P H I L I P P I N E S

REPORT

UNEQUAL ACCESS

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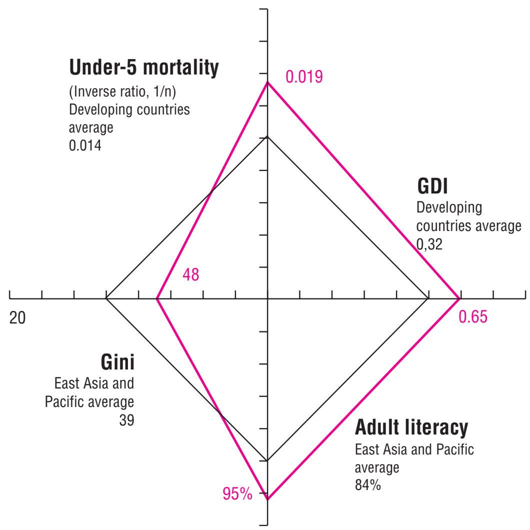

The Equity Diamond: National values in terracotta compared to regional ones in blue.

Poverty statistics reveal that absolute poverty has declined from 1985 to 1994. Notwithstanding this, inequity in the Philippines has grown since 1995. A notorious characteristic of attempts to alleviate poverty in the country is the tendency for benefits to go to the wrong hands.

After the relatively stable economic growth of the past four years, the next questions for the Philippines should be, first, whether growth has decreased poverty, and second, whether growth has been evenly distributed to the population. Although the questions seem redundant, there is reason to stress their difference. While the first was the focus of recent policy debates (World Bank 1996, *A National Strategy to Fight Poverty*), the second has been largely ignored. Indeed, relative poverty is often considered a serious problem only in developed countries; developing countries are more concerned with the level of absolute poverty.

One reason for distinguishing poverty and inequality is the conflicting performance of their respective indicators in the Philippines. Statistics reveal that absolute poverty has declined from 1985 to 1994. This is attributed to the break with the boom and bust cycles that had plagued the Philippines. However, the government's record on equity is nothing to crow about. While the absolute poverty has declined with the head count index dipping to 35.5% for 1994, the ratio of the average income of the richest 20% to the poorest 20% increased in the period from 1988 to 1991 (see Table 1).

Technically, poverty and inequality are distinct concepts. One can conceive of a situation where all people are equally poor. Then policy should aim for economic growth. When the population is divided between the rich and less rich, redistribution is a more desirable objective. In developing countries, the distinction is blurred since both poverty and inequality are present; poverty may be caused either by poor economic performance or by unequal distribution of wealth.

TABLE 1.

Equity and Poverty Statistics of the Philippines

PERIOD	RATIO OF AV. INCOME OF TOP TO BOTTOM 20%	POVERTY INCIDENCE
1985	9.96	44.2
1988	9.96	40.2
1991	11.29	39.9
1994	10.57	35.5

Source: *Family Income and Expenditure Survey*

The data for the Philippines supports academic findings that reduction in poverty (in terms of incidence, depth and severity) has largely been brought about by growth, not by redistribution (Balisacan, 1997). Hence high income groups have received a larger share of the gains from growth than low income groups. Although some of the poor have managed to escape poverty, inequality has increased.

Programmes to alleviate poverty through redistribution, especially efforts to redistribute land through the Comprehensive Agrarian Reform Programme, have had little effect on poverty despite their huge cost to society. Another programme, a subsidy on rice, is draining billions from the national coffers, with most of the benefits going to middle income households. This reinforces widespread suspicion that the government is hardly addressing inequality.

Since growth has led to poverty reduction, should we concentrate on growth and forget about costly and ineffective redistribution programmes? A look, however, at the performance of other Asian countries in poverty reduction reveals that the Philippines pales in comparison. East Asian and the Pacific countries reduced poverty by an average of 1.6% per year from 1987 to 1993; the Philippines averaged only 1.0% per year from 1985 to 1994. This is not surprising. Poverty elasticity estimates for the Philippines are on the low side – implying that the economy's ability to transform growth into poverty reduction is weak (Balisacan, 1997).

