Report No. 2984-PH

Aspects of Poverty in The Philippines: A Review and Assessment

(In Two Volumes)

Volume I: Overview

December 1, 1980

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East Asia and Pacific Regional Office

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P 1.00 = US$0.135

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

AMC - Agricultural Marketing Cooperative
BCS - Bureau of Census and Statistics
BHS - Barangay Health Station
BLISS - Bagong Lipunan Sites and Services
BM - Budget Ministry
BPW - Bureau of Public Works
CLT - Certificate of Land Transfer
CORUM - Cotabato Rural Uplift Movement
CPI - Consumer Price Index
FIES - Family Income and Expenditure Survey
FNNS - First Nationwide Nutrition Survey
FNRI - Food and Nutrition Research Institute
HYVs - High Yielding Varieties
LBP - Land Bank of the Philippines
LWUA - Local Water Utilities Administration
MAR - Ministry of Agrarian Reform
MASICAP - Medium and Small Industries Coordinated Action Program
MEC - Ministry of Education and Culture
MHS - Ministry of Human Settlements
MMA - Metropolitan Manila Area
MMINUTE - Metro Manila Infrastructure Utilities and Engineering Program
MOA - Ministry of Agriculture
MNSS - Metropolitan Waterworks and Sewerage System
MPW - Ministry of Public Works
MSSD - Ministry of Social Services and Development
NA - National Accounts
NACIDA - National Cottage Industries Development Authority
NCP - Nutrition Center of the Philippines
NCSO - National Census and Statistics Office
NDS - National Demographic Survey
NEDA - National Economic and Development Authority
NFAC - National Food and Agricultural Council
NHA - National Housing Authority
NIA - National Irrigation Administration
NMYC - National Manpower and Youth Council
NNC - National Nutrition Council
NWRC - National Water Resources Council
ONFE  -  Office of Nonformal Education
OPT   -  Operation Timbang
PCA   -  Philippine Coconut Authority
PREPF -  Population, Resources, Environment, and the Philippine Future
PROGRESS -  Program for Removing Sewerage from Streets
RDA   -  Recommended Daily Allowance
RHU   -  Rural Health Unit
RWDC  -  Rural Waterworks Development Corporation
SEAP  -  Self-Employment Assistance Program
UPLB  -  University of the Philippines at Los Banos
WD    -  Water District
WHO   -  World Health Organization
WSA   -  Water Supply Association
ZIP   -  Zonal Improvement Program
1. This report presents the findings of a mission which visited the Philippines in July/August 1979 to analyze the extent of poverty in the country and review relevant policies. A draft report was discussed with the Government in July 1980 in Manila.

The Purpose of the Study

2. Alleviation of poverty in the Philippines has been a concern of the Philippine Government and the World Bank for some time. The Government has already instituted a number of programs and projects aimed at increasing the living standards of the poor and has commissioned special studies dealing with poverty and income distribution. The Five-Year Development Plan (1978-1982) of the Philippines includes poverty reduction as one of its major targets. The Bank has also become increasingly interested in the poverty issue in recent years and reports analyzing poverty have been completed for several countries, including those in the East Asia Region. Two previous reports on the Philippines by the ILO /1 and the World Bank /2 covered several social and distributional issues at great length but did not focus specifically on poverty alleviation. The Consultative Group for the Philippines, in its 1978 meeting, suggested that the World Bank should prepare a report on poverty and related issues for the information of the Group. This study has been prepared in pursuance of that decision and is meant to help the Government as well as other members of the Group in understanding the nature and extent of poverty in the Philippines so that appropriate measures can be devised to alleviate it.

The Scope and Format of the Report

3. The scope of this report is fairly wide. It attempts to measure the extent of poverty and to explore its sectoral dimensions. However, systematic data at a sufficiently disaggregated level for this purpose were rarely available and, where available, were not easily reconcilable or susceptible to clear interpretation. As a result, some of the findings remain tentative, and this report cannot be more than a first step towards an increased understanding of poverty in the Philippines and the development of an integrated set of poverty alleviation policies. Further analytical work would be required in several areas, such as rainfed agriculture, urban development, and employment. But, the data base remains weak, and more definitive analysis can probably be undertaken only after the completion of the next Family Income and Expenditure Survey and Agriculture Census.

/1 ILO, Sharing in Development, 1974.

4. This report consists of two volumes. Volume I presents an overview of the poverty situation and its policy implications. Volume II is the Main Report consisting of five chapters. The first chapter presents a profile of poverty by geographical area, occupation, and sector; it also traces time trends and discusses some measures of inequality. Chapter 2 extends the discussion to other social indicators and basic needs. The third chapter deals with the employment aspects of poverty, including the extent of and reasons for the decline in real wages. Issues relating to rural poverty and agricultural development are examined in Chapter 4. The last chapter discusses the pattern of urban poverty and employment. Volume II also contains technical annexes and a statistical appendix.

Composition of the Mission

5. The mission consisted of Sarshar A. Khan (Chief), Dale M. Hill, Winston King, Dirk M. Leeuwrik, Deepak Lal, all Bank staff; Trung Ngo of FAO/CP; Jong-Goo Park of ADB; and Sudhir Anand, Simon Fass, and Allen Williams, consultants. Bruce Jones, Bank staff, assisted the mission in drafting the chapter on employment. The report also benefitted from the ongoing work on the Philippine Food and Nutrition Plan with assistance from Harry Walters of the Bank staff.
1. Poverty alleviation is an important objective of development policy in the Philippines, as in other developing countries. To alleviate poverty, a policy maker needs to know its severity, trends, and dynamics. But the systematic study of poverty faces a number of conceptual and measurement problems. First, to identify the poor we need to draw a poverty line based on some idea of minimum needs. Yet needs vary among individuals and over geographical areas even within a country. Second, most income and expenditure surveys have the family as their unit of observation and thus fail to capture significant differences in the composition of, and distribution of expenditures within, the families. Third, prices and consumption requirements differ not only between urban and rural sectors but also by location within these sectors. Drawing one poverty line, or even separate urban-rural poverty lines, therefore, ignores these differences (of unknown magnitude) and may distort the measurement of poverty significantly. Finally, income and expenditure data are collected only every few years and may be affected by temporary factors (for example, changes in weather or external economic conditions). Measurement errors may also vary in size. As a result, it is difficult to infer trends from these data except over a very long period. Changes in relative prices and consumption patterns introduce further complications into the assessment of time trends. The net effect of these problems is to introduce considerable arbitrariness as well as uncertainty into the measurement of poverty incidence and even more so in the trends therein. These problems are illustrated by the fact that, depending upon the definition of minimum needs and the type of data used, the incidence of poverty estimated for the country has varied from a high of 80% to a low of 25%.

