

The Philippine Growth-Poverty Conundrum

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Growth-Poverty Nexus

- ✦ **Economic growth is good for the poor—no longer debatable.**
- ✦ **But considerable differences in responses of poverty to growth**
- ✦ **Spatial disparities within countries**

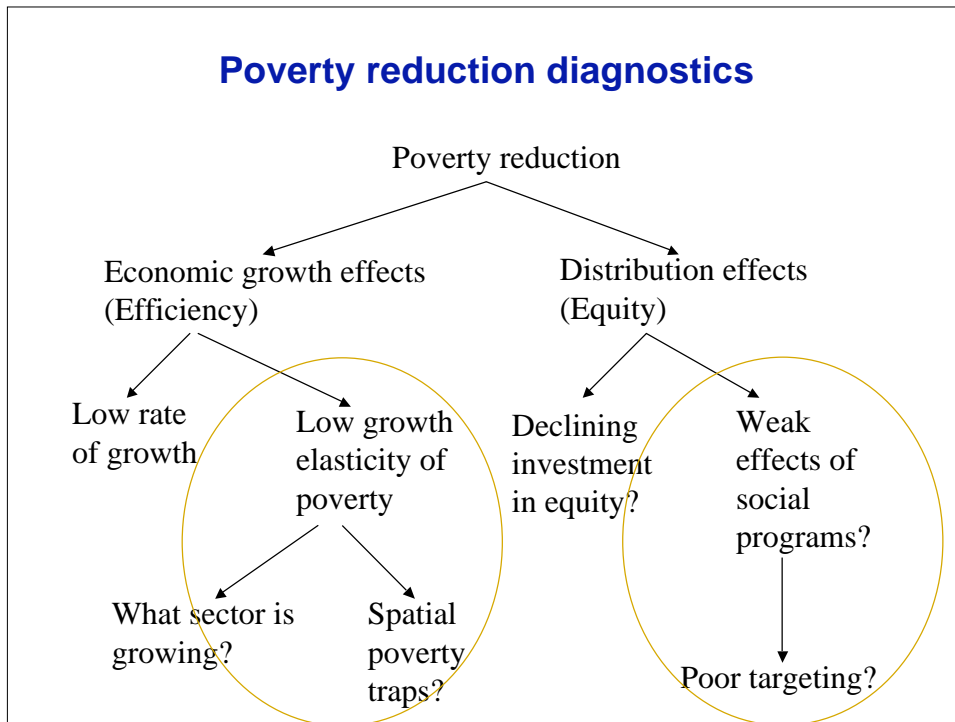
Stark features of Philippine development

- ✦ **Disappointing performance in poverty reduction**
- ✦ **Low rates of economic growth in the past 35 years. Though growth accelerated in recent years, poverty reduction has been quite weak.**
- ✦ **Beyond growth – other pieces of the story**

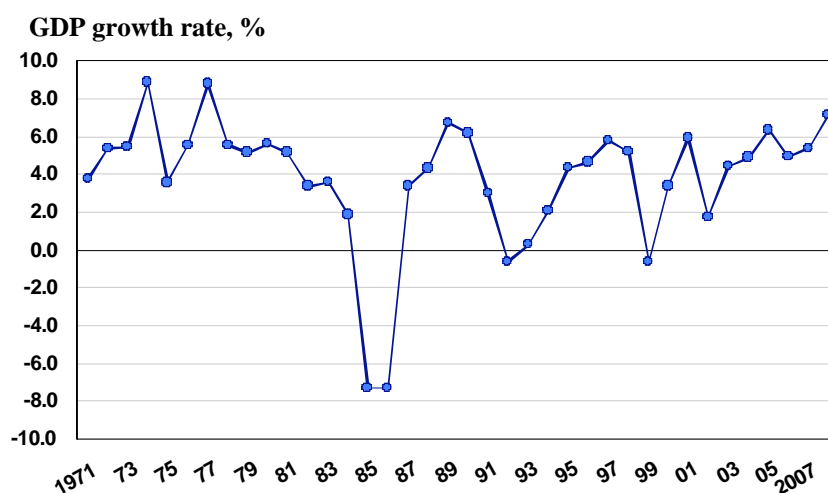
The paper

- ✦ **The growth-poverty nexus in comparative context**
- ✦ **Poverty profile**
- ✦ **Determinants of local growth & poverty reduction**
- ✦ **Anti-poverty programs**
- ✦ **Concluding remarks**