Extrapolations have it that it will take about 15 years for the average poor person to cross the poverty line, assuming that the GDP per person grows by an average of 3.2% each year (Balisacan and Bacawag, 1994). A faster growth rate of 5% would shorten the time to 10 years. Indeed, there is overwhelming evidence that growth must be accompanied by redistribution to achieve swift reduction in poverty.

Note that the usual inverted U relationship between growth and inequity (attributed to Kuznets) which says that growth and inequity may be positively related at the outset, may not be true for the Philippines. One can achieve growth with less inequality. The current thinking is that what really matters is not growth but the quality of growth.

Table 2 shows income–based poverty statistics for the country. It reveals that the majority of poor are in the Southern Tagalog region (Region IV). As a percentage of the total household population, however, Bicol (Region V) and the Autonomous Region of Mindanao (ARMM) top the list. The NCR does not have the lowest number in absolute terms but holds the best record in terms of percentages. Performance across regions also varies. While absolute poverty dropped nationally, some regions (ARMM and CAR) experienced an increase in poverty incidence (see Table 3).

An analysis of inequality statistics done by Balisacan and Bacawag (1994) argues that approximately 80% of inequality is accounted for either by intra–sectoral or intra–locational variations in income. This means that inequality within regions and localities is greater than among regions or localities. This finding requires a radical change of government policy, especially regarding transfers to disadvantaged sectors.

TABLE 2.

Gini Concentration Ratios by Region

REGION	1985	1988	1991	1994
PHILIPPINES	0.4466	0.4446	0.4680	0.4507
NCR	0.4146	0.4258	0.4282	0.3967
CAR		0.3741	0.4372	0.4100
REGION I	0.4011	0.3743	0.4039	0.3814
REGION II	0.3856	0.3962	0.4172	0.4058
REGION III	0.3992	0.3861	0.3986	0.3630
REGION IV	0.4058	0.4034	0.4238	0.4016
REGION V	0.3798	0.3876	0.3910	0.4116
REGION VI	0.4499	0.4080	0.4031	0.4063
REGION VII	0.4537	0.4602	0.4604	0.4417
REGION VIII	0.3904	0.4041	0.4149	0.4198
REGION IX	0.3947	0.4087	0.4057	0.3861
REGION X	0.4539	0.4424	0.4380	0.4157
REGION XI	0.3932	0.4019	0.4348	0.4114
REGION XII	0.3709	0.3583	0.4050	0.4280
ARMM			0.3197	0.3125

Source: National Economic Development Authority.

Since current transfers to regions and localities are not solving the inequality problem, a search is underway for more effective forms of intervention. As mentioned above, in developing countries like the Philippines, the problem of inequality is critical since it may also be a source of poverty. An old, yet reliable remedy is to target public investments, rather than transfers to marginalised regions.

It has been argued that it is easier to target solutions to deprivation of services such as education, health, etc. than income, since people will tend not to use those services if they do not really need them. Moreover, publicly provided goods and services are known to improve the supply response of rural and backward regions to any demand stimulation. The literature is filled with empirical evidence that increased access to certain publicly–provided goods greatly reduces income inequality and, ultimately, poverty. These goods and services include primary education, primary health, and basic infrastructure like roads, electricity, and irrigation. In contrast, inequality in the access to essential public goods (access inequality) heightens the probability of income inequality. The result for deprived households is further isolation from markets, which would otherwise have allowed them to share in the growing economic pie.

Absence of income poverty, however, does not imply well–being in its fullest sense. Indeed, sufficient income brings only a close approximation of well–being if all goods are market–based. Here, we can assume that a rural family suffers from

TABLE 3.