2. Keeping in view the difficulties involved, we have tried to arrive at a reasonable and operationally useful poverty estimate. The poverty line used in this report is based on minimum dietary and non-dietary needs, is differentiated by urban and rural areas, and is applied to family expenditure data for estimating poverty incidence (the percent of population falling below the poverty line). These falling below the poverty line are technically called "absolute poor," a term occasionally used in this report. This term is used in contradistinction to measures of "relative poverty," such as the income share of the lowest 40%, and is meant neither to be pejorative nor to imply that all the people falling below the poverty line are equally and absolutely deprived.

\[\text{For details, see the Main Report and Annexes. Poverty incidences were calculated from the expenditure data of the Family Income and Expenditure Surveys (FIESs) which have been conducted by the Government approximately every five years since 1957. Family expenditures were converted into per capita expenditures to calculate poverty incidence. The 1975 per capita poverty lines are P 1,103 and P 827 for urban and rural areas respectively.}\]
The Dimensions of Poverty

The Extent and Pattern of Poverty

3. Subject to various qualifications stated above, estimates based on the 1975 Family Income and Expenditure Survey (FIES) show that 45% of the population fell below the poverty line. The 1975 FIES is, however, believed to have underestimated expenditures to some extent. Hence, if the expenditures of the poor were underestimated by 5-10%, the "true" poverty incidence would be in the neighborhood of 42%. No FIES has been conducted since 1975, but, judging from improvements in some economic and social indicators, poverty incidence probably dropped thereafter and may have been slightly below 40% at the end of the 1970s.

4. While the 1975 poverty incidence in the Philippines appears to be high, it was, in fact, only slightly above the average for middle income LDCs according to one Bank study using a uniform poverty line.\(^1\) Another study, however, shows that the Philippines had a significantly higher poverty incidence than the other large developing countries of the East Asia Region except for Indonesia.\(^2\) It should be noted that these are only rough estimates because, given substantial variations in poverty thresholds and quality of data, making accurate comparisons across countries is even more difficult than measuring poverty in one country.

5. In 1975, poverty incidence was 40% in urban areas and 47% in rural areas.\(^3\) Given a higher poverty incidence and a large share in the population, the rural areas accounted for about 80% of the population in poverty.

\(^1\) Montek S. Ahluwalia et al, Growth and Poverty in Developing Countries, World Bank Staff Working Paper No. 309 (Revised), World Bank, Washington, D.C., 1979. This study used a uniform poverty line of income per head accruing to the 46th percentile of the population in India and adjusted the income data for differences in purchasing power among countries.


\(^3\) As stated above, some allowance needs to be given for underestimation of family expenditures in 1975. However, the exact magnitude of this allowance is not known. As such, the calculated poverty incidences are used throughout the report. It must, however, be remembered that "true" poverty incidences may be a few percentage points lower.
6. Poverty incidence had a strong regional dimension, with considerable variation among the 13 regions of the country, ranging from a low of 30% to a high of 70%. The regions with the highest incidence of poverty were Northern Mindanao, Central Visayas, Eastern Visayas, Bicol, and Cagayan Valley, all of which are either resource poor or have substantial proportions of upland and remote areas.

Trends in Poverty

7. A review of the FIES data for the period 1957-75 shows two general trends in poverty. First, the poverty level in the Philippines was lower in the 1970s than in the 1950s. Second, poverty incidence dropped significantly during 1957-65, probably stabilized during the next five years, and increased to some extent in the first half of the 1970s.

8. Since no FIES has been conducted after 1975, it is difficult to make a precise estimate of subsequent changes in poverty incidence. However, some developments indicate that the poverty situation might have improved during the second half of the 1970s. The country has generally experienced better weather during this period which would particularly benefit the poorer farmer in rainfed areas. In addition, more of the government infrastructure and agricultural input programs have come on stream. As a result, the output of major food crops, especially rice, has grown substantially. Rice yields have also increased significantly in both irrigated and unirrigated areas. There is also evidence of improvement in nutritional intake. These improvements may have largely offset the increase in poverty that occurred during the early 1970s, and poverty incidence may have fallen slightly to just under 40%.

Other Correlates of Poverty

9. Poverty is a multidimensional phenomenon and is related to, or reflected in, various family and health characteristics. The following paragraphs discuss the relationship of poverty to family size, occupation and educational attainment and examine some health indicators.

10. **Family Size.** Data from both the 1975 and the 1971 FIESs reveal a close relationship between the family size and poverty incidence:

/1 These estimates used separate national urban and rural poverty lines. Separate regional poverty lines could not be calculated because the necessary interregional price indices were not available. Prices might well be lower in poorer regions than elsewhere. Thus regional price differences might partly offset the variation in expenditures but, given the large size of expenditure variation, the conclusion that poverty incidence varies widely among regions would remain valid.
the larger the family, the higher the incidence. Although the number of children within families was not known and the lesser needs of children could not therefore be allowed for, the pattern noted obviously reflected the higher dependency ratio in larger families and has strong implications for family planning.

11. Occupation. In 1971, with the exception of a few high-earning occupations, poverty incidence showed relatively small variation among different occupational groups and employment sectors in both urban and rural areas. However, when considered by region, the occupational and sectoral profiles revealed some groups in extreme poverty. For example, very high poverty incidence (70% to 90%) prevailed among farmer-tenants, farm laborers, fishermen, and even farmer-owners in the poorer regions. No urban occupations or sectors showed such high poverty incidence. However, this does not necessarily mean that there were no groups within urban centers suffering from extreme poverty; it could be that the available data were too aggregative to show it.

