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**“Philippines: Poverty, Employment and Remittances
Some Stylized Facts”**

by

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PHILIPPINES: POVERTY, EMPLOYMENT AND REMITTANCES – SOME STYLIZED FACTS

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I. Introduction.

This paper presents key stylized facts about the nexus between remittances and poverty reduction in the Philippines. Of course, such a topic can not escape a discussion of labor market performance and policies. Therefore, this paper touches on three interconnected dimensions of the topic – poverty, employment and remittances. The presentation is based on an initial paper part of an ongoing research project on youth transition from school to better jobs in the Philippines, expected to be completed around August 2009.² Three key findings from this paper warrant emphasis. First, remittances are a major antipoverty driver in the Philippines. We estimate that based on data from the 2006 Family Income and Expenditure Survey (FIES), remittances have kept between 4 and 5 million Filipinos out of poverty. Second, contrary to common perceptions about the use of remittances, there is some evidence that families use some proportion of remittances for investment purposes through higher spending on children's education than the national average and transfers to establish and even sustain small enterprises. Third, while there are undoubtedly major pull factors inducing Filipinos to work overseas, labor market reforms are necessary to create jobs in the Philippines and in particular to improve youth transition from school to better jobs in the domestic market.

The paper is divided into the remaining four sections. Section II briefly discusses the dimensions of poverty in the Philippines; section III provides a brief description of performance of the domestic labor market; section IV provides an overall picture on trends and developments in OFWs and remittances; section V examines the impact of remittances on poverty; and section VI concludes.

¹ The views, expressions and any errors in this paper are attributed to the author only, and are not the views of the Asian Development Bank.

² As part of the study a household and enterprise survey was carried out between February and March 2009 comprising of random samples of 500 households in Cebu and Metro-Manila, 1,300 working age members of the household and 140 firms.

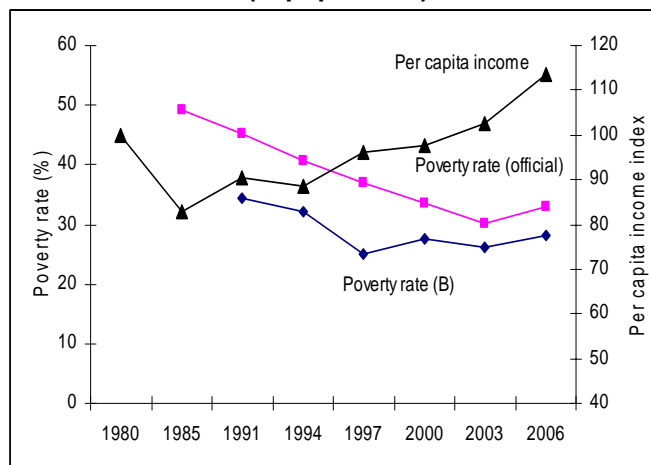
11. The Dimensions of Poverty

2. **Poverty reduction is a long term effort.** Philippine social indicators have always displayed mixed outcomes, reflecting on the one hand the country's educational strengths and on the other its deeply entrenched poverty. We focus here on three dimensions of the poverty challenge, the relationship between poverty and growth, sub-national variations in poverty incidence, and the labor market performance.

3. **Poverty-growth dimension.** First, the Philippines shows the usual inverse relationship between economic growth and poverty incidence. As Figure 1 indicates, for the comparable Family Income and Expenditure Series (from 1985 onwards), the percentage of the population below the nationally defined poverty line almost halved in the next two decades. The decline in poverty appears to be almost linear, but it is generally faster in periods of higher economic growth. The poverty indicators do of course have to be treated with caution, as the results are sensitive to the measures used. The country's leading poverty analyst, Arsenio Balisacan (eg, 2003), has produced a more finely measured series that differs somewhat from the official data. He finds for example that the incidence of poverty is slightly lower and there is greater variability between data points. The principal difference in methodology is that he applies province-specific price deflators to the data.

4. There are two somewhat unusual aspects of the country's poverty story. The first is that poverty is less responsive to growth than in most other East Asian countries. Growth is always a necessary but not sufficient condition for poverty reduction, but in the Philippines the complementary policy inputs are more important. That is, additional strategies are needed to ensure that the poor can participate in the opportunities created by growth. One obstacle has been labor market policies that discourage a labor-intensive growth path. Another factor explaining the lower poverty elasticities is the country's slow growth of output and productivity in agriculture, still the major sector of employment, since the 1980s. This slower growth reflects the under-investment in rural infrastructure (roads, irrigation, extension services) over this period, together with tenancy uncertainty created by the agrarian reform program. An additional factor is the limited targeting of educational subsidies, with the result that the quality of public schooling is skewed towards more affluent urban dwellers.

