

# **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**

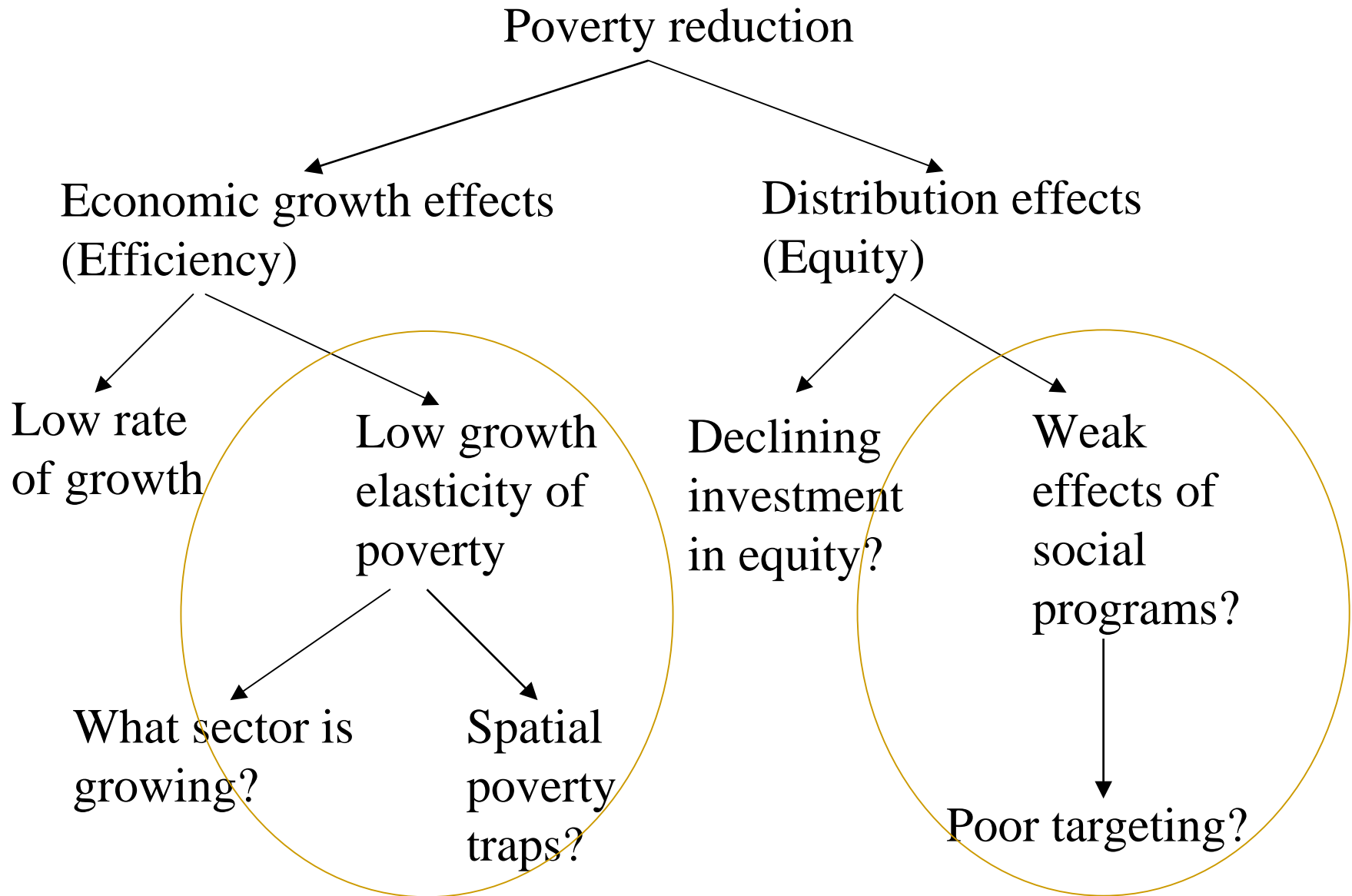
# **Stark features of Philippine development**

