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Reforming Social Protection Policy: Responding to the Global Financial Crisis and Beyond

Rosario G. Manasan

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Abstract

This study reviews and evaluates the major contributory and noncontributory social protection programs that are currently in place as part of the government's portfolio of social protection interventions, including social insurance (Social Security System [SSS], Government Service Insurance System [GSIS], Philippine Health Insurance Corporation [PhilHealth]); social welfare programs (e.g., Pantawid Pamilyang Pilipino Program or 4Ps, Food-for-School Program [FSP], National Food Authority [NFA] rice price subsidy, Self-Employment Assistance-Kaunlaran [SEA-K]); social safety nets (e.g., Pantawid Kuryente); and active labor market programs (e.g., PGMA scholarships, job search assistance, job creation). The evaluation focuses on four aspects: program coverage, size of the benefits/ transfers, cost-effectiveness/efficiency, and financial sustainability.

The major findings of the study include: (1) the bulk of national government spending on social safety nets went to the NFA rice price subsidy, a program that has been proven to be the least effective in reaching the poor; (2) the objectives and intended beneficiaries of a number of programs (e.g., FSP, school feeding programs, and 4Ps overlap, suggesting the need to consolidate some of them; (3) the 4Ps appears to be superior than the FSP and supplemental feeding programs in addressing needs of the chronic poor and is worth expanding and implementing on a sustained basis given large numbers of chronic poor households; (4) the social security system, the social health insurance scheme, and many of the noncontributory social protection programs provide poor coverage of the informal sector which includes the transient poor and the near poor; (5) hastily designed programs launched in response to crisis situations like the Tulong para kay Lolo at Lola and the Pantawid Kuryente are usually not very effective in reaching the poor and the vulnerable; (6) public workfare program appears to be the most appropriate intervention to address needs of the informal sector when there is an economy-wide crisis; (7) expanding the coverage of the Sponsored Program of PhilHealth and improving the selection of beneficiaries are critical in providing the poor financial protection from illness and in making the public health system sustainable; (8) there is a need to sustain the structural reforms at SSS and GSIS, including parametric reforms, benefit package and payment systems designs, and corporate governance improvement, that have already been started in order to strengthen the financial sustainability of these institutions and to reduce the contingent liabilities that the national government will face in the future; (9) establishment of a centrally managed targeting system anchored on a proxy means test (PMT) will be cost effective if used in the major target programs; and (10) although national government spending on social protection has increased in response to the global financial crisis, spending on social welfare programs, social safety nets, and active labor market programs compares unfavorably with that of other countries.

1.

Introduction

Even before being buffeted by external shocks in 2008 and 2009, poverty has worsened with the overall poverty incidence going up from 24.4 percent in 2003 to 26.9 percent in 2007 (Table 1) after declining continuously for the most part between 1991 and 2003. The number of poor families rose correspondingly from 4.0 million in 2003 to 4.7 million in 2006. In like manner, the proportion of families who are food-poor climbed from 10.2 percent in 2003 to 11.0 percent in 2006. Thus, the number of food-poor families increased from 1.7 million in 2003 to 1.9 million in 2006.

In 2008, inflation surged to 9.3 percent from 2.9 percent in 2007 largely due to the rapid rise in the price of food and fuel products (Table 2). Food prices dipped toward the end of the third quarter of 2008 (as indicated by the decline in the Consumer Price Index [CPI] for food) but surged once again in January 2009. Thus, the increase in the price of food in the first quarter of 2009 is even higher than that in the first quarter of 2008, and continues to be high in most of the second quarter of 2009. On the other hand, while the CPI for fuel, light, and water went down by 6 percent between October 2008 and February 2009, the price of oil in the world market remained volatile.

The country's overall economic growth is threatened by the adverse impact on exports and overseas Filipino workers (OFW) deployment and remittances of the global financial and economic crisis that started with the implosion of the US housing market and the ensuing recession in key developed economies in the latter half of 2008. Thus, Philippine exports registered negative growth for the full year of 2008 and the first quarter of 2009 (Table 2). The growth of gross domestic product (GDP) decelerated from a high of 7.1 percent in 2007 to 3.8 percent in 2008 and 0.4 percent in the first quarter of 2009. While OFW remittances continued to post positive growth, its growth waned from 16.2 percent in the first quarter of 2008 to 2.7 percent in the first quarter of 2009.

Table 1. Poverty incidence and number of poor families, 2000–2006

	Poverty incidence			Number of poor families		
	2000	2003	2006	2000	2003	2006
Overall poverty	27.5	24.4	26.9	4,146,663	4,022,695	4,677,305
Subsistence poverty	12.3	10.2	11.0	1,849,876	1,675,179	1,913,667

Source: National Statistical Coordination Board (NSCB) 2006

Table 2. Growth rate of GDP and its components, 2004–2009

	GDP g.r.	PCE g.r.	GC g.r.	CF g.r.	X g.r.	M g.r.	Inflation *
2004	**6.4**	**5.9**	**1.4**	**7.2**	**15.0**	**5.8**	**6.0**
2005	**5.0**	**4.8**	**2.3**	**-8.8**	**4.8**	**2.4**	**7.6**
2006	**5.3**	**5.5**	**10.4**	**5.1**	**13.4**	**1.8**	**6.2**
2007	**7.1**	**5.8**	**6.6**	**12.4**	**5.4**	**-4.1**	**2.8**
Q1	6.9	5.9	12.1	18.1	10.5	-1.8	2.2
Q2	8.3	5.6	8.9	17.4	4.2	-10.2	2.3
Q3	6.8	5.7	-2.6	5.3	3.3	-4.7	2.7
Q4	6.3	6.2	8.0	7.1	4.5	0.7	3.9
2008	**3.8**	**4.7**	**3.2**	**1.7**	**-1.9**	**2.4**	**9.3**
Q1	3.9	5.1	-0.3	-1.7	-7.7	-2.6	6.4
Q2	4.2	4.1	0.0	13.6	6.1	0.0	11.4
Q3	4.6	4.4	11.8	9.4	3.3	6.7	11.2
Q4	2.9	5.0	2.5	-11.7	-11.5	5.0	8.0
2009							
Q1	0.4	0.8	3.8	-16.5	-18.2	-19.2	6.4

PCE - Personal consumption expenditures, GC - government consumption, CF - capital formation, X - exports, M - imports
* based on CPI
Source: GNP, GDP, and subaggregates from NSCB; National Income Accounts of the Philippines, various years; inflation from Bangko Sentral ng Pilipinas (BSP), selected economic and financial indicators, various years.

Unemployment rose from 7.4 percent in April 2007 to 8.0 percent in April 2008. And while the unemployment rate dipped to 7.5 percent in April 2009, the employment picture is not entirely rosy. First, the share of wage and salaried workers in the total number of employed persons went down from 52.9 percent in April 2008 to 51.9 percent in April 2009 while the share of the self-employed and unpaid family workers went up from 30.0 percent to 31.1 percent and from 12.5 percent to 13.1 percent, respectively. Second, while the underemployment rate declined from 19.8 percent in April 2008 to 18.9 percent in April 2009, the share of the visibly underemployed (i.e., those who worked less than 40 hours a week) to the total number of underemployed persons swelled from 57.5 percent in April 2008 to 62.6 percent in April 2009.

The projected weakness in both domestic and foreign demand in 2009 is expected to take a toll on the lives of poor and vulnerable households not just in the near term but in the longer term as well. Export of Philippine labor is expected to be hit with retrenchment, pay cuts, and lower demand due to the economic downturn in the host countries. At the domestic front, employment in export-oriented sectors is also expected to be similarly affected. This will tend to reduce the purchasing power of affected households.

The problems facing households at present are similar to those dealt with during the 1997/1998 Asian financial crisis. At that time, 90 percent of households were affected by price increases, 19 percent by loss of domestic jobs, 4.2 percent by loss of overseas jobs, and 15 percent by reduced earnings (Table 3). Also, the country's experience during the Asian financial crisis

Table 3. Impact of 1997/1998 Asian financial crisis and El Niño

Per Capita Expenditure Decile (1997 FIES)	Percent of Households Affected by:				
	Price Increase	Loss of Domestic Job	Loss of Overseas Job	Reduced Earnings	El Niño
1 (Poorest)	93.5	17.0	3.8	15.4	78.6
2	91.5	16.6	3.2	13.9	72.7
3	90.9	18.3	2.9	15.5	68.6
4	91.7	18.5	4.1	17.1	64.5
5	90.0	21.5	4.5	17.1	61.7
6	90.2	20.5	3.8	16.8	55.0
7	89.7	20.7	4.7	17.1	51.4
8	89.6	19.4	4.8	15.2	45.2
9	88.3	18.3	5.1	14.2	43.5
10 (Richest)	84.7	14.7	4.8	11.2	37.8
Overall	90.0	18.5	4.2	15.3	57.9

Note: Calculations are based on panel data (23,150 households) constructed from the 1997 *Family Income and Expenditure Survey* (FIES) and the 1998 *Annual Poverty Indicator Survey* (APIS).
Source: World Bank (2001)

Table 4. Household responses to 1997/1998 Asian financial crisis

Income Decile (1997) FIES)	Total HHs Responding	Percent of HH Responding to Crisis by:					
		Changing Eating Pattern	Taking Children Out of School	Migrating to City of other Countries	Receiving Assistance from other Households	Receiving Assistance from Government	Increasing Working Hours
1	2,256	56.7	12.4	7.8	16.5	10.7	37.5
2	2,223	52.3	9.3	5.4	17.1	8.8	36.8
3	2,211	50.7	7.3	5.4	16.3	8.4	33.6
4	2,206	51.0	8.7	5.2	17.0	6.8	33.1
5	2,180	47.8	7.1	4.5	17.2	5.9	29.4
6	2,155	48.3	5.6	3.8	16.4	5.7	27.0
7	2,138	47.0	5.0	3.7	15.0	4.5	26.1
8	2,125	44.1	3.5	3.4	12.5	2.9	22.3
9	2,097	41.4	3.2	3.1	13.8	3.9	23.1
10	2,011	33.3	1.2	3.5	12.0	2.6	18.2
All HHs	21,602	47.5	6.4	4.6	15.4	6.1	28.7

Note: Calculations are based on panel data (23,150 households) constructed from the 1997 FIES and the 1998 APIS.
Source: World Bank (2001)

indicates how households affected by the crisis responded: by reducing their food intake, taking their children out of school, increasing their work hours, and migrating to other countries (Table 4).

While the impact of the 2008/2009 global financial crisis in the Philippines appears to be milder than that of the 1997/1998 Asian financial crisis, the economic turnaround is expected to be protracted because the current global crisis is deeper and broader in coverage. At the same time, it should be emphasized that even when there is no global or regional crisis, households are subjected to risks and shocks of various kinds. For example, in 2004, 54 percent of households reported being in a worse condition because of the higher price of food, 19 percent because of reduced income, 8 percent because of job loss, and 3 percent because of natural disasters (Table 5). Moreover, poorer households appear to have been more vulnerable to the said risks and shocks. Given this background, it cannot be denied that there is an urgent need for effective and well-targeted social protection programs.

Objective of the study

This paper aims to review and assess the major contributory and noncontributory social protection programs that are put in place as part of the government's portfolio of social protection interventions. In particular, it attempts to answer the policy question: Are the social protection programs appropriate, adequate, cost-effective, and sustainable?

Table 5. Distribution of households reporting being worse off as to the source of vulnerability, 2004 APIS (in percent)

Income Decile	Reason for Being Worse Off								
	Lost Job/Work	Natural Disaster	Increased Food Rice	Poor Health	Reduced Income	No Savings	Loss of Gov't Assist	Others	Total No. of HH
Across deciles:									
1 (poorest)	10.3	28.5	10.7	8.4	16.2	12.8	8.0	10.0	12.2
2	10.5	15.4	10.3	10.8	14.8	12.3	5.9	9.9	11.4
3	10.5	12.6	10.6	12.2	12.4	13.5	11.5	8.9	11.1
4	10.4	8.7	10.6	11.5	11.1	9.1	2.9	9.8	10.5
5	13.6	10.1	10.4	12.9	10.0	10.6	13.5	8.4	10.6
6	12.0	7.3	10.0	10.2	8.9	9.0	12.6	9.6	9.8
7	12.0	4.9	10.4	8.2	8.2	11.7	9.3	10.3	9.8
8	8.9	4.7	10.0	9.3	8.0	8.6	11.7	11.6	9.4
9	7.2	5.3	9.3	9.6	6.0	7.3	12.6	10.9	8.4
10 (richest)	4.5	2.6	7.8	6.9	4.4	5.1	11.9	10.4	6.8
All deciles	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Across reasons for being worse off:									
All deciles	8.2	3.0	53.9	5.8	19.2	3.8	0.4	5.4	100.0

Source of basic data: APIS, National Statistics Office (NSO) (2004)

These attributes are succinctly defined by Grosh et al. (2008) as follows:

- *Appropriate.* The programs used and the balance between them and with the other elements of public policy should respond to the particular need of the country.
- *Adequate.* The programs should provide full coverage and meaningful benefits to whichever subset of the population they are meant to assist.
- *Cost-effective.* Cost-effective programs channel most program resources to their intended target group. They also economize administrative resources required to implement the program.
- *Sustainable.* Programs should be both financially and politically sustainable so that stop/start cycles of programs are avoided.

Some key concepts relating to social protection, its components, and the relationship between social protection and other aspects of social policy are reviewed below. This review is done to avoid confusion in the use of certain terms and to facilitate a better appreciation of the issues that are discussed in the main body of the report.

Key concepts

In Resolution No. 1 of 2007 of the National Economic and Development Authority's (NEDA) Social Development Committee (SDC), social protection is defined as "policies and programs that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks." This definition of social protection is consistent with the standard definition in the international literature. For instance, the World Bank (2001) defines social protection as interventions that are aimed at (1) assisting individuals, households, and communities to manage risks and shocks better; and (2) providing support to the critically poor.

Social protection programs may be classified under three main categories: (1) contributory social insurance programs; (2) noncontributory social welfare programs and social safety net programs; and (3) active labor market programs. Social insurance programs refer to contributory programs that help households insure themselves against sudden reductions in income. These insurance programs mitigate income risks by pooling resources and spreading risks across time and groups of individuals. They include publicly provided or mandated insurance against old age (pensions), disability and death of main provider, and sickness.

Social welfare programs and social safety nets refer to noncontributory transfer programs that are targeted to the poor or those vulnerable to poverty and shocks.[1] These social welfare programs include school feeding programs, conditional cash transfers, provision of jobs in labor-intensive public works schemes (also called "workfare" programs), microfinance programs, livelihood/self-employment programs, social funds, and social assistance to specific vulnerable groups. NEDA-SDC Resolution No. 1 of 2007 defines social welfare programs as preventive and developmental interventions that are intended to support the minimum requirements of the poor, particularly the poorest of the poor. These programs usually consist of direct assistance in the form of cash or in-kind transfers to the poorest and marginalized groups as well as social services including family and community support, alternative care, and referral services. On the other hand, it defines social safety nets as stop gap measures or urgent mechanisms that are designed to address the effects of economic shocks, disasters, and calamities on specific vulnerable sectors. These are measures that specifically target affected groups with the specific objective of providing relief and transition.

Finally, active labor market programs are programs aimed at increasing the skills, employment, and long-run earning potential of beneficiaries through training, apprenticeships, job search assistance, subsidized job placements, and the like.

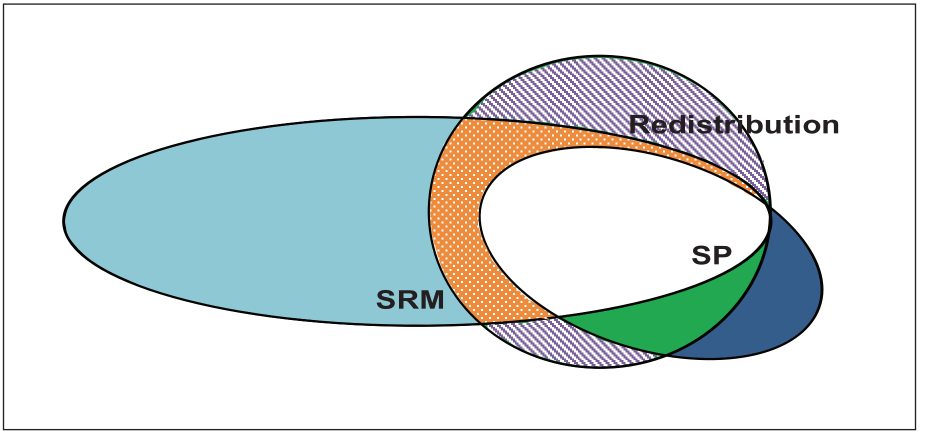
Relationship between social protection and other aspects of social policy

Following Holzmann and Jorgenson (2000), Figure 1 is presented below to help clarify the relationship between social protection and other aspects of social policy such as redistribution and social risk management. The unshaded area of social protection (SP) which forms part of social risk management (SRM) includes: social insurance, social safety nets or social assistance, and active labor market interventions.

The orange-shaded area and the light blue-shaded area refer to SRM policies and programs that are outside of social protection. The light blue-shaded area of the SRM set refers to risk management outside of SP and redistribution. It includes policies that support macroeconomic stability and economic growth and preventive measures against natural catastrophes such

[1] NEDA-SDC Resolution No. 1 of 2007 differentiates between social welfare programs and social safety nets. Such a distinction is trypically not made in the international literature.

Figure 1. Overlaps and boundaries of SRM, SP, and redistribution



Source: Holzmann and Jorgensen (2000)

as environment and natural resource management. On the other hand, the orange-shaded area represents policies and programs that are part of both SRM and income redistribution but which are outside SP. It includes propoor infrastructure investments (such as rural roads and water supply) that prevent or mitigate risk. In this regard, Holzmann and Jorgenson (2000) point out that there may be a specific role for SP in alerting other sectors that preventive measures are required or that broad policies to create a less risky environment for households and communities are important.

Meanwhile, the green-shaded area represents the intersection of redistribution with social protection but which is outside of SRM. It includes income support for the critically poor. The purple-shaded areas of the redistribution set outside of SP and SRM represent public measures aimed at achieving a more equal income distribution outside of risk management considerations, such as progressive income taxation. Finally, the dark blue-shaded area of the SP set comprises programs that are beyond redistribution and SRM. It includes social inclusion programs and policies.

Organization of the paper

In the next sections, the assessment of the different social protection programs includes a description of the program, intended or target beneficiaries and actual coverage, estimated leakages/exclusion errors, size of the benefits, financial sustainability, and the allocated budget or cost of the program. Section 2 reviews the contributory social protection programs, i.e., social security under the GSIS, the SSS, and the social health insurance program under the PhilHealth or PHIC. Meanwhile, Section 3 presents an assessment of the key social welfare programs and social safety nets in the country. Section 4 provides an overview of active labor market programs and, finally, Section 5 presents data on national government spending on the various social protection programs. It then draws the policy implications and lessons that emerge from the assessment of the different social protection programs.

2.

Social Insurance Programs

As indicated earlier, social insurance programs are contributory programs designed to mitigate income risks by pooling resources and spreading risks across time and groups of individuals. Social insurance programs include publicly provided or mandated insurance programs against old age (pensions), disability, death of the main provider, sickness, and unemployment. At present, social insurance in the country is administered by three agencies: the Social Security System (SSS), the Government Service Insurance System (GSIS), and the Philippine Health Insurance System (PhilHealth or PHIC).

Social security schemes

The social security system in the Philippines is administered by two agencies. The GSIS administers the social security scheme for workers in the public sector while the SSS administers the social security scheme for workers in the private sector.

Like social security systems in other countries, the GSIS and SSS provide income support to government and private sector employees and their families in times of contingencies like death, old age, sickness,[2] and disability arising from work. The GSIS and SSS are both mandatory, publicly managed, defined-benefit social insurance schemes with funding coming from members and their employers and investment inco me from reserves. The government guarantees the solvency of both systems and the levels of benefits prescribed.

The present social security system in the Philippines does not provide generalized unemployment benefits. However, members of the GSIS facing unemployment are entitled to a payment equal to one-half of their average monthly compensation for a maximum of six months. In the case of separation, the payment is equal to 18 times the basic monthly pension.

Government Service Insurance System

The GSIS, created by Commonwealth Act No. 186 of 1936, is mandated to provide and administer the following social security benefits for government

[2] With the establishment of the PhilHealth in 1997, the health insurance function of the SSS and GSIS was transferred to PhilHealth.

employees: compulsory life insurance, optional life insurance, retirement benefits, unemployment insurance, disability benefits for work-related contingencies, and death benefits. The GSIS covers all government workers irrespective of their employment status, except employees who have separate retirement schemes under special laws, namely:

- members of the judiciary and constitutional commissions;
- contractual employees who have no employee-employer relationship with their agencies; and
- uniformed members of the Armed Forces of the Philippines and the Philippine National Police, including the Bureau of Jail Management and Penology and the Bureau of Fire Protection.

Contribution rate. The GSIS contribution rate is equal to 21 percent of the member's monthly compensation and is shared by the employee (9%) and employer (12%). The employer's share includes the 4 percent premium for life insurance. In 2003, the PHP 16,000.00 ceiling on the monthly compensation on which the computation of both the contribution and the benefit rate is based was abolished.

Benefits. The principal benefit package of the GSIS consists of compulsory and optional life insurance, retirement, separation, and employee's compensation benefits. Active GSIS members are also entitled to the following loan privileges: salary, policy, emergency, and housing loans.

GSIS members are automatically provided a life insurance cover. In case of natural or accidental death of the member, the designated beneficiaries/legal heirs of a member are paid the amount stated in the life insurance contract and an additional amount of PHP 20,000.00 for funeral expenses.

The value of the benefit for each type of benefit is anchored on the basic monthly pension (BMP) which is computed as follows:

- 37.5 percent of the average monthly compensation in the last three years; plus
- 2.5 percent of the average monthly compensation in the last three years for each year of service in excess of 15 years.

However, in no case shall the BMP exceed 90 percent of the average monthly compensation.

A member who retires from the service is entitled to retirement benefits if the member: (1) has rendered at least 15 years of services; (2) is at least

60 years of age at the time of retirement; and (3) is not receiving a monthly pension from permanent total disability. Retirement from government service is compulsory at age 65.

The retirement benefit is equal to either:

- a lump sum payment equivalent to 60 months of the BMP payable at the time of retirement plus old age pension benefit equal to the BMP payable monthly for life starting upon the expiration of the five-year guaranteed period covered by the lump sum; or
- a cash payment equivalent to 18 months of the BMP plus a monthly pension for life payable immediately equivalent to the BMP.

On the other hand, members who have not reached retirement age but who have been separated from the service are entitled to separation benefits, provided they have had at least three years of service. For members with at least three years but less than 15 years of service, the separation benefits consist of a cash payment equivalent to 100 percent of his average monthly compensation for each year of service he paid contributions, but not less than PHP 12,000.00 payable upon reaching 60 years of age or upon separation, whichever comes later. For members with at least 15 years of service and who are less than 60 years of age upon separation, the separation benefits consist of: (1) a cash payment equivalent to 18 times the BMP payable at the time of resignation or separation; and (2) an old-age pension benefit equal to the BMP, payable monthly for life upon reaching the age of 60.

Meanwhile, when a member or pensioner dies, his or her beneficiaries are entitled to cash and/or pension benefits. Beneficiaries who qualify for survivorship pension are entitled to 50 percent of the BMP of the member or pensioner.

On the other hand, the unemployment benefit is paid when a permanent government employee who has paid premiums for at least 12 months is involuntarily separated from the service as a result of the abolition of his office or position usually resulting from reorganization. The benefit is in the form of monthly cash payments equivalent to 50 percent of the average monthly compensation and the duration of the benefit depends on the length of service, ranging from two months to a maximum of six months.

The employees' compensation (EC) benefit is a compensation package for public sector employees[3] and their dependents in the event of work-related

[3] Private sector employees are likewise entitled to employees' compensation benefits.

injury, sickness, disability, or death. The EC is a purely employer-based contribution benefit. Thus, the employee does not contribute any amount to the program. The EC benefits are in the form of: (1) cash income benefits for disability or death; (2) medical and related services for injury or sickness; and (3) rehabilitation services (in addition to monthly cash income benefit) for permanent disability.

Disability benefits are granted to a member due to the loss or reduction in earning capacity caused by a loss or impairment of the normal functions of the employee's physical and/or mental faculties as a result of an injury or disease. A member who has been disabled is given a waiver of the monthly premiums on the policy from the time the insured member was found to be disabled and while the disability lasts. Said member is also entitled to a BMP provided the member has paid at least 36 monthly contributions. In addition, the disabled member is entitled to the payment of the total face value of his/her policy on maturity date or earlier contingency.

A member who becomes permanently and totally disabled is eligible for permanent total disability benefits in the form of a cash payment equivalent to 100 percent of the average monthly compensation for every year of service he paid contributions for but not less than PHP 12,000.00, provided that (1) he is in the service at the time of the disability; or (2) if separated from service, he has paid 36 monthly contributions within the last five years immediately preceding the disability, or has paid a total of at least 180 monthly contributions, prior to his disability.

