

Poverty, Employment and Remittances: Some Stylized Facts

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ADB

Contents

- Initial paper part of an ongoing research project on youth labor market transition from school to finding a good job in the domestic economy and overseas.
- ADB survey completed at the of March and we expect to draft report completed around July 2009:
- Surveyed in two major urban areas - Cebu and Metro-Manila
 - 500 households (of which 14% have at least one member as OFW), 1,300 household members, and 140 firms
 - Collecting data on household demographics, income/expenditure, education experiences, labor market experience since left school, job search activities, OFWs and remittances, perceptions about work and job security, among others.
- Today, paper presents some stylized facts using secondary data from the Family Income and Expenditure Surveys (FIES) and the National Household Labor Force Survey (LFS) produced by NSO.
- Contents of paper
 - Brief overview of poverty
 - Labor market performance with focus on youth labor market transition
 - OFWs and remittances
 - Impact on poverty
 - Policy implications

Key Messages of the Paper

- Remittances are a key antipoverty driver in the Philippines – based on FIES data, we estimate that remittances have kept at least 4 million Filipinos out of poverty
- While there are major sustainable pull factors inducing Filipinos to work overseas, there are also significant push factors:
 - Chronic poverty in some regions and
 - An inefficient labor market as reflected in the slow youth transition from school to finding a good (permanent job) in the domestic labor market
- Evidence of OFW households investing remittances in children's education and small business activities
- Policy implications: i) remittances are a lifeline poverty reduction and development in the Philippines; ii) more should be spent on education in an efficient way; iii) need for some labor market reforms to improve youth access to good jobs in the domestic market