- ⊕ 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**

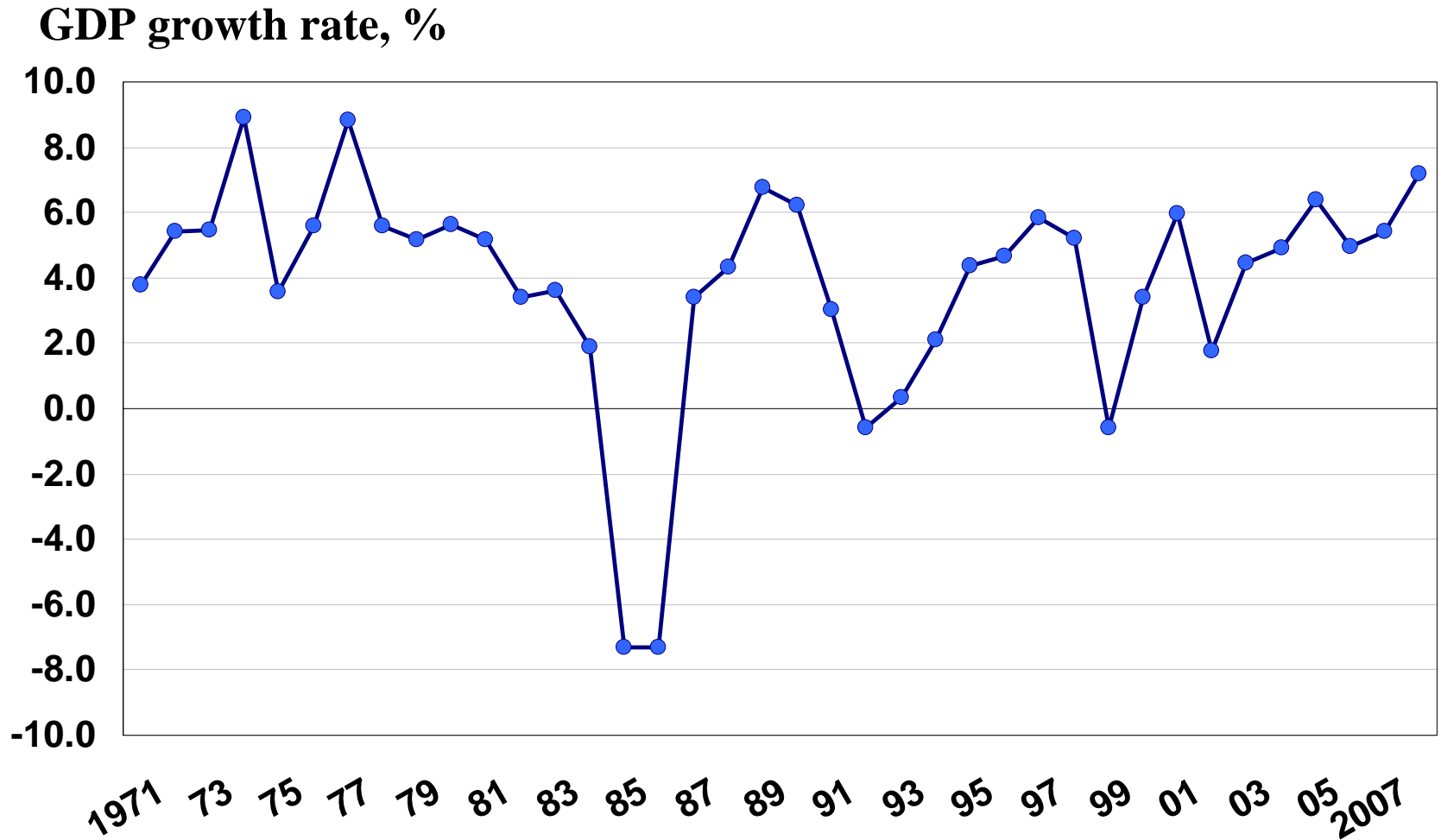
# The paper

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

# Poverty reduction diagnostics

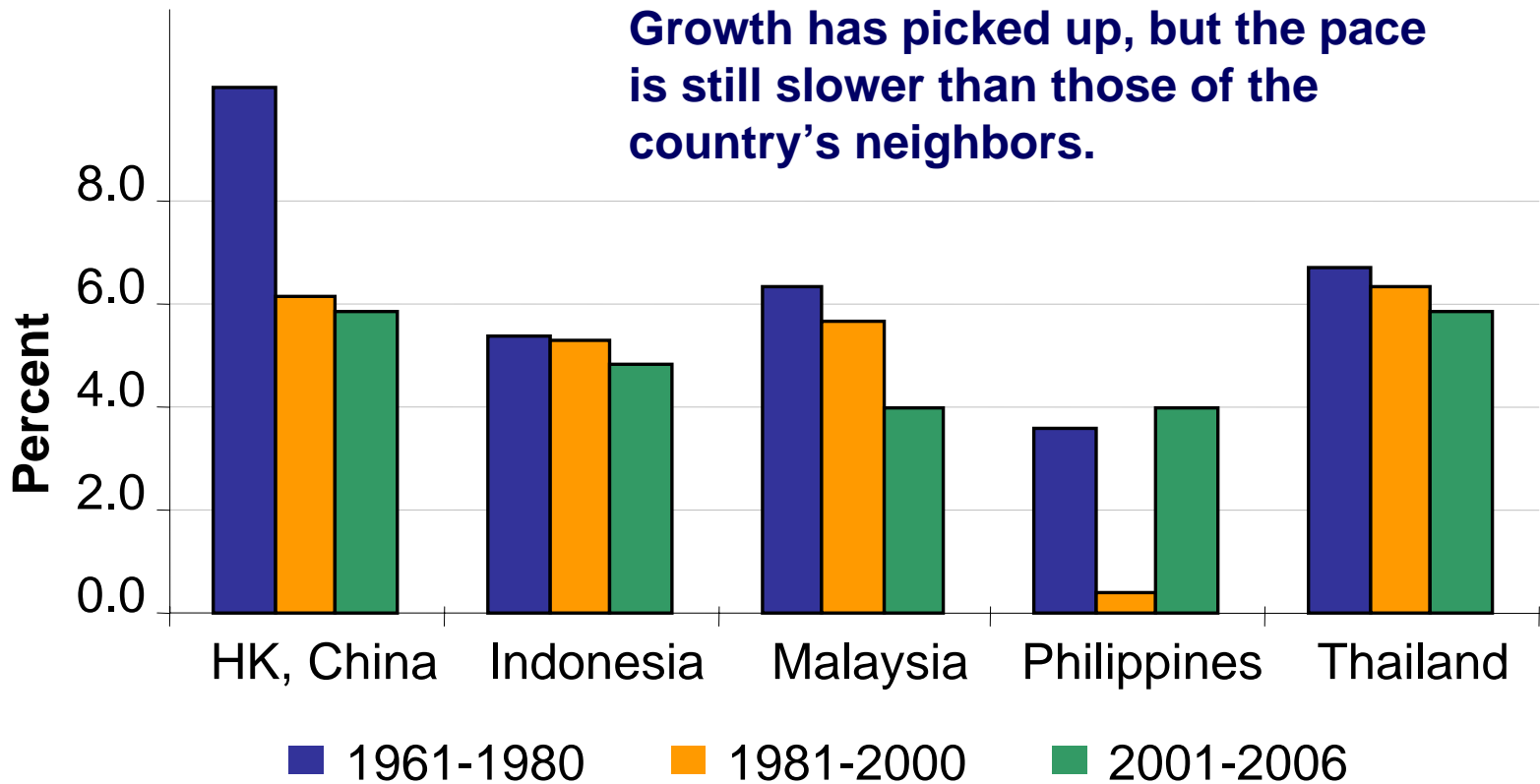