A permanent/partially disabled member who has satisfied the conditions for entitlement shall receive disability benefits in the form of a cash payment equivalent to the BMP times the number of months specified in the schedule of disabilities or Table of Loss Percentage. On the other hand, the temporary total disability benefit is in the form of a daily benefit equivalent to 75 percent of his current daily compensation for the duration of the disability starting on the fourth day of disability but not to exceed 120 days. For more extensive cases, duration may be extended up to a maximum of 240 days. The minimum benefit is PHP 70.00 per day while the maximum is PHP 340.00 per day.

In addition to the benefits mentioned above, GSIS members may also avail of salary loans, policy loans, emergency loans, and housing loans. In times of crisis (e.g., the 1998 Asian financial crisis or times when natural disasters affect fairly large areas), the GSIS typically increases the maximum loanable amount for salary loans.

Social Security System

Republic Act 1161, which created the SSS, was passed in 1954 but was implemented in 1957. The SSS is mandated to provide social security protection to private sector employees and informal sector workers such as self-employed persons and their families. In 1997, Republic Act 8282 further strengthened the SSS and enabled it to give substantial increases in social security benefits, expanded its coverage, increased its flexibility with respect to investments, provided for stiffer penalties for violators of the law, and established a voluntary provident fund for members.

The SSS is mandated by law to cover on a compulsory basis the following persons who are not over 60 years old:

- all workers in the private sector, whether permanent, temporary, or provisional;
- all self-employed persons regardless of trade, business, and occupations, with a monthly net income of at least PHP1,000.00, including workers of the informal sector;
- all household helpers with a monthly income of at least PHP 1,000.00;
- all Filipino seafarers; and
- all employees of a foreign government, international organization, or their wholly owned instrumentality based on the Philippines.

On the other hand, the following are covered on a voluntary basis:

- the parent, spouse, or child below 21 years old of the owner of a single proprietorship business;
- a member who has been separated from employment and who would like to continue paying his contributions;
- an overseas worker who is employed in a country that has signed a bilateral agreement with Philippine government to include Filipinos and their nationals in the social security coverage of either country:
- a Filipino recruited by a foreign-based employer for employment abroad or a Filipino who legitimately entered a foreign country (e.g., as student, tourist) and is eventually employed; and
- a person who has not yet been an SSS member (legally married to a currently employed and actively paying SSS member) and who devotes his time fully in the management of his household and family affairs.

Contribution rates. Effective January 1, 2007, the SSS contribution rate is equivalent to 10.4 percent of a worker's monthly salary credit (MSC),[4] shared

[4] Prior to the 2007 increase in the SSS contribution rate, the mandatory contribution was 8.4 percent in 1979–2002 and 9.4 percent in 2003–2006. It is notable that the employee's share in SSS contribution has been maintained at 3.33 percent since 1979.

by the employer (7.07%) and the employee (3.33%). A self-employed or voluntary member shoulders the full amount. The rate is applied to 29 MSC brackets, from a minimum of PHP 1,000.00 to a maximum of PHP 15,000.00.[5] Thus, the monthly contribution per member ranges from PHP 104.00 to PHP 1,560.00.

Benefits. A member who is 60 years old and unemployed and has paid at least 120 monthly contributions prior to the semester of retirement and/or a member who is 65 years old, whether employed or not, may avail of retirement benefits. The amount of the monthly pension is the highest of:

- PHP 300.00 plus 20 percent of the average MSC plus 2 percent of the average MSC for each credited year of service in excess of 10 years; or
- 40 percent of the average MSC; or
- PHP 1,200.00 if the member's credited years of service are between 10 and 20 or PHP 2,400.00 if the member's credited years of service are 20 or more.

A retiree has the option to receive his/her first 18 monthly pension in lump sum discounted at a preferential rate of interest to be determined by the SSS. If a member takes this option, he/she will then receive a monthly pension on the 19th month and every month thereafter.

On the other hand, the amount of an employee's sickness benefit is 90 percent of the average daily salary credit multiplied by the approved number of days. Maternity allowance is equivalent to 100 percent of the member's average daily salary credit multiplied by 60 for normal delivery or miscarriage, and 78 days for Caesarean cases.

When a member has been disabled and can no longer render service for valid reasons, he/she will be given the amount of the monthly pension based on the member's number of paid contributions and his/her years of membership. The lowest monthly pension is PHP 1,000.00 for members with less than 10 calendar years of service (CYS); PHP 1,200.00 for those with at least 10 CYS; and PHP 2,400.00 for those with at least 20 CYS. A lifetime monthly pension will be awarded to completely and permanently disabled members. However, the pension will be suspended if the pensioner recovers from his illness, resumes employment, or fails to report for physical examination when notified by the SSS.

[5] However, a minimum MSC of PHP 5,000.00 is applied to overseas contract workers.

The SSS also offers the following loan windows to its members: salary loans, housing loans, and business loans.

Coverage

In 2007, the GSIS had 1.4 million members while the SSS had 8 million contributing members,[6] accounting for 92 percent of the total number of civilian public sector employees and 29 percent of the total number of employed persons outside of the public sector (Table 6). Together, the GSIS and the SSS covered 28 percent of the total number of employed population and 22 percent of the total population of those who were at least 65 years old in 2007. Thus, the coverage of the social security system in the Philippines (i.e., GSIS plus SSS) was one of the lowest in the region. To wit, the coverage rate of the GSIS and SSS was lower than the social security systems of Thailand, Malaysia, Singapore, and South Korea but higher than that of Indonesia (Table 7).

Table 6. GSIS and SSS contribution and benefit payments, 2007 (in billion pesos)

	GSIS	SSS	Total
Total contributions	**43.0**	**61.9**	**104.9**
Social Insurance	4.8	60.8	101.6
EC	2.2	1.1	3.3
Total benefit payments	**32.4**	**60.8**	**93.2**
Social insurance	32.3	**59.7**	92.0
EC	0.1	**1.1**	1.2
Total contributions as % of GDP	0.6	0.9	1.6
Total benefits as % GDP	0.5	0.9	1.4
Ratio of contributions to benefit payments	1.33	1.02	1.13
No. of contributing members (in million)	1.4	8.0 [a/]	9.4
as % of no. of employed workers	91.9	28.9	32.1
Total number of old age pensioners	152,463	584,638	737,101
as % of population aged 65+			21.8

[a/] SSS reports 27.2 million members but only 8 million are contributing members.
Source of basic data: National Statistical Coordination Board (NSCB) (2009)

[6] The SSS had 27.2 million members in 2007, but less than 30 percent of this number (or 8 million) were contributing members.

Table 7. Coverage ratios of social security schemes

	Active Members ('000s)	Members as % of Eligible Population	Members as % of Labor force	Members as % Population Aged 15+
Philippines	9,356 [b/]	32.1	25.8	16.6
Indonesia	14,000	42.7	14.0	6.6
Rep. of Korea	17,070	n.a.	73.0	37.1
Malaysia	5,070	n.a.	45.5	19.8
Thailand	10,351	72.0	29.0	16.8
Singapore	1,324	77.0	56.6	31.2

[a/] Korea: national pension scheme only. Malaysia: employees' provident fund only. Philippines: SSS + GSIS
[b/] Based on number of contributing members of GSIS
[c/] As percent of total number
Source: Data for all other countries are from Ghosh (2006; data for Philippines are for 2007 and are estimated based on SSS 2007 Annual Report, GSIS 2007 Annual Report, and Labor Force Survey (LFS) of the National Statistics Office (NSO) for April 2007.

Financial sustainability

The GSIS and SSS both operate as partially funded defined-benefit pension schemes, i.e., they pay pensions that are related to the earnings of their members during their working life. As such, the financial sustainability of the pension system is largely driven by the discrepancy between contributions and benefits.

At present, the replacement rate (i.e., the value of the pension payment as a percentage of the earnings of members during their working life) ranges from 37.5 percent to 90 percent for the GSIS. The average replacement rate in the 1990s of the GSIS was estimated to be equal to 70 percent from a sample of retirees (Asher 2000). In contrast, the mandatory contribution to the GSIS is equal to 17 percent of the monthly compensation of members, not including the 4 percent contribution for the life insurance premium.

The growth of contributions to the GSIS lagged behind benefit payments in 2000–2007. In specific terms, total benefit payments made by GSIS grew by 10 percent annually from PHP 17 billion in 2000 to PHP 32.3 billion in 2007. On the other hand, member contributions rose from PHP 35 billion in 2000 to PHP 41 billion in 2007, reflecting a 2 percent yearly increase (Table 8). Thus, the ratio of contributions to benefit payments declined continuously from 2.1 percent in 2000 to 1.3 percent in 2007. This occurred despite the abolition of the ceiling on average monthly compensation in reckoning members' contributions to the GSIS in 2003, possibly because only 5 percent of GSIS members are affected by this change.

In recent years, the GSIS intensified the collection of premium arrears of various government agencies. At the same time, it was able to improve the

Table 8. Total premium contributions and total benefits paid by the GSIS and SSS, 2000–2007[a/] (in billion pesos)

	2000	2001	2002	2003	2004	2005	2006	2007
GSIS								
Premium contributions	34.7	36.7	39.9	40.4	39.2	40.4	39.1	40.8
Benefit payments	16.9	21.3	24.5	25.9	30.9	29.9	30.6	32.3
Ratio of contributions to benefit payments	2.05	1.72	1.63	1.56	1.27	1.35	1.28	1.26
SSS								
Premium contributions	29.9	30.9	33.7	38.6	43.1	46.6	51.6	60.8
Benefit payments	32.7	37.8	39.6	41.6	43.7	45.2	51.1	59.7
Ratio of contributions to benefit payments	0.91	0.82	0.85	0.93	0.98	1.03	1.01	1.02

[a/] Refers to social insurance only
Source: Philippine Statistical Yearbook (2009)

yield on its investments. With the enactment of amendments to the GSIS law in 1997, the GSIS was authorized to invest part of its funds in foreign assets to enable it to diversify its portfolio and secure better returns given the lack of local investment instruments.[7] In line with its global investment program, the GSIS obtained the services of a professional global fund manager. It has also adopted an absolute-return strategy for its international investments. Specifically, as part of this strategy, the GSIS requires a minimum annual US dollar return of 8 percent and a maximum portfolio volatility of 7 percent. Thus, the actuarial life of the GSIS reserve fund is estimated to be good up to 2055 as of 2007, an improvement from the 1999 actuarial valuation when the GSIS reserve fund was estimated to run out in 2041.

However, the continuous slide in the ratio of contributions to benefit payments made by the GSIS in 2000–2007 indicates the need for intensified efforts to improve its financial sustainability. The GSIS also embarked on the installation of a computerized information system to manage members' service records, contributions, payments, and other data. This is much needed by GSIS management for the monitoring of its day-to-day operations, its actual actuarial situation, and the performance of its investment portfolio, among others. This information system is also critical for the GSIS to actually operationalize the premium-based policy (which called for the proper matching of premium contributions with the amount of benefits to be received) that was adopted recently and for it to be able to service its members' requirements efficiently

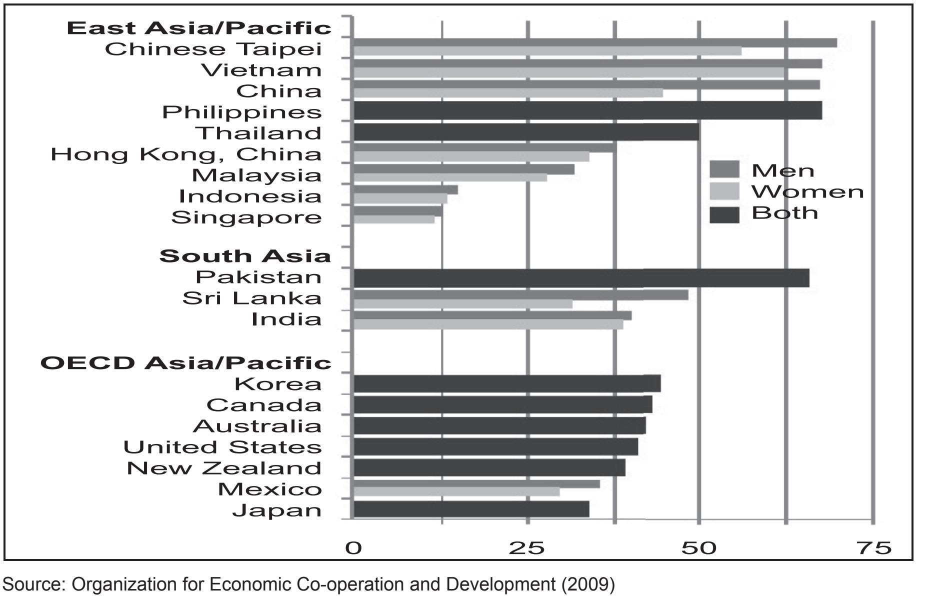
[7] Similarly, the 1997 amendments to the SSS law also allowed the SSS invest its funds in foreign assets.

and effectively. At present, the computerization effort has hit a snag and is still awaiting resolution.

With the exception of those who receive the minimum pension of PHP 1,200.00 for members with credited years of service between 10 and 20 years, and PHP 2,400.00 for members with credited years of service exceeding 20 years, the replacement rate for SSS pensioners varies from 20 percent to 40 percent depending on the number of credited years of service. However, the average replacement rate for the SSS is estimated to be 67 percent in 2007 (OECD 2009). This result is attributed to the large number of pensioners who receive the minimum pension. Thus, the replacement rate for the SSS is high compared to the pension systems of other countries in the region and even some of the OECD countries (Figure 2).

Benefits of SSS members increased almost yearly in the 1990s by about 12 percent yearly on the average (higher than the average inflation rate of 10%) but the contribution rate remained constant prior to the increase implemented in 2003. This resulted in the continuous deterioration in the financial sustainability of the SSS during the period. Thus, the estimated actuarial life of the fund plummeted from perpetuity based on the 1990 actuarial valuation report, to 2040 based on the 1995 actuarial valuation report, to 2015 based on the 1999 actuarial valuation report.

Figure 2. Replacement rates of public pension systems in selected countries in East Asia and the Pacific



Source: Organization for Economic Co-operation and Development (2009)

Total contribution of members to the SSS exceeds total benefit payments by about 2 percent in 2007. This is much lower than the corresponding figure for GSIS but is a marked improvement from the situation in 1994–1995 and in 1999–2004 when the SSS was operating in the red and when SSS's contribution-to-benefit ratios were less than unity (Table 8).

The turnaround in SSS's contribution-to-benefit ratio in 2005–2007 was due to the increase in the mandated contribution from 8.4 percent in 2002 to 9.4 percent in 2003 and 10.4 percent in 2007. In addition, many reforms were instituted at the SSS since 2000 to strengthen financial sustainability of the system. These included both parametric measures (e.g., the increase in the maximum salary base from PHP 12,000.00 to PHP 15,000.00 and the redefinition of credited years of service[8]) and administrative measures (e.g., tellering system, expansion of payment facilities, cost saving measures, improved investment portfolio and management, etc.).

As a result, the estimated actuarial life of the Social Security Fund (SSF) was extended from 2015 (based on the 1999 actuarial valuation) to 2036 (based on the 2007 actuarial valuation). This improvement already takes into account two rounds of 10 percent across-the-board increase in pensions that were granted first in September 2006 and then again in August 2007. However, the OECD (2009) estimates the contribution rate required to maintain the system in steady state equilibrium (i.e., in balance over the next 40 years) to be about 20 percent, almost double the current level. This is indicative of the extent of additional reforms that have to be implemented.

Impact of the global financial crisis

The global economic downturn will reduce the stream of contributions to the social security system as a result of the increase in unemployment and the reduction in the level of earnings on which contributions are based. To date, this tendency has not yet become evident in the Philippines. However, if the domestic economy does slide into a recession as some analysts are predicting, then this might become a reality. If this happens, it will be an additional pressure point on the sustainability of the social security system, the SSS in particular.

Governments around the world are responding to the ensuing weakness in their own economies and those of their major trading partners with

[8] Up to 1984, the number of credited years of service is defined as the number of calendar years from year of coverage regardless of the actual number of contributions. In 1985–2001, it is defined as the number of calendar years in which six or more monthly contributions have been paid. From 2002 onwards, it is defined as number of months with contributions paid divided by 12.

countercyclical fiscal spending. But because tax revenues tend to be covariant with the overall growth of the economy, the use of pension funds to partially finance the fiscal stimulus package may appeal to some policymakers. For instance, the GSIS and SSS are reportedly going to finance PHP 50 billion of large infrastructure projects under the Economic Resiliency Plan of the government. This situation is not unique to the Philippines. Malaysia did the same thing in the wake of the Asian financial crisis in 1998 (Holzmann et al. 2000). However, there is a need to resist the temptation to dip into the pension funds for the purpose of pump priming the domestic economy as this will not likely match the primary objective of the fund to protect old-age income of members.

Additional reforms beyond the crisis

Even without the global financial crisis, the need for reforms aimed at improving the financial viability of and corporate governance in both the GSIS and the SSS cannot be denied. These reforms have been articulated by various authors (e.g., Holzmann et al. 2000; Navarro 2004; OECD 2009; Asher 2008) and are reiterated here. It should be emphasized that some gains have already been achieved in various areas of concern but sustained effort is still needed such as the following:

Strengthen the link between contributions and benefits. Significant strides have already been taken by the SSS in instituting parametric measures to improve its sustainability. However, more reforms are still needed including, among others: (1) the removal of the minimum pension guarantee; (2) further increases in the contribution rate; (3) further increases in the maximum salary credit; (4) revisit the use of the final salary as basis of pension benefit; and (5) increase in the vesting period.

Improve the protection provided to pensioners. At present, pensions are adjusted in an ad hoc manner over time. The value of pensions may be better protected from erosion due to inflation if pensions are adjusted in a systematic manner through inflation indexation.

At the same time, both the GSIS and SSS allow pensioners to get their benefits as a lump sum at the time of retirement. The withdrawal of benefits in such large chunks rather than in the form of annuities tends to reduce the welfare of beneficiaries as they run the risk of outliving their retirement savings.

Broaden coverage and promote compliance. It is recognized that poor compliance will persist if the incentives for evasion are engendered by the very design of pension benefits and contribution (Holzmann et al. 2000). For instance, both the OECD (2009) and Holzmann et al. (2000) argued that the minimum pension provision and the provision that pensions are computed on the basis of salaries in the last five years of service tend to result in the evasion of the payment of appropriate premiums. In other words, these two provisions create incentives for workers and employers to collude by either underreporting earnings until the last five years of their working life and/or artificially boosting pay that is reported to the pension system in the last five years of their working life.

On the other hand, the lack of sanctions on employers who either underreport or who do not remit the contributions they withhold from their employers obviously results in a reduction in the amount of contributions that actually reach the system. In addition, it also reduces the credibility of the system and discourages other workers from participating in the system.

Put greater emphasis on fiduciary responsibility of social security institutions and improve the management of their investment portfolio. Holzmann et al. (2000) and Asher (2008) emphasized the need to strengthen corporate governance and promote accountability in the social security institutions to help them perform their fiduciary responsibility more effectively to preserve the value of the pension fund and to maximize the returns on investment. They also pointed out that the fiduciary role of pension funds is sometimes given less emphasis in favor of the pursuit of other domestic policy goals (such as financing of infrastructure investment, foreign exchange management, and even outright political intervention) as these pension funds manage their investment portfolios.

There are many examples of the politicization of the SSS and GSIS in the past. Palmiery (2002) notes that:

> The government has influenced the use of public pension funds to attain a variety of public policy objectives. Given the large pool of funds, it is often tempting for government bodies to direct the investment of a portion of these assets for specific domestic political purposes such as low-income housing, financing start-up businesses, and development of the capital market, among others. While well-intended, these economically

targeted investments normally lead to less than market rates and thus deviate from the fiduciary principles.

For instance, at the behest of the Marcos government, the GSIS funded the construction of numerous hotels which later on became nonperforming loans in the mid-1980s. At about the same time, it also took over the ownership of the Philippine Airlines. More recently, both the GSIS and SSS acquired substantial shares in a commercial bank at the behest of former President Estrada in support of a crony's take-over of the said bank.

At the same time, there is a need to strengthen the governance structure of SSS, particularly in terms of the selection of members of the Social Security Commission. Ghosh (2006) points out that the broad selection criteria used for selecting the members of the Commission has, in the past, resulted in the limited technical capacity of the Commission to "understand complex technical issues and take appropriate policy decisions." In contrast, this problem has been mitigated in the GSIS through the GSIS Charter requirement that four out of the eight members of the GSIS Board should come from the banking, finance, investment, or insurance sectors and that one should be a recognized member of the legal profession.

On another note, there is also a need to revisit the percentage of the investment portfolio that is earmarked for housing and other loans to members of both the SSS (ceiling of 45 percent) and the GSIS (ceiling of 40 percent). It should be pointed out that this mandate clearly drags down the return on investment of these two entities since these loans are granted at below market rates.

Reduce administrative cost. Holzmann et al. (2000) found that the administrative cost of running the SSS and GSIS is high relative to that of social security systems in other countries. For instance, the operating expense of the pension fund in Malaysia is 2 percent of total contributions while that of the pension fund in Singapore is 0.5 percent of total contributions. In comparison, the operating expense of the SSS is equal to 11 percent of contributions in 2007, marginally higher than the corresponding ratio (10.7%) in 1995. On the other hand, the operating expense of the GSIS is equal to 15 percent in 2007, even higher than corresponding ratio in 1996 (10.8%).

Consider the feasibility of noncontributory social pension for the aged poor. Finally, the low coverage rate of social security system underscores the importance of social safety net not just for the aged but also the informal sector. The government provided a one-time grant of PHP 500.00 to senior citizens aged 70 years and over who are not receiving any pension from the SSS/GSIS and the PNP/AFP retirement system. This was in response to the rapid rise in the price of rice and fuel in the middle part of 2008. The discussion below, however, shows that hurriedly designed programs like this are typically not very effective in reaching their desired beneficiaries. From this perspective, the feasibility of providing a noncontributory basic social pension for the aged poor should be explored. Needless to say, the fiscal cost of such a scheme will be enormous given the large informal sector and low coverage provided by social security system to this sector. This proposal thus requires careful study.

Social health insurance (PhilHealth)

The National Health Insurance Act of 1995 (Republic Act 7875) created the Philippine Health Insurance Corporation (PHIC or PhilHealth) which is tasked to administer the National Health Insurance Program (NHIP). The NHIP is envisioned to provide compulsory health insurance coverage for all as a mechanism that will allow all Filipinos to gain financial access to health services.

The PhilHealth took over the erstwhile Philippine Medical Care Commission (Medicare) whose coverage was limited only to those with regular employment, i.e., members of the SSS and the GSIS. In contrast, PhilHealth's membership may be partitioned into five: (1) the Employed Sector Program (ESP); (2) the Overseas Workers Program (OWP); (3) the Individually Paying Program (IPP); (4) the Sponsored Program; and (5) the Nonpaying Program.

The ESP calls for the compulsory coverage of all employees in government and the private sector, including household help and sea-based overseas Filipino workers. All government and private employers are required to register their employees with the PHIC and to remit the premium contributions of their employees to PHIC.

On the other hand, the OWP covers all land-based OFWs who are registered with the Overseas Workers Welfare Administration (OWWA). Meanwhile, the IPP includes all self-employed persons, including professionals with their own practice; proprietors of businesses; actors/actresses; directors; freelance writers and photographers; professional athletes, coaches, and trainers; personnel of civic and religious organizations and Philippine-based international organizations; farmers and fisherfolks; daily wage earners such as vendors, transport drivers, and operators; unemployed persons who are not qualified as indigents; and parents who are not qualified as dependents. Under this program, health insurance premiums are remitted voluntarily at any accredited payment centers on a quarterly, semiannual, or annual basis.

The Sponsored Program covers the poor or the indigent, i.e., individuals whose incomes are insufficient for the subsistence of their families. Administrative Order 277 (issued in 1997) mandates the PhilHealth to cover the poorest 25 percent of the population in a period of five years. The Implementing Rules and Regulations (IRR) of RA 7875 as amended by RA 9241 provide that the members of this program be identified on the basis of a means test using the data from a survey[9] conducted by the Social Welfare and Development Office (SWDO) of the local government unit (LGU).

The Nonpaying Program covers retirees and pensioners of the SSS and the GSIS prior to the enactment of RA 7875 and PhilHealth members who are aged 60 years and over and who have paid at least 120 monthly contributions.

In addition to the principal member, the PhilHealth covers without additional premium the member's dependents, namely: his/her legitimate spouse who is not a member in her/his own right, children and stepchildren below 21 years of age, and parents or stepparents 60 years old and above who are not themselves members of PhilHealth. There is no limit to the number of dependents of each member.

