metro Cebu and Davao), raw land on the periphery of built-up areas has been rising by almost 25 percent per year in real terms.<sup>10</sup>

The growth of urban population puts pressure on urban land markets, but *demand for urban land* has been inflated by the fact that land is seen as a secure form of investment and with a high rate of return. Investment in real estate holdings in urban areas in the Philippines has consistently provided a real rate of return of 10 to 15 percent, compared with an average return below 8 percent in the stock market.<sup>11</sup> In addition, low property taxes (from the use of historic land values coupled with poor property tax collection records) have increased the attractiveness of land as an investment.

Residential land tax in the Philippines is low, restricted to only 0.6 percent of the assessed market value, which is often outdated. In addition, collection performance is poor and enforcement weak. The low level of real property tax has led to a drop in the contribution of that tax to total local revenues despite sharply rising land values. Thus, local governments have less funds available for capital works projects, such as roads and drainage, which could open up more land for development. The failure to

levy an appropriate rate of tax, by regularly updating valuation and ensuring full collection, restricts the capacity of the local government unit to play a positive role in helping keep land prices lower.

A major constraint to the *supply of urban land* is the complicated process for conversion of land from rural to urban uses. The Comprehensive Agrarian Reform Program (CARP) and the Local Government Code (Republic Act 7160) restrict the transfer of agricultural land to non-agricultural uses. In the five-year period following passage of CARP, land sufficient for approximately 40 percent of those years' urban residential growth was converted.<sup>12</sup> The two-thirds shortfall in supply of land has been made up by informal conversion, which accounts for a far greater loss of agricultural land than official conversion. Informal or illegal conversion is not always in the areas where most required, and it adds further to chaos in the land market.<sup>15</sup>

However, conversion from agricultural to non-agricultural uses is not the only obstacle. Land development regulations restrict the supply of land developed for housing because the time-cost of the processing of applications is very long, estimated at three years from the application of the development permit to the issuance of the license to sell.

LAND SHORTAGE IS LESS SEVERE IN MANILA THAN IN OTHER EAST ASIAN CITIES

Despite improved performance in the last few years, the outstanding backlog of permit applications results either in a large number of incomplete estates or developers selling without formally completing the process. This effectively removes them from the market, increasing the price of developed land. Table 3.1 shows that land shortage is less severe in Manila than in other East Asian cities, but permit delays drive up the cost of developed land such that Manila suffers from the highest mark-up from raw to developed residential land.<sup>11</sup>

**Facilitating the Land Market.** The problems with the urban land market are now so severe and the resulting chaos imposes such great uncertainty on those who can least deal with it that a comprehensive and bold approach to this pressing problem is needed: *urban land reform*. A special commission could be established to begin considering the following changes:

- Modify security regulations affecting aerial photography to allow better information on the location of

undeveloped land and the extent of informal development.

- Establish performance targets for land assessment and property tax revenues to improve collection.
- Review regulations restricting land conversion. Land should be preserved for agricultural or non-urban uses only for environmental reasons (although the rights of tenant farmers need to be protected in the process).
- Facilitate land conversion through innovative transactions. Extra-legal land exchanges should be regularised to bring owners into the formal tax system. A moratorium should be considered for all landholders who have failed to register the transfer of the land they occupy to their name, including all illegal informal subdivisions.
- Facilitate land conversion through arbitration, in which the Government helps to facilitate land sharing. Such a program would bring more land onto the market by enabling landowners to develop the most valuable part of the site and could be modeled on one currently in place in Bangkok, which has succeeded in reaching agreements between settlers and holders of legal title.

**Table 3.1: Costs of Land Conversion, Permit Delay and Land Development, Various East Asian Cities**

City	Land Conversion Multiplier	Permit Delay (in months)	Land Development Multiplier
Manila	2.2	36	6.7
Bangkok	1.8	11	2.6
Kuala Lumpur	5.5	18	4.3
Singapore	6.0	2	1.3
Tokyo	10.4	8	2.0

Notes: The land conversion multiplier is the number of times the price of land zoned for agricultural uses increases on conversion to urban uses. A high multiplier indicates physical shortage of land. Permit delay is the period from the application to final approval to sell. The land development multiplier is the difference between the price of raw land zoned for housing and the developed land. A high multiplier indicates delays in completion of the sale of land.

Sources: UNCHS and World Bank (1992).

**Transportation.** The lack of affordable housing forces urban residents to live long distances from their employment, burdening them with high transportation costs.

For example, the Commonwealth survey found that the share of total expenditure for transport was twice as high for the poor as for the non-poor. In addition, the poor tend to spend longer traveling, with the poor and very poor more likely to walk. In the Commonwealth area of Manila, the average time for a round trip to work for the non-poor was 67 minutes while it was 75 minutes for the poor and 149 minutes for the very poor.<sup>15</sup> The high cost of transport severely limits the access of the urban poor to employment opportunities and to education. The poor are particularly hard hit if public transport services are insufficient, especially when informal settlements are relocated by the authorities to areas far away from employment centers. A common response by relocated squatters is to abandon the new site and return to a different informal settlement area in the city, thus undermining the purpose of the relocation.

Public transport is an absolute necessity in urban areas and especially so in Manila, given the fast growth of traffic, the already overburdened road system, and the substantial externalities of congestion. If settlements are relocated, public transport services at reasonable prices must be a priority. Improved transportation services can have the effect of expanding the locations of viable residential and commercial land, with beneficial impacts on the land and housing markets. Recently, a number of efforts have been made to improve the availability and efficiency of public transport. Land transport has been deregulated, allowing licensing of more bus operators to ply the most popular routes; and restrictions on importation of vehicles such as buses have been eased. However, proposals for bus ways should be speeded up while the expansion of the light rail transit system should be implemented as soon as possible; and the Government could consider a policy of publicly subsidized transport during the early years of new outlying settlements to facilitate their consolidation into viable neighborhoods.

#### PROVISION OF URBAN INFRASTRUCTURE SERVICES RELATED TO ENVIRONMENTAL HEALTH

Water, sanitation, and solid waste disposal are the crucial categories of urban public services required to maintain health, especially in poor areas. Their provision is very closely linked to the age and stability of an urban settlement. Settlements considered temporary

have unsatisfactory arrangements for the provision of water and sanitation, usually because the local utility is unwilling to serve. For example, local water authorities are reluctant to make extensive capital investments necessary to extend the water network to an area of housing if the settlement has uncertain legal status.

**Access to Clean Water and Sanitation.** Over a quarter of the urban poor nationwide have no direct access to safe water; these households likely either buy from private vendors or travel to areas outside the community to collect water. In the NCR, the situation is somewhat better. Only 5 percent of households were without direct or community access to water in 1992<sup>16</sup> (see Table 3.2). However, access to water is correlated with income: more than 8 percent of households in the lowest 30 percent income group have no water connection while 42 percent had to make use of a shared faucet or well. In contrast, 87 percent of households above the median income level had their own piped water supply on the premises. Access to sanitary systems of human waste disposal also correlates with income, and the situation in the NCR is better than most other urban areas.

**Table 3.2: Urban Access to Water, Sanitation, and Solid Waste Disposal, Philippines, 1992**

Level of Service	Urban Areas		National Capital Region			
	All Urban	Urban Poor	Lowest 30% Income	31-50% Income	51+% Income	All NCR
<b>Water:</b>						
indoor piped	46%	22%	50%	68%	87%	73%
shared	38%	52%	42%	26%	11%	23%
community						
without	16%	26%	8%	6%	2%	5%
<b>Sanitation:</b>						
sanitary	84%	63%	83%	93%	98%	93%
non-sanitary	16%	37%	17%	7%	2%	8%
<b>Solid Waste:</b>						
regular collection	31%	9%	68%	74%	80%	75%
no service	69%	91%	32%	26%	20%	25%

Source: World Bank staff estimates.

Households living in settlements without public faucets or direct connections and without their own well have two choices, both of them costly: to buy from vendors; or to go outside their immediate community to access water. Water purchased from vendors is calculated to

be between five to ten times the price for the equivalent quantity of water paid by someone with a legal connection. Those without connections also spend more time collecting water, which reduces time available for productive activities. Without adequate supplies of clean water, the poor are at greater risk of infection and disease, further undermining their capacity to move out of poverty. Utility companies are reluctant to provide full scale services because they do not have legal access to the land. Efforts to distribute water in urban poor settlements have frequently failed due to inadequate organization of the community, particularly the failure to collect fees. However, in Cebu, some highly successful privately-managed public washing and toilet facilities have been set up, and a community-based women's group has offered to take over the abandoned city facilities and charge for their use. The money raised is expected to be sufficient to repay the loan for rehabilitation as well as operating and maintenance costs. Alternatively, the innovative approach electricity providers have taken to allowing access to squatters could serve as a model for water (although the infrastructure for water is more complex).

**Water Resources.** The problem of water is not only whether an area is connected to the main reticulation system, but also whether there are sufficient water resources in large urban areas to provide adequate supplies to all who are connected to the system. For example, the Metropolitan Waterworks and Sewerage System (MWSS, the water utility in Metro Manila) is not able to recover costs through charges on the water it presently produces because about 30 percent is lost through leaks and about 25 percent is pilfered, leaving it financially weak and unable to develop alternative sources of water.

**Solid Waste Disposal.** The lack of adequate garbage collection increases health hazards in poor areas as well as the risk of flooding. Only 19 percent of households are served by municipal solid waste collection nationwide. Instead, the most popular form of disposal is burning (used by 45 percent of Filipinos), while over 20 percent of the populace admits to dumping either on open ground or elsewhere.<sup>17</sup> There are, however, wide variations between localities. In the NCR, 75 percent of households have regular garbage collection; although only two-thirds of the urban poor receive such service (again, see Table 3.2). In Metro Cebu, 32 percent had regular collections, while in smaller towns, it was less than 3 percent.<sup>18</sup>

In Metro Manila, an estimated 2,000 cubic meters of waste per day are left on open land, in waterways and along roads.<sup>19</sup> Illegal dumping increases the risk of flooding and the risk of pollution of water sources, both of which impose higher costs on low-income households. The situation would be much worse if as much as 60 percent of the waste were not recycled. Much of this work has traditionally been done by the poor and children who “scavenge” and then sell the recyclable materials to junk dealers. A number of initiatives are underway to improve the collection and recycling of garbage (see Box 3.3).

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### **Box 3.3 The Metropolitan Environmental Improvement Program (MEIP): Creating Jobs Out of Urban Waste**

*Since 1989, the World Bank and the UNDP have been jointly supporting MEIP projects to help selected metropolitan regions in East Asian countries, including Manila, to design and implement practical solutions to rapidly growing environmental problems. These projects are seen not only as a means of managing the growing quantity of waste but also as providing a useful source of income for the poor. Local NGOs have played a key role in promoting and mainstreaming local level projects. In addition to environmental planning and project identification, the MEIP in Manila has funded community-led efforts to improve the urban living environment, such as:*

- *The organization of pushcart collectors who mainly target upper and middle income housing areas for non-food recyclables such as bottles, cans, paper, and junk metal;*
  - *Organizing junk dealers into cooperatives to avail of soft loans to cover operating capital;*
  - *Community education projects to encourage, for example, waste separation; and*
  - *Food waste composting projects.*
- 

### **Interventions to Improve Urban Services.**

- **In the water sector, a higher priority should be given to ensuring that the waste and pilfering of existing water supplies is minimized. Especially, stiffer**



Two small boys in a poor neighborhood in Manila.

penalties need to be imposed on illegal large-scale industrial users of water. These issues are currently being addressed by the Water Crisis Act of 1995. At the same time, provision of water service to areas where the poor live, including squatters, should be explored.

- Investment in sanitation infrastructure is particularly urgent outside of Metro Manila, complemented by an information dissemination program on personal hygiene geared towards poor communities.
- For solid waste disposal, additional support is needed to foster better organized and more commercial recycling ventures. Government information campaigns to encourage recycling and disseminate good practices across local governments, and NGO and community participation in running local schemes will be

important. Pilot projects for re-cycling all forms of waste demonstrate the potential of this approach not only to improve environmental health but also to provide additional employment opportunities for the poor.

## CONCLUSIONS

The urban poor live closer to the poverty line than the rural poor and are more likely to be pulled over the line by economic growth. Gainful employment is constrained not by insufficient productive opportunities for labor in urban areas as much as by inadequate nearby housing and poor public transport. Health and education services, both public and private, are more readily available to the urban poor than to the rural poor. Thus, the need for additional resources is less pressing. However, the urban poor face a severe shortage of affordable housing, driven by the failure of the urban land market, and significant environmental health issues, especially related to water, sanitation, and solid waste.

Urban land reform should be pursued, so as to make the land market work better. Property taxes need to be raised, and tenure regularized. A special commission could assess possible

approaches. The Government should reconsider spending scarce public money on building houses or subsidizing construction through tax breaks. To improve housing and living conditions for the poorest in urban areas, the Government's aim should be security of tenure and provision of essential services, leaving people to build their own houses. It should work to improve the capacity and efficiency of programs that work, such as CMP. Environmental health of the urban poor should be a priority, especially access to clean water. If the problem of squatters is addressed at its source—the failure of the urban land market—then urban utilities such as MWSS will more easily be able to come up with solutions that provide essential urban services to the poor without encouraging further squatting.

URBAN LAND REFORM  
SHOULD BE PURSUED,  
SO AS TO MAKE THE  
LAND MARKET WORK  
BETTER



## INVESTING IN THE NEXT GENERATION OF FILIPINOS



“We cannot leave the fate of the next generation to chance. It is imperative that we provide children with the proper care, education and nutrition so they will be prepared for the roles they will play in the future.”

*Roberto Pagdanganan  
President, League of Provinces  
Progress of Provinces of the Philippines  
October 1994*

A mother sits with her children outside their modest home in Manila.

To reduce poverty in the long run, a country must develop and make use of its people's skills, knowledge, and health. Investment in human capital cannot be neglected for long, or the costs will begin to be felt in falling productivity and stagnating wages. In fact, developing country experience argues strongly for increased investment in health and education, particularly for the poor. This public investment can directly improve the living conditions of the poor, enhance labor productivity, and serve as an instrument to

promote equity. By comparison, the overall outcome of Philippine government policies over the last few decades has been to aggravate, rather than offset, the inequitable distribution of land and financial wealth with a misallocation of human capital development opportunities.

### THE STATE OF HUMAN CAPITAL

*Indicators of health status and educational attainment in the Philippines have generally been better than those*

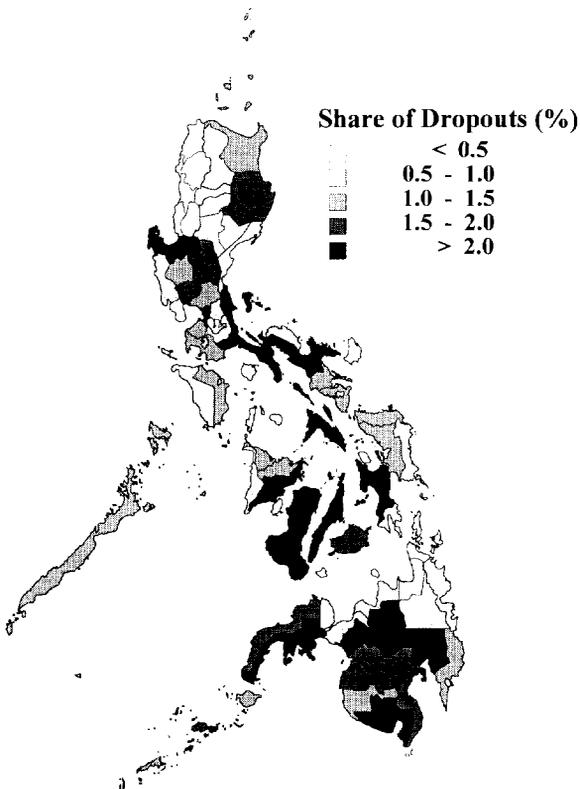
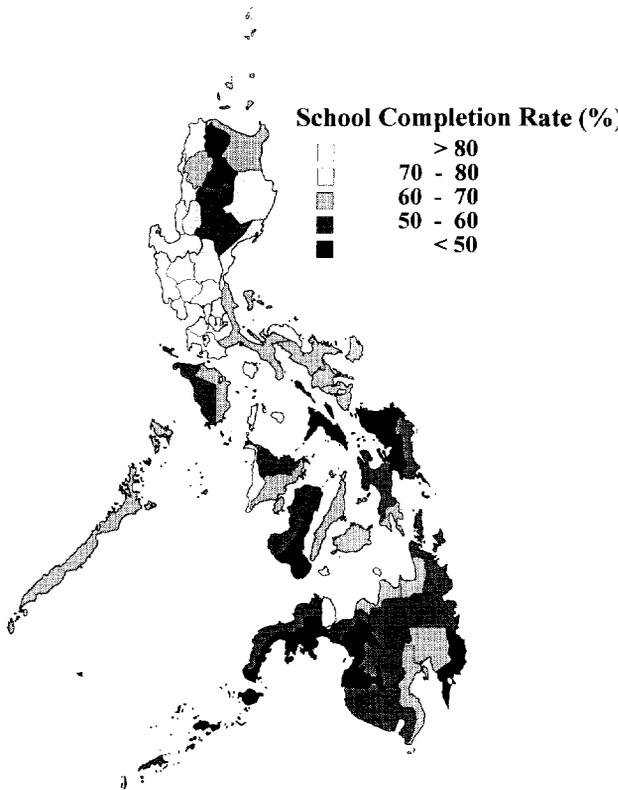
of most countries with similar levels of per capita income. However, its rate of improvement has slowed; and, compared to its East Asian neighbors, its progress appears modest (see Table 4.1).