# Growth of the Philippine economy

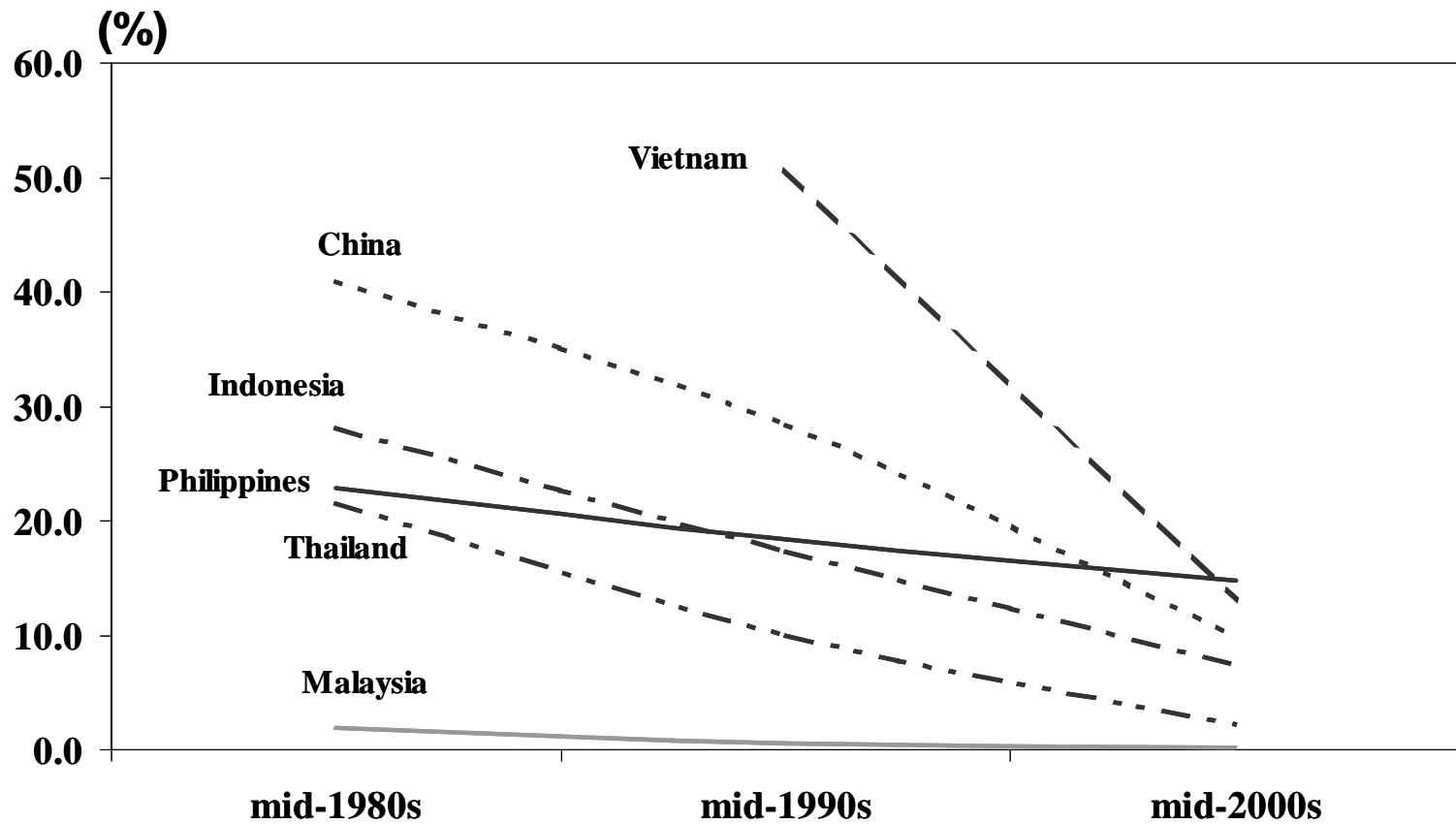


# Growth of the Philippine economy

## Annual Average Growth Rate of Real Per Capita GDP



# Sluggish poverty reduction



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

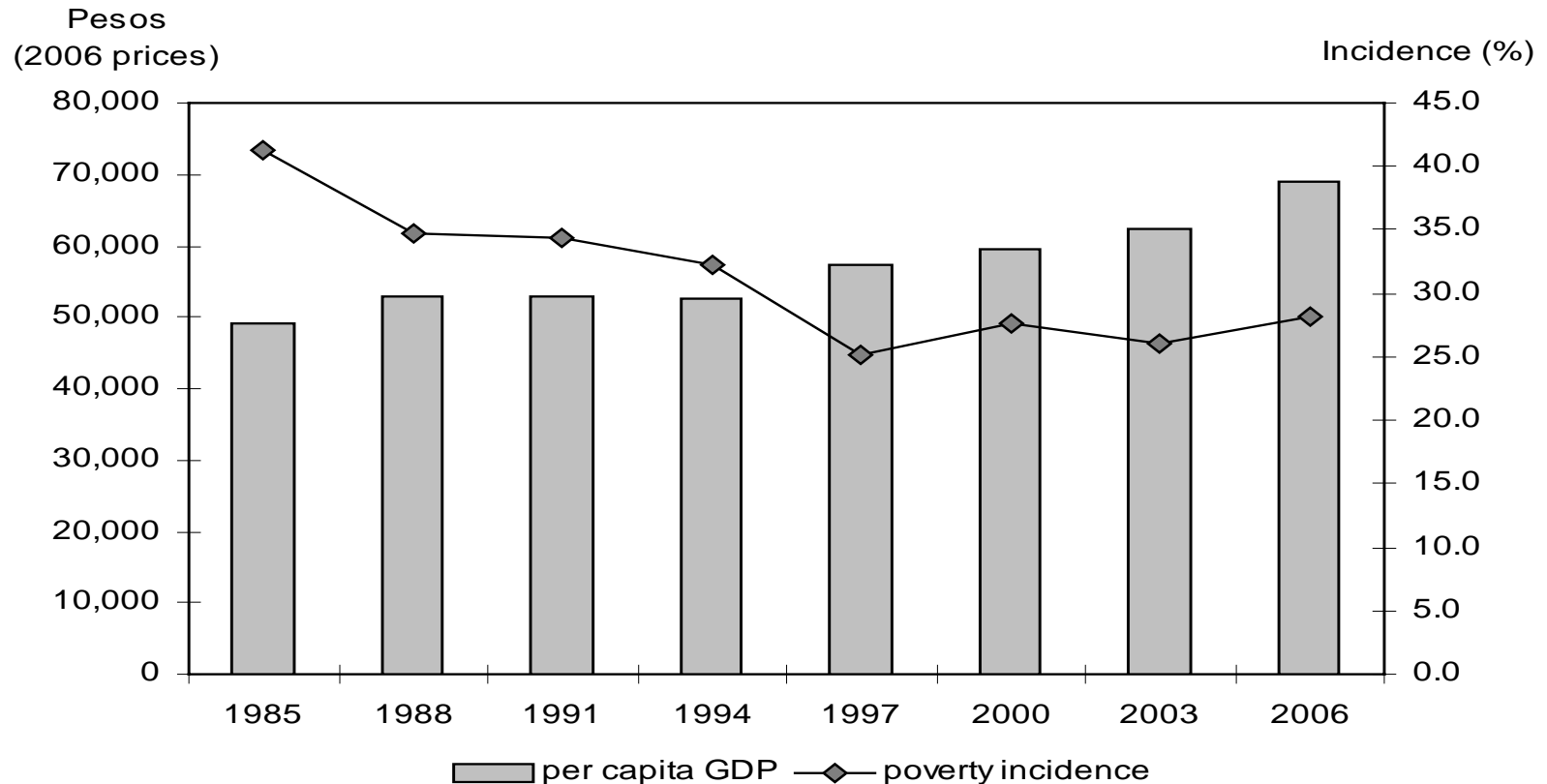