Region	Annual per capita Poverty Thresholds				Magnitude of Poor Families				Incidence of Poor Families			
	1985	1988	1991	1994	1985	1988	1991	1994	1985	1988	1991	1994
Philippi	**3,744**	**4,777**	**7,302**	**8,885**	**4,355,0**	**4,230,4**	**4,780,8**	**4,531,1**	**44.2**	**40.2**	**39.9**	**35.5**
NCR	4,527	6,576	9,286	11,230	301,973	310,284	217,602	141,671	23.0	21.6	13.2	8.0
AONCR	3,617	4,489	6,982	8,509	4,053,079	3,920,200	4,563,263	4,389,499	47.5	43.1	44.2	39.9
Region I	3,775	4,934	8,060	10,022	267,044	280,394	325,145	338,327	37.5	44.9	48.4	47.9
Region II	3,448	4,573	7,035	8,316	174,844	177,072	211,839	185,708	37.8	40.4	43.3	35.5
Region III	3,895	5,242	8,173	9,757	264,811	304,313	371,817	321,212	27.7	29.3	31.1	25.2
Region IV	3,794	4,832	8,075	9,537	524,839	527,360	612,213	514,527	40.3	41.1	37.9	29.7
Region V	3,434	4,144	6,385	8,319	404,751	402,522	452,777	483,954	60.5	54.5	55.0	55.1
Region VI	3,675	4,344	6,403	8,197	528,098	472,909	484,505	487,794	59.9	49.4	45.3	43.0
Region VII	3,305	3,711	5,585	6,425	449,760	388,571	377,448	311,889	57.4	46.8	41.7	32.7
Region VIII	3,283	3,818	5,138	6,444	334,751	292,953	264,906	262,859	59.0	48.9	40.1	37.9
Region IX	3,521	3,793	6,351	7,074	268,872	208,710	238,022	227,259	54.3	38.7	49.7	44.7
Region X	3,546	4,523	6,433	7,938	300,226	279,900	363,231	361,057	53.1	46.1	53.0	49.2
Region XI	3,645	4,876	6,544	8,201	309,532	318,117	383,368	357,615	43.9	43.1	46.2	40.3
Region XII	3,673	4,147	7,321	8,971	225,551	177,807	209,458	216,275	51.7	36.1	57.0	54.7
CAR		5,116	8,332	10,853		89,572	111,030	122,942		41.9	48.8	51.0
ARMM			7,450	8,889			157,507	198,081			50.7	60.0

Annual Per Capital Poverty Thresholds and Poverty Incidence of Families by Region
All Areas: 1985, 1988, 1991, 1994

Source: *Family Income and Expenditure Survey.*

poverty because its income is too low. However, in cities with publicly provided road systems, households may be better off than rural households with the same level of income but without good roads. In other words, the benefits of publicly–provided goods and services do not just work through income growth or more efficient resource allocation. Direct benefits are also positive.

Just like its effect on poverty alleviation, economic growth, without direct government intervention, can improve the delivery of social services. Nevertheless, government policy enables a low–growth country to achieve better human development indicators. Sen, for example, goes further to advocate a capability–based measure over the usual income–based indicators. These include accounting directly for literacy, mortality, and morbidity –indicators that are affected by access to publicly provided goods and services. The direct benefits provided by these publicly–financed goods and services are rarely fully captured by standard poverty indicators, although the Human Development Index and the recently–created Minimum Basic Needs (MBN) approach attempt to do so.

ACCESS TO EDUCATION

Previously recognised for having one of the most educated citizenries in Asia, the Philippines may have deteriorated in the past years. Although basic and functional literacy rates are high, statistics show that many children do not finish their elementary education or go beyond it. Of the 91.1% who enter elementary school, only 67.5% complete it. Survival rates in secondary education are better, but the participation rate is much smaller. Of the 61.2% who enter secondary school, 75.9% graduate. The cohort survival rates worsened from 1994 to 1995 for elementary and secondary education. (See Table 4)

What accounts for this worsening scenario? The common answer is the paltry allocation for education by government. However, it has become apparent, not only in the Philippines but also in most developing countries, that adding more funds to the current pattern of education expenditures does not reduce inequality and poverty. **The inclination towards urban areas and tertiary education subsidises the middle class**

TABLE 4.