Figure 1. The Philippines long term poverty rate and per capita incomes (% population)

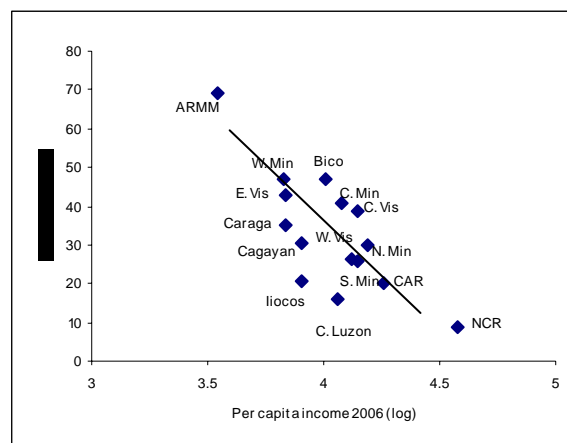


Source: The Family Income and Expenditure Survey (FIES); CIEC. Note: per capita income adjusted to inflation and indexed to 100 in 1980. Poverty rate (B) refers to the rate calculated based on the methodology of Balisacan.

5. **The growth-poverty puzzle in 2006.** The other unusual aspect of poverty outcomes, as revealed in Figure 1, is that between the last two FIES's, in 2003 and 2006, poverty actually increased marginally, even as growth was quite strong. What could explain such a puzzling outcome? One factor could be a sharp increase in inequality, but inequality typically does not move significantly over short periods, and anyway the gini appears to be relatively stable between the two years. Moreover, the calculated Lorenz curves (not shown here) are essentially identical for the two years, suggesting no structural break in the distribution of income between the two years. A more plausible explanation is the increase in energy costs in 2006. Family expenditure data from the FIES show that the share of household spending on energy and transport increased for both poor and non-poor households. Note however, that this period predates the very rapid increase in food prices, and so this latter factor could not have been the explanation. Moreover, inflation was anyway quite moderate. Yet another possible explanation is that the rapid increase in remittances over this period disproportionately benefited the rich. There is some, albeit limited, evidence of this occurrence, but such a phenomenon is anyway more likely to explain increased inequality rather than pushing more people into poverty. Finally, it may just be that the 2006 FIES results are incomplete. Income and expenditure have always been substantially under-estimated in the series, but in the past it is thought that the degree of understatement was reasonably predictable, and therefore could be adjusted. Unfortunately, there is no independent means of checking these results. There is some evidence that the 2006 FIES understates remittances.³ It is arguably therefore premature to reach any definitive conclusion about poverty trends.

6. **The sub-regional dimension.** The second important feature of Philippine poverty is the very large differences across administrative regions (see Figure 2). Such an outcome reflects mainly the very large differences in regional per capita income. The country's richest region, Metro Manila, has a per capita income of about 12 times that of the poorest, the ARMM (Autonomous Region of Muslim Mindanao). The differences in poverty incidence are of a similar order of magnitude. More generally, the regional poverty picture highlights the skewed nature of development in the Philippines, in particular between the more affluent regions of Manila and its surrounds,

Figure 2. The negative relation between subnational poverty rates and per capita incomes



Source: 2006 FIES; CIEC

³ We found a 30% shortfall in declared remittances (both domestic and international) in the 2006 FIES compared to BSP recorded remittances of about \$12.8 billion, of which the latter should be more reliable as it is recorded through the banking system.