# Sluggish poverty reduction

Weak response of poverty to growth in RP!

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

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

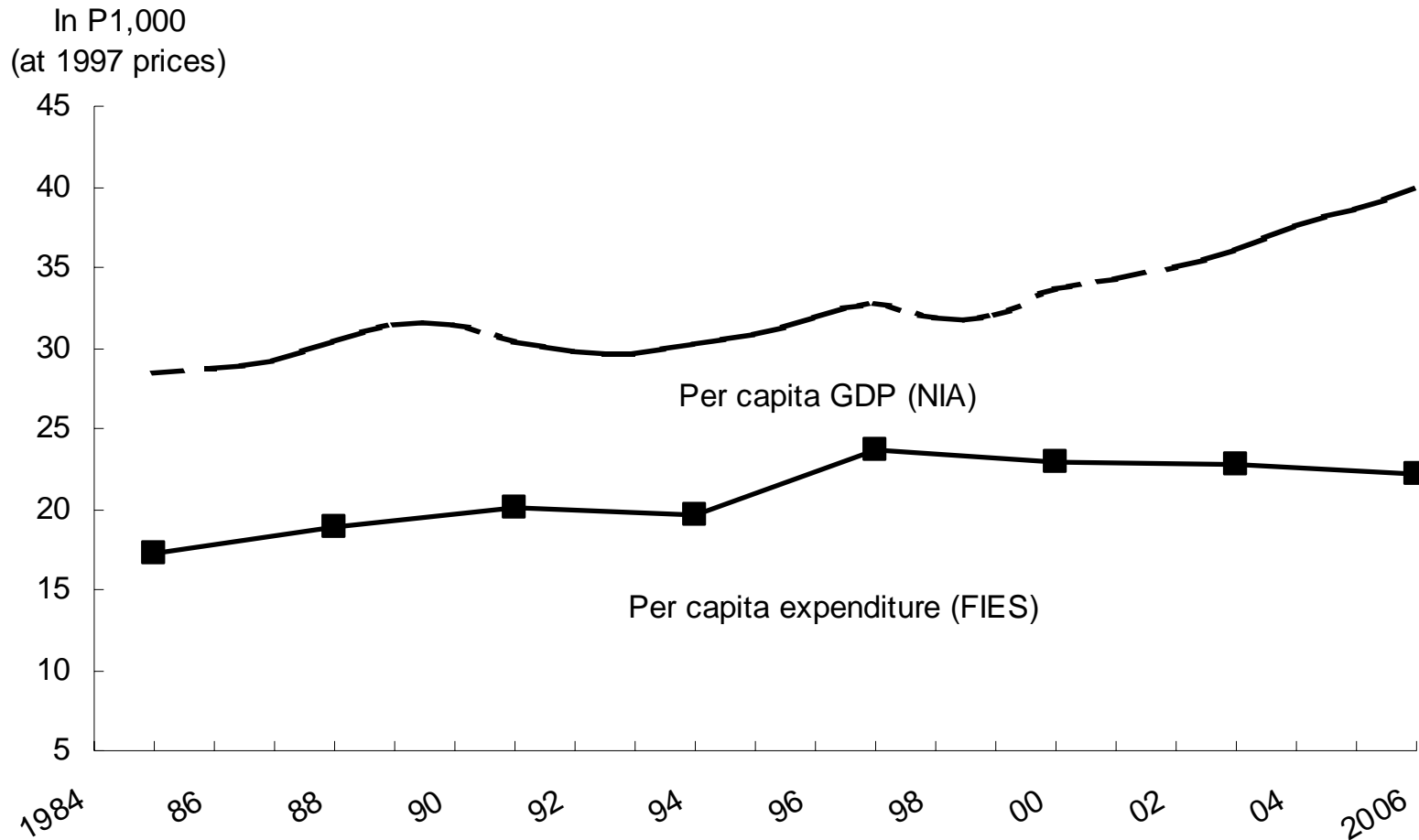
Figure 2. Poverty in the Philippines, 1985-2006