**Table 4.1: Human Development Indicators for Selected Asian Countries**

Country	Per capita GNP 1993 (US \$)	Infant Mortality (per 1000 live births) 1970	1992	Completion of Primary Education, recent year
Philippines	850	66	48	68
Indonesia	740	118	66	62
Thailand	2110	73	26	83
Malaysia	3140	45	13	97
Korea	7660	46	11	97
All middle-income	2480	74	39	—

Note: Middle-income countries are those with per capita GNP between \$696 and \$8625 in 1993. Completion of primary education is the cohort survival rate; for 1989, except Philippines which is 1991.

Sources: World Bank (1995h) and World Bank staff estimates.



Notes: Top map shows rate of school completion in 1991. Bottom map shows share of the nation's dropouts in each province for 1988-94, as measured by non-cohort survival.

Infant mortality, a key health status indicator, has improved modestly in the Philippines since 1970, due to better medical technology and public health measures. But while infant mortality in the Philippines used to be better than average for all middle-income countries, now it is worse. Further, the country is *not doing well* compared to its primary peer group—its neighbors in East Asia, which have registered dramatic gains in the 1980s. Similarly, education indicators such as cohort survival place the Philippines well behind other East Asian achievements. For, while simple literacy rates are high, at around 90 percent of the population, over one-quarter of Filipinos 10 years and above are functionally illiterate. Even more important in understanding the poverty impact of human capital development in the Philippines are the massive disparities in social indicators within the country.

WHILE INFANT MORTALITY IN THE PHILIPPINES USED TO BE BETTER THAN AVERAGE FOR ALL MIDDLE-INCOME COUNTRIES, NOW IT IS WORSE

Although government outlays for social services rose from 3.2 percent of GDP during 1975-85 to 4.1 percent in the last eight years, they are still low by international standards. For example, public expenditure on health, nutrition, and population has been roughly 0.5 to 0.7 percent of GDP, compared to an average of 1.4 percent of GDP for 17 Asian countries. Moreover, within total social service expenditures, the allocation between

urban and rural areas and between primary and higher level services has been such that the spending most relevant to the poor has not had sufficient priority. Preventive or primary health care receives as little as 25 percent of the health budget. Through the 1970s and early 1980s, high quality primary education was limited to less than 10 percent of the total elementary age population, mostly in private schools in Metro Manila. Overall, it is clear that *rural primary education and rural health services have been particularly short-changed*.

Education and health increase the productivity of labor, the principal asset of the poor,<sup>1</sup> and, therefore, the income earned by the poor. For the economy as a whole, there is a strong link between education and economic growth: primary education was the largest single contributor to the economic growth rates of the high-performing Asian economies.<sup>2</sup> There is a virtuous circle in which better education stimulates stronger economic growth, which in turn allows higher investment in education. However, greater investment in education by itself cannot compensate for an environment inimical to economic growth. Furthermore, investing in health and education can promote equity, if overall expenditure in health and education is adequate and if the allocation of spending within the sectors is biased in favor of the poor.<sup>3</sup>

#### IS EDUCATION SPENDING LESS PRO-POOR THAN IT USED TO BE?<sup>4</sup>

By 1970, both Korea and the Philippines had achieved universal enrollment at the elementary level. Twenty-

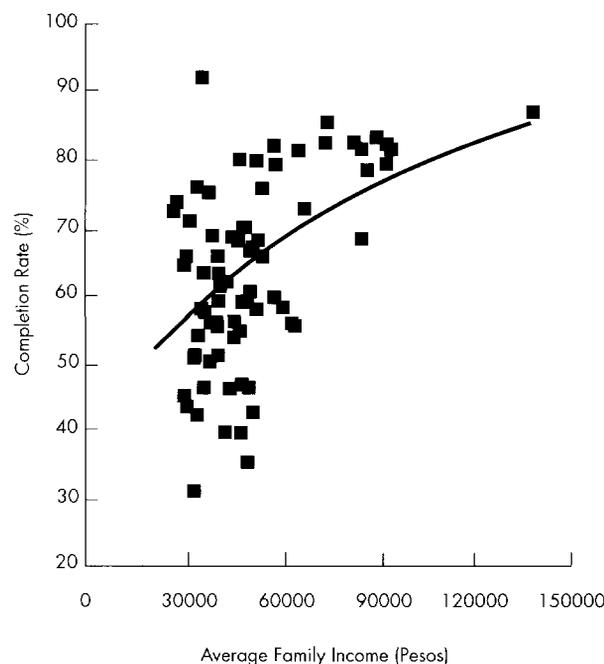
UNDERLYING THE NATIONAL AVERAGE ARE SUBSTANTIAL AND WIDENING QUALITY DIFFERENTIALS ACROSS REGIONS IN BASIC EDUCATION

five years later, one in every three Filipino children who enter the first grade still does not complete the elementary cycle, while in Korea, 97 children of every 100 graduate. Moreover, underlying the national average are substantial and widening quality differentials across regions in basic

education. Primary school completion rates range from near universal in Metro Manila to barely 30 percent completion in the poorest provinces. There are also significant quality differentials between urban schools (which tend to be richer) and rural schools.<sup>5</sup> Philippine children who do not complete the cycle are much more likely to be from poor families and poor regions, thus

condemning them to a continuous cycle of poverty (see Figure 4.1). And regional disparities are likely to widen even further as richer local governments become increasingly involved in financing education.<sup>6</sup>

**Figure 4.1: Poverty and Primary School Completion by Province, Philippines, 1991**



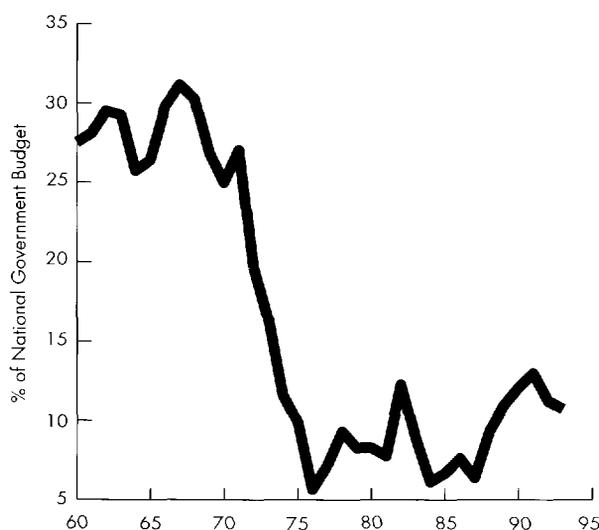
Note: Far right data point is for National Capital Region.  
Sources: World Bank staff estimates.

Public expenditures on education in 1994 were less than 3 percent of GDP compared to 4 percent in Indonesia or 7 percent in Malaysia,<sup>7</sup> even though budgetary allocation to the Department of Education, Culture, and Sports (DECS), which receives about 85 percent of national government funding for education, has been inching upwards since the late 1980s, after over almost two decades of limited investment through the 1970s and early 1980s (see Figure 4.2). Nevertheless, public primary education remains relatively under-financed,<sup>8</sup> and funding is based on pupil headcount without any compensatory mechanisms to assist the most “at-risk” areas, schools, or ethnic groups. Thus, in the Philippines, poor youth are much more likely to drop out of school or get a poor quality education.

Primary education has suffered as the Government’s attention and resources for education have shifted. With the goal of assuring universal access to secondary

education, village high schools were nationalized in 1988; and, in 1989, the Government Assistance to Students and Teachers in Private Education Program began to provide vouchers to private secondary schools. These actions created a significant shift in intra-sectoral allocation of resources. The share of secondary education in total education spending rose from 10 percent in 1987 to 17 percent in 1994 mostly at the expense of elementary education which declined from 60 percent in 1987 to 56 percent in 1994. Thus, *after over a decade of under-investment in education in general, investment in elementary education suffered as the government took on greater responsibilities for secondary education.*

**Figure 4.2: Allocation of National Budget to Education, Philippines, 1960-1993**



Note: Budget allocation is for DECS only, which constitutes about 85 percent of national government education spending.  
Source: DECS.

But, perhaps the most compelling illustration of the decline of primary education is the shift in the share of education costs borne by the public sector as compared to parents. As shown in Table 4.2, *the worsening equity of intra-sectoral allocation is reinforced by the fact that the government now subsidizes a higher percentage per unit cost in tertiary education than in elementary education, as well as by the fact that per pupil costs are much higher at the tertiary level (see Table 4.2).*"

Modest overall spending levels, combined with allocation biased against primary education, aggravated by

inefficiency in administration, result in a severely constrained flow of resources to elementary schools. Maintenance and other expenditures are left to be funded by local governments and parent-teacher associations, with the inevitable result that richer districts can afford substantially more. The situation is made worse by the lack of preparedness for multi-grade teaching (a necessity in small remote schools)

THE REAL CHALLENGE IS NOT THE PROVISION OF PHYSICAL FACILITIES...BUT RATHER THE DEVELOPMENT OF AN EFFECTIVE, AFFORDABLE SCHOOL MODEL WITH STRONG HOLDING POWER OVER STUDENTS

and by curriculum content and teaching methodologies not well adapted to the needs of poor children and their often illiterate parents. Overall, the real challenge is not the provision of physical facilities (which is not an issue at all for urban slums and only a secondary issue in remote rural areas), but rather the development of an effective, affordable school model with strong holding power over students.

**Table 4.2: Cost Sharing in Public Education, Philippines, 1986 and 1994**

Financing Sources	1986	1994
In Elementary Education:		
government	88%	69%
household	12%	31%
In Secondary Education:		
government	66%	57%
household	34%	43%
In Tertiary Education:		
government	74%	78%
household	26%	22%

Note: Data is government and household shares of total unit costs.  
Source: World Bank (1995d).

There is greater justification for government funding of primary education than of higher levels. Elementary education completion is distributed more equitably in the overall population than secondary cycle completion and far more equitably than tertiary education, which is markedly skewed to favor upper income groups. The richest 20 percent of the population contain 26 percent of all elementary school graduates and 39 percent of high school graduates, but 62 percent of college graduates.<sup>10</sup> Moreover, the externalities of primary education are great (because of the benefits of a literate numerate society), while benefits of higher levels of education accrue more directly to the students. Yet government spending is

moving in precisely the wrong direction, with the share of elementary education paid by government going down sharply and household costs rising, while the share of tertiary education funded by government is increasing.

**Improving Education for the Poor.** The National Government should aim at the provision of nation-wide quality basic education, particularly at the elementary level and particularly in rural areas, and target a higher proportion of its expenditure to the poor. Its most important goal is to get the completion rate up, by improving access to primary schools and improving teachers, materials and curriculum, especially in areas where performance is worst. To heighten the poverty-alleviating impact of education, the National Government should:

- Improve funding of primary education. National subsidies to state universities and colleges should be reduced. Responsibility for school construction and maintenance should be devolved to the LGUs, although with some compensatory financing provided for the most disadvantaged LGUs.
- Make improved quality and retention at elementary schools an explicit top priority. Educational goals should be few, stable, and focused on learning and outcomes. Communities must play a larger role in their children's education, to create a supportive and participatory environment and a culture of experimentation, measurement, and accountability.
- Use resources more effectively. Expenditures on basic education per pupil should be increased, which will reduce cost per graduate. Expenditure allocation based on strict proportionality applied nationally should be replaced by methods that would address priority needs, recognizing geographical differences. Investment should be in cost-effective inputs, such as textbooks, desks, multi-grade teaching, and improved curricula. DECS budget management needs to be improved.
- Improve access of the poor to primary education. Subsidizing elementary education for the poorest households should be considered, since one fifth of children in this population group do not attend school for financial reasons (see Box 4.1). In addition, complementary health and nutrition services could be provided in the poorest areas.

#### **Box 4.1: Reducing Household Costs of Education in Bangladesh**

*In Bangladesh, where school attendance is very low for girls, a Female Secondary School Assistance Program (supported by the World Bank) provides stipends to girls to attend school. Stipend rates are structured to reflect rising educational costs from lower to upper grades and to provide extra incentives for reducing high drop-out rates in upper grades. Students must maintain certain grade averages and attendance levels to continue to earn stipends.*

*In 1994, the first year of implementation, twice as many girls as planned were enrolled in the program. The program is expected to benefit about 5 million girls eventually. Although it is too early to judge its success, this innovative program in Bangladesh may hold useful lessons for improving elementary school completion among the poor of both sexes in the Philippines.*

#### **CAN HEALTH SPENDING ON THE POOR BE IMPROVED?**

*The Philippines spends comparatively less of its resources on health than several other East Asian nations, both publicly and privately (see Table 4.3). As described earlier, one result has been that improvements in infant mortality have slowed. Further, the prevalence of family planning remains low, at 35 to 40 percent, compared to 70 percent in Korea, 66 percent in Thailand, and 62 percent in Sri Lanka. As in education, regional variation is further cause of concern. For example, clean water is not supplied to 26 percent of the population overall, but 62 percent of Western Mindanao's population have no access. Sanitary toilets are lacking for 28 percent overall but for 49 percent of people in Central Mindanao.*

In addition to moderate overall spending, public health gains are not as great as they should be because of the poor distribution of health facilities and personnel over the country. For example, only 25 percent of all barangays had health stations in 1990. Each health center served 14,200 people in the National Capital Region (NCR) but between 21,000 and 44,000 people in other regions. Over half of all physicians and two

thirds of all dentists are in the NCR. Adding uncertainty to the picture is the fact that the pattern of health spending into the future may well shift, as decentralization of health services to LGUs continues and as the new universal health insurance law comes into effect. It is not yet clear if public health spending will rise or fall as a result.

**Table 4.3: Total Health Expenditures and Public Health Expenditure, East Asian Countries**

	Total Health Expenditure (1985-87)		Public Health Expenditure (1980-89)	
	Percent of GNP	US\$ per capita	Percent of GNP	Percent of public spending
Philippines	2.4	14.09	0.6	3.3
China	4.0	11.04	1.1	4.4
Indonesia	2.4	10.42	0.8	2.6
Thailand	3.8	32.79	1.0	6.1
Malaysia	3.5	58.51	2.5	6.2

Sources: Griffin (1990); World Bank data.