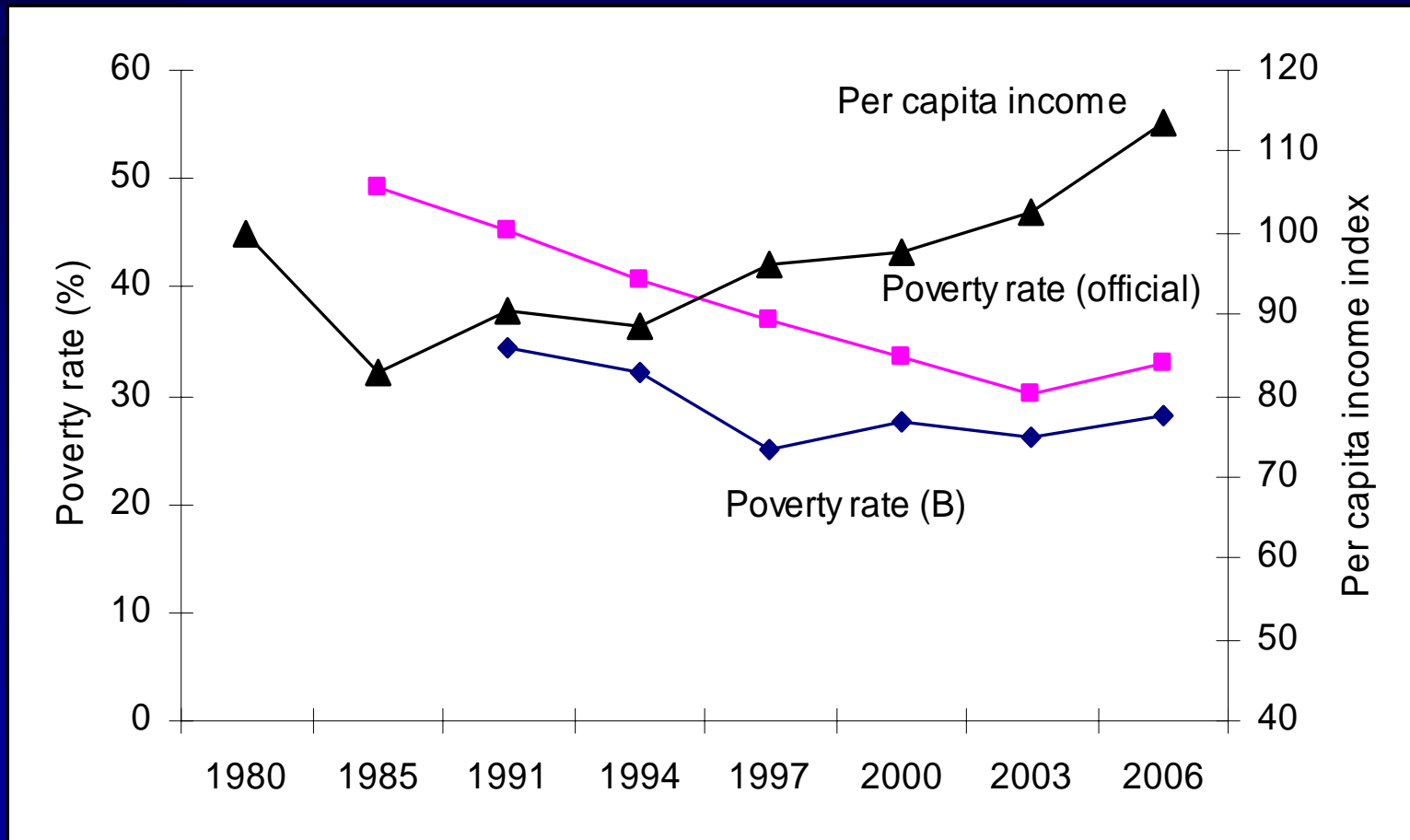
The Poverty Challenge

We focus on three dimensions:

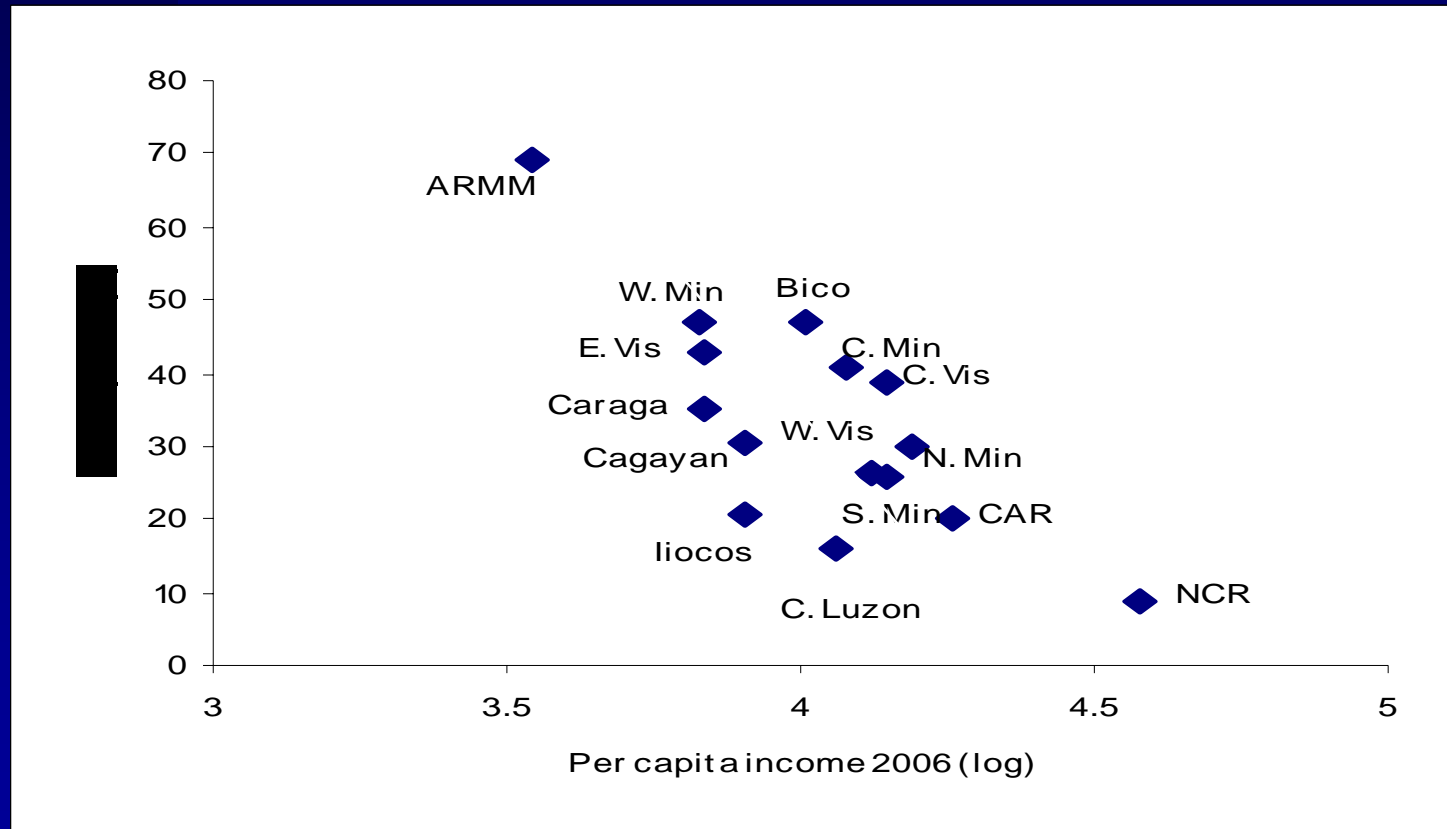
- Weak poverty-growth nexus – low poverty-growth elasticity
- Subregional variations in poverty incidence – significant pockets of regional poverty
- Weak labor performance – slow growth in good jobs and slow youth labor market transition to good jobs