12. Educational Attainment. Poverty incidence appears to have a close correlation with the level of education attained by the household head. The incidence drops almost continuously as the level of education rises in both urban and rural areas. One notable exception to this finding is that those who did not enter primary school had a lower poverty incidence than those who dropped out of school early. This suggests that completing only two or three grades makes little contribution to the earning capacity, but completing primary education has a decided advantage. Of course, completing higher levels of education meant even greater advantage.

13. Health. Nutritional and health indicators largely confirm the poverty profile and trends discussed above. Although the nutritional situation has improved in the late 1970s, the calorie consumption of the population still averaged only about 89% of the recommended daily allowance. Nationally, 11% of one- to six-year-old children were moderately or severely malnourished in 1978. But in depressed areas, in 1976, nearly 30% of

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\(^1\) The occupational and sectoral poverty profile was based on the 1971 data as the relevant data for 1975 were not available. Although the data are a decade old, there are no indicators to suggest that this profile has changed significantly.

\(^2\) Obviously, the causation runs both ways: the level of educational attainment determines the earning capacity, and the level of parents’ income, social position, and education determines the educational attainment of children. Furthermore, employment opportunities must increase to absorb any addition to the educated labor force.

\(^3\) In addition, 44% of the children were found mildly underweight.
preschoolers were malnourished; in some urban slum areas this proportion was as high as 47%. Prevalence of anemia was also high among children, older people, and pregnant and lactating women.

14. Life expectancy at birth has improved from 49 years in 1960 to 61 years in 1979. Similarly, crude death rates have declined from 18 per 1,000 in 1960 to 7 per 1,000 in 1975. Life expectancy and crude death rates, especially the latter, vary considerably across regions and in most cases correspond to the level of poverty in the regions. The infant mortality rate is also estimated to have dropped significantly during the last two decades./1

Summary Assessment

15. The long-term trend in the level of poverty in the Philippines appears to have been downwards. There was, however, no significant improvement during the last decade or so, and poverty incidence at the end of the 1970s was still relatively high. Poverty is pervasive across occupations, sectors, and regions, but certain regions and groups have a very high poverty incidence. Although the nutritional and health situation has improved, average caloric consumption remains below the recommended level and some groups suffer from serious malnutrition.

The Dynamics of Poverty

16. The economic performance of the Philippines has been good during the 1970s despite external problems arising from the oil price increases. The country’s GNP increased at nearly 6.5% per annum and agricultural value added at about 5% per annum, which is better than in most LDCs. Yet, at the end of the 1970s the level of poverty does not appear to be lower than it was at the beginning. It is, therefore, clear that even a relatively high economic growth (overall, and even in agriculture) alone is not sufficient to reduce poverty quickly. Poverty and its alleviation are intimately related to the pattern and distribution of growth across regions, sectors, and income classes. This pattern is determined partly by historical and geographical factors and partly by policy measures and incentives. It is, therefore, necessary to delve a little deeper to understand the dynamics of poverty in the Philippines.

The Colonial Past

17. Four hundred years of Spanish rule, starting in the mid-sixteenth century, left a strong social, political, and economic imprint on the country. One important legacy of this period was the "haciendas" which came to dominate rice and sugar cultivation. This system, consisting of large landowners with tenants cultivating the land, contributed to the unequal distribution of land which has been a major cause of rural poverty.

/1 Estimates of infant mortality for various years differ, but all of them show a downward trend.
The unequal distribution of land has manifested itself both in a high rate of tenancy and small-size farms supporting a large part of the rural population.

18. In 1971, tenants (including part-owners) cultivated over 40% of farms in the Philippines, compared with about 20% in Thailand and 16% in Taiwan. Although the tenant-landlord relationship provided some protection and emergency assistance to the tenant, the latter was handicapped by adverse sharecropping arrangements (with 50% of the share going to the landlord), unlawful ejections, excessive interest rates, and absence of incentives to increase productivity. The average holding of tenants was also smaller than that of farmer-owners. It is, therefore, not surprising that in 1971 poverty incidence among tenants was as high as 80% in some (lower productivity) regions such as Central Visayas, Eastern Visayas, and Northern Mindanao. Since then the situation has improved to some extent on corn and rice farms which were brought under the 1972 agrarian reform.\(^1\)

19. Another effect of the inherited rural structure, combined with growing population pressure, has been that a very high percentage of farmers depend on farms of relatively small size. In 1971, farms of 3 ha or less accounted for more than 60% of all farms but only 24% of the cropped area.\(^2\)

20. A relatively small number of landed families has also dominated such commercial crops as sugarcane, coconut, forestry, and the related industries. Inevitably, the historical inequality of wealth and assets also led to an unequal ownership of capital in the modern sector. Thus, asset holdings in both rural and urban areas are skewed and have contributed to a high level of poverty.

**Population Pressure**

21. The Philippines experienced a relatively high growth rate of population (3% per year) during the 1950s and 1960s which has declined somewhat only in recent years. A rapidly expanding population has led to growing pressure on the arable land (as well as on the labor market which is discussed later). As a result, by the 1960s most of the arable land was already being cultivated. The net cultivated land per capita dropped from 0.18 ha in 1960 to 0.11 ha in 1975. Although an increase in the cropping intensity has partly compensated for dwindling arable land, the harvested area per person also dropped during the 1960s and stagnated during the first half of the 1970s. A rapidly growing population, combined with the traditional inheritance customs, has also resulted in an excessive

\(^1\) The reform is discussed in more detail in a later section.

\(^2\) Of course, farm size alone without reference to productivity is not a good indicator of poverty. But the distribution of land does suggest the relative shares of small and large farms in output.
fragmentation of land and steadily decreasing farm size with adverse consequences for family incomes in the agriculture sector.