Education Indicators (%)		
INDICATORS	1995	1995
Basic Literacy Rate	95.0	95.8
Functional Literacy Rate	83.8	83.9
Participation Rate		
Elementary	87.1	91.1
Secondary	59.7	61.2
Cohort Survival Rate		
Elementary	69.7	67.5
Secondary	77.2	75.9
Achievement Level		
Elementary	43.6	45.6
Secondary	38.9	40.9

Source: National Economic Development Authority.

instead of the lower class. Rather than provide universal coverage for urban areas and tertiary institutions, the government may have to target its subsidies to the lower class.

The advantage of urban centers is clear. The National Demographic Survey shows that the median number of years in school of the male household population is only 6.1 in the rural areas, as compared with 8.1 in the urban areas. Disparities are more apparent when one looks at the median number of years in different regions. Metro Manila, the capital, has a median figure of 10.2 years. The rest of the regions vary in the range of 5.5 to 6.9. In rural areas, 56.9% of boys claim an elementary education as their highest level, while 9.7% have no education. For urban areas, these figures are 38.8% and 6%.

School enrollment statistics also show higher percentages for the urban household population, both male and female. This is true for the age group 6–15. Urban school enrollment is around 80.8% for age group 6–10 while in rural areas, the figure is only 75.3%.

State–supported tertiary institutions tend to worsen the inequity situation. These schools seldom install income–based barriers to entry. Requirements usually include academic performance and opportunity cost of education. These are requirements which students from low–income groups find hard to meet. Thus, subsidies to these institutions are transfers to the middle and upper classes. There would be an improvement in both efficiency and equity if government would withdraw support to such institutions save for some scholarships for deserving students and support for research programs and equipment. The resources freed could be rechannelled to primary and secondary institutions. This is the only way to increase access of the poor to higher education.

Education statistics do not, however, tell the whole picture. According to the *Philippine Statistical Yearbook*, the National Capital Region has the lowest number of public elementary schools. This seems to imply that most of government expenditures in education are concentrated outside the capital. Yet, the number of government elementary schools is lowest in the National Capital Region because the higher standard of living allows parents to send their children to private schools. It is common knowledge that, although public schools are free in the Philippines, the poor quality of education discourages parents from sending their children there. The low quality of education in public schools prevents poor children who are gifted from advancing since they almost always lose out to the rich in competitive entrance exams for higher education.

ACCESS TO HEALTH

Priorities are also wrong in health. According to the matrix below, everyone (government, Medicare, private insurance, and family) spends more on personal health services than on public health services. The surprise is that government spends most on personal health services (largely hospitals), when its priority should be public health care provision. This has often been cited as one reason for a slowing of the long–term decline in infectious and communicable diseases. (Solon 1997)

TABLE 5.

How the Health Care Peso is Spent					
	Government	Medicare	Private Insurance	Family	TOTAL
Public Health	10	0	0	0	10
Personal Health	25	7	3	35	80
Administration	5	3	2	0	10
TOTAL	40	10	5	35	100

Source: *Solon (1997).*

This misplaced priority is reflected in other descriptive data. The 1993 National Demographic Survey reports that among births in the past five years, only 28% took place in health facilities; the remaining 72% took place in homes. This implies that a large proportion of high risk deliveries did not receive medical attention. Moreover, delivery at a health facility most likely occurred in Metro Manila (68%), and least likely in Cagayan Valley, Bicol, or Western Mindanao (11%).

Distance from a health facility is correlated to the use of services, particularly maternal and child health services. Those who availed themselves of services usually live close to a health facility. This is also true for children who received vaccinations. Data on the distance to the nearest maternal and child health services show that most children 1–4 years of age live 1–9 kilometers away from a health facility. A considerable number live even further, from 10–15 kilometers.