Poverty Rate – slow decline in poverty

(official and alternative measures)



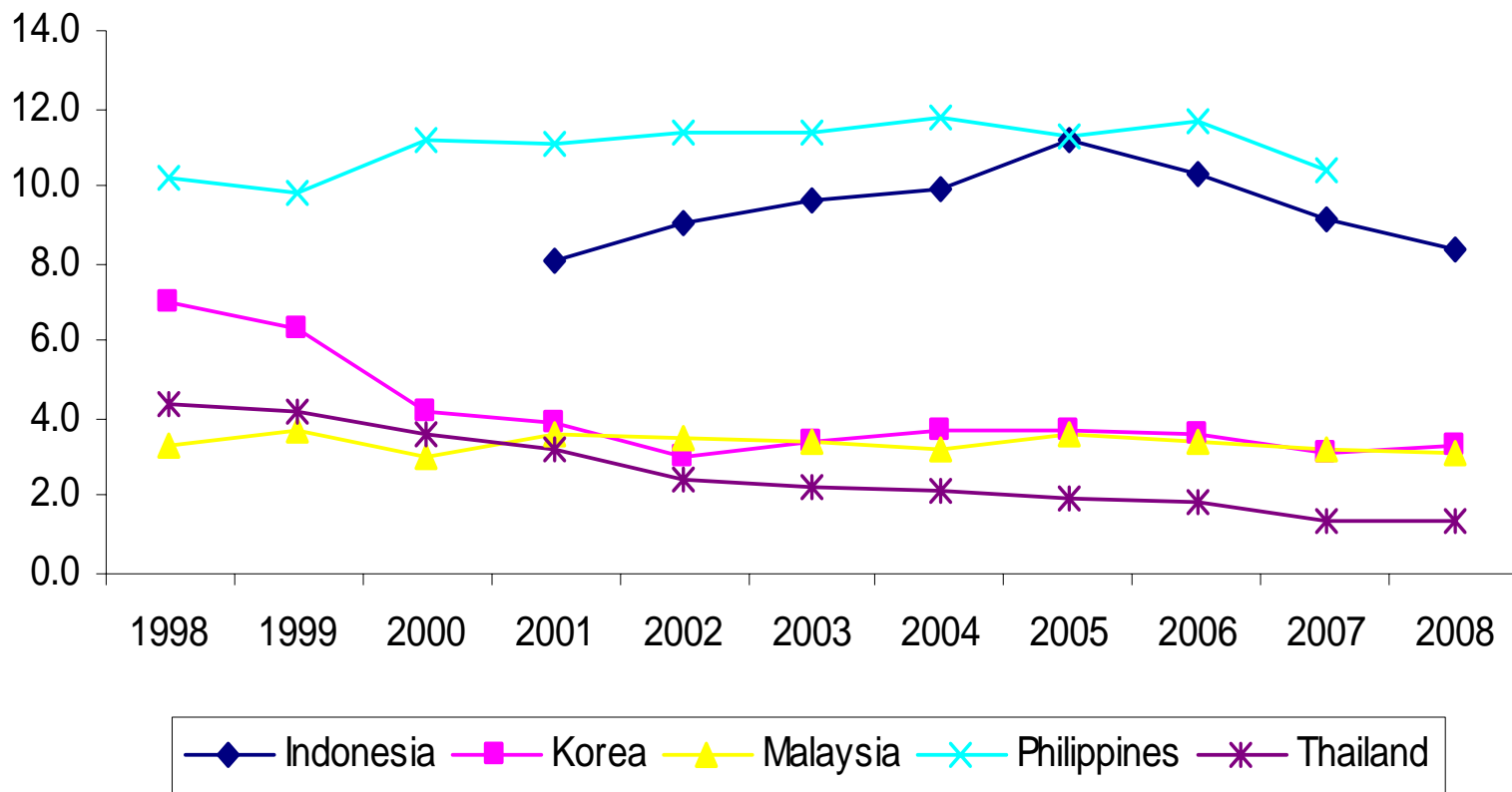
Subregional Variations in Poverty – Pockets of Low Income - High Poverty