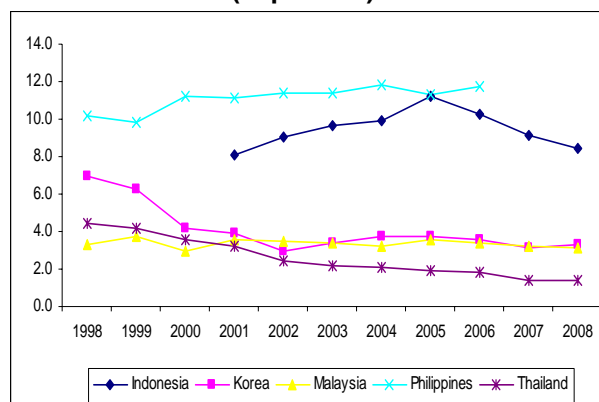
alongside the deprivation in the south of the country (Balisacan, 2007). Very high poverty (in excess of 40%) is found in Bicol (the most southerly region of the main island of Luzon), in nearby Eastern Visayas (principally Samar), and in the ARMM together with Western and Central Mindanao. The ARMM is by far the most serious, with a poverty incidence approaching 70%. This region also lags well behind the national average on other social indicators, with the lowest life expectancy and adult literacy rates. Such outcomes reflect a complex mix of factors, including historically entrenched deprivation, decades of conflict, and low quality local governance. It is difficult to see how these problems can be addressed without a comprehensive program of peace, security and development. In its absence, the region will continue to be a source of regional discontent and low-scale terrorism.

III. Labor Market Performance

7. **Another cause of poverty is weak labor market performance.** In recent years improvements have been made. The open unemployment rate declined from an average of 7.9% in 2006 to 7.6% in 2008, consistent with recent economic growth. However, overall, unemployment in the Philippines has been persistently higher compared with other countries on comparable measures (Figure 3).

8. **Unemployment figures masked further weaknesses in labor market performance.** In a dualistic labor surplus economy like Philippines' labor market weaknesses show up in diverging trends between the formal and informal sectors and across economic sectors, and in the youth transition from school to work -- not in aggregate unemployment (or under-employment) figures. Indeed, according to data from the Philippines national household labor force survey, teenage and youth unemployment rates are very high around 20.4% and 23.3% respectively, but about 98% of these young persons are unemployed for less than 6 months, in other words youth unemployment is short term. We look at some of these other labor market performance indicators. First, formal (more permanent) wage employment has only growing modestly in the last decade compared to the

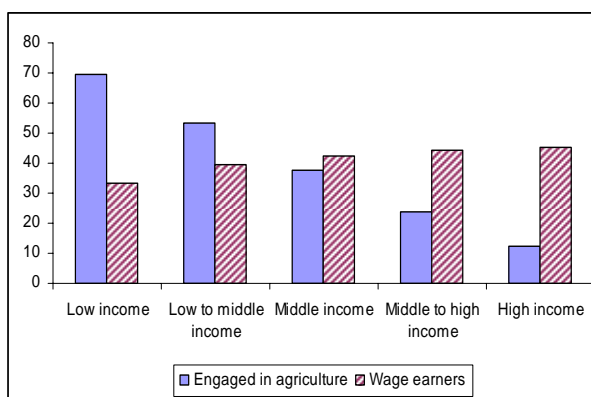
Figure 3. Regional Unemployment Rates (in percent)



Notes: For Indonesia, Philippines and Thailand, the rates include estimates of discouraged workers.

Sources: Labor force survey of the five countries.

Figure 4. Share of households with head engaged in agriculture and wage employment



Source: ADB staff estimates from the 2006 FIES

informal sector, and the poor are overrepresented in the informal sector (agriculture and in non-wage employment). Figure 4 shows that the poor are heavily concentrated in agriculture, or the non-wage (informal) sector with 70 percent of low income families engaged in the agriculture sector.⁴ In contrast a household is more likely to be non-poor if the head is a wage earner in non-agriculture. The high rural poverty rates are exacerbated by relatively low growth in agriculture.

9. The youth transition from school to better jobs is slow.

A key indicator of a dynamic, vibrant labor market is the transition of young persons from school to a permanent wage job. In the Philippines this transition appears to be slow. Based on preliminary data from the ADB labor market survey, Table 1 reports summary statistics on shares in permanent wage jobs by age cohort. About 8% of teenagers in the labor market have permanent jobs, 17% of youths (ages between 20 and 24 years) have permanent jobs, while 30% of prime adults have permanent jobs.