22. A 1975 estimate shows that the remaining arable and farm land is suitable mostly for forests, tree crops, or pastures rather than annual crops. Nevertheless, considerable land settlement, predominantly self-financed, has occurred in recent years. During 1971-78, new settlement covered a little over two million ha and close to one million families. Less than half of the newly settled area is estimated to be under annual crops, mainly corn. Although this meant a significant increase in the cultivated area, the increase occurred largely on marginal land. Furthermore, even without excluding relatively large new farms, a family of settlers would have, on average, only about two ha of marginal land which would not provide even adequate subsistence. Where settlers encroached on forest areas, they aggravated the problem of deforestation and soil erosion. The new land settlement is, therefore, unlikely to have reduced the incidence of poverty, although without it, the situation would have been worse.

Resource Endowment and Regional Character of Poverty

23. The population pressure has been uneven across regions and has interacted with varying resource endowments (mainly agricultural resources) to produce marked differences in regional incomes and levels of poverty. In 1970, Central Visayas, Eastern Visayas, Bicol, and Cagayan Valley had the lowest per capita arable land in the country and their situation is unlikely to have improved since then. Most of these regions also have relatively low irrigation potential and poor climatic conditions with the result that their agricultural productivity is also among the lowest in the country. These regions have also been the main source of outmigration to other regions without which the population pressure would have been worse.

24. It is therefore not surprising that these regions were among those with the highest poverty incidence. In some areas, such as Central Visayas, the problem has been aggravated by shifting cultivation and the resulting damage to the soil and environmental conditions. Northern Mindanao, another region with very high poverty incidence, has above average per capita arable land but has a very high proportion of hilly and upland areas and below average productivity in smallholder crops. Conversely, the regions with low poverty incidence (Central Luzon, Southern Tagalog, and Central Mindanao) have relatively high agricultural productivity and/or higher amounts of per capita arable land. Central Luzon, after Metro Manila, has also been the recipient of the largest per capita public investment, especially in irrigation projects. Thus, resource endowment, population pressure, and investment levels (which at least partly reflect availability of exploitable resources) account for significant regional imbalances and substantially different poverty levels.
Other Causes of Rural Poverty

25. The overall population-resource balance and the level of average productivity obviously do not tell the whole story of rural poverty. Size distribution of land, tenancy, variations in cropping intensities, remoteness of areas, climate, available technology, and nonfarm employment opportunities superimpose on the basic population-resource balance to create substantial differences in poverty levels across, as well as within, regions.

26. Distribution of Benefits from Agriculture. The most important elements in rural poverty are landlessness and small-size farms supporting a substantial proportion of the rural population. However, intensive use of land, high yields, an appropriate crop mix, and livestock raising can largely compensate for a small-size farm, and apparently do, for instance, in parts of Luzon island. Most of these factors in turn depend upon availability of irrigation (or a dependable natural supply of water), the quality and suitability of land, use of improved seed and other inputs, and good farming practices. Obviously, these advantages are not available to all farmers, being limited by natural conditions, income levels, and knowledge of available technology. Thus, a typical poor farmer has a small unirrigated farm, grows food crops (which have a lower return than most cash crops), and has little access to improved technology. He is even worse off if he is located in an area which is remote, lacks infrastructure, or has poor soils or high slope. All these factors combine in various degrees to limit his yields, cropping intensities, and output, and thus his income. A large number of farmers in the Philippines fall in this category.

27. Poverty in Non-Foodcrop Sectors. There are a number of poverty groups outside those growing the main food crops who are affected by special problems. Poverty among coconut farmers is related to the large number of small-sized holdings, a complex tenure system controlled by absentee landlords, and a high proportion of overaged trees, all of which combine to limit the income of a substantial portion of families in the coconut sector. Sugarcane workers have suffered from the general oversupply of labor in rural areas and reduced earnings in a relatively segmented market. Another of the poorest groups is the "municipal" fishermen, /1 who typically fish with unmotorized boats close to the coastal areas. Competition from commercial fishermen and motorized boats, lack of equipment, and overfishing of several fishing fields have combined to limit their catch and incomes.

28. Pattern of Agricultural Growth and Poverty During the 1970s. An examination of agricultural growth and poverty trends during the 1970s shows that for poverty alleviation what is important is not so much the overall rate of growth in agriculture as the pattern of that growth. During 1970-75, the overall agricultural growth rate was close to 5% per annum

/1 These are fishermen using smaller boats (less than 3 tons) and fishing within three miles of the shore.
which should have normally helped in alleviating poverty. Yet, the FIES data show that poverty incidence in the rural areas (and country) had increased to some extent. The explanation for this paradox lies in the pattern of agricultural growth in that period.

29. First, nearly half of the increase in the number of the rural poor in the early 1970s occurred in just two regions, Central Luzon and Southern Tagalog, which had suffered serious typhoons, droughts, and pest attacks with the result that their agricultural value added actually declined during 1971-74. This underscores the vulnerability of these regions, and of the Philippine agriculture in general, to natural calamities. Although the cyclical nature of the weather affects all agriculture, bad weather, and especially a severe calamity, affects the poorer farmer disproportionately. He has less of a cushion to absorb the damage and takes longer to recover from income loss and debt accumulation than a more prosperous farmer.

30. Second, the aggregate growth figures do not properly reflect the benefits accruing to the smallholder even in areas not subject to natural calamities. A significant part of agricultural growth in the early 1970s was due to commercial crops such as bananas and pineapple. Furthermore, rice yields, which are a better indicator of benefit to the small farmer than output, had actually declined (partly reflecting the effect of the natural calamities in Central Luzon and Southern Tagalog discussed above), and corn yields increased by only 1%, during the whole period of 1970-75.

31. The experience during the post-1975 years appears to have been more positive. Good weather prevailed for most of this period, especially in the areas afflicted by calamities earlier. In addition, the increased coverage of Government programs relating to irrigation, agrarian reform, and use of inputs benefitted some of the smallholder food crop farmers. The net result was that agricultural growth during 1975-78 was close to 6% per annum, and its distribution was such that the poorer farmers probably derived significant benefit. Rice output increased at 6% per year during the period; rice yields also increased substantially. Furthermore, the percentage increase in rice yields was higher in uplands and non-irrigated lowlands compared to irrigated areas, mainly reflecting the disparate effect of recovery due to better weather. Rice yields increased in practically all regions, and corn yields in most of the regions. Value added in livestock (which is a significant source of supplementary income for the small farmer and landless laborer) also increased at 3.2% per annum during 1975-78, compared to 0.3% per annum during 1970-75. Thus, the pattern of growth during the late 1970s was such that the smallholder and subsistence farmer should have benefitted at least proportionately from it.