Labor Market Performance

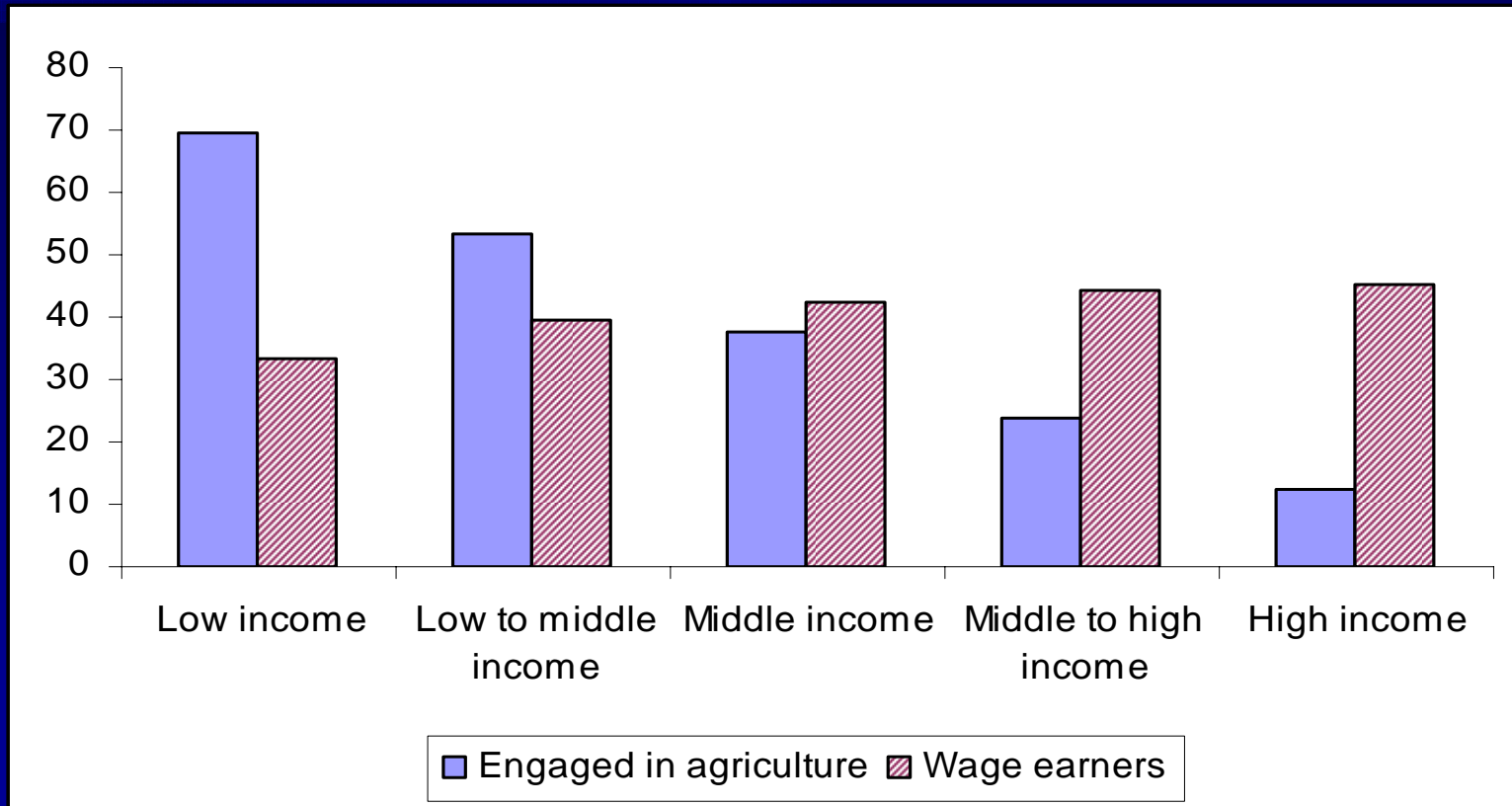
- Weak labor market performance is a cause of persistently high poverty in the Philippines
 - Unemployment relatively high in the SEA region
 - Dominance of informal sector employment
 - Slow youth labor market transition locks in many households into poverty

Regional Unemployment Rates



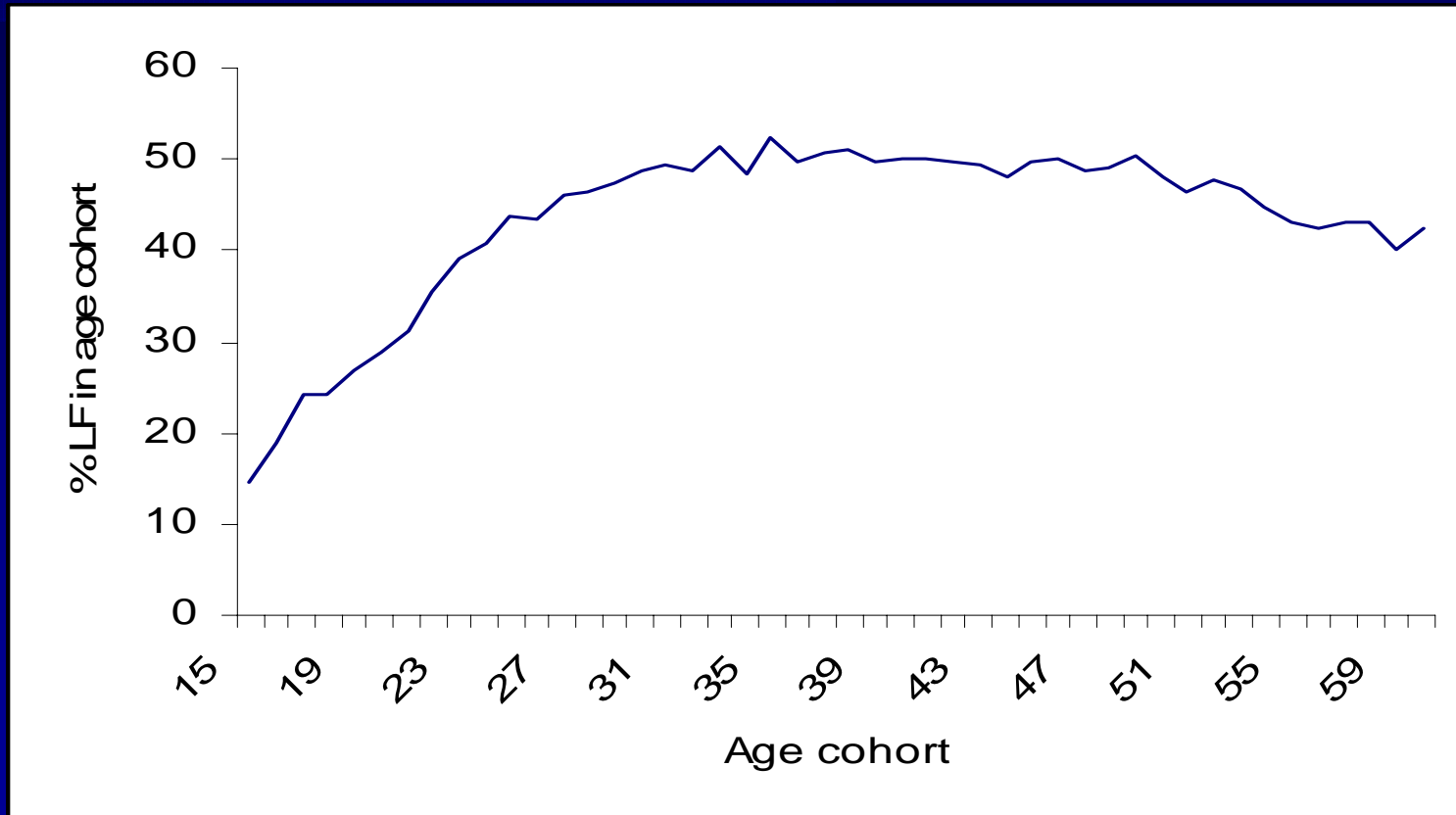
Informal Employment Associated with High Poverty

(% of households in major economic activities by income group –low to high)



Slow Labor Market Transition

% of LF in some kind of full time wage employment by age cohort



Youth Labor Market Transition – Some OECD comparisons

Employment rates by age 35 years

- Philippines – 50% (LFS); 30% in permanent jobs (ADB survey)
- Greece - 75%
- Italy – 70%
- Poland – 60%
- Portugal – 83%
- Australia – 82%
- UK – 85%
- France – 78%

Rigid labor market regulations contribute to low employment rates

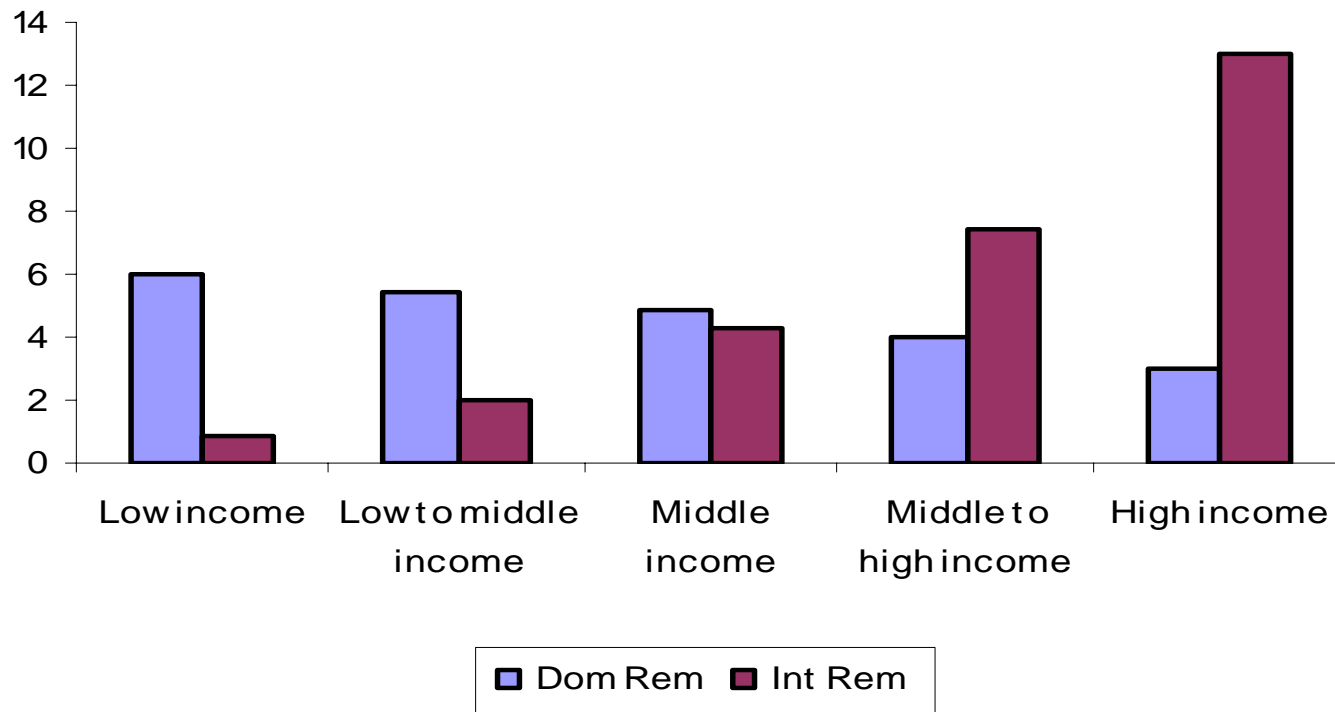
- Relatively high minimum wages (2007)
 - Bangkok - \$133/month (44% of PCY)
 - Jakarta - \$99/month (68% of PCY)
 - Manila - \$179/month (153% of PCY)
- Restrictions on employment contracts
- Costs on hiring – social security among, others

OFWs and Remittances

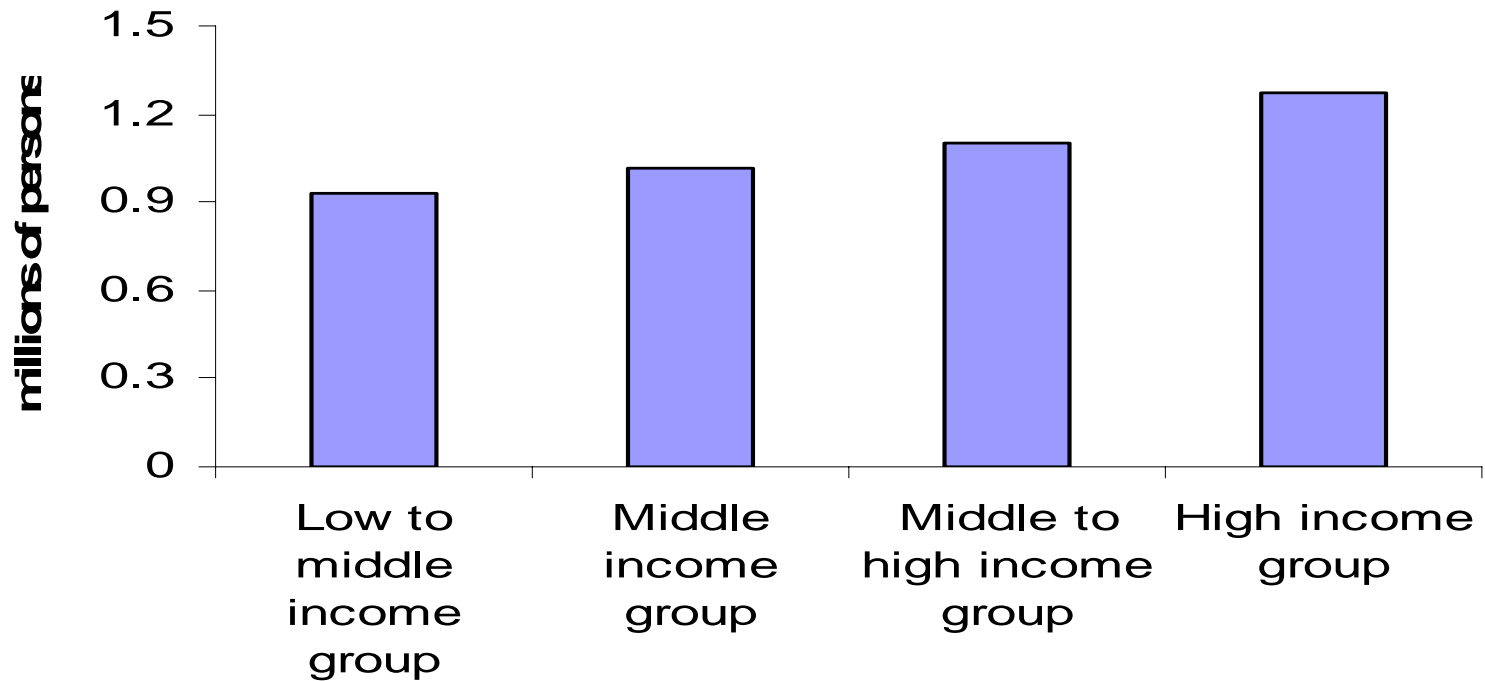
- - Over a million OFWs on temporary work permits, in addition to permanent migrants residing in US and other countries
- - Officially \$16 billion in remittances through banking system in 2008
- About 30% of OFWs are between 15-30 years
- Impact on household poverty?
- Do OFWs households invest some of these remittances?

Remittances a key antipoverty driver

Remittances as % of HH income by Income Group



Number of HH Escaped from Poverty to a Higher Income Group as a Result of Remittances



How do OFW Household Spend Remittances?

- The poorer households spend on consumption
- The better off households spend on consumption and for investment purposes
- Above average expenditure on education
- Over 55% of OFW HHs have an entrepreneur

- Tentative findings from the ADB Survey:
 - Average number of school years higher among children of OFW HHs than in non-OFW HHs in survey areas (11.7yrs v 9.7yrs)
 - In the last 3 months OFWs HH spent 40% of remittances on education and 23% on business activities.

Conclusion and Policy Implications

- OFWs and Remittances are a lifeline to poverty reduction in short term and longer term
- Evidence that HHs are spending some proportion of remittances on investment through education and small businesses
- There are major and sustainable pull factors for Filipino's to work overseas
- But also major push factors – poverty and inefficient labor market as indicated by the youth labor market transition from school to better jobs
- More public funds should be spent on education
- Hard political decisions necessary to reform the labor market to improve youth labor market transition