Age cohort	% of LF
Teenage	7.7
Youths	17.4
Prime adults	30.1
Mature adults	14.4

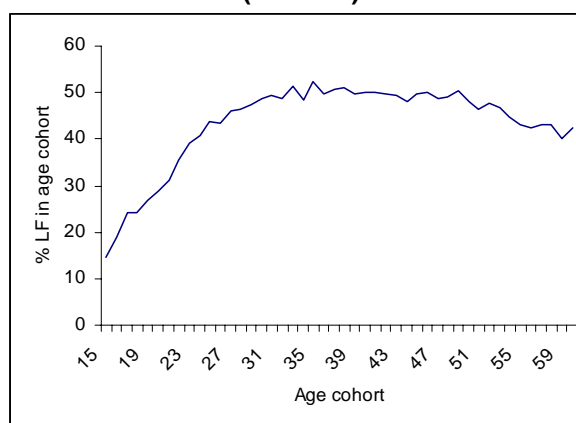
Source: ADB household labor survey, Feb 2009

Figure 5 shows the share of labor force with a full time wage job (may not be permanent) by age cohort extract from the national household labor force survey, which paints a similar slow transition for workers. These ratios are relatively low and particularly low for young persons when compared on an international basis and for a country with a similar level of development.

10. Labor policy rigidities have dampened employment growth and hurt youth school to work transition.

In the Philippines, policy rigidities such as relatively higher minimum wages, severance and social security costs, restrictions on the use of fixed term contracts and restrictions on the use of third party manpower hiring agencies help explain persistently higher unemployment, and slow youth school to better job transition. Table 2 compares minimum wages in three comparable cities – Manila, Bangkok and Jakarta - in dollar terms and as a ratio of per capita incomes in 2007, where per capita incomes are a rough indicator of level of development. Minimum

Figure 5. Share of full time wage jobs in Labor Force by Age Cohort (% share)



Source: 2007 household labor force survey, NSO.

⁴ The poorest 20 percent families have an average family size of 6.2 compared with 3.9 for the 20 percent richest families (based on 2006 FIES).

wages in Manila surpassed those in Bangkok since 2000 and are about 150% higher than per capita incomes compared with less than 50% in Bangkok. Similarly, the Philippines, and more recently Indonesia, have relatively restrictive labor regulations (Table 3). The Philippines is noticeable for its restrictions on short term contracts, which was designed to enhance job security, but has had the perverse effect of actually reducing access to better and more secured jobs for youths.

Year	Jakarta	Bangkok	Manila
1996	\$66	\$153	\$140
2000	\$34	\$93	\$121
2005	\$73	\$107	\$147
2006	\$90	\$122	\$153
2007	\$99	\$133	\$179
MW relative to per capita income 2006	68%	44%	153%

Source: MW from the Departments of Labor of the three countries. Daily MW rates for Bangkok and Manila are converted into monthly minimum wage by assuming a 25 working day per month. Average exchange rates for each year are used to convert local currencies into dollar equivalents. National per capita incomes are used: Indonesia \$1601; Philippines \$1341; Thailand: \$3283.

Country	Fixed term contracts		Employment through TWAs b\	
	Restricted?	Types of restrictions	Restricted?	Types of restrictions
Indonesia	Yes	-temporary work -limits on duration -no renewals	Yes	-limited to non-core activities -limits on duration
Korea	No major restrictions		Yes	-limited to certain sectors -limits on renewals -limits on duration
Malaysia a\	Some restrictions	-temporary work		
Philippines	Yes	-certain uses -limits on duration -no renewals	Yes	- must be direct hires
Thailand	No major restrictions		No major restrictions	

Source: Various departments of Labor

IV. Overseas Employment Opportunities and Remittances

11. There are both pull and push factors for Filipino workers. There is undoubtedly major pull factors; indeed one of Philippines major advantages is it relatively well educated labor force, English language proficiency and work ethics that provide Filipinos with access to high paying jobs that most employers in the Philippines could not compete with. Moreover, with demographic changes in the developed countries and rising demand for healthcare providers, demand for migrant workers will continue. There are also major push factors eluded above: high rates of poverty and an inefficient labor market due to rigid labor regulations. In this section we briefly describe recent trends in overseas workers and remittances, in aggregate and across households. We then examine the data on whether remittances have helped lower structural poverty in the Philippines. We touch on the potential transmissions from remittances to poverty reduction.