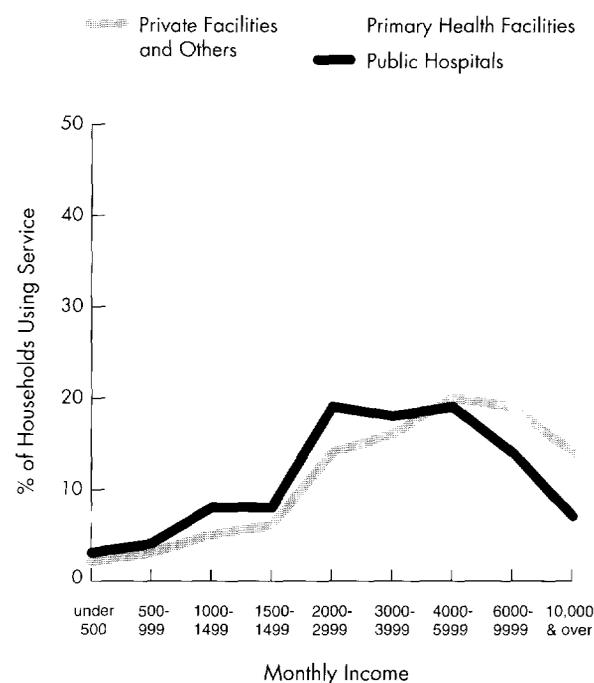
**Primary Care.** Barangay health stations and rural health units constitute the bulk of public primary health care facilities. Progressively higher levels of care are provided by primary, secondary, and tertiary hospitals (public or private). It is primary health care that is the most highly utilized level of health services for all but the richest households. Its utilization rises steeply as monthly household income rises to 3000 pesos (about 90 percent of the poverty line) (see Figure 4.3).

Since the benefits of primary care accrue more to poorer Filipinos, it is primary care that should be emphasized as part of the Government's poverty alleviation strategy, including immunization, sanitation, and early treatment of intestinal and respiratory ailments. The establishment of additional barangay health stations should be considered; or, in many cases, the improvement of other infrastructure such as rural roads which will allow existing health facilities to be used more intensively. In addition to a focus on primary care, government spending to reduce environmental risk factors also would benefit the poor since it is predominantly the poor who suffer from environ-

ment-related diseases (such as tuberculosis, goiter, and asthma). And, expanding preventive (rather than curative) medicine and reducing the incidence of malaria, water-borne diseases, and respiratory infections would curtail infant mortality (even eventually leading to declines in fertility) and produce a healthier, more vigorous population.

Channeling increased resources into basic health care delivered through networks of lower-level facilities, supplemented by outreach programs, would broaden the coverage of health care. Improved quality of such facilities also requires giving special attention to the selection and training of health workers, supervision and support of local clinics, and administration of materials and supplies (including pharmaceuticals). At the same time, efficiency of local units could be encouraged by giving them greater autonomy and responsibility for planning and budgeting, collecting fees, and setting priorities.

**Figure 4.3: Utilization of Health Facilities by Income, Philippines, 1992**



Source: National Health Survey of the Philippines, 1992.

**Provincial Hospitals.** Two-thirds of provincial health budgets are allocated to hospitals. With the advent of devolution (which has shifted much more responsibility



A health care worker educates a mother on treatment for her child.

onto provincial governments) and the imminent compulsory contribution towards a health insurance subsidy for the poor, provinces may begin to reduce fixed health expenditures by closing hospitals (as a few provinces have already done with district hospitals) or increase revenues by instituting cost recovery measures such as user fees. However, there is a danger in imposing user fees on provincial hospital services—it will reduce access of the poor. Nevertheless, cost recovery measures at higher level facilities can be a tool to ensure rational referral patterns, i.e., charging for primary care services provided at provincial hospitals may encourage the use of cheaper lower-level facilities such as barangay health clinics and municipal hospitals. Overall, any introduction of user fees in the public sector, particularly at the primary level, needs to be carefully coordinated between the various levels of health care (in addition to being implemented in an environment of improving quality) to avoid undesired effects on health facility utilization.

**Family Planning.** An important element of health services for the poor in the Philippines is family planning, especially since the total fertility rate in the Philippines remains high and the contraceptive prevalence rate low (see Table 4.4).<sup>11</sup> As in many countries, the Philippine program focuses on improvements in maternal and neonatal health. There is widespread popular support for family planning,<sup>12</sup> and the Government needs to continue to fos-

ter public awareness and participation. The Department of Health also needs to consider sustainability and long term financial viability of the program, which is currently highly dependent on foreign donor funding. In 1993, only 18 percent of the Department of Health's family planning program was funded out of the budget. For example, increased cost recovery should be implemented so that public resources can focus on the poor (who have higher unsatisfied demand than the general population). Also, since across countries, birth rates are negatively related to education of parents, especially mothers, encouraging elementary and secondary education for girls

can be an effective indirect step to reduce family size and so, population growth.

**Nutrition.** Malnutrition remains a significant health problem in the Philippines. It contributes to child mortality and morbidity, with estimates showing that reducing the prevalence of underweight Filipino children by half by 2000 could result in 20 percent fewer infant deaths. It reduces the development of mental capacity: the average intelligence of children in iodine deficient areas is lower by 13 IQ points. And it results in lost potential productivity: total annual economic loss due to stunting is estimated to be over \$8.6 billion.<sup>13</sup>

**Table 4.4: Demographic Indicators for Selected Asian Countries**

	Total Fertility Rate, 1992 (no. of children)	Decline in Total Fertility Rate, 1970-92 (percent)	Contraceptive Prevalence Rate (percent)
Philippines	4.1	38	37
Indonesia	2.9	47	50
Thailand	2.2	60	66
Malaysia	3.5	37	56

Source: World Bank (1995h).

One key nutritional problem in the Philippines is specific micronutrient deficiencies (of iron, iodine and vitamin A). Supplementation programs to battle this problem have experienced varied degrees of success.

Although a Department of Health vitamin A supplementation program has achieved universal coverage, an iron supplementation program reaches less than a third of its target group because it does not involve most primary health care units (who provide the bulk of care to the poor). Clinical evidence of vitamin A and iodine deficiency shows significant regional variation, suggesting it would be more cost-effective to target supplementation programs geographically. To ensure long-term abatement of the micronutrient problem, dissemination of information to decision makers, health practitioners, and the public must be improved. And nation-wide programs must be maintained and expanded to include approaches such as fortification, especially salt-iodization.

In contrast to the commitment and initiatives in the area of micro-nutrient malnutrition, no comparable effort has been made to improve the other leading nutritional problem—protein energy malnutrition. There is significant regional variation: in 1993, the prevalence rates for most protein malnutrition indicators in the 0 to 6 year cohort in the Autonomous Region of Muslim Mindanao, Bicol, and Eastern and Western Visayas were twice the rates in Cagayan Valley and the Cordilleras Autonomous Region. As expected, children of households in the poorest quartile of food expenditures are twice as likely to be underweight as children of households in the richest quartile.<sup>14</sup> The dearth of progress on this problem may be due to the multiplicity of government agencies involved (six agencies), the fragmentation of responsibilities, and the sheer size of the problem. The National Nutrition Council (NNC), an attached agency of the Department of Agriculture, is the overall policy-making and coordinating body and runs an intervention program, LAKASS, that has shown mixed results (see Box 4.2).

To improve the effectiveness of the present national nutrition strategy, the role of the National Nutrition Council needs to be clarified and strengthened to avoid duplication of efforts in programs of different government agencies and ensure that overall national priorities are being followed. A shift of the NNC from the Department of Agriculture to the Department of Health should be considered, given the extensive synergies between health and nutrition, the comprehensive field presence of health offices, and the recent success of the Department of Health in achieving widespread immunization and micro-nutrient supplementation. Also, as mentioned in

Chapters 2 and 5, a reform of the National Food Authority's food subsidy program could free resources for more efficient targeted nutrition interventions such as a food stamp program or a micronutrient program.

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#### **Box 4.2: LAKASS: A Community-Based Nutrition Action Program**

*LAKASS (Lalakas ang katawang sapat sa sustansiya, or "Bodies with adequate nutrition will grow strong"), a nutrition intervention program run by the NNC since 1989, addresses poverty and malnutrition issues in nutritionally depressed municipalities. It combines livelihood activities with direct and indirect nutrition services. Within each chosen municipality, families at risk in the two most nutritionally-depressed barangays are targeted. Programs and projects are identified, implemented, and managed by the community with some technical assistance from NGOs. Seed money is provided by the NNC to eligible municipalities, to supplement resources from government agencies, NGOs, LGUs, and the community. 80 percent of LAKASS funds may be used for activities that addresses causes of malnutrition, including increasing food production, improving sanitation, and expanding income-generating activities. The rest of the funds are set aside for direct nutritional services such as supplementation of micronutrients or food.*

*By 1993, the program reached 163 municipalities (about 10 percent of the total) and covered 326 barangays (less than 1 percent of the total). Initial results indicate that the number of severe and moderately malnourished pre-schoolers in selected areas declined from 80 percent to 36 percent after one year, but the number of mildly malnourished children tripled, likely because of reclassification from more malnourished groups. But the drop-out rate from the program was over 75 percent. Thus, the sustainability and cost-effectiveness of this program needs to be thoroughly evaluated by external assessors to determine if it should be expanded and replicated.*

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**Health Insurance.** In 1991, 44 percent of total health expenditure in the Philippines was from public sources, 44 percent from private sources (predominantly through out-of-pocket expenditure), and 12 percent from social insurance programs. Health insurance

coverage, particularly the existing Medicare Program, is much more common in urban areas (since it is limited to those employed in the formal sector) and is of little importance to the poor. However, a new *National Health Insurance Law* was approved in February 1995, intended to extend insurance to more of the population, especially those employed in the informal sector and the self-employed such as farmers. The implementation of the new program is expected to begin in 1996; and while it is difficult to predict its effect on access and utilization of health care by the poor, several concerns are already apparent.

- The new insurance program includes a government subsidy to allow the poor to participate. But since coverage is directed towards curative care, this allocation of public resources may squeeze out existing public health programs that are especially beneficial to the poor, such as tuberculosis treatment and immunizations. The estimated 1996 subsidy is ₱10 billion, equal to about a third of total 1993 public sector expenditure on health.
- Provision of health care to the poor could decline either in terms of accessibility or quality if the new broader health insurance coverage results in a double-tiered public system or if health care costs rise (as has been the predominant experience in other countries when insurance coverage has increased).

**Improving the Health of the Poor.** Even though most of health services have been decentralized to LGUs, the National Government can still do much to improve health service delivery to the poor:

- Focus on primary and preventive health care and the reduction of environmental risk factors such as air and water pollution. The National Government's preventive programs such as immunization and



Children pause from their lessons at a small rural school in Cebu.

malaria control, which are pro-poor, should be fully funded, even as decentralization is implemented.

- Increase access of the poor and rural populations to health services. Improvement of infrastructure such as rural roads will be key to allowing existing health facilities to be used more intensively. Threats to access such as user fees, which can improve cost recovery, may be best countered by subsidies for the poor, especially for primary care. And actions to improve access should ensure that recently legislated universal health insurance does not result in the development of a two-tiered public sponsored system.
- Pursue sustainability and financial viability of family planning services.
- Coordinate and streamline nutrition interventions.

## CONCLUSIONS

There is overwhelming evidence that investment in human capital is a key factor in reducing poverty. In addition, rising incomes, falling fertility, substantial investments in human capital, and continuing growth are mutually reinforcing. Thus,

RISING INCOMES, FALLING FERTILITY, SUBSTANTIAL INVESTMENTS IN HUMAN CAPITAL, AND CONTINUING GROWTH ARE MUTUALLY REINFORCING

Thus, rising incomes, falling fertility, substantial investments in human capital, and continuing growth are mutually reinforcing. Thus,

investment in education amplifies the effects of any investment in health and *vice versa*; and a shift in allocation of public funds from higher level services to basic health and primary education would meet both efficiency and equity objectives.

Equity considerations suggest that budget allocations for education should go increasingly to primary schooling. Spending should be geared away from construction and towards teaching staff and books and materials, the latter having been found to have high returns. However, because high drop-out and repetition rates have severely reduced the efficiency of primary schools, expanded resources alone will not guarantee high quality elementary education.

Primary and preventive health care must be given central roles. While it is the network of lower level facili-

ties, supplemented by outreach programs, that will improve basic health care, immunization, contagious disease control, nutrition interventions, and family planning are important National Government activities that provide benefits overwhelmingly to the poor. Greater emphasis should be given to cost recovery for higher level curative health care, but it is important to ensure that the poor continue to have access to these services.

Importantly, health status of the poor is likely to be improved significantly if the basic education system is strengthened. Not only does better nutrition improve the ability to learn, higher educational attainment results in better health status, reduced fertility levels, and reduced malnutrition.<sup>15</sup> Lastly, human capital investments need to be complemented with supporting investments in physical infrastructure such as transport, electricity, water, and waste disposal facilities.

## 5

## A SAFETY NET FOR THE POOREST



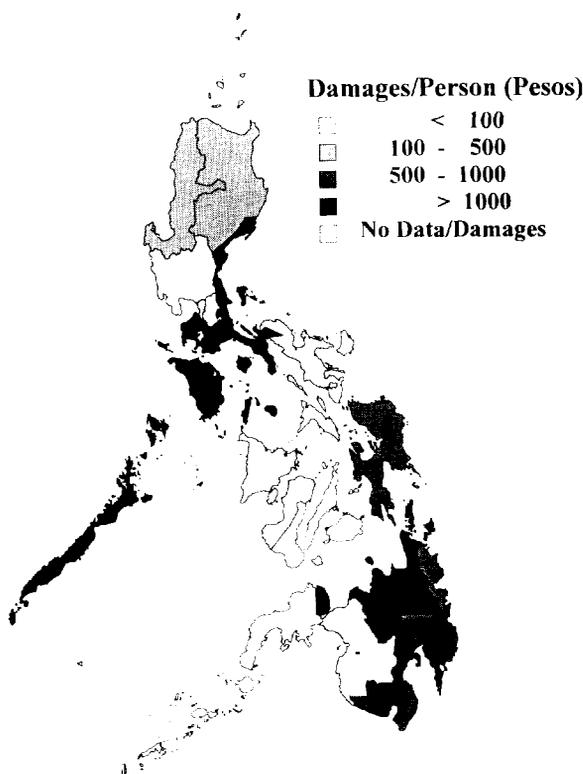
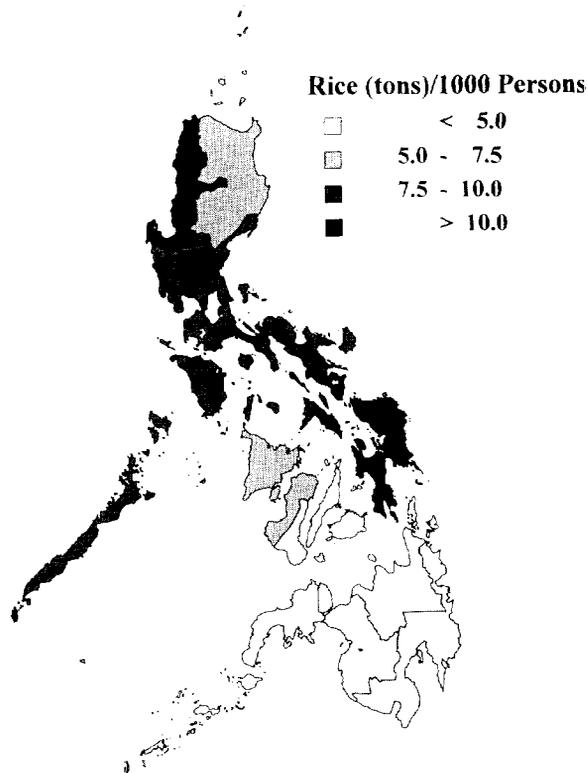
Trucks deliver more garbage to Smokey Mountain in Manila, and an old woman shows the strain of surviving as a scavenger of trash.

“Truly, as the country’s most valuable resource, every Filipino deserves, and in fact, has the right to adequate food and nutrition, to be able to hone his or her skills for increased productivity and simply be the best he or she can be.”