ACCESS TO ELECTRICITY AND ROADS

Data on household electrification show that 65.4% have electricity (see Table 6). Rural households are disadvantaged because more than half of them do not have access to electric power.

Inequity in access to roads also exists. According to the World Bank (1996), 50% of *barangays* (a town is made up of *barangays*) lack all– weather roads while 40% of provincial roads and 50% of *barangays* roads must be rebuilt or abandoned. In contrast, flyovers and skyways are continually being constructed in Metro Manila.

TABLE 6.

Access to Electricity

ELECTRICITY	URBAN	RURAL	TOTAL
Yes	83.7	46.4	65.4
No	16.1	53.3	34.4
Missing	0.2	0.3	0.2
TOTAL	100	100	100

Source: *National Demographic Survey, 1993.*

Deprivation from both electricity and roads does not only decrease the utility of households directly but they also lowers their capacity to increase their income. The absence of roads and electricity contributes to a rise in transactions cost of rural households. High transactions costs force farmers into subsistence farming by isolating them from the markets and making it difficult to employ market–related solutions to poverty alleviation.

Roads and electricity can also have a positive effect on non–farm industries. Studies on the effects of technological change in rural areas reveal that the presence of non–farm industries greatly enhances the income multiplier initiated by new farm technology. These industries strengthen consumption linkages–serving the increased demand from those who have higher incomes as a result of the technology. Bautista (1997) uses a social accounting matrix to decompose rural growth during the Green Revolution era. He finds that food processing and services had the largest income effects. These are non–farm industries that are stimulated by the provision of roads and electricity.

LAND OWNERSHIP

Land reform in the Philippines is still underway after nearly 30 years of implementation. The current ten–year Comprehensive Agrarian Reform Program (CARP) was started by the Aquino administration in 1986. The result has been disappointing, specially since the Aquino administration made the CARP the centrepiece of its poverty alleviation programme.

Although land inequality still needs to be addressed since it is closely related to rural poverty, there are other issues that should not be ignored. The administration, for example, turned a blind eye on infrastructure development, an area that could have increased both growth and equity.

Balisacan (1996) records that only 32% of land targeted for distribution beyond 1994 has actually been distributed. Meanwhile, land prices are increasing, inflating estimates for the total cost of the project.

The World Bank (1996) suggested that the government give up on the CARP, but this drew protests from both the concerned government agencies and non–governmental organisations. However, the World Bank suggestion makes some sense. The CARP has been ineffective, both in redistributing land and reducing poverty in the country. Stories are told that some of the land grantees were not even farmers, which reveals severe incentive problems. Inept implementation has brought about uncertainty in rural areas, which has led to premature conversions and discouraged investments.

These problems were aggravated by the government's distortionary macro–economic policies. Subsidies and high tariffs have artificially increased the price of land and made it difficult for the government to reimburse landowners. An over–valued exchange rate discourages investment in industry and agriculture and favours real estate. Worse, the CARP has cost the government billions of pesos–most of which would have been better spent on primary education, health, farm– to–market roads, and electrification.

No doubt, land redistribution is still needed. The government, however, will have to overhaul the CARP, taking into consideration the incentive mechanisms, bureaucratic capacity (specially, with regards to land titling), budget and macro– economic policies.

THE GOVERNMENT'S RESPONSE

The Philippine government's response is epitomised by the Social Reform Agenda (SRA). Although the SRA is primarily an anti–poverty programme, it has features that highlight the desire to redistribute wealth. There are still weak points, however. The current SRA has gone far in enlisting the participation of non–governmental organisations, decentralising decision–making, and opening other avenues for fighting poverty (infrastructure projects and human capital investments in addition to agrarian reform strategy). Unfortunately, the SRA still suffers from neglect of budgetary constraints and poor targeting of beneficiaries. Indeed, with such serious flaws, one cannot help but wonder if we are again wasting precious funds in a programme that will bring minimal improvements in poverty and inequality.