Coverage. In 2008, the contributory programs of the PhilHealth covered 12.8 million principal members accounting for 78 percent of the total number of members, 75 percent of the total number of beneficiaries, 79 percent of total benefit payments, and 90 percent of total premium contributions (Table 9). The coverage rate of the contributory program is fairly low. The number of principal members covered under the IPP and the OWP combined represents 25 percent of the informal sector workers in 2008, up from 24 percent in 2007.[10] In contrast, the coverage rate of the Private Employed Sector component of the Employed Sector Program deteriorated from 54 percent in 2007 to 48 percent in 2008.

Thus, the overall coverage rate of the contributory program of PhilHealth (when reckoned relative to the total number of employed population) dipped from 40 percent in 2007 to 38 percent in 2008. However, when reckoned in

[9] The survey aims to determine the socioeconomic and health profile of the LGU. At present, the survey follows the so-called Community-based Information System-Minimum Basic Needs (CBIS-MBN) approach but the IRR of RA 7875 as amended provides for the adoption of other means test mechanisms.

[10] For our purposes here, the informal sector workers include the own-account workers, unpaid family workers, wage workers in private households, and wage workers in family-owned business.

Table 9. Coverage of different programs of PhilHealth, 2008

	No. of Members (in million)	Coverage Rate as % of Eligible Members	No. of Beneficiaries [a] (in million)	Benefit Payments (million pesos)	% Distribution	Premium Contributions (in million pesos)	% Distribution	Ratio of Premium Contributions to Benefits	% Distributions of Benefits/ % Distribution of Beneficiaries
2008									
Government employees	1.9	100.0	7.7	3,559	19.6	5,240	20.4	1.5	1.7
Private employees	6.4	48.2	23.2	7,649	42.1	15,752	61.4	2.1	1.2
Sponsored (indigents) Program	3.3	67.0 [b]	16.5	2,664	14.7	2,705	10.5	1.0	0.6
Overseas Workers Program	1.8		8.1	593	3.3	713	2.8	1.2	0.3
Individually paying members	2.7	24.8 [c]	12.5	2,491	13.7	1,231	4.8	0.5	0.8
Nonpaying members	0.4		0.7	1,199	6.6		0.0	0.0	6.6
TOTAL	16.5	38.2 [d]	68.7	18,155	100.0	25,641	100.0	1.4	1.0

[a] beneficiaries refer to principal members and dependents
[b] as % of poor households
[c] combined OFWs and individually paying members
[d] refers to contributory program only and estimated relative to total number employed
Source: Stats and Charts, PhilHealth (2008)

terms of the ratio of total beneficiaries (i.e., principal members and dependents) to total nonpoor population, the overall coverage rate of the contributory programs of PhilHealth is higher at 78 percent in 2007 and 79 percent in 2008.

On the other hand, the coverage of the Sponsored Program (reckoned relative to the estimated number of poor households) went up from 57 percent in 2007 to 67 percent in 2008. Thus, the contributory and noncontributory programs of PhilHealth taken together covered 68.7 million beneficiaries or 76 percent of the total population in 2008, higher than 72 percent registered in 2007.

Informal sector. In 2005, the IPP had 2.44 million members (including OFWs), accounting for 15 percent of the total number of workers in the informal sector. With the informal sector accounting for almost 50 percent of the labor force, PhilHealth recognized the importance of extending the coverage of this sector under the IPP. Moreover, not only is the coverage of the IPP low, but it is also reported that about two-thirds of IPP members are not paying their premiums on a regular basis because informal sector workers tend to have uncertain and variable income through the year (Jowett and Hsia 2007).

To broaden the coverage of the IPP, PhilHealth launched the *Kalusugan Sigurado at Abot Kaya sa PhilHealth Insurance* or KASAPI in August 2005. Under KASAPI, PhilHealth enters into strategic partnerships with organized groups (OGs) such as microfinance institutions (MFIs), cooperatives, rural banks, and nongovernment organizations (NGOs), many of which specifically serve workers in the informal economy.

Under the partnership, the OGs act as marketing and collection agents for PhilHealth. In exchange, the KASAPI offers the MFIs an incentive (in the form of a discount on the premium contributions due) if they enroll at least 70 percent of their eligible members under the IPP. The discount increases as the size of the group increases and as the percentage of eligible members enrolled increases. The MFIs then have the option to either pass on the discount, in part or in full, to their members or to use the discount to provide other services to their members. This arrangement provides members of the OGs greater flexibility in timing the payment of their premiums, and possibly lower premiums and/or more services from their OGs.

However, the success of the KASAPI has been fairly limited. Out of the 600,000 members of 14 OGs working with the KASAPI program (Asanza 2007), the program enrolled 23,332 informal sector families as of December 2008, up from an initial enrollment of 1,863 in 2006, according to the German Support to Health Sector Reform and Population Management Program in the Philippines website. Nonetheless, it is creditable that the number of IPP and OWP members combined rose 23 percent from 2.4 million in 2005 to 4.6 million in 2008.

Moving forward, PhilHealth continues to face serious challenges in its effort to expand the coverage of the IPP. Many organized groups like workers' associations and smaller cooperatives have less than 1,000 members and, as such, do not meet one of the criteria to qualify under the KASAPI. Thus, there is a need to develop a strategy to effectively reach the members of these smaller OGs and, more importantly, the unorganized informal sector. In an earlier effort by PhilHealth to partner with smaller OGs, the dropout rate of OG members was found to be high (75% to 85%), only slightly lower than the figure of about 91 percent for informal worker enrollees prior to the implementation of the initiative.

Sponsored program.[11] Enrollment in the Sponsored Program rose from 2,904 households in 1997 to 551,328 households in 2000, to 1.8 million in 2003. As of 2004, enrollment of indigents in the Sponsored Program surged to 6.3 million households due mainly to the Plan 5/25 launched by the Arroyo administration prior to the elections held that year. Plan 5/25 aimed to enroll five million families, or 25 million beneficiaries, under the Sponsored Program. In order to achieve this, funds were earmarked from the Philippine Charity Sweepstakes

[11] Strictly speaking, the Sponsored Program of PhilHealth, being noncontributory, is a social welfare program.

Office (PCSO) to pay the premium contributions of indigent members in full (i.e., without any LGU contribution).

When funding from the PCSO stopped, the number of sponsored members declined such that only 3.3 million households were enrolled in the Sponsored Program in 2008, accounting for 20 percent of PhilHealth's total membership. If the households enrolled in the indigent program were indeed all poor, they would represent 67 percent of the total number of poor households.[12]

However, many analysts (e.g., Torregosa 2001) note that much is left to be desired in the manner that indigents were actually identified under the sponsored program in the absence of a sound assessment of poverty indicators and mechanisms to effectively target beneficiaries. These points remain valid today. For instance, in 2006–2008, 23 percent to 44 percent of provinces have enrolled beneficiaries in excess of the actual number of poor households in their jurisdictions as per the 2006 Family Income and Expenditure Survey (FIES). On the average, the "excess" enrollment in these provinces account for 64 percent to 78 percent of the actual number of poor households in said provinces. However, if one assumes that enrolled beneficiaries with the exemption of "excess" households are in fact all poor (a strong assumption given the absence of a means test), the leakage rate is estimated to range between 20 and 24 percent in 2006–2008 (Table 10). If the leakage rate is adjusted, then it can be found that at least 2.4 million poor households (or at least 49% of the total number of poor households) are not yet covered under the Sponsored Program.

Table 10. PhilHealth Indigent Program

	2006	2007	2008
No. of HHs enrolled	4.7 million	2.7 million	3.3 million
Total no. of poor HHS	4.7 million	4.8 million	4.9 million
Coverage rate	100%	57%	67%
No. of provinces w/ enrollment	44	26	23
"Excess" enrollment as % of no. of poor HHs	65	64	78
Leakage rate	20%	23%	24%
NG cost	3.0 billion	2.1 billion	2.5 billion [a/]
NG+LGU cost	5.6 billion	3.3 billion	3.9 billion

[a/] Estimated based on per enrolled member allocation in 2007 but PHP 4.5 billion has been allocated as per General Appropriations Act (GAA).

Source: Author's estimates based on number of poor households per province in 2006 FIES and PHIC Sponsored Program enrollment data by province.

[12] Based on the 2006 FIES, 26.9 percent of total number of household is poor.

Notably, the national government allocated enough funds in the 2008 GAA to cover the national government's share of the premium contributions of all poor households in 2008. This indicates that the constraint in expanding the enrollment in the Sponsored Program very clearly lies on the LGU side which initiates the enrollment process.

Premium contributions. Under the ESP, the monthly premiums (equal to 2.5% of the monthly salary base of the member) are shared equally by employees and their employers and are remitted to PhilHealth by the employer. The member's share in the monthly contribution is deducted and withheld automatically by the employer from the former's salary/wage. It is then remitted to the PhilHealth together with the employer's share.

The minimum monthly salary base is set at PHP 4,000.00 while the maximum monthly salary base is PHP 30,000.00 effective January 2007. The maximum salary base is adjusted almost yearly since 2000 in order to allow a more equitable sharing of the contributions. Thus, the maximum monthly salary base rose consistently from PHP 5,500.00 in 2000; to PHP 7,500.00 in 2001; PHP 10,000.00 in 2002; PHP 15,000.00 in 2003; PHP 20,000.00 in 2005; and PHP 25,000.00 in 2006.

In contrast, the premium for the IPP is uniformly set at PHP 1,200.00 per year for all members enrolled under this program regardless of the member's capacity to pay. On the other hand, the premium for the OWP is also uniform but is equal to PHP 900.00 per year and is shouldered in full by the member, like in the IPP case.

While the premium for the Sponsored Program is also set at PHP 1,200.00, it is fully subsidized and is paid jointly by the national government, the province, and municipality/city where the indigent family resides. The national government and the LGUs (both the province and the municipality/city) share equally (50-50), particularly for LGUs belonging to first, second, and third income classes. However, if the LGU belongs to the fourth, fifth, or sixth income class, the LGU share rises gradually from 10 percent in the first and second years of enrollment to 50 percent in the tenth year. Conversely, the share of the national government in the premium subsidy for indigents residing in fourth to sixth income class LGUs declines gradually from 90 percent in the first and second years of enrollment to 50 percent in the tenth year of enrollment.

The sharing between the province and the city/municipality of the LGU share of the premium subsidy is variable. In some areas, the province pays for the entire LGU share. In others, the province and the city/municipality divide the LGU share of the premium subsidy between them, with the exact sharing formula resulting from some negotiation between the two levels of local government.

Benefits. Principal members and their dependents, regardless of the membership program they belong to, are entitled to:

- inpatient care in accredited hospitals (including room and board, drugs and medicines, professional fees, laboratories, and operating room) for confinements of not less than 24 hours;
- outpatient care (including day surgeries, dialysis, and cancer treatment procedures such as chemotherapy and radiotherapy) in accredited hospitals and free-standing clinics;
- normal spontaneous deliveries up to fourth delivery in accredited hospitals and birthing homes, maternity, and lying-in clinics for a fixed-case payment of PHP 4,500.00;
- newborn care package (including eye prophylaxis, umbilical cord care, Vitamin K, thermal care, administration of BCG vaccine and resuscitation of the newborn, first dose of Hepatitis B immunization, and newborn screening) from duly accredited hospitals and nonhospital facilities such as lying-in clinics, midwife-managed clinics, birthing homes, rural health units (RHUs), ambulatory surgical clinics, and other analogous health facilities for a maximum coverage of PHP 1,000.00;
- treatment of new cases of pulmonary and extrapulmonary tuberculosis (TB) in children and adults through the Directly Observed Treatment Shortcourse or DOTS (including diagnostic workup, consultation services, and anti-TB drugs required in an outpatient setup) in accredited TB-DOTS centers with a fixed-case payment of PHP 4,000.00;
- SARS and avian influenza package (including professional fees, hospital charges) for a coverage of PHP 50,000.00 per case for nonhealth worker members and their dependents and PHP 100,000.00 per case for forefront and high-risk healthcare workers; and
- Influenza A (H1N1) package (including room and board, drugs and medicines, X-ray, laboratory and others, operating room, and professional fees) for a coverage of up to PHP 75,000.00 for nonhealth worker members and PHP 150,000.00 for health worker members.

In addition, indigent members and their dependents may avail of a special outpatient benefit package from accredited RHUs that includes: (1) preventive care; (2) diagnostic services; and (3) laboratory services. On the other hand, OWP members and their dependents may avail of an enhanced outpatient benefit package that includes: (1) consultation services; (2) wide-ranging diagnostic services; (3) visual acuity examination; (4) psychological evaluation and debriefing; (5) promotive/preventive health services; (6) auditory evaluation; and (7) treatment of urinary tract infection (UTI), upper respiratory tract infection (URTI), and acute gastroenteritis (AGE).

PhilHealth inpatient care benefits provide "first-peso" coverage up to a maximum amount which is payable to providers on a fee-for-service basis. As such, PhilHealth pays the provider from the first peso of the bill up to the maximum benefit allowable while members are responsible for paying the remaining balance. The coverage cap varies with case type (such as surgical, general medicine, maternity, pediatrics, etc. that may be classified as A [Ordinary], B [Intensive], C [Catastrophic], or D [Super Catastrophic]) and level of the facility (primary, secondary, tertiary).

In contrast, PhilHealth uses capitation payments for the special outpatient care provided to indigent members. On the other hand, fixed-case payments are made for the TB-DOTS, the maternity package, and the SARS and avian influenza packages.

Assessment. Benefit payments made by PhilHealth in 2008 reached PHP 18.2 billion (or 0.2% of GDP), 3.6 percent higher than the PHP 17.5 billion in benefits made by PhilHealth in 2005. PhilHealth has not yet assumed a more dominant role in health financing as envisioned when it was created. The Philippine National Health Accounts of 2005 shows that out-of-pocket spending by households continued to be the major source of health spending (48%). National government and LGUs accounted for 29 percent while PhilHealth accounted for 11 percent.

<u>Low support value</u>

The financial protection that PhilHealth offers its members is low. PhilHealth estimates the support value of its benefits for hospitalization to be 62 percent overall; 88 percent for public hospitals, and 53 percent for private hospitals (Kwon 2005).[13] However, there is evidence to suggest that these numbers may

[13] This is based on a survey on support value of PhilHealth benefits conducted by the PhilHealth in 2004 involving 193 hospitals.

in fact overestimate the actual support value of PhilHealth benefits. A patient exit survey of public hospitals in the Visayas in 2005 shows that PhilHealth's support value for the hospitalization of children under six years old is 71 percent, i.e., lower than PhilHealth's own estimate of 88 percent. At the same time, the hospital bill accounts for 72 percent of total medical expenses while the remaining 28 percent went to purchases of drugs and medicines outside the hospital. This implies that the support value of PhilHealth (based on the total medical expense) is equal to 50 percent (or 71% of 72%).

The observed low support value of PhilHealth may be attributed to: (1) the "first-peso coverage up to a cap" approach applied in the provision of benefits; (2) paying providers on the basis of fee-for-service; and (3) the absence of regulations on the fees that providers charge (Gertler and Solon 2002; Jowett and Hsiao 2007; Kwon 2005). Under this set up, the protection provided to members may not increase even if the benefit ceiling were adjusted upward. This is because healthcare providers are able to capture insurance benefits by raising the prices they charge insured patients (Gertler and Solon 2002). In a sense, there is a ceiling on the maximum risk that PhilHealth will bear but there is no limit on the risk that its members are exposed to (Kwon 2005).

The large out-of-pocket expenditures that households have to shoulder even when they are insured may help explain the low utilization of members enrolled under the Sponsored Program and the IPP. Table 9 shows that the Sponsored Program captured less than 15 percent of total benefits paid by PhilHealth despite accounting for 24 percent of total number of beneficiaries in 2008. In like manner, while the IPP accounts for 18 percent of total beneficiaries of PhilHealth, IPP members received 14 percent of total benefits paid by PhilHealth.

As such, the low financial protection provided by PhilHealth benefits may also have some negative impact on expanding coverage as it discourages prospective members from joining PhilHealth. At the same time, it tends to exacerbate adverse selection, with the danger that lower risk individuals will elect not to join the program (Jowett and Hsiao 2007).

The solution to this problem appears clear cut: (1) raising the benefit ceiling; (2) introducing cost sharing mechanisms such as deductibles and coinsurance to minimize moral hazard; (3) regulating fees or shifting the payment system from fee-for-service to capitation or case-payments; and (4) banning balance billing (Kwon 2005). However, it is important to emphasize that care be exerted to calibrate the design and timing of the adoption of the new cost sharing schemes so as not to reduce the protection given to indigent members.

Financial sustainability

PhilHealth has a net worth of PHP 73.7 billion (or 4.0 times the total of benefit payments) in 2008, up from PHP 54.7 billion (or 3.1 times total benefit payments) in 2005. This came about as the ratio of premium contributions to benefit payments rose from 1.04 in 2005 to 1.41 in 2008 (Table 9). That PhilHealth is in the pink of health can be attributed to the limited risk that it bears in terms of benefit payments as discussed above (Jowett and Hsiao 2007).

However, Jowett and Hsiao (2007) also point out a number of red flags that could undermine the sustainability of the PhilHealth in the future. One, the rapid increase in claims of nonpaying members is worrisome. As expected, this trend holds in more recent years. For instance, the growth in benefits paid to the Nonpaying Program (44% yearly) outpaced the growth in the total benefits paid (2% yearly) in 2005–2008. Two, only 30 percent of the premium contributions due from private sector employers were actually collected. Three, 10 to 20 percent of benefit claims were said to be fraudulent. Four, about two-thirds of members enrolled under the IPP were not paying their premiums on a regular basis.[14]

In addition, although the IPP is part of the contributory program of PhilHealth, the program appears to be highly subsidized. For instance, benefits claimed by PhilHealth members under the IPP exceeded their premium contributions by a ratio of 2:1 in 2007 and 2008. Clearly, there is a need to adjust the level of premiums applicable to the IPP program. In this regard, there is a proposal to segment those currently eligible for the IPP into several groups, and to vary the premium for each. The aim of the proposal is to bring premium contributions more in line with ability to pay, given that the members under the IPP are a heterogeneous group (Jowett and Hsiao 2007).

[14] Data to update the estimates for items 2–4 not easily accessible.

3.

Social Welfare Programs and Social Safety Nets

This section provides an assessment of the various social welfare and social safety net programs like in-kind and cash transfers, microfinance, self-employment/livelihood programs, and other social assistance programs, including the three new programs that were recently put in place (Pantawid Pamilyang Pilipino Program, Pantawid Kuryente, and Tulong para kay Lolo at Lola Program).

Rice price subsidy

The rice price subsidy administered by the National Food Authority (NFA) has been a mainstay in the government's portfolio of interventions for several decades now. It has also consistently captured a substantial slice of the government's spending on social protection over the years. The NFA was formally established in 1981 but it had its roots in the creation of the National Grains Authority (NGA) in 1972.

Key features of the program design

The NFA, like its predecessor NGA, is mandated to stabilize palay and rice prices by setting a floor price for palay (to protect farmers' income) and a ceiling price for rice (to protect consumers' welfare), and by maintaining a buffer stock. The floor and ceiling prices for palay and rice, respectively, are defended by NFA's procurement of palay stocks and disbursement of rice stocks at officially determined prices. Thus, NFA rice is sold by registered retailers to consumers at a lower price than non-NFA rice.

The NFA's monopoly of rice imports also helps it in supporting the ceiling price of rice. For instance, the government's response to the Asian financial crisis in 1998 focused primarily on ensuring an adequate supply of rice (World Bank 2000). Thus, the NFA increased imports of rice to about 2 million tons in 1998. As a result, NFA rice releases in that year went up to over 20 percent of total consumption, more than double the 1997 level of 8 percent.

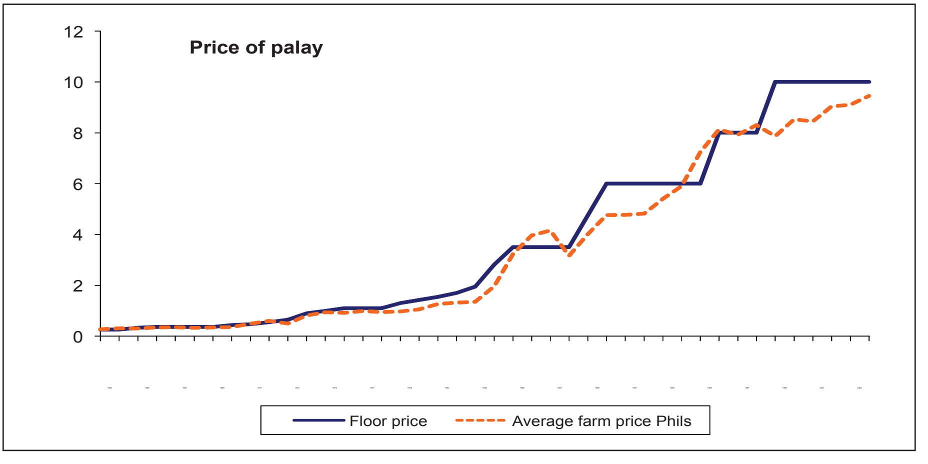
The NFA has typically not been able to check high consumer prices or low producer prices. Figure 3 shows that the average retail price of rice in the market has consistently been higher than the official NFA release price in 1985–2005.

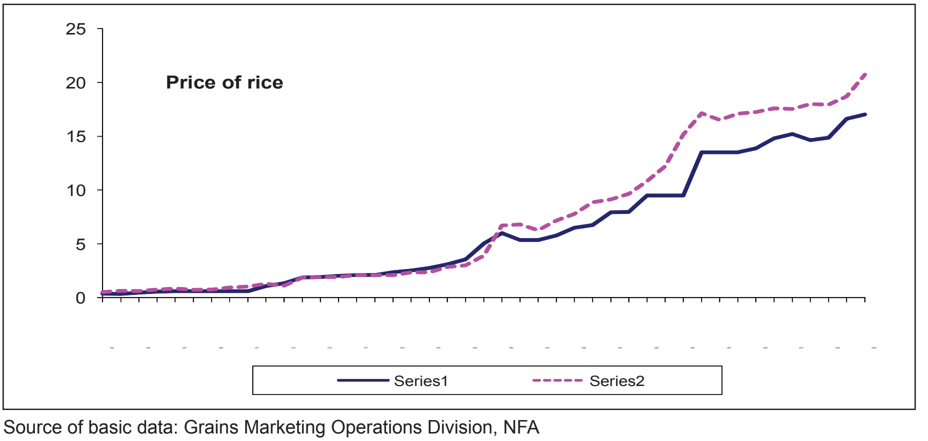
On the other hand, the average farm gate price of palay is typically lower than the official NFA support price in the same period. Roumasset (1999) attributes the inability of the NFA to enforce the floor and ceiling price for palay and rice, respectively, to the fact that the NFA is a relatively small player in the total rice market of the country.

Targeting and leakage

The NFA's rice price intervention is a universal consumer price subsidy and, as such, benefits even the nonpoor. It is essentially an untargeted program but the extent of program leakage is influenced by the distribution of NFA rice releases across geographic locations which in turn impacts on the poor's access to NFA-accredited stores.

Figure 3. Price of rice and palay in relation to NFA procurement and ceiling price, 1963–2005





Source of basic data: Grains Marketing Operations Division, NFA

Given the actual distribution of NFA rice across provinces in 2006, the leakage rate from the NFA rice intervention is estimated to be 71 percent based on the provincial level estimates of poverty incidence from the 2006 FIES and 87 percent based on the provincial level estimates of subsistence incidence from the 2006 FIES.

The 71 percent estimate of the leakage rate based on estimates of provincial level poverty incidence for 2006 is even slightly higher than the 67 percent that is derived if one assumes that NFA rice is randomly distributed all over the country. This result is consistent with the fact that the geographic distribution of NFA rice is not sensitive to poverty incidence.[15] For instance, in 2006, the share of NFA rice in total rice consumption in Western Visayas, Autonomous Region in Muslim Mindanao (ARMM), and Central Mindanao was 5.9 percent, 7.1 percent, and 11.0 percent, respectively (well below the national average of 20.4%) although the incidence of poverty in said regions was 38.6 percent, 61.8 percent, and 40.0 percent, respectively (higher than the national average of 32.9%). In contrast, NFA rice accounted for 40.5 percent of total rice consumption in the National Capital Region (NCR) when poverty incidence in this region is the lowest at 10.4 percent (Table 11).

Table 11. NFA rice distribution and poverty incidence, 2006

	NFA Rice Releases as % of Total Consumption	Poverty Incidence
PHILIPPINES	20.4	32.9
NCR	40.5	10.4
Ilocos Region	13.1	32.7
Cagayan Valley	9.9	25.5
Central Luzon	20.4	20.7
Southern Tagalog	12.0	36.8
Bicol Region	24.5	51.1
Western Visayas	5.9	38.6
Central Visayas	29.5	35.4
Eastern Visayas	19.6	48.5
Western Mindanao	30.3	45.3
Northern Mindanao	26.5	43.1
Caraga Region	20.0	52.6
Southern Mindanao	27.4	36.6
Central Mindanao	11.0	40.8
ARMM	7.1	61.8
CAR	24.3	34.5

Source of basic data: Grains Marketing Operations Division of NFA and 2006 FIES, NSO

[15] Moreover, a negative but statistically insignificant relationship between the distribution of NFA rice across provinces and poverty incidence is found for 2006.