*Elsa Bayani  
Executive Director  
National Nutrition Council*

While the basic elements of a poverty alleviation strategy are economic growth and investment in human capital, the Government also has a role in aiding households and communities and ensuring provision of minimum living standards to those unable to gain from the growth process. In the Philippines, some form of income support is needed to help people through income-reducing events such as the frequent natural calamities.<sup>1</sup> But, as shown in the maps,

there is not a close relationship between those regions most hard hit by disasters and the support distributed by the National Food Authority in the form of subsidized rice. Other direct aid is provided by the Department of Social Welfare and Development (DSWD) which offers a range of services to the very poor; but the Department’s outreach is limited to a few of the most depressed barangays.<sup>2</sup> And a safety net needs to include a number of elements in addition to income transfers.



Notes: Top map shows National Food Authority rice distribution by region for 1993. Bottom map shows pesos of per capita damages from natural disasters in 1993.

The public provision of a safety net for the poorest must be designed to complement rather than replace existing private arrangements of transfers, which are already widespread in the Philippines. A typical public social safety net for a country at the stage of development of the Philippines, as laid out by the World Development Report of 1990, would include disaster relief, food programs, public employment schemes, and the beginnings of a social security system. In addition, the private sector, NGOs, and foreign donors have been actively assisting in the planning, financing and execution of many of these programs.<sup>3</sup>

However, the Government's set of programs do not constitute an efficient and equitable social safety net: (i) they are fragmented and not a consistent or adequate response to the problem; (ii) they have generally failed to mobilize communities to help themselves; and (iii) recent changes of institutions and strategies are creating problems of transition that tend to obscure priorities in the Government's delivery of social services or make additional demands on an ill-equipped bureaucracy and cadre of field workers.

*The test of safety net initiatives is the cost effectiveness of reaching the poor.* It is a well accepted principal that targeted programs to the poor are likely to be more cost-effective than universal programs. Targeting can be achieved by making use of information on potential beneficiaries such as income (or closely related characteristics such as occupation) or by designing the program to be more attractive to the poor than the non-poor. Even the use of a simple indicator such as the poverty of a municipality or barangay can sharply improve efficiency. For example, an income transfer program in the Philippines targeted by area amounting to ₱ 2 billion is capable of achieving the same reduction in aggregate poverty as a universal program amounting to

₱ 18 billion.<sup>1</sup> Or for some types of programs, self-targeting is more appropriate. In rural areas, well-designed public works programs can provide a measure of insurance to the poor, but the key to success is self-selection, through the payment of a wage that would be unattractive to anyone but the poor.

## PRIVATE TRANSFERS

Remittances from abroad and domestic private transfers are key components in the survival of the poor. Domestic transfers tend to be from those who migrate to urban areas for employment to their families in poor rural areas. In 1991, urban to rural transfers accounted for 8 percent of the income of the poorest 10 percent of families but only 1 percent of incomes of the richest 10 percent. Remittances from abroad, by comparison, tend to accrue more to the upper deciles and more developed regions, since jobs abroad are often for the more educated and highly skilled. The richest 20 percent obtained around 11.5 percent of their income in the form of overseas remittances, while the poorest 20 percent gained only 1 percent. Nevertheless, for those families with a worker overseas, remitted income greatly improves the welfare of the household. (See Box 5.1.) *Given the widespread nature of private transfers, it is particularly important that the Philippine Government design a system of public transfers that supplements, instead of substitutes for, private support for the poor.*<sup>2</sup>

### Box 5.1: Overseas Workers: Employment Abroad Brings Large Benefits Home<sup>6</sup>

*International migrant workers bring substantial benefits to the Philippine economy. An estimated 4.5 million Filipino workers are currently employed overseas or have migrated, providing financial inflows of nearly \$6 billion in 1994. In the first six months of 1995, remittances of overseas contract workers (through the banking system) soared to \$2.2 billion (from \$1.3 billion in the same period of 1994), of which \$1.7 billion flowed from workers in the United States, \$99 million from Hong Kong, and \$22 million from the Middle East. The money sent home represents gains to the Philippine economy estimated (for 1991) to range from 2.2 to 4.5 percent of GDP.*<sup>7</sup>

*Almost 2 million of the country's 12 million households benefit from migrants' remittances, with most of that income coming from contract workers. These remittances represented on average 8 percent of all household incomes in 1991, but for the households that received remittances, this proportion was almost a third of their total income (31 percent).<sup>8</sup> In the National Capital Region, almost 4 percent of the income of the bottom 20 percent of households came from overseas transfers. In Ilocos, a region with a strong tradition of overseas work, almost 7 percent of income flowed from abroad. Overall, overseas remittances are largest for the richest households: the top 10 percent of households receive 12 percent of their income from abroad in 1991.*

*Migration has helped to reduce unemployment by almost 40 percent. Overseas employment reduces the pressure on domestic labor markets, especially in urban areas.*

MIGRATION HAS HELPED TO REDUCE UNEMPLOYMENT BY ALMOST 40 PERCENT

*Between 1990 and 1991, the urban labor force (considered to be the pool from which most migrants come) increased by 2.1 million workers: 1.2 million found employment in the domestic economy, and 0.9 million became unemployed. The urban unemployment rate rose to 14 percent in 1991. However, a complete return of all overseas workers in 1991 would have increased unemployment substantially. Under this counterfactual scenario, urban unemployment would have been as high as 20 percent in 1991 had all migrants returned (an increase of 40 percent over the actual unemployment rate).*

## FOOD SUBSIDY PROGRAMS

The National Food Authority (NFA) operates a general consumer price subsidy program for rice as well as income support to producers of rice and corn. However, *NFA's food subsidy has had little effect on the poor's consumption and nutrition and at high cost.* Only 2 percent of the country's 10 million households have benefited from the consumer subsidy on rice, and the annual incomes of the poor are raised by this subsidy by no more than 0.3 percent. Moreover, NFA's regional distribution is extremely unequal; during 1991-93, the National Capital Region received 35 percent of NFA-subsidized rice but accounted for only 3 percent of food

poverty. In contrast, five regions accounting for 62 percent of food poverty received 29 percent of NFA rice.<sup>9</sup>

At the same time, budgetary losses of the NFA averaged ₱ 1.2 billion annually from 1988 to 1991, because the total cost of the subsidy program is substantially higher than the actual subsidy received by rice producers and consumers. In addition, NFA has had to draw on its equity to support current operations. If effective withdrawals from equity were added to the National Government subsidy, the total would average ₱ 1.8 billion per year over the period. Further, it costs ₱ 1.52 to deliver every ₱ 1 of subsidy. If leakage of benefits to the non-poor were 50 percent (as has been the experience in other countries with such programs), the cost of delivering one peso of subsidy to a poor person would exceed three pesos.<sup>10</sup>

Alternatives to a general food price subsidy such as the NFA's can avoid leakages and ensure cost effectiveness. *Self targeting through commodity selection, geographic targeting, and use of food stamps would help to target food subsidies tightly on needy families.* For example, subsidizing only the price of corn to consumers would be an improvement; the leakage of the subsidy to the non poor and the not-so-poor would be greatly reduced because corn, unlike rice, is an inferior good (that is, the non-poor tend to consume less of it). Food stamp programs combine the merits of food and cash-based systems. They tend to reach the poor better, raise food consumption, and have low to moderate leakage rates if properly designed, including periodic means-testing and precautions to discourage counterfeiting of the stamps.<sup>11</sup> (See Box 5.2.) Alternatively, food stamps could be used as part of wage payments in self-targeted public works programs or distributed in schools or health clinics. Another targeting approach is gross monitoring of children, which while time-consuming and requiring a high degree of training of health workers, holds great promise for channeling food supplements to the most needy families.

## PUBLIC WORKS EMPLOYMENT PROGRAMS

The Philippines has two decades of experience with labor-based public works programs, but there is little analysis of this experience. One large scale programs, the Community Employment and Development Program, which operated during 1986 and 1987, was undertaken to combat poverty by generating employment, especially

in rural areas. It financed 53,000 projects, mostly roads, irrigation systems and schools, built with labor-intensive methods, and employing 1.2 million people over three years. A more recent nationwide initiative, Kabuhayan 2000, aims at generating 2 million jobs between 1994 and 1996, focusing on reforestation, land development, physical infrastructure and livelihood creation, targeted to high-priority regions. However, large allocations have so far been made to the National Capital Region and the adjacent urbanizing areas.

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### Box 5.2: Food Coupons for Better Nutrition in Honduras

*A food coupon program in Honduras, supported by the World Bank, is working towards meeting the nutritional needs of poor women and children in areas with the highest malnutrition rates. The coupon program is supported by nutrition education for health workers, community groups, and mothers; and provision of primary health care services for the target groups. Since its inception in 1990, the program has come to cover over three-quarters of children at risk of malnutrition.*

*Using food coupons instead of food, this program avoids food distribution costs. Coupons are distributed at primary health care facilities to encourage utilization of their services and at primary schools in areas with no health centers. The number of children cared for in health facilities which distributed coupons has rose by 55 percent, while enrollment in primary schools increased 12 percent. Three years into the program, moderate and severe malnutrition rates had declined nationally by over 4 percent.*

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Labor-based public works can create productive assets and transfer income to the poor if designed with sufficient flexibility. If the objective is to stabilize consumption across seasons, public works should be timed to counter seasonal fluctuations. If they are intended to offer insurance, employ-

PHILIPPINE PROGRAMS DO NOT SERVE AS AN EMPLOYER OF LAST RESORT. ADDRESS THE PROBLEM OF SEASONAL UNEMPLOYMENT, CREATE ASSETS THAT BENEFIT THE POOR (SUCH AS SCHOOLS), NOR PROVIDE DISASTER RELIEF

ment should be available on demand.<sup>12</sup> If they are intended for the poor, employment should be restricted by making use of poverty-targeted indicators, means tests, or self-targeting characteristics such as willingness to accept low wages. However, as now structured, Philippine programs do not serve as an employer of last resort, address the problem of seasonal unemployment, create assets that benefit the poor (such as schools), nor provide disaster relief.

The Government proposes consolidating all ongoing works programs under *Kabuhayan 2000*. To make the consolidated program effective and maximize benefits to the poor, wages should be set lower than the prevailing market wage. Line departments should identify infrastructure projects for which labor-based methods are technically and economically feasible. These projects should be located in provinces with poor infrastructure and, if possible, benefit the ultra-poor. *Short-term public works employment programs can also be usefully applied in the wake of natural disasters—to use locally available labor to repair urgently needed infrastructure.* Overall, the revamping of works programs is needed to maintain the assets created and monitor implementation and results.

### LIVELIHOOD CREATION PROGRAMS

Livelihood creation programs are government programs designed to provide training and credit, generally on a subsidized basis, to the poor. Experience in the Philippines and elsewhere suggests that such government-run programs are often inefficient and fail to reach the poor. In addition, the availability of cheap, subsidized government credit (and the consequent perception on the part of the borrower that repayment is not necessary) distorts the market and creates disincentives for the private sector to adopt innovative methods and create products suited for low-income groups.

The 1992 Socioeconomic Survey revealed that, despite the proliferation of credit-based livelihood programs, low-income families' share of formal credit, especially from government-sponsored credit programs, was negligible: the share of credit they obtained from NGOs was 2.9 percent in urban areas and 1.9 percent in rural areas. Nearly two-thirds of credit received by the poor was supplied by private moneylenders, relatives, and employers. Private banks, government banks, and cooperatives provided about 20 percent.<sup>13</sup>

It is important to differentiate between “livelihood” programs which provide government-subsidized credit and “microfinance” programs operated by the private sector. Well-run microfinance programs (generally run by NGOs, cooperatives, or cooperative rural banks) provide credit and savings to low-income clients and can play a role more substantial than just providing a

THE PHILIPPINE PRIVATE SECTOR HAS PROVEN THAT CREDIT AND SAVINGS SERVICES CAN BE PROVIDED IN AN EFFECTIVE AND SUSTAINABLE WAY AND ARE HIGHLY VALUED BY THE POOR

safety net to the poor. Confusion between these two different types of programs often arises because the Philippine government tends to use NGOs and cooperatives as conduits for their livelihood creation programs. In fact,

the Philippine private sector has proven that credit and savings services can be provided in an effective and sustainable way and are highly valued by the poor. (Annex B provides a short summary of the current state of microfinance in the Philippines.)

The Government has initiated a number of credit programs targeted at specific sectors or income groups. As of May 1995, there were over 100 livelihood programs implemented by various government agencies including non-financial government agencies (such as the Department of Trade and Industry), non-bank government financial institutions, and government banks (such as Land Bank and the Development Bank of the Philippines). A review conducted by the National Credit Council determined that only 13 programs were designed to reach the ultra-poor. (See Table 5.1).

**Table 5.1: Government Livelihood Programs, Philippines, 1995**

	Borrowers Targeted				TOTAL
	Agri-Credit	Ultra-Poor	Salaried and Self-Employed	Small and Medium Enterprises	
No. of Programs	39	13	21	38	111
No. of Implementing Agencies	19	4	12	9	
Estimated Funds Available	>₱11.06 billion	No data available	>₱3.2 billion	>₱16.7 billion	>₱30.9 billion
Interest Rate (per annum)	6-14%	0%; 6% to market rate	3-18%	7-24%	

Source: Ledgerwood (1995).



Young girls smile for visitors in their poor neighborhood in Manila.

DSWD is the most successful government agency in providing credit services to the poorest of the poor, through its Self-employment Assistance program. This program provides very small loans of ₱1,000 to ₱3,000. But these loans are interest-free, contributing to distortions in the marketplace and undermining the notion of credit, since borrowers often do not repay the loans, which they view as grants. Experience around the world has shown that the poor can and do repay loans, even at high interest rates. The poor can improve their lives financially and socially when given access to credit that is designed to meet their needs and when treated as clients, not beneficiaries.

A Grameen Bank replication program has been in operation since 1990, supported by the Agricultural Credit Policy Council under the Department of Agriculture. As of 1994, it had 23 NGO, community, or cooperative replicators. Almost 8,000 members had borrowed ₱22.4 million at interest rates between 10 and 30 percent per annum; and savings generated totaled ₱2.7 million. This program has enabled borrowers to increase their net incomes and their assets, including savings. The reported repayment rate is high, although the quality of the portfolio is difficult to determine without some measure of loans at risk. In addition, it appears that operating costs experienced by Grameen Bank replicators in the Philippines are four to five times higher than those experienced in

Bangladesh.<sup>15</sup> A study of these Grameen replicators concluded that institution building, training, and management need strengthening, and that the Government should assist replicators in accessing low cost funds or grants during the start-up phase.<sup>16</sup>

Large-scale subsidized loan programs directed to the poor have often been justified in the Philippines as well as elsewhere on the grounds that the poor cannot afford market interest rates, formal lenders are too cautious, and informal lenders exploit the poor. However, experience in many countries indicates that, in fact, the poor are willing to pay market interest rates. Further, subsidized credit

often turns out to be a transfer program for the non-poor that damages the financial sector.

Philippine government livelihood programs have reflected a supply-led credit policy. Consequently, these programs have had high default rates and excessive administration costs; and they have failed to identify and serve the poor. Because these loans are from government agencies and not financial institutions, borrowers have tended to see them as one-time grant opportunities, and repayment has been low. Various studies have concluded that most of these government credit programs have been ineffective in terms of reaching the poor and are not sustainable. In particular, since savings mobilization is not encouraged, there is a continuous need for more capital for these programs.

The Government should consolidate and rationalize its livelihood programs and ultimately discontinue any direct government involvement in providing credit to the poor. The following actions should be taken:

THE GOVERNMENT SHOULD CONSOLIDATE AND RATIONALIZE ITS LIVELIHOOD PROGRAMS AND ULTIMATELY DISCONTINUE ANY DIRECT GOVERNMENT INVOLVEMENT IN PROVIDING CREDIT TO THE POOR

- Resources used for government livelihood programs should be redirected towards institutions with suc-

cessful track records of financial service delivery to the poor.

- A review should be conducted of banking policies and regulations that might hamper the operations of financial institutions which deliver credit and savings services to the poor and that discourage others from exploring and developing products for this client market.
- Government financial institutions should concentrate on wholesale lending and withdraw completely from their retail lending programs.<sup>17</sup>
- The Government should stop providing subsidized capital to small private financial institutions to encourage them to expand their financial services to the poor. Instead, it should provide incentives to private banks to encourage them to invest in small financial institutions, for example, by including equity investments in such institutions as part of the banks' loan portfolio requirements.

