

POLICY BRIEF

POVERTY AND ECONOMIC POLICY RESEARCH NETWORK–COMMUNITY-BASED MONITORING SYSTEM

Volume II, Number 3

ISSN No. 2094-3342



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IDRC  **CRDI**

THE IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON POVERTY IN THE PHILIPPINES

The recent global financial and economic crisis, which started in the United States and expanded to other developed countries, has to some extent affected developing countries as well. Since some of the Philippines' major trading partner, including the United States, have experienced a recession during the crisis period, the country may be affected through reduction in demand for our exports to these countries. Characterized by heavy dependence on exports for growth, the Philippines, with its exports accounting for about 46.7 percent of its GDP as of 2008, may be considered vulnerable to external demand shocks.

Furthermore, during the economic crisis, income transfers from workers employed in affected countries may also be reduced. Since the Philippines relies substantially on overseas deployment of workers, the economic slowdown in affected countries could lead to a decline in their demand for foreign workers to protect their domestic labor.

Results at the macro and micro levels reveal that although the impact of the crisis was not as large as initially expected, it has affected some specific sectors in the economy and with varying degrees. For instance, workers

in the manufacturing sector are most likely to be displaced, or could experience reduction in wage or number of working hours. Households which largely depend on remittances as a source of income could also be adversely affected when remittances decline.

Macro Level Impacts

Simulation exercises which capture the direct impact through these channels reveal an increase in poverty incidence by 0.14 percent which would translate to approximately 120,000 people (Table 1). Poverty gap and severity of poverty also increases

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Table 1. Results of Counterfactual Simulation

Indicator	Slower growth in remittance	Wage reduction
Δ in poor population	~120,000	~201,000
Δ in poverty incidence	0.14	0.22
Δ in poverty gap index	0.06	0.08
Δ in poverty severity index	0.05	0.01

Source: CBMS Survey 2009

by 0.06 percent and 0.05 percent, respectively. Meanwhile, wage reduction among affected households could lead to a 0.22 percent increase in poverty rate (representing about 201,000 households), with poverty gap index and severity of poverty index increasing slightly by 0.08 and 0.01, respectively.

Micro Level Impacts

Monitoring the impact of the global crisis at the micro level was done through the conduct of the community-based monitoring system (CBMS) surveys¹ in selected sentinel sites, where household- and community-level data were collected to capture the different dimensions of poverty. In addition to the CBMS core indicators, outcome and impact indicators were monitored in line with the identified key transmission channels for the Philippines, including overseas employment and remittances, and local employment. Thirteen (13) barangays all over the Philippines were selected to serve as poverty observatories or sentinel sites for

monitoring the impact of the crisis.

CBMS survey results show that at about 7.6 percent of the households would be directly affected by the global crisis through the two major transmission channels mentioned earlier (Table 2). About 2.3 percent were directly affected through overseas employment and remittance while 5.5 percent were affected through domestic employment. The most likely affected were those living in urban areas. Households which are highly dependent on agriculture

were not directly affected by the global crisis.

Results of the CBMS survey confirmed that the potential impact of the crisis on poverty varies across different groups of households. In fact, certain groups of households or individuals were more likely to be affected by the crisis as compared to the other groups. Households which are highly dependent on remittances as a source of income would be adversely affected through reduced remittance receipts. About 12.1 percent of households which received remittances during the past 6 months reported that they suffered a decline in the amount of remittances they received, while 9.1 percent indicated that they experienced a decline in the frequency of receipt of remittances during the period (Table 3).

Households with members who are working in the affected sectors could be negatively affected.

Table 2. Households Affected by the Global Financial Crisis

Barangay	Affected by GFC		OER ¹		Local employment	
	No.	%	No.	%	No.	%
Urban NCR	65	7.6	22	2.6	46	5.4
Urban Outside NCR	196	8.3	64	2.7	138	5.8
Rural	114	4.4	29	1.1	86	3.3
TOTAL	375	7.6	115	2.3	270	5.5

¹Overseas employment & remittance; Source: CBMS Survey 2009

¹ Data collection was conducted in May-July 2009 using the following reference period: November 2008-April 2009.