12. **The number of temporary OFWs has accelerated in the past decade.** The number of temporary OFWs was estimated at 446,000 in 1990, doubling to 891,000 in 2002, and rising to one million in 2005. These figures capture only the documented and processed records of OFWs who pass through the employment facilitation services of the Philippine Overseas Employment Administration (POEA). Workers included in the measurement qualify under the temporary migrant status. Their residence and employment in a foreign country are based on formal or sometimes informal employment contracts and work permit specifications. The total number of Filipinos residing overseas is much larger, estimated at about 8.1 million persons. Philippine data classify Filipinos residing overseas into three groups: i) temporary migrants as discussed in paragraph 2; ii) permanent migrants; and iii) irregular migrants. Because permanent Filipino migrants have acquired immigrant status or foreign citizenship abroad, they fall outside these international migration estimates and can not be categorized as OFWs. The OFWs statistics do not capture the movement of irregular Filipino migrant workers. These workers, having passed through the backdoor of international migration, are undocumented and thus lack valid passports or, if documented, they have no valid residency or work permits, or gave overstayed their visas. Clearly there are no accurate figures on permanent and irregular migrants. POEA does make periodic estimates based on a variety of sources including surveys of OFWs. As of December 2004, POEA estimated that about 8.1 million Filipinos reside overseas. Of this amount, 3.2 million are estimated as permanent migrants (mainly residing in the United States), 3.6 million are temporary migrants (temporary OFWs) and as many as 1.3 million could be irregular migrants (irregular OFWs). About 84 percent of permanent migrants reside in the United States. According to POEA data, the United States is also estimated as the largest recipient of irregular OFWs (about 350,000) followed by Malaysia (300,000).

13. **Recent trends show that the Middle East is becoming an important destination for temporary OFWs, overtaking Asia as the key market for Filipino OFWs.** Based on 2005 data, almost 400,000 Filipino OFW (temporary migrants) were working in the Middle East in 2005, up from 280,000 in 1998. Almost half of these OFWs were working in Saudi Arabia (193,000), followed by United Arab Emirates (81,000). In contrast the number of temporary migrants working in Asia has continuously declined since 1998, from about 307,000 workers in 1998 to 253,000 in 2005. Large declines occurred in Hong Kong and Taiwan. The changing trends in destinations are due to several factors including changes in demand for workers in the different destinations, policy changes and also political instability. The increasing demand for health workers and caregivers were significant pull factors for Filipino health workers to the United States and even Australia. Moreover, European countries are now seeking Filipino health workers, especially caregivers and nurses, with the United Kingdom employing the largest share.

Characteristics	2004	2005
Gender		
--- Female	51.2	50.3
--- Male	48.9	49.7
Age Group		
--- 15 to 24	11.4	11.5
--- 25 to 29	20.6	23.5
--- 30 to 34	20.3	19.4
--- 35 to 39	16.2	15.7
--- 40 to 44	13.4	13.0
--- 45 and over	18.1	17.0
Occupation		
---Officials of Government, NGOs, Corporate executives, managers etc	2.6	2.4
--- Professional	7.4	8.8
---Technicians	9.2	8.1
---Clerks	3.8	4.5
---Service workers and retail sector workers	12.8	13.7
---Farmers, forestry workers, fishermen	0.6	0.2
--- Trades and related workers	15.3	14.5
---Plant and machine operators and assemblers	16.5	14.5
---Laborers and unskilled	31.7	33.1
--- Special occupations	0.1	0.2
Source: 2005 Survey on Overseas Filipinos, National Statistics Office, Manila		

Stricter employment and visa requirements in Hong Kong help explain the drop in OFWs: in Hong Kong employment opportunities are granted only to professional and skilled workers who qualify under the Admissions of Talents Scheme by the Hong Kong Immigration Department.

14. **Almost one quarter of temporary OFWs are professionals or skilled trade workers (Table 1).** According to data from the Philippine National Statistics Office, about 17 percent of OFWs are working in the professions and technical occupations, 14.5 percent are skilled trades and related workers, and another 14.5 percent of OFW are semi-skilled plant and machine operators. About 33 percent of OFWs are classified as laborers and unskilled workers. About one third of OFWs are under the age of 30 years.

15. **Consistent with the increase in OFWs, the flow of remittances has increased substantially in the last six years.** Recorded remittances amounted to US\$5.2 billion in 2000, doubling to \$10.7 billion in 2005 and tripled to estimated \$16 billion in 2008. The magnitude of

these flows is demonstrated by comparison with other major income items in the current account of the balance of payments. Remittances in 2005 were more than triple income receipts in the current account, five times more than receipts from tourism in the current account, and seven times more than FDI inflows in 2005. The \$11 billion increase in remittances between 2000 and 2008 has been largely responsible for bringing the BOP current account into a surplus of \$2 billion in 2005 from a deficit of \$300 million in 2002. Reported remittances are likely to be understated, as surveys indicate only about 25% of remittances are not channeled through the formal banking sector (ADB, 2006).