#### THE BEGINNINGS OF A SOCIAL SECURITY SYSTEM

Particularly as a country becomes more developed, social security programs can have a substantial impact in preventing or lessening poverty among particular groups. For instance, the Social Security program in the United States has been generally credited for the tremendous decrease in poverty among the elderly since 1940. However, at present in the Philippines, extended family structures tend to keep the elderly, the very young, and female-headed households out of poverty. Instead, the social security programs in the Philippines, if properly reformed and gradually expanded, can become an important component of the social safety net into the future.

There are two primary social security programs operating in the Philippines, the Social Security System and the Government Security Insurance System, which provide payments for old-age, disability, death, workmen's injury, sickness, medical care, and maternity.<sup>18</sup> About 60 percent of workers in the formal sector of the economy and all government workers are covered. This

total of about 18 million workers represents about 27 percent of the total Philippine population. It should be noted, however, that this currently covered portion of the population does represent that portion of the population less likely to fall into poverty as a result of periods of unemployment, sickness, or accidents.

As incomes in the Philippines rise over the next decades and the country pushes towards middle-income status, social security programs can begin to provide a guaranteed source of income for persons who become too old or disabled to participate in the labor market and survivors benefits to help to ease the transition of dependents of workers who die before retirement, to keep them from falling into temporary or long-term poverty.<sup>19</sup> As per capita GDP increases, attempts should be made to cover workers employed by small firms and the self-employed, so that coverage can become more nearly universal. Retirement, survivors, and disability protection needs, over time, to be extended to lower-income workers. In addition, health insurance coverage in the future, if phased in slowly and with financial caution, could help to protect the poor, who are least able to self-insure against illness.<sup>20</sup>

#### CONCLUSIONS

The Government needs to reevaluate the existing components of a social safety net. Few of the resources currently spent on government livelihood programs or labor-based public works reach the poorest groups. Even the cash and in-kind transfer programs do not target effectively. In addition, the public cost of administering these programs is high. Instead, looking towards the future, the Government needs to improve targeting and efficiency. For the poorest groups, interventions should stress nutritional and household food security. A food subsidy program, designed as food stamps or as a nutrition program, would be appropriate. For livelihood and credit to the poor programs, the Government should play only a facilitating role and should not provide subsidies. NGOs must be encouraged to self-finance their efforts; and accountability and transparency of credit operations must be emphasized. Lastly, the financial health and potentially important future role of the social security system must not be ignored.

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## A STRATEGY FOR POVERTY REDUCTION OVER THE LONG RUN



Children revel in the clean water made available in their neighborhood.

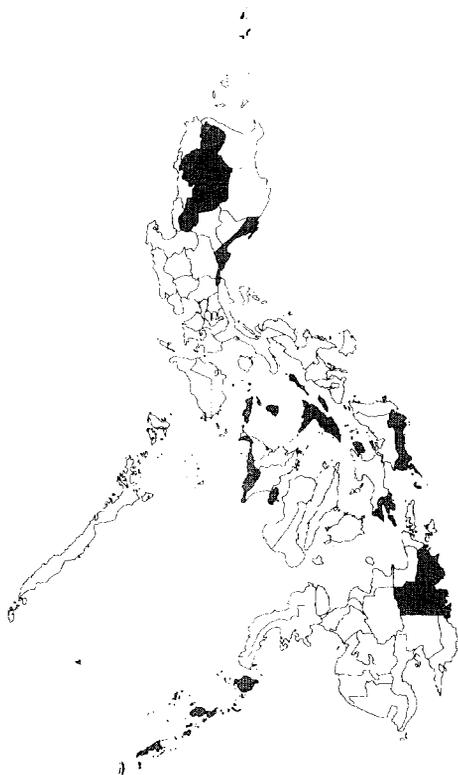
“I once said the ultimate test of any human society is the way it treats the poorest. This is a test of governance and compassion no government can afford to fail.”

*President Fidel V. Ramos  
Message in “Winning the Future: the Social Reform Agenda”  
1995*

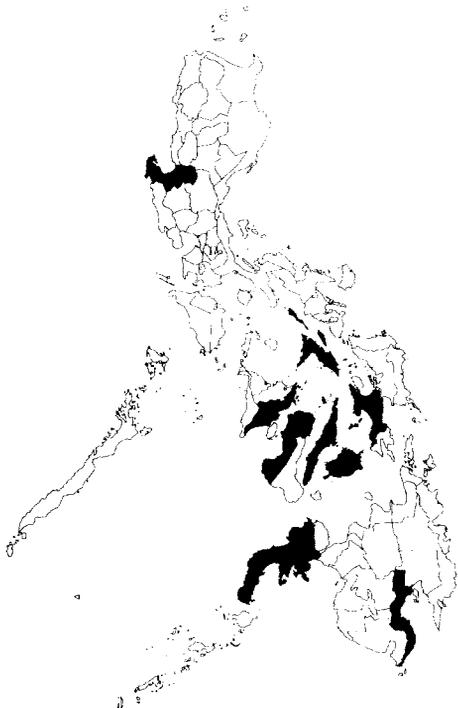
The World Bank’s World Development Report of 1990 set out a strategy for poverty alleviation that has proven successful across many countries. This “2½ leg” strategy sets out priorities for government action. The first leg or element is to promote the productive use of labor, the poor’s most abundant asset, primarily through sustainable and labor-intensive growth. This calls for policies that direct market incentives, social and political institutions, infrastruc-

ture, and technology to that end. The second leg of the strategy is provision of basic social services to the poor so they can take full advantage of the opportunity of growth, particularly primary education, preventive health care, family planning, and nutrition. The final “half leg,” a reinforcement to the other two, is a program of well-targeted transfers and safety nets to assist those who fall behind and those suffering temporary setbacks.

### The 20 Priority Provinces



### The 10 Intensely Poor Provinces



Notes: Top map shows the Government's choice of 19 (now 20) priority provinces for special attention in poverty alleviation. Bottom map shows 10 provinces with many of the poorest of the poor.

The elements of such a poverty strategy are already familiar to most policymakers. The complications arise in judging what mix of programs and priorities will best achieve it within the limited budget of the public sector. This chapter, after summarizing the main findings of the report, attempts to lay out a possible strategy for government intervention to accelerate the reduction of poverty in the Philippines. The intent here is to spur public discussion of the tough budget and program choices that will have to be made so that government can get the most “bang for the buck” and the greatest reduction of poverty—its causes as well as its symptoms.

### THE NATURE OF POVERTY IN THE PHILIPPINES

As discussed in the preceding chapters of this report, poverty in the Philippines displays a number of characteristics of particular interest to those planning an anti-poverty strategy. The proportion of the poor in the total population remains high, having declined only modestly during the 1980s. However, average incomes of the poor have risen, leaving them better off, and income disparities among the poor have declined noticeably since the early 1960s. In 1991, 37 percent of households lived in poverty, and 21 percent earned incomes insufficient for subsistence.<sup>1</sup> But since much of the population lives close to the poverty line, measurements of poverty incidence are strongly affected by small adjustments in the poverty line.

Poverty is worse in rural areas (with 53 percent of families below the poverty line) because economic opportunities have been scarce. But the urban poor (who are 23 percent of urban families) suffer especially from the low quality of life induced by environmental pollution, congestion, and violence. As long as job growth remains higher in urban areas, migration from rural to urban areas will continually reinforce the ranks of the urban poor. Elderly and female-headed households do not suffer high rates of poverty in the Philippines, in striking contrast to other developing countries, because households tend to be extended, with multiple income earners. The poor everywhere suffer from the declining quality of primary education. In rural areas, access to education and to health is limited severely by poor roads and other physical infrastructure.

## TOWARDS A NATIONAL POVERTY ALLEVIATION PROGRAM: SOLUTIONS THAT WORK

Growth alone can accomplish much for the poor of the Philippines, provided that the economy's structure enables equity. While it is true that income distribution in the country as a whole has remained more or less constant for the last thirty years (while GDP per capita grew by 1.7 percent on average), the distribution of income across regions improved during the short spurt of faster growth of the late 1980s. Growth during this period, when a number of structural reforms were beginning to be felt, reduced regional income inequalities, helping poor regions catch up with richer ones. Thus, the assumption that growth of the Philippine economy will improve the welfare of the poor now that structural reforms are more or less completed finds support from recent Philippine experience as well as that of other countries. It is important to remember that no country in the world has achieved long-term reduction of poverty in the absence of significant economic growth.<sup>2</sup> Thus, economic growth is the most powerful tool the National Government has.

Rapid, sustained economic growth is a necessary but not sufficient condition for poverty alleviation over the long run. The experience of East Asia shows that the *quality of growth* matters as well. Economic growth fueled by import-substituting development strategies, such as in India or in the Philippines until the 1980s, is bound to be short-lived. Openness to foreign trade and investment, along with aggressive efforts to promote domestic and international competitiveness, allows the expansion of high-paying employment opportunities. Conversely, excessive regulation leads to inefficient allocation of financial and real resources, often to the detriment of the poor. In order to increase its positive impact on poverty, growth must be broad-based, founded on the efficient development of economic activities in line with comparative advantage. Further, a balance is required between policies that spur growth and policies that enable the poor to participate in growth.

The overwhelming priority of the government in poverty alleviation, then, must be to sustain and increase *high rates of economic growth*; only in this

way can the Government's stated target of reducing the number of families living below the poverty line from 39 percent in 1991 (by official measures) to 30 percent by 1998 be met. It has been estimated that every percentage point increase in the Philippine economy's growth rate will reduce the incidence of poverty as measured by the poverty gap by 1.8 percent, holding the distribution of income constant.<sup>3</sup> Thus, to reach the Government's goal of 30 percent poverty incidence in 1998, per capita income needs to grow by an average 3.8 percent each year from 1996 to 1998, requiring GNP to grow by about 6.5 percent annually. Of course, absolute poverty would be reduced even more rapidly if growth were accompanied by measures to redistribute its benefits toward the poorest.

As suggested in the preceding chapters, the government should be focusing on a small number of elements of a poverty alleviation strategy:

- A permanent change in the model of economic growth followed by the country is of primary importance. Policymakers must not waver in keeping the economy outward-oriented and geared towards competition, because an East Asian-style economy is far more likely to be able to sustain the rapid and smooth rate of growth that is fundamental to improving the welfare of the poor.<sup>4</sup> Macroeconomic stability must be maintained so that growth will no longer be of the stop-go variety. Controlling the budget deficit remains crucial for this task. Then, stable and robust growth will help many of the urban poor directly, as employment opportunities respond to increased demand. Even a good number of the rural poor will find their incomes rising, as demand for agriculture-based products, especially exports, expands. However, significant reduction of rural poverty will require improvements in health and education and infrastructure (especially roads, markets, and agricultural extension).
- Access to the means of production by the rural poor is crucial. It is time to revisit how to accomplish the goals of rural land reform so that the intended beneficiaries—the poorest of farmers and landless agricultural workers—can benefit. The Comprehensive Agrarian Reform Program, which

THE GOVERNMENT SHOULD BE FOCUSING ON A SMALL NUMBER OF ELEMENTS OF A POVERTY ALLEVIATION STRATEGY

has accomplished a number of its original goals, is getting expensive and complicated. The current phase of reform of holdings greater than 24 hectares should be quickly completed. Tenancy should be allowed once again, as a useful interim state between landless labor and owner-cultivator status. A market-assisted land reform program should be studied to explore options for reducing costs. Investments with the greatest impact on the poor, e.g., rural infrastructure, should be a priority for use of scarce public funds.



A farming family and their well-kept Nipa hut in Central Luzon.

- In urban areas, the scarcity of affordable housing (a problem aggravated by skyrocketing land prices) and threats to environmental health must be addressed. *It is now urban, rather than rural, land reform that should be a priority for government action.* Tax and regulations on land ownership and development need to be revised. A commission should consider options to balance the rights of dwellers in irregular settlements with the legal owners of urban properties. Water and sanitation services must be extended to poor urban areas. The Government should hesitate to spend more money on housing since little of it helps the truly poor.
- Investment in human capital must be increased by improving the quantity and the quality of primary education and access to primary education in rural areas. Primary health services must be strengthened, especially immunization and prevention of water-borne and respiratory diseases.
- The social safety net must be consolidated and targeted. General food price subsidies should be stopped, in favor of targeted income subsidies or food stamps and supplementary feeding programs.
- The National Government should redirect resources formerly used for government livelihood programs towards creating an enabling environment for private institutions to provide credit to the poor successfully. To foster the growth of a healthy

microfinance sector, government financial institutions should focus on wholesale lending, ensuring adequate capital is available to reach the poor.

#### THE ROLES OF THE CENTER, LOCAL GOVERNMENTS, AND THE PRIVATE SECTOR

The Philippine Government recognizes that growth alone will not be sufficient to address the critical concerns of the poor. Its Social Reform Agenda (SRA), launched in September 1994, focuses on the provision of health, nutrition, education, credit, and shelter to targeted groups. Its approach is highly participatory, with an emphasis on consensus building within government and between the public and private sectors. As part of the SRA, 20 provinces in the country have been identified because of their political and economic vulnerability for special focus for the targeting of poverty alleviation programs. But the poor in the other 57 provinces as well as the chartered cities are also receiving attention under the SRA. This comprehensive effort to coordinate and accelerate poverty-fighting activities by government, NGOs (non-governmental organizations), the private sector, and communities holds the potential for shifting the tide of resources and staffing in favor of the needs of the unfortunate.

One of the key issues in a national poverty alleviation strategy is delineating the roles of the National Government, the LGUs, the private business sector,

NGOs, and communities themselves. The recent decentralization of many central government functions to provincial and municipal governments provides a first indication of the appropriate division of labor between levels of government (although financing and other encouragement from the National Government will play a key role in spurring local action). An important principle to keep in mind during this ongoing debate is that government need not provide everything. *Instead, the National Government and the LGUs need to focus on what each is good at, allowing NGOs, the business sector, and communities to do their part as well.*

**Decentralization.** The enactment of the Local Government Code in 1991 was the first major step towards fiscal decentralization in the Philippines. After decades of economic stagnation and inefficiency and inequity in the provision of basic social services, devolution was designed as a central element of the Aquino Government's program of structural reform. Decentralization aimed at improvement of local public service delivery and of public investment resource allocation, accountability of locally elected officials, and decreased political alienation outside Metro Manila through increased local autonomy. It was hoped that *devolution of fiscal powers, by introducing local oversight and control, would be a cost effective strategy for improving service quality.*<sup>5</sup>

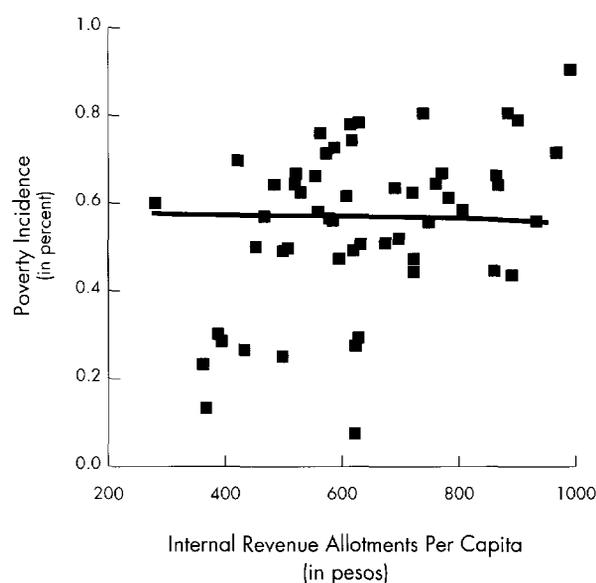
As a result, most traditional poverty alleviation programs except education have become the responsibility of local governments, limiting the ability of the central authorities to implement programs of national priority.<sup>6</sup> At the same time, the current revenue sharing arrangements with local governments do not redistribute resources towards poorer provinces. The formula set out in the law allocates revenue between Local Government Units (LGUs) based on population, land area, and equal shares.<sup>7</sup> Income levels or local resource mobilization are not considered. Figure 6.1 shows that, not surprisingly, no relationship can be discerned between the unconditional blockgrants to the LGUs (called Internal Revenue Allotments, IRAs) and the poverty head count.