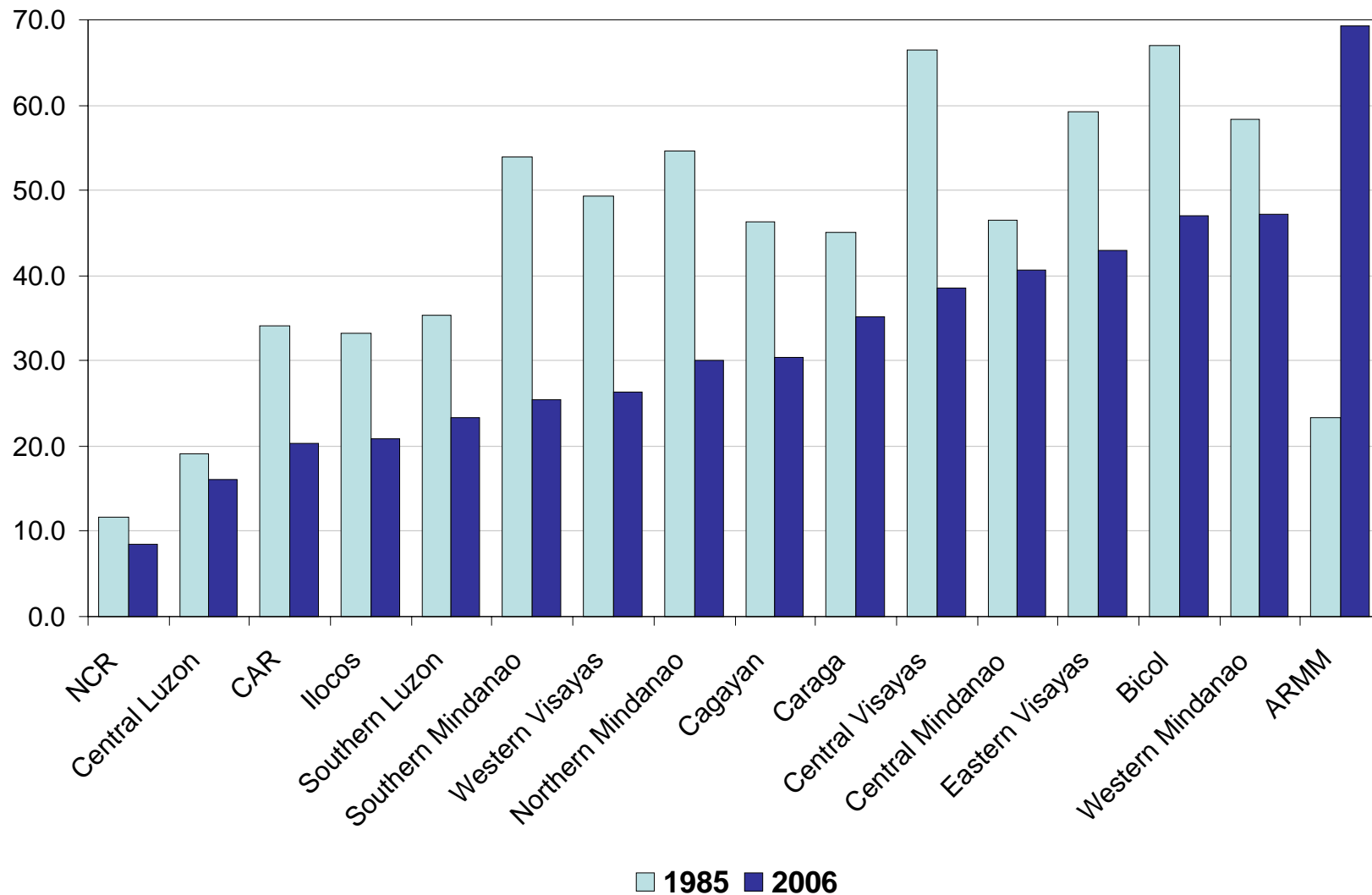
Note: Author's estimates based on the *Family Income and Expenditures Survey* (various years).