The said estimate of the leakage rate likewise assumes that the beneficiaries of the NFA rice distribution program are randomly distributed within each province. One could argue, however, that NFA rice, being an inferior good, introduces a self-targeting element into the program that will somehow mitigate the leakage problem. Still another aspect of self-targeting stems from the fact that consumers have to wait in line for extended periods during times when NFA rice is deemed to be in short supply, such as the "rice crisis" of 2008. It is argued that the poor are more willing to queue for NFA rice because the opportunity cost of their time is much lower than that of the nonpoor. These two arguments tend to suggest that our earlier estimates of the leakage rate (71% and 87%) may overstate the true leakage rate.

<u>Attempts at improving the targeting of the NFA rice distribution</u>

Over the years, there have been attempts to reduce leakage by introducing mechanisms that will better target poor households. For instance, in addition to the untargeted distribution of NFA rice under its regular program, the NFA also implemented the Rice Subsidy Program in three municipalities in each of the four provinces (Antique, Iloilo, Sorsogon, and Surigao del Norte) starting in April 1998. The program was designed to provide rice at a subsidy of PHP 2.50 per kilo to poor families living below the food poverty threshold. The said families were identified with the help of the Department of Social Welfare and Development (DSWD). The beneficiaries were then given discount cards which they use when they purchase rice from accredited rice retail stores. However, no formal evaluation of the NFA Rice Subsidy Program has been made.

Tindahan Natin Program

In 2005, the government launched the Tindahan Natin Program (TNP). The TNP has two components. On the one hand, SEA-K Kabayan, SEA-K Association, or SEA-K individual beneficiaries with retail store business in strategically located sites that are accessible to intended beneficiaries of the TNP may apply for DSWD loan assistance. As such, the program provides credit for livelihood for the store owner. The location of TNP stores is identified based on geographic targeting using the Food Insecurity and Vulnerability Information Mapping System (FIVIMS).

On the other hand, as *originally* designed, only eligible TNP household beneficiaries may purchase food items at the NFA's prescribed selling price from the TNP store. Eligible beneficiaries can only purchase a maximum of

14 kilograms of rice per week.[16] A family ID cum passbook is issued by the LGU-Provincial/City/Municipal Social Welfare and Development Office (P/C/MSWDO) to the beneficiaries for identification and monitoring purposes. The beneficiary presents the ID/passbook when purchasing the rice allocation at the TNP stores.

The selection/identification of TNP household beneficiaries is the responsibility of the DSWD in coordination with the LGU-P/C/MSWDOs and the barangay councils. In principle, the target beneficiaries of the TNP are families who have income below the food threshold. However, it is not clear exactly how the individual household assessments are made and what the basis of such assessments is.

In the end, no restrictions were actually placed on who may buy the subsidized rice/noodles from the TNP stores. As such, all households within the catchment area of the TNP store are allowed to purchase the subsidized food items. The ID/passbook issued to families is only used as a means of ensuring that households do not buy more rice than is allowed.

In 2006, the TNP is reported to have benefited 1.7 million households. If the beneficiaries of the TNP are all poor, they would account for about 100 percent of the total number of poor households as per the food threshold.

The availability of the rice price subsidy to all residents in the catchment area of the TNP store underscores the importance of implementing geographic targeting well below the level of the province (i.e., municipal and barangay levels). Targeting for the TNP below the level of the province is done at the regional level jointly by the National Nutrition Council (NNC), DSWD, NFA, LGUs, and the local SWDOs. The TNP targets the actual location of TNP stores below the level of the municipality (i.e., at the barangay level) on the basis of a rapid poverty mapping that was conducted by the DSWD just prior to the launching of the TNP.[17] Said poverty appraisal focused on prevalence of malnutrition and lack of rice supply. Such an approach has the potential advantage of the fieldworker being able to detect the special circumstances of the different areas in a timelier manner. For instance, the TNP stores in the NCR are located in the more depressed areas of the region. Also, the inclusion of Bulacan in the TNP is said to be justified because the stores are located in areas where informal settlers have been relocated. However, the main drawback of this approach stems from the difficulty in maintaining uniformity and consistency across municipalities (barangays) within, and most especially,

[16] The weekly allocation per family is based on the average per capita rice consumption of 115 kilograms per year.
[17] This information was based on a telephone interview with an official of Region IV-A.

across provinces (municipalities). Such an approach may also be vulnerable to political interference.

Closer scrutiny of the actual location of the TNP stores and the corresponding number of beneficiaries served reveals the unevenness in the quality of the targeting below the level of the province. For instance, some target provinces appeared to have made use of the LGU income classification in targeting municipalities (e.g., Abra, La Union, Surigao del Norte).[18] Other provinces (e.g., Agusan provinces, Surigao del Norte, and Palawan) seem to have a good sense of which municipalities are poor based on the small area estimates (SAE) of poverty incidence. Still other provinces appear to have no discernable targeting pattern (e.g., Surigao del Sur, Ifugao, Romblon, Albay, Camarines Norte) and have excluded many poor municipalities while including many nonpoor municipalities. Many provinces tended to err on the side of including more municipalities than can be justified as poor by whatever basis (e.g., Quezon,[19] Marinduque, Camarines Sur).

The location of TNP stores also appears to have been constrained by the stores' accessibility to major road networks as TNP store operators shoulder the hauling cost of transporting the commodities to the store. This may explain why TNP tends to have a greater presence in the more urbanized areas. To wit, there is a preponderance of TNP stores in poblacion barangays.

Given the geographic distribution of the TNP stores across the country as well as the number of beneficiaries served by these stores, the leakage rate of the TNP is estimated to be equal to 66 percent for the entire program and 59 percent if stores within the NCR are not included.[20] This implies that 66 percent of the program benefits accrue to nonpoor households. Conversely, only 34 percent of program benefits are received by poor households. *In effect, the TNP is able to improve the targeting of the NFA subsidy only very slightly.*

The national government alloted PHP 188 million for the TNP in 2007 and PHP 160 million in 2008. These amounts are supposed to cover the cost of SEA-K loans to the operators of the TNP stores.

Family Access Cards for rice subsidy

In April 2008, President Gloria Macapagal-Arroyo directed the NFA to withdraw the highly subsidized rice (i.e., rice priced at PHP 18.25 per kilogram)

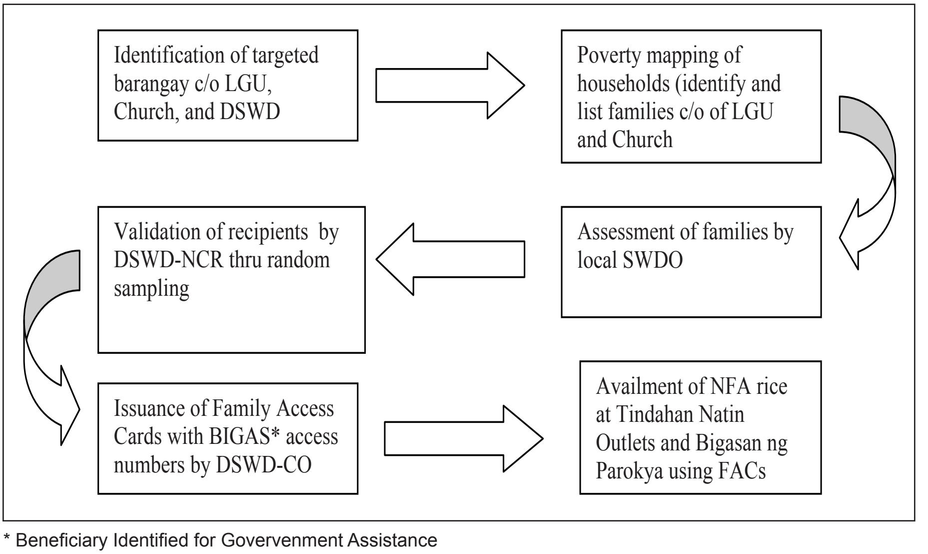
[18] However, not all of the fifth and sixth class municipalities of Abra were targeted. The same is true with Surigao del Norte but it is notable that those included were also SAE-poor.
[19] Quezon did target all but one of the 13 SAE poorest municipalities.
[20] These figures were computed based on the SAE of poverty incidence at the municipal level.

from the public markets in Metro Manila and instead focus the distribution of the same to the poorest families through the issuance of Family Access Cards (FACs) to eligible families.[21]

The target beneficiaries of the program are families with income below the food threshold, i.e., PHP 5,000.00 per month. The task of identifying the beneficiaries was shared jointly by the DSWD, the LGUs, and the church. The DSWD then issued the FACs which entitled the holder to buy two kilograms a day of the highly subsidized NFA rice sold only in Tindahan Natin Outlets (TNOs) and "Bigasan sa Parokya."

Figure 4 describes how the program worked in graphical terms. Out of a total of 1,695 barangays in the 16 cities and one municipality in Metro Manila, 911 barangays were targeted for the program. Once the target barangays were identified, the city/municipal SWDOs proceeded to map the households in the said barangays and collected household information using the General Intake Sheet (GIS), a tool developed by the DSWD. The GIS captured household information, including name of beneficiary, occupation, estimated family income, and information on other household members. The local SWDO then made an assessment of the poverty status of the households. Subsequently,

Figure 4. Flowchart of NFA-targeted rice distribution scheme



* Beneficiary Identified for Govervenment Assistance

Source: DSWD powerpoint presentation at the Multi-Stakeholder Forum on Social Protection for Women in Informal Economy, 14 August 2008.

[21] However, NFA rice will continue to be sold in public markets at the higher (but still subsidized) price of PHP 25.00 per kilogram.

the DSWD-NCR office validated the list of recipients submitted by the LGUs by randomly verifying the information in the GIS of the households on the list. To ensure greater transparency, the local SWDO endorsed the final list of eligible families to the barangay officials for confirmation and for posting in the barangay hall. A grievance mechanism was put in place for households which did not qualify but who believed otherwise.

To help ensure that the FACs would not be transferrable, each beneficiary was assigned a Beneficiary Identified for Government Assistance (BIGAS) access number which was issued and managed by the DSWD central office. The BIGAS access number is a 16-digit reference number that is unique for every beneficiary and is derived from three numbering systems: (1) 2-digit Code for the Program; (2) 9-digit Philippine Standard Geographic Code (PSGC) referring to the geographic jurisdiction where the beneficiary resides; and (3) 5-digit number that starts from 00001 for the first beneficiary family in the barangay and goes on consecutively. The BIGAS number is then converted into a BIGAS barcode, a machine-readable representation of the BIGAS number. The GIS and the FACs shall bear the BIGAS number stickers to authenticate them as such.

The targeting approach followed under the FAC for subsidized rice was the unverified means test and was implemented by the LGUs themselves. Reports indicated that the target number of family beneficiaries of the program totaled 700,030.[22] As of 13 August 2008, 538,458 families have been identified by LGUs and included in the masterlist. Upon verification by the DSWD-NCR, 387,693 family beneficiaries were found to be qualified. In other words, 28 percent of beneficiaries identified by the LGUs failed to qualify for the program upon validation by the DSWD. As of 8 August 2008, 270,480 family beneficiaries have been issued their FACS.

The number of family beneficiaries who were found to be qualified by the DSWD (387,693) compared with the total number of food-poor households (17,214) and the total number of poor households overall (167,316) in NCR as per the 2006 FIES highlights just how egregious the situation is. These numbers indicate leakage rates of 96 percent relative to the food poverty incidence and 57 percent relative to the overall poverty incidence at best.[23] This illustrates how the decentralization of targeting decisions tend to lead to

[22] Newspaper reports (e.g., Philippine Star, 3 August 2008) quoting Secretary Esperanza Cabral of the DSWD indicate that his number was made based on the representation of LGU officials in the NCR.

[23] Note that the program was ostensibly designed to help food-poor families with the cut-off monthly income per household of PHP 5,000.00 corresponding to the food poverty threshold.

suboptimal results as incentives arising from local rent-seeking behavior tempt local officials to manipulate and exploit local information. It also underscores how unverified means tests do not make the cut at all. Given this perspective, the phrase "much ado about nothing" appears to characterize the FACS pretty well.

Coverage

If the NFA rice intervention program were perfectly targeted, then the total amount of rice distributed in 2007 and 2008 should have been enough to satisfy the rice requirements of 55 percent of the total number of poor households and should have exceeded the rice consumption needs of all food-poor households by 24 percent. Precisely because leakage is high, the program is estimated to cover only 16 percent of the total rice requirements of food-poor/poor households at best.

Size of transfer/benefits

As with other food price subsidy programs, the effective transfer benefit, b, to eligible beneficiaries from NFA's subsidized rice program is equal to q*(pm-ps), where q is the quantity beneficiaries are allowed to purchase, pm is the market price of the rice, and ps is the subsidized price.

This translates to PHP 234.00 per month (or PHP 2,847.00 per year) in 2007[24] and PHP 477.00 per month (or PHP 5,803.00 per year) in 2008,[25] assuming that beneficiaries do purchase two kilograms of rice per day (the maximum amount that they are allowed to buy in the TNP and FACS program). In 2007, the size of the transfer is equivalent to 5.5 percent of the food poverty threshold and 3.7 percent of the overall poverty threshold. Because the implicit subsidy per kilogram of rice more than doubled in 2008, the size of the transfer in relation to the food/overall poverty thresholds went up correspondingly to 10.5 percent and 7.0 percent.

It should also be stressed that the effectiveness of the NFA rice subsidy to mitigate hunger and to reach the poor is limited by the fact that it simply provides a discount on the price of rice/noodles. To access the transfer, eligible beneficiaries are required to have the cash to pay for the food items, albeit at a subsidized price. This may limit the poor's access to the program.

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[24] The price of NFA rice was PHP 18.25 per kilogram while the retail price of regular milled rice was PHP 22.15 per kilogram on the average in 2007. Thus, the implicit subsidy per kilogram of rice was PHP 3.90 during that year.

[25] The price of NFA rice was PHP 22.75 per kilogram on the average in 2008 while the retail price of regular milled rice was PHP 30.70 per kilogram on the average. Thus, the implicit subsidy per kilogram of rice was PHP 7.95 on the average in 2008.

FACS program

The size of the transfer under the FACS program is bigger than that of the regular NFA rice intervention in which NFA rice is distributed by accredited dealers in the public markets. This arises from the fact that with the FACS, the price of subsidized rice became two-tiered, with NFA rice being sold at PHP 18.25 per kilogram under FACS and NFA rice being sold at PHP 25.00 per kilogram under the regular NFA program. Thus, the size of the transfer benefit under the FACS program is equal to PHP 747.00 per month (or PHP 9,089.00 per year).[26] This is equivalent to 16.4 percent and 10.9 percent of the food poverty threshold and the overall poverty threshold, respectively.

Budgetary implications

Because the NFA is engaged in an activity that inherently entails some losses, the government supports the NFA by providing it with budgetary support in terms of both equity infusions and operational subsidies through the General Appropriations Act (GAA). The national government's direct subsidy to the NFA was PHP 4.8 billion in 2006, PHP 2.1 billion in 2007, and PHP 2.0 billion in 2008. In addition, the national government guarantees all NFA debts. Thus, the cost to the taxpayers of NFA operations does not only include budget support but also the increase in NFA debt since the latter represents an increase in future obligations of the national government. Table 12 shows that the total financial cost of NFA interventions was PHP 5 billion in 2007 (or 0.1% of GDP) down from PHP 15.8 billion in 2006 (or 0.3% of GDP). With the rapid rise in the

Table 12. Fiscal cost of NFA operations, 2007–2008 (in million pesos)

	2006	2007	2008
Net loss before government subsidy	**15,5788** [a/]	**5,000** [a/]	**43,095** [b/]
of w/c: operating expense	3,581 [a/]	3,717 [a/]	3,717
Sources of finance			
Operational subsidies from NG	4,811	2,100	2,100
Other sources	10,977	2,900	41,95
Net loss before goverment subsidy as % of GDP	0.26	0.08	0.58

[a/] based on NFA financial statement for 2007
[b/] based on differece between cost of rice imports and proceeds of rice sales in local market
Source: NFA financial statement from 2007 Annual Audit Report on National Food Authority, Commission on Audit; cost of rice imports, price of NFA rice, and sales of NFA rice in local market from Grains Marketing Operations Division, NFA

[26] These figures are based on the average price of rice in the open-market price of PHP 32.00 per kilogram in August to December of 2008.

price of rice in 2008, the total financial cost of NFA interventions is estimated to go up correspondingly to PHP 43.1 billion (or 0.6% of GDP). These figures do not include the tax expenditures (i.e., the implied subsidy provided by the national government to cover the tariff imposed on NFA imports of rice). If tax expenditure allocations for the NFA of PHP 14.0 billion in 2007 and PHP 58.8 billion in 2008 were included, the total cost of NFA rice subsidy amounted to PHP 19 billion in 2007 and PHP 101.9 billion in 2008.

Food-for-School Program

The Food-for-School Program (FSP) was originally launched in November 2005. The FSP is a conditional in-kind transfer that is intended to mitigate hunger and to improve school attendance.

Key features of program design

Foremost, the FSP is an intervention that is meant to address hunger among poor families. It is also meant to improve the school attendance of the children of these households. It provides one kilo of rice to eligible families for each day their children attend school. In practical terms, the rice ration is provided to each eligible pupil after class.[27] Thus, eligible households are assured of having rice on their tables every day as long as their children continue to attend school or day care centers (DCCs). In this sense, the FSP may be viewed as a conditional in-kind transfer program.

The beneficiaries of the program are households who have children who are enrolled in eligible grade levels in public elementary schools or children who attend accredited DCCs in selected geographic areas. Thus, the FSP combines geographic targeting with institutional targeting at the level of the public school or DCC. The Department of Education (DepEd) implements the preschool/Grade 1 component of the FSP while the DSWD manages the DCC component.

Under the FSP, the DSWD organizes the parents of DCC children into Day Care Parents' Group to encourage their participation and sustain their support and commitment to the program. Similarly, the DepEd mobilizes the Parents-Teachers-Community Associations (PTCAs) to assist the selected schools in implementing the program.

In addition to the distribution of rice to eligible children in selected schools, other complementary activities are also put in place to help ensure

[27] When two or more siblings are enrolled in the eligible grade levels in public elementary schools or in identified DCCs, only one child will receive the rice ration.

improvements in the nutrition status of children. First, the height and weight of children are measured by the school nurse or teacher-in-charge at the start of the school year, while another assessment is done in November to determine their progress from the baseline. Meanwhile, the day care worker prepares a permanent growth monitoring record for each child enrolled in the day care program. Second, deworming of the children beneficiaries is undertaken at the start of the program. Third, parents/caregivers are given training on effective parenting and home care; adoption of desirable food, health, and nutrition practices; and sustainable food production/gardening technologies and livelihood/self-sufficiency projects by the LGUs in collaboration with NGOs and other government agencies in order to sustain family food security, increase school retention, and improve nutritional status of children in the long term. Fourth, school/home/community food production is encouraged by:

- having schools allot an area for selective production of nutrient-rich fruits and vegetables for the feeding of underweight children;
- having barangay councils designate an area in the community where parents of the children beneficiaries could establish a communal vegetable garden; and
- having the LGU agriculture office provide initial planting materials to the selected schools and the communities.

The inclusion of these complementary activities in the design of the FSP is commendable. International experience suggests that the positive effects of food-based transfer programs (which can reasonably be provided only for a fixed period of time) may not be sustainable in the longer term if they are not used as a way to provide maternal education on good nutrition/health practices (Rogers and Coates 2002).

<u>The school as distribution point</u>

The FSP makes use of the school as the point of distribution. International experience suggests a number of benchmarks pertinent to this design feature against which the FSP can be assessed. First, the implementation of similar programs in other countries indicates that the effectiveness of schools as distribution channel depends on the ability of the school network to reach the poorest areas and on the ability of the implementing agency to handle the logistics of storing, transporting, and distributing the food commodity (Rogers and Coates 2002). Such conditions are present in the Philippines where a public elementary school exists in almost every barangay and where the NFA, which is tasked to deliver the rice to schools in a timely manner, has a well-established regional/provincial network in place.

Second, delivering food transfers through public schools may serve some kind of self-targeting function as the relatively well-off households enroll their children in private schools (Rogers and Coates 2002). This is true in the Philippines where the share of the poor in total public school enrollment has been found to be greater than their share in the total population (Manasan et al. 2007). However, this tendency is weakened by the fact that the share of the private school system in total enrollment at the elementary level is low (7% in SY 2006–2007).

Third, experience in other countries suggests that targeting poor children within the school or class should be avoided because it creates a stigma that is likely to discourage the needy children from taking advantage of the program. In turn, this finding highlights the importance of targeting schools that serve low-income populations (Roger and Coates 2002). This lesson resonates well in the Philippines where high participation rates tend to result in a high leakage rate with universal targeting (i.e., no targeting) at the level of the school.

Fourth, studies (e.g., Glewwe et al. 2001) show that better nutrition of children brought about by cash/food transfer programs (whether conditional or not) tend to result in higher school participation rates. However, experience in a number of countries (e.g., Bangladesh and Mexico) also suggests that rapid expansion in access can undermine service quality unless there is also an improvement in service provision (Chapman 2006). Given the already high participation rates in the public elementary school system in the Philippines, the potential improvement in school attendance and the reduction in the dropout rate that are expected to result from the FSP accentuate the need to address the input deficits in the basic education sector (i.e., the need to strengthen the supply side).

The DCC as distribution point

The use of the DCC as a distribution point may be justified on two grounds. First, delivering food transfers through DCC may be self-targeting (even more so than through public elementary schools) precisely because there is a greater tendency for the DCCs to be patronized almost exclusively by poorer households. Second, DCCs serve younger children who are subject to the greatest nutritional risk (Chapman 2006).

It should be noted that the distribution of DCCs across the country is not as extensive as that of public elementary schools. Also, since DCCs are largely funded by LGUs, they may not be present in poorer areas. Note that 16 percent of the total number of barangays have no DCCs while only 68 percent of the total number of DCCs is accredited by the DSWD.

Coverage, targeting, and leakage

The number of beneficiaries under the FSP was 369,840 preschool and Grade 1 pupils under the DepEd component and 74,261 children under the DSWD component for a total of 444,101 children in SY 2005–2006. Meanwhile, for SY 2006–2007, there were 596,939 preschool and Grade 1 pupils under the DepEd component and 289,877 children under the DSWD component for a total of 886,816 children. There were 1,348,200 preschool and grade school pupils under the DepEd component in SY 2007–2008.

The selection of beneficiaries and the eligibility rules for the program has been changed twice since the introduction of the FSP: first in SY 2007–2008 and second in SY 2008–2009. In the first cycle of FSP implementation (SY 2005–2006 and SY 2006–2007), the geographic areas covered by the FSP included the 17 cities and municipalities of NCR and the 49 provinces that were identified by the FIVIMS as either very, very vulnerable (VVV), very vulnerable (VV), or vulnerable (V).[28]

At that time, eligible children for the DepEd component were preschool/ Grade 1 pupils in public schools in targeted LGUs. Meanwhile, eligible children for the DSWD component were children enrolled in DSWD-supervised DCCs in targeted LGUs. Thus, the FSP was targeted to include *all* preschool/Grade 1 pupils in *all* the public schools as well as *all* the children enrolled in *all* the DSWD-supervised DCCs in the following areas:

- all municipalities and cities (17) in the NCR;
- all municipalities (49) of the provinces classified as VVV in the FIVIMS;
- all fifth and sixth class municipalities (283) of the provinces classified as VV and V in the FIVIMS;
- all fourth class municipalities (27) in the VV and V provinces where there are no fifth and sixth class municipalities; and

[28] The FIVIMS is designed to identify food-insecure and vulnerable provinces in the country. The FIVIMS is anchored on an index composed of 12 core indicators. These indicators are: (1) ratio of per capita income to per capita expenditure; (2) poverty incidence; (3) median family income; (4) ratio of food expenditure to total household expenditure; (5) ratio of cereal food expenditure to total food expenditure; (6) unemployment rate; (7) cohort survival rate at the elementary level; (8) percentage of families with working children; (9) percentage of households with safe water; (10) percentage of underweight children; (11) percentage of underweight adults; and (12) percentage of agricultural land under tenancy. The FIVIMS was largely based on data referring to 2000.

- all third class municipalities (3) in the VV and V municipalities where there are no fourth, fifth, and sixth class municipalities.