Also, by devolving functions and whole institutions to local government, expertise and efficiency in many areas has been (at least temporarily) lost and likely is weakest in poorer provinces. Some of these issues are

ones of transition, as local governments build capacity and responsiveness to their constituents over the next decade. The variation across LGUs in planning and implementation capacity and in locally available resources calls for continued attention by central authorities. The National Government will need to provide technical assistance, capacity building, and incentives through which LGUs can improve their ability to raise revenues locally and can better devise and implement programs targeted at specific groups within their jurisdiction, such as the poor in urban, coastal, and upland areas.<sup>8</sup> There is also an ongoing need for the National Government to help provide access to credit for LGUs and to provide continued financing for some functions now devolved if they are key parts of programs of high priority for the nation as a whole. One mechanism with potential for both these roles is the Municipal Development Fund (see Box 6.1).

THE NATIONAL GOVERNMENT WILL NEED TO PROVIDE TECHNICAL ASSISTANCE, CAPACITY BUILDING, AND INCENTIVES THROUGH WHICH LGUS CAN IMPROVE.

**Figure 6.1: Revenue Sharing with Local Governments and Poverty Incidence, By Province, Philippines, 1993**



Notes: Internal Revenue Allotments include provincial and municipal level receipt of revenues from the National Government in 1993, but not barangay allotments. Poverty incidence is the head count for 1991. Far right data point is for Siquijor.  
Sources: Staff calculations from data from Department of Finance and 1991 FIES tapes.

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**Box 6.1: The Philippine Municipal Development Fund: Financing Decentralization and Making It Work**

*The Municipal Development Fund (MDF) was set up in 1984 in the Department of Finance as a revolving fund to make loans to and receive loan repayments from LGUs for investments under a number of foreign donor-assisted projects. Soon after, its scope was expanded, making the MDF the financial channel through which all donor-sourced funding for LGU-related projects and programs would pass, including grant funds and National Government counterpart funding.*

*With the growth in the number of sub-loans and loan fund releases, the MDF was reorganized in 1992 to separate its lending operations and grant disbursement functions. An important principle was put into action: market rates should be charged on loans. Uniform fixed-rate lending terms, linked to market rates, are applied to all sub-loan agreements irrespective of funding sources, of borrowing LGUs, and of category of investment being financed. As of end-1994, about ₱1.5 billion had been released as sub-loans to more than 100 LGUs.*

*The MDF has demonstrated the capacity to identify, appraise, and finance the execution of local government investment projects. At the same time, it is clear that the MDF in its present form cannot satisfy all of the local demand for credit financing. More than 500 LGUs have inquired about the possibility of receiving MDF sub-loans. Into the future, it is hoped that a growing number of LGUs will gain access to private sector financing. Still, the MDF is the only major source of credit currently available to most LGUs, which lack track records of successful private capital borrowing. Further, as a conduit for grant financing, the MDF holds great promise for streamlining inter-governmental grant allocation and improving the efficiency with which programs and projects that are priorities of the National Government but responsibilities of local governments can be financed and implemented successfully.*

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**Geographical Targeting by**

**the National Government.** For the National Government to take the leading role in effective poverty alleviation, it will have to spend its limited resources wisely. Simple geographical targeting can accomplish much for cost effectiveness, and it is easy to monitor and implement, compared to more complicated targeting by income, occupation, or family status. Now, provinces are considered the key unit for targeting, partly because of the functional responsibilities of provincial governments and the expectation that their position will strengthen into the future. The National Government may decide to provide additional funding for poverty alleviation to provincial governments, who in turn will be responsible for much of the implementation or could take on responsibility for allocating funds to their municipalities. Given the wealth of information already available at the provincial level, quite sophisticated targeting can be adopted almost immediately. Provinces can be selected as eligible for special government poverty alleviation efforts based on various poverty characteristics measured by existing data. As more detailed poverty-related information is collected, through enrichment and better use of existing surveys and through community reporting, targeting can be made more accurate. Indonesia has taken this approach (see Box 6.2).

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**Box 6.2: Indonesia's Use of an Improved Household Survey for Poverty Targeting**

*Perhaps the overwhelming reason why the Philippine Family Income and Expenditure Survey has not been of great value to policymakers is the lengthy delays for processing. The final results of the 1991 survey were released in May 1995. However, realization of this problem has led to some preliminary results of the 1994 survey to be released in 1995. By comparison, improvements in the national household survey in Indonesia have allowed for development of an information base that is highly useful for poverty analysis and policy formulation. Policymakers in the Indonesian national planning agency had realized that more detailed and timely data about the poor and public spending on poverty reduction pro-*

grams would allow much more accurate targeting of the poor and evaluation of poverty programs.

The World Bank worked with the Indonesian Government to help strengthen the design of the existing household survey. First, coverage of welfare indicators (chosen in consultation with various line agencies) were broadened to include not only household consumption but also measurements of labor, housing, school enrollment, health status, use of health care services, fertility and use of contraceptives, and access to water supply and sanitation. A new core survey was implemented nationally beginning in 1992.

Second, the coverage of welfare indicators was deepened by enlarging the sample size to allow disaggregation of data down to the district level. Beginning in 1993, the sample was tripled from 65,000 to 200,000 households. This new information base has already been used to generate analyses of the impact on the poor of changing fees for public services such as education and health.<sup>5</sup>

Twenty provinces have been identified as priority targets for government poverty alleviation programs, selected as suffering from a number of economic and social ills.<sup>10</sup> In these priority provinces, the National Government has stated its willingness to assume greater financial and administrative responsibilities regarding poverty alleviation--as illustrated by a recent decision to assume the liability for approved external borrowing directed to these provinces. About 11 percent of Filipinos live in these provinces (about 20 percent of the rural population and 9 percent of the urban population) (see Table 6.1). Only five, Romblon, Masbate, Agusan del Sur, Abra, and Ifugao rank in the ten most needy provinces as measured by any of the standard poverty indicators.<sup>11</sup> They do contain a higher proportion of the very poor: about 18 percent of the very poor in rural areas (the poorest quarter of the rural population) and 10 percent of the very poor in urban areas (the poorest two deciles of the urban population) reside in these provinces. However, in general, these are average provinces in terms of poverty, not the worst off.<sup>12</sup> Thus, while these 20 have been judged by the Government to be lagging and in need of special assistance, a national poverty alleviation program will need a wider scope to have an impact on significant numbers of the poor.

For the design and implementation of programs of poverty alleviation in the 20 priority provinces for which the SRA provides special focus, the Government needs to ensure that the various initiatives that are underway are embedded within a consistent overall framework and are effectively implemented. Moreover, the priority provinces are sufficiently varied in character to permit a valid testing ground for targeted programs, which if successful, could be expanded elsewhere in the country. Successful pilot programs could then be adopted outside the 20 provinces. The risk, however, is that these 20, being atypical, will not serve well as pilot areas. Even more importantly, the government should realize that since these are provinces chosen as the most intractable poverty problems, progress is likely to be slow.

**Table 6.1: Targeting of Provinces: Coverage by Different Poverty Measures, Philippines, 1991**

	Head Count	Poverty Gap	Rural Very Poor	Urban Very Poor	Population
20 Priority Provinces	13%	14%	18%	10%	11%
15 Flagging Provinces of which:	38%	38%	45%	42%	38%
10 Intensely Poor Provinces	29%	30%	37%	31%	25%

Notes: Priority provinces are the 20 provinces identified by the Government for special attention and funding. Flagging provinces and intensely poor provinces are 15 and a subset of 10 provinces selected to cover the most rural and urban very poor. 10 are Bohol, Cebu, Davao del Sur, Iloilo, Leyte, Masbate, Negros Occidental, Pangasinan, Zamboanga del Norte, and Zamboanga del Sur. 15 also includes Cagayan, Negros Oriental, South Cotabato, and 2 of 4 of the provinces constituting the National Capital Region. Only Masbate is also one of the Government's priority provinces.

Source: World Bank staff calculations from 1991 FIES tapes.

If the National Government wishes to extend its poverty alleviation efforts to a small number of additional provinces, 10 intensely-poor provinces have been identified which include a substantial number of the very poor. As shown in Table 6.1, these ten provinces contain over a third of poverty by various definitions. Importantly, only one province, Masbate, is already identified in the 20 priority provinces. If another 5 provinces are added to the 10 intensely poor,

10 INTENSELY-POOR PROVINCES HAVE BEEN IDENTIFIED WHICH INCLUDE A SUBSTANTIAL NUMBER OF THE VERY POOR

generating the group here labeled the “flagging provinces,” then around 40 percent of the truly poor can be covered by programs.

However, an analysis of the sources of inequality in income (measured by consumption expenditures) in the 1991 household survey reveals that roughly one half of the observed inequality in per capita consumption expenditures in the Philippines originates from per capita expenditure variations across households residing within the same barangays.<sup>13</sup> These results suggest that policies that merely seek to redress regional and sectoral inequities will not be enough in reducing overall expenditure inequality in the country. *What is needed is a dual approach that seeks to redress regional, provincial, and urban/rural imbalances on the one hand but also addresses the factors associated with inequalities between neighbors.* Thus, targeting by means other than selection of provinces will also be important. Nationwide programs of nutrition interventions, immunization, teacher training, or food stamps are examples of targeting by other than geography.

#### FUNDING A POVERTY ALLEVIATION STRATEGY—MORE BANG FOR THE BUCK

Resources, both financial and institutional, must be focused on approaches with a track record of success, that have a strong positive impact on the poorest of the poor. The financing of a tightly-targeted poverty alleviation strategy, as laid out here, while difficult, is far from impossible. While this report has not attempted a costing of poverty programs, such an exercise would likely reveal much potential for budget-neutral spending shifts. Savings from cutbacks in less efficient programs can be applied to needed expenditures in more fruitful areas. Table 6.2 illustrates the kinds of trade-offs that are possible.

The *National Government* needs to concentrate its energies on a few activities in its poverty strategy:

- Maintaining overall economic growth that provides expanding opportunities for the poor through appropriate macroeconomic and sectoral policies is a crucial responsibility of the National Government.

- Education remains a central government function and the key intervention to help the next generation pull themselves out of poverty.
- Appropriate national level programs of targeting in areas where uniform standards, economies of scale, or externalities beyond local boundaries argue for nationwide implementation, such as food stamps or immunization, must be supported.
- Additional financing will need to be provided to poor areas. For example, a social or municipal investment fund arrangement for rural infrastructure could be set up by the National Government, which would provide project design assistance and strict guidelines for eligibility. Only the poorest provinces might be eligible or those that showed particular success in poverty alleviation. The communities would need to be intimately involved in all phases of planning and implementation, and a matching grant element would likely be useful. Foreign donor funds could be mixed with government revenues. Colombia and Chile have both devised social investment fund approaches as useful complements to decentralization, ensuring that national objectives of service delivery to targeted poverty groups are not bypassed (see Box 6.3).

**Table 6.2: Guidelines for National Government Spending on a Poverty Strategy, Philippines**

Areas to spend more:	Areas to spend less:
Rural infrastructure, especially roads	Rural land reform below 24 hectares
Agricultural extension services	Public works employment programs, except for short-term disaster relief
Urban water supply and sanitation	Construction of urban housing
Primary education, especially for teaching staff, books, and materials	Tertiary education
Primary preventive health services	Higher level curative health services, especially through greater cost recovery
Supplementary feeding programs and food stamps	General food price subsidies
Capacity building for microfinance providers	Livelihood programs

**Box 6.3: Chile and Colombia:  
Complementing Decentralization  
with Social Investment Funds**

Colombia's *Fondo de Desarrollo Integrado* provides funds to municipalities to finance small investment projects on a matching grant basis. Local communities provide labor and local materials, and municipal governments contribute a portion of the cost. This fund not only fosters community involvement in identifying needs and choosing projects, but it also promotes community participation in the execution, operation, and maintenance of the works. Overall, the distribution of the expenditures from this fund appears to be quite progressive, with households in the lowest quintile of the rural income distribution receiving 26 percent of the subsidies. These subsidies represented 1.5 percent of the income of the poorest quintile compared to only 0.1 percent for the richest quintile.

Chile's *Solidarity and Social Assistance Fund* was established in 1990 to help groups of the poor who were not protected by the country's relatively well-functioning social safety net and system of financing of basic education and health care through local governments. Because the Chilean civil service is highly skilled, the Fund is part of the regular government structure. It focuses on initiatives such as self-help organizations among the poor and training programs for unemployed youths and single mothers. The fund insists on a relatively high level of cost-sharing by beneficiaries and coordinates closely with other central and local government activities.

As with other successful decentralized investment programs, the key appears to be community involvement at all stages of the operation, guided and supported technically and financially from the center. The experience with social investment funds shows that they can be effective financial intermediaries if: (i) they are demand-driven, thus requiring a high degree of local involvement; (ii) their operations are transparent and, hence, accountable; (iii) they are closely targeted to low-income groups; and (iv) if central government is not highly efficient, they must be made relatively autonomous in their operation, usually being run by private sector managers and freed from much official red tape.

- Intergovernmental finance should be kept as uncomplicated as possible. If the provision of a nationwide basic uniform level of health or educational services is an important objective of national policy, the National Government should either provide such services itself or directly transfer the needed resources to the target population (such as through a voucher system). If such poverty-related services must be provided through decentralized governments, very careful attention has to be paid to: (i) getting prices facing service providers right, via a well-designed system of matching grants; (ii) setting up an information and inspection system sufficient to ensure that the desired services are delivered to the target groups; and (iii) devising some system (a national "fail-safe" provision) for dealing with the non-compliant.
- The National Government will need to provide services to the local governments, especially assistance in planning, budgeting, project implementation, and monitoring. LGUs require a viable staffing policy, including incorporating officials from other levels of government without unduly inflating wage bills or lowering service quality; and a sound information system for accounting and financial reporting, both for accountability to local residents and monitoring and evaluation by the central government. Technical support, e.g., for project development, contracting, and procurement, is especially important over the next decade or so, as capability is developed in local governments.
- Monitoring of poverty and the relative performance of the provinces and cities is another important role for the National Government. Through an expanded household survey and the integration and improvement of existing statistics and program information, the National Government can provide crucial assistance to the provinces in setting priorities and in raising awareness down to the community level of how well the government is meeting the minimum basic needs of the people. Indonesia has moved boldly in this direction with great success. (see Box 6.2).

The *local governments*, both provincial and municipal, will play an ever growing role in all aspects of policy, including poverty alleviation. They will need to:

- Coordinate with local NGOs, the local private sector, and other community organizations, drawing on such extra governmental groups for assistance in targeting, project design, and implementation.
- Acquire expertise in a large number of areas that will allow them to choose programs and investment projects with the highest returns and keep them cost effective.

*Non-governmental organizations* will continue to be of prime importance in battling poverty. About 17,000 NGOs are registered with the Philippine Securities and Exchange Commission; and the ratio of NGOs to beneficiaries is estimated to be about 1:60—an extremely favorable ratio compared with that of other countries.

Most are small, indigenous, and highly localized, adopting a strong grass roots approach to their operations. They will be needed to contribute to community mobilization and local participation; to provide training and credit to the poor, and to share their extensive on-the-ground knowledge. The National Government needs to forge a stronger partnership with NGOs, to stay aware of current developments and to build on successes, to ensure an enabling environment for their continued success and growth, and to learn where their expertise will reap the highest returns. *Only with the assistance of local governments, NGOs, community organizations, and the beneficiaries themselves will the National Government have a high chance of success in meeting the challenge of poverty alleviation over the coming years.*

## ANNEX A

HOW SHOULD THE POOR BE COUNTED?<sup>1</sup>

Debates over definitions and methods in measuring poverty in the Philippines have often been a source of confusion about the intensity and nature of the problem. Even with recent revisions, the poverty line as officially calculated in the Philippines departs from accepted international standards. There are also important alternative measures of poverty, in particular, the minimum basic needs approach (as developed by the United Nations Development Program) and self-rated poverty.