# National Income Accounts (NIA) vs Household Survey Data (FIES)

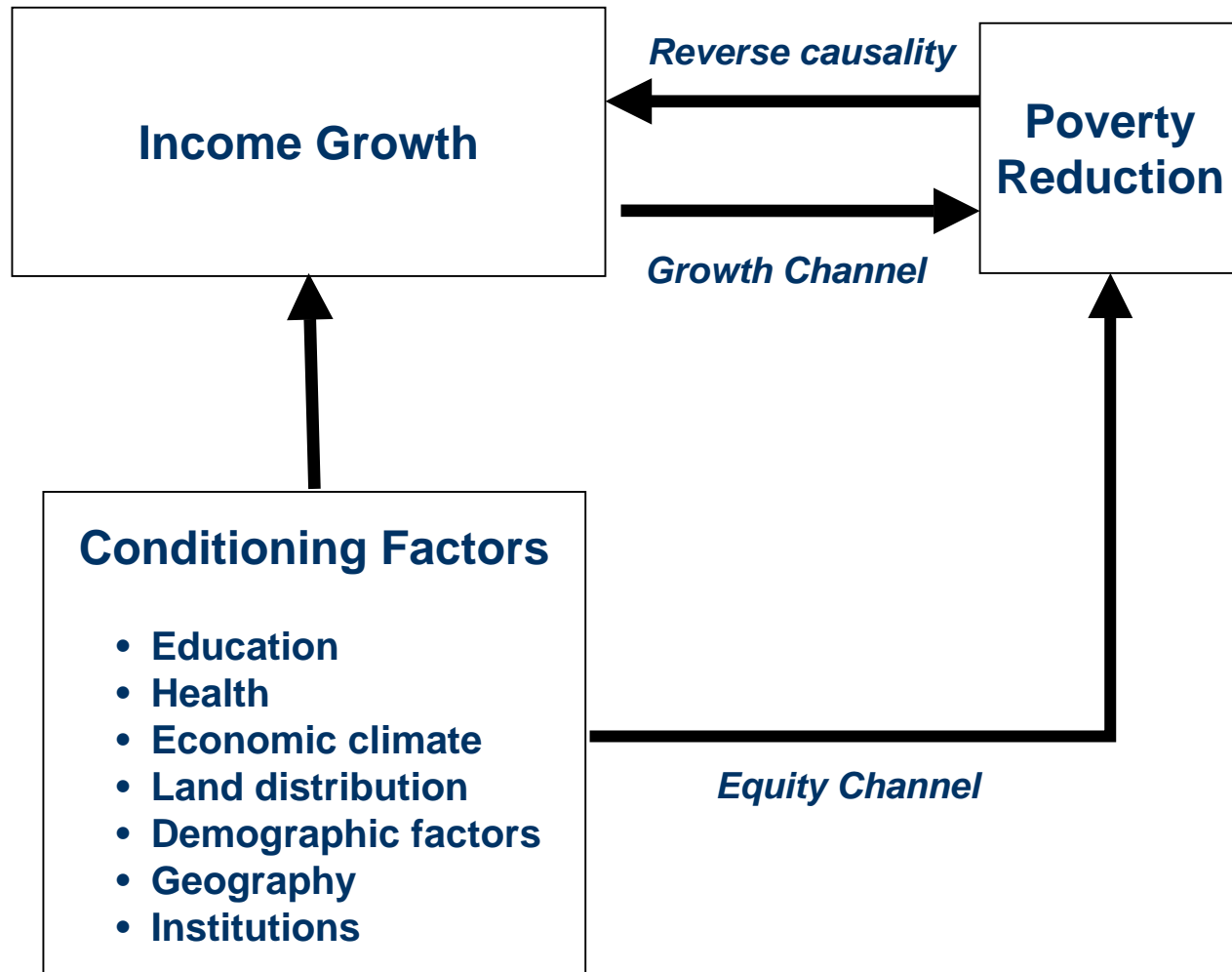
Per capita GDP and per capita hh expenditure