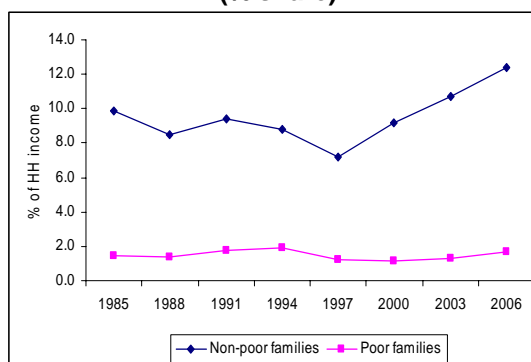
7. Recent studies suggest that the flow of remittances is sustainable over a longer period of time. First, the Philippines has a sizeable young population and the rate of population aging appears to be slower in the Philippine than in other comparable developing countries due to its relatively higher population growth rate of about 2% per annum. Second, with aging populations in developed countries, global demand for workers, including caregivers and nurses, will continue to grow. Finally, Filipino OWFs make up a diverse range of occupations and destinations thereby lessening vulnerabilities to regional or sector-specific risks. However, a challenge for the Philippines is to improve quality of primary and secondary education and proficiency in English. Several statistics indicate only gradual improvements in school enrollment rates, school survival rates and measures of education quality (Bernado, 2006).

V. Remittances and Poverty

16. Remittances help reduce poverty through the consumption effect and there is increasing evidence that OFW households are investing remittances in children education and creation of small enterprises.

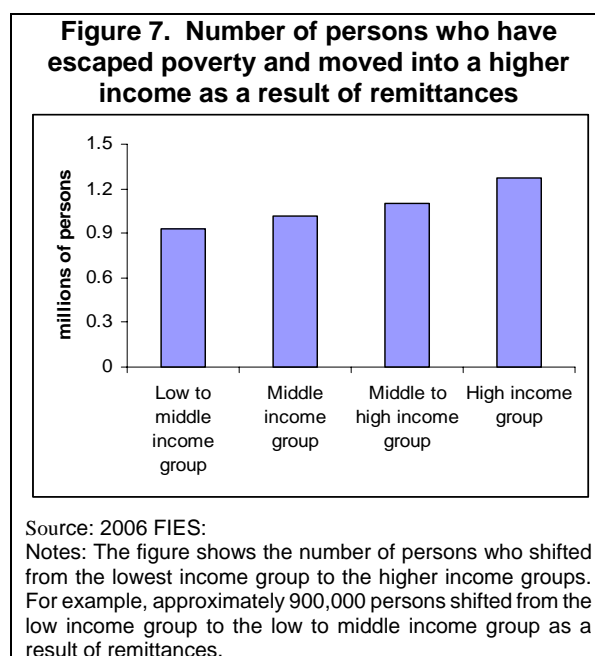
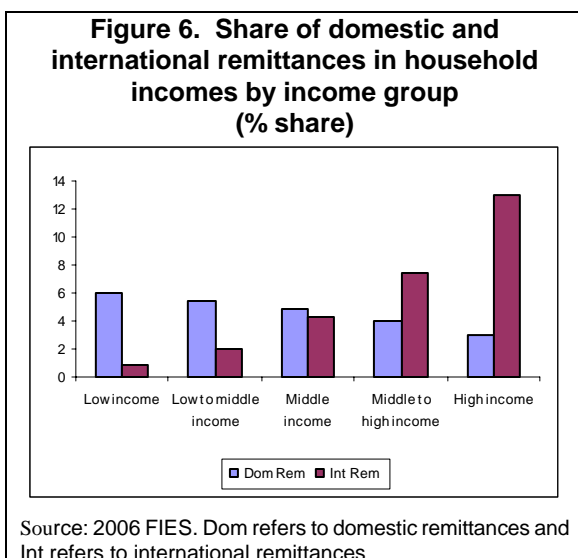
17. **Remittances have reduced the national headcount poverty rate by at least five percentage points.** There is a common perception that remittances only go to rich families and not poor ones. It is then concluded that remittances are therefore not pro-poor. At first glance, the data presented in Figures 6 and 7 support this belief as remittances are concentrated among non-poor families. Figure 7 shows that high income families in particular are major beneficiaries of remittances. Average, total remittances in 2006 account for as much as 16 percent of income of households in the high income bracket. Poor families receive fewer international remittances on average and rely more