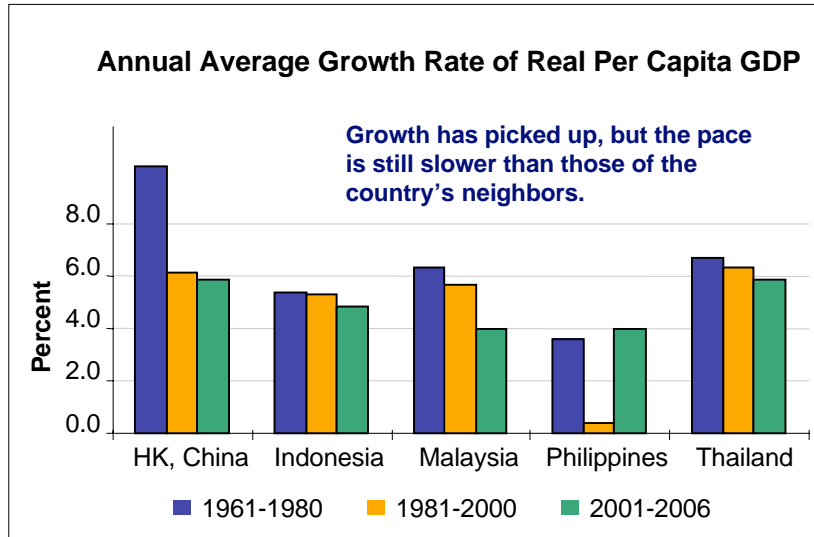
Poverty reduction diagnostics



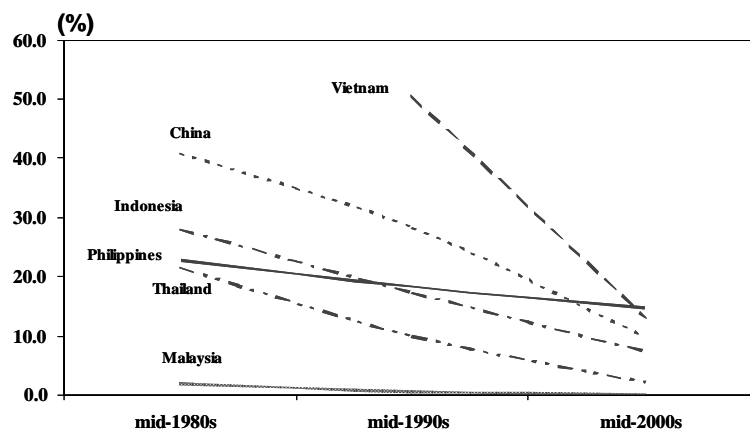
Growth of the Philippine economy



Growth of the Phillipine economy



Sluggish poverty reduction



Note: World Bank estimates based on a poverty line of \$1 (PPP) a day.

Sluggish poverty reduction

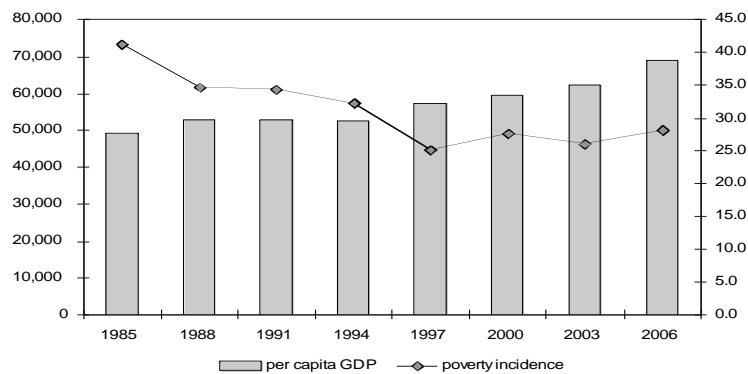
Weak response of poverty to growth in RP!

<i>Country</i>	<i>Growth elasticity of poverty reduction</i>	<i>Source</i>
Philippines	1.1	Our estimate (2006)
Philippines	1.6	Our estimate (2004)
47 Developing Countries	2.5	Ravallion (2001)
(Philippines)	(1.3)	Our estimate
China	2.9	Cline (2004)
Indonesia	3.0	Cline (2004)
Thailand	3.5	Cline (2004)
(Philippines)	(2.2)	Cline (2004)
Thailand	2.2	Deolalikar (2001)

Source: A.M. Balisacan, "Local Growth and Poverty Reduction," in A.M. Balisacan and H. Hill (eds.), *The Dynamics of Regional Development: The Philippines in East Asia* (Cheltenham, UK: Edward Elgar, 2007).