An analysis of the targeting scheme used for the FSP in SY 2005–2006 found that the ranking of municipalities according to their income class does not correlate well with their ranking according to the SAE of poverty incidence at the municipal level. This is true whether one is looking at the ranking of municipalities within a province or the ranking of municipalities across the country. For instance, 155 (or 50%) of the 313 municipalities in the VV and V provinces are found not to be among the poorest municipalities even within each of these provinces under the FIVIMS (Manasan and Cuenca 2007).

Thus, it is not surprising that a counterfactual simulation indicates that the leakage rate[29] from the FSP, given the existing arrangements in SY 2006–2007 (62% in the DepEd component and 59% in the DSWD component), can be brought down to 55 percent and 53 percent for the DepEd and DSWD components of the FSP, respectively, if the program were to target the poorest municipalities (as per the SAE of poverty incidence at the municipal level) in each of the VV and V provinces under the FIVIMS[30] rather than to the fifth and sixth class municipalities in the same provinces (Table 13 and Table 14). Moreover, the study also suggests that leakage rate can be further reduced to 24 percent (for the DepEd component) and 44 percent (for the DSWD component) of the FSP, if the program were to directly target the poorest municipalities overall.[31]

Table 13. Leakage rate and undercoverage rate under alternative targeting rules for DepEd component of FSP, SY 2006–2007

Targeting Rule	Leakage Rate	Under-coverage Rate	Share of the Poor in Total Transfers
FIVIMS priority provinces and municipalities according to income class (existing rule)	62%	80%	38%
FIVIMS priority provinces and municipalities according to SAE (alternative rule #1)	55%	72%	45%
Directly targets municipalities according to SAE with same no. of actual beneficiaries as now (alternative rule #2)	24%	53%	76%

Source: Manasan and Cuenca (2007)

[29] The leakage rate and the undercoverage rate are estimated on the basis of the poverty incidence adjusted for the tendency for the share of the poor in public school enrollment to be higher the poverty incidence.
[30] This alternative targeting rule is referred to as alternative rule #1.
[31] This alternative targeting rule is referred to as alternative rule #2.

Table 14. Leakage rate and undercoverage rate under alternative targeting rules for DSWD component of FSP, SY 2006–2007

Targeting Rule	Leakage Rate	Under-coverage Rate	Share of the Poor in Total Transfers
FIVIMS priority provinces and municipalities according to income class (existing rule)	59%	75%	41%
FIVIMS priority provinces and municipalities according to SAE (alternative rule #1)	53%	69%	47%
Directly targets municipalities according to SAE with same no. of actual beneficiaries as now (alternative rule #2)	44%	56%	56%

Source: Manasan and Cuenca (2007)

The analysis reveals that the undercoverage rate which is estimated to be 80 percent and 75 percent for the DepEd and DSWD components, respectively, under existing arrangements can be improved to 72 percent in the DepEd component and 69 percent in the DSWD component if alternative rule #1 were followed. Meanwhile, the undercoverage rate is estimated to be 53 percent (for the DepEd component) and 56 percent (for the DSWD component) if alternative rule #2 were followed.

In the second cycle of FSP implementation (SY 2007–2008), target LGUs were selected on the basis of provincial level poverty incidence estimates derived from the 2003 FIES following its official release in October 2006. Thus, the FSP in SY 2007–2008 targeted all eligible pupils in all public schools and DCCs in the following LGUs:

- all municipalities and cities in the NCR;
- all municipalities in the priority 1 provinces (i.e., the 10 poorest provinces based on the 2003 subsistence incidence);
- all fifth and sixth class municipalities of the provinces classified as priority 2 provinces (i.e., the 20 poorest provinces based on the 2003 poverty incidence but not including those classified as priority 1 provinces) and priority 3 provinces (i.e., 24 provinces with existing hunger mitigation programs); and
- all fourth class municipalities in the priority 2 and priority 3 provinces where there are no fifth and sixth class municipalities.

In SY 2007–2008, target beneficiaries under the DepEd component refer to all pupils in preschool/Grades 1 to 6 in all public elementary schools in all the municipalities and cities in priority 1 provinces and the NCR, and all pupils in preschools/Grade 1 in all public elementary schools in the target LGUs in priority 2 and priority 3 provinces. Target beneficiaries under the DSWD component refer to all day care children in all the target LGUs in NCR and priority 1, priority 2, and priority 3 provinces.

At the time of this writing (i.e., third cycle of FSP implementation or SY 2008–2009), target LGUs were selected on the basis of the provincial level poverty incidence estimates derived from the 2006 FIES and the SAE of poverty incidence for municipalities. In this cycle, government decided to limit NCR coverage to 21 barangays identified as "hotspots" by the DILG and to include the poorest 100 municipalities (according to SAE) in the list of LGUs targeted for the FSP.

The FSP in SY 2008–2009 targeted *all* preschool/Grades 1 to 3 pupils in *all* public elementary schools and *all* children attending DSWD-supervised DCCs in the following LGUs:

- 21 "hotspots" in the NCR as identified by the DILG for the DepEd component and all cities and municipalities of the NCR for the DSWD component;
- all municipalities in the 20 food-poorest provinces based on the 2006 FIES; and
- the poorest 100 municipalities based on the SAE exclusive of the municipalities already covered in the 20 food-poorest provinces.

The changes in the targeting rule for the implementation of the FSP that have been introduced as of this writing is estimated to reduce the leakage rate in the DepEd component from 62 percent in SY 2006–2007 and 54 percent in SY 2007–2008 to 32 percent in SY 2008–2009. A similar reduction in the leakage rate in the DSWD component is likewise expected but data for recent years were not available.

Size of the transfer

The FSP provides the beneficiary one kilo of rice daily for five days a week. There are indications that the transfer is not large enough. An informal survey conducted by the DepEd in February–March 2006 found that 80 percent of households (HH) reported that one kilo of rice is not enough to provide a family three meals a day and that only 33 percent of HH reported not having missed a meal in the last three months.

These numbers are consistent with the fact that the FSP's rice ration during school days is just enough to cover about 45 percent of the average weekly rice consumption of a family of five.[32] Moreover, if the rice transfer were converted to cash (PHP 675.00 per month at the average retail price of PHP 30.70/kg of regular milled rice in 2008), the transfer is estimated to be equal to 15 percent of the food threshold and 10 percent of the overall poverty threshold. However, if reckoned at the subsidized price of PHP 18.25 per kilogram, the transfer is equal to 9 percent of the food threshold and 6 percent of the overall poverty threshold.

Benefits

A rigorous assessment of the outcomes of the FSP has not yet been done. However, the results of DepEd's monitoring of the FSP implementation conducted in 27 February–11 March 2006 appear to validate the experience in other countries that social transfers can act as effective incentives to increase poor people's demand for services and improve their education outcomes. In fact, transfers do not need to be conditional on school attendance to impact children's education (Chapman 2006). It shows that the program has some positive impact on both the school attendance and nutrition status of the pupils who benefited from the FSP (Table 15).[33] In particular, 62 percent of the respondents said that the number of school days missed declined while 44 percent of the participating children included in the assessment gained weight. On the other hand, 20.1 percent of the respondents reported that they gained enhanced knowledge on basic nutrition from the program.

Table 15. Perceived gains from the FSP (DepEd)

	Percent [a/ b/]
1. No missed meals in the past three months	33.7
2. Decreased number of school days missed	62.1
3. Increased weight of child	44.4
4. Additional food for the family	89.6
5. Enhanced knowledge on basic nutrition	20.1

a/ Proportion of respondents who report specified gains.

b/ Total is not equal to 100 percent due to multiple answers.

Source: Presentation of National Nutrition Council to DepEd in July 2006 as cited in Manasan and Cuenca (2007)

[32] This figure is estimated based on a 0.32 kilogram allocation per member per day which, in turn, is based on the national average rice consumption.

[33] Seventeen out of the 49 provinces included in the program were visited as part of the monitoring. Fifty-two elementary schools and DCCs were visited, 401 children were weighed, and 412 parents/caregivers were interviewed.

Budgetary implications

The FSP does not appear as a line item appropriation in the GAA for either the DepEd or the DSWD in 2007 and 2008. This came about because the Senate, unconvinced of the desirability of a rice distribution program, converted the proposed appropriations for the FSP under the National Expenditure Program (NEP) into appropriations for the Malusog na Simula, Yaman ng Bansa Program (MSYBP or Healthy Start Program) with the provision that said appropriations be used for school-based nutrition feeding program using milk, eggs, coco-pandesal, and vegetable-based noodles.

Nonetheless, an allotment of PHP 3 billion was released to the DepEd[34] and PHP 750 million to the DSWD for the FSP (or a total of PHP 3.75 billion) in 2007. In 2008, the Department of Budget and Management (DBM) released an allotment of PHP 2 billion to the DepEd for the FSP charged against the overall savings of the national government and another PHP 500 million charged against unprogrammed funds of the GAA (as part of the Katas ng VAT programs) for a total of PHP 2.5 billion. In addition to the PHP 750 million allotment that was released to the DSWD but which was not utilized in 2007, the national government released an allotment of PHP 766 million and PHP 500 million to the DSWD for the FSP in 2008.[35]

Actual utilization of the funds released for the FSP has been low, however. Only 23 percent of total allotments for the program were obligated by the DepEd while no obligations were charged against the allotments for the FSP by the DSWD in 2007. On the other hand, the utilization rate (i.e., actual obligation as a percentage of allotment) for the FSP was zero at the DepED and 24 percent at the DSWD in 2008.[36]

The low utilization rate at the DepEd is due to a combination of the late release of allotments and implementation problems arising from the lack of policy consistency between Congress and the executive branch. For instance, the SARO for the FSP was released only on 04 September 2008. At the same time, concerns about the appropriateness on the use of the SARO for the procurement of rice for the distribution in the FSP were raised considering that the GAA explicitly prohibits use of the MSYBP funds for rice procurement. This issue was eventually addressed by explicitly stating in the new SARO (which replaced the one that was originally released by the DBM) that the

[34] The releases to the DepEd in 2007 consist of an initial release of PHP 2 billion (exactly equivalent to the unreleased appropriation for the Healthy Start Program) and an additional release of PHP 1 billion.

[35] Note that the allotments released to the DSWD for the FSP in 2008 were ostensibly meant for the Healthy Start Program.

[36] This ratio is reckoned using current year's allotment only.

allotment for the FSP was charged in part against the overall savings of the national government and in part against the Katas ng VAT. However, after the confusion was cleared, the year ended without any obligation being made for the FSP. Moreover, the delay also resulted in a shortened implementation of the FSP (i.e., 13 days) in tailend of SY 2008–2009. One DepEd official also opined that the impact of the FSP (and the MSYBP) is not as large as one would expect because the implementation of the program is typically shorter than planned, i.e., too short to make an impact.

The budgetary allocation for the FSP to the DepEd and the DSWD covers the amount used by these agencies to procure the rice distributed under the program from the NFA at a cost of PHP 20.00 per kilogram, inclusive of the hauling and handling costs. It should be emphasized that these allocations represent the explicit cost of the program from the perspective of the DepEd and DSWD. In addition to this, the program incurs an implicit cost that is equal to implicit subsidy (pm-ps) multiplied by the total number of kilograms of rice required for the program. The implicit cost of the FSP is estimated at PHP 784 million in 2007 and PHP 2.2 billion. However, the implicit cost of the FSP is already factored in the cost of NFA rice intervention.

Supplemental feeding programs

In addition to the FSP, both the DepEd and the DSWD also implement supplemental feeding programs. The aim of these programs is to augment the diet that undernourished schoolchildren receive at home. In turn, these are meant to improve their learning capabilities in cognizance of the fact that a hungry child cannot learn and perform well in school.

Key features of program design

The DepEd implements two school-based feeding programs: the regular breakfast feeding program (BFP) and the MSYBP. The regular breakfast feeding program aims to address short-term hunger among schoolchildren by providing nutritionally adequate breakfast to Grades 1 and 2 *pupils in public elementary schools identified as low performing* as a means to improving the academic achievement of said pupils.[37]

Under this program, each pupil in the target public elementary schools is given one half of a 100-gram pack of instant noodles with fresh eggs three

[37] According to the DepEd, "short -term hunger" among schoolchildren has been shown to affect children's cognitive functions and their learning achievement (UNESCO 1989). On the other hand, a study based on a randomized trial of the effects of breakfasts in rural primary schoolchildren revealed that the provision of a school breakfast produced benefits in children's nutritional status, school attendance, and achievement (Powell et al. 1998).

times a week while in school. Teachers and parents assist the pupils in the preparation of breakfast.[38]

Meanwhile, under the MSYBP, the DepEd provides preschool and Grade 1 pupils in selected schools with fortified vegetable-based noodles (containing 300 kilo-calories, 10 grams of protein, 800 IU beta carotene meals, and fortified with iodine), coco-pandesal, and milk daily. In SY 2008–2009, the program benefited 373,440 pupils in all the public elementary schools in the 11 poorest provinces as per the 2006 FIES.[39]

The DSWD also implements the MSYBP in selected DCCs nationwide. Under the program, it provides hot meals and milk to children enrolled in the selected DCCs. In 2007, the DSWD program reached 266,568 children in 7,007 DCCs in 355 LGUs (i.e., municipalities and cities) in 54 provinces and the NCR.

As part of these school feeding programs, the nutritional status of the beneficiaries is measured before and after the feeding to determine nutritional improvement. Health services such as health appraisal, deworming, referral, and counseling are also provided to all program beneficiaries. As such, school feeding is viewed as an avenue to develop desirable health and nutritional habits among the children.

Coverage and targeting

In SY 2008–2009, a total of 15,325 pupils benefited from the program in 811 schools in NCR, Cordillera Administrative Region (CAR), and Regions I to VI.[40] Under the regular breakfast feeding program of the DepEd, the criteria for targeting is the school performance in the previous year's National Achievement Test (NAT).[41] It is notable that the schools targeted under the breakfast feeding program are more dispersed nationwide instead of being concentrated in LGUs with high poverty incidence.

In contrast, as indicated earlier, the MSYBP targets all public elementary schools and all accredited DCCs in the 11 poorest provinces and the province of Kalinga as per the 2006 FIES. Given the wide dispersion in the poverty

[38] Cooking the noodles in bulk is discouraged and noodle preparation is done individually.

[39] In addition, all public elementary schools in the province of Dinagat Islands which used to be part of Surigao del Norte (one of the 11 poorest provinces) and the province of Kalinga are also included in the program.

[40] Ideally, the program covers all schools nationwide which are classified as low performing. But due to budget constraints, low performing schools in Regions VII, VIII, IX, X, XI, XII, and Caraga have not been included in the program.

[41] Prior to SY 2008–2009, the breakfast feeding program of the DepEd targets six schools in each division with the highest incidence of malnutrition and the most number of pupils coming from low-income families as feeding program beneficiaries.

Table 16. Nutritional status of children before and after DSWD supplemental feeding, 2007

Nutritional Status	Before Feeding	% Distribution	After Feeding	% Distribution
BNVL [a/]	5,238	2.0	2,360	0.9
BNL [b/]	61,325	23.0	37,490	14.1
Normal	193,970	72.8	213,300	80.0
AN [c/]	6,045	2.3	13,418	5.0
TOTAL	266,578	100.0	266,568	100.0

[a/] BNVL - below normal very low - severe undernutrition
[b/] BNL - below normal low - moderate undernutrition
[c/] AN - above normal - weight is higher than standard weight-for-age
Source: DSWD Annual Report (2007)

incidence of the municipalities and cities comprising any given province, the targeting under the MSYB program is expected to yield higher leakage rates than the current cycle of the FSP.

Program impact

Table 16 documents the improvement in the nutritional status of children who participated in the DSWD's supplemental feeding program in 2007. It shows that the proportion of children classified as below normal in terms of nutrition status in the targeted DCCs declined from 25 percent before the implementation of the program to 15 percent after the program. On the other hand, the DepEd reports that the proportion of undernourished children in the targeted schools was reduced from 20 percent in 2006 to 17 percent in 2007.

Budgetary implications

The national government appropriated PHP 80.8 million and released PHP 78.7 million for the regular breakfast feeding program of the DepEd in 2007. In 2008, the PHP 80.8 million that was appropriated for the program was released in full.

On the other hand, the appropriation for the MSYBP in the GAA was PHP 2.0 billion (under the DepEd cover) and PHP 750 million plus PHP 766 million (under the DSWD cover) in 2007. The following year (2008), appropriations were PHP 2.5 billion and PHP 766 million under the DepEd and DSWD cover, respectively. While no releases were made to the DepEd for the MSYBP in 2007, PHP 500 million was released in 2008. Meanwhile, PHP 270 million was released to the DSWD for the MSYBP in 2007 but none in 2008.

Actual utilization of the funds released for the supplemental feeding programs is uneven. For instance, DepEd's actual obligation for the regular breakfast feeding program was PHP 9.2 million in 2007, equivalent to 12 percent of total allotment received.[42] In contrast, the DSWD was able to obligate 89 percent of total allotments received for the supplemental feeding program in 2007.

Pantawid Pamilyang Pilipino Program

The Pantawid Pamilyang Pilipino Program (4Ps) is a conditional cash transfer program that aims to improve the living conditions of poor households while at the same time encouraging them to increase their investments on the education and health of their children. It provides cash grants to poor households on the condition that said households increase their investments in their children's human capital.

Key features of program design

The 4Ps provides an education grant equal to PHP 300.00 per child per month during the school year (up to a maximum of three children) provided they comply with the following conditions:

- children 3–5 years old attend day care or preschool classes at least 85 percent of the time; and
- children 6–14 years old enroll in elementary or high school and attend school at least 85 percent of the time.

The education grant comes up to PHP 3,000.00 per year for a household with one child or PHP 9,000.00 a year for a household with three children assuming that they comply with the education conditionalities.

At the same time, 4Ps provides a health grant equal to PHP 500.00 per month to targeted poor households provided they comply with the following conditions:

- pregnant women avail of prenatal and postnatal care and be attended to during childbirth by skilled attendant;
- parents attend responsible parenthood sessions;
- children 0–5 years old receive regular preventive check-ups and vaccines; and
- children 0–5 years old receive deworming twice a year.

The health grant comes up to PHP 6,000.00 per year per household who comply with the health conditionalities. Thus, a 4Ps household with one eligible

[42] This ratio is reckoned on the basis of current year's obligations only.

child stands to receive a total of PHP 9,000.00 per year while a 4Ps household with three eligible children stands to receive a total of PHP 15,000.00 in government assistance.

The 4Ps is expected to benefit the poorest 300,000 households in the 20 poorest provinces (with the exception of three ARMM provinces) and the poorest province in each of the five regions which were not represented by the 20 poorest provinces.[43] In each of the poorest provinces, the poorest municipalities are selected based on the SAE of poverty incidence and peace and order situation thereat.

A household survey is then administered in the selected municipalities. Subsequently, households are selected on the basis of a proxy means test (PMT). Beneficiaries are then registered and issued identification cards and bank cards. The payment of the cash grants to household beneficiaries is made to the most responsible adult in the household through automated teller machines of the Land Bank of the Philippines (LBP).

Compliance of beneficiaries on the conditionalities is monitored through a verification system that has been put in place for the purpose. A grievance system is likewise installed to ensure that complaints and grievances, noncompliance, and other matters regarding the program implementation are appropriately acted upon.

Targeting

As indicated above, a PMT is used to select beneficiaries of the 4Ps. The targeting instrument utilized in the 4Ps appears to have performed well in the pilot areas. In these areas, the reported number of cases of inclusion error was less than 10 percent of the selected number of beneficiaries. The use of the PMT enforces the credibility of the program and reduces the risks associated with political interference in the selection of beneficiaries.

Expected benefits

As with conditional cash transfer programs in other countries, the expected outcomes of the 4Ps include:

- significant increase in the number of children enrolling in daycare/preschool;
- significant increase in number of children enrolling in elementary and secondary school;

[43] Poverty incidence is based on the 2006 FIES.

- significant increase in the school attendance of children in elementary and secondary school;
- significant increase in the number of years of education completed;
- significant increase in the number of pregnant women getting prenatal and postnatal care, and whose child birth is in a health facility and attended by health professional;
- significant increase in the number of children 0–5 years old availing of preventive services and immunization;
- significant decrease in stunting among children 0–5 years old;
- significant decrease in the baseline level of population growth; and
- significant increase in food consumption.

<u>Potential impact on school attendance</u>

The 2004 APIS shows that 92 percent of all children 6–15 years old attend school. However, only 85.0 percent of children aged 6–15 in the poorest quintile attend school compared with 98.5 percent of those in the richest quintile.

At the same time, the 2004 APIS also shows that demand side constraints (i.e., lack of personal interest and high cost of education) are the two reasons most often cited by children aged 6–15 to explain their nonattendance in school. In both cases, these two reasons appear to be more important for the poorer quintiles than for the richer quintiles.

Close to a quarter (23.7%) of school leavers aged 6–15 in the poorest quintile attribute their nonattendance in school to the high cost of education in comparison to 9.8 percent of their counterparts in the richest quintile. On the other hand, 38.6 percent of school leavers aged 6–15 in the poorest quintile claim they are not in school because of lack of personal interest compared with 27.5 percent of their counterparts in the richest quintile.

The potential impact of the 4Ps on school attendance is simulated using the results of Orbeta (2005). Said study focuses on the determinants of households' decision to send their children to school. It shows that family income is the predominant variable that explains school attendance. Moreover, school attendance is found to be more responsive to changes in per capita income among the lower income quintiles. In particular, a 10 percent increase in per capita household income is estimated to increase the probability of school attendance of children in the poorest quintile by 1.5 percent.

The study also reveals that school inputs (e.g., pupil-teacher ratio, pupil-classroom ratio) are significant determinants of school attendance. However, the indicators of school characteristics were not found to affect the coefficients of the socioeconomic variables (i.e., sex and age of child, highest grade completed of mother, family size, and per capita income).

Given the coefficients in Orbeta (2005), the pure income effect of the education grant (which is estimated to increase the average per capita income of beneficiaries of the 4Ps by 14%) is estimated to increase the school attendance rate among children aged 6–14 in the poorest quintile from 85.0 percent to 85.2 percent. In like manner, the pure income effect of the sum total of the education grant and the health grant (which is estimated to increase the average per capita income of beneficiaries in the 4Ps by 29%) is estimated to increase the attendance rate from 85.0 percent to 85.4 percent. On the other hand, with the education conditionality under the 4Ps, the school attendance rate is estimated to increase to 86.4 percent (Table 17).[44]

The overall impact on school attendance rate appears to be low largely because the coverage of the 4Ps as it is currently implemented is fairly low at about 7 percent of total number of poor households nationwide or 18 percent of total number of poor households in the target provinces. For instance, if the beneficiaries of the 4Ps were to be increased from the current level of 300,000 households to 1 million households, the program is estimated to increase the school attendance rate of the poorest quintile from 85.0 percent to 89.8 percent.

<u>Potential impact on poverty and food intake</u>

It is not possible to simulate the effect of the 4Ps on poverty incidence. However, the total cash transfers under the 4Ps is estimated to reduce the income gap[45] of the poorest quintile from 45.0 percent to 43.7 percent assuming that the total cash transfers is spread out to all households in the poorest quintile.

On the other hand, the potential impact of the 4Ps on food intake of households is estimated using the results of an analysis conducted on data obtained from the World Bank, the 1996 International Comparison Project (ICP), which provides consistent consumption expenditures across 114 countries (Seale et al. 2003). The study shows that consumers in low-income countries make greater adjustments in their household spending on food when incomes and/or prices change. In particular, it estimated that when household incomes increase by 10 percent, a consumer in the Philippines will typically

[44] These estimates assume that on the average, households in the poorest quintile have two children who are eligible for the education grant.

[45] The income gap refers to the average income shortfall (expressed in proportion to the poverty line) of families with income below the poverty threshold.

Table 17. Probability that children aged 6–14 will attend school (based on 2004 APIS)

Income Quintile	Without 4Ps	Without 4Ps		
		Education Grant only; Without Conditionality	Total Grants; Without Conditionality	Education Grant only; With Conditionality
1	85.0	85.2	85.4	86.4
2	90.9	90.9	90.9	90.9
3	94.5	94.5	94.5	94.5
4	96.7	96.7	96.7	96.7
5	98.5	98.5	98.5	98.5
Total	92.0	92.1	92.1	92.4

Source: Author's computations based on 2004 APIS of NSO and coefficients of Orbeta (2005)

increase food spending by 6.5 percent. Given this, it is estimated that the 29 percent increase in the average per capita income of the beneficiaries of 4Ps will result in a 19 percent increase in their spending on food. Coupled with the mothers' class, effective parenting counseling sessions, and the weight monitoring of children, the beneficiaries of the 4Ps are expected to be able to translate the expected increase in their food expenditure into better nutritional status of their families. At any rate, the 19 percent increase in household spending on food is expected to result in a 3.2 percent increase in household calorie intake.[46]

<u>Appreciating the potential impact on health status</u>

Table 18 presents data on selected health indicators from the 2003 National Demographic and Health Survey (NDHS). It highlights how demand for many basic health services tends to be inversely related with the wealth status of households, providing some indication of the scope for increased demand for health care as incomes improve.