A notorious characteristic of attempts to alleviate poverty in the country is the tendency for benefits to go to the wrong hands. Not only is poverty left unsolved; inequality is increased. The SRA has tried to change this by identifying 20 priority provinces and 6 convergence areas. Examples of the latter include agrarian reform and fishing communities. However, farmers and fisherfolks are largely heterogeneous. Some are worse off than others. Experience in other countries has, in fact, shown that regional targeting has very little impact on poverty alleviation. This is particularly true if the differences in living standards within regions are greater than differences among regions, as they are in the Philippines. In fact, direct transfers to agricultural communities may help those who are marginally impoverished but have access to markets and roads, but not those who are poor and outside the formal economy.

In short, it is not enough to give blanket support to identified sectors, especially when the budget is limited. It may be better for the government to concentrate on increasing agricultural productivity by improving infrastructure or technology. As mentioned above, income–based targeting is more prone to leakages than the public provision of facilities

A rapid appraisal using the Most Basic Needs (MBN) method is currently being done to achieve more specific targeting. However, it is doubtful whether funds will be enough to achieve full coverage and sustain consistent monitoring, or whether the method is rigorous enough to exclude subjective factors that would bias the results.

As in past land reform programmes, the SRA's anti– poverty strategy pays little attention to budget constraints. The importance of a realistic budget cannot be over–emphasised. There are many concerns that need attention in the Philippines. Under–estimating a budget may mean that available funds are spread too thin to be effective.

The recognition that resources are scarce behooves government to be more efficient. Public funds are costly; they must be used in projects that give the highest net return in terms of poverty alleviation. After all, there are various ways of attacking the problem.

Studies show that investment in infrastructure and human capital will lead to greater reduction in the poverty incidence than price supports for rice and subsidised credit. Furthermore it will cost less. Presently, the money budgeted for roads, primary education and health is still not enough; worse, this money is often misallocated or mishandled by government.

Also, when the government functions more efficiently, the passage of the Comprehensive Tax Reform Package will be more compelling, not only to ensure the stability of growth (for sustained growth is also a necessary although insufficient requirement of poverty alleviation), but also to enable the government to undertake direct poverty alleviation programmes without risk of deficit.

The major implementer of the SRA is the local government unit (LGU). However, the implementation of the programme has been slowed by the lack of enthusiasm of most local officials, which may be due to the lack of incentives and funds. The national government must design an incentive mechanism that can be built into the SRA, not just to inspire local officials to carry out the programme, but also to raise revenues. Furthermore, a simple and unambiguous SRA would facilitate and speed implementation by the LGU. Not only would it minimise corruption and information problems; it would also be administratively cheaper. Currently, the SRA structure envisages interfacing among many institutions (e.g.intra–LGU, inter–LGU, NG and networks, NG and LGU, etc.) with hardly any clear delineation of duties.

A tendency exists today for the government to implement growth and equity policies separately, accepting the principle of promoting non–equitable growth and compensating this by means of programmes. This reflects the belief that the aims of equity and efficienty are irreconciliable. Although this may be true, there is still enough slack in the economies of developing countries like the Philippines to allow efficiency to converge with equity. Certain remote areas in the country, for example, would receive very little benefit from a subsidised credit programme because there are no nearby markets for their produce or because of low productivity. **The appropriate policy would instead be to invest heavily in infrastructure and technology to increase both output and national welfare.** Investments in primary health and education have also been shown to contribute to growth and equity.

In developing countries, 'poverty' commonly means the inability to achieve an income level that will enable households to purchase basic necessities. What is often forgotten is the unevenness of distribution, not only of income but also of publicly–provided goods and services. The first concern, income poverty, may be solved by growth alone, albeit at a slower pace. If quantity and quality merge in the growth of the next few years, then poverty should not get worse. The second concern, inequitable access, will have to be addressed directly through redistributive programmes. A good start would be equalising access to publicly provided goods and services. Not only would this hasten growth; it would also address society's aspirations for equity and capability.

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ACTION is an advocacy group composed mainly of University of the Philippines faculty, alumni and graduate students.

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