32. The improvements since 1975 must have offset some of the effects of the earlier adverse developments, thus alleviating poverty to some extent. However, it is not clear whether these improvements were sufficient to counterbalance the continuing population pressure on, and the existing skewness in access to, land. Also, due to the cyclical nature of the
weather, the degree of long-term improvement achieved remains uncertain. On the whole, the trends during the 1970s show that alleviation of rural poverty is closely linked to a better distribution of land and to growth in food crop production based on productivity increase on smaller farms. They also indicate the importance of protective and relief measures against natural disasters.

Employment Generation and Wage Trends

33. The available evidence suggests that labor markets have functioned well in the Philippines. Although there are natural costs to labor mobility (which can be quite high in an archipelago like the Philippines), there have been few institutional barriers interfering with the effective functioning of labor markets in the country. However, the economy has not generated sufficient productive employment to absorb the growing labor force. This created a situation in which real wages tended to fall during the period 1957-74. Although the real wage data show some fluctuations and the decline in real wages is concentrated in a few years, an examination of various real wage series suggests a downward drift. A sharp decline in real wages supports, the evidence of, and probably contributed to, the worsened poverty situation in the first half of the 1970s.

34. Since the 1950s, the labor force in the Philippines has been growing at 3% per year or, in some periods, at a slightly higher rate. This contrasts with an average annual labor force growth of 2% in LDCs generally and 2.5% in East Asian LDCs. At the same time, manufacturing employment expanded too slowly because high rates of protective tariffs, import licensing, and low or even negative interest rates had all encouraged inefficient and capital-intensive investment at the cost of employment creation. The result was that an excessively high proportion (85%) of additional labor force was absorbed by services and agriculture at a low, or, in some subsectors and areas, at declining value added per worker. This in turn held down the growth in labor earnings since the manufacturing sector, on average, provides higher productivity employment.

35. Most of the decline in real wages occurred during the early 1960s and early 1970s. Both of these periods were marked by relatively high rates of inflation, especially the period 1970-74 when the inflation rate was 20% per year. These periods had been preceded by large devaluations

1 In considering the relations between inflation and real wages, it must be recognized that the real wage index is obtained by dividing the growth in nominal wages by the inflation index. This index, the CPI, is based upon a fixed basket of goods and services, and does not allow for substitution in response to price increases. To the extent that actual price increases experienced by the workers were lowered through such substitution (or other factors), real wages would be higher and the effect of inflation on real wage would be weakened.
in 1962 and 1970 which were needed to restore the country's competitive advantage in international markets. However, unaccompanied by a significant reduction in protection, they raised the general price level by raising the prices of imports and importables considerably. During the early 1970s, other elements, such as relatively high rates of world inflation, partial damage to crops during 1972/73, and the oil price increase in 1973/74 also contributed to the high rates of inflation in the 1970s. There was also some deterioration in the external terms of trade during the two periods which meant that real national income grew at a lower rate than GNP. During the 1970s, food prices increased at a higher rate than nonfood prices, which meant a loss of real income for the nonagricultural sectors and the net buyers of food such as wage earners./1 Although it is difficult to trace the effects of all these elements on the incomes of various groups, the overall result appears to have been relatively high rates of inflation and an adverse effect on domestic, especially urban, real incomes. This effect of the inflation on real wages was particularly pronounced because, given a structurally soft labor market, workers were not in a position to recoup the loss through a proportionate increase in money wages.

36. The overall welfare effect of the drop in real wages in the Filipino situation is, however, ambiguous. On the one hand, it meant a loss in the welfare of wage earners; but, on the other hand, maintenance of real wages would have entailed a slower growth of employment in the modern sector because, in a relatively well-functioning labor market, only a lower percentage of the labor force could have been absorbed at higher real wages. Thus, the implication of the above analysis is not that real wages should be maintained through administrative measures, but that emphasis should be placed on achieving a better balance in the demand for, and supply of, labor and on generating more employment in higher productivity sectors.

37. The Urban Labor Market. Population pressure and declining real wages are particularly reflected in the pattern and trend of urban poverty during the early 1970s. Although the rate of in-migration to urban centers declined during the 1970s (probably due to the sharp drop in real wages), the population increase in these centers was still 3.7% per year, which was significantly higher than the rate of employment creation in the manufacturing sector. The in-migration was mainly towards the larger industrial centers such as Metro Manila, Cebu (Central Visayas), and Davao (Southern Mindanao), but labor absorption was largely in the service sector. Thus, the urban labor market continued to be soft and the consequent real wage declines meant increased poverty for the urban population during 1970-75. In 1975, the urban poor were concentrated in Metro Manila, Central Visayas, and Central Luzon, and the poorest among them were engaged in

/1 To the extent that the increase in agricultural prices was accounted for by increase in fertilizer and transportation costs due to the oil crisis, the nonagricultural terms of trade deteriorated without a proportionate benefit to the farmer.
self-employed trade, personal and domestic services, construction, transport and storage (presumably small-scale), and manual work.

Implications for Government Programs and Policies

38. In recent years, the Government has been increasingly conscious of the serious poverty problem in the country and has made determined efforts to deal with it. It has maintained a relatively rapid overall economic growth in difficult international circumstances, expanded agricultural production and domestic food supply, increased real public investment in infrastructure and basic services, particularly in rural areas, and initiated a regional planning framework. However, these efforts have not yet had a major impact in terms of reducing poverty in the Philippines because of the deeply rooted historical origins of poverty, the rapid growth of population, the slow growth of manufacturing employment, the necessarily long lead times for some public investments, and lack of improved technology for rainfed agriculture. Although the broad directions of Government policy are right, they need to be strengthened and more closely focused on poverty alleviation measures. This section, therefore, reviews the public investment program and agricultural and industrial policies as they bear on the question of poverty, and suggests priority measures for further consideration.