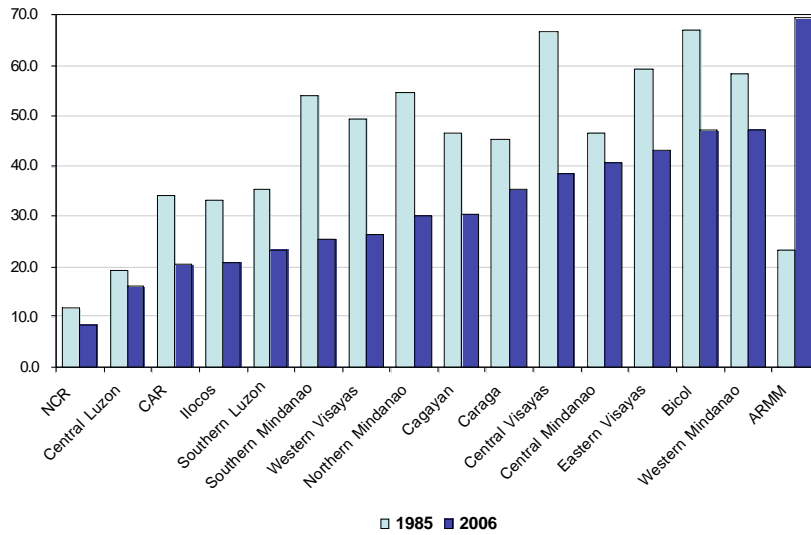
More recently, household survey data suggest rising poverty during a period of accelerated growth...

Figure 2. Poverty in the Philippines, 1985-2006

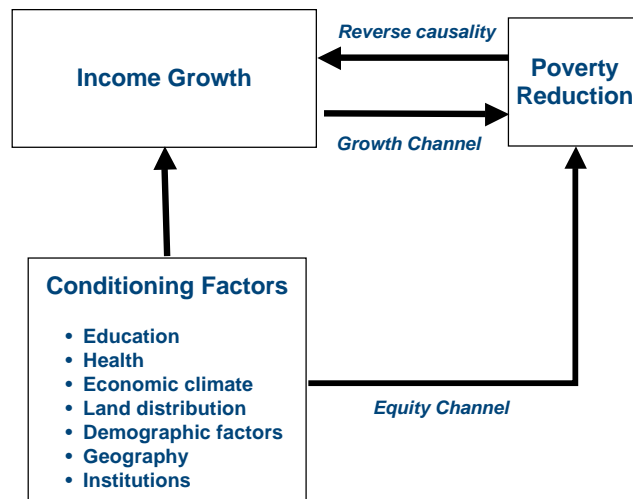


Note: Author's estimates based on the *Family Income and Expenditures Survey* (various years).

Remarkably high regional diversity in poverty reduction



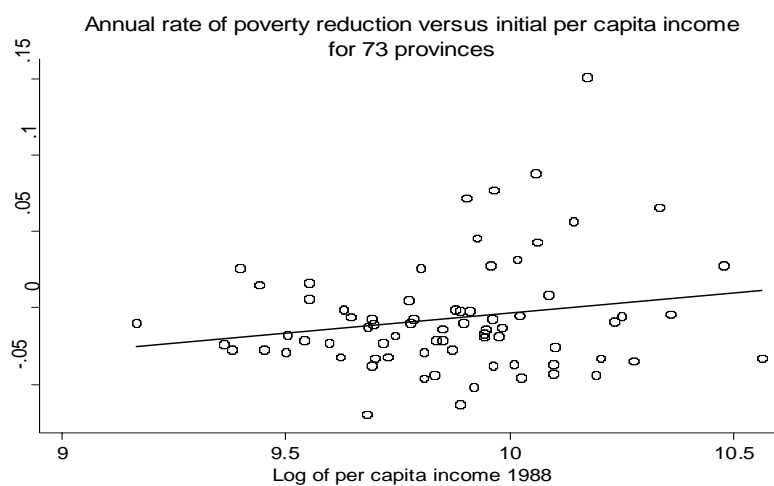
Pathways out of poverty



Empirical implementation

- ✦ Neoclassical growth framework (à la Barro & Sala-i-Martin 2004)
- ✦ Extending to determinants of poverty reduction
- ✦ Simultaneously estimating income growth and poverty reduction: What is the response of poverty reduction to economic growth?
- ✦ Provincial panel data set: 1988-2003, 73 provinces
- ✦ 3SLS estimation

Absolute poverty convergence



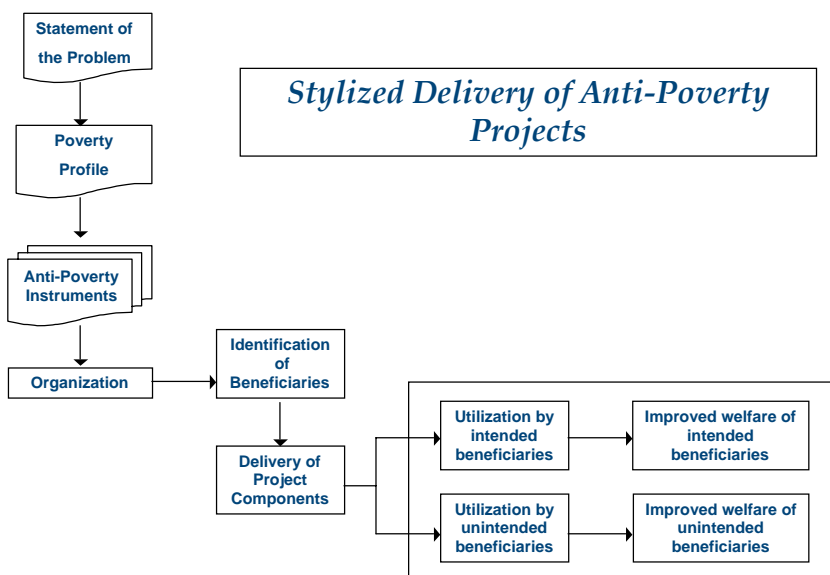
Empirical results: Direct effects of basic social services on the poor are weak.