Budgetary implications

The allotment for the 4Ps during its pilot stage in 2007 was PHP 50 million. In 2008, PHP 299 million was appropriated for the 4Ps in the GAA. In addition to this amount, another PHP 700 million was released to the DSWD for the program in 2008 for a total of PHP 1.3 billion. As the program entered its full year of implementation in 2009, the appropriation for the program was PHP 5.0 billion.

[46] This estimate is based on the results of Bouis and Haddad (1990) which shows that a 10 percent increase in household spending on food in the Philippines will result in a 1.7 percent increase in household calorie intake.

Pantawid Kuryente Project

The Pantawid Kuryente Project was initiated on 3 June 2008 to soften the impact of rising cost of electricity on poor households. It consists of a one-time cash grant of PHP 500.00 to lifeline electricity consumers.

Key features of program design

The program has nationwide coverage and is estimated to benefit some 6.8 million households.[47] To be eligible for the grant, households should have a legal electricity connection and their electricity consumption should be not greater than 100 kilowatt hour in May 2008.

In the Meralco franchise area (comprising NCR and selected areas in Regions III and IV-A), eligible households may claim the cash transfer from the five branches of the LBP. The Memorandum of Agreement (MOA) between the DSWD and the LBP was signed on 05 June 2008 and the LBP started releasing the subsidy to the beneficiaries.

To claim the cash grant, beneficiaries have to bring with them the original Meralco bill for the period ending in May 2008 to the designated LBP branches. In addition, they should also have any of the following IDs: employment, SSS, GSIS, Postal, Voter's, PRC, or PhilHealth ID; passport; credit cards with picture; and NBI or police clearance. At the disbursing sites, DSWD and LGU staffs are tasked to:

Table 18. Selected health indicators by wealth quintiles, 2003 NDHS

	FIC [a/] %	% of Facility-based Child Birth	% of Child Delivery Assisted by Health Professional	% of Children Given Micro Nutrient Supplement	% of Under-5 Given Iron
Poorest	55.5	10.4	25.1	64.4	47.3
Lower middle	69.3	24.8	51.4	73.3	58.5
Middle	77.8	43.3	72.4	79.5	68.3
Upper middle	72.4	59.8	84.4	83.7	74.8
Riches	83.0	77.0	76.2	87.3	80.1
ALL	69.8	37.9	59.8	76.0	63.3

[a/] Fully immunized child
Source: NDHS, NSO (2003)

[47] The number of lifeline electricity consumers was provided by Meralco, 119 electric cooperatives under the auspices of the National Electrification Administration (NEA) and the Private Electric Power Operators Association or PEPOA (which is comprised of 17 private investor-owned electric utilities).

- screen the documents presented to check if the bill presented is original, if the number of kilowatt hours consumed is 100 or less, if the billing period ends in May 2008, and if ID card presented is valid;
- if the documents are found to be in order, stamp the original bill “Approved for Payment” sign and indicate the date payment is approved;
- advise claimant to proceed to the LBP teller to receive payment if approved; otherwise, clarify the reasons and provide appropriate advise; and
- provide the monitoring unit/staff with updates for the day’s operation.

The MOA between the DSWD and NEA was signed on 12 June 2008 while the MOA between the DSWD and the PEPOA was signed on 25 July 2008. The MOAs with the NEA and the PEPOA indicate that lifeline power users in the areas served by the electric cooperatives and the private power utilities will be issued a credit memo for the PHP 500.00 power subsidy.

As of 13 August 2008, the LBP, the NEA, and PEPOA have disbursed PHP 1.68 billion pesos to 3,358,762 claimants or 50 percent of estimated total number of beneficiaries.

Targeting and leakage

The Pantawid Kuryente is essentially a self-targeted program. Beneficiaries are identified based on the amount of electricity they consume. However, the lifeline power consumption level does not appear to be effective in distinguishing poor households from nonpoor households. The distribution of households with electricity expenditures lower than the lifeline level based on the 2006 FIES is shown in Table 19. It indicates a leakage rate of 72 percent. Likewise, the exclusion rate appears to be on the high side (43%).

Size of the transfer

The size of the transfer (PHP 500.00 per household) is equivalent to 1 percent of average annual income of poor households or 0.7 percent of the poverty threshold.

Budgetary implications and program cost

As indicated earlier, the estimate of the number of lifeline electricity users was obtained from the Meralco, the NEA, and PEPOA. Based on initial

Table 19. Percent distribution of lifeline power consumers

Decile	%
First decile	8.0
Second decile	11.2
Third decile	13.0
Fourth decile	13.4
Fifth decile	13.4
Sixth decile	12.4
Seventh decile	10.4
Eight decile	8.4
Ninth decile	6.1
Tenth decile	3.7
All	100.0
Leakage rate	71.8
Undercoverage rate	43.3

Source of basic data: Author's estimates based on 2006 FIES, NSO

presentations, the target number of beneficiaries of the Pantawid Kuryente was only four million with a corresponding budgetary requirement of PHP 2 billion. As the implementation of the program progressed, the target number of beneficiaries was raised to 6.8 million households (70% higher than the original estimate) with a corresponding budgetary requirement of PHP 3.4 billion (which has already been released and utilized). This highlights how weak information systems tend to increase the fiscal risks involved.

Tulong para kay Lolo at Lola Project

The Tulong para kay Lolo at Lola Project was launched on 16 July 2008. It provides a one-time cash subsidy of PHP 500.00 to qualified senior citizens to help support their special needs.

Key features of program design

To qualify for the cash grant, senior citizens should be 70 years old and above. In addition, they should not be covered by the SSS, GSIS, or any government retirement benefit (e.g., AFPSLAI) and they should not have any regular income.

The program was implemented by the DSWD in coordination with the Office of the Senior Citizens Affairs (OSCA) and LGUs. The OSCA was tasked to disburse the cash subsidy to the claimants under the supervision of the local SWDO on the scheduled payout dates and at the premises to be jointly identified by the DSWD. For validation purposes, claimants were required to present a valid identification card (OSCA ID, etc.) that indicates the birth date of the senior citizen. The OSCA representative shall then verify the ID card of the claimant to check the eligibility of the senior citizen.

On the other hand, the DSWD was tasked to ensure that the LGU shall provide space, security, manpower support, and other forms of assistance to ensure the smooth and orderly implementation of the program at the payment sites located within the jurisdiction of the LGUs. The DSWD was also in charge of assisting in the validation of claimants and helping the LGU SWDO in monitoring the implementation of the program.

Targeting and leakage

The program made use of categorical targeting in which all individuals in a specified category automatically become eligible to receive program benefit. In this particular case, eligibility was based primarily on an individual characteristic (age) which was easy to identify. However, the other eligibility criteria (not receiving pension and not receiving regular income) was not as easy to verify, given the state of automation in SSS, GSIS, and PNP/AFP pension systems. Because of this, the leakage rate may even be higher than what is indicated below.

The distribution of senior citizens aged 70 and above who do not receive pensions across per capita income deciles based on the 2006 FIES is shown in Table 20. It indicates a leakage rate of 61 percent. In contrast, the exclusion rate is fairly low (5%).

Budgetary implications, coverage, and cost

The total number of qualified beneficiaries is estimated to be one million senior citizens. A budget of PHP 500 million was released to the DSWD in 2008 chargeable against the Katas ng VAT.

Data from the 2006 FIES, however, suggest that there were about 1.96 million senior citizens aged 70 years and above who were not receiving any pension or retirement benefit. This implies that the budgetary requirement for this intervention was almost double than the amount budgeted if all the target beneficiaries were to be reached.

Community-driven program – KALAHI-CIDSS

The Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS or KC) is a community-driven development

Table 20. Distribution of senior citizens 70 years old and above who do not receive pension or retirement benefit

Decile	%
First decile	9.3
Second decile	10.5
Third decile	10.8
Fourth decile	12.1
Fifth decile	11.7
Sixth decile	10.3
Seventh decile	10.0
Eight decile	9.6
Ninth decile	7.9
Tenth decile	7.8
All	100.00
Leakage rate	60.8
Undercoverage rate	5.4

Source of basic data: Author's estimates based on 2006 FIES, NSO

project and is considered one of the major poverty reduction projects of the government. Like other community-driven development projects, it aims to reduce poverty by: (1) empowering communities through participatory planning, implementation, and management of local development activities; (2) improving local governance by strengthening formal and informal institutions to become more inclusive, accountable, and effective; and (3) providing seed funds for community investment programs (Araral and Holmemo 2007). In other words, communities are empowered and are given control over resources and decisions in the design and implementation of subprojects.

Key design features

KALAHI has three main components: (1) social preparation, capacity building, and implementation support; (2) community grants; and (3) monitoring and evaluation. KALAHI provides training sessions and workshops to strengthen the capacity of local communities and LGUs to initiate, plan, implement, manage, and supervise projects. Community mobilization is the responsibility of area coordination teams, at least one of which is fielded in every KALAHI target municipality.

The KALAHI provides grants to villages for community development projects. The barangays within a KALAHI municipality present their proposals at a municipal forum where democratically selected barangay representatives decide which proposals will receive KALAHI funding based on an agreed selection criteria which the members themselves formulate.

Monitoring and evaluation is designed to provide continuous learning and adjustment of the project approach. This component of KALAHI involves: (1) participatory monitoring by communities; (2) internal monitoring of inputs, process, and outputs by the project management; and (3) external monitoring and evaluation by consultants, civil society, and academe.

Funds for community projects are released in tranches (usually in percentages of 50-40-10). Funds are transferred to a village account at the nearest branch of the LBP.

Each beneficiary municipality undergoes three annual cycles of KALAHI implementation, with each cycle consisting of four stages namely: stage 1 (social preparation), stage 2 (project identification), stage 3 (project selection), and stage 4 (project implementation). Each cycle consists of six to eight months of preparation and four to six months of implementation.

Coverage and targeting

Launched in 2003, KALAHI covered 4,229 barangays in 184 municipalities in 42 provinces in 12 regions as of the end of December 2008. As designed, the project was targeted to the poorest municipalities using a poverty mapping and targeting protocol (i.e., geographically-based targeting) that was especially developed for the project. Said targeting protocol appeared to have performed well considering that the average poverty incidence in the KALAHI municipalities based on the SAE of poverty incidence in 2003 was 53 percent (significantly higher than the overall average of 24%).

As of end 2008, the project benefited 865,569 households. The KALAHI-CIDSS baseline survey conducted in 2004 confirmed that KALAHI-CIDSS beneficiaries are the chronic poor in all dimensions of poverty: means (income/expenditure and quality of labor supply), outcomes (education, health, housing, and amenities), and perception (self-rated poverty) (Edillon et al. 2007). Moreover, since KALAHI-CIDSS operates in all barangays of a municipality, it is able to reach out to barangays of the indigenous peoples (IP) areas, the uplands, islands, and hinterlands that have difficult accessibility and terrain, but where poorer residents live and are exposed to risks of social exclusion from regular government programs.

Economic impact[48]

As of the end of 2008, KALAHI grants have funded a cumulative total of 4,364 community subprojects worth PHP 4.8 billion (Table 21). KALAHI-funded community projects may be grouped into six major subproject types: basic social services like community water system, school buildings, day care centers (44% of total project cost); basic access infrastructure like roads, small bridges, and foot trails (39% of total project cost); community production, economic support and common service facilities like pre- and postharvest facilities, and small-scale irrigation (8% of total project cost); environmental protection and conservation projects like drainage, flood control, seawall, marine conservation (8% of total project cost); skills training and capability building (0.3% of total project cost); and lighthouse/ecotourism subprojects (0.2% of total project cost) (DSWD 2009).

Rate of return of subprojects

The midterm review of the KALAHI reveals that it will generate a conservatively estimated economic internal rate of return of 21 percent overall. On the other hand, the rates of return for the various subprojects ranged from 16 percent for day care centers to 65 percent for water supply projects.

Community participation and project sustainability

The midterm review also suggests that community participation and local governance are positively correlated with better operations and maintenance (O&M) of subprojects. For instance, memberships in local organizations and bayanihan are strongly and positively correlated with O&M ratings. Likewise, participation in barangay assemblies is found to be positively correlated with O&M, while greater reliance on the barangay captain for decisionmaking is negatively correlated with O&M. These findings indicate that investments to strengthen community participation and local governance will likely generate economic benefits by ensuring better O&M, thus increasing the likelihood that the stream of benefits from the subprojects will be realized. However, O&M was found to be generally lower for road subprojects compared with subprojects with characteristics of toll goods, such as water supply (pump), day care centers, school buildings, and health centers.

Responsiveness to local preferences

The subproject selection process appears to be responsive to community demands as evidenced by the high correlation between the preferences of

[48] This subsection draws heavily from Araral and Holmemo 2007.

Table 21. Breakdown of community subprojects funded by KALAHI-CIDS as of December 2008

	Subproject Type	No. of Subprojects	No. of Barangays	Direct HH Beneficia-ries	Estimated Project Cost as per MIBF (in million pesos)			
					Total Project Cost	% to Total Project Cost	KC Grant	LCC
1.	**Basic social services: Community water system, school building, day care center, health station, and electrification subprojects**	**2,251**	**2,230**	**445,234**	**2,125**	**44.2**	**1,462**	**663**
1.1	Water system	1,026	1,103	201,518	1,116	23.2	760	356
1.2	School building	460	461	105,309	482	10.0	340	142
1.3	Day care center	337	337	52,004	202	4.2	142	60
1.4	Health station	338	339	74,557	217	4.5	153	63
1.5	Electrification	83	83	11,106	97	2.0	59	37
1.6	Tribal housing/shelter	7	7	740	13	0.3	7	5
2.	**Basic access infrastructure subprojects**	**1,218**	**1,311**	**234,062**	**1,882**	**39.1**	**1,238**	**644**
2.1	Road	973	1,061	187,874	1,623	33.7	1,057	566
2.2	Foot/small bridge	137	141	28,594	162	3.4	116	46
2.3	Access trail	108	109	17,594	97	2.0	65	32
3.	**Community production, economic support and common service facilities**	**482**	**483**	**100,273**	**401**	**8.3**	**279**	**122**
3.1	Community economic enterprise training, equipment and materials suport subprojects	104	105	28,186	107	2.2	72	35
3.2	Pre- and postharvest facilities	263	263	45,627	191	4.0	135	56
3.3	Small-scale irrigation	43	43	6,032	42	0.9	29	13
3.4	Multipurpose facilities	47	47	13,352	46	1.0	32	14
3.5	Community transport	25	25	7,076	14	0.3	10	4
4.	**Environmental protection and conservation subprojects**	**387**	**407**	**82,084**	**385**	**8.0**	**258**	**126**
4.1	Drainage	230	246	49,437	198	4.1	136	62
4.2	River/flood control	55	55	10,297	72	1.5	47	25
4.3	Sea wall	57	57	11,771	82	1.7	53	29
4.4	Soil protection (riprap)	24	24	4,615	18	0.4	12	7
4.5	Environmental conservation (artificial coral reefs/marine sanctuary)	9	9	3,957	6	0.1	4	2
4.6	Sanitation facilities	12	16	2,007	9	0.2	6	3
5.	**Skills training and capability building subprojects**	**23**	**24**	**3,071**	**13**	**0.3**	**8**	**5**
6.	**Lighthouse/ecotourism subprojects**	**3**	**3**	**845**	**7**	**0.2**	**4**	**4**
Grand total		**4,364**	**4,558**	**865,569**	**4,813**	**100.0**	**3,249**	**1,563**

Source: DSWD-KALAHI website (http://kalahi.dswd.gov.ph/) downloaded 15 June 2009

households in the 2003 baseline data and the actual portfolio of subprojects. For instance, bad road conditions and poor water supply were the two most commonly cited problems in the municipalities covered in the 2003 baseline survey. This result is consistent with the actual distribution of subprojects funded at the time of the midterm review, with roads and water supply combined accounting for 69 percent of total project cost.

Fiscal impact

At the time of the midterm review, municipal and barangay local governments were generally found to be responsive to the local counterpart funding requirement of the project. Some 84 percent of municipal governments alloted at least 50 percent of their development fund as counterpart funding for the project during the first cycle (Phases 1–3a).[49] However, the midterm contributions by municipal governments declined in Phases 1 and 2 by 41 percent and 8 percent, respectively, on the average, perhaps due to uncertainties over the release of the IRA of LGUs in 2004–2006. Nonetheless, the funding provided by these government bodies is substantial as a proportion of their social welfare budget and/or development funds.

Counterpart contributions of LGUs (provincial, municipal, and barangay), communities, and private sources accounted for 35 percent of total project costs in Phases 1 through 3a. On the other hand, community counterpart contributions comprise 9.5 percent of total project costs. Araral and Holmemo (2007) argue that community contributions were unlikely to have materialized without the project and, as such, they represent a crowding in of new resources. However, counterpart contributions from LGUs and NGO donors (24.5% of total project cost) may have been diverted from other uses; hence, these may not represent crowding in.

Cost efficiency of subprojects

The unit cost of the small infrastructure subprojects implemented under the KALAHI was found to be generally lower than those of other government agencies, with cost differences ranging from 8 percent for school buildings to 76 percent for water supply subprojects. This difference is attributed mainly to the project's ability to save on the contractor's profit, which accounts for about 15–25 percent of cost, the 10 percent value added tax, and costs for road right of way.

Assistance to persons with special vulnerabilities

The DSWD provides social assistance to groups with special vulnerabilities through residential and nonresidential centers and community-based services. On the one hand, the DSWD provides 24-hour residential care to individuals whose needs cannot be met by their own families and relatives, or cannot be addressed by community-based programs. To do this, the DSWD operates 41 residential facilities for children and youth that provides:

[49] In contrast, provincial governments are found to be less responsive in providing counterpart funding for the project.

- psychosocial services to children 0–6 years old;
- rehabilitation services for boys 7–13 who are recovering from substance abuse;
- protection, care, treatment, and rehabilitation services to abused and exploited boys below 18 years old;
- care and treatment for children aged 7–17 years who have behavioral problems and whose needs are not met by their parents and guardians;
- protection, care, treatment, and rehabilitation services to abused and exploited girls below 18 years old;
- care and rehabilitation services to children (male and female) in conflict with the law who are below 18 years old; and
- temporary shelter to street children aged 7–17 years old who are abandoned or whose parents cannot provide for their needs adequately, and to youth aged 13–16 years old who are pursuing secondary education/technical education away from their families.

It also operates three homes for older persons that provide care to senior citizens 60 years old and above; one residential care facility that provides care and rehabilitation services to abandoned and neglected children with special needs such as those with cerebral palsy, epilepsy, visual and hearing impairment, mental retardation, autism, and other related conditions; one residential facility that serves as halfway home to 18-year-old and above females who are recovering from psychosis and other mental illnesses; and a residential facility that provides temporary shelter for strandees, vagrants, and mendicants.

On the other hand, the DSWD operates seven nonresidential facilities for clients who have families to return to after treatment or after undergoing developmental activities. These facilities may also accommodate clients who need to undergo thorough assessment and diagnosis for a maximum of three weeks. These centers include six facilities that provide vocational/social rehabilitation and skills training to persons with disabilities and other special groups for socioeconomic independence and productivity. There is also one facility that provides psychosocial support to bereaved mothers through programs and projects aimed at helping them manage their grief while empowering them to reach out to other grieving mothers.

At the same time, the DSWD provides preventive, rehabilitative, and developmental programs and initiatives that mobilize/utilize the family and community to respond to a problem, need, issue or concern of children, youth, women, person with disabilities, older persons, and families who are in need and at-risk. For children, community-based and family-based services include:

- child protection services - preventive and rehabilitation services for children who are victims of abuse, neglect, and exploitation, including provision of immediate intervention for children's early recovery and reintegration to their families;
- therapy services for abused children - therapeutic interventions and approaches provided to children to overcome the negative effects of abuse. These interventions aim to maximize their potentials for living a normal and productive life;
- alternative family care - permanent or temporary family care arrangement provided to children whose parents are unable to provide for their basic needs, temporarily or permanently, through placement of the child via adoption, foster family care, and legal guardianship;
- travel clearance to minors - issuance of clearance to a child (below 18 years old) who is traveling alone or accompanied by somebody other than his/her parent. This clearance aims to protect the child from abuse, exploitation, and trafficking by ensuring that the child is traveling for a legitimate reason and with an authorized person; and
- special social services for children in armed conflict (CIAC) - provision of a package of social services and interventions designed to protect and rehabilitate children affected directly or indirectly by armed conflict.

The community-based services for older persons include neighborhood support services for older persons, a program that involves the community/neighborhood to take effective steps in enhancing the caregiving capability of family members for the sick, frail, or bedridden older persons. This service involves training of volunteers who are willing to share their skills and services as resource persons of the community on the proper care of older persons. On the other hand, sheltered workshop for persons with disabilities (PWDs) is a community-based facility that provides livelihood training and productive employment to PWDs to help them earn income. This involves producing and selling goods or services for income or profit.

Like the emergency assistance programs discussed in the subsection below, social assistance to persons with special vulnerabilities is largely nontargeted and demand-driven. In 2007, a total of 26,728 individuals (including 20,167 individuals with special needs including deportees, 3,066 children, 1,327 women, 1,035 youth, 642 individuals with disabilities, and 491 older persons) were provided 1,388,872 person-days of services in 61 residential and six nonresidential centers and institutions operated by the DSWD.

On the other hand, 56,062 individuals (including 36,671 children who are abandoned/neglected, placed for adoption, placed in foster care, and issued travel clearance, 3,047 women in difficult circumstances [e.g., sexually/ physically abused, abandoned], 72 senior citizens, and 39 persons with disabilities) were extended community-based services. The DSWD was alloted PHP 543 million for assistance to persons with special vulnerabilities (representing 3.2% of total national government spending on noncontributory social protection programs) in 2007 and PHP 730 million (representing 1.2% of total national government spending on noncontributory social protection programs) in 2008.

Emergency assistance

In addition to the cash and in-kind transfers discussed so far, the DSWD also implements a number of programs that provide emergency assistance to help individuals and households who are not assisted at all, or not assisted enough, by other programs to cope with risks and shocks of various kinds. Largely needs-based and demand-driven, these assistance programs do not have an active targeting mechanism. The beneficiaries of these programs are best described as walk-in clients for the most part.

Disaster relief and rehabilitation

The most important of these programs in terms of budget allocation is disaster relief and rehabilitation. The national government alloted PHP 263 million to disaster relief and PHP 1,002 million for disaster rehabilitation in 2007, representing 7 percent of the total national government spending on noncontributory social protection programs. In 2008, the allocation for disaster relief and rehabilitation was PHP 326 million and PHP 660 million, respectively, representing 2 percent of the total national government spending on noncontributory social protection programs.

In 2007, some 800,000 families or 3.7 million persons were given assistance by LGUs (with augmentation from the DSWD) during relief operations while 3,460 families or 18,200 persons were given assistance during the rehabilitation phase. These families were victims of the 283 natural and man-made disasters, including fire, flashflood, armed conflict, and deportation.

The bulk of the funds of the releases for disaster relief and rehabilitation went to shelter assistance (73%), followed by relief assistance (21%), administrative costs (3%), cash/food for work (2%), and livelihood assistance (1%). The funds were released to augment the resources of the LGUs affected by natural and man-made disasters.

Assistance to individuals and households in crisis situations (AICS)
The DSWD, through its Crisis Intervention Units (CIUs), provides integrated services to individuals and families in crisis situations. These services include financial assistance, the provision of immediate psychosocial intervention, and referral services to link the clients with the appropriate units within the DSWD, other government agencies, or NGOs. In 2007, some 64,000 clients including women in especially difficult circumstances, PWDs, and senior citizens were provided assistance. The DSWD maintains 16 CIUs in the field and one in the central office.

The budget allotment for AICS was PHP 1,037 million, including PHP 994 million in Priority Development Assistance Funds (PDAF) (representing 6.1% of total national government spending on noncontributory social protection programs) in 2007 and PHP 889 million, including PHP 637 million in PDAF funds (representing 1.4% of total national government spending on noncontributory social protection programs) in 2008.

Credit-based livelihood program
A large segment of poor households in the Philippines is involved in some form of microenterprise. Because of stringent requirements (especially with respect to collateral) and inadequate information on financing sources, the poor have difficulty borrowing from formal financial institutions. On the other hand, banks rarely, if at all, provide their services to the poor because of the high transaction costs involved in the processing of small loans. Thus, the poor usually get credit from relatives, friends, or from private moneylenders who charge high interest rates but do not require collateral.

Access to credit can be an important instrument of social protection. It does not only provide the poor with capital for their livelihood; it can also help the poor in smoothing their consumption and income streams in times of crisis.

In this section, the *Self-Employment Assistance – Kaunlaran* (SEA-K) of the DSWD is discussed. It should be emphasized that while the SEA-K was not intended specifically as a social safety net, its implementation was expanded during the 1998 Asian financial crisis as it received additional budget support during that year.