The Public Investment Program

39. The growth in the public investment program from 2% of GNP in the early 1970s to 5.5% in 1976-78 has increased the availability of basic infrastructure and services to the population. The Government necessarily had to direct large amounts of the public investment program to roads and power in the first part of the 1970s to compensate for low levels of public expenditure in the past and to provide the essential communication and the energy basis for a growing economy. New programs benefitting the poor have also been developed and expanded in such areas as irrigation, rural electrification, smallholder agricultural credit, family planning, water supply, sanitation, and education.

40. A number of Government programs in various sectors were reviewed from the standpoint of their contribution to meeting basic needs. The conclusion which emerges is that the performance of many of these programs has been quite impressive, but in some cases, programs would benefit from additional resources, reduced standards to ensure greater replicability, better coordination among relevant Government agencies, strengthening the administrative capability of the agencies concerned, greater decentralization of responsibility, improved geographical balance with much more attention given to the poorer regions, and creation of stronger local organizations to increase local participation in national programs. Some of the programs in the social sectors are discussed in the following paragraphs.
41. **Poverty-Oriented Programs.** One striking conclusion emerging from the poverty profile, the labor market situation, and the persistence of rural and urban poverty is the increasing pressure of population. Although a number of policies and programs can be devised to help the poor, one of the most important programs is the family planning program. Reduced population growth will in the short run lower the high dependency ratio which is closely related to poverty incidence and burdens the budget with heavy demands for public services. In the long run, it will reduce the pressure on land and on the labor market. The Government has mounted an expanding population program. The number of women in the relevant age group practicing family planning has increased from 15% in 1973 to 27% in 1978. But this rate was still lower than for Korea (44% in 1977), Thailand (43% in 1979), and Malaysia (35% in 1975). The annual population growth rate in the Philippines dropped from 3% to 2.8% during 1970-75 and is estimated to have dropped further to 2.5% since then. However, the major impact of the program has been in urban areas and intensified efforts are needed to strengthen the program in rural areas. Special attention should be given to the poor regions, particularly those with an unfavorable population-resource balance.

42. Although the overall nutritional situation has improved, there are groups (the poor, the old, the young, and pregnant and lactating women) who do not receive adequate food. While Government estimates show that since the late 1960s, in a statistical sense, the country has had enough food to meet its nutritional requirements, in all countries the relatively affluent consume more than they strictly need, so that a surplus is necessary. Furthermore, the poor lack purchasing power, the distribution of food within the family is often uneven, and lack of proper nutritional education prevents maximum benefit from food expenditures. The Philippine Government is preparing a Food and Nutrition Plan which will work out a food production and consumption strategy for the 1980s. It will also identify specific target groups and suggest possible ways of directly assisting them within the available Government resources.

43. High infant mortality is probably related to malnutrition of children, unsafe water supply and sanitation, and inadequate primary health facilities. The Government has established a network of Rural Health Units (RHUs) and Barangay Health Stations (BHSs) which has helped in filling the gap in primary health care. The RHU network appears adequate to meet the needs of the population, but the number of BHSs (as of 1976) was only about one-third the number required to adequately serve all the

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1 The RHUs are located in the municipalities and serve as the core facility for the BHSs located at the barangay level. A barangay is the lowest administrative unit in the Philippines. Some private clinics also serve as RHUs.
barangays. The network of BHSs also suffered from serious regional imbalances. The Government is gradually expanding the network and upgrading inadequate facilities and training the staff. Particular emphasis should be placed on improving the service in the more deficient regions. In addition, the Government needs to increase the share of health funds allocated to the primary health program, strengthen the administration of the program, and reorient health priorities away from curative facilities in larger cities to preventive services in poorer areas of the country.

44. The preliminary results of the 1978 First Nationwide Nutrition Survey (FNNS) show some improvement in both water supply and sewerage facilities. It reports that 66% of the population has access to water supply from water works or tubewells, and that 56% of the population used water-sealed sewage disposal (72% in urban areas and 48% in rural areas) and another 27% used closed-pit systems. These results show very impressive gains since the mid-1970s, although the estimates, at least for sewage disposal, appear to be on the high side. Priority needs to be given to rural water supply, and the recent creation of the Rural Waterworks Development Corporation which will work with local water cooperatives is an encouraging sign of the Government's commitment to this objective. For both water supply and sanitation, further efforts need to be made in adapting or innovating low cost techniques to improve replicability of the programs.

45. On the related question of slum upgrading and shelter, the Government has developed innovative programs of slum upgrading through the Zonal Improvement Program and the Slum Improvement Program, low-cost sites and services schemes, and provision of urban services through the Metro Manila Infrastructure, Utilities and Engineering Program (MMINUTE). While these programs are still in their incipient stages and are still primarily focused on Metropolitan Manila, they appear to offer appropriate models for an effective longer term attack on the problem of providing low-cost basic services for poor people in urban areas. However, there have been large and costly concurrent programs which, because of financial constraints, cannot be replicated widely enough to have a major impact on poverty. In general, investment of large amounts of public or quasi-public funds in providing built-up housing is a low priority; core units or slum upgrading for the poorer segments of the urban population could be more effective and would lower the unit costs of housing for the poor.

46. The Philippines has an excellent record in providing basic education which should lay a sound basis for future growth by improving the quality of labor. The national literacy rate was 88% in 1978, up from 72% in 1960. There were some regional differences in literacy rates, but these were smaller than in other services. The FIES data bring out clearly the positive relationship between education and income level even at the stage of elementary education. Thus, from the standpoint of poverty alleviation and basic needs satisfaction, the main priorities in this sector are to reduce the high dropout rates among elementary school students and to improve the quality of elementary education.
47. **The Regional Dimension of Public Investment Program.** While the Government has succeeded in expanding programs to meet basic needs, it has been less successful in providing regional balance in public investment which, on a per capita basis, is still overly concentrated in Metro Manila and Central Luzon. This concentration is perhaps understandable given the primacy of Metro Manila, a city of 5.5 million people which has been the center of most economic activity in the country for many years. However, in view of severe poverty in some of the outlying regions, the future development strategy will have to be more regionally-focused, and special attention will have to be paid to the poorest regions, namely, Central Visayas, Eastern Visayas, Bicol, Northern Mindanao, and Cagayan Valley.