Figure 6. Share of international remittances in household incomes in poor and non-poor families over time (% share)



Source: 2006 FIES.

on domestic remittances for income support.⁵ However, this argument ignores poverty dynamics – many of these families would be poor (or were poor) without remittances. Using data from FIES (and tagging households with remittance income), we took away remittances from all households that received them in 2006, and assumed consumption falls by the same amount, and then recalculated the poverty incidence. From this exercise, we find that an additional 4.3 million persons evenly spread across income groups would fall into poverty in 2006. In other words, remittances have reduced the national headcount poverty rate by at least five percentage points not taking into account multiplier or second round effects of remittances on growth and poverty (Figure 8).



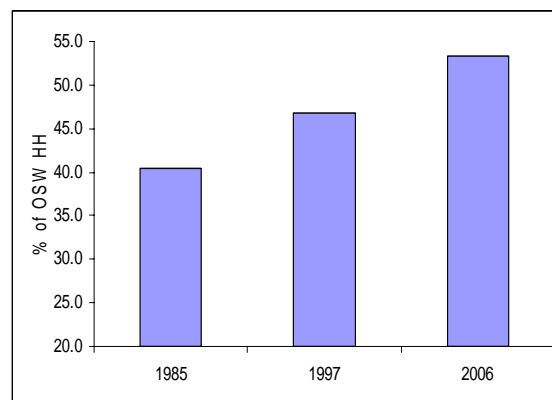
⁵ Some of these remittances originate from overseas but are passed on from relatives in the Philippines.

18. Remittances are used for consumption and investment purposes.

Another common perception is that OFW households spend remittances on consumption and therefore do not promote investment and future income. The consumption bias will depend on the income status of the family. Poor families receiving remittances tend to spend it on food, while the better off families tend to spend a portion of remittances on family members' education, suggesting remittances are used to invest in children. The 2006 FIES shows that families receiving remittances above the national average spend 5.2 percent of total income on education and 3.9 percent on health compared to the national averages of 3.7 percent and 2.5 percent respectively.

The ADB household labor survey also asked questions about OFWs and remittances and survey findings show that OFW households spent up to 40% of remittances received in the last three months on children's education. The outcomes are also interesting. Average number of years of schooling of children in OFWs households is approximately 11.6 years compared to 9.7 years in non-OFW households.

Figure 8. Share of OFW Households with at Least One Entrepreneur



Source: various FIES

19. OFW households also use some proportion of remittances to set up small enterprises. Based on data from the FIES, families receiving significant remittances are more likely to have at least one household member self-employed or head small enterprises, and this trend has increased over time, suggesting that remittances may also help families setup and sustain small businesses (Figure 8).⁶ These households are also less likely to take on debt. The ADB survey also reports that on average OFWs households spent about 23% of remittances received in the last three months on sustaining their business activities.

VI. Conclusion

20. **Three findings from this paper warrant emphasis.** First, remittances are a key antipoverty driver in the Philippines. Our estimates suggest anywhere between 4 and 5 million Filipinos have escaped poverty as a result. Second, there is increasing evidence that over time, OFW households are spending a higher proportion of remittances on investments – in children's education and small enterprises. Third, while there are major pull factors for Filipinos working overseas, there are also major push factors including chronic poverty in certain regions of the

⁶ Of these recipient families operating businesses, 47 percent are engaged in agriculture, 26 percent in trade services, 11 percent in transportation, 7 percent in social services and 6 percent in manufacturing.

country and an inefficient labor market. In particular, the youth transition from school to placement in a good job is slow, thereby encouraging younger Filipinos to move abroad.

21. **There are important policy implications of these findings.** First, addressing the slow youth transition from school to work will require hard political decisions for reform of the labor market covering relatively high minimum wages and in particular the need for relaxing rules of employment contracts. Second, Philippines advantage has been its relatively well educated labor force. Unfortunately various indicators of education performance indicate the Philippines is slipping behind and in particular public spending on education is well below regional averages. Increasing spending on education and continued reforms to the education system will be necessary.

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