The experience of the SEA-K suggests that the poor can be good credit risks if there are mechanisms to screen, monitor, and enforce program policies and procedures. It also suggests that community organizations can be good conduits for the disbursement of funds (Lamberte 1998).

Key features of program design

The SEA-K is a community-based microfinance project aimed at building the capabilities of people's organizations (POs) to self-administer the provision of socialized credit. The program is composed of two levels. In Level I, 20–30 members are organized to form a group called SEA Kaunlaran Association (SKA) and are given training on microfinance development.

SEA-K provides these POs some seed capital (no more than PHP 150,000.00) at zero interest to lend to their members for their livelihood needs. In 2008, the average size of the individual loan is PHP 5,000.00 while the average size of seed capital given to SKAs is PHP 33,500.00. Some SKAs impose a 10 percent service fee (Lamberte 1998). Individual borrowers pay weekly amortization to the SKA which in turn repays the DSWD. Loan repayments to the DSWD are deposited in a bank and form part of a "revolving fund."

The 25–30 member POs are then subdivided into smaller groups of five which act much like a pressure group. If one of the members fails to pay his or her dues, the other members are obligated to pay in his/her behalf. Failure to repay the loan may result in the nonrelease of the loans of the other group members. These sanctions in effect foster a sense of responsibility for the loans that one avails and puts an element of shame when the borrower cannot meet his dues since it will put undue financial burden on the part of his co-members. Each group is also encouraged to save to build up funds for equity capital, operating expenses, and emergency purposes.[50] Savings contributions are collected weekly together with the loan amortization and are deposited in a bank.

Level II, on the other hand, deals with institutionalization of the gains of Level I through the organization of the SEA Kabayans which are comprised of

[50] Members are encouraged to save an amount equal to 50 percent of their loan availment.

two to five SKAs which have established a good track record in terms of their capability to manage their finances and to generate savings.

Coverage and targeting

The number of SEA-K beneficiaries has grown significantly over time. In 2008, 35,384 family beneficiaries were provided PHP 176.1 million seed capital in Level I compared with 19,757 families who benefited from a total of PHP 53.4 million seed capital in 1998. Under Level II, 33 SEA Kabayans representing 98 SKAs were granted seed capital of PHP 36.2 million in 2008 compared with 16 SEA Kabayans composed of 49 SKAs granted PHP 12.6 million seed capital in 1998.

The SEA-K is basically a demand-driven program. The DSWD field offices are tasked to administer the program, including the dissemination of information on how local communities can access the program. In turn, municipal/city SWDOs help identify and/or vet prospective project beneficiaries.

The SEA-K is available in all regions nationwide. Although the program is broadly targeted, a positive and statistically significant relationship is found between the distribution of program beneficiaries across provinces on one hand and the distribution of poor families across provinces on the other. A similar relationship is also found between provincial shares in total SEA-K funding and provincial shares in total number of poor families nationwide.

Beneficiaries are mainly women (receiving more than 11% of total loans granted) but also include scavengers, out-of-school youth, street children and PWDs, poor families, single parents, the unemployed, and senior citizens.

Effectiveness, cost, and budgetary implications

According to Ahmed et al. (2004), 50 percent of SEA-K beneficiaries are engaged in trade and commerce enterprises, which typically have low value-added. Only about 2.5 percent of projects "graduate" from the first to the second program levels. An officer of the DSWD in charge of the SEA-K program notes that trading activities with quick turnaround times are the most suitable for SEA funding because, under the program, beneficiaries should amortize their loans weekly. As such, even simple production activities like hog raising which requires a longer time horizon are typically not found to be eligible for funding under the program.

Lamberte (1998), however, notes that the program has been rather successful in encouraging its members to save. He also reports that the program's repayment rate is quite high at 90 percent, a positive feature he attributed not only to the strong social preparation of the SKAs but also to the consistency between the loan size and the borrower's absorptive capacity. At the same time, he found the administrative cost per peso of SEA-K loan (at PHP 0.10 per peso) to be low compared with similar programs. However, since SEA-K loans are interest free, the program is not able to recover its financial, operations, and administrative costs.

The results in more recent years are not as encouraging, however. For instance, beneficiaries were found to have saved less than 30 percent of the prescribed amount in 2008. Moreover, a significant decline in the repayment rate (74% in 2008) is also evident.

This latter finding highlights the need for the continuous infusion of funds from the government budget to keep it operational, thereby making it financially unsustainable on a long-term basis. Thus, although the SEA-K did not receive any allocation from the GAA in 2008 as it continued to operate on a revolving fund basis, PHP 43 million was appropriated and released for the SEA-K in 2007. Meanwhile, PHP 39 million was appropriated in 2009.[51]

[51] It should be noted that at the time of its inception, the SEA-K is a fairly small program budget-wise, receiving PHP 7.4–10.0 million in 1998–2000.

4.

Active Labor Market Programs

Active labor market programs include training programs, employment services (e.g., job search assistance, labor market information dissemination), public works programs (e.g., food-for-work programs, workfare), and self-employment/livelihood programs. They are aimed at increasing employment and income by enhancing the employability of workers, improving the functioning of the labor market (via matching of demand and supply), and increasing job creation. They are oriented toward moderating cyclical downturns, reducing structural imbalances in the labor market, increasing productivity, and supporting disadvantaged or at-risk workers and employers (Betcherman et al. 2000).

Pangulong Gloria Scholarship (PGS)

The Pangulong Gloria Scholarship (PGS), formerly known as the PGMA Training for Work Scholarship Program (PGMA-TWSP), was launched in May 2006. It is designed to provide skills and competencies to job seekers through appropriate training programs that are directly linked to existing jobs and immediate employment. Thus, it is envisioned to enhance the employability of the beneficiaries in hard-to-fill and in-demand skills in emerging industries like the business process outsourcing (BPO) industry (call centers, medical and legal transcription, animation, software development), health care, and the like. As such, the program aims to address the mismatch between the skills requirement of available jobs with the skills of those seeking work, as well as geographical mismatch between the location of job openings and job seekers. Initially, the program targeted a 90 percent employment rate but more recent pronouncements now place the target employment rate at 50 percent. The program is being implemented by the Technical Education and Skills Development Authority (TESDA) in partnership with private sector organizations like the Business Processing Association of the Philippines (BPAP) and various training institutions.

The PGS is open to anybody between the ages of 18 and 55 years who is a high school graduate or a college undergraduate. At present, the face value of the scholarship certificates varies from a low of PHP 1,500.00 for Pinoy hilot/spa therapy to a high of PHP 15,000.00 for caregivers and PHP 30,000.00 for the entry course for software developers. The duration of the training courses varies from 100 hours to 786 hours.

The PGS accounts for 43 percent and 56 percent of the total national government spending on active labor market programs in 2007 and 2008, respectively. On the basis of the 2007 GAA, PHP 500 million was appropriated and released for the PGS as part of the TESDA budget while PHP 1 billion was appropriated and released in 2008. The target was to enroll some 100,000 in 2007 and double that number in 2008.

Effectiveness, cost effectiveness

The program leaves much to be desired in terms of its effectiveness in achieving its objective. However, substantial gains were achieved in the improvement of program performance in 2008. The implementation of PGS in 2006–2007 suffered from a low employment rate. Out of the 222,656 PGS enrollees in 2006–2007, 215,419 (or 97%) graduated, implying a dropout rate of 3 percent. On the other hand, only 45 percent of those who graduated were able to find employment during the same period (Table 22). The dropout rate went up to 6 percent in 2008 while the employment rate inched up to (47%), just about half of the original target employment rate of 90 percent but close to the adjusted target.

Given the budgetary resources allocated for the program, the average cost per enrollee is estimated to be PHP 4,760.00 in 2006–2007 while the average cost per graduate is PHP 7,556.00. On the other hand, the average cost per job secured through the program was PHP 11,035.00, more than twice the average cost per enrollee. In comparison, the average cost per job secured through the program was equal to PHP 17,089.00 in 2008, still more than twice the average cost per enrollee in that year.

Still another indicator of cost effectiveness is the percentage of program resources expended which did not result in successfully securing employment for the PGS scholars. In 2006–2007, PHP 35 million (or 3% of total budgetary resources allocated to the program) was dissipated due to the enrollees dropping out of the program while PHP 568 million (or another 54% of total program budget) was spent to train PGS beneficiaries who did not find employment (Table 22). In 2008, PHP 753 million (or 56% of the total budget for program) accrued to dropouts and to graduates who did not find employment.

Table 23 highlights the wide variations in the post-training employability of PGS graduates across course offerings. As expected because of the active participation of the BPO industry in the program, courses related to the BPO

Table 22. Pangulong Gloria Scholarship performance indicators

	2006–2007	2008
Total budget (in million pesos)	1,060.0	1,350.00
Number of persons benefited		
Enrollees	222,696	178,656
Dropouts	7,277	10,861
Graduates	215,419	167,795
Number employed	96,055	78,998
Performance indicators		
Graduation rate	96.7 [b/]	93.9
Dropout rate	3.3 [b/]	6.1
Number employed as % of graduates	44.6 [b/]	47.1
Number employed as % of enrollees	43.1 [b/]	44.2
Average cost		
Per enrollee	4,760	7,556
Per graduate	4,921	846
Per employed graduate	11,035	17,089
Program resources accruing to: [a/]		
Dropouts (in million pesos)	34.6	82.07
as % of total program resources	3.3	6.1
Unemployed graduates (in million pesos)	568.2	670.99
as % of total program resources	53.6	49.7

a/ Estimated based on average cost per enrollee cost
b/ Graduation rate, dropout rate, and employment rate reported here are higher than that reported in 2007 COA Audit Report as shown in Table 23.
Source of basic data: TESDA Administrative Report, 2006–2008

sector had the lowest dropout rate (20%) and the highest employability (51%) in 2006–2007. However, it is quite surprising that the employment rate for the BPO sector in 2006–2007 is much lower than the 90 percent target set by the program. Bitonio (2008) points out that the labor market projections used to justify the allocation of places for call center workers in the PGS are overestimated.

The subprograms under the PGS that are particularly problematic in 2006–2007 in terms of dropouts and employability includes: 3D animator, ICARE 4 MY PIPOL program,[52] web-based English proficiency, language skills institute, supermaid, consumer electronics, E-TESDA, and the ladderized

[52] Under the ICARE 4 MY PIPOL subprogram, the TESDA taps PDAF allocation of legislators to support the PGS by counterparting on a peso-by-peso basis.

education program (LEP) scholars. The first two programs had zero graduates while the last six had zero or insignificant employment rates.

On the other hand, Table 24 shows the large variation in the employment rate of graduates across regions. The employability of PGS graduates is low in CAR, NCR, Region X, Region I, and ARMM. Both Table 23 and Table 24 confirm the realization of the potential benefits from training programs is very much dictated by the availability of job opportunities in the local economies.

Special Program for the Employment of Students (SPES)

This program was designed to help poor but deserving students pursue their education by giving them employment during the summer and Christmas breaks. Students are placed in public and private establishments and are paid 60 percent of the prevailing minimum wage by their employers. The Department of Labor and Employment (DOLE) gives them the remaining 40 percent in the form of vouchers which they can use to pay their tuition fees. The engagement shall not be less than 15 days or more than 45 days during summer and not less than 10 days or more than 15 days during Christmas vacations.

The SPES is open to all qualified high school, college, or vocational students or dropouts whose parents' combined net income after tax does not exceed PHP 36,000.00 per annum.[53] On the other hand, any person or entity which has employed at least 50 workers at any given time during the past 12 months is qualified to participate in the SPES.

In 2005–2008, some 54,000–73,000 students were able to participate in the SPES out of some 84,000–112,000 who applied, for an average placement rate of 65 percent (Table 25). The additional income that participants derive from the program is fairly generous. It ranges from PHP 6,300.00–15,000.00 on the average per student per year, representing 17–42 percent of the cutoff household income for the program.

However, the coverage of the program, at 2.3–3.2 percent of poor population aged 15–24 years, is fairly low. It should also be pointed out that while the program ostensibly targets poor students/dropouts, verification of income appears to be weak being based solely on the income tax return of the applicants' parents.

Work Appreciation Program (WAP)

The WAP is an apprenticeship program that aims to provide the youth opportunities to be able to appreciate work and develop proper work ethics

[53] The cut-off income of PHP 36,000.00 is approximately half of the poverty threshold in 2006.

Table 23. PGS enrollees and graduates by course, May 2006–December 2007

Sector/Occupation	No. of Enrollees	Enrollees Percent Distribution	Face Value of Scholarship Certificates (million pesos)	Face Value of Scholarship Certificates (% Distribution)	No. of Graduates	Graduates Percent Distribution	Number Employed	Employed Percent Distribution	Graduation Rate	Employ as % of Graduates	Employ as % of Enrollees
I. BPO Industry	***64,341***	***38.8***	***365***	***37.0***	***51,485***	***54.7***	***26,166***	***54.7***	***80.0***	***50.8***	***40.7***
Call center agent	51,001	30.8	255	25.8	44,331	47.1	22,158	47.1	86.9	50.0	43.4
Medical transcription	7,650	4.6	77	7.7	6,346	6.7	3,599	6.7	83.0	56.7	47.0
Web-based English proficiency	4,610	2.8	23	2.3	165	0.2	0	0.2	3.6	0.0	0.0
Animator 2 D	290	0.2	3	0.3	254	0.3	70	0.3	87.6	27.6	24.1
Animator D3	348	0.2	3	0.4	0	0.0	0	0.0	0.0	0.0	0.0
Software developer	442	0.3	4	0.4	389	0.4	339	0.4	88.0	87.1	76.7
II. Other Industries	***34,073***	***20.5***	***288***	***29.2***	***23,070***	***24.5***	***6,673***	***24.5***	***67.7***	***28.9***	***19.6***
Agribusiness											
Butcher (slaughtering operation)	1,297	0.8	6	0.7	1,036	1.1	283	1.1	79.9	27.3	21.8
Medical tourism											
Massage therapist	439	0.3	1	0.1	229	0.2	78	0.2	52.2	34.1	17.8
Metals and engineering											
Gas metal arc welding	3,149	1.9	22	2.2	2,497	2.7	1,258	2.7	79.3	50.4	39.9
Shielded metal arc welding	13,002	7.8	130	13.2	10,087	10.7	3,014	10.7	77.6	29.9	23.2
Construction											
Heavy equipment operators	819	0.5	8	0.8	696	0.7	231	0.7	85.0	33.2	28.2
Hotel and restaurant											
Barista	4,761	2.9	17	1.7	4,050	4.3	1,407	4.3	85.1	34.7	29.6
Cook	526	0.3	2	0.2	302	0.3	15	0.3	57.4	5.0	2.9
Others											
Supermaid	26	0.0	0	0.0	26	0.0	0	0.0	100.00	0.0	0.0
Household service worker	2,052	1.2	10	1.0	1,275	1.4	178	1.4	62.1	14.0	8.7
Caregiver	4,984	3.0	75	7.6	1,110	1.2	12	1.2	22.3	1.1	0.2
Consumer electronics	808	0.5	5	0.5	288	0.3	0	0.3	35.6	0.0	0.0
Language skills institute	1,512	0.9	9	0.9	849	0.9	1	0.9	56.2	0.1	0.1
Livelihood program	642	0.4	3	0.3	579	0.6	196	0.6	90.2	33.9	30.5
E-TESDA	56	0.0	0	0.0	46	0.0	0	0.0	82.1	0.0	0.0
III. Special program	***67,423***	***40.7***	***335***	***33.9***	***19,580***	***20.8***	***420***	***20.8***	***29.0***	***2.1***	***0.6***
SEP - Mindanao	505	0.3	0	0.0	505	0.5	395	0.5	100.00	78.2	78.2
Ladderization scholars	63,108	38.1	316	31.9	18,875	20.1	0	20.1	29.9	0.0	0.0
LGUs	910	0.5	5	0.5	200	0.2	25	0.2	22.0	12.5	2.7
ICARE 4 MY PIPOL	2,900	1.7	15	1.5	0	0.0	0	0.0	0.0	0.0	0.0
Total [a/]	**165,837**	**100.0**	**989**	**100.0**	**94,135**	**100.00**	**33,259**	**100.0**	**56.8**	**35.3**	**20.1**

[a/] Total does not include trainees for National Technical Vocational Education and Training (TVET) Trainors/Assessors Qualification Program because they are not considered scholars.

National TVET Trainors/Assessors Qualification Program is part of support program to PGMA-TWSP.

Source: COA Audit Report for TESDA (2007) as reflected in the Physical and Financial Accomplishment Report of PGMA-TWSP (11 April 2008)

Table 24. Number of PGS graduates by region, 2007

Regions	No. of Graduates	Number Employed	No. Employed as % of No. of Graduates
NCR	14,795	955	6.5
CAR	1,885	1	0.1
Region I	1,133	267	23.6
Region II	61	59	96.7
Region III	1,676	1,571	93.7
Region IV-A	73	73	100.0
Region iv-B	212	168	79.2
Region V	759	362	47.7
Region VI	827	233	28.2
Region VII	826	510	61.7
Region VIII	1,119	459	41.0
Region IX	546	364	66.7
Region X	663	102	15.4
Region XI	839	810	96.5
Region XII	771	476	61.7
Caraga	291	196	67.4
ARMM	91	23	25.3
Total	**26,567**	**6,629**	**25.0**

Source of basic data: TESDA website

by exposing them to actual work situation. Young adults aged 18–25 years, unemployed, in-school or out-of-school, and physically fit to undertake the kind of training program offered are qualified to participate in the program. Meanwhile, any person or private entities/establishments, regardless of employment size, who are willing to provide training opportunities to qualified young adults and to pay 75 percent of the prevailing minimum wage as stipend to youth trainees are qualified to participate as employers under the program. The youth trainees can avail of the program only once a year for a maximum period of three months. The WAP trainees shall not be more than 10 percent of the companies' regular workforce.

In 2005–2008, some 2,600–5,200 young adults were able to participate in the WAP out of some 3,500–5,700 who applied, which means an average placement rate of 81 percent (Table 26). However, the coverage of the program is very low at 0.03–0.07 percent of all young adults aged 18–25 years old. Apparently, very few firms found it beneficial to participate in this program largely because they shouldered the full cost of the stipends that trainees received. Nonetheless, Bitonio (2008) suggests that some firms may be using the WAP as a means to exploit workers because the regulation does not require firms to establish a specific training program but allows them to pay trainees a rate that is 25 percent lower than the minimum wage.

Table 25. Placement rate and other indicators for SPES, 2005–2008[a/]

	2005	2006	2007	2008
No. of applicants placed thru SPES	72,827	54,160	65,004	66,358
No. of all applicants thru SPES	112,124	83,661	97,994	102,664
Placement rate[b/]	65.0	64.7	66.3	64.6
Applicants placed as % of poor aged 15–24	3.2	2.3	2.7	2.7

[a/] Employment figures based on October LFS
[b/] Percentage of number who are placed to number of applicants
Source of basic data: Bureau of Labor and Employment Statistics (BLES), DOLE

Table 26. Placement rate and other indicators for WAP, 2005–2008[a/]

	2005	2006	2007	2008
No. of applicants placed thru WAP	5,144	2,643	2,820	3,703
No. of applicants thru WAP	5,721	3,464	3,775	4,465
Placement rate[b/]	89.9	76.3	74.7	82.9
Workers placed as % of LF aged 18–25	0.07	0.03	0.04	0.05
Workers placed as % of employed aged 18–25	0.13	0.07	0.07	0.09

[a/] Employment figures based on October LFS
[b/] Percentage of number who are placed to number of applicants
Source of basic data: BLES, DOLE

From the perspective of the trainees, the stipend that the WAP provides is less generous than that of the SPES. On the average, the trainee receives some PHP 12,400.00, assuming he is able to work for three months.

Employment facilitation and job search assistance

Job search facilitation seeks to reduce the transaction cost of job search for both firms and individuals looking for work and, as such, is viewed as a means to enhance the functioning of the labor market. The DOLE provides employment facilitation services for local and overseas employment. Public Employment Service Offices (PESOs) were set up in some provinces and cities for the purpose of providing job facilitation and placement assistance services as early as 1993. The PESOs were institutionalized with the passage of Republic Act 8759 or the PESO Act of 1999 which mandates the establishment of PESOs in all capital towns of provinces, key cities, and other strategic areas. The PESO is community-based and maintained largely by LGUs, a number of

NGOs or community-based organizations (CBOs), and state universities and colleges (SUCs). They are linked to DOLE regional offices for coordination and technical supervision. Also, PESOs do not charge fees for their services.

In 2006, there were 1,188 PESOs. The PESOs provide various job search assistance services to jobseekers such as career information, referral, placement and matching or screening services, as well as web-based access to the PHIL-JobNet, an online labor market information registry. The PHIL-JobNet enables jobseekers to search for work in listed job openings and to post their resumes in the online database. On the other hand, registered employers can post their job openings and search the resume database for potential candidates.

Trying to gauge the impact of the PESOs is a tricky task because it is not clear whether the individuals who find jobs through the PESOs would have found jobs anyway even in the absence of the PESO. The placement rate (i.e., percentage of total number of PESO applicants who successfully found employment) of the PESOs is fairly constant at 65–67 percent in 2005–2008 (Table 27). While the number of workers placed by the PESO represents about 2 percent of the total employment, they comprise 20–23 percent of the adjusted number of unemployed persons in 2005–2008.[54] This implies that the total number of unemployed workers declined by 20–23 percent if one assumes that the workers placed by PESO would not have found jobs without the PESO.[55]

Table 27. Placement rate and other indicators for PESOS, 2005–2008[a/]

	2005	2006	2007	2008
No. of applicants placed thru PESO	644,990	656,855	623,461,	744,905
No. of all applicants thru PESO	967,103	1,018,583	940,511	1,114,507
Placement rate[b/]	66.7	64.5	66.3	66.8
Workers placed as % of total employment	2.0	2.0	1.9	2.2
Workers placed as % of adj. no. of unemployed[c/]	19.8	20.0	21.7	22.7

[a/] Employment figures based on October LFS
[b/] Percentage of number who are placed to number of applicants
[c/] Adjusted number of unemployed = actual number + number of workers placed by PESO
Source of basic data: BLES, DOLE

[54] The adjusted number of unemployed persons is equal to the actual number of unemployed persons plus the total number of persons placed by the PESOs.

[55] Admittedly, this is a strong assumption.

This performance appears to be creditable. During the Asian financial crisis, less than 6 percent succeeded in finding jobs through public employment services in Korea (Betcherman et al. 2000).

Moreover, one could also argue that there is not much benefit derived from the operation of the PESOs in terms of reducing the number of unemployed. However, PESOs appear to provide benefit in terms of facilitating job search, i.e., shortening the length of the job search and reducing the cost of the job search. In other words, a better indicator of the effectiveness of PESOs is the length of job search time, i.e., amount of time PESO-registered workers spend searching for their jobs or, conversely, the length of time firms take to fill in a vacancy. Information on search time is not easily available but the findings of Bitonio (2008) in this regard are informative. He found that based on the 2006 Bureau of Labor and Employment Integrated Survey (BITS) many employers have difficulty filling positions under the occupational categories of accountants and auditors, professional nurses, technical and commercial sales representatives, computer programmers, and mechanical engineers as indicated by median and mean search periods of 3 and 7.1 months for these positions. He also reports that based on an employment survey of 448 large enterprises in NCR, nearly one out of three enterprises experienced talent or skill shortages across a very wide range of occupations with specialized skills. These skills range from high-end jobs such as actuary, geologist, mall architect, environmental engineer, account executive, and human resource manager to blue-collar jobs such as welder, tinsmith, machinist, driver, and skilled laborer. The average duration for filling vacancies in these occupations was reported to be four weeks.

However, Bitonio (2008) also found that only 13.2 percent of employers use the PESOs or Phil-JobNet as a search facility with many human resource practitioners believing that less formal means of disseminating job vacancies is more efficient. Further, in spite of having encountered difficulties in skills search, only a small fraction of employers recommend the strengthening of the public employment service.

The assessments on PESOs that are available at present provide a mixed view of their effectiveness at best. Moreover, given the relatively small amounts alloted to PESOs at present (PHP 56 million in 2007 and 2008) and the relative cost effectiveness of job facilitation services in other countries, one can argue for improvements in the operations of the PESOs. In this regard, the suggestions of Bitonio (2008) are worth noting. First, he underscores the need to: (1) increase employers' awareness of PESO services; (2) make PESOs more accessible; and (3) improve quality of data provided by the PESOs. He also suggests the following practical steps to improve public employment services:

- maximize the value of the facility to the supply side by including coaching job seekers for interviews as a regular PESO service;
- make PESO more attractive to employers by expanding PESO services to include the conduct of preemployment testing to reduce employer costs on recruitment; and
- continue enhancing PESO as a multiservice facility that assists in the issuance of preemployment requirements.