48. The Government has already established a regional planning framework, and socioeconomic profiles and development plans for all regions have been prepared. Regional investment programs have also been prepared or are currently under preparation. The next steps in this endeavor would be to integrate these programs with the national development plans. What is needed for poverty alleviation is to give priority to the poorer regions in terms of feasibility studies, investment planning, and project implementation. In some cases, it may also be desirable to focus on the extremely poor groups within these regions, such as fishermen in Central Visayas, and landless laborers in the Central Visayas, Eastern Visayas, and Bicol. In other cases, the development potential may be so low that creating productive opportunities outside the area may be the most feasible means of improving incomes. Another important aspect of regional development is some decentralization of administration and financial institutions to facilitate increased economic activity outside Manila.

49. **Labor-intensive Construction.** While the rapid expansion of public construction of roads, irrigation systems, and other public works has strengthened the local construction industry, the employment effect has probably been less than would have been possible if more deliberate efforts had been made to adopt more labor-intensive construction methods, particularly for smaller works. Several pilot programs have been initiated which should be accelerated as a matter of priority so that the employment potential of this approach can be fully assessed and, to the extent practical, applied more widely.

50. **Financing of the Public Investment Program.** More public resources will be needed for the continued expansion of the public investment program directed at poverty alleviation. Most of the issues associated with the question of domestic resource mobilization were addressed in a recent World Bank report. On the question of equity, the report noted, "Many of..."

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/1 The Philippines: Domestic and External Resources for Development (Report No. 2674-PH), November 12, 1979.
the recent tax measures, such as the restructuring of the sales tax and the increases in taxes on motor vehicles and transportation (automobile sales tax, fuel taxes) have had positive equity implications, with the effect of making the system more progressive. More progressive indirect taxation has probably redistributed some of the tax burden from the poor to the middle classes, but more effective direct taxation will be necessary to reach the wealthy groups.

51. On the related question of utility rates, despite recent tariff increases, the prices charged for most services, particularly power, remain too low, which is in effect a subsidy to the middle and upper income classes who are the main consumers of these services. Although somewhat progressive tariff structures of most public corporations involve lower charges to smaller consumers, further steps need to be taken to reduce the subsidy element for larger consumers.

Agricultural and Rural Development

52. Since nearly three-fourths of the poor live in rural areas and are largely dependent on farming, the pace and pattern of agricultural development is one of the most important elements of the poverty reduction strategy in the medium term. Even nonfarm activities in the rural areas depend to a great extent on agricultural performance. Therefore, priority needs to be given to increase farm production especially on the small and remote farms, by providing necessary infrastructure, improved technology, extension services, proper price incentives, and better distribution of land. Maintaining a high agricultural growth rate would be a prerequisite, but the focus should be on channelling greater benefits of this growth to the rural poor, especially those dependent on rainfed agriculture.

53. Production Programs. With respect to rice, the success of the Government's past programs of increasing rice production, together with good weather, has led to an accumulation of large surpluses and a decrease in farm-gate prices recently. The Government, therefore, needs to develop a comprehensive rice strategy which takes into account future domestic supply and demand for rice, the feasibility and requirements of a rice export program, the role of the rice surplus in possible nutrition intervention programs, the potential for crop diversification on lands presently devoted to rice, and the necessary adjustments in the future irrigation program.

54. Corn is the second most important smallholder crop in the Philippines and there is likely to be a sustained demand for corn for food, livestock feed, and export. Corn yields are still relatively low, the major constraint being the lack of improved technology and delivery package. Research and other institutional support to develop such a package merit high priority.

55. Multiple cropping systems for lowland rainfed areas have already been developed for some limited areas of the country. Further research and improved extension should make it possible to extend these systems to
the many poorer farmers living in lowland areas not accessible to irrigation. The Government has also introduced programs, on a small scale, for vegetable development, coconut replanting, village cattle production, and pig fattening which have been relatively successful. These programs, however, need to be expanded which will require more resources, extension, and other technical support. The more inaccessible areas, which also tend to be poorer, will also require development of road infrastructure to reduce transportation costs and facilitate marketing.

56. Rainfed upland areas which support about one million (largely poor) families present a more difficult problem. To increase incomes in these areas requires prevention of soil erosion, adequate infrastructure, appropriate land tenure, suitable crop systems, and greater opportunities for off-farm employment. Suitable technology and the institutional framework needed to provide adequate support to the upland farmers is not yet fully developed. Some of the programs mentioned in the preceding paragraph, such as livestock and vegetable farming, are also feasible for the uplands. The Government already has a number of soil conservation, water impounding, and tree planting projects. But these efforts need to be expanded considerably, the land registration process speeded up, research in upland cropping systems emphasized, and tree crops and agro-forestry activities promoted.

57. A combination of new approaches is now being developed to assist municipal fishermen, one of the poorest rural groups. These include development of new technologies, strengthening extension work, provision of fishermen training centers, village development programs, and construction of landing and marketing facilities. It is too early to evaluate these approaches, but they should help improve incomes to an extent. However, a more serious problem is the competition that municipal fishermen face from commercial fishing and over-exploitation of some of the fishing fields. At the individual family level, lack of funds to buy boats and fishing equipment is also a common constraint. Ultimately, nonfarm employment generation is the means to reduce pressure in this sector, but interim solutions for these problems need to be found.