## OFFICIAL POVERTY LINE MEASUREMENTS

Since 1987, the official poverty line in the Philippines has been estimated by a Technical Working Group on Poverty Determination set up by the National Statistical Coordination Board. The poverty threshold is based on family income and varies by the 13 regions, taking into account differences in prices and consumption patterns. Revisions of methodology in 1993 reduced the official poverty line by about 25 percent as a result of improvements in the accuracy of estimating nonfood requirements.

Officially, reported poverty rates in the Philippines are of family income. Yet experience across many countries has shown consumption expenditure (rather than income) per capita (rather than per family) to be the best widely available indicator of individual welfare. Expenditure is more reliable than a single year's recorded income because agricultural and self employment incomes often vary considerably from year to year. A per capita rather than a household calculation is used because poor households are often larger, so household expenditures would understate the true extent of poverty among individuals. (Refer to Table 1.3 to see how much higher poverty appears measured by individual consumption.)

Two other problems remain in the methodology used to determine the official poverty line in the Philippines,

and both tend to overstate poverty. First, the food bundle used to estimate the needed income for subsistence is not representative of the typical food consumption patterns of the poor, with too high a proportion devoted to expensive sources of calories. Although 2,000 calories is taken as the daily caloric requirement for an individual, the food bundle chosen to yield this energy level is assumed to be fairly diverse, with grains contributing an average of 66 percent of the calories (as compared with 90 percent in China, 81 percent in Indonesia, and 73 percent in Thailand). Since a calorie from foods other than grain costs about seven times as much as a calorie from grains in the Philippines, the use of a more diversified diet exaggerates the expenditure required to buy the food basket (i.e., the food poverty line). If the share of grains in the diet of the poor was assumed to be 90 percent, then the poverty line would fall by almost half while poverty incidence would fall by two-thirds.<sup>2</sup>

Secondly, and less importantly, the share of non-food expenditures is slightly high because it is not based on the behavior of people living at the food poverty line. A recalculation from the final 1991 Family Income and Expenditure Survey elicits a food share of 73 percent, as shown in the adjusted total poverty calculation in Table 1.3, rather than the 67 percent share used in the official line. This share is similar to the ones used in other East Asian countries. The adjusted poverty lines average 7 percent lower than the official poverty lines, and the line for the National Capital Region is 14 percent lower.

Applying international standards for poverty measurement to the Philippines elicits much lower poverty rates than official estimates. For example, a rough estimate was made of poverty in the Philippines using a poverty line comparable in terms of its dietary and nonfood composition to those for China and Indonesia (applying a low cost diet of 2150 calories of which 90 percent comes from grains and 63 percent of total

spending is for food). Rural poverty in the Philippines was measured as still more than half again higher than in China, a third higher than in Indonesia, but lower than in Thailand. The incidence of urban poverty was lower than in China and Indonesia, but significantly higher than in Thailand.<sup>3</sup>

Another more recent careful methodological study found that applying the official Philippine food poverty line to Indonesian data showed 15 percent of the population in Indonesia in 1987 to be living with insufficient income for subsistence while 20 percent of the Philippine population in 1988 suffered the same predicament. Using official calculations for 1987/88, poverty in the Philippines was measured as over twice as high as in Indonesia, but if Philippine poverty methodology is applied to Indonesian income data, Philippine poverty is only 50 percent higher than Indonesian rates.<sup>4</sup>

#### THE MINIMUM BASIC NEEDS APPROACH TO MEASURING POVERTY

*An enrichment of the standard expenditure-based measurement of poverty is the use of additional measures of quality of life. The United Nation's Minimum Basic Needs approach tries to measure the aspects of welfare not necessarily captured well by income alone. Indicators such as infant and child mortality, malnutrition measures, access to sanitation and safe water, type of housing, education enrollment and completion, literacy, and other measures related to survival, security,*

*and empowerment or participation can deepen understanding of the situation of the poor.<sup>5</sup> The dilemma in using minimum basic needs to identify the poor is, of course, how to combine these many indicators them into a single measure that then will allow a ranking of relative poverty.*

The Minimum Basic Needs approach complements and supplements standard poverty calculations, by providing greater details on the nature of poverty and deprivation for different groups and areas. Based on existing data in the Philippines, calculation of Minimum Basic Needs can be undertaken down to the provincial level (and for some indicators, down to the municipal level). Such an exercise would allow more careful and sophisticated targeting of public expenditures and programs.

#### SELF-RATING OF POVERTY

It is also worth noting that the Philippines has for years measured poverty through self-rating, which has elicited poverty rates higher than official estimates but with similar movements over time. A private polling firm, Social Weather Stations, has tracked self-rated poverty since April 1983. Survey respondents are asked to rate themselves as poor, non-poor, or on the borderline. The time trend of these responses is of greatest interest. Between 1983 and 1994, the incidence of self-rated poverty shows no perceptible time trend, which, coincidentally, is consistent with the sluggish change in the poverty headcount over the same period.

## ANNEX B

MICROFINANCE IN THE PHILIPPINES<sup>1</sup>

**M**icrofinance is that part of the financial sector that provides credit and savings services to the poor. Throughout the developing world, microfinance has proven to be effective in alleviating poverty, provided the programs are designed to meet the needs of the poor and are delivered in a sustainable and efficient manner. Microfinance in the Philippines is a growing field, with NGOs adopting various “models of excellence” such as Bangladesh’s Grameen Bank, Bolivia’s Banco Solidario group lending program, and the Dominican Republic’s ADEMI individual lending program, and adapting them to the Philippines. In addition, numerous NGOs in the Philippines have created their own methodologies and are effectively reaching the poor with credit and savings services.

Nevertheless, access to financial services by the poor is minimal in the Philippines. Only 12 percent of ultra-poor families availed themselves of credit in 1991, according to a survey by NEDA. Among those who did obtain credit, it came mostly from relatives or friends (38 percent), private money lenders (18 percent), and cooperatives (13 percent). Very few received credit from government or private banks. About half of the low-income respondents in the NEDA survey quoted high interest rates, having no collateral, and burdensome requirements to access credit as reasons they did not borrow. Savings services are even more limited than credit for the poor. Only some NGO and cooperative-run credit programs take deposits from the very poor.

While it is sometimes said that a lack of capital resources available for microfinance is the issue, in fact, it is apparent that the major problem faced by the Philippine microfinance sector is insufficient institutional capacity. Thus, microfinance entities are unable to address issues of outreach (including how to make loans without collateral and how to monitor and supervise such loans). The situation is aggravated by confusion over the appropriate role of government in fostering expansion. It may be that some elements of current

banking policy are restricting growth of microfinance institutions, although it should be noted that in general, banking laws in the Philippines are far more accommodating to the development of microfinance institutions than in other developing countries such as Egypt or Bangladesh. Thus, it is first and foremost the development of institutional capacity, and not provision of extra funds for lending, that will be key to nurturing sustainable programs with significant outreach to the poor.

#### CURRENT PROGRAMS FOCUSED ON PROVIDING CREDIT AND SAVINGS TO THE POOR

**Government.** There are 111 subsidized credit programs for the poor run by government agencies, which here will be referred to as “livelihood creation programs.” The major ones are implemented through the Department of Trade and Industry and the Land Bank, who use NGOs, cooperatives, rural banks, and other rural financial institutions as conduits to the end-user. The performance of these programs has generally been unsatisfactory. They are inefficient and rarely reach the targeted client group—the poor. (See chapter 5 for further discussion.)

**Formal Financial Sector.** Formal financial sector intermediaries have a mixed but generally discouraging record in providing financial services to the poor. Of the specialized government banks providing credit to the poor, the Land Bank is the most significant player, providing microfinance loans through the National Livelihood Support Fund (NLSF). This Fund provides credit lines to eligible NGOs, financial institutions, and people’s organizations for relending to small farmers, fisherfolk, landless farm workers, unemployed women, and households living below the poverty line. As of March 1995, ₱83 million in credit lines had been extended, but only ₱10 million had been availed, with a maximum loan amount per beneficiary of ₱25,000.

Cooperative rural banks in the Philippines have experienced far more success in providing credit and savings to the poor. Among existing formal financial institutions, only cooperative rural banks are widely owned by non-wealthy Filipinos. These banks generally offer higher interest rates on deposits than their competitors and are covered by deposit insurance. In 1993, about 37,000 loans were made by these banks, mostly to individuals, with an average size of ₱22,000, but most loans were between ₱1,000 and ₱10,000. A few dozen of these banks are making money on their operations, with certain ones very profitable, such as Davao Cooperative Bank and Aklan Cooperative Rural Bank. They have proven that savings services for the poor are a necessary and profitable product, especially in rural areas. Although the cooperative rural banks suffer from some weaknesses (such as uneven growth and a weak membership base), these banks offer an interesting possibility for reaching the poor effectively without setting up alternative institutions.

Pawnshops, credit unions, and lending investors (which extend small consumer loans) are all important formal sector intermediaries that provide credit to small enterprises, particularly those not served by the formal banking system. But limitations do exist in reaching the ultra-poor. Pawnshops charge very high interest rates and rely on assets as collateral. Credit unions require fixed deposits as collateral, and lending investors focus on salaried employees.

Commercial banks, through the Bankers' Association of the Philippines, have committed ₱50 million for NGOs to provide loans to the poor; but high interest rates (usually the T-bill rate plus 2 percent) have limited the success of this program. The Bankers' Association has also developed a training program for NGOs to enhance their ability to deliver credit and savings effectively and efficiently.

**Cooperatives.** Cooperatives are an important provider of financial services to the poor. They also serve a variety of other purposes. For example, in rural areas, cooperatives may market farmers' produce and provide agricultural inputs and technical advice. Cooperatives in the Philippines are registered associations of at least 15 persons who voluntarily join together to pool money, human resources, and talent to build capital and to work together to raise incomes.

Cooperatives can be formed by consumers, producers, marketing boards, service industries, lenders, or multi-purpose agriculture or non-agriculture associations. Because all profits are distributed to members and because cooperatives are entitled to loans, credit lines, and rediscounted notes from government financial institutions, credit cooperatives can generally provide loans at lower rates than those charged by alternative sources such as informal money lenders. An unpublished survey (completed in March 1994) of 104 credit cooperatives showed that the bulk of loans are made to members, with an average loan size of ₱9,100.

**NGOs.** Of the 20,000 registered NGOs in the Philippines, roughly 500 are involved in provision of credit to the poor. Credit NGOs have been effective in targeting the very poor and in organizing self-help groups amongst the poor. They are able to mobilize savings, develop group liability and peer pressure as effective substitutes for collateral, and achieve high rates of loan repayment in general. An important finding is that those that charge market rates of interest have been most successful in achieving sustainability.

A few NGOs have developed successful and sustainable credit and savings programs that can be expanded and replicated. Among these are the APPEND (Alliance of Philippine Partners in Enterprise Development, Inc.) network of credit NGOs, the PHILNET (Philippine Network) network of Grameen Bank replicators, and the money shop model (Hublag Capiznon) of the Gerry Roxas Foundation in Capiz.

Many NGOs understand the need for an integrated process in rural credit delivery that includes strong savings mobilization. Experience gained so far suggests that community-based efforts and group lending methods are promising. Sustainability is enhanced by policies which encourage self-financing by NGOs and which enable members to form their own groups. NGOs (as well as cooperatives) can deliver banking services to the poor on a financially viable basis provided the institutions have: (i) efficient and cost-effective operations; (ii) a sufficient number of borrowers and/or savers; (iii) interest rates charged that are at least as high as market rates (to cover all costs, including operational, financial, loan loss, and capital build-up); and (iv) a policy environment that does not restrict, distort, or interfere with the market.

The fact that large sums of donor funding in the Philippines (and world-wide), are being directed to NGO credit programs is evidence of their potential. While these NGO credit programs in the Philippines have been an effective means to reach the poor, their outreach has been limited to a total of approximately 30,000 borrowers. Increasing this outreach will require expansion of limited technical skills and staff able to manage the credit programs effectively. A focus on institutional strengthening would greatly enhance sustainability and outreach.

#### STRENGTHENING ACCESS TO CREDIT THROUGH MICROFINANCE

The aim of microfinance as part of a long-term poverty strategy is to bring the bulk of the urban and rural poor into the mainstream as viable clients in the formal financial sector. While it may be easier over the short-run to set up alternative non-financial structures for credit delivery to the poor, frequently funded through grants, such efforts will not be sustainable. All efforts should be directed towards enhancing access of the poor to formal sector financial services. Since it is the weak institutional capacity of many Philippine microfinance institutions that is the main obstacle to expanding financial services to the poor, efforts should be focussed on improving capacity and skills. Banking regulation and supervision may also be capable of playing a more supportive role, creating an enabling environment for microfinance. However, currently there is no widely accepted international model of appropriate regulation of microfinance. Nevertheless, it is clear that certain actions foster sustainability and greater outreach.

The following actions would work to that end:

- Provision of resources for capacity building in institutions that have significant outreach to the poor and that are approaching financial sustainability is required if the volume of clients, of credit disbursed, and of savings mobilized are to be expanded quickly. Government resources currently being used for livelihood programs could be reallocated to finance technical assistance to organizations providing credit and savings services to the poor.
- Credit programs for the poor must include dedicated savings mobilization activities.
- The Grameen Bank model is not the only successful approach for microfinance, and the current emphasis on Grameen replication as the only way to reach the ultra-poor may be discouraging the expansion of other successful models in the Philippines.
- A review of current banking policies including regulation and supervision is required to assess whether some features hamper the operations of financial institutions which deliver services to the poor or discourage others from developing products for this client market. In addition, policies which are not inclusive nor flexible enough and, therefore, interfere with microfinance activities and discourage scale and cost recovery must be addressed.
- For efficient and coordinated oversight, all institutions engaged in financial services—either credit delivery or savings mobilization or both—must be supervised and monitored by the Bangko Sentral ng Pilipinas (Central Bank of the Philippines) or the Department of Finance.