Livelihood/self-employment support programs

The DOLE also implements livelihood and entrepreneurship programs for rural workers and women. These programs include the Rural Employment through Self-Employment and Entrepreneurship Development (PRESEED) program which is a self-employment scheme in rural areas and the Women Workers Employment and Entrepreneurship Development (WEED) Program. The PRESEED provides access to entrepreneurship training, credit, and technical assistance. It is targeted to "assetless" and landless rural workers who are capable of absorbing new entrepreneurial activities. It is a joint project between the DOLE, TESDA, and NGOs. The TESDA provides the three-week entrepreneurship development training while the NGOs are the conduit for credit and monitoring of projects.

The WEED, on the other hand, is very similar to the PRESEED. However, the WEED targets women in the informal sector, underemployed women, and home-based women workers. Like PRESEED, the WEED also has an entrepreneurship development and skills training program. It also uses NGOs as the conduit for credit.

In 2006, the PRESEED and the WEED benefited 25,183 rural workers; 10,816 women workers; 6,788 young adults; 1,404 differently abled persons; and 37,090 informal sector workers.

Workers' Protection and Welfare Services

The DOLE's Workers' Protection and Welfare Services for OFWs is largely focused on assisting OFWs who find themselves in distress while working abroad. Some skills training is also provided to returning OFWs to help them find gainful employment/livelihood in the domestic economy. Protection and welfare services to OFWs accounted for 33 percent and 20 percent of the total national government spending going to active labor market programs in 2007 and 2008, respectively.

5.

Summary and Recommendations

Table 28 summarizes national government spending on key noncontributory social protection programs.Total national government spending on social

Table 28. Government spending (allotments) on social protection, 2007–2008

	2007			2008		
	In Million	% of GDP	% Distribution	In Million	% of GDP	% Distribution
Price and income shocks						
NFA rice price subsidy (net of tax expenditure)	5,000	0.075	29.4	43,095	0.581	69.4
Food-for-School Program	3,750	0.056	22.0	3,266	0.044	5.3
Department of Education	3,000	0.045	17.6	2,500	0.034	4.0
Department of Social Welfare and Development	750	0.011	4.4	1,266	0.017	2.0
School-based feeding	348	0.005	2.0	581	0.008	0.9
Department of Education	79	0.001	0.5	581	0.008	0.9
Department of Social Welfare and Development	270	0.004	1.6		0.000	0.0
Pantawid Pamilyang Pilipino Program	50	0.001	0.3	1,297	0.017	2.1
Pantawid Kuryente			0.0	4,400	0.059	7.1
KALAHI-CIDSS[a/]	1,481	0.022	8.7	1,629	0.022	2.6
Tindahan Natin	188	0.003	1.1	160	0.002	0.3
SEA-K[b/] and livelihood assistance	63	0.001	0.4			
Natural disaster	1,265	0.019	7.4	986	0.013	1.6
Disaster relief	263	0.004	1.5	326	0.004	0.5
Disaster rehabilitation	1,002	0.015	5.9	660	0.009	1.1
Crisis situations						
Assistance to individuals and households in crisis situations, including PDAF[c/] releases to DSWD	1,037	0.016	6.1	889	0.012	1.4
Disability, old age, and special vulnerabilities						
Assistance to disabled persons, senior citizens, and children in conflict with law	61	0.001	0.4	11	0.000	0.0
Center-based/community-based assistance	481	0.007	2.8	719	0.010	1.2
Tulong para kay Lolo at Lola				500	0.007	0.8
Health shocks						
PhilHealth - national government (NG) share only	2,100	0.032	12.3	2,200	0.030	3.5
PhilHealth - national government and local government (LG) share	3,300	0.050		3,500	0.047	5.6
Labor market shocks						
TESDA[d/] scholarship	510	0.008	3.0	1,350	0.018	2.2
Department of Labor and Employment programs	678	0.010	4.0	1,051	0.014	1.7
CB[e/] for students, youth, and disabled workers	149	0.002	0.9	416	0.006	0.7
CB[e/] for rural workers	65	0.001	0.4	69	0.001	0.1
Emergency employment for displaced workers	18	0.000	0.1	41	0.001	0.1
Local employment facilitation	56	0.001	0.3	56	0.001	0.1
Protection/welfare services and reintegration program for OFWs	388	0.006	2.3	469	0.006	0.8
TOTAL w/ PhilHealth - NG share only	17,014	0.256	100.0	62,134	0.837	100.0
TOTAL w/ PhilHealth - NG & LG share	18,214	0.274		63,434	0.855	

[a/] KALAHI-CIDSS - Kapit Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services - a community-driven development program of DSWD

[b/] SEA-K - Self-employment Assistance-Kaunlaran, a microfinance/livelihood program of DSWD

[c/] PDAF - Priority Development Assistance Fund, allocation in General Appropriations Act that is used to fund programs and projects identified by senators and congressmen

[d/] Technical Education and Skills Development Authority

[e/] CB - capability building

Source: Author's estimates based on government spending data on an obligation basis from Statement of Appropriations, Allotments, Obligations and Balanced (SAAOB) of concerned agencies for 2007 and 2008; GDP from National Income Accounts of NSCB.

protection was PHP 17 billion (or 0.3% of GDP) in 2007. In response to the rapid rise in food and fuel prices in the first half of 2008, government spending on social protection went up more than 3.5 times to PHP 62 billion (or 0.8% of GDP) in 2008.

Despite the increase in the national government's spending on social welfare programs, social safety nets, and active labor market programs, it still compares unfavorably with that of other countries. National government spending on social protection, including active labor market programs and community-driven development projects in 2008 is less than half than the mean spending on social safety nets (1.9% of GDP) in 1996–2006 by a group of 87 countries surveyed by Weigand and Grosh (2008). It is also lower than the median spending on social safety nets (1.4% of GDP) of the same group of countries.

Meanwhile, the increase in total national government expenditure relative to GDP is notable, albeit marginally (Table 29). While it is difficult to characterize the national government's expenditure stance in 2008 as countercyclical, national government spending did not contract as it did in 1998 when fiscal policy was undeniably procyclical. At the same time, government appears to be committed to its fiscal stimulus package despite concerns being raised on the size of the fiscal deficit in 2009 and on not having achieved a balanced budget as earlier planned. However, aggregate expenditure outturns in 2009 will depend largely on how successful the implementing agencies will be in reversing the low utilization of their budgets that was evident in the first half of this year. *The success of the government in providing a stimulus to economic activity in 2009 will help ensure that some of the negative impulses coming*

Table 29. National government fiscal position (cash basis) as a percent of GDP, 1990–2008

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenues	16.8	17.7	18.0	17.7	19.9	19.0	18.9	19.4	17.4	16.1	15.3	15.5	14.6	14.6	14.5	15.0	16.2	17.1	16.2
of w/c:																			
Tax revenues	14.1	14.6	15.5	15.6	16.0	16.3	16.9	17.0	15.6	14.5	13.7	13.5	12.8	12.5	12.4	130	14.3	14.0	14.1
Privatization proceeds	0.4	0.3	0.1	0.1	1.8	1.2	0.3	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.2	0.2	0.2	1.4	0.4
Total expenditures of w/c: Interest payments	20.2	19.8	19.1	19.1	18.9	18.4	18.6	19.4	19.2	19.8	19.3	19.6	20.2	19.2	18.3	17.7	17.3	17.3	17.1
Surplus/(Deficit)	6.6	6.0	5.9	5.2	4.7	3.8	3.5	3.2	3.7	3.6	4.2	4.8	4.8	5.2	5.4	5.5	5.1	4.0	3.67
Total expenditures net of debt service	-3.5	-2.1	-1.2	-1.5	1.0	0.6	0.3	0.1	-1.9	-3.8	-4.0	-4.0	-5.6	-4.6	-3.8	-2.7	-1.1	-0.2	-0.9
Total expenditures net of debt service	13.6	13.8	13.3	14.0	14.2	14.6	15.1	16.2	15.5	16.3	15.1	14.8	15.5	13.9	13.0	12.2	12.2	13.3	13.5
Total expenditures net of debt service and IRA	12.9	130	11.8	11.6	11.4	11.8	12.4	13.2	12.8	13.0	12.2	11.6	11.9	10.8	10.0	9.2	9.3	10.3	10.5

Source of basic data: Bureau of Treasury *from the international markets will be mitigated and the need for increased spending on social protection programs will be reduced.*

Program-wise, it is problematic that the bulk of national government spending on social safety nets went to NFA, a program that has been proven to be the least effective in reaching the poor. Moreover, it appears that the NFA rice price subsidy is the government's program of choice in responding to major crisis situations. At the height of the Asian financial crisis in 1998, government responded by increasing the allocation for the NFA rice subsidy by more than 50 percent from its 1997 level (Manasan 2000). Then again in 2008 when the country was hit by food and fuel price shock, government increased its allocation for the NFA rice price subsidy by almost three-fold relative to the 2006 level and by more than eight-fold relative to the 2007 level faced (Table 28).

Thus, the NFA rice price subsidy accounted for 29 percent of total national government spending (or 0.08% of GDP) in 2007 and 69 percent of total national government spending (or 0.58% of GDP) in 2008 (Table 28). Note that if government spending on NFA rice subsidy were not included, total national government spending on noncontributory social protection programs will drop from 0.26 percent to 0.18 percent of GDP in 2007 and from 0.84 percent to 0.26 percent of GDP in 2008.

As with other generalized food subsidies in other countries, the NFA's rice price intervention is shown to have a high leakage rate (71%), precisely because it is an untargeted program that benefits all households, poor and nonpoor households alike. Attempts to improve the targeting of the NFA rice subsidy like the introduction of the Tindahan Natin Program and the Family Access Cards (FACs) for rice have not been successful. This situation appears not to be much different from the experience in other countries where similar programs have also exhibited resistance to reform (Grosh et al. 2008). Moreover, said programs were found to be vulnerable to fraud as evidenced by the development of a black market for the subsidized commodity.

The objectives as well as intended beneficiaries of a number of programs overlap. For instance, both the Food-for-School Program and the Pantawid Pamilyang Pilipino Program aim to improve the immediate living conditions of poor households (through rice rations in the case of the FSP and through cash transfers in the case of the 4Ps) while at the same time providing these households some incentive to increase their investment in the education and health of their children. Not only are the objectives of these two programs very similar, they also operate in the same geographical areas.

National government spending on these two programs combined was equal to 0.06 percent of GDP in 2007–2008, with the bulk of the spending going to the FSP because the 4Ps was still at its nascent stage in those years. As the 4Ps enters its first year of full implementation in 2009, the full year budget requirement of the program is estimated to be PHP 5 billion (or 0.07% of GDP).[56]

Addressing the needs of the chronic poor. The need to expand the coverage of programs like the 4Ps that address the needs of chronically poor households cannot be denied. The studies of Reyes (2003) and Albert et al. (2007) suggest that 22–25 percent of all households are chronically poor. With chronic poverty at such high levels, there is clearly a need for a social protection program that should not only provide transfers to address the immediate needs of the chronically poor. Such program should also provide adequate incentive to these households to invest more in the education and health of their children because that is the only way they would be able to escape the poverty trap. As indicated above, the 4Ps and the FSP share these characteristics. Given this, it is imperative that the duplication inherent in the current implementation of these two programs at present be addressed sooner rather than later.

The assessment of these two programs in Section 3 suggests that the 4Ps is more effective in identifying the intended beneficiaries. In contrast, the leakage in the FSP is necessarily larger than that in the 4Ps because of the need to shield program participants in the FSP from the stigma on poor students that may result if the rice ration is given to some pupils but not to others when the school is used as distribution point. As such, a higher benefit level is possible under the 4Ps relative to the FSP, assuming they have the same budget and number of participants, other things being equal.

At the same time, the monitoring and enforcement of the conditionalities on school attendance is more stringent under the 4Ps than under the FSP, thereby enhancing the positive impact on school attendance. For instance, participating households under the 4Ps will not receive the school grant if their children are absent more than 15 percent of the time. In contrast, under the FSP, pupils receive the rice ration each day they go to school. Thus, a pupil who goes to school for 15 days out of the 22 school days in a month will receive 15 kilos of rice during that month even if he attends school less than 70 percent of the time. A DepEd official also notes that the impact of the FSP on school attendance is not as large as would be expected *a priori* because

[56] This estimate assumes that there will be 363,388 participants in the 4Ps.

the program is not in place throughout the year due to the stop-go nature of government funding for the FSP.

Given this perspective, it makes sense to consolidate the funding for the FSP into the 4Ps. From 2009 onwards, PHP 5 billion (or 0.07% of GDP) was required to implement the 4Ps with the present coverage of 363,388 households (representing 9% of the chronically poor households). If the 4Ps were to be expanded to include 700,000 households (or 18% of the estimated number of chronic poor households) as planned, the required budget rises to PHP 10 billion (or 0.13% of GDP). Still another way of looking at the financing of 4Ps: if the 0.58 percent of GDP that was spent on NFA subsidies in 2008 were to be allocated to 4Ps, it is enough to cover 79 percent of the chronic poor.

However, it cannot be overemphasized that *sustained funding for the 4Ps is critical* if the long-term gains of 4Ps in terms of increased investments in human capital are to be realized. Stop-go implementation will negate the anticipated benefits from the program. In this regard, international experience suggests the need to constantly communicate to the broader public why the 4Ps is good not only for the beneficiaries but for the entire country as well in order to ensure public support for the program. At the same time, there is a need to strengthen verification mechanisms, and monitoring and evaluation components of the program in order to ensure that it is implemented in a cost-effective manner.

Having said this, it will still make sense to continue funding the breakfast feeding program in public elementary schools and day care centers with high incidence of malnutrition to *address short-term hunger in the schools* and improve school performance.

The capacity of the transient poor and the near poor, many of whom belong to the informal sector, to cope with the income risk arising from loss of employment or reduction in earnings that are typically associated with a macroeconomic crisis is limited. This is so because they have little or no assets to tide them over during difficult times. However, the coverage of the informal sector in the social security system (SSS and GSIS), the social health insurance scheme (PhilHealth), and many of the noncontributory social protection programs that are currently in place is severely inadequate. At the same time, a program like the 4Ps which is appropriate for the chronic poor is obviously not suitable for addressing the needs of the transient poor and the near poor.

Hastily designed programs launched in response to crisis situations like the Tulong para kay Lolo at Lola and the Pantawid Kuryente are usually not very effective in reaching the poor and the vulnerable. This is especially true if a credible targeting system covering the entire country is not in place. Given this perspective, *there is a need to put in place a program or some programs that can be scaled up rapidly in times of crisis to provide protection to the informal sector, the transient poor, and the near poor. The experience of other countries suggests that a public workfare program is one such program,* primarily because it can have a built-in self-targeting mechanism if designed properly.

The newly minted Out-of-School Youth Serving Toward Economic Recovery (OYSTER), Tulong Panghanapbuhay Para sa Ating Disadvantaged Workers (TUPAD), and the Cash-for-Work (CFW) Project under the Comprehensive Livelihood and Emergency Employment Program (CLEEP) have some of the characteristics of a public workfare program.

Implemented by the Department of Public Works and Highways (DPWH), the OYSTER aims to generate employment for out-of-school and out-of-work youth in the maintenance of roadsides and carriageways of national roads, highways, and bridges. The work includes street sweeping, repair and repainting of sidewalk, asphalt patching, declogging of canals, planting of trees/shrubs/flowering plants and other beautification projects, vegetation control (clearing/gathering of water lily in rivers and other waterways), and repair of manhole covers and inlets, among others.

On the other hand, the TUPAD is aimed at helping displaced workers in the informal economy and the unemployed poor in all provinces. TUPAD will provide short-term employment (one month) to perform various services in community works projects of LGUs like repair of health facilities and flood control. DOLE shoulders the wages and prepares the recruitment and selection guidelines while LGUs shoulder 50 percent of the PhilHealth premium for one year and 100 percent of the SSS premium for one month. TUPAD through the TESDA also provides employment enhancement training (skills upgrading/retooling) or entrepreneurship development to be undertaken during weekends within the one-month employment period.

Meanwhile, the CFW Project is a short-term intervention implemented by the DSWD that provides temporary employment and income augmentation to distressed/displaced individuals in the construction/repair of small infrastructure facilities supportive of livelihood projects; reconstruction/rehabilitation of new shelter units and social services infrastructure such as day care centers; river dredging and embankment, dredging of canals and drainage systems, tree planting/reforestation; communal farm preparation and planting; and construction/repair of postharvest facilities.

In implementing these two programs, it is good to be reminded of the Philippines's earlier experience with the use of public workfare programs as a countercyclical intervention. During the 1986 crisis, the government implemented a food-for-work program in Negros Occidental and five other sugar-producing provinces in order to mitigate the impact of the sharp decline in world sugar prices at that time. The program included activities involving land development (small irrigation projects and agroforestry work in the uplands), physical infrastructure development (constructing and rehabilitating roads, bridges, and public markets), and social infrastructure development (day care centers, health and training facilities). The number of individuals employed by the program was sizable, fluctuating between 179,000 and 883,000 from 1986 to 1991. Participating workers received both cash and in-kind (rice) payments. In the land development projects, farmers were given rice to help tide them over until they could harvest their own crops and to encourage them to practice agroforestry in uplands. In this case, the value of the food given to the farmers was less than the market wage rate, since farm output accrues to the farmers themselves. In the case of the infrastructure development projects, workers were paid the local market wage rate, partly in the form of cash and partly in the form of rice. Since the actual price of rice was higher than price used by the program in its computations, workers were effectively paid PHP 104.00–108.00, close to 20 percent more than the market wage rate.

Subbarao et al. (1996) reported that discussions with the project managers revealed that many laborers were willing to work for as little as PHP 60.00 per day or about two-thirds of the market wage rate. Because of this, the nonpoor were also attracted to the program. In other words, the wage-setting procedure that was used negated the potential of the program to be self-targeting.

Related to this, the international literature emphasizes *two points that are critical to the success of public workfare programs: setting the wage rate at the appropriate level, and selecting projects that enhance productivity and which are propoor.* On the one hand, setting the wage rate for the workfare program at a level that is lower than the prevailing market wage rate will ensure that only those who truly have difficulty finding work will participate in the program and that they will voluntarily drop out of the program when the labor market improves and better paying jobs become available. In this way, the workfare program will be self-targeting. The DSWD's CFW program provides that the wage rate should be 75 percent of the prevailing minimum wage rate set by the National Wages and Productivity Board. While the wage rate for the OYSTER and the TUPAD has not been made explicit, there are anecdotal reports that these programs pay wages that are lower than the market rate.

On the other hand, the cost effectiveness of the workfare program has been found to vary with the quality of the assets created in terms of the degree to which said assets enhance the productivity of the local community in the future and the extent to which the poor actually benefit from them. Although the list of eligible projects under the OYSTER and the TUPAD include productive infrastructure projects, the list also includes not-so-productive projects like beautification, street sweeping, and the like. Clearly, there is a need to revisit the list of eligible projects under the OYSTER and the TUPAD. At the same time, the experience with the implementation of a program similar to the OYSTER and the TUPAD in 2004 indicates that less-productive activities tend to capture a bigger share of the budgetary resources allocated to the program. Implementors of the OYSTER and the TUPAD are advised to guard against this downside risk.

Sustain and expand gains achieved in empowering the poor through the KALAHI. There will surely be some overlap between the KALAHI and the 4Ps in terms of the geographic coverage as both programs target the poorest areas. In that case, KALAHI should be seen as a complementary program that will support local communities as they articulate their demand and put increased pressure on LGUs and the national government to improve the supply of needed basic services in 4Ps areas. At the same time, synergies could also be harnessed when workfare projects are implemented in KALAHI sites as the greater participation of the local community in the identification of projects will help ensure that the projects selected are those that are most valuable to the community.

Expanding the coverage of the Sponsored Program of PhilHealth and improving the selection of beneficiaries are critical for two reasons. First, PhilHealth provides the poor financial protection against illness. Second, achieving universal coverage of PhilHealth supports the health sector reform agenda and makes the health system, in general, and the public hospital system, in particular, more sustainable. At present, at least 33 percent of the total number of poor households is not covered under the Sponsored Program. Moreover, there are indications that some of the so-called poor households who are currently enrolled in the program are not poor, bringing the undercoverage rate up to 50 percent or more. As a result, poor households not covered under the Sponsored Program have no recourse but to go to the no-pay wards of government hospitals and/or line up for emergency assistance at the DSWD/ LGUs.

Expand the coverage of the contributory programs of PhilHealth. In 2008, some 22 million people (or 24% of the population) were not covered by PhilHealth.[57] Limited success with KASAPI suggests the need for a new approach. At present, proposals for the national government to shoulder 100 percent of the premium contributions for indigents and for LGUs to take care of partially subsidizing the informal sector appear to be in the right direction. These proposals will eliminate the political economy issues associated with the present practice of LGUs identifying the beneficiaries under Sponsored Program. These proposals also appear to be consistent with the current practice in a number of LGUs that ask the enrolled beneficiaries in the Sponsored Program to coshare the premium contribution. There is, however, a need to articulate how this approach will be beneficial for all stakeholders: the national government (in its role of both as funder of healthcare and as provider of healthcare through the retained hospitals), LGUs, PhilHealth, and the general public.

If the national government enrolls *all* poor households,[58] PhilHealth coverage will increase from the current 76 percent to 85 percent of the population. On the other hand, if LGUs continue to allocate PHP 1.4 billion for the premium contributions of indigents but use the amount instead to subsidize the contributions of informal sector members (say, on a 50-50 basis), then total number of beneficiaries could increase by another 12 percent, bringing total coverage of the PhilHealth to 97 percent.

Need for a good centrally designed and managed targeting system. A common theme that emerges from the assessment of the different social safety net programs above is the importance of a good targeting system in enhancing program effectiveness. Programs like the TNP and the FACS highlight the suboptimal outcomes from local rent seeking and local capture that arise from a greater LGU role in targeting. Meanwhile, the piloting of the PMT under the 4Ps provides some measure of the efficiency gains from a centrally designed and managed system. Admittedly, the institutionalization of the PMT does not come cheap. However, if the same PMT is used in selecting the beneficiaries not just of the 4Ps but also those of other programs like the PhilHealth Sponsored Program, then the investment in the targeting system could be cost effective. For instance, the Sponsored Program needs a budget of PHP 6 billion a year to be able to provide full coverage. At present, the leakage rate is estimated to be

[57] This includes enrollment in Sponsored Program.

[58] The costs to the national government for doing this is PHP 6 billion, PHP 1 billion more than the allocation for the subsidy of premium contributions to the PhilHealth Sponsored Program in the 2009 GAA.

24 percent at best. This means that at least PHP 1.4 billion of the PHP 6 billion needed for the premium subsidy to the Sponsored Program will likely benefit nonpoor households, implying that the initial investment of PHP 1.7 billion for setting up the National Household Targeting System (NHTS) will be recouped in just two years.

Government is in the process of installing the NHTS that is anchored on the PMT that was used in the 4Ps. The PHP 1 billion appropriated for the NHTS under the 2009 GAA is expected to be sufficient to survey and assess some 2.6 million households in the 20 poorest provinces and the poorest municipalities in these provinces. Another PHP 0.7 billion will be needed to complete the identification of all 4.6 million poor households in the country by 2010.

Improve enrollment in the social security institutions (i.e., SSS and GSIS). In 2008, 68 percent of the total number of employed persons (or 74% of labor force or 83% of working age population) were not covered by the SSS or GSIS. The uninsured are just as vulnerable to risks associated with old age and disability, if not even more so than those who are currently covered by the GSIS and SSS. Unless the coverage of SSS and GSIS is broadened, the uninsured (i.e., large portion of population in the informal sector and the poor) will have to turn to government for emergency assistance to cope with risks and shocks of various kinds.

Finally, there is need to *sustain the structural reforms at SSS, GSIS, and Philhealth,* including parametric reforms, design of benefit package and payment systems, and improvements in corporate governance that have been discussed in some detail in Section 2. These are key in strengthening the financial sustainability of these institutions and in reducing the contingent liabilities that the national government will face in the future.

Unemployment insurance may not yet be appropriate for the Philippines. Recently, in the wake of the global financial and economic crisis, and the ensuing rise in the unemployment rate, there is renewed interest on the introduction of unemployment insurance in the country. Earlier assessments on the desirability and prospects of doing so (e.g., Yoo et al. 2001; Esguerra et al. 2002) are not encouraging. They argue that unemployment insurance is not feasible because: (1) the share of the informal sector is high (roughly 50% of employed persons are in the informal sector); (2) both unemployment and underemployment are high, ranging from 7 to 8 percent and 19 to 26 percent, respectively, in the last five years; (3) the proportion of the poor among the unemployed is low in relative terms (e.g., in 1997 only 12% of the unemployed are poor but the overall poverty incidence is 25%); and (4) administrative capacity to monitor the employment status and job search behavior is weak. Given these conditions, unemployment insurance will tend to create inefficiencies and disincentives. Esguerra et al. (2002) notes that by imposing contributions to be levied on wages, the cost of labor may increase, contributing to the further growth of the informal sector and the increase of the equilibrium level of unemployment. By intensifying job search and prolonging unemployment spells, unemployment insurance tends to increase the unemployment rate.

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