# Remarkably high regional diversity in poverty reduction



# Pathways out of poverty

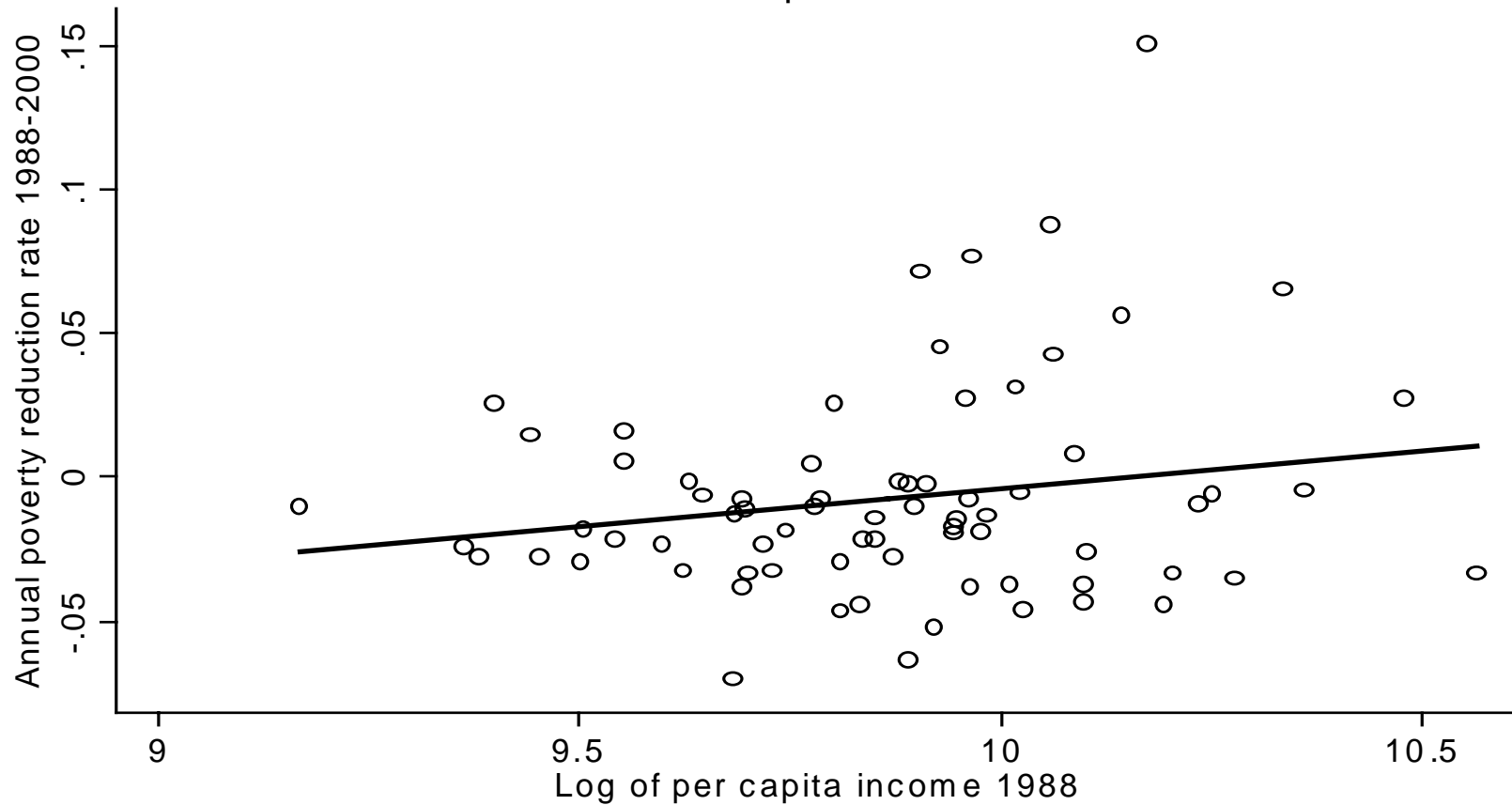


# Empirical implementation

- ⊕ 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

Annual rate of poverty reduction versus initial per capita income for 73 provinces



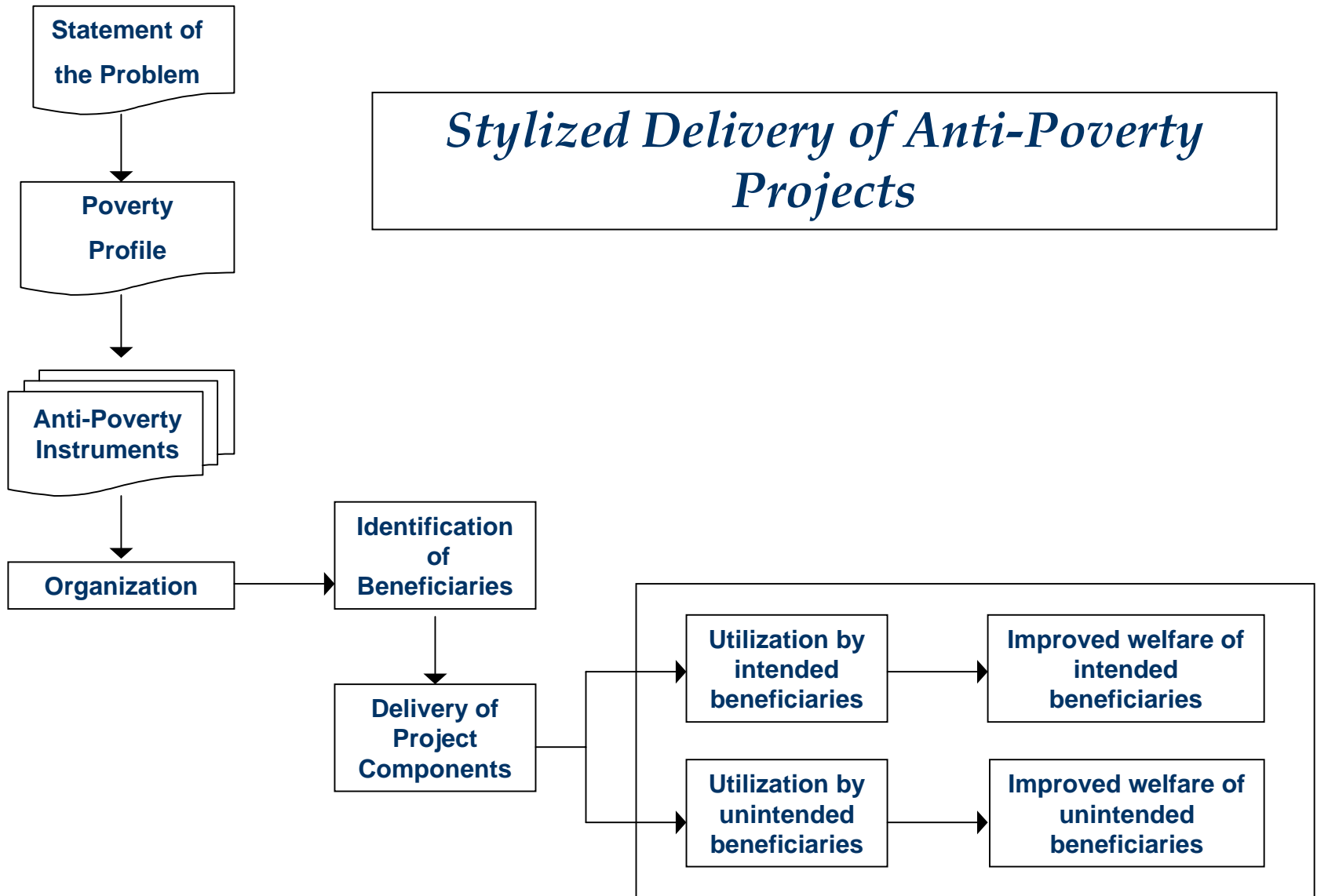
# Empirical results: Direct effects of basic social services on the poor are weak.