58. Improving Access to Land. The Philippines has almost reached its arable land frontier. A few pockets of land suitable for annual crops may still be available, or some land of lower quality may be developed with considerable investment, but there is little prospect of opening up sizable new areas. In fact, the population has already spread to marginal lands with unstable soils. Additional land, suitable for commercial tree crops and some smallholder permanent crops is, however, available and can be used to increase incomes in some rural areas. Given limited opportunities of new land settlement and considerable skewness in land holdings, one means of rural poverty alleviation is redistribution of land and tenure reform.
59. The Government had in 1972 initiated agrarian reform for rice and corn farms aimed at transfer of land to tenants where the holding was more than 7 ha and conversion from tenancy to leasehold where it was less than 7 ha. The reform proceeded quite rapidly in the beginning when the Government concentrated on larger landholdings, but progress was slow during the mid-1970s because of the greater difficulties involved in dealing with a large number of medium-sized landowners. Following some changed procedures, the pace of implementation improved again, and progress became more balanced geographically. By 1979, leasehold contracts and certificates of land transfer had been issued to nearly two-thirds of the one million eligible tenants, but the more complex land valuation and compensation process had been completed in respect of only about one-quarter of them. Studies show that, with some exceptions, both leaseholders and amortizing owners have benefitted from the reform. As such, the main recommendations of this report are that (a) completion of the remaining work should be accelerated; (b) production programs should be linked more effectively to the progress of the reform to fully benefit the farmers; and (c) extension of the reform to other crops being considered by the Government should be carefully examined in the light of experience with the existing reform.

Industry

60. Even if agricultural growth is sufficiently high and directed toward helping the small and the poorer farmer, labor absorption will continue to be a serious issue. To raise the average income of the wage earner, employment in higher productivity sectors, especially manufacturing, has to increase at a much higher rate than in the past.

61. Despite some improvements in industrial and trade policies in the early 1970s, the major domestically-oriented industries remained highly protected and capital intensive. Rather than being a dynamic leading sector, manufacturing grew at a rate of 6.5% during the last decade, close to the growth rate of total GDP, and has absorbed only about 40,000 out of nearly 600,000 annual entrants to the labor force. With the exhaustion of most new land resources suitable for cultivation and the exploitation of major irrigable areas, the agriculture sector can at best be expected to absorb about 40%, or 250,000 of the annual increase in the labor force. Thus, to improve the absorption of labor in the productive sectors, the manufacturing sector will have to play a much larger role, for which reforms in industrial and financial policies are needed.

62. Following upon the directions set in the 1978-82 Development Plan, the Government has initiated an industrial reform program to be implemented during the first half of the 1980s. Its main purpose is to correct the import substitution and capital-intensive biases of existing industrial and trade policies. The Government has already initiated action towards promoting exports, reducing the level and differences in import tariffs, liberalizing import licensing, and restructuring the financial system. Further reforms to improve the industrial incentives, geographical dispersal of industry, administrative procedures, and efficiency of
particular industries are contemplated. The combined effect of these reforms would be to increase the growth of output as well as employment elasticity in the manufacturing sector. As a result, it is estimated that the sector would generate an average of 150,000 jobs per year during the 1980s, and the income effect of this expansion might reach more than one million families, or 6 million people, over the whole decade.

63. Thus, the type of industrial development strategy required for poverty alleviation is already being implemented. While working out the details of the strategy and putting it into operation, the Government's main priority should be to promote labor-intensive, employment-creating industries.

64. Manufacturing activity in the Philippines is very heavily concentrated in Metro Manila and the neighboring regions of Central Luzon and Southern Tagalog. The problem of geographic concentration of industry is receiving increasing attention and the Government has undertaken several steps to facilitate dispersal of industry. These actions include: the Board of Investment's practice of negotiating project location prior to approval, a limitation on the establishment of new nonexport-oriented industries in the Metro Manila area, and a directive to Government-owned financial institutions that 60% of their financing for small and medium industries be directed to areas outside Metro Manila. The Government's program to develop supporting infrastructure (such as roads and electricity) in outlying provinces, coupled with regional planning, a planned program of industrial estates, and industrial policy reform will greatly help in decentralizing industry. Industrial decentralization will be very helpful in developing alternative growth and employment centers in the poorer regions and in achieving a better regional balance.

Updating Relevant Statistics

65. Another priority is to update the statistics on income and expenditure distribution, land distribution and land tenure, and access of the population to primary health services and water supply. Most of the presently available data in these areas are five to ten years old. The age of the data limits the validity of analysis and the conclusions drawn from them. Data on the current situation are in any case needed for formulating proper sectoral programs and policies, but they are extremely important for devising properly targeted policies for poverty alleviation. In particular, the FIES and Agriculture Census, which are already due, need to be carried out as soon as possible. An attempt should be made to improve their coverage, especially with a view to providing information on such poverty-related issues as multiple sources of income, farming systems, and cropping mix. Sufficient resources would also need to be allocated to them so that the results can be quickly processed and made available to the concerned agencies.
Conclusion

66. Poverty is a long-standing problem in the Philippines, and despite the Government's efforts, a very large proportion of the population still lives in poverty. This report does not offer any startlingly new strategy of poverty alleviation, for most solutions are familiar, but it does emphasize the gravity of the situation and the intensity of the effort that will be required to alleviate poverty during the coming decades. Given the size and pervasiveness of the problem, poverty alleviation has to be pursued as an integral part of the overall developmental framework of the country.

67. In view of the increasingly unfavorable population-resource balance, the ultimate solution of poverty lies in the transformation of the Philippine economy. The long-term strategy, therefore, should emphasize maintenance of a high economic growth rate, reduction in population growth, and expansion in industrial employment. While these developments proceed and their benefits accelerate, the Government needs to focus on relatively short-gestation low-cost programs and policies benefitting both the urban and rural poor. In the rural areas, especially, it should be possible to further increase the productivity of the typical small or upland farms by improving the farmer's access to improved technology, extension, inputs, and markets, and by encouraging him to diversify not only to other high value crops but to non-farm activities. Increasing the potential for improving upland agriculture and non-farm employment in the rural areas should also be part of this medium-term strategy. This report has also pointed up substantial differences in the levels of poverty among various regions. Which regions should be given priority will depend upon a number of factors, but the country's development strategy should have a strong spatial dimension with a focus on the poorer areas.
This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.