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## ENDNOTES

## Chapter 1

- 1 *Based on preliminary estimates from the 1994 Family Income and Expenditure Survey, poverty incidence has continued to fall steadily, despite no per capita income growth between 1991 and 1994.*
- 2 *Simulation results in Balisacan (1995a) show that about two-thirds of the fall in poverty from 1985 to 1988 occurred in rural areas, and agriculture contributed about half of the poverty reduction, likely in response to the substantial deregulation of agricultural markets which favorably affected small farmers. Also, the drop in inflation from 18 percent to 9 percent probably benefited the majority of the poor, who are more likely to be on fixed incomes or to be self-employed.*
- 3 *See Horton (1995).*
- 4 *According to preliminary estimates for 1994, the top 10 percent of the income distribution received 36 percent of total income, and the top half of the population received about 80 percent.*
- 5 *The richest 10 percent of Filipinos earned 19.5 times the income of the poorest 10 in 1994.*

## Chapter 2

- 1 *The modesty of this achievement holds even considering the impact of the reclassification of rural areas into urban areas as population grew or economic activity expanded, which has tended to exclude the better performing areas from what is called "rural." Specifically, the proportion of the population in areas classified as rural by the population census fell from 70 percent in 1960 to 51 percent in 1990. Defining rural areas the same as in 1970, rural poverty declined from 60 percent in 1961 to 41 percent in 1991, a steeper decline than appears in the official numbers. See Balisacan (1994c).*
- 2 *In 1960, average farm size was 3.6 hectares. In 1991, it was 2.2 hectares, even as the share of land under cultivation rose from 28 percent to 44 percent of total land area.*
- 3 *Philippine land distribution is worse than that in Thailand, which has a relatively low concentration of land-holding of 0.4, but slightly better than in countries such as India, Nepal, and Sri Lanka, which have higher concentrations of about 0.6.*
- 4 *Balisacan (1994a).*
- 5 *The sector grew by only 2.6 percent in 1994, when the economy as a whole rose 4.4 percent. In the first three quarters of 1995, agriculture faltered at only 1.0 percent growth, while GDP overall rose by 5.0 percent.*
- 6 *World Bank (1993a).*
- 7 *A number of empirical studies of farm size and productivity that carefully consider the source of economies of scale (which arise from processing technology; lumpy inputs such as farm machinery; and advantages in risk*

- diffusion, especially in credit markets) conclude that even in fairly technologically advanced and mechanized areas, small farms have a productivity advantage over large farms. See Binswanger, et. al. (1993).*
- 8 *Binswanger (1994).*
  - 9 *For example, complicated procedures are required for land valuation. The law requires consideration of at least ten factors, such as the cost of acquisition by the owner, the current value of similar properties, and appraisal by government assessors. These cumbersome procedures invite abuse. Incidents of gross overvaluation of lands offered voluntarily by landowners for sale to the government have been discovered. About 9,000 cases are currently under adjudication.*
  - 10 *Recent empirical evidence shows that the same degree of efficiency can be achieved under share tenancy contracts and under fixed fee contracts as under owner farming. Inefficiency in tenancy arises where the scope of contract choice is institutionally restricted. See Binswanger (1994).*
  - 11 *In the Philippines, the prohibition of share tenancy in rice and corn in 1972 induced landlords to evict their share tenants in favor of direct farm management, with wage labor contracts for agricultural workers (even though such a setup is technically less efficient), and also encouraged landlords to shift to crops other than rice and corn. However, the ineffective implementation of earlier land reform has left about the same proportion of farms under share tenancy two decades later. See Balisacan (1995b).*
  - 12 *In 1994, CARP's total budgetary requirement was estimated at ₱101 billion for 1995-98 (about US\$ 4 billion, or about half of the Government's 1994 revenues net of interest payments and mandated block grants to LGUs). Of this, the budgetary requirement for land acquisition and distribution activities was ₱67 billion. Most of the remainder would be used for support services to land reform beneficiaries.*
  - 13 *With a Gini coefficient of .81 compared to a national average of .57.*
  - 14 *Market assisted land reform would avoid bargaining games between owners and government and lead to competition among buyer and sellers. This could avoid the delays associated with disputes about compensation levels by privatizing and thereby decentralizing the essential processes. The process should not be left unsupervised. District land committees reporting to regional and national committees could facilitate implementation. A decentralized land or agrarian court could be established to which disputes can be appealed that cannot be resolved by the committees or through arbitration. See Binswanger (1994).*
  - 15 *The expansion of rural banks throughout the country was spurred by heavily subsidized government funds during the 1970s and early 1980s. However, more attention was given to extending loans than ensuring viability, and over 80 percent of loans granted under some programs were never collected, leaving most rural banks in financial distress. The elimination of government subsidies to rural banks in 1985 resulted in widespread closure of rural banks and left most of the remainder with weak financial positions. In 1987, the Government launched an initiative to rehabilitate rural banks, with a focus on infusion of fresh capital by rural bank owners and central bank support (through arrears conversion into government equity and rescheduling of remaining arrears into a 15 year installment program). Nevertheless, less than half the 1,100 rural banks operating in 1981 are currently deemed viable, and only 250 are still strong enough to operate without external assistance. See World Bank (1995c).*
  - 16 *See World Bank (1995c).*
  - 17 *See World Bank (1995c).*

- 18 *Includes livestock, fisheries, research and extension, price supports, credit and input subsidies, agrarian reform, forestry and environment, and community development and rural roads.*
- 19 *The expenditure bias indicator (the ratio of public expenditures on agriculture to total government expenditures compared to agricultural sector GDP divided by total GDP) compares unfavorably with comparator countries: for the Philippines over 1992-94, it was 0.27, compared to 0.62 in Thailand, 0.41 in Indonesia and 0.40 in Mexico. See World Bank (1995e).*
- 20 *See Balisacan (1995b) for simulation results for the Philippines.*
- 21 *Total infrastructure expenditure in 1991 was only 60 percent of the level in 1981.*
- 22 *See Clarete(1995). This result is reinforced by the findings of Binswanger (1989) in India.*
- 23 *Herrin and Racelis (1994).*
- 24 *Among the most important of these are limits of area planted with bananas; the import bans on seeds; restrictions on importing cattle feeder stock; export bans on buntal and ramie planting materials; the ban on slaughter of carabaos, and export restrictions on unendangered animals and animal products.*
- 25 *Balisacan (1995b).*

### Chapter 3

- 1 *Balisacan and Babila (1994).*
- 2 *Balisacan (1994c).*
- 3 *Strassmann and Blunt (1994) claim that the lowest commercial dwelling price is unaffordable to half the population in Metro Manila.*
- 4 *Nuqui (1991). Estimates are that between 30 and 80 percent of all households in urban areas nationwide do not have title to the land they occupy. In Metro Manila, 591 squatter (informal settlement) colonies have been identified with a total population of almost 2.5 million, representing over 30 percent of the total metropolitan population, according to Ramos-Jimenez and Chion-Javier (1993).*
- 5 *Based on a survey of 3000 households in the NCR and adjoining urban areas carried out for HUDCC as part of the 1992 Housing Indicators Project. See UNCHS and World Bank (1992).*
- 6 *The median proportion of total housing stock in informal settlements for a country with per capita GDP close to that of the Philippines is around 7.5 percent, while the Philippines stands at around 25 percent, based on findings for major cities in 52 countries. See UNCHS and World Bank (1992).*
- 7 *The World Bank, with the UNDP and the UNCHS, studied the Commonwealth barangay, Quezon City, as one of four longitudinal panel community studies also carried out in urban Ecuador, Zambia, and Hungary. A survey of households in Commonwealth was undertaken by a team from the Women's Resource Center of the Philippines in 1992. Analysis of this data sought to describe strategies adopted by poor households to reduce vulnerability and to prevent increased impoverishment during periods of macroeconomic recession and reform; and to identify the supply constraints that can limit the poor's capacity to respond to new opportunities. Many common survival strategies emerged across the four countries. World Bank (1994b).*

- 8 *World Bank (1995a).*
- 9 *Strassmann and Blunt (1993).*
- 10 *Diaz (1995). Commercial land prices have risen even more steeply than residential prices. For example, land prices in the central business district of the National Capital Region are reported to have risen 20 to 23 fold between 1987 and 1994.*
- 11 *Strassmann and Blunt (1994).*
- 12 *Medalla and Centano (1994). If the converted land is developed at an average of 120 persons per hectare, if half the newly converted agricultural land is devoted to residential uses, and if the increase in urban population is about 3 percent per year, then approximately 7,250 hectares are needed each year for residential uses, yielding a total requirement over five years of 72,500 hectares of converted land.*
- 13 *A further restriction on land reaching the formal market is the progressive estate tax, which can be substantial for properties with high market value. Property heirs frequently do not formally register the title in their names, especially in Manila where property values have risen so quickly. This effectively removes such land from the formal land market.*
- 14 *Strassmann and Blunt (1994) estimate that in 1991, almost a quarter of Metro Manila remained undeveloped, but very few municipal authorities in Manila or elsewhere in the Philippines have more than an approximate idea of where informal development is taking place in urban areas and what land still remains available for development.*
- 15 *World Bank (1994b).*
- 16 *Based on the 3000 household NCR survey of the 1992 Housing Indicators Project. See UNCHS and World Bank (1992).*
- 17 *From data in the 1992 Philippine National Health Survey.*
- 18 *HUDCC and UNCHS (1992).*
- 19 *World Bank (1993b).*

#### Chapter 4

- 1 *World Bank (1990).*
- 2 *World Bank (1993a).*
- 3 *Birdsall and Hecht (1995).*
- 4 *See World Bank (1995d), Philippines: Cost and Financing Issues in Education for a detailed analysis.*
- 5 *The results of a 1991 international reading achievement comparison found the difference between the mean scores of urban and rural 14-year-old Filipinos to be moderate to large compared to those of Indonesian or Thai children (where the differences were minimal).*

- 6 *World Bank (1995d).*
- 7 *Mingat and Tan (1994). For the Philippines, the figure quoted excludes some minor additional spending by other education agencies.*
- 8 *This is especially true for non-salary expenditures, which are low at about 125 per pupil at the elementary level.*
- 9 *In addition, public education is more expensive to the poor than private education is to the rich, i.e., poor parents pay out a larger share of their income to send their children to public school than rich parents do to send their children to private school. See World Bank (1995d).*
- 10 *UNDP (1994).*
- 11 *World Bank (1991).*
- 12 *A nationwide survey in 1991 by Social Weather Stations found that 96 percent of those surveyed felt that it was important to have the ability to control fertility.*
- 13 *Jamison and Moseley, et. al. (1993).*
- 14 *UNDP (1994).*
- 15 *The health-conferring advantage of education is confirmed by results from the recent National Demographic Survey which revealed that infants of uneducated mothers, aged between one to twelve months, were twice as likely to die as those of mothers with elementary education.*

#### Chapter 5

- 1 *Major natural disasters cost the country an average 1 percent of GNP each year, but with great variation: in 1993, 1.5 percent of GNP was lost. In that year, the greatest damage was caused by Typhoon Kadiang (September 30 to October 7) which cost 8.8 billion, and the province most damaged was Aurora in Region IV.*
- 2 *DSWD devotes about 300 million of its 1993 budget of 445 million to transfers to the poor. It works closely with NGOs in delivering welfare services; targeting the socially disadvantaged and handicapped in barangays with an official poverty incidence of 51 percent or more. It has a cadre of community workers who screen beneficiaries, and it organizes community volunteer resources.*
- 3 *A recent World Bank report assesses the food subsidy program, labor-based public works programs, and government-supported livelihood creation programs in the Philippines. See World Bank (1995f).*
- 4 *Balisacan (1994b).*
- 5 *See World Bank (1995f).*
- 6 *See Rodriguez (1995).*
- 7 *These gains have been calculated in a number of ways by Rodriguez (1995) based on the most recent detailed information from an October 1991 Survey of Overseas Workers by the National Statistical Office, which estimated conservatively 750,000 workers to be abroad. His calculations take account of the work and consump-*

tion migrants would have contributed to the domestic economy if they had not gone abroad. Remittances adjusted for foregone domestic consumption have amounted to 4.1 to 4.5 percent of GDP. If domestic earnings foregone are also subtracted, economic benefits are still large (i.e., 2.5 to 2.9 percent of GDP). Even if an adjustment for the loss of valuable skilled workers to the Philippine economy is estimated, overall benefits range from 2.2 to 2.6 percent of GDP.

- 8 In 1994, 10.4 percent of household income was receipts from abroad.
- 9 World Bank (1995f). Producers have also received little in the way of price stabilization or higher incomes from NFA's producer subsidy. See Chapter 2.
- 10 Experience in other countries suggests that many non-poor families benefit from such programs (through leakage), making the cost of transferring income high. The leakage in India was 50 percent, between 60 and 70 percent in Egypt and Morocco, and between 50 and 70 percent in Pakistan. Similar high levels of leakage are probable in the Philippines.
- 11 A 1983 pilot food subsidy scheme in the Philippines was successful but short lived. Both its subsidy and nutrition education components were found to be important. Cost effectiveness could have been improved by targeting food subsidies on poor families within poor villages, rather on the entire village.
- 12 For example, the Food for Work program gives food to beneficiaries until they can harvest their own crops, in exchange for their labor on land development, small irrigation, and infrastructure expansion projects. However, the effective wage rate (paid as food) is much higher than necessary, attracting too many non-poor to the program. To be more effective, the wage needs to be reset to match the poor's labor supply price and so ensure self-targeting.
- 13 Herrin and Racelis (1994).
- 14 Eight of these programs are implemented by DSWD as interest-free loans, two under the National Support for Livelihood Fund using NGOs as conduits, two under the Agriculture Credit Policy Council's program for Grameen Bank replicators, and one through the Land Bank.
- 15 For every peso lent, the replicators' cost was 0.2 and the Government's subsidy cost was 0.5.
- 16 Agriculture Credit Policy Council (1994).
- 17 The People's Credit and Finance Committee, a government finance company to be funded in part from a loan from the Asian Development Bank and the International Fund for Agricultural Development, is a step in this direction. It will, for example, take over responsibility for the Land Bank's National Livelihood Support Fund which provides credit lines to NGOs and others for relending to the poor.
- 18 The Social Security System was initiated in 1954 as a means of protecting workers and families in the formal portion of the private sector of the economy. It provides some degree of protection to about 15 million current workers and about 600,000 retired workers or dependents. The Government Security Insurance System was established in 1936 to provide protection against the loss of income for government employees. It currently provides some degree of protection for about 1.5 million current government workers and about 700,000 retired workers or dependents. In addition to these programs, members of the armed forces, police, judiciary, and constitutionally created positions receive social security protection from separate programs.

19 *Of course, expansion of the social security programs assumes that appropriate corrective actions will be taken to ensure financial sustainability. The World Bank (1995b) provides some possible alternatives to be considered for improving the financial health of these programs.*

20 *But see Chapter 4 for caveats related to the new national health insurance scheme.*

#### Chapter 6

1 *Households in poverty are counted as those with incomes below an adjusted poverty line, as described in Annex A. Households below subsistence earn incomes less than the official food poverty line.*

2 *World Bank (1990).*

3 *Balisacan (1994c). This estimate falls well within the range of -1.5 to -4.0 elasticity of the poverty gap with respect to growth of consumption per capita found elsewhere. See Lipton and Ravallion (forthcoming).*

4 *See World Bank (1993a).*

5 *See World Bank (1995e) for detailed analysis of decentralization and its implications.*

6 *As of January 1994, key functions have been devolved from central departments to LGUs, including agricultural extension services; repair and rehabilitation of water impounding systems; forest management services; integrated social forestry and watershed rehabilitation projects; provincial health offices; district, municipal, and medicare community hospitals; purchase of drugs and medicines; implementation of primary health care; field health services; repair and maintenance of infrastructure; barangay road, water supply, and communal irrigation projects; barangay day care centers; and existing Department of Social Welfare and Development poverty alleviation programs in low-income areas.*

7 *Internal revenues are provided as block grants to provinces, cities, and municipalities according to a formula based on population (with a weight of 50 percent); land area (weighted 35 percent); and equal sharing (weighted 25 percent). The formula for barangays is based half on population and half on equal sharing.*

8 *The Department of Interior and Local Government has been active in capacity building for LGUs, especially in the 20 provinces selected for priority action on poverty alleviation, through local development councils which have NGO and private sector participation.*

9 *World Bank (1995g).*

10 *The province of Kalinga-Apayao was recently separated into two, making the 19 priority provinces into 20.*

11 *The three standard poverty indicators are the poverty headcount index, the poverty gap index, and the Foster-Greer-Thorbecke distribution sensitive index (which is poverty gap squared). Alternatively, using the UNDP's methodology for Minimum Basic Needs, which creates an index for each province, ranking it according to poverty, health and education measures, of the 15 worst off provinces, 8 are included in the Government's priority list. However, another 8 of the 20 are amongst the better off half of provinces. See Presidential Commission to Fight Poverty (1994).*

12 *As measured by the adjusted official poverty line used in this report, the 20 provinces contain 13 percent of all the poor, a number not much different from their share of population. If provinces are ranked by various poverty indicators—the poverty head count ratio, average poverty gap, distribution sensitive poverty measure, and the proportion of the national poor residing in the province, these provinces (the 16 out of 20 for which sufficient*

*data is available) lie on average in the fortieth percentile in terms of poverty. As judged by proportion of the poor, the ranking is even worse, around the 57th percentile, implying that these are precisely the provinces that contribute very little to national poverty.*

- 13 *The population weighted Theil measure of inequality, the per capita consumption weighted Theil measure of inequality, and the log variance index were calculated for various regional and urban/rural groupings to allow decomposition of expenditure inequality into between group inequality and within group inequality.*

Annex A

- 1 *See Deolalikar (1995) for a detailed discussion of Philippine poverty data and related measurement issues.*
- 2 *Johansen (1993).*
- 3 *Johansen (1993).*
- 4 *Asra and Romulo (undated).*
- 5 *See Presidential Commission to Fight Poverty (1994) and UNDP (1994) for discussion of the methodology and its results for the Philippines.*

Annex B

- 1 *See Ledgerwood (1995) for a detailed discussion of these issues.*

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