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).

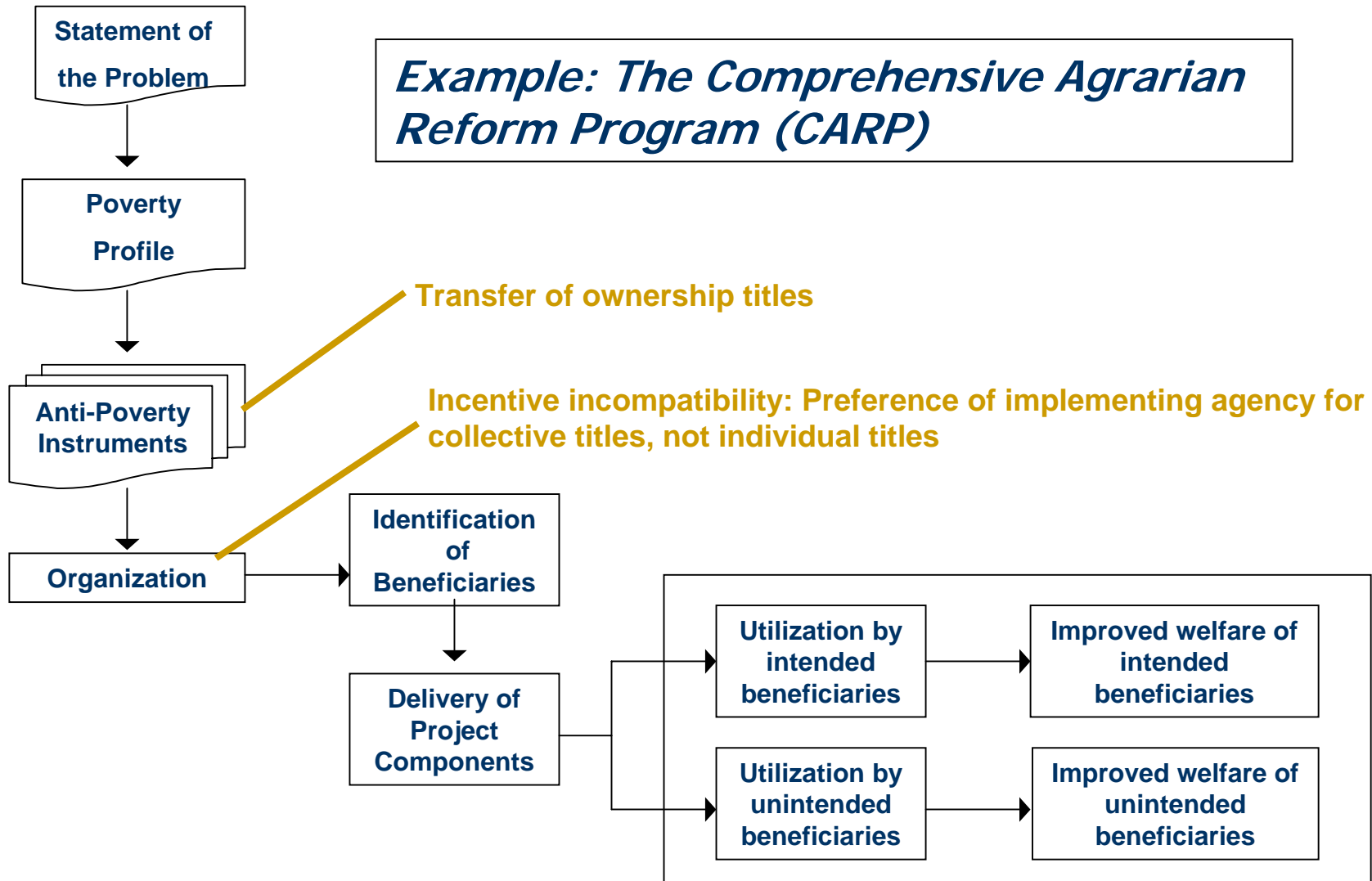
# Poor targeting? Where are the weak links?



# Poor targeting? Where are the weak links?

- ✦ **Anti-poverty (targeted) programs**
- ✦ **Some flagship programs**
  - ✦ **Comprehensive Agrarian Reform Program (CARP)**
  - ✦ **KALAHI: Community empowerment (social capital formation) Program**
  - ✦ **Conditional Cash Transfers Program (new in the country)**
- ✦ **Impact evaluation of CARP & KALAHI 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**

**Thank You!**