Determinants	Mean income growth	Rate of poverty reduction
Mean income growth		**
Change in literacy	**	Ns
Change in electricity	**	
Change in road density	**	Ns
Change in CARP	**	Ns
Mortality (health status)	**	*
Initial income per capita	**	
Other control variables+		
R^2	0.63	0.65
Sample size (no. of provinces)	71	71

+The other control variables included in the model are province-specific effects (location, institutions) and initial income inequality.

Source: Balisacan, A.M. (2007), "Local Growth and Poverty Reduction," in *The Dynamics of Regional Development: The Philippines in East Asia*, (Edward Elgar, UK).

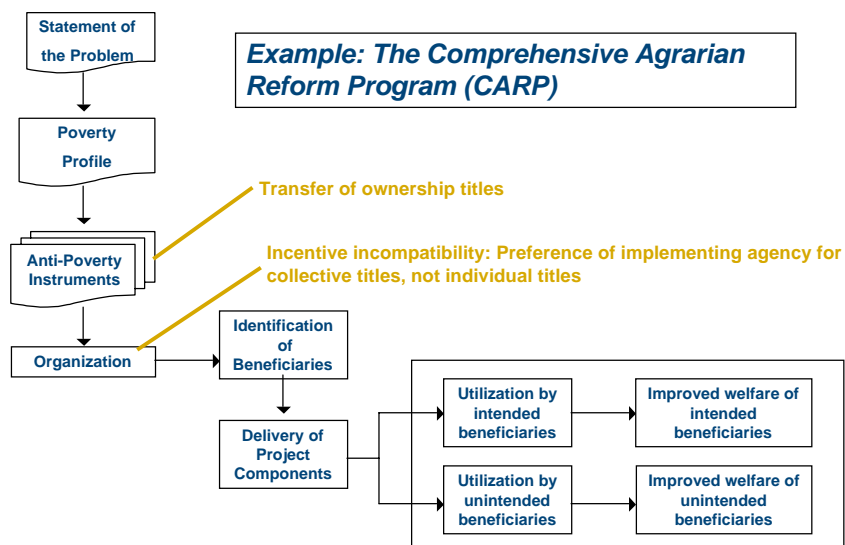
Poor targeting? Where are the weak links?



Poor targeting? Where are the weak links?

- ✦ Anti-poverty (targeted) programs
- ✦ Some flagship programs
 - ✦ Comprehensive Agrarian Reform Program (CARP)
 - ✦ KALAH! Community empowerment (social capital formation) Program
 - ✦ Conditional Cash Transfers Program (new in the country)
- ✦ Impact evaluation of CARP & KALAH! based on panel data suggest high leakages of benefits and weak impact on targeted groups

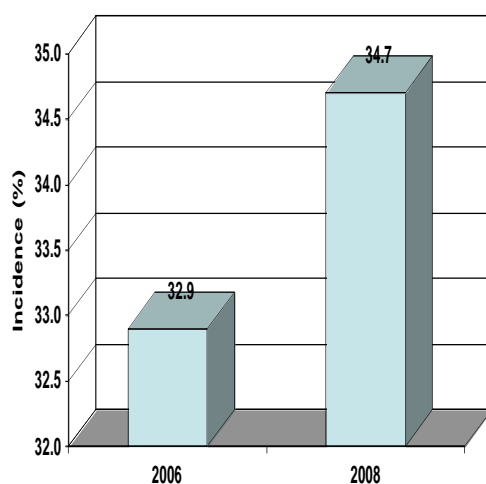
Poor targeting? Where are the weak links?



Summing up...

- ✦ **Slow poverty reduction: low growth, high spatial disparities**
- ✦ **Muted response of poverty to growth**
- ✦ **Move the economy to a higher growth trajectory, but also expand ACCESS of the poor to productive assets and social services, particularly education, health, and infrastructure**

A Note on the Food Crisis



- ✦ **The sharp food price hikes to wipe out any positive impact of growth on poverty.**
- ✦ **The proportion of the population deemed poor to increase from about 33% in 2006 to about 35%% in 2008.**