Table 3. Households Affected by the Crisis through Remittances

Indicator	No.	%
HHs which received remittances	372	
Experienced a decline in amount of remittances received	45	12.1
Experienced a decline in the frequency of receipt of remittances	34	9.1

Source: CBMS Survey 2009

An estimated 1.6 percent of the employed persons lost their job during the period while another 1.2 percent suffered a decrease in wages (Table 4). There were also some workers who experienced reduced working hours (1.1%) and reduced benefits (0.1%).

Coping Mechanisms Adopted

In response to the crisis, households adopted various coping strategies. One of the most common strategies was modify to food expenses (Table 5) which was adopted by 89.3 percent of the directly affected households. Results across all sentinel sites show that poor households are more predisposed to change food

consumption pattern, withdraw children from school and change health-seeking behavior. These coping strategies may be damaging and counter-productive in the medium- and long-run, especially on women and children and other vulnerable groups. Withdrawal of children from school may have negative long-term consequences. The health status of the affected households could also be adversely affected if they do not seek medical attention.

Government Responses

The government, in response to the crisis, has also identified and implemented some programs that could mitigate the impact of the crisis. For instance, the government

started to implement the Economic Resiliency Plan (ERP) to cushion the impact of the crisis and jumpstart the economy through a mix of accelerated government spending, tax cuts, and public-private sector investments in infrastructure projects. Several government agencies also played a role in assisting those which are directly affected by the crisis, including those OFWs and local workers who were displaced due to the crisis.

Conclusion

Modest increase in poverty in the Philippines, in fact, can be observed as a result of the global crisis, particularly of the slowdown in remittance growth and reduction in wages. Coupled with the impact of price shocks in 2008 and the recent natural calamities, poverty incidence is expected to go up significantly in the future. This is more worrisome given the recent reversal in poverty incidence observed in 2006, when poverty incidence went up for the first time since 1985.

Although recent estimates reveal that the Philippines and the global economy have started recovering from the crisis, there must be a continuing effort to improve targeting of relevant government programs. In terms of programs, there is still enough room for improving targeting of beneficiaries. As shown by the CBMS results, leakage and exclusion rates are still high for programs such as the NFA rice access program and 4Ps. High exclusion rate is also recorded for the PhilHealth program.

Table 4. Members who Experienced Reduction in Wages, Working Hours or Employment Benefits

	No.	%
Number of employed persons	7,114	
Members who lost jobs	115	1.6
Members with reduced wages	88	1.2
Members with cut in working hours	80	1.1
Members with reduced benefits	8	0.1

Source: CBMS Survey 2009

Table 5. Coping Strategies Adopted by Affected Households

Coping strategy	No.	%
1) Modified the following Types of Expenses		
Food	335	89.3
Clothing	324	86.4
Electricity	321	85.6
Communication	281	74.9
Fuel	268	71.5
Health	234	62.4
Water	209	55.7
Transportation	176	46.9
Recreation	163	43.5
Education	90	24.0
2) Tapped various fund sources		
Borrowed money	184	49.1
Used savings	87	23.2
Pawned assets	29	7.7
Sold assets	15	4.0
3) Sought additional source of income		
Looked for additional work	52	13.9
Did additional work	31	8.3
Employed member not previously working	11	2.9
Looked for work abroad	15	4.0

Source: CBMS Survey 2009

The recurring problem of targeting in social protection programs highlights the need for a good targeting mechanism in order to minimize leakages and exclusion. Evaluation of current programs is necessary in order to identify those which are ineffective and need not be implemented anymore, and to determine the improvements in others that should be kept. This is one area where CBMS can be very useful. Household-level data, such as those being generated by the community-based monitoring system, are very useful in identifying eligible beneficiaries. Indeed, CBMS data can be used to enrich information in terms of identifying who will be affected, as well as to validate results at the macro level.

This Policy Brief is based on the full paper of the same title which will be presented during the PEP General Meeting on June 2010 in Dakar, Senegal.

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This publication reports on a research project financed by Canada's International Development Research Centre (www.idrc.ca).

This article first appeared in the PEP Network Policy